

Asia Pacific Oils and Fats Situation Overview

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Executive Summary

- ▶ Oils and Fats Overview
 - ▶ Oils and fats situation in the Asia Pacific Region
 - ▶ Palm oil situation in the region
- ▶ Economics
 - ▶ Macro views
- ▶ Potentials in the Region
- ▶ Conclusions



PART I: OILS AND FATS OVERVIEW

Oils and fats situation in the Asia Pacific region



Supply and Demand of Oils & Fats in the Region

('000 T)	2009	2010	2011	2012	2013E	2014F
Opening Stock	5,245.8	4,886.5	4,958.1	6,708.1	8,410.9	6,382.4
Production	50,864.4	52,026.1	56,021.6	59,586.4	62,099.4	64,545.3
Import	5,867.1	6,849.0	8,306.0	8,276.7	6,796.1	7,322.4
Export	38,053.0	38,838.1	40,627.5	42,300.0	45,799.2	47,236.4
Consumption	19,038.4	20,078.6	21,961.2	23,880.9	25,390.8	26,940.9
Ending Stock	4,885.9	4,848.0	6,697.2	8,410.9	6,382.4	4,072.8
Stock Usage Ratio	8.6%	8.2%	10.7%	12.7%	9.0%	5.5%

- ▶ Production of oils and fats in the region has shown strong growth in terms of volume where it records a 5% CAGR in 2009 – 2013 period. Palm oil made up of 72% of total oils and fats production in 2013
- ▶ Stock to use ratio are expected to hit its lowest point in 2014 indicating that more consumption and less stock for oils and fats in the region due to increased biofuel mandates in Indonesia, Malaysia, Thailand and also Philippines
- ▶ Consumption also increases due to increase in population, improved GDP which lead to increased per capita consumption spurring growth in various sector – food industry, oleochemicals, feed



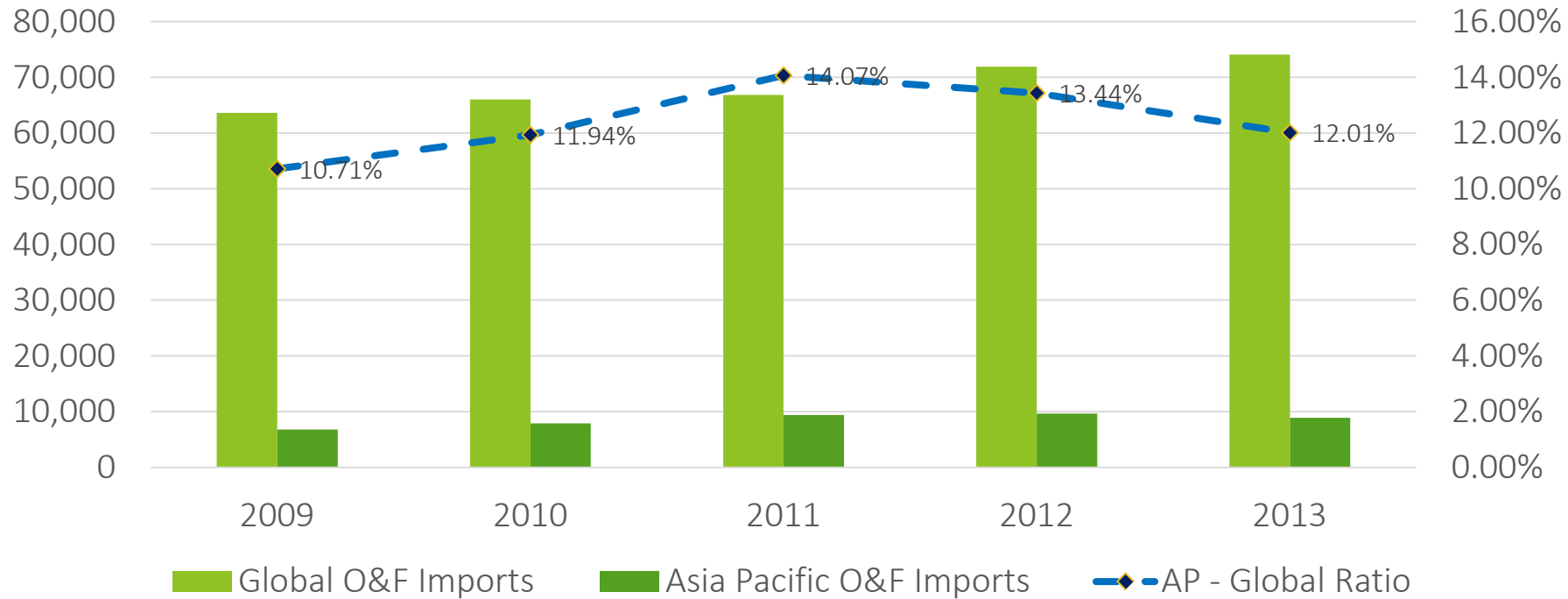
Taking Palm Oil Out of the Asia Pacific Oils and Fats Supply

ASIA PACIFIC ('000 MT)									CAGR (2007-2013)
	2007	2008	2009	2010	2011	2012	2013E	2014F	
Opening Stock	533.1	572.5	528.6	507.6	562.7	708.5	920.4	703.6	
Production	6,478.1	6,716.9	6,669.2	7,349.2	7,055.3	7,742.4	8,129.7	8,314.8	3.06%
Import	4,213.3	4,272.0	4,168.3	4,545.0	5,420.9	5,680.9	5,268.0	5,819.4	5.11%
Export	1,702.5	1,779.3	1,466.6	2,003.1	1,791.1	1,810.7	2,278.6	2,171.3	1.03%
Consumption	8,949.8	9,252.8	9,392.6	9,836.0	10,553.8	11,413.5	11,601.9	12,029.6	4.14%
Ending Stock	572.2	529.3	506.9	562.7	697.6	920.4	703.6	636.9	
Stock Usage Ratio	5.4%	4.8%	4.7%	4.8%	5.7%	7.0%	5.1%	4.5%	

- ▶ IF you take palm oil of the production equation it is observed that that growth in production has not been able to cope with growth in consumption in the region
- ▶ Export also show a very small growth as local consumption increases. Imports recorded strong growth, in tandem with strong growth in demand

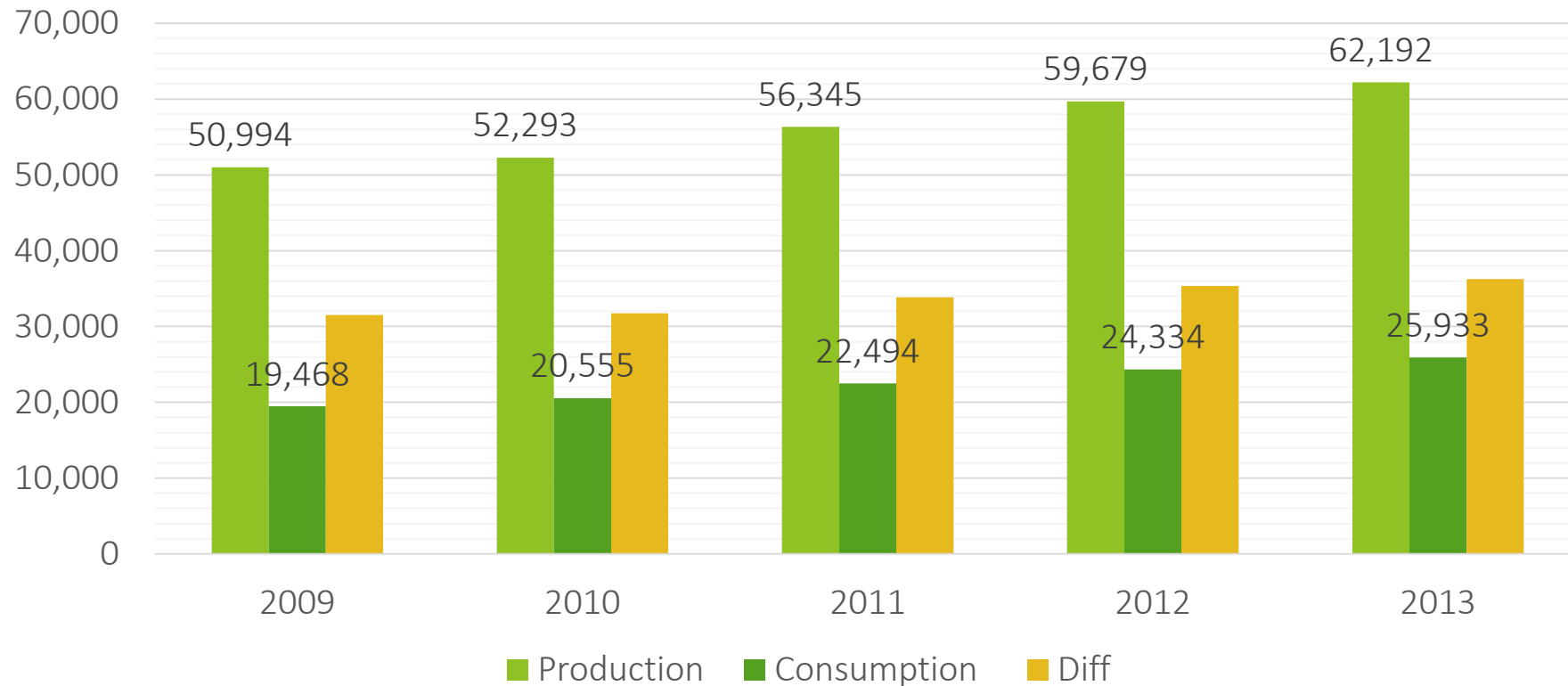
Imports of Oils and Fats in the Region

Oils and Fats Import ('000 MT)



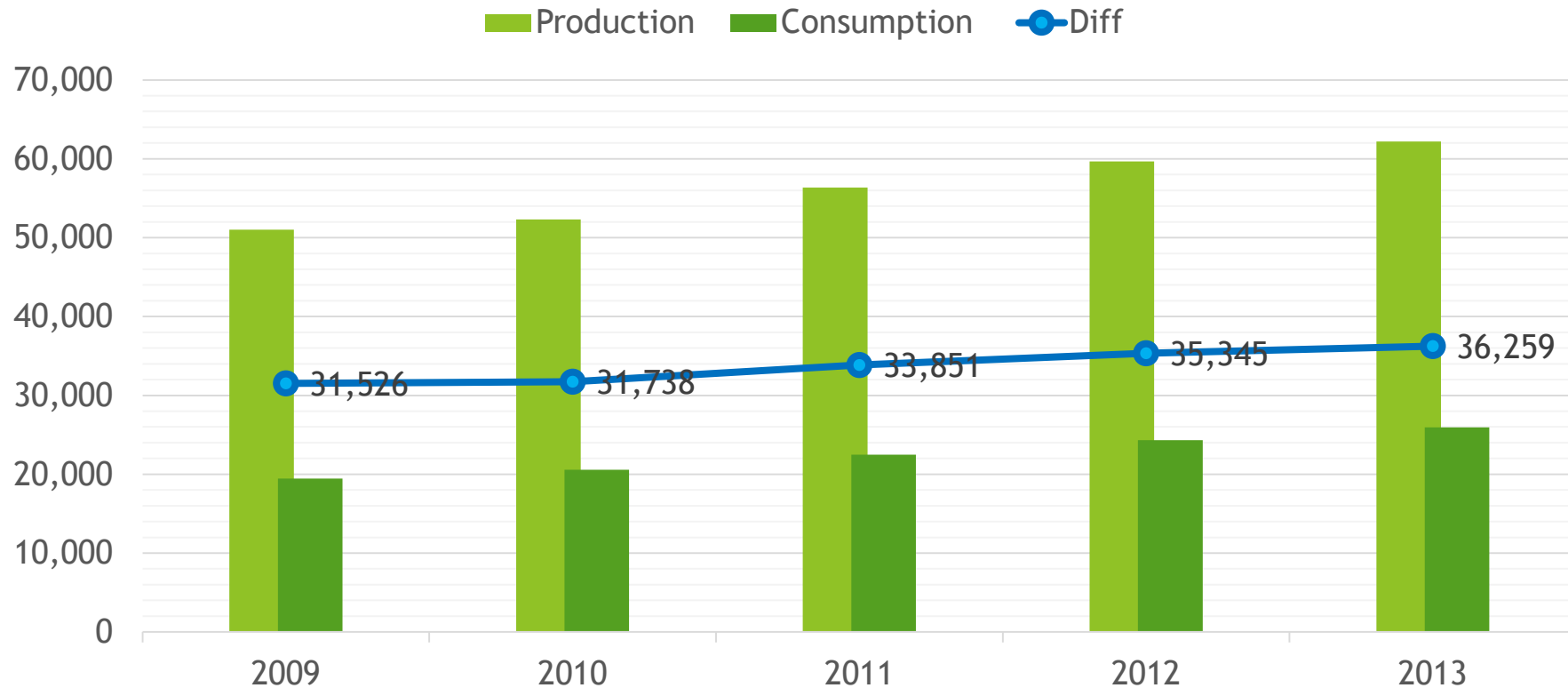
- ▶ Imports of oils and fats in the region consist of 12.01% of the global oils and fats import. That is a decrease from the 2012 where total imports are 13.44% of global oils and fats imports
- ▶ This could be due to drop in consumption growth due to weakness in the global economy as production growth is on the decline

Production - Consumption Gap



- ▶ Production of total oils and fats in the region is showing an increasing trends mainly due to growth in the production of palm oil as palm oil made up of 80% of the total oils and fats being produced in the region
- ▶ Palm oil has ensured food security around the region by meeting the oils and fats requirement

Production - Consumption Gap



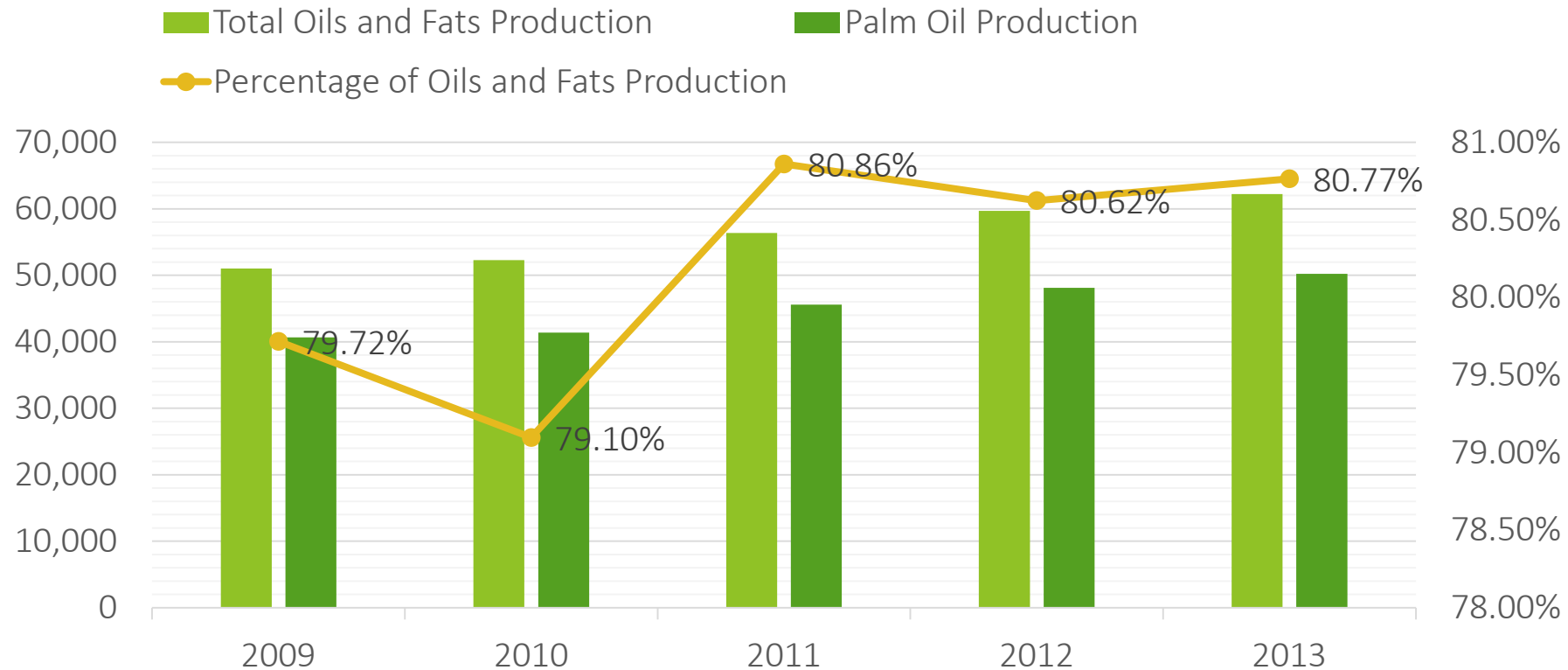
- ▶ The production – consumption gap is widening in the region due to various demand factors i.e. increasing GDP, women empowerment – participation in labour, increased disposable income, lifestyle changes, industrialization and globalization
- ▶ The huge consumption demand will not likely to diminish due to pressure from growing population and continued economic growth in the region



PART I: OILS AND FATS OVERVIEW

Palm oil situation in the region

Palm Oil Production in the Region



- ▶ Palm oil is the major oils and fats produced in the region, commanding around 80% of total oils and fats production for the last 5 years
- ▶ Due to suitable planting climate, countries in the region opted to plant oil palm as gives the best yield per hectare which reflected to better dollar per hectare return for their farmers
- ▶ Oil palm has also shown resilience which makes it easy to plant with trees produces yield as fast as 30 months. The only difference is the yield per hectare that depends on proper plantation management



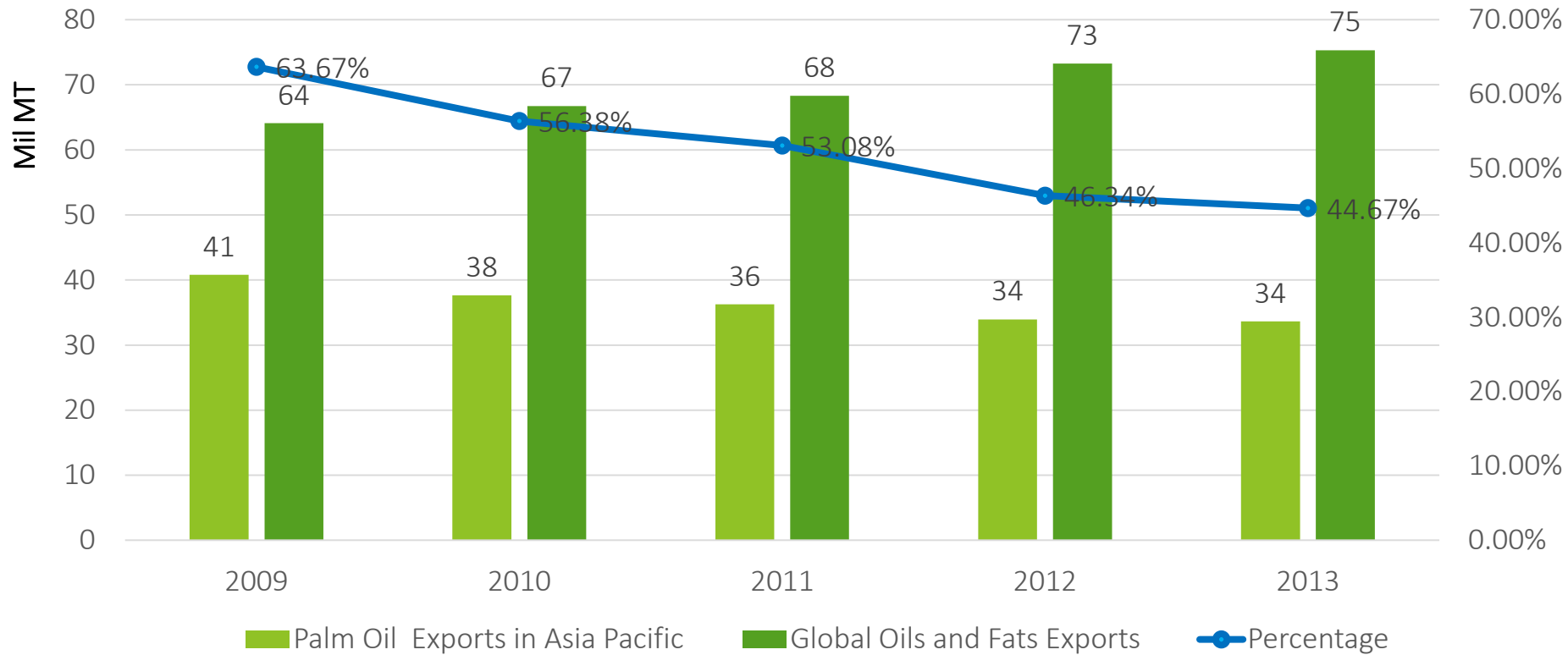
Palm Oil Producing Countries

Palm Oil Production	2009	2010	2011	2012	2013
Indonesia	21,200	22,400	24,300	26,900	28,400
Malaysia	17,566	16,993	18,912	18,785	19,217
Philippines	90	92	87	98	106
Thailand	1,310	1,360	1,650	1,780	1,970
Solomon Isl	25	29	32	33	37
Papua/NGuinea	460	488	580	520	500
TOTAL	40,651	41,362	45,561	48,116	50,230

- ▶ Palm oil's main producer in the region is Indonesia, Malaysia and Thailand which are also the world's top 3 palm oil producers
- ▶ Growth in palm oil production correlates with the growth of oils and fats production and import in the region
- ▶ Palm oil will continue to record strong growth in production which is shown in the 4.32% CAGR in the last 5 years. While Indonesia's growth record a growth of 6.2%, Thailand showed the strongest growth with 8.1%. Production of palm oil in AP region made up of 90% of global palm oil production

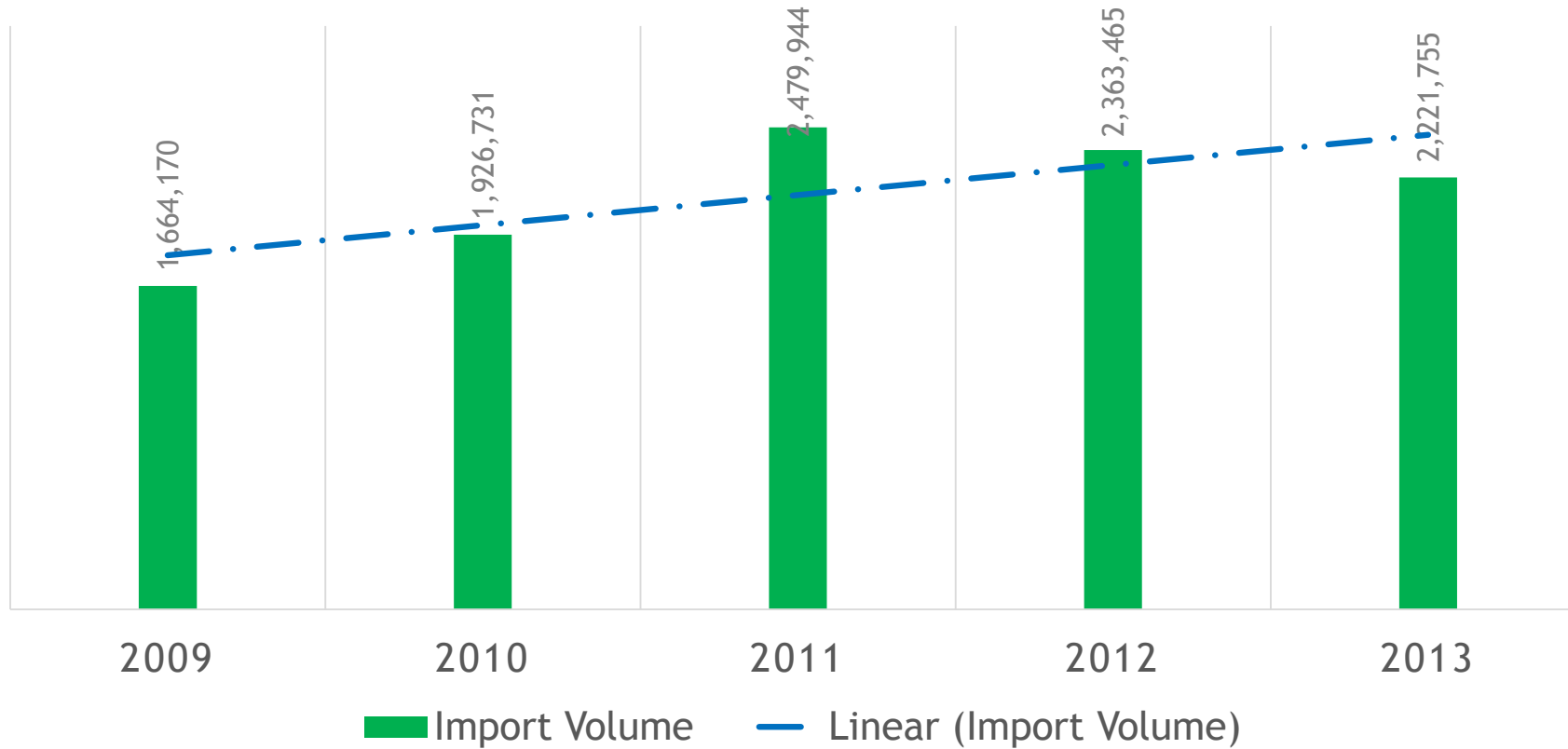


Palm Oil Exports VS Global Oils and Fats Exports



- ▶ In 2009, palm oil export in the region made up of 63.67% of the total global oils and fats export. This is due to strong demand from outside the region especially from India, Pakistan and EU
- ▶ However, the trend showed a decline in percentage of total oils and fats exported as export of palm oil has slowly been reduced due to increased local consumptions over the years through population demand for food coupled with government's policy for biofuel blends

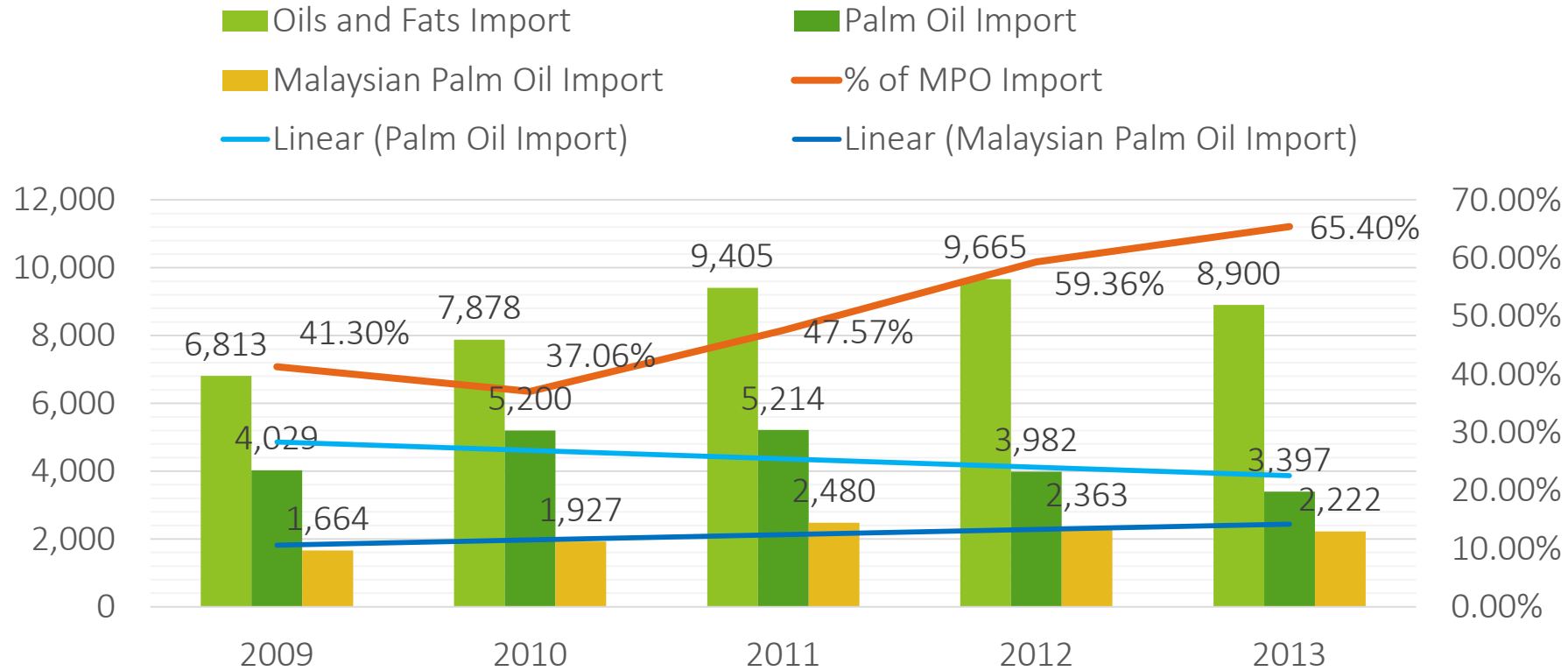
Malaysian Palm Oil Export in Asia Pacific



- ▶ Malaysian palm oil export in the Asia Pacific region showed consistent growth trends for the last 5 years recording a 2.5% yearly growth average
- ▶ Imports dropped in 2012 and 2013 due to dropped in import of total palm oil imports into the country



Imports of Oils and Fats and Palm Oil in the Region



- ▶ Despite declining palm oil imports trend into the region, Malaysian palm oil recorded strong market share recording 65% market share imported into the region and a positive overall growth trend
- ▶ Malaysian palm oil set to dominate the market in the region due to its usage in food and emphasize on quality of oil and reliability of supply



Palm Products Imported into the Region

Products	2009	2010	2011	2012	2013
RBD PL	918,369	1,102,588	1,481,403	1,252,465	1,104,818
RBD PO	444,442	478,740	439,117	565,984	498,569
CPO	64,505	142,794	221,057	241,081	163,987
RBD PS	123,833	108,678	168,510	204,014	215,945
PFAD	58,726	81,115	124,253	111,622	208,693

- ▶ Palm olein has been the leading palm products in the region, reaching 1.1 million MT in 2013. Palm olein recorded a healthy 3.8% CAGR from 2009 – 2013 period. The next palm products will be RBD Palm Oil at 498,569 MT followed by palm stearin at 215,945 MT with 2.3% and 20.2% CAGR respectively
- ▶ This suggests the importance of food sector being the main driver for palm oil imports in the region

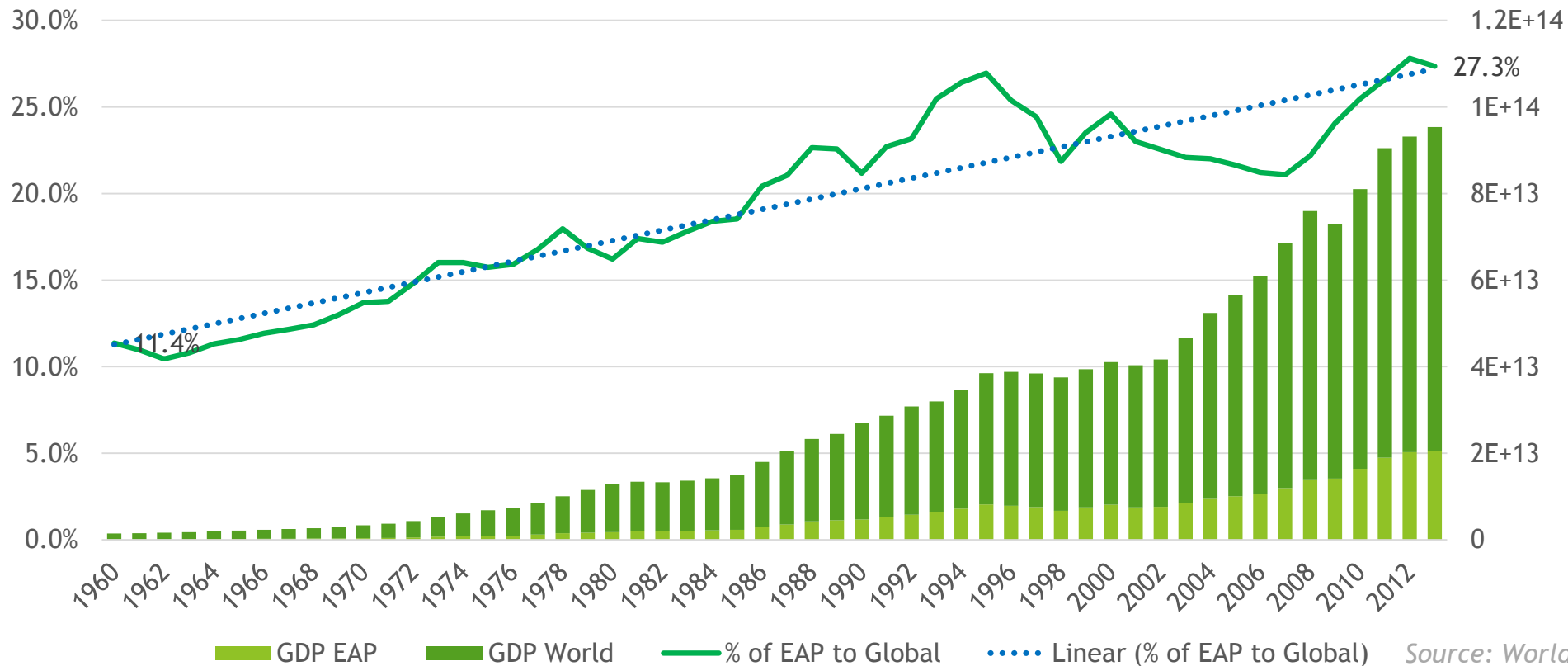
PART II: ECONOMICS

Macro views of the region that affect supply and demand of oils and fats



Gross Domestic Product (GDP)

Asia Pacific VS World GDP (Current Value - US\$)



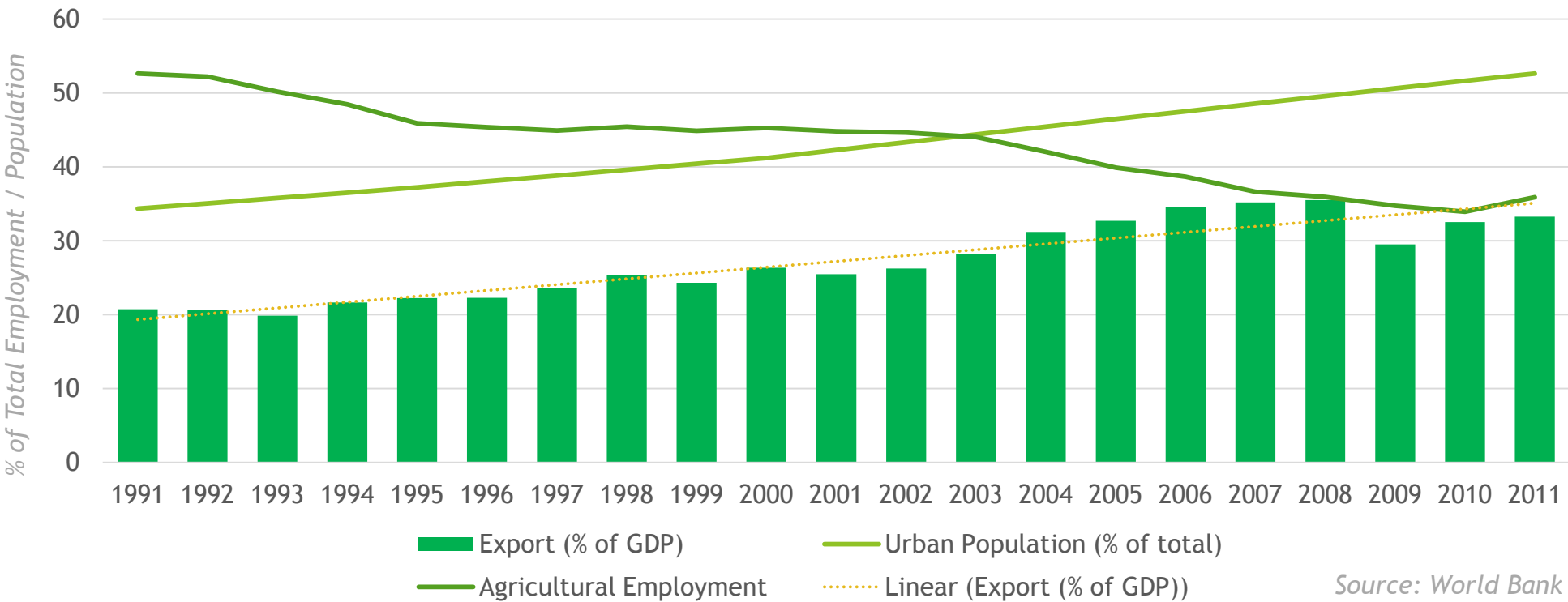
Source: World Bank

Asia Pacific region has jumped from 11.4% in 1960 to 27.3% in 2013 attributed to China's economic growth and higher costs for raw materials and commodities i.e. timber, mining products

Analysts expects that Asia Pacific will slowly shift to the center of world economic development and contribution lead by China, supported by strong internal demand through growth in population, per capita income as business especially in the manufacturing and services will continue to grow in the region



Increased Urbanization due to Higher Participation in Manufacturing and Services Sector



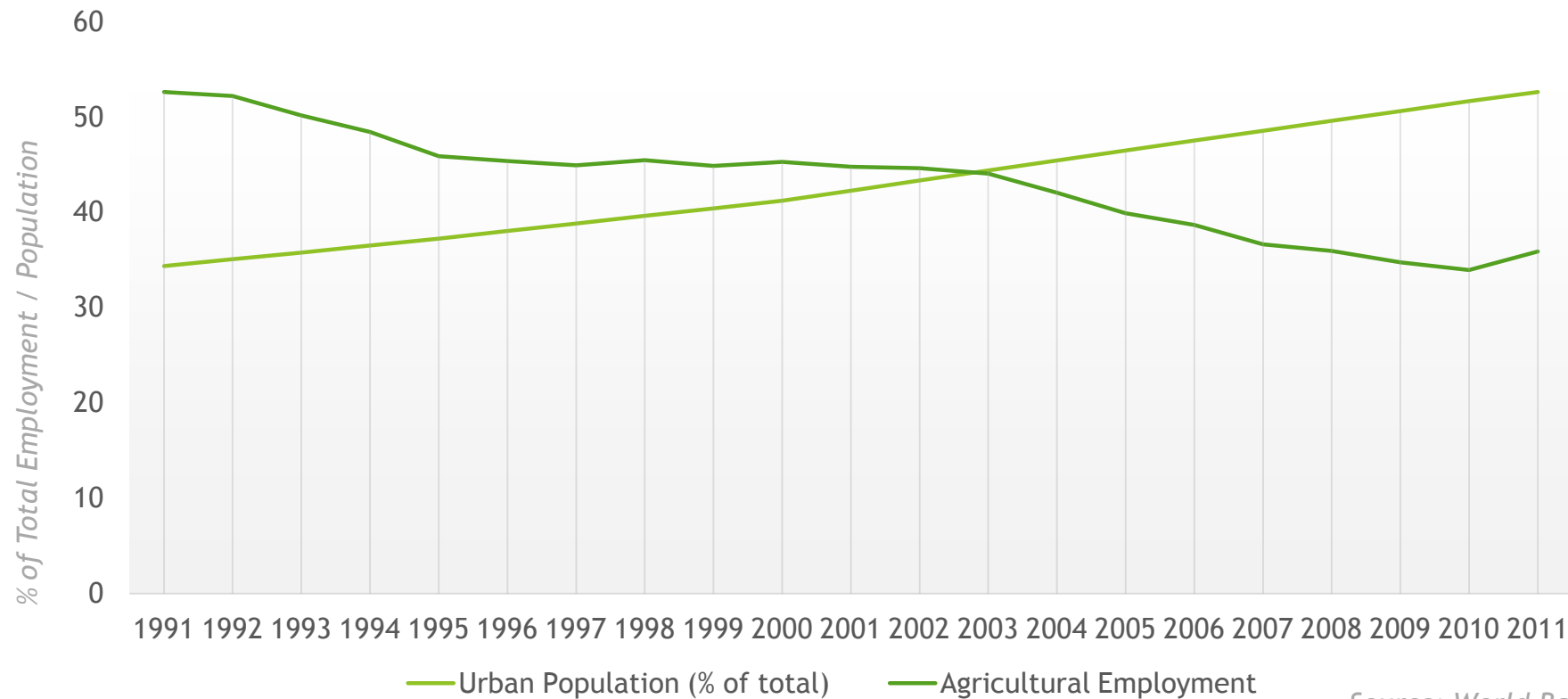
Source: World Bank

Rapid urbanization as most of the countries in the Asia Pacific region are experiencing high manufacturing and services growth. The gap of income between urban and rural employment has also drive rural – urban migration

This will affect the production of oils and fats as countries can start to afford imported goods



Increased Female Participation in the Services and Manufacturing Sector

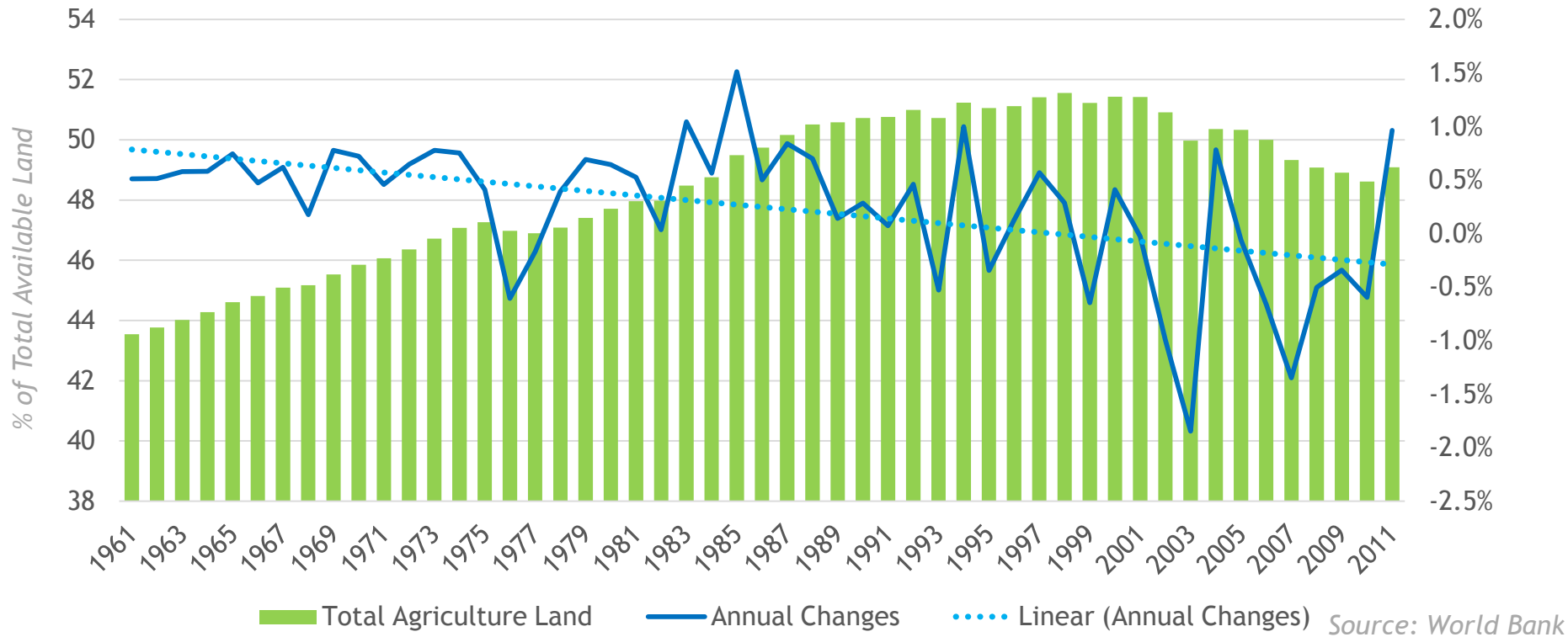


Source: World Bank

Rapid urbanization as most of the countries in the Asia Pacific region are experiencing high manufacturing and services growth. So does the ratio of women in manufacturing and services industry has increased. In line with the UN Millennium Development Goals no 3 – to promote gender equality and empower women.

World Bank also reported that as of 2012, 68% of the total female population are now participating in labour force

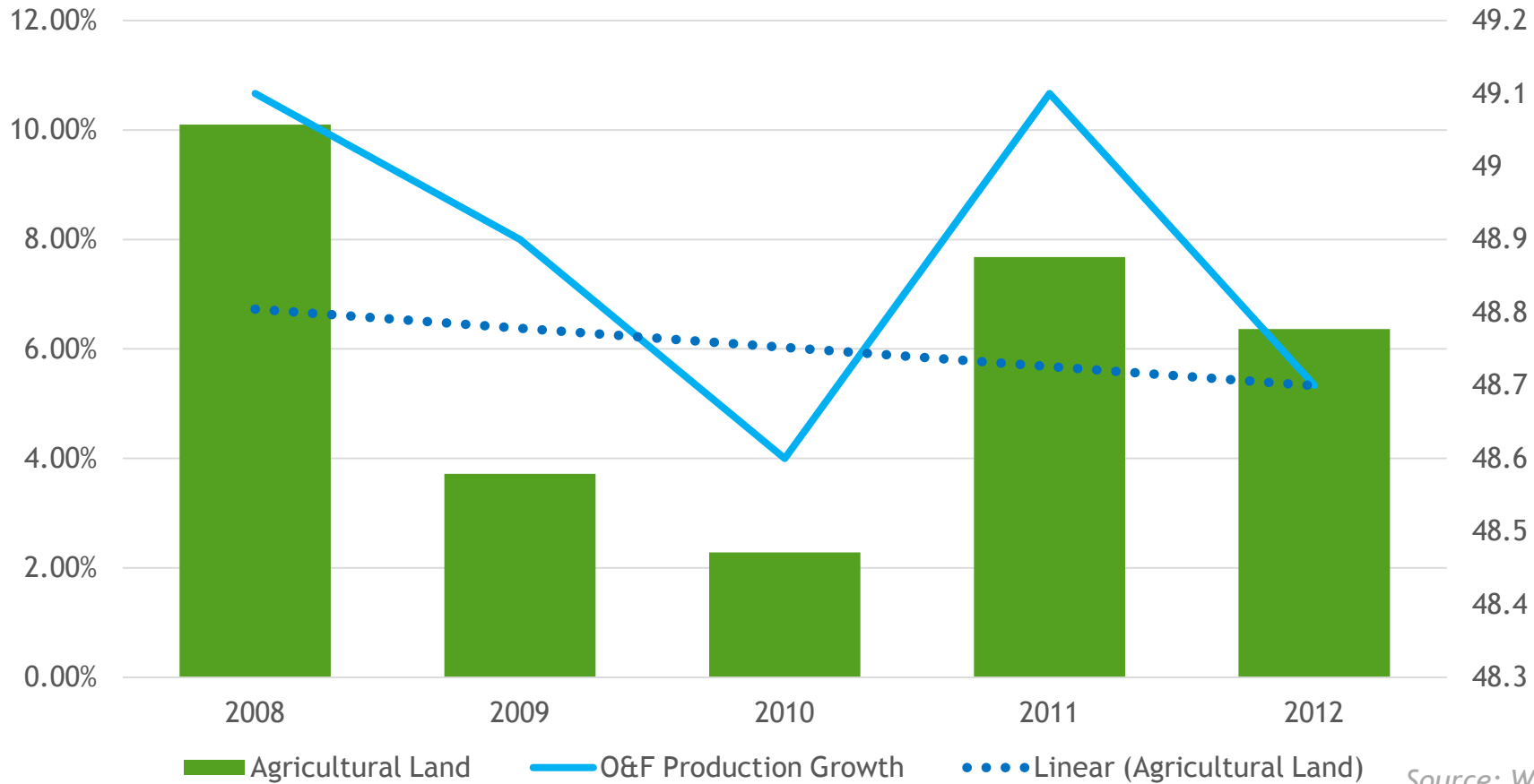
Agricultural Land Availability



Agricultural land in Asia Pacific region is showing a declining growth trend. This could be due to various reasons i.e. drop in percentage of agricultural workforce due to rural – urban migration, explained by increased urban population



Changes in Agricultural Land Growth and Production of Oils and Fats

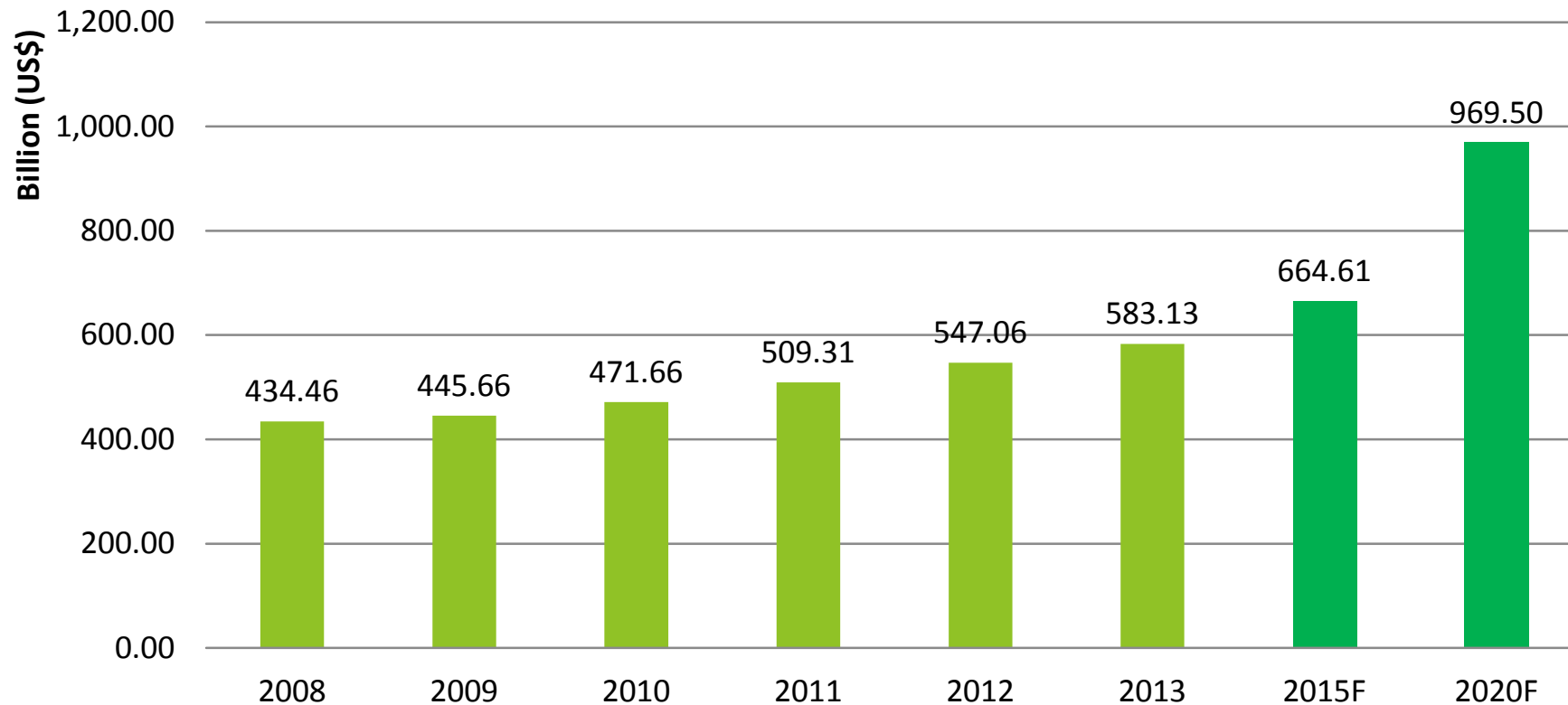


There is a direct relationship between agricultural land availability and growth of oils and fats production.

PART III: POTENTIALS IN THE REGION

Areas that are available for increased oils & fats uptake through Malaysian palm oil

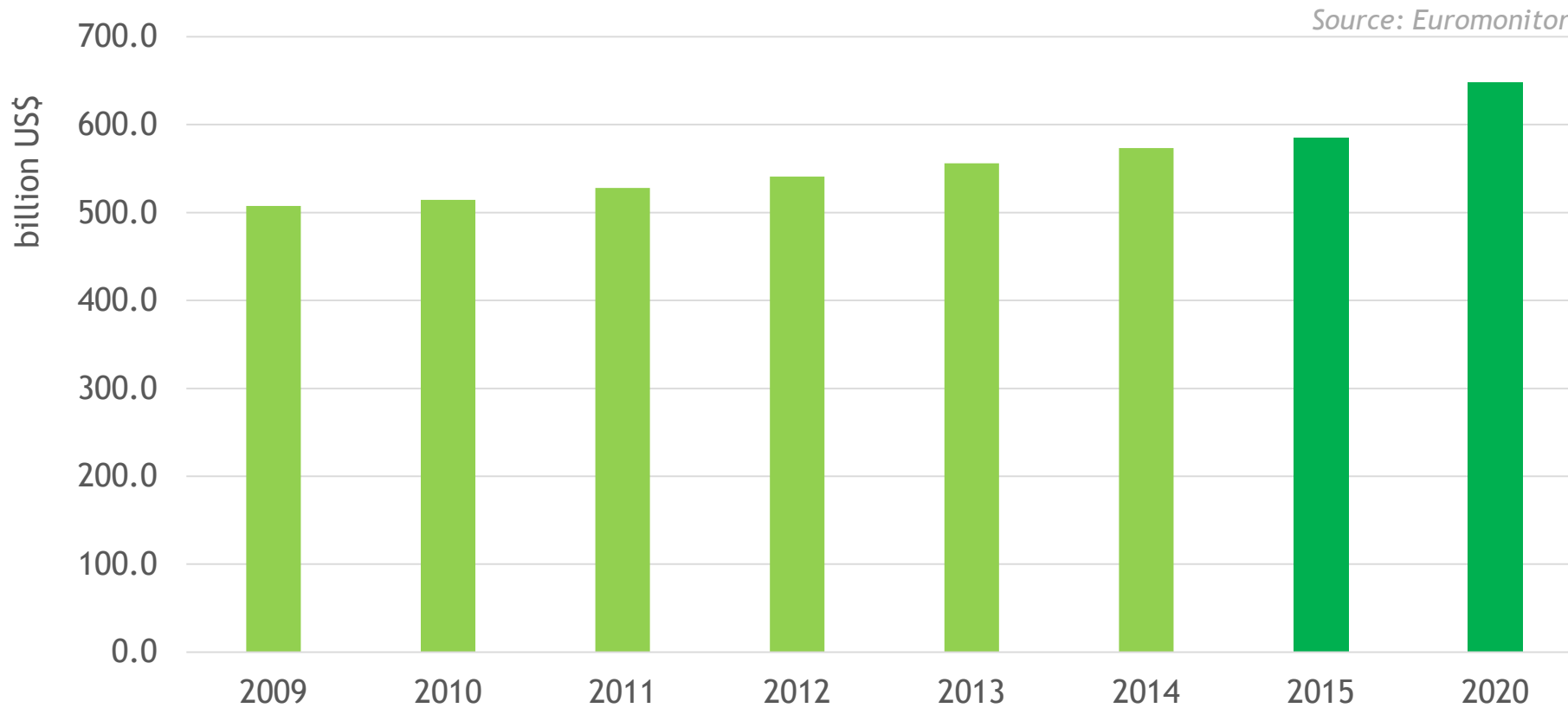
Opportunities in Hotels and Restaurant



- ▶ Hotels and restaurant sector has shown strong growth over the last 5 years with 5 % CAGR (2008 – 2013). Expenditure on hotels and restaurant has reached US\$583 billion in 2013.
- ▶ Growth is set to take place as the industry is forecasted to reach US\$637 billion in 2015 and US\$908.6 billion by 2020
- ▶ Opportunities for olein and shortening in food preparation and as ingredient is high in this area.
- ▶ Countries that showed strong growth in this sector other than China is Japan, South Korea, Indonesia, Taiwan

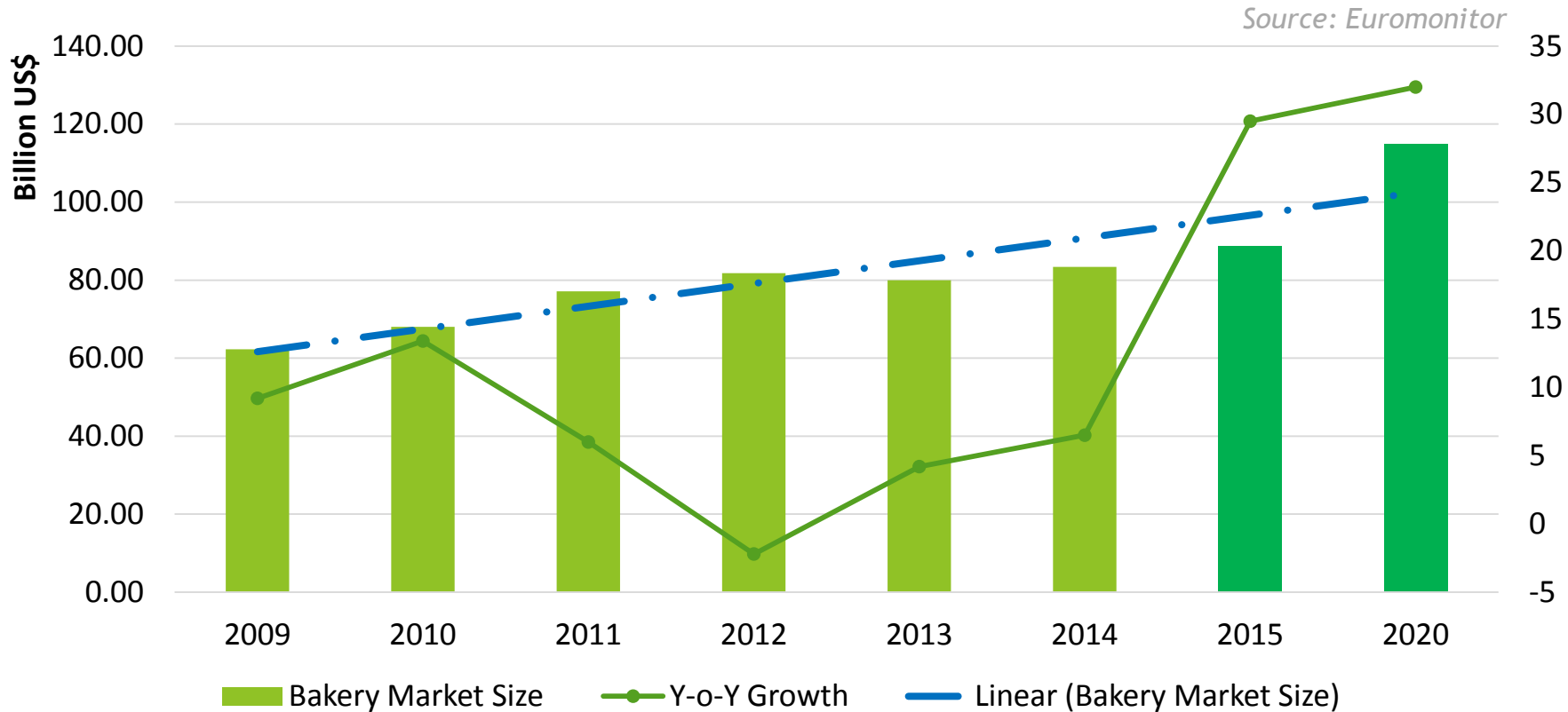


Opportunities in Packaged Food



- ▶ According to World Bank, 68% of the total female population in the Asia Pacific region is working. Increased participation in time consuming sectors i.e. manufacturing and services has led families to opt for conveniences in packaged food
- ▶ In 2014, the retail value of packaged food are expected to reach US\$573.2 billion with a CAGR (2009 – 2014) of 2.05%
- ▶ Packaged food includes baked goods, confectioneries, biscuits, ice creams

Opportunities in Bakery Sector



- ▶ Bakery sector showed strong growth after a slight decline in 2012/13, it has rebounded and is now stronger with projected growth of more than 30 percent from now until 2020.
- ▶ Assuming growth patterns are the same from the last 5 years, market size is expected to reach 83.4 billion in 2015 and close to US\$115 billion dollars by the year 2020
- ▶ Solid fats i.e. palm shortening will continue to flourish in the region through growth in the bakery sector

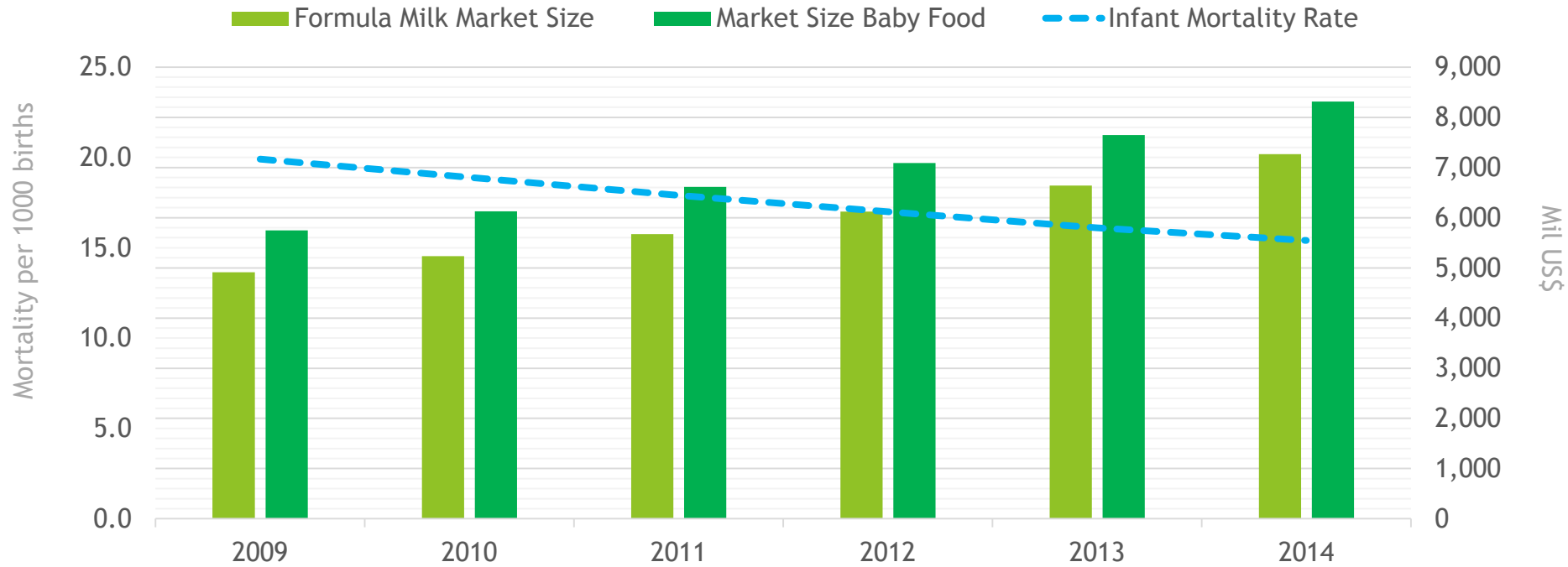


Opportunities in Confectionery



- ▶ Confectionery are seen as luxury food hence showing a slight drop in total consumer spending in the region as income is spent more on basic food due to unfavourable global economic effect in the region
- ▶ However, it is believed that consumer spending on confectionery in the region will rebound and is expected to reach US\$140 billion in 2015 potentially leading to US\$187 billion by 2020
- ▶ Palm specialty fats will be highly sought as manufacturers will struggle to look for an economical alternatives while trying to maintain cost and margin in a very challenging market

Growth in Baby Products

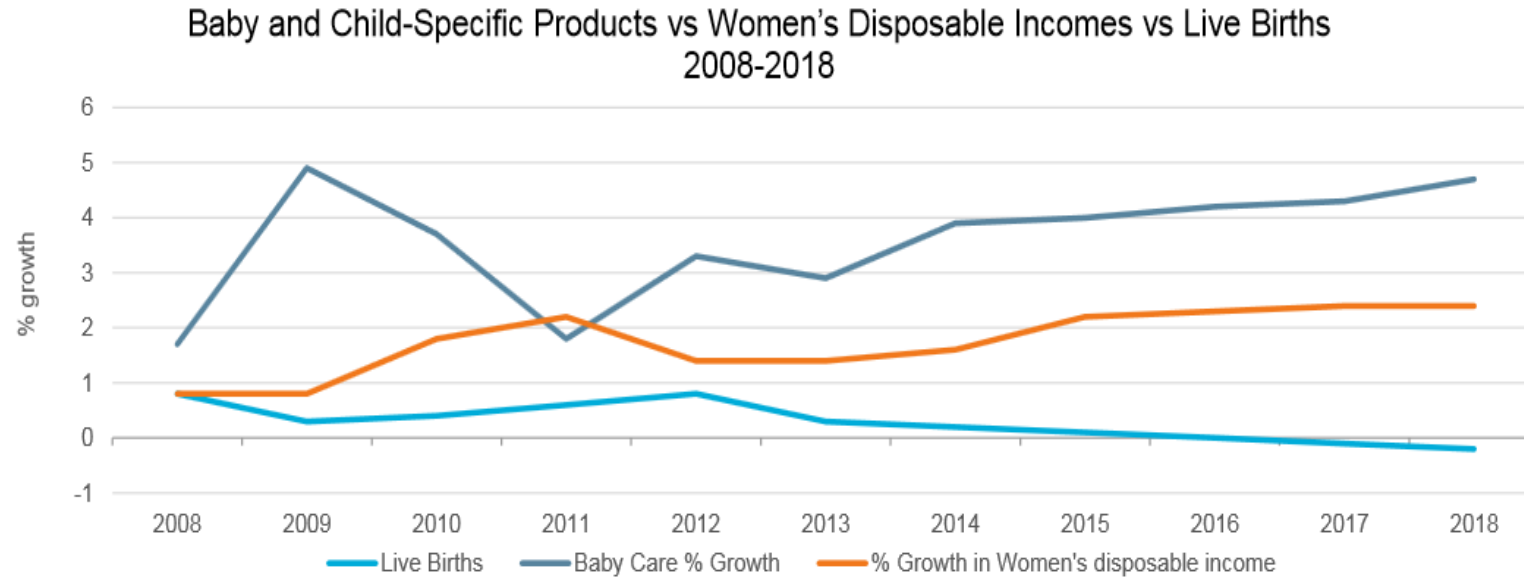


Source: Euromonitor, Worldbank

- ▶ Increased birth rate and mortality rate per 1000 births were reduced significantly to just 15.4 in 2013
- ▶ This has encourage growth for baby products (formula milk, food, etc)
- ▶ Oils and fats accounts for up to 20% of ingredients in most baby products and this will definitely a window of opportunity for palm oil to leverage

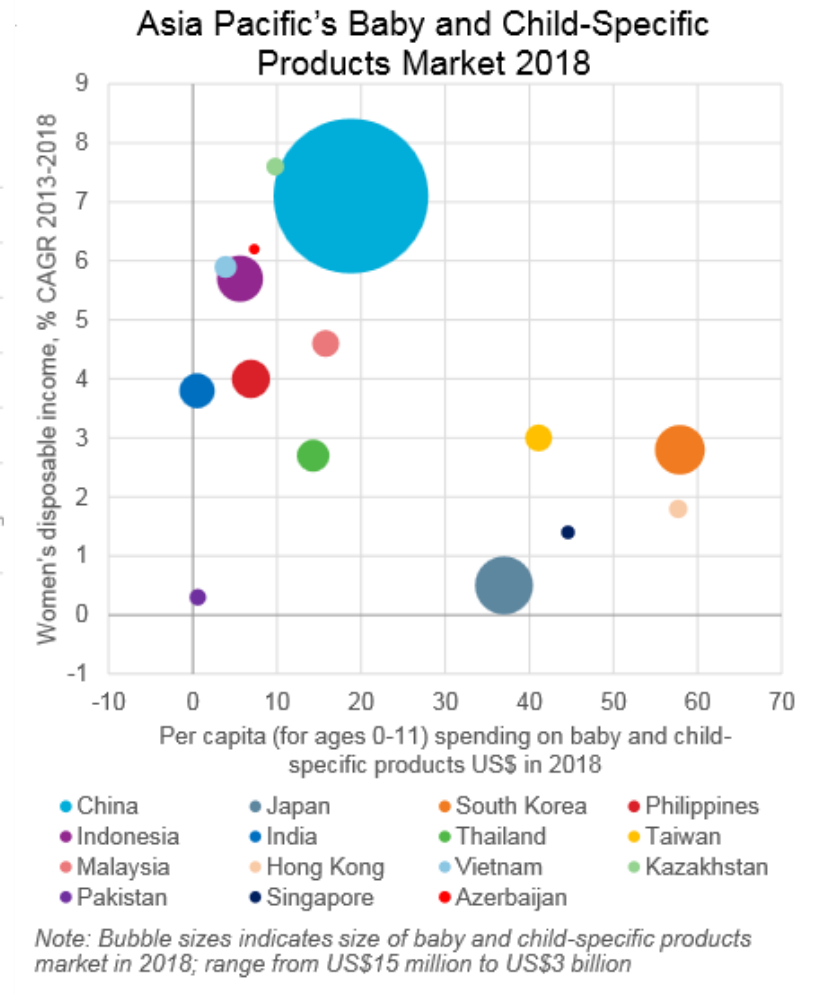
Growth in Baby Products

Source: Euromonitor



Source: Euromonitor International, Countries and Consumers

- ▶ Increased birth rate and mortality rate per 1000 births were reduced significantly to just 15.4 in 2013. Women's disposable incomes, which can be linked with sales of baby and child-specific products, have been rising, especially in emerging markets.
- ▶ Philippines, Indonesia, China serves as the biggest potential of baby products in the region

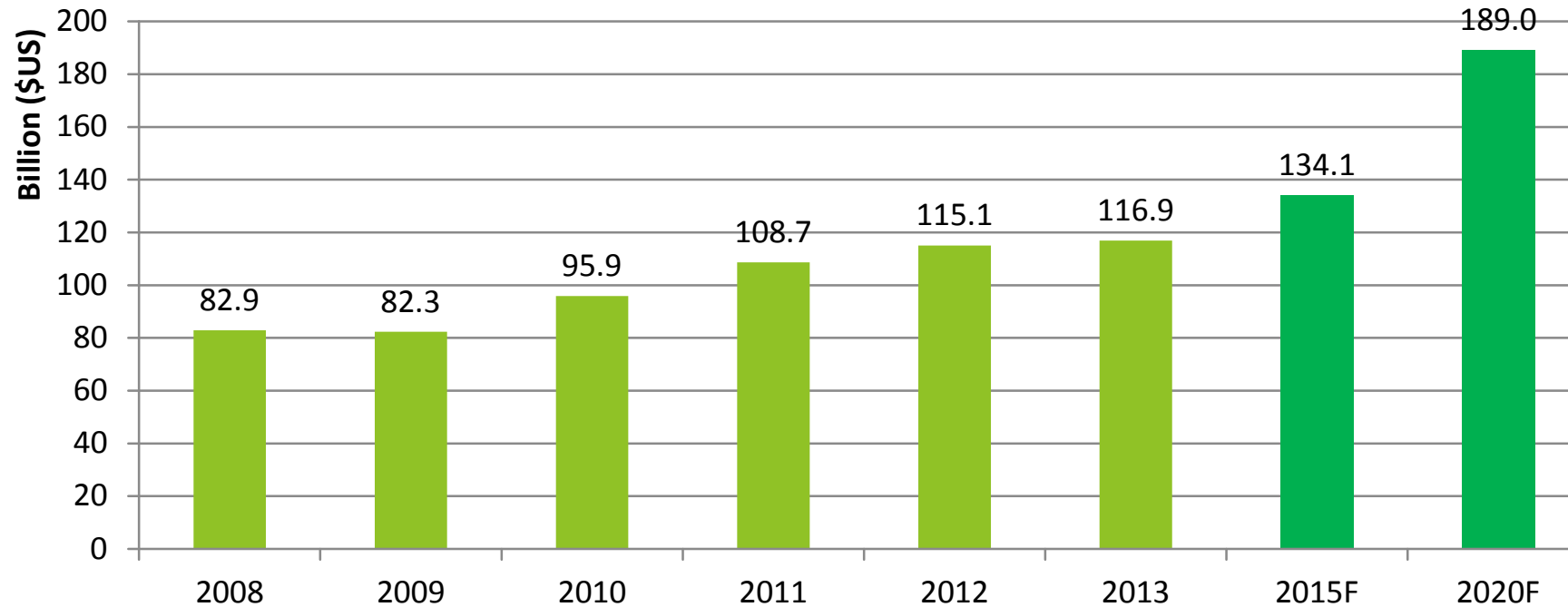




Opportunities in Soap and Cleaning Products

Soaps and Cleaning Products Market Size

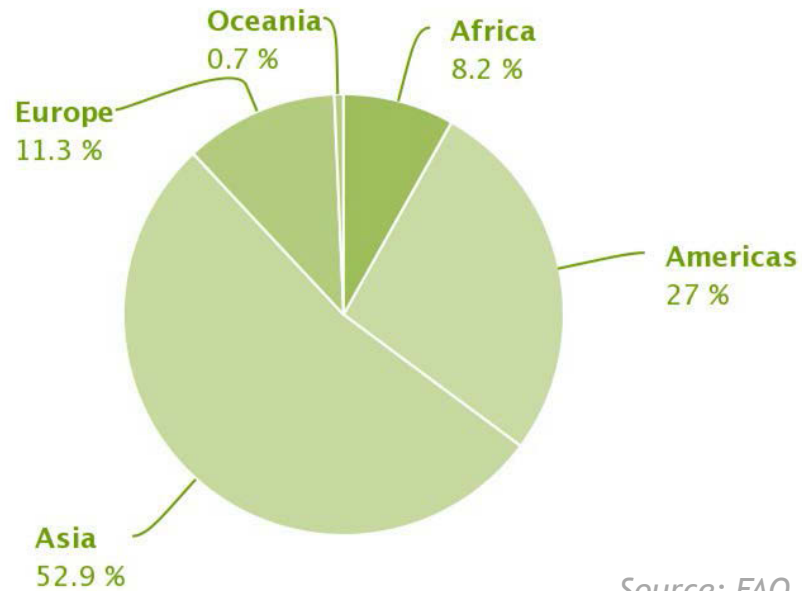
Source: Euromonitor



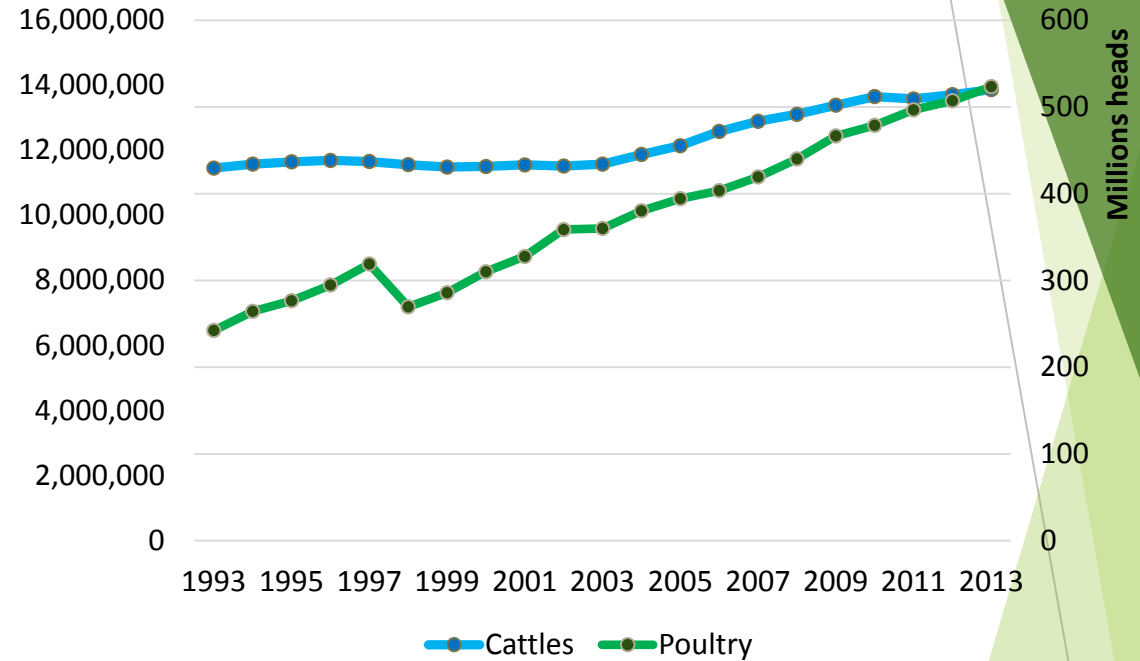
- ▶ Soap and cleaning products are good avenues for palm oleochemical sector for growth
- ▶ Asia Pacific recorded 116.9 billion market size in 2013, recording a strong growth of 7.1% CAGR from 2008 – 2013.
- ▶ The market is expected to grow to reach US\$134 billion in 2015, leading up to US\$189 billion by 2020



Growth in Animal Farming and Opportunity for Palm Feeds



Source: FAO



- ▶ In 2012, Asia holds 52.9% of the total global production of livestock
- ▶ Rapid growth of cattle and poultry for the last 10 years is a clear indicator of increased demand through population drive but more importantly increased GDP per capita that affect the lifestyle and consequently eating habits
- ▶ Holds great opportunity for palm feed as various studies found that palm based feed increase the LWG in a shorter period of time for broiler chickens, increased milk production in cows, increased egg production

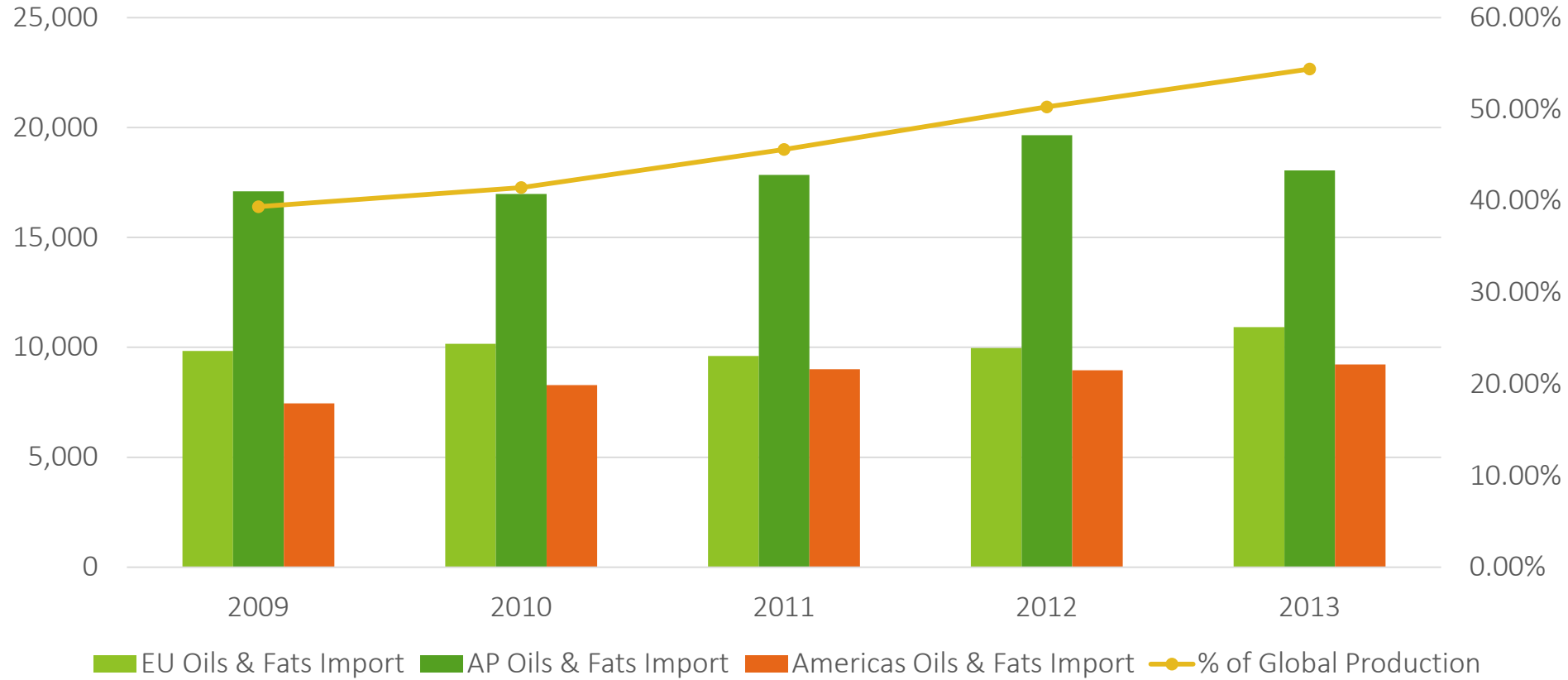


OBSERVATIONS

- ✓ Asia Pacific is the main producer for most commodities
- ✓ Demand growth is getting bigger in the region as compared to other region due to population growth and anticipated stronger economic condition
- ✓ Asia Pacific countries should look to trade among each other as there are many incentives through joint economic efforts i.e. ASEAN + 3, APEC, and lower transportation costs



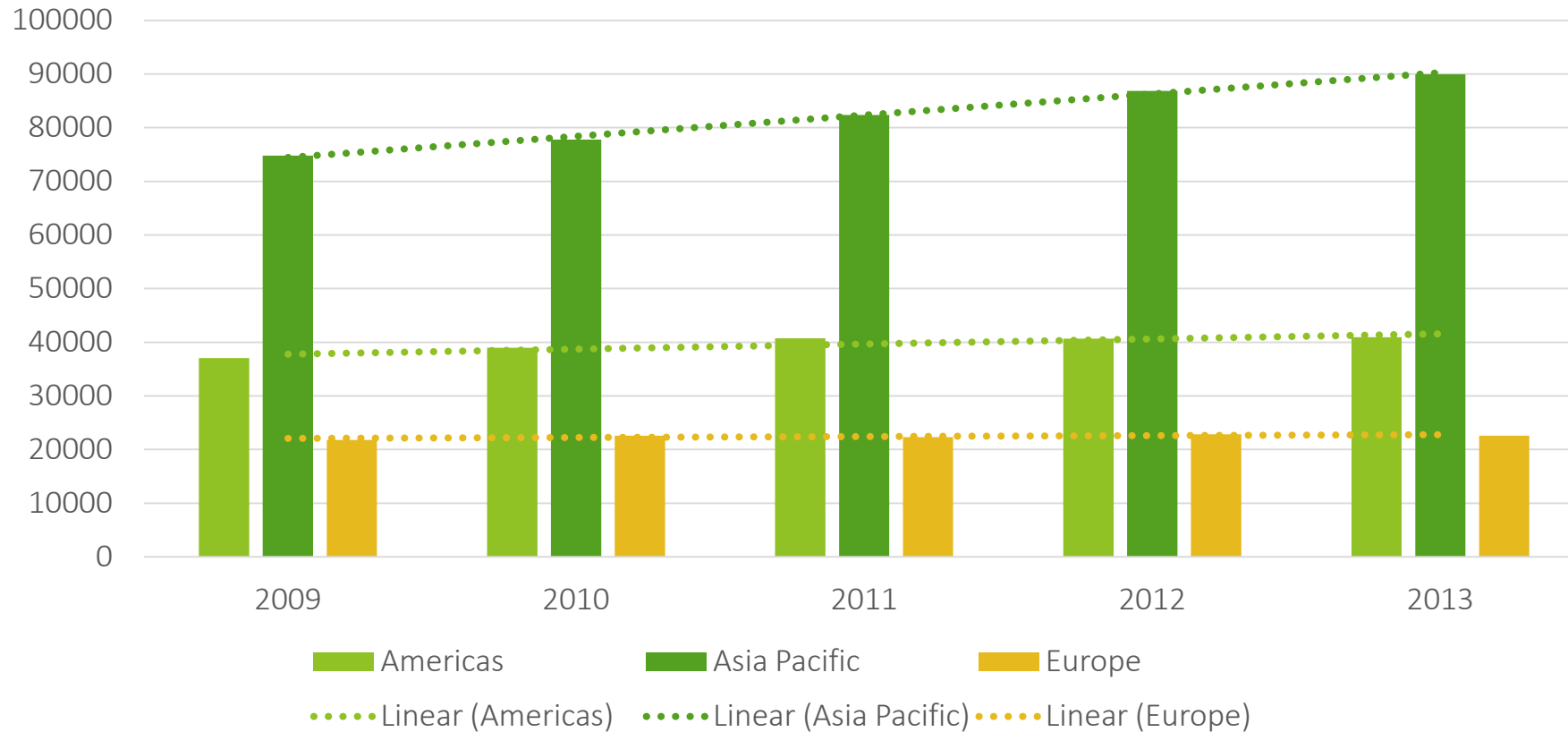
Imports of Oils and Fats in Regions



- ▶ Asia Pacific region has the higher import as compared to EU or Americas. This is not even including the major importers i.e. India and Pakistan
- ▶ Production of oils and production in the region is growing as compared to global production



Oils and Fats Production in Regions



- ▶ Asia Pacific region continue to be the main region for global oils and fats production
- ▶ The region recorded a steeper growth trend as compared to EU and Americas region

CONCLUSIONS

Asia Pacific as the growth driver destination and Malaysian palm oil is the viable solution - technically and economically



Conclusions

- ▶ Global food security has been the main topic for most workgroups at the international, regional and national level. As the world is expected to reach 9 billion by 2050, the scarcity in critical resources such as food should be the focus
- ▶ Oils and fats in one of the main sectors in food that is important as deficiency in fats has been known to caused various diseases due to inability to absorb important fat soluble vitamins
- ▶ The Asia Pacific region is one of the important region due to its population and economic growth. The region's oils and fats needs is not seen to be diminishing in the future and will continue to grow
- ▶ Decreasing growth in agricultural land is making it increasingly critical to secure food production including in the oils and fats sector. There is a positive correlation between growth in agricultural land and production of oils and fats in the region. A high yielding plant that can optimize the tonnes per hectare is needed



Conclusions

- ▶ Palm oil fits the description well for high yielding, maximum tonnes per hectares crop
- ▶ With 80% of total production of oils & fats in the region, the palm oil supply seems to have a critical role in the region. This serves as a great potential for businesses with Malaysian palm oil in the region
- ▶ This is of course due to palm oil's nutritional and economical advantages. The trans fat issue that is now a major concern in most developing countries will require most food manufacturers to switch to feedstock that can avoid trans fat at the lowest cost
- ▶ Again, palm oil will give food manufacturers the advantage due to its naturally semi solid attributes that won't require partial hydrogenation or interesterification that will increase the cost
- ▶ Malaysian palm oil has shown increasing imports in the region – quality and reliability



Conclusions

- ▶ Malaysian palm oil industry can also cater not only in oils segment. Due to better economic position, it's proven that increased income will increase consumption in meat and poultry. The high livestock production in the region will need food. Feed for food. Palm kernel meal will be a good blend with the current feed formulation as various studies has shown that the appropriate blend of palm kernel meal has been proven to increase meat and milk production in cow, increased LWG within shorter periods of time and increased egg weight for poultries
- ▶ Oleochemical sectors are also blooming in the region. Soap and detergent sector, baby products are all showing strong growth due to increased disposable income among the female population
- ▶ Many more opportunities for everyone involved in the supply chain of Malaysian palm oil industry



THANK YOU

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