

# Latest Development, Challenges and Outlook of Palm Oil Market in China

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# Outlines of Presentation

- Supply-Demand Balance of Oils & Fats
- Issues and Challenges
- Outlook of Palm Oil Market
- Conclusions

# Supply-Demand Balance of Oils & Fats

- China has been a net importer of oils & fats since mid 80s.
- The reliance on imports was first related to the production of local oilseeds and oils demand situation, but subsequently, sharp increase in oilseeds import particularly soybean also affect the demand for imported oils & fats since 2003.
- This could be attributed to the increase in demand for meat products which foresaw by the Chinese government that it will lead to increase in feed ingredients' demand, and subsequently, various policies being introduced to encourage crushing.

# Supply-Demand Balance of Oils & Fats

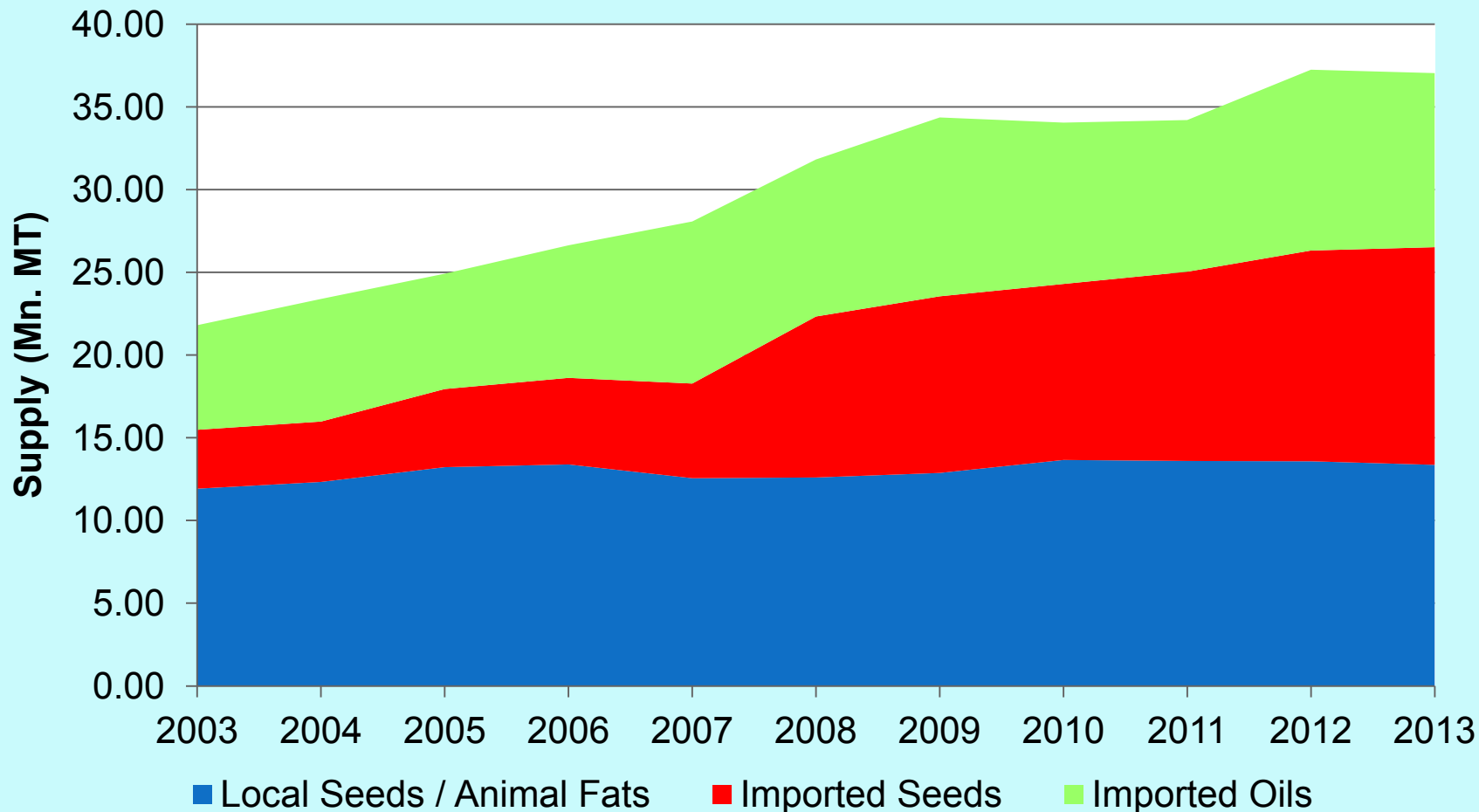
- Scarcity of land in China forced Chinese government to focus more on grains output as most of its are staple foods.
- Cheaper imported soybean (due to cost and favorable import duty) more preferred by crushers.
- These factors caused the less competitive local soybean mainly produced in North Eastern region declined in output in recent years.
- Furthermore, the pace of demand growth for soybean meal has far outpaced local soybean output, leads to sharp increase in soybean import.

# Supply-Demand Balance of Oils & Fats

- Hence, although growth of oils & fats import outpaced the consumption growth in China in past 10 years ( 5.2% vs. 4.8%), indicating reliance on import has slowly increased, the growth in oils imported in the form of seeds was more significant.
- From 2003 to 2013, import of oilseeds grew 12.5%, among which soybean import grew at an average rate of 11.8% and accounted for more than 90% of total oilseeds import.
- As all imported soybean were meant for oils & meals production, oils brought in the form of oilseeds was actually supporting the average supply growth of 5.4% during the same period.

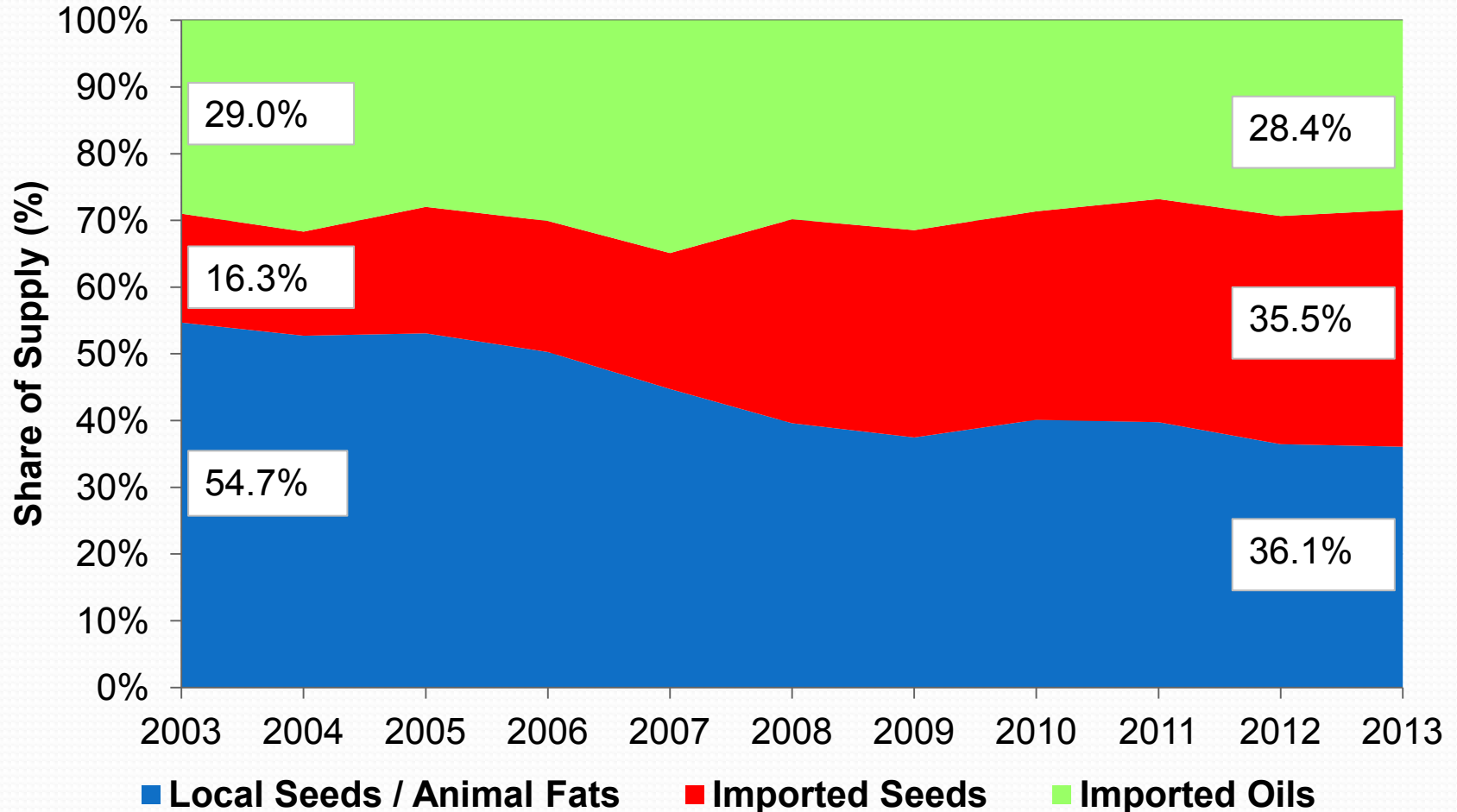
# Supply-Demand Balance of Oils & Fats

## China - Source of Oils & Fats Supply



# Supply-Demand Balance of Oils & Fats

## China - Share of Oils & Fats Supply Sources



# Supply-Demand Balance of Oils & Fats

## Oils & Fats Import

	Jan-Aug 2013	Jan-Aug 2014	Changes (Vol.)	Changes (%)
('000 MT)				
<b>Palm Oil</b>	3,929.2	3,699.0	-230.2	-5.9
<b>Soybean Oil</b>	697.1	812.5	+115.4	+16.6
<b>Rapeseed Oil</b>	1,182.6	615.8	-566.8	-47.9
<b>Palm Kernel Oil</b>	442.8	308.9	-133.9	-30.2
<b>Coconut Oil</b>	93.2	101.5	+8.3	+8.9
<b>Others</b>	756.2	805.8	+49.6	+6.6
<b>TOTAL</b>	<b>7,101.1</b>	<b>6,343.5</b>	<b>-757.6</b>	<b>-10.7</b>

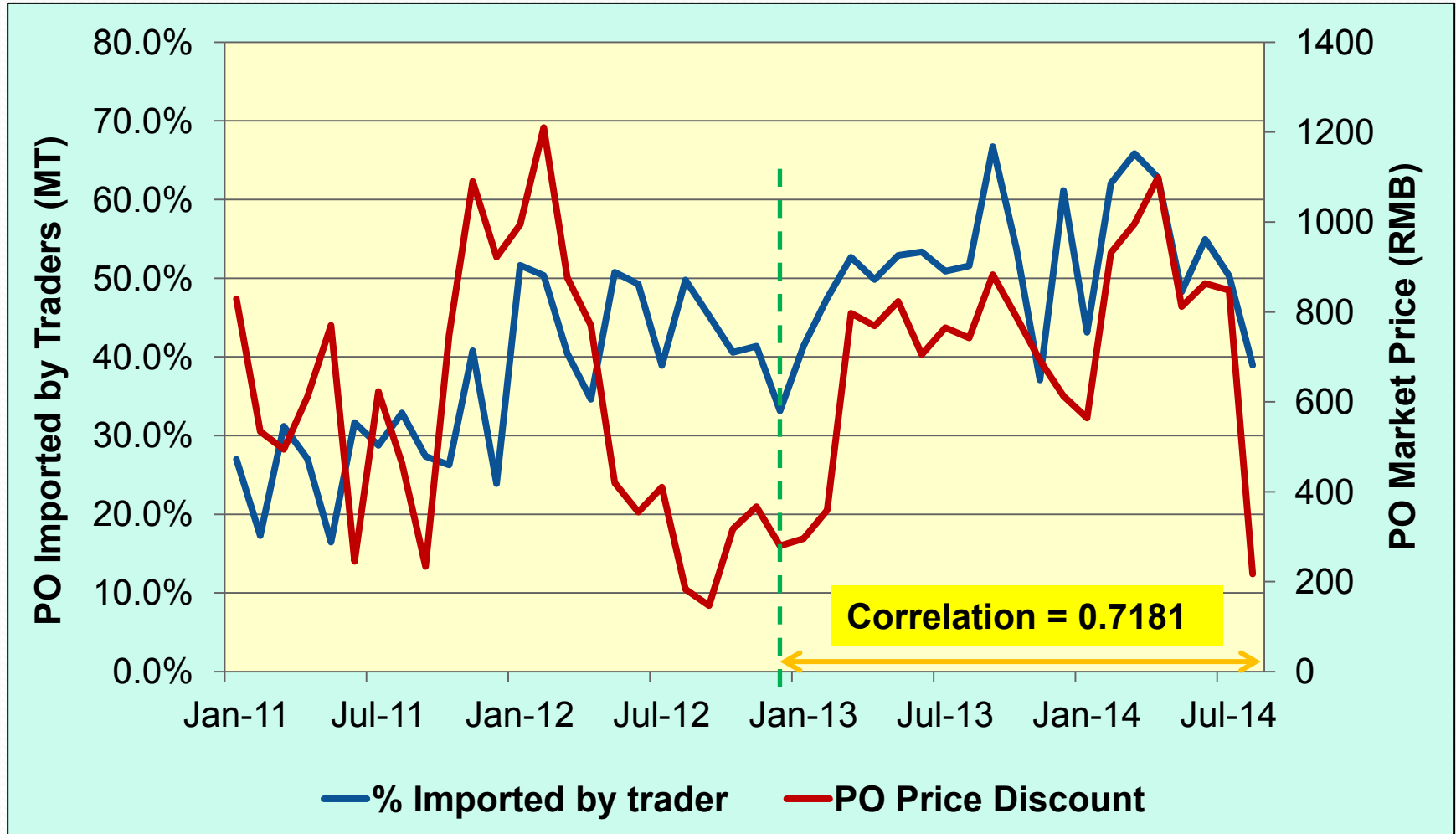
Source: Oil World



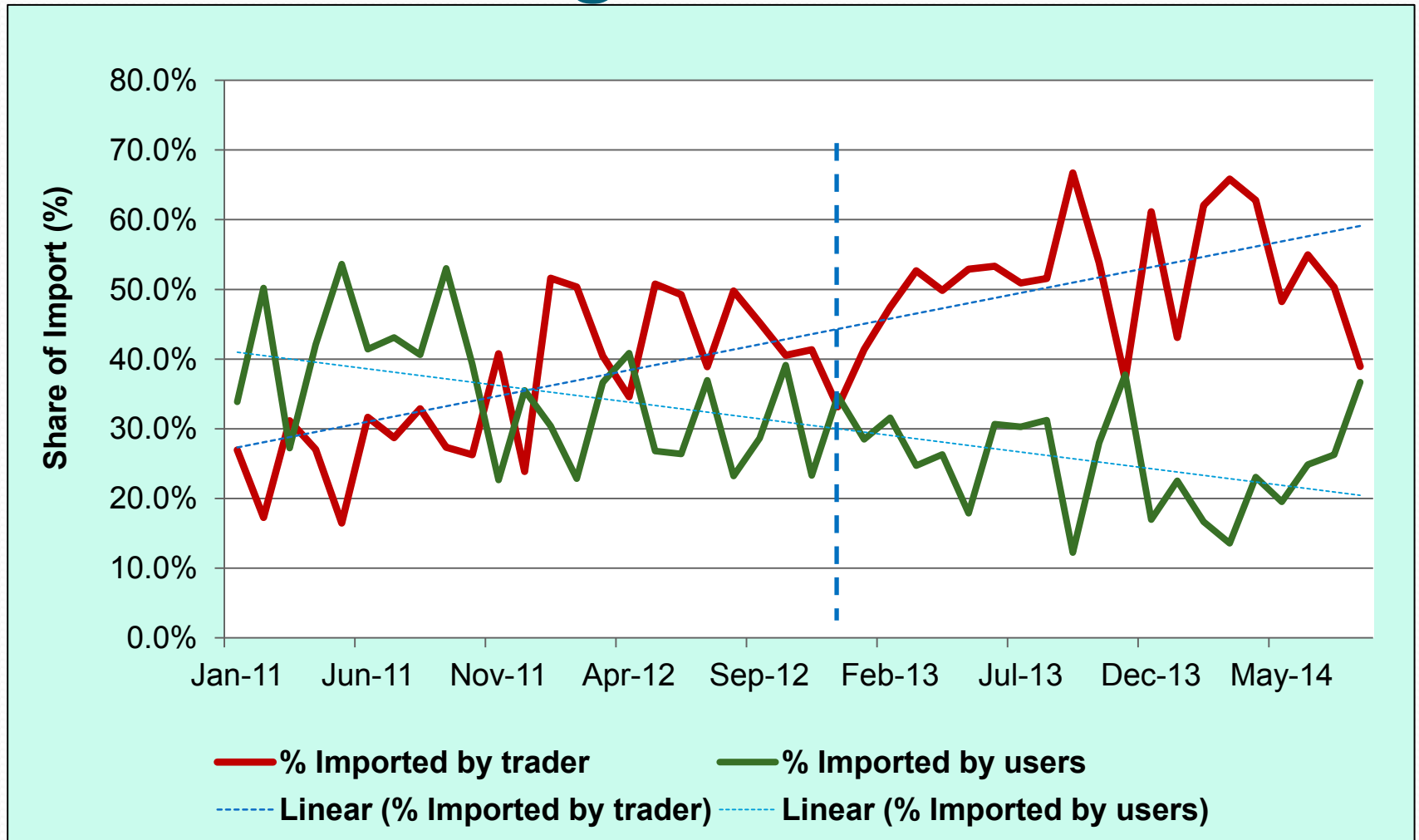
# Supply-Demand Balance of Oils & Fats

- Import of palm oil has been influenced by the growing involvement of credit traders since 2012, who sold the imported PO at a discount for cash in China to invest in property and involved in other activities.
- This caused the import of PO to be associated to the economy activities in China which are not related to direct usage.
- Subsequently, market price of PO has been at significant discount against landed cost, and this is largely influenced by the volume imported by credit traders.

# PO Import Move In Tandem with Price Discount



# Outright Lead of Import Share by Traders Began Since Jan 2013



# Supply-Demand Balance of Oils & Fats

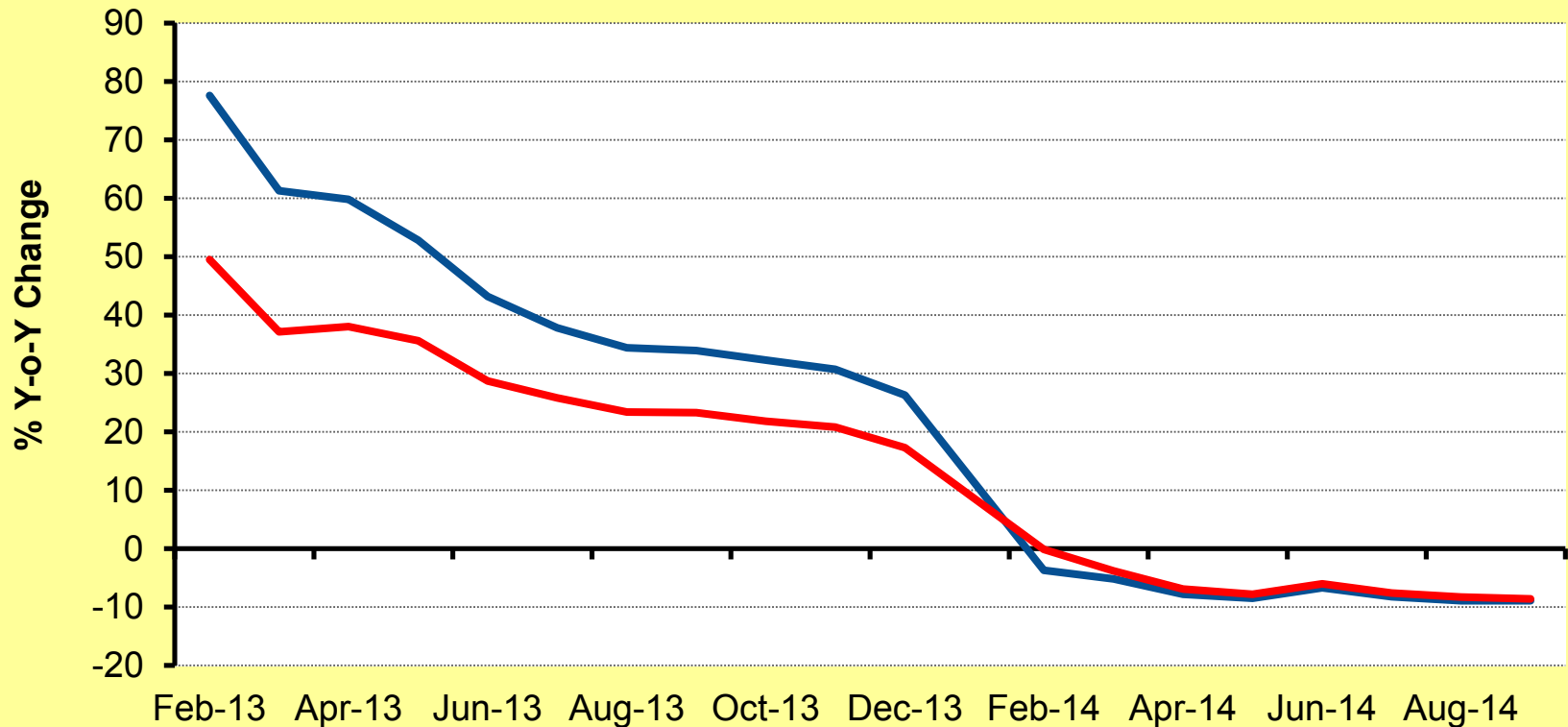
- Nevertheless, when the economy growth slowdown this year, the cash generated by credit traders yield lower return, and slowed the interest of these traders to continuously importing large volume of palm oil.
- Furthermore, as Chinese government also noticed this phenomena, the central bank also requests for higher sum of guarantee for LC issuance to avoid rising bad debt.

# Review of Economy Situation

- After the outburst of financial crisis in 2007 and the aftermath, China's GDP growth dropped below double-digit since 2007 and further declined to below 8% in last 2 years.
- This “New Normal” of 7-8% economy growth in China is expected to last until 2020, and there will be continual rise in urbanization.
- For 2014, the GDP Growth for first half was at 7.4% and the overall 2014 is forecasted by most international financial institutions to be at approximately 7.5%.

# Further Slowdown in Property Industry

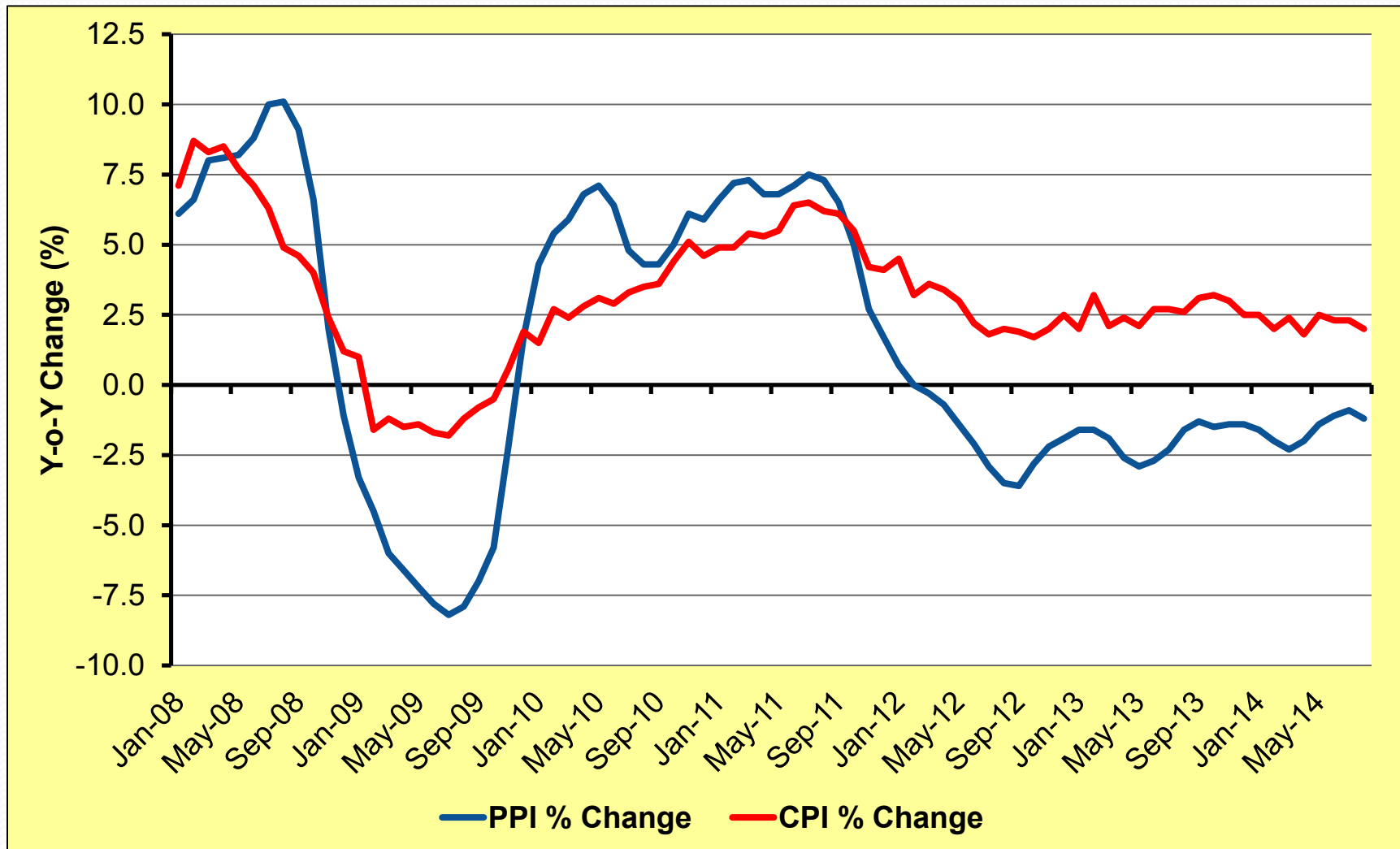
Y-o-Y Change of Accumulated Sales Area & Value of Housing Property



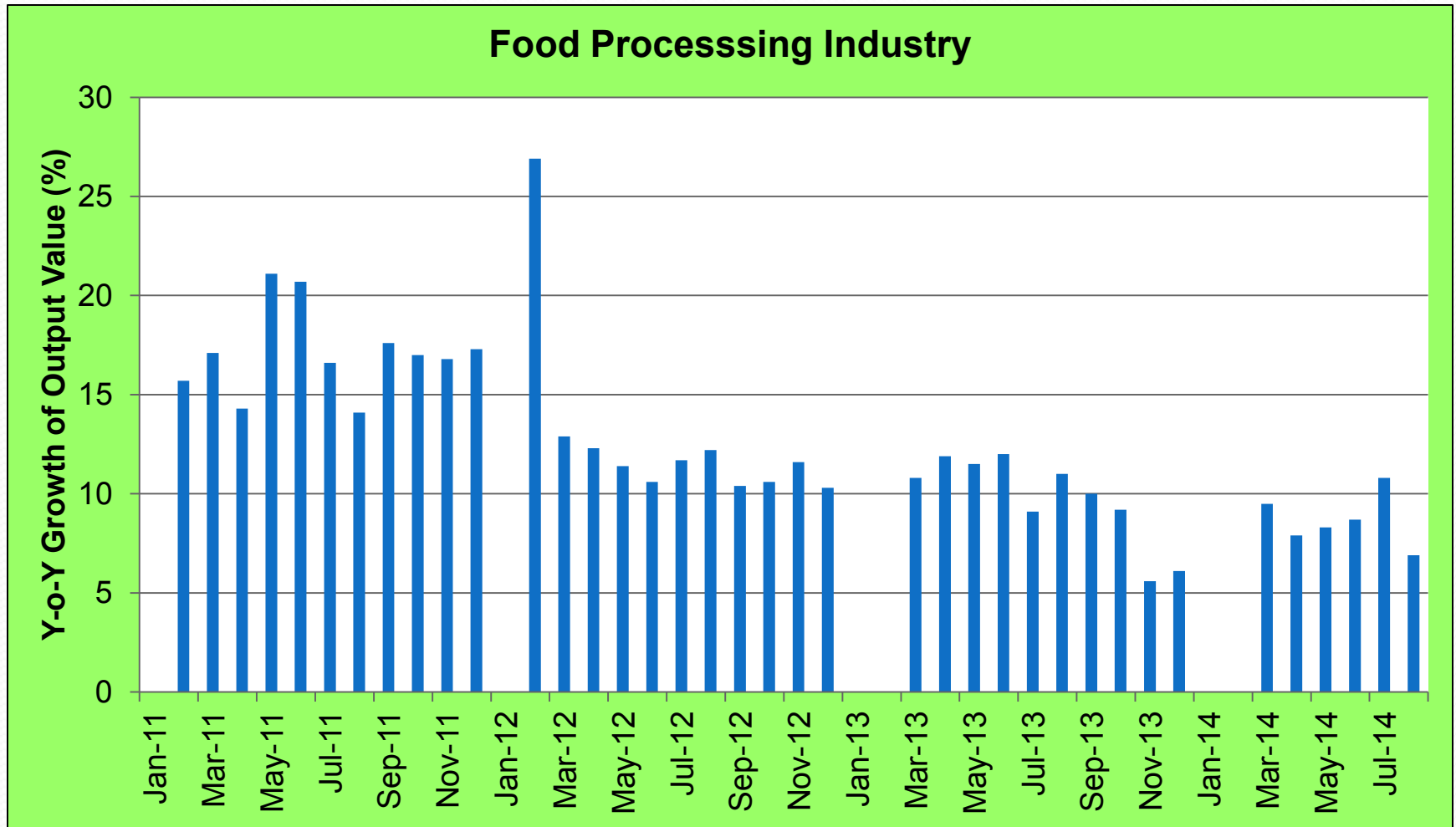
— Y-o-Y Change of Monthly Accumulated Sales Value of Housing Property (%)

— Y-o-Y Change of Monthly Accumulated Area Sold Under Housing Property (%)

# Further Slowdown in Economy Activities

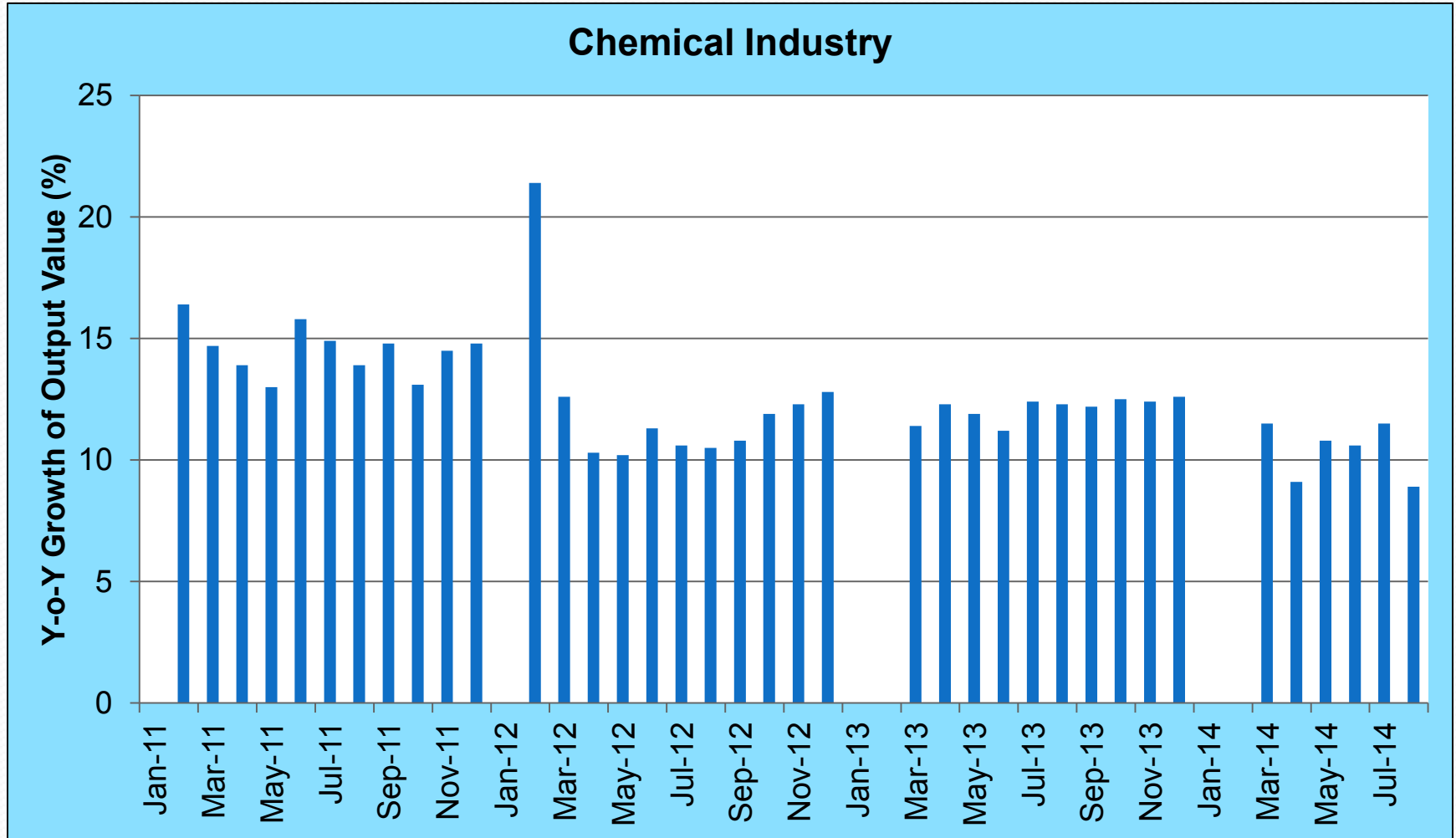


# Further Slowdown in Economy Activities

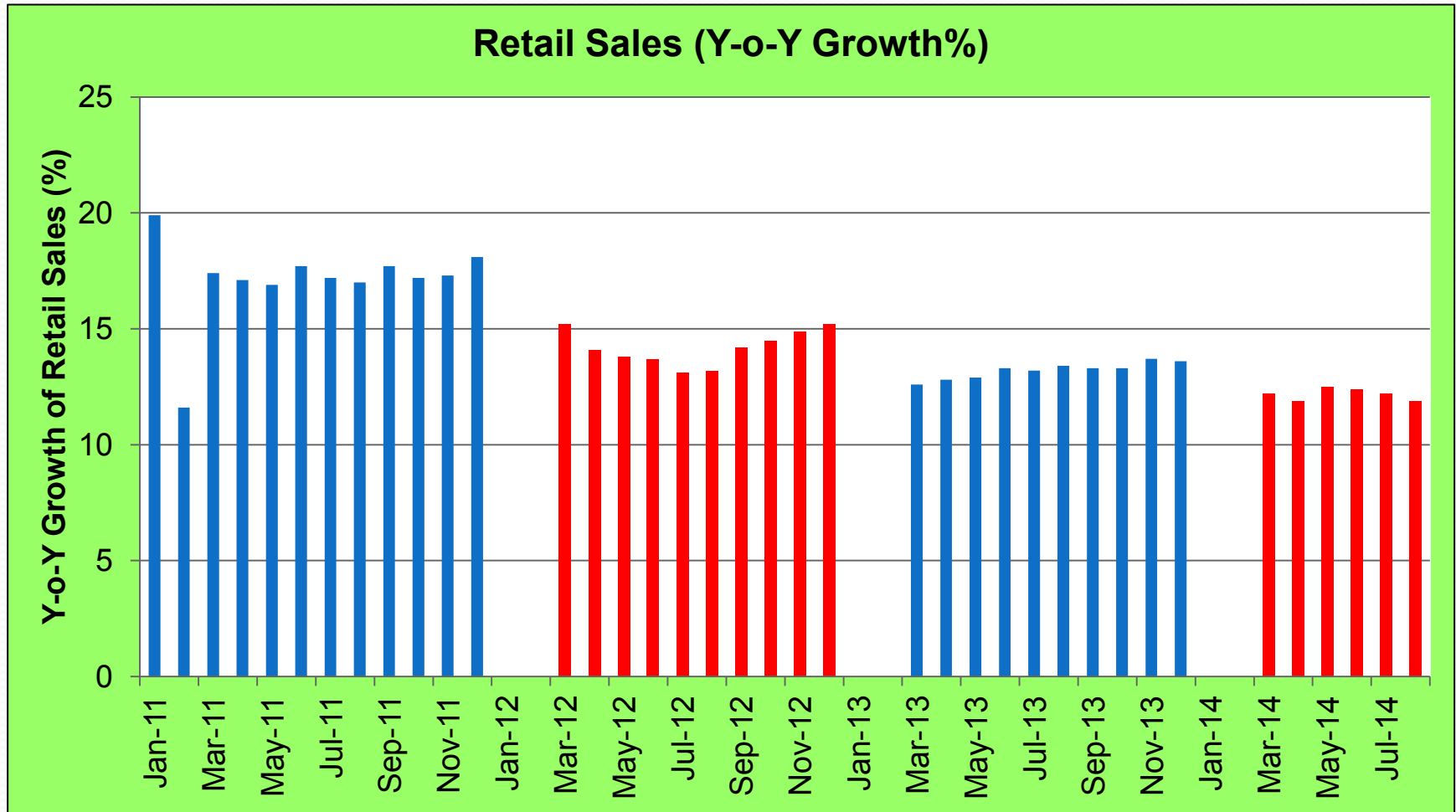




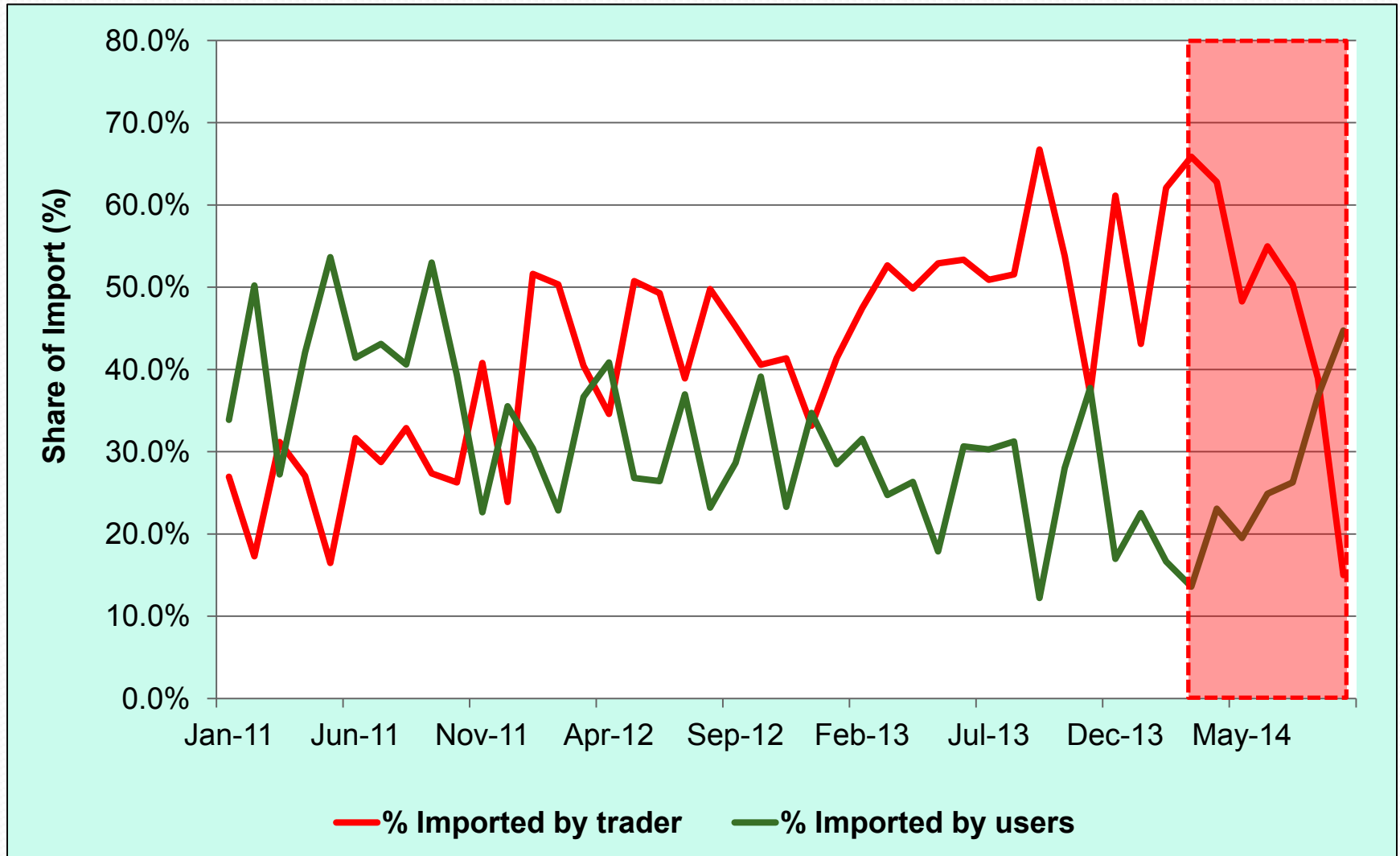
# Further Slowdown in Economy Activities



# Further Slowdown in Economy Activities



# Declining Import Share by Traders





# **Issues and Challenges**

# Issues and Challenges

## Discount Between Landed and Market Price

- Ongoing price discount (between market and landed price) resulted from the misused of financial credit made available for commodities sector, led most users buy palm oil directly from these “traders”.
- This reduces the opportunity of building new business partnership between Malaysian suppliers and Chinese buyers.
- This situation also led to the palm oil stock to reach record level of 1.5 Mn. MT in Apr 2013 and remained on average above 1.1 Mn. MT for 1H2014.
- Although measures have been taken by Chinese government to curb such practice and led to sharp decline in PO import, it is foreseeable that this activity will continue and become more active after economy condition recover.

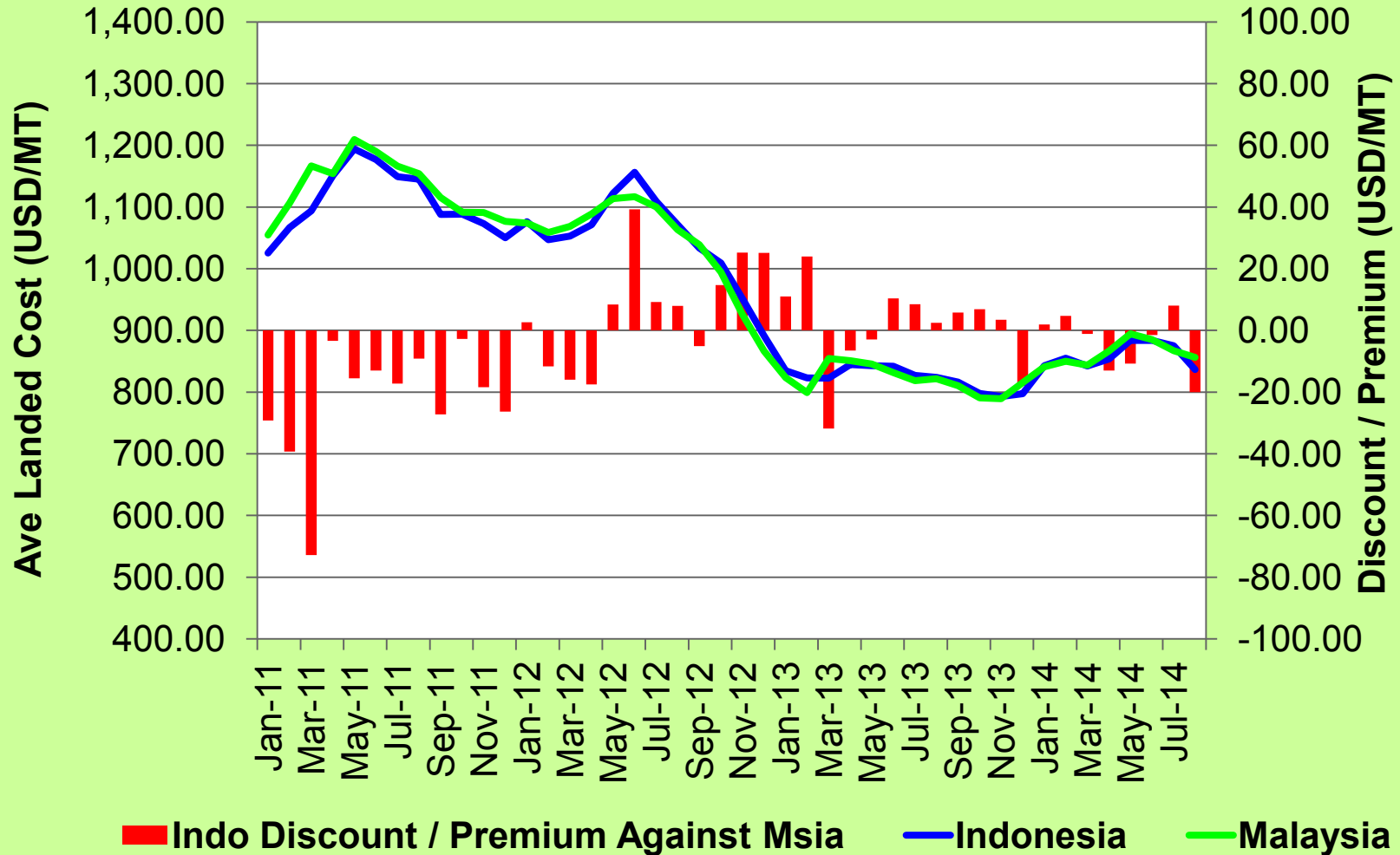
# Issues and Challenges

## Increasing Indonesian PO Competition

- Higher output of Indonesian PO will inevitably lead to growing export of Indonesian palm oil. Furthermore, growing downstream activities in Indonesia also led to price dumping as a result of overcapacity and production, i.e. fatty alcohol price discount against Chinese producers by RMB2,000/MT.
- More competitively priced Indonesian palm oil being a preferred choice led to difficulty to maintain or increase Malaysian palm oil market share.

# Issues and Challenges

## Average Landed Cost of Indon PO vs M'sia PO



# Issues and Challenges

## Increasing SBO Production Suppresses Demand for PO

- Increasing demand for animal feed ingredients has led to huge jump in soybean meal production, which also led to increasing SBO output in China.
- This increases the availability of locally produced (using import seeds) SBO and suppress the intention to import more oil, leading to unstable PO import volume.
- This situation may only be improved should growth of feed demand slowdown or soybean crushing plants experience very poor margin.



# Issues and Challenges

## Awareness among Health Practitioners on PO Remain Low

- As China is still facing malnutrition on micronutrients intake and over-nutrient on macro-nutrition, focus on studying specific fatty acid composition intake is not common in China.
- Furthermore, as PO is not a locally produced vegetable oil, lesser attention is given by most health practitioners or experts on studying knowledge on palm oil.
- Hence, there is still large group of experts from health fraternity are unfamiliar with health and nutrition attributes of palm oil.

# Issues and Challenges

## Visibility of Palm Olein based Consumer Cooking Oil Remain Low in Market

- Consumer packed cooking oil promoting the use of palm olein is almost non-existence in China.
- Most of the consumer blended cooking oil sold in the market only highlight the seeds oil despite using substantiate volume of olein.
- This causes the lack of exposure among consumer to palm oil or olein, subsequently not familiar with this oil.

# Issues and Challenges

## Lack of Awareness of PO Functional Properties in Food Processing in the Inner Regions

- Applications of palm oil in food processing is widely known by most processors at coastal area of China.
- However, due to cost and accessibility, access to palm oil in inner area of China is rather limited, leading to lack of knowledge and usage of PO by food processors from this area.
- This led to relatively lower consumption of palm oil in inner regions of China.



# **Outlook of Palm Oil Market**

# Recent Development – PO Import

	2013	2014	Change (Volume)
Jan – Mar	1,488,687	1,574,827	+86,140
Apr – Jun	1,361,075	1,290,938	-70,137
Jul – Sep	1,493,783	1,059,073	-434,710
Jan - Jun	2,849,762	2,865,765	+16,003
Jan - Sep	4,343,545	3,924,838	-418,707

- Monthly PO import in Sep 2014 (279,805 MT) was the lowest since Aug 2010 (277,655 MT).

# Recent Development – PO Import

- Nevertheless, the end stock level of PO in China was down from its highest in 2014 at 1.2 Mn MT in Mar 2014 to 802,250 MT by end Aug.
- The stock level further drawn down to **553,250 MT as of end Sept** and subsequently to **450,000 MT by 27 Oct**, the lowest since Sep 2011.
- At the same time, discount of PO market price against landed cost also at 23-month record low of **RMB217 (Aug 2014)** and **remain below RMB350 in Oct**.
- Discount of PO price against SBO was also record low at **RMB540 in Sept**, a discount never seen after Dec 2010.

## Recent Development – PO Consumption

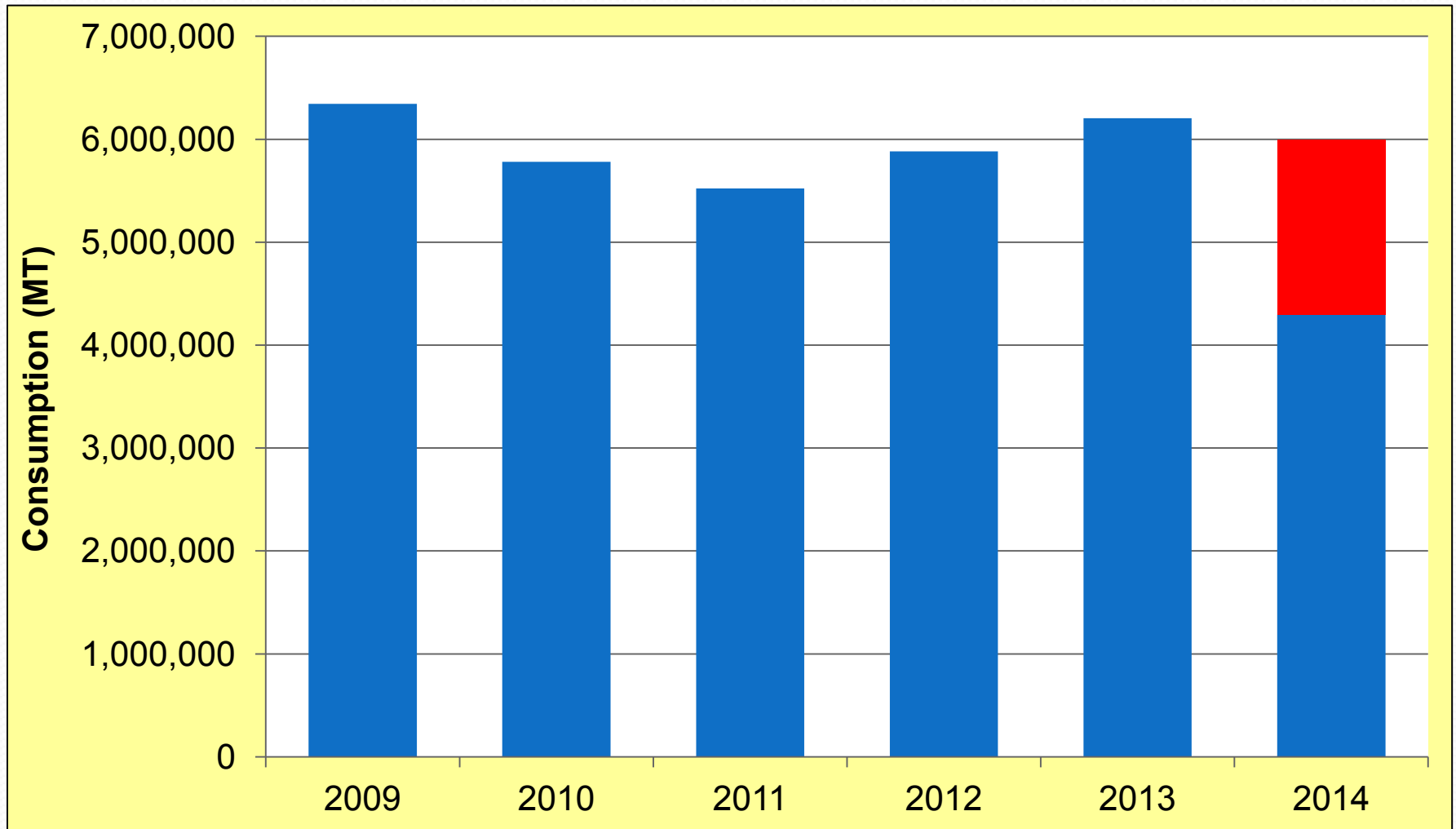
- Although total PO import dropped by almost 10% in Jan-Sep period, consumption was estimated at 4.29 Mn. MT, slightly lower than 4.45 Mn. MT recorded last year, indicating that monthly PO consumption in China remain stable as compared to last year.

# PO Consumption Expected to Be Steady

	2011	2012	2013	2014	(09-14) Average
Jan	420,017	303,241	326,633	374,523	380,570
Feb	267,495	262,666	307,831	488,071	361,332
Mar	277,975	618,746	551,223	426,233	431,772
Apr	465,089	442,859	529,981	529,557	523,356
May	424,202	402,753	540,218	451,646	442,124
Jun	406,868	472,558	456,876	474,835	461,609
Jul	500,794	537,559	467,120	522,344	533,810
Aug	594,862	502,498	665,162	495,578	576,799
Sep	660,360	568,564	601,501	531,791	591,517
Oct	371,902	584,217	524,683		483,035
Nov	582,222	567,232	548,863		550,222
Dec	550,744	620,087	684,503		609,221
<b>TOTAL</b>	<b>5,522,530</b>	<b>5,882,980</b>	<b>6,204,594</b>		<b>5,947,027</b>
<b>Jan-Sep</b>	<b>4,017,662</b>	<b>4,111,444</b>	<b>4,446,545</b>	<b>4,294,578</b>	
<b>Oct-Dec</b>	<b>1,504,868</b>	<b>1,771,536</b>	<b>1,758,049</b>	<b>1,700,000(f)</b>	

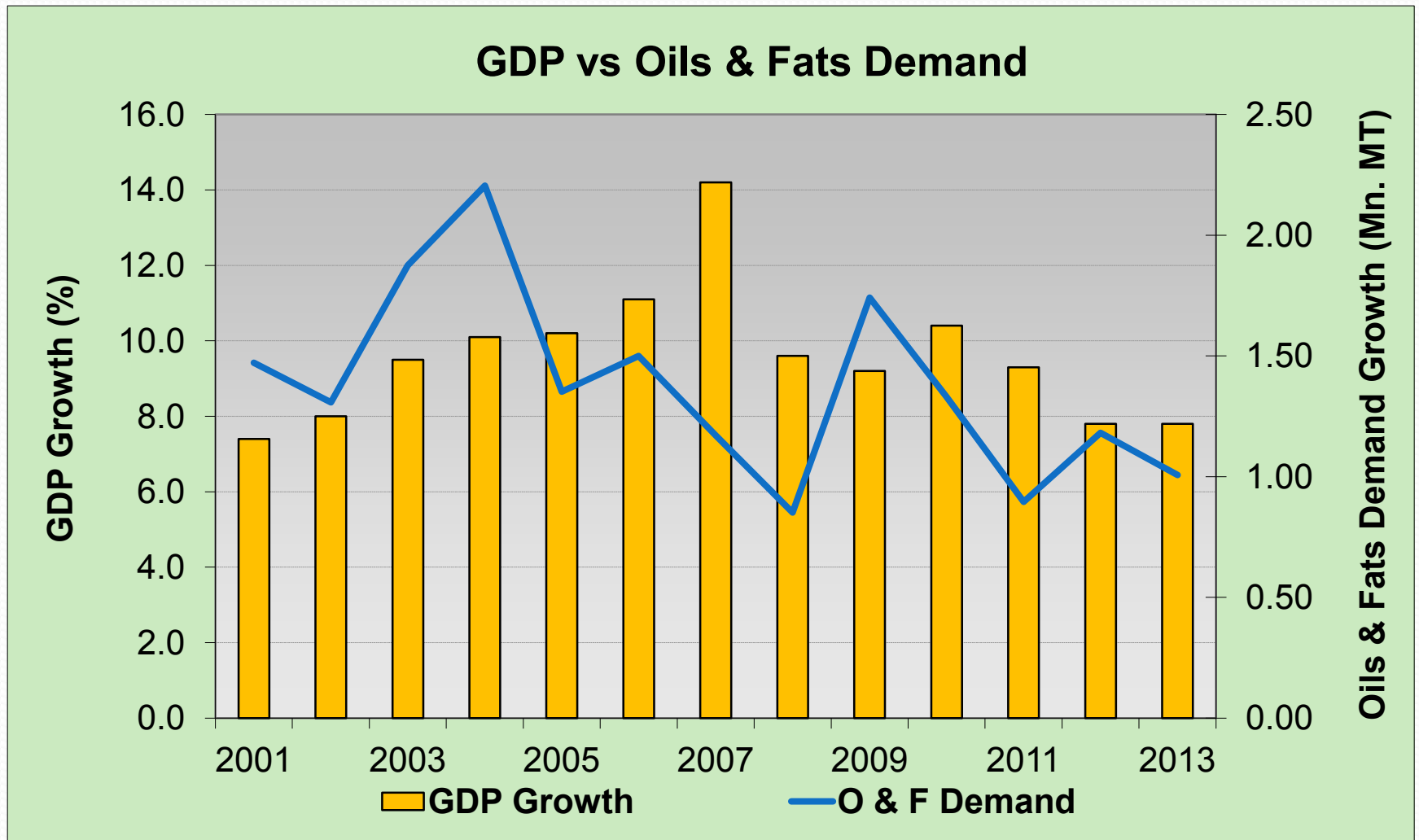


# PO Consumption Expected to Be Steady



Source: Chinese Customs, Epansun & MPOC Estimates

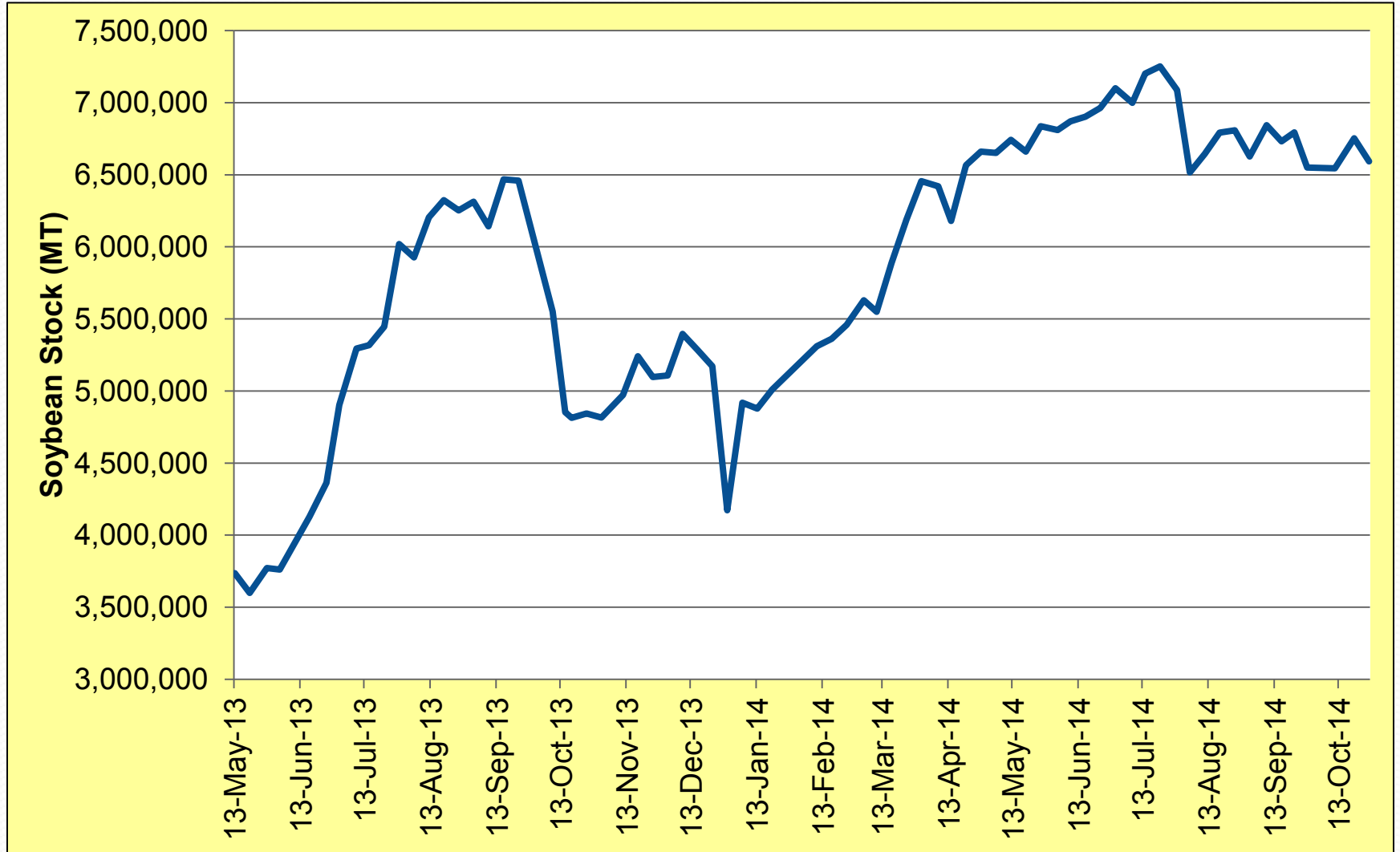
# Oils & Fats Demand Growth Slowed Amid Lower GDP Growth



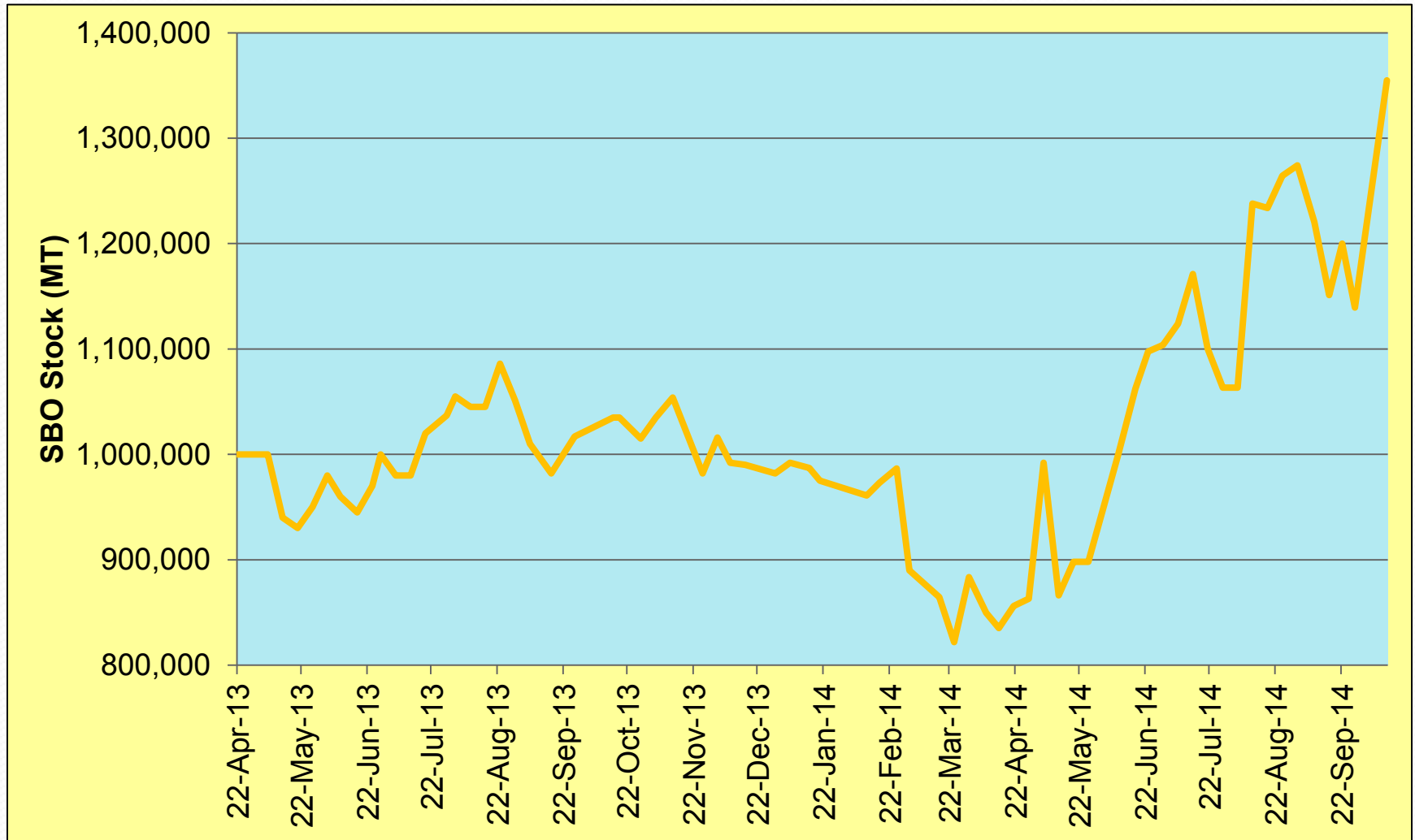
# Soybean and SBO Import Surged Drastically

- According to the previous chart, GDP growth of around 7.5% is expected to lead to the increase of 1 Mn. MT of oils & fats demand for 2014.
- However, import of soybean and SBO for Jan-Sep 2014 has increased drastically. Since all imported soybean is meant for producing SBM & SBO, this is equivalent to additional SBO supply of 1.25 Mn MT up to Sep this year.
- Furthermore, with the increase supply of soybean and SBO, the stock level of these 2 products also surged to record high in recent months.
- Hence, there might pressure the crushers to reduce the price to clear the stocks especially when global soybean price tumbled sharply.

# Soybean Stock at Record High



# SBO Stock also at Record High

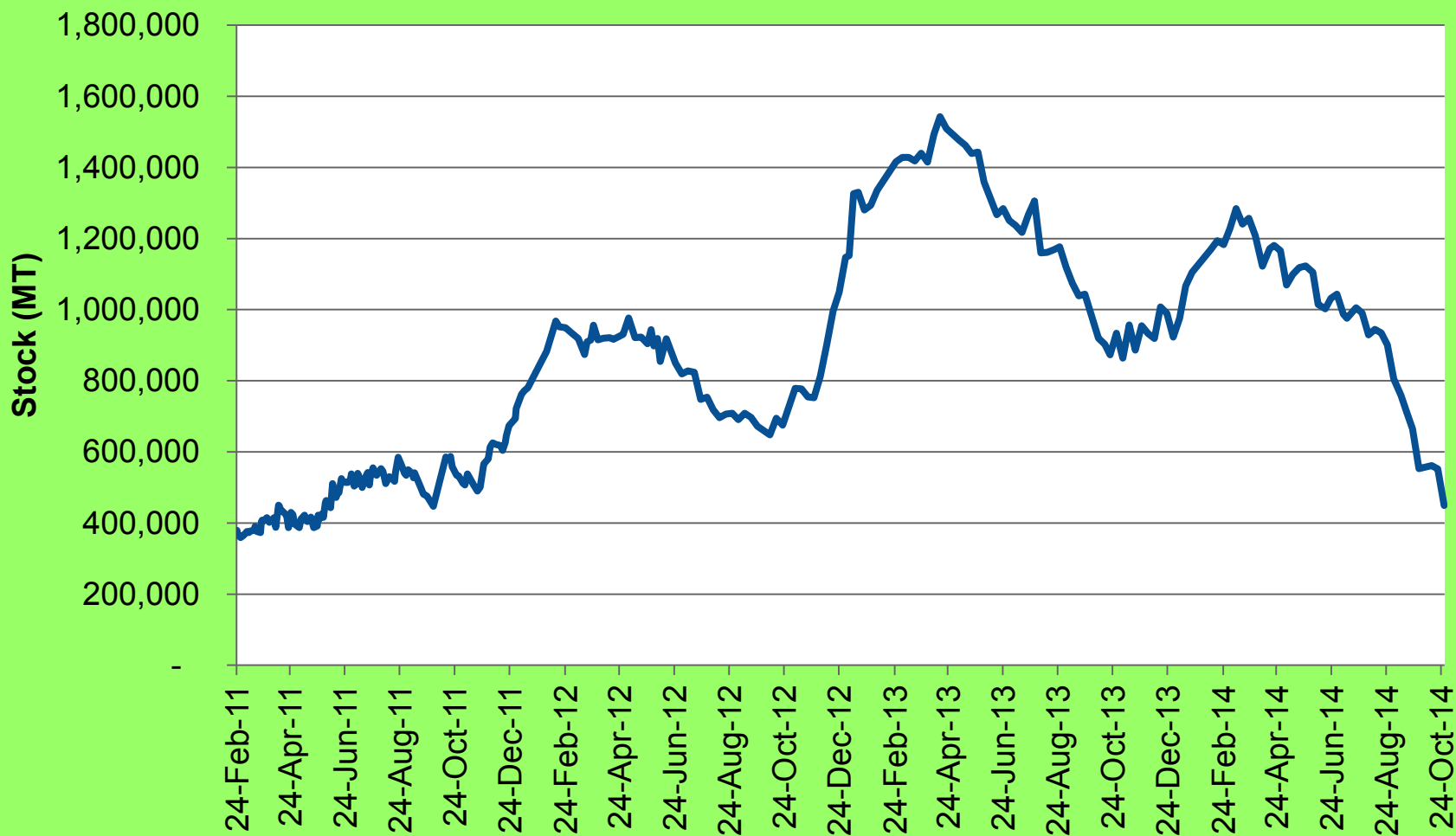


# Import of PO in Remaining Months of 2014 (Oct to Dec)

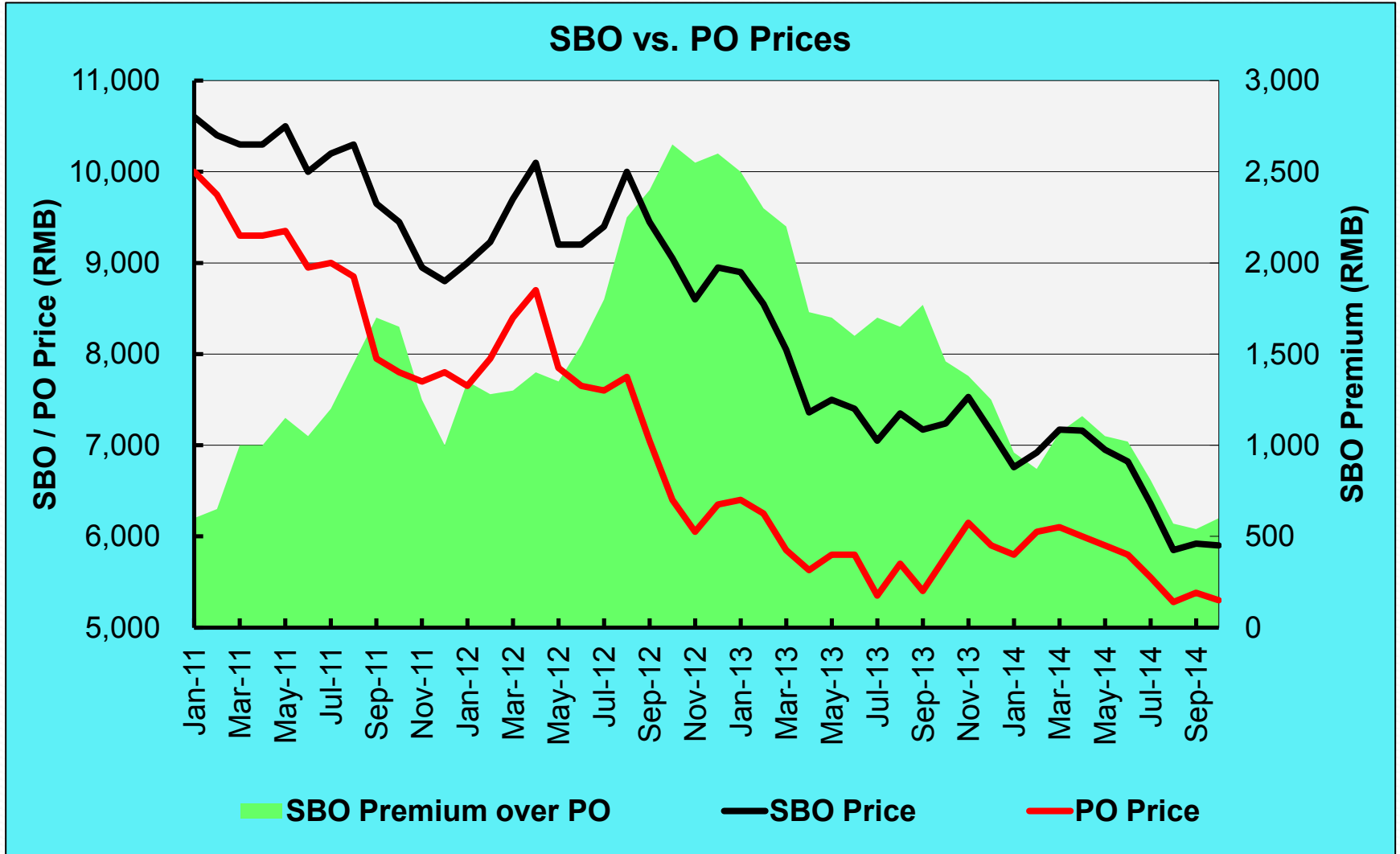
- High soybean and SBO imports and stocks, discourage import of palm oil.
- On the other hand, record low stock palm oil may encourage importer or traders to replenish stock.
- However, as the PO stock declined drastically, and SBO stock surged to record high, discount of PO price narrowed and made PO not attractive in term of price.

# Drastic Decline of PO Stock

## Total Palm Oil Stock at Major Ports of China



# Discount of PO Against SBO Narrowed

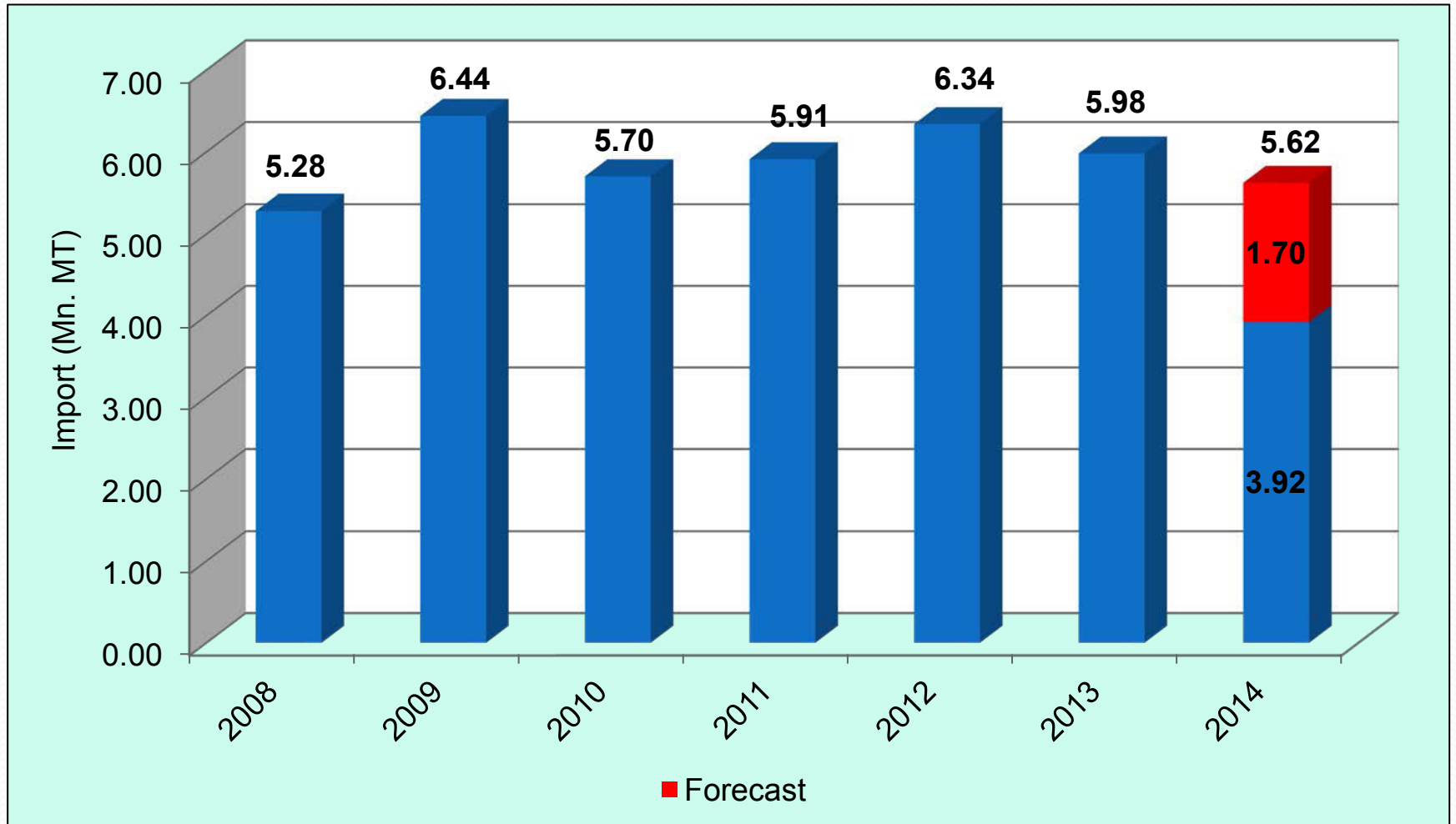




# Import of Palm Oil for 2014?

- Nevertheless, as showed earlier, demand for oils & fats in the country is expected to grow due to increase population and urbanization, despite lower GDP growth rate.
- As stock level of PO has reached a very low level by end Sep (approximately buffer stock for 1 month demand in China), further demand of PO in Oct to Dec has to be satisfied through importation.
- Hence, as it is forecasted that the demand of Oct-Dec period would be around 1.70 Mn. MT, and only small part of the demand has been drawn from stock in Oct(around 100,000 MT), the import of PO for Oct-Dec period is forecasted at around 1.70 Mn. MT.

# Import of PO Will Be Lower for 2014



Source: Chinese Customs & MPOC Estimates

# Conclusions

- Overall Chinese economy for 2014 would be stable with GDP growth forecasted at 7.5%.
- This growth rate witnessed marginal increase of oils & fats demand in China at approximately 1.0 Mn. MT per year.
- With soybean and SBO import and stock level increase drastically, the additional 1.0 Mn. MT required for 2014 is currently available in the market, discourages traders to bring in more oils to satisfy demand growth, unless large default of soybean cargoes take place in next few months.
- This further add on to the worry of declining import of PO in China for many exporters.

# Conclusions

- Nevertheless, as a superior functional ingredient in food processing, demand of PO for the rest of the months is estimated to be same like previous years at around 1.70 Mn. MT.
- This would require the additional import of 1.70 Mn. MT of PO for Oct-Dec period (after taking into consideration of the limited draw down in stock and record low stock level for palm).
- Some of the trade financing traders are likely to stay away from importing PO as the economy condition in China made it not attractive to generate lucrative return by offering illegal loan or invest in property market. So we might see more opportunities for genuine users to import directly from exporters



**Thank You!**