

Outlook for Palm & Veg Oils 2018-19

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Welcome

- Very pleased to speak at POTS Malaysia in Kuala Lumpur
- Heartiest congratulations to Malaysian people on a smooth and peaceful transition to a new government
- Like all Emerging Economies, we face several threats and challenges

Background

- 2017 was the year of record production of Palm, Soya and Sun oils
- Palm production led the way as it recovered from the extreme effects of the EL Nino of 2015
- Unusually, it took almost 2 years for the effects of the EL Nino drought to go
- World food demand was also at a record

Forecasts at POC in Kuala Lumpur in March 2018

- Palm futures on BMD would trade in a range from 2500 to 2700 Ringgits
- By July RBD Olein will go to \$ 720 FOB
- CPO cif Rotterdam will rise from \$ 690 to 750
- Soya oil FOB Argentina will find very strong support at \$ 750



Palm Specific Factors

- Milk fat price decline and switch to milk fats – Ghee consumption in India.
- 2017 prod was strong and world palm prod went up by 7 million tonnes
- High Cycle in Malaysia from March 2017 to January 2018
- Production has been struggling after Jan 18



Latest Development

- Palm Oil v/s Gas Oil (fossil diesel) Spread must encourage PME usage
- Indonesia has made aggressive moves
- Higher mandate and non-pso usage will really make a difference only in 2019
- Edible Demand has been a problem due to stronger Dollar and Higher Import duties

India – import duties on Palm

- On 2 March 2018, India increased import duty on CPO to 48.4% and for RBD Palm Olein to 59.5%
- Import duty on soya oil, sun oil and rape oil is now 38% from 14 June
- Between 2 March and 14 June, Import duty on soya oil was 33% and on sun oil & rape oil it was 27.5%

Softer Demand - Palm

- Palm demand suffered due to higher import duty in India
- Indian crops were under-estimated
- Chinese demand has been soft since early 2017 when China stepped up its Soybean crush and imported 500K sun oil
- Palm discount to soft oils had narrowed

What went wrong

- We under-estimated Demand Destruction caused by the last import duty hike in India
- Failure of Indonesia and Malaysia to step up bio diesel usage
- Huge disappointment in USA biodiesel
- Massive currency devaluation in SOAM

Palm Stocks and Prospects

- Malaysian stocks peaked at 2.76 as at 31 Dec 2017. World stocks were 7 mln mt
- World Stocks did not decline to 4.5 mln by July as expected
- Last quarter 2018 looks Heavy
- Trade War has clouded the outlook

Palm Prospects

- My new estimate of 2018 Malaysian Palm production is 19.2 to 19.5 mln mt. This is dramatically lower than earlier estimates of 20 mln and above
- This is a sad commentary on the industry in Malaysia
- Lower prices and lower production are a double whammy for Malaysia



Palm Prospects 2018

- I have raised my estimate of 2018 Indonesian production to 38.5 mln mt. Thus Indonesia more than makes up for the shortfall in Malaysia
- Indonesia has successfully captured a larger share of palm exports in 2018. However the overall theme has been slower export growth in 2018

Year end Stocks

- Palm stocks in Indonesia are already close to 5 million tonnes and will keep rising gradually month after month.
- Malaysian stocks are currently about 2.2 million tonnes and will rise sharply in Q4 as the production cycle turns Upwards.



Year end Stocks

- By end December 2018, Malaysian stocks can rise to between 3 mln and 3.3 mln tonnes.
- It will depend on how quickly palm prices are allowed to drop. Right now palm prices are in No Man's Land. Palm needs to be more competitive to regain export markets



Other Vegetable Oils

- Sun oil has re-established itself as a premium priced oil and will lose market share in key countries like India.
- On the other hand Sun seed are largely not affected by the Trade War
- We can visualise a scenario where burdensome soybean stocks are held in USA whilst competitors benefit

Rapeseed

- Rapeseed production in EU is down
- Canola production in Canada is good
- China has discouraged high oil bearing Rapeseed cultivation – down to 5 mln mt
- However, thanks to US-China trade spat, China will be looking to import more Canola and Rapeseed this year

CHINA

- Will the USA China Trade Dispute give some benefit to Palm Oil Demand in China during Q4 of 2018 and Q1 of 2019 ?
- Will the Trade Dispute linger into 2019 or will it get resolved just before the mid term elections in November 2018 in USA ?
- If China crushes fewer soybeans, palm must benefit. It remains to be seen how much.

Soybeans & Soya oil

- This current US soya crop will be the biggest in history
- Yields are off the charts
- USDA projects massive carry over stocks of beans as a result of the Trade War
- Everything in the soya complex faces huge uncertainty due to the Trade War

Soya oil & Bio diesel

- USA soya oil stocks will be tight
- We need to watch what support Trump extends to US soybean farmers
- Some relief for US soya bio diesel could come after the mid term elections in November and Democrats take the House
- Brazil went from B8 to B10 from March 2018. Will consume 4 mln mt soya oil

Currencies

- Brazil elects a new President in October
- Argentina has problems with its currency
- Weak Real and Peso are bearish
- India Rupee was 64 to USD in Jan 2018. Today it is 71. Could slip further. That is bearish for veg oil imports
- Weak Rupiah and Ringgit will help Palm

Indian Imports

	12-13	16-17	17-18
• Soya	1,090	3,316	3,100
• Palm	8,240	9,526	8,900
• Sun	980	2,168	2,450
• Others			
• Total	10,670	15,440	14,700

INDIA

- Good monsoon overall.
- Deliberate Govt policy to help farmers
- Indian economy doing well but growth in consumption affected by high prices
- Indian crop yields slowly improving.
- Indian crops have been under-estimated in recent years.

INDIA

- Will India reduce import duties?
- Unlikely in the short term until current crop is harvested and sold
- If Rupee continues to weaken and local prices rise by another 10%, then duties may be trimmed. Not otherwise

World Energy Demand

- World Energy Demand grew in 2016-17 by 3 mln mt as a result of increases in Indonesia and Brazil
- Energy Demand in 17-18 also rises by 3 mln mt due to Brazil and Indonesia
- Energy Demand in 2018-19 will be interesting due to higher mandate in Indonesia.

World Food Demand

- Food Demand rose by 3 mln mt in 16-17
- In 17-18 expected to grow by less than 3 million tonnes due to lower growth in per cap Indian consumption

Incremental Supply

• 000 tonnes	17-18	18-19
• Soya oil	+ 2,000	+ 1,000
• Rape oil	+ 500	+ 500
• Palm oil	+ 3,500	+ 3,000
• Others	+ 500	+ 1,000
• Total Supply	+ 6,500	+ 5,500
• Total Demand	+ 5,500	+ 6,000

Assumptions for Medium Term Price Outlook

- Brent crude USD 75 to 85 per barrel
- 2 more Rate Hikes by FED in 2018
- November 2018 will be a watershed
- Trade disruption will affect markets
- World GDP growth will not reach the level of 4% suggested by the IMF

Palm Price Outlook

- Weak or Strong Ringgit is the key
- At current Ringgit levels, BMD futures need to drop to 2100 to make Palm competitive and to regain exports
- If Diesel or Gasoline prices rise, PME blending may become more attractive
- RBD Olein needs to go to USD 560 FOB to recapture markets



Palm Price Outlook

- Small holders are under pressure.
- Governments of Malaysia and Indonesia must look to Direct Subsidy Payment into bank accounts of small holders instead to trying to keep prices high. The Direct Benefit Transfer system being used in countries like India is a good model to follow. It is more efficient and less expensive

Lauric Oils Outlook

- Coconut Oil supply is better in 2018
- CNO popularity is driving edible demand
- CPKO production is higher and non-edible demand is growing only at a steady pace
- Petro based chemicals are less competitive
- Like palm, prices must decline until stocks stop rising.

Conclusion

- The Trump Trade War has led to huge uncertainty. This is bad for commodities and for World Growth.
- Beware an emerging EL Nino
- Ultimately, Weather may rescue prices
- **GOOD LUCK & GOD BLESS**

