

The Outlook for Vegetable Oil Markets

Presentation to POTS Manila

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6th of August, 2015



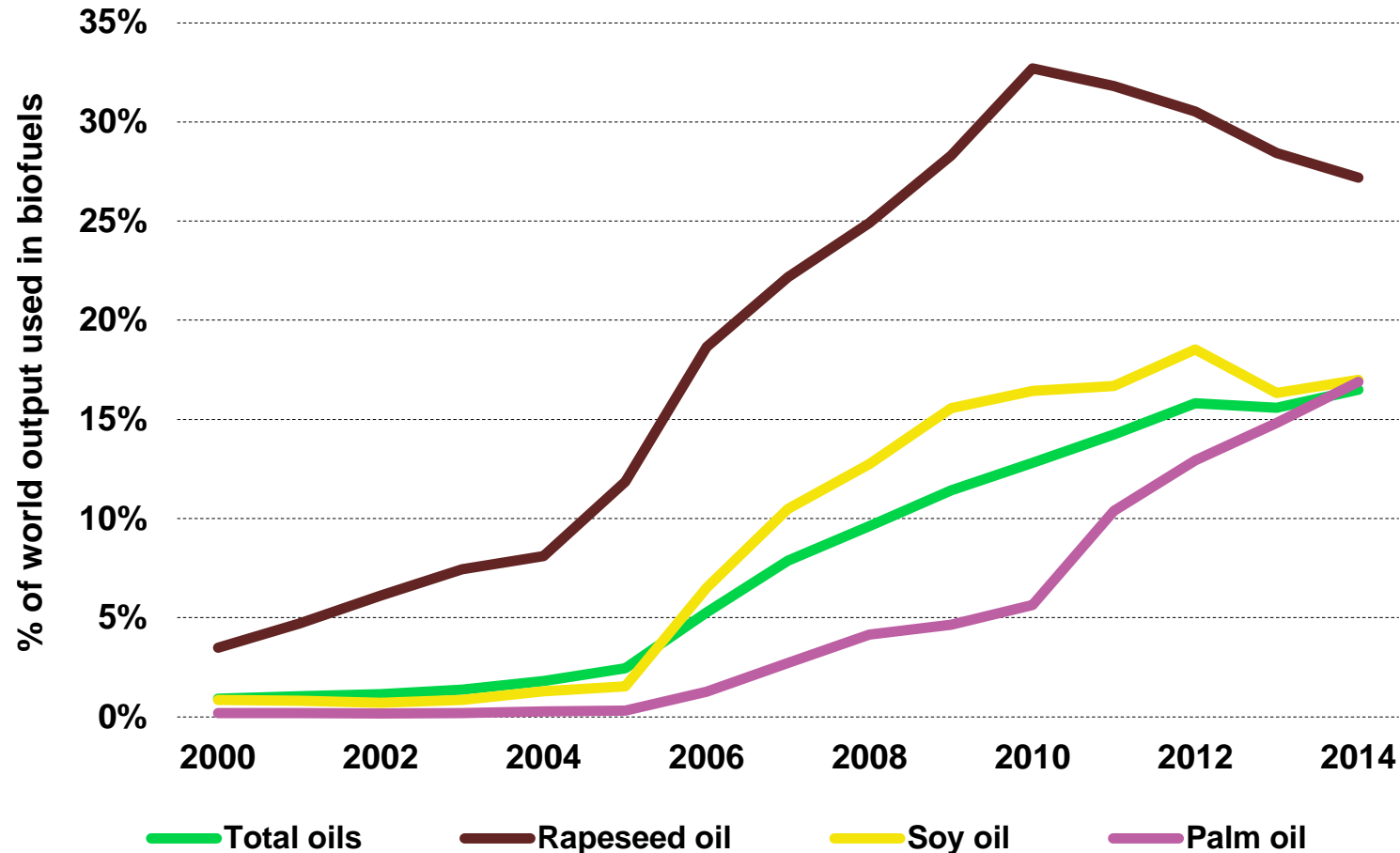
Overview: vegetable oils trade in a *price band* the floor of which is set by crude oil prices.

I am going to start today's presentation with a reminder of how, when analysing the prices of vegetable oils, the most important factor one must understand is the link between palm oil and crude oil prices.

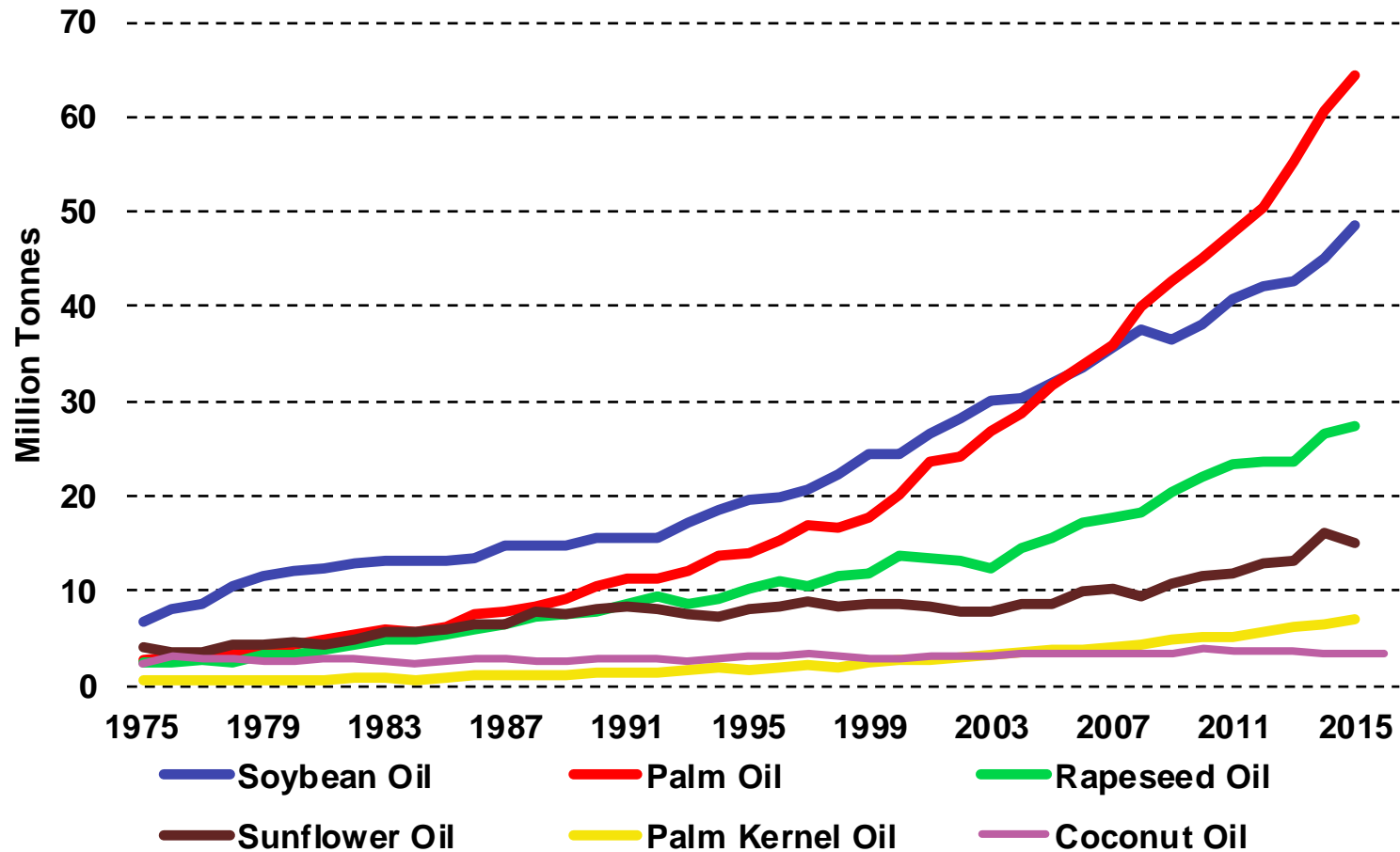
I hope to convince you that, as a result, we need to pay particular attention to the relationship between the stocks of palm oil and its premium over crude oil. The current fall in the crude oil price, has not altered this fact. Instead, it means that as stocks accumulate in September, palm oil will have to work very hard to price itself into the market.

This will also have an impact on vegetable oil consumption in the Philippines, by increasing the competitiveness of palm oil against coconut oil.

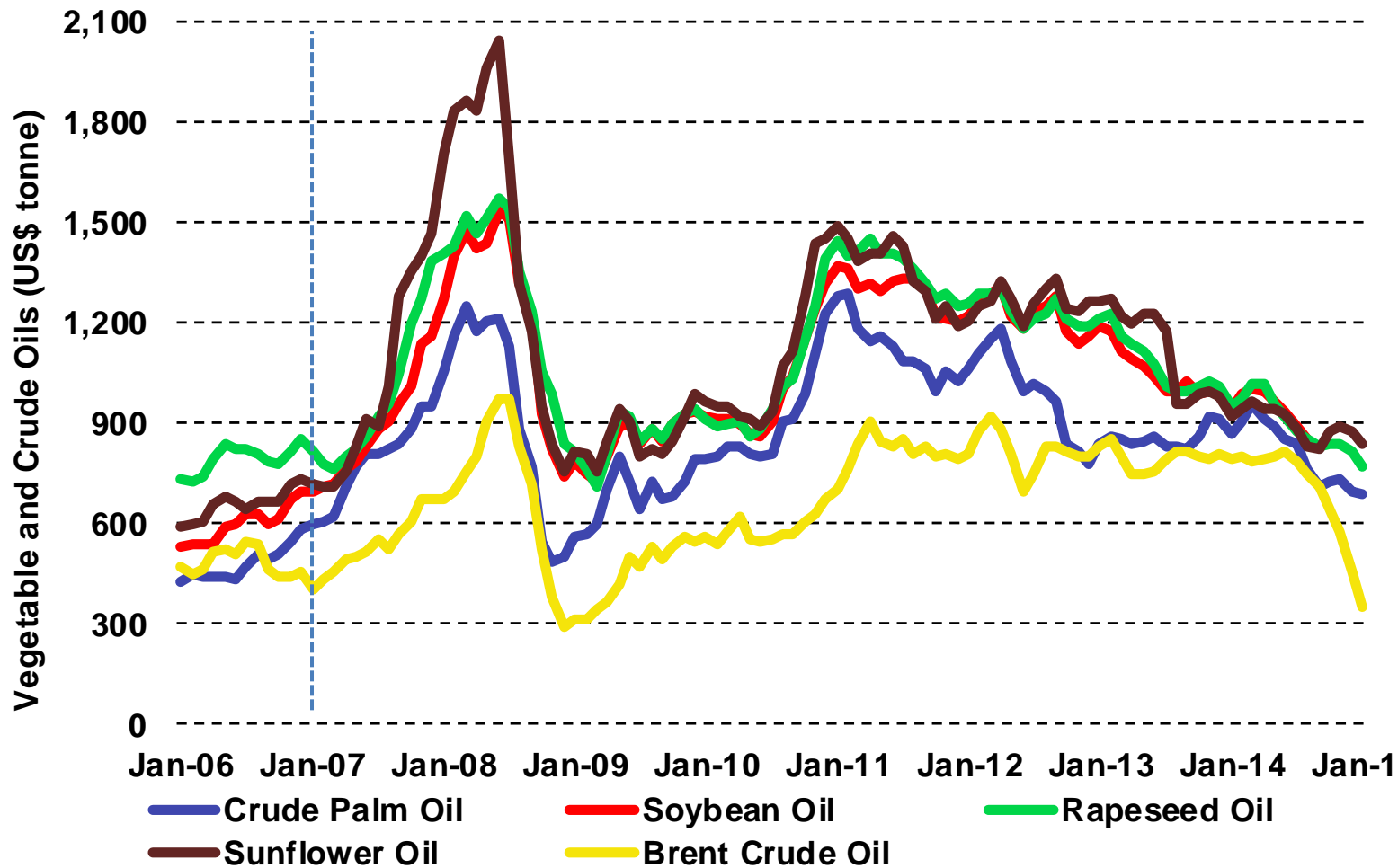
A remarkable share of the world's vegetable oils are now used as biofuels.



This growth in demand for vegetable oils from biodiesel has particularly benefited CPO.



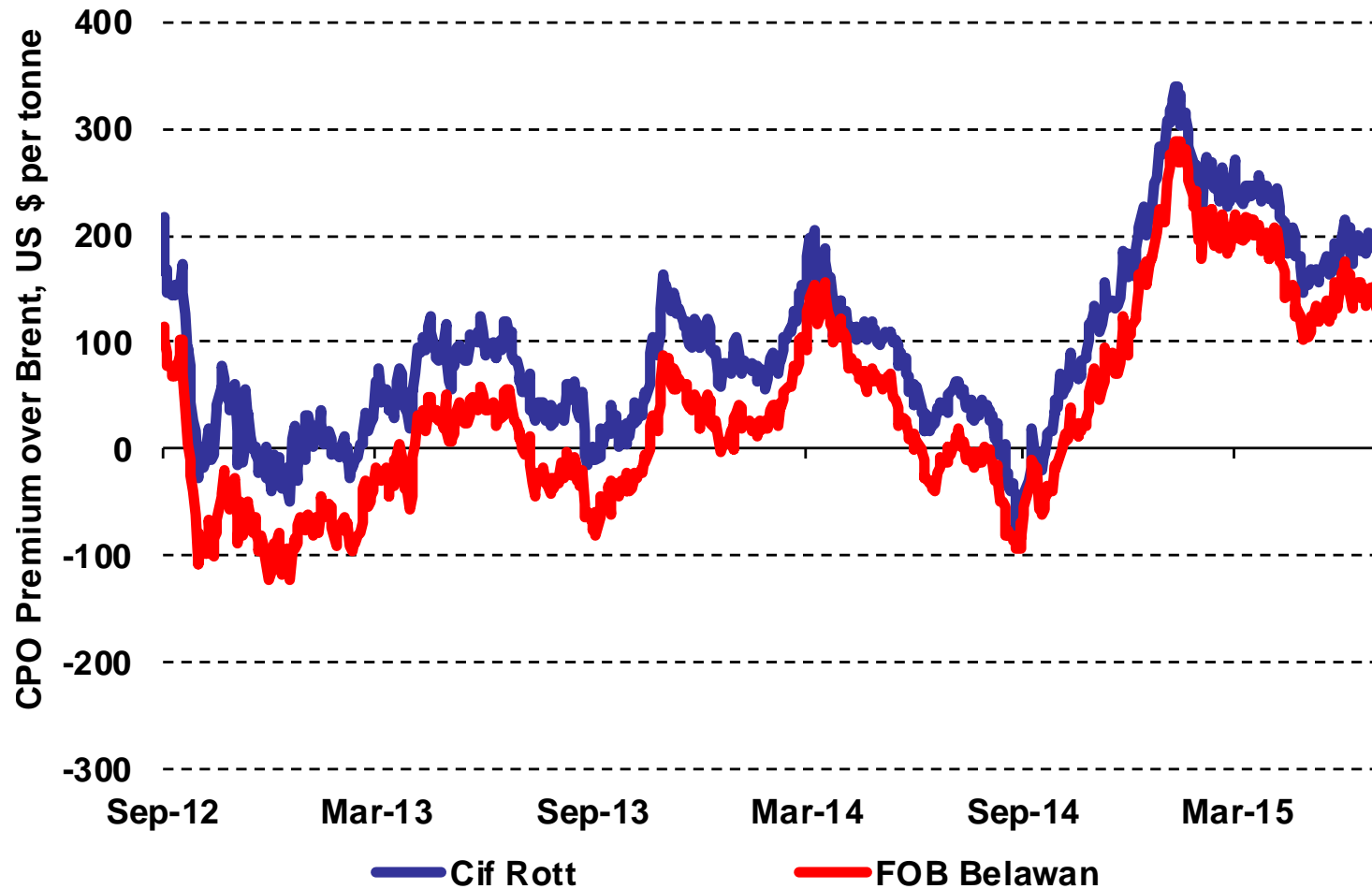
Since 2007, vegetable oil prices have moved in a band above petroleum prices.



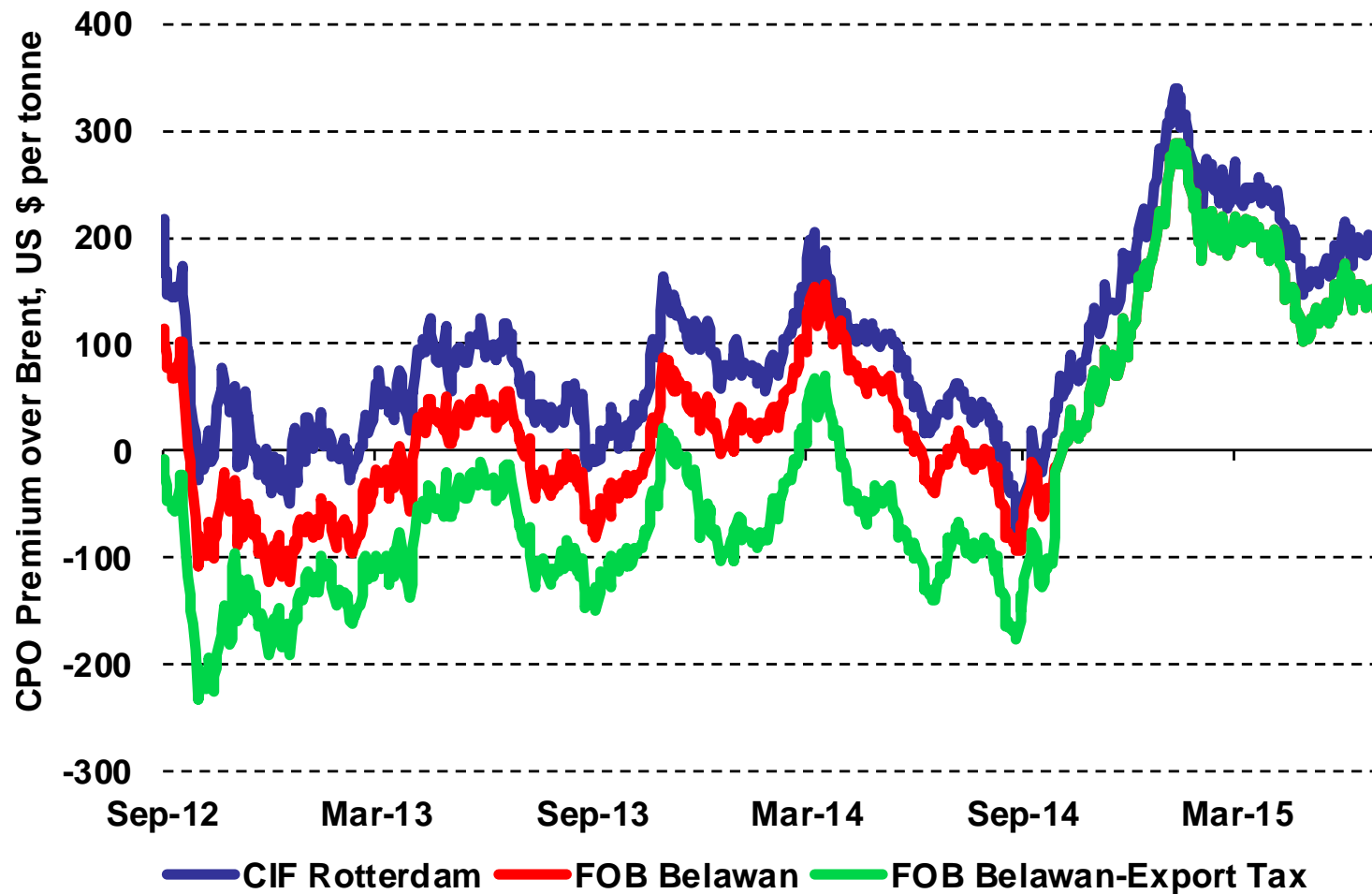
While EU CPO prices have, on a daily basis, fallen below crude, the floor has held...



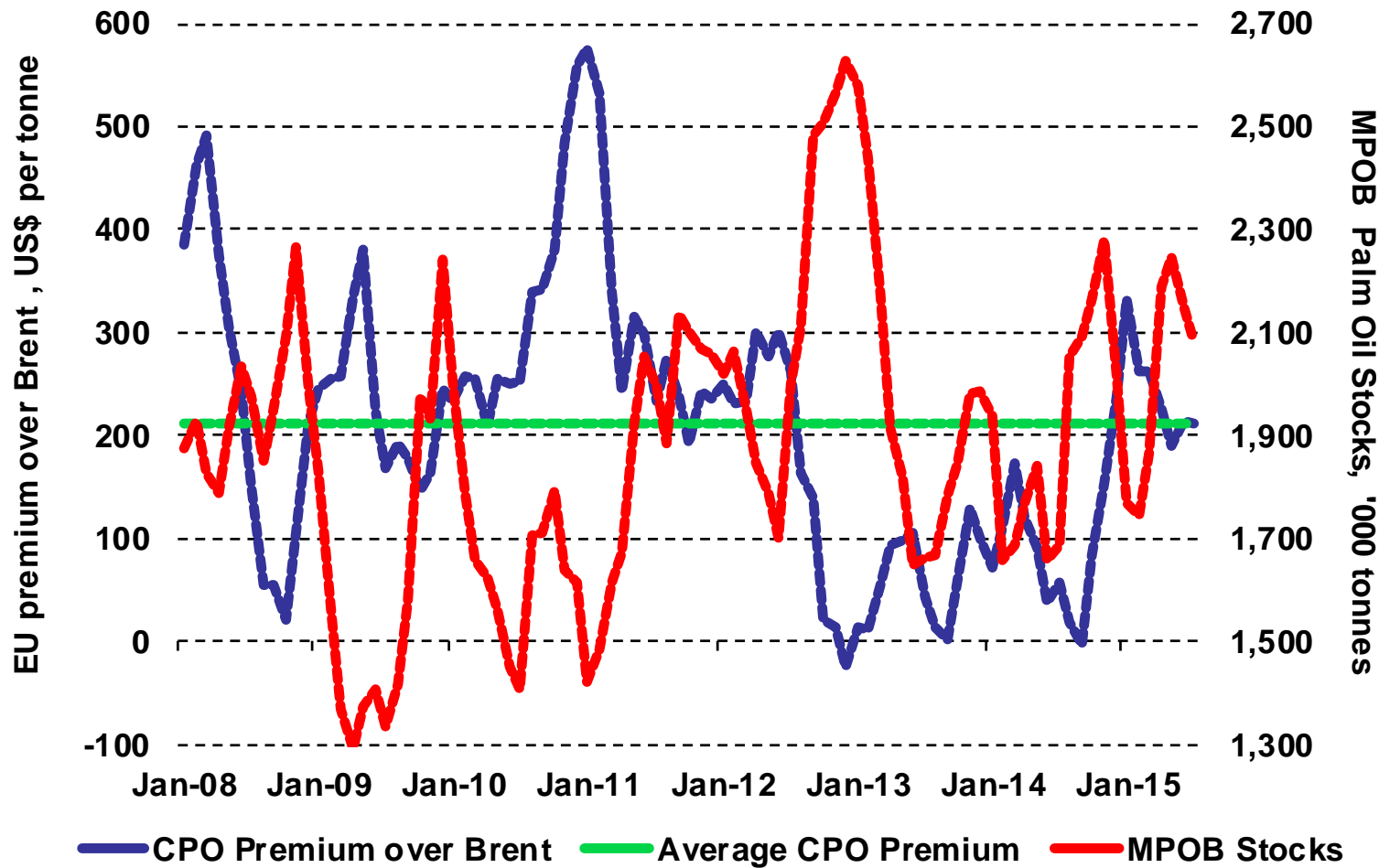
... supported by use in South East Asia where CPO prices were at a discount to crude oil...



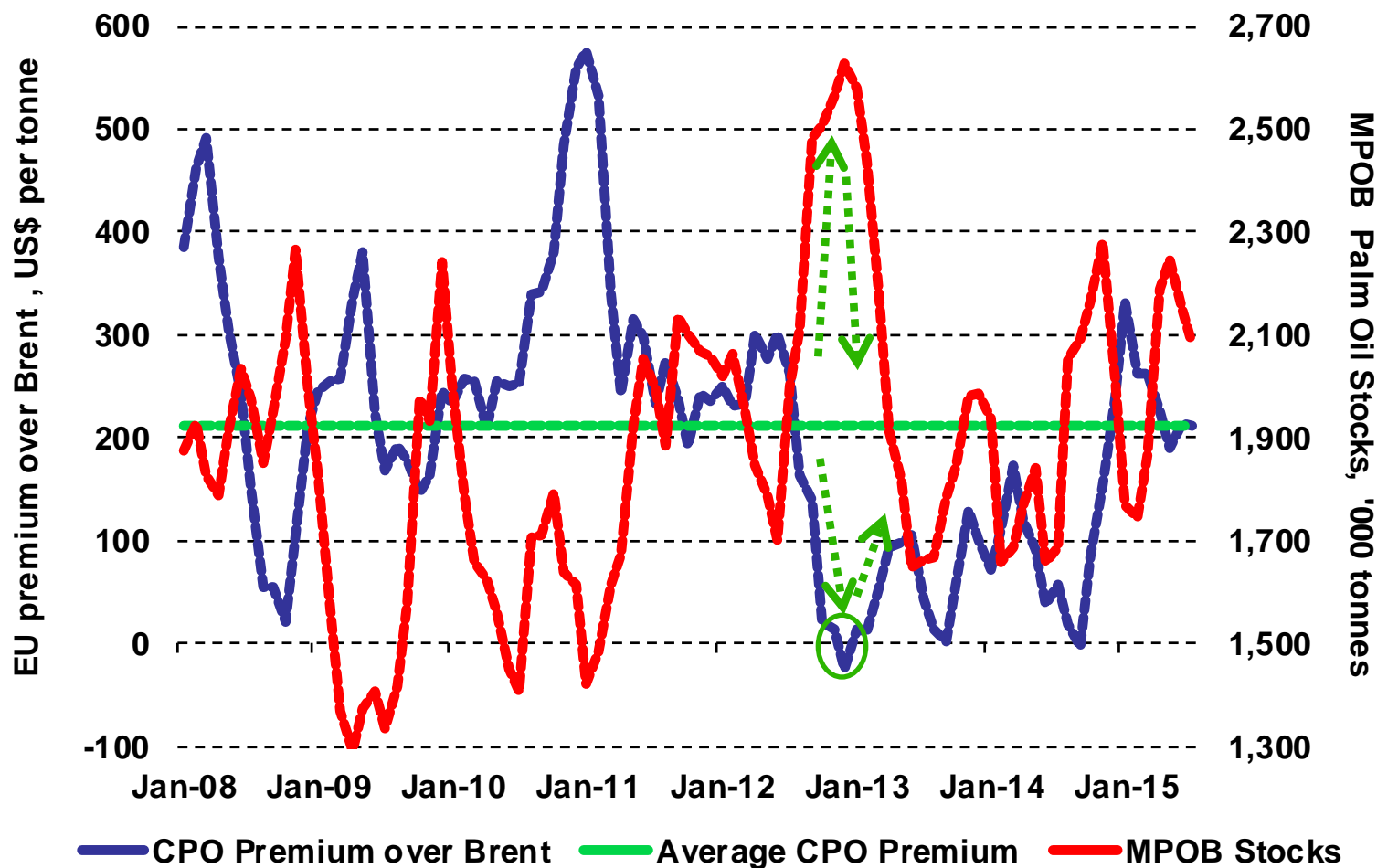
... and in Indonesia where, with export taxes, CPO has been a cheap fuel source.



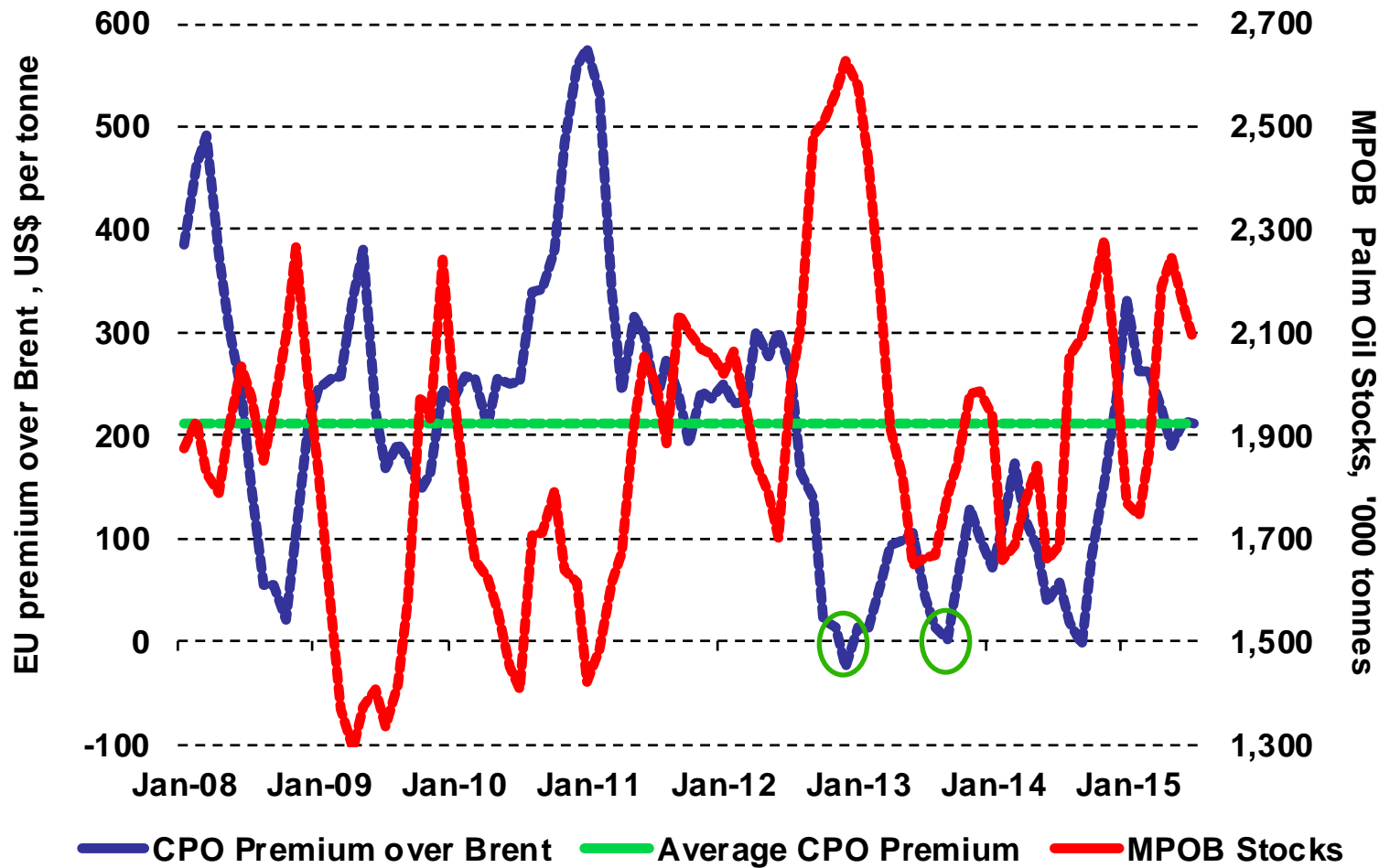
The CPO premium over petroleum moves in the opposite direction to stocks.



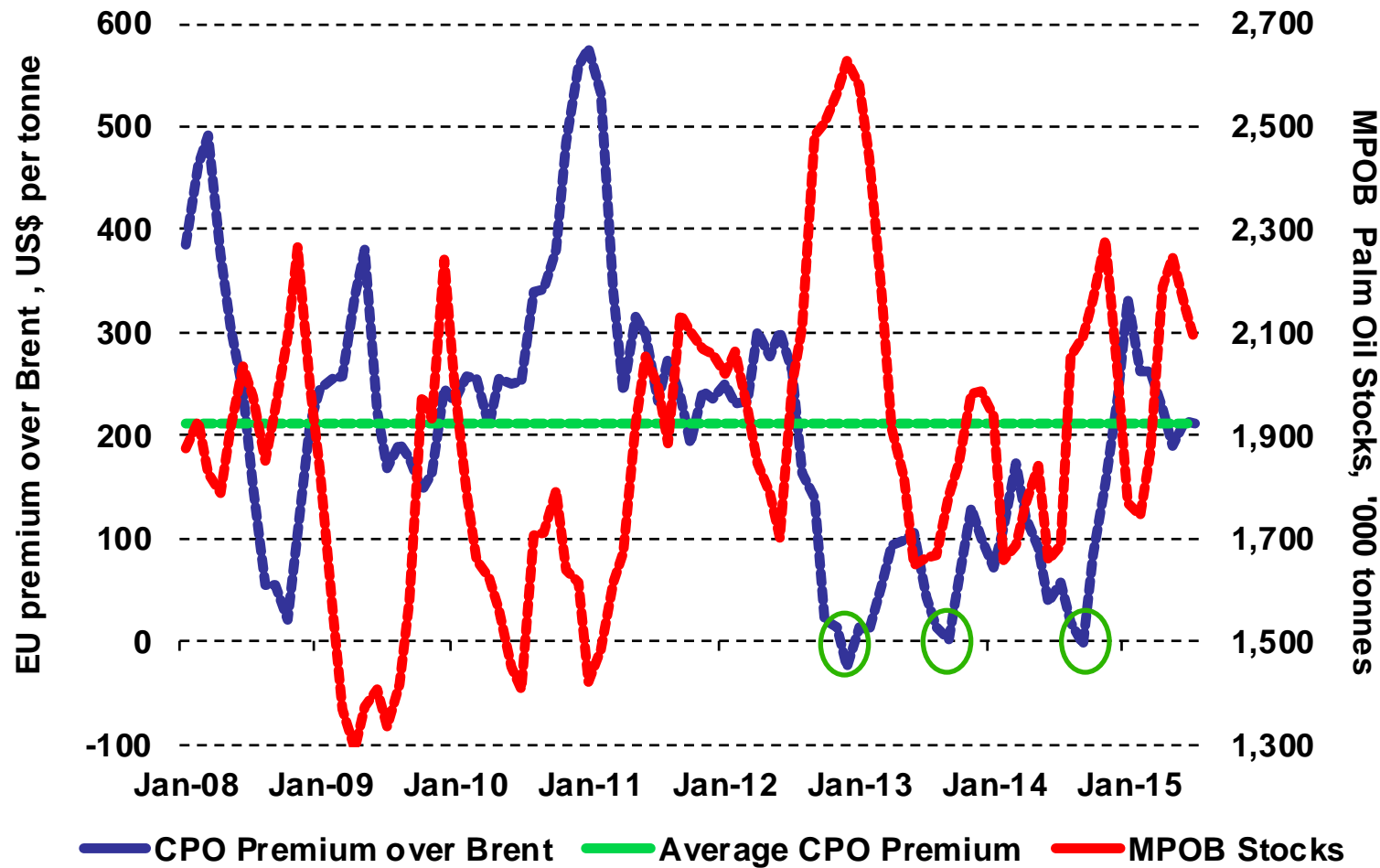
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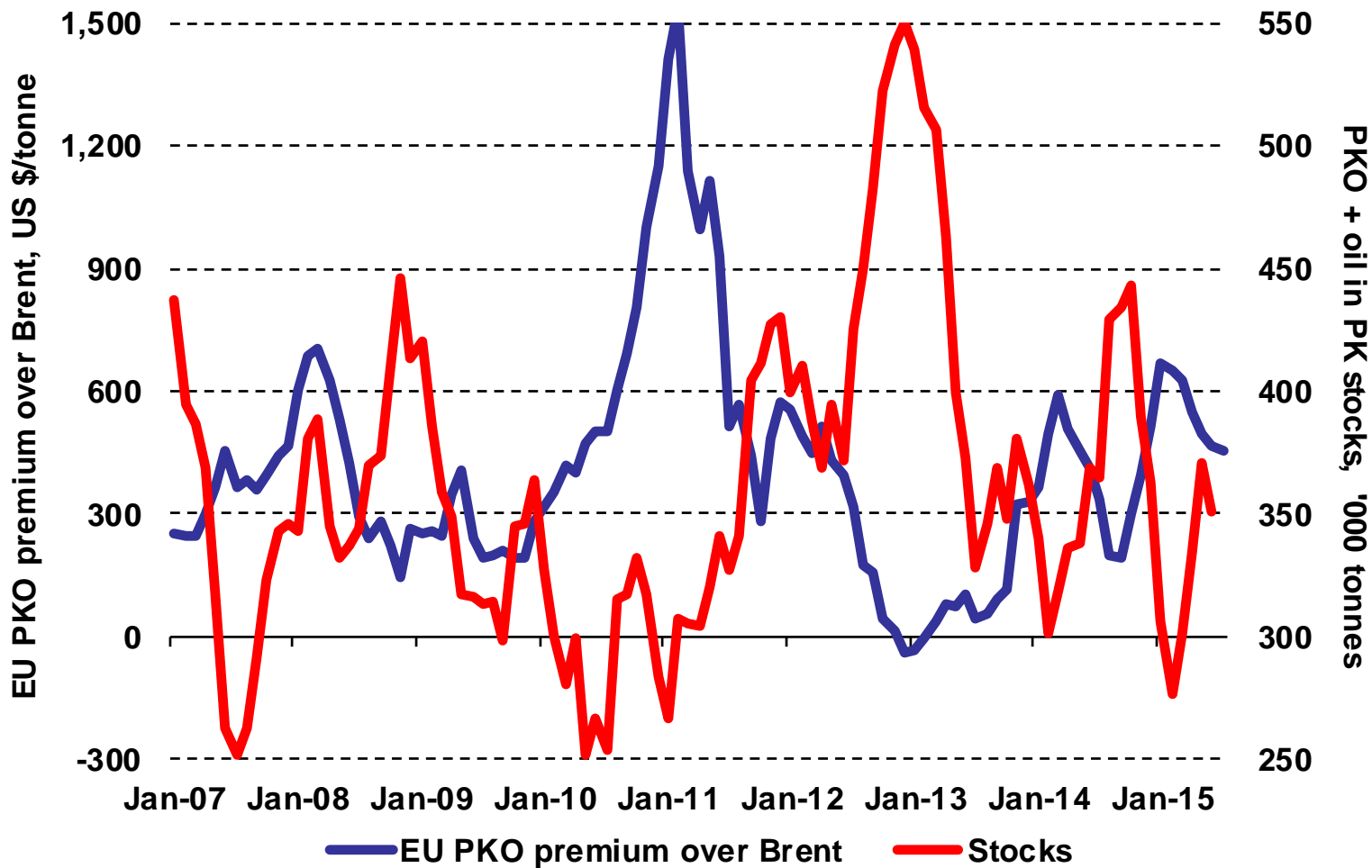
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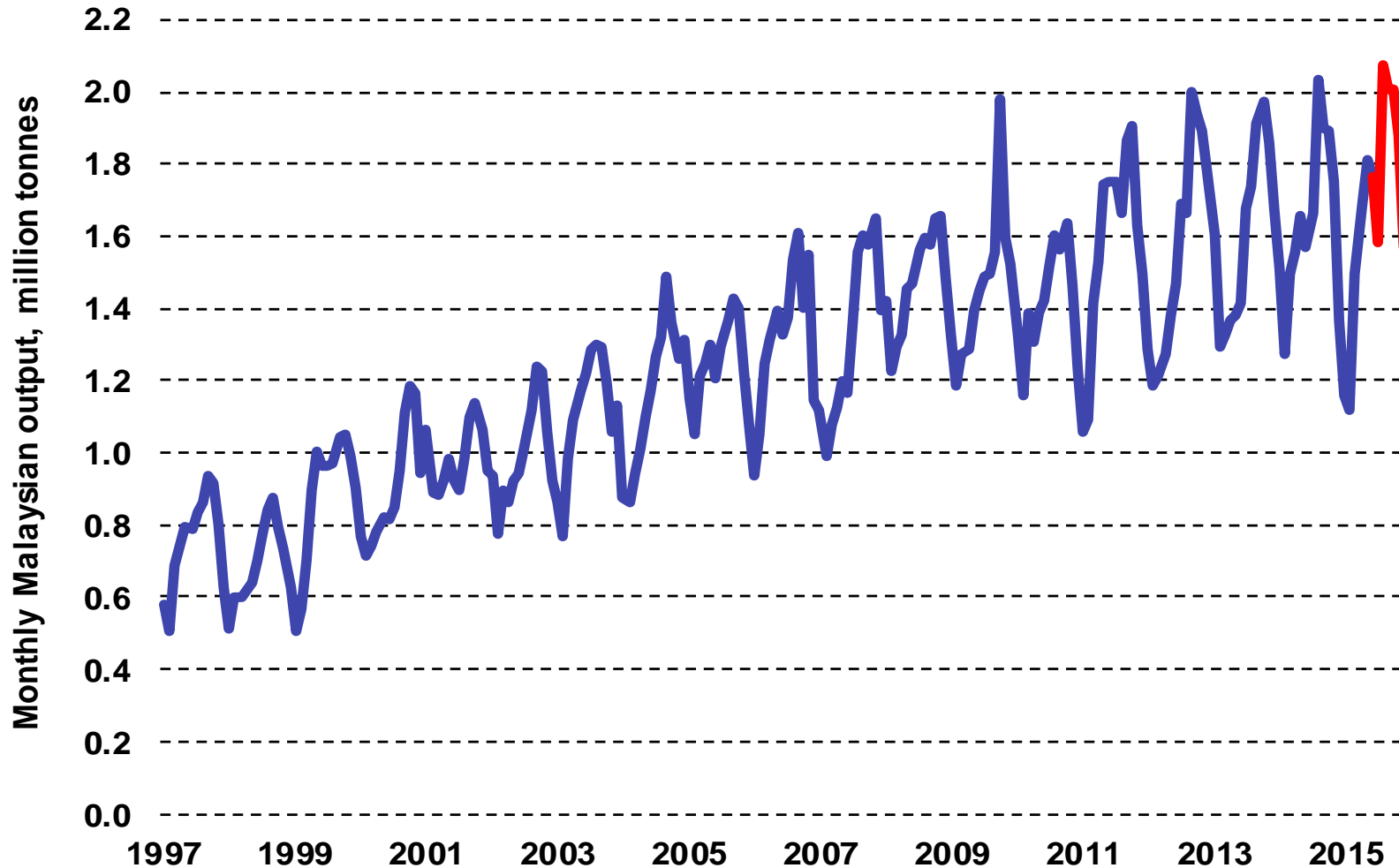
The CPO premium over petroleum moves in the opposite direction to stocks.



The same relationship hold for the Palm Kernel Oil (PKO) premium over Brent.

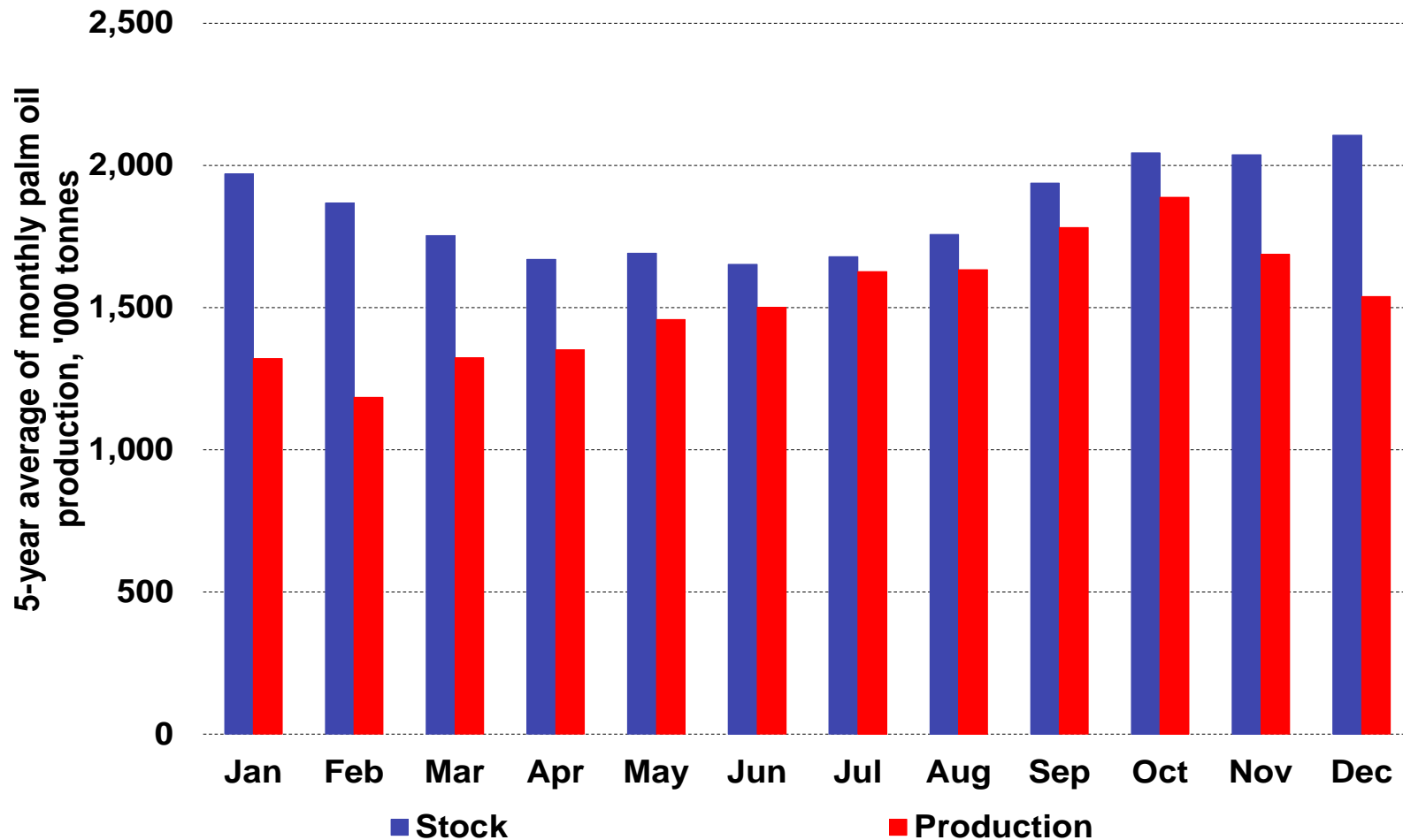


CPO output has its own seasonality, increasing after Ramadan, when demand also declines.

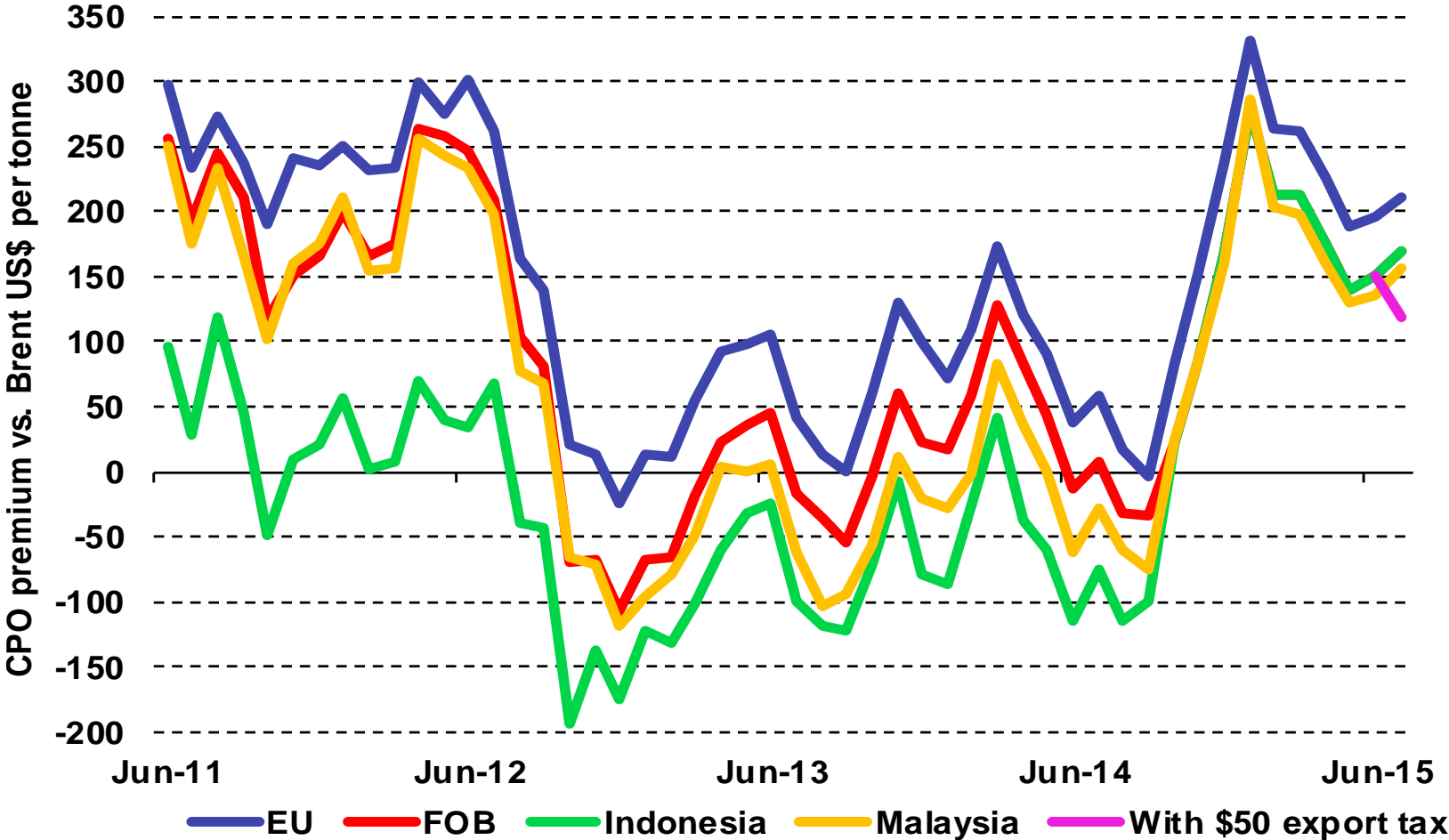


This translates into higher stocks towards September, which will need to find a market.

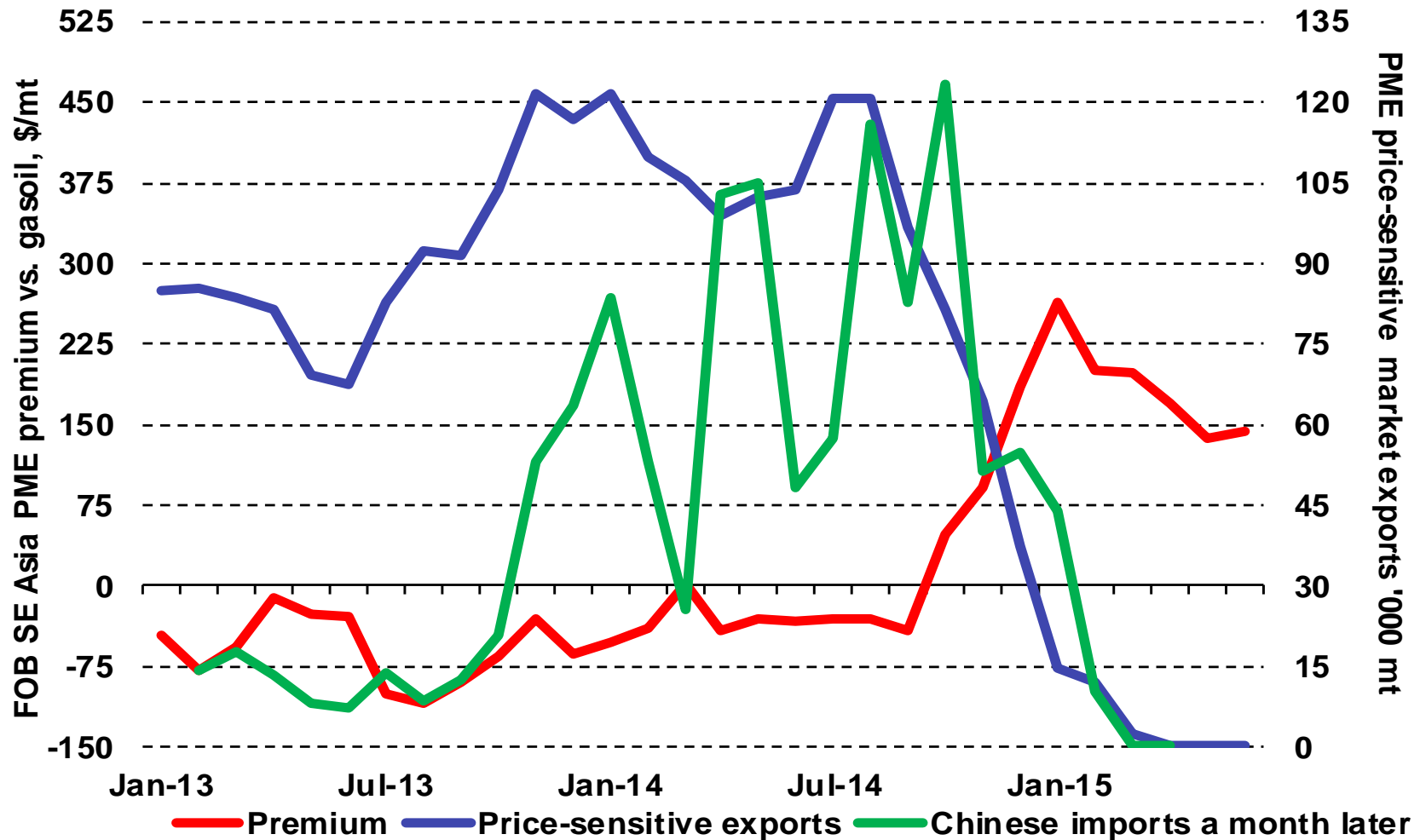
5 year average, '000 tonnes



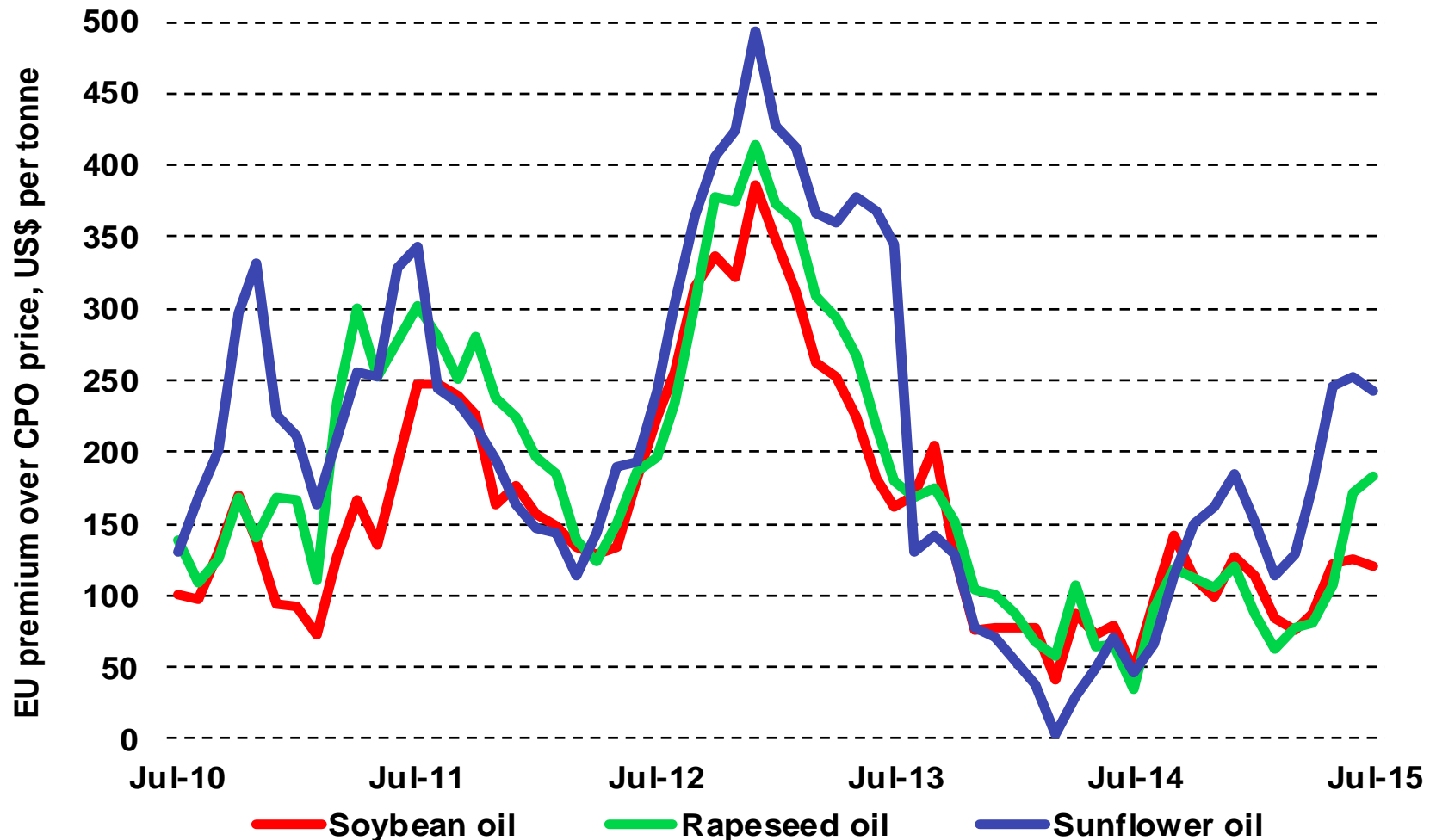
At present, the CPO premium over Brent is too high to stimulate additional demand.



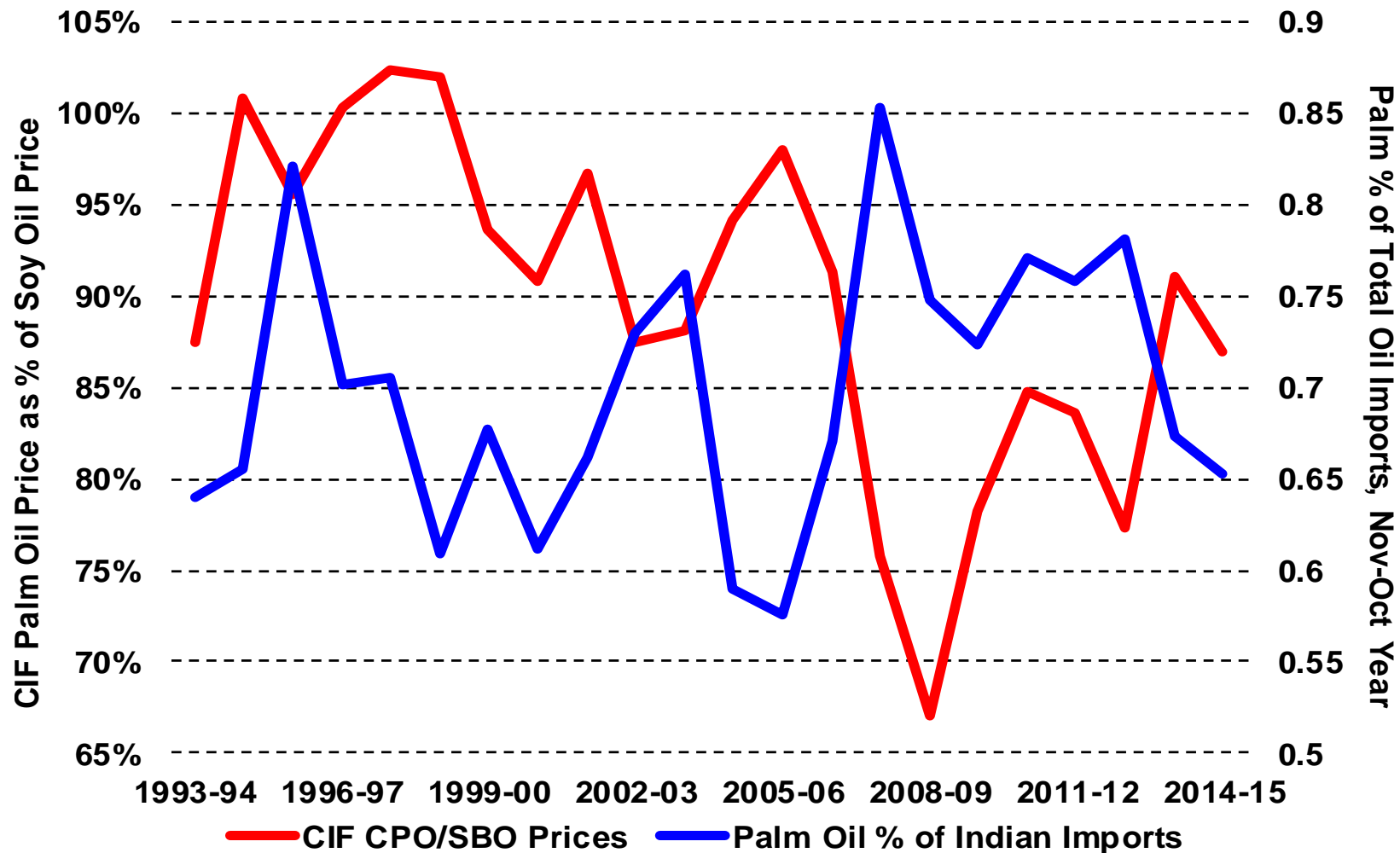
Unsubsidised Indonesian exports of biodiesel have, also, become uncompetitive.



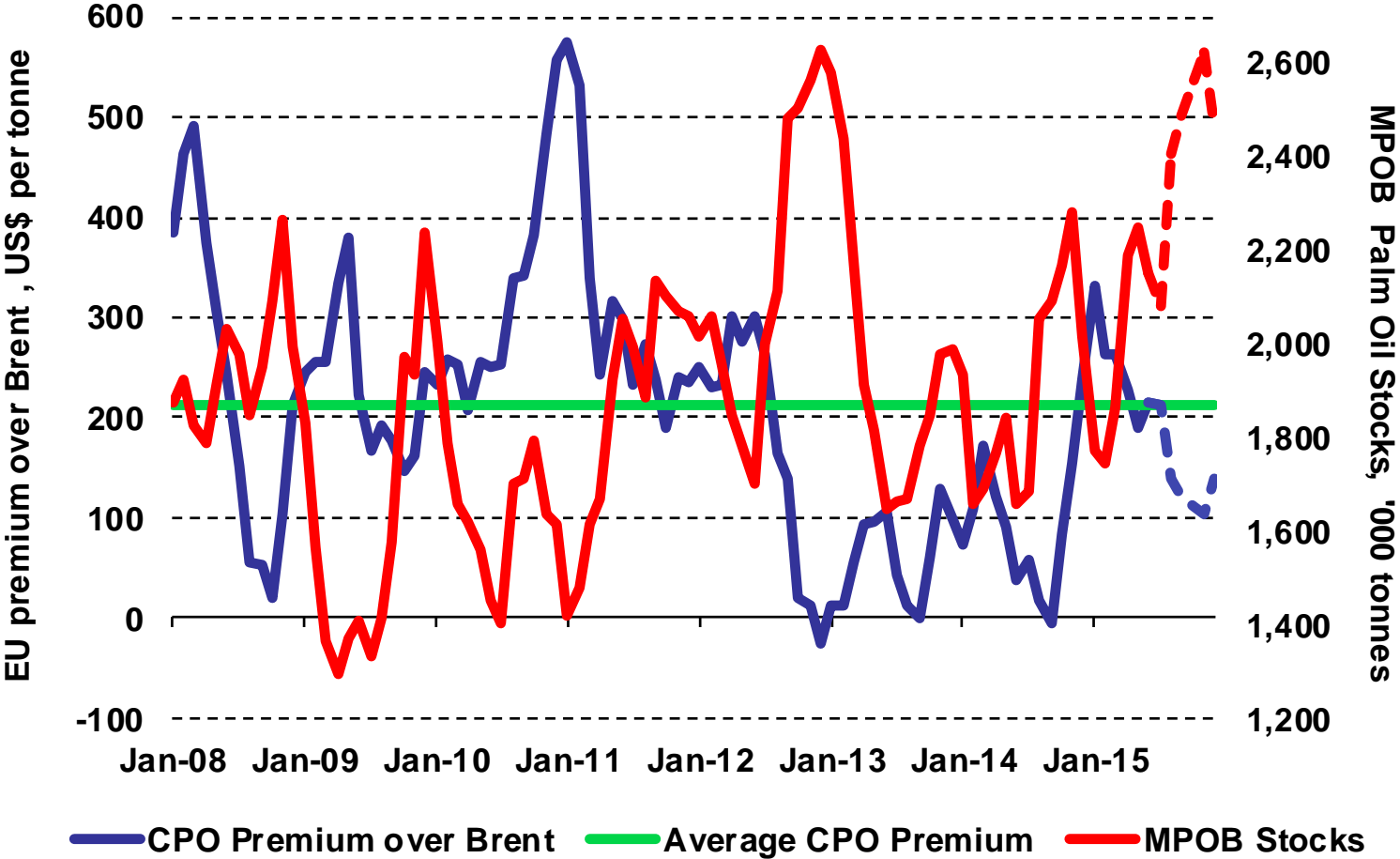
EU spreads between other oils and CPO prices are low, making it hard to capture other price-sensitive markets.



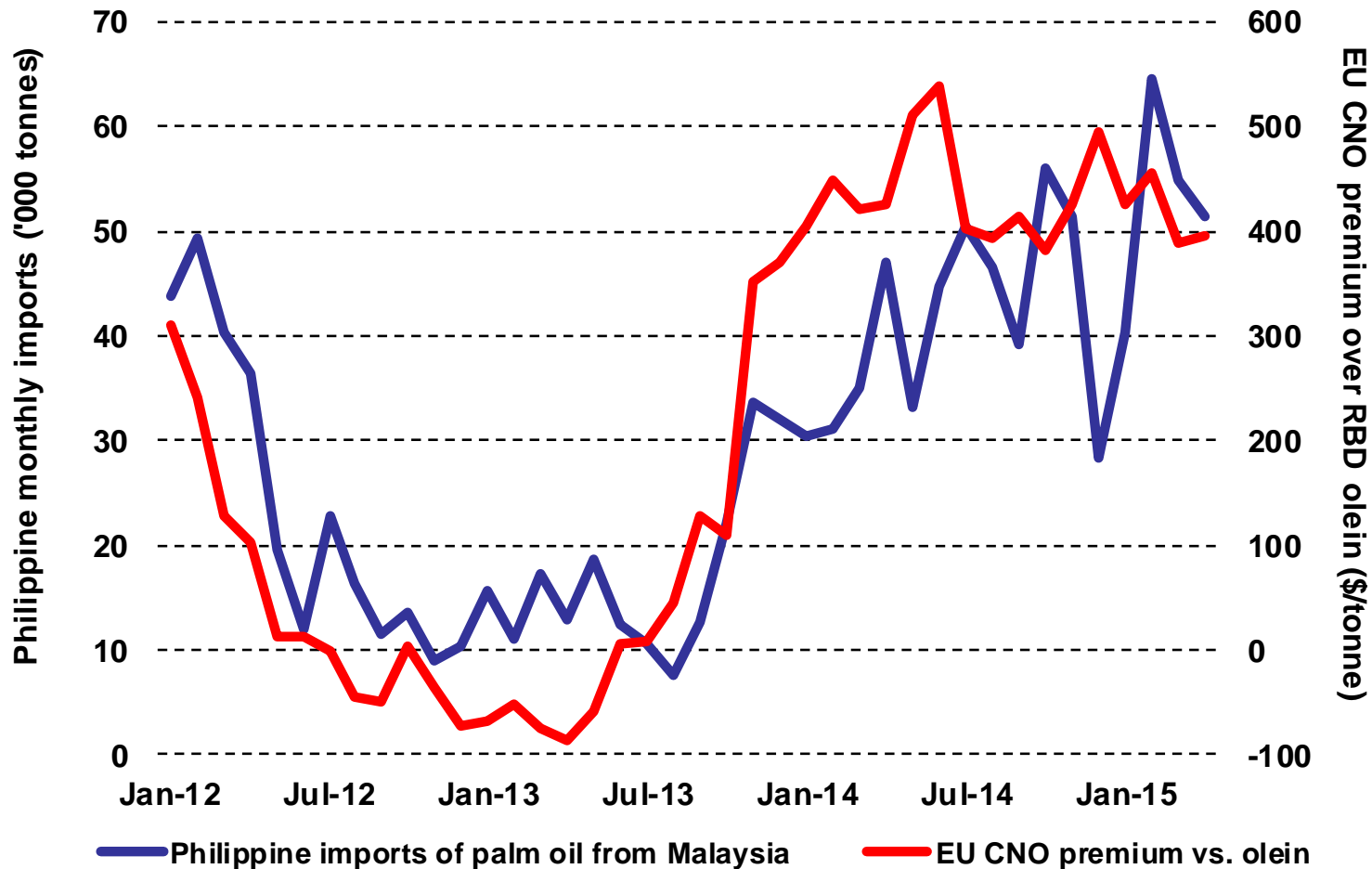
You can see how India, the world's biggest oils importer, is very sensitive to the CPO discount on soy oil in its balance of imports.



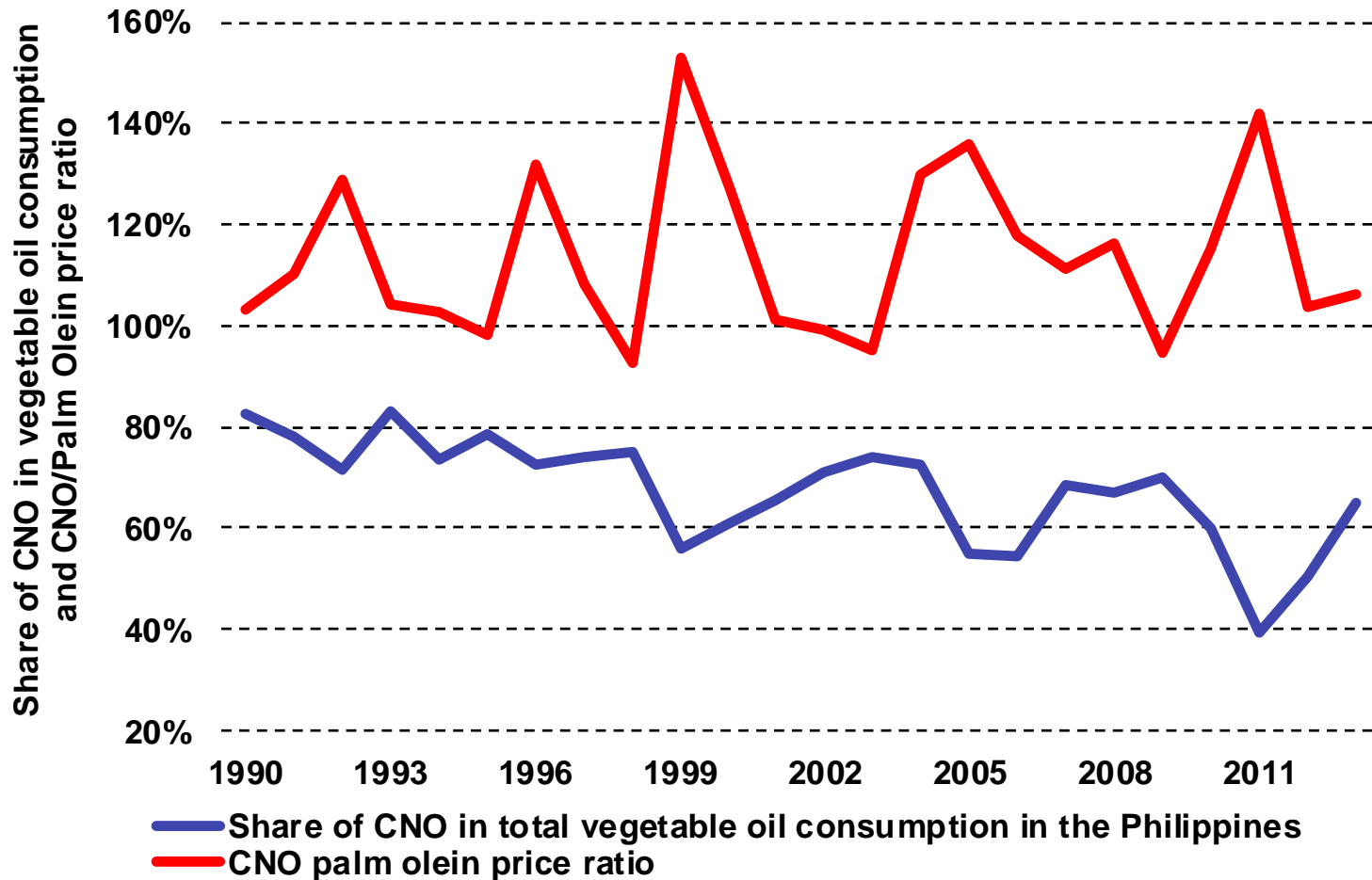
Returning to our diagram of stocks vs. the CPO premium vs. Brent, you see why we are bearish on the premium later this year.



This means that palm olein will move to a greater discount against CNO, stimulating imports into the Philippines.

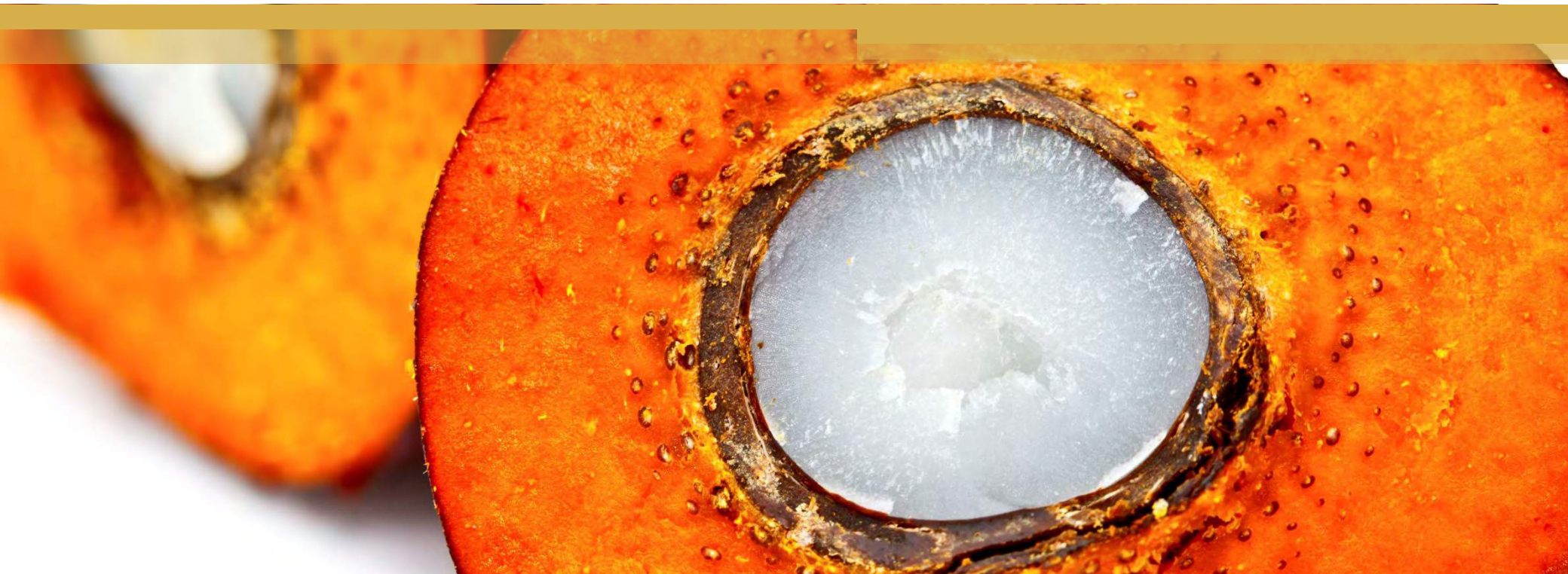


This is in line with a longer run trend in which CNO is increasingly replaced by palm oil.



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