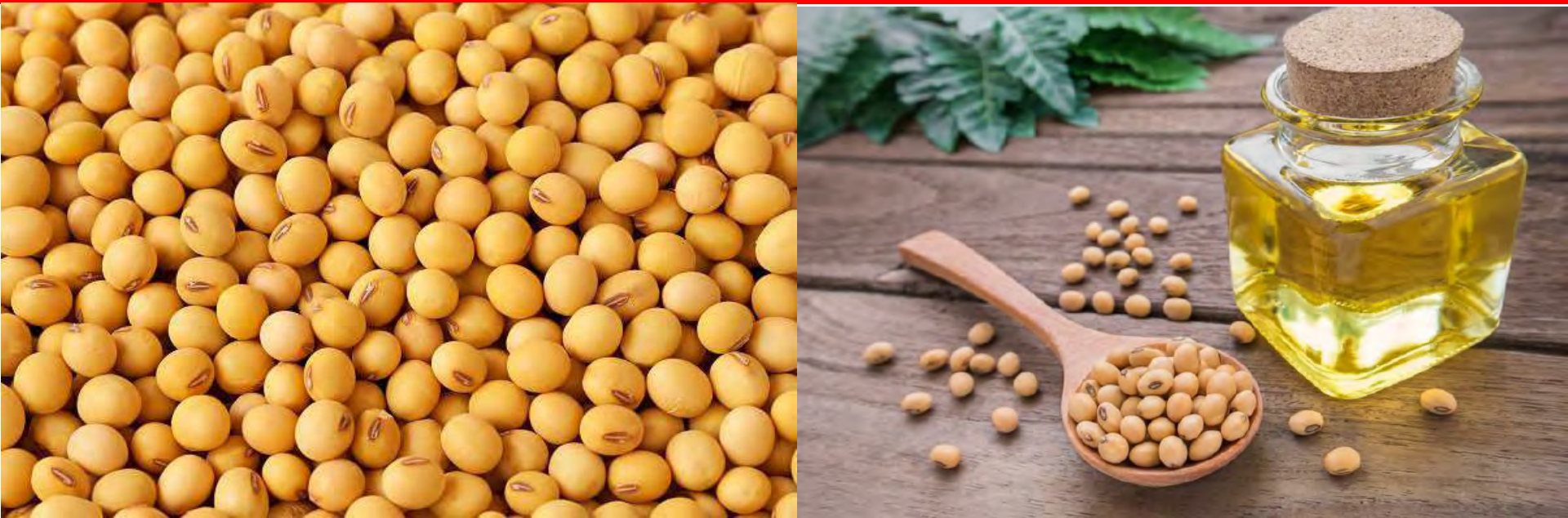


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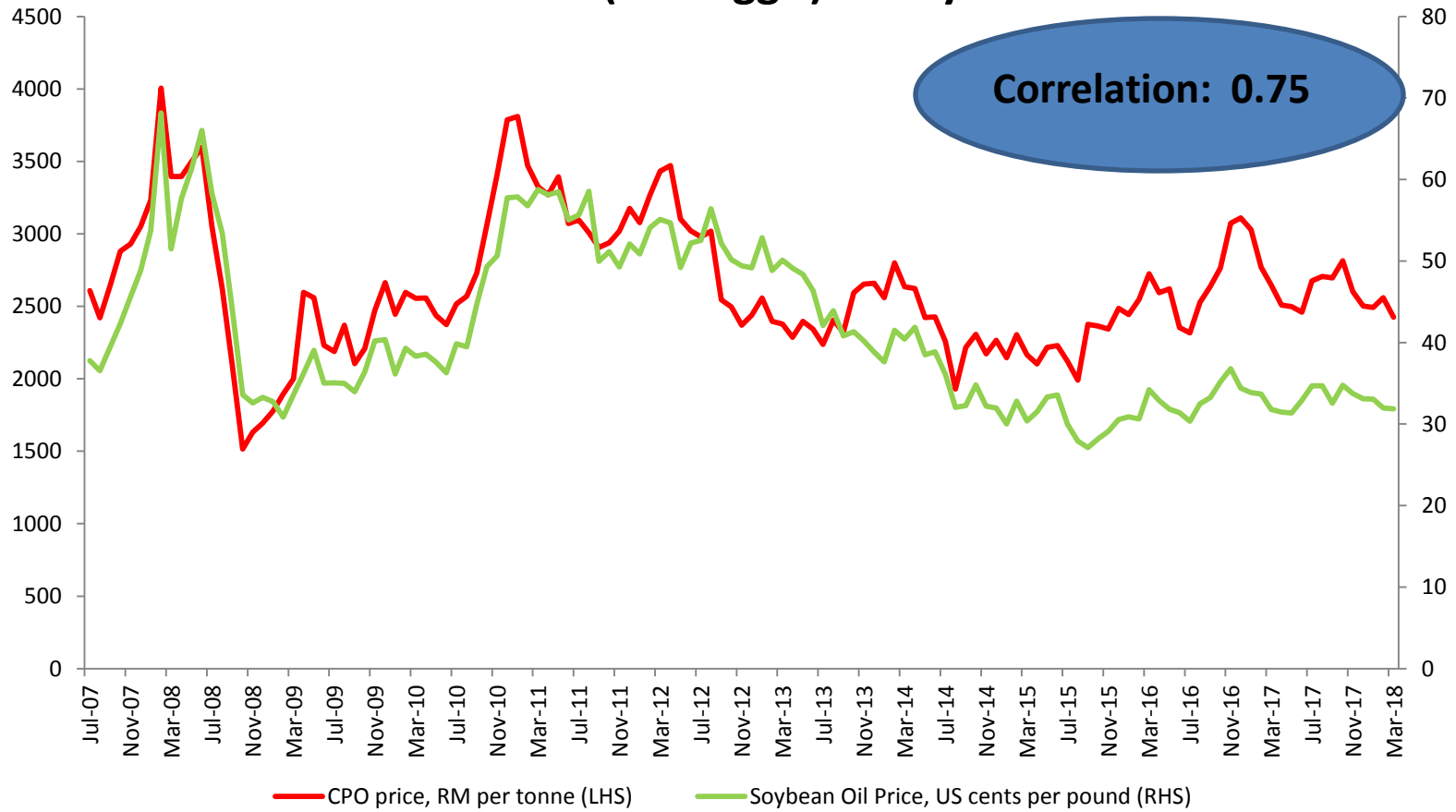


Palm Oil Demand To Be Boosted By Lower Soybean Output

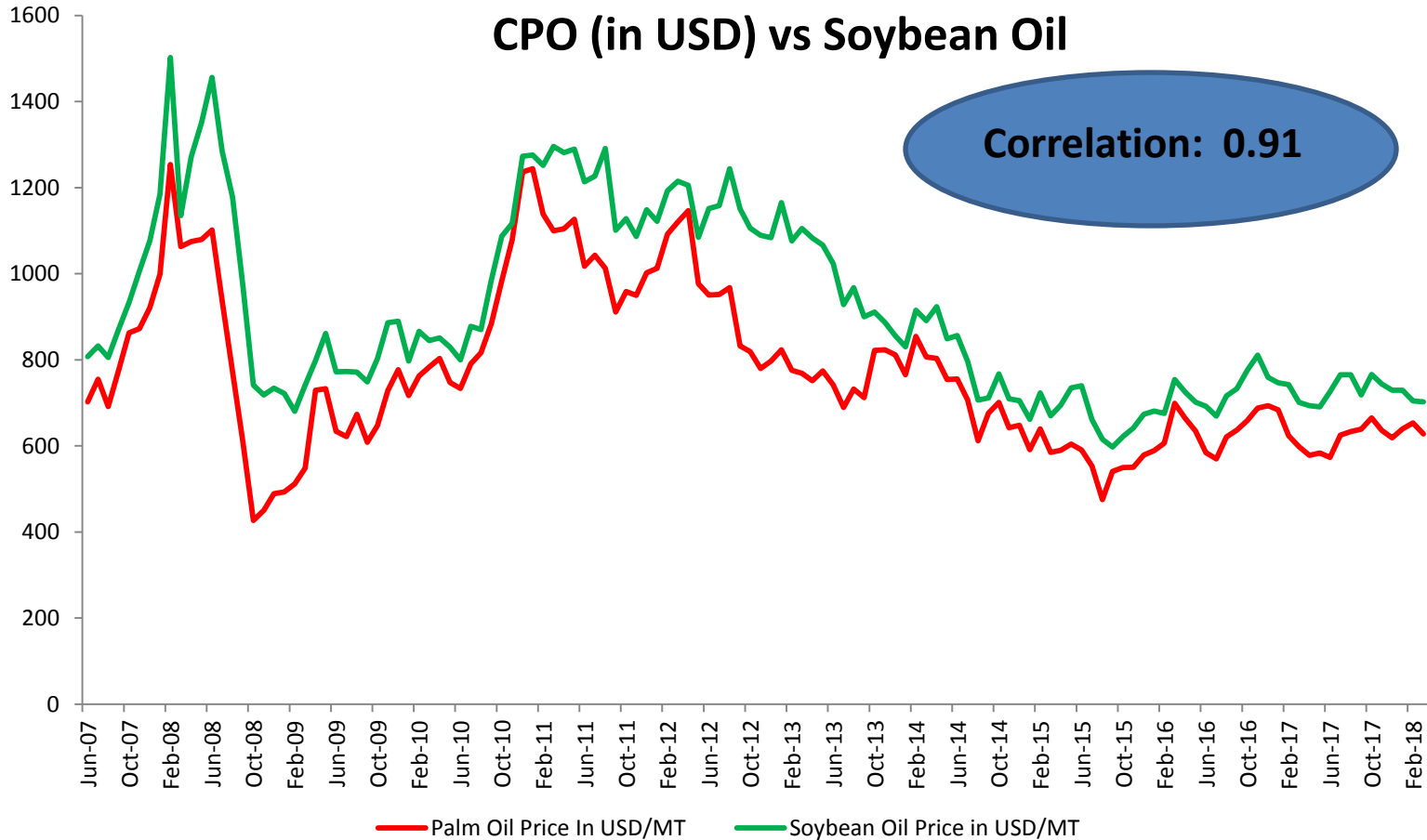
***Alan Lim, CFA
MIDF Research
16th April 2018***

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CPO (in Ringgit) vs Soybean Oil



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Soybean

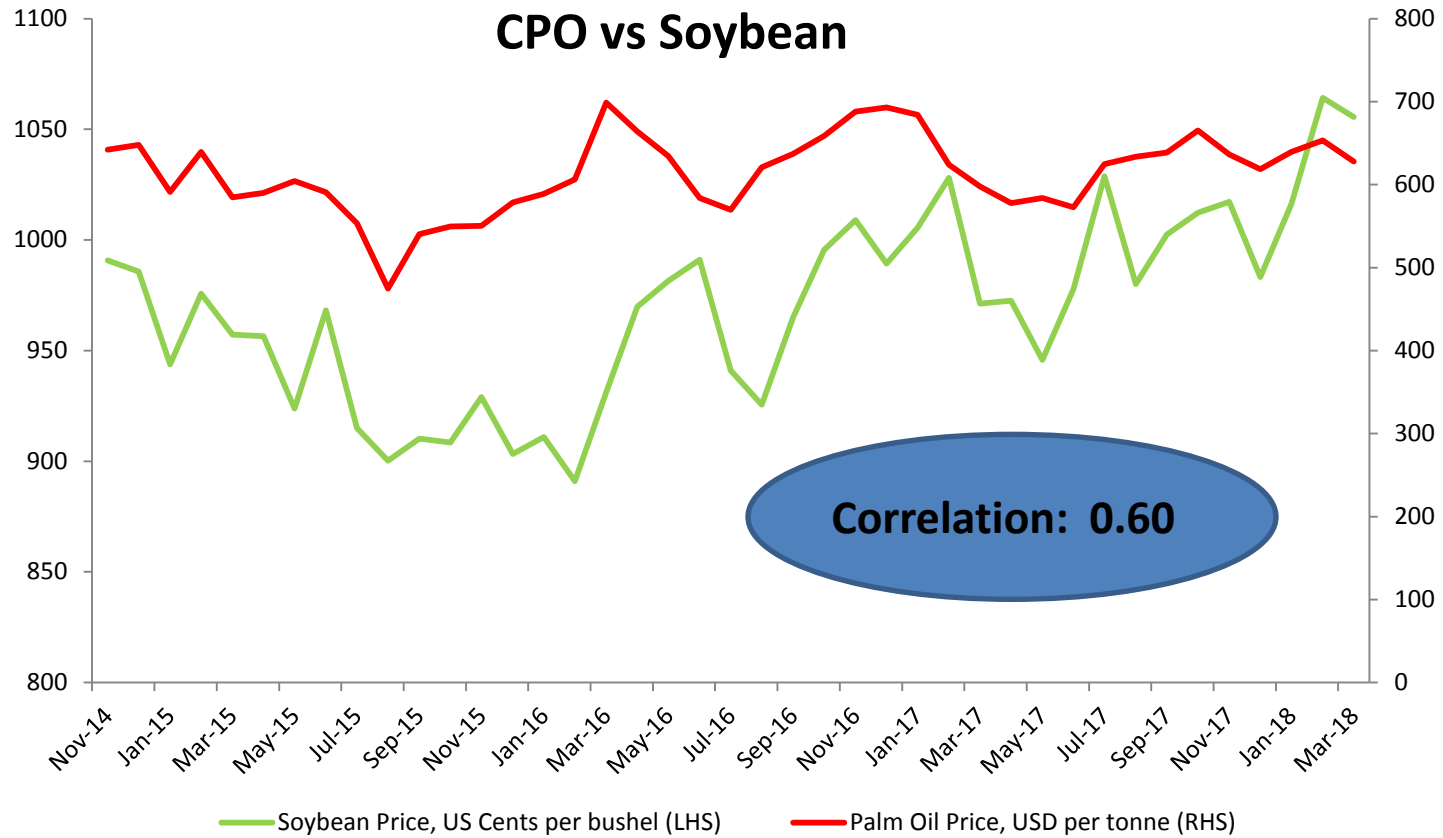


Soybean Meal (79%)

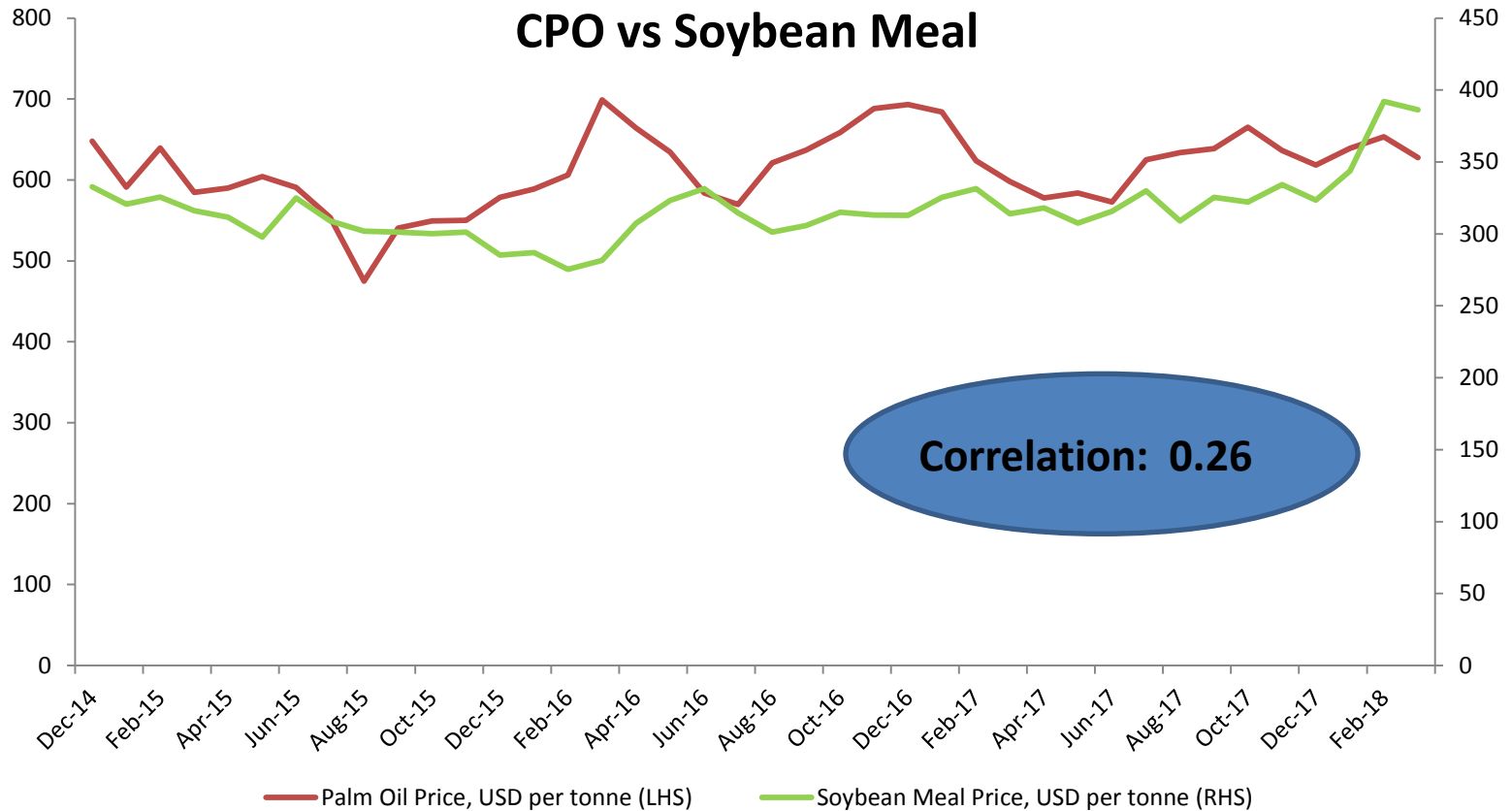


Soybean Oil (18.5%)

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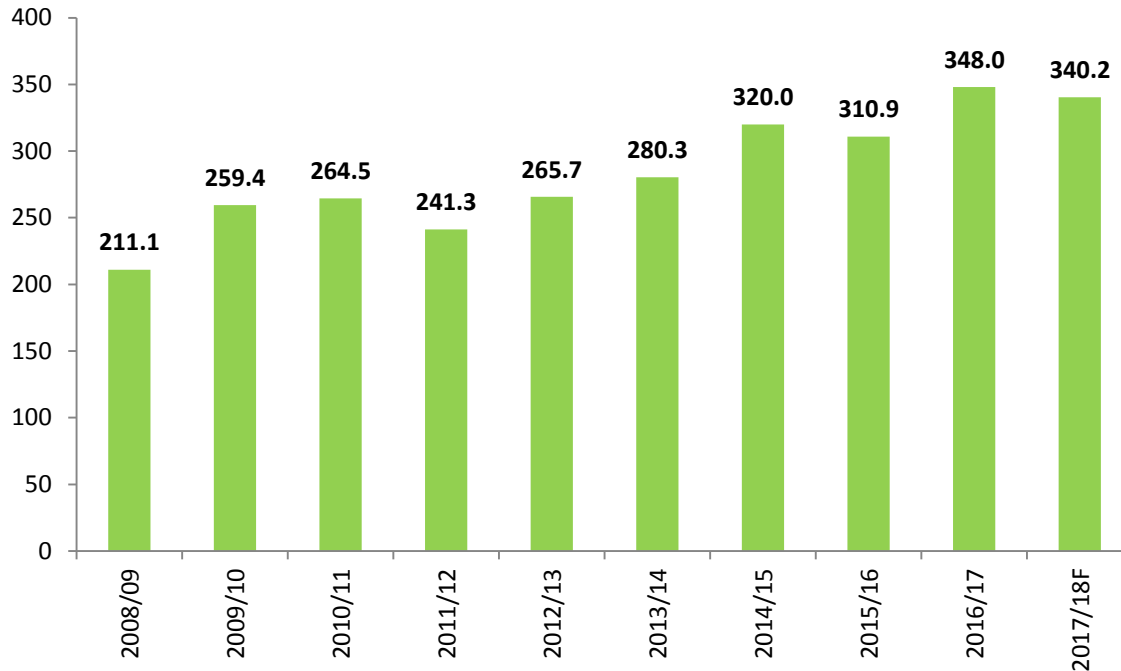
Key Takeaway 1:

It's soybean oil that matters to CPO price with long term correlation as high as 0.91.



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Outlook for soybean supply



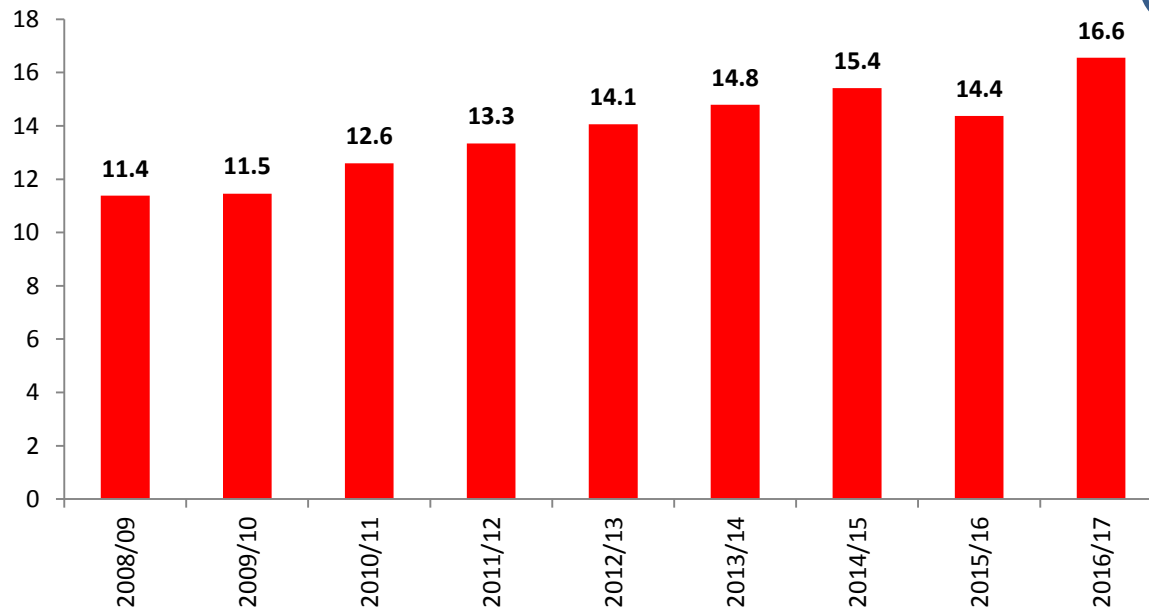
8-years CAGR:
6.4%

Source: Oil World

This year, soybean supply should decline by 2% to 340.2m tonnes

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Soybean growth has exceeded palm kernel growth!



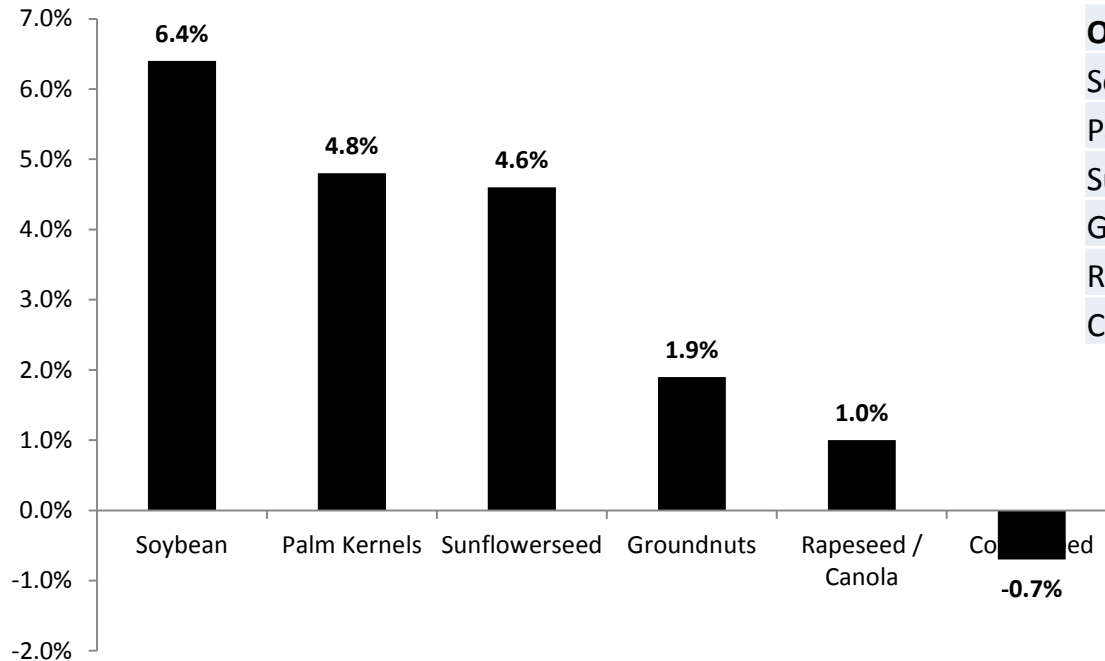
8-years CAGR:
4.8%

Source: Oil World

In the oilseeds segment, soybean is clearly the growth champion!

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The fastest growing oilseeds crops globally

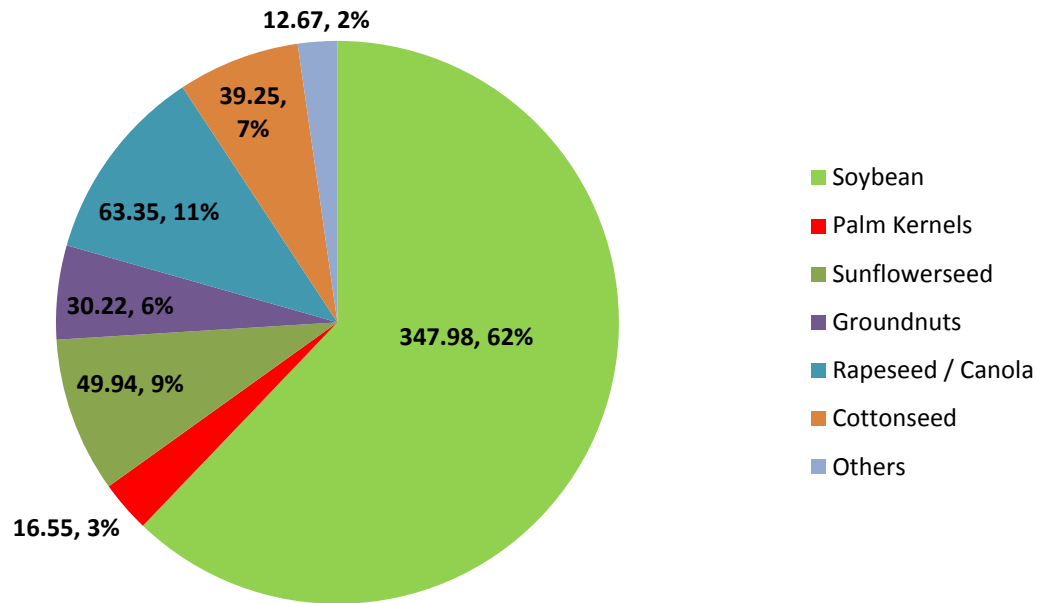


Oilseeds	8-year CAGR
Soybean	6.4%
Palm Kernels	4.8%
Sunflowerseed	4.6%
Groundnuts	1.9%
Rapeseed / Canola	1.0%
Cottonseed	-0.7%

Source: Oil World

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Command 62% of global oilseeds supply



Source: Oil World
Unit in million tonnes

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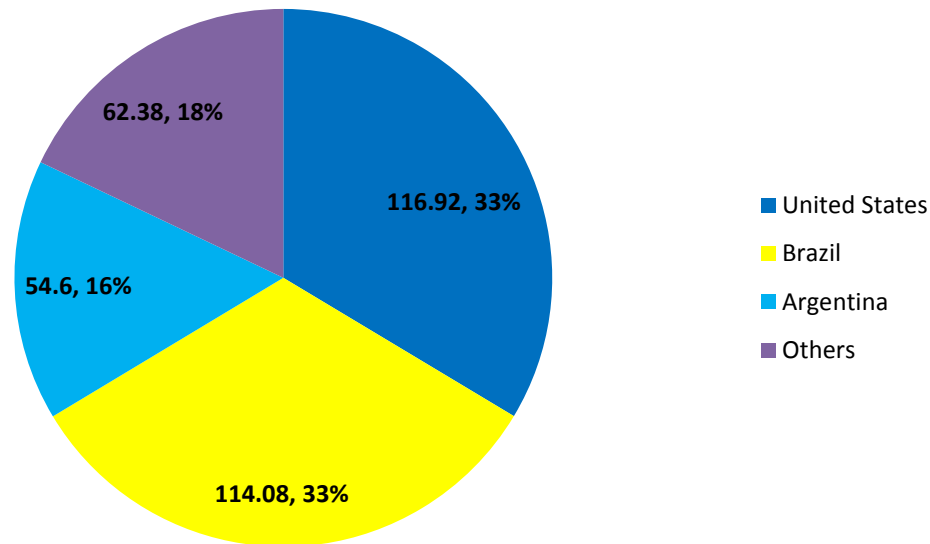
Key Takeaway 2:

Soybean is the fastest growing oilseeds crops globally with 8-years CAGR of 6.4%

Palm kernel growth is at distant second with 8-years CAGR of 4.8%

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Major producer of soybean in 2016/17 season

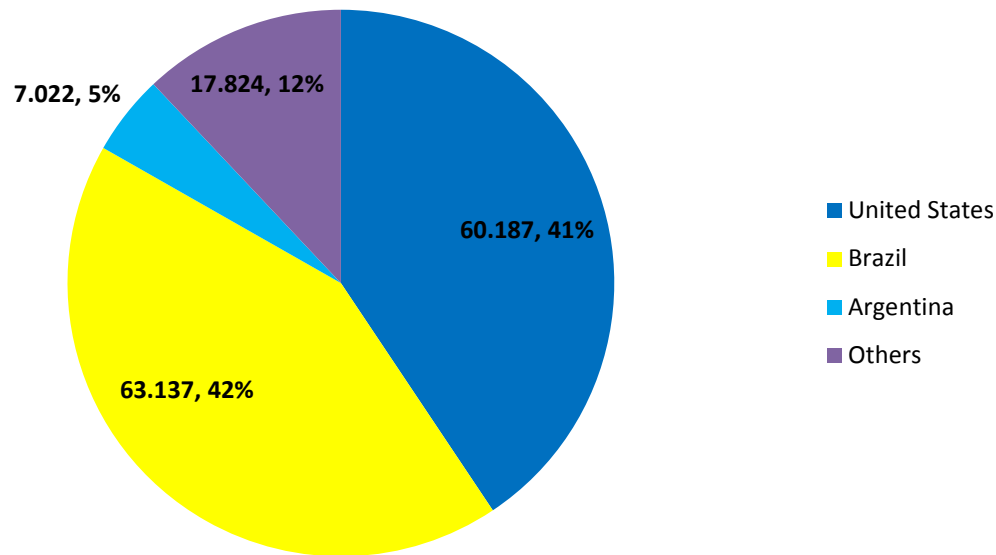


Country	Volume
United States	116.92
Brazil	114.08
Argentina	54.60
Others	62.38
Total	347.98

Source: Oil World
Unit in million tonnes

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Major exporter of soybean in 2016/17 season



Country	Volume
United States	60.19
Brazil	63.14
Argentina	7.02
Others	17.82
Total	148.17

Source: Oil World
Unit in million tonnes

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Key Takeaway 3:

United States is the largest soybean producer in the world with 116.92m tonnes produced (33% market share)

But Brazil is the largest exporter with 63.14m tonnes (42% market share)

Argentina production of 54.6m tonnes (16% market) is significant

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2nd Quarter Soybean Production Outlook

This is the period where South America soybean has finished its harvesting and reached the market, hence its high impact on soybean price

Bumper harvest in Brazil – New record exceeding 114.1m tonnes last season (but increase in percentage is only 2%)

Major supply disruption in Argentina – Oil World expect 32% volume plunge yoy to 37.0m tonnes

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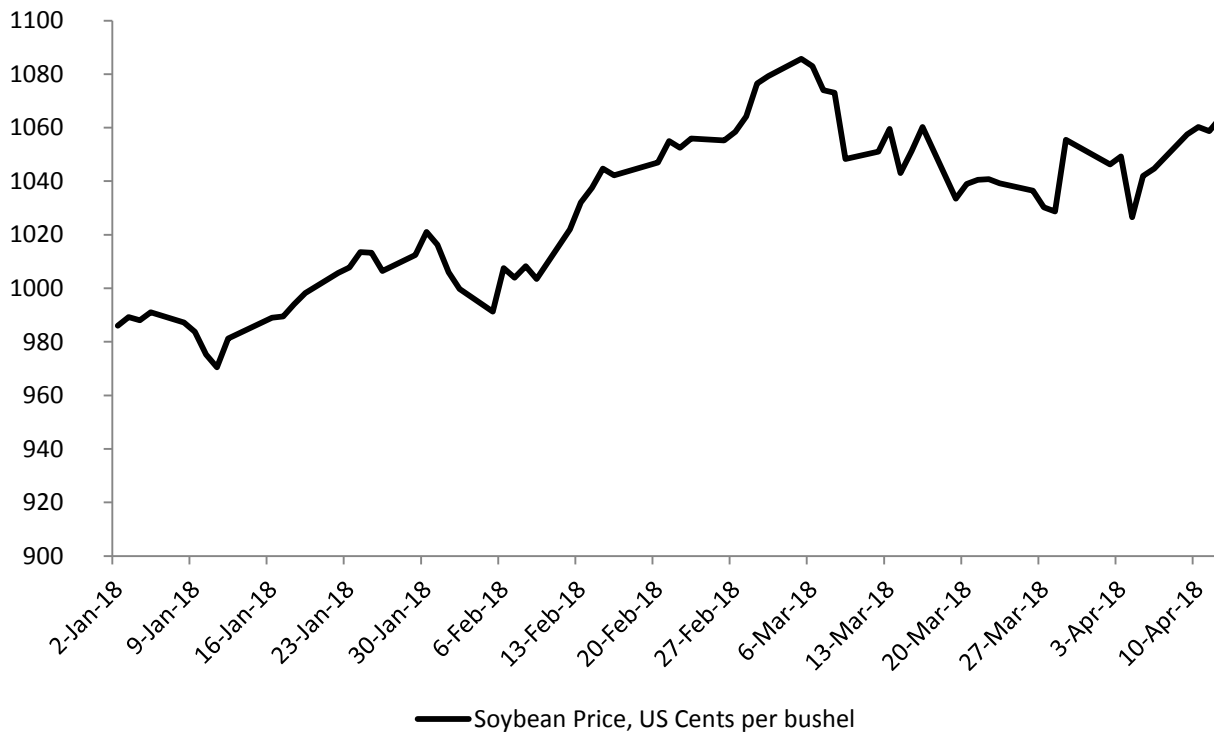
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	2016/17	2017/18
Brazil	114.08	116.5
Argentina	54.6	37.0
Paraguay	10.05	9.41
Total	178.73	162.91

Source: Oil World

Prepare for a 9% supply reduction from South America

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This explains soybean price movement by 8% YTD



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2nd Half Production Outlook for Soybean

United States harvesting usually begins by end-September and end by November

Soybean planted area for 2018 is estimated to decline 1% yoy to 89.0m acres (36.02m ha)

Lower than even the lowest prediction in Bloomberg survey (Range: 89.9m to 92.6m, Mean = 91.0m)

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2nd Half Production Outlook for Soybean

We expect U.S. soybean production to be flat at 116.92m tonnes for 2017/18 season

Key assumption: Normal weather

Still too early to estimate

Other factors:

Will China really implement the proposed 25% import tax on soybean?

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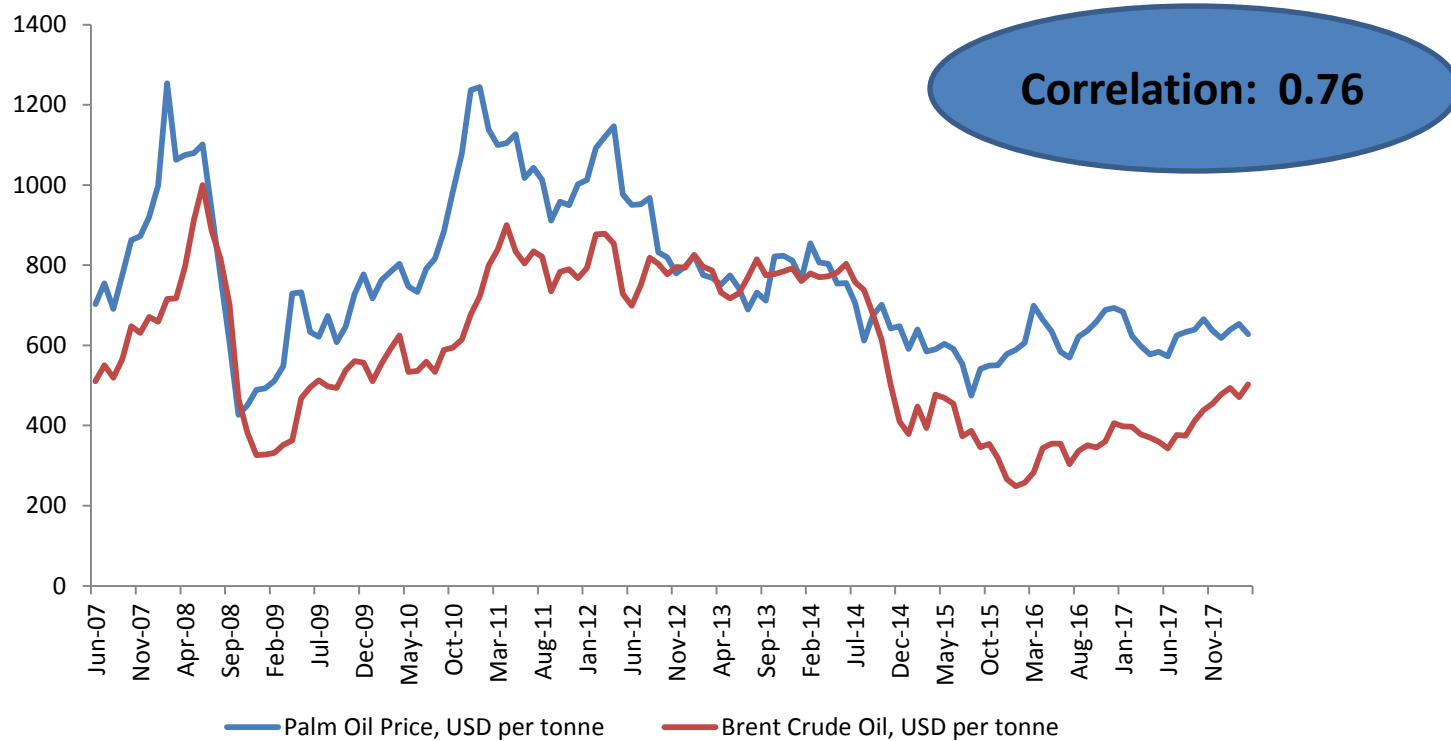
Key Takeaway 4:

In the past one month, all three news from soybean side has been positive to CPO price:

- i) Major crop loss in Argentina – immediate impact in 2Q
- ii) United States to plant less soybean – to be felt in 2H
- iii) China may impose 25% tax on US soybean

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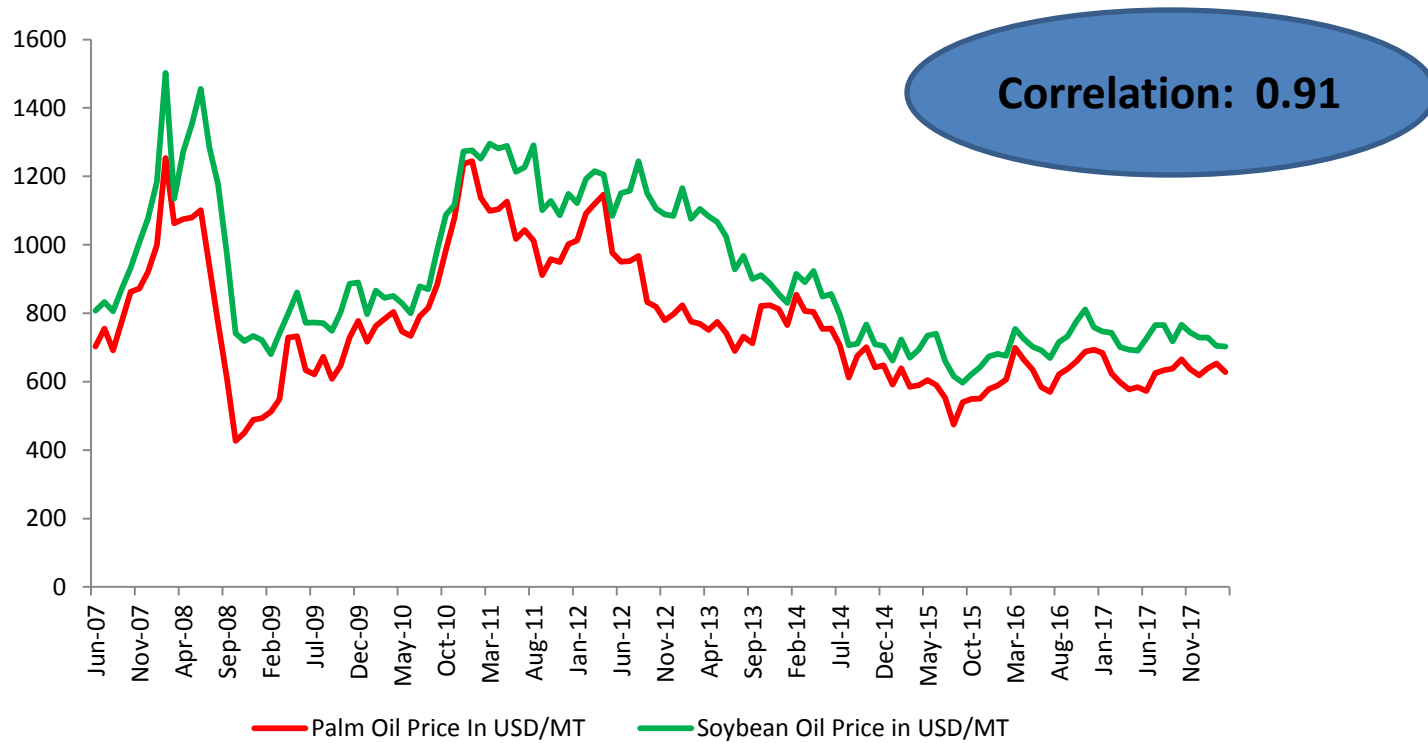
Establishing the floor:



88% of the time, CPO price has always trade at above Brent Crude Oil Price

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Establishing the ceiling:



CPO price has always been at discount to soybean oil price

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Price Outlook and Assumptions:

Malaysia palm oil inventory should decline to 2.13m tonnes by end-April. By end-June, it should be below 2.0m tonnes. Key demand driver will be pre-stocking activity ahead of Ramadhan which begins in mid-May.

CBOT soybean oil price should appreciate to USD725 to USD750 per tonne in the next 3 months as the impact of lower soybean supply slowly translate into lower supply of soybean oil.

The discount of CPO to soybean oil is expected to be at USD75 per tonne (~+1.0 Standard Deviation above mean)

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Price Outlook and Assumptions:

We expect Bursa Malaysia 3-month futures CPO price to appreciate to USD650 to USD670 per tonne by end-June

Strong Conviction Level

Ultimate bottom: USD502 per tonne

Ultimate ceiling: USD703 per tonne

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Key Takeaway 5:

We are positive on CPO price and we expect it to appreciate to USD650 to USD670 per tonne by end-June

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Google “palm oil” and the most frequently asked question is...

ecure | <https://www.google.com/search?q=palm+oil&oq=palm+oil&aqs=chrome..69i57.2695j0j7&sourceid=c>

Is palm oil good or bad for you? ^

Partially hydrogenated **oil**, used in many processed baked goods and snacks and for frying foods, is a major source of trans fat. ... One of them is **palm oil**. It's less saturated than butter and contains no trans fat. But just because it's not as **bad** as trans fat doesn't make it a **health** food. Oct 1, 2007

By the way, doctor: Is palm oil good for you? - Harvard Health
https://www.health.harvard.edu/.../By_the_way_doctor_is_palm_oil_good_for_you

Search for: Is palm oil good or bad for you?

What is the problem with palm oil? v

What is palm oil and what is it used for? v

Why is palm oil so popular? v

Is coconut oil and palm oil the same thing? v

Which is better palm oil or canola oil? v

[Feedback](#)

Market Forum 2018

Is it fair that global perception is based on a single article written more than 10 years ago?



The screenshot shows a web browser window with the URL https://www.health.harvard.edu/newsletter_article/By_the_way_doctor_Is_palm_oil_good_for_you. Below the URL is the Harvard Health Publishing logo, which includes the Harvard crest and the text "Harvard Health Publishing HARVARD MEDICAL SCHOOL" and the tagline "Trusted advice for a healthier life". A navigation bar contains five categories: HEART HEALTH, MIND & MOOD, PAIN, STAYING HEALTHY, and CANCER. Below the navigation bar is the text "Harvard Women's Health Watch" and the article title "By the way, doctor: Is palm oil good for you?". At the bottom of the article preview, it says "Published: October, 2007".

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Google “soybean oil” and the most frequently asked question is...

People also ask

Is soybean oil good or bad for you? ^

Yes, **soybean oil** can be considered a **healthy oil**, provided that it's not been hydrogenated and provided that it's certified organic. ... Almost three-quarters of the total fat of olive **oil** are monounsaturated fat (in the form of one particular fatty acid called oleic acid).

[Is soybean oil considered a healthy oil? - The World's Healthiest Foods](http://www.whfoods.com/genpage.php?tname=dailytip&dbid=187)
www.whfoods.com/genpage.php?tname=dailytip&dbid=187

Search for: Is soybean oil good or bad for you?

What is soybean oil used in? v

Is soybean oil OK on keto? v

Why is soybean oil used in food? v

Is Soybean Oil whole 30 approved? v

Is hydrogenated soybean oil good for you? v

Feedback

Market Forum 2018

Is it fair that global perception is based on a single article?

www.whfoods.com/genpage.php?tname=dailytip&dbid=187

the world's healthiest foods whfoods.org

George Mateljan Foundation

we are #1 in the world

Apr 9-15, 2018

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How to Eat Healthier in 2018

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soybean oil considered a healthy oil?

The George Mateljan Foundation is a not-for-profit foundation with no commercial interest in advertising. Our mission is to help you eat and cook the healthiest way for optimal health.

Yes, soybean oil can be considered a healthy oil, provided that it's not been hydrogenated and provided that it's certified organic. All plant oils have different nutrient profiles, including the types of fat they contain. The plant oil that best fits into your diet depends largely on the type of fat that's missing from the rest of your diet as a whole and that's best matched to your cooking

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Key Takeaway 6:

We believe that the negative perception for CPO on the Internet should be given a strong attention.

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Summary:

1. It's soybean oil that matters to CPO price with long term correlation as high as 0.91
2. Soybean is the fastest growing oilseeds crops globally with 8-years CAGR of 6.4% (PK: 4.8%)
3. U.S. is the largest producer (33% market share) of soybean but Brazil is the biggest exporter (42% market share)

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Summary:

4. In the past one month, news from soybean side has been positive to CPO price
5. We are positive on CPO price and we expect it to appreciate to USD650 to USD670 per tonne by end-June
6. We believe that the negative perception for CPO on the Internet should be given a strong attention.

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