India Veg Oil Demand Scenario: Impact on Global Prices in 2014

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Welcome to Malaysian friends

• My compliments to Malaysian Palm Oil Council and Malaysian Palm Oil Board

• Welcome to His Excellency YB Datuk Amar Douglas Uggah Embas

• Welcome to Tan Sri Dr Yusof Basiron
Background

- Forecasts at POC on 5 March 2014 were very bullish
- Forecast RM 3000 by June
- RM 3500 with strong El Nino
- RM 2900 to 2600 without El Nino
- Bullishness based on 10% Indonesian bio diesel mandate & 5% Malaysian mandate
What happened after POC

• CPO futures rose RM 430 in 8 weeks from 14 Jan to 10 March and then fell 450 RM in next 12 weeks
• Abject failure of Indonesia to consume bio diesel at level of 10% mandate
• No additional bio diesel consumption in Indonesia in 2014
Bio Diesel Failure

• Bullish forecast was based on growth in world bio diesel consumption by 3 mln mt
• First Argentina failed – domestic
• Indonesian failed and Malaysia postponed indefinitely
• Why ? Because palm oil prices rose and palm bio diesel became unworkable
Palm production from March 14 is better than expected

- Malaysia will produce 19.7 to 19.9 mln mt
- Indonesia up 3 mln mt to 31.5 mln mt
- From Jan to May 2014, Malaysian Production is Up 524,000 mt but Exports are Down 790,000 mt
Other Oils

- Brazil and Argentina have produced record soya crops. USA looks like producing a record crop too
- Rapeseed crops and Canola look good too
- Sun seed so far look good
- Overall, crops look very good with large carry-over
INDIA

- Monsoon is a cause for concern but loss of production will not be great
- India produces little of its requirement locally in this season
- Impact is more on sentiment and inflation
- Am bullish on the economy
- Imports so far are flat
INDIA

• September onwards a Feel Good factor likely in India
• May also be a time for Import Duty revision – to help Refining industry and Oleo chemical industry
• Indonesian Export Tax structure has led to problems for Industry in India
SOYA

- Brazilian bio diesel mandate hike to 6% and later to 7% is a Game Changer. Most serious on implementation
- However, bean prices are inverted. Expect Nov beans to decline eventually to $10
- Limited upside for soya oil futures but Basis may be strong
Other Oils

- Weakness of Ukrainian currency will keep sun oil competitive
- Sun oil likely to retain Indian market
- Coconut oil and Palm kernel oil prices too high and destroying demand. Must decline.
- But – many a slip between the cup and the lip
Incremental Demand

• Food Demand will expand by 3.5 million tonnes

• Bio diesel demand should expand by 1.5 million tonnes only
Incremental Supply

- 000 tonnes  12-13  13-14
- Soya oil     +  100   +  1,600
- Sun oil      - 1,200  +  1,600
- Palm oil     + 1,500  +  3,000
- Others       +  700   +  600
- Total Supply + 1,100  + 6,800
- Total Demand + 4,500  + 5,000
Price Outlook

- Key Assumption: Brent crude will trade between US$ 100 and 120 per barrel
- If POGOs expand beyond US$ 180, prices will go higher
- RBD Olein discount to CDSBO to be US$ 120 on FOB
- Palm must regain market share
Price Outlook

• BMD futures should trade between RM 2300 and 2500 for next few weeks
• At RM 2500, stocks will soon exceed 2 mln mt and peak at 2.5 mln mt
• If current dryness continues for 2 weeks more, can rise to RM 2600
• If El Nino strikes, can rise to RM 2800
Price Outlook

• At RM 2700, Indonesia will reduce bio diesel demand unless crude oil and gas oil prices rise

• Palm is too dependent on bio diesel demand which is opportunistic

• Soya oil futures will trade 38 to 42 cents with premiums doing a big job
Conclusion

• Big crops all around
• El Nino is a threat
• Current price level is good for producers and consumers
• Bright future for India and for Malaysia

• Good Luck and God Bless