

# 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

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

