

Global Supply & Demand Outlook for Oils & Fats

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Congratulations

- Congratulations to MPOC & MPOB
- This is my Third POTS Seminar in 2014
- The non-appearance of El Nino has led to uncertainty and abnormal behaviour of prices

Background

- Forecasts at POC on 5 March 2014 were quickly abandoned
- Forecast at POTS Mumbai on 26 June was also broken
- BMD futures hit a low of 1914 Ringgits on 2 September. Then rallied 300 Ringgits
- Then crude oil prices fell – putting BMD in a range 2000 to 2100

Other factors for 2014

- QE is coming to an end
- Brent crude prices have fallen 20%
- Enjoyed 12 months of trouble-free weather
- USA harvesting biggest ever corn and soya crops
- South American crops also may be big

Palm Production

- Last Low Cycle lasted 13 months and ended in February 2014
- New High Cycle March To Nov 2014
- Production Peak was in August
- Dry patch of Feb-March 2014 will cost?
- Malaysia will produce 19.6 to 19.8 mln mt
- Indonesia will not exceed 30 mln mt

Palm Prospects

- Kalimantan has had below normal rain for 4 months already
- Current High Cycle will end in Nov 2014
- Seasonal Low Cycle will coincide with Biological Low Cycle from December 2014
- Stocks will peak at October end and then decline until July 2015

Soya Prospects

- Brazilian plantings of soya have not begun well. Prices of soybeans, soya oil and meal have bottomed out for the present
- Flip side of an El Nino is good rainfall in South America
- But watch rainfall in South America if El Nino does not happen

Other Oilseeds

- Sun seed production is down 2.2 mln mt
- Sun oil demand is very strong
- Rapeseed production is unchanged
- Groundnut production is down 1.5 mln mt
- CPKO production is up in line with palm
- CNO production in 14-15 will be higher

INDIA

- Soya Meal is soft so crush will be slow
- India will store local oilseeds and suck in larger imports of cheaper oils
- Consumption is strong. Feel Good Factor ushered by new Modi government
- Prospect of higher import taxes receding as time goes by.

CHINA

- Imports & Stocks of imported veg oils retuning to normal
- What happens to the huge Reserve Stock of 5 million tonnes of old Rape oil
- Will this be swept under the carpet again?
- China has changed the way it supports farmers

Energy Prices & US Mandate

- World consumes 29 mln mt Oils & Fats for Biodiesel. Of this 80 to 90 % is mandated
- Discretionary blending is almost out
- Have to see Indonesian consumption of mandated biodiesel
- Brazilian mandate is up to 7%
- What will be US mandate ? Higher ?

World Demand

- Food Demand rising at 3.5 to 4 mln mt
- Bio fuel demand will rise by 1 mln mt only
- Palm Oil – Gas Oil spreads are now too narrow
- Bio fuel demand can grow if US Mandate is realised

Incremental Supply

• 000 tonnes	14-15	13-14
• Soya oil	+ 2,700	+ 1,800
• Sun oil	- 600	+ 1,600
• Palm oil	+ 2,000	+ 3,400
• Others	- 150	+ 700
• Total Supply	+ 3,950	+ 7,500
• Total Demand	+ 4,500	+ 5,200

Price Outlook

- BMD futures on 3rd month should trade 2100 to 2300 Ringgits for few weeks
- BMD will rise gradually after 10 December to reach 2500 by POC on 4 March 2015
- I do not expect a bull market – just a gradual recovery in prices

Price Outlook

- Soya oil FOB Argentina will rise to trade \$ 750 to 800 FOB Dec/Jan
- Sun oil – will move to a premium over soya oil of \$ 50 at least
- Laurics – Bearish. CPKO must go down to level with CPO cif Rotterdam.
- CNO can trade a \$ 150 over CPKO

Plantation Equities

- I repeat my recent call to buy Equities of good well managed Palm Plantation and Processing companies
- When palm prices are bottoming out and likely to rise, your timing will be excellent

Conclusion

The worst is over. Downside can come from massive South American crops or from contra-cyclical rise in CPO production or a world crisis

- Congrats again to MPOC & MPOB
- Congrats & Well Done to Malaysian Government
- Good Luck and God Bless

