

Price Outlook for Palm Oil and Impacts from the Global Supply & Demand of other Veg. Oils

Presentation at the Mal. Palm Oil Trade Fair and Seminar in KL on 13 Oct 2016

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WORLD NET EXPORTS OF OILSEEDS, OILS AND FATS (1000 MT)

**In 2016 world exports
in Mn T:**

Soya oil 12.6

Palm oil 62.2

Palmkern oil 3.1

Coconut oil 1.6

Copra 0.12

Palmkernels 0.07

Edible vegetable	Jan/June		Jul / Dec		January / December		
	1962 ^P	1961 ^P	1962 ^a	1961 ^P	1962 ^a	1961 ^P	1960 ^P
Groundnuts.....	775	752	605	544	1 380	1 296	1 047
Groundnut oil.....	125	119	165	121	290	240	272
Total, as oil	466	450	431	360	897	810	733
Cottonseed.....	199	187	217	138	416	325	256
Cottonseed oil....	103	116	120	73	223	189	248
Total, as oil	135	146	155	95	290	241	289
Soybeans.....	2 171	1 743	3 919	2 390	6 090	4 133	5 146
Soybean oil.....	260	138	341	137	601	275	519
Total, as oil	607	417	968	520	1 575	937	1 342
Rapeseed.....	150	126	175	46	325	172	171
Rapeseed oil.....	9	4	11	8	20	12	29
Total, as oil	63	49	74	25	137	74	91
Sunflowerseed.....	87	89	147	113	234	202	226
Sunflowerseed oil.	45	62	91	46	136	108	81
Total, as oil	68	85	129	76	197	161	140
Sesame.....	94	86	60	63	154	149	158
Total, as oil	44	40	28	30	72	70	74
Olive oil§.....	105	132	71	53	176	185	200
Totals: Seeds.....	3 476	2 983	5 123	3 294	8 599	6 277	7 004
Oils.....	647	571	799	438	1 446	1 009	1 349
Combined, as oil..	1 488	1 319	1 856	1 159	3 344	2 478	2 869
<u>Palm</u>							
Copra.....	633	838	909	809	1 542	1 647	1 580
Coconut oil.....	119	111	159	157	278	268	194
Total, as oil	525	648	740	675	1 265	1 323	1 205
Palm kernels.....	331	348	348	368	679	716	740
Palm kernel oil...	22	25	29	29	51	54	53
Total, as oil	178	189	192	202	370	391	401
Palm oil.....	253	285	277	274	530	559	586
Totals: Seeds.....	964	1 186	1 257	1 177	2 221	2 363	2 320
Oils.....	394	421	465	460	859	881	833
Combined, as oil..	956	1 122	1 209	1 151	2 165	2 273	2 192



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- Independent, not involved in trading, unbiased information
- Providing monthly and quarterly world supply and demand balances
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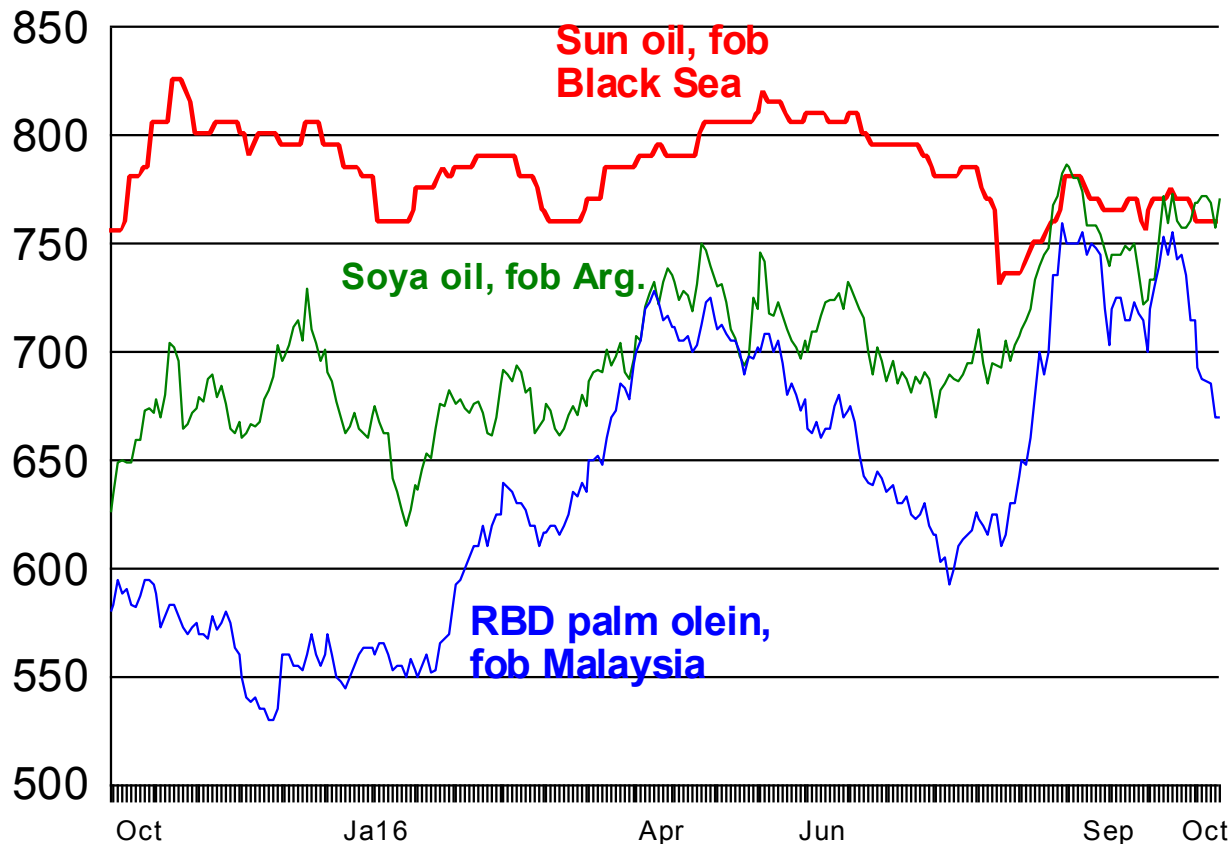


The recent setback in palm oil prices is - - acc. to fundamentals - - not justified

Palm oil prices are currently undervalued and provide a good buying opportunity

Soya oil, fob Arg.

Daily Prices of 3 Oils (in US-\$/T)



Daily prices from 1 Oct 2015 until 6 Oct 2016



Oct 13, 2016



World Outlook of 17 oils & fats in Oct/Sept 15/16:

Production Down 1.3 Mn T

Total consumption growth to accelerate to 5.3 Mn T

Exports -3.3 Mn in Apr/Sep

Plunging stocks !!

17 Oils & Fats: World Output & Consumption (Mn T)

	<u>15/16</u>	<u>14/15</u>	<u>13/14</u>	<u>12/13</u>
Production	203.5*	204.8	201.1	189.8
Change	-1.3*	+3.7	+11.3	+2.7
Consumption . .	208.3*	203.0	198.6	189.5
<i>Total change</i>	+5.3*	+4.4	+9.1	+5.6
for energy	+1.4*	-1.5	+3.7	+2.4
other uses	+3.9*	+5.9	+5.4	+3.2
Stock change . .	-4.8*	+1.7	+2.5	+0.3



Outlook for 2016/17:

Very big increase in world production by around 10 Mn T in 2016/17, of which:

Palm oil . . . +5.5 Mn (vs -3.1)

Lauric oils +0.7 (vs -0.55)

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	<u>16/17F</u>	<u>15/16</u>	<u>14/15</u>	<u>13/14</u>	<u>12/13</u>
Production	213.6*	203.5*	204.8	201.1	189.8
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Rapeseed oil -1.0

Chinese Government plans to release another 2 Mn T of rape oil - -
Bearish !

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Lauric oils +0.7 (vs -0.55)

Soya oil . . . +2.9
Rapeseed oil -1.0
Sunfl. oil . . +1.3
Groundn. Oil +0.4
Olive oil . . . -0.4

Oth veg oil . +0.3
Animal fats +0.4

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Outlook for 2016/17:

Very big increase in world production by around 10 Mn T in 2016/17

But this is treacherous!

With Oct 1 opening stocks down 4.8 Mn T, world supplies set to rise only by 5.3 Mn T.

This allow for only a below-average rise in consumption of 4.7 Mn and a slight recovery of stocks by 0.6 Mn T

World supplies will be up only 5.3 Mn T

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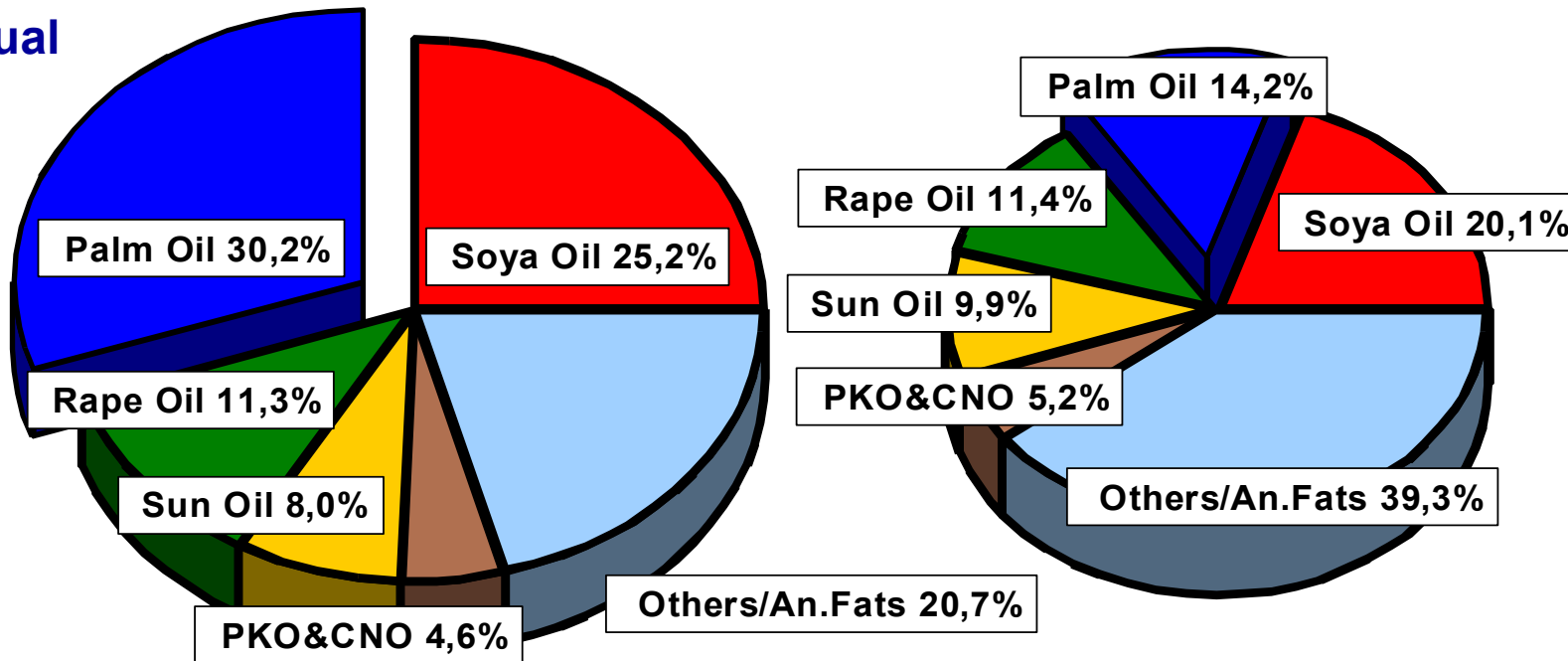
World Production of 17 Oils & Fats

2016/17F - - 213.6 Mn T

1991/92 - - 83.5 Mn T

Up 156%
in 25 years

Average annual
increase
of 5.2 Mn T



The Success Story of the past 30 Years

- Substantial growth in world production of palm oil
- In 1980: 4.6 Mn T or 8% of 17 oils & fats
- In 1990: 11.0 Mn T or 14%
- In 2000: 21.9 Mn T or 19%
- In 2010: 46.2 Mn T or 27%
- In 2012: 53.9 Mn T (plus 5.9 Mn T of Palmkern oil)
- In 2015: 62.6 Mn T or 30% (only 6% of area)
- **In 2025 about 86 Mn T of palm oil required**
(of which Malaysia 24.3 and Indonesia 47.2 Mn T)



But this success story has been **interrupted decisively in 2016**, with a plunge in palm oil production by 6.5 Mn T !! below potential.

World palm oil output in 2016 to drop by 3.3 Mn to 59.2 Mn T

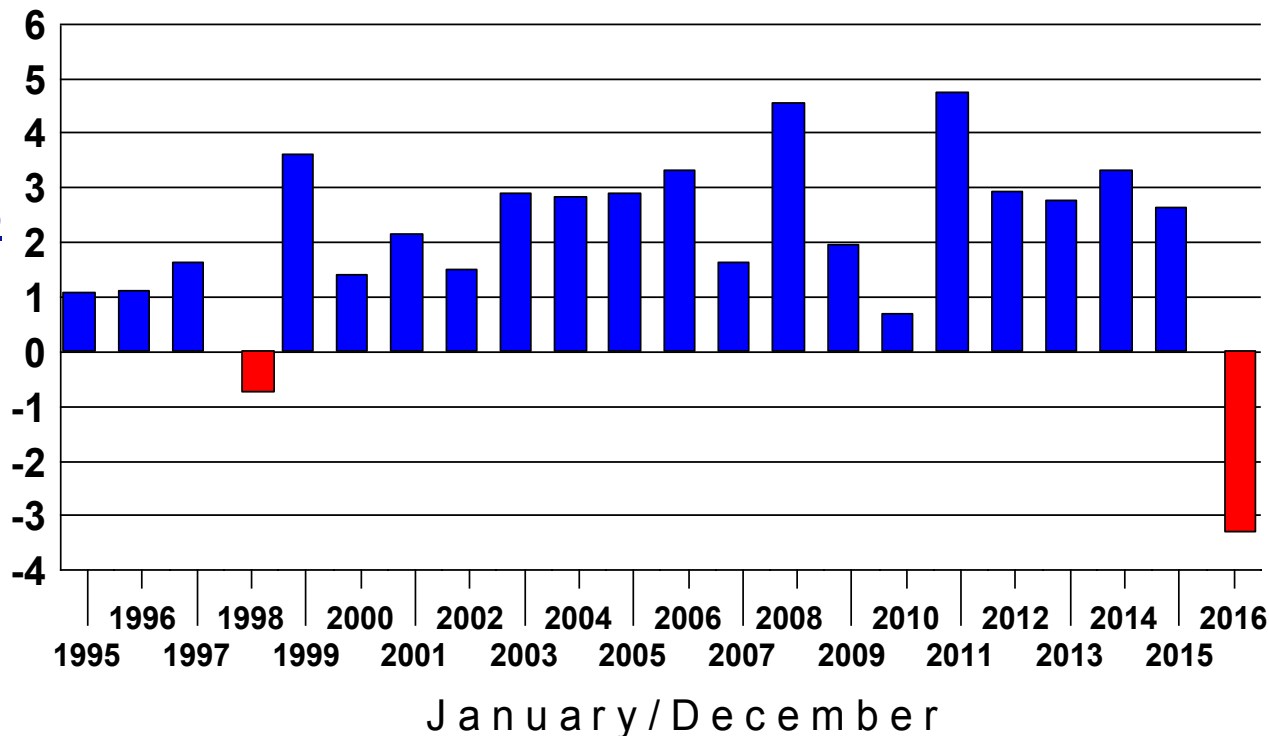
Indonesia **32.2** against 33.4 in 2015

Malaysia **17.8** against 20.0 in 2015

El Niño is over. But yields are still falling in 2016

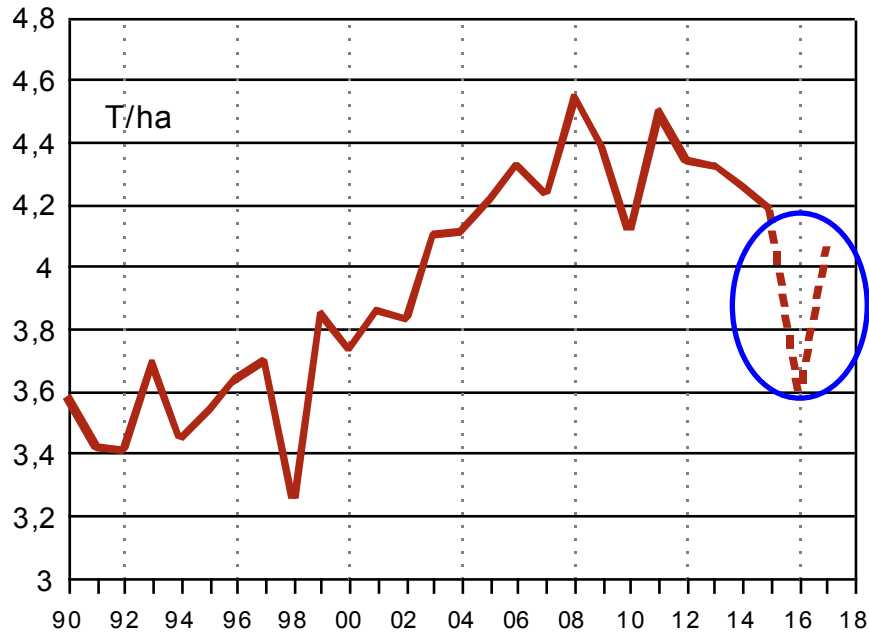
PALM OIL : World Production

Annual Change (Mn T)



Oct 13, 2016

MALAYSIA: Annual Palm Oil Yields (T/ha)

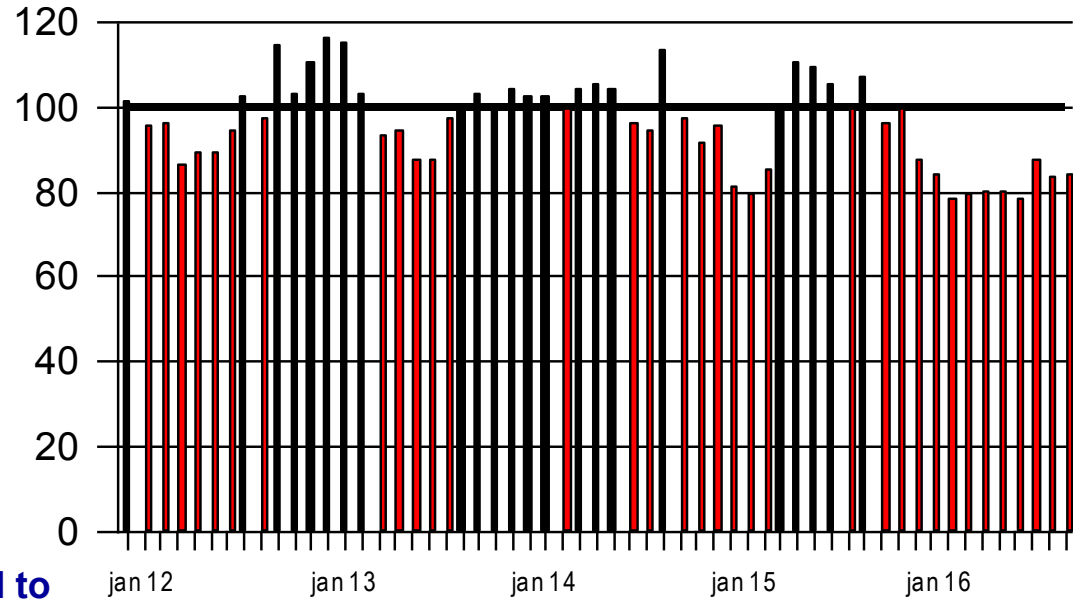


In 2016 the average annual oil yield is likely to fall to the lowest level in 19 years ...

In 2017 yields will recover, but will still remain below most recent 5-year average (more male & less female flowers developed, i.e. less fruit bunches to be harvested 2017)

Palm Oil Yields in Malaysia

in % of 5-year average



January 2012 until August 2016

CPO yields steeply below average since Jan 2016. Very little recovery in Aug + Sept 2016



PALM OIL : World Production (Mn T) and Yields (T/ha)

	Production				Yields		
	2017F	2016	2015	2014	2017F	2016	2015
Indonesia	35.00*	32.25*	33.40*	31.50*	3.65*	3.53*	3.87*
Malaysia	20.50*	17.80*	19.96	19.67	4.04*	3.60*	4.18*
C&S America	4.15*	3.94*	3.81*	3.42*	3.14*	3.10*	3.12*
Oth ctrs.	5.59*	5.25*	5.39*	5.34*	1.96*	1.90*	2.00*
WORLD	65.24*	59.24*	62.56*	59.93	3.46*	3.27*	3.61*

World supplies of palm oil will still be tight in Oct/March 2016/17.

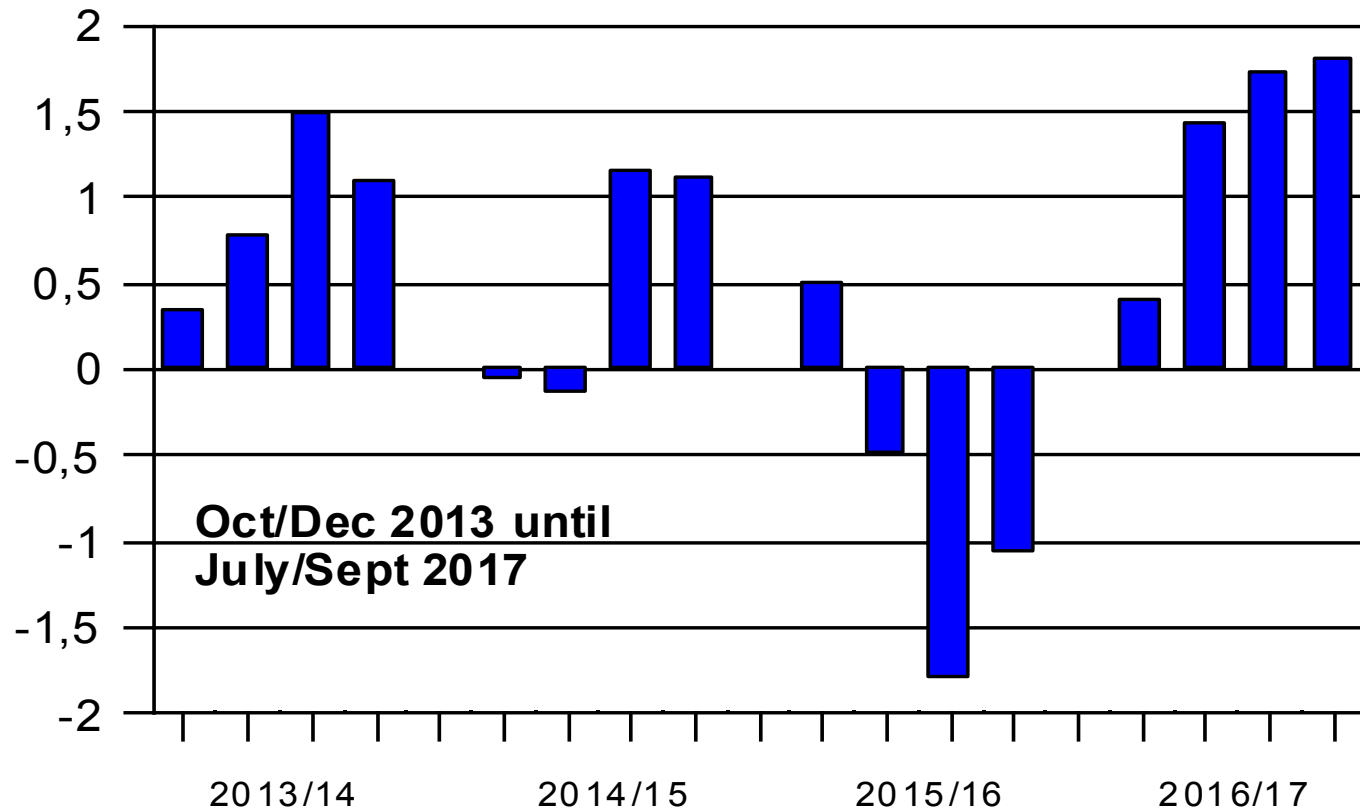
But production seen rebounding by 5.7-6.3 Mn T in Jan/Dec 2017.

World stocks of palm oil and of other oils very low and down by about 3 Mn T from year ago as of 1 Jan 2017. Thus offsetting about half of the anticipated growth in world output 2017



PALM OIL : World Production Growth

Quarterly, Change on year in Mn T



Oct 13, 2016

Outlook Oct/Dec 2016:

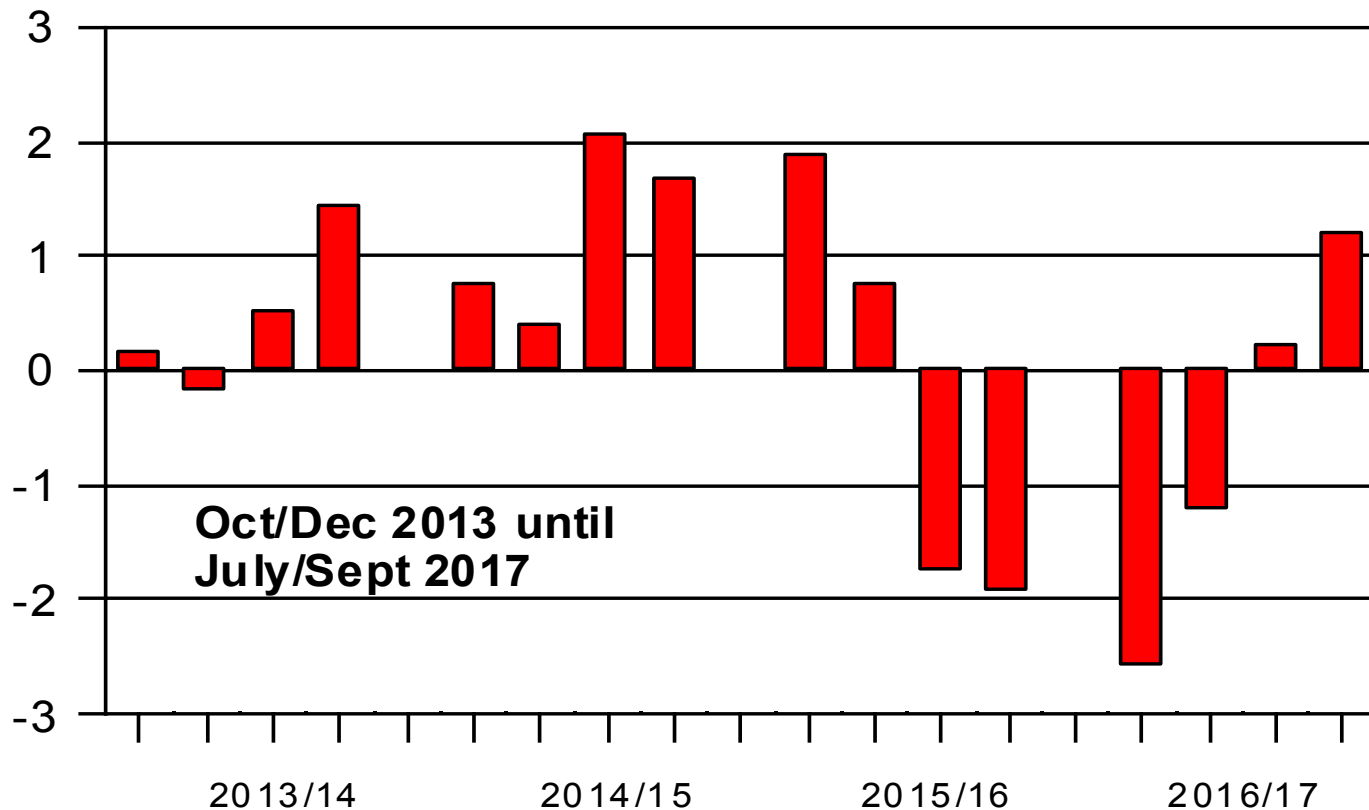
With palm oil stocks down about 3.1 Mn T from a year earlier in early Oct 2016,

the prospective year-on-year production growth by 0.4-0.5 Mn T will be more than offset,

resulting in a massive decline of world supplies by 2.6-2.7 Mn T in Oct/Dec 2016 versus a year earlier

PALM OIL : World Supply Growth

Quarterly, Change on year in Mn T



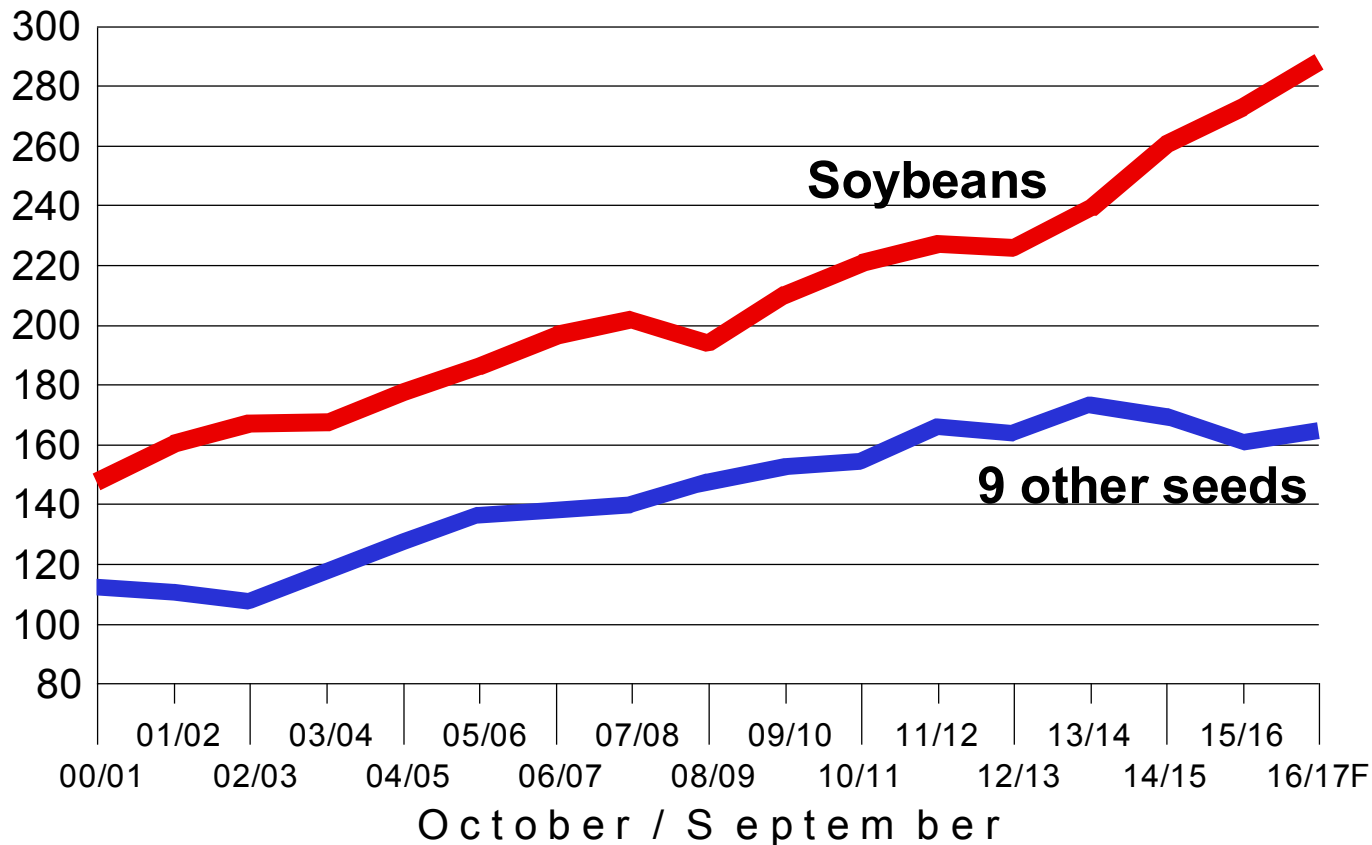
Oct 13, 2016

Further boost in world soybean crushings required in 2016/17, because

- rising demand
- still insufficient palm oil supplies
- tightness of oth seeds
- low stocks of veg oil...

Lack of farmer selling of soybeans is a concern

10 Oilseeds : World Crushings (Mn T)



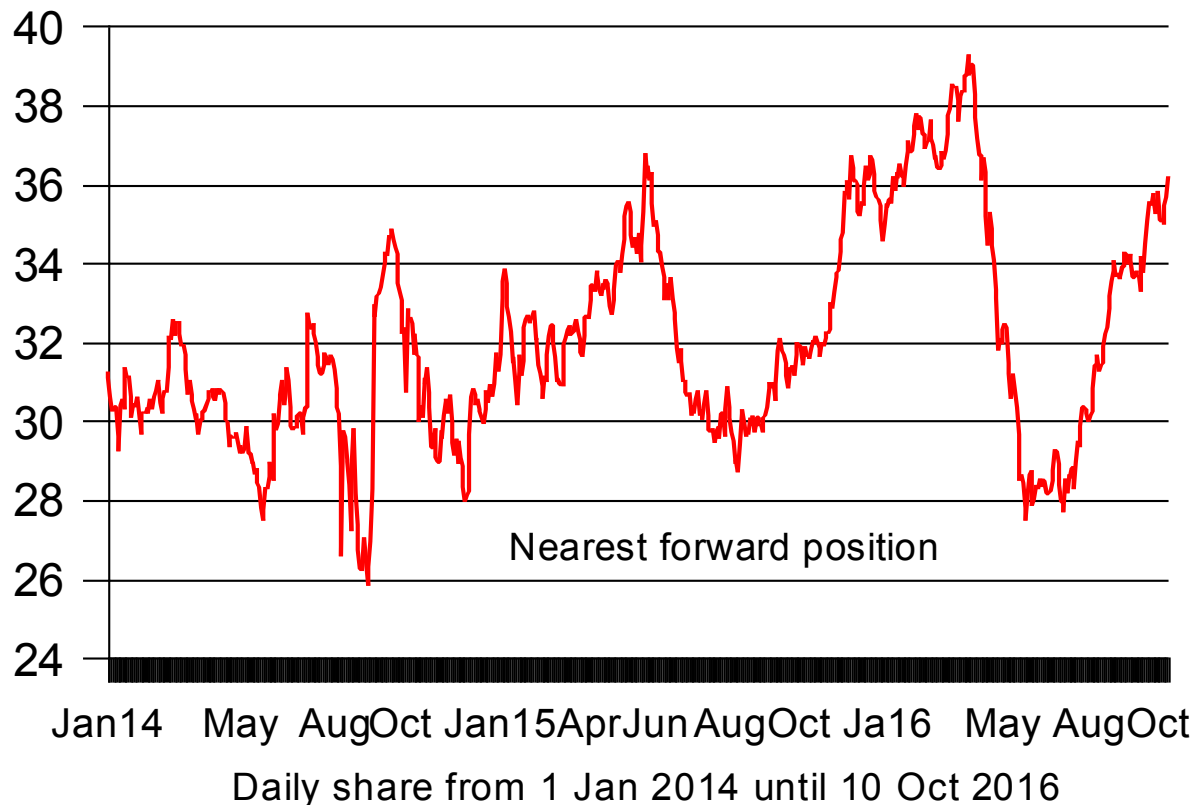
Soya oil has to finance a growing share of the crush margin.

Getting more difficult to sell the soya meal

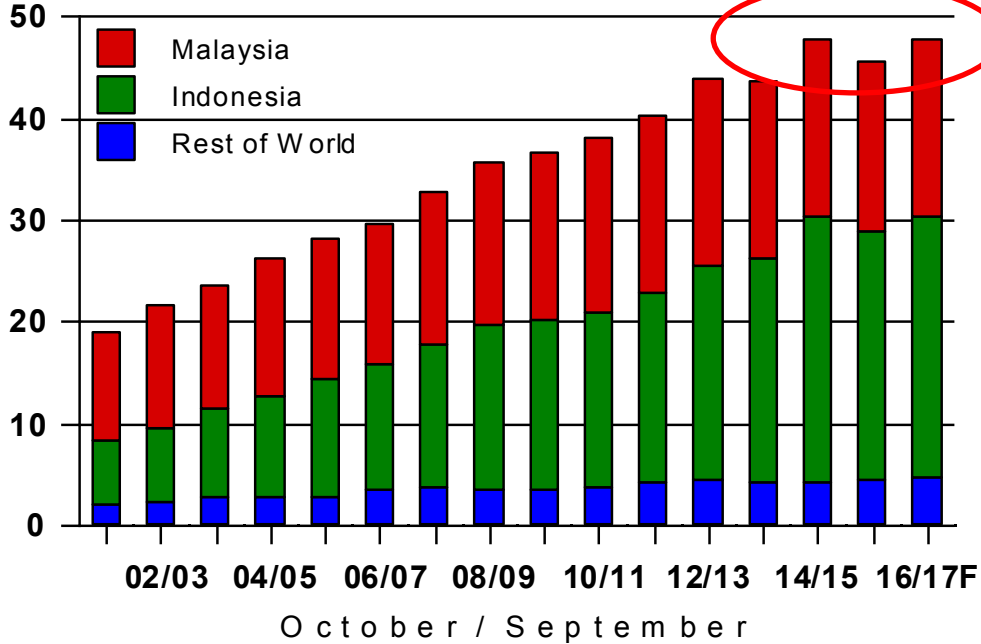
Further increase in the soya oil share likely

CBOT : Daily Soya Oil Share

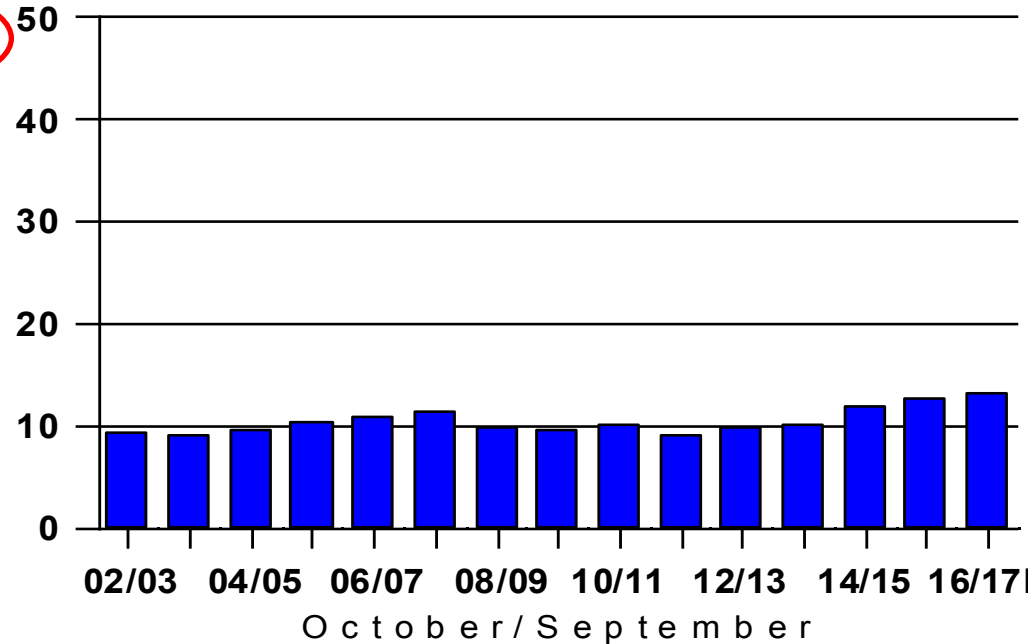
in % of total product value



PALM OIL : Exports of Key Countries (Mn T)



SOYA OIL: World Exports (Mn T)



Record yield and Output in the USA in 2016

But global dependence on US soybeans and products increasing in 2016/17

As of Sept 29: Export sales of US soybeans added up to 28.3 Mn T (+6.5 Mn T)

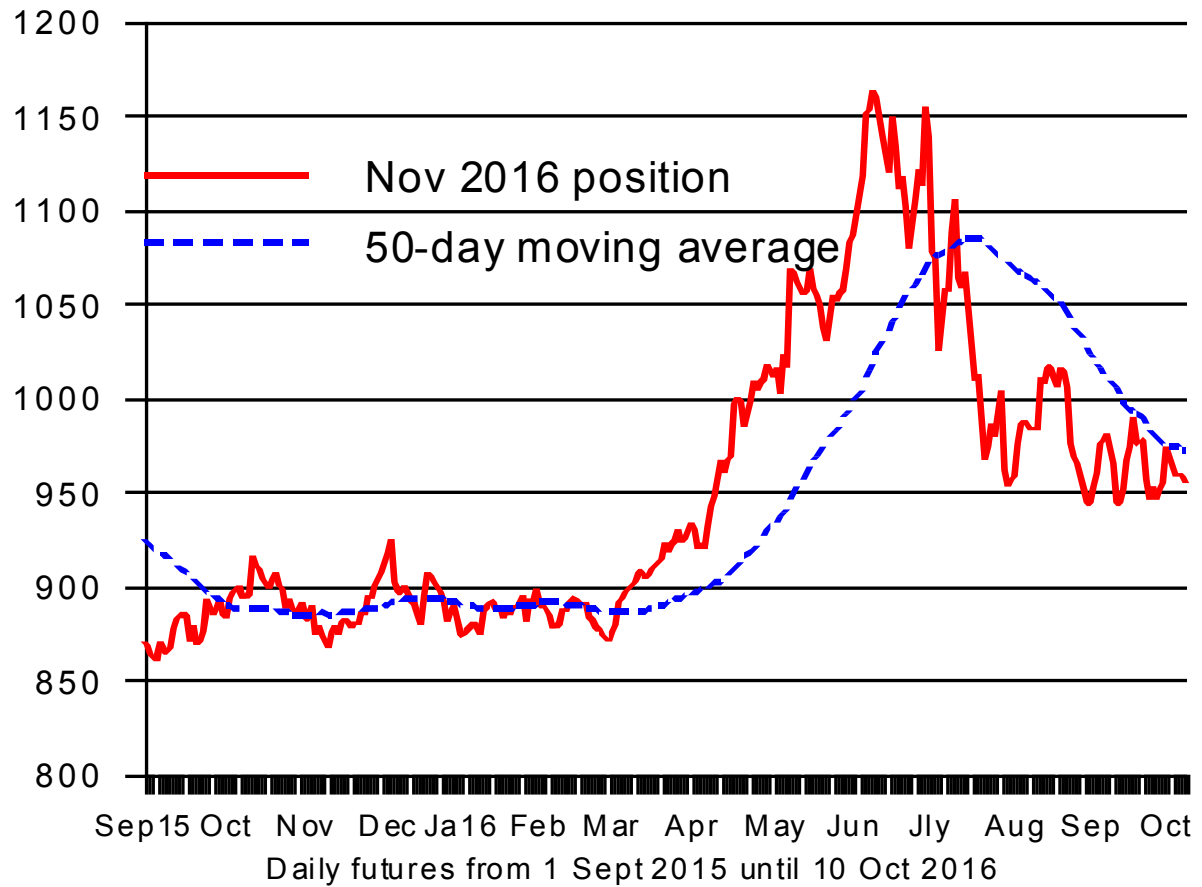
U.S.A : Soybean Supply & Demand (Mn T)

September / August

	<u>16/17F</u>	<u>15/16</u>	<u>14/15</u>	<u>13/14</u>	<u>12/13</u>
Op. stocks . . .	5.36	5.19	2.50	3.83	4.61
Crop.	116.50*	106.86	106.88	91.39	82.79
Imports . . . . .	.80*	.66	.93	2.10	1.01
Exports	56.40*	52.74	50.20	44.65	36.17
Crushings . . .	53.20*	51.33*	51.16	47.38	45.97
Other use	3.56*	3.27*	3.77	2.77	2.45
End. stocks ..	9.50*	5.36	5.19	2.50	3.83
<i>Stocks/usage</i>	8.4%	5.0%	4.9%	2.6%	4.5%



CBOT: Daily Soybean Futures (c/bu)



Oct 13, 2016

South American soybean plantings to fall in 2016/17 for the first time in 10 years

Arg soya export tax stays longer than expected

Acreage shifted to corn, wheat and sunflowers

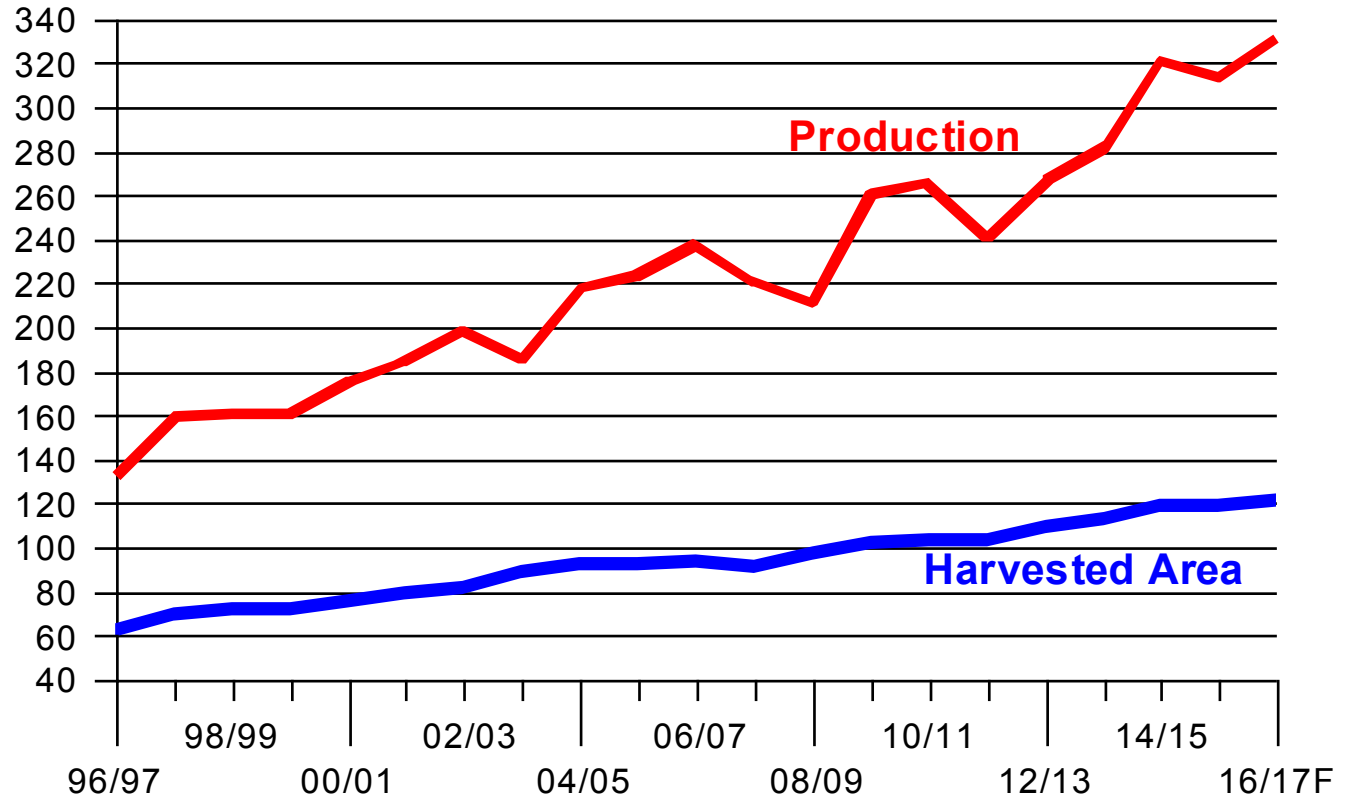
SOUTH AMERICA: Soybean Plantings (Mn ha)

	<u>16/17F</u>	<u>15/16</u>	<u>14/15</u>	<u>13/14</u>	<u>12/13</u>
Brazil	33.63*	33.25	32.09	30.17	27.74
Argentina	19.60*	20.40*	19.90	19.78	19.60
Paraguay	3.40*	3.37*	3.28*	3.30	3.20
Bolivia	1.20*	1.28	1.24	1.28	1.18
Uruguay	1.17*	1.16	1.34	1.32	1.23
Total	59.00*	59.46	57.86	55.86	52.94
<i>Change</i>	-0.46*	+1.60	+2.00	+2.92	+4.22



SOYBEANS

World Production (Mn T) and Area (Mn ha)



It is becoming more difficult to expand the area under soybeans worldwide

Higher yields needed

Setback in world production in 2015/16 by about 7 Mn T

BUT: in 2016/17 record US soybean crop currently in the making, paving the way for a recovery to 331 Mn T



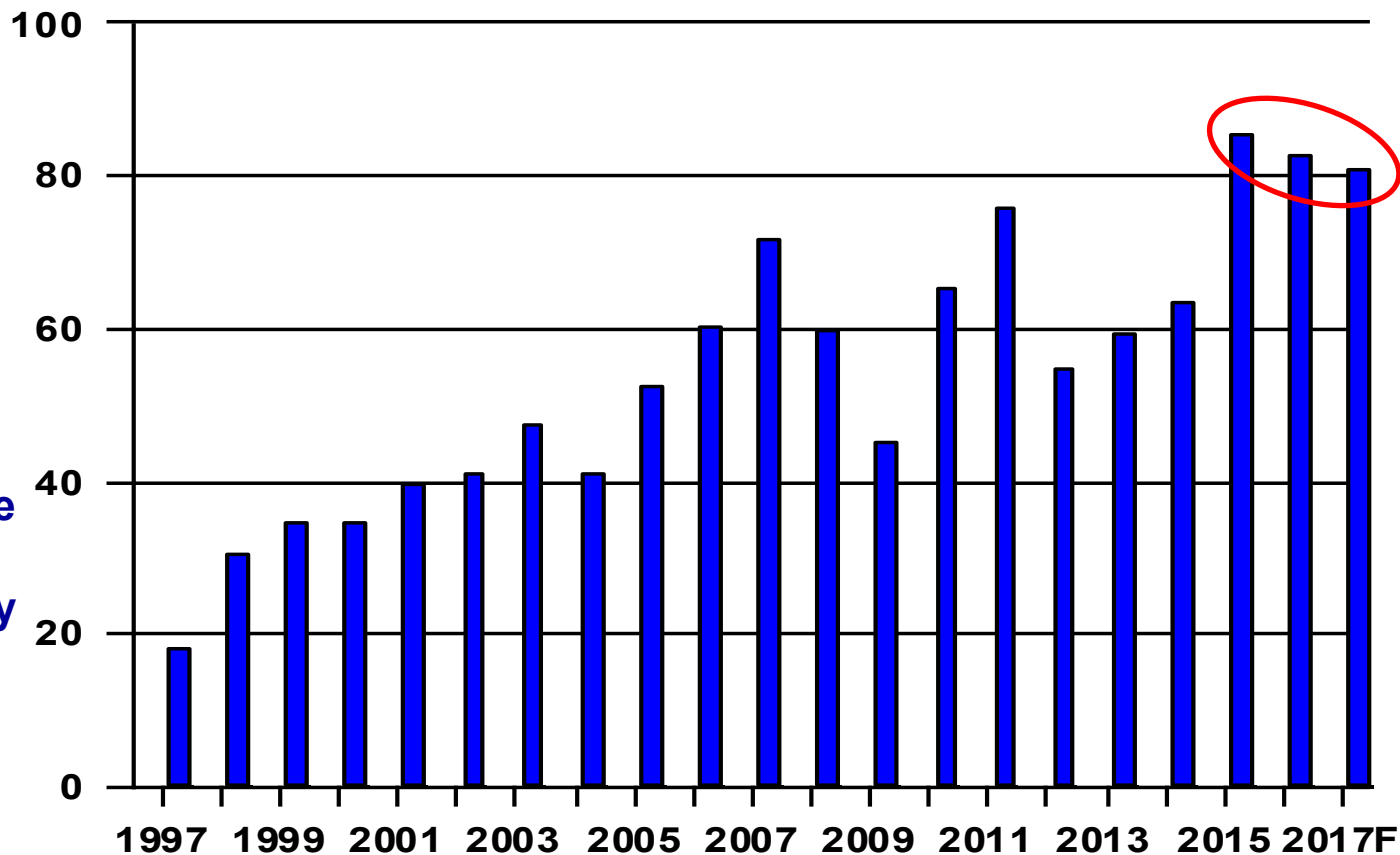
There are many uncertainties ahead in the 2016/17 season (just started). I believe world soybean usage +19 MnT

But what about 2017/18?

Acreage? Yields?

Palm oil will become more ample in 17/18. But a shortage in soybeans may arise in 2017/18, if the excellent yields in the US cannot be repeated

Soybeans: World Stocks as of end-August (Mn T)



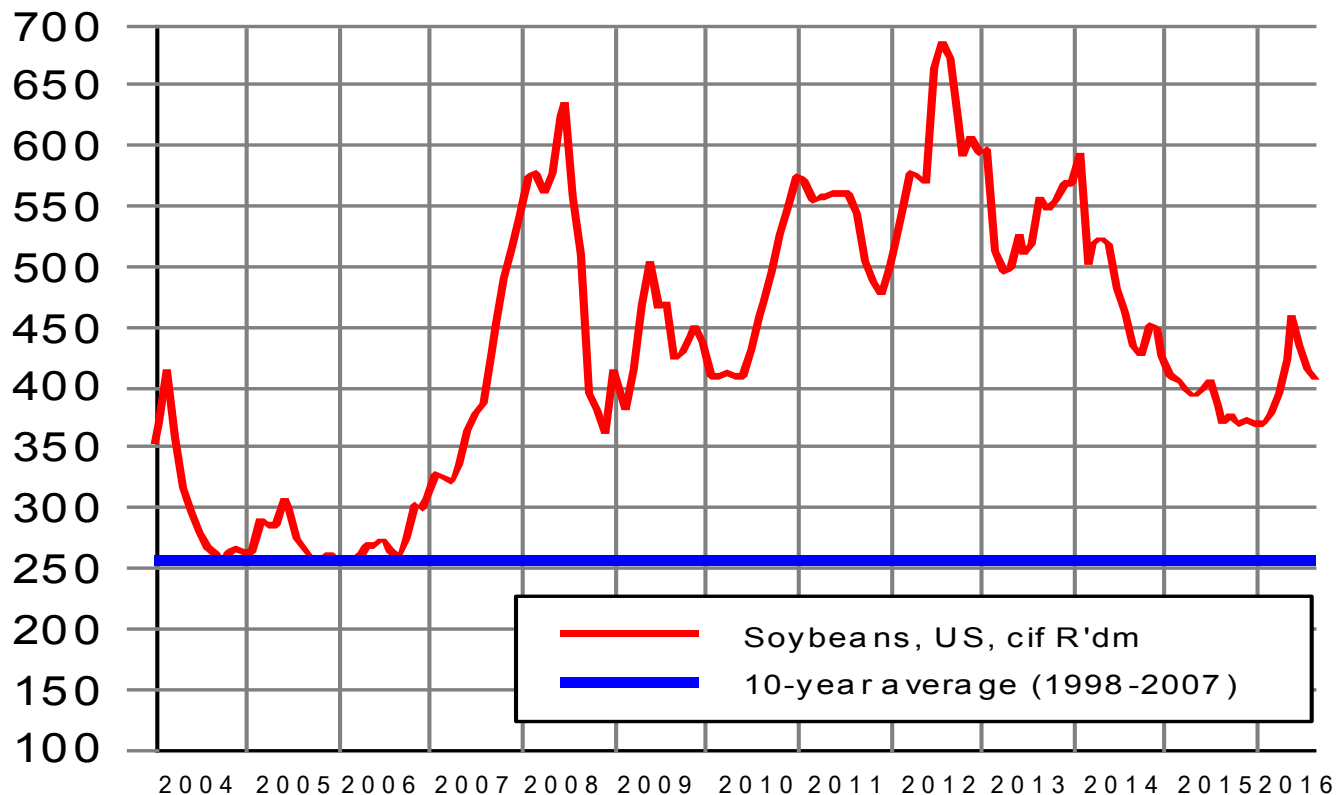
Focus on India and China



In 2015 prices have fallen below production costs for many farmers

Supply responses, for example in India & China

Monthly Prices of Soybeans, US (in US-\$/T)

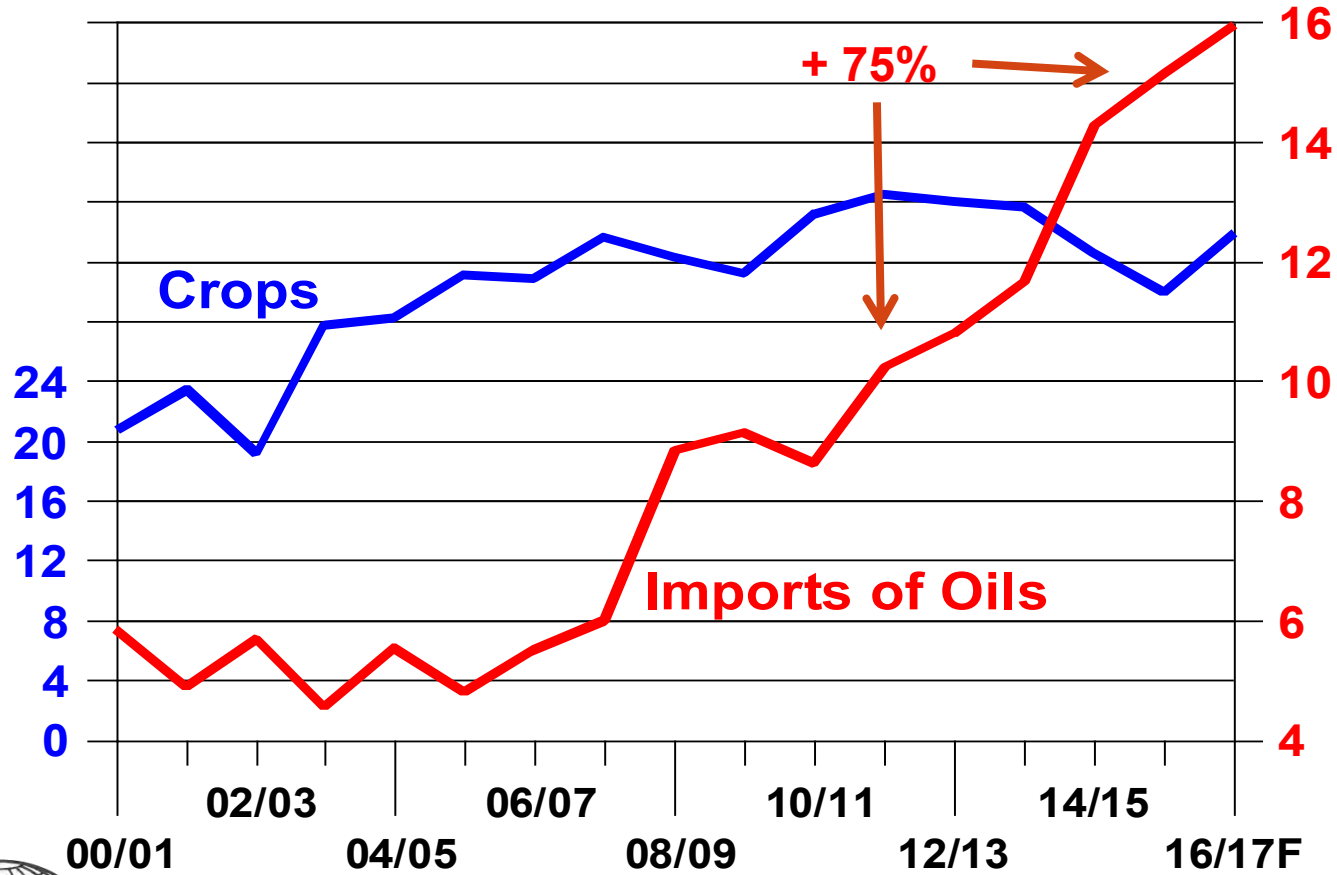


January 2004 until Sept 2016



Oct 13, 2016

INDIA: Oilseed Crops and Imports of Oils (Mn T)



veg. oil imports up 75% within the last 5 years until 2015/16...

Will the world market be able to satisfy Indian demand in the future?

Outlook 2016/17?
Higher soya crop, but crush curtailed by lack of competitiveness.
Meal cannot be exported at current prices.

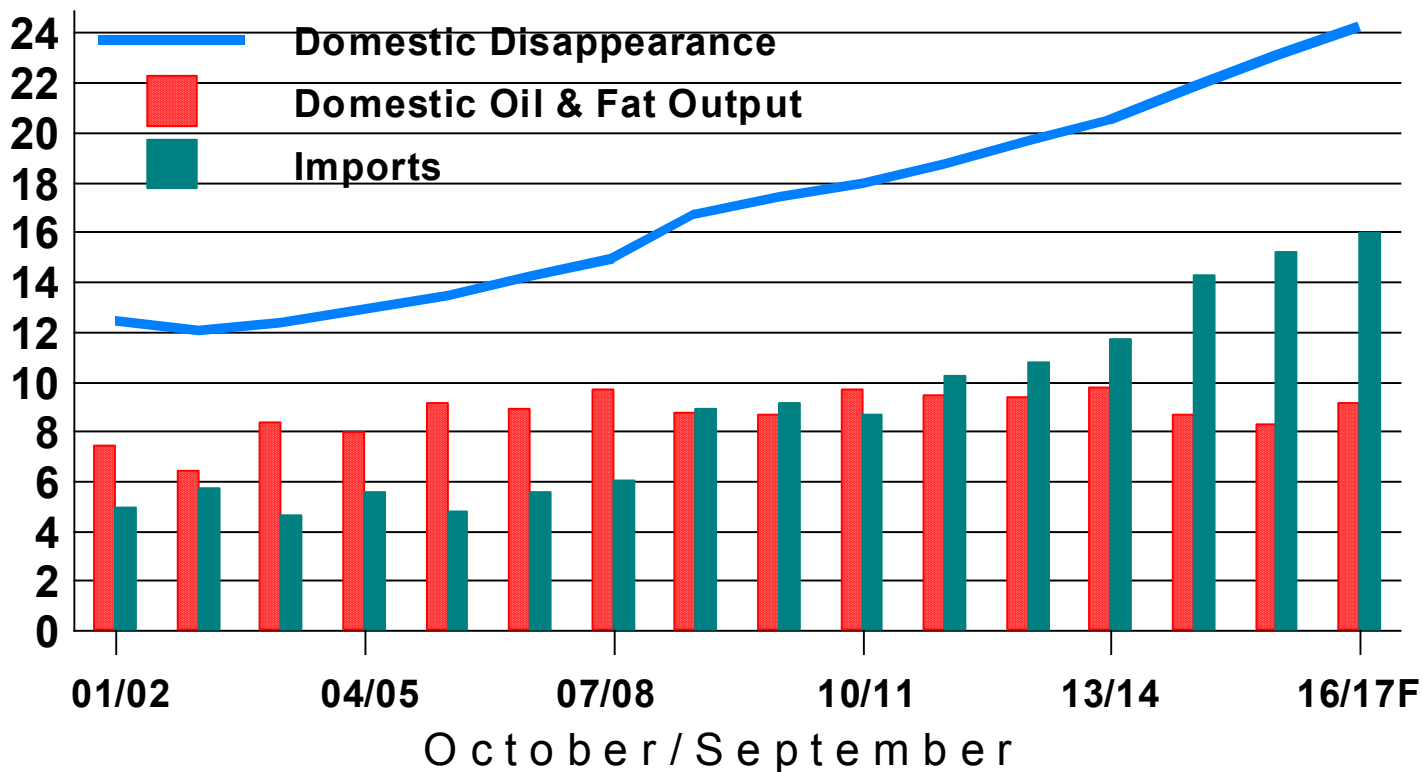


Veg oils in India:

- 1) Widening gap between production and consumption
- 2) Rapidly rising import needs

Indian government considers to reduce import tax on sunflowerseed

INDIA: Domestic Supply & Demand and Imports of 17 Oils & Fats (MnT)



In India vegetable oil import dependence has increased to 76% !!

World exports of soya oil will at best stagnate at the year ago level in Oct/March 2016/17

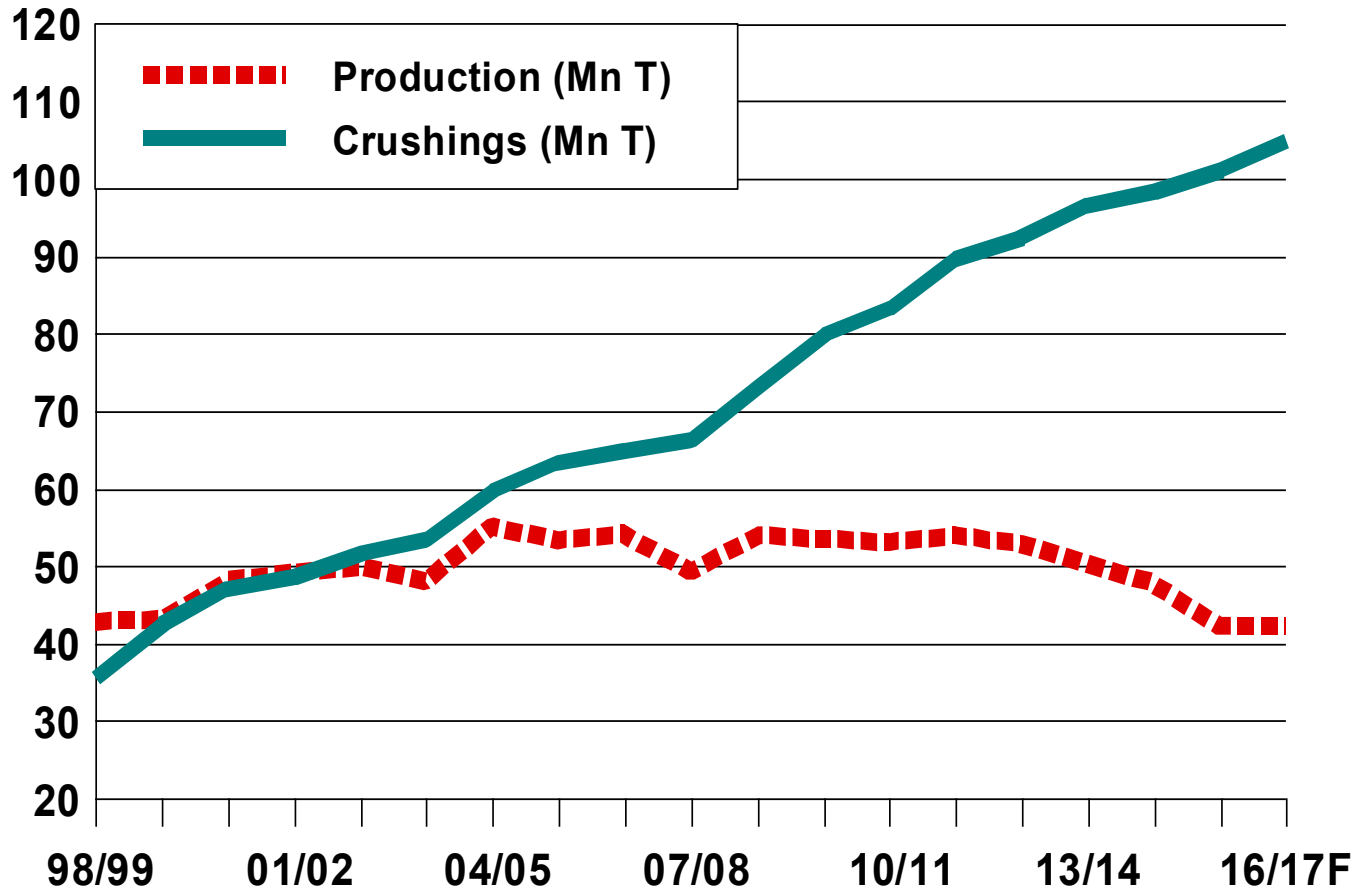
In India the market share of palm oil is set to increase in 2017

INDIA: Balance 8 Major Oils (Mn T)

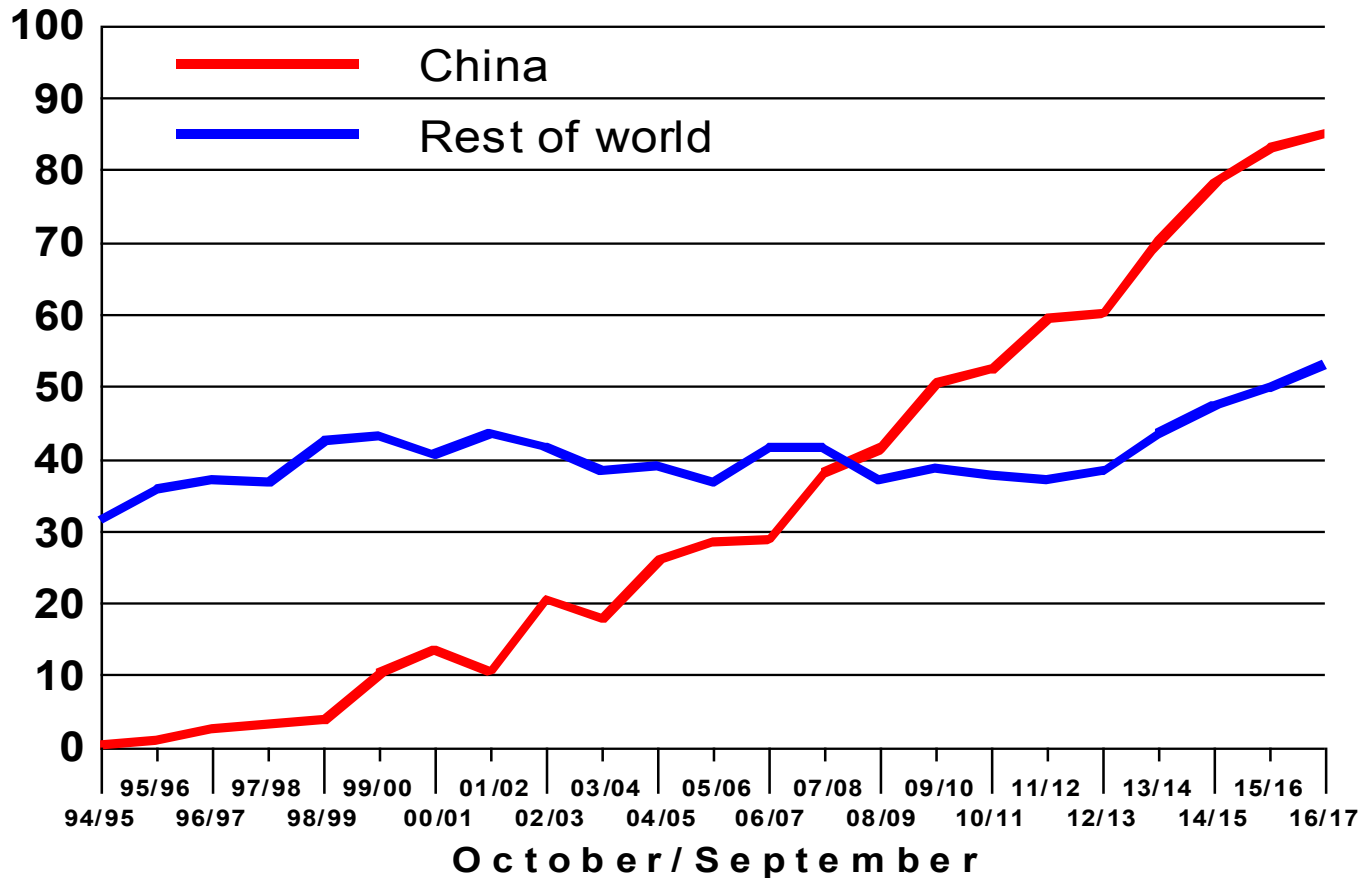
	October / September				
	16/17F	15/16	14/15	13/14	12/13
Production	5.52*	4.61	5.08	6.30	5.96
Imports	15.93*	15.12*	14.24	11.64	10.75
Soybean oil	4.37*	4.30*	2.84	1.83	1.14
Sunflower oil	1.75*	1.55*	1.53	1.58	.94
Rapeseed oil . . . . .	.24*	.35*	.38	.16	.01
Palm oil	9.40*	8.80*	9.24	7.84	8.31
Exports . . . . .	.05*	.04*	.05	.03	.11
change in stocks	+.35*	-.26*	+.46	+.40	-.11
Dom.Disappear	21.05*	19.95*	18.81	17.51	16.71
<i>Stocks/use ratio</i>	13.0%	12.1%	14.2%	12.7%	10.9%
Population (Mn)	1343*	1327*	1311	1295	1280
Caput use(kilos)	15.7*	15.0*	14.3	13.5	13.1



CHINA: Oilseed Output & Crushings



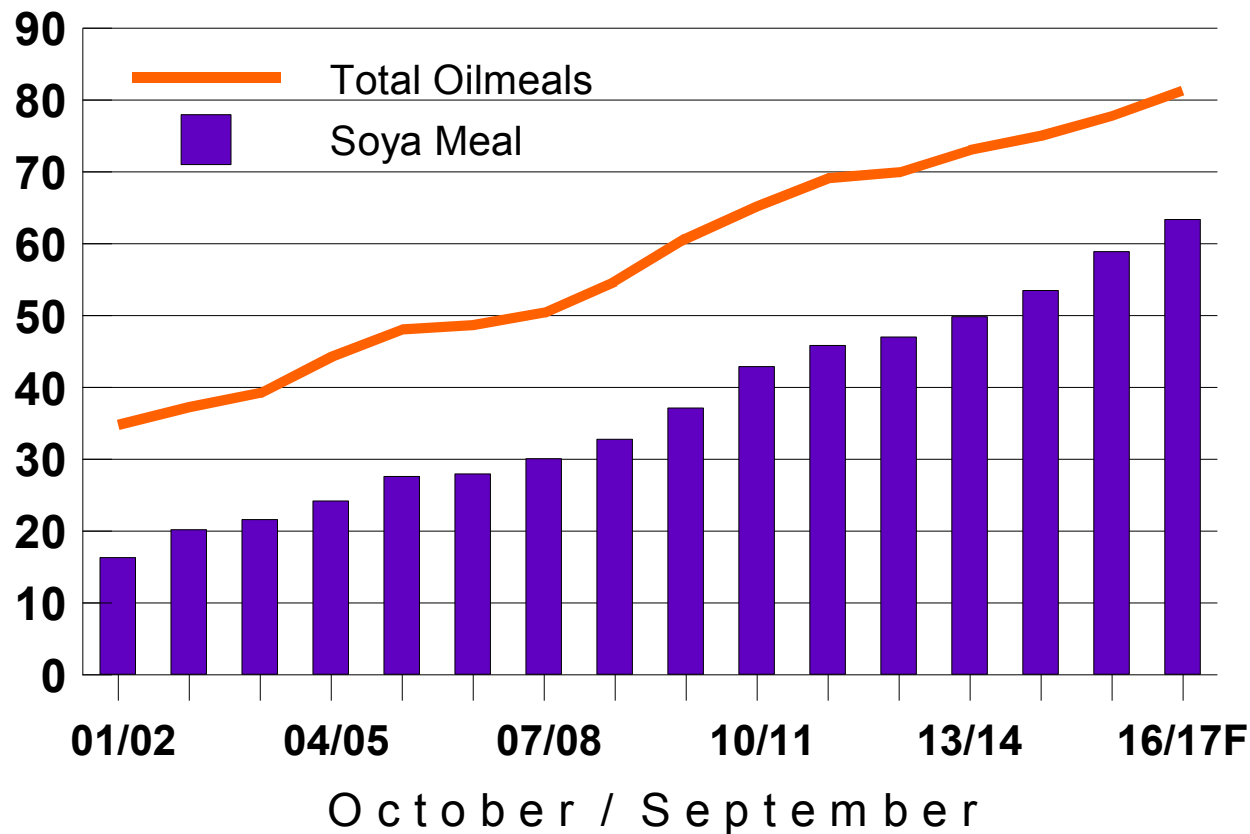
Imports of Soybeans (Mn T)



Feed usage up 2-3%

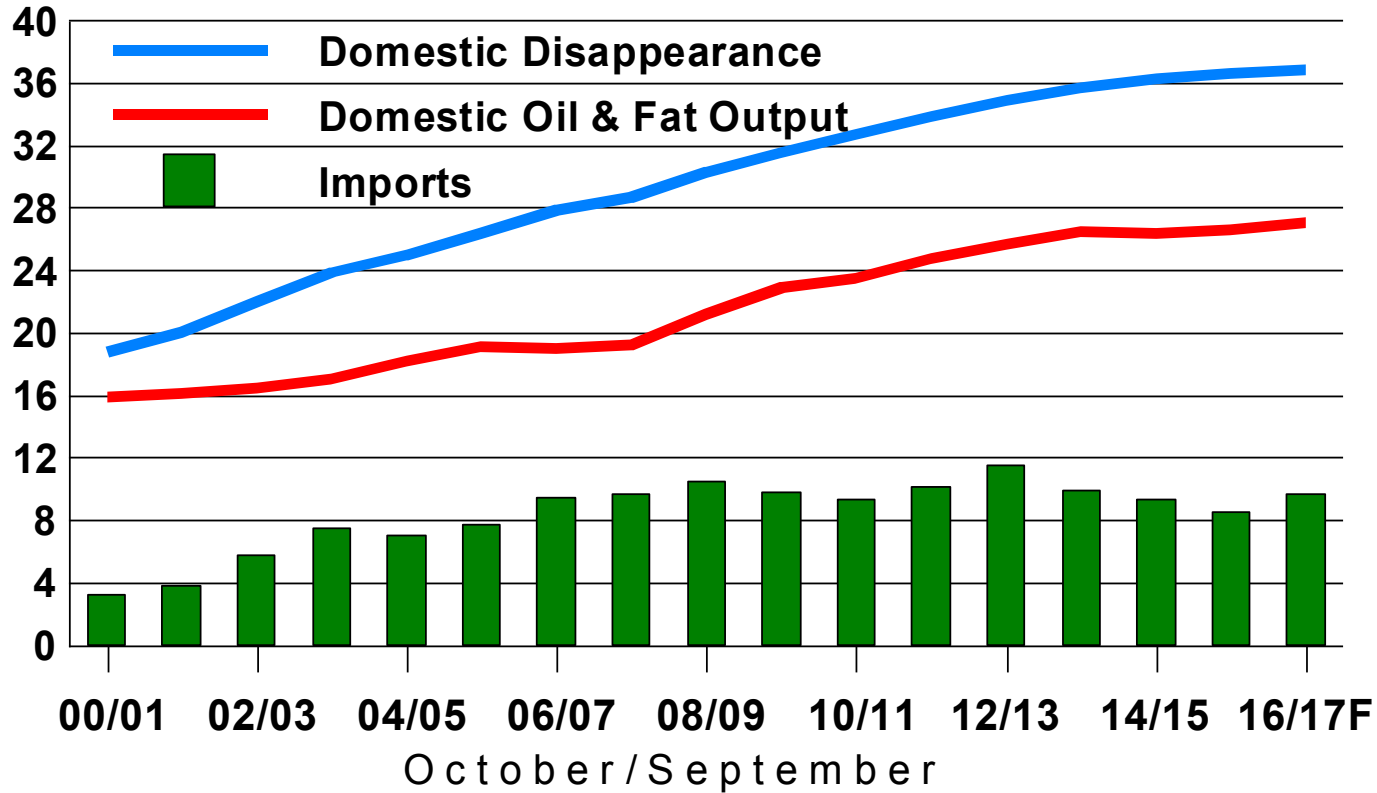
Soya consumption likely to rise by 7%

CHINA: Total Oilmeal Consumption & Growing Importance of Soya Meal (Mn T)



Oct 13, 2016

CHINA: Domestic Supply & Demand and Imports of 17 Oils & Fats (Mn T)

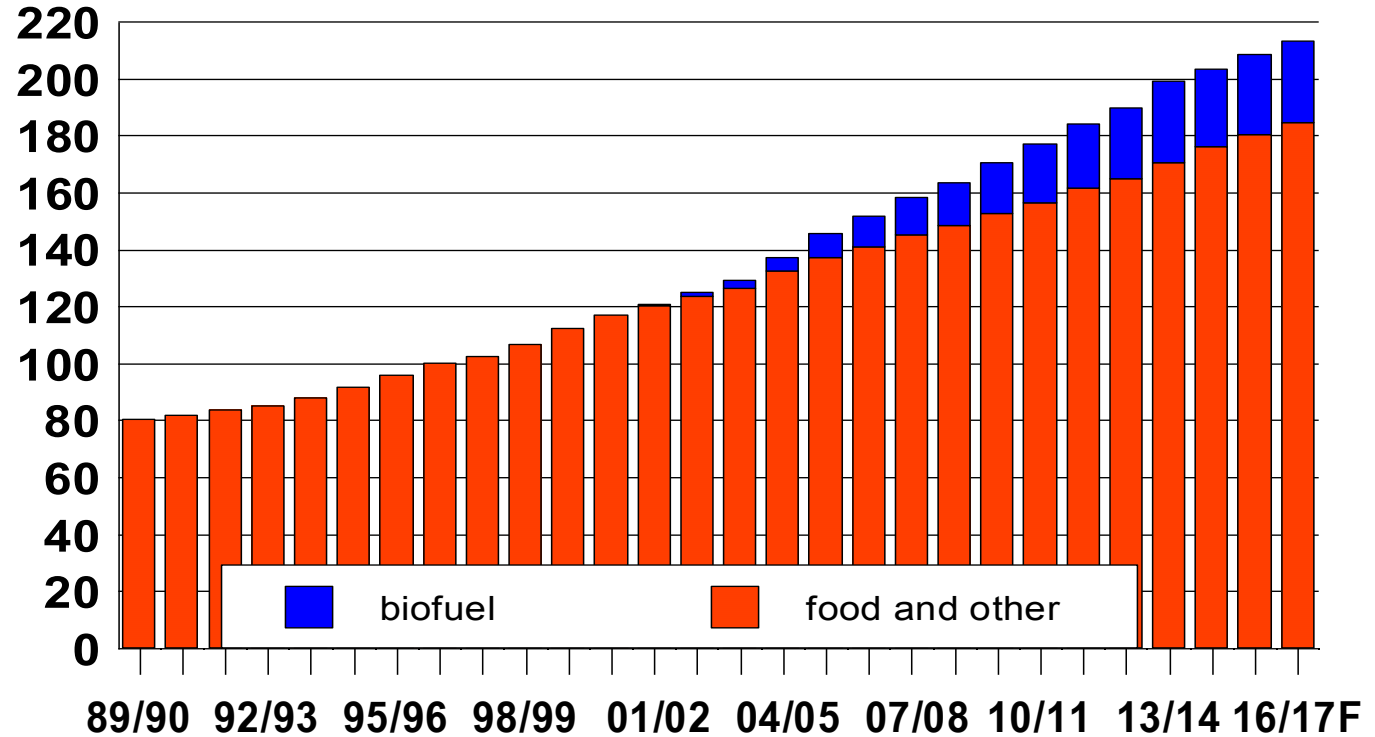


Biodiesel



Substantial Growth in World Demand of Oils/Fats ! !

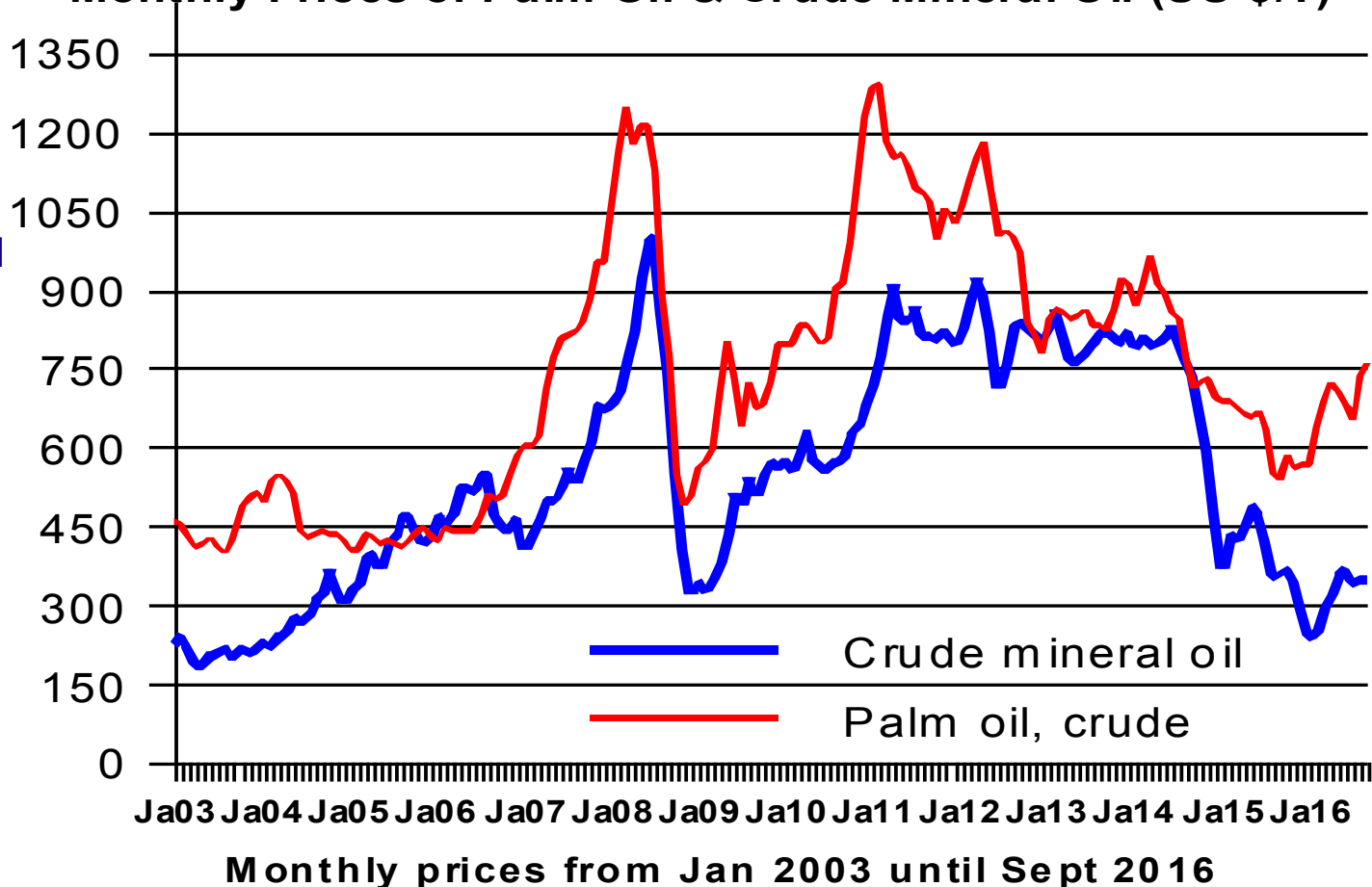
17 Oils & Fats : World Consumption Total Usage in Mn T



Monthly Prices of Palm Oil & Crude Mineral Oil (US-\$/T)

Because of tight supplies, the prices of palm oil, soya oil and other veg. oils are divorcing from the trend of crude oil.

In the following I give a summary of our revised biodiesel production forecasts. Details, also with the info on the oils used as feedstock, has been published in the Sep23 Oil World Weekly

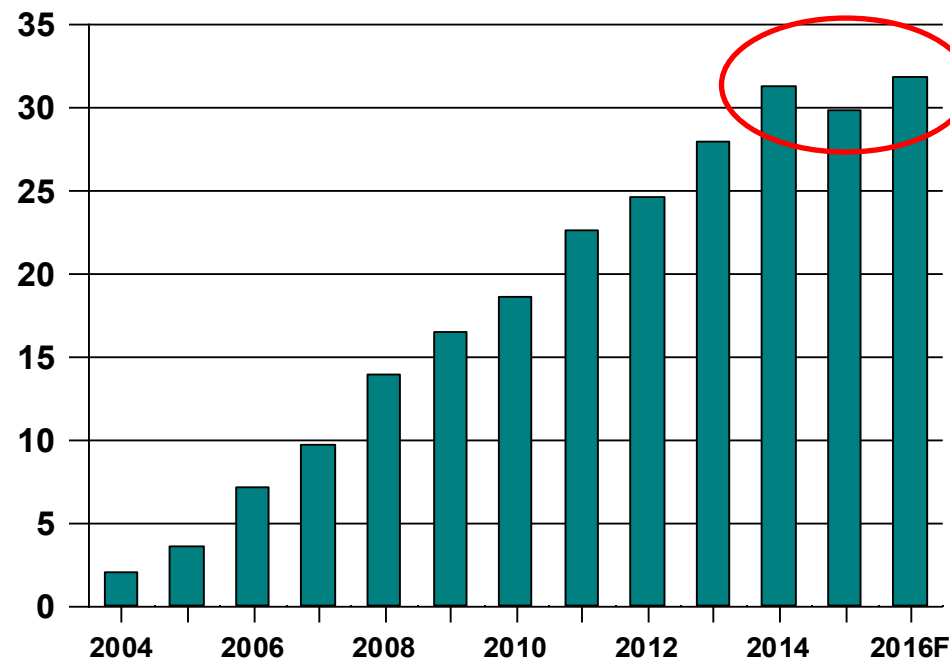


BIODIESEL: World Production by Country (Mn T)

January / December

	2016F	2015	2014	2013	2012
EU-28	12.27*	12.37*	12.20*	10.65	9.74
U.S.A.	5.70*	4.90	4.80	4.72	3.50
Argentina	2.55*	1.81	2.58	2.00	2.46
Brazil	3.40*	3.46	3.00	2.56	2.39
Colombia . . . . .	.50*	.51	.52	.50	.49
Singapore . . . . .	.86*	.82	.76	.79	.74
Indonesia	2.40*	1.40	2.86	2.60	1.91
Malaysia . . . . .	.50*	.67	.60	.47	.25*
Thailand . . . . .	.98*	1.03*	.99	.93	.92*
Oth. cties.	2.56*	2.80*	2.94*	2.65*	2.20
Total	31.72*	29.77*	31.24	27.87	24.58
<i>Change in (Mn T)</i>	+1.95*	-1.47*	+3.37	+3.29	+2.02

World Production of Biodiesel (Mn T)



Concluding Statements



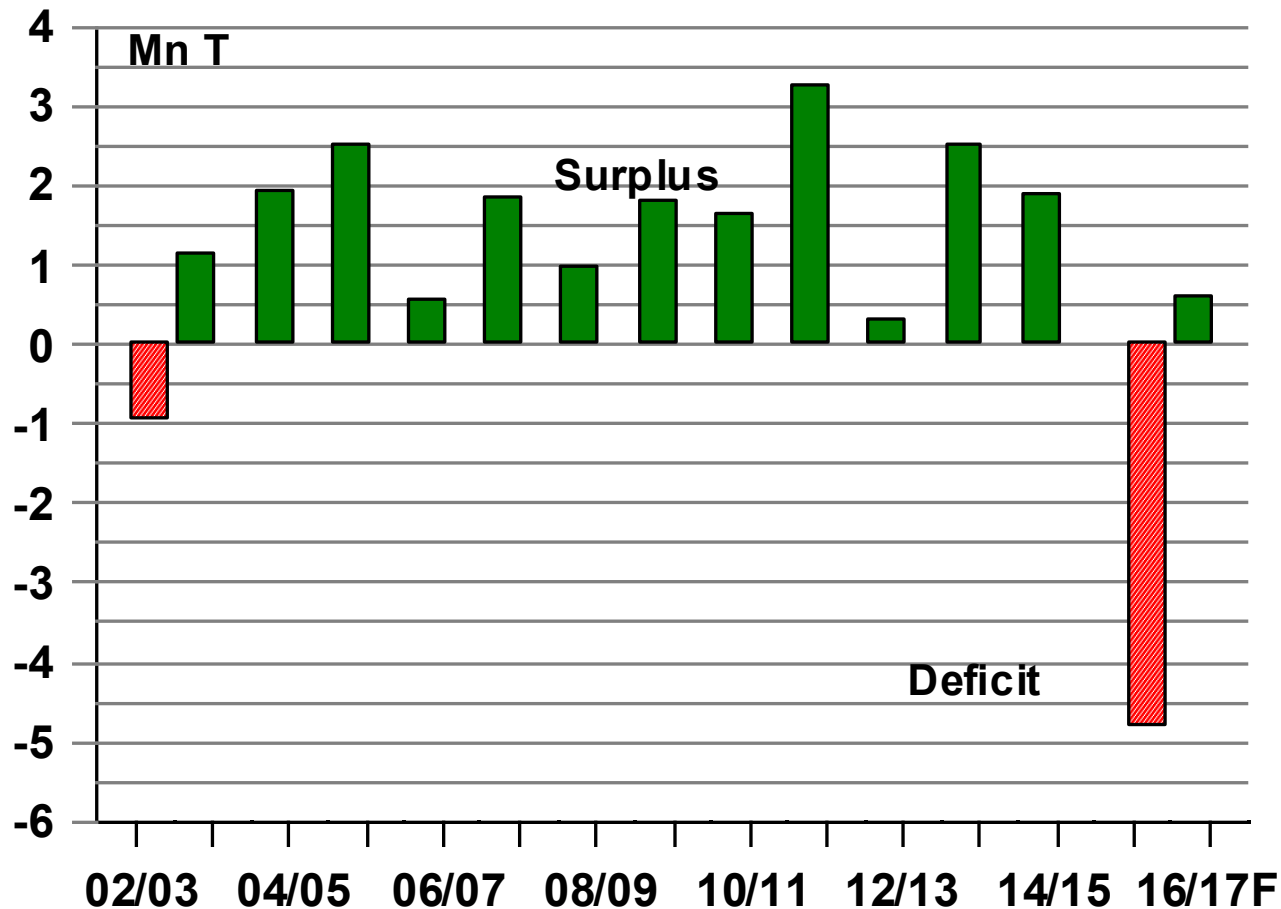
The steep decline in world stocks by 4.8 Mn T from a year earlier as of early Oct 2016 will be a major burden for the next few months.

2 examples:

1) It will offset the prospective growth in oils/fats production in Oct/Mar 16/17 (up 3.4-3.6)

2) World export supplies of palm oil and soya oil are likely to decline in Oct/March 2016/17

17 OILS & FATS: Surplus/Deficit of Output vs. Usage

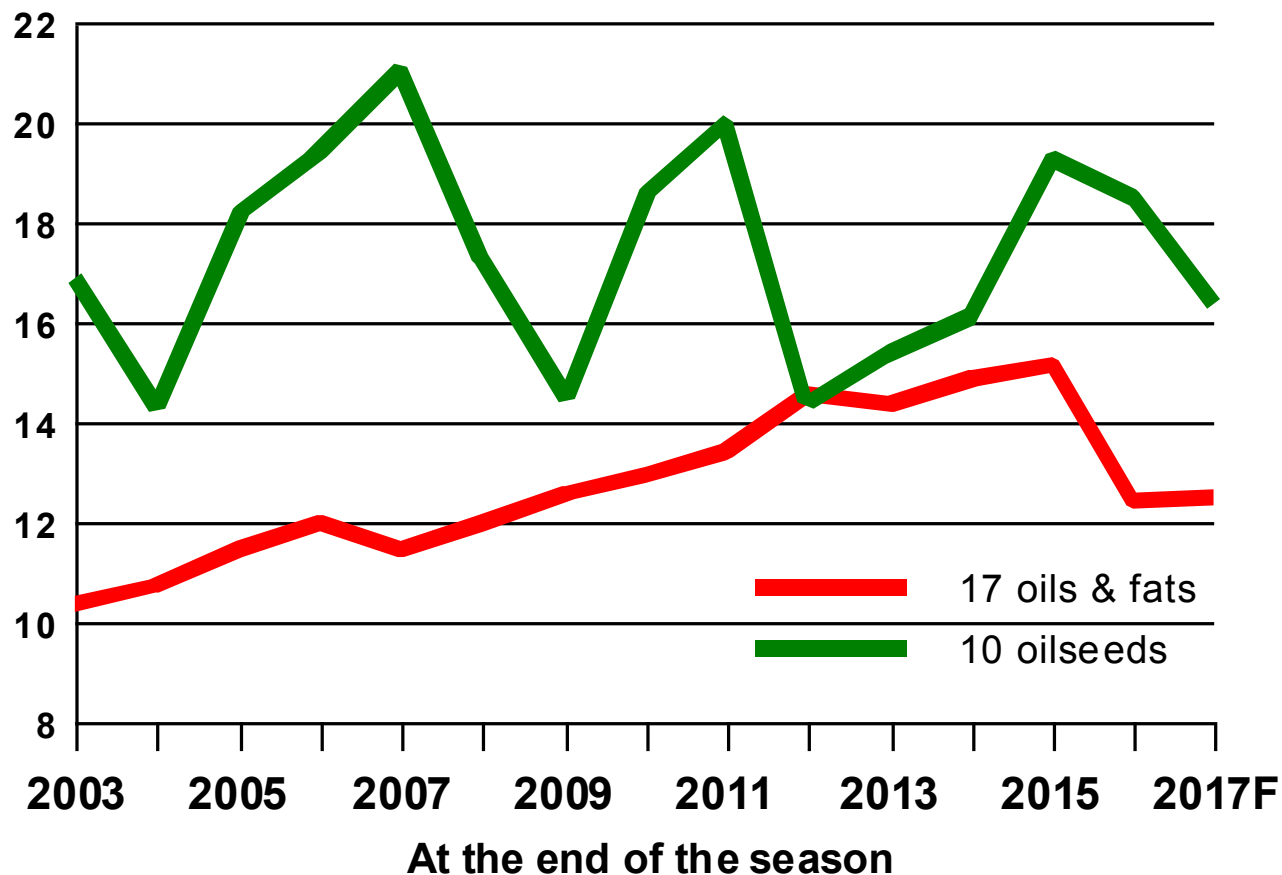


Stocks declining relative to annual consumption

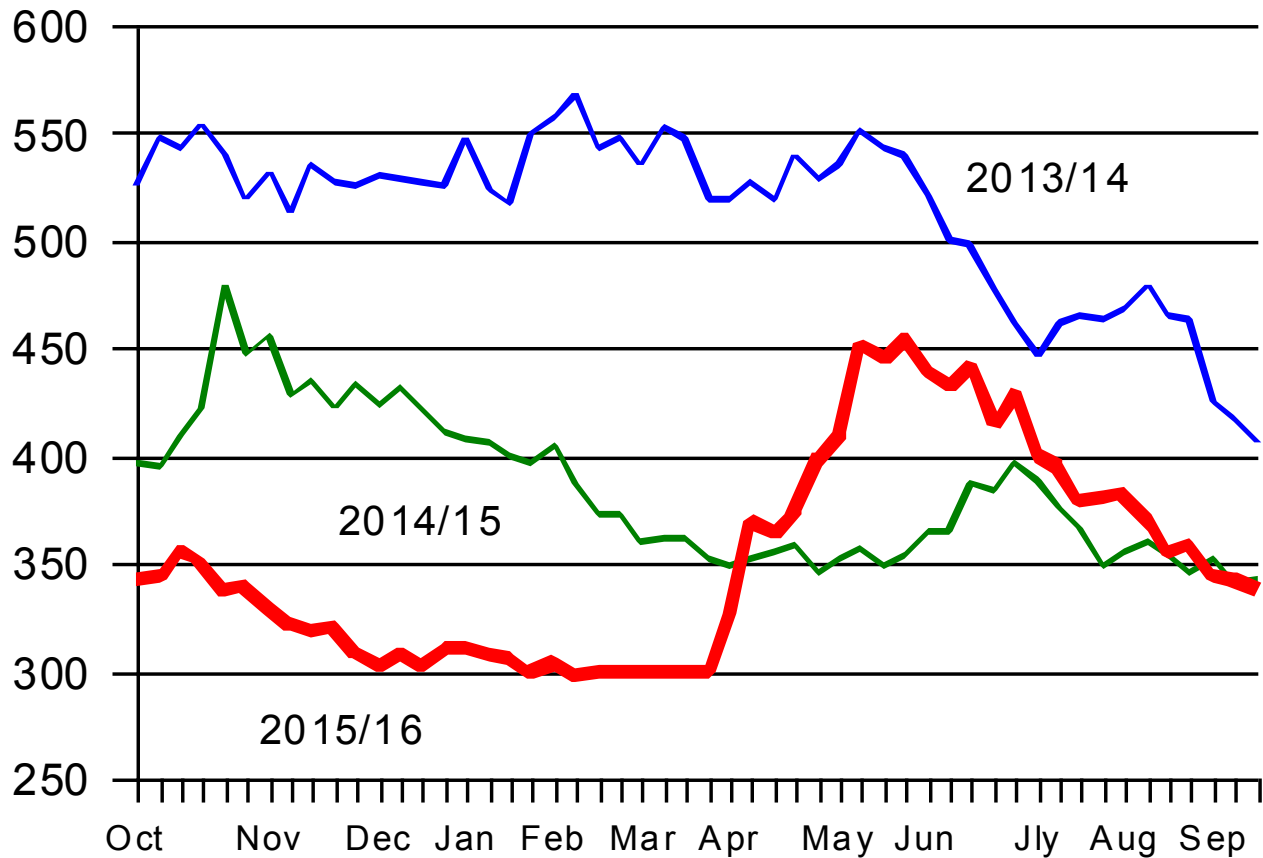
Only very little growth in world stocks of oils & fats in 2016/17. A second year (2017/18) without severe weather problems is required to bring oils & fats stocks to more comfortable levels

Palm oil production is likely to increase sharply in April/Sept 2017 and further in Oct/Sept 2017/18

World Stocks in Percent of Annual Usage (%)



Weekly Prices of Soya Pellets, 47% Arg., fob (US-\$/T)



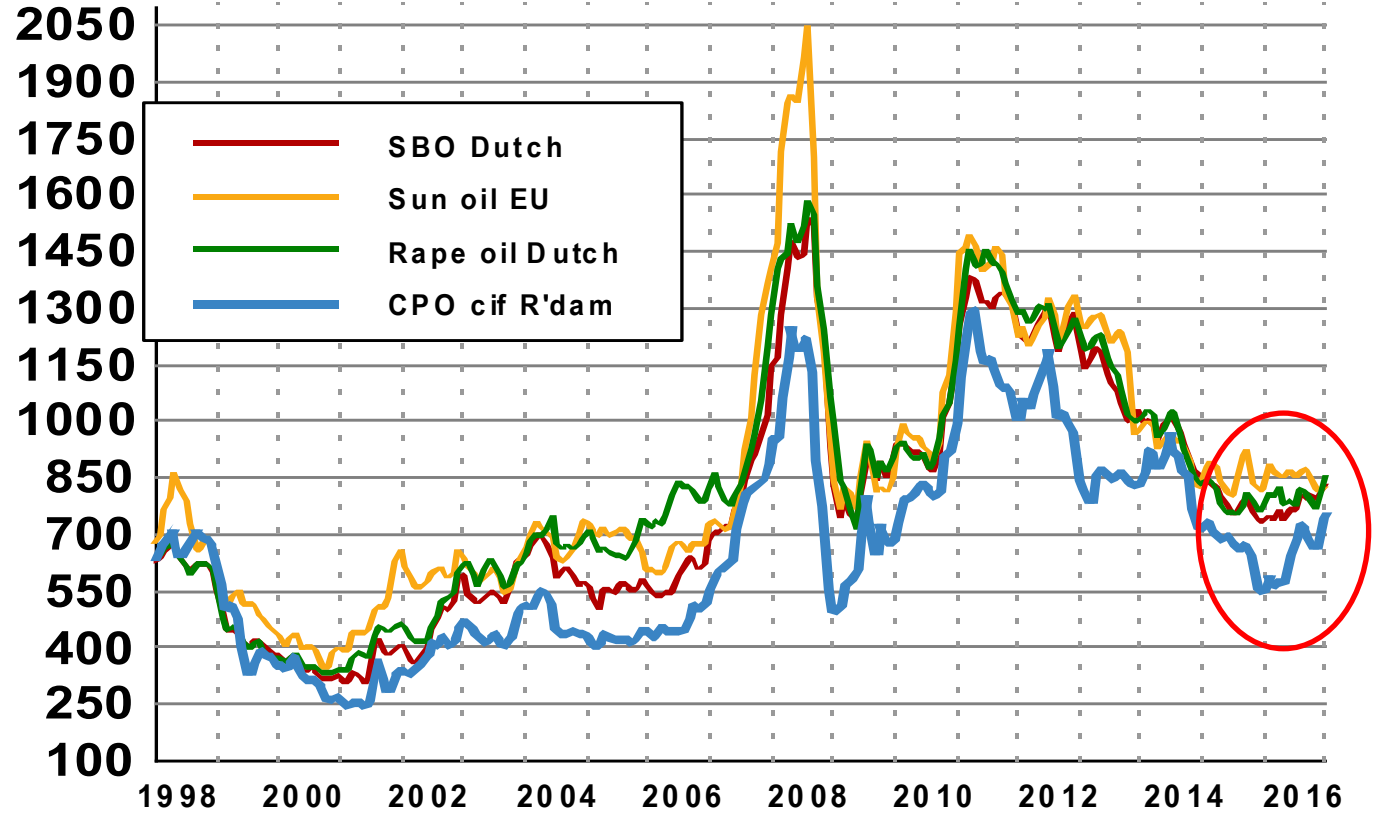
Prices from 1 Oct 2013 until 30 Sept 2016



Monthly Prices of 4 Oils (in US-\$/T)

High price volatility of vegetable oil prices in the past 15 years

The upward price trend (which started in Sept 2015) is not yet completed



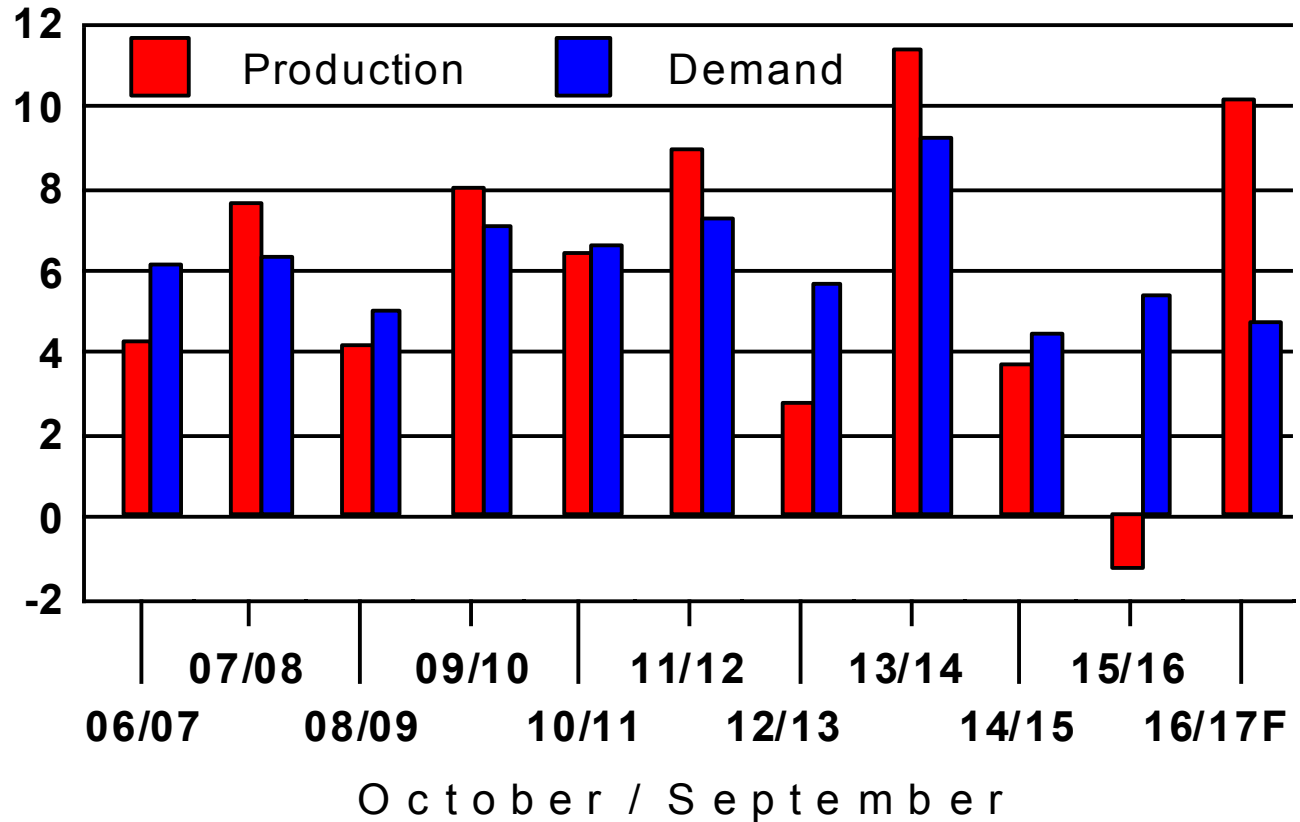
January 1998 until Sept 2016



Oct 13, 2016

17 OILS & FATS: Production & Usage

Change From Year Ago in Mn T



Very big increase in world production of around 10 Mn T in 2016/17

But this is treacherous!

Do not forget to consider the impact of the very small Oct 1 stocks



Very big increase in world production of around 10 Mn T in 2016/17

Oct 1 opening stocks down 4.8 Mn T,

thus world supplies set to rise only by 5.3 Mn T – just enough to cover an average growth in annual world consumption

World supplies will be up only 5.3 Mn T

17 Oils & Fats: World Output & Consumption (Mn T)

	<u>16/17F</u>	<u>15/16</u>	<u>14/15</u>	<u>13/14</u>	<u>12/13</u>
Production	213.6*	203.5*	204.8	201.1	189.8
Change	+10.1*	-1.3*	+3.7	+11.3	+2.7
Consumption . .	213.0*	208.3*	203.0	198.6	189.5
Total change	+4.7*	+5.3*	+4.4	+9.1	+5.6
for energy	+0.9*	+1.4*	-1.5	+3.7	+2.4
other uses	+3.8*	+3.9*	+5.9	+5.4	+3.2
Stock change . .	+0.6*	-4.8*	+1.7	+2.5	+0.3

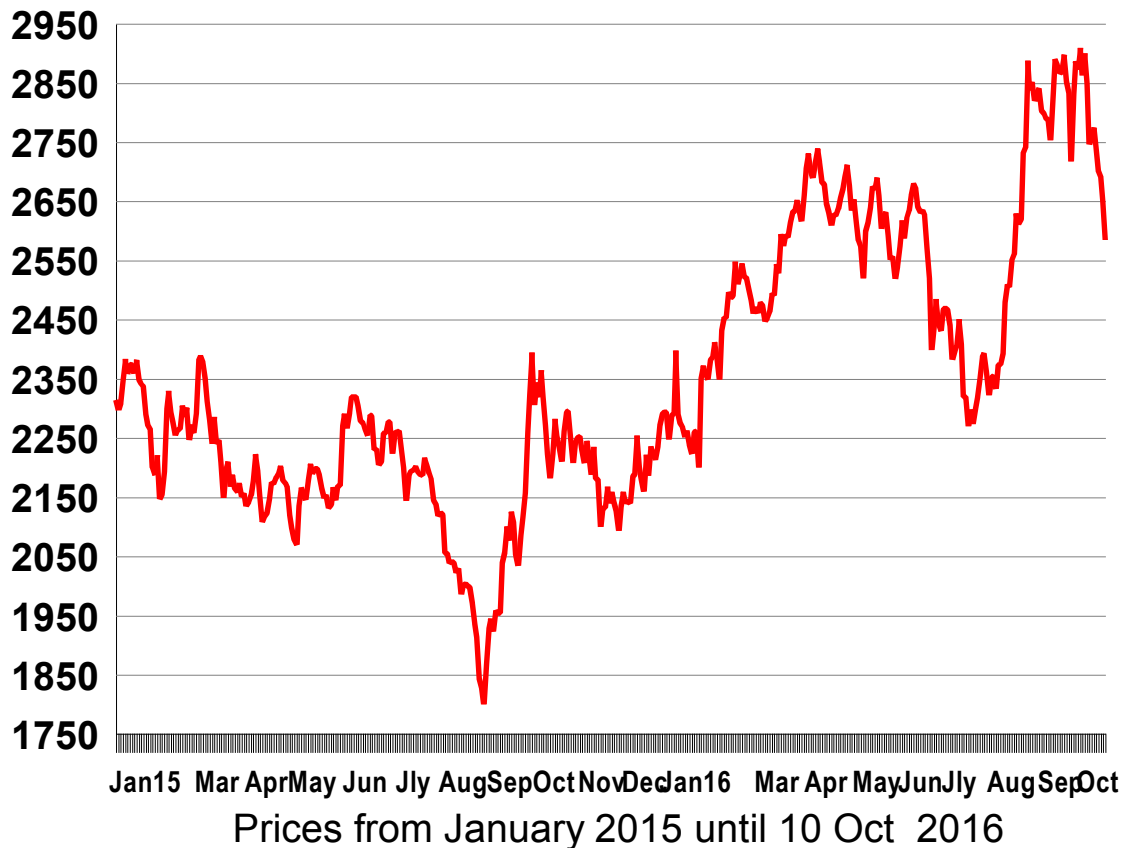


MALAYSIA: Crude Palm Oil Futures Close First position in Malaysian Ringgit/T

→Palm oil undervalued. Prices likely to resume rally soon and temporarily reach 2900 - 3000 Ringgit, due to

- 1) low palm stocks & export supplies, and
- 2) a slower than expected recovery in production

→But significant increases in production from April 2017 onward and in 2018



Oct 13, 2016

Prices could, indeed, temporarily rally to 2900-3000 Ringgit either in Oct/Dec 2016 or in early 2017

→RBD palm olein (fob Malaysia) may reach a high of US \$ 780-800 sometime in the next 3 months

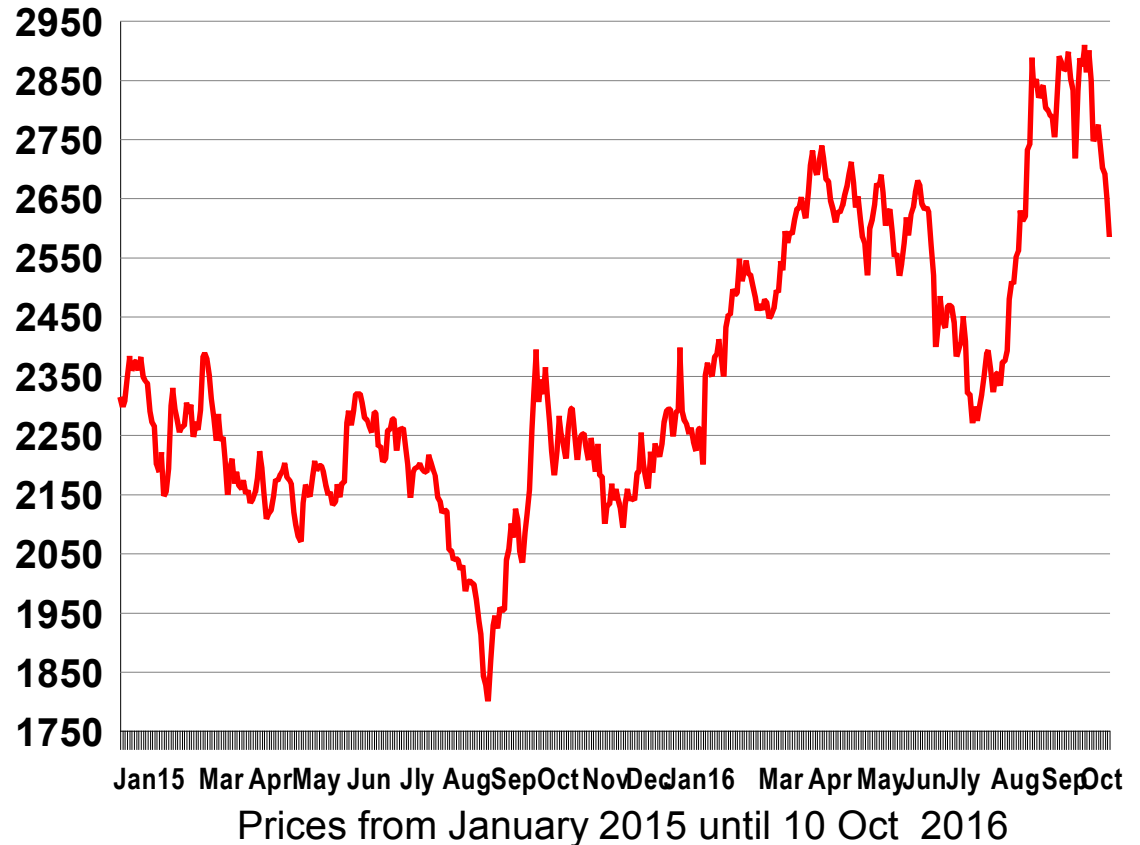
→Also Arg soya oil, though fluctuating, has an upward potential - - US \$ 800-820

→Sun oil bearish, but will follow soya and palm oils

→But sizeable price declines likely in Apr/Sep 2017 (on the assumption of about normal weather)

→There is no room for major production losses

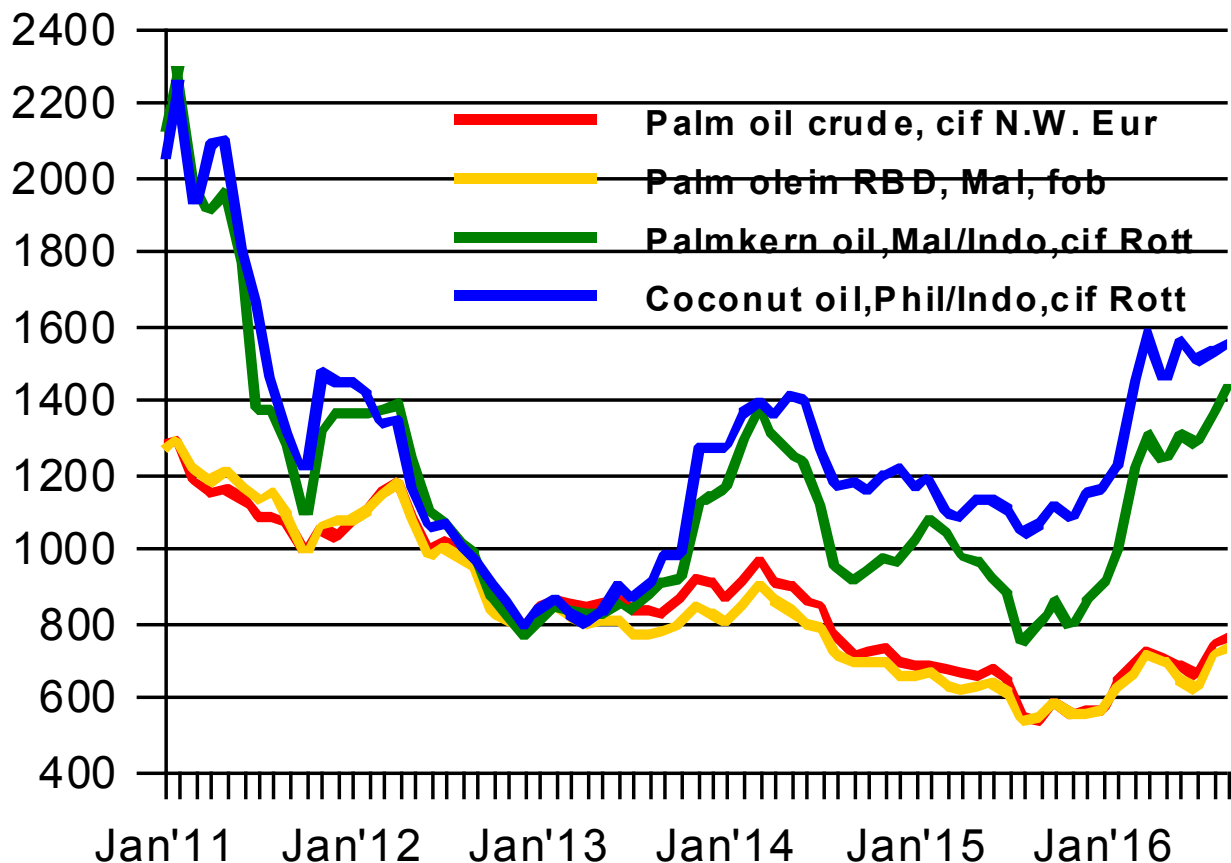
MALAYSIA: Crude Palm Oil Futures Close First position in Malaysian Ringgit/T



→ Lauric oil prices set to decline in the next 12 months on account of
→ weak demand, and
→ recovering production

→ Premiums of lauric oil prices versus palm oil are set to narrow in 2017

Monthly Prices of 4 Veg. Oils (US-\$/T)



Monthly prices from Jan 2011 until Sept 2016

Oct 13, 2016



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