

Palm & Lauric Oils Price Outlook 2016-17

By Dorab E Mistry
Godrej International Limited



Congratulations

- Congrats to MPOC and MPOB. Both have done wonderful service to worldwide palm oil industry and to Malaysia
- We are at a CHANGEOVER – from Tightness to Surplus
- EL Nino inspired Bull Market was very short lived

Market so far

- First big rally in Feb and March
- Then steep decline in June & July which bottomed out at 2200 Ringgits
- Then sharp spike in August
- Short Squeezes
- My forecast on 23 September at Globoil India was bearish

Background

- The Spike of August came with Q2 results of major listed plantation companies
- Reported Q2 production Down 25% or more
- Mother of all Squeezes on September BMD
- End August Malaysian stocks at 1.464 mln mt justified that rally

PALM Production

- Oil Year 15-16 Malaysian production only 17.687 against 19.872 previous year
- Calendar 2016 production 18 mln mt
- Oil Year 15-16 Indonesia production down 3.5 to 4 mln mt. Calendar 2016 prod 29 against 32 in previous year
- Total palm prod Down 6 million tonnes in 15-16



Palm Stocks and Prospects

- Between Nov 15 and Aug 16, Malaysian stocks HALVED
- Indonesian stocks fell from 5 mln mt to 1.6
- Total palm stocks fell 5.5 mln mt
- But remember: What the Oil Palm holds back – it gives back generously next year !
- 16-17 Prod will RISE 6.5 mln mt

Why did prices not rise more

- Last time Malaysian stocks fell below 1.5 mln mt, BMD went to 3800 Ringgits
- This time Demand was weak
- China released 2.5 mln mt old rape oil from State Reserves
- Rampant cheating on bio diesel mandates
- Slow growth, lack of Dollars

Plantation Companies

- Suffered a double whammy
- 11% lower Production
- Very short lived Bull market
- Higher prices did not compensate for lower production
- Thank God for the bio diesel mandates

Indian imports

	15-16	Revised	16-17
• Soya	4,200	4,200	4,000
• Palm	9,750	8,570	9,100
• Sun	1,200	1,550	1,800
• Total	15,600	14,800	15,300

INDIA

- Palm import tonnage stagnated
- Soya oil import tonnage up 400%
- Sun oil import tonnage up 200%
- Palm losing market share due to Inverted Export Tax structure
- Indian import duties may be revised after Diwali

CHINA

- China released 2.5 million tonnes of old Rape oil from State Reserves so far in 15-16
- Expected to release further 2.5 tonnages of old Rape oil each week from 12 October.
- How will these releases affect China's imports and prices?

World Energy Demand

Indonesian Palm Bio Diesel consumption

- Working at less than 200,000 mt per month.
By November will the Fund may be able to do only 150,000 mt per month
- World Energy demand for veg oils grew in 2015-16 by 1.5 mln mt.
- No Growth in 16-17.



World Food Demand

- Food Demand rose at 2.5 mln mt in 15-16
- In 16-17 expected to grow by 3 million tonnes

Incremental Supply

• 000 tonnes	15-16	16-17
• Soya oil	+ 3,000	+ 2,500
• Rape oil	- 1,000	- 800
• Palm oil	- 6,000	+ 6,500
• Others	- 1,400	+ 2,800
• Total Supply	- 5,400	+ 11,000
• Total Demand	+ 4,000	+ 3,000

Sustainability

- RSPO has had a good year
- This year we have seen tightness in availability of Mass Balance certified material
- Premium for MB has soared
- Let us not make sustainability unaffordable



Assumptions for Price Outlook

- Brent crude USD 40 to 50 per barrel
- No rate hike by FED until December
- Currencies like Ringgit to be stable against USD
- Great American Wall Builder will NOT be elected US President

Price Outlook

- The Indian Biting Point of Rs 60,000 worked. Palm could not break that barrier.
- Palm demand in India will revive only if prices fall well below 50,000.
- By December BMD futures must fall to 2200 Ringgits. The Inverse has already evaporated

Price Outlook

- Soya oil is too expensive and uncompetitive against sun oil. If CPO futures fall to 2200, soya oil will go to USD 650 FOB
- Sun oil and Rape oil will also be lower
- Lauric prices must also decline. CPKO must go to a normal premium of USD 200 to 250 over PO

Quick thoughts on Trump win

- Trade war between USA and China & Mexico. Very bad for US beans and Chicago futures; but bullish for South American premiums and for Palm
- What if Trump talks of re-negotiating US Government debt?

Conclusion

- Outlook is bearish as La Nina has not developed
- Should a weather problem come along, sentiment can turn very quickly
- **GOOD LUCK & GOD BLESS**

