

POTS KL 2012
Regional Workshop

**CURRENT STATUS OF
PALM OIL IMPORT AND
CONSUMPTION IN CHINA
AND ITS OUTLOOK**

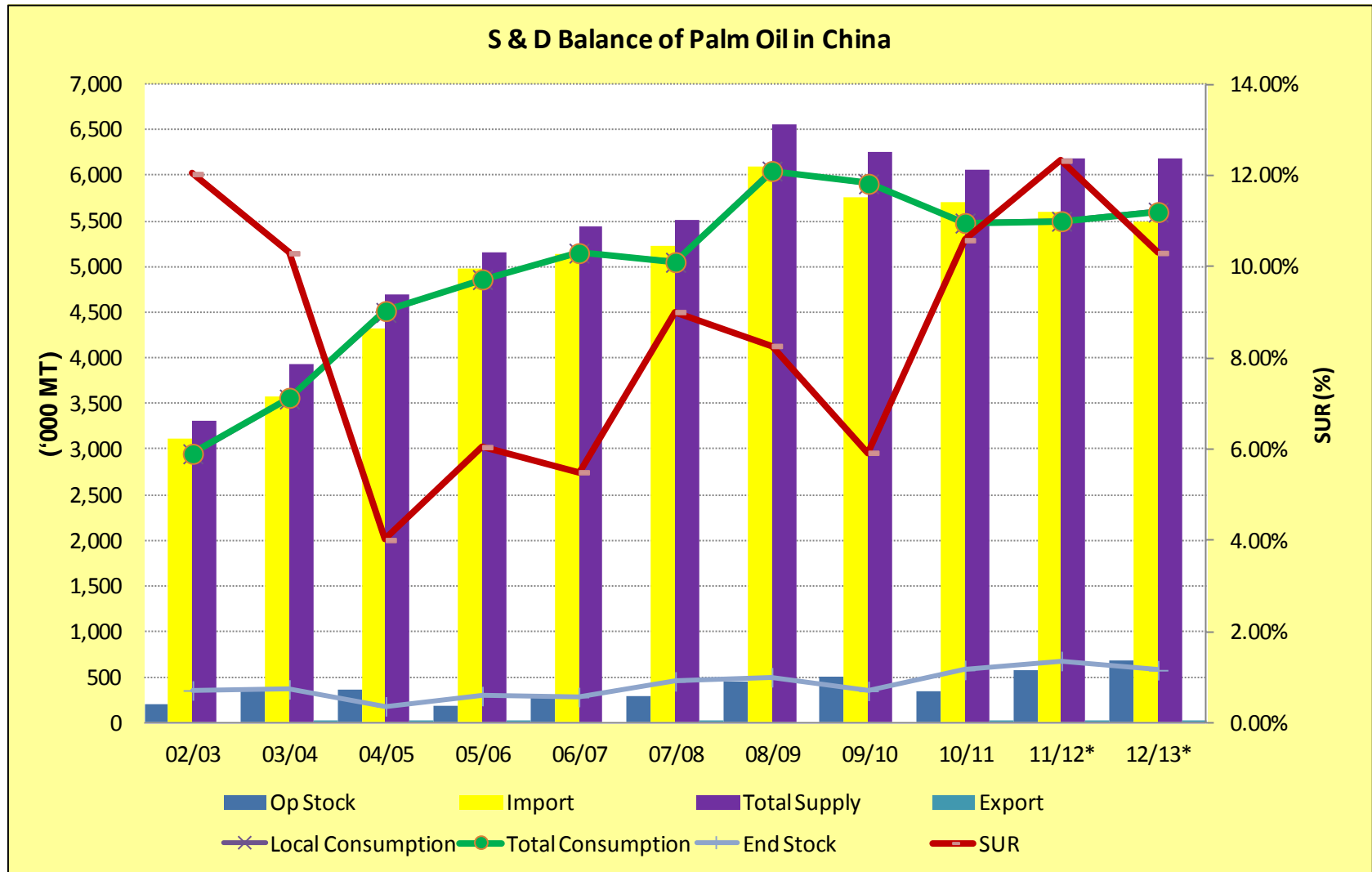
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Outline of Presentation

- Palm Oil and Soybean Oil Supply and Demand Balance
- Palm Oil Supply in China
- Palm Oil Price Trend and Its Factors
- Factors Affecting Palm Oil Import in China
- Outlook of Palm Oil Market in China



Supply & Demand of Palm Oil in China (2002-12F)



•PO imp for Jan-Dec 2011 was at 5.70 million MT, y-o-y growth of 3.8%; PO imp for Jan-Aug 2012 was 3.56 million MT, y-o-y decline of 0.8%

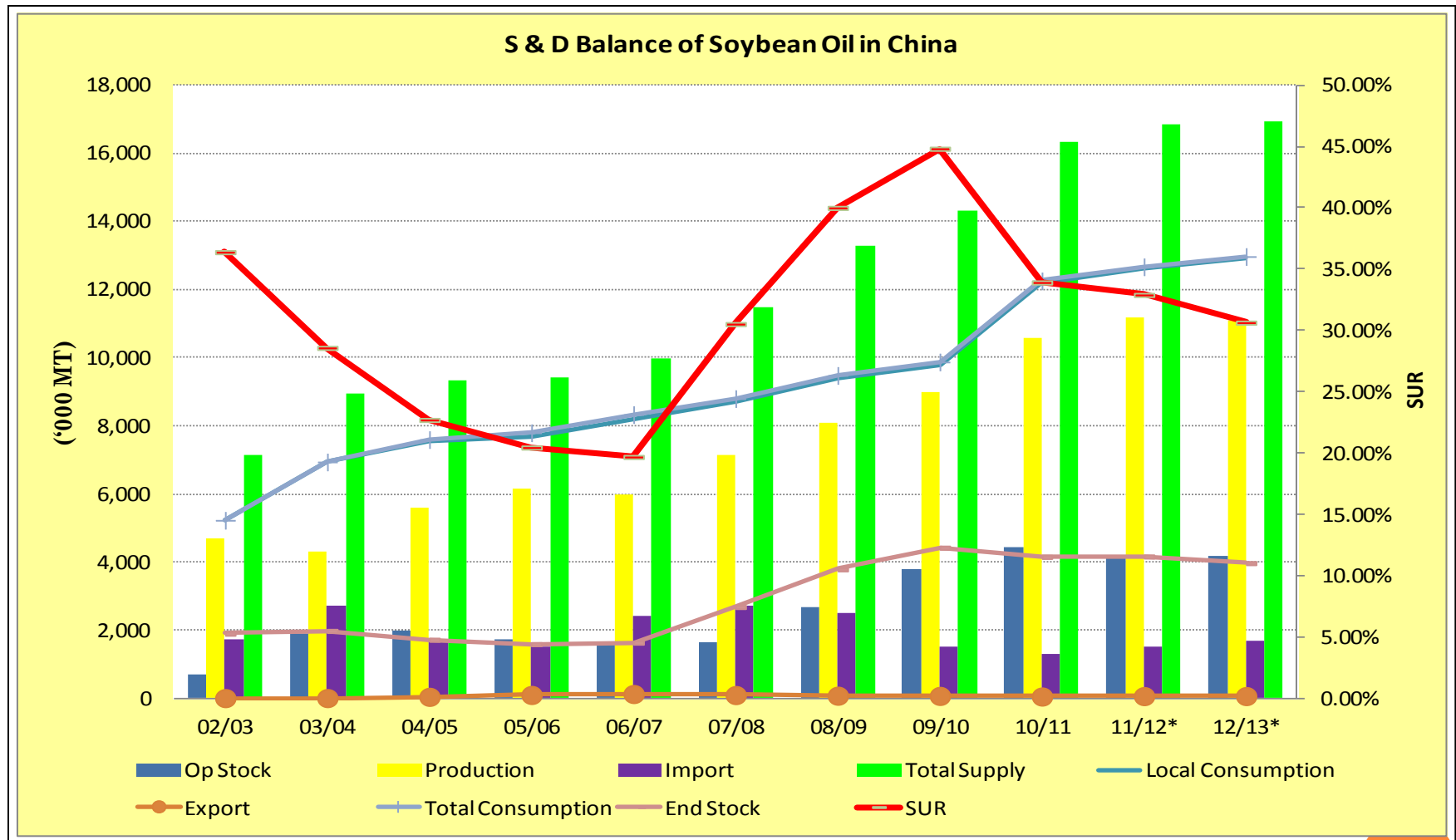
Source: General Administration of Customs

Current Status of Palm Oil Market

- Palm oil mainly imported from Malaysia and Indonesia.
- During 2001-2006, palm oil import increased tremendously by 320% within 6 years.
- Upon the abolishment of palm oil import quota in 2006, import reached record high of 5.14 million MT.
- After marginal decline in 2006/07, palm oil import recorded new record high every year since then.
- In 2008/09, historical high of 6.09 million MT was charted.
- However, increasing food safety issues has raised the control of food quality by the authority, the use of palm olein in blended cooking oil declined and subsequently import of palm oil dropped below 6 million MT and generally at an average of 5.8 million MT last 2 marketing years.



Supply and Demand of Soybean Oil in China (2002-2012F)



•SBO imp for Jan-Dec 2011 was at 1.14 million MT, y-o-y decline of 14.7%; SBO imp for Jan-Aug 2012 was 948,000 MT, y-o-y growth of 21.6%

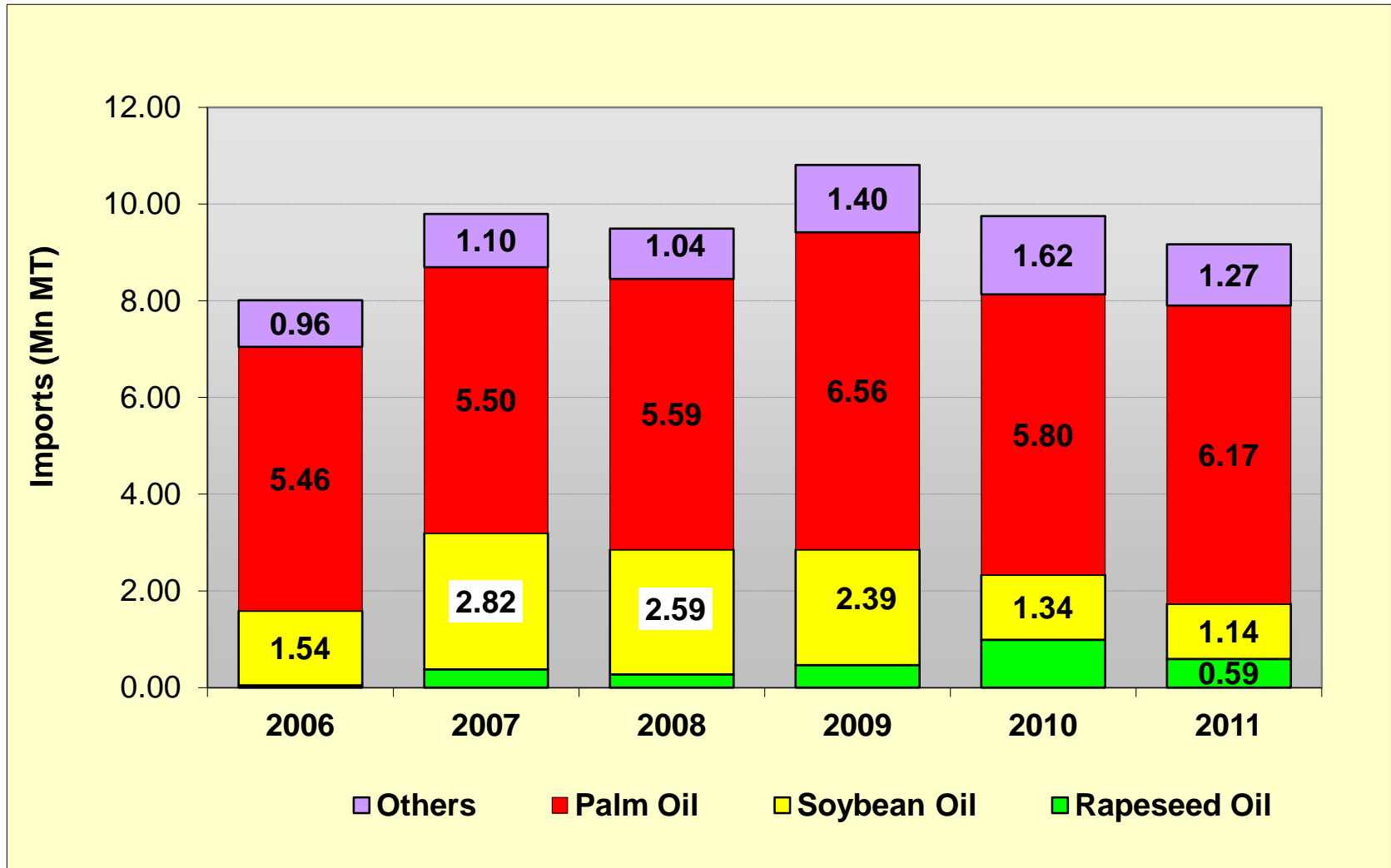
Source: General Administration of Customs

Current Status of Soybean Oil Market

- Due to the sharp increase of soybean crushing capacity, soybean oil production in the country has also increased tremendously. It is estimated that the soybean crushing capacity has surpassed 100 million MT/year.
- From the previous chart, we can see that the local supply of soybean oil increased from 7.1 million MT in 2002/03 to close to 17 million MT, an increase of 140%. Hence, this has also affected the demand of palm oil in the country.



Palm Oil is the Major Vegetable Oil Imported by China



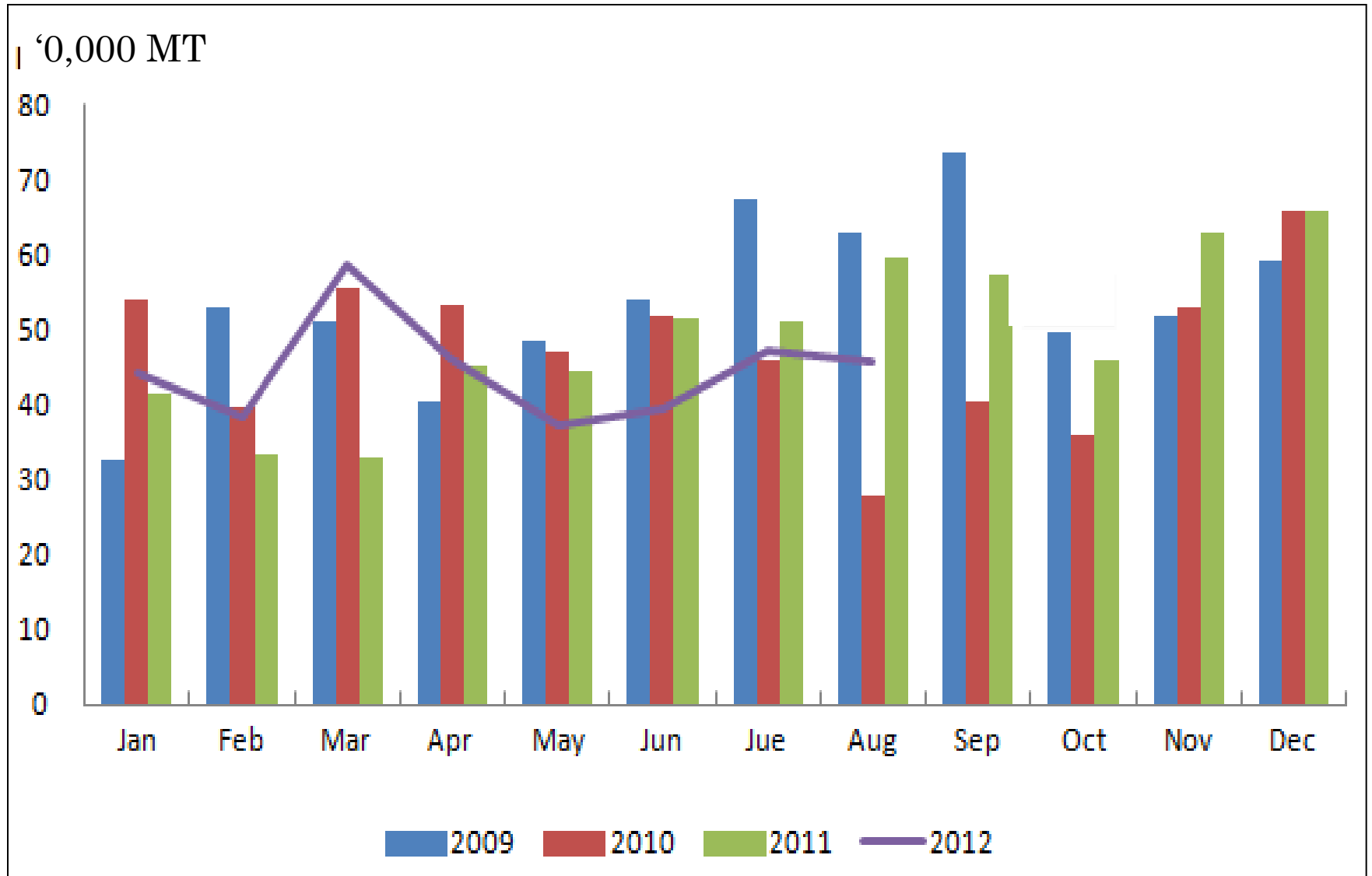
Source: Oil World

Palm Oil Products Imported by China ('000 MT)

(Oct/Sep)	05/06	06/07	07/08	08/09	09/10	10/11	11/12 (Oct-Aug)
RBD Palm Olein	3,881	4,044	4,319	4,500	4,166	4,346	4,170
RBD Palm Stearin	787	636	1154	1,250	1,312	1,227	1,101
Other	18	18	21	6	6	0	0
CPO	453	522	625	300	275	139	39
Total	5,139	5,220	6,119	6,006	5,760	5,711	5,310

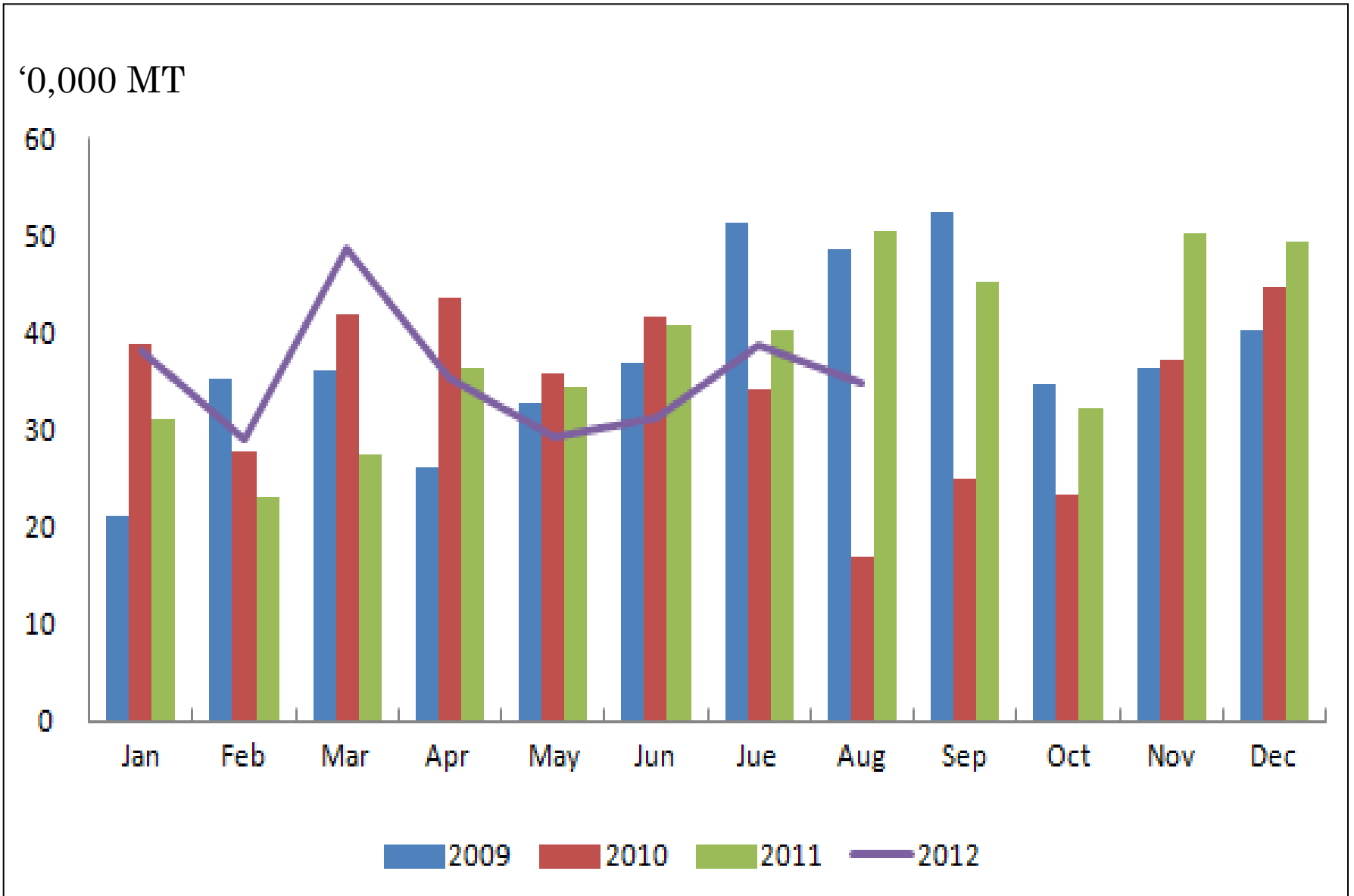
Source: General Administration of Customs

Monthly Import of Palm Oil (2009 – 2012)




Source: General Administration of Customs

Monthly Import of Palm Olein (2009 – 2012)



Source: General Administration of Customs

Import of Palm Oil Products

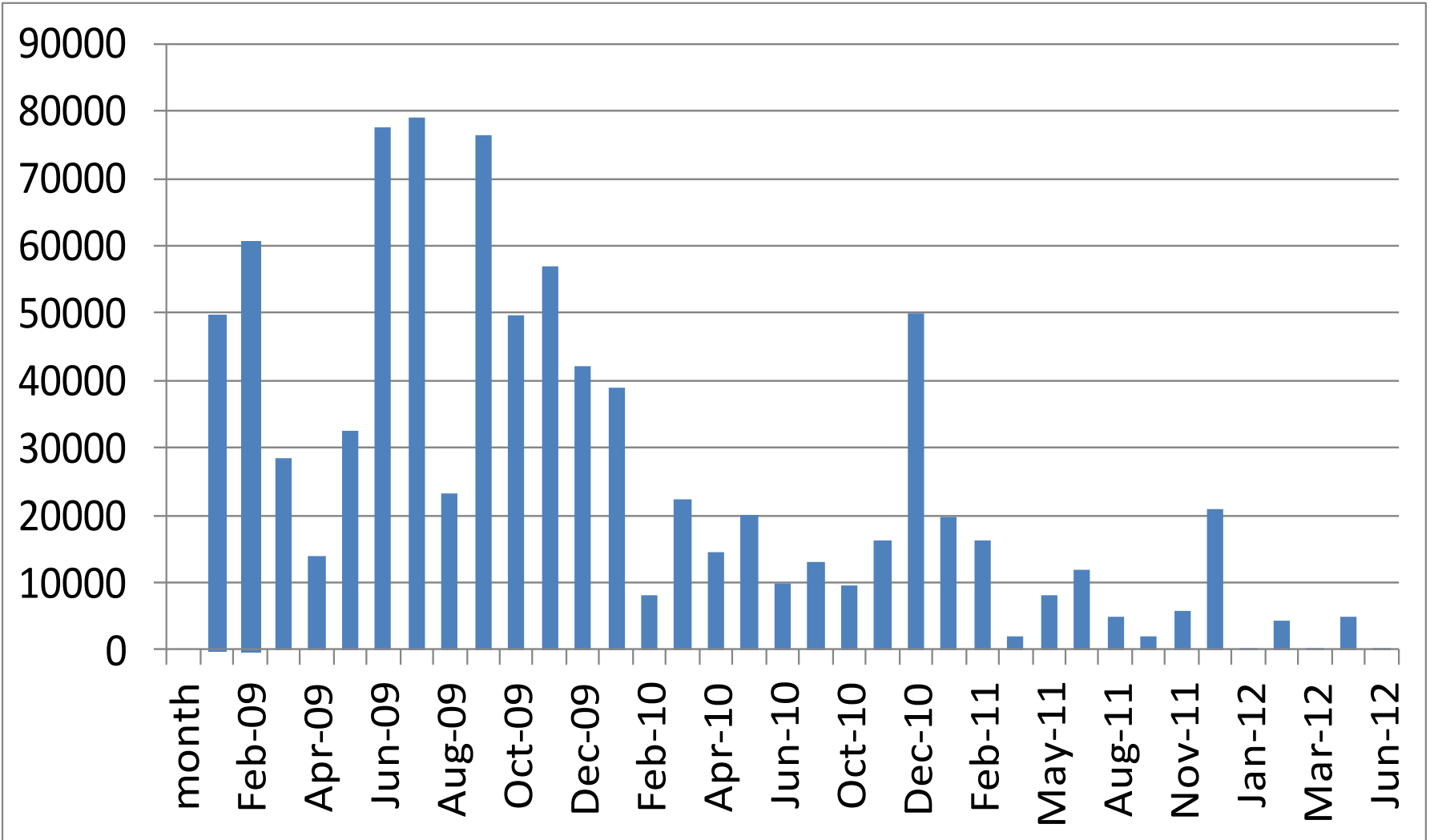
- Main palm oil product imported by China is RBD Palm Olein.
 - In the past, seasonal weather and festive condition influenced the monthly import trend of palm oil and is higher especially during mid of the year. However, this trend slowly diminishing in the last 2 years.
 - This is partly due to the increase of palm oil stock in China especially when it rose drastically since end of last year, led to the rather stable monthly import of palm oil.
 - One thing that worth mentioning is that due to the stricter control of the sale of blended cooking oil, there is increasingly amount of RBD Palm Olein being further fractionated into high IV liquid oil instead of being directly used in the food processing industry. Thanks to the increasing fractionation capacity being put up by the oils & fats processors in recent years.
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Import of Palm Oil Products

- Hence, the need of CPO as feedstock for downstream processing is slowly declined. Furthermore, the same export duty between CPO and other processed palm products give no duty advantage for CPO to be imported for processing.
- In general, due to the steep discount between market price and landed cost of palm oil, import of palm oil is foresee to be lower this season (Oct11-Sep12) but will still surpass 5.6 million MT.

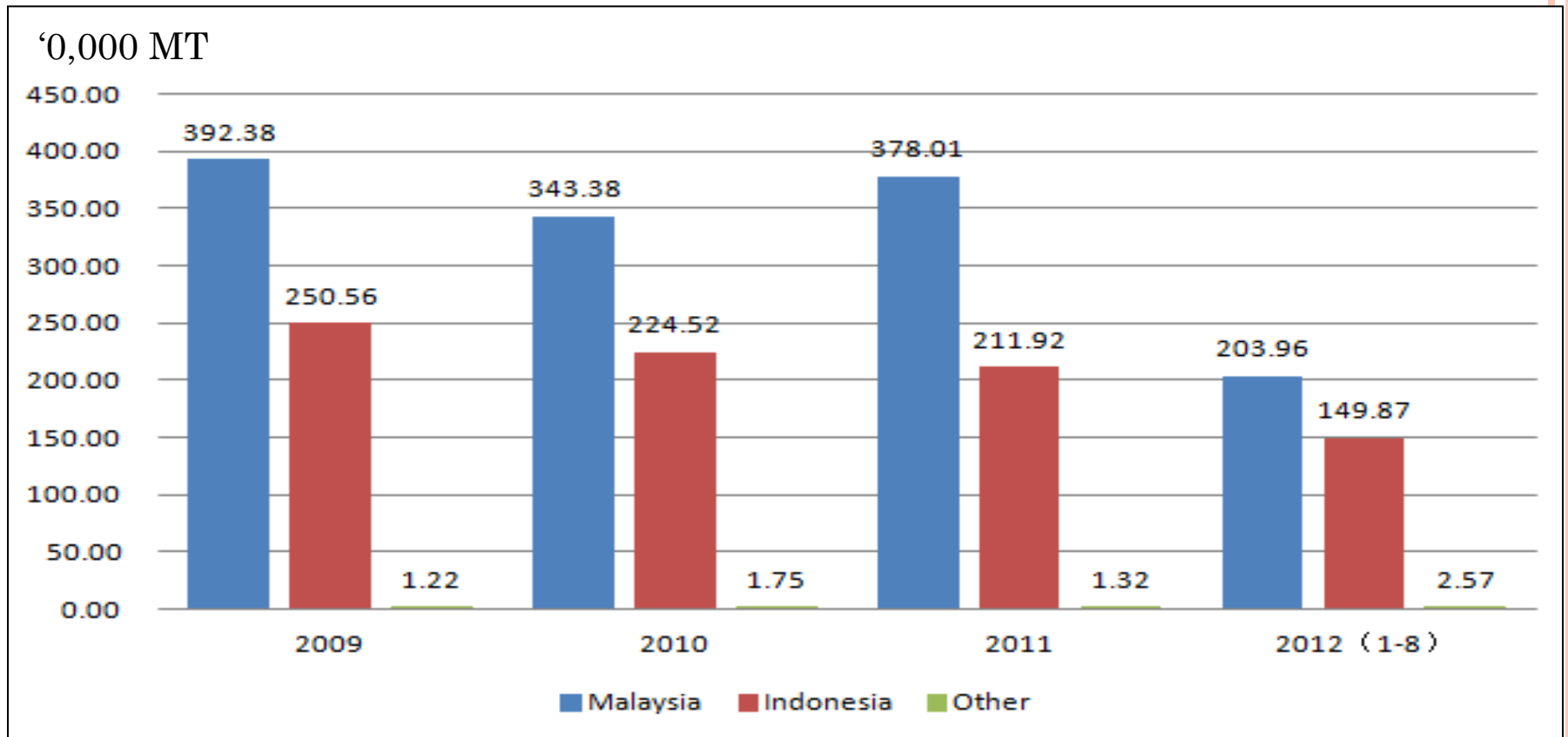


Monthly Import of CPO (2009 – 2012)(MT)



Source: General Administration of Customs

Import of PO from Various Countries (2009 – 2012)



('000 MT)	Malaysia	%	Indonesia	%	Other	%	Total
2009	3,923.8	60.91%	2,505.6	38.90%	12.2	0.19%	6,441.6
2010	3,433.8	60.28%	2,245.2	39.41%	17.5	0.31%	5,696.4
2011	3,780.1	63.93%	2,119.2	35.84%	13.2	0.22%	5,912.5
2012 (Jan-Aug)	2,039.6	57.23%	1,498.7	42.05%	25.7	0.72%	3,563.9

Major Suppliers of Palm Oil Products

- As the demand of palm olein (processed palm oil) in China increased steadily every year, Malaysian palm oil market share remained stable in the past several years.
- To-date, Malaysia remain as the major supplier of palm oil to China.
- However, due to the structural change in Indonesian palm oil industry and its increase supplies of processed palm oil, it is expected that the import of palm oil from Indonesia will increase in years to come.



PO Import in Various Major Ports (2007 – 2011) ('000 MT)

Port	2008	2009	2010	2011	2012 (Jan-Aug)
Huangpu	1,523.9	1,678.3	1,598.9	1,832.0	963.2
Nanjing	1,423.9	1,790.0	1,724.6	1,546.0	1,117.7
Tianjin	893.4	963.3	891.1	911.0	535.7
Qingdao	280.7	396.4	418.9	490.0	275.3
Xiamen	252.5	315.0	228.7	229.1	180.4
Nanning	166.7	199.8	182.0	209.3	145.1
Zhanjiang	129.0	172.7	73.8	155.0	42.7
Shenzhen	192.0	219.4	132.2	141.6	103.9
Total	5,282.7	6,441.6	5,696.4	5,912.5	3,563.9

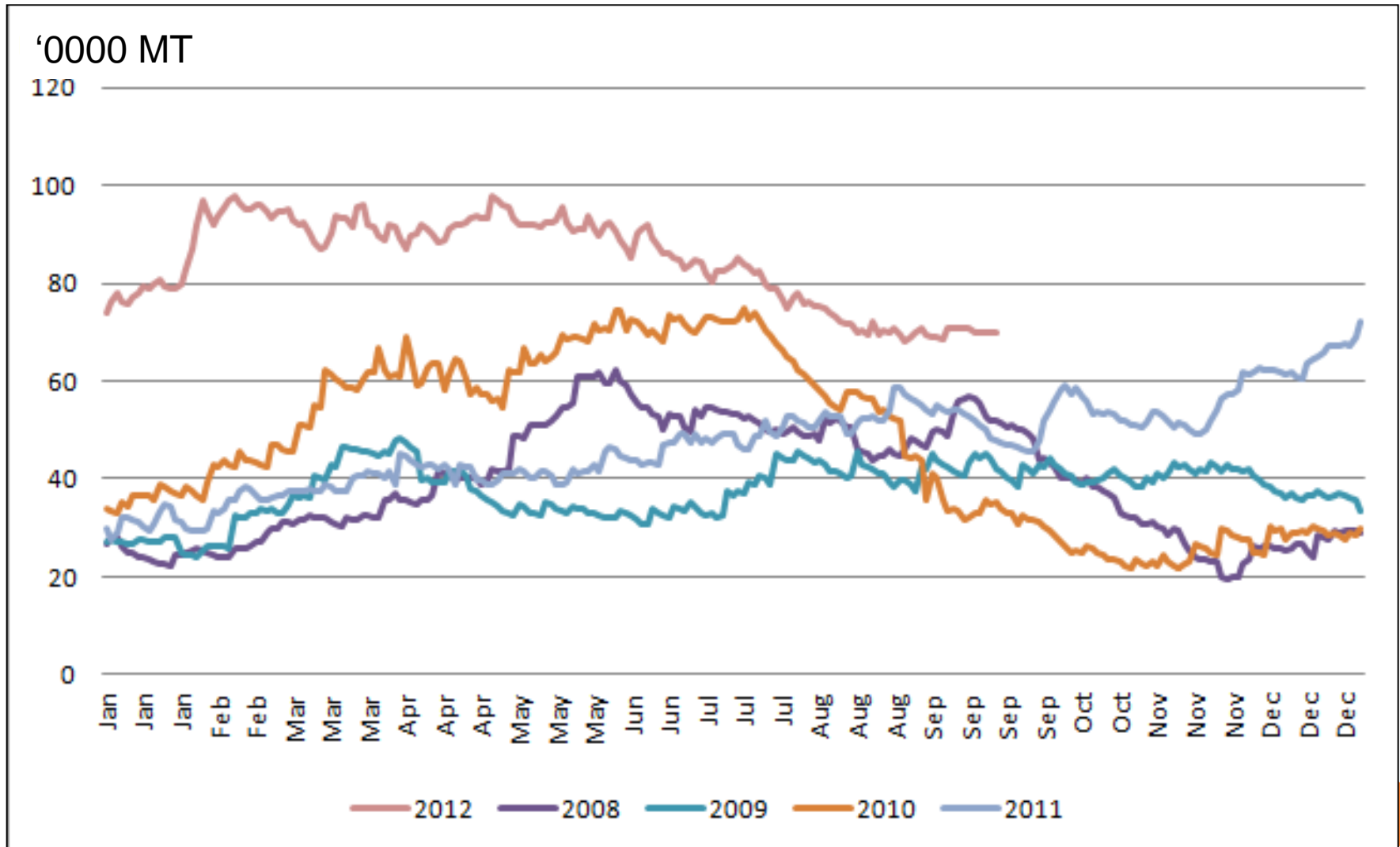
Source: General Administration of Customs

Import of Palm Oil in Various Major Ports

- Import of palm oil mainly through ports at Guangdong, Jiangsu and Tianjin cities.
- Due to the increase in palm oil processing capacity in Southern China, the import of palm oil through Guangdong province will continue to increase.

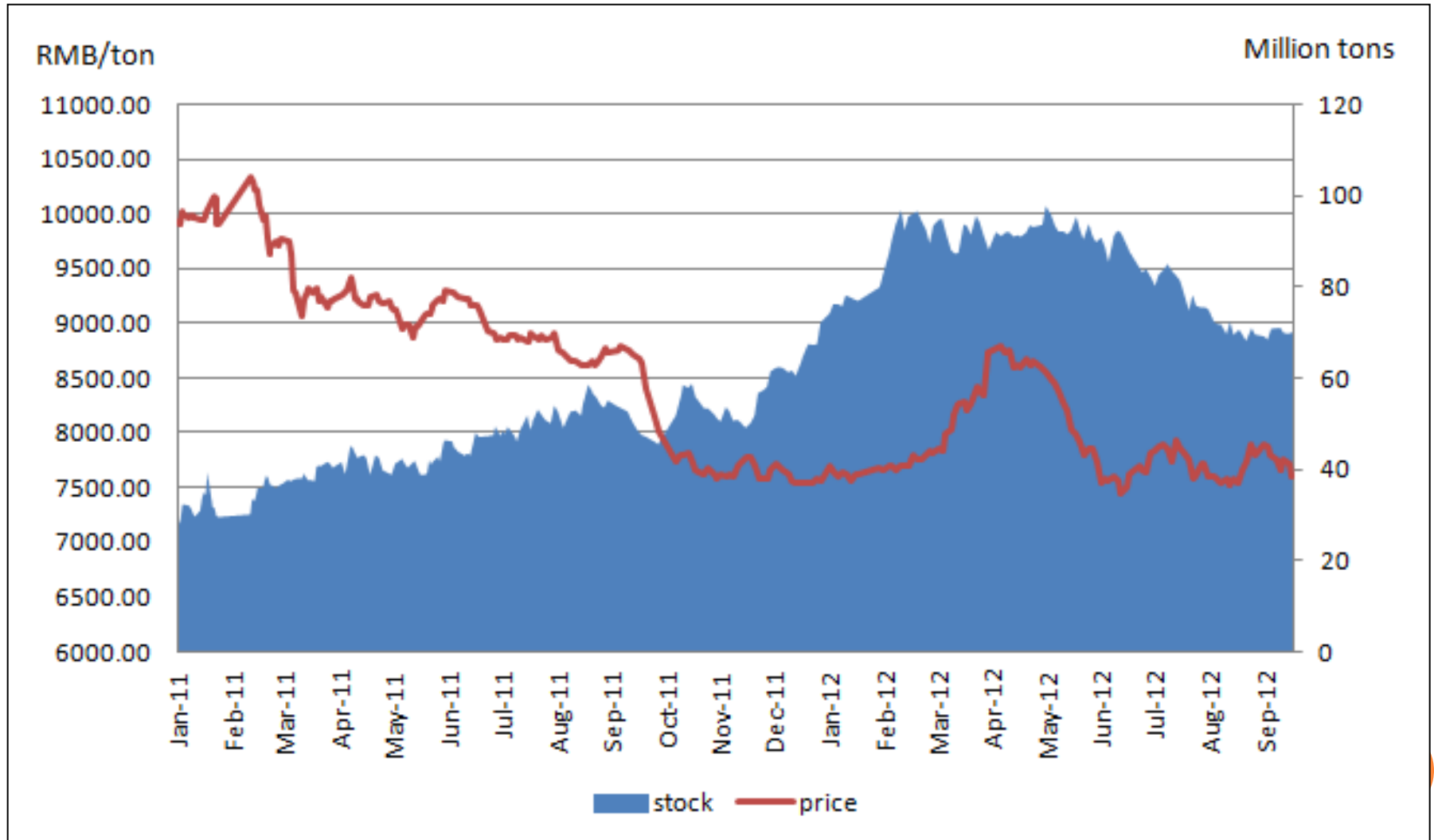


Monthly Palm Oil Stock (2009-2012)



Source: Industry Estimates

PO Market Prices vs. Stock (2011-Sep 2012)



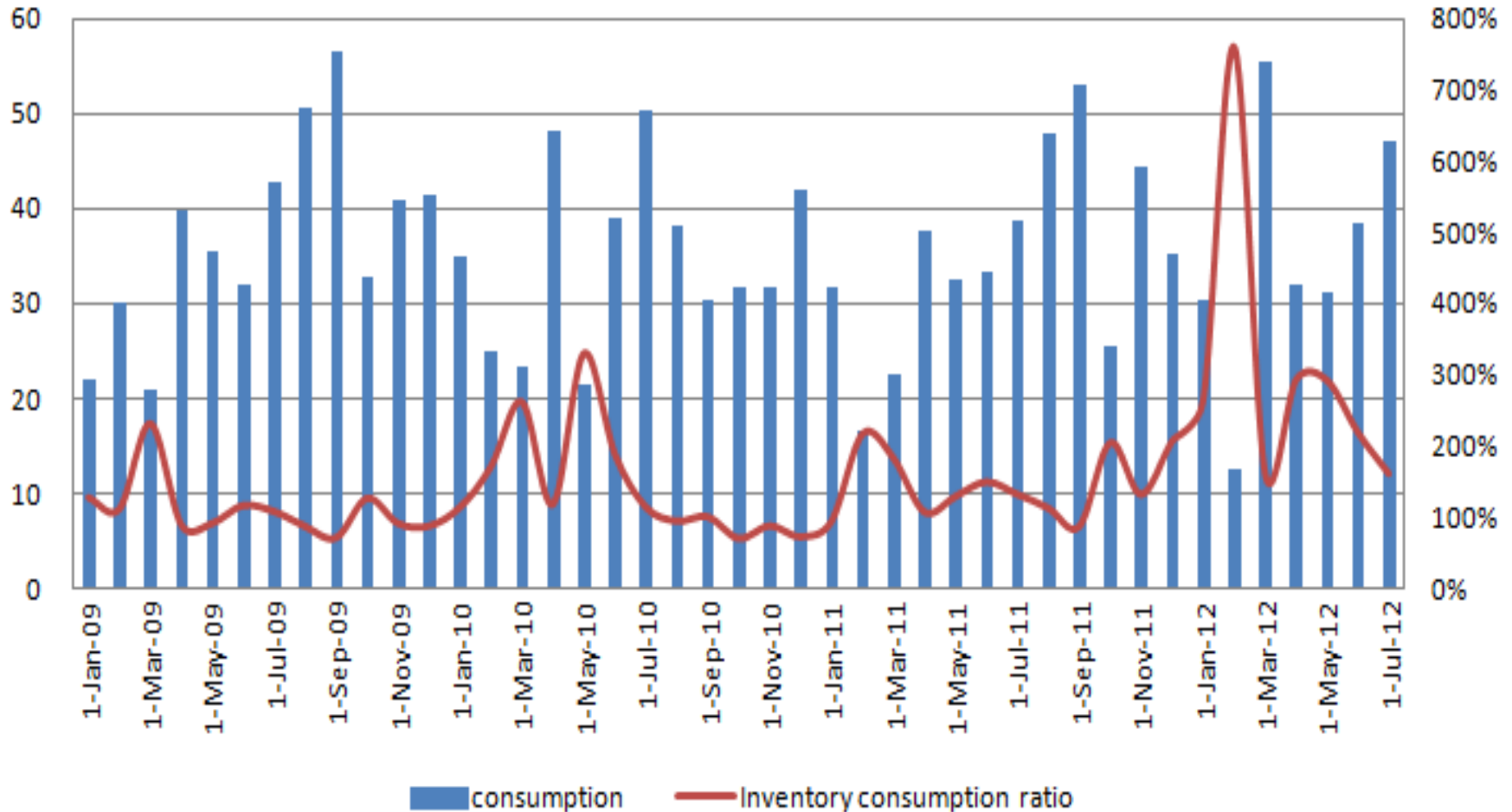
Monthly Palm Oil Stock

- Monthly palm oil stock increased sharply since end of 2011 and reached record high of almost 1 million MT between Feb and May this year.
- This has incurred pressure on palm oil prices in physical market and subsequently declined moderately. However, the price was supported temporary in early of this year despite record stock level due to the sharp decline in soybean production in South America.
- Nevertheless, this did not sustain long and palm oil prices dropped continuously since April this year.
- Although stock level has declined by almost 30% from record high but it remained higher than average 400,000 MT monthly end stock recorded in last few years.



Monthly PO Consumption vs. SUR (2009 – Jul 2012)

'0,000 MT

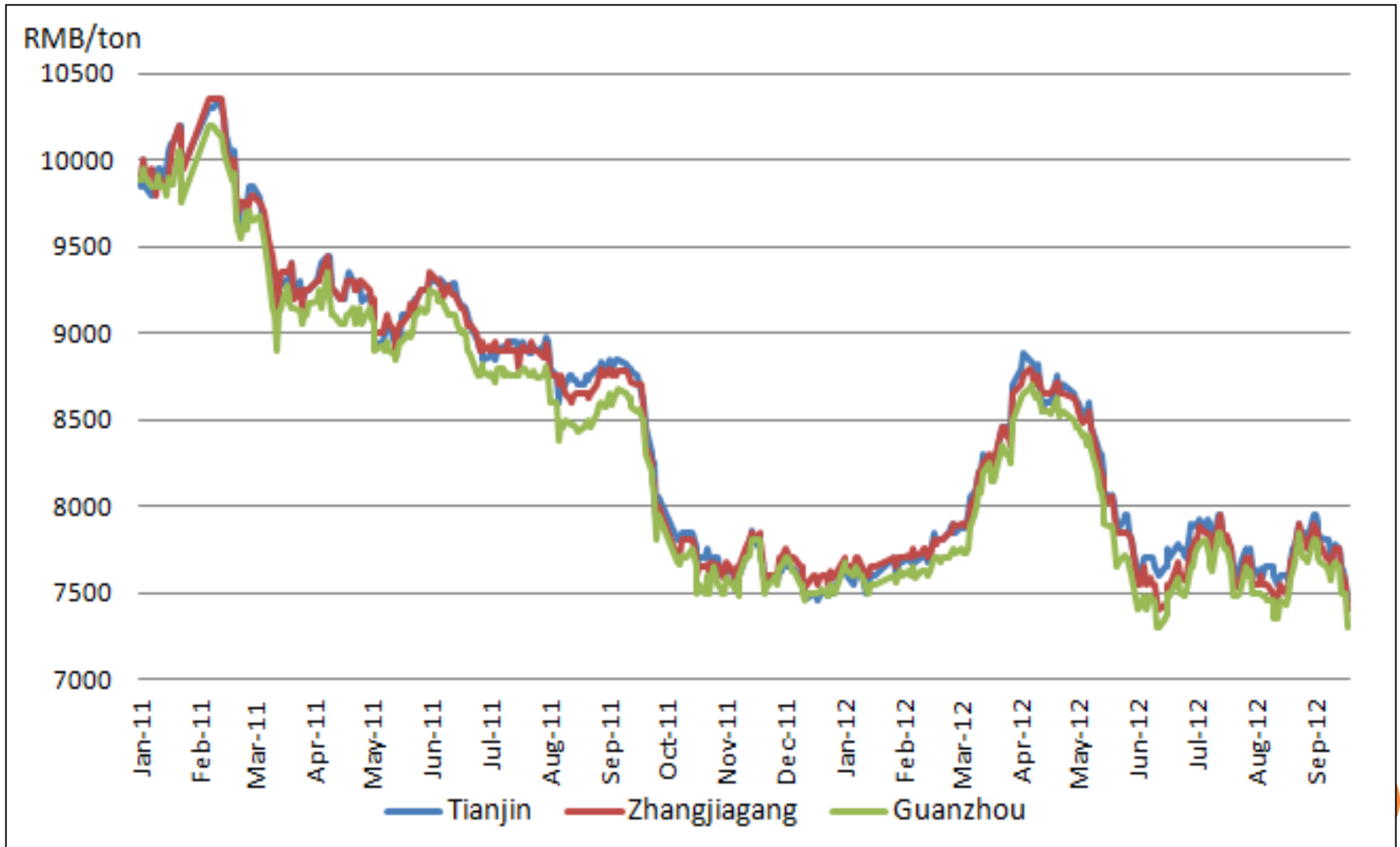


High Stock-Usage Ratio

- The low palm oil prices in China also due to the stable demand of palm oil while import was remained high during the same period. This has led to significantly high stock-usage ratio at average of 200% since end of last year which is twice of what was recorded most of the time in the past.

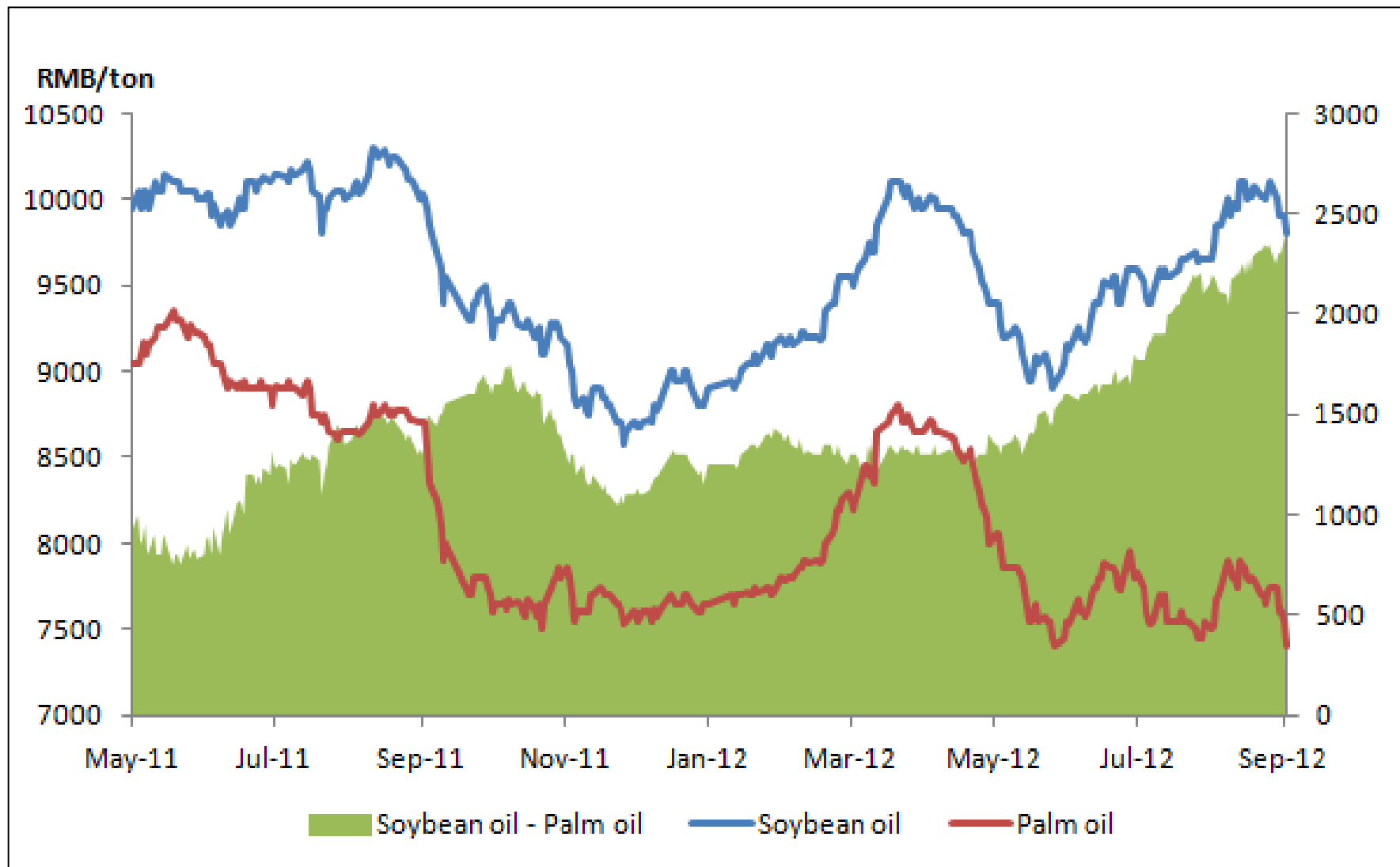


PO Prices in Various Major Regions of China

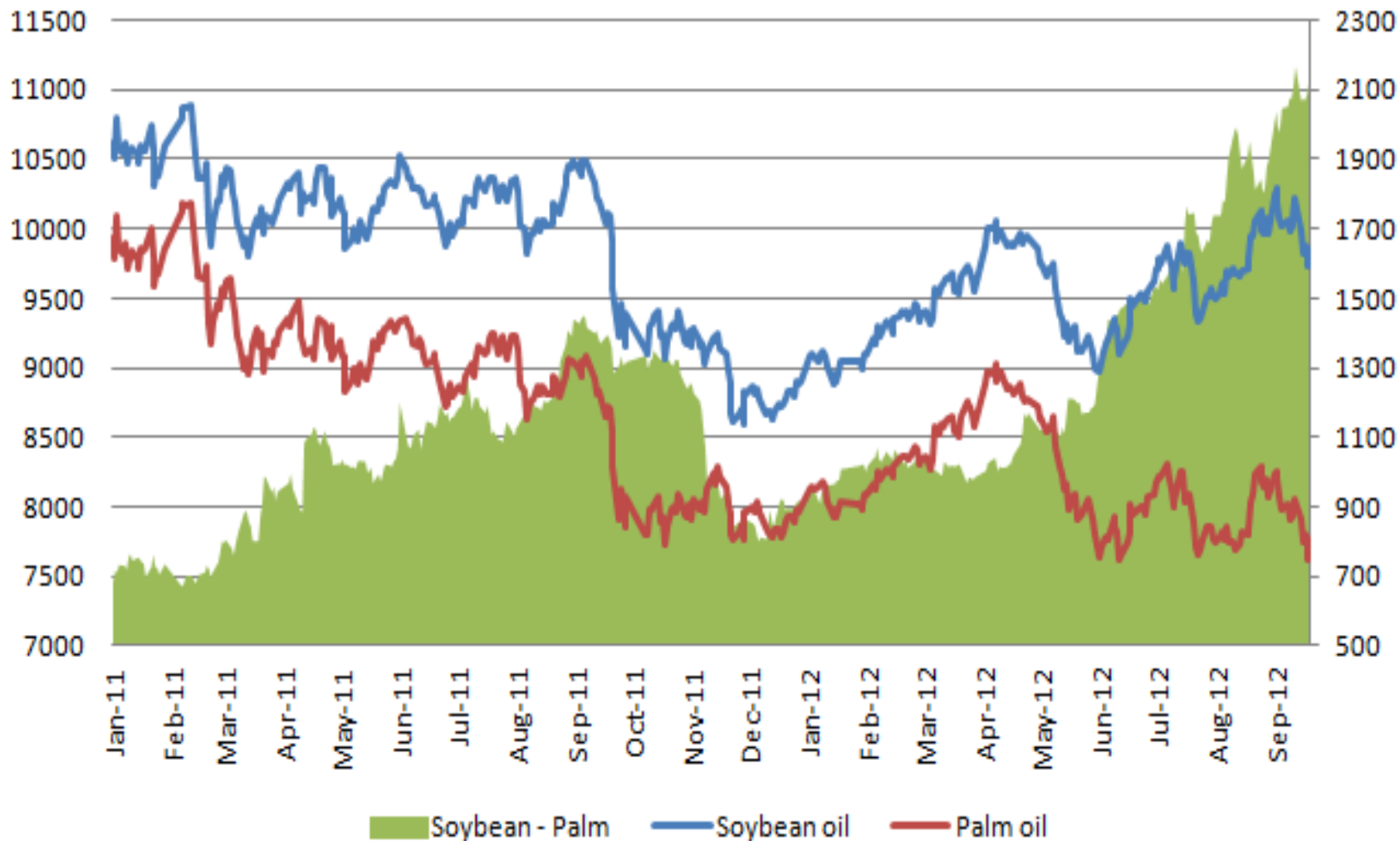


Source: Pansun

SBO and PO Market Prices and Its Premium – Physical Market (Eastern Region)



SBO and PO Market Prices and Its Premium - Futures Market – Dalian Commodity Exchange



Increase Price Discount of Palm Oil Against Soybean Oil

- As the production of soybean oil increased tremendously, the import of palm oil slowed down which is expected to support the palm oil price in the China.
- However, as the palm oil stock remained high especially in 2012, and lesser opportunity for blending palm oil with other vegetable oil due to tightening of quality control in the country for blended cooking oil, demand for palm oil in China soften.
- Besides that, the slowdown in global economy also increase uncertainty especially among the traders on the stable demand of palm oil in the country.
- Subsequently, traders cut down on the holding of palm oil stock. All these have driven palm oil price to further decline and caused the widening of palm oil price discount against soybean oil price to as high RMB2300.

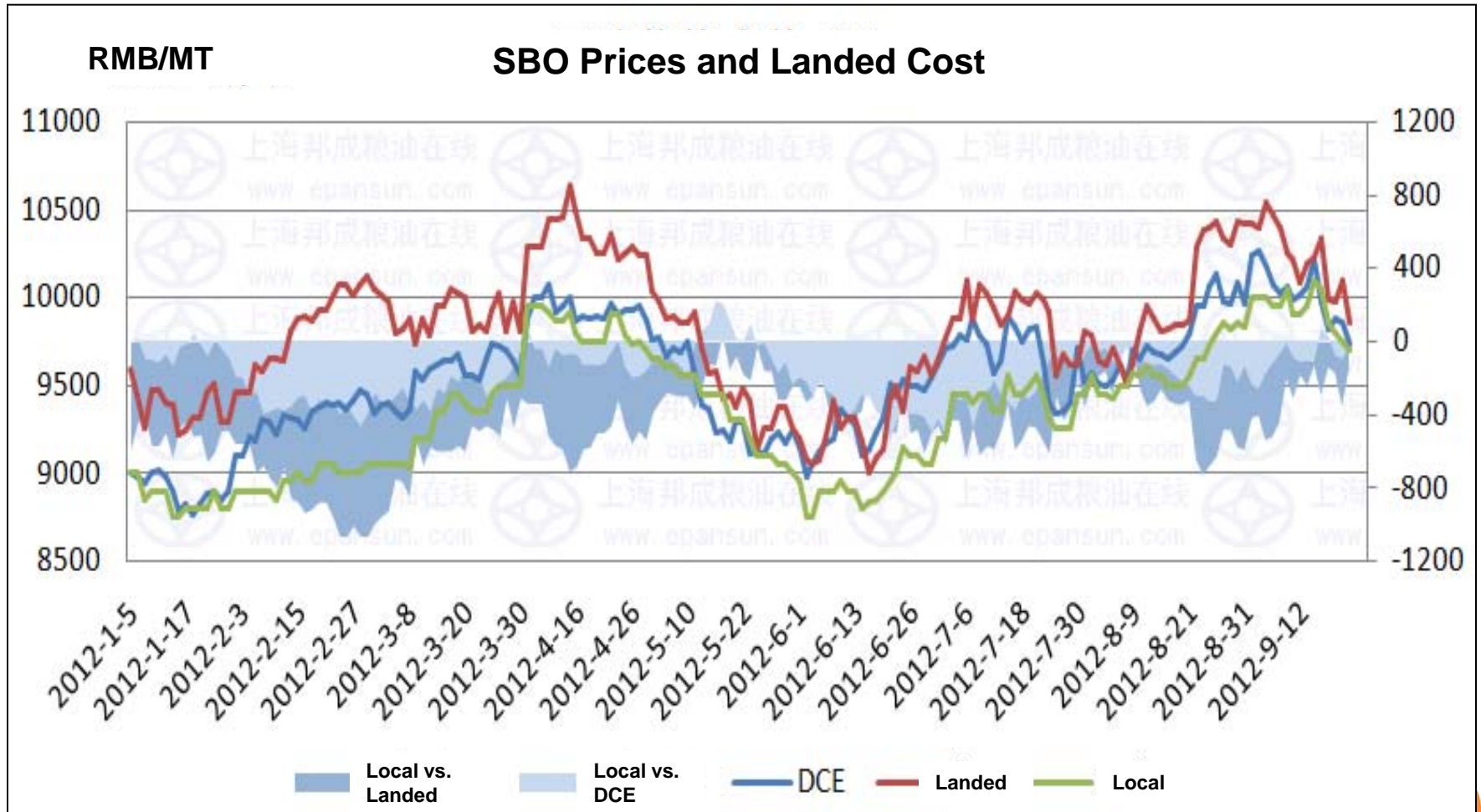


Increase Price Discount of Palm Oil Against Soybean Oil

- The widening of discount was also due to the slowdown of palm oil being imported for getting financial credit to finance the property development. This is due to the slowdown in property market resulted from government intervention to control house prices.
- On the other hand, soybean oil price remain stable and didn't follow the international market trend also add pressure for palm oil prices to stay low.
- The stable soybean oil prices in China was mainly due to the control by Chinese government on cooking oil prices to tame inflation.
- Hence, this led to discount of local price versus landed soybean oil cost.



Soybean Oil Market Prices and Discount Against Landed Cost (RMB/MT)

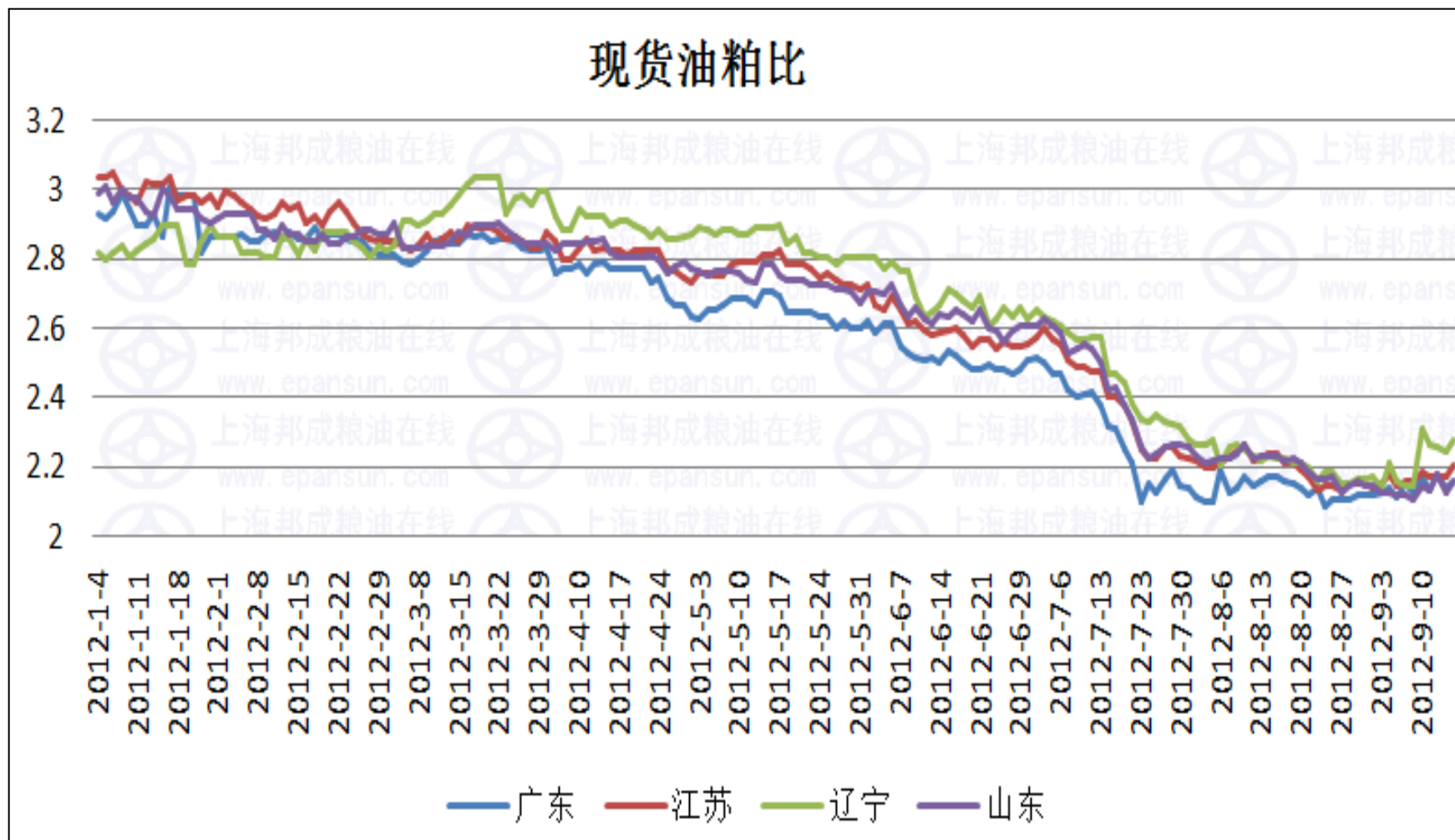


Price Discount Soybean Oil

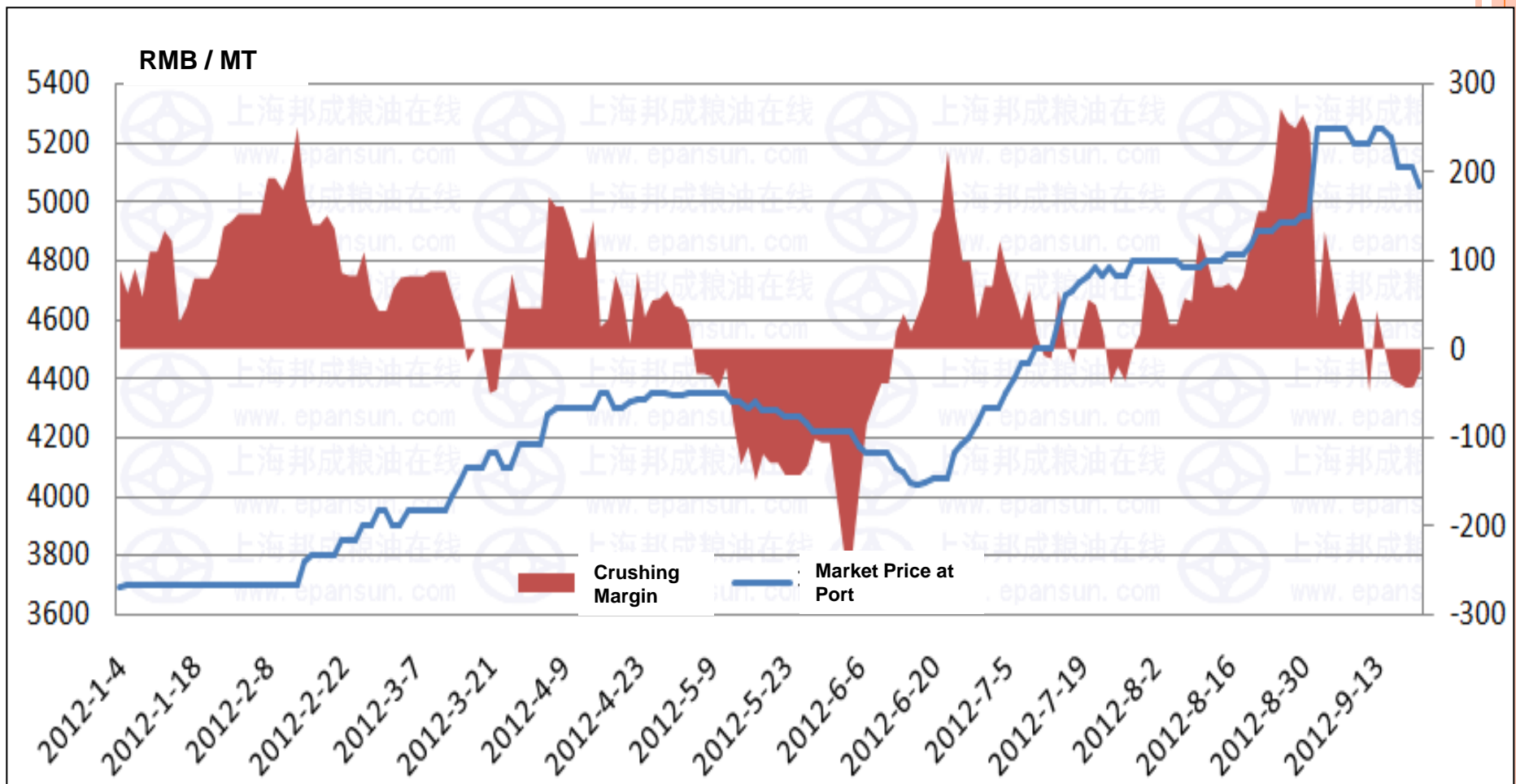
- This encourages the import of more soybean to be crushed in the country to get soybean oil supply instead of direct import.
- Furthermore, the soybean meal price in the country was not controlled by the government. Hence, the soybean meal price was able to compensate the lost in margin from selling soybean oil.
- The high import and crushing of soybean also due to the livestock cycle of swine which is at the peak this year and hence required higher amount of SBM in 2012. The swine herd will slowly reduce in 2013 before it peaks after 2½ years again, and this will affect the demand of SBM in 2013, and subsequently soybean import.



Ratio of SBO Against SBM Prices in China



Crushing Margin of Soybean in China

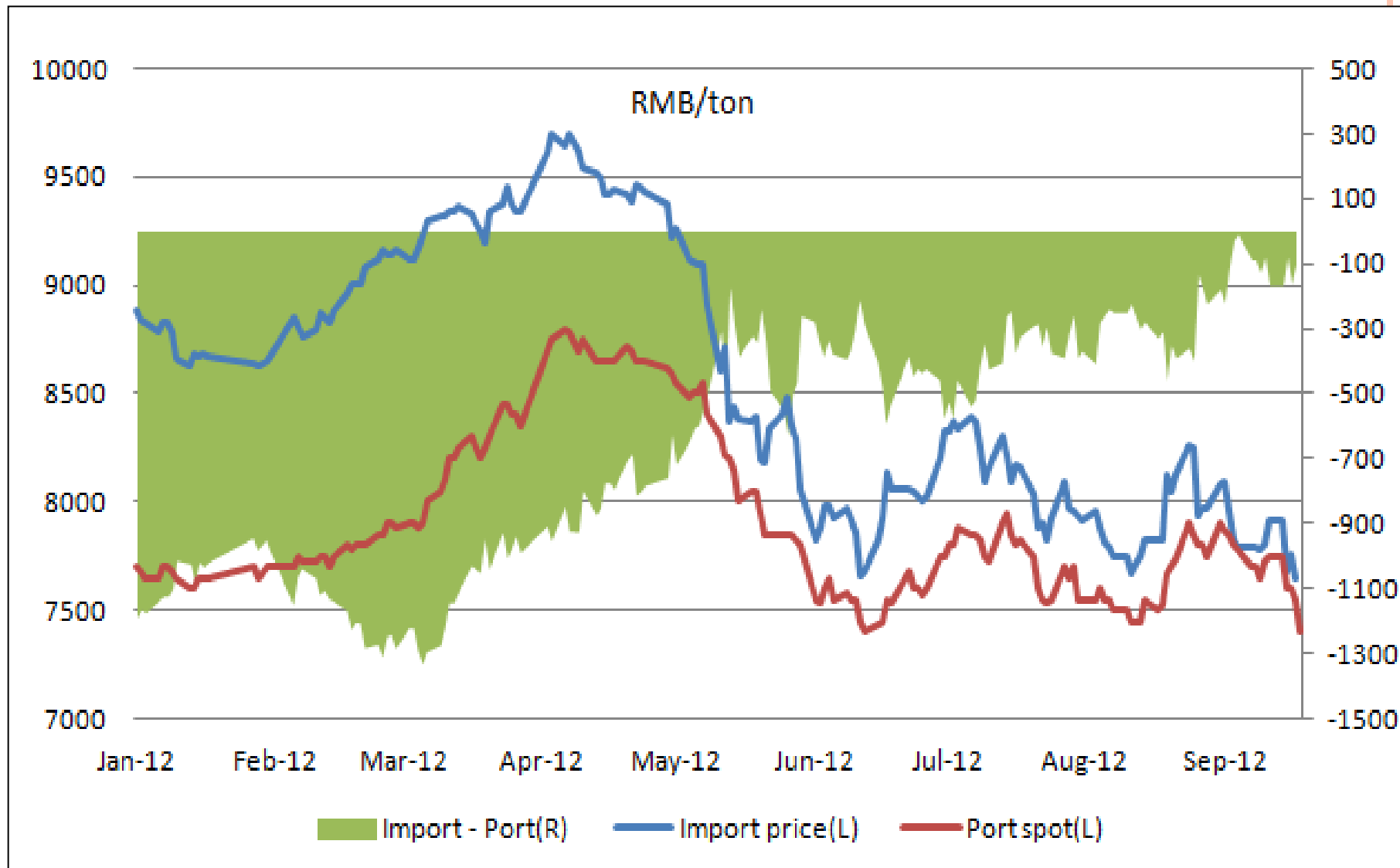


Declining Price Discount of Palm Oil Market Price Against Landed Cost

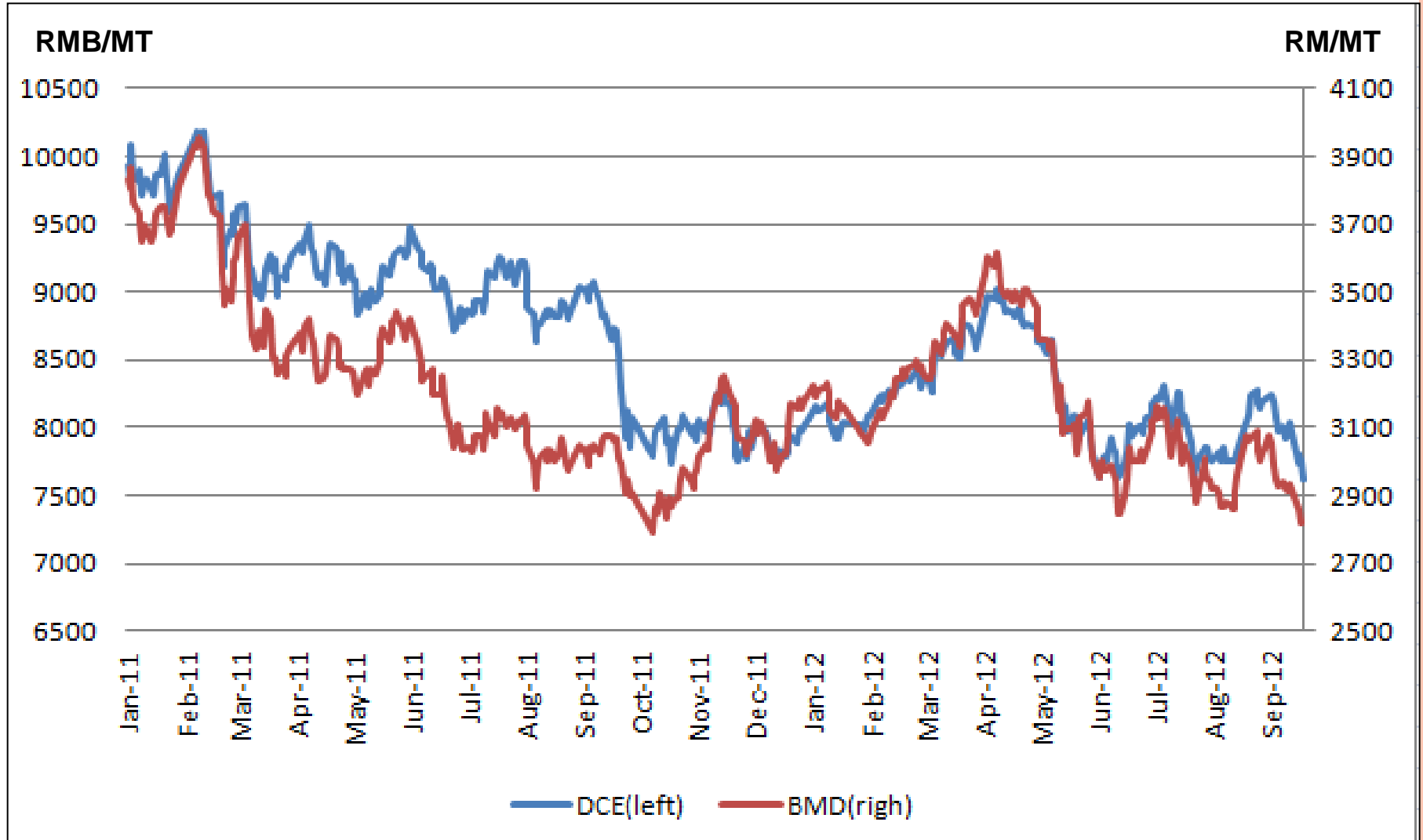
- Although palm oil demand has slowdown and price has been hovering around RMB7500, the discount of market price against landed cost has also narrowed which may encourage more import of palm oil in near future.
- The narrowing of discount could be attributed to the slowdown of activity in using palm oil import to obtain credit from financial institution, which has been one of the main reasons for the widening of discount since few years back.
- Furthermore, the tightening of import quality requirement by the Chinese AQSIQ is expected to encourage higher import of palm oil in the last quarter to avoid cargoes being held by customs should the quality fails to meet the standard, which will be effective from 1 Jan 2013.



Palm Olein Market Prices and Discount Against Landed Cost (RMB/MT)



Palm Oil Futures Market (BMD vs. DCE)



PO Price Trend in Both BMD and DCE Move in Tandem

- Different from soybean oil, as palm oil supply came directly through importation, hence the international market and local market major price trend move in tandem most of the time.
- During first half of 2011, the price trend of DCE did not follow BMD as the worry of global soybean supply supported the vegetable oil prices in China but with the subsequent arrival of huge soybean quantity, the price of soybean oil eased and CPO follow suit.



Outlook of Palm Oil Market in China

- With the low soybean import duty, the locally produced soybean oil will always have the cost discount against imported soybean oil by 6% (soybean import duty at 3% while soybean oil at 9%).
- Hence, this gives cost advantage of around RMB450-480 (at current price of RMB8000 x 6%) for locally produced soybean oil.
- This incurred pressure on imported palm oil as well and also partly became the reason for the discount of local palm oil price vs. landed cost in China.
- For the next several months, the discount of local against landed palm oil price will stay as the seasonal high production of CPO and at the same time palm oil stock in China remains high.



Outlook of Palm Oil Market in China

- Furthermore, due to the tightening of quality control of imported edible vegetable oil (mainly palm olein) from 1 Jan 2013, importers will step up the palm oil imports in the last quarter of this year (estimated at 1.5 million MT) as compared to the slow demand recorded in past several months.
- Full year import of palm oil is estimated at 5.7 million MT.
- As the consumption will be low in China during this period, palm oil stock level may increase back to 800,000 MT but may not affect the price as most importers will slowdown import volume in Jan-Feb period significantly to see how the new law being administered.



Conclusions

- As the Chinese economy and population grow, demand for palm oil will continue to increase steadily but may be at slower rate in tandem with GDP growth pace.
- Direct usage of palm oil or substituting other oils in food processing industry may decline and further processing of palm oil will play bigger role for palm oil demand in the country.
- This is also enable for palm oil to breakaway from the current price discount trend as further processing will add value and place palm oil at different level playing field against other vegetable oils.
- However, as the use of palm oil trade as a tool to obtain financial credit for property development activities continue, the discount of palm oil market price against landed cost may stay at the moment.



THANK YOU!

