

THE IMPACT OF GEOPOLITICAL FACTORS ON THE GLOBAL OILS AND FATS MARKET

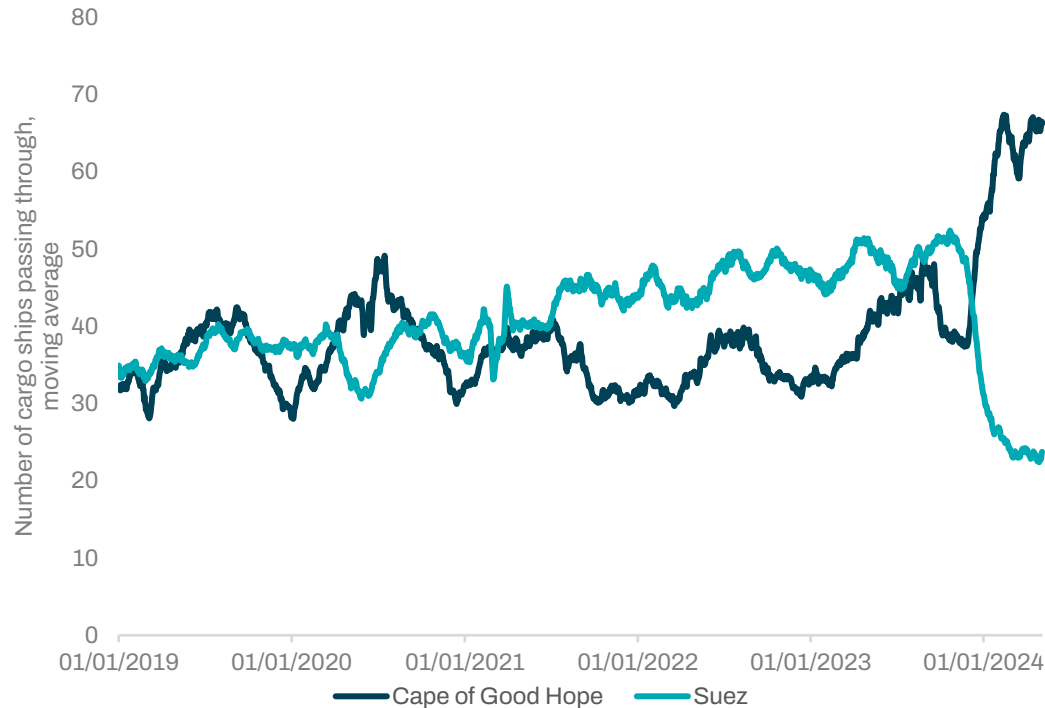
MALAYSIAN PALM OIL FORUM (MPOF) EGYPT 2024

FOUR GEOPOLITICAL FACTORS

1. **The Red Sea situation** and freight rates.
2. **Indonesian palm oil policy** and the supply of crude palm oils.
3. **U.S. renewable fuels policy** and the need to manufacture “waste” feedstocks.
4. **European Deforestation Regulation (EUDR)** and the development of a segregated supply chain for palm oils.

THE RED SEA CRISIS IS DIVERTING FREIGHT RATES

Increasing freight rates, notably between Asia and Europe



Number of vessels through Suez and Cape of Good Hope

The first missiles in October 2023 targeted a vessel carrying palm oil.

The result has been to divert substantial numbers of ships to travel via the Cape of Good Hope instead of Suez.

As a result of the additional sailing time, freight rates have risen across most routes.

This has pushed up the cost of imported vegetable oils reducing demand which was already weak.

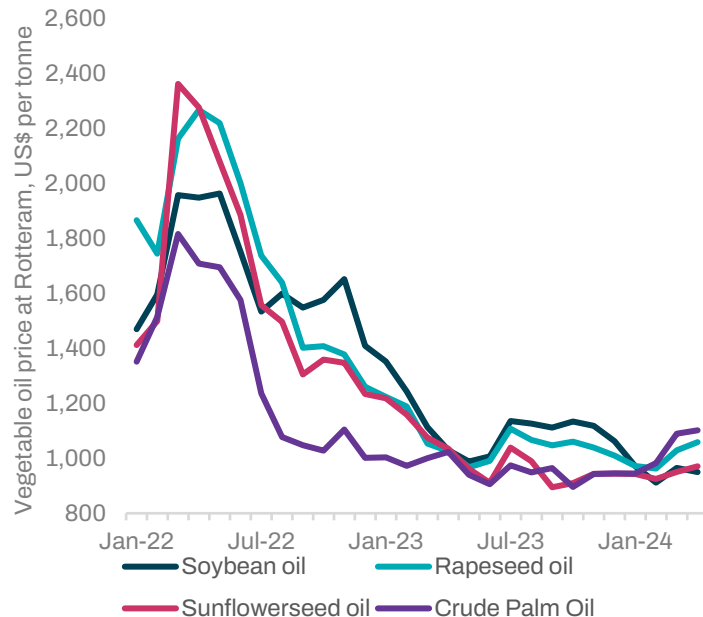


IN ROTTERDAM PALM OIL PRICES ROSE SUBSTANTIALLY

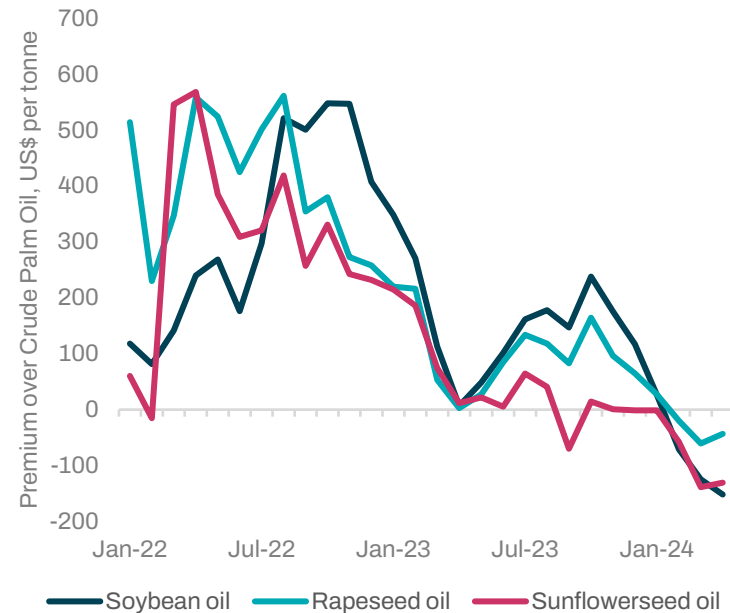
Placing palm oil at a premium to soft oils

The market has been surprised by the premium of palm oil over rival soft oils. Higher freight rates into Europe have increased Rotterdam palm oil prices.

Demand for palm oil into Europe, was already declining, but has been very weak. Distressed selling of sunflower seed and oil from the Ukraine has also replaced palm oil.



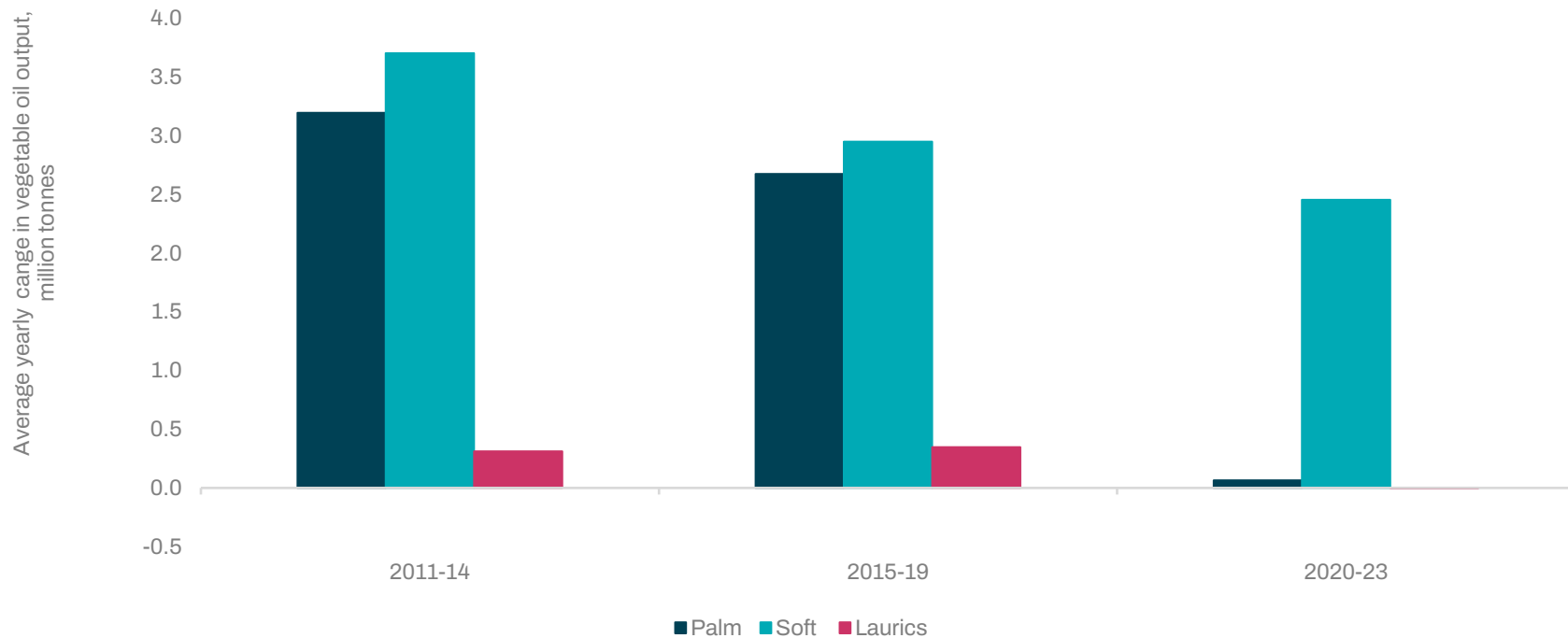
Vegetable oil prices, Rotterdam



Spread of vegetable oil prices over palm oil, Rotterdam

WEAK DEMAND, BUT EQUALLY WEAK SUPPLY

Palm oil is no longer a 'poor man's oil'



Average yearly increase in palm, soft and lauric oil supply

Limited area growth and stagnant yields have sharply reduced the annual palm oil growth.

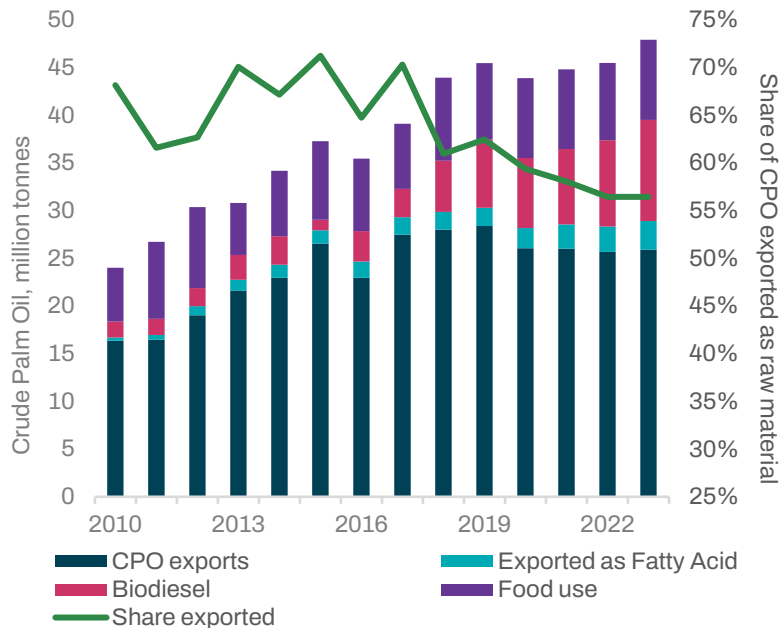
We have to adjust our expectations – more frequently palm oil will be at a premium.



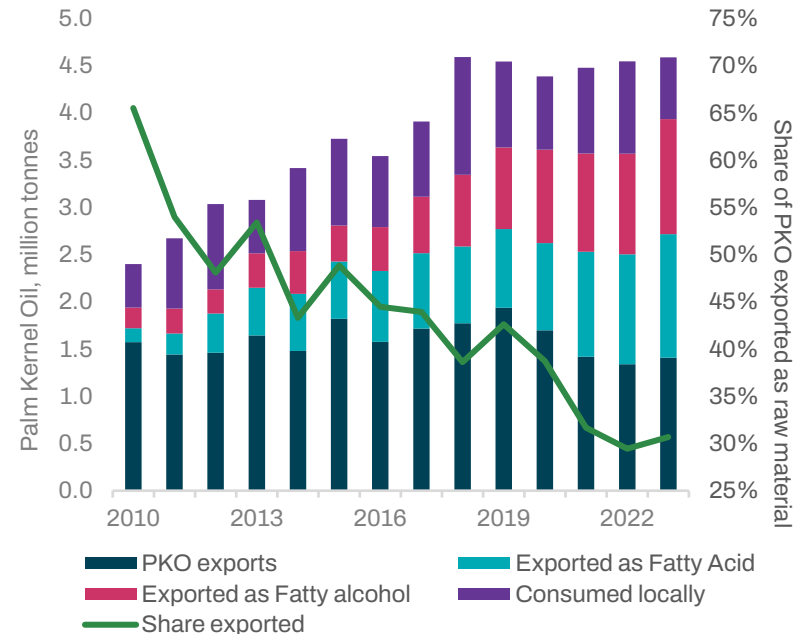
IN ADDITION, INDONESIAN DOMESTIC USE HAS GROWN

Over 50% of CPO and 70% of PKO is used within Indonesia

The Indonesian government used export taxes to finance its biodiesel policy and encourage processing. The result is that nearly half of CPO is now used locally, with biodiesel the largest end use. New refineries and oleochemical plants are being built to chase the oil, with their own storage capacity as well.



Indonesian CPO by end-use



Indonesian PKO by end use

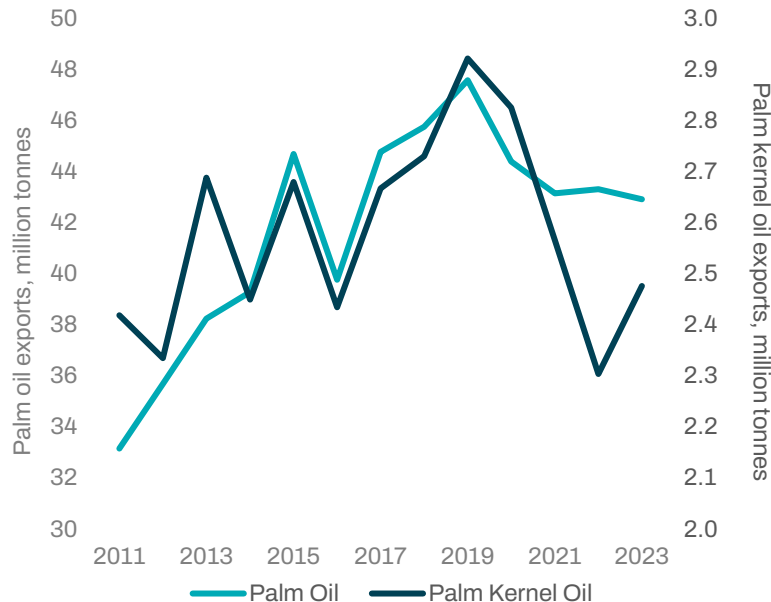


WE REACHED “PEAK PALM OIL” IN 2019

The highest recorded exports of palm oil and palm kernel oil

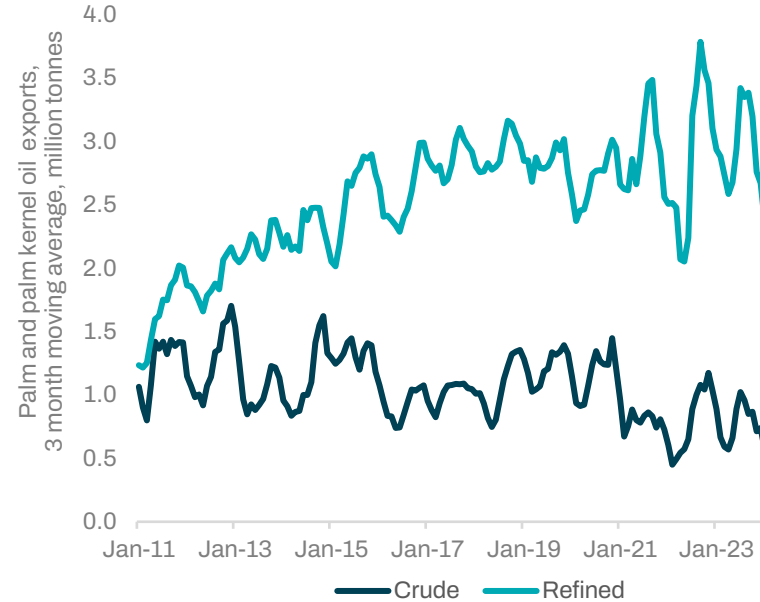
It is unlikely that CPO exports will return to their 2019 peak, while PKO exports are significantly lower.

The export taxes have also skewed exports towards refined products. Recently there have been months in which Indonesia has not exported any crude palm kernel oil.



Exports of palm oil and palm kernel oil

Exports from Indonesia, Malaysia, Thailand, Guatemala, and Colombia



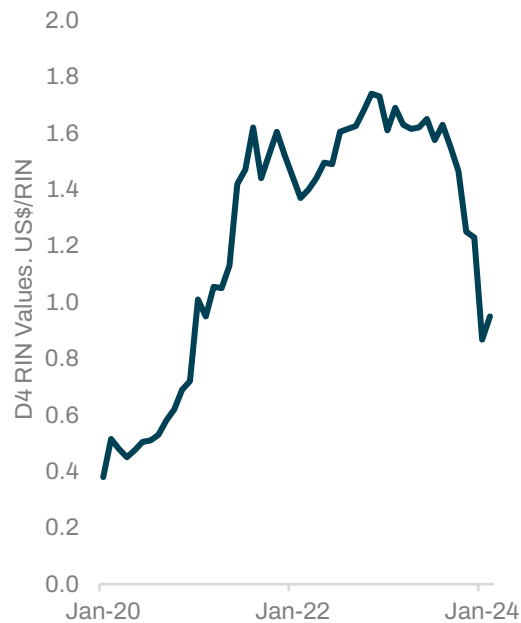
Exports of crude and vs refined palm oils

Exports from Indonesia, Malaysia, Thailand, Guatemala, and Colombia

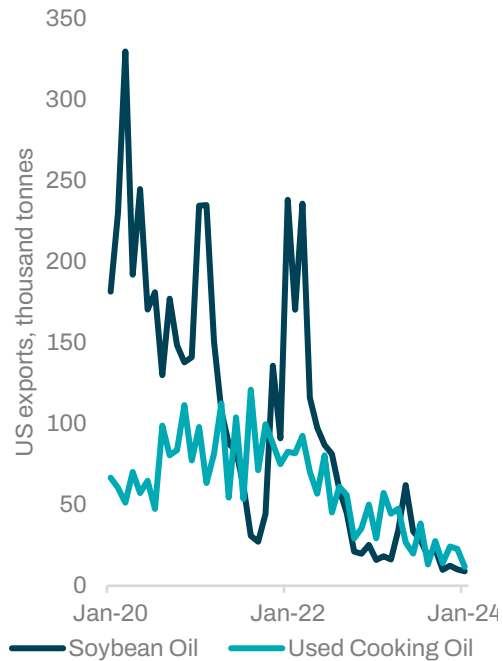


THE US HAS SEEN A SURGE IN “WASTE” IMPORTS

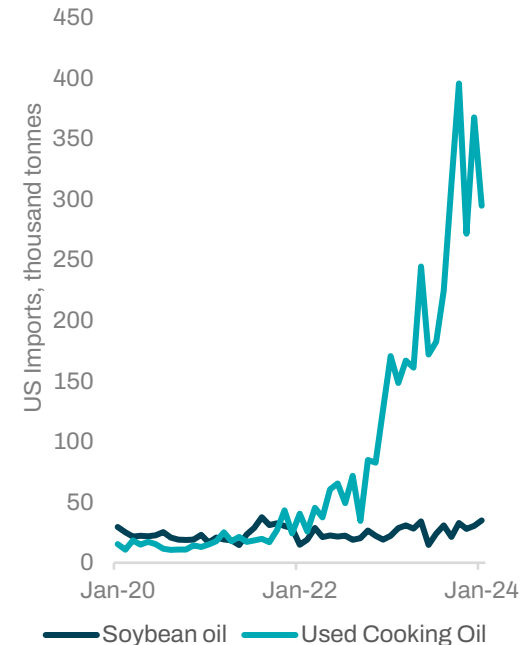
China can manufacture anything the US needs



US RIN values increased substantially...



US exports of soybean oil and UCO declined..

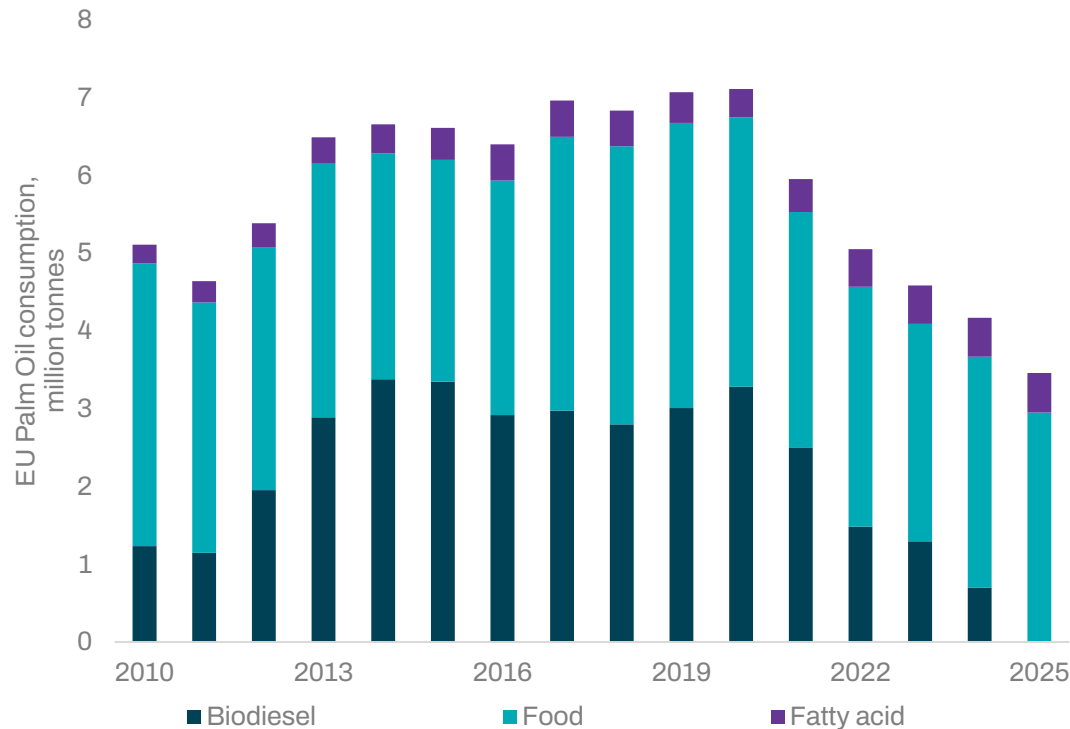


... and US imports of UCO surged

A surge in US capacity and production of renewable diesel coupled with powerful incentives for “waste” under the LCFS pushed up RIN values and prices of raw materials. The market responded by reducing exports and manufacturing UCO for import.

THE EU MARKET FOR PALM OIL IS DECLINING

However, palm oil cannot easily be substituted in niche uses



EU palm oil consumption 2010-2025, million tonnes

The EUDR requires that oil and downstream products be segregated for the EU market. It is finally becoming accepted that this is extraordinarily difficult to do in practice.

Combined with the need to reduce MOSH-MOAH for the EU, segregation will result a limited number of suppliers and significantly higher costs.

The EU market will decline further, but substituting palm oil and palm kernel oil in their specific end uses is extremely difficult.

CONCLUSIONS

The Red Sea situation has increased freight rates, leading to higher landed prices and reduced demand for palm oil.

Alongside relatively abundant sunflower oil this has led to palm oil being at a premium – we expect this to occur much more frequently in future. Weak demand has been coupled with very weak supply.

Indonesian policy continues to encourage the domestic consumption and processing of crude palm oil and palm kernel oil – availability is tight for export.

At the same time, non-food use demand is being stoked by US renewable fuels policy which is created demand for “waste” oils that spills over into vegetable oil demand.

Finally, the EUDR is creating a segregated high-cost market for the EU. The volumes are insufficient to disrupt demand, but it will shift palm oil into other markets.

Shukran!



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