

Will Veg Oil Prices Rise in 2018

By Dorab E Mistry
Godrej International Limited



Greetings

- Greetings to PEOC
- Periodic dialogue between industry captains from neighbouring countries is good for business
- The biggest piece of good news is the Suspension of Export Tax on Crude Palm Oil by Malaysia. Lessons to be learnt

Lessons of 2017

- Forecasting palm production is dangerous
- Forecasting prices is even more dangerous
- Export Taxes are bad and must be abolished
- Audacity pays – Humble Requests fall on deaf ears
- We are in a spell of High Production which will eventually come to an end anytime

Background

- At POC in KL in March 2017, I forecast Malaysia Palm production at 19.8 to 20 million tonnes. Eventually that was the correct estimate
- During the year I trimmed down this estimate 3 times – and I was wrong each time
- The Oil Palm has a mind of its own !!

Background

- Market prices in 2017 were set by China
- Dalian futures set the tone of the market each day
- Chinese crush of soybeans exceeded all estimates and led to a surplus of soya oil which in turn put pressure on palm
- Yet, despite that, palm exports reached new highs

Factors for 2018

- Late 2017 Recovery in palm oil production will set the tone for 2018 production
- Continued good prospects for soya in South America in next few months
- Good prospects for sun seed in 2018
- Excellent Demand in developing world
- Big role for Bio fuel & Energy demand

2018 Palm Production

- Preliminary 2018 forecast: Malaysia 21 mln
- Indonesia 38 mln mt
- Overall in Oil Year 17-18, Palm production will be up at least 4.5 mln mt
- The current High Production Cycle started in September 17 and will run until April 18. Then a rest period of a few months.

2018 Palm Production prospects

- Production will again surge from September 2018. This is based on rainfall so far and current weather forecasts
- Kalimantan and Sabah under-performed in 2017 mainly due to the extremely severe damage from the El Nino of 2015. That problem has now ended and hence my optimism on production

2018 Price Making Factors

- It is too early to speculate on the next US soya crop
- Weakness in Brazilian and Argentinian currencies will ensure expansion of plantings in South America next year
- A bear market will be avoided – provided Bio fuels and Energy demand kick in

Will 2018 be the Year of POGO

- Palm oil Gas oil spread has been narrowing constantly in the last few months
- This has triggered a massive amount of Energy Demand for Palm oil, particularly in Europe. This business goes unreported and will only come to light when shipments actually take place
- So lots of bearishness is already priced in

CHINA

- CHINA Govt says they want steady growth of 6% rather than spectacular bull runs. So China will remain an engine for growth and consumption
- China has too much soya oil and will import palm only as necessary
- Bio diesel in Southern China could open later in 2018

India – Import duties

- Your industry in Pakistan has something to learn from India. You are such a large contributor to the Exchequer and yet you wield so little influence when it comes to setting Import Duties ! Your problem is Disunity
- In India we all united and made forceful representations

India – Import Duties

- Export Taxes on Crude Palm Oil are not good. At least in Indonesia the Export Levy is re-cycled into the Bio Diesel programme.
- Now Refiners in all importing nations must ensure that the Export Tax on CPO is removed for good. It will lead to healthy refining margins for all and the most efficient will win anyway.

Indian Imports

	15-16	16-17	17-18
• Soya	4,235	3,316	3,200
• Palm	8,510	9,526	9,850
• Sun	1,516	2,168	2,350
• Total	14,738	15,440	15,900

Biodiesel demand

- Malaysia is at B7
- Indonesian bio diesel mandate has worked well so far.
- Brazil will go to B10 from March 2018
- Discretionary Blending becomes workable as POGO declines and even becomes Negative. Indonesia will be the first to react.

World Energy Demand

Veg oil use for bio diesel grew by 3 million tonnes in 2016-17. Mainly due to increases in Indonesia.

- Growth in 17-18 will depend on the final outcome in USA biodiesel. Brazil has just confirmed a big expansion. Could rise by 4 million tonnes.



World Food Demand

- Food Demand rose by 3 mln mt in 16-17
- In 17-18 expected to grow also by 3 million tonnes

Incremental Supply

• 000 tonnes	16-17	17-18
• Palm oil	+ 6,500	+ 4,500
• Soya oil	+ 2,400	+ 2,000
• Sun oil	+ 2,000	- 500
• Rape oil	- 300	+ 500
• Others		
• Total	+ 12,000	+ 7,500
• Total Demand	+ 6,000	+ 7,000

Effect of Incremental S&Ds

- Demonstrates that 2016-17 was the year when Stocks were rebuilt and replenished
- The Oil Year 2017-18 is almost in balance if we take Bio Fuel & Energy Demand at 4 million tonnes. Therefore, prices will depend on the strength of Energy Demand.
- If POGO goes negative, veg oil prices must rise because Energy Demand will be strong



Assumptions for Price Outlook 2018

- Brent crude USD 60 and 75 per barrel
- FED will tighten very gradually and will also raise interest rates
- US Dollar will get stronger against currencies of Brazil & Argentina; on the other hand it will weaken against most other currencies in FH 2018 and get stronger in SH 2018

Price Outlook

- Currently Palm production is in HIGH cycle and will continue to be good until March 2018. Stocks have peaked and will gradually decline from now until July 2018
- The discount for Palm under Soya oil has narrowed considerably on the AMJ position
- Palm looks oversold and demand is at record levels

Price Outlook 2018

- CPO price CIF Rotterdam will rise from US\$ 680 to 750 by June 2018
- RBD Palm Olein AMJ bottomed out at USD 630 FOB. Should climb from current level of USD 670 to USD 720 FOB
- Soya oil FOB Argentina AMJ at USD 735 FOB looks cheap and should rise to USD 775 as CBOT futures rise.

Price Outlook 2018

- Malaysia will have general elections between now and August 2018. The likeliest time is either April or June.
- We must expect measures from the Malaysian Govt to assist small growers and to support prices. Expect BMD futures to trade in a range between 2500 and 2700. Expect Ringgit to gain to 3.90 to USD

Other Oils

- Sun oil prices are cheap. At some stage sun oil will go to a premium over soya oil once again
- Will EU go against the use of Palm oil in production of bio fuels in EU from 2021?
- Expect this blow hot blow cold saga to continue. Ultimately a compromise will be reached

LAURIC OILS

- Demand for CPKO based products is booming. Stocks will finally begin to build in SH 2018
- Production of CNO and CPKO will rise in 2018. However, competition from petrochemicals will not be significant and hence price declines will be gradual

Will Veg Oil Prices rise in 2018

- The drop in the BMD has been deceptive. In terms of USD, prices have fallen very marginally
- Any revival of Energy Demand, or visibility of Energy related business will support prices
- Expect gradual rise in prices from now until June 2018. Second Half 2018 looks heavy.

Conclusion

- We may have seen the lows already in the first 2 weeks of 2018. We should expect gradually rising prices over the next several months
- In the meantime, try to get back your refining margins
- **GOOD LUCK & GOD BLESS**