

Fundamental Approach to Price Forecasting

By Dorab E Mistry
Godrej International Limited



Congratulations

- Very pleased to speak at this GLOBOIL INTERNATIONAL 2018
- Hosted by TEFLA's
- Sponsored by Solvent Extractors Asscn
- Once again in Dynamic DUBAI

Background

- 2017 was the year of record production of Palm, Soya and Sun oils
- Palm production led the way as it recovered from the extreme effects of the EL Nino of 2015
- Unusually, it took almost 2 years for the effects of the EL Nino drought to go
- World food demand was also at a record

Forecasts at POC in Kuala Lumpur in March 2018

- Palm futures on BMD would trade in a range from 2500 to 2700 Ringgits
- By July RBD Olein will go to \$ 720 FOB
- CPO cif Rotterdam will rise from \$ 690 to 750
- Soya oil FOB Argentina will find very strong support at \$ 750

Latest Development

- Palm Oil v/s Gas Oil (fossil diesel) spread has turned Negative decisively
- In other words, Palm oil is now significantly cheaper than Gas oil in the interior of Indonesia and China
- It makes sense to produce palm bio diesel in Indonesia and replace fossil diesel



China – USA Trade Tariffs

- Trade War is most unfortunate
- USA should have tried negotiations & discussions
- Trade disputes lead to uncertainty
- I believe the matter will get resolved and higher tariffs will NOT be imposed by both sides

IRAN Nuclear Deal

- Will crude oil prices keep climbing if USA scraps the Nuclear Deal with Iran?
- How much more bio diesel will the world consume in such a case?
- We only need a delta of 1 million tonnes of extra bio diesel to make a big difference in price outlook

India – import duties on Palm

- On 2 March 2018, India increased import duty on CPO to 48.4% and for RBD Palm Olein to 59.5%
- Import duty on soya oil is 33%
- Import duty on sun oil is 27.5%
- Import duty on Rape oil is 27.5%
- This has reduced Palm imports

Palm Production

- Malaysian production jumped almost 2 million tonnes in 2017
- Indonesia grew by about 4 mln mt
- World palm oil production increased almost 7 million tonnes
- In 2017 other producers in Central America and Thailand enjoyed growth too

PALM Production

- In 2017 production tsunami from September in Malaysia surprised many
- This High Cycle will last about 8 months
- Indonesian weather has not been as good as Malaysian
- Estimating Malaysia 2018 production at 20.5 million mt and Indonesia at 37.5 mln

Palm Stocks and Prospects

- Malaysian stocks peaked at 2.76 as at 31 Dec 2017. World stocks were 7 mln mt
- World Stocks should now gradually decline to a low level of about 4.5 million in July
- Last quarter looks heavy but there are many factors that can change
- Outside China and India, palm will take most extra demand

Palm Prospects

- Market depends on Production recovery from April onwards
- Efforts by Indonesia to step up consumption of bio diesel locally in 2018
- Palm prices will depend on above 2 factors plus if India increases import duty on soya, sun and rape oils

Other Vegetable Oils

- Sun oil production in Russia & Ukraine under-performed somewhat in 2017.
- World sun oil production in 17/18 will decline by about 500,000 mt
- Weather during June is critical in Ukraine and SW Russia

Sunflower oil

- Sun oil has captured markets beyond India into Pakistan and China. Its traditional markets were Turkey, Iran & Egypt
- Sun oil is now at a premium to soya oil and its attraction will begin to fade
- Exporters have been too aggressive

Rapeseed

- Rapeseed and Canola seed production is recovering in EU & Canada in 17-18
- Overall, world production is stagnating at 63 to 65 mln mt – mainly EU & Canada
- China has discouraged rapeseed production and has created a worldwide tightness
- Rape oil is preferred for bio diesel and commands a premium

CHINA

- Massive increase in soybean imports in 16-17 at 93.5 mln mt from 83.2 mln in 15/16
- Further increase in 17-18 to 96 mln mt
- Massive increase in soybean crush plus the release of almost 4 to 5 million tonnes of National Reserve stocks of Rape oil, were game changers in 2017
- Now Trade War uncertainty

CHINA

- China has deliberately reduced production of a high oil bearing seed like Rapeseed, due to insatiable demand for meal ?
- China production of rapeseed in 17-18 could be less than 5 million tonnes from 12 million just 5 years ago
- Has left China at risk in case veg oil prices surge

Soybeans & Soya oil

- We have had 7 back to back Bumper harvests in soybeans
- This 8th crop has problems in Argentina
- Will GM seeds in Argentina perform better than expected in 2018?
- Probability of a crop problem rises each year

Soya oil & Bio diesel

- USA has been a disappointment. Still expect tight domestic US soya oil stocks
- Brazil went from B8 to B10 from March 2018. Will consume 4 mln mt soya oil at 80% feedstock for bio diesel
- Will EU do something about large Argentine shipments of soya bio diesel

Indian Imports

	12-13	16-17	17-18
• Soya	1,090	3,316	3,100
• Palm	8,240	9,526	9,500
• Sun	980	2,168	2,350
• Others			
• Total	10,670	15,440	15,500

INDIA

- Good monsoon forecast.
- Indian economy doing well, consumption should be strong despite high prices
- Per cap consumption is still only 16.78 kg against World Average of 28.5
- If Rupee weakens further, prices will rise and India may have to reduce duties

Biodiesel - Indonesia

- Palm Oil / Gas Oil Spread is Down
- The FUND to subsidise Palm Bio diesel usage is now flushed with surplus
- 2018 consumption of palm biodiesel will be 3.46 mln kilolitres against 2.54 mln kl in 2017
- Some discretionary blending also likely

U S Biodiesel Mandate

- Had potential to be a game changer on the bullish side
- The fossil fuel Refiner lobby in USA is too strong and Farm State law makers have not been able to get much done
- The Less said, the Better

World Energy Demand

World Energy demand for veg oils grew in 2016-17 by 3 mln tonnes. Led by Indonesia

- Growth in 17-18 will also be 3 mln mt led by Brazil and Indonesia. We wait for a miracle from USA

World Food Demand

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

Incremental Supply

• 000 tonnes	17-18	16-17
• Soya oil	+ 2,000	+ 2,400
• Rape oil	+ 500	- 300
• Palm oil	+ 3,500	+ 6,500
• Others	+ 500	+ 3,400
• Total Supply	+ 6,500	+ 12,000
• Total Demand	+ 6,000	+ 6,000

Assumptions for Medium Term Price Outlook

- Brent crude USD 60 to 75 per barrel
- 2 Rate Hikes by FED in 2018
- USD will be sideways to weaker
- No major Trade Wars or Disruption
- World GDP growth will not reach the level of almost 5 % suggested by the IMF
- If World grows 5%, we turn more bullish

Price Outlook

2018 is Election Year in Malaysia

- BMD must trade from 2400 Ringgit to 2700 based on current S&Ds and politics
- April – July 2018 will see falling stocks
- By July, RBD Olein will be US\$ 700 FOB
- CPO cif Rotterdam will climb from current USD 670 to 730.

Malaysian Politics

- What happens if we have an upset result in the Malaysian general elections
- How will the Ringgit react
- Will the winner give rewards to Felda settlers for their support
- Will Malaysia increase palm biodiesel usage

Price Outlook

- Soya oil is tight. Cash basis in Argentina is very tight.
- Brazil may export very little in 2018 and in later years
- US soya oil is close to bottom
- Demand for soya oil remains strong
- Argentine soya diesel exports are critical

Price Outlook

- Sun oil is now well priced
- Soya oil should find very strong support at USD 750 FOB Argentina
- CBOT futures will depend on new crop prospects in USA and new crop bean futures
- Towards end of 2018 soya oil in USA could be very tight

Soya Complex conclusions

- I expect a good settlement of China-USA trade matters
- No effect on US Soybean imports by China
- If US Soybean shipments to China are disrupted due to higher tariffs, Chinese Crush will decline and more Palm oil could be imported

Lauric Oils Outlook

- Coconut Oil supply is better in 2018
- CNO popularity is driving edible demand
- CPKO production is higher but non-edible demand is very strong
- Petro based chemicals are less competitive
- New petro chemical capacity has not been developed & Scope for price decline has diminished

Conclusion

- Commodity prices are cheap relative to Equities
- We have seen a record long period of good weather
- 2018 looks like a year of strong growth
- Commodities should prosper
- **GOOD LUCK & GOD BLESS**