

# Outlook for Palm & Palm Equities 2018-19

By Dorab E Mistry  
Godrej International Limited



# Welcome

- Very pleased to speak at this Seminar hosted by UOB Kay Hian in Jakarta
- Heartiest congrats to Malaysia
- Palm specific factors
- Macro factors
- General Outlook

# 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

# Palm Specific Factors

- Palm production took 2 years to recover from the strong EL Nino of 2015
- 2017 prod was strong and world palm prod went up by 7 million tonnes
- High Cycle from July 2017 onwards
- 2018 Malaysia 20.5 mln mt and Indonesia at 37.5 mln mt

# Latest Development

- Palm Oil v/s Gas Oil ( fossil diesel ) Spread must encourage PME usage
- Constraints like Methanol shortage in Indonesia
- Higher mandate and non-pso usage will take time. These factors are negative

# 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, sun oil and rape oil is now 38% from 14 June
- Between 2 March and 14 June, Import duty on soya oil was 33% and on sun oil & rape oil it was 27.5%

# Softer Demand - Palm

- Palm demand suffered due to higher import duty in India
- Indian crops were under-estimated
- Chinese demand has been soft since early 2017 when China stepped up its Soybean crush and imported 500K sun oil
- Palm discount to soft oils had narrowed



# What went wrong

- We under-estimated the Demand Destruction caused by the last import duty hike in India
- Failure of Indonesia and Malaysia to step up bio diesel usage
- Huge disappointment in USA biodiesel
- Massive currency devaluation in SOAM

# Palm Stocks and Prospects

- Malaysian stocks peaked at 2.76 as at 31 Dec 2017. World stocks were 7 mln mt
- World Stocks did not decline to 4.5 mln by July as expected
- Last quarter looks heavy but there are many factors that can change
- Trade War has clouded the outlook

# Palm Prospects

- Market Outlook depends on Production July onwards
- Efforts by Indonesia to step up consumption of bio diesel locally in 2018
- Palm prices will depend on above 2 factors plus currency factors. Will Rupee decline from 68 to 72 versus USD ?

# Other Vegetable Oils

- Sun seed planting area in Ukraine and Russia is larger than last year.
- The region is suffering from sub normal moisture and high heat. July growing weather will be critical.
- Sun oil prices are at premium to soya oil – internationally as well as in India, so sun oil will lose some market share

# Rapeseed

- Rapeseed production in EU is slightly down
- Canola production in Canada is good
- China has discouraged high oil bearing Rapeseed cultivation – down to 5 mln mt
- However, thanks to US-China trade spat, China will be looking to import more Canola and Rapeseed this year

# CHINA

- How will win the USA – China trade dispute ?
- On Soybeans, China is in a strong position
- China can reduce import of soybeans and switch from soymeal to corn DDG.
- This switch may create room for larger veg oil imports – palm can benefit

# Soybeans & Soya oil

- We have had 7 back to back Bumper harvests in soybeans
- This 8<sup>th</sup> crop had problems in Argentina
- Now the 9<sup>th</sup> crop in a row in USA is in great shape so far. But we have this Trade Dispute
- Also uncertainty on Soya bio diesel

# Soya oil & Bio diesel

- USA soya oil stocks will be tight
- We need to watch what support Trump extends to US soybean farmers
- Some relief for US soya bio diesel could come after the mid term elections in November and Democrats take the House
- Brazil went from B8 to B10 from March 2018. Will consume 4 mln mt soya oil



# Currencies

- Brazil elects a new President in October
- Argentina has problems with its currency
- Weak Real and Peso are bearish
- India Rupee was 64 to USD in Jan 2018. Today it is 68. Could slip further. That is bearish for veg oil imports
- Weak Rupiah and Ringgit will help you

# Indian Imports

	12-13	16-17	17-18
• Soya	1,090	3,316	3,350
• Palm	8,240	9,526	8,650
• Sun	980	2,168	2,550
• Others			
• Total	10,670	15,440	15,000

# 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
- Indian production of food grains and oilseeds is rising very gradually

# INDIA

- Will India reduce import duties?
- Unlikely in the short term until current crop is harvested and sold
- If Rupee continues to weaken and local prices rise by another 10%, then duties may be trimmed. Not otherwise

# 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	18-19
• Soya oil	+ 2,000	+ 1,000
• Rape oil	+ 500	+ 500
• Palm oil	+ 3,500	+ 4,000
• Others	+ 500	+ 2,000
• Total Supply	+ 6,500	+ 7,500
• Total Demand	+ 6,000	+ 6,000

# Assumptions for Medium Term Price Outlook

- Brent crude USD 75 to 85 per barrel
- 2 more Rate Hikes by FED in 2018
- November 2018 will be a watershed
- Trade disruption will affect markets
- World GDP growth will not reach the level of 4% suggested by the IMF



# Price Outlook

Palm prices may recover initially

As production picks up from July onwards, prices will have to decline to a discount of USD 100 under Crude Soya oil fob

That will enable Palm to regain market share and keep stocks under control

BMD 2100 is possible next 60 days



# Lauric Oils Outlook

- Coconut Oil supply is better in 2018
- CNO popularity is driving edible demand
- CPKO production is higher and non-edible demand is growing only at a steady pace
- Petro based chemicals are less competitive
- Like palm, prices must decline until stocks stop rising.

# Palm Equities

- Macro picture: Equities have done very well and valuations are stretched. November will be a watershed and bull market may be very close to an end
- For palm equities, the outlook is completely different. These have been neglected.
- Be greedy when others are fearful

# Palm Equities

- Good time to buy when palm prices slide and the sector is out of favour
- Prepare for the Upturn during the Downturn
- Palm Equities have improved their management and reporting standards, increased dividend pay-outs and generally been more responsive to shareholders

# Conclusion

- Commodity prices are cheap relative to Equities. We have seen a record long period of good weather
- Veg oils may be close to bottom
- Beware an emerging EL Nino
- **GOOD LUCK & GOD BLESS**