

Palm Oil Tsunami ? Price Outlook 2017

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Congratulations

- 100 years of Malaysian Palm Oil
- The last 50 have been very active, particularly after the IASC Congress in KL in January 1977
- I have been presenting since 1997
- The job of forecasters has become incredibly difficult

How many reputations will stand?

- For most years, price forecasting was a matter of analysing Crops, Supply & Demand and Weather influences
- Currencies played some part
- Government regulations played a part
- But now the POTUS plays a huge part in deciding how markets move !

Palm Production

- Last year at POC, I was the most bullish forecaster. My estimate of Malaysian production was the lowest – at 18.4 mln mt
- I was out by 1.1 million tonnes !
- Stocks were the tightest ever but prices were NOT the highest ever !
- Overall palm supply is tight in FH 2017

Palm Production

- 2016 Malaysian production was 17.32 mln mt
- 2016 Indonesian production was 30 mln mt – down 2 million mt from 2015
- 2017 Malaysian production expected to be 19.5 million tonnes and Indonesian expected to be 33.5 to 34 mln mt

2017 Prospects

- Production recovery in Malaysia has started already. We turned the corner in December 2016 when Dec 16 production exceeded Dec 15 production.
- Year on Year Dec was up 5%, Jan was up 12% and Feb is up 15%.
- There is some doubt about recovery in MAM. April could be tightest month.

2017 Palm Prospects

- Malaysian stocks will remain tight until July 2017. Remember Ramadan shipments will go out in FH May.
- Palm stocks will begin to recover from July 2017 and palm will face strong competition in India from South American Soya oil
- Will a new El Nino develop from June ?

Emerging areas for Palm

- Oil palm cultivation in Central & South America is to be watched
- Production up from 2.2 mln tonnes in 2011 to 3.2 mln in 2016
- Exports doubled to 1.8 million tonnes in 5 years

Other Vegetable Oils

- Big rise in Sun Oil production. Black Sea sun oil is very competitive and taking market share.
- More Sun oil helped to keep prices in check in 2016 – especially in India
- We have had 3 Record Sun Seed harvests in the CIS. What if dry weather hits that belt in 2017 ?

Rapeseed

- EU production may improve by 2 million tonnes but it is too early to forecast.
- India's bumper Rape-Mustard crop is 7 million tonnes. That will reduce scope for blending soya oil into Mustard oil
- China is treading a very dangerous path

CHINA

- Release of old Rape oil from State Reserve in 2016 was a game changer
- New releases continue from Nov 2016 but will end by middle of 2017.
- China Rapeseed crop in 2016 & 2017 ?
- Rape crop down from 12 mln to 5 mln ?
- Low crop and NO RESERVES !

Soybeans & Soya oil

- In 2015 and 2016 Soya oil picked up huge market share in edible oil markets like India
- The main reason was that soya oil is usually exported as a crude unrefined oil whereas palm is usually exported as a Refined oil
- Local Refiners prefer to import a crude unrefined oil so they can run their refineries and also add value

Soybeans & Soya oil

- We have had 6 back to back Bumper harvests in soybeans
- Will the 7th harvest in USA also be as lucky
- U S farmers expected to increase soya acreage in 2017. Expansion in Brazil & Argentina will continue. Export taxes in Argentina will decline from Jan 2018

Soya oil & Bio diesel

- Outlook depends entirely on the US bio diesel regime for 2017
- Producer Credit instead of Blender Credit is a game changer for soya oil futures
- We need to know the exact fine print of the new U S Policy
- Overall must be friendly to soya oil

Indian Imports

	12-13	15-16	16-17
• Soya	1,090	4,235	3,500
• Palm	8,240	8,510	8,650
• Sun	980	1,516	1,750
• Total	10,670	14,738	14,300

INDIA

- Growth in per cap consumption has slowed
- Has been bearish for veg oil imports
- Indian veg oil industry becoming more efficient
- Next year production will be up 1.5 million tonnes or more, depending on meal demand

Biodiesel - Indonesia

- Subsidy from the Estates Crop Fund can cover only 200,000 tonnes per month of Palm Biodiesel at current POGO
- The Biodiesel Mandatory Programme is a Safety Net when supply exceeds demand
- What happens if CPO prices fall by US\$ 100 ? The FUND can step up monthly Palm Biodiesel consumption from May 2017

World Energy Demand

Can see more palm oil going into bio diesel

- World Energy demand for veg oils grew in 2015-16 by 2.5 mln tonnes. Led by Indonesia and USA
- Growth in 16-17 will depend on the USA biodiesel regime and on Indonesia. Could rise by 3 million tonnes.

World Food Demand

- Food Demand rose at 2.5 mln mt in 15-16
- In 16-17 expected to grow by 3 million tonnes

Incremental Supply

• 000 tonnes	15-16	16-17
• Soya oil	+ 3,000	+ 2,500
• Rape oil	- 1,000	- 1,500
• Palm oil	- 6,000	+ 6,000
• Others	- 1,400	+ 2,000
• Total Supply	- 5,400	+ 9,000
• Total Demand	+ 5,000	+ 6,000

Sustainability

- RSPO has had a good year
- Indonesian & Malaysian Sustainable Palm Oil have also made progress
- The Take Up of Certified Sustainable Palm Oil remains a matter of concern
- Let us not make sustainability unaffordable



Assumptions for Medium Term Price Outlook

- Brent crude USD 45 to 65 per barrel
- Three Rate Hikes by FED in 2017
- Developing Country Currencies to be stable against USD. Ringgit may improve
- No major Trade Wars or Disruption
- President Trump will be different from Candidate Trump

Weather 2017

- Signals of a developing El Nino in South East Asia – will affect palm production from March 2018
- Possibility of an Indian Ocean Dipole which may bring drought to India
- Possibility of dryness in the Sun Seed belt of Ukraine & Russia

Price Outlook

- First knee jerk reaction already happened in February in palm prices
- Stocks are still tight and as the Inverse has eroded, palm has become competitive
- Expect some price recovery – as seen last week – almost regaining 3000 Ringgits
- Second Down Leg in June-July – to 2500 Ringgits

Price Outlook

- Soya oil is well priced. It may not decline. New crop MJJ is well priced. All eyes on US Biodiesel
- Sun oil will regain its premium over soya
- Cannot be bearish on palm prices
- At this stage I expect 2500 Ringgits on 3rd month or USD 620 FOB Olein as strong supports for Q4

Alternative Bullish Scenario

- Markets in the Trump Era will be more volatile than in the past
- Climate is more uncertain. Dry weather in Ukraine, S W Russia and also in India. El Nino in S E Asia. What if the recovery in palm production gets postponed ?
- What if Malaysia produces only 18.7 mln mt and Indonesia only 33 mln mt ?

Alternative Bullish Scenario

- What if we have smaller Sun Seed crops ? d
- What if U S Bio Diesel & Producers Credit work extremely well ? U S cannot export any soya oil and futures go to 40 cents ?
- In that case CPO will hold 3000 Ringgits until September, then dip for a few months and then take off again. So RBD Olein below \$ 680 will be cheap.

Lauric Oils Outlook

- The February decline in Lauric oil prices was very dramatic.
- Premium of USD 500 enjoyed by CPKO over CPO will erode further
- Second Down Leg will come earlier than in palm
- CNO premium over CPKO will improve

One major cloud over the market

- The Trump Administration says it will encourage the Repatriation of profits held overseas by U S companies – about USD 2 trillion. If that happens, the Rest of the World will be Minus USD 2 Trillion, interest rates in those regions will have to rise and some may be pushed into recession.
- Commodity prices can fall in that case.

Which is my Preferred Scenario

- Weather is paramount
- At this stage, my feeling is to go with the Alternative Bullish Scenario – purely because I fear : Palm production recovery may take longer or Weather problems develop or that the Trump Agenda unravels and the Dollar weakens

For 2018 Some Political Possibilities

- Post election scenario in Malaysia
- An Import Tax into USA ?
- Political uncertainty in Brazil
- EU in turmoil
- President Pence !
- **GOOD LUCK & GOD BLESS**