

Palm & Lauric Oils Price Outlook 2020

By Dorab E Mistry
Godrej International Limited



Full Title of my Paper

- Palm & Lauric Oils Price Outlook 2020
- & Impact of India Import Tariff Policy

- So we first look at the Fundamentals of Supply & Demand and then comment on Indian Import Tariff Policy

Congrats GAPKI

Congrats Indonesia on the Palm Biodiesel
Mandate implementation

Congrats GAPKI on getting this policy
adopted by the Indonesian Government

Congrats GAPKI on this 15th IPOC

Now you need to work with the EU to
remove further obstacles to Palm oil

Background

- 2019 is a Year of Stock Drawdown and Biodiesel
- 2020 shaping up to be a Year of Biodiesel and Lower Production
- 2019 – A year of Uncertain Rainfall
- 2019 Year which did not settle the Trade War



Trade War, Brexit etc

- Both USA and China need to end the Trade Dispute. Seems unlikely that it will end before the 2020 US Presidential elections
- Some temporary and partial settlement in the near future is very possible
- China will diversify her sources of beans
- Brexit is finally happening

Palm Prospects

- In 2018 Malaysia Palm production was 19.5 mln mt. and Indonesia produced 42 mln mt
- In 2018, World production of Palm oil was higher by 5 mln mt over 2017
- For 2019 my latest production estimates are
- Malaysia 20.3 mln mt and Indonesia 43 mln mt (42 mln in 2018)

Palm Prospect 2019

- In 2019, World Palm oil production will rise by max 2 mln mt
- In Malaysia, Older trees are suffering from Stress due to high productivity in 2018
- Low prices hurt small growers who cut fertiliser usage from August 2018 onwards
- Dryness has become a significant factor

Palm Prospects 2020

- From about July – August 2018, in Malaysia we had a High Cycle for Palm production. This High Cycle appeared to come to an end around March 2019.
- However, the period of good production continued all the way to August 2019.
- September production was a disappointment

Palm Prospects 2020

- Malaysia appears to be peaking in October but even that Peak is disappointing
- A new phase of under-performance has commenced, triggered by 2 factors :
- The normal biological High-Low Cycle
- And Dry weather plus Low or No Fertiliser application in FH 2019

Palm in Indonesia

- The story of anaemic production is even more pronounced in Indonesia.
- Fertiliser application had been reduced or skipped due to very low prices in 2018
- Dryness in FH 2019 and again from late August is a problem. We are already seeing signs of a feeble peak in production this year. 2020 will be worse

Palm in Indonesia

- Peak production in Indonesia in October is just not like last year. Anecdotal evidence suggests a feeble production recovery
- From November we expect to see month on month declines
- At present I am cautiously estimating higher 2019 CPO production in Indonesia but by a mere 1 million tonnes.

Malaysia production 2020

- As a result of the factors I have already discussed, I expect 2020 production in Malaysia to be LOWER than in 2019
- My early estimate – and I stress it is an early estimate – is that production will be lower by 1 million tonnes in FH 2020 and will stagnate in LH 2020

Palm in Indonesia 2020

- For 2020 I am not optimistic for Palm Oil production in Indonesia
- Low or No Fertiliser application in FH 19 plus dry weather in 2019 and the lower planting of new areas will combine to give us production growth of just 1 million tonnes. All of this growth will only come through in LF 2020

Palm Stocks 2019

- I repeat my contention that Indonesian stocks announced by official agencies are **UNDERSTATED**
- I was hoping that at this Bali conference GAPKI will release a new fresh updated stock figure for Indonesia and then we can all use that number as we go forward.

Palm Stocks

- The dramatic change in Stocks in Malaysia must be noticed
- In 2018 peak stocks in December were 3.215 mln mt
- In 2019 December we shall have stocks of around 2.5 mln mt if we are lucky
- Usage – domestic & exports is well ahead

Indonesian biodiesel mandate

- President Jokowi's support for B30 has been a game changer
- The Allocation of Palm biodiesel tonnage to each biodiesel manufacturer, after confirming his capacity, has boosted confidence. It has removed all doubts about B30. Sentiment is RED HOT

Too dependent on Bio Diesel

- As Oil World has reported, in 2019, almost 46 mln mt of veg oils will go for Bio Diesel
- Almost 17 mln mt of palm will go for PME
- We are far too dependent on Bio Diesel
- However, wherever Mandates are implemented (Indonesia, Brazil & USA) veg oils will be tight

How ready is Indonesia for B30 ?

- It looks like Implementation of B30 will be from January itself and will pick up as time goes by
- As palm prices rise as per our forecast, how will Indonesia justify its Export Levy ?
- Will Indonesia have a self correcting mechanism to suspend or reduce the B30 mandate if prices rise too fast ?

POGO

- It is anybody's guess as to what will be the level of Brent in 2020
- It is significant that the crude oil market has moved from a Carry to a small Inverse
- That means it is no longer advantageous for Shale Oil producers to sell far forward and capture the Carry

Sunflower oil

- We had a fifth year of bumper Sunseed crops in the Black Sea region
- Sun oil supply is plentiful but so is demand
- Sun oil is very competitive and hence it will capture greater market share in every part of the world
- Sun oil for Q2 2020 is extremely good value at current prices

Rapeseed

- Rapeseed production in Europe has suffered a setback in 2019
- It remains to be seen how much Canola seed is exported to and crushed in Europe
- Rape oil prices will remain at a big premium to soya and sun oils and create room for palm oil

CHINA

- China has turned out to be a Star for Palm oil in 2019 and will continue to be so in 2020
- Soybean crush will be down & China will also import less Rapeseed and Rape oil
- Palm continues to have a big opportunity
- Bio diesel demand in China is significant

Soybeans & Soya oil

- Dramatically, the US soybean carryover is not burdensome anymore
- Prospects for bumper soybean crops in South America are by no means certain
- We are going to be too dependant on Argentina for soya oil
- What if SOAM soya crops are not great !

Soya oil & Bio diesel

- USA soya oil stocks seem tight
- Brazil will export less soya oil this year
- Argentina is in crisis and farmers prefer to hold their beans.
- Soya oil demand is buoyant thanks to China and India
- SME exports from Argentina - ?

Indian Imports

• 000	12-13	18-19	19-20
• Soya	1,090	3,100	3,300
• Palm	8,240	9,500	9,900
• Sun	980	2,400	2,600
• Others			
• Total	10,670	15,600	16,300

INDIA

- Kharif oilseed crops were good but too much rain has caused damage.
- The irrigated Rabi Mustard crop should be very good
- Worldwide meal demand is soft and that may hurt crush in India
- Indian economy and growth should pick up in 2020

India Govt Tariff Policy

- Indian import duty on CPO will be reduced under previous Trade Agreements from 40 to 37.5% and on RBD Olein from 50 to 45%. That differential of 7.5% is not enough for the Indian refining industry to survive
- Indian refiners are at a big disadvantage due to Export Levy and Export Tax on CPO at origin

India Govt Tariff Policy

- So we must expect some intervention by the Indian Govt to help Indian refiners
- No country can allow its refining industry to die. Indonesia and Malaysia need to think very hard if Differential Export Taxes on Crude and Refined Palm are justified
- Win-Win solution would be to remove Export Taxes

Will India change Import tariffs in 2020

- The famous Indian Biting Point should be Rs 65000 on the MCX futures 2nd month
- We are already at Rs 60,000
- If prices rise and food inflation looks threatening, will India re-consider the current high import tariffs ?
- Indian Govt may resist this temptation

World Energy Demand

- World Energy Demand grew in 2017-18 by more than 3 mln mt as a result of increases in Indonesia and Brazil
- Energy Demand in 2018-19 will be higher by 4 mln mt
- Energy demand in 2019-20 will again be higher by 4 mln mt if B30 is implemented fully in Indonesia

World Food Demand

- World Food Demand for veg oils grows at a steady 3 mln mt annually
- 2018-19 and 2019-20 Food Demand also expected to grow 3 mln mt per year

The mystery of UCO

- Is UCO a type of UFO ?
- Each year the world is finding almost a million tonnes of extra oil which is called **USED COOKING OIL**
- UCO goes into biodiesel and has alleviated potentially very tight situation in supply

World Veg oil Incremental Supply

• 000 tonnes	18-19	19-20
• Soya oil	+ 1,000	+ 1,000
• Rape oil	- 500	- 500
• Palm oil	+ 3,500	+ 2,000
• Others	+ 500	+ 1,000
• Total Supply	+ 3,500	+ 3,500
• Total Demand	+ 7,000	+ 7,000

March – June 2020

- Starting from March 2020, world stocks of veg oils are likely to deplete to levels which make the price outlook bullish
- Will it be right to use edible oil as fuel when prices rise and make edible oil unaffordable to millions ?
- Some self correcting mechanism will be necessary

Assumptions for Medium Term Price Outlook

- Brent crude USD 60 to 80 per barrel
- Easy money policy by the FED
- World GDP growth in 2020 slower
- Some political turmoil in USA
- U S Dollar will be gradually weaken
- No major change as a result of new IMO regulations on fuel

What I forecast on 28 Sept

- I believe the current rally in palm prices has some more room and BMD 3rd month can go to 2500 Ringgits by POC in March 2020
- A lot will depend on Brent prices and the implementation of B30 in Indonesia
- That would take RBD Olein to \$600+
- Palm will narrow its discount to soft oils

What has actually happened

- The market is in a great hurry and has begun the job of rationing supplies by means of higher price
- In view of this and the sharper decline in production, my forecast is raised to 2700 Ringgits by POC 2020
- The reason for my further bullishness is

Price Outlook

- There is little scope for switching Edible Demand from Palm to Soft oils.
- Production of soya and sun oils in 2020 will only be slightly ahead of 2019.
- So the job of Rationing must go to bio diesel demand in China and in Europe via high prices

Soft Oils Outlook

- Sun oil sellers are very aggressive and sun oil is very competitive at present
- In due course sun oil must go to a significant premium over soya oil
- That premium will depend on imports by China, by Iran and India's appetite
- Soya oil should stay north of \$ 700 FOB

Lauric Oils Outlook

- Lauric Oils supply continues good
- CNO production in 2020 is likely to be lower than in 2019
- CPKO does not have the support of biodiesel usage and hence CPKO premium over CPO has eroded. CPO will need to push up CPKO prices

Conclusion

- With lower Production, Biodiesel usage has become the spark to ignite the rally
- 2020 may be the year when mechanisms are necessary to control bio diesel usage and thus moderate price rises
- Demand is killed by too high prices
- **GOOD LUCK & GOD BLESS**

