

Indian Vegoils Demand Scenario & its Impact on Global Prices

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Warm Welcome

- Warm Welcome to POTS and to Hon'ble Minister Mrs Teresa Kok
- Sorry I cannot be in person in Mumbai
- POTS is a unique format and a tribute to the marketing skills of the MPOC & MPOB
- Palm oil faces many challenges but there is some immediate good news

Background

- Very strong recovery in Palm production, particularly in Indonesia in 2018
- Earlier burdensome stocks in Malaysia
- Very big soybean crops in North and South America & Very big Sunseed crops in Ukraine & Russia
- Very cruel market for producers
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Background

- Indian Import Duty Went Higher thrice
- Persistent Betrayal of Bio Fuels by Trump Administration
- Excellent pro-active bio fuel measures by Indonesia and Brazil
- Strong USD -Weak consumer currencies
- Generally soft commodity outlook

Trade War, Brexit etc

- U S farmers have lost Billions of Dollars of Soybean sales
- U S farmers may NEVER regain their old market share
- This a Trade War which USA cannot win
- And now we have a possibility of a No Deal Brexit !

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%

Latest Indian Import Duties

- From 1st Jan 2019 Indian Import Duties on Palm are as follows:
 - CPO – 44%
 - RBD Olein – Malaysian – 49.5%
 - RBD Olein – others – 55%

Will India change Import Duties

Indian Government wants to help farmers and is committed to doubling farm incomes

- The optimum time for a revision of Import Duties may come around end August or just after festivals
- India desperately needs to help her Refining and Crushing industries. Both are in big trouble

Answers to Questions

- Why was CPO and Olein sold down so dramatically in FH 2019 when it was competitive against soft oils ?
- Was it because certain big producers were under-sold ? And as a result of that selling They would now not need to be aggressive anymore !

Answers to Questions

- Or was the selling a form hedging by certain very bearish players ?
- In that case, those sellers may have been busy buying back recently !
- Or was the seller unwinding a misguided POGO play ? In that case he has cleaned up his position and does not need to sell anymore !

Balance of Probability

- Therefore, if I answer the 3 questions on the aggressive selling seen in April and in June this year; the Balance of Probability is for the current recovery in prices to continue.
- At least for the next 4 to 6 weeks until Production can show signs of a meaningful recovery

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
- I have raised my 2019 production estimates
- Malaysia is now 20.3 mln mt and Indonesia has gone up to 45 mln mt



Palm Prospect 2019

- In 2019, World Palm oil production will rise by at least 3.5 mln mt
- 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
- Hence we need to watch production

Palm Prospects 2019

- From about July – August 2018, in Malaysia we had a High Cycle for Palm production. This High Cycle came to an end around March 2019. After that the trees will require a period of rest of about 6 months
- In Malaysia we shall see a recovery in production only from September



Palm Stocks 2019

- I repeat my contention that Indonesian stocks announced by official agencies are **UNDERSTATED**
- It will be great if at the forthcoming Bali conference on 1 November 2019, GAPKI will release a new fresh updated stock figure for Indonesia and then we can all use that number as we go forward.

Palm Bio Diesel holds key

- Indonesian bio diesel producers are operating at full capacity. They have very little for export. Annual run rate could be as high as 7 mln mt
- Indonesia is experimenting with B30. There is optimism that B30 will be mandated from January 2020. Let us not get carried away



Too dependent on Bio Diesel

- As Oil World has reported, in 2019, almost 45 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 and NOT all bio diesel use is mandated
- Even Mandates are only fully implemented when there is a guaranteed subsidy or it is Profitable

POGO

- The Palm Oil Gas Oil Spread is currently around \$ 80 for the spot position but is only \$ 55 for Nov 2019 and for Nov 2020 it is Below Zero
- Can Indonesia afford B30 without a punishing Export Levy ? And how will importers like India react to a high Indonesian Export Levy ?

Other Vegetable Oils

- The resilience of Sunseed crops in Russia and Ukraine has surprised me
- We are on the threshold of a 5th bumper Sunseed crop in the Black Sea region
- Sun oil will have no trouble placing this year's output though the premium over soya oil has to moderate – it is already doing so

Rapeseed

- Rapeseed oil is losing market share due to its premium over soya oil
- Europe, Canada and Australia are not able to increase Rapeseed production
- Canola has lost export market in China
- In Europe Rape oil will lose to other oils in bio diesel usage

CHINA

- Resolution of the Trade War is uncertain and unlikely
- Soybean crush will be down due to soft meal demand. China will also import less Rapeseed and Rape oil
- Palm had an opportunity and it has capitalised on it. Now palm has to wait for winter to end

Soybeans & Soya oil

- USA will have the biggest carry over stock of beans in history
- I look forward to the USDA re-surveyed estimates of 12 August 2019
- Soybean futures are too high considering the massive carry-over

Soya oil & Bio diesel

- USA soya oil stocks seem tight
- The cash basis in South America for soya oil has exploded. My opinion is that hopes for export of Soya Bio Diesel from Argentina are over optimistic
- The market is not appreciating how dependent we are on Brent prices

Indian Imports

• 000	12-13	17-18	18-19
• Soya	1,090	3,050	2,900
• Palm	8,240	9,200	9,750
• Sun	980	2,525	2,400
• Others			
• Total	10,670	15,026	15,300

INDIA

- It is far too early to estimate Indian Kharif crops or the tonnage of India's imports for 2019-20.
- Even if the Kharif soybean crop is not great, we cannot write off the Rabi Mustard crop
- We must expect the Indian Government to make a huge effort to expand Mustard cultivation later this year

EL Nino

- Sadly the biggest effect of this year's mild El Nino appears to be in India
- Currently it is expected that in the Palm Belt of South East Asia the rainfall will soon normalise
- Let us hope August and September rains in India are close to normal

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 interesting due to much higher mandate in Indonesia. The challenge is really in Indonesia – can Indonesia consume 7.5 mln mt of palm oil in bio diesel ?

World Food Demand

- World Food Demand for veg oils grows at a steady 3 mln mt annually
- 2017-18 and 2018-19 Food Demand also expected to grow 3 mln mt per year

World Veg oil Incremental Supply

• 000 tonnes	17-18	18-19
• Soya oil	+ 2,000	0
• Rape oil	+ 500	+ 500
• Palm oil	+ 5,000	+ 3,500
• Others	+ 500	+ 1,000
• Total Supply	+ 8,000	+ 5,000
• Total Demand	+ 6,000	+ 7,000

Assumptions for Medium Term Price Outlook

- Brent crude USD 60 to 80 per barrel
- One rate cut in July 2019 by FED
- World GDP growth in 2019 slower
- Some political turmoil in USA
- U S Dollar will be gradually weaken

Palm Price Outlook

- I believe the current rally in palm prices has some more room and BMD 3rd month can go to 2200 Ringgits by September
- That would take RBD Olein to \$550-560
- Post September we must watch the recovery in production and the POGO
- As stocks rise, palm prices can retrace back to 2000 Ringgits



Price Outlook

- Price Outlook will also depend on the rains in the Palm Belt from mid August onwards
- If normal rainfall is restored, we can look forward to higher production in 2020 and that will cloud the price outlook for 2020
- Soya and Sun oil prices have gained too much recently and must retrace

Lauric Oils Outlook

- Lauric Oils supply continues good
- CNO production in 2020 is likely to be lower than in 2019
- Demand for industrial use has been better than expected and once prices look like they have bottomed out, the MNCs tend to pile in to buy far forward positions

Lauric Oils Outlook

- CPKO and CNO look like they have bounced off their 10 year support
- The present rally in CPKO is led by CNO but should soon be capped because these lauric oils on 2020 positions are now expensive as compared with alternatives

Conclusion

- Prices have bottomed
- Veg oils are cheap so consumption is expanding
- This rally has some room to run but after that prices will depend on production recovery
- **GOOD LUCK & GOD BLESS**

