Global Supply, Demand & Price Outlook of Oils & Fats

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Veg oil prices have fallen to 5-year lows 
may have bottomed in early Feb 2015 
Palm oil discounts vs Arg soya oil narrowed for the new crop. Is that sustainable?
Financial uncertainties
Economic crisis in China and other countries
In the short and medium term, palm oil can hardly react to declining prices. But producers of sun oil and rape oil have done that (farmers and crushers responding). Supply response. Tug-of-war between the bearish demand and the bullish supply fundamentals.
Farmers have reacted, cutting back plantings of high yielding oilseed

For example rapeseed in EU, Ukraine & India

And probably also in Canada this spring

World production of rapeseed to decline by 2-3 Mn T in 2015/16
Bearishness emanating from the energy sector

Brent (ICE): Daily Futures of Crude Mineral Oil
First position in US-$ per barrel

Daily Prices of Gas Oil & Crude Palm Oil (US-$/T)

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The graph shows the boost in production of biodiesel since 2004.

In 2014 production exceeded expectations and rose 2.4 Mn T to 29.8 Mn T.

Decline of 0.8-1.0 Mn in 2015 for the first time!

Plus reductions of oils & fats use for electricity production.
In 2014: Palm oil usage in biodiesel 9.7 Mn T (32% of all feedstock used) and 16% of world PO usage

Soya oil 8.1 Mn T and 18% of total soya oil use

Rapeseed oil 6.4 and 24%

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Indonesia is the major swing factor to be watched in 2015

Last Friday new proposal released to raise domestic biodiesel to B15!

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World stocks of soybeans likely to rise to a record 90 Mn T at the end of 2014/15 season.

Are we at the beginning of a longer period of surplus stocks and depressed prices?

Still, world soybean crushings could not be raised sufficiently.
ARGENTINA: Soybean Stocks (Mn T)

- Stocks as of March 1

Daily Selling Prices of Argentine Peso per 1 US-$

- Inofficial exchange rate
- Official exchange rate

Daily selling prices from 2 July 2013 until 11 March 2015
In my opinion we have seen the lows for soya oil futures. Soybeans supported by lack of farmer selling and, late Febr, by the Brazilian strike.
CBOT: Daily Indices of Soybean Complex

1 October 2014 = 100

Daily indices from 1 Oct 2014 until 12 March 2015

Soya Meal May 15
Soybeans May 15
Soya Oil May 15
CBOT: Daily Indices of Soybean Complex
12 March 2014 = 100

- Soya Meal May 15
- Soybeans May 15
- Soya Oil May 15

Daily indices from 12 March 2014 until 12 March 2015
Soybean prices were surprisingly firm already in Nov and Dec, despite the huge US crop.

- Reserved farmer selling in the US, Argentina, ...
- Farmers have become an important market factor.
Farmers dissatisfied with prices. Have become reserved sellers.

Arg crush in Jan+Febr 15 very small (slow exports)

Silo bags have become widespread in Argentina and - - now also in Brazil

1) Usually 200 Tonnes
2) Soybeans can be stored for one year without major quality issues
The truckers’ strike in Brazil from Febr 18 until early March was the worst in 15 years.
In CHINA oilseed output will continue to decline in 14/15 to a 15-year low
- Crush boost (98 Mn)
- Agricultural land is shrinking every year
- Farmers switch to other crops, mainly to grains

Huge Chinese buying also supported soybean prices
CHINA:

In domestic supply deficit

Booming imports in 14/15:
Soybeans 75 Mn T
Rapeseed 4.5 Mn

But vegetable oil imports declining (cutting stocks), mainly of soya and rapeseed oils.

Palm oil imports recover
China and India largely dependent on Palm Oil Imports

CHINA: Imports of 17 Oils & Fats (Mn T)

INDIA: Imports of 17 Oils & Fats (Mn T)
10 OILSEEDS:
Ample world supplies of oilseeds in 2014/15 season
Output & stocks rising in 3rd season in a row
And again in 2015/16?
Prices have declined to multi-year lows!
→ Bearishness already discounted?
In past 16 years production of soybeans almost doubled to 312 Mn (now 60% of all oilseeds), up 28 Mn vs 13/14

2014/15 production (Mn T):
- Rapeseed 69.1 (-1.1 Mn T)
- Sunflower 41.0 (-2.3 Mn T)
- Groundnuts 27.2 (-1.4 Mn)
- Cottonseed 44.2 (+0.5 Mn)
Soybeans: Production and Area

SOYBEANS

Our current soybean crop estimates 2014/15 (vs 13/14) in Mn T:

USA 108.0 Mn T (vs. 91.4)
Brazil 93.8 (vs. 86.1)
Argentina 54.5 (vs. 52.0)
India 8.7 (vs. 8.8)
China 12.0 (vs 12.0)

World: 312 Mn T (vs 284)

SOYBEANS

World Production (Mn T) and Area (Mn ha)

13 March 2015
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SOYBEANS

USA: big jump in output on higher area + yields in 2013 and 2014. But future growth will be limited by lack of acreage.

Most of the production growth in the future must come out of S. America. But will it really?
Summary of the Global Outlook in 2014/15

- World supplies of soybeans ample (+37 Mn T) in 2014/15.
- For all other oilseeds other than soybeans we estimate: world production -3.5 Mn T (vs +13.2) and crushing -2.3 (vs +10.2)
- Reduced softseed crush will have significant impacts on global vegetable oil production.
- Rising dependence on soybeans - we will be crushing for oil - but soybeans are a meal seed - bullish on the oil share
- **Markets are in transition** - > oilmeals prices set to fall to stimulate demand in April/Sept 2015, but veg oil supply relatively tight
Crush of all 9 oilseeds (other than soya) is set to suffer a drop of 2.3 Mn T in 2014/15 vs. a boost of 10.2 in 2013/14.

This will have a major impact on oils & fats.

More soya oil will be required, boosting the world soya crush by 14.0 Mn T in 2014/15 (vs +12.6), and creating a surplus in oilmeals.
Only a below-normal growth in world production of 2.0 Mn T is expected for 2014/15 (against +11.4 in 2013/14)

In 14/15 annual growth in palm oil production only half of average growth

Production deficit, keeping veg. oils prices at a rel. high premium vs. mineral oils
The growth in production is slowing down in 2014/15:

Palm oil will probably show the smallest output growth in 13 years (+1.4 Mn T)

Sun oil production will decline by 0.9 Mn T versus a boost of 2.7 Mn T in 2013/14

Olive oil -0.8 Mn T (vs +0.9)

Biggest increase in soya +2.1
Palm oil the most important oil today

In 2014/15 PO & PKO account for 33% of world output & 62% of exports (48 Mn)

On only 6% of the area

But the prices of PO still largely depend on S & D of other veg oils

plus on energy prices and energy policies
For Oct/Sept 2014/15 we estimate production in Mn T:

Malaysia 19.3 (vs 20.1)
Indonesia 32.4 (vs 30.5)

Output in Jan/Dec 2015:

Malaysia 19.7 (vs 19.6)
Indonesia 32.9 (vs 30.8)
In 2014/15 below-average growth in supplies in the 2nd consecutive year

- Result in rel. high price premiums of palm oil over crude mineral oil
- and explains the small discount to soya oil

- Higher seed oil output required, most of which has to come from soybeans (a meal seed)
World Production of 17 Oils & Fats

2014/15 - - 202.0 Mn T

- Palm Oil 30,0%
- Soya Oil 23,0%
- Rape Oil 13,3%
- Sun Oil 7,7%
- PKO&CNO 4,9%
- Others/An.Fats 21,0%

1991/92 - - 83.5 Mn T

- Palm Oil 14,2%
- Soya Oil 20,1%
- Rape Oil 11,4%
- Sun Oil 9,9%
- PKO&CNO 5,2%
- Others/An.Fats 39,3%
World Production of 12 Oilmeals

20014/15 - - 317 Mn T
- Soya meal 62,7%
- Rape meal 12,1%
- Sun meal 5,4%
- Fish meal 1,3%
- Others 18,5%

1990/91 - - 137 Mn T
- Soya meal 50,7%
- Rape meal 10,3%
- Sun meal 7,1%
- Fish meal 4,6%
- Others 27,3%
12 Oilmeals: World Production (Mn T)

**Soyameal**

**Other 11 oilmeals**
12 OILMEALS: World Production

Change from Previous Season (in Mn T)

- Soyameal
- 11 Other Meals

05/06 06/07 07/08 08/09 09/10 10/11 11/12 12/13 13/14 14/15F
The prospective growth in world consumption in 2014/15 is set to exceed the growth in production!

Production surplus 13/14

Global stocks are likely to decline to only 13% of annual consumption.
World demand of oils/fats very strong until 2014
doubling in past 20 years
Most of that growth was on account of palm oil
Mainly for food, mainly in the developing ctries
Big change in 2014/15: the slowest demand growth in 11 years!
In Oct/Dec 2014 world consumption was still relatively high and was up by 2.1 Mn T or 4.2%.

But the consumption growth is likely to slow to only 1.1 Mn T or 2.4% in Jan/March 2015 and just 1.3% in Apr/Sept.

Consumption for energy to fall by around 1.5 Mn T in Jan/Sept 2015.
Dominance of Malaysia & Indonesia in world exports of all oils and fats

Both countries also benefit from logistical constraints in many other export locations.
The graph shows stocks relative to annual consumption for oilseeds and for oils & fats.

While the global oilseed stocks/usage ration is set to increase further in 2014/15,

Stocks of oils & fats relative to usage will be declining.

Meal prices are overvalued, veg oil prices to appreciate.
Current prospects are that world soybean supplies will remain ample in 2015/16.

But weather risks.

Producers have started to respond. Rape and sunseed output may fall.

One major crop failure away from higher prices!
Price prospects:

1) With ample supplies (on paper) soybeans have downward potential in the next 1-3 months and also in July/Dec 2015, unless US new-crop prospects deteriorate.

2) Meal prices look even more bearish.

3) Oil share to recover further (to 35% or 37?) implying that soya oil price should appreciate.
Price Prospects - amidst many uncertainties, my forecast:

- The global market is in a tug-of-war between bearish demand and bullish supply fundamentals.
- Fluctuating, but downward potential for veg oil prices is limited.
- Veg. oil prices continue to divorce from weak mineral oils. (Mineral oil prices may have reached their low, or close to it).
- Likely downward pressure in meal to become bullish for oil. We enter the lower summer demand season in N.H. Seed oils will have to finance a larger share of the crush value.
- Key uncertainties: Weather in Northern Hemisphere in next 2-6 months, farmer selling, logistics, currencies, politics,…
Soya oil prices seen recovering relative to soya meal and may rise moderately in April/Sept 2015, despite my expectation of lower prices of soybeans and meal.

Palm oil: World production declined in Oct/Febr 2014/15. Stocks currently relatively low, despite poor demand recently. Production now picking up seasonally, primarily from April and May onward. But also world import seen rising in Apr/Sept 15, mainly for food. Prices should thus be supported at sizeable premiums over crude mineral oil prices.
- One swing factor to watch is the development in China.
- A key swing factor is the magnitude of biodiesel consumption in Indonesia.
- I currently assume that total Indonesian biodiesel production increases to 3.1 Mn T in 2015, of which 2.2 Mn T used domestically and 0.9 Mn T for export.
- But full implementation of B10 would imply domestic use of 3.2 Mn T per annum.
- B15 would even imply a usage of 4.8 Mn T (logistics?)
- One observer: *will be implemented in the Indonesian way*. 
Thank You
for Your Kind Attention!

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