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QUARTERLY REPORT ON OILS AND FATS

1st Quarter 2010

INSIDE

MPOB

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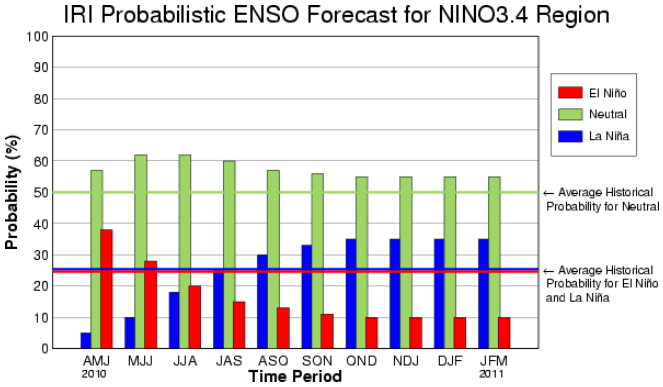
Weather Conditions

Figure 1: IRI Probabilistic ENSO

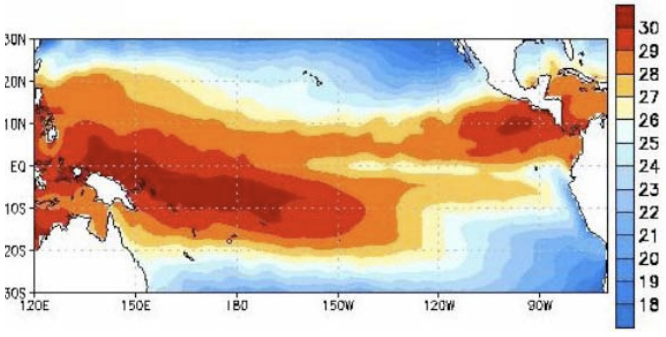


Source:http://iri.columbia.edu/climate/ENSO

The probability of El-Nino occurring is expected to decline from 60 percent in the last quarter to 30 percent by mid - 2010. International Research Institute of Climate and Society (IRI) report indicate that neutral condition mostly will prevail this year. Nevertheless, there is a probability that La-Nina may occurred towards end of 2010.

The trend towards neutral condition is also supported by the Malaysian Meteorological Department (MMD). Based on their current observation, a transition to neutral condition is expected by June 2010. Similarly with IRI, MMD also expected a possibility of La Nina to be developed on the second half of 2010.

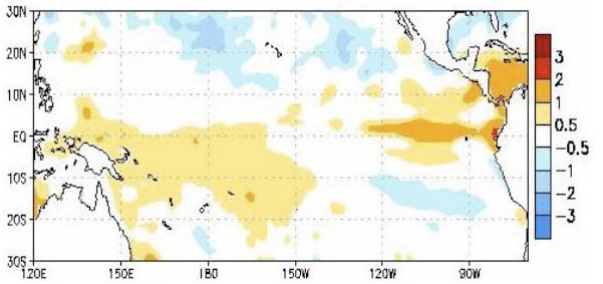
Figure 2(a): Sea Surface Temperature (oC)



Source: Malaysian Meteorological Department(MMD)

Figure 2(a) above shows that the development sea surface temperature that remain high on Oceania region while cooler part start to develop at the South America. *Figure 2(b)* below indicates that the anomaly on the sea surface temperature is getting less which is shows by white area.

Figure 2(b): Sea Surface Temperature Anomaly (oC)



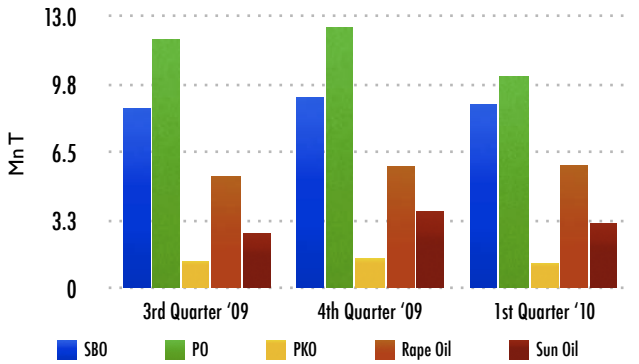
Source: Malaysian Meteorological Department

Decrease in World Production of Total Oils

Weather can have lagged affects on crop yields. This can be seen on the world production of total vegetable oils that declined by 6.3% to 41.22 Mn T in the first quarter of 2010 from 44 Mn T in the last quarter of 2009 (Figure 3). This was mainly attributed to smaller production of major oils i.e. palm oil, palm kernel oil, sunflower oil and soybean oil by 18.8% to 10.15 Mn T, by 16.3% to 1.2 Mn T, by 15.6% to 3.13 Mn T, and by 3.3% to 8.83 Mn T, respectively. Although the production of rapeseed oil had improved in this quarter but the increase was only marginally by nearly 1% to 5.89 Mn T, while other oils had increased by 5% to 12 Mn T. On the overall basis, palm oil continued to stand out against others despite shortfall in output.

Compared to last year on quarterly basis, the production of total oils had increased by almost 1.4 Mn T or 3.4% from 39.85 Mn T. Rapeseed oil registered a substantial quantum increase of 0.7 Mn T, followed by soybean oil 0.5 Mn T and palm oil 0.3 Mn T. However, production of palm kernel and other oils had increased once marginally. Only the production of sunflower oil had headed south by 5.9% or nearly 0.2 Mn T.

Figure 3: World Production of Major Oils



Source: Oil World

World Export Decreased

Total world export of major oils for this quarter had shrunk by 14.6% or by 2.48 Mn T to 14.5 Mn T compared to 17.1 Mn T in the fourth quarter of 2009 *(Table 1*). This implies reduction of approximately 2.45 Mn T of palm oil. However, palm oil continued to dominate the export market. The amount was less by 23.4% from the previous quarter, followed by palm kernel oil by 15.5% to 0.74 Mn T and sunflower oil by 9.46% to 1.1 Mn T. Export of soybean and rapeseed oils had increased by 10.81% to 2.02 and 15.63% to 0.67 Mn T correspondingly, compared to the previous quarter.

Table 1: Export Vegetable Oils (1000 T)

	4TH QTR '08	3RD QTR '09	4TH QTR '09	Q-ON-Q % CHANGE
Soybean Oil	2,153	2,494	1,957	-21.53
Palm Oil	9,800	9,230	9,719	5.30
Palm Kernel Oil	782	732	830	13.39
Rapeseed Oil	674	728	632	-13.19
Sunflower Oil	1,263	1,131	1,293	14.32
Others	1,788	2,054	1,957	-4.72
Total	16,460	16,369	16,388	0.12

Total world disappearance of oils and fats had contracted marginally by 1.56% to 41.70 Mn T. Except for palm oil, major oils had contributed to lower amount of disappearance, with negative growth recorded for soybean, rapeseed, sunflower and palm kernel oils of 1.2%, 0.8%, 9.5% and 7.1%, respectively. Disappearance of palm oil was recorded at 11.7 Mn T, higher by 1.2% than the previous quarter.

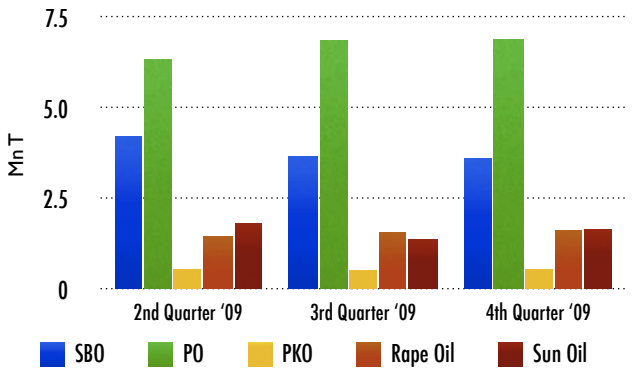
Decrease in Total Import of Major Oils

Imports of total edible oils had dipped by 4.7% to 15.39 Mn T due to downward import trend of major oils i.e. soybean oil, palm oil, palm kernel oil and rapeseed oil by about 15.8%, 3.5%, 6.0% and 5.8% respectively. Only import of sunflower oil had shown an increase of 9.4% to 1.17 Mn T.

Increase in Stocks of Major Oils

Ending stock of total edible oils and fats recorded worldwide increase of 1.7% to 19.2 Mn T due to bigger stocks of other type of oils which additional amount about 1.1 Mn T over the previous quarter. Major oils such as sunflower oil and rapeseed oil also showed similar trend by 11.9% and 3.6% respectively. However palm kernel oil, soybean oil and palm oil had shown lesser amount of stock volume by 11.3%, 9.6% and 8.7%, accordingly *(Figure 4)*. (Charts for Oils and Fats are shown in Appendix).

Figure 4: World Ending Stocks of Selected Oils



Source: Oil World

Decrease in Crushing Volume of Major Oilseeds

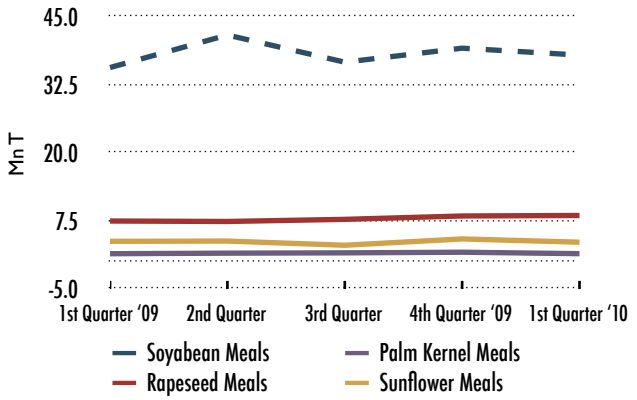
Worldwide crushing of oilseeds had declined by 3.6% to 73.35 Mn T. Two third of the crushing activities was contributed by soybean which amounted to 48.39 Mn T registering a 2.1% decrease on-quarter basis. Crushing activities in Argentina, USA, EU and China PR showed slow-downs in crushing of 7.5%, 6.3%, 2.4% and 2.2% respectively. In the other hand, crushing in Brazil and India had increased by 10.5% and 7.1% over the previous quarter. In addition, sunflower seed and palm kernel crushing also recorded a decrease by 16.2% and 12.6%, accordingly.

Meanwhile, total rapeseed crushing showed marginal increase of 1% only. Increments of crushing activities were recorded in India (33.5%) and Canada (15.3%). However, Iran, Japan, China-PR and EU-27 have registered a respective decrease of 36.2%, 6.4%, 4% and 2.6% in this quarter.

Decrease in World Production of Oil Meals

The production of world oil meals had shown a downward trend of 4.0% from 67.17 Mn T to 64.50 Mn T. This is due to the lower production of palm kernel meals, sunflower meals and soybean meals by 15.8%, 14.5% and 3.3% respectively over the previous quarter *(Figure 5)*. Meanwhile, the total import of oil meals had slightly increased by 1.7% from 17.27 Mn T to 17.56 Mn T.

Figure 5: World Production of Oil Meals



Source: Oil World

Total export of oil meals had decreased by 3.8% from 17.52 Mn T in the previous quarter to 17.16 Mn T, mainly due to reduction in export of rapeseed meal, palm kernel meal, sunflower meal and soybean meal that had decreased by 19.9%, 1.1%, 18.9% and 6.5% respectively.

The consumption of oil meals had slightly decreased by 1.7% to 65.78 Mn T in this quarter, attributed by lower disappearance of major oil meals such as sunflower meal, soybean meal, palm kernel meal and rapeseed meal, which had decreased by 9.8%, 2.0%, 9.3 and 1.6%.respectively. Overall, total ending stock of oil meals had decreased by 4.9% from 7.33 Mn T to 6.97 Mn T.

Biodiesel Market Developments

Biodiesel prices had slightly improved in this quarter. The prices of palm methyl ester (PME) and soybean methyl ester (SME) had both inched up by 0.9% to average at USD 896.33 and USD 951.75 per tonne respectively. Meanwhile, the price of rapeseed methyl ester (RME) had decreased slightly by 1.2% (USD 994.33), (Table 2). (The Biodiesel figure is shown in the Appendix).

Table 2 : Biodiesel Prices (USD/tonne)

SOURCE	PRODUCTS	JAN	FEB	MARCH	% CHANGE (Jan - March)	AVERAGE (US$)
Kingsman	SME 0/-5ºC CFPP (CIF ARA)	942.00	945.75	967.50	0.89	951.75
	PME 10/15ºC CFPP (CIF ARA)	894.00	876.75	918.25	0.89	896.33
	RME 10/12ºC CFPP (FOB ARA)	1014.50	989.50	979.00	(1.19)	994.33

Another Giant Bets on Palm Biodiesel in Brazil

Following Vale's steps, Petrobras, the Brazilian oil company, has announced intention to invest in the production of biodiesel based on palm oil. The goal is to supply to the European biofuel market in 2014 and onwards. Vale, the iron ore giant, made the first move by announcing 50 million gallons of "palmdiesel", by 2014 through investment in planting of 60, 000 hectares of oil palm envisaging production of 300,000 tons of CRUDE PALM OIL. Petrobras has announced the same numbers this week. The partnership with GALP, the portuguese energy group, will give Petrobras the access to the Iberian market.

The implications are clear. It makes palmdiesel an emerging contender to compete with soyabean and rapeseed. This will have positive impacts on overall price competitiveness of biodiesel five years from now. The current European crisis will have spillover effects for the next ten years on regulations on biofuels and its adoption across Europe. In Brazil, it gives strong impulse to the palm oil value chain - from plantation to oil logistics, and gives also better, productive use of devastated areas in the Para state. Vale and Petrobras projects could finally unlock the environmental agenda in brazilian congress regarding the use of land in the Amazon, opening the way to a revision of the 50-50 law. It puts also the country in the forefront of palm oil in the Americas, together with Colombia, which has a more mature and professional palm oil sector. By 2014, Brazil should reach 0.5 million hectares of planted area, potentially equivalent to a production of 2.5 million tons of crude palm oil.

(Source: Palmnews - Gerson Lehrman Group)

Pakistan – Government Looking for Alternative Fuel

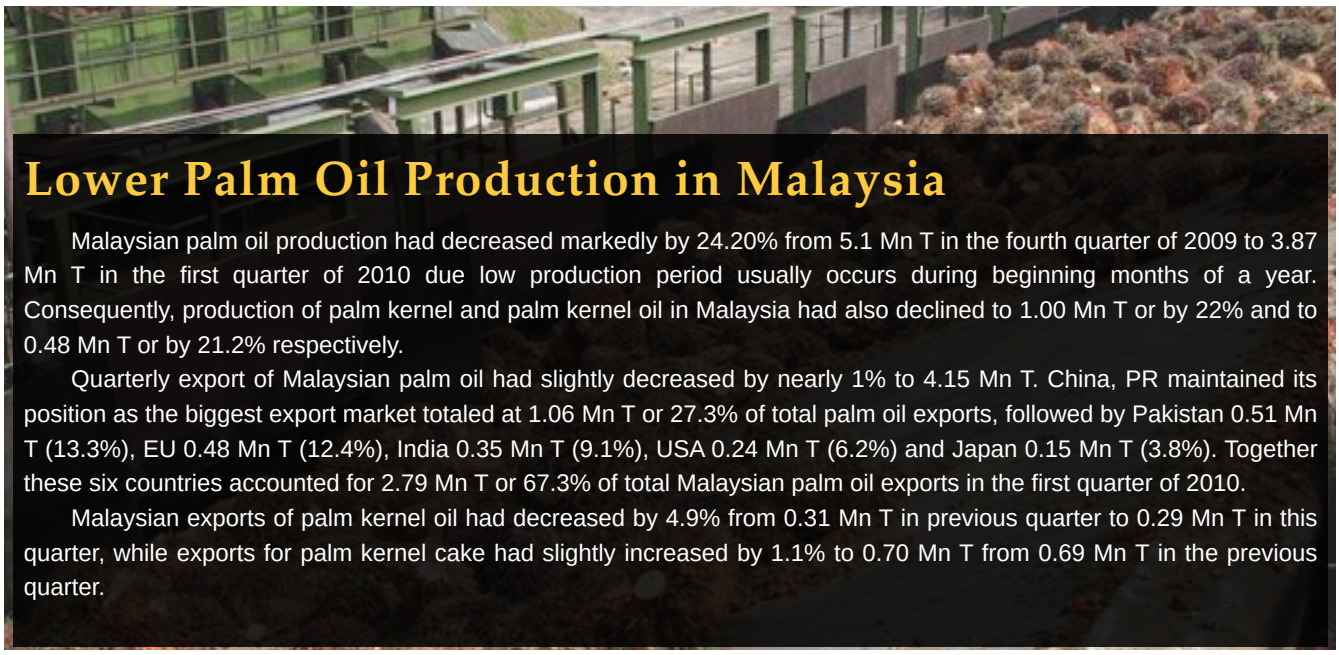
The Pakistan government was paying full attention to developing alternative fuel such as ethanol and biodiesel to overcome the energy crisis in the country. The world was moving fast towards new fuel technologies and Pakistan could not afford to lag behind. Indigenously produced ethanol and biodiesel could help in achieving import substitution.

(Source: Biodiesel report)

US – Oil Industry Challenges EPA RFS in Court

The American Petroleum Industry (API) and the National Petrochemical and Refiners Association said that the EPA standards announced last month are unlawful and unfair because they mandate compliance for 2009 and part of 2010, before the rules are officially implemented.The EPA declined to comment on the petition. “By setting retroactive requirements, refiners, and ultimately consumers, will be penalized for EPA’s inability to get this rule out on time as directed by congress”. A 2007 law required the EPA to set standards in 2008 for the blending of biofuels into the nation’s fuels in an effort to curb greenhouse gas emissions. EPA is requiring refiners and oil companies to meet the blending standards for all of 2010, and those for biomass biodiesel for 2009 as well. The head of NPRA, said the petition doesn’t’ challenge the overall renewable fuel program. “Rather, our concern is with the unreasonable retroactive application of certain provisions of the rule and fundamental fairness in the implementation of policy”. The NPRA said that many companies have been blending in anticipation of the new rules based on their expectations of what the EPA would do. But while some of them may have guesses right, others will now have to bear the cost of catching up on more than a year’s worth of blending requirements.

(Source: Biodiesel report)



Lower Palm Oil Production in Malaysia

Malaysian palm oil production had decreased markedly by 24.20% from 5.1 Mn T in the fourth quarter of 2009 to 3.87 Mn T in the first quarter of 2010 due low production period usually occurs during beginning months of a year. Consequently, production of palm kernel and palm kernel oil in Malaysia had also declined to 1.00 Mn T or by 22% and to 0.48 Mn T or by 21.2% respectively.

Quarterly export of Malaysian palm oil had slightly decreased by nearly 1% to 4.15 Mn T. China, PR maintained its position as the biggest export market totaled at 1.06 Mn T or 27.3% of total palm oil exports, followed by Pakistan 0.51 Mn T (13.3%), EU 0.48 Mn T (12.4%), India 0.35 Mn T (9.1%), USA 0.24 Mn T (6.2%) and Japan 0.15 Mn T (3.8%). Together these six countries accounted for 2.79 Mn T or 67.3% of total Malaysian palm oil exports in the first quarter of 2010.

Malaysian exports of palm kernel oil had decreased by 4.9% from 0.31 Mn T in previous quarter to 0.29 Mn T in this quarter, while exports for palm kernel cake had slightly increased by 1.1% to 0.70 Mn T from 0.69 Mn T in the previous quarter.

Outlook

CPO Prices Decreased Marginally in the Second Quarter of 2010

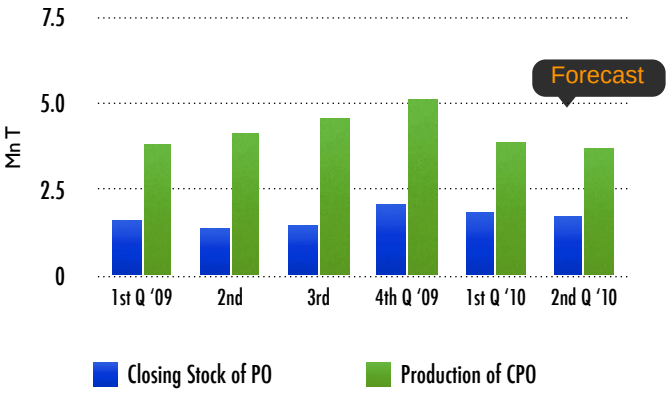
To examine crude palm oil (CPO) price for second quarter of 2010, all main factors inflaming crude palm oil price will be analyzed. There are three major factors that have an impact on crude palm oil price which, on supply side comprises of production and stock while on demand side include export of palm oil and soybean oil (SBO) and the third factor is crude petroleum oil prices.

a) Production of CPO and stock of palm oil

Figure 6 shows the trend of production of crude palm oil and stock of palm oil (PO) which indicates a positive relationship between the two factors. An increase in production of crude palm oil, will also lead to an increase in stock level of PO. In the first quarter of 2010, production of crude palm oil decreased to 3.87 Mn T as compared to 5.10 Mn T in the fourth quarter of 2009. Therefore, the stock of PO was also decreased from 2.05 Mn T in the fourth quarter of 2009 to 1.82 Mn T in the first quarter of 2010.

Based on AR(1) model it is estimated that production of crude palm oil in the second quarter of 2010 will be declined marginally to 3.69 Mn T as compared to 3.87 Mn T in the previous quarter. Meanwhile, based on the same model for stock of PO, it is estimated that stock of PO will be declined to 1.72 Mn T in the second quarter as compared to 1.82 Mn T.

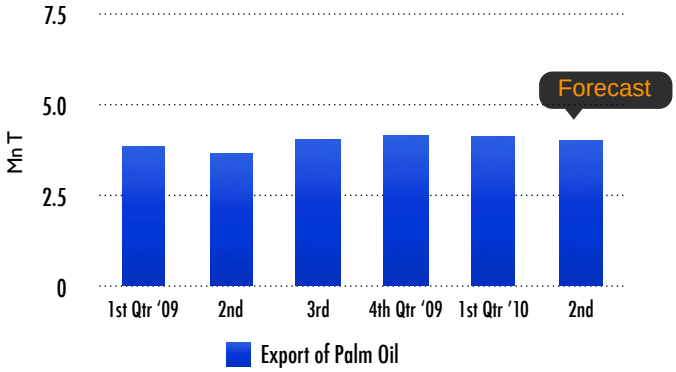
Figure 6: Production of CPO and Stock of Palm Oil



b) Export of Palm Oil

Figure 7 shows the movement in export of PO from first quarter of 2009 to first quarter of 2010. It shows that the movement of export of PO for those periods was slightly volatile. In the first quarter of 2010, export of PO decreased marginally to 4.15 Mn T as compared to 4.19 Mn T in the fourth quarter of 2009. Based on AR (1) model it is estimated that export of PO in the second quarter of 2010 will continue declined to 4.05 Mn T.

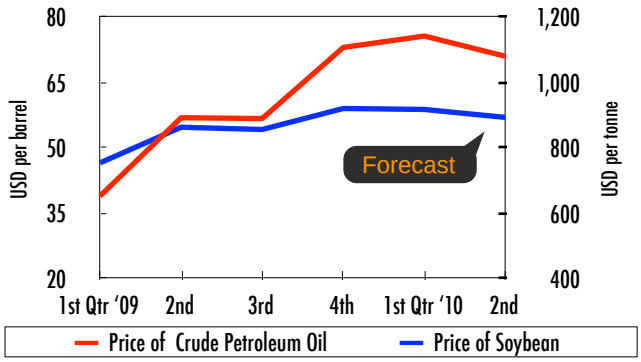
Figure 7: Export of Palm Oil



c) SBO and crude petroleum oil prices

Figure 8 shows the movement in soybean oil and crude petroleum oil prices. As shows in the 1st quarter of 2010, soybean oil price decreased marginally by USD 3 to USD 917 per tonne from USD 920 per tonne in the fourth quarter of 2009. Meanwhile, price of crude petroleum oil increased to USD 76 per barrel in first quarter of 2010 as compared to USD 73 per barrel in the fourth quarter of 2009. Based on VAR model it is estimated that the price of soybean oil will be decreased to USD 893 per tonne. While, AR (1) model estimated that price of crude petroleum oil will decreased to USD 71 per barrel in the second quarter of 2010.

Figure 8: Soybean Oil and Crude Petroleum Oil Prices



Price of Crude Palm Oil

Figure 9 shows the movement in price of crude palm oil from first quarter of 2009 to first quarter of 2010 which indicate some volatility in the movement during period mentioned. Due to the volatility, there are two different scenarios could happened for price of crude palm oil in the second quarter of 2010. If the analyses only consider supply and demand factors the result shows that the price of crude palm oil will be in an upward trend in second quarter of 2010. However, if the analysis took the influence of external factors such as soybean oil and crude petroleum oil prices, the result shows that price of crude palm oil will be in downward trend in the second quarter. Therefore, multiple regressions technique was used to estimate price of crude palm oil for the second quarter of 2010. Based on that model it has estimated that the price of crude palm oil in the second quarter will declined to RM2,508 per tonne as compared to RM2,563 per tonne in the first quarter or a decreased by about 2.2%.

Figure 9: Price of Crude Palm Oil

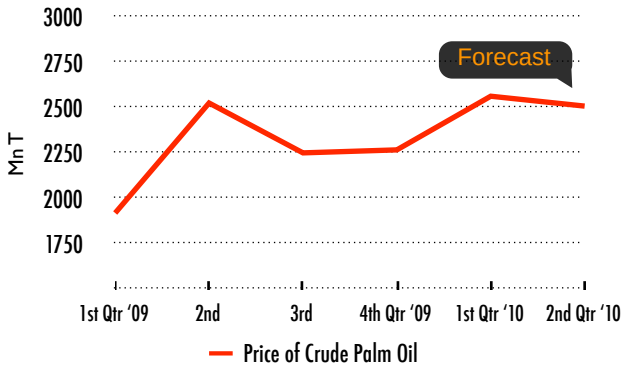


Chart 1: World Imports of Oils & Fats

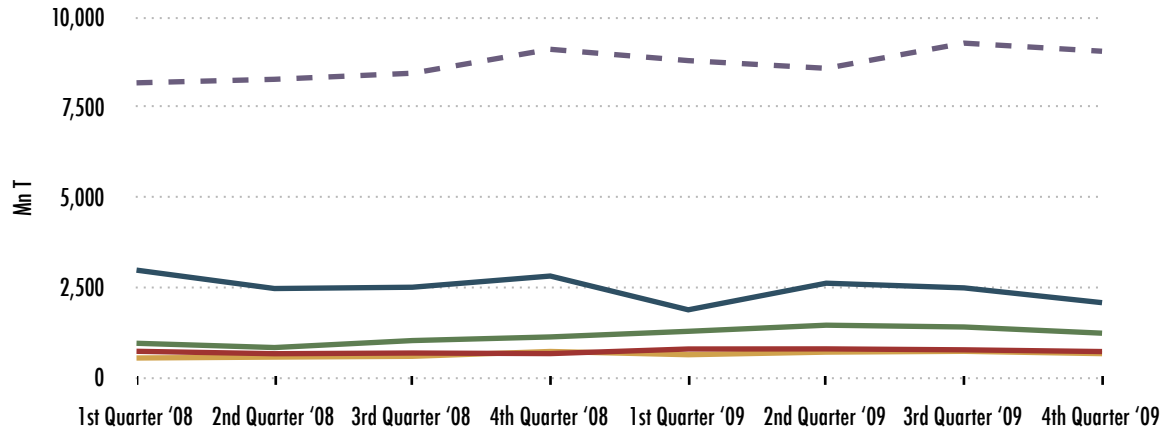


Chart 2: World Exports of Oils & Fats (Mn T)

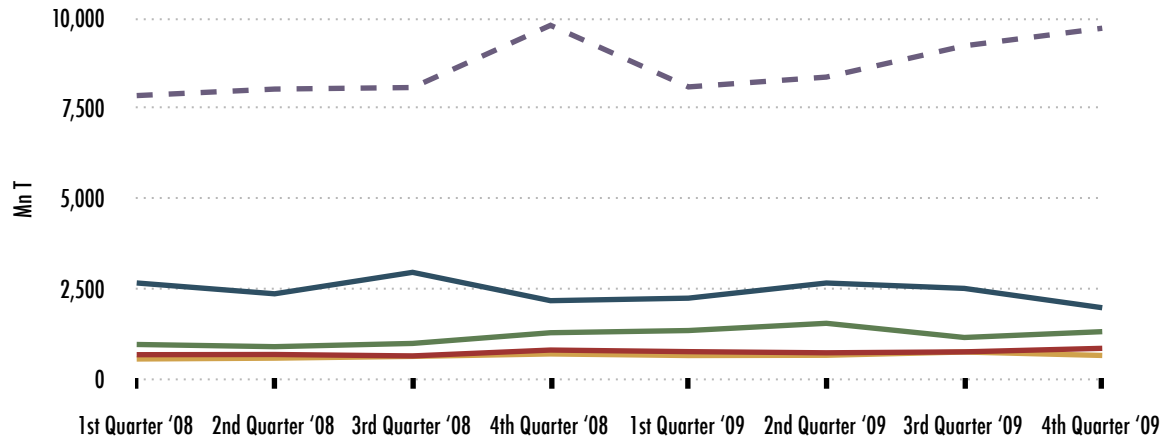


Chart 3: World Disappearance of Oils & Fats (Mn T)

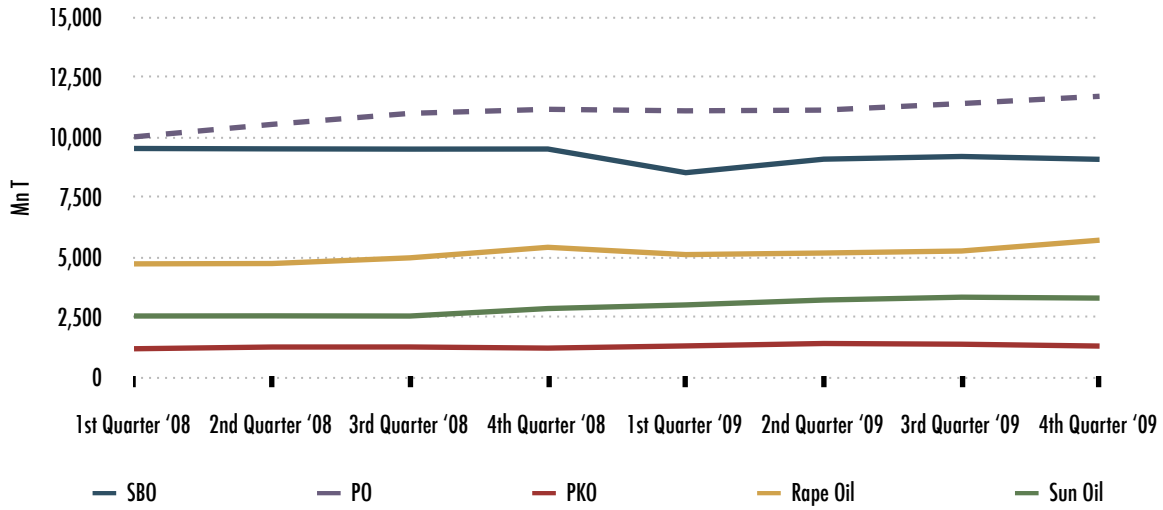
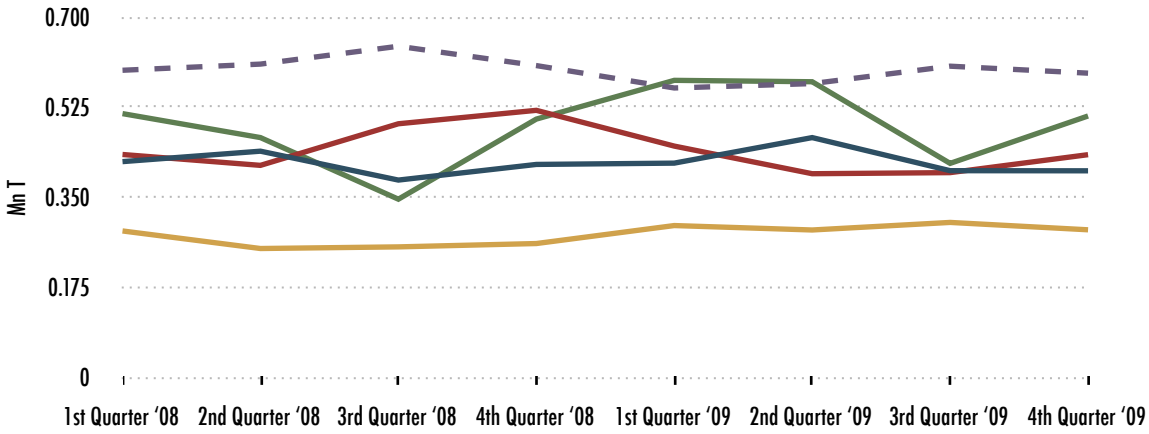
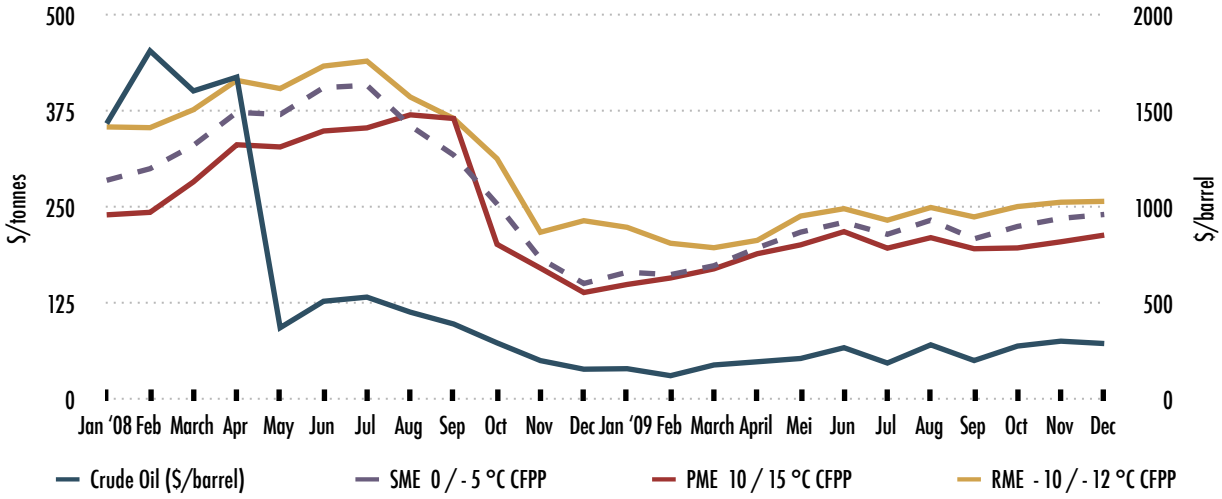


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

Chart 5: Crude Oil vs. Biodiesel Prices; 2008 - 2010 (Jan – March)



Source: Kingsman