

# QUARTERLY REPORT ON OILS AND FATS

2<sup>nd</sup> Quarter 2010



## INSIDE

### WEATHER CONDITIONS

La Niña will result in weather than normal conditions over northern Australia, Indonesia and Malaysia especially during Northern Hemisphere winter between Decembers to March.

Page 1

### WORLD EXPORT OF EDIBLE OILS INCREASING

Total world export of major oils for this quarter had increased substantially by 11.7% or by 1.72 Mn T.

Page 1

### INCREASE IN TOTAL WORLD PRODUCTION OF EDIBLE OILS

Total world production of vegetable oils had increased marginally by 1.6% to 42.16 Mn T.

Page 1

### INCREASE IN TOTAL IMPORT OF MAJOR OILS

Total imports of major oils registered an increase of 4.6% from 15.42 Mn T.

Page 2

### DECREASE IN STOCKS OF MAJOR OILS

Total ending stock of major oils and fats recorded a decrease of 3.6% over the previous quarter.

Page 2

### SLIGHT INCREASE IN CRUSHING VOLUME OF MAJOR OILSEEDS

World crushing of oilseeds had improved substantially by 9.7% to 79.98 Mn T.

Page 2

### INCREASE IN WORLD PRODUCTION OF OIL MEALS

The production of oil meals had shown upward trend of 10.2% from 64.51 Mn T to 71.08 Mn T.

Page 2

### BIODIESEL MARKET SITUATION

Biodiesel prices had declined marginally in this quarter.

Page 4

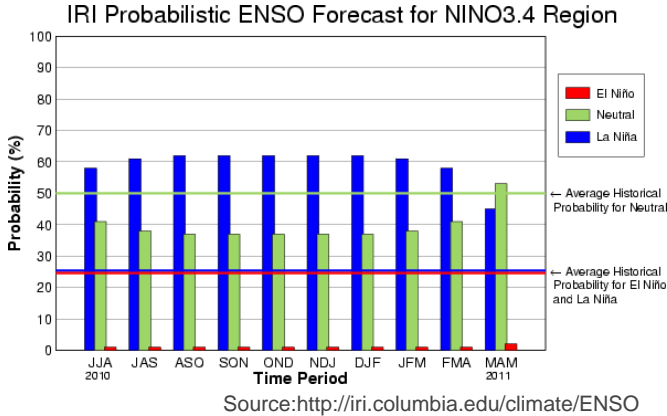


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**Weather Conditions**

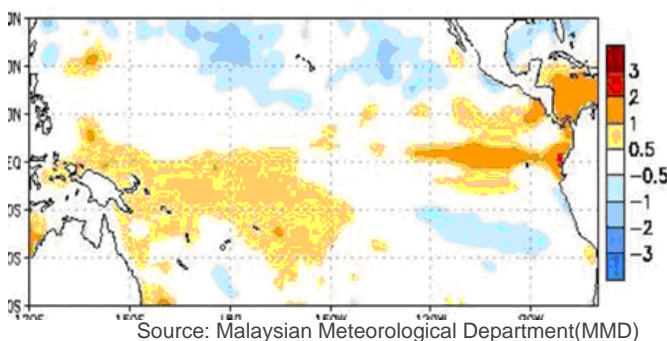
**Figure 1: IRI Probabilistic ENSO**



According to International Research Institute for Climate and Society (IRI), the probability of El-Nino occurrence is almost completely non-existent toward the end of 2010 and early 2011, but La Niña phenomena is expected to prevail during that period. During a period of La Niña, the sea surface temperature across the equatorial Eastern Central Pacific Ocean will be lower than normal by 3-5 degrees Celsius. According to past data, La Niña will result in weather than normal conditions over northern Australia, Indonesia and Malaysia especially during Northern Hemisphere winter between Decembers to March.

The Malaysian Meteorological Department (MMD) also reported that even majority of models predict that neutral conditions will occurred this year, those models also indicate that La Nina conditions would appear. Therefore, a transition to La Nina condition most likely occurred during June-August 2010.

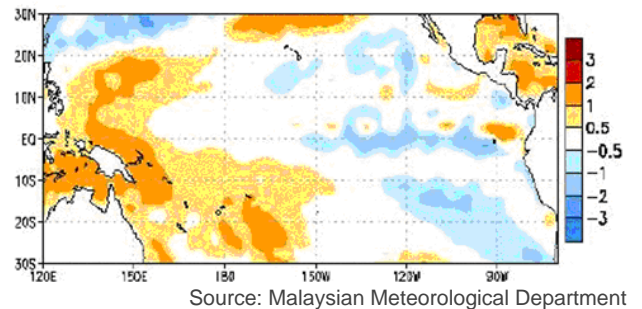
**Figure 2(a): Sea Surface Temperature (oC)**



Sea Surface Temperature (SST) Anomaly which was taken on 5th May 2010 Figure 2(a) and on 2nd June 2010

Figure 2(b) indicates that areas where anomaly was detected are expanding between the two month period.

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

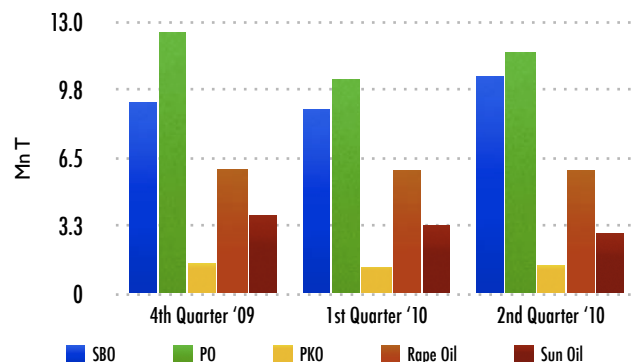


**Increase in Total World Production of Edible Oils**

Total world production of vegetable oils had increased marginally by 1.6% to 42.16 Mn T in the second quarter of 2010 from 41.51 Mn T in the first quarter of 2010 (Figure 3). This was mainly due to increased production of soybean oil, palm oil, palm kernel oil and rapeseed oil by 17.9% to 10.36 Mn T, by 12.2% to 11.49 Mn T, by 7.5% to 1.31 Mn T and by 0.1% to 5.87 Mn T respectively. However sunflower oil had decreased quite substantially by 12.5% to 2.84 Mn T in this quarter.

Compared to the same quarter last year, production of major oils had also increased by 3.1% from 40.87 Mn T. Rapeseed oil registered an increase by 15.5% from 5.09 Mn T in the second quarter of 2009. Production of soybean oil, palm oil and palm kernel oil had increased slightly by 5.9%, 4.0% and 2.9% respectively. On the contrary, production of sunflower oil had decreased by 16.2%.

**Figure 3: World Production of Major Oils**



## World Export of Edible Oils Increasing

Total world export of major oils for this quarter had increased substantially by 11.7% or by 1.72 Mn T compared to the first quarter of 2010 (Table 1). This was mainly attributed to bigger jump in export of soybean oil, by 58.3% from 1.80 Mn T in the previous quarter to 2.85 Mn T in this quarter. Export of palm oil, rapeseed oil and sunflower oil had expanded by 8.4% to 8.83 Mn T, by 2.9% to 0.75 Mn T and by 8.5% to 1.22 Mn T respectively. However, export of palm kernel oil had gone south by 4.1% to 0.73 Mn T compared to the previous quarter.

**Table 1: Export Vegetable Oils (1000 T)**

	4 <sup>TH</sup> QTR '09	1 <sup>ST</sup> QTR '10	2 <sup>ND</sup> QTR '10	Q-ON-Q % CHANGE
Soybean Oil	1,838	1,798	2,847	58.34
Palm Oil	10,388	8,147	8,832	8.41
Palm Kernel Oil	875	763	732	-4.06
Rapeseed Oil	575	728	749	2.88
Sunflower Oil	1,219	1,127	1,223	8.52
Others	2,065	2,131	2,031	-4.69
<b>Total</b>	<b>16,960</b>	<b>14,694</b>	<b>16,414</b>	<b>11.71</b>

Total world disappearance of major oils and fats had grown by 2.2% from 41.67 Mn T in the previous quarter to 42.6 Mn T in this quarter. Higher disappearance of soybean oil, palm kernel oil and sunflower oil was observed; from 9.03 Mn T to 9.64 Mn T or by 6.8%, from 1.3 Mn T to 1.37 Mn T or by 5.2% and from 5.64 Mn T to 5.82 Mn T or by 3.3% respectively. Rapeseed oil disappearance had shown marginal increase by 0.6% to 3.11 Mn T in this quarter. However, disappearance of palm oil had decreased by 0.6% compared to the first quarter of 2010.

## Increase in Total Import of Major Oils

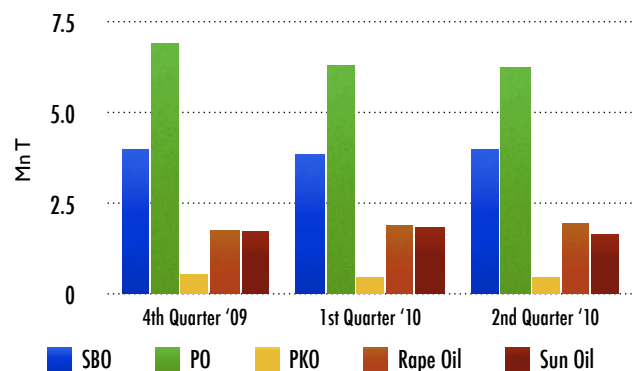
In this quarter, total imports of major oils registered an increase of 4.6% from 15.42 Mn T in the previous quarter to 16.14 Mn T due to upward trend in import of soybean oil, palm kernel oil, rapeseed oil and sunflower oil i.e. by about 18.4%, 2.1%, 15.4% and 19.6% respectively. However, import of palm oil had decreased slightly of 1.3%.

## Decrease in Stocks of Major Oils

Total ending stock of major oils and fats recorded a decrease of 3.6% over the previous quarter. This was contributed by smaller stocks of palm oil, palm kernel oil and sunflower oil by 1%, 1.4% and 10% respectively. However soybean oil and palm kernel oil had shown an

increase in volume of ending stock by 3.2% and 1.9% (Figure 3). (Charts for Oils and Fats are shown in Appendix).

**Figure 4: World Ending Stocks of Selected Oils**



Source: Oil World

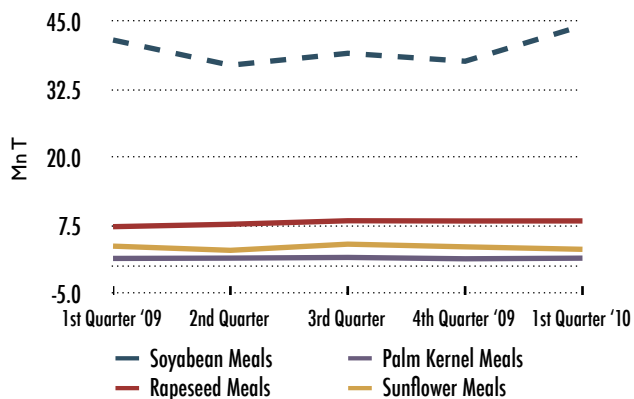
## Slight Increase in Crushing Volume of Major Oilseeds

World crushing of oilseeds had improved substantially by 9.7% to 79.98 Mn T. Crushing activities were mainly contributed by the soybean sector which amounted to 55.81 Mn T, registering a 16.8% increase on-quarter basis. Moreover, the crushing activity in Argentina is the major contributor with increase of 125.8% to 10.70 Mn T. In the meantime, Brazil and China-PR also recorded an increase of crushing by 36.6% and 5.3% respectively. Nevertheless, crushing in India, USA and EU-27 had decreased by 21.1%, 14.4% and 0.3%. For palm kernel and rapeseed crushing it was recorded mixed performance by 8.1% and 0.7%, accordingly. The increments of crushing activities for rapeseed were recorded in India (50%) and Japan (6.3%). However, crushing in China-PR, Canada and EU-27 registered a decline by 12.1%, 2.4% and 1.4%, respectively. Sunflower seed crushing also showed a decline of 16% over the previous quarter.

## Increase in World Production of Oil Meals

The production of oil meals had shown upward trend of 10.2% from 64.51 Mn T to 71.08 Mn T. This is due to bigger production of soybean meals, palm kernel meals and rapeseed meals by 17.3%, 7.9% and 0.1% respectively over the previous quarter (Figure 5). Meanwhile, the total import of oil meals had grown by 11.6% from 17.41 Mn T to 19.43 Mn T.

Figure 5: World Production of Oil Meals



Source: Oil World

The opening stock of oil meals had shrunk by 10.6% from 7.20 Mn T to 6.43 Mn T for the current quarter. Meanwhile, the total export of oil meals had expanded by 23.8% from 16.80 Mn T in the previous quarter to 20.80 Mn T in this quarter. This is due to higher export of soybean meals and rapeseed meals by 32.6% and 20.9%. However, the export of palm kernel meals and sunflower meals had gone south by 3.6% and 8.5% respectively.

The consumption of oil meals had increased slightly by 2.5% from 65.88 Mn T in the previous quarter to 67.55 Mn T in this quarter. However, the disappearance of soybean meals had increased by 6.5% while, the disappearance of palm kernel meals, rapeseed meals and sunflower meals had decreased by 12.2%, 0.9% and 7.2%, respectively. For this quarter, total ending stock of oil meals had increased substantially by 33.6% from 6.43 Mn T to 8.59 Mn T.

# Biodiesel Market Developments

Biodiesel prices had declined marginally in this quarter. The prices of soybean methyl ester (SME), palm methyl ester (PME) and rapeseed methyl ester (RME) had decreased by 1.8%, 1.2% and 0.8% to USD 904.85, USD 889.93 and USD 932.82 accordingly (Table 2). (The Biodiesel figure is shown in the Appendix).

Table 2 : Biodiesel Prices (USD/tonne)

SOURCE	PRODUCTS	APR	MAY	JUNE	% CHANGE (Apr - June)	AVERAGE (US\$)
Kingsman	SME 0/-5°C CFPP (CIF ARA)	937	890	888	-1.77	904.85
	PME 10/15°C CFPP (CIF ARA)	912	879	879	-1.22	889.93
	RME 10/12°C CFPP (FOB ARA)	959	903	937	-0.80	932.82



### Thailand – Thai Oil to Pursue Bio-fuels

In Thailand, Thai Oil has decided to focus more on bio-fuel investments rather than on petroleum as costs to build a new oil refinery would be around USD 2 billion while 2009 – 2011 bio-fuels investments only require USD 170 million. The company is planning a five-year bio-fuels investment strategy and is developing a feasibility study to explore what it would take to become a major bio-fuel supplier to the Asian market. Current investments include a 30% stake in molasses-ethanol producer Mae Sod Clean Energy, a 50% stake in Sap Thip – tapioca based ethanol plant, and an expected USD 30.9 billion investment in another ethanol plant near Lop Buri.

(Source: Biodiesel report)



### New Zealand – To extend biodiesel grants

The New Zealand government is extending its Biodiesel Grants Scheme to include sales of biodiesel blends higher than 20%. The scheme was introduced in July 2009. Currently, biodiesel sold must be used in a blend with ordinary diesel of no more than 20% biodiesel. By extending the eligibility to blends up to and including 100% biodiesel, they provide an incentive for those businesses and individuals who are willing and able to use these higher level blends.

Six biodiesel producers are registered to take part in the Biodiesel Grants Scheme. Most of the biodiesel that has received the grant to date is made from used cooking oil and oilseed rape (canola) grown as a break crop. The change in eligibility will take effect from first July 2010. The scheme, which has a three-year funding of NZ\$ 36 million available until June 2012, gives grants of up to NZ\$ 42.5 per litre to biodiesel producers who sell 10,000 or more litres of eligible biodiesel each month.

(Source: Biodiesel report)



## Increased in Palm Oil Production in Malaysia

In Malaysia, palm oil production had increased by 6.37% from 3.87 Mn T in the first quarter 2010 to 4.11 Mn T in the second quarter. Production of palm kernel oil had slightly increased by 0.48% to 1 Mn T. However production in palm kernel oil had decreased insignificantly by 1.39% from 0.48 Mn T to 0.47 Mn T in this quarter.

Malaysian palm oil export had shrunk from 4.15 Mn T in the previous quarter to 4.09 Mn T (1.49%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil with totaling 1.02 Mn T or 27.57% of total palm oil exports, followed by EU 2.53 Mn T (14.22%), Pakistan 0.42 Mn T (11.32%), USA 0.35 Mn T (7.52%), India 0.24 Mn T (5.8%) and Japan 0.14 Mn T (3.79%). Together these six countries accounted for 2.6 Mn T or 63.53% of total Malaysian palm oil exports in second quarter 2010.

Meanwhile, Malaysian exports of palm kernel oil and palm kernel cake had decreased by 11.3% from 0.29 Mn T in previous quarter to 0.26 Mn T in this quarter and by 27.35% from 0.7 Mn T to 0.51 Mn T respectively.



## Outlook Upward Trend for CPO Prices in the Third Quarter of 2010

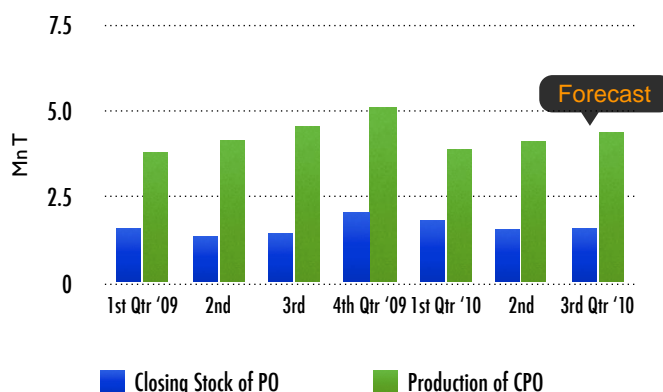
To examine crude palm oil (CPO) price for third quarter of 2010, three major factors were taken into consideration. On the supply side, the production and stock while on demand side the export of palm oil and soybean oil (SBO) and the third factor is the crude petroleum oil price.

### 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 VAR model, it is estimated that production of crude palm oil in the third quarter of 2010 is expected to increase to 4.38 Mn T as compared to 4.11 Mn T in the previous quarter. An increase in production of crude palm oil, will also lead to an increase in stock level of PO. Therefore, based on the same model for stock of PO, it is estimated that stock of PO will be increased marginally to 1.58 Mn T in the third quarter as compared to 1.55 Mn T.

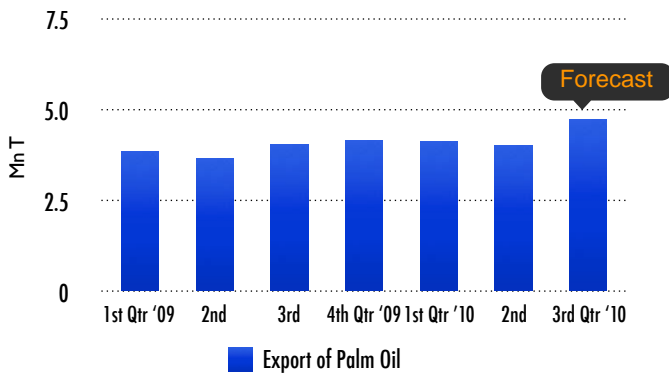
Figure 6: Production of CPO and Stock of Palm Oil



### b) Export of Palm Oil

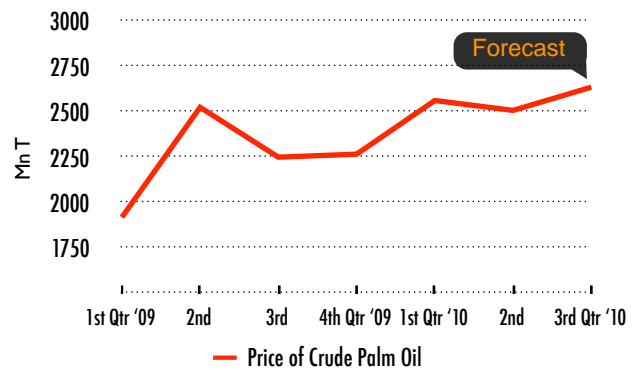
Figure 7 shows the movement in export of PO from first quarter of 2009. It shows that the movements of export for those periods were slightly volatile. In the first second quarter of 2010, export of PO decreased marginally to 4.09 Mn T as compared to 4.15 Mn T in the previous quarter. Based on VAR model, it is estimated that export of PO in the third quarter of 2010 will increase to 4.75 Mn T. High demand for palm oil in the third quarter is expected due to festival season (Hari Raya Aidilfitri) in second weeks of September.

Figure 7: Export of Palm Oil



to RM2,636 per tonne as compared to RM2,527 per tonne in the second quarter, an increase of about 4.3%.

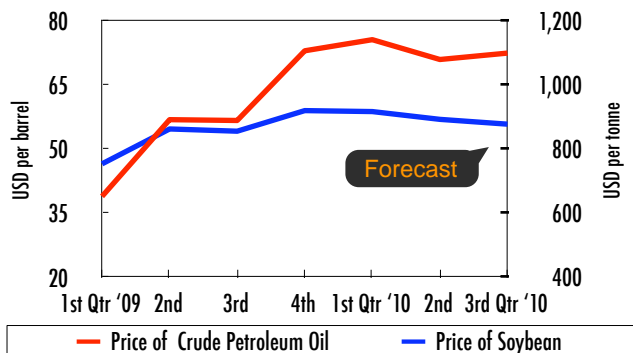
Figure 9: Price of Crude Palm Oil



**c) SBO and crude petroleum oil prices**

Figure 8 shows the movement in soybean oil and crude petroleum oil prices. As shows in the second quarter of 2010, soybean oil price decreased by USD 41 to USD 876 per tonne from USD 917 per tonne in the first quarter of 2010. Meanwhile, price of crude petroleum oil decreased to USD 71 per barrel in second quarter of 2010 as compared to USD 76 per barrel in the first quarter of 2010. Based on VAR model, it is expected that the price of soybean oil will increase marginally to USD 878 per tonne. While, AR model estimated that price of crude petroleum oil will increase to USD 73 per barrel in the third 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 which indicate some volatility. Based on analysis, there are two different scenarios that could happen for price of crude palm oil in the third quarter of 2010. If the analysis only considers supply factor, the result shows that the price of crude palm oil will be in a downward trend. However, if the analysis takes into account the influence of demand and external factors such as soybean oil and crude petroleum oil prices, the result shows that price of crude palm oil will be in upward trend in the third quarter. Based on VAR model, it is estimated that the price of crude palm oil in the third quarter will increase

Chart 1: World Imports of Oils & Fats

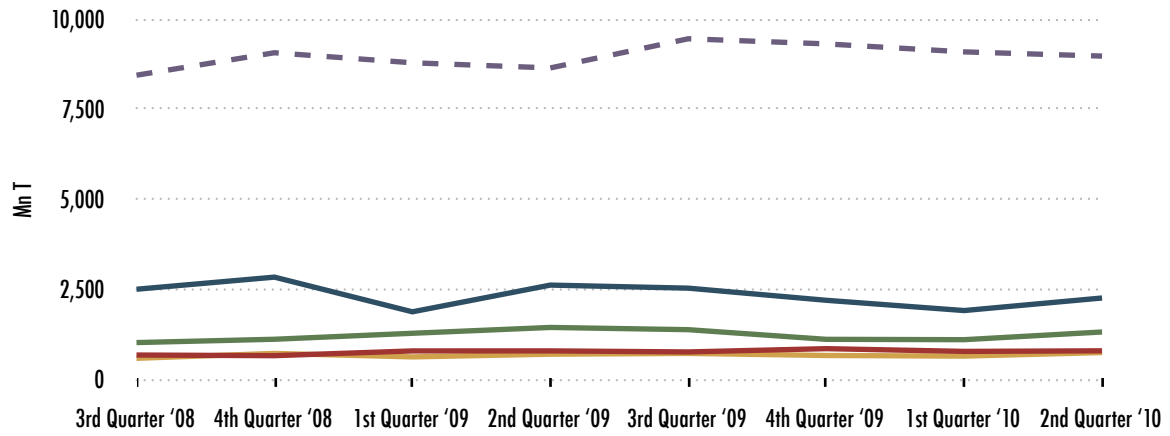


Chart 2: World Exports of Oils & Fats (Mn T)

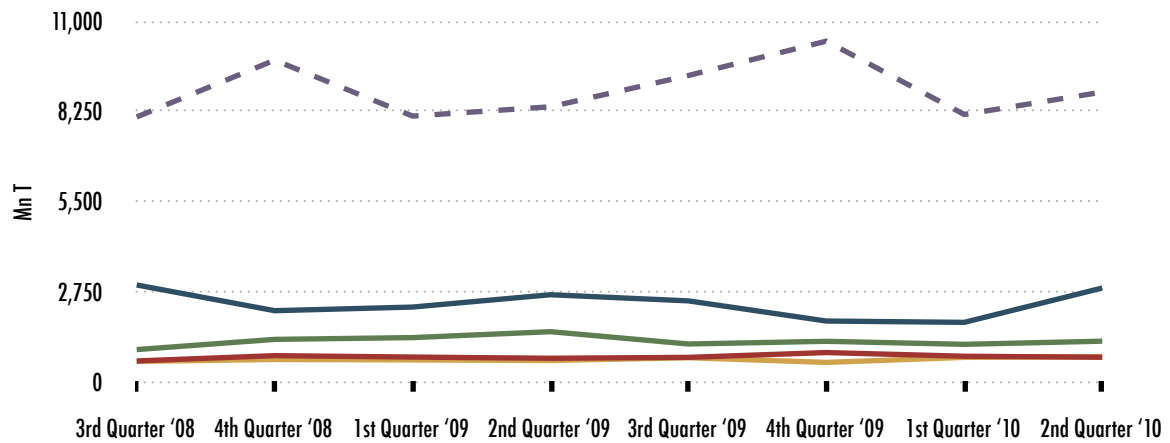


Chart 3: World Disappearance of Oils & Fats (Mn T)

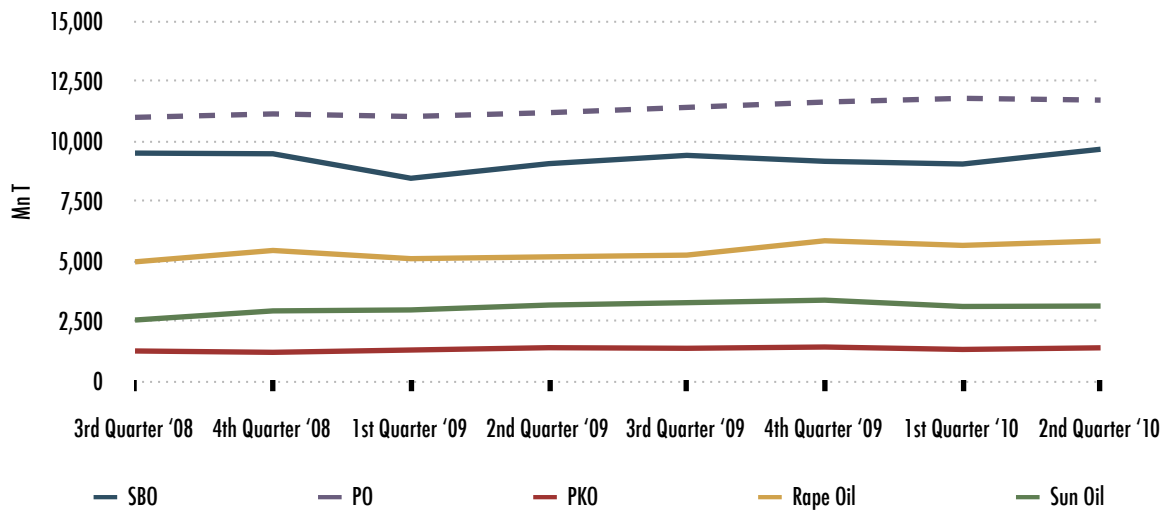
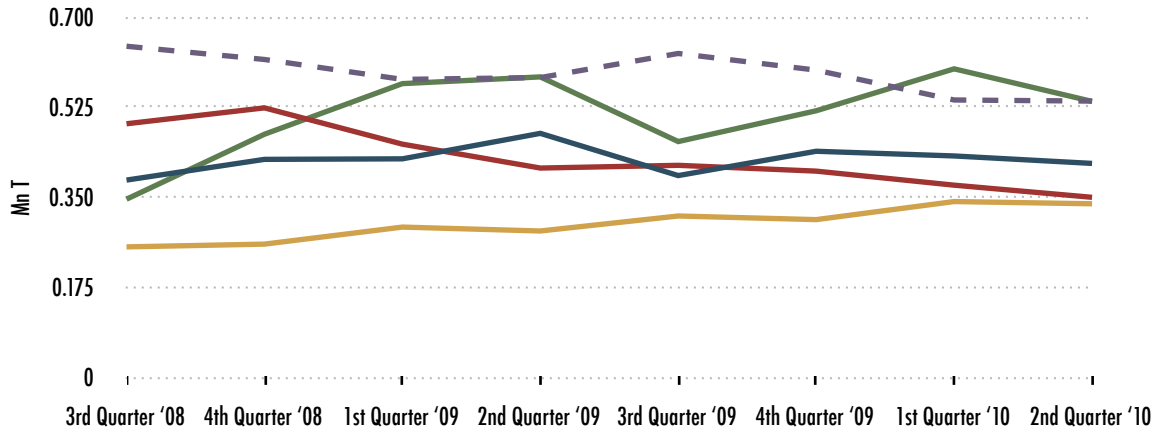
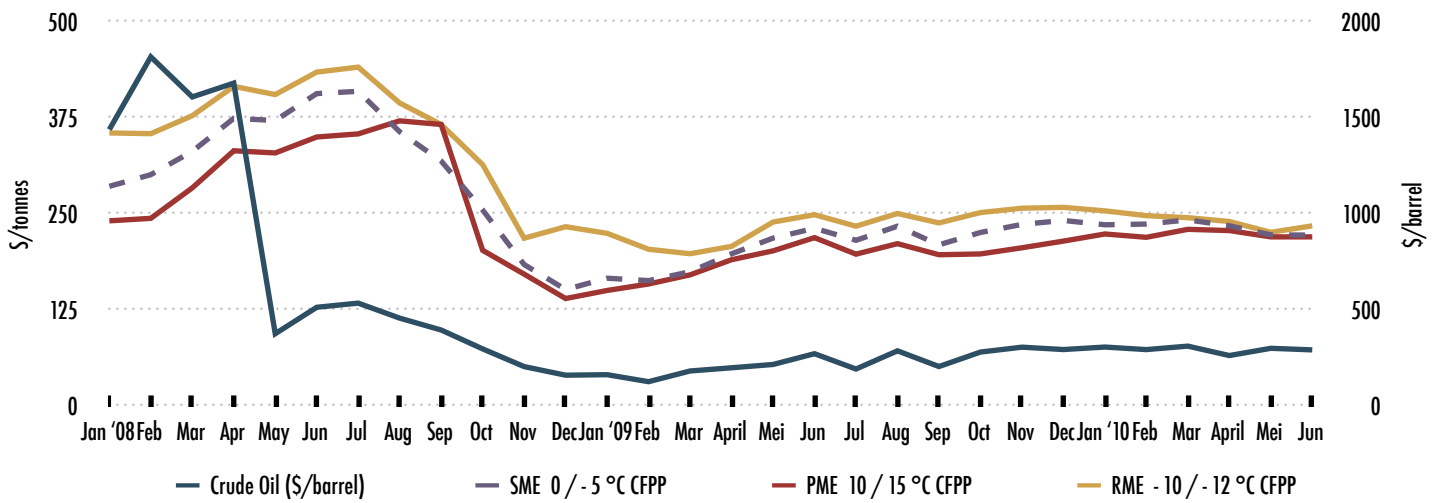


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

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



Source: Kingsman