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QUARTERLY REPORT ON OILS AND FATS

3rd Quarter 2010

INSIDE

MPOB

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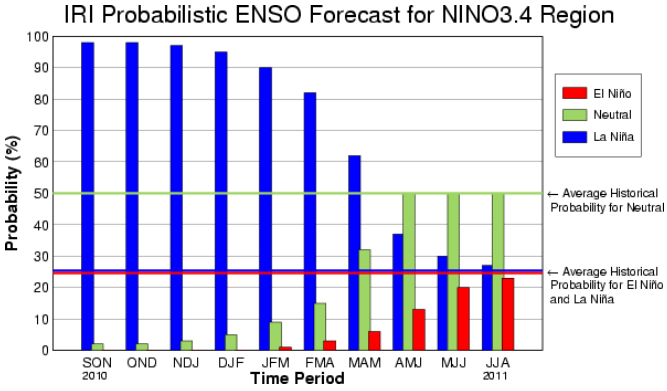
Weather Conditions

Figure 1: IRI Probabilistic ENSO



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

La Niña which emerged in mid-June 2010 is estimated to continue until the end of the year. For the last quarter of 2010, there is an approximately 98% probability for continuing La Niña conditions, and only 2% probability for returning to neutral ENSO conditions (Figure 1) (source: International Research Institute for Climate and Society-IRI). Meanwhile, according to the Malaysian Meteorological Department (MMD), Malaysia is currently experiencing the Southwest Monson season which is relatively dry-weather, but La-Nina phenomenon that occurred since mid-year has resulted in wet weather in several areas especially for Sabah and Sarawak.

Several other areas in the north and the east coast of Peninsula have been experiencing a relatively dry weather during the third quarter 2010. From 33 meteorological stations in Malaysia, 24 stations recorded from "average" to "above average" rainfall and only 8 stations recorded "below average" rainfall for August 2010.

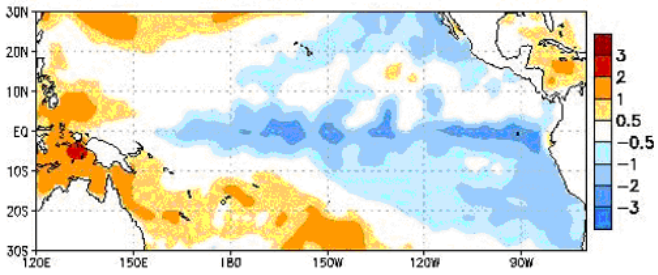
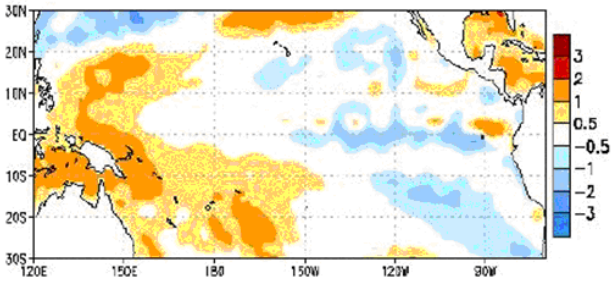


Figure 2(a): Sea Surface Temperature (oC)

Source: Malaysian Meteorological Department(MMD)

Figure below indicate a Sea Surface Temperature (SST) Anomaly which was taken on 8th September 2010 (Figure 1(b)) and on 2nd June 2010 (Figure 2(b)). Latest data indicate that a cooler area (indicated by blue color) is growing which explain wetter conditions that Malaysia and some other countries in Asia experiencing currently. The wet conditions will continue to exist until the year end. The changing weather pattern could affect production of agricultural commodities.

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



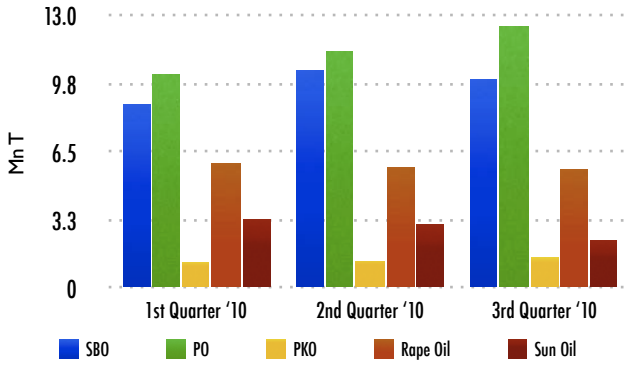
Source: Malaysian Meteorological Department

Decrease in Total World Production of Edible Oils

World production of total vegetable oils had slightly decreased by 1.2% to 41.75 Mn T in the third quarter of 2010 from 42.26 Mn T in the previous quarter. This was mainly due to smaller production of sunflower oil, soybean oil and rapeseed oil by 25.9% to 2.27 Mn T, by 4.2% to 9.96 Mn T and by 1.9% to 5.67 Mn T respectively. However palm oil and palm kernel oil had balanced out through bigger amount of output i.e by 10.4% to 12.48 Mn T and 4.7% to 1.45 Mn T production growths respectively in this quarter (Figure 3).

Compared to the same quarter last year, production of major oils had increased by 4.9% from 39.81 Mn T to 41.75 Mn T. The production of soybean oil, palm oil, palm kernel oil and rapeseed oil had increased by 14%, 5%, 9.2% and 4.5% respectively. Only the production of sunflower oil had slowed down by 14.8% compared to the third quarter of 2009.

Figure 3: World Production of Major Oils



Source: Oil World

World Export of Edible Oils Increasing

Total world export of major oils for this quarter had increased by 2.6% or by 0.44 Mn T compared to the previous quarter (Table 1). This was mainly contributed by increased export of soybean oil by 12.5% to 3.04 Mn T. Despite smaller percentage, export of palm oil, rapeseed oil and palm kernel oil had shown export volume of 9.43 Mn T (7%), 0.87 Mn T (9%) and 0.82 Mn T (2%) . However, export of sunflower oil had decreased by 29.8% to 0.93 Mn T compared to the previous quarter.

Table 1: Export Vegetable Oils (1000 T)

	1ST QTR '10	2ND QTR '10	3RD QTR '10	Q-ON-Q % CHANGE
Soybean Oil	2,468	2,697	3,035	12.53
Palm Oil	9,327	8,806	9,426	7.04
Palm Kernel Oil	729	804	820	1.99
Rapeseed Oil	704	797	869	9.03
Sunflower Oil	1,136	1,385	973	-29.75
Others	2,038	2,206	2,013	-8.75
Total	16,402	16,695	17,136	2.64

Total world disappearance of major oils and fats in this quarter had increased marginally by 0.9% from 42.41 Mn T previous quarter to 42.80 Mn T. This was mainly attributed by bigger disappearance of soybean oil, palm oil and palm kernel oil from 9.62 Mn T to 10.02 Mn T or by 4.2%, from 11.34 Mn T to 11.61 Mn T or by 2.4% and from 1.30 Mn T to 1.31 Mn T or by 0.9% respectively. However, disappearance of rapeseed and sunflower oils had declined by 2.1% and 3.1% respectively compared to the second quarter of the year.

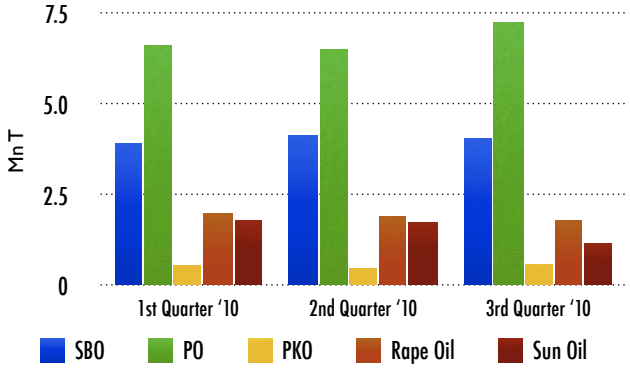
Increase in Total Import of Major Oils

Quarterly basis, total imports of major oils registered an increase of 7.5% from 16.03 Mn T to 17.22 Mn T due to upward trend in import of soybean oil, palm oil, palm kernel oil and rapeseed oil by 39.5%, 6.6%, 10.3% and 0.5% respectively. However, import of sunflower oil had dropped by 15%.

Smaller Ending Stocks of Major Oils

Total ending stock of major oils and fats recorded a decrease of 4.9% over the previous quarter. This was due to substantial decline of stocks of soybean oil, rapeseed oil, sunflower oil by 2.4%, 6.6% and 31.9% respectively. However, ending stock of palm oil and palm kernel oil rose by 11.5% and 23.4% (Figure 4). (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 declined by 5.3% to 76.75 Mn T. This was due to reduced crushing activities of sunflower seed which had dropped in volume by 26.8% to 5.50 Mn T on quarter to quarter basis. Similarly, the soybean and rapeseed also recorded smaller percentage of crushing of only 3.9% and 2.9% respectively. Major contributor to decrease in soybean crushing was Brazil, USA, Argentina, China PR and EU-27 by 8.4%, 7.1%, 6%, 2.1% and 0.5% correspondingly. On the contrary, the crushing volume in India had increased by 25% to 1.5 Mn T.

The crushing activities for rapeseed in countries such as India, Japan and Canada also slowed down by 11.6%, 8% and 1.8% respectively. In the meantime, crushing volume in Iran had increased by 57.8%, while in EU-27 and China, the crushing volume remain about the same level.

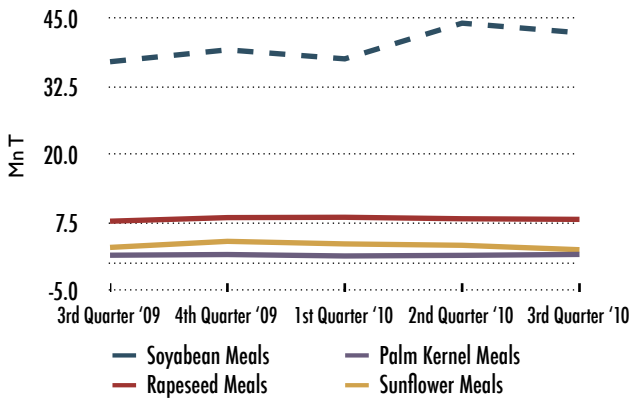
Palm kernel crushing had registered an increase of 11% from 2.90 Mn T to 3.22 Mn T for this quarter.

Decrease in World Production of Oil Meals

Large opening stock from previous quarter on oil meals that had increased by 30.2% to 8.49 Mn T had compensated less oil meals output that had slowed down by 5.7% to 67.12 Mn T. The contraction was mainly attributed by smaller production of soybean, rapeseed and sunflower

meals by 4.0%, 1.4% and 24.0% respectively over the previous quarter (Figure 5). The consumption of oil meals had slightly decreased by 0.8% from 67.37 Mn T in the previous quarter to 67.89 Mn T in this quarter. The disappearance of rapeseed and sunflower meals decreased by 3.9% and 10.3%, respectively. On the other hand, the disappearance of soybean meals and palm kernel meals had increased by 1.3% and 1.7%, accordingly.

Figure 5: World Production of Oil Meals



Source: Oil World

In term of world trade, total export of oil meals had dropped by 3.9% to 19.89 Mn T due to the decline in export of soybean meals and sunflower meals by 4.4% and 31.3%, respectively. However, the export of palm kernel meals had increased by 6.9%, while rapeseed meals by 4.6%. Due to less crushing activities from importing countries, total import of oil meals had grown by 6.3% from 20.60 Mn T to 19.38 Mn T.

For this quarter, total ending stock of oil meals had increased by 5.2% from 8.92 Mn T to 8.49 Mn T.

Biodiesel Market Developments

Biodiesel prices had improved significantly in this quarter. The prices of soybean methyl ester (SME), palm methyl ester (PME) and rapeseed methyl ester (RME) had increased by 4.3%, 3% and 4.1% to USD 941.83, USD 912.25 and USD 993.08 accordingly (Table 2). (The Biodiesel figure is shown in the Appendix)

Table 2 : Biodiesel Prices (USD/tonne)

SOURCE	PRODUCTS	JULY	AUG	SEPT	% CHANGE (Apr - June)	AVERAGE (US$)
Kingsman	SME 0/-5°C CFPP (CIF ARA)	888	928	1,010	4.27	941.83
	PME 10/15°C CFPP (CIF ARA)	879	895	963	3.03	912.25
	RME 10/12°C CFPP (FOB ARA)	937	984	1,059	4.11	993.08

Thailand - B5 Demand Slips

According to data showed by Ministry of Energy, the demand for oil products in Thailand, excluding bitumen and liquefied petroleum gas, were 0.3% higher in September from a year earlier at 540,977 barrels per day. Demand for standard petrol rose 6.7% in September to 244.2 million litres while sales of gasohol were up 0.1% at 359.1 million litres. High speed diesel sales rose 15.5% to 840.2 million litres while B5 sales fell by 16.6% to 636.9 million litres.

(Source: Biodiesel report)

Senegal - Bio-fuel potential

A study by Brazil, Getulio Vargas Foundation or FGV on the viability of bio-fuel production in the country has found that Senegal has the potential to produce 28 million litres of bio-ethanol from 6,800 ha of land planted with cane in the region of Tambacounda and another project could produce bio-fuel from sunflower and soya. But the director of bio-fuels at the Energy Ministry was disappointed that no mention was made of jatropha which can be grown on semi-arid land. The FGV study is a result of collaboration between Brazil, the US and Senegal.

(Source: Biodiesel report)

World – Vegetable Oil Market to Reach 169 Mn T by 2015

Global Industry Analysts (GIA) had announced the release of the global report on vegetable oil markets and indicated that the market for vegetable oils is projected to reach 169 Mn T by 2015. Recovery from economic recession, increasing global population, growing demand from emerging markets backed by strong economic growth, and increasing standard of living drove market growth. The recent economic downturn was no exception and led to a brief slowdown in the world market. The global crisis resulted in difficulties for the oil and fat industry, including high price volatility, and lack of working capital to fund production.

There has also been a noticeable decline in grower's demand for farm inputs such as fertilizers. Demand for vegetables oils is on track, with the recovery in global economy. Factors such as economic recovery, increasing investments in bio-diesel plants, new food regulations, growing demand for palm oil-derived bio-diesel, increasing world population, changing living standards and eating habits in emerging countries, stresses a robust outlook for oilseeds and vegetable oils.

Today, more than 85% of the world's edible oil consumption includes palm oil, soy oil, canola/rapeseed oil, and sunflower seed oil. Asia dominates the global vegetable oil market in terms of production and consumption. Currently, China's production of edible oil has exceeded that of the US. Malaysia and Indonesia have emerged as the world's largest producer of palm oil. Meanwhile, Brazil, Argentina, US, and China rank as major producers of soy oil. Asia-Pacific constitutes the largest as well as fastest growing regional market for vegetable oils. A significant rise in the consumption of vegetable oils in China and India contributed towards the expansion of the global market and its international trade. Countries such as China, India, and Indonesia are anticipated to continue to drive future demand for vegetable oils including crude palm oil.

(Source: Biodiesel report)

Netherlands – Uniform ILUC factor for bio-fuels GHG calculations

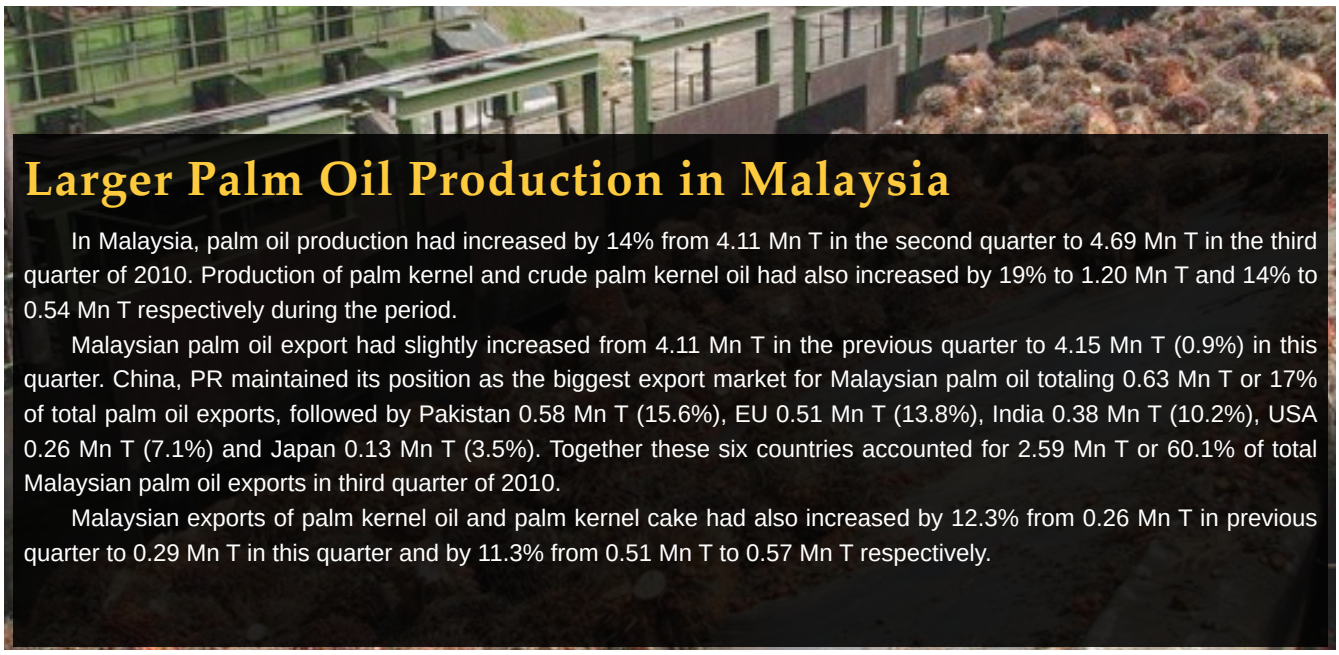
The Netherlands is proposing that the European Union introduces a uniform ILUC factor in bio-fuels greenhouse gas calculations, Gave news reports. So writes the Minister of VROM (the Dutch Ministry of Housing, Spatial Planning and the Environment) in a letter to the Dutch House of Representatives.

The European Commission recently opened a consultation about indirect land use change (henceforth: ILUC) in bio-fuels production. The Minister proposes in the first instance determining a uniform ILUC factor for the greenhouse gas calculation of bio-fuels. The effects of indirect land use are thereby reduced by excluding specific bio-fuels with a low ILUC risk from the application of an ILUC factor. Alongside this, the Netherlands proposes considering giving extra stimulation to the use of such bio-fuels by establishing a sub-target for energy carriers with low ILUC risk, under which both renewable electricity and hydrogen would fall if used in the transport sector.

There are plans for a pyrolysis plant in Hengelo, Gave News reports. The universities of Twente and Groningen, and the BTG Company from Enschede, want to make bio-fuels from agriculture waste such as woodchips, grass or straw. The scheme forms part of a larger project called Empyro. The aim of Empyro is to convert biomass into oil, which can be used in existing refineries for the production of transport fuels. The Hengelo initiative will become the first semi-commercial installation in the Netherlands.

The projects initiators want to liquidise wood, grass or straw using pyrolysis. This occurs by heating the biomass in the absence of oxygen. BTG is the worldwide leader in this field. The company is now building the next generation of pyrolysis reactor in Hengelo. The oil this plant will produce is primarily intended as a fuel for district heating, but eventually it will also be turned into a transport fuel. The team is currently testing how to obtain the oxygen atoms from the carbon chains by letting the oil react with hydrogen. Since hydrogen is very expensive they are trying to optimise this process step.

(Source: Biodiesel report)



Larger Palm Oil Production in Malaysia

In Malaysia, palm oil production had increased by 14% from 4.11 Mn T in the second quarter to 4.69 Mn T in the third quarter of 2010. Production of palm kernel and crude palm kernel oil had also increased by 19% to 1.20 Mn T and 14% to 0.54 Mn T respectively during the period.

Malaysian palm oil export had slightly increased from 4.11 Mn T in the previous quarter to 4.15 Mn T (0.9%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil totaling 0.63 Mn T or 17% of total palm oil exports, followed by Pakistan 0.58 Mn T (15.6%), EU 0.51 Mn T (13.8%), India 0.38 Mn T (10.2%), USA 0.26 Mn T (7.1%) and Japan 0.13 Mn T (3.5%). Together these six countries accounted for 2.59 Mn T or 60.1% of total Malaysian palm oil exports in third quarter of 2010.

Malaysian exports of palm kernel oil and palm kernel cake had also increased by 12.3% from 0.26 Mn T in previous quarter to 0.29 Mn T in this quarter and by 11.3% from 0.51 Mn T to 0.57 Mn T respectively.

Outlook

CPO Prices bullish in the Fourth Quarter of 2010

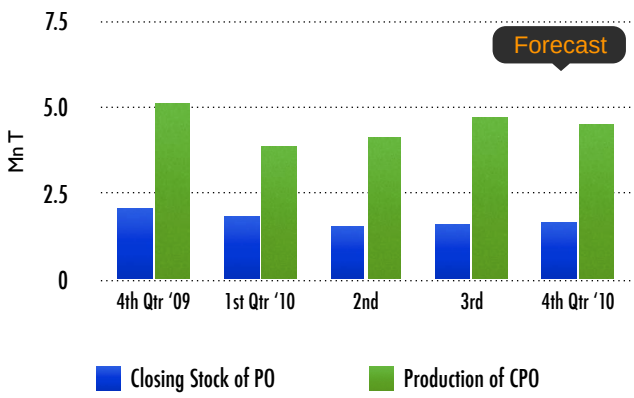
To examine crude palm oil (CPO) price for fourth quarter of 2010, all main factors influencing crude palm oil price were analyzed. There are three major factors that have an impact to crude palm oil prices. On the supply side, the factors are production and stock while on demand side, this includes export of palm oil and soybean oil (SBO), while the third factor is the 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 had decreased to 3.87 Mn T as compared to 5.10 Mn T in the fourth quarter of 2009. Therefore, the stock of PO 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 econometric model, it is estimated that production of crude palm oil in the fourth quarter of 2010 will decline marginally to 4.50 Mn T as compared to 4.69 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 increased marginally to 1.66 Mn T in the fourth quarter as compared to 1.61 Mn T.

Figure 6: Production of CPO and Stock of Palm Oil



b) Export of Palm Oil

Figure 7 shows movement in export of PO from fourth quarter of 2009 to third quarter of 2010. It shows that the movements of export of PO for these periods were slightly volatile. In the third quarter of 2010, export of PO increased marginally to 4.15 Mn T as compared to 4.09 Mn T in the second quarter of 2010. Based on econometric model, it is estimated that export of PO in the fourth quarter of 2010 will continue increase to 4.33 Mn T.

Figure 7: Export of Palm Oil

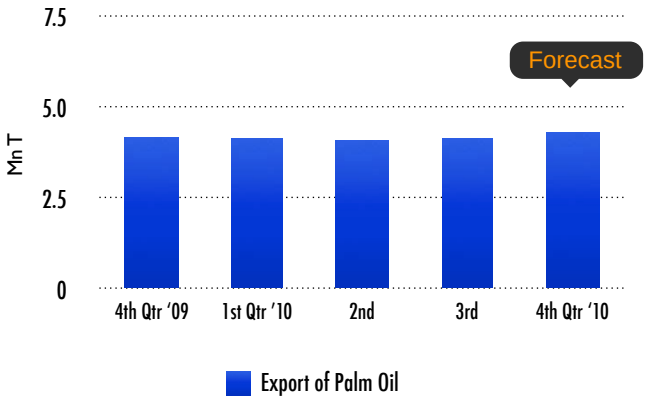
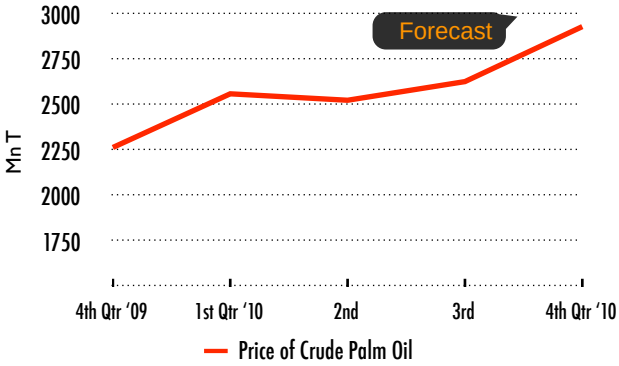


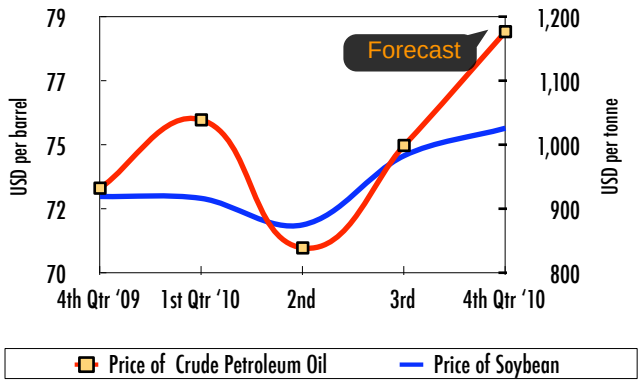
Figure 9: Price of Crude Palm Oil



c) SBO and crude petroleum oil prices

Figure 8 shows the movement in soybean oil and crude petroleum oil prices. As shown in the third quarter of 2010, soybean oil price had increased to USD 984 per tonne from USD 876 per tonne in the second quarter of 2010. Meanwhile, the price of crude petroleum oil had increased to USD 74.5 per barrel in third quarter of 2010 as compared to USD 70.9 per barrel in the second quarter. Based on econometric model, it is estimated that the price of soybean oil will increase to USD 1,027 per tonne. While, the price of crude petroleum oil is estimated at USD 78.5 per barrel in the fourth 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 the fourth quarter of 2009 to third quarter of 2010 which indicate some volatility in the movement during period mentioned. Based on econometric model which includes all factors as mentioned earlier, it is estimated that the price of CPO will be bullish in the fourth quarter of 2010. It was estimated that the price of crude palm oil in the fourth quarter will increase to RM2,933 per tonne as compared to RM2,630 per tonne in the third quarter, or an increase of about 12%.

Chart 1: World Imports of Oils & Fats

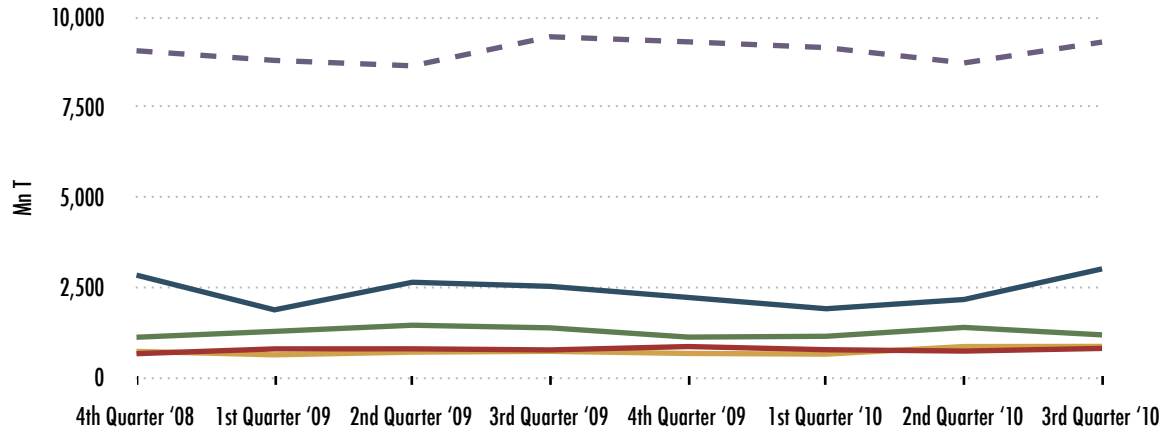


Chart 2: World Exports of Oils & Fats (Mn T)

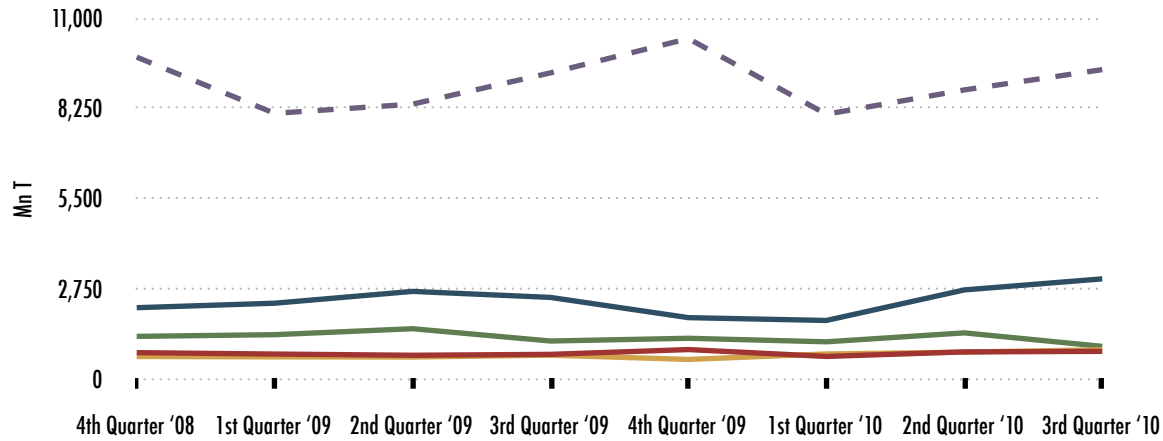


Chart 3: World Disappearance of Oils & Fats (Mn T)

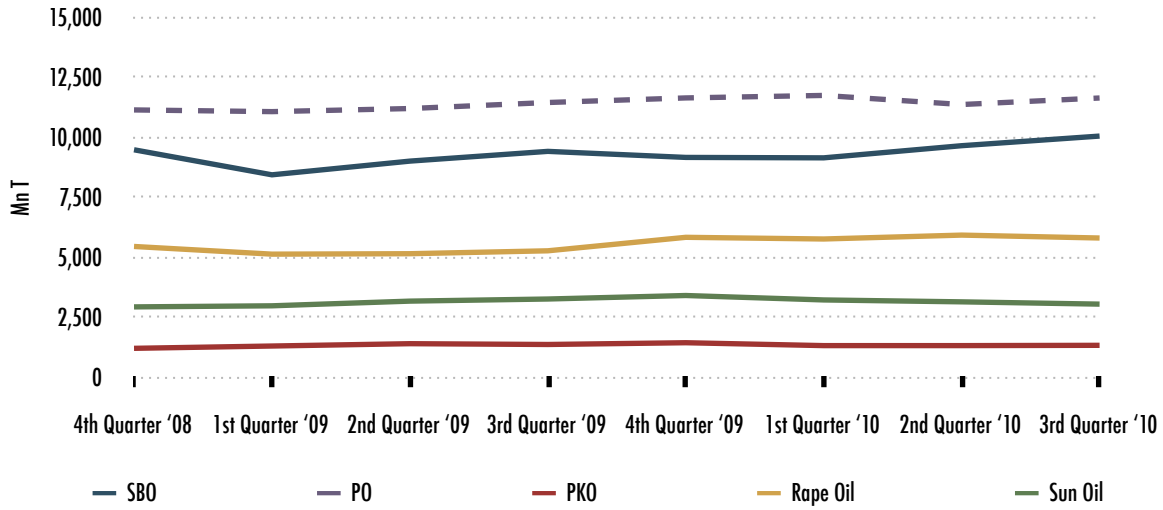
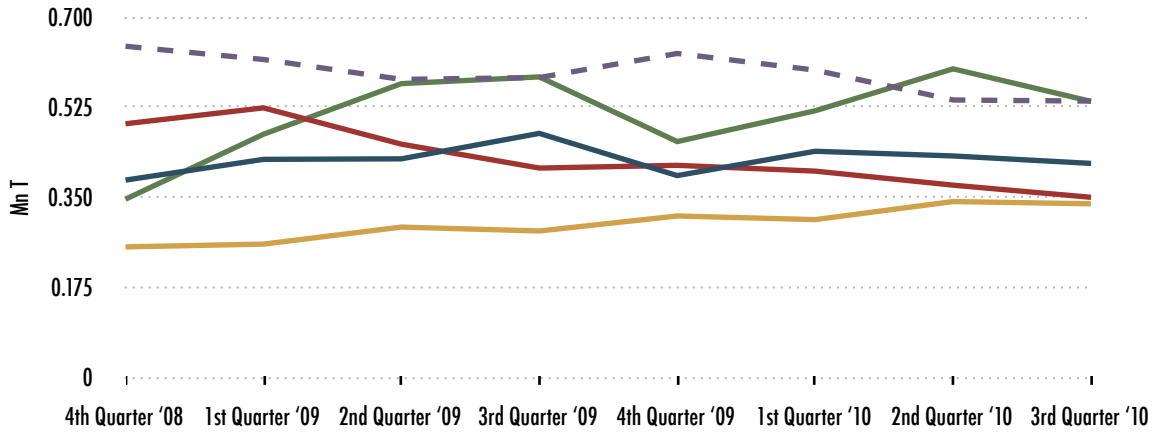
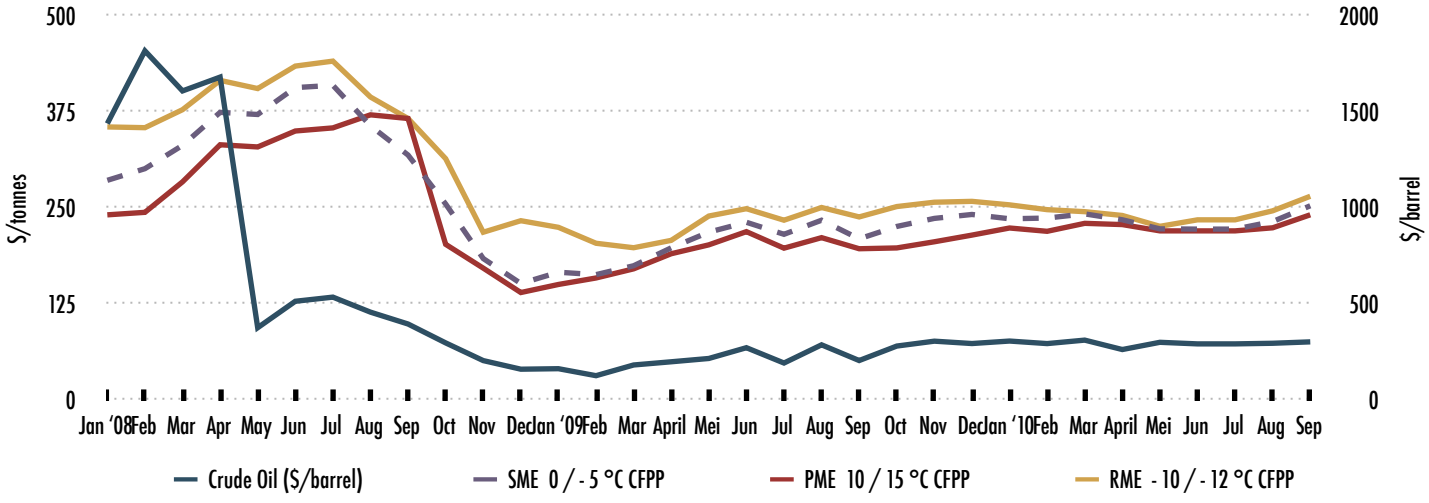


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

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



Source: Kingsman