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QUARTERLY REPORT ON OILS AND FATS

4th Quarter 2010

INSIDE

MPOB

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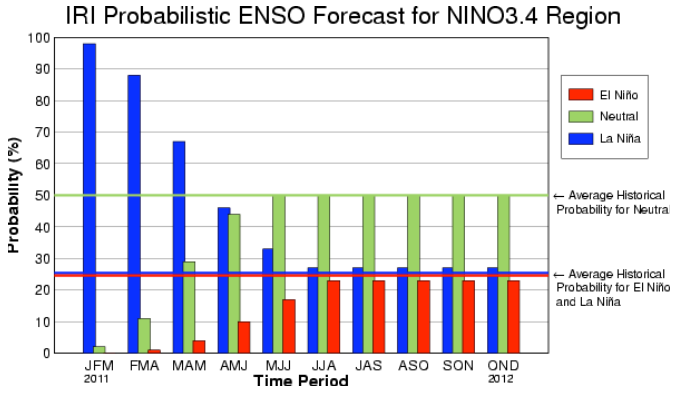
Weather Conditions

Figure 1: IRI Probabilistic ENSO



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

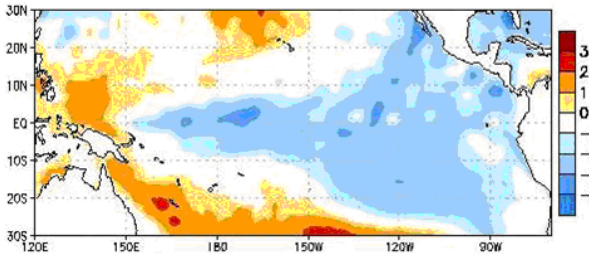
In this quarter, Malaysia experienced wetter season with some areas in Kelantan, Pahang and Johore were affected with floods. The wet season is expected to continue until March 2011 (*Figure 1*). From January to March (JFM) this year, there will be an approximately 98% probability for continuing La Niña conditions and this would slowly decline to 88% probability for February to April (FMA) period. Further reduction to 67% is expected for March to May (MAM) (source: International Research Institute for Climate and Society-IRI).

The Malaysian Meteorological Department (MMD) issued a yellow stage on the 1st February 2011 for the states of Johore and Pahang regarding the expected weather condition. This indicates that both states most probably experience flood particularly over low-lying areas and along river banks. The same warning goes to Sarawak specifically in Kuching, Samarahan, Sri Aman, Betong, Miri (Marudi Districts) and Kapit (Belaga Districts).

Heavy rainfall has resulted in declines in FFB production and oil extraction rate (OER) in the oil palm sector. As a result of that, Malaysia's crude palm oil production for 2010 declined to 16.9 Mn T or 3.4% as compared to 17.5 Mn T in 2009.

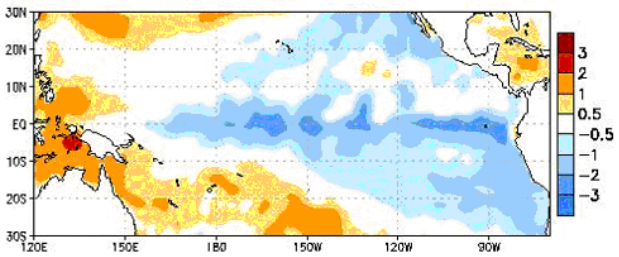
Figures 2(a) and 2(b) below indicate differences in Sea Surface Temperature (SST) Anomaly which were taken on 5th January 2011 (*Figure 2(a)*) compared to 8th September 2010 (*Figure 2(b)*). Latest data indicate that the cooler areas (indicated in blue) is growing and this explains La Nina conditions that Malaysia is experiencing currently. The changes might affect crop production.

Figure 2(a): Sea Surface Temperature (°C)



Source: Malaysian Meteorological Department(MMD)

Figure 2(b): Sea Surface Temperature Anomaly (°C)



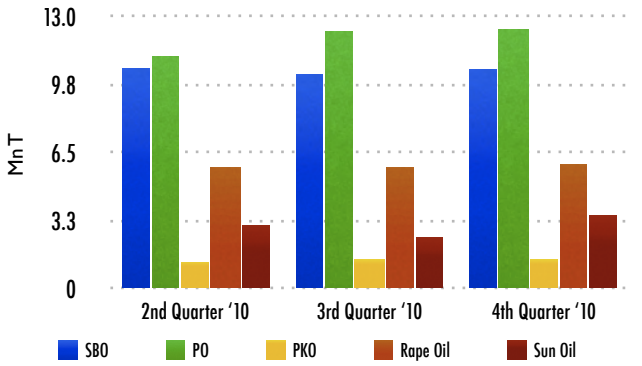
Source: Malaysian Meteorological Department

Increase in Total World Production of Edible Oils

World vegetable oil production had increased by 7.8% to 45.52 Mn T in the fourth quarter 2010 from 42.25 Mn T in the previous quarter. Production growth was mainly driven by higher production of the major oils i.e sunflower oil, soybean oil, rapeseed oil and palm oil by 43.2% to 3.5 Mn T, by 2.4% to 10.49 Mn T, by 1.9% to 5.94 Mn T and by 0.8% to 12.41 Mn T respectively. Palm oil production experienced slower growth this quarter due to interrupted harvesting because of unfavorable weather in particular in Malaysia. Only production of palm kernel oil had decreased slightly by 0.1% to 1.40 Mn Tin this quarter.

Compared to the same period last year, production of major oils had increased by 3.3% from 44.07 Mn T. Among edible oils that had increased include soybean oil, palm oil and rapeseed oil had grown by 14.4%, 0.1%, and 0.3% respectively. On the other hand, sunflower oil and palm kernel oil had declined in production by 5.5% and 2.9% respectively compared to the fourth quarter 2009.

Figure 3: World Production of Major Oils



Source: Oil World

World Export of Edible Oils Decreasing

In this quarter, total world export of major oils had decreased marginally by 0.9% or by 0.16 Mn T compared to third quarter 2010 (*Table 1*). This was mainly contributed by smaller export of soybean oil and rapeseed oil by 16.6% from 3.04 Mn T to 2.54 n T and by 17.8% from 0.95 Mn T in the previous quarter to 0.78 Mn T in this quarter respectively. On the contrary, export growth of palm oil, palm kernel oil and sunflower oil had increased by 6% to 10.09 Mn T, by 2.8% to 0.87 Mn T and by 7.5% to 1.12 Mn T.

Table 1: Export Vegetable Oils (1000 T)

	2ND QTR '10	3RD QTR '10	4TH QTR '10	Q-ON-Q % CHANGE
Soybean Oil	2,656	3,044	2,540	-16.56
Palm Oil	8,459	9,513	10,087	6.03
Palm Kernel Oil	687	846	870	2.84
Rapeseed Oil	786	952	783	-17.75
Sunflower Oil	1,398	1,045	1,123	7.46
Others	2,214	2,090	1,929	-7.70
Total	16,200	17,490	17,332	-0.90

Total world disappearance of major oils and fats had inched up by 1.4% from 43.2 Mn T in the previous quarter to 43.82 Mn T in this quarter. Higher disappearance was attributed to soybean oil, palm oil and palm kernel oil from 10.07 Mn T to 10.43 Mn T or by 3.6%, from 11.54 Mn T to 11.78 Mn T or by 2.1% and from 1.25 Mn T to 1.36 Mn T or by 8.4% respectively. However, disappearance of rapeseed oil and sunflower oil had decreased by 1.5% and 1% respectively compared to the third quarter 2010.

Decrease in Total Import of Major Oils

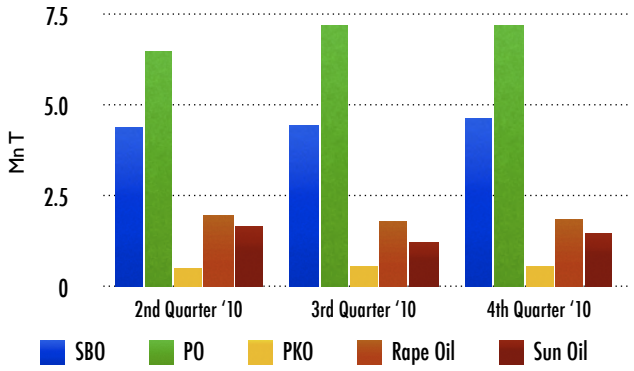
In this quarter, total imports of major oils registered a decrease of 5.3% from 17.59 Mn T in the previous quarter to 16.66 Mn T due to downward trend in import of soybean oil, rapeseed oil and sunflower oil i.e. by about 9.3%, 13.8%, and 25.5% respectively.

However, import of palm oil and palm kernel oil had shown mixed performance with increase of 0.5% and 9.8% respectively.

Slight Increase in Ending Stocks of Major Oils

Total ending stock of major oils and fats recorded higher level by 4% over the previous quarter. This was due to the increase in stocks of soybean oil, rapeseed oil and sunflower oil by 0.3%, 5.4% and 21.1% respectively. However palm oil and palm kernel oil had shown decrease in volume of ending stock by 1.8% and 7.6% (*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 of Major Oilseeds

The total world crushing of oilseeds had increased by 4.1% to 81.84 Mn T. Crushing activities of sunflower seed is the major contribution to this increment by 35% and were followed by palm kernels, rapeseed and soybean by 2.5%, 1.7% and 1.5% respectively.

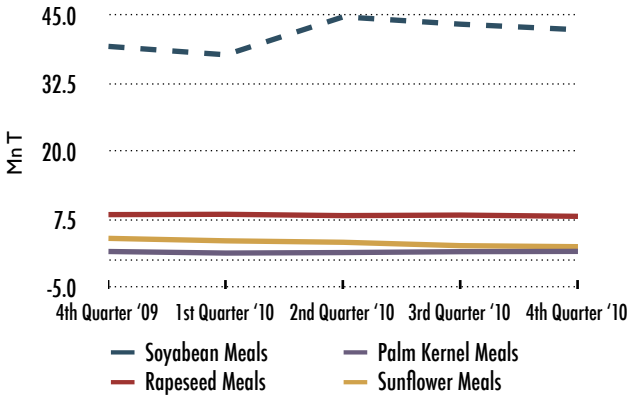
The crushing activities for rapeseed in countries such as China, EU-27 and Canada showed increases of 9.8%, 7.7% and 0.8% respectively. Meanwhile, crushing volume in India, Japan and Iran had decreased by 23.3%, 2.6% and 0.9% correspondingly.

India is the major contributor for the soybean crushing activities by 96.2%, while USA, China PR and EU-27 also recorded increases of 19.7%, 8.9%, and 1.3% in the same way. However, the crushing volumes in Brazil and Argentine had decreased by 23.5% and 15.6% respectively.

Increase in World Production of Oil Meals

The production of oil meals had shown upward trend of 6.4% from 68.54 Mn T to 72.91 Mn T. This is due to bigger production of soybean meals, palm kernel meals, rapeseed meals and sunflower meals that had increased by 2.8%, 0.1%, 1.7% and 42.2% respectively over the previous quarter (*Figure 5*).

Figure 5: World Production of Oil Meals



Source: Oil World

The opening stock of oil meals had increased by 3.8% from 8.87 Mn T to 9.20 Mn T for the current quarter. Meanwhile, the total export of oil meals had increased by 1% from 20.65 Mn T in the previous quarter to 20.85 Mn T in this quarter. This is due to bigger export of soybean meals, palm kernel meals and sunflower meals had increased by 1.6%, 15.7% and 59% respectively. However, the export of rapeseed meals had decreased by 6.2%.

The consumption of oil meals had increased by 6.4% from 68.21 Mn T in the previous quarter to 72.58 Mn T in this quarter. This was due to the disappearance of soybean meals, palm kernel meals, rapeseed meals, and sunflower meals had increased by 4.6%, 16.2%, 1.0% and 28.1%.

For this quarter, total ending stock of oil meals had increased by 10.1% from 6.56 Mn T to 7.23 Mn T.

Biodiesel Market Developments

Biodiesel prices had improved extensively in this quarter. The prices of soybean methyl ester (SME), palm methyl ester (PME) and rapeseed methyl ester (RME) had increased by 20.6%, 20.7% and 22.6% to USD 1044.40, USD 1005.20 and USD 1157.43 consequently (Table 2). (The Biodiesel figure is shown in the Appendix)

Table 2 : Biodiesel Prices (USD/tonne)

SOURCE	PRODUCTS	OCT	NOV	DEC	% CHANGE (Oct - Dec)	AVERAGE (US$)
Kingsman	SME 0/-5°C CFPP (CIF ARA)	675	1,206	1,252	20.58	1,044.40
	PME 10/15°C CFPP (CIF ARA)	647	1,164	1,204	20.71	1,005.20
	RME 10/12°C CFPP (FOB ARA)	720	1,335	1,418	22.60	1,157.43

Portugal – Petrobras will produce Biodiesel from Palm Oil

Two projects have been planned for biodiesel production from palm oil i.e in northern Brazil's state of Parana with a June 2013 deadline for operations to commence and the Belem project in Portugal in partnership with Galp Energia. An agreement was signed between the two oil companies for producing around 260,000 tons of biodiesel every year in Portugal at the Sines Refinery. Establishment of a biodiesel unit in Portugal also includes setting up of an agri-industrial hub in the Brazilian region for growing palms with an annual production of 300,000 tons per year.

The two companies would be sharing the investments in the project, which is equivalent to 395 million euros where in 216 million euros are to be invested in Brazil alone.

(Source: Biodiesel report)

India – Cost of Biodiesel could rise

In India, the price of biodiesel made from jatropa needs to increase if the nation is to create a financially viable and sustainable biodiesel market. In India, the price of biodiesel made from jatropha needs to increase if the nation is to create a financially viable and sustainable biodiesel market. Together the two organizations conducted a study titled realistic cost of biodiesel in India, found that biodiesel derived from jatropha should be priced at Rs.36/litre, up from Rs. 26.5/litre. If India were to implement a 3% jatropha based biodiesel scheme between 2011 and 2012, it would save in the region of Rs. 3000 crores and create almost Rs.5500 crores in revenue. Based on these findings, both organizations suggest that the Indian government introduce incentives and grants to help make biodiesel self sustainable.

(Source: Biodiesel report)

New Zealand – Gull Diesel Max launched in Rotorua

Gull New Zealand announced the launch of Diesel Max to the rotorua market, retailing from the Gul site located on Te Ngae Road. Gull Diesel Max is a 5% blend of locally produced sustainable biodiesel that decreases emissions and typically retails below its competitors mineral products. Gull New Zealand are thrilled that Rotorua motorists, transport providers and visitors can enjoy the reduced cost of locally produced biodiesel while also choosing a sustainable alternative that is better for the environment and New Zealand's carbon future. Te Ngae Road is the fourth Gull site in New Zealand to sell only bio-fuels products.

(Source: Biodiesel report)

Increased in Malaysian Palm Oil Production

Palm oil production normally peaked up in the third quarter onward. In Malaysia, palm oil production had increased by 14% from 4.11 Mn T in the second quarter of 2010 to 4.69 Mn T in the third quarter. Production of palm kernel and crude palm kernel oil had also increased by 19.1% to 1.20 Mn T and 14% to 0.54 Mn T respectively compared to the previous quarter this year.

Malaysian palm oil export had increased from 4.14 Mn T in the previous quarter to 4.25 Mn T (2.7%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil with 0.76 Mn T or 18% of total palm oil exports, followed by Pakistan 0.62 Mn T (14.6%), EU 0.54 Mn T (12.7%), USA 0.25 Mn T (5.8%), India 0.24 Mn T (5.5%) and Japan 0.13 Mn T (3.1%). Together these six countries accounted for 2.54 Mn T or 59.8% of total Malaysian palm oil exports in fourth quarter of 2010.

Malaysian exports of palm kernel oil and palm kernel cake had also increased by 8.2% from 0.29 Mn T in the previous quarter to 0.32 Mn T in this quarter and by 18.8% from 0.57 Mn T to 0.67 Mn T respectively.

Outlook

CPO Prices will remain firm in the First Quarter of 2011

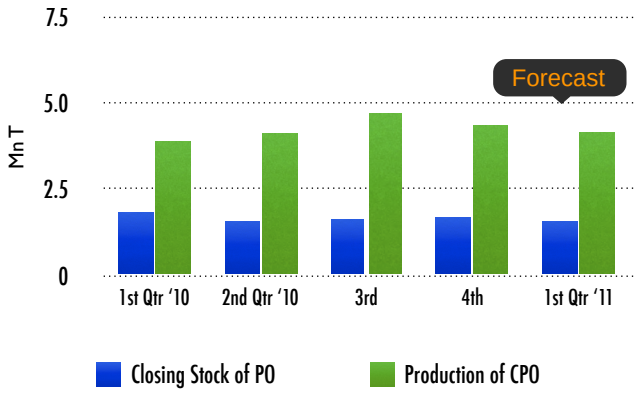
In the first quarter of 2011, weather will likely be the main driver on palm oil prices as compared to the other factors. This is because of northeast monsoon and La Nina might affect palm oil supply in the market. Meanwhile, in demand side momentum of Chinese New Year has brought significant support to the movement on CPO prices in the first quarter of 2011. Furthermore, cold weather in the USA and Europe had increased crude petroleum oil prices due to increase in consumption. Based on those scenarios, it is strongly believed that CPO prices will remain firm in the first quarter of 2011.

a) Production of CPO and stock of palm oil

The impact of northeast monsoon (monsoon rains) started in November 2010 until March 2011 had contribute to decline in production and stock of palm oil in the fourth quarter 2010 and this scenario will most likely continue in the first quarter of 2011. During November and December, weather conditions with rainfall slightly above normal had occurred in Peninsula Malaysia as well as most areas in Sabah. It started in November, over the northern region of Peninsula Malaysia which includes the states of Perlis, Kedah and Perak before the phenomenon moved to eastern region of Peninsula Malaysia which includes the states of Kelantan, Terengganu and Pahang. Southern region of Peninsula Malaysia like state of Johor will also be affected by the heavy rains in January and estimated will continue until February 2011. Based on a report by Malaysian Meteorological Department, 2010 the year 2011 is a La Nina year.

Floods occuring in the fourth quarter 2010 and the first quarter of 2011, in low-lying oil palm planted area (*Figure 10*), had created difficulties for the growers (smallholders and estates) to harvest and deliver the fruits to the mills. As indicated in *Figure 6*, a declined trend of CPO production in the fourth quarter has occurred. In the third quarter of 2010, production of CPO was 4.69 Mn T as compared to 4.33 Mn T in the fourth quarter of 2010, a decline of about 8%. However, there was a marginal increase in stock of PO from 1.61 Mn T in the third quarter to 1.68 Mn T in the fourth quarter of 2010. Based on econometric model, it is estimated that the production of CPO in the first quarter of 2011 will decline to 4.14 Mn T as compared to the previous quarter. Based on the same model, it is estimated that the stock of PO will also decrease marginally to 1.55 Mn T in the first quarter of 2011.

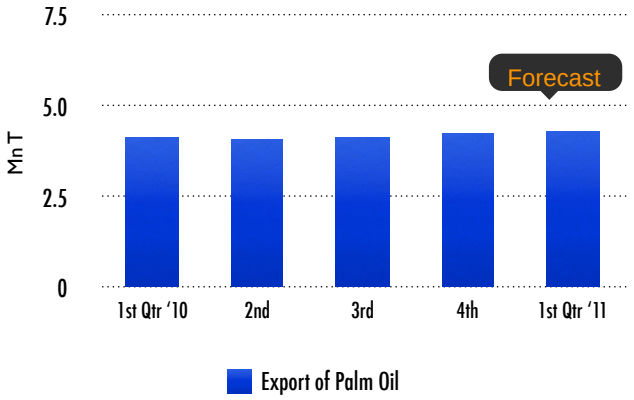
Figure 6: Production of CPO and Stock of Palm Oil



b) Export of Palm Oil

Figure 7 shows the movement in export of PO from first quarter to fourth quarter of 2010. It shows that the movement of export of PO for those periods were slightly volatile. In the fourth quarter of 2010, export of PO increased marginally to 4.25 Mn T as compared to 4.15 Mn T in the third quarter of 2010. Based on econometric model, it is estimated that export of PO in the first quarter of 2011 will continue increased to 4.30 Mn T.

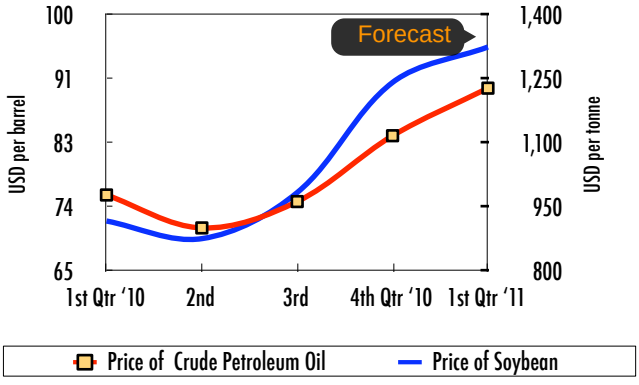
Figure 7: Export of Palm Oil



c) SBO and crude petroleum oil prices

Figure 8 shows the movement in soybean oil and crude petroleum oil prices. As shown in the fourth quarter of 2010, soybean oil price had increased to USD 1,242 per tonne from USD 984 per tonne in the third quarter of 2010. Meanwhile, price of crude petroleum oil had increased to USD 83.50 per barrel in fourth quarter of 2010 as compared to USD 74.50 per barrel in the third quarter. Based on econometric model, it is estimated that the price of soybean oil will increase further to USD 1,325 per tonne in the first quarter of 2011, while, the price of crude petroleum oil is estimated at USD 90.0 per barrel in the first quarter of 2011.

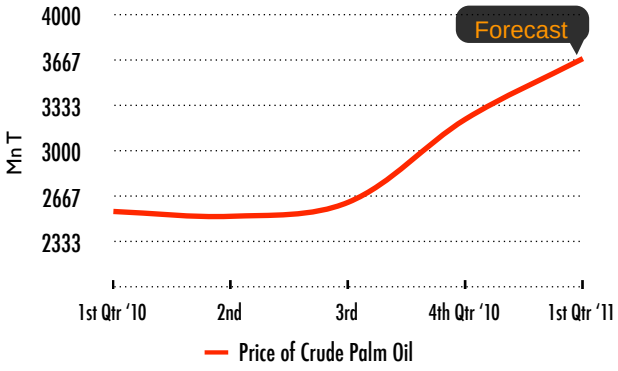
Figure 8: Soybean Oil and Crude Petroleum Oil Prices



Price of Crude Palm Oil

Figure 9 shows the movement in CPO price of from the first quarter to fourth quarter of 2011 which indicates that some volatility in the movement during the period mentioned. Based on econometric model which includes all factors as mentioned before, it is estimated that price of CPO will be in bullish in the first quarter of 2011. Based on model, the price of CPO in the first quarter is expected to increase to RM3,686 per tonne as compared to RM3,241 per tonne in the fourth quarter or a increased by about 14%.

Figure 9: Price of Crude Palm Oil



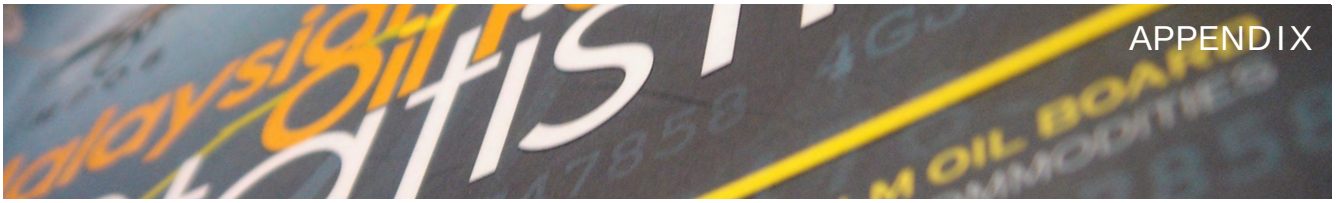


Chart 1: World Imports of Oils & Fats

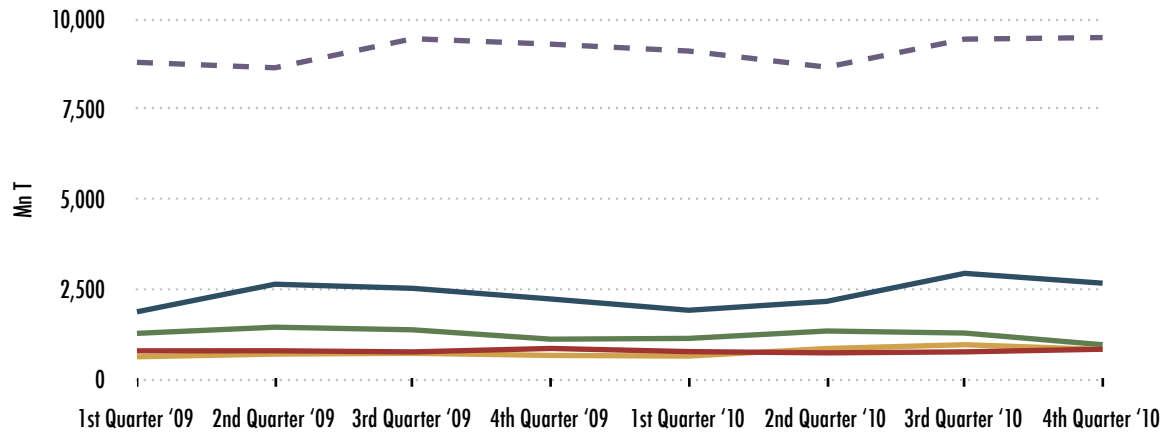


Chart 2: World Exports of Oils & Fats (Mn T)

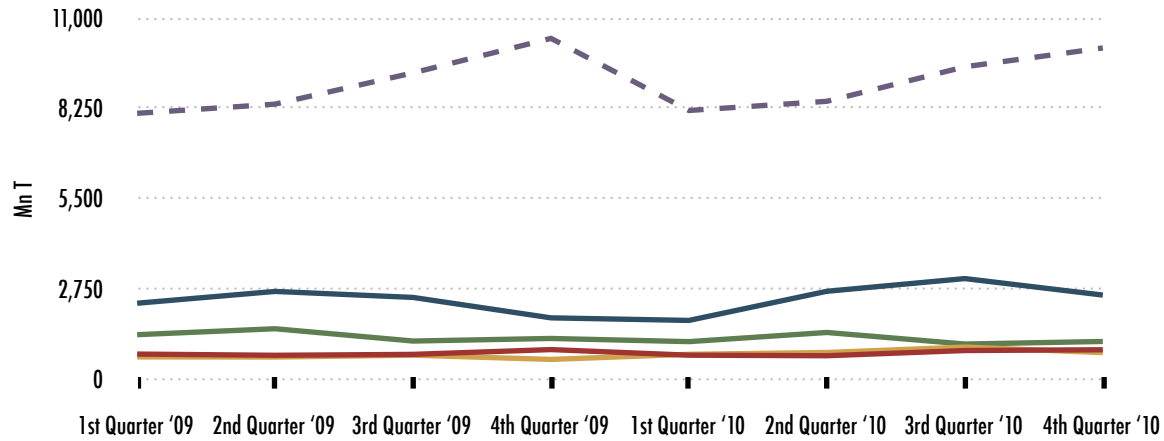
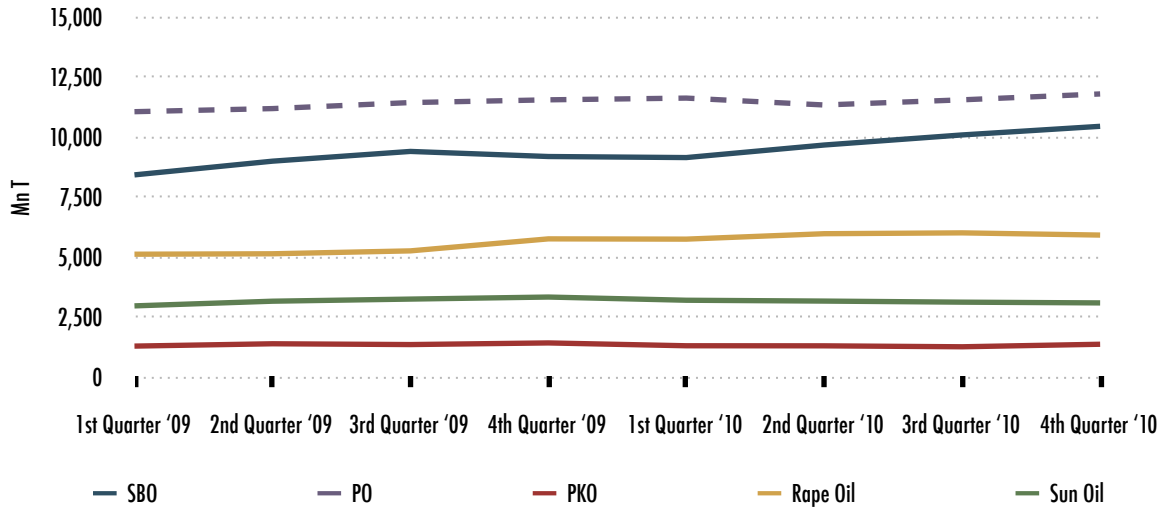


Chart 3: World Disappearance of Oils & Fats (Mn T)



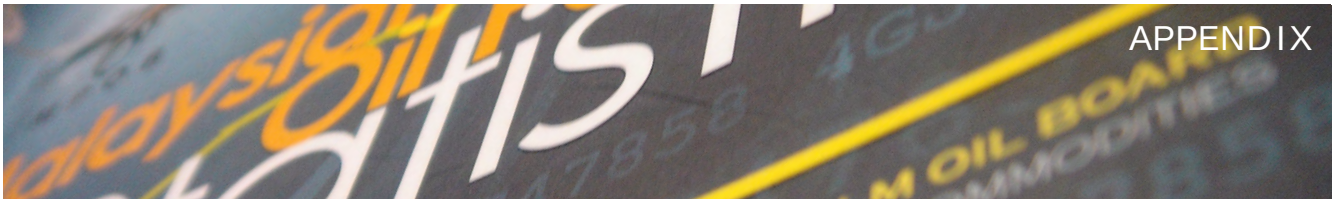
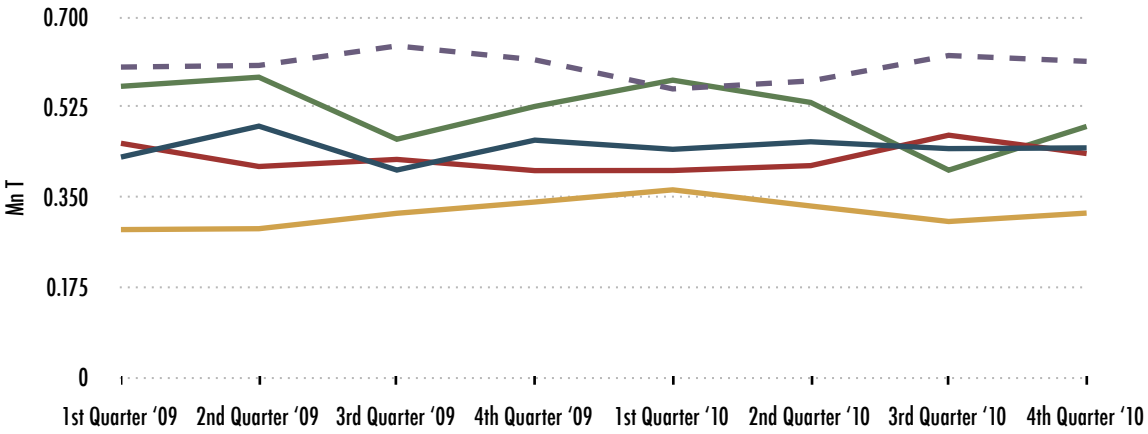
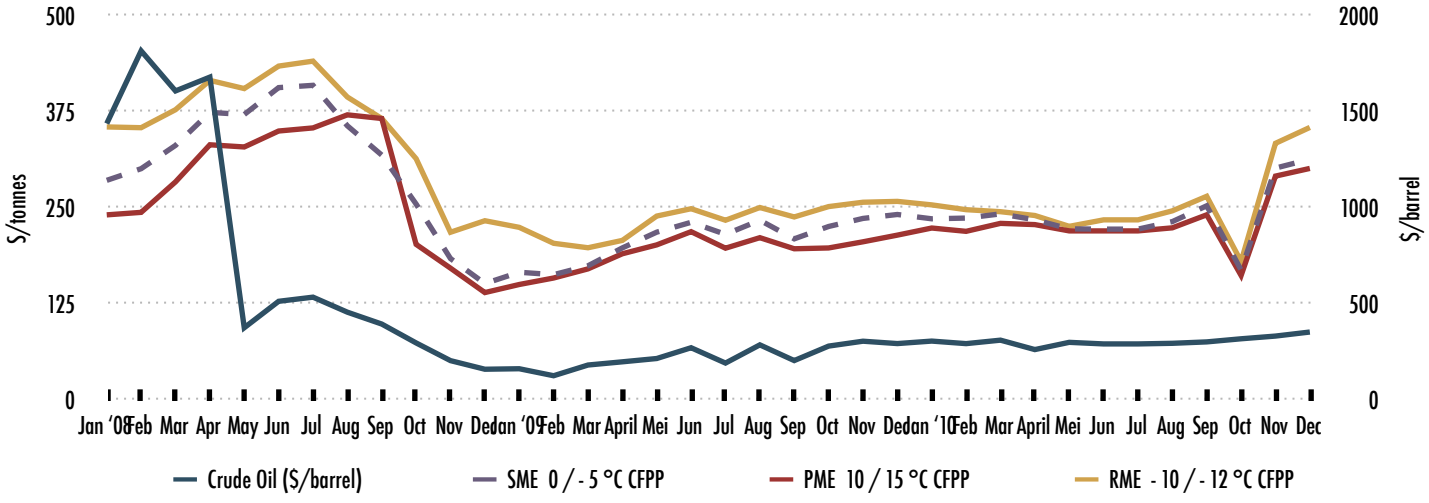


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

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



Source: Kingsman