1st Quarter 2011

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QUARTERLY REPORT ON OILS AND FATS




INSIDE

MPOB

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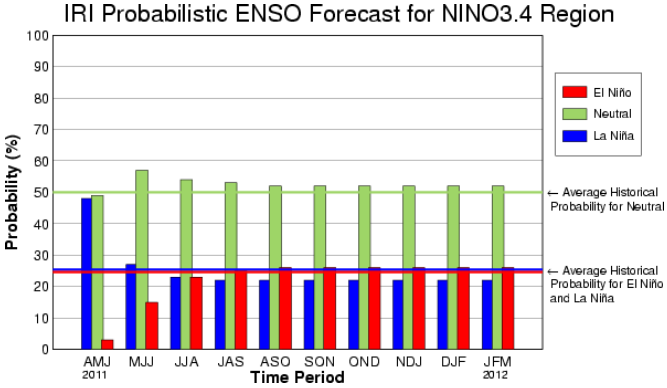
Weather Conditions

Figure 1(a): IRI Probabilistic ENSO

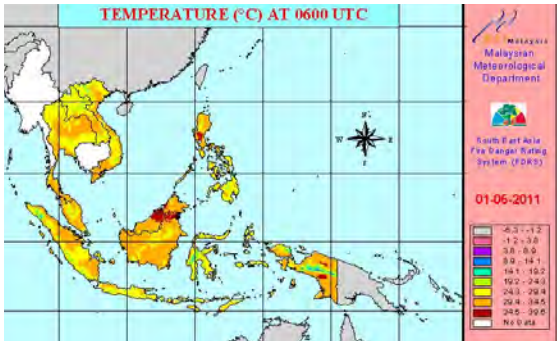


Source:http://iri.columbia.edu/climate/ENSO

The International Research Institute for Climate and Society (IRI) estimated that the neutral condition will most probably occur in next three months i.e in April, May and June (*Figure 1(a)*). Weather would likely return to normal from the La Nina phenomenon of the last quarter of 2010 and first quarter of 2011. It is also expected that the weather in 2011 would not be disrupted by extreme conditions.

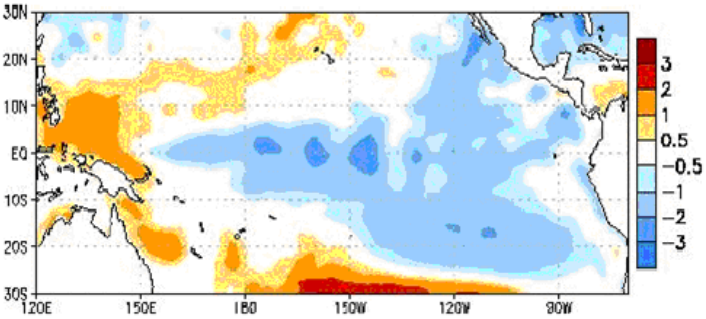
Malaysia also experienced wet season in the first quarter of 2011. By end of the first quarter, there is a tendency for the hot weather to prevail. MMD graphs (*Figure 1(b)* as of first May 2011) indicate that some areas in Sarawak and Sabah had been experiencing hot temperatures ranging from 34.5 to 39.6°C. The temperatures for most areas either in Malaysia or Indonesia are currently above 30°C. Weather change could affect agricultural production patterns.

Figure 1(b): Temperature (°C) in Malaysia on first May 2011



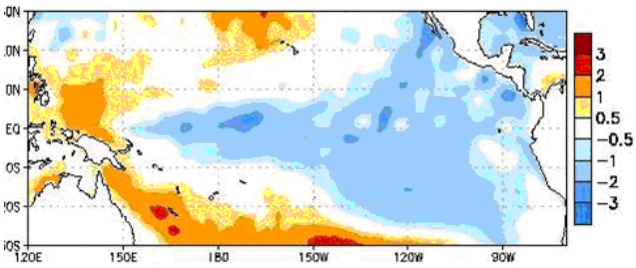
Comparing Figure 2(b) which was taken on 30 March 2011 with the one taken on 05 January 2011 indicates that Sea Surface Temperature (SSE) Anomaly has slightly decreased from January to March. Nevertheless, the anomaly index in the Pacific Ocean remains high indicating the slow rate of transaction from the La Nina to Neutral condition.

Figure 2(a): Week Centered on 30 March 2011 Sea Surface Temperature (°C)



Source: Malaysian Meteorological Department

Figure 2(b): Week Centered on 5 January 2011 Sea Surface Temperature Anomaly (°C)



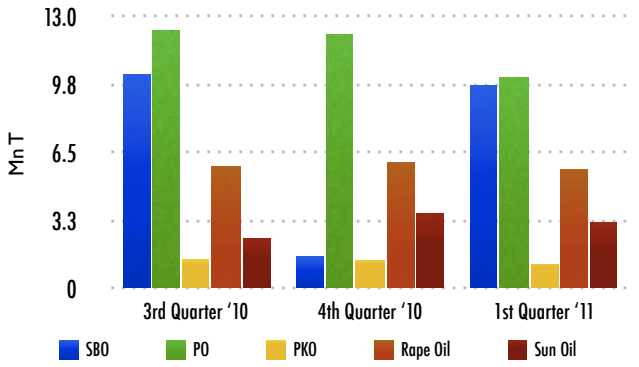
Source: Malaysian Meteorological Department

Decrease in World Production of Total Oils

World production of total vegetable oils had decreased by 7.1% to 42.31 Mn T in the first quarter of 2011 from 45.54 Mn T in the fourth quarter of 2010. This was mainly due to smaller production of major vegetable oils in various producing countries. The production of palm oil had dropped by nearly 17% or about 2 Mn T to 10.13 Mn T in the first quarter of 2011. Similarly, production of soybean oil, rapeseed oil and sunflower oil had also slowed down from 10.55 Mn T to 9.7 Mn T (8.1%), from 6.03 Mn T to 5.72 Mn T (5.1%) and from 3.61 Mn T to 3.2 Mn T (11.6%) Meanwhile, palm kernel oil had decreased by 15.3% to 1.17 Mn T.

Year – on – year and compared to the same quarter last year, the production of major oils had grown marginally by 1.6% from 41.63 Mn T to 42.31 Mn T. Soybean oil registered an increase in production by 9.8% from 8.83 Mn T in the first quarter of 2010. Production of palm oil had only shown slight increment of 1%. On the other hand, rapeseed oil and sunflower oil recorded lower production of 3.9% and 3% respectively compared to the same quarter last year.

Figure 3: World Production of Major Oils



Source: Oil World

World Export Declined

Total world export of major oils declined by 19.2% or by 3.48 Mn T this quarter compared to fourth quarter 2009 (*Table 1*). This was mainly due to smaller export of soybean oil by 21.2% to 2.17 Mn T, palm oil 22.8% to 7.96 Mn T, palm kernel oil 19.1% to 0.7 Mn T and sunflower oil 10.4% to 1.04 Mn T .

Table 1: Export Vegetable Oils (1000 T)

	1st QTR '10	4th QTR '10	1st QTR '11	Q-ON-Q % CHANGE
Soybean Oil	1,769	2,750	2,166	-21.24
Palm Oil	8,218	10,318	7,964	-22.81
Palm Kernel Oil	702	862	697	-19.14
Rapeseed Oil	726	969	825	-14.86
Sunflower Oil	1,112	1,159	1,039	-10.35
Others	2,094	2,076	1,959	-5.64
Total	14,621	18,134	14,650	-19.21

Total world disappearance of major oils and fats had also decreased slightly by 2.1% to 42.92 Mn T in this quarter. This was mainly attributed to shrinking disappearance of major vegetable oils. Soybean oil dropped by 2.3% to 10.13 Mn T, palm oil 2% to 11.43 Mn T, palm kernel oil 2.9% to 1.32 Mn T, rapeseed oil 2.3% to 5.8 Mn T and sunflower oil 2.3% to 3.07 Mn T respectively. However, the disappearance of vegetable oils had increased by 2.4% compared to the same quarter last year.

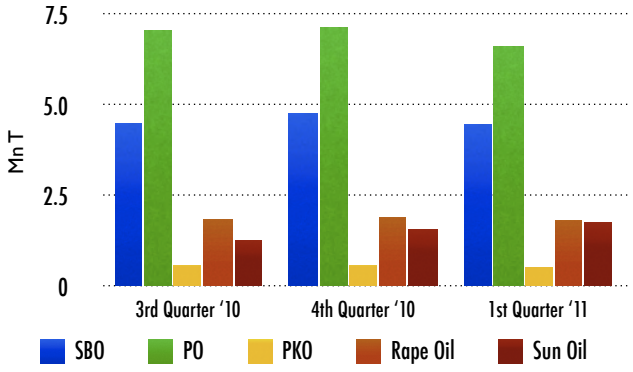
Decrease in Total Import of Major Oils

In this quarter, total imports of major oils registered a decrease of 10.7% from 17.56 Mn T in the previous quarter to 15.67 Mn T due to downward trend in the import of soybean oil, palm oil, palm kernel oil and rapeseed oil i.e. on quantum basis 19.5%, 11.8%, 4.3% and 12.6% respectively.

Increase in Stocks of Major Oils

Total ending stock of major oils and fats recorded slight increase of 2% over the previous quarter. This was due to bigger stock build up of sunflower oil by 11% from 15.87 Mn T to 17.62 Mn T. Soybean oil, palm oil, palm kernel oil and rapeseed oil however had shown smaller decline in volume of ending stock by 6.3%, 7.3%, 7.7% and 4.6% respectively (*Figure 4*). *(Charts for Oils and Fats are shown in Appendix)*

Figure 4: World Ending Stocks of Selected Oils



Source: Oil World

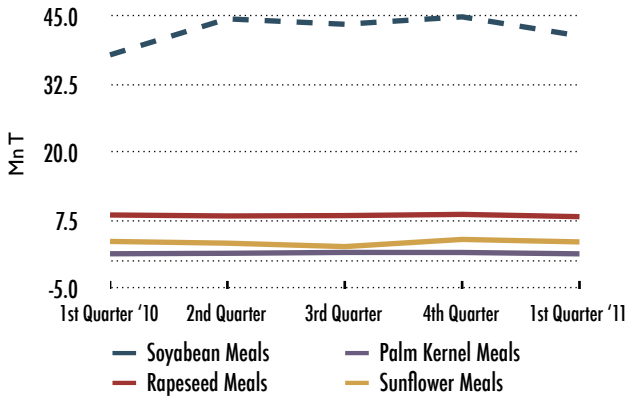
Decrease in Crushing Volume of Major Oilseeds

Worldwide crushing of oilseeds had declined by 7.3% to 77.64 Mn T. Soybean crushing decreased by 6.5%, particularly in Argentina, India, USA, EU-27 and Brazil by 24.3%, 7.9%, 7.8%, 6.2% and 4.4% respectively. On the other hand, China PR showed an increase in crushing of 2.3%. Rapeseed crushing in Iran, China-PR, Japan, Canada and EU-27 also registered slowdown by 36%, 12.8%, 10.3%, 10.1% and 2.5% respectively except for India which showed an increase of rapeseed crushing by 14.1%. Moreover, sunflower seed and palm kernel crushing also recorded a decrease by 13% and 12.1%, accordingly.

Decrease in World Production of Oil Meals

The production of oil meals showed a downward trend of 6.3% from 73.17 Mn T to 68.58 Mn T. This was mainly due to smaller production of soybean meals, palm kernel meals, rapeseed meals and sunflower meals by 7.8%, 15.2%, 4.9% and 11.3% respectively over the previous quarter (*Figure 5*). Meanwhile, total import of oil meals had also decreased by 11.6% from 21.36 Mn T to 18.89 Mn T.

Figure 5: World Production of Oil Meals



Source: Oil World

The opening stock of oil meals had increased by 4.5% from 9.21 Mn T to 9.62 Mn T for the current quarter. Meanwhile, the total export of oil meals had decreased by 8.5% to 18.59 Mn T in this quarter. This is due to shrinking export of soybean meals, palm kernel meals, rapeseed meals and sunflower meals by 9.4%, 9.9%, and 10.9% respectively.

The consumption of oil meals had decreased by 5.6% from 73.8 Mn T in the previous quarter to 69.64 Mn T in this quarter. The disappearance of soybean meals, rapeseed meals and sunflower meals had decreased by 7%, and both 3.7% respectively. Only, the consumption of palm kernel meals had increased by 3.2% for this quarter.

Total ending stock of oil meals had declined by 8% from 9.62 Mn T to 8.85 Mn T.

Development in the Biodiesel Market

Biodiesel prices had slightly decreased in this quarter except for a marginal increase in the price of soybean methyl ester (SME) by 1% to average at USD 1,368.87. Palm methyl ester (PME) and rapeseed methyl ester (RME) had decreased slightly by 0.01% (USD 994.33) and 1.1% (USD 1,475.32) respectively (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/-5°C CFPP (CIF ARA)	1,346	1,375	1,386	0.97	1,369
	PME 10/15°C CFPP (CIF ARA)	1,305	1,319	1,304	-0.01	1,309
	RME 10/12°C CFPP (FOB ARA)	1,506	1,464	1,456	-1.13	1,475

Brazil – Boeing offers expertise in Biofuel

In Brazil, the Latin America Aerospace and Defense 2011 had shown latest technology in which Boeing is pushing its expertise to expand its market share in the region, in part by offering technology in biofuels and to help Brazil achieve dominance in the air as well as the ground military. Several 28 metre long biodiesel buses that were launched recently had been put into service in Curitiba city. A total of 24 giant buses will transport an average of 25,000 passengers per day along a route 10 km long.

(Source: Biodiesel Report)

Africa – Biofuel among biggest economic opportunities for Africa

The coordinator of the Malawi's Agricultural Research and Development Programme (ARDEP) said that biofuels offer huge economic opportunities for Africa especially for job creation, income generation and domestic energy supply for rural areas.

"This is the time for Africa to look for alternative cleaner and cheaper sources of fuel. Biofuels are a means to a number of ends in Malawi and many other developing countries", he said. The main emphasis and focus of the project was on small-scale, environmentally sustainable biofuel production which would create employment and generate income without competing with food production.

(Source: Biodiesel report)

EU – Plans New Tax Structure to Favour Biofuels

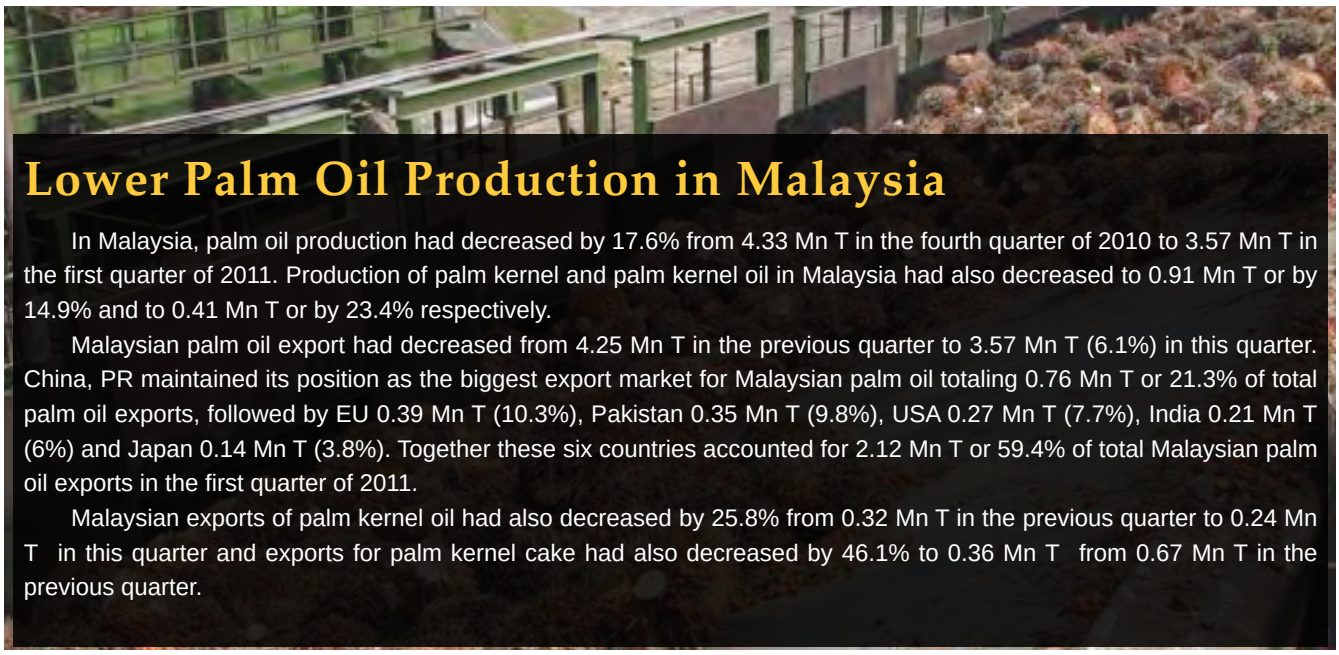
The EU is set to propose new regulations this under which mandated minimum fuel taxes would be based on energy content rather than volume. The proposed tax structure would seek to level the playing field for biofuels, which contain less energy than conventional fuels and it would also make diesel more expensive in many EU states.

Under the plan, EU Tax Commissioner will call for separate taxes on carbon dioxide and fuel consumption. If the EU proposal becomes law, it would end the Germany's diesel subsidy and taxes on diesel would increase from 47 to 75 cents a litre.

The German Association of the Automotive Industry is critical of the proposed new tax structure. The Association argued that every new car in Germany uses a diesel engine and that endangering that market would hurt both the economy and the environment.

"Under this new tax structure sale of diesel cars will likely drop significantly to the detriment of environmental protection as diesel automobile is more efficient and emits less CO2 than its gasoline counterpart", he said in a statement. In addition, all transportation via trucks would become significantly more expensive as 99% of all trucks have diesel motors, higher transportation costs mean higher prices for consumers, he added.

(Source: Biodiesel report)



Lower Palm Oil Production in Malaysia

In Malaysia, palm oil production had decreased by 17.6% from 4.33 Mn T in the fourth quarter of 2010 to 3.57 Mn T in the first quarter of 2011. Production of palm kernel and palm kernel oil in Malaysia had also decreased to 0.91 Mn T or by 14.9% and to 0.41 Mn T or by 23.4% respectively.

Malaysian palm oil export had decreased from 4.25 Mn T in the previous quarter to 3.57 Mn T (6.1%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil totaling 0.76 Mn T or 21.3% of total palm oil exports, followed by EU 0.39 Mn T (10.3%), Pakistan 0.35 Mn T (9.8%), USA 0.27 Mn T (7.7%), India 0.21 Mn T (6%) and Japan 0.14 Mn T (3.8%). Together these six countries accounted for 2.12 Mn T or 59.4% of total Malaysian palm oil exports in the first quarter of 2011.

Malaysian exports of palm kernel oil had also decreased by 25.8% from 0.32 Mn T in the previous quarter to 0.24 Mn T in this quarter and exports for palm kernel cake had also decreased by 46.1% to 0.36 Mn T from 0.67 Mn T in the previous quarter.

Outlook

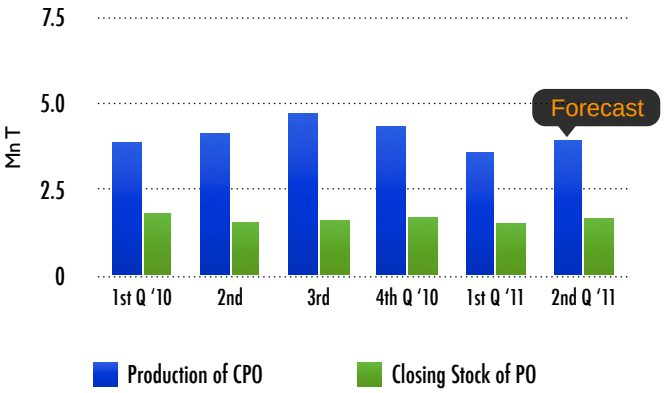
CPO Prices on Downward Trend in the Second Quarter of 2011

In the first quarter of 2011, the model used for forecast the quarterly price of CPO showed correct direction with small error of about 0.2%. Therefore, the same model was used to forecast the movement in CPO prices in the second quarter of 2011. SBO and crude oil prices as well as production of CPO will likely be the main driver of palm oil prices in this quarter. Price of SBO showed a downward trend from January to March 2011 but on the contrary, the price of crude oil showed otherwise. However, since the price of SBO has a closer relationship as compared to crude oil, therefore this gives an early picture that the price of CPO will be in downward direction during the second quarter of 2011. Meanwhile, the production of CPO and stock of palm oil had shown an upward trend from January to March 2011, thus the supply side arguments also strongly suggested that the price of CPO will also be on the downward trend in the second quarter of 2011.

Production of CPO and Stock of Palm Oil

On the annual basis, production of CPO will be in an upward trend in the second quarter and this will contribute to increases in stock of palm oil (PO). Due to La Nina year in 2010/11, it is estimated that in April heavy rainfall will continue to occur. However, starting May and June, La Nina phenomena are expected to disappear and production of CPO is expected to be on track. *Figure 6*, shows the trend of CPO production and stock of PO from the first quarter of 2010 to first quarter of 2011. In the first quarter of 2011, production of CPO at 3.57 Mn T as compared to 4.33 Mn T in the fourth quarter of 2010 or a decline of about 18%. In the first quarter of 2011, there was a decrease of stock of PO from 1.68 Mn T in the fourth quarter of 2010 to 1.51 Mn T in the first quarter of 2011. Based on econometric model, it is estimated that the production of CPO in the second quarter of 2011 is expected to increase to 3.93 Mn T as compared to the previous quarter. Meanwhile, based on the same model for stock of PO, it is estimated that the stock of PO will also be increased to 1.65 Mn T in the first quarter of 2011.

Figure 6: Production of CPO and Stock of Palm Oil

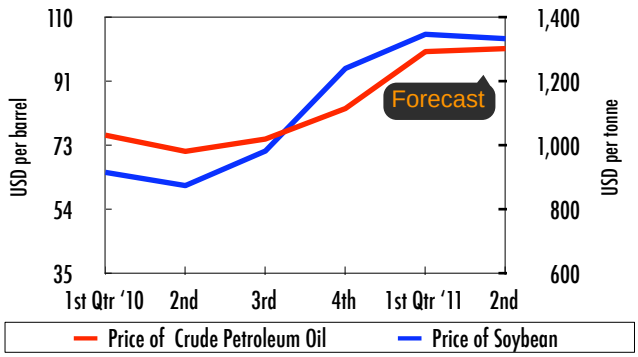


SBO and Crude Petroleum Oil Prices

Figure 7 shows the movements in soybean oil and crude oil prices. As shown in the first quarter of 2011, soybean oil price had increased to USD 1,349 per tonne from USD 1,242 per tonne in the fourth quarter of 2010. Meanwhile, the price of crude oil had increased to USD 83.45 per

barrel in fourth quarter of 2010 to USD 100.12 per barrel in the first quarter of 2011. Based on econometric model, it is estimated that the price of soybean oil will decrease to USD 1,335 per tonne, while the price of crude oil is estimated at USD 101 per barrel in the second quarter of 2011.

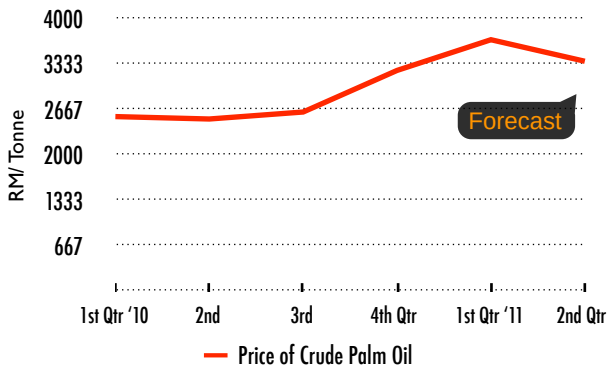
Figure 7: Soybean Oil and Crude Petroleum Oil Prices



Price of Crude Palm Oil

Figure 8 shows the movement in price of CPO from first quarter 2010 to first quarter of 2011 which indicate some volatility in the movements during period mentioned. Based on econometric model which includes all factors as mentioned earlier, it is estimated that the price of CPO will be on a downward trend in the second quarter of 2011. Based on model, it has been estimated that the price of CPO in the second quarter will decline to RM 3,376 per tonne as compared to RM 3,693 per tonne in the first quarter, or a decrease of about 9%.

Figure 8: Price of Crude Palm Oil



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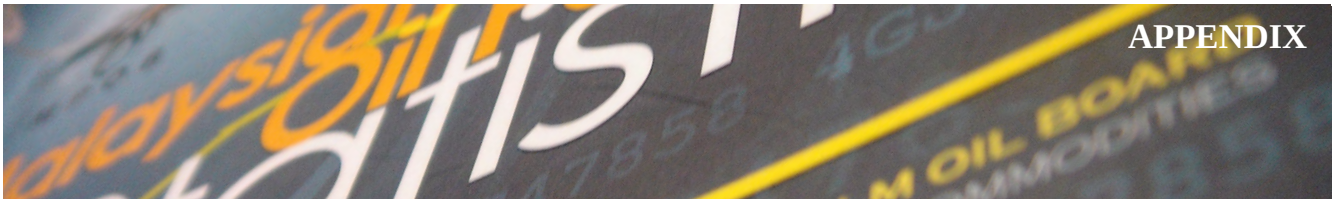


Chart 1: World Imports of Oils & Fats

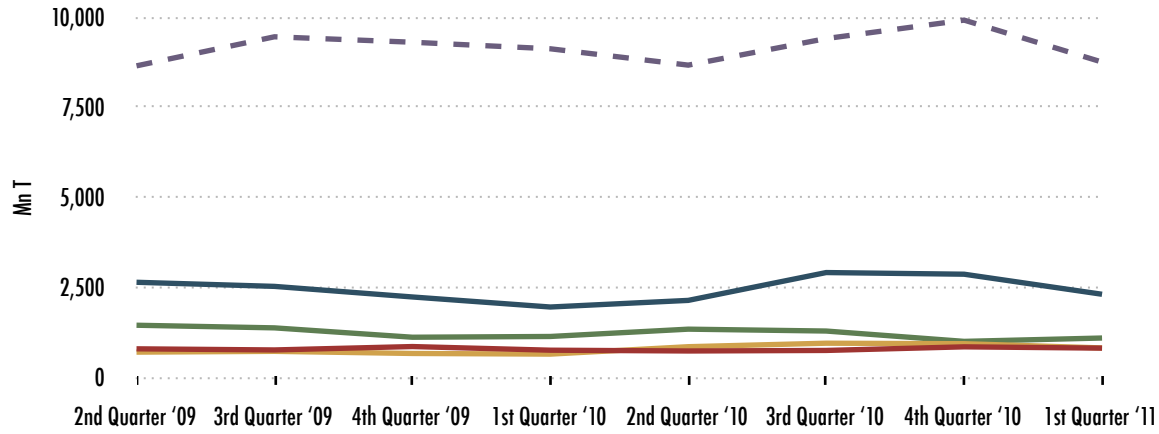


Chart 2: World Exports of Oils & Fats (Mn T)

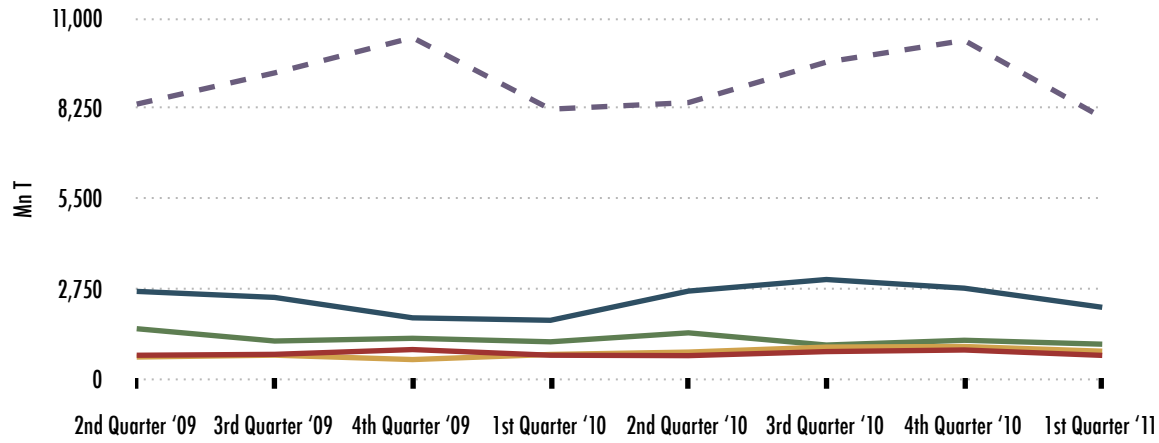
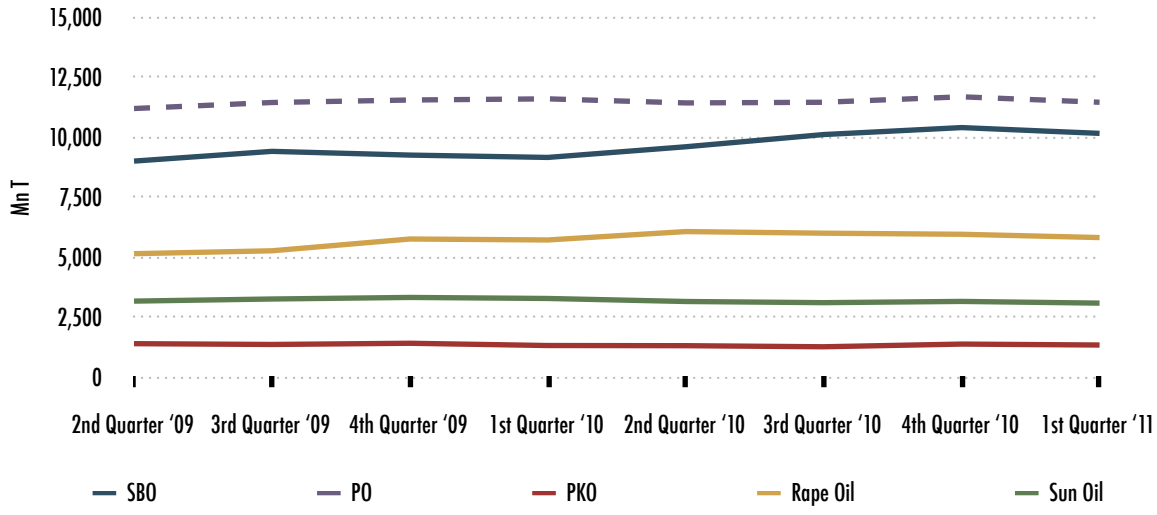


Chart 3: World Disappearance of Oils & Fats (Mn T)



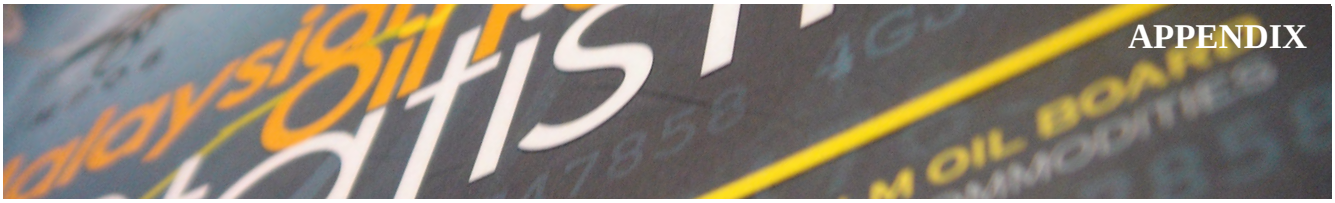
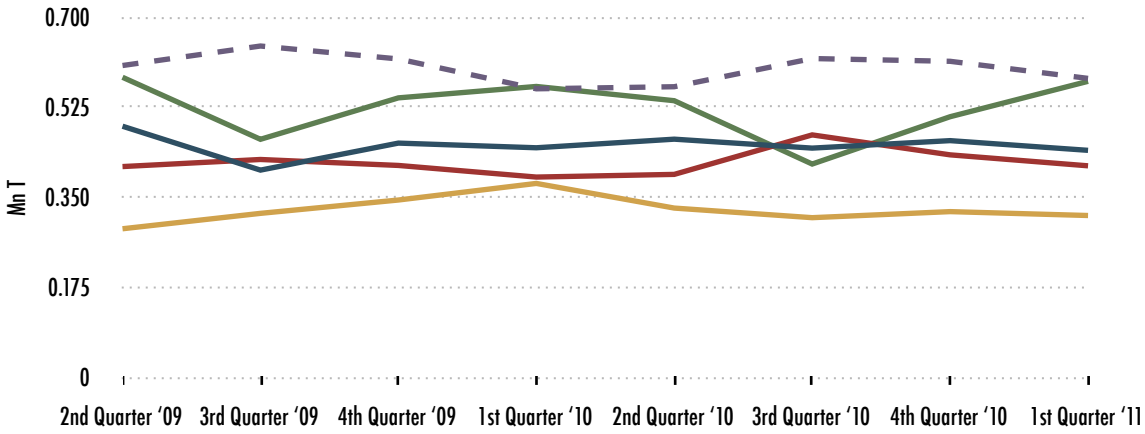
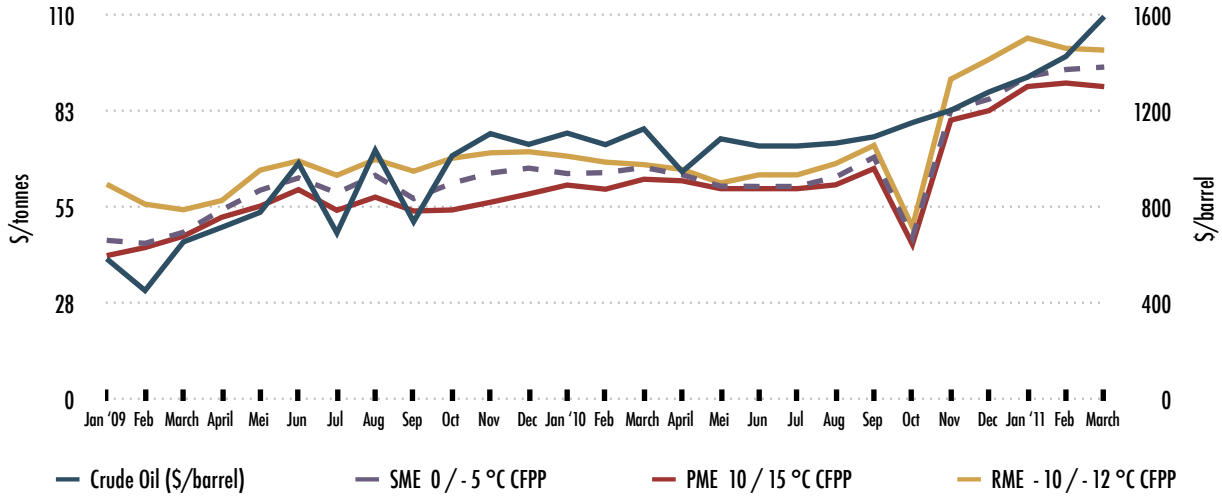


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

Chart 5: Crude Oil vs. Biodiesel Prices; 2008 - 2011 (Jan – March)



Source: Kingsman