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2nd Quarter 2011

QUARTERLY REPORT ON OILS AND FATS

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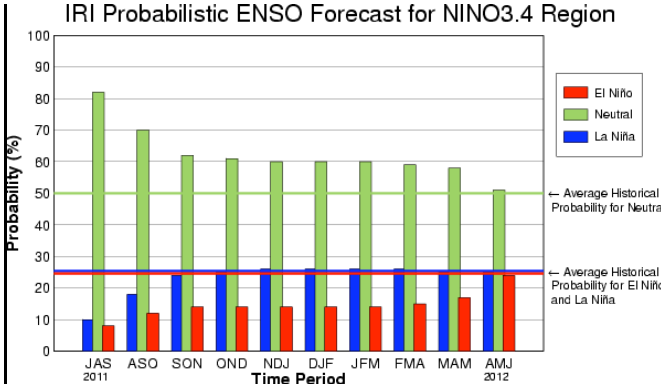
Quarterly Report

Weather Conditions

Figure 1(a): IRI Probabilistic ENSO

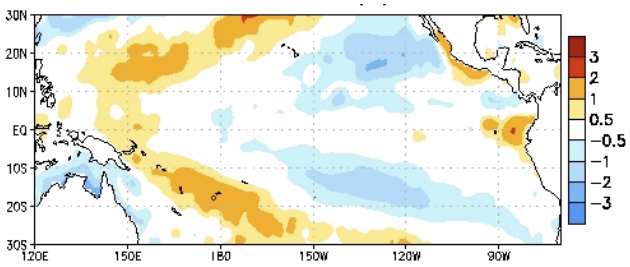


Source:http://iri.columbia.edu/climate/ENSO

The weather for this year is forecast to be in normal condition. The International Research Institute for Climate and Society (IRI) estimated that probability of neutral condition for July-August –September 2011 is 82% and will continue to remain above 60% until the end of this year *(Figure 1)*. This is good for the agriculture sector throughout the world after experiencing a tough weather condition last year and early part of this year. Nevertheless, a progressive weak La Nina symptom has been detected and probably would appear during Northern Hemisphere Fall season of 2011.

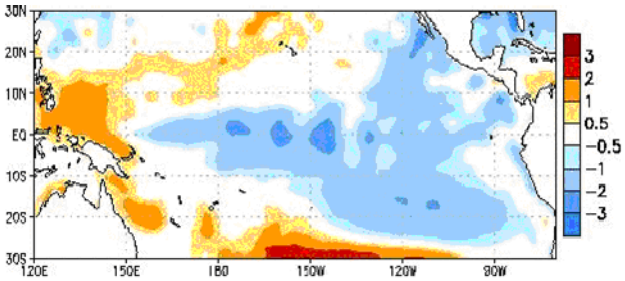
Comparing satellite photos taken on 30 March 2011 *(Figure 2)* with the latest taken on 29 June 2011 *(Figure 3)*, it can be shown that Sea Surface Temperature (SSE) Anomaly on the cooler side has slightly declined while the hotter side has shown an increasing pattern. This is the concern by most estimating models on the probability of the return of La Nina.

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



Source: Malaysian Meteorological Department

Figure 3: Week Centered on 5 January 2011
Sea Surface Temperature Anomaly (°C)



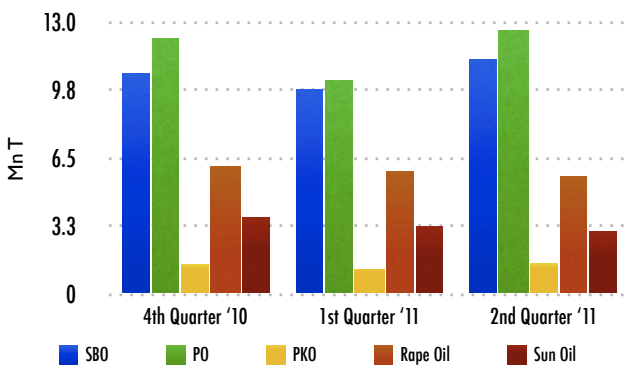
Source: Malaysian Meteorological Department

Increase in World Production of Total Oils

World production of total vegetable oils had increased by 3.9% to 44.33 Mn T in the second quarter of 2011 from 43.68 Mn T in the first quarter of 2011. This was mainly due to bigger production of soybean oil, palm oil and palm kernel oil that had increased by 14.8% to 11.18 Mn T, by 23.3% to 12.59 Mn T and by 23.7% to 1.43 Mn T respectively. However, rapeseed oil and sunflower oil had decreased from 5.83 Mn T to 5.59 Mn T (4.1%) and from 3.22 Mn T to 2.98 Mn T (7.5%) respectively compared to previous quarter.

Compared to the same quarter last year, production of major oils had increased by 4.8% from 42.29 Mn T. Soybean oil registered an increase of 6% from 10.55 Mn T in while the production of palm oil and palm kernel oil had also increased by 12.3% and 13.7% respectively. Rapeseed oil and sunflower oil showed smaller production growth of 4.5% and 2.2% respectively.

Figure 4: World Production of Major Oils



Source: Oil World

World Export Increase

Total world export of major oils for this quarter has increased by 18.7% or by 2.68 Mn T compared to the first quarter of 2009 *(Table 1)*. This was mainly due to increases in export of soybean oil by 16.9% to 2.59 Mn T, palm oil by 25.7% to 9.49 Mn T, palm kernel oil by 33.1% to 0.81 Mn T and sunflower oil by 9.4% to 1.25 Mn T. However, export of rapeseed oil has decreased by 6.8% to 0.84 Mn T.

Table 1: Export Vegetable Oils (1000 T)

	2nd QTR '10	1st QTR '11	2nd QTR '11	Q-ON-Q % CHANGE
Soybean Oil	2,670	2,219	2,593	16.85
Palm Oil	8,418	7,545	9,485	25.71
Palm Kernel Oil	687	608	809	33.06
Rapeseed Oil	805	903	842	-6.76
Sunflower Oil	1,395	1,139	1,246	9.39
Others	2,193	1,951	2,071	6.15
Total	16,168	14,365	17,046	18.66

Total world disappearance of major oils and fats has also increased marginally by 1.5% to 44.08 Mn T in this quarter. This was mainly contributed by larger disappearance of major vegetable oils, such as soybean oil by 15.4% to 10.75 Mn T, palm oil by 1% to 11.73 Mn T and palm kernel oil by 22.3% to 1.42 Mn T respectively. However, rapeseed oil and sunflower oil had decreased by 4.2% and 1.7% respectively. Total disappearance of vegetable oil had increased by 2.4% compared to the same quarter last year.

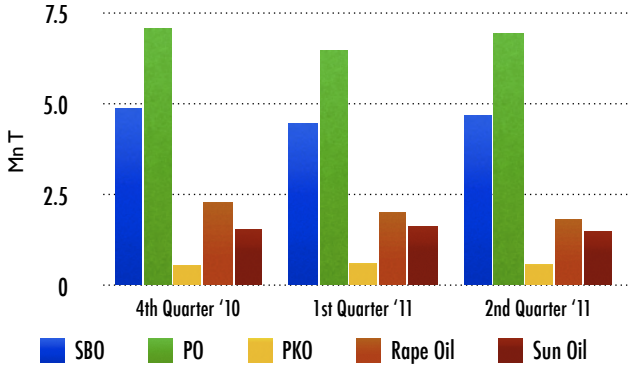
Increase in Total Import of Major Oils

In this quarter, total imports of major oils registered an increase of 8.1% to 16.54 Mn T due to upward trend in import of soybean oil, palm oil, palm kernel oil and rapeseed oil by 11.9%, 5%, 5.9% and 6.6% respectively. Only, import of sunflower oil has decreased by 6.6%.

Decrease in Stocks of Major Oils

Total ending stock of major oils and fats only dropped by 1.2% over the previous quarter to 20.71 Mn T. This was due to smaller amount of stocks for palm kernel oil, rapeseed oil and sunflower oil by 5.5%, 8.9% and 8.9% respectively. However, higher stock of soybean oil and palm oil by 4.8% and 7.3% managed to balance the total stocks of vegetable oils *(Figure 5)* (Charts for Oils and Fats are shown in Appendix).

Figure 5: World Ending Stocks of Selected Oils



Source: Oil World

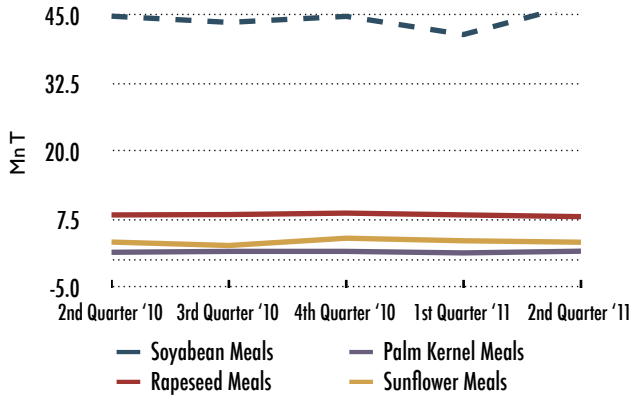
Increase in Crushing of Major Oilseeds

Total crushing of oilseeds has increased by 9.1% to 84.12 Mn T. Soybean crushing contributed much to the increment by 14.5%, particularly in Argentina, Brazil, EU-27 and China PR by 60.3%, 38.7%, 11.9%, and 2.2% respectively. Meanwhile, crushing in India and USA dropped by 28% and 6.9% correspondingly. Palm kernel crushing noted an increase by 19.3% for this quarter. However, crushing of sunflowerseeds and rapeseed showed declined by 7% and 3.4%. Rapeseed crushing in China-PR, EU-27, Canada, Iran and Japan registered slowdown by 7.6%, 6.78%, 6.1%, 1.4% and 0.2% accordingly except for India which showed an increase by 28.9%.

Increase in World Production of Oil Meals

The production of oil meals had shown an upward trend of 9% from 68.27 Mn T to 74.40 Mn T. This is due to larger production of soybean meals and rapeseed meals by 18.5% and 0.9% respectively over the previous quarter (Figure 6).

Figure 6: World Production of Oil Meals



Source: Oil World

Meanwhile, the total import of oilmeals had shown an increase by 14.5% from 18.56 Mn T to 21.25 Mn T.

The opening stock of oil meals has decreased by 13.4% from 9.75 Mn T to 8.44 Mn T for the current quarter. Meanwhile, the total export of oil meals had shown an increase of 14.6% from 19.08 Mn T in the previous quarter to 21.86 Mn T in this quarter. This is mainly attributed to bigger export of soybean meals, palm kernel meals and rapeseed meals by 19%, 18.2% and 3.4% respectively. However, the export of sunflower meals has decreased by 23.1%.

The consumption of oil meals has increased by 4.01% from 69.05 Mn T in the previous quarter to 71.82 Mn T in this quarter, caused by increment in disappearance of soybean meals by 7.8%. Meanwhile, the disappearance of rapeseed meals and sunflower meals has decreased by 3.9% and 10.3% respectively

For this quarter, total ending stock of oil meals has increased by 23.3% from 8.44 Mn T to 10.41 Mn T.

Development in the Biodiesel Market

Biodiesel price has slightly increased in this quarter. Prices of rapeseed methyl ester (RME), soybean methyl ester (SME), palm methyl ester (PME) increased by 0.5% (USD 1,671), 0.01% (USD 1,580) and 0.01% (USD 1,476) respectively (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/-5ºC CFPP (CIF ARA)	1,435	1,868	1,436	0.01	1,580
	PME 10/15ºC CFPP (CIF ARA)	1,345	1,739	1,345	0.01	1,476
	RME 10/12ºC CFPP (FOB ARA)	1,504	1,982	1,528	0.54	1,671

US – New Biodiesel R&D unit to open

Appalachian State University and Catawba County have set a date for the opening of their Biodiesel Research, Development and production facility. The complex features a production capacity of 100,000 gallons per year, while its crush capabilities will serve to test a variety of crops to determine which feedstocks grow best in the local climate and produce the best oil for biodiesel.

Iowa's US$100 million power fund to promote research and development of renewable fuels-ethanol, biodiesel, wind and solar-ceased to exist from 30th June. Some of the funds have not been spent and existing contracts will be honoured. The largest project that received support from the fund was Poet's Project Liberty to experiment with cellulosic ethanol at its production facility in Emmetsburg. The Elsevier has launched Elsevier Biofuel – an online search tool that provides biofuels managers and research development professional's access to scientific, industrial and commercial information. The platform allows users to search by keyword through millions of documents including past research, current studies and methodologies to minimize waste in resources.

(Source: Biodiesel Report)

Mexico – First Commercial Biofuel Flight in Latin America a Success

Mexican airline Interjet has successfully conducted the first commercial biofuel flight in Latin America, using a jathropa-based fuel that reduces air pollution by 80%. Flight 2605, operated by an Airbus A320/200, covered the route from Mexico city to Tuxtla Gutierrez, where the plant that served as raw material for the fuel was harvested.

(Source: Biodiesel report)

Indonesia – Engineers encourage nuclear power over biofuels

Dismissing growing fears of radiation and arguing that food resources should not be used to develop alternative energy such as biofuels, Indonesian engineers have urged the government to continue on its plans to develop nuclear energy as an alternative source.

(Source: Biodiesel report)

Philippines – 14, 000 litres of illegal biodiesel found

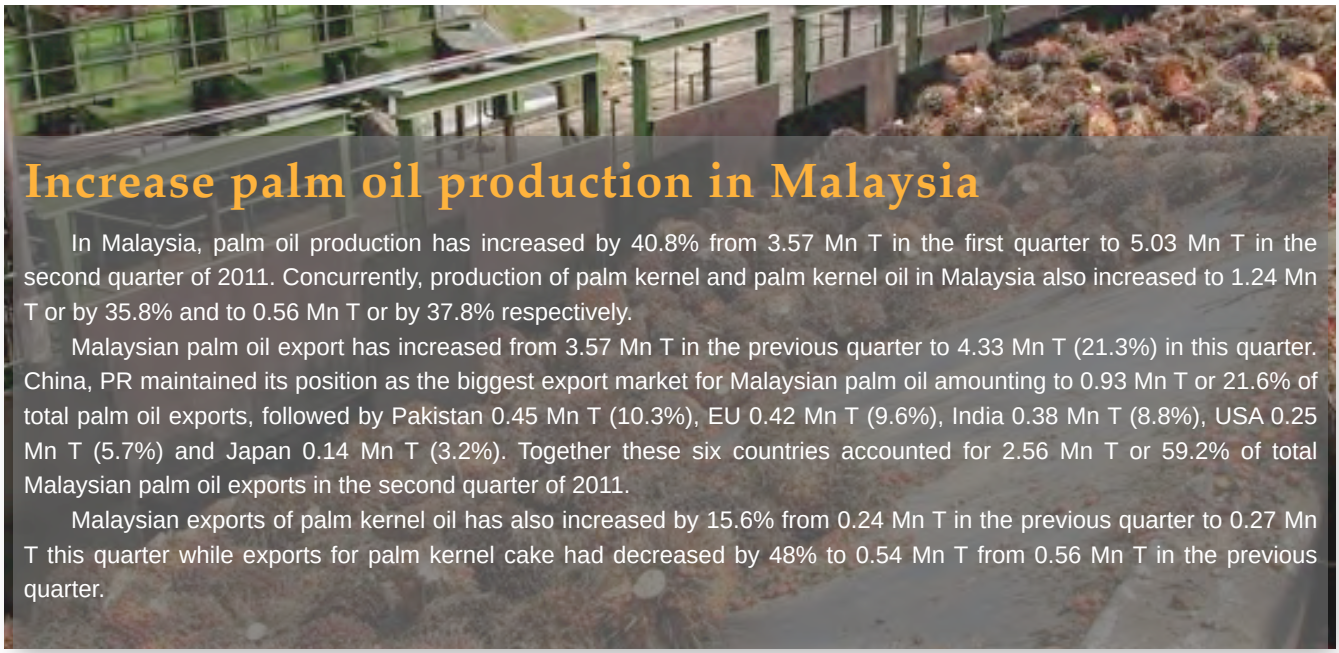
The Bureau of Customs has filed charges against the owner of a gasoline station in Castillejos, Zambales for selling 14,000 litres of biodiesel fuel that were illegally brought out of the Subic Bay Freeport Zone without paying taxes and duties.

(Source: Biodiesel report)

Brazil – Amyris to provide biofuel for buses

In Sao Paulo, Viacao Santa Brigida will operate 160 buses using a 10% blend of ethanol starting in August while the remaining 90% of the fuel will be standard, petroleum based diesel and biodiesel and will provide by Amyris.

(Source: Biodiesel report)



Increase palm oil production in Malaysia

In Malaysia, palm oil production has increased by 40.8% from 3.57 Mn T in the first quarter to 5.03 Mn T in the second quarter of 2011. Concurrently, production of palm kernel and palm kernel oil in Malaysia also increased to 1.24 Mn T or by 35.8% and to 0.56 Mn T or by 37.8% respectively.

Malaysian palm oil export has increased from 3.57 Mn T in the previous quarter to 4.33 Mn T (21.3%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil amounting to 0.93 Mn T or 21.6% of total palm oil exports, followed by Pakistan 0.45 Mn T (10.3%), EU 0.42 Mn T (9.6%), India 0.38 Mn T (8.8%), USA 0.25 Mn T (5.7%) and Japan 0.14 Mn T (3.2%). Together these six countries accounted for 2.56 Mn T or 59.2% of total Malaysian palm oil exports in the second quarter of 2011.

Malaysian exports of palm kernel oil has also increased by 15.6% from 0.24 Mn T in the previous quarter to 0.27 Mn T this quarter while exports for palm kernel cake had decreased by 48% to 0.54 Mn T from 0.56 Mn T in the previous quarter.

Outlook

CPO Prices Expected to Decline Marginally in the Third Quarter of 2011

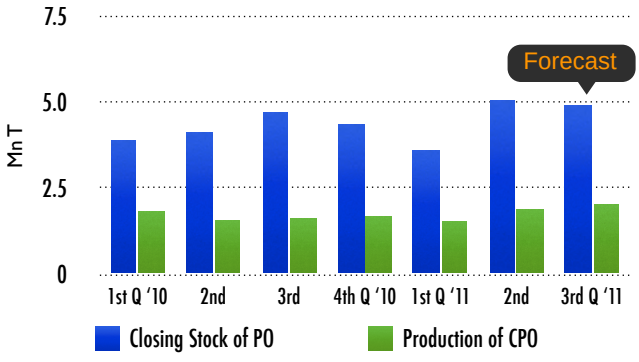
The model used to forecast the price of CPO for the second quarter of 2011 gave correct direction (downward trend) with small error of about 1% (forecast price of RM3,376 against actual price of RM3,344 per tonne). Therefore, the same model was used to forecast the movement in CPO prices in the third quarter of 2011. In this model, the price of SBO, production of CPO, stock of palm oil, export of palm oil and price of crude petroleum oil will likely be the main driver of palm oil prices in this quarter.

The price of SBO showed a downward trend in the second quarter 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 a presumption that the price of CPO will continue to be in downward direction during the third quarter of 2011. Meanwhile, the production of CPO and stock of palm oil had shown an upward trend in the second quarter of 2011, therefore from the supply side it is expected that the price of CPO will also be on the downward trend in this quarter. However, only export of palm oil had shown an upward trend in the second quarter that will slow down the downward trend of CPO prices in the third quarter as compared to the second quarter.

Production of CPO and Stock of Palm Oil

Due to La Nina phenomenon in 2010/11, heavy rainfall had continued until April. Beginning May and June, La Nina phenomena began to disappear and production of CPO is expected to be on track for the rest of the year. Figure 6 shows the trend in the production and stock of PO from the first quarter of 2010 to second quarter of 2011. In the second quarter of 2011, production of CPO reached 5.02 Mn T as compared to 3.57 Mn T in the first quarter of 2011 or an increase of about 40.6%. In the second quarter of 2011, there was however an increase of stock of PO from 1.51 Mn T in the first quarter to 1.88 Mn T in the second quarter. The production of CPO in the third quarter of 2011 is expected from the model to decrease marginally to 4.90 Mn T as compared to the previous quarter (a decline by about 5.8%). The reason for the decline is due to festival season in September that will disrupt harvesting activity as many foreign labours will take leave. Meanwhile, based on the same model for stock of PO, it is estimated that the stock of PO will increase to 2.03 Mn T in the third quarter of 2011.

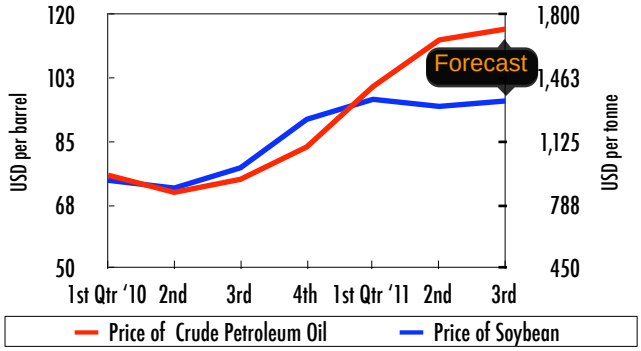
Figure 7: Production of CPO and Stock of Palm Oil



SBO and Crude Petroleum Oil Prices

Figure 8 shows price movement of soybean and crude oils. In the second quarter of 2011, soybean oil price had declined to USD 1,311 per tonne from USD 1,349 per tonne in the first quarter. Meanwhile, the price of crude oil had increased to USD 113 per barrel in second quarter as compared to USD 100 per barrel in the first quarter. Based on econometric model, it is estimated that the price of soybean oil will decrease to USD 1,278 per tonne, while the price of crude oil is estimated at USD 109 per barrel in the third quarter of 2011.

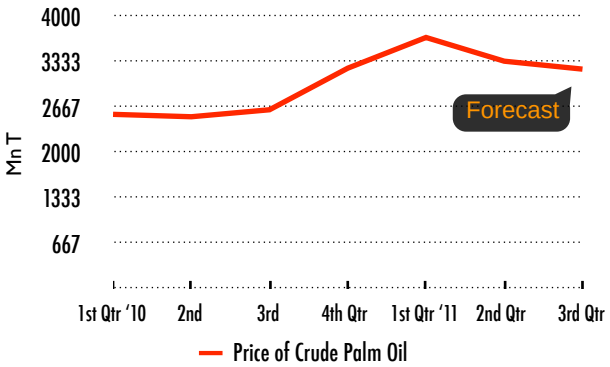
Figure 8: Soybean Oil and Crude Petroleum Oil Prices



Price of Crude Palm Oil

Figure 9 shows the movement in the price of CPO from the first quarter of 2010 to the second quarter of 2011. There were some volatilities in the movements during the period mentioned. Based on an econometric model which includes all factors mentioned earlier, it is estimated that the price of CPO will decline marginally in the third quarter of 2011. Based on the model, it is estimated that the price of CPO in the third quarter will decline marginally to RM 3,227 per tonne as compared to RM 3,344 per tonne in the second quarter, or a decrease of about 3.5%.

Figure 9: Price of Crude Palm Oil



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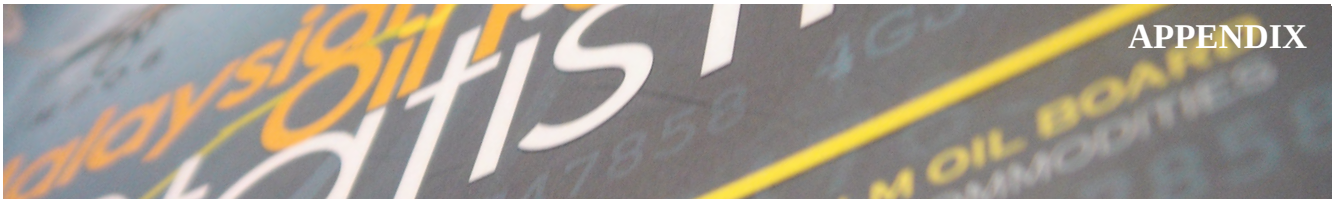


Chart 1: World Imports of Oils & Fats

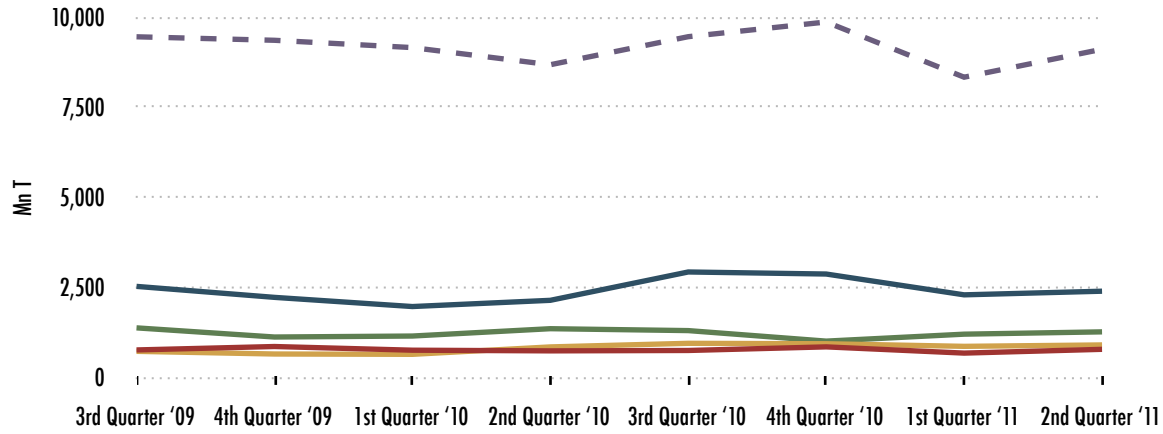


Chart 2: World Exports of Oils & Fats (Mn T)

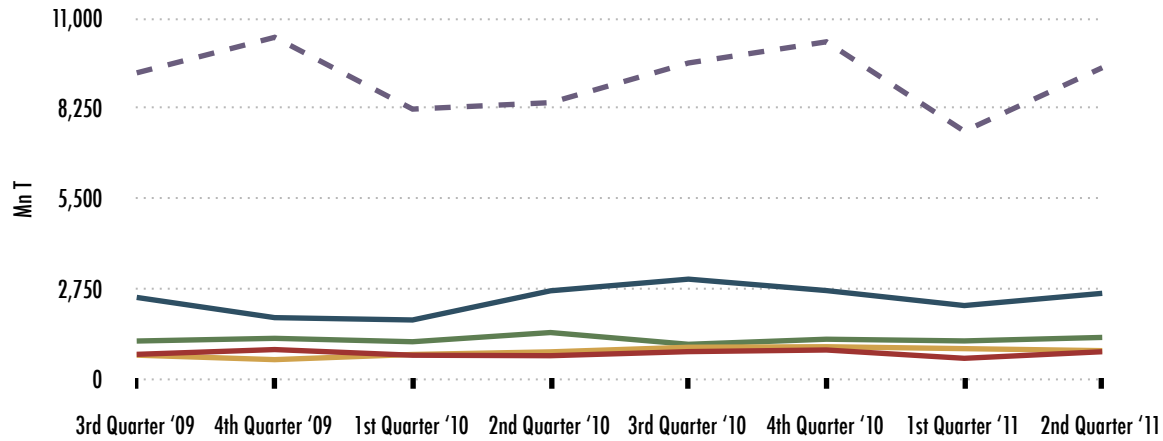


Chart 3: World Disappearance of Oils & Fats (Mn T)

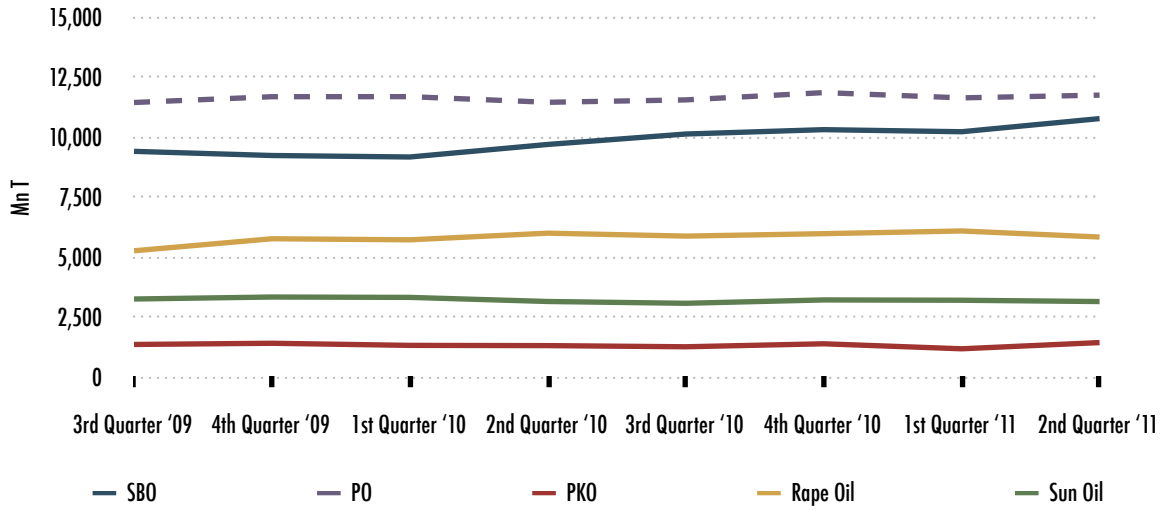
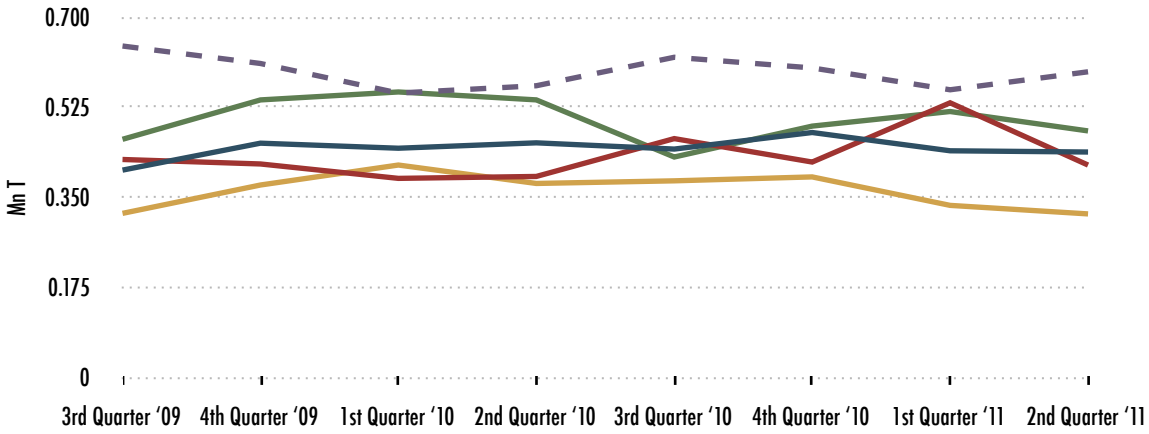
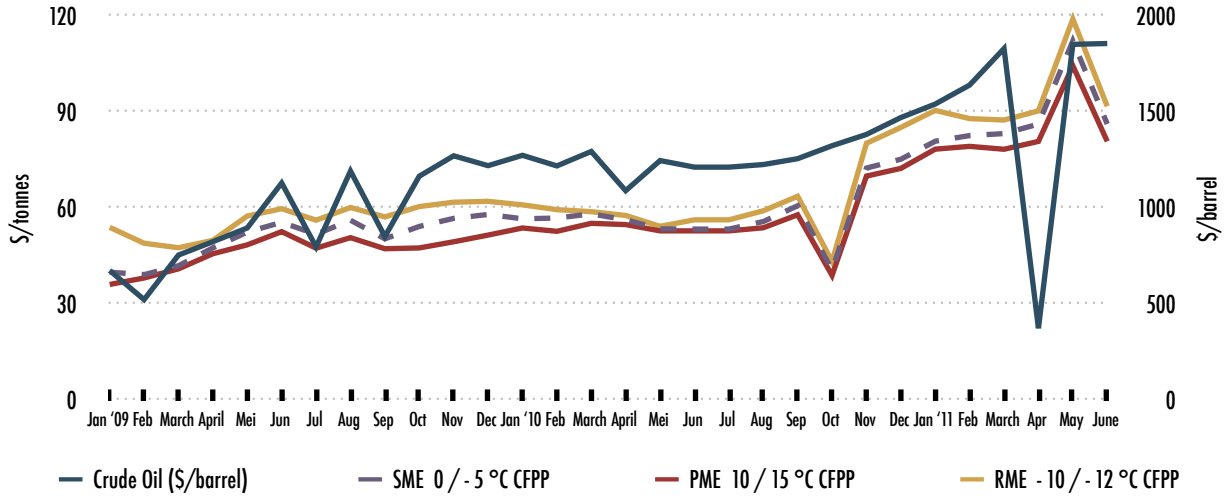


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

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



Source: Kingsman