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3rd Quarter 2011

QUARTERLY REPORT ON OILS AND FATS

INSIDE

CPO Prices Expected to be on an Upward Trend
in the 4th Quarter of 2011
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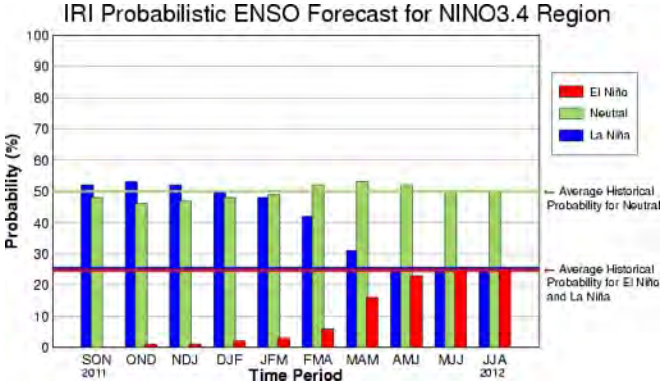
Quarterly Report

Weather Conditions

Figure 1(a): IRI Probabilistic ENSO

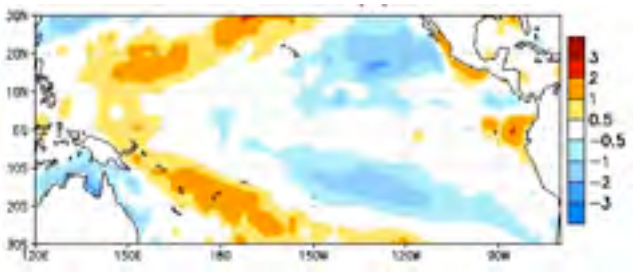


Source:http://iri.columbia.edu/climate/ENSO

Towards the end of 2011, the weather condition is seen to be a cross between Neutral conditions and that of La-Nina. This is according to a report by the International Research Institute for Climate and Society (IRI) that estimated the probability of neutral conditions for August-November-December (OND) 2011 to be 46%, while that of La-Nina with 52% (Figure 1). It is expected that production from some agriculture land, especially for the food sector in Asia would be affected based on current wet conditions and the flood situation in some of the producing countries.

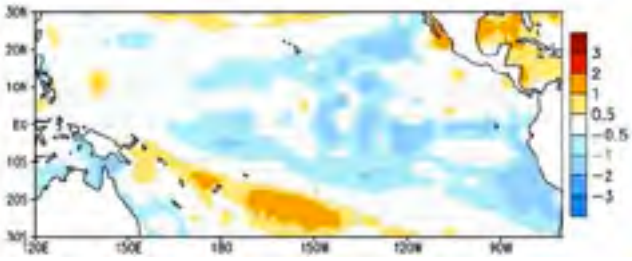
Nevertheless, the signal given based on satellite photos taken on 28 September 2011 (Figure 3) as compared to that taken on 29 June 2011 (Figure 2) was that, the anomaly situation had declined. The Sea Surface Temperature (SSE) Anomaly spots had decreased in September as compared to June. This could indicate that neutral conditions would be the most probable situation to persist towards the end of this year.

Figure 2: Week Centered on 29 June 2011
Sea Surface Temperature (°C)



Source: Malaysian Meteorological Department

Figure 3: Week Centered on 28 September 2011
Sea Surface Temperature Anomaly (°C)



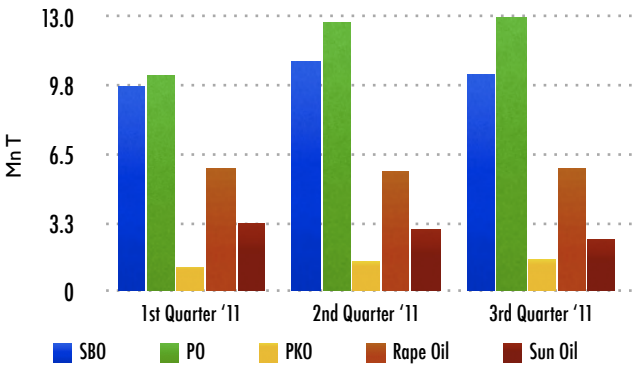
Source: Malaysian Meteorological Department

Decrease in World Production of Total Vegetable Oils

World vegetable oils production had decreased by 1.6% to 43.63 Mn T in the third quarter of 2011, down from 44.34 Mn T in the second quarter of 2011. This was mainly due to the decrease in production of soybean oil and sunflower oil by 5.4% to 10.31 Mn T and by 16.8% to 2.46 Mn T respectively. However, palm oil, palm kernel oil and rapeseed oil had increased from 12.77 Mn T to 13.42 Mn T (5.2%), from 1.43 Mn T to 1.53 Mn T (6.4%) and from 5.7 Mn T to 5.84 Mn T (2.5%) respectively compared to the previous quarter.

Compared to the same quarter of last year, production of major oils had slightly increased by 3% from 42.35 Mn T to 43.63 Mn T. Production of palm oil, palm kernel oil and sunflower oil had increased by 8.5%, 9.3% and 0.9% respectively. On the other hand, rapeseed oil showed a slight decrease in production by 0.7% compared to the same quarter of last year.

Figure 4: World Production of Major Oils



Source: Oil World

Increase in World Exports

Total world exports of major oils had increased by 4.7% or by 0.8 Mn T in the third quarter compared to the second quarter of 2011 (Table 1). This was mainly due to the increase in exports of soyabean oil by 5% to 2.69 Mn T and palm oil by 7.8% to 10.4 Mn T. On the contrary, palm kernel oil, rapeseed oil and sunflower oil showed a decrease of 3.8% to 0.93 Mn T, down by 0.1% to 0.85 Mn T and by 28.6% to 0.96 Mn T respectively compared to the previous quarter.

Table 1: Export Vegetable Oils (1000 T)

	1st QTR '11	2nd QTR '11	3rd QTR '11	Q-ON-Q % CHANGE
Soybean Oil	2,255	2,558	2,685	4.96
Palm Oil	7,571	9,646	10,402	7.84
Palm Kernel Oil	610	969	932	(3.82)
Rapeseed Oil	891	846	845	(0.12)
Sunflower Oil	1,174	1,365	975	(28.57)
Others	1,960	1,744	2,092	19.95
Total	14,461	17,128	17,931	4.69

Total world disappearance of major oils and fats had inched up by 1.8% from 43.85 Mn T in the second quarter of 2011 to 44.66 Mn T in the third quarter. This was mainly attributed to the increase in the disappearance of major vegetable oils. Soyabean oil had increased by 1.6% to 10.65 Mn T, palm oil by 4.4% to 12.46 Mn T, palm kernel oil by 12.4% to 1.46 Mn T and rapeseed oil by 1% to 5.92 Mn T. However, sunflower oil had decreased by 3.3%. Disappearance of vegetable oils had increased by 3.8% compared to the same quarter of last year.

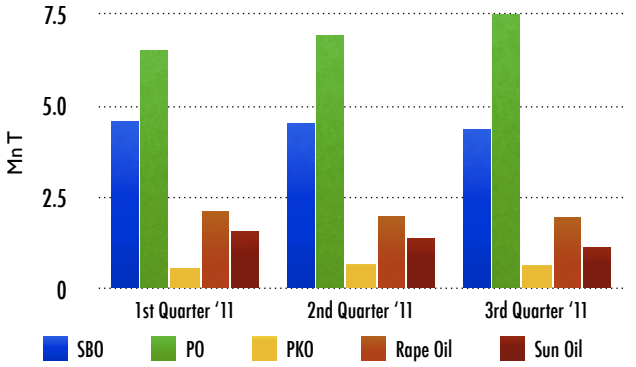
Increase in Total Imports of Major Vegetable Oils

In this third quarter, total imports of major vegetable oils registered an increase of 12.6% to 18.17 Mn T due to an upward trend in the import of soyabean oil, palm kernel oil, palm oil and rapeseed oil, up by 36.3%, 24.7%, 11.2% and 7.4% correspondingly. However, the import of sunflower oil had decreased by 4.5%.

Decrease in Stocks of Major Vegetable Oils

Total ending stocks of major vegetable oils declined by 3.8% or 19.84 Mn T during the third quarter of 2011. This was due to the smaller amount of stocks for sunflower oil, soyabean oil, palm kernel oil and rapeseed oil, down by 18.6%, 3.9%, 3.1% and 0.4% respectively. Meanwhile, stock of palm oil had increased by 11.9% in this quarter of 2011 (Figure 5) (Charts for Oils and Fats are shown in Appendix).

Figure 5: World Ending Stocks of Selected Oils



Source: Oil World

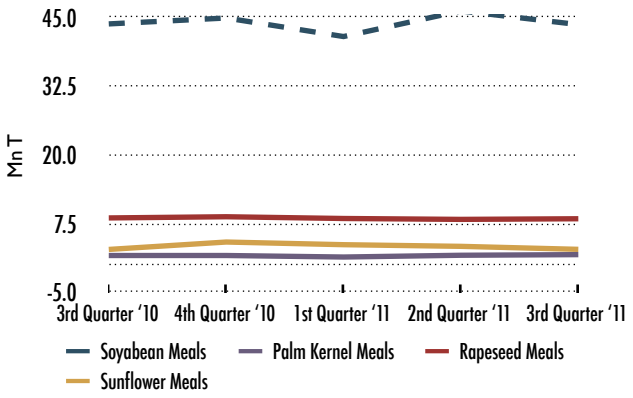
Decrease in Crushing of Major Oilseeds

The total world crushing of oilseeds had decreased by 4.8% to 79.29 Mn T. The decline is mainly sunflowerseed crushing, down by 18% had contributed much to the overall decrease which was followed by the decline in soyabean crushing. Crushing activities in India decreased by 38.6%, followed by Argentina, Brazil and China, down by 10.1%, 6.8% and 5.2% respectively. Meanwhile the EU and USA noted an increase of 4.4% and 1.5% in their crushing activities. Rapeseed crushing activities also noted a slight decrease in volume by 0.3%, particularly in India, Japan and Canada down by 36.4%, 12.9% and 6% respectively. However, India, Japan and Canada showed a decrease in crushing volume by 59.2%, 19.4% and 6.9% for this quarter. Meanwhile, only palm kernel crushing showed an increase in crushing volume by 8.4% in this quarter.

Decrease in World Production and Increase in World Imports and Opening Stocks of Oil Meals

The production of oil meals had shown a downward trend of 6.2% from 73.49 Mn T to 68.95 Mn T. the decline was mainly due to the smaller production of sunflower meal and soyabean meal by 16.4% and 5.4% respectively over the previous quarter (Figure 6).

Figure 6: World Production of Oil Meals



Source: Oil World

Meanwhile, the total import of oil meals had shown a slight increase of 2.4% from 20.39 Mn T to 20.86 Mn T.

The opening stocks of oil meals had shown an upward trend of 22.8% from 8.64 Mn T to 10.61 Mn T for this quarter. However, the total export of oil meals had shown a smaller decrease of 5.6% from 21.63 Mn to 20.43 Mn T in this quarter. This was mainly attributed to the decline in rapeseed meal, palm kernel meal and sunflower meal by 22.2%, 16.8% and 9.6% respectively. However, the export of soyabean meal had increased by 25.4%.

The consumption of oil meals also declined by 0.2% from 70.27 Mn T in the previous quarter to 70.10 Mn T in this quarter caused by the declines in the disappearance of sunflower meal and rapeseed meal by 10.4% and 1.5% correspondingly. However, the disappearance of palm kernel meal and soyabean meal had increased by 6.3% and 2% respectively.

In this quarter, total ending stocks of oil meals had also decreased by 6.8% from 10.61 Mn T to 9.89 Mn T.

Development in the Biodiesel Market

Biodiesel price had marginally declined in this quarter. Prices of palm methyl ester (PME), soyabean methyl ester (SME) and rapeseed methyl ester (RME), decreased by 2% (USD 1,320), 0.7% (USD 1,411) and 0.5% (USD 1,473) respectively (Table 2) (The Biodiesel figures are shown in the Appendix).

Table 2 : Biodiesel Prices (USD/tonne)

SOURCE	PRODUCTS	APR	MAY	JUNE	% CHANGE (Apr - June)	AVERAGE (US$)
Kingsman	SME 0/-5^{0}C CFPP (CIF ARA)	1,426	1,411	1,396	(0.72)	1,411
	PME 10/15^{0}C CFPP (CIF ARA)	1,357	1,325	1,279	(1.96)	1,320
	RME 10/12^{0}C CFPP (FOB ARA)	1,485	1,471	1,464	(0.47)	1,473

US – Military Shifting to Biofuels

The US Air Force is set to certify all of its 40 plus aircraft models to burn fuels derived from waste oils and plants by 2013, three (3) years ahead of its target, the US Air Force Deputy Assistant Secretary said to Bloomberg. The US Army wants 25% of its energy derived from renewable sources by 2025. The US Navy and Marine aim to shift half of their energy use from oil, gas and coal by 2020.

"Reliance on fossil fuels is simply too much of a vulnerability for a military organization to have", the US Navy Secretary said in an interview. "We've been certifying aircraft on biofuels. We're doing solar and wind, geothermal, hydrothermal, wave, things like that on our bases".

The US Navy and the Departments of Agriculture and Energy plan to host an industry day on the development of drop-in biofuels this autumn, Inside the Navy reported. The Government will fund USD510 million for projects over three-years, and is asking the industry to share the costs on a 50:50 basis. A request for proposals will be released in the near term, and awarding multiple contracts in increments is a possibility, the US Navy's Deputy Assistant Secretary for Energy said, adding that this would be a competitive effort to identify who has the best feedstock technology pathway, the best business models that are going to work.

(Source: Biodiesel Report)

Indonesia – Government Expects Higher Biofuels Use in 2012

Based on the Jakarta Post, the Indonesian Government believes with higher subsidies, the demand for biofuels will increase significantly next year. The new subsidies would cover the basic production cost for bio-ethanol and biodiesel.

(Source: Biodiesel report)

Brazil – Research Shows Peanut/ Groundnut Potential for Biodiesel

A Brazilian biologist had presented the results of his study on the properties of peanut/ groundnut known as "horse", which can be used as a fuel. The seed features 30% more oil than soya, thus making it viable for biodiesel production.

(Source: Biodiesel report)

Thailand – Biodiesel Adjusted to 5%

According to the Bangkok Post, the proportion of palm-derived biofuel in biodiesel is being increased to 5% from 4% in order to help absorb a crude palm oil surplus. Total crude palm oil (CPO) stocks reached 281, 000 tonnes in August, 2011 and still close to that level, compared with the normal monthly average of 150, 000 tonnes. B5 biodiesel will be available at pumps Nationwide in place of B4 from Oct 21, until December, 2011. The change is expected to cut CPO stocks to 200, 000 tonnes after December, 2011 which the Ministry will review conditions before deciding on whether to continue promoting the production of B5.

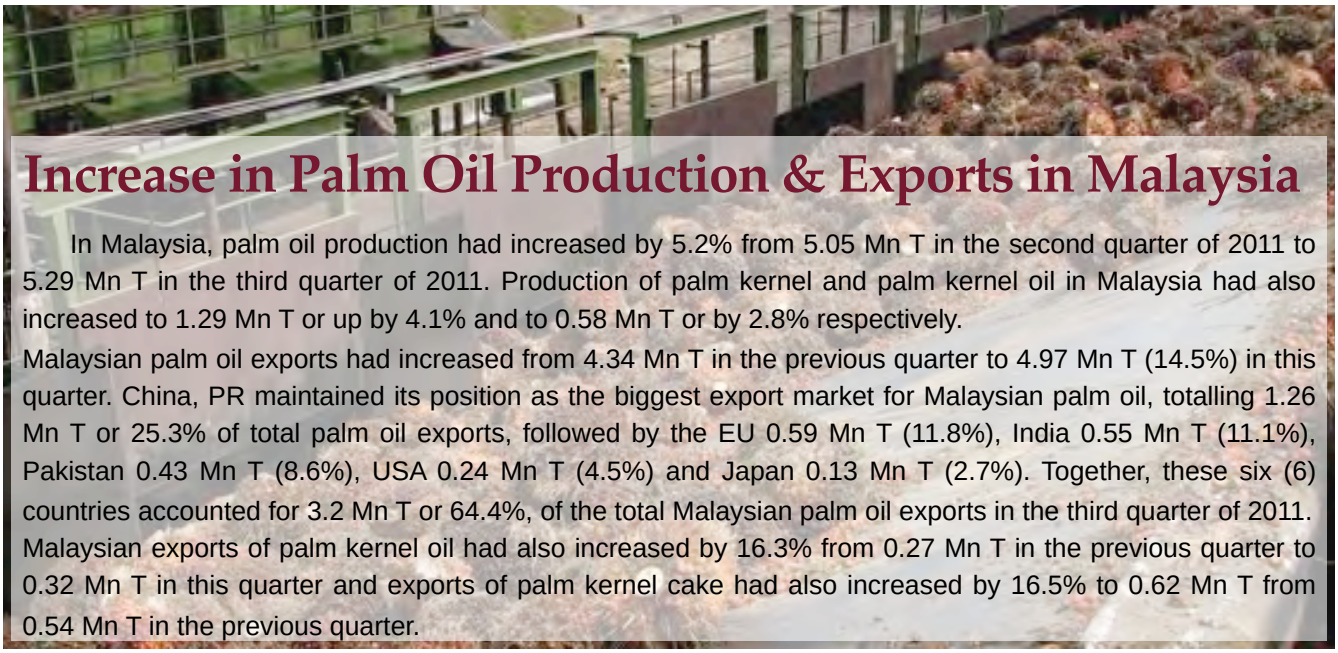
(Source: Biodiesel report)

France – Air France/Airbus Claim the World's Greenest Flight

Based on the Le Parisien newswire, Air France had completed a flight from Toulouse to Paris-Orly that achived a fuel efficiency of 2.2 liters per passenger – 100km, halving the CO2 emitted compared to a normal flight. The Airbus A321 aircraft commercial flight was powered by a 50% blend of biofuel, believed to be used cooking oil supplied by the Dutch aviation Biofuels Company, in each engine – the maximum blend permitted.

In addition, optimized air traffic management (ATM) procedures were employed, including the continuos Descent Approach (CDA). Combining the use of biofuel and efficient ATM allowed the flight to claim CO2 emission of just 54 grammes per passenger-kilometre. The best performing airlines average over 100 grammes per passenger- kilometre.

(Source: Biodiesel report)



Increase in Palm Oil Production & Exports in Malaysia

In Malaysia, palm oil production had increased by 5.2% from 5.05 Mn T in the second quarter of 2011 to 5.29 Mn T in the third quarter of 2011. Production of palm kernel and palm kernel oil in Malaysia had also increased to 1.29 Mn T or up by 4.1% and to 0.58 Mn T or by 2.8% respectively.

Malaysian palm oil exports had increased from 4.34 Mn T in the previous quarter to 4.97 Mn T (14.5%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil, totalling 1.26 Mn T or 25.3% of total palm oil exports, followed by the EU 0.59 Mn T (11.8%), India 0.55 Mn T (11.1%), Pakistan 0.43 Mn T (8.6%), USA 0.24 Mn T (4.5%) and Japan 0.13 Mn T (2.7%). Together, these six (6) countries accounted for 3.2 Mn T or 64.4%, of the total Malaysian palm oil exports in the third quarter of 2011.

Malaysian exports of palm kernel oil had also increased by 16.3% from 0.27 Mn T in the previous quarter to 0.32 Mn T in this quarter and exports of palm kernel cake had also increased by 16.5% to 0.62 Mn T from 0.54 Mn T in the previous quarter.

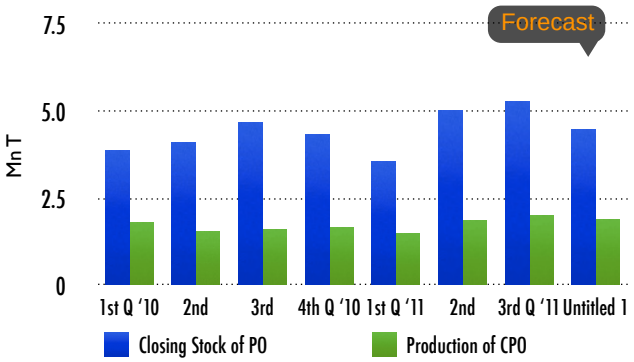
Outlook

CPO Prices Expected to be on An Upward Trend due to Weakness in Palm Oil Supply in the Fourth Quarter of 2011

Production of CPO and Palm Oil Stocks

Arising from the upcoming Monsoon rainy season in November 2011, the production of CPO is expected to be on a downward trend as major oil palm producing States like Pahang and Johor will be affected by the floods. Under this situation, no harvesting activity can be carried out and the production of CPO will be negatively affected. Figure 7, showed that the trend of CPO production and PO stocks from the first quarter of 2010 until the third quarter of 2011. In the third quarter of 2011, the production of CPO was at 5.29 Mn T as compared to 5.02 Mn T in the second quarter of 2011 or an increase of about 5.4%. The increase had contributed to an increase in PO stocks, up from 1.88 Mn T in the second quarter of 2011 to 2.00 Mn T in the third quarter of 2011. Based on econometric model, it is estimated that the production of CPO in the fourth quarter of 2011 will be about 4.47 Mn T or a decline of about 15.5% as compared to that of the previous quarter. Meanwhile, based on the same model, PO stocks are estimated to decrease to 1.91 Mn T in the fourth quarter of 2011.

Figure 7: Production of CPO and Palm Oil Stocks



Exports of Palm Oil

Figure 8 showed the palm oil export trend in the first quarter of 2010 to the fourth quarter of 2011. Exports of palm oil had increased to 4.97 Mn T in the third quarter of 2011 from 4.32 Mn T in the second quarter of 2011. Based on econometric model, it is estimated that the export of palm oil will decrease to 4.73 Mn T or a decline of about 4.8%.

Figure 8: Exports of Palm Oil

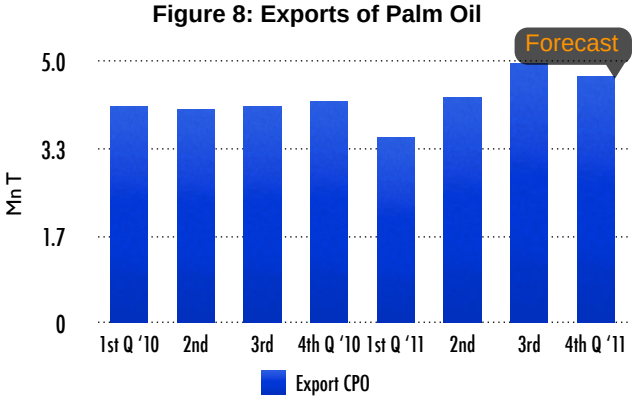
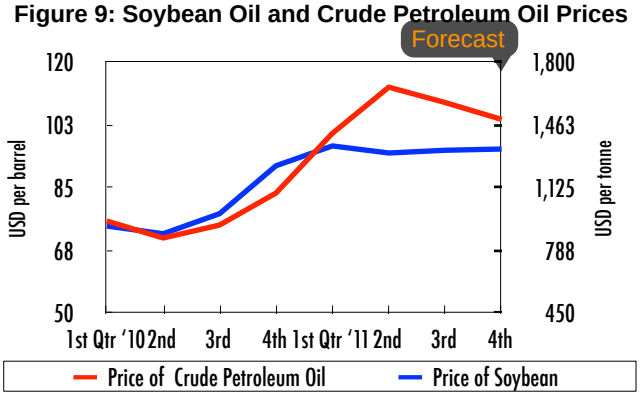


Figure 9 showed the price trend of soyabean oil and crude oil, soyabean oil price had increased to USD1,325 per tonne in the third quarter of 2011, from USD1,311 per tonne in the second quarter of 2011. Meanwhile, the price of crude oil had decreased to USD 109 per barrel from USD 113 per barrel during the same period. Based on econometric model, it is estimated that the price of soyabean oil will increase to USD1,332 per tonne, while that of crude oil is estimated at USD 104 per barrel in the 4th quarter of 2011.

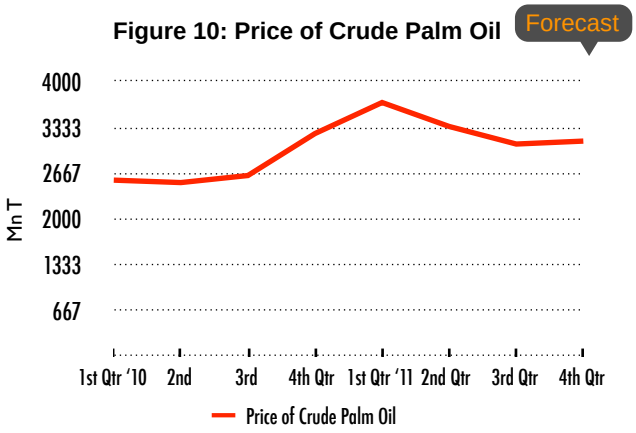
Figure 9: Soybean Oil and Crude Petroleum Oil Prices



Price of Crude Palm Oil

Figure 10 showed the price trend of CPO from the first quarter of 2010 to the fourth quarter of 2011, which indicated some volatility in price movements. CPO price had decreased to RM3,088 per tonne in the third quarter of 2011 from RM3,344 per tonne in the second quarter of 2011 or a decline of about 7.7%. Meanwhile, based on econometric model which included all the factors as mentioned above, the price of CPO is expected to increase marginally in the fourth quarter of 2011 to RM3,131 per tonne or an increase of about 1.4% as compared to that of the previous quarter.

Figure 10: Price of Crude Palm Oil



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APPENDIX

Chart 1: World Imports of Oils & Fats

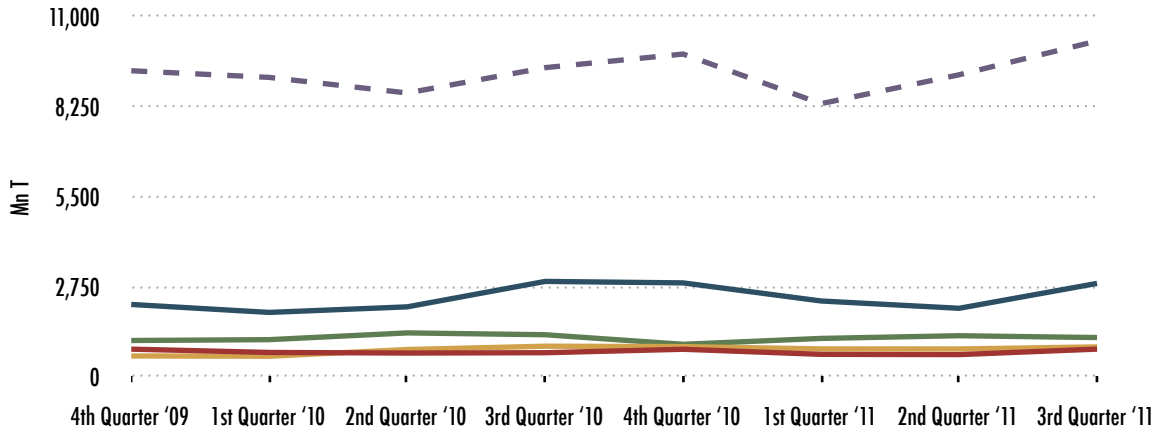


Chart 2: World Exports of Oils & Fats (Mn T)

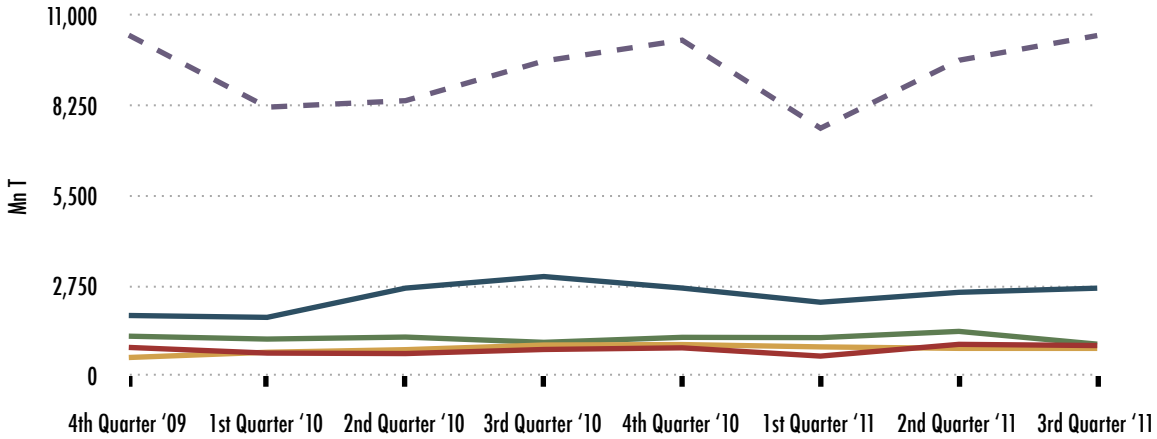
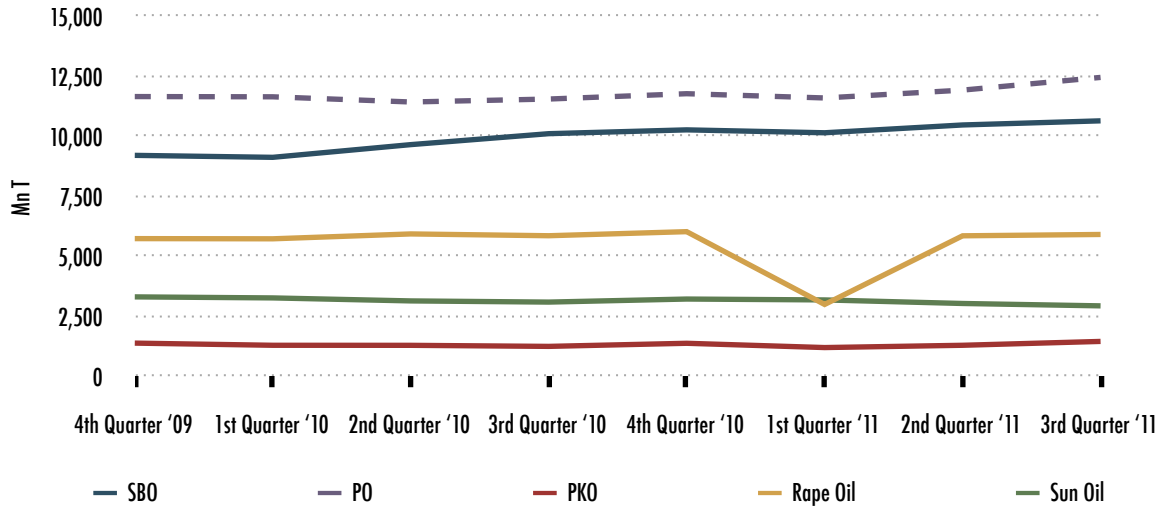


Chart 3: World Disappearance of Oils & Fats (Mn T)



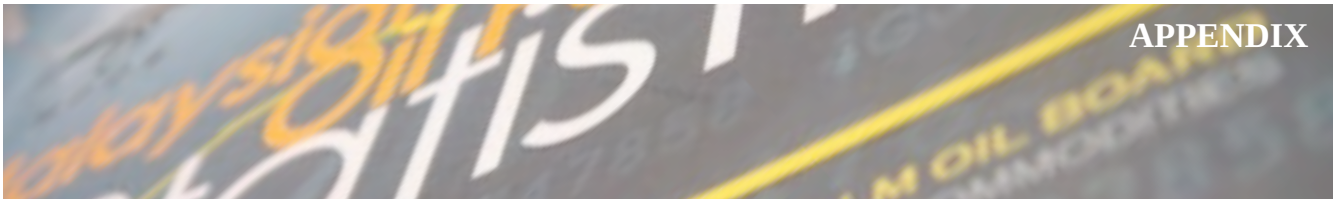
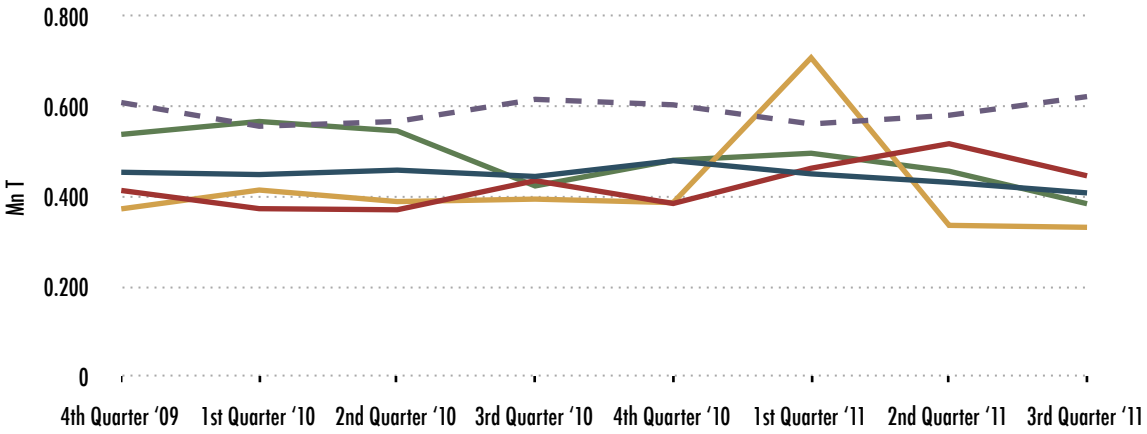
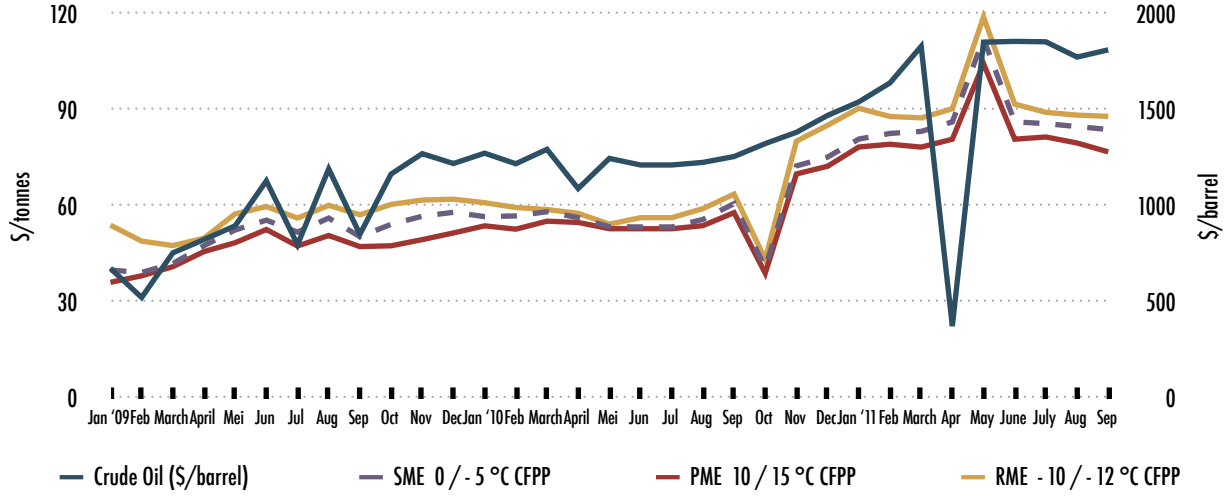


Chart 4: World Stock Usage of Oils and Fats (Mn T)



Source: Oil World

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



Source: Kingsman