

4th Quarter 2011

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QUARTERLY REPORT ON OILS AND FATS

INSIDE

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in supply & strong demand
for Palm Oil in 2012

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The year 2012 be started off with slightly wet condition for the first two or three months.

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World production of total vegetable oils had increased by 9.6%.

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Total world export of major vegetable oils for this quarter had increased by 2.5%.

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Total imports of major oils registered a decrease of 3.5%.

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Total ending stock of major oils and fats recorded an increase of 6.6%.

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The total world crushing of oilseeds in this quarter had increased by 9.7%.

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The production of oil meals had shown an upward trend of 10.2%.

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Biodiesel price had declined slightly in this quarter.

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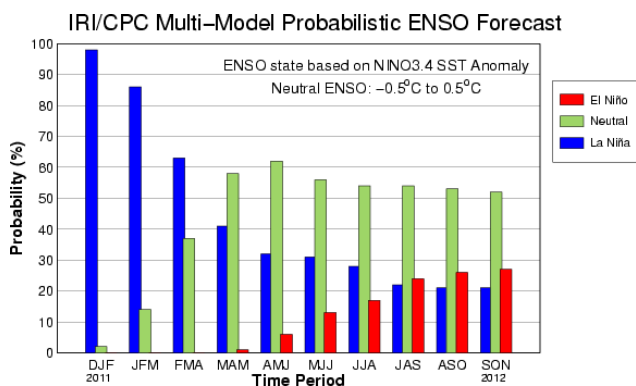
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Weather Conditions

Figure 1: IRI Probabilistic ENSO



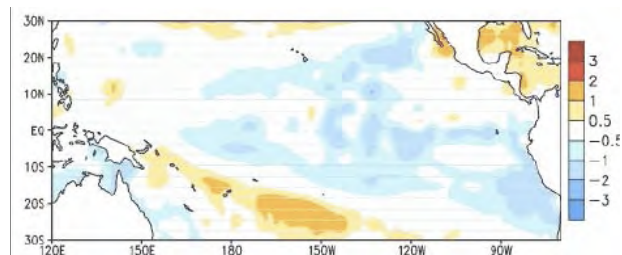
Source: <http://iri.columbia.edu/climate/ENSO>

As expected by the International Research Institute for Climate and Society (IRI), the year 2012 be started off with slightly wet condition for the first two or three months indicates the probability of La-Niña is 98% for December-January-February (DJF), 86% for January-February-March (JFM) while further decline to 63% for February-March-April (FMA) 2012 (Figure 1). Nevertheless, the scenario is estimated to have little impact on food production due to the short wet session.

Nevertheless, the neutral condition does not indicate strong signal since the highest probability is only 62% for April-May-June (AMJ) 2012. With this indication, the potential of any unfavorable weather conditions especially for the middle of 2012 cannot be ignored. If it happens, it could affect crop production e.g soybean since year is the planting session in the USA.

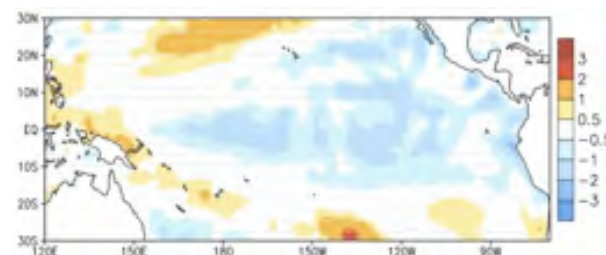
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Figure 2(a): Week Centered on 28 September 2012 Sea Surface Temperature Anomaly (Celcius)



Source: Malaysian Meteorological Department (MMD)

Figure 2(b): Week Centered on 4 January 2012 Sea Surface Temperature Anomaly (Celcius)



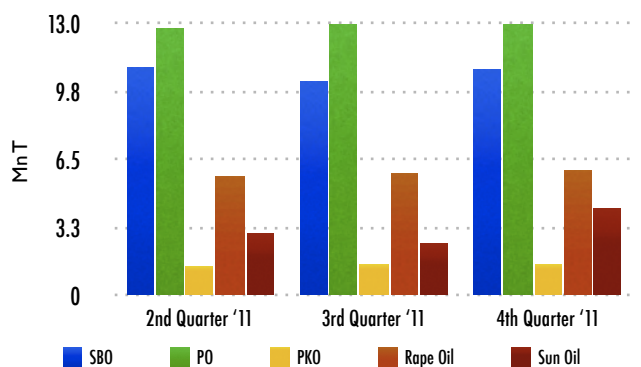
Source: Malaysian Meteorological Department (MMD)

Increase in World Production of Total Vegetable Oils

World production of total vegetable oils had increased by 9.6% to 48.05 Mn T in the fourth quarter 2011 from 43.84 Mn T in the previous quarter. This was mainly due to increases in the production of sunflower oil and soybean oil which had increased by 66% to 4.17 Mn T and by 5.4% to 10.82 Mn T respectively. Palm kernel oil and rapeseed oil had also increased by 2.2% and 2.3% respectively compared to the previous quarter. However, the production of palm oil had decreased slightly from 13.66 Mn T to 13.41 Mn T (1.8%) compared to the third quarter of 2011.

As compared to the same quarter last year, the production of major vegetable oils had also increased by 4.9% from 45.79 Mn T to 48.05 Mn T. Production of soybean oil, palm oil, palm kernel oil and sunflower oil had increased by 2.6%, 9.9%, 10.3% and 14.1% respectively. However, rapeseed oil showed a decrease in production by 2.4% compared to the same quarter last year.

Figure 3: World Production of Major Oils



Source: Oil World

Increase in World Exports

Total world export of major vegetable oils for this quarter had increased by 2.5% (0.45 Mn T) compared to third quarter of 2011 (Table 1). This was mainly due to increase in export of sunflower oil by 50.1% (1.49 Mn T), palm oil by 3.4% (10.92 Mn T) and palm kernel oil by 9.3% (0.94 Mn T). However, soybean oil and rapeseed oil showed a decrease by 15.2% to 2.14 Mn T and by 7% to 0.91 Mn T respectively compared to the previous quarter.

Table 1: Export Vegetable Oils (1000 T)

	4 TH QTR '10	3 RD QTR '11	4 TH QTR '11	Q-ON-Q % CHANGE
Soybean Oil	2,674	2,526	2,141	(15.24)
Palm Oil	10,275	10,556	10,915	3.40
Palm Kernel Oil	862	860	940	9.30
Rapeseed Oil	962	983	914	(7.02)
Sunflower Oil	1,202	992	1,489	50.10
Others	2,082	2,050	2,022	(1.37)
Total	18,057	17,967	18,421	2.53

Total world disappearance of major oils and fats had also increased by 2.9% from 44.58 Mn T in the previous quarter to 45.85 Mn T in this quarter. This was mainly attributed to an increase in disappearance of major vegetable oils. Sunflower oil showed an increase by 18.4% to 3.49 Mn T, palm kernel oil by 15.1% to 1.52 Mn T, rapeseed oil by 2% to 5.95 Mn T and soybean oil by 1.1% to 10.84 Mn T. However, palm oil disappearance had decreased by 1.3%. Disappearance of total vegetable oils had increased by 3.8% compared to the same quarter last year.

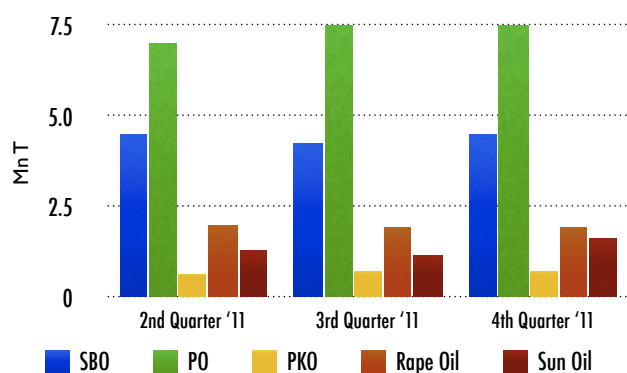
Decrease in Total Imports of Major Vegetable Oils

In this quarter, total imports of major oils registered a decrease of 3.5% from 18.161 Mn T in the previous quarter to 17.53 Mn T due to downward trend in import of soybean oil and palm oil by 12.5% and 4.8% respectively. However, import of palm kernel oil, rapeseed oil and sunflower oil had shown increases of 21.2%, 10.2% and 0.3% respectively.

Increase in Stocks of Major Vegetable Oils

Total ending stock of major oils and fats recorded an increase of 6.6% over the previous quarter. This was due to major increase in stocks of soybean oil, rapeseed oil and sunflower oil by 5.7%, 0.7% and 40.6% respectively. However palm oil and palm kernel oil had shown decreases in volumes of ending stock by 0.1% and 0.7% respectively (Figure 3). (Charts for Oils and Fats are shown in Appendices).

Figure 4: World Ending Stocks of Selected Oils



Source: Oil World

Increase in Crushing of Major Oilseeds

The total world crushing of oilseeds in this quarter had increased by 9.7% to 86.53 Mn T. The increment is mainly contributed by sunflower seed crushing with 63.8%; followed by soybean, palm kernel and rapeseed crushing activities. Crushing activities in India had a boost by 103.3%, followed by USA and China by 22.4% and 6.3% respectively. In the meantime, Brazil, Argentina and EU-27 noted decreases of 8.8%, 1.8% and 1.4% in their crushing activities.

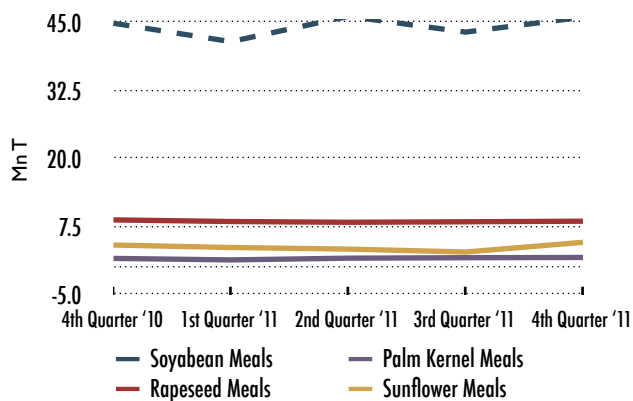
Rapeseed crushing activities had also noted a marginal increase in volume by 0.8%, particularly in Canada, Japan and EU-27 with increments by 8.6%, 7.3% and 5.1% respectively. On the other hand, India, and China PR had shown decreases in crushing volume by 13.8%, and 6.1% respectively for this quarter.

Meanwhile, palm kernel crushing also showed an increase of crushing volume by 2.2% in this quarter.

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

The production of oil meals had shown an upward trend of 10.2% from 68.53 Mn T to 75.52 Mn T. This is due to the increase in production of soybean meals, palm kernel meals, rapeseed meals and sunflower meals by 6.4%, 2.4%, 1.3% and 62.9% respectively over the previous quarter (Figure 6).

Figure 5: World Production of Oil Meals



Source: Oil World

Meanwhile, the total import of oil meals had shown an increase by 1.2% from 20.65 Mn T to 20.89 Mn T.

The opening stock of oil meals had decreased by 5.7% from 10.57 Mn T to 9.97 Mn T for the current quarter. Meanwhile, the total export of oil meals had shown an increase by 3.5% from 20.65 Mn T in the previous quarter to 21.37 Mn T in this quarter. This is due to the increase in export of soybean meals and sunflower meals by 4.3% and 57.5% respectively. However, the export of palm kernel meals and rapeseed meals had decreased by 2.1% and 6.2% respectively.

The consumption of oil meals had increased by 8.3% from 69.12 Mn T in the previous quarter to 74.85 Mn T in this quarter. This is due to the disappearance of soybean meals, rapeseed meals and sunflower meals which has increased by 6.2%, 0.6% and 40.7% respectively. Meanwhile, the disappearance of palm kernel meals had decreased by 3.7% respectively.

For this quarter, total ending stock of oil meals had increased by 1.8% from 9.97Mn T to 10.15 Mn T.

Biodiesel Market Developments

Biodiesel price had declined slightly in this quarter. Prices of palm methyl ester (PME), and rapeseed methyl ester (RME), decreased by 0.7% (USD 1,128), and 0.6% (USD 1,416) respectively. Meanwhile, soyabean methyl ester (SME) had increased by 0.9% (USD 1,247), (Table 2). The Biodiesel figures are 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)	1,230	1,249	1,262	0.86	1,247.00
	PME 10/15°C CFPP (CIF ARA)	1,131	1,146	1,109	(0.65)	1,128.67
	RME 10/12°C CFPP (FOB ARA)	1,414	1,449	1,387	(0.62)	1,416.67



Biofuels Digest Index Drops to 73.26 as MNEL Drops, REGI Joins

The Biofuels Digest Index™ (BDI), a basket of public biofuels stocks, dropped 0.48 percent to 73.26 as Mission NewEnergy continued its MNELtdown. For the day, BP jumped 4.01 percent to \$45.91, while Mission NewEnergy (MNEL) dropped 10.31 percent to \$0.87 after palm oil biodiesel outlook for the US darkened.

Among other equities, BlueFire Renewables (BFRE.OB) soared 57.14 percent to \$0.33. Overall, declines led advances 2 to 1 for the day. In other news, Renewable Energy Group (REGI) joined the Index today, replacing CleanTech Holdings (CLTH.OB).

(Source: Palmnews)

US – Biodiesel performing well in fleet trials

A Central Illinois fuel supplier is working to prove the efficiency of biodiesel when used in fleets. An energy consultant with AgLand FS gave information about trials done over the last two and a half years using a B20 biodiesel blend on a year-round basis. The company hopes to prove that B20 can be run successfully year-round, even in the winter months. The trials are also testing if the fuel can be run efficiently, translating into savings per gallon. Finally, the research aims to prove that using biodiesel lowers emissions.

In Iowa, Green Plains' joint venture with BioProcess Algae to build BioProcess' five acre production facility co-located with Green Plains' ethanol facility in Shenandoah will soon begin construction, the energy business review. Horizontal reactors and a plant to further dewater and process the algae while the horizontal reactors will begin operating at commercial scale. Sales of dried algae will begin during the third quarter.

(Source: Biodiesel report)

Indonesia – Actions to reverse US EPA decision on palm oil biodiesel

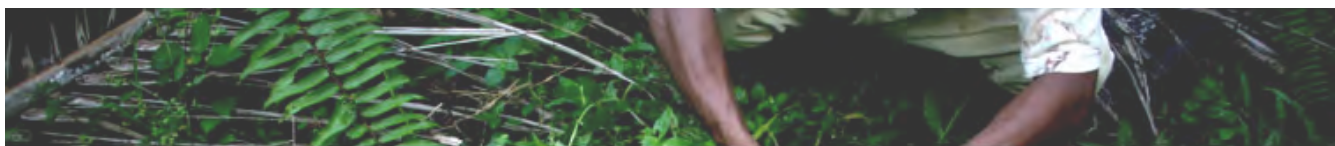
In Indonesia, the Trade Minister responded to the EPA's announcement against palm oil, by stating, "We will convey our dissenting arguments on February 27th in accordance with the deadline for the filing of objections. We have already met business associations to formulate our arguments regarding the US policy." Another official, director general of foreign trade, stated that the government would look into whether or not the US regulations were discriminating against palm oil.

(Source: Biodiesel report)

South Korea – Seoul to collect used cooking oil to make biodiesel

The Seoul Metropolitan Government said it plans to collect used cooking oil from across the city to produce biodiesel as part of efforts to protect the environment and cut sewage treatment costs. The collected oil will be sold off to biofuel producers after being refined. Recycling 10,000 mt of used oil is expected to save US\$ 402, 864 of yearly sewage treatment costs and reduce carbon dioxide emissions by 20, 000 mt per year.

(Source: Biodiesel Report)



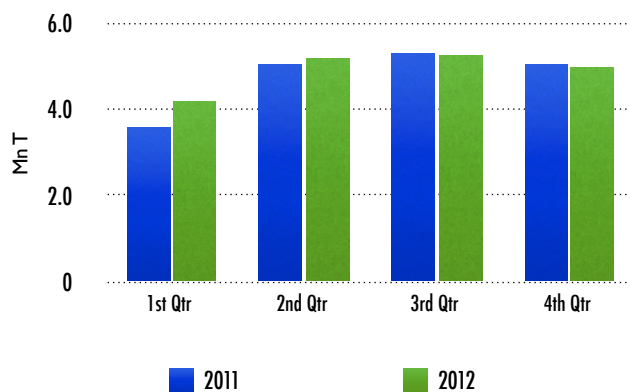
Decrease in Palm Oil Production and Increase in Exports for Malaysia

In Malaysia, production of crude palm oil and palm kernel had declined by 4.9% from 5.29 Mn T in the third quarter of 2011 to 5.03 Mn T in the fourth quarter of 2011 and by 2.6% from 1.29 Mn T to 1.26 Mn T respectively. Production of crude palm kernel oil in Malaysia had increased to 0.6 Mn T or by 4.7%. Malaysian palm oil export had increased from 4.98 Mn T in the previous quarter to 5.1 Mn T (2.5%) in this quarter. China, PR maintained its position as the biggest export market for Malaysian palm oil with total of 1.03 Mn T or 20.2% of total palm oil exports, followed by EU 0.61 Mn T (12%), Pakistan 0.59 Mn T (11.5%), India 0.52 Mn T (10.1%), USA 0.9 Mn T (5.7%) and Japan 0.14 Mn T (2.7%). Together, these six countries accounted for 3.17 Mn T or 62.2% of total Malaysian palm oil exports in the fourth quarter of 2011. Malaysian exports of palm kernel oil had also increased by 11.3% from 0.32 Mn T in the previous quarter to 0.35 Mn T in this quarter and exports for palm kernel cake had also increased by 13.3% to 0.71 Mn T from 0.62 Mn T in the previous quarter.



Outlook
CPO Prices Expected to Remain High due to Marginal Increase in Supply & Strong Demand for Palm Oil in 2012

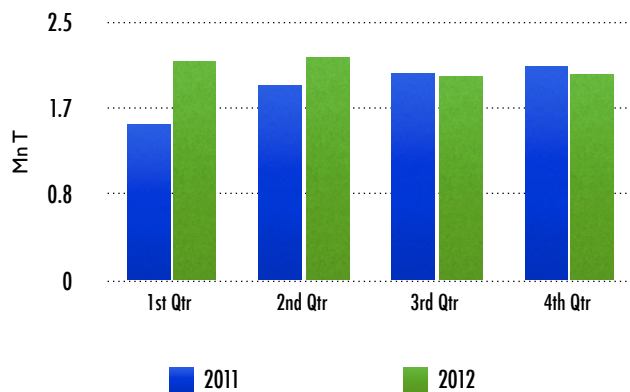
Figure 6: Production of CPO in 2011 forecast for 2012



Supply of Palm Oil

In the 1st quarter of 2011, the production of CPO was recorded at 3.57 Mn T and it increased sharply to 5.02 Mn T in the 2nd quarter. In the 3rd quarter, the production upward trend continued but at a slower rate to reach 5.29 Mn T. Due to monsoon rains in November, the fourth quarter production of CPO declined to 5.03 Mn T. This gave a total of 18.91 Mn T for CPO production in 2011 (Figure 7). Based on the time series data from 1st quarter of 1997 to 4th quarter of 2011, the production of CPO is expected to be 19.57 Mn T in 2012. As usual the production of CPO in the 1st quarter of 2012 will be expected to be low at 4.18 Mn T and will increase to 5.18 Mn T in the 2nd quarter and will continue to rise to 5.25 Mn T in the 3rd quarter. Meanwhile, in the 4th quarter production of CPO will be expected to trend down to 4.95 Mn T due to expected rainy season beginning end of October. The quarterly and trend production pattern is almost the same every year. Based on this pattern, CPO production in the following year can also be estimated using regression analysis.

Figure 7: Stock of Palm Oil in 2011 forecast for 2012



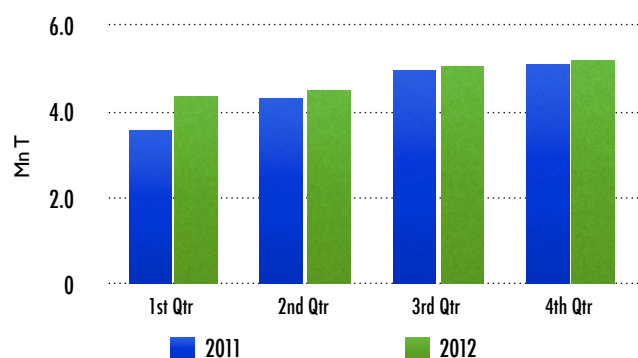
Different from CPO production, stock of PO does not follow any quarterly pattern. Based on Figure 8, it is shown that in the 1st quarter of 2011, the stock of PO recorded lower at 1.51 Mn T due to festive demand. The stock level increased to 1.88 Mn T in the 2nd quarter and rose further in the 3rd and 4th quarter at 2.00 Mn T and 2.07 Mn T respectively. The stock levels of PO for each quarter depend on production, import and export of PO. Therefore, the forecasting of PO stock is more challenging as compared to estimating the forecast of CPO

production for each quarter. However, based on econometric modeling, it was found that the average stock level of PO in 2012 will be expected at 2.06 Mn T. In the 1st quarter of 2012, stock of PO is forecasted to be at 2.11 Mn T and this would increase to 2.15 Mn T in the 2nd quarter. Meanwhile, in the 3rd and 4th quarter of 2012 stock of PO will be expected at 1.97 Mn T and 1.99 Mn T respectively.

Demand for Palm Oil

Export of PO also does not have any specific pattern for each quarter. The quarterly export levels depend on many factors including prices of CPO and SBO, world economic scenario, geopolitical issues, festive sessions and many more. Figure 9 shows the movements in export of PO in 2011. Total export of PO for the year was recorded at 17.96 Mn T. In the first quarter, export of PO was recorded at 3.57 Mn T and it increased to 4.32 Mn T in the 2nd quarter. In the 3rd and 4th quarter export of PO increased further to 4.97 Mn T and 5.10 Mn T respectively. Based econometric modeling, using quarterly data date back from 1997 it was found that the average export of PO in 2012 is forecasted to be 19.12 Mn T. In the 1st quarter of 2012, export is estimated at 4.36 Mn T and it is expected to increase to 4.51 Mn T in the 2nd quarter. In the 3rd and 4th quarter, the export of PO will be expected to be 5.05 Mn T and 5.20 Mn T respectively.

Figure 8: Export of Palm Oil in 2011 forecast for 2012



Price of Crude Palm Oil

Based on econometric model, it shows that in 2012 the price of CPO is estimated in the range of RM3,027 to RM3,470 per tonne. Table 1 shows the expected movement in CPO prices from the first quarter to fourth quarter of 2012. In the first quarter of 2012, CPO price is forecasted at the range of RM3,027 to RM3,249 per tonne or an average of RM3,138 per tonne. In the second quarter, CPO prices is estimated in the range of RM3,066 to RM3,282 per tonne. Meanwhile, in the 3rd and 4th quarter of 2012 price of CPO estimated at range of RM3,106 to RM3,284 and RM3,147 to RM3,470 per tonne respectively.

Therefore, in 2012 the average price of CPO is forecasted to be in the range of RM3,087 to RM3,321 per tonne or at an average of RM3,204 per tonne.

Table 3: Price Projection for CPO Prices in 2012

QUARTERLY	LOW	HIGH	AVERAGE
1st	3,027	3,249	3,138
2nd	3,066	3,282	3,174
3rd	3,106	3,284	3,195
4th	3,147	3,470	3,309
Average	3,087	3,321	3,204

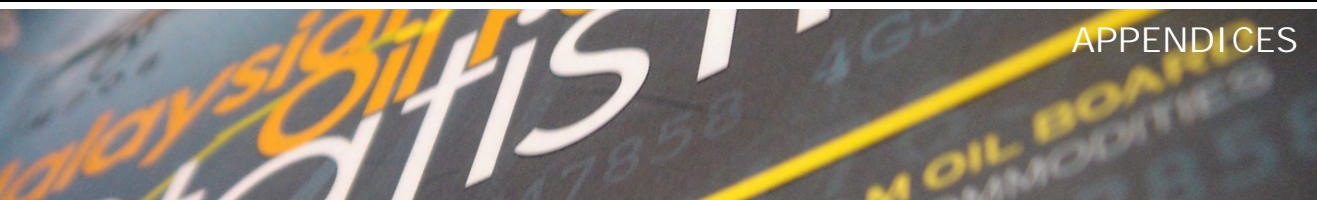


Chart 1: World Imports of Vegetable Oils (Mn T)

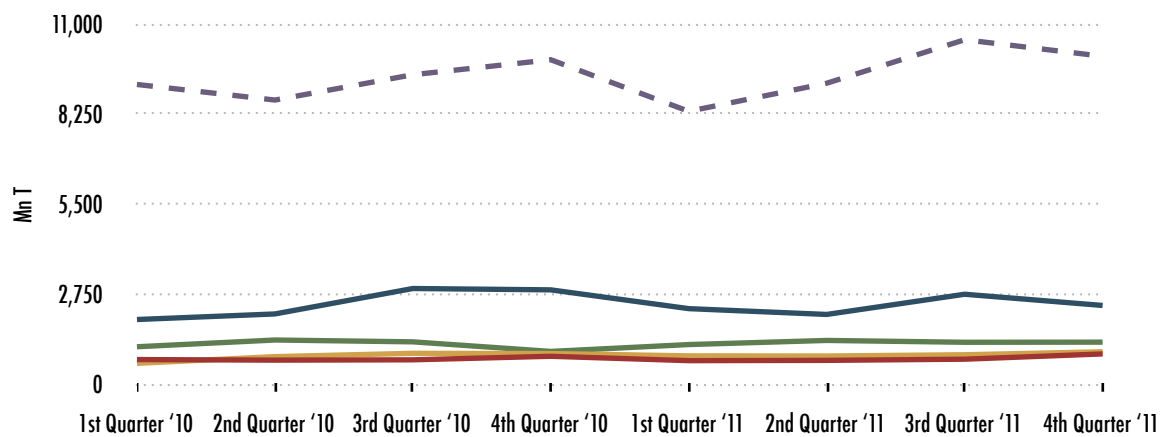


Chart 2: World Exports of Vegetable Oils (Mn T)

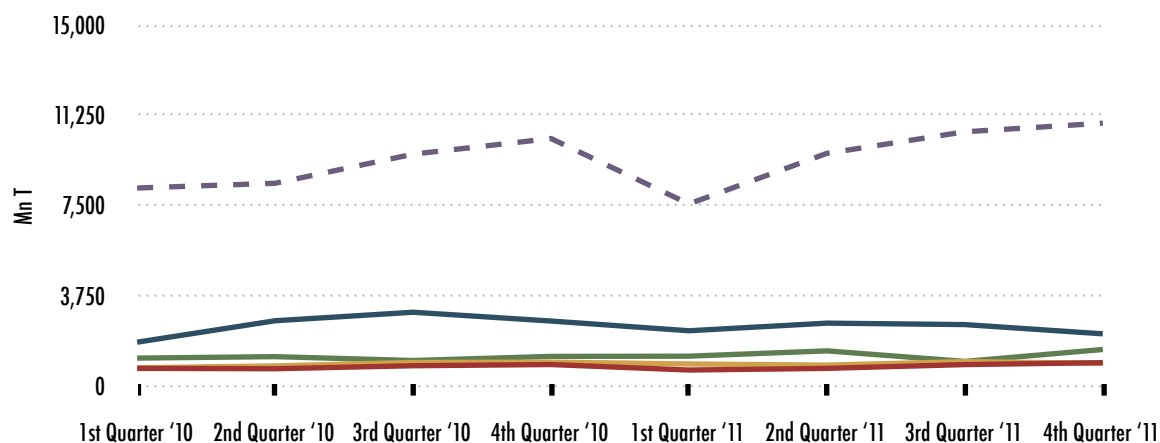


Chart 3: World Disappearance of Vegetable Oils (Mn T)

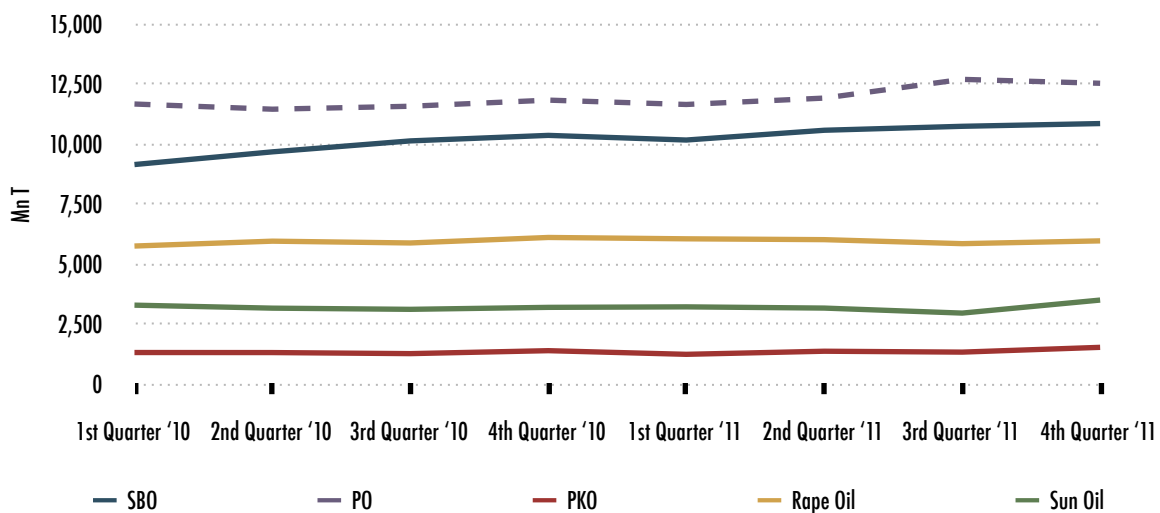
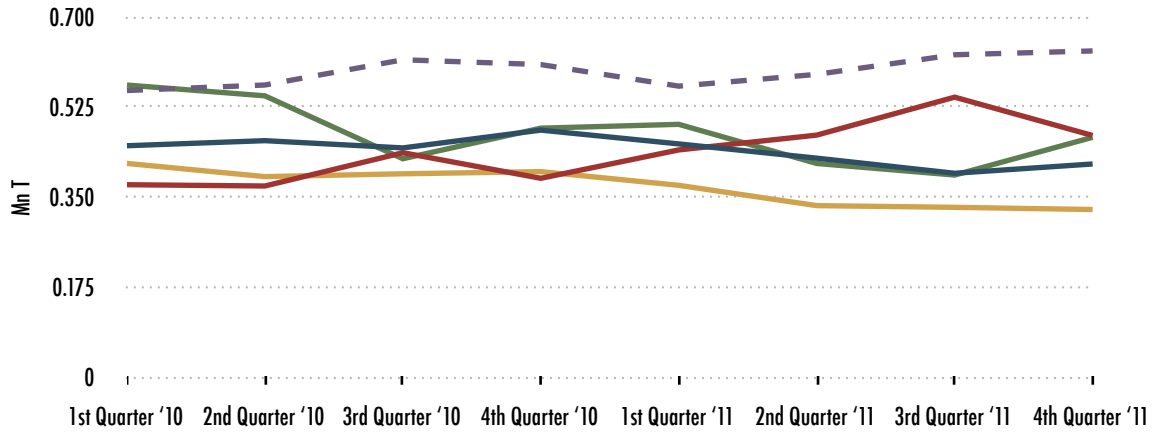
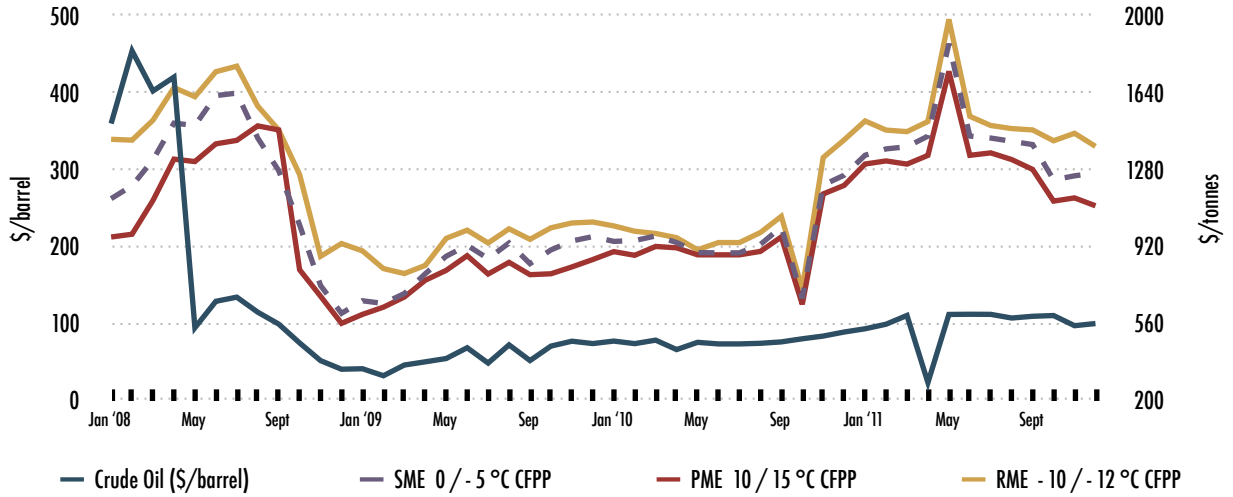


Chart 4: World Stock Usage of Vegetable Oils (Mn T)



Source: Oil World

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



Source: Kingsman