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II CONGRESO PALMERO C//PAL

22 AL 24 DE AGOSTO DE 2016
SANTO DOMINGO DEL CERRO
LA ANTIGUA GUATEMALA



Where are palm oil prices heading?

Grepalma Congress
August 2016



International

Palm oil is still tied to petroleum today.

El Niño and the Chinese Strategic Reserve have been major influences on oils prices this year.

What happens next?

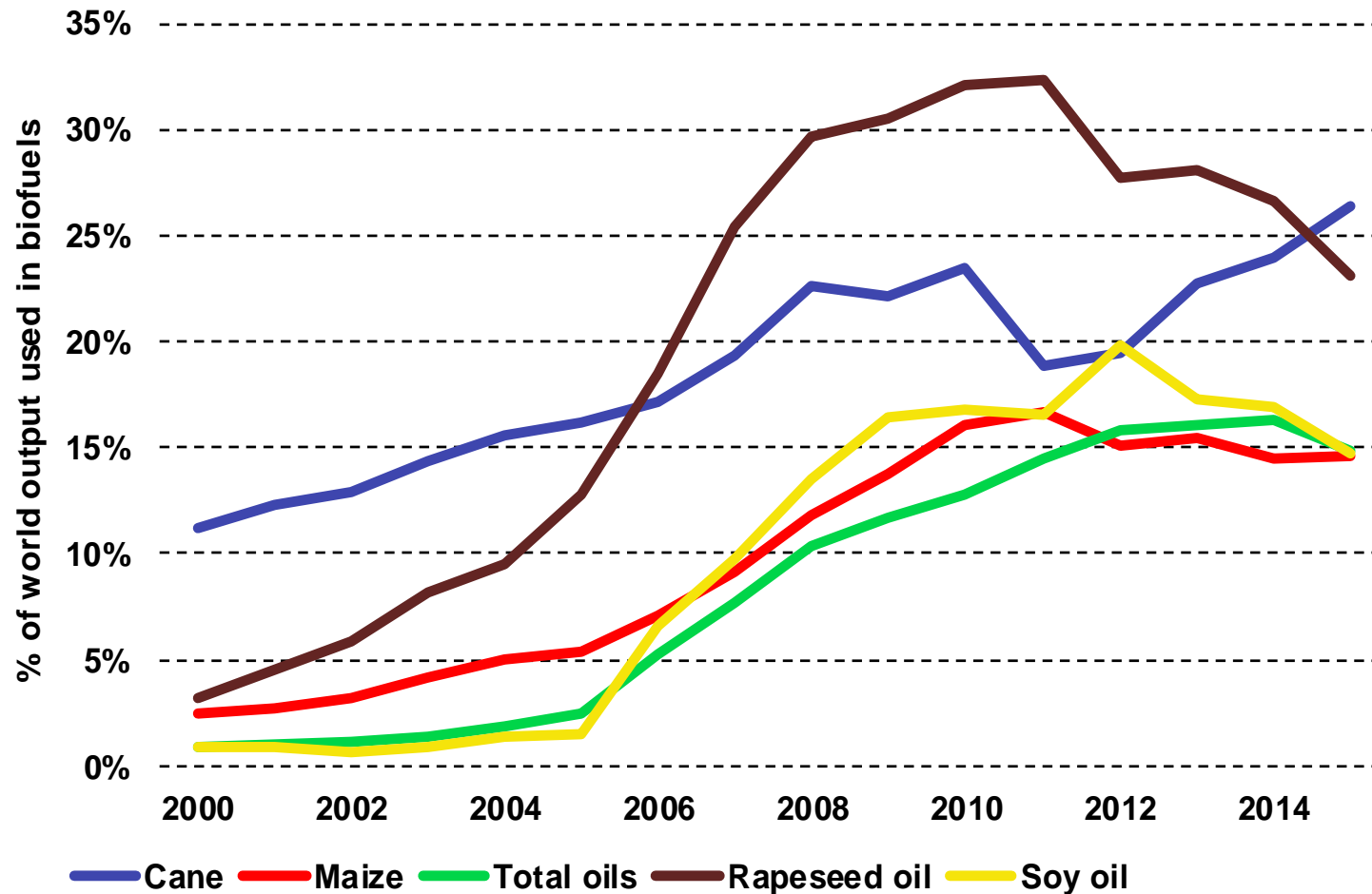


The impact of biodiesel on palm prices



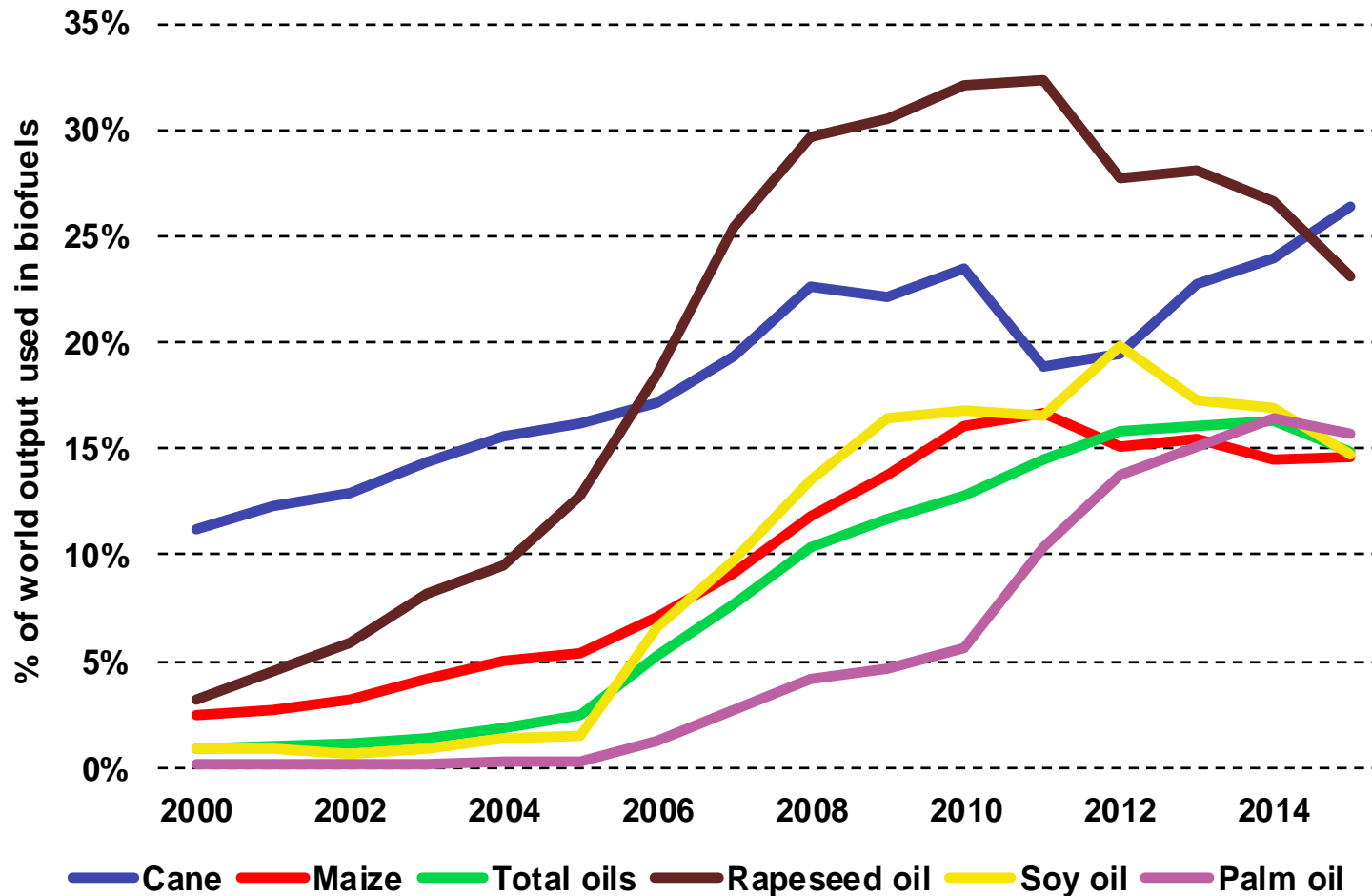
% of output used for biofuels for major crops

In 2000, biofuels took less than 1% of all oils. By 2015, the share was 17% (27% for rapeseed; 17% for soy and palm), and 15% of maize supply went to biofuels.



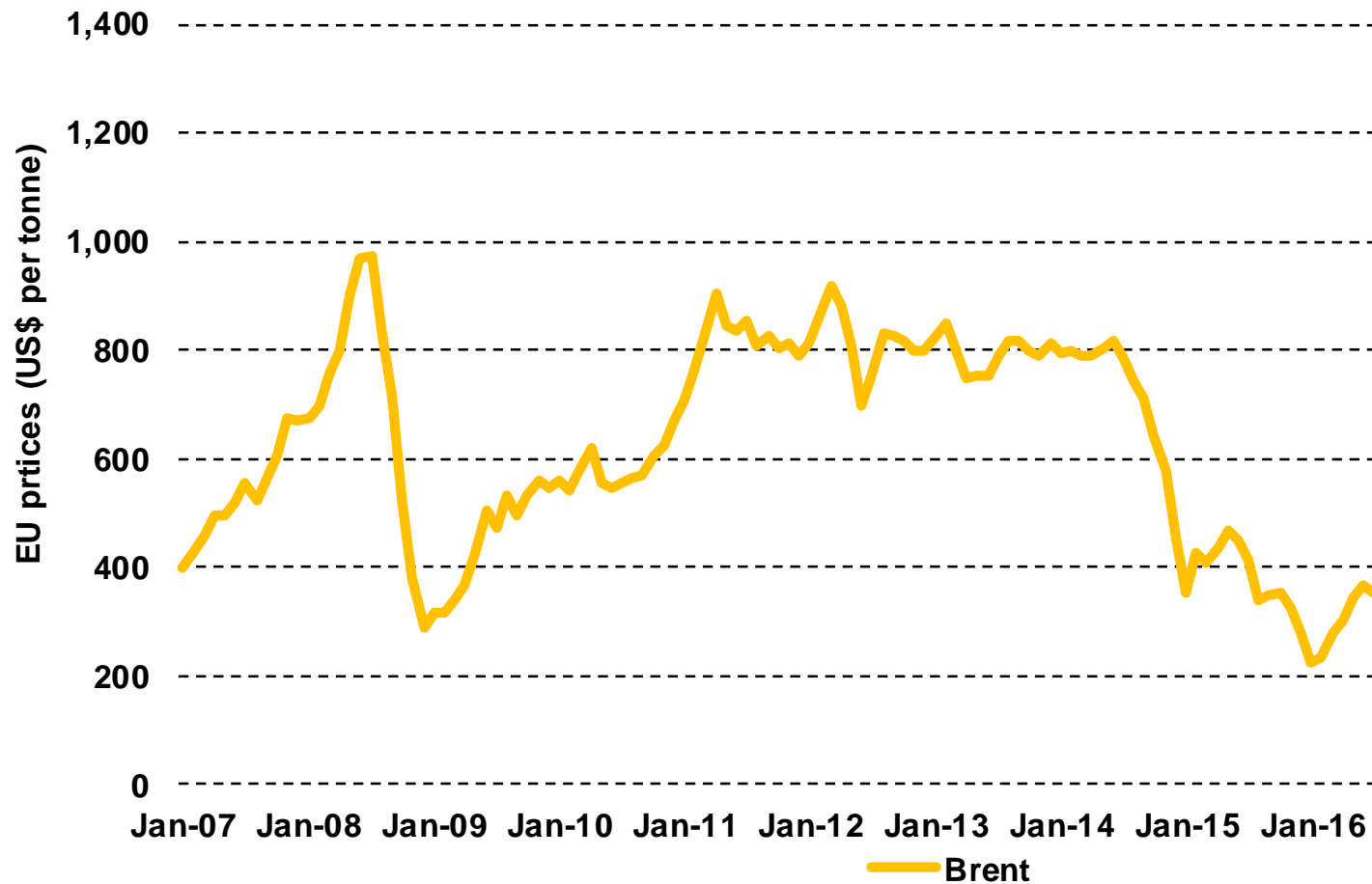
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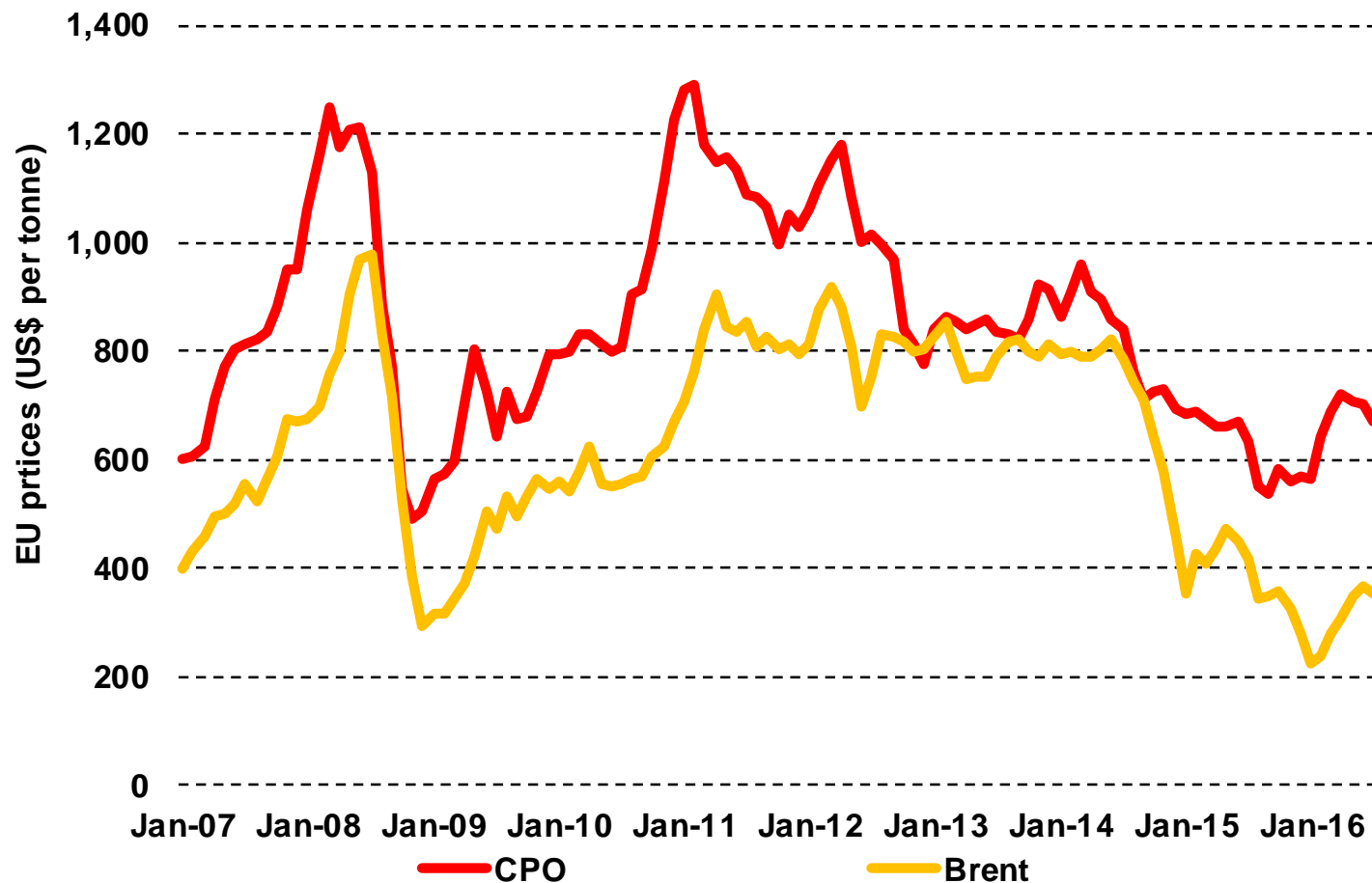
EU prices for Brent crude oil and crude palm oil

There is a price band for oils. The floor to the band is where EU CPO equals Brent crude prices, and thus CPO is cheaper than crude oil in S.E. Asia..



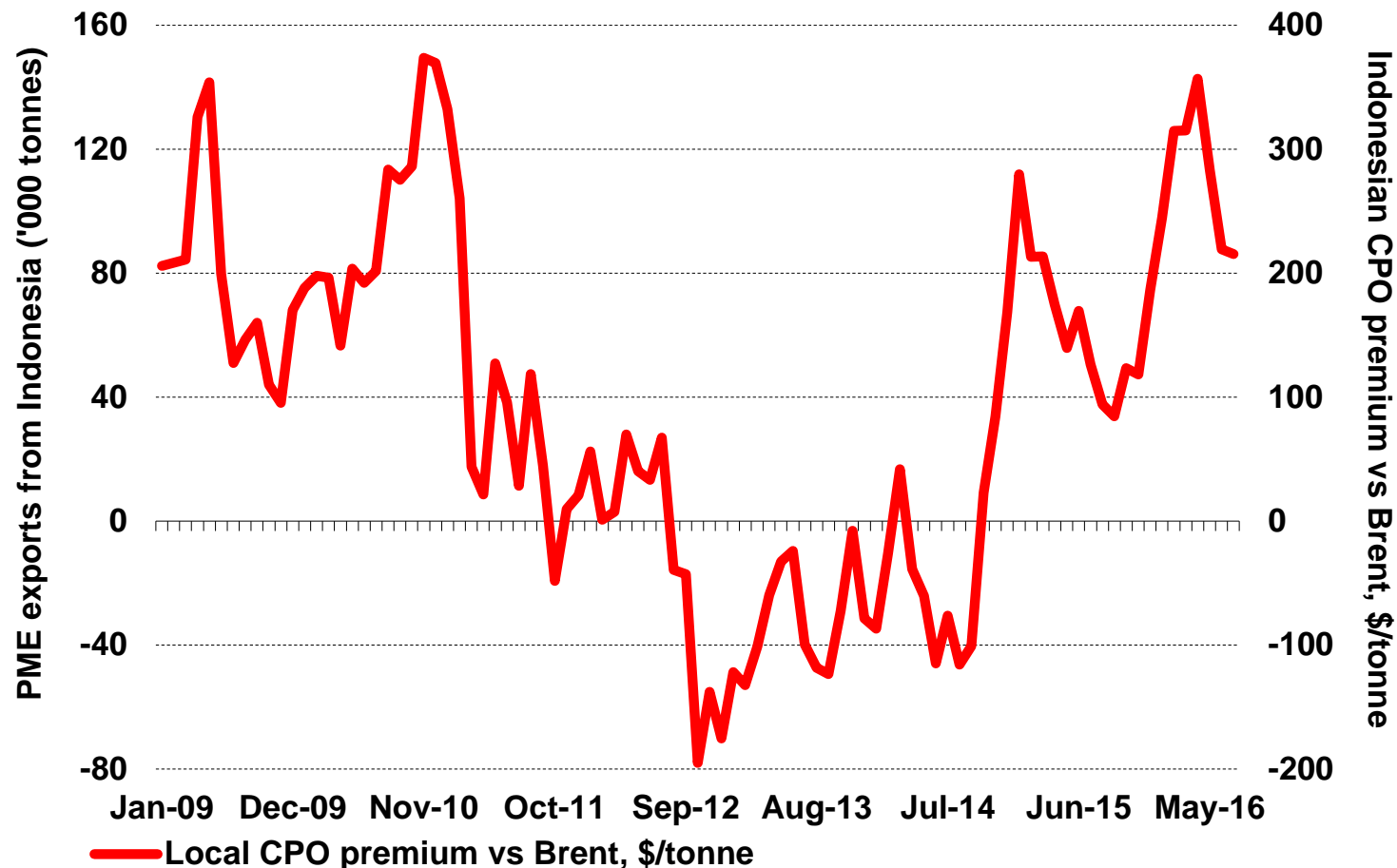
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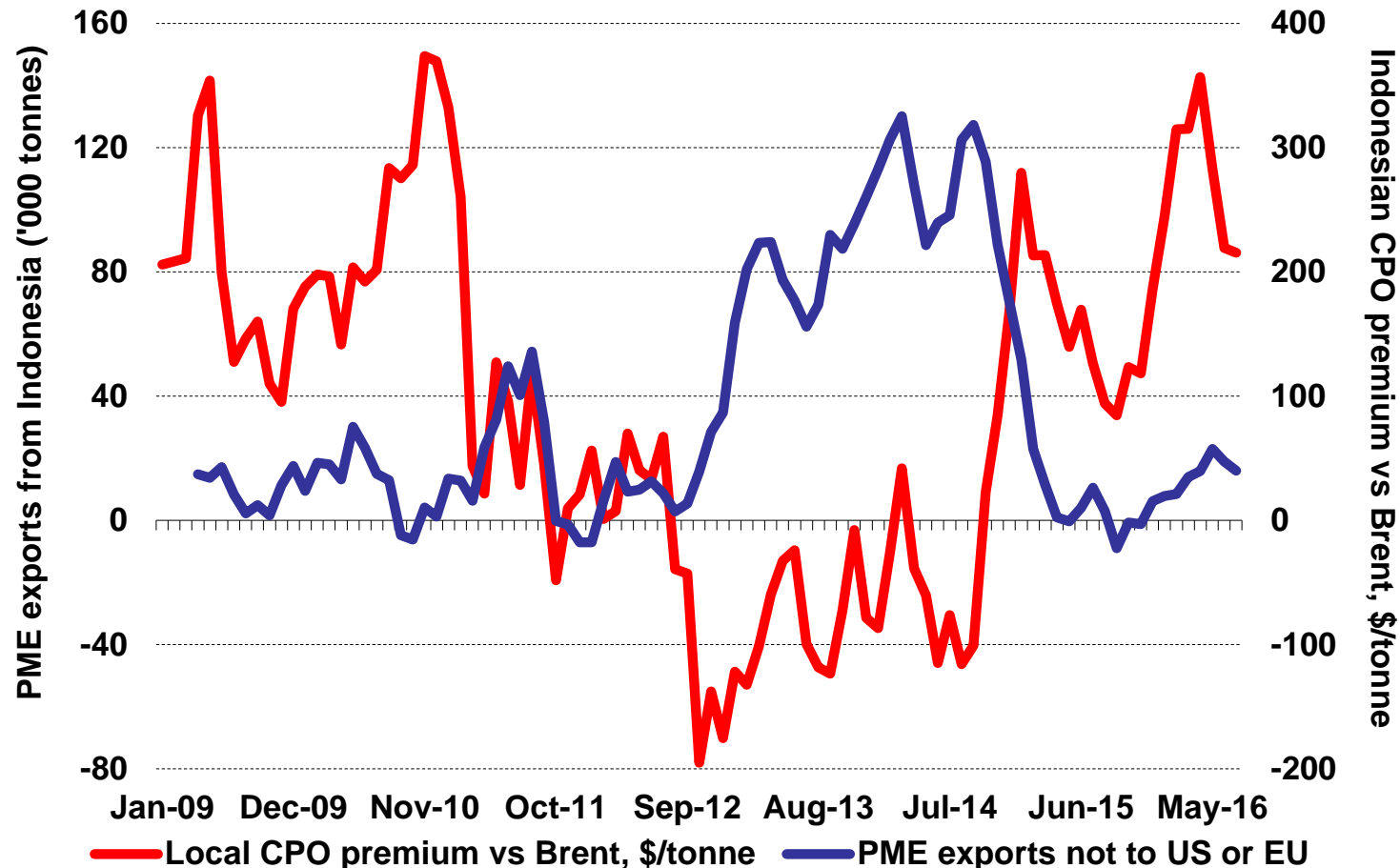
Indonesian PME exports and the CPO-Brent differential

The floor exists because discretionary biodiesel use emerges when CPO competes as a fuel. Indonesian PME exports to price-sensitive markets prove this.



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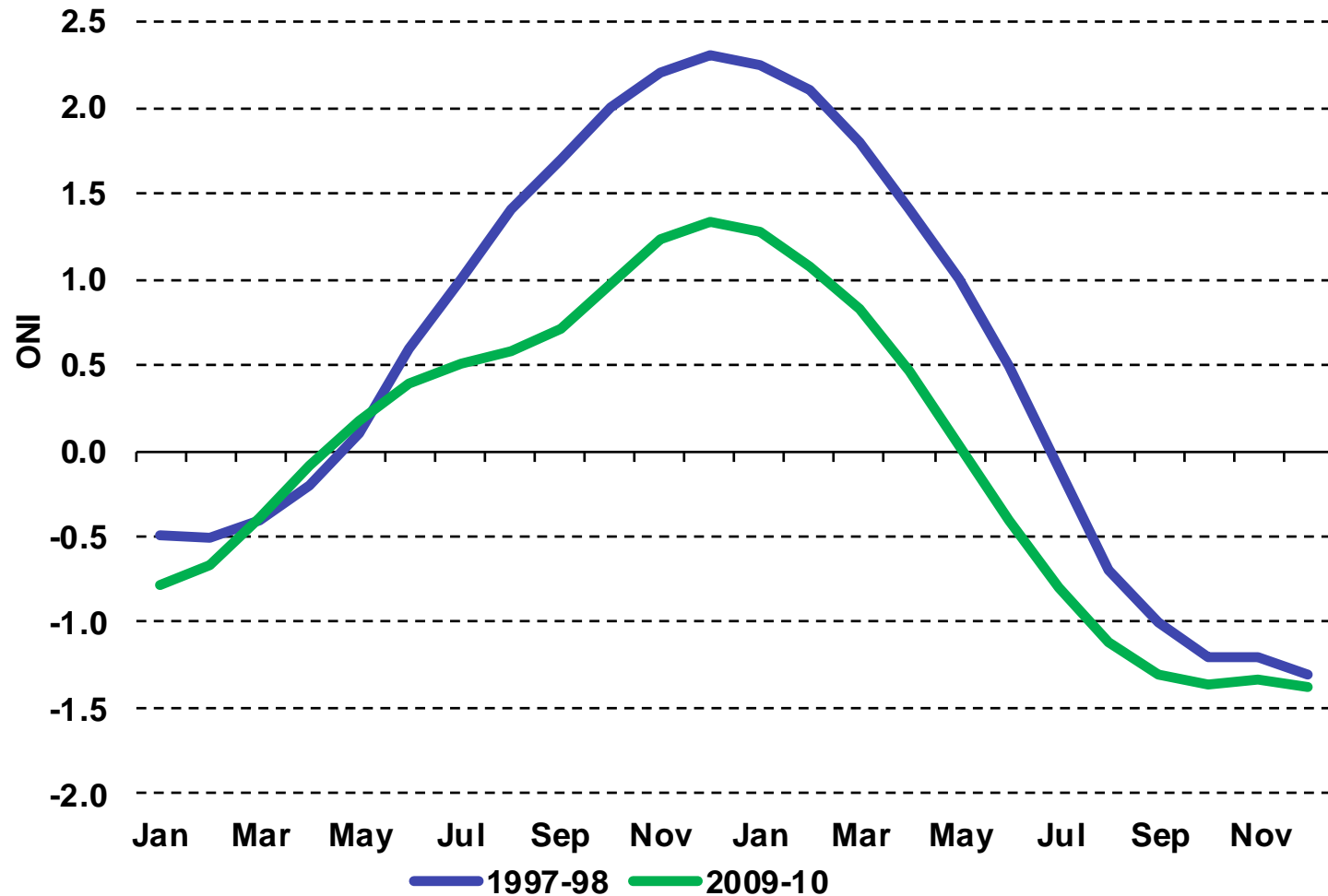


The impact of the 2015-16 El Niño



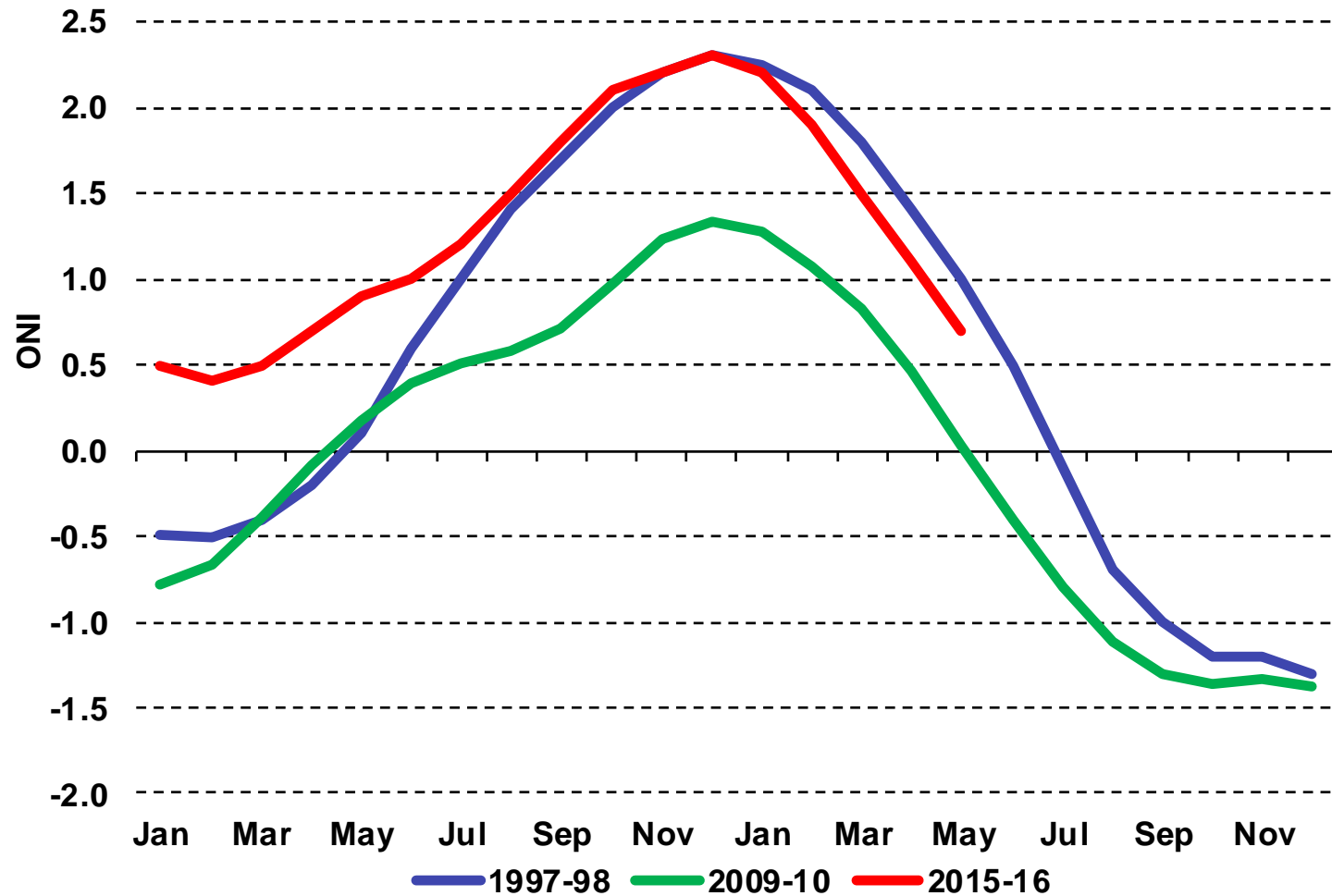
The Oceanic Niño Index (ONI) in various years

The ONI tracks ocean warming. The 2015-16 El Niño is as strong as in 1997-98, the last major one, but the ONI is now falling back, following the path of 1997-98.



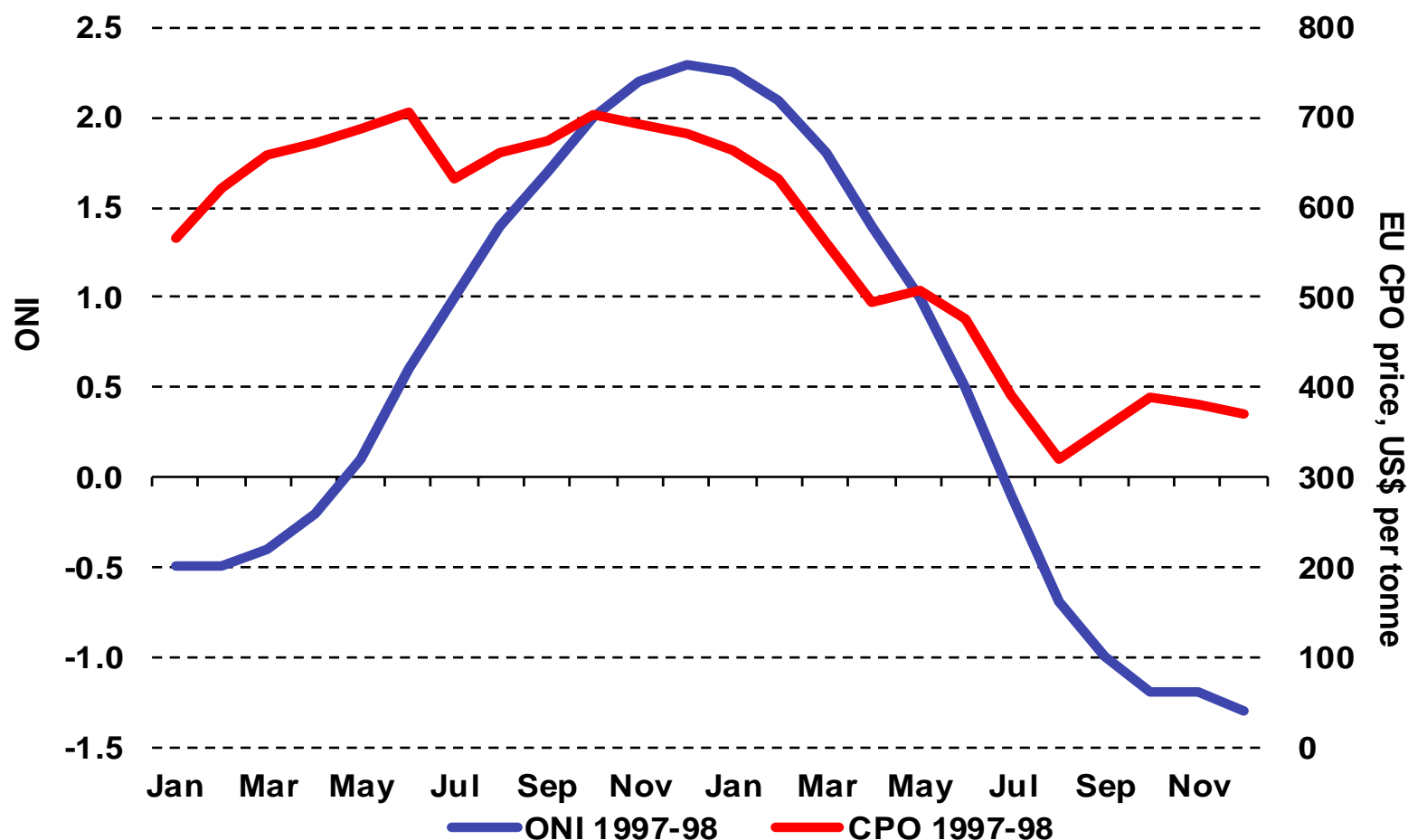
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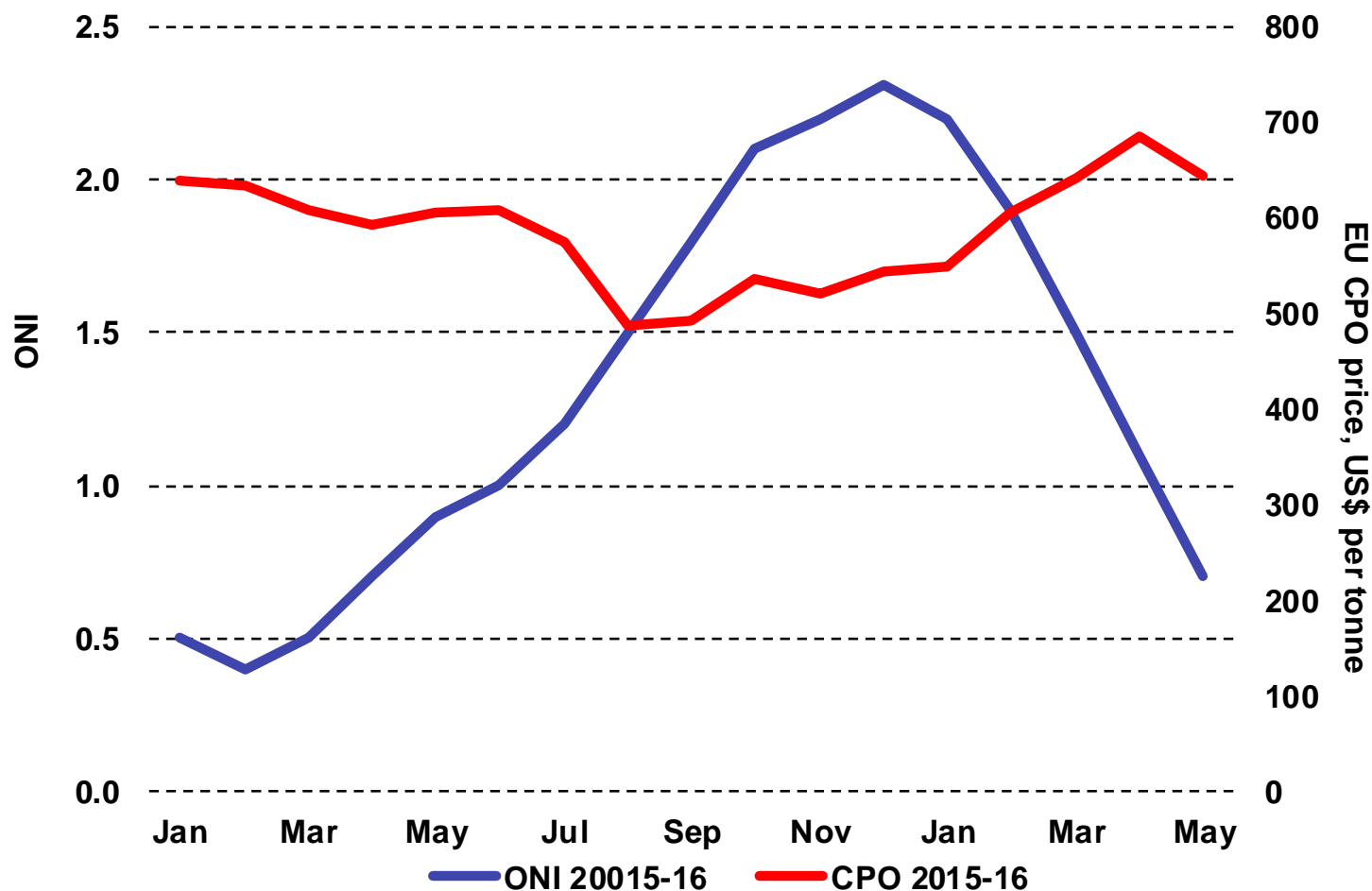
CPO prices vs. the ONI in 1997/98 El Niño

The CPO price broadly followed the ONI in 1997-98. As the El Niño ended, CPO prices returned to normal.



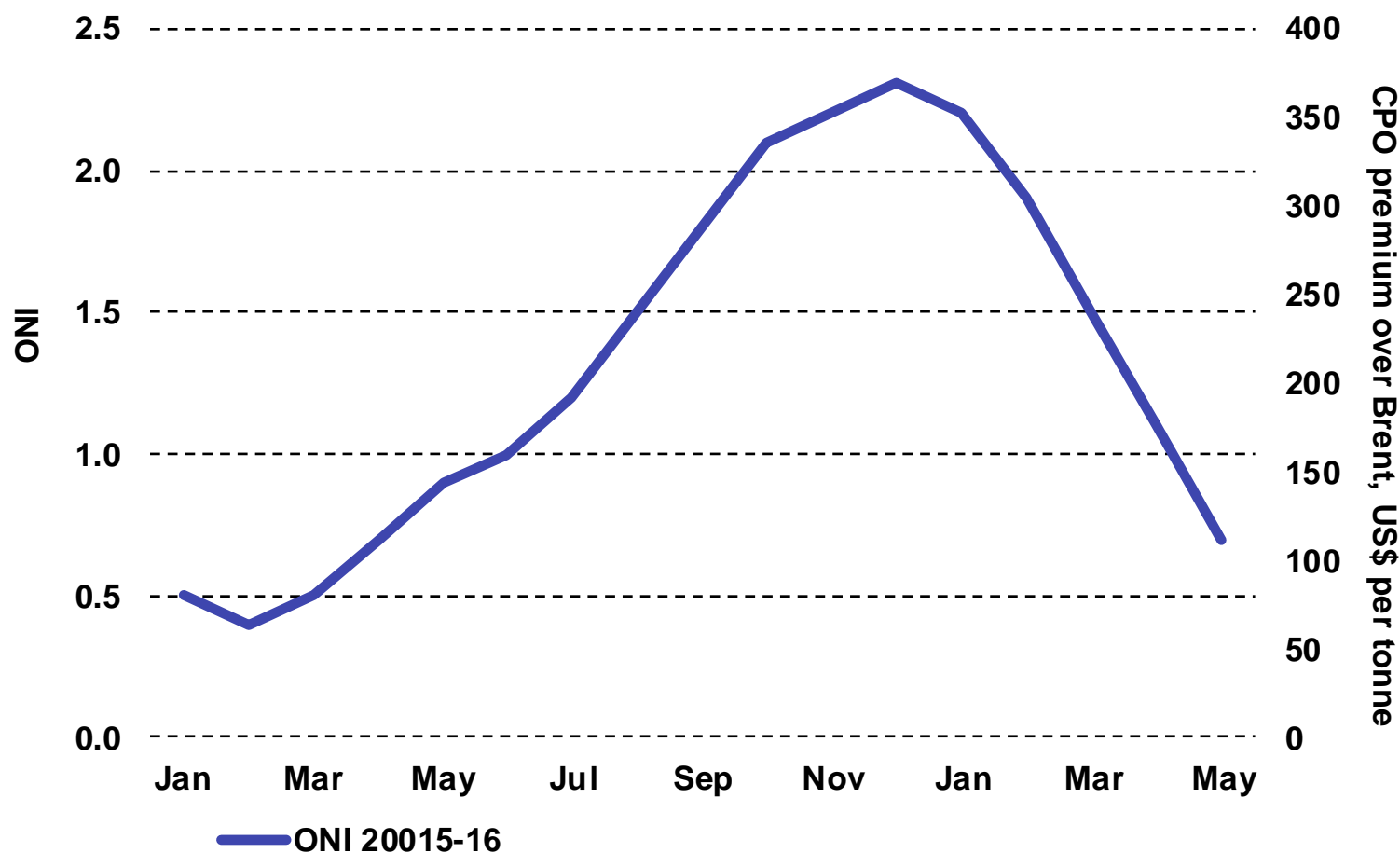
CPO prices vs. the ONI in 2015/16 El Niño

However, it is evident that CPO prices did not follow the ONI in 2015-16. If anything, it was the opposite.



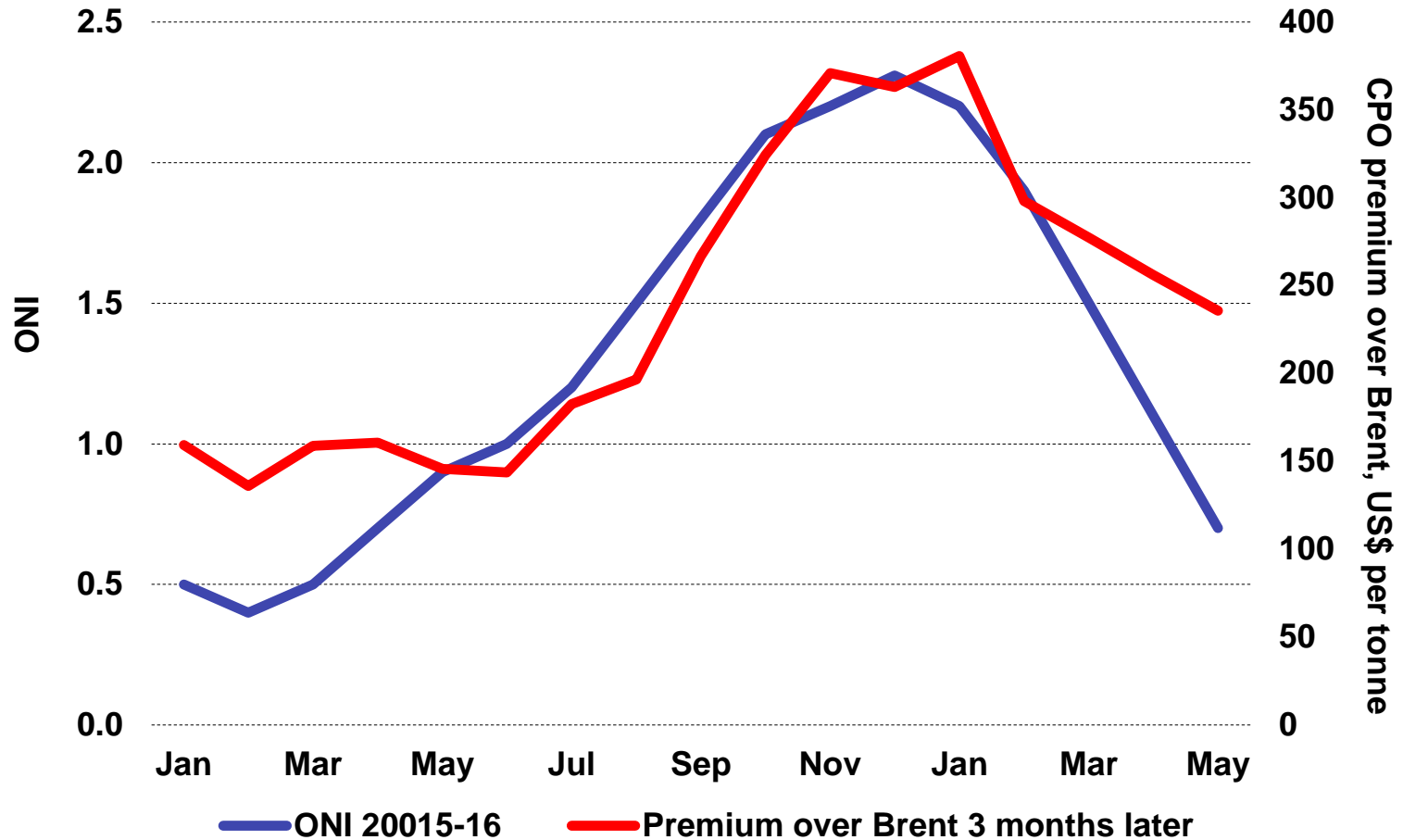
CPO premium over Brent vs. the ONI in 2015/16

However, today's price band means that we should focus on CPO's premium over Brent, not the flat CPO price. The El Niño's impact becomes very clear.



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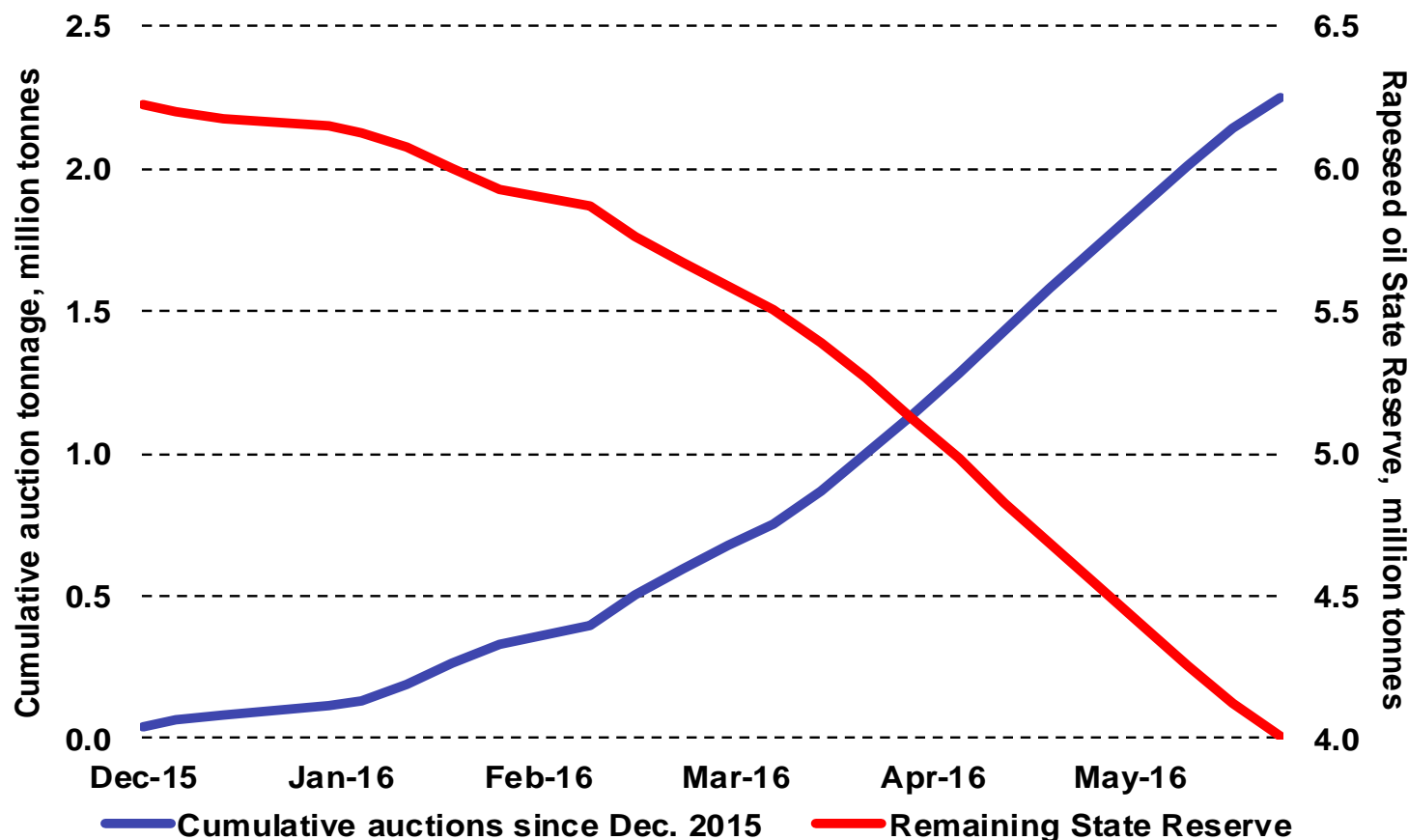




Palm oil prices in 2015/16

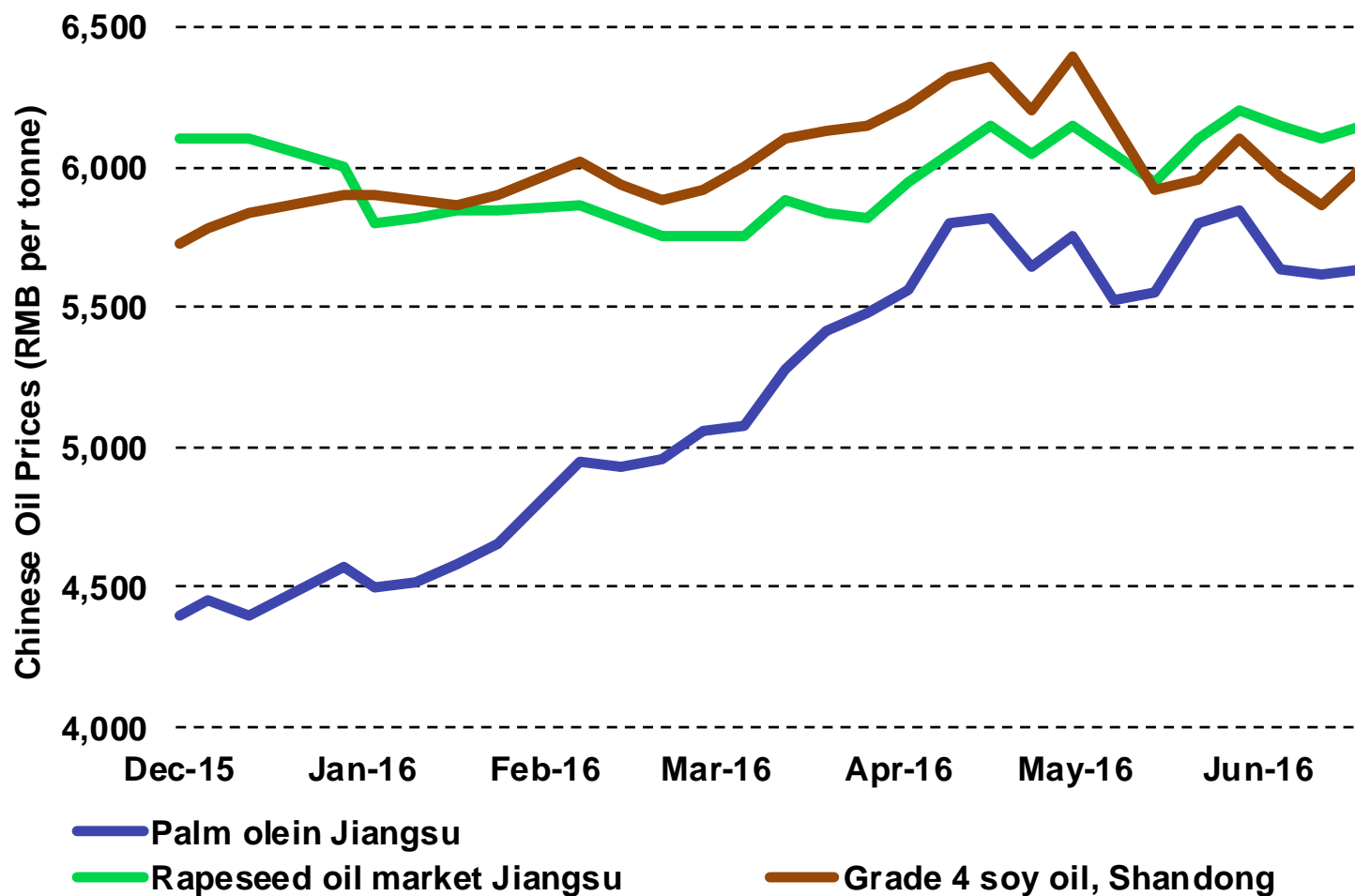
Rapeseed oil sales from Chinese State Reserve

In view of the big loss of CPO output, the key question is: why didn't CPO prices rise more? The main answer: steady rapeseed oil sales from China's State Reserve.



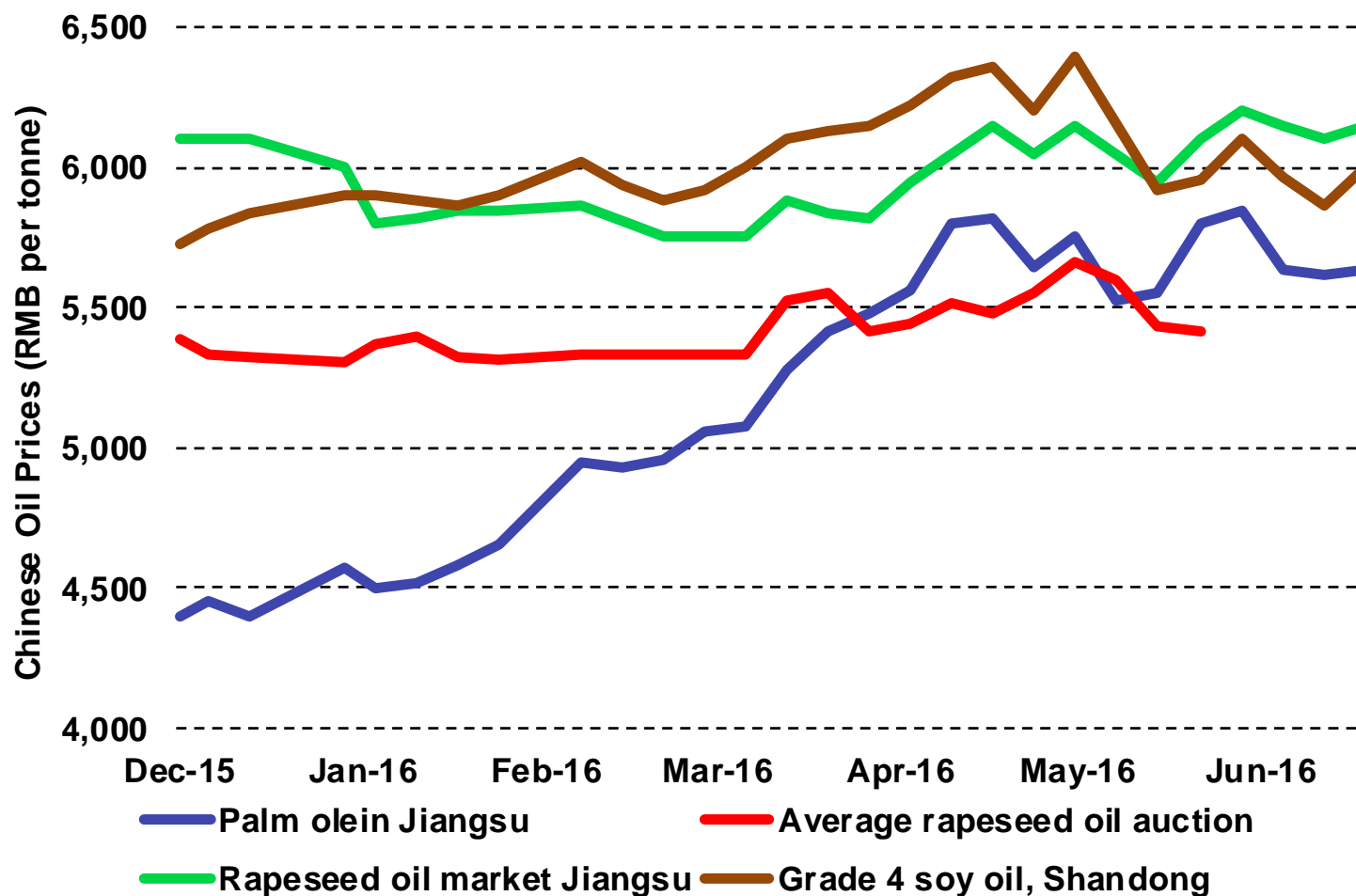
Chinese vegetable oil prices

The auctions, with a 5,300 RMB floor price, acted as a cap to other oils prices, locally and globally.



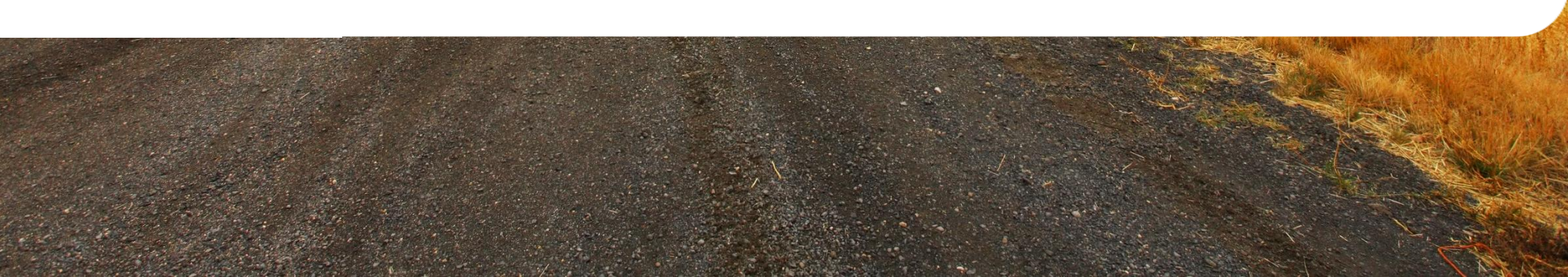
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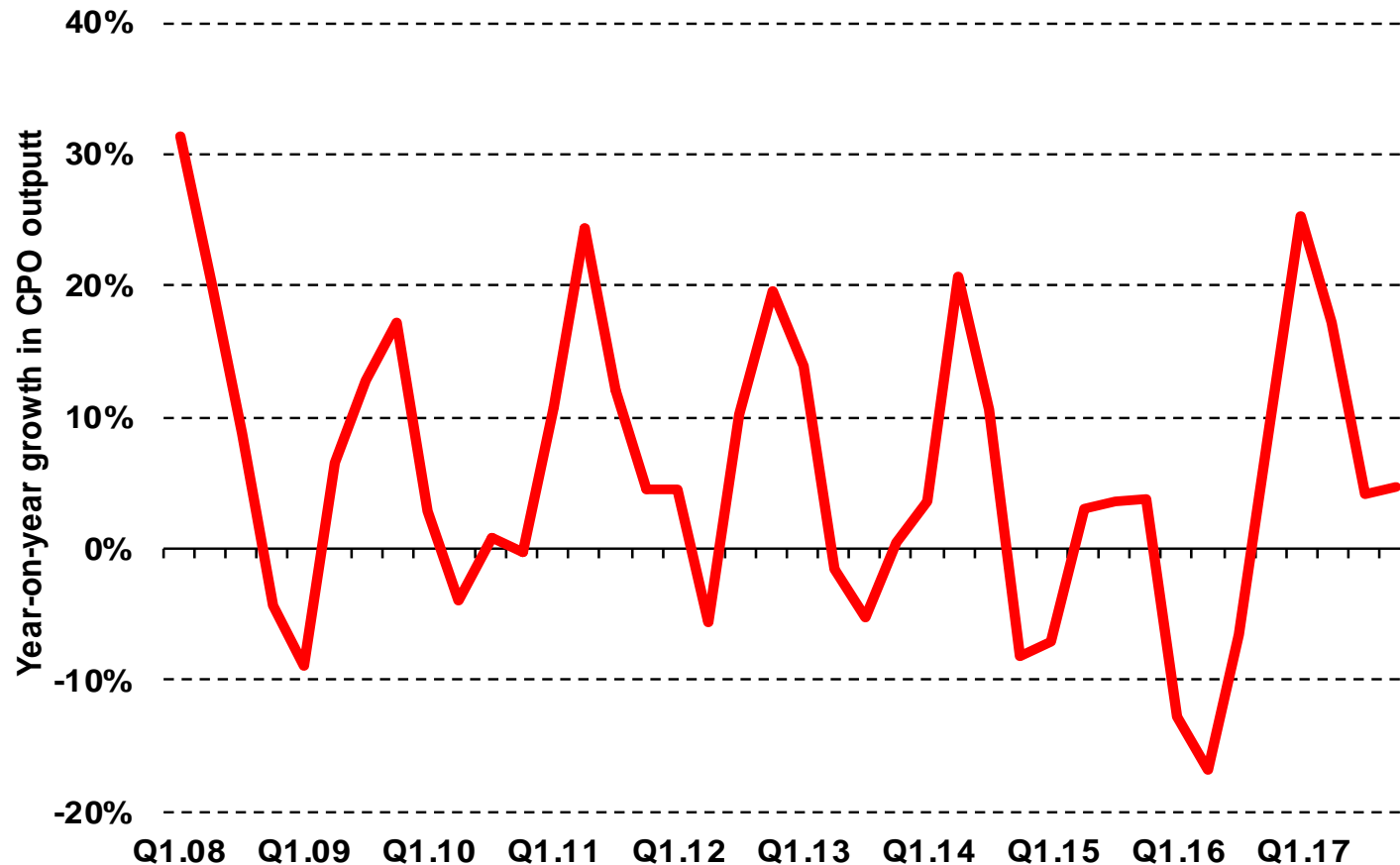


The road ahead for CPO prices



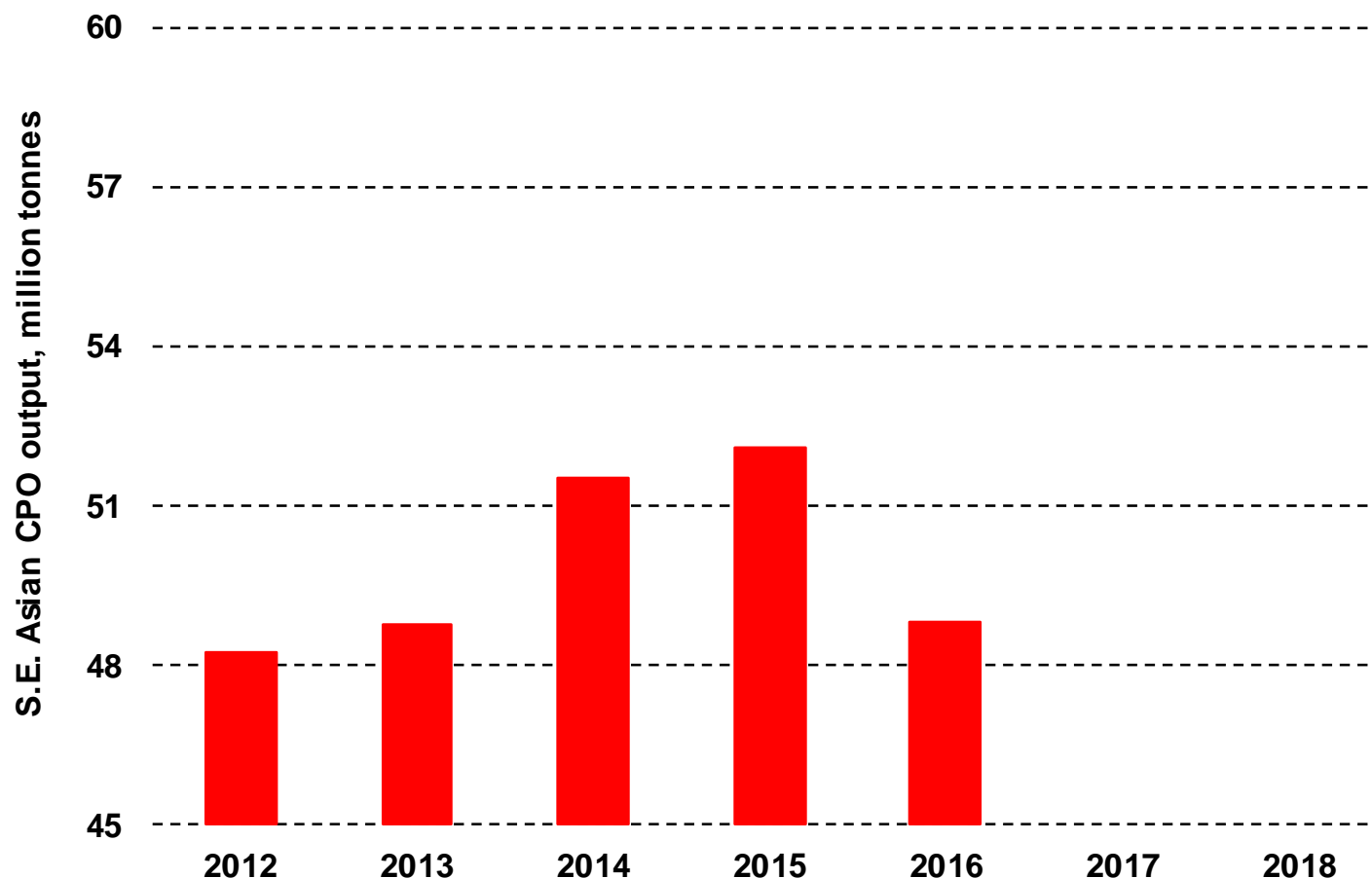
Year-on-year growth in SE Asian CPO output

By Q4 this year, combined Malaysian and Indonesian CPO output will again record positive quarterly year-on-year growth, which will lift palm oil stocks.



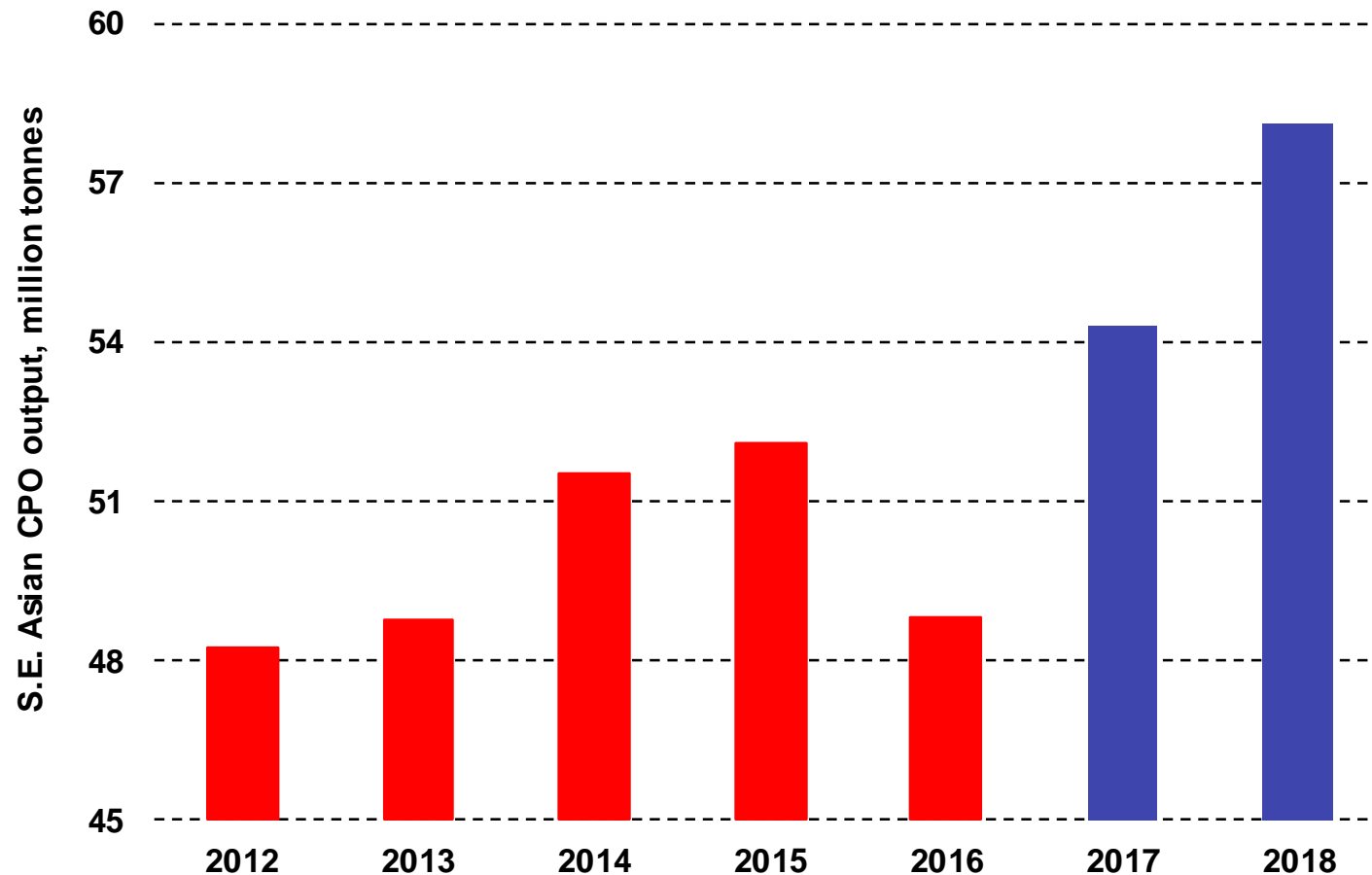
SE Asian CPO output

Looking ahead, maturing oil palm areas and normal yields would lift CPO output by 6 million tonnes in 2017 and by a further 3.5-4 million tonnes in 2018.



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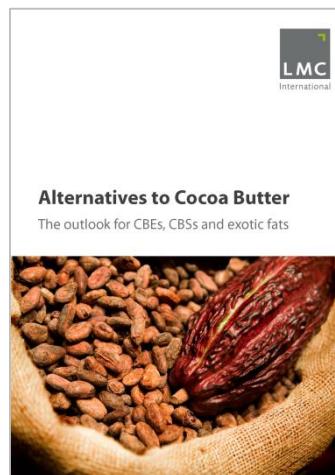
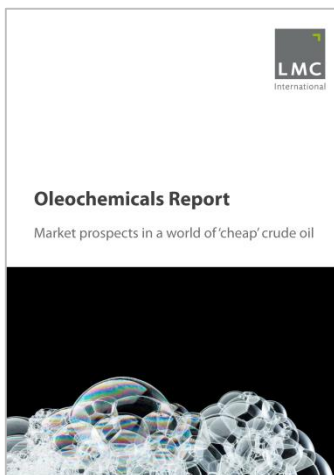
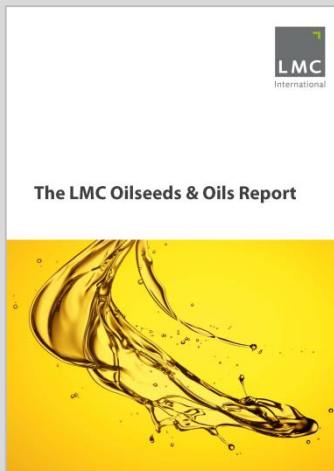
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With Brent crude price at \$45/barrel (\$330/tonne), the average premium points to CPO falling to \$550, then falling below \$500 FOB as MPOB stocks move above 2 million tonnes..



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