

Palm & Lauric Oil Price Outlook 2012

By Dorab E Mistry
Godrej International Limited



Full Title of my paper

- Palm & Lauric Oil
- Price Outlook - 2012
-
- 7th Indonesian Palm Oil Conference
- by GAPKI
- Bali



Congratulations

- Congrats to GAPKI
- Congrats to Indonesia on its economic progress
- Palm oil industry is the largest employment creator in Indonesia
- I shall try and stick to fundamentals



Background

- Macro outlook is very uncertain, even in China and India
- My recent outlook presented in China on 12 November has not changed
- I am pleased my theory of the Biological Cycle of Palm has been accepted by most
- My Indian Biting Point will be examined

CPO production growth is decelerating

- My recent estimates : 2011 Malaysian production only 18.8 mln tonnes and Indonesian production only 25.2 mln mt.
- The Biological Cycle has now entered the Flat Phase for next 6 to 9 months.

CPO Production - 2012

- Malaysian Production in 2012 will be flat – between 18.6 and 19 million tonnes
- Indonesia will only grow by 1 to 1.4 million tonnes and reach 26.5 million tonnes
- Total world palm oil production in 2012 will grow by only 2 million tonnes
- Oil World agrees with me !

The Soya Complex

- Since my China paper, soya complex prices have been falling
- Crush margins are very bad and Growth in crush will be 5 mln mt with extra 1 million tonnes of soya oil in 2012
- Bean prices must rise to win acres
- Bio diesel production in 2012 will be strong



Incremental Supply 2011-12

- Sunflower oil: Very big crops in Russia & Ukraine in 2011. Next year could be flat
- Rapeseed oil: Bullish outlook due to bio diesel use and problems in Europe
- Cotton oil & Gn oil: Up 0.5 mln mt
- Lauric oils : Coconut oil not recovering yet and CPKO will be up by much less in 2012

Demand Growth

- Food Demand in 2012 will grow by 2.5 to 3 million tonnes
- Bio fuel demand will grow by about 3 million tonnes due to new mandates
- Overall Demand will grow by about 6 million tonnes

Incremental Supply

	Oct 10 - Sep 11	Oct 11-Sep 12
• Soya oil	+ 1,800	+ 1,000
• Rape oil	- 500	-----
• Sun oil	+ 800	+ 500
• Gn & Cotton	+ 500	+ 500
• Palm	+ 5,500	+ 2,000
• Total supply	+ 8,450	+ 4,300

Incremental S&Ds 2011-12

- Supply Up 4,300
- Demand Up 6,000

- Food Demand up 2.5 to 3 mln mt
- Bio diesel demand up 3 mln mt

INDIA

- Previous Indian Biting Point was Rs 50,000 or USD 1200 CNF. USD = Rupees 45
- For 2012, we can revise the IBP to Rs 60,000. But USD = Rs 52. So FOB equivalent is only USD 1100
- At that level, RBD Olein consumption will expand strongly. Will be Flat at higher price

RSPO

- Sustainable Palm Oil is the only way forward. GAPKI is right to focus on Sustainable Palm Oil
- GAPKI and RSPO must try and resolve their differences
- Must succeed and win together



PRICE OUTLOOK - assumptions

- Normal growth in the world
- European Central Bank will become active
- Strong Dollar will fade by February 2012
- World will avoid a 2008 type meltdown
- China and India will loosen monetary policy and reduce interest rates

Price Outlook

- Palm : CPO futures will climb to 4000 Ringgits by June 2012
- By January 2012, CPO futures will climb to 3300 and then gradually keep rising
- I expect Brent crude oil will trade between US\$ 105 and 120 per barrel

Price Outlook

- Soya oil : Will rise to US\$ 1450 FOB Argentina by June 2012
- Chicago bean oil futures will rise to 65 to 70 cents per pound by June 2012
- Sunflower oil: Will be same as soya oil for most of the time
- Rape oil : at a premium over soya oil

Price Forecasts

- Lauric oils
- Palm Kernel oil has bottomed out at US\$ 1000 cif Rotterdam and will climb to US\$ 1600 by June 2012
- Coconut oil will be US\$ 100 higher

What can negate the bullishness?

- If Equities fall, commodities will also fall
- Contagion is the biggest threat

Conclusion

- In 2012 we see a tug of war between bullish fundamentals and weak macros
- I am backing the Fundamentals
- Next paper– 7 March 2012 at POC in KL
- You need lots of luck in difficult markets
- **GOOD LUCK & GOD BLESS**