

Weekly Palm Oil Market Analysis and Price Outlook

Decision enabling cash market analysis & price outlook

For the week beginning Jul 08, 2013

| Report Summary | | | | | | |
|--|--|------------------|------------------|-----|-------------|----------------|
| Malaysian RBD Palmolein FOB, 1-Mth Fwd Market | USD 790.00 (+2.5) as on July 05, 2013 | | | | | |
| Fundamental Summary | Price drivers | | Impact | | Weightage % | Score (1-5) |
| | Likely fall of Malaysian June'13 stock to 1.73 million ton | | Marginal Bullish | | 20% | 4 |
| | Strong crude market | | Marginal Bullish | | 20% | 4 |
| | Seasonal rise in output from July onwards | | Marginal Bearish | | 25% | 2 |
| | Likely drop in export post Ramadan | | Marginal Bearish | | 25% | 2 |
| | Likely slowdown in Chinese buying | | Marginal Bearish | | 10% | 2 |
| | | | | | | Indexed score* |
| *1 – Bearish; 2 – Marginal Bearish; 3 Consolidation; 4 Marginal Bullish; 5 – Bullish | | | | | | |
| Technical Summary | Prices upon holding below USD 810 are likely to trade on sideways to weak note in the coming weeks. | | | | | |
| Price Outlook Summary | Prices are likely to stay below USD 820 and trade on sideways to weak towards USD 750 in the coming 2-3 weeks | | | | | |
| Price Ranges | 0 - 2 weeks | | 2-3 weeks | | 1 - 2 month | |
| | Initial Level | Subsequent Level | IL | SL | IL | SL |
| | 790 | 760 | 790 | 750 | 800 | 725 |
| | IL=Initial level (Initial Expectation from the current closing) SL= Subsequent level (The subsequent forecast after reaching the initial level) | | | | | |

Market Analysis

- ✓ Tracking firm cues from external edible oil counters, Malaysian RBD Palmolein prices traded range bound during the week under review. Add on positive momentum came from likely drawdown in Month end stockpiles for June whereas overall drop in post Ramadan demand coupled with higher output as palm production curtailed aggressive gains at the same time.
- ✓ Meanwhile, trade is waiting for crucial MPOB data on S & D due next week which will guide market further. However, Malaysian palm output might improve by 5-6% towards 1.47 mn tons in June owing to seasonal recovery in FFB yield. At the same time, exports probably rose by 5.5% M-O-M towards 1.49 mn tons in the wake of huge shipments to Muslim countries ahead of Ramadan. Owing to higher exports and comparatively sluggish palm output, the June month ending stocks are estimated to be at 1.73 mn tons, down by approx 4.5-5% M-o-M. Overall, easing Malaysian stocks will hold palm prices for a while however rising output might weigh down on the prices in medium term.
- ✓ Exports of Malaysian palm oil products for June rose 5.5 % to 1.49 mn tons compared with 1.41 mn tons

| Malaysian Palm Oil Balance Sheet | | | | |
|----------------------------------|----------|--------|---------|---------------------------------|
| Parameters | Apr'13 E | May'13 | June'13 | % change in June'13 from May'13 |
| Opening stocks | 2.17 | 1.91 | 1.82 | -5.12% |
| Production | 1.37 | 1.38 | 1.47 | 6.00% |
| Imports | 0.05 | 0.05 | 0.05 | 15.00% |
| Total Supply | 3.59 | 3.35 | 3.34 | -0.23% |
| Exports | 1.46 | 1.41 | 1.49 | 5.50% |
| Dom consumption | 0.22 | 0.12 | 0.12 | 2.00% |
| Total demand | 1.67 | 1.53 | 1.61 | 5.23% |
| Ending stocks | 1.91 | 1.82 | 1.73 | -4.84% |

Source: MPOB, TG estimates, Units in Mil tons

shipped during May'13. Adding this, Malaysia's imports of crude palm oil most likely gained to 50-55 Th.ton in June from 47.7 Th. ton in the May month .

- ✓ On 10th June'13, Cargo surveyors ITS and SGS expected to release export data for 1-15th July'13 which will further guide market on Supply and demand situation.
- ✓ it is expected to decrease by 9-10% owing to likely ease in post Ramadan coupled with higher port stocks at China and India port. On the other hand, Inventory in China was 1.28 million tons in the week to June 28 from a record 1.6 million tons in May. Going forward, Chinese palm demand might remain lower as a record import of 8.3 million ton of soybean in June '13 hints at recovering poultry industry. In this context, incremental crushing is likely to bring in higher soy oil supplies there by reducing the dependency on palm oil imports.
- ✓ On energy outlook, Brent crude held above \$105 a barrel and it might continue to gain ahead of key US data release that could bolster confidence in recovery in US economy, which can be lifting the outlook for fuel demand. Investors are also on edge over when the Federal Reserve will roll back its bond-buying programme, which has boosted liquidity in global markets. Due to strengthening in crude oil prices, demand avenues are likely to open up for palm oil in the bio-diesel segment.
- ✓ On weather front, The Southern Oscillation Index (SOI) has dipped then again risen over the last two weeks. The latest 30-day SOI value to 30 June is +13.9. Sustained positive values of the SOI above +8 may indicate a La Niña event. On the other hand, latest IOD index value -0.6°C on 2nd July'13 has been below the threshold value (-0.4°C) for the week ending 30 June. If the index remains at, or below, -0.4°C until mid-to-late July, 2013 will be classified as a negative IOD year. Thus FFB yield may increase further on account of favorable weather and boost seasonal output from July onwards.
- ✓ To conclude, BMD palm oil continue to trade on range bound note over anticipation of rising output and weak Asian demand whereas likely drawdown in stocks for June month might support the price in near term.

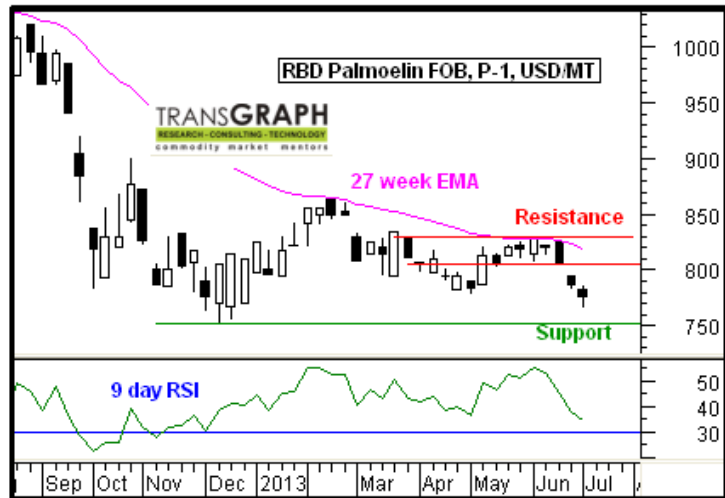
Soy complex

- ✓ US market remained to continue tight due to the prevailing tightness for old crop which might supports the prices in short term and prevents the prices to go for any aggressive fall in coming period. However, buyers are under the fear of higher global bean supply due to bumper harvest at Brazil and Argentina and higher acreage coming under bean in US will further weaken the market sentiments in medium term.
- ✓ At the US front, though bean acreage has reached to 77.73 million acres, rating of the crop is going to play a critical role in deciding the yield parameter in medium term. Past rating pattern shows that whenever the percentage of good to excellent decreases over the period of time, yield shows a significant reduction. In this context, last year rating of good and excellent decreased from 65% in 1st week of June to 37% till harvest season which shows a reduction in net yield of 6.1 bushel/acre from initial estimate of 43.9 bushel/acre to estimate of 37.8 bushel/acre in the month of Oct. However, rating till now remains at a higher side at 67% for good and excellent vis-à-vis 45% for the same period last year. Thus, climatic condition has to be monitored in determining the overall yield parameter in medium term.
- ✓ On the whole, fear of higher global bean supply due to bumper harvest at South America coupled with higher acreage at US front might keep the market sentiment at bearish front in the longer term while improving bean import from China might prevent aggressive losses at the same time.

Considering overall scenario, palm prices are likely to trade on range bound note in the shorter run and are likely to enter weak territory in the medium term.

Technical Outlook

- ✓ Prices are trading on weak note in the last three weeks amid follow through selling pressure after finding resistance below 27 week EMA and closed below 10 and 20 week EMA exhibiting weak bias.
- ✓ On the weekly technical setup the 9-RSI is turning lower below equilibrium and Stochastic (14/3/3) is also turning lower in neutral zone after rising from oversold zone. MACD (12/26/9) is also slanting lower below zero line.
- ✓ Prices are turning weak after finding resistance below 27 week EMA and further declines are likely towards USD 750 in the coming weeks.
- ✓ On the down side prices are expected to find support above USD 750 which is December 12 swing low and an early break below the same prices are likely to decline further down to USD 725 and lower in the coming months.
- ✓ On the higher side the level of USD 810 stands as a good resistance to keep the prices on subdued note.



Concisely, prices upon staying below USD 810 are likely to trade on sideway to weak note towards USD 750 in the coming 2-3 weeks.

| Weekly dashboard | | |
|------------------|---|---|
| INR vs. USD | Soy-RBD Olein price spread (At origin, \$/ton) | Palm oil refining margins (FOB Malaysia, \$/ton) Gross margin after product realization |
| <p>60.34</p> | <p>126</p> | <p>25.49</p> |
| MYR vs. USD | | |
| <p>3.187</p> | | |

Physical Market Prices

| Palm Complex | | Jul 05, 2013 | Jun 28, 2013 | Change | %Change |
|-----------------------|-------------------------------|-----------------|-----------------|--------|---------|
| Malaysia | RBD Palmolein FOB, 1M forward | 790 | 787.5 | 2.5 | 0.32 |
| | BMD CPO Sep'13 Futures* | 2385 | 2344 | 41 | 1.75 |
| Basis | Crude Palm oil 1m forward* | 2380 | 2340 | 40 | 1.71 |
| South Malaysia | Crude Palm oil 1m forward | 746 | 741 | 5 | 0.67 |
| Indonesia | CPO FOB 1m forward | 795 | 775 | 20 | 2.58 |

All units in USD/ton; * MYR/ton;

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