Weekly Soy Oil Market Analysis and Price Outlook

Decision enabling cash market analysis & price outlook

For the week beginning Oct 15, 2013

Report Summary				
Argentina Soy Oil 1-Month Forward	**Last closing – USD 903.00 (+16.00) per MT as on October 11 , 2013**			
Fundamental Summary	**Price drivers**	**Impact**	**Weightage %**	**Score (1-5)**
	Harvesting delay at US due to recent rainfall	Marginally Bullish	20%	4
	Likely to have restrained soybean selling by farmers	Marginally Bullish	15%	4
	Aggressive buying from China	Marginally Bullish	15%	4
	Likely to have higher bean acreage at SA front	Marginally Bearish	25%	2
	Easing weather concern at Brazil	Marginally Bearish	25%	2
			Indexed score*	**3.0**
	1 – Bearish; 2 – Marginal Bearish; 3 Consolidation; 4 Marginal Bullish; 5 – Bullish			
Technical Summary	**Prices are likely to find support above USD 860 on any minor pull back and trade on mixed note in the coming 1-2 weeks**			
Price Outlook Summary	**Prices are likely to find support above USD 860 on any minor pull back and trade on mixed note within USD 880-920 in the coming 1-2 weeks**			

Price Ranges	0 - 2 weeks		0 – 1 Month		0 - 2 Months	
	Initial Level	Initial Level	Initial Level	Initial Level	Initial Level	Initial Level
	885	920	870	940	860	970
	IL=Initial level (Initial Expectation from the current closing)					
	SL= Subsequent level (The subsequent forecast after reaching the initial level)					

Fundamental Review and Analysis

- ✓ Soy oil remained flat in the wake of ongoing harvesting across the US Midwest coupled with higher soybean sowing intention at South American front. However, lower arrival in the physical market due to recent rainfall in the past coupled with aggressive buying from China has limited the aggressive fall at immediate front.
- ✓ Soybean harvesting remain a matter of concern across the Midwest and anticipation are high that harvesting might have reached to 40-45% by 13th Oct which is lower than the last year as well as 5 year average. In this context, rains will interrupt the harvest in much of the U.S. Midwest in the next few days, but conditions are expected to turn drier after that, with harvest delays confined to the Mississippi River Delta.
- ✓ As per CWG, storms are expected to produce 0.25 to 1.25 inches (0.6 to 3.2 cm) of rain covering 50% of the Midwest Monday through Wednesday, with some local areas receiving up to 3 inches (7.6 cm). However, forecast accumulations are lighter than what was expected on Friday, and mostly dry conditions over the rest of the next two weeks should help the harvest to progress rapidly.
- ✓ Moving ahead, due to the recent rainfall farmers continued to show restrained selling thus keeping the arrivals lower in the physical market which in turn support the prices at immediate front. In this context, U.S. grain handlers strain to replenish depleted supply pipelines by offering pricing incentives to farmers who so far have been slow to sell much of their freshly harvested soybeans.

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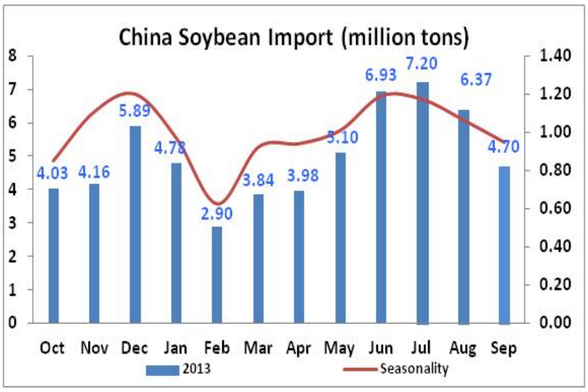
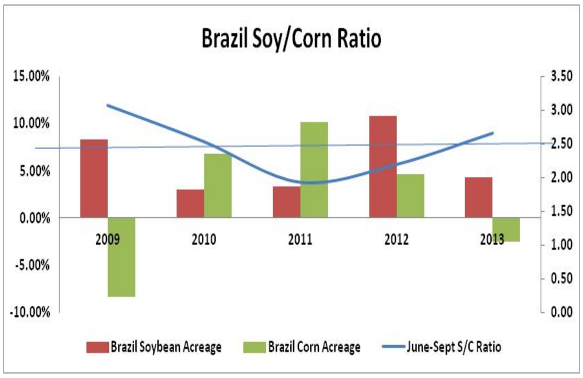
- ✓ A popular move among commercial grain buyers this week was to offer free or discounted "delayed price" contracts, under which farmers give up control of their grain and agree to set a price at a later date - all to entice tight-fisted farmers to move crops into pipeline now.
- ✓ NOPA crush data is due for release today and anticipation is high that soybean crush may hover around 103-107 million bushels for the month of Sept'13 which is further lower than Aug'13 crush of 110.5 million bushel. In this context, lower crush is mainly due to tight U.S. soybean supplies in recent months coupled with slow start of 2013 soybean harvest, leaving processors with little to crush.
- ✓ Moving ahead, China continued to remain a prominent buyer of soybean and imported 4.70 million tonnes of soybeans in September, down 26.2% from 6.37 million tonnes in August, figures from the General Administration of Customs of China showed. Thus China has crossed the import target for the year 2012/13 of 59.5 million tons and reached to 59.8 million tons. Thus, higher demand from China is mainly due to increasing poultry usgae thus supporting the bean prices at immediate front.



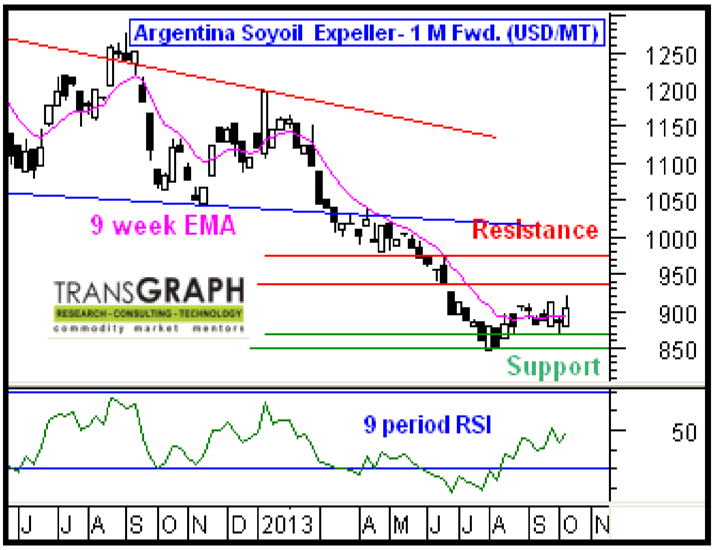
- ✓ Further, 2013/14 China soybean import target is 69.0 million tons and for completing that it has to remain a aggressive buyer and for that China has already booked 13.84 million tons from US vis-a-vis 11.23 million tons in 2012/13. Thus, seeing the current China import pace it is evident that it might reach the total import target but the dependecy remain higher on the SA front due to anticipated bumper production at Brazil. Apart from that, currently higher crush margin for the imported bean will further boost the import of soybean.
- ✓ At the SA front, weather in Brazil offers a mix of rain and sunshine, which is favorable for planting and early development. Argentina should also see additional moisture, but the driest areas are expected to get short changed again which may result in more soybeans as they can be planted later than corn.



- ✓ Moving ahead, historically soybean sowing pattern at Brazil is governed by the CME June to Sept Soy and Corn ratio. In this context, it is clear that whenever S/C ratio remain above 2.5, intention of soybean sowing remain on higher side. Thus, for 2013/14 as it is already 2.5, chances are fair that Brazil will have higher acreage for soybean and it should hover around 72-73 million acre vis-a-vis 70.4 million acre last year.
- ✓ Further, easing weather condition has also boosted the soybean planting intention. In this context, rains are likely over Brazil's main soy growing regions this week and top soybean growing state Mato Grosso received 61 millimeters (2.4 inches) of rain so far in October, and it is likely that showers should continue in coming days.
- ✓ Thus, rains last week encouraged planting and nationwide it has reached to 8% vis-a-vis 3 % a week ago and in line with 9% a year earlier. In this context, with the given pace of sowing prospect, Brazil production for soy crop should lie between 86.5 and 88.5 million tonnes given that the weather condition remain favourable.
- ✓ Similarly, Argentina's 2013/14 soy planting area is poised to grow 2.5 percent against the previous season to 20.2 million hectares as other crops lose ground especially Sunseed and Corn. In this context, farmers also favor soy because it is less expensive to plant than corn and fetches higher international prices than corn.
- ✓ Summing up the facts, ongoing soybean harvest across the major belts of Midwest coupled with higher bean planting at Brazil front will add a bearish tone to the market. However, higher import potential of China coupled with forecast of rainfall towards weekend halting the harvest pace and will support the prices at immediate front.

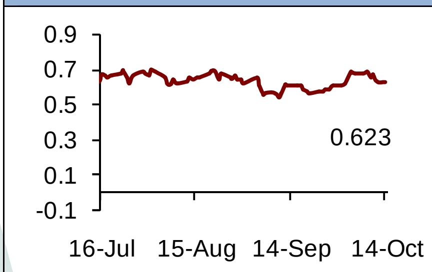
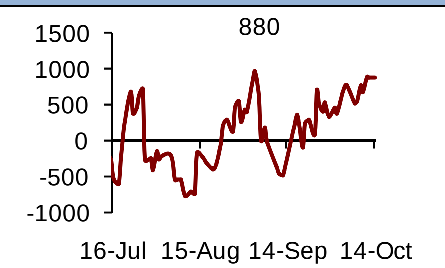
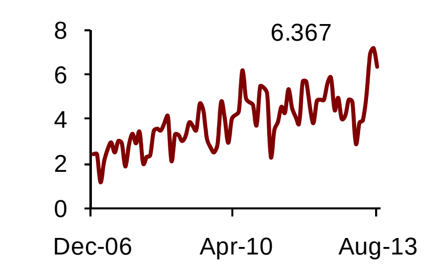
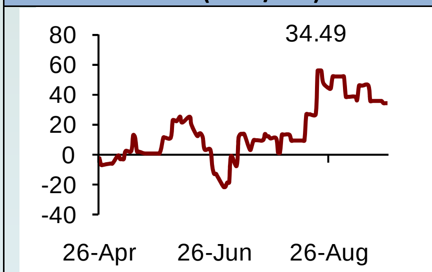
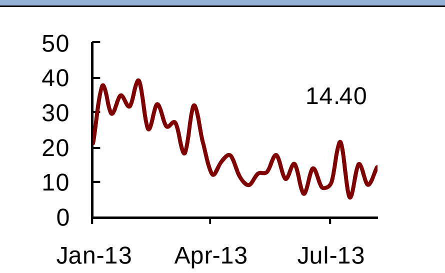
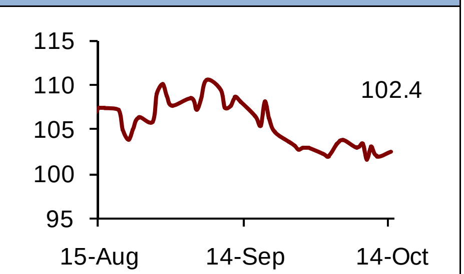
In crux, Argentina soy oil prices are expected to trade with mixed bias in coming 2-3 weeks.

Chartist view on Argentina Soy Oil 1-Month Forward (USD/MT)



- ✓ Prices traded on positive note in the previous week after witnessing minor pull back in the earlier week. After break above the falling trend line at USD 880 price have re-tested the extended trend line and once again closed above the 12-Week EMA exhibiting a mixed tone.
- ✓ On the weekly technical setup, the RSI (9) is hovering near equilibrium after rising from oversold zone and the Stochastic (14/3/3) are turning up from the oversold territory but prices are still holding below middle Bollinger band line.
- ✓ Therefore, prices could extend further consolidation within USD 870-930 and only break above the same shall turn the sentiments positive.
- ✓ On the downside, break below USD 860 shall find the next level of USD 847 which is July 2013 low shall act as good support to keep the prices on firm note.

Concisely, prices are likely to find support above USD 870 on any minor pull back and trade on mixed note within USD 880-920 in the coming 1-2 weeks.

Weekly dashboard		
Gross soybean crush margins @ US ($/bu)	**Net soybean crush margin @ Indore (INR/ton)**	**Chinese Soybean monthly Imports (MMT)**
		
Imported Soybeans crush margin @ China (RMB/ton)	**US Weekly Export sales ('000 tons)**	**NYMEX Crude ($/barrel)**
		

Facts and Figures Digest	Oct 14, 2013	Oct 07, 2013
Soy oil FOB, Argentina, one month forward (USD per ton)	894*	890
Soy oil FOB, Brazil, one month forward (USD per ton)	890	880
Soy oil FOB mill, Dutch origin (Euro per ton)	714	710
Soy oil CBOT, Dec'13 (cents per pound)	40.19	40.24
BMD CPO futures Dec'13 (Ringgit per ton)	2362	2317
Spread – Chicago soy oil to Argentina soy oil	-3.55	4.64
Note : *as on 11th Oct 2013		

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