

Khor reports' Palm Oil

Trade tussles

Corporate: Who's got the **best prices**
& **growth prospects?**

EU biodiesel: certification, anti-dumping & ILUC

Nigeria worries about duty evaders

Better info on saturated fats & Vitamin E tocotrienols

Frontier expansion: Nigeria, Mindanao & more

Price outlook muted, eyes on China & crude oil

Khor Reports' Palm Oil

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Watch China & crude oil prices

Palm oil and financial markets have recently been transfixed by economic indicators out of China. Another poor set of industrial output figures and a financial tightening (causing money market rates to spike up disturbingly) in the world's second largest economy creates worries for its trade partners, including suppliers of commodities. Together with a pull-back on quantitative easing efforts by the US, global financial markets are more jittery and in deleveraging mode. Post Global Financial Crisis, the world economy has been boosted by massive money printing efforts by the largest economies. Credit Suisse, on 21 June, cut Malaysia's 2013 GDP forecast to 5.0% from 5.5%, "reflecting sluggish growth in China which will hurt agriculture income, dragging rural consumption growth lower." In the current macro-economic environment, it is hard to find palm oil marketers in a buoyant mood. They see the industry being plagued with below expectation production, poor prices and now the haze. On prices, few can find any spark and some wonder if it may even weaken in 4Q2013.

Analysts worry about high China port-based palm oil stock levels which hit a record 1.5 million MT at end April 2013. It has eased a bit since. China's imports were high for Jan-Apr (up 11% year-on-year), and largely from Malaysia. This demand is expected to moderate as more soy crushing is expected; South American soybeans are coming in and the bird flu outbreak subsides. China's rapeseed imports are up, boosted by the removal of a ban on rapeseed from Australia and increases in entry points (13 June 2013, USDA). China-based analysts have concerns about the vulnerability of the market price of palm oil in China. The surging share of import in China by non-traditional traders is an indicator. They would like to see the demand for palm oil pick up (6-8 June 2013, China industry sources interviewed by Khor Reports).

A World Bank study applies a price-determination model to maize, wheat, rice, soybeans, and palm oil, using annual data for 1960-2012. The price determinants include one supply-side variable (energy prices), three macroeconomic indicators (exchange rate, interest rate, and inflation), income on the demand side, and a driver reflecting market fundamentals (stocks and consumption expressed as a single stocks-to-use ratio variable). The paper finds that food prices respond strongly to stocks-to-use ratios (except rice), crude oil prices (all commodities), and exchange rate movements (in a mixed manner). With a few exceptions, interest rate and income growth do not matter. It concludes that most of the price increases are accounted for by crude oil prices (more than 50 percent), followed by stock-to-use ratios and exchange rate movements, which are estimated at about 15 percent each. Crude oil prices mattered most during the recent boom period because they experienced the largest increase. ("Long-Term Drivers of Food Prices," May 2013, The World Bank).

For those interested in the outlook for palm oil prices, it may be worthwhile to keep an eye on trends in China and oil prices. This month's line up covers trade tussles over EU biodiesel, GM-labelling and Nigeria's worry over import duty evaders. We review some up and coming companies and their selling price achievement. Food watchers will find lack of distinction in the saturated fats and vitamin E segments; masking the positive health features of palm oil and confusing the public. The SE Asian haze set record high pollution readings in Singapore and Malaysia. Indonesia's President has apologised, citing natural and human factors and promising a thorough investigation. Military personnel are sent in and GAPKI prepares 26 fire-fighting units. Studies suggest that fires were generally found outside oil palm plantations.



Yu Leng, Khor

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Indonesia

Four land bank issues?

Indonesia’s Agriculture Ministry has yet to announce its revision of the 2007 Ministerial Regulation on Plantation Permits, which may limit the total plantation area a company can own to 100,000 hectares. The announcement deadline for late April has passed with no update to date. Businesses will be looking for exceptions. Our check on the original limit reminds us that it does not apply if the entity has a majority shareholding by a cooperative, is partly- or wholly-owned by the state, or is (Indonesia?) publicly listed. This policy is linked to a centralization of control with the plantation licence or IUP requiring the recommendation of the Ministry, where previously it was issued by the local Regent (April 2013, Hwang DBS research, citing Bisnis Indonesia).

Bloomberg.com recently reported that Indonesia will have the right to seize undeveloped land from plantation companies after three years of obtaining the land use permit. This reiterates an existing measure to ensure that plantations are serious in investing. Analysts note that many larger plantations have targets of 5,000 to 7,000 hectares of new plantings each year. This implies that timely development should not be an issue, except for those with very large unplanted areas.

Despite business lobbying, the Norway-Indonesia moratorium on deforestation, was this month extended for another two years. This aims to halt the commercial use of some 65.2 million hectares of primary forest and peat lands, in order to curb deforestation and reduce greenhouse gas emission. However, some environmental activists say that huge areas continue to be logged because of loopholes in the moratorium, notably the exclusion of secondary forests and areas already issued as concessions.

Forestry Minister Zulkifli Hasan declared the moratorium a success, saying that the move has slowed the country’s deforestation rate to 450 hectares per

year during 2010-2011 from 3.5 million hectares per year in the period of 1999-2002.” (24 April 2013, jakartapost.com). But this perspective is contested. The issue of underperformance is highlighted by reports that Norway has so far handed over “a tiny sum of the pledged USD 1 billion, because the deal is performance based” (3 June 2013, AFP). The identification of a significant number of forest disturbance locations using NASA remote sensing imagery is also suggestive; this checks 5 km x 5 km areas for a significant loss of forest greenness cover, greater than 40%, over the previous 12 months (Global Forest Disturbance Alert System at mongabay.com).

On 18 May 2013, Indonesia’s Constitutional Court handed down a seminal ruling which decided that Customary Forests are no longer State Forests. “In March 2010, the Alliance of Indigenous Peoples (AMAN) filed a judicial review... accusing the government of frequently violating the rights of indigenous peoples by taking over customary forests and turning them into state-controlled areas;” subsequently given out as concessions to plantations and others (18 May 2013, jakartapost.com).

These four plantation land bank limiting moves are in line with a public tone that indicates more sympathy to the plight of local people in land conflict with big companies, “greedy investors and corrupt officials” (comments from Ministry of Agriculture and editorial; 4 and 8 April 2013, jakartapost.com). Some think the “thrust is basically to limit foreign investors’ ownership and the sheer size of their ventures in the republic” (6 April 2013, thestar.com.my) while local companies find ways to deal with the more apparent limitations. We would also add that there is a trend toward populism, and that Indonesia’s general elections will be held in 2014.

Malaysia

Yes, minister

Malaysia’s new Minister for Plantation Industry and Commodities is Douglas Uggah Embas. He succeeds Bernard

Dompok, who lost his Parliamentary seat in the Malaysia General Election, in May 2013. Douglas previously helmed the natural resources and environment portfolio. He hails from Sarawak. Since 1986 he has been the MP for Betong, located in the south-west. It is an Iban heartland area that is in the vicinity of agriculture extensification including oil palm.



Douglas says that he aims “to bring the commodity sector to a wider market and enhance the use of modern technology to improve the productivity of each commodity.” He also plans to help small farmers especially in the rural areas (15 May 2013, bernama.com). On critics of palm oil and sustainability, he said: “Whenever you are successful, there will be people trying to stifle your success because as far as the ministry or the industry is concerned, there is no problem with oil palm (plantations)... What I can tell the rest of the world is that Malaysia is just as committed as they are to preserving our environment and in ensuring that oil palm will be produced sustainably” (24 May 2013, thestar.com.my).

Other early news from the minister is on increased perimeter surveying of native customary right or NCR lands in Sarawak. “The state government presently recognises about 680,000 hectares of native land, however... 320,000 hectares has been surveyed, of which about 152,000 hectares is gazetted” (9 June 2013, thestar.com.my).

Ministerial posts, including those related to land resources have been increasingly allocated to East Malaysians as the region is increasingly important as a core votebank for the Barisan National government. Sabah is the biggest palm oil producing state, and home of the former minister. Does the appointment of Douglas augur well for palm oil supply chain and development in Sarawak?

Fat standards

Saturated fats targeted

Has the debate shifted from trans fats to saturated fats? Moves to limit trans fatty acids (TFA) are gaining ground and offer palm oil an inbuilt advantage, because its fatty acid composition does not need to be chemically altered via a process called hydrogenation. In contrast, soy and rapeseed are hydrogenated, which results in trans fats. But, this positive is increasingly overshadowed by accompanying moves to limit saturated fat (SAFA) levels; which is negative for palm oil, so far.

More saturated fats limiting measures in place / mulled*

EU margarine industry set stricter TFA & SAFA standards, March 2013. EU labelling of nutrient reference values & specific ingredients by 2015. Belgium wants to limit SAFA to 2g in 100g of oils & fats. France mulls new health bills. Switzerland plans to tax palm oil. World Health Organization (WHO) discussing SAFA limits (which Malaysia & Philippines voted against).

What do popular US health magazines say about saturated fats?

US Women's Health: "there is one (fat) you should keep as an enemy: man-made trans fats... (but) tricky labelling laws allow manufacturers to list zero grams of trans fat as long as a serving contains less than 0.5 grams... stay away from food whose ingredients panel lists hydrogenated or partially hydrogenated oils."
US Fitness Magazine: "Saturated fat doesn't deserve its bad-guy reputation. That's why shifting the focus to more pressing dietary problems -- for example, too many refined carbs or a dearth of produce -- is critical."

*Source: Khor Reports interview with specialist on palm oil trade issues, June 2013.

The palm industry is worried about increasing moves to legislate and/or tax against palm oil on health grounds. Attention is on research by the medical scientific community. The topic has attracted controversy. While SAFA has been linked with higher cholesterol, its causality to heart disease is questioned. Most studies are apparently on animals or rather small-scale in nature. A 2010 analysis by Siri-Tarino et al. was thorough and big, looking at 348,000 human outcomes. It grabbed attention and kicked up a storm by saying that there is no significant evidence for

concluding that dietary saturated fat is associated with an increased risk of coronary heart disease or coronary vascular disease. Its detractors point out that it was supported by the US National Dairy Council and that some authors were industry funded. The source of funding for research (either for or against a product) raises concern of bias.

So what do informed consumers understand about saturated fats? We review US Women's Health and US Fitness Magazine cover the topic in some detail in articles less than a year old. These publications boast Facebook likes of nearly half a million each. The top UK and Australia online magazines did not have recent detailed articles. Interestingly, the US publishers present a nuanced perspective on fats and holistic recommendations on diet.

Palm oil marketers will need to explain to users and the general public the difference between its saturated fat (studies show it is relatively healthy), compared to others. Malaysian palm oil authorities and the American Soybean Association tussled over an anti-tropical oils campaign in the 1980s, which formally ended in 1993. The Honolulu handshake agreement of 1989 set the stage for a peaceful phase without much negative comparisons between oils. 20 years later, are we back?

Health

Vitamin E tocotrienols

Palm oil contains vitamin E tocotrienols. Other key edible oils, including soy, rapeseed and sunflower, contain little or no tocotrienols but they do have vitamin E tocopherols. Although both are different forms of vitamin E and both are strong antioxidants, they have opposite roles in chemo-prevention and chemotherapy**. Tocotrienols work best in the absence of tocopherols, in the context of absorption, potency and interactions with other treatment drugs. Promising observations in chemo-preventive and chemo-therapeutic roles on cancer and cardiovascular diseases have prompted numerous clinical trials, including those financially supported by the Malaysian Government, the US

National Institute of Health, US Department of Defense and the Clayton Foundation.

Popular health portals hardly differentiate between different types of vitamin E. The public is confused about its different forms and more so when they play opposite roles in disease prevention. While scientists work hard to establish more clinical evidence, there is a need to disseminate accurate information to the public. Marketers may consider a visualization of tocotrienols as "good vitamin E" and beneficial to health.

**Various studies e.g. "Vitamin E (tocopherol) and the Risk of Prostate Cancer," Klein et al. (2011), Journal of the American Medical Association.

Confusion over saturated fats: "palmitic not bad... good for HDL cholesterol," US Fitness Mag reports*

Despite the explosion of positive study finding... saturated fat (is) still considered evil... It's not a single fat. There are more than two dozen kinds... So it's difficult to make a general recommendation about saturated fats as a whole. Yet that's exactly what the Dietary Guidelines for Americans do. The four major types:

(1) Palmitic and (2) myristic acids: *At first glance, palmitic acid (found in palm oil, butter, and eggs) and myristic acid (found in cheese, milk, butter, and beef) fit the bad-guy profile. They appear to increase inflammation and LDL cholesterol. But here's where things gets tricky: The rise in LDL is at least partly due to an increase in the size of each LDL particle in the body, which may not be as dangerous as an increase in the number of particles. These saturated fats also raise HDL in the process, so the net effect may be neutral, not bad. ^*

(3) Stearic acid: *This saturated fat, present in chocolate and beef, doesn't raise LDL at all. In fact, the Dietary Guidelines Advisory Committee stated in its scientific report that the acid should not be considered a "cholesterol-raising" saturated fat. (Though (it) continues to recommend cutting back on saturated fat and doesn't mention stearic acid. Confused? Us too.) In fact, (stearic acid) is an important reason dark chocolate gets the green light from most health experts (it has no negative effect on blood cholesterol).*

(4) Lauric acid: *(This) may not be harmful either. It's found in coconut oil, the latest super food, which has been touted to do everything from lower stress to whittle your waist. But those claims are overblown.*

Excerpts from fitnessmagazine.com Sept 2012. ^Popular magazines will need to be updated on the latest more positive findings about palm oil.

Certification

EU biodiesel certs

To be eligible for incentives under the EU-RED scheme, the European Community has endorsed 13 voluntary certification schemes. The first was ISCC, which is among five covering a wide range of feedstocks. There are also feedstock specific schemes for palm oil, sugar cane, soy and cereals. Most are global, but there are EU / Europe, UK, Scotland and Brazil efforts. There are also several closed schemes with no membership / multistakeholder feature.

For palm oil, the two most relevant are ISCC (fuel) with 101 palm oil mills certified and RSPO (food & fuel) which has 206, early June 2013. ISCC has been gaining ground: downstream experts tell us that there is a better market take-up (higher demand) plus the premium for ISCC certified biodiesel is between USD20-30/MT. However, this may face the challenge of the EU-ILUC (indirect land use change) amendments.

Indonesia

Customary forests

At the end of May, several NGOs, lead by The Indigenous Peoples' Alliance of the Archipelago (AMAN) issued a declaration urging the government to implement the recent Constitutional Court decision on Law No.41 of 1999 on Forestry which decided that Customary Forests are no longer State Forests; "including to settle conflicts related to customary forests and natural resources in the territories of indigenous peoples as well as to map indigenous territories" (27 May 2013, aman.or.id).

Indonesia has handed its indigenous groups a victory. "Indigenous peoples have the right to own and exploit their customary forests to meet their daily needs," Justice Muhammad Alim said. "The (ruling) determined two types of forest status: state forests and public forests, with the latter also divided into two categories: customary forests and individual forests" (18 May 2013, jakartapost.com).

How much land is involved and where? "The Participative Mapping Working Network (JKPP) said the government's challenge... would be in completing the map delineating borders between state forests, private forests and customary forests.... (in JKPP's map) customary forest borders (on) 2.6 million hectares of customary forest in Indonesia, with the largest area, 700,000 hectares, located in West Kalimantan and around 50,000 hectares in Papua" (18 May 2013, jakartapost.com).



Indonesia Indigenous Territories, screenshot; source: jkpp.org accessed 15 June 2013. Note: The highlighted area in West Kalimantan is about 125,000 hectares with a population of 441.

Eric Wakker of AidEnvironment points out that "while the ruling applies to forestland (kawasan hutan) only, (and) should theoretically not affect the palm oil industry... research demonstrates that some 450 oil palm estate companies in West and Central Kalimantan commenced land clearing in the forestland estate without permission from the Ministry of Forestry, (involving) 360,000 hectares... Many of these lands will have customary claims on them and land clearing continues."

Peat fires

Only 20% in OP areas?

The Asian haze is an annual, seasonal affair. It is caused by peat fires associated with land clearance in the mid-year dry period before the start of the rainy season. The haze is back in the world headlines as new record high readings recently engulfed Singapore in smog, with its Pollutant Standards Index (PSI) reaching over 400 (anything over 300 is deemed "hazardous"). Subsequently readings in Muar, Johor reported at 746 as the intense smog zone drifted north. "The Malay Peninsula has been plagued for decades by forest fires in Sumatra to the west

and Kalimantan on Borneo island to the east." (20 June 2013, bloomberg.com). Scattered hotspots mostly in the Riau Region are emitting smoke haze which the westerly winds are transporting.

The start of the palm oil sustainability movement is often attributed to the Asian haze of 1997. Back then, the clearance of land by small farmers and localised open burning were mostly blamed, but NGO reviews found fires in several plantation concessions. The big owners said that neither their staff nor their contractors were at fault, attributing the fires to third-parties. Admitting no fault, they emphasized "zero burn" policies and fire prevention.

Nowadays, it is a lot less likely for large plantations to skip such rules. NGO experts note that the hotspot pattern concentrates on fringes of Riau's last peat forest blocks. Many of these fires seem to occur in pulp & paper concessions, so it's not just about oil palm. This view is backed up by a quantitative study by WRI which found 20% of fire alerts in palm oil areas. According to WRI, non-concession areas i.e. farmers account for nearly half of the fires; up from 20% blame on farmers in previous episodes (estimated by other NGOs). Although some of WRI's data looks dated, does this mean that plantation sustainability has worked?

While the gloomy view is that little real action will be taken, the mood seems different nowadays. Plantations have quickly reiterated zero-burn policies. Cargill was the first owner to give out its geocoordinates, to prove they have no hot spots. KLK, Sime Darby and Golden Agri's maps confirm no hot spots in their areas. TH Plantations may be cleared too. Generally, the big plantations also help fight fires nearby.

The blame game has started and the Indonesian authorities have mentioned the word "negligence." We guess that the companies in high risk areas will eventually be asked to invest even more in fire prevention (including for first land clearance), better educate and monitor local peoples residing within their concessions. Water table management issues may also be reviewed.

Trade tussles

EU anti-dumping duties, new biofuel sustainability rules, Argentina's WTO move, TPPA & GM concerns

Beleaguered Malaysian biodiesel companies may now export to European Union (EU) more competitively. Indonesia has been a lot more successful in exports due to its favourable export tax structure. The EU has imposed anti-dumping import duties on Indonesian biodiesel companies. These range from 0% to 9.6%, with Wilmar (with nearly half of Indonesia's biodiesel capacity) facing the highest rate. The EU's move almost erases the benefits of Indonesia's export tax structure, which has given its downstream players savings of 9% against international CPO prices. Malaysia exporters are now on a more level playing field (5 June 2013, interview with financial analyst). There are now about 9 active and 15 idle biodiesel plants in Malaysia, up from about three active when the Malaysia domestic bio-diesel program started to be revived. Active status biodiesel players include Genting Plantations, Vance, Weschem, Far East Holdings, KLK and Sime Darby (20 June 2013, interview with downstream specialist).

Could sustainability close off EU markets?

Biodiesel exporters will however soon face the challenge of the EU- RED ILUC (indirect land use change) amendment. This was led by Corinne LePage, a French MEP and a lawyer who specialised in environmental rights. The new clauses are done and the next step is a final decision, when the EU Commission goes to a final vote. Could this end the exports of palm-based biofuels to the EU? Palm oil-discriminatory ILUC factors are slated. These include: a) arbitrary ILUC factors that discriminate against first generation and foreign sourced feedstock, especially palm oil; b) overlooking increased yield performance and production of co-products; and c) protection for EU industries with a delay until 2020 of ILUC factors.

Argentina to fight back

Alongside Indonesia, Argentina has been a big exporter of (soy-based) biofuel to the EU. The Argentina-EU dispute is over "a pattern of WTO-incompliant policies and practices... The WTO prevents discrimination, but a conditional departure can be allowed from these rules if it can be clearly proven that the discriminated product has harmful effects on the environment. But neither the EU nor anyone else can determine the ILUC effects. Many have tried... they come to vastly different results... (This) discrimination would introduce a regulation with effect on a direct competitive relationship between foreign and domestic product... The case filed by Argentina at the WTO is simply the most recent legal challenge to the inherent protectionism of the EU's biofuels policy. It surely will not be the last" (16 May 2013, ecipe.org).

TPPA associated with GM worries

Malaysia is due to sign up to the Trans Pacific Partnership Agreement or TPPA by October 2013. The USA leads 11 countries in this. Pacific economic powerhouses notably

absent are China, South Korea and Indonesia. The TPPA sets out the tax and legal framework for trade, intellectual property, government procurement and competition. Market access will subsequently be negotiated via bilateral trade deals. Trade analysts are concerned about TPPA, pointing out that such deals are usually pro-investor biased and to the benefit of the larger trading partners. There are worries about the dilution of sovereignty in domestic policy-making. This would include the ability to ban toxic substances and assert domestic bio-safety and genetically modified (GM) food labeling laws. Such moves could be deemed "unfair trade".

The non-labeling of GM foods could benefit US companies. Some consumers worry about the manipulation of foods at the fundamental DNA level. GM adds in new proteins. The quality of testing is questioned. Many worry about the issues of bio-accumulation, compatibility, side-effects and allergies. Will TPPA usher in GM foods without labeling? There is significant worry over GM foods. Food industry news in recent weeks has been replete with GM sensitive news; an important retail association promises not to sell GM seafood, a recent US GM wheat scare led to import bans in several countries.

Frontiers

Nigeria's palm protectionism

In recent weeks, there has been a public tiff between palm oil growers in Nigeria and its manufacturers over import duties. The food sector complained that "Nigeria produces between 750,000 MT and 800,000 MT each year, and domestic use of approximately 1.9 to 2.1 million MT is met by imports... (and the) imposition of 35 per cent import duty on palm oil, was inhibiting the growth" of multiple (food, home and personal care) industries. They point out that "most oil palm producing companies (are) operating below their installed capacities," noting one producing at about 13% capacity. Nigerian manufacturers also point out that instead of "investing most of the profits on pieces of land, which would help in their production of the raw material," most pay out high dividends (28 May 2013, tribune.com.ng).

ECOWAS re-exports evade duties?

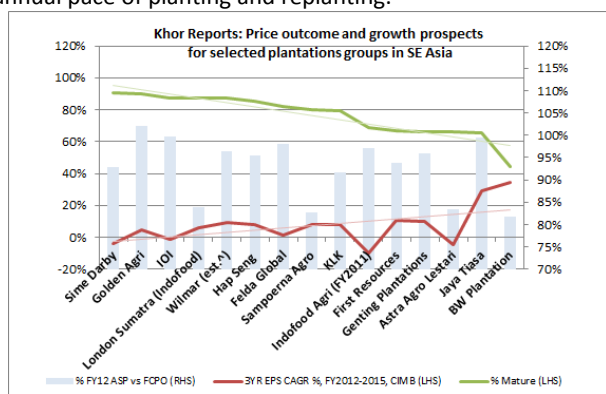
The government notes the problem of "illegal flooding of Nigeria's market with large volumes of CPO imports... under the guise of the ECOWAS Trade Liberalisation Scheme or ETL... (which offers) duty free importation of goods and services within the West African countries... (which) fully originate from there. However, the Ministry of Agriculture says that "available statistics strongly suggests that in the closest West African nations to Nigeria, most of the palm oil they import from Malaysia, Indonesia, Singapore and others actually end up in the Nigerian market duty-free," noting apparent re-exports from Benin, Ghana and Cote d'Ivoire. Plans for palm oil import hubs will need to factor in the risk of domestic lobbies and protectionism in key markets in Africa. As their palm oil sectors expand with new investments and smallholder schemes, this should be expected.

Corporate: prices, growth prospects & capex plans

At a time when the palm oil price outlook is lacklustre, output growth and average selling price (ASP) achieved are keenly eyed. We take a look at the price outcomes in FY2012, the growth outlook and capital expenditure (capex) plans for selected SE Asia public-listed plantations for FY2012-2015.

First, ASP versus the popularly traded and referenced futures price (Bursa Malaysia Derivatives Futures of CPO or FCPO) shows few matching the 12-month average FCPO price (refer to grey bars near 100%); these include Golden Agri, IOI and Jaya Tiasa. In general, Indonesian plantations are CPO price disadvantaged because of the country's duty structure. Thus, the relatively higher ASPs for Golden Agri, Indofood Agri and First Resources are notable. Is more active price management practised by these higher achievers and what are their price risk management policies?

Second, plantation mature area (green line in the chart below) is an important indicator. In the high range of 90-85% mature area are Sime Darby, Golden Agri, IOI, London Sumatra and Wilmar. The younger plantations with under 70% mature: Indofood to BW Plantations. Those with the lower mature areas (tree over 3-4 years old) have stronger output growth as their trees mature and then enter the higher yielding phase. There is also less need for replanting. Earnings per share (EPS) growth forecast for FY2012-2015 corresponds with this broad indicator (9 June 2013, CIMB; refer to red line in graphic below). There is an inverse relationship between the percentage of mature tree area and 3-year EPS CAGR forecasts. A detailed study of growth should look at the average age of oil palm trees, plantable land bank and the annual pace of planting and replanting.



Recent capex plans include:

- Sime Darby: RM 5 (USD 1.6) billion for FY2013; in line with its goal to reach 1 million hectares within five years.
- Genting Plantations: capex budget of RM 500 (USD 160) million in 2013. Planting target is 15,000-20,000 hectares.
- Golden Agri plans to spend USD 550 million in FY2013 as it plans to acquire more concession areas (35,000 to 40,000 hectares) and increase the capacity of its refineries. About USD 200 million will for the upstream

business, and the rest will be for the downstream.

- First Resources allocates USD 200 million for 2013 (perhaps funded in part by its recent sukuk). It aims to plant another 15,000 - 20,000 hectares of oil palm and 4,000 hectares of rubber. Two new palm oil mills will be built this year, in addition to refinery expansion.

Frontiers

Nigeria's new investors

"Nigeria was before 1965 the world's largest producer of palm produce but has ceased to contribute to the world's export of the commodity since 1974 except palm kernel..." (7 June 2013, nigerianpilot.com). The supply deficit situation in Nigeria has attracted major international investors. Notable among these are PZ Wilmar's 1,000 MT per day refinery in Ikorodu or Lagos State, which will start operations soon. This is a joint venture between PZ Cussons, a West Africa origin global manufacturer and Wilmar International, the world's largest palm oil trader. In Cross Rivers State, PZ Wilmar will develop 50,000 hectares of plantation and another 20,000 hectares, including out-growers. It starts with a 32,000 hectare plantation. For this, 600,000 high yield palm plants have been transplanted to replace low yield trees, and 2.1 million seedlings are being raised in four nurseries (9 June 2013, ngrguardiannews.com). Earlier, other African agribusinesses have been acquiring estates in Nigeria. The development of brown field estates and other sites with new processing facilities augurs well for higher production in the home of palm oil.

New hopes – frontier development plans

Felda Global would like "to help implement and replicate the successful Felda scheme model in Myanmar, Cambodia and Africa... to share Felda's experience in creating land for the landless and eradicate poverty" (30 April 2013, thestar.com.my). This is an interesting social enterprise aspiration for a public-listed company. Felda Global is sitting on a big cash pile after its IPO last year. Its name has been banded about in several other geographies, including PNG, Mindanao, Liberia, Nigeria, Ghana, Congo, Ivory Coast, Cameroon and Gabon.

"**Wah Seong Berhad**, a Malaysian conglomerate, will invest USD744 million over the next decade to establish oil palm plantation in the Republic of Congo," (31 May 2013, reuters.com).

"**Herakles**, a company owned by New York venture capital firm Herakles Capital, has suspended work on its giant 60,000-hectare palm oil plantation in Cameroon after protests by environmental groups and villagers," (31 May 2013, reuters.com). In an on-off saga, the latest news is that this project is back on, but to be down-sized to 20,000 hectares from 73,000 hectares.

In Mindanao, Philippines, "almost 900,000 hectares of land identified to be suitable for oil palm plantation on the island, 177,000 hectares of these already under negotiation for oil palm development. Majority of these areas are in the Autonomous Region in Muslim Mindanao (ARMM) and Caraga.... Univanich Carmen Palm Oil Corp. (recently announced), a P600 (USD 14) million palm oil crushing mill in Carmen, North Cotabato." (22 May 2013, bworldonline.com). Big names recently mentioned include San Miguel Corp (allied with Kuok Group / Wilmar International), Hong Kong-based First Pacific Co. Ltd. (PT Indofood associate), and the Indonesia government (offered 12,000 hectares).

prices & outlook

Key vegetable oils

USDA: record soy output & stocks, futures drop

USDA said on 12 April 2013 that US soy reserves may double before the 2014 harvest. Soy production will rebound from three straight years of drought and reserves on 31 August 2014 will total 265 million bushels, up from 125 million expected this year. "Soybean futures are down 26 percent since reaching a record USD 17.89 in September on forecasts for record output in Brazil, the world's top shipper of the oilseed, and Argentina, the leading exporter of soy-based animal feed and cooking oil" (13 June 2013, Bloomberg.com).

"Soybeans are now in a bear market along with corn and wheat. The surge from as low as USD 4.985 in 2005 spurred farmers worldwide to add acreage, increasing supply.... Producers in Brazil and Argentina reaped the most soy ever in early 2013, capping a 54 percent expansion in combined output in a decade... "We are going from a barren cupboard to abundant supplies in a very short time. Seven years of extremely high prices has spurred global production that will lead to several years of rising supplies and lower prices" said AgResource Co (12 June 2013, Bloomberg.com).

USDA's 14 June report sees lower EU-27 rapeseed production as wet weather hampers sowing and yields, despite good price incentives. A smaller expected EU crop may tighten stocks to a 6-year low of 1.2 million tons, compared to 1.4 million for 2012/13.

Weather outlook

ENSO neutral, E Sabah dry, a wetter Indonesia?

The Australia Bureau of Meteorology reported on 4 June 2013 that "all atmospheric and oceanic indicators of ENSO have remained neutral (neither El Niño nor La Niña) since mid-2012. While most models suggest that neutral conditions will continue in 2013, it remains possible that a La Niña event could develop later in the year."

Jabatan Meteorologi Malaysia reports that the current south-west monsoon is expected to end in mid-September. In May, most areas in the Peninsula and Sarawak received wetter weather conditions with normal rainfall. Exceptions include rainfall in southern Johor at over 60% above average, and Temerloh in central Pahang with a record 437 mm at 150% above average. At the other extreme, key parts of Sabah's east coast had another dry month, with rainfall up to 40% below norm. Sandakan recorded 84.6 mm in May, and Kudat had 54.2 mm in April.

BMKG, the Indonesian Meteorology Agency, forecasts that July will be unusually wet, with well above average rain from North to South Sumatra, at some 150% above normal; and similarly for the interiors of Central, South and East Kalimantan. Rainfall is expected in the 200-300mm range and above. For August, BMKG expects Sumatra rainfall to return to the long term average (100-200mm range) with wetter pockets in Riau, while much of Kalimantan remains unusually wet with 200-300mm.

CPO technical view

Neutral short term & midterm bullish

Technical point to a short term neutral and mid-term bullish pattern (with resistance at USD795 or Ringgit 2,477) for Malaysia palm oil, according to price chart pattern analysis by 4-Traders.com. However, in the longer technical horizon, the expected range is Ringgit 2,090 to Ringgit 2,492 (USD 671-800) per MT, using a forex rate of USD 1 =

Ringgit 3.1155.

Malaysia stockpiles (the only readily available key reference) fell for a fifth month in a row, as output slows according to official MPOB data. Inventories dropped to 1.82 million MT. Average monthly palm oil inventory in Malaysia was 1.85mil tonnes from 2008 to 2012. Traders point to support from the soy complex, and news snippets on biodiesel exports and purchases for Ramadan (14 June 2013, Bloomberg.com). Sabri Ahmad, CEO of Felda Global expects Malaysia to win biodiesel market share as Indonesia is hit by EU tariffs. He expects Malaysia's exports of biodiesel to hit 300,000 tons this year (10 June 2013, Bloomberg.com).

Chart: Prices & CPO price expectations

Crude palm oil's discount to soybean and rapeseed oils narrowing with their prices dipping, along with Brent crude. Khor Reports' CPO Price Expectations Survey* found the average at about USD 828/MT. Equity analysts continue to tamp down prices expectations.

Oil World has released its Jul 2013/Jun 2014 view. It expects CPO at USD860/MT, soybean oil at USD 1,050/MT and rapeseed oil at USD 1,100/MT. It sees a "bearish tone for oilseeds and products... for most of the 17 oils & fats the price prospects are bearish. This is primarily based on our forecast of a significant increase in world production" (21 June 2013).

*Methodology: Our survey asks "What CPO price (and/or range) do you base your expectations on for 2013?" Our next survey will be end August.

