

# Global Dependence on Palm Oil Likely to Increase in October/September 2014/2015

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## INTRODUCTION

In the season of October/September 2013/2014 world exports of palm oil showed a sharp decline of 1.2 million tonnes from a year earlier to 42.8 million tonnes. This was quite unusual and followed with an uninterrupted year-to-year increases in the past 15 seasons with an average annual growth of 2.2 million tonnes. One of the reasons is to be seen in the below-average growth in world palm oil supplies in 2013/2014 and another in above-average growth of production of other vegetable oils worldwide. Also, palm oil prices rallied sizably in January/March 2014, triggering responses of consumers, many of them applied a more reserved buying policy and reduced palm oil stocks. World consumption of palm oil increased by only 1.9 million tonnes from a year earlier in October/September 2013/2014, which was less than half of the growth registered in the preceding 12 months and also below the average annual growth of 2.8 million tonnes in the preceding 10 years.

But markets are now in transition. In October/September 2014/2015, global dependence on palm oil will recover notably, mainly because of insufficient supplies of other oils and fats. As we pointed out in greater detail in the *Oil World Monthly* of 19 September 2014 (which can be obtained from [www.oilworld.de/monthly](http://www.oilworld.de/monthly)) our latest projections suggest that world consumption of palm oil will

exceed anticipated production in the months of October/September 2014/2015, resulting in a draw-down of stocks.

Palm oil prices fell to a 5-year low at the end of August 2014. But they have recovered since that time and although fluctuating, are likely to seek higher levels in January/June 2015, supported by the strengthening of the oil share of the combined product value expected for soyabeans, rapeseed and sunflower seed. Under the lead of soya meal, oilmeal prices are ex-

pected to trend lower for most of the next 12 months (probably noticeably lower), requiring seed oils to finance a larger portion of the crush value.

## GLOBAL OUTLOOK FOR 2014/2015

**Soyabeans:** World supplies of soyabeans will be rising sharply in the third consecutive year and are likely to reach at least 36 million tonnes in the world crop season of September/August 2014/2015. Based on conditions and estimates as of 19 September 2014, we at *Oil World* forecast world production of soyabeans to rise by 26 million tonnes on the back of an exceptionally high USA production and on the assumption of about normal weather conditions in South America in November/March 2014/2015. Considering the increase of about 10 million tonnes in stocks carried over from last season, world supplies will be rising by a staggering 36 million tonnes in 2014/2015. Supplies are ample and this is already reflected in the significant decline in soyabean prices to a multi-year low of around

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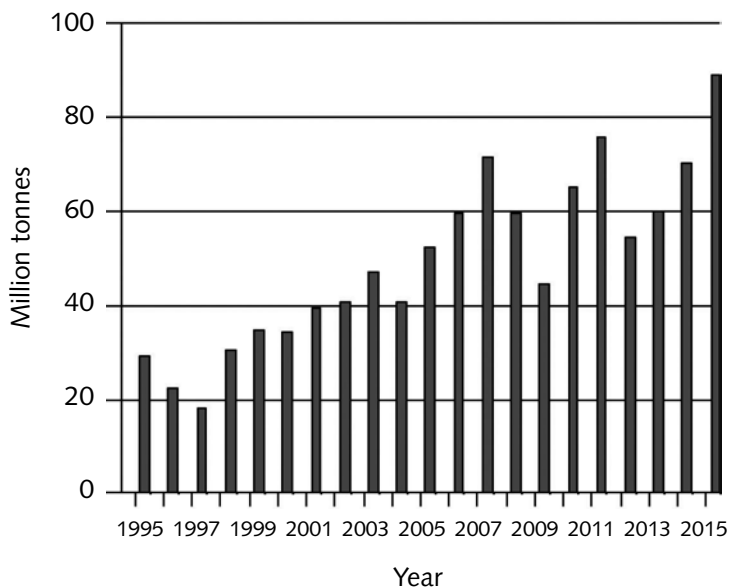


Figure 1. Soyabeans: World stocks as end-August.

USD 9 per bushel in early October. Some additional price setback is considered possible in October or November 2014, but most of the bearish supply fundamentals are apparently already discounted in current prices. Even if soyabean crushings will be boosted by a record volume in the next 12 months, world soyabean stocks are still likely to accumulate to a new high of around 89-91 million tonnes as of end-August 2015, equivalent to about 30%-31% of annual consumption.

Are we at the beginning of a bear market, which will last for two or three years? There are many uncertainties ahead. The biggest uncertainty, of course, is the weather which has been favourable in many important producing countries in the recent past. Of course, a crop failure in a few major producing regions would be a major fundamental change. In South America, the market participants will closely monitor weather developments in November 2014 to March 2015.

**Other oilseeds:** Major changes are developing for the group of nine other oilseeds (excluding soyabeans): World production is set to decline by about 4 million tonnes from a year earlier in 2014/2015 in contrast to a substantial increase by 13 million tonnes last season. Biggest reductions will be in rapeseed, sunflowerseed and groundnuts. Even if stocks are reduced, crushings of the nine oilseeds are likely to decline by around 1 million tonnes in October/September 2014/2015 in contrast to a boost

by 9.4 million tonnes in 2013/2014. This is going to have major impacts on world production of vegetable oils. Rapeseed and sunflowerseed are high oil-yielding crops. Therefore, reduced soft seed crushings will significantly curb global vegetable oil production.

**Oils and fats:** Consumers worldwide will therefore become more dependent on palm and soya oils. Production of palm oil will be autonomous, *i.e.* it cannot be raised in the short term. But in view of the ample soyabean supplies, world crushings of soyabeans can be boosted pronouncedly. The problem is that soyabeans are primarily a 'meal seed', as the oil content is relatively small at only 19% (compared with 41%-43% in the case of sunflowerseed and rapeseed).

With much more soya oil being required, world soyabean crushings will have to be boosted by at least a record 15-16 million tonnes from a year earlier in October/September 2014/2015, creating a surplus in soya meal. Lower prices will be required to stimulate demand of soya meal in the next 12 months. To find a home for the meal will be

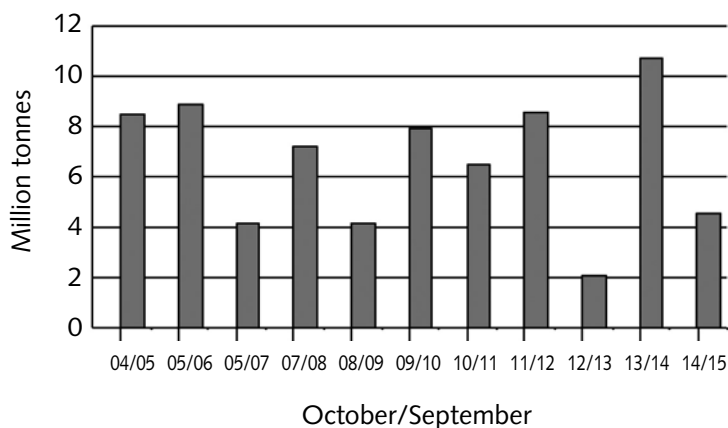


Figure 2. 17 Oils and Fats: Production change from year ago.

a difficult task in view of the large global supplies of feed grains and distiller's dried grains with solubles (DDGS).

**Markets are in transition:** Oilmeal prices are set to fall to stimulate demand in the 2014/2015 season, but vegetable oils are likely to recover from the August lows in view of the slowing-down of world production and the need to at least somewhat ration the demand growth of oils and fats in the energy sector. We at *Oil World* expect that soya meal prices will come under additional pressure, while soya oil prices should trend somewhat higher, resulting in an appreciation of the oil share of the combined product value. The profitability of discretionary blending is likely to diminish in the course of 2014/2015.

A major uncertainty is to be seen in Argentina where soyabean farmers have been very reserved sellers in recent months, preferring to keep ownership of soyabeans as long as possible in view of the financial and economic uncertainties in the country. Reserved selling resulted in lower than expected soyabean crushings in Argentina, curbing exports of soya oil and meal. Further developments in Argentina will be of great importance to the world supplies as well as prices of oils and oilmeals.

**Palm oil:** World production of palm oil exceeded expectations in recent months. We have made an upward revision in our estimate for July/December 2014 and now place production for the full calendar year at a new high of 59.6 million tonnes (up 3.4 million tonnes from a year earlier), of which Indonesia 30.6 million tonnes (vs. 28.4) and

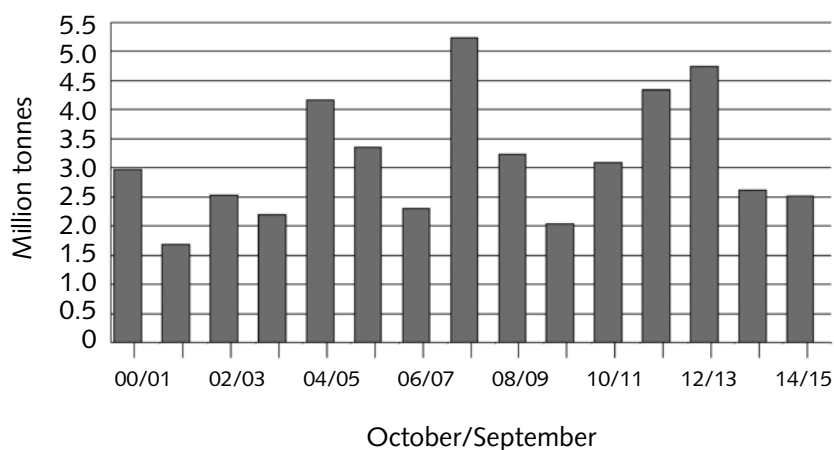


Figure 3. Palm Oil: World supplies annual change.

Malaysia 20.0 million tonnes (vs. 19.2). Palm oil stocks recovered noticeably to an estimated 10.5 million tonnes as of end-September 2014 (up 0.5 million tonnes from a year earlier), with most of the increase on account of Malaysia and Indonesia. The higher production and stocks contributed to the significant price decline in palm oil during August, which, in turn, has resulted in a pronounced revival of demand. Palm oil prices have improved their competitiveness in the energy market which, in our opinion, will be confirmed in coming weeks, primarily in Southeast Asia and Europe.

World trade of palm oil has started to pick up in July/September 2014, a trend which is likely to continue, probably accelerate. For October/September 2014/2015 we estimate world imports of palm oil at a new high of 44.75 million tonnes, 2.2 million tonnes above a year earlier and more than reversing the year-on-year reduction registered in October/September 2013/2014. India will again be the world's largest importer at an estimated 8.4 million tonnes in the new season (up 0.5 million

tonnes), while we estimate imports of the European Union at 7.1 million tonnes, of China at 6.4-6.5 million tonnes, Pakistan 2.3, Bangladesh 1.2 and North Africa 1.0 million tonnes.

For October/September 2014/2015 we expect world palm oil supplies to again show a below-average growth of 2.5 million tonnes. If confirmed, it will keep palm oil prices above the lows of August 2014 during the next 12 months. The extent of the price recovery will depend on the production and prices of seed oils, the development of food demand (the timing and volume of purchases from the big consuming countries) as well as on the further development of energy prices. Consumption of palm oil and other vegetable oils for bio-fuels will again be a major swing factor to watch in October/September 2014/2015.

**Biodiesel:** World production of biodiesel is set to continue to rise in 2014, probably approaching 30 million tonnes, 2.5 million tonnes more than a year earlier. In the European Union further growth in biodiesel production will be very

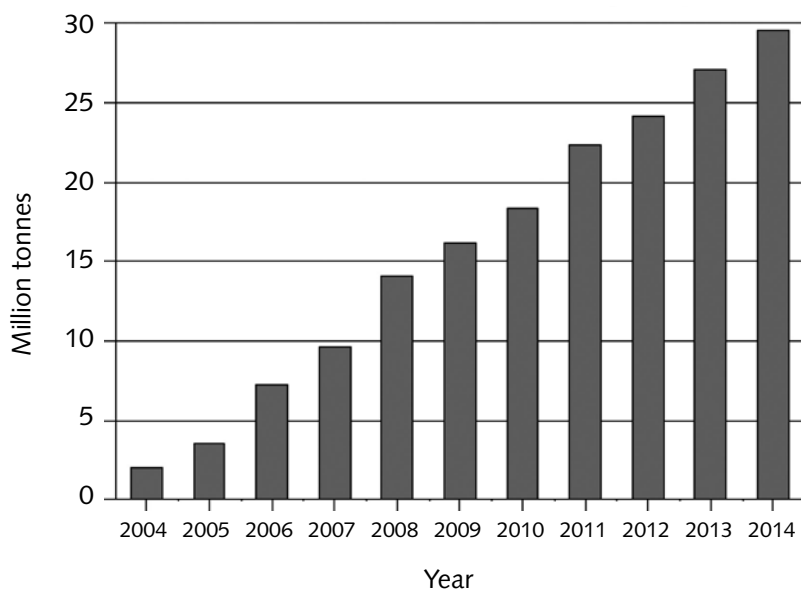


Figure 4. World production of biodiesel.

limited; in fact, we expect that consumption will almost stagnate in the next 12 months. But there is still considerable growth potential in other countries, primarily in Argentina, Brazil as well as in Indonesia and some other Asian countries. This year China also significantly boosted imports and usage of biodiesel, most of which imported from Indonesia in reaction to the attractive prices.

We estimate that in calendar year 2014 world consumption of palm oil for biodiesel will reach 9.3 million tonnes, which is about 16% of consumption for all purposes. Soya oil consumption for biodiesel is likely to reach a new high of 8.0 million tonnes in 2014 (or 18% of world consumption of soya oil), that of rapeseed and canola oils 6.3 million tonnes (24%) and tallow of 2.2 million tonnes (26%).

Consumption of palm oil for biodiesel fell short of expectations

in Indonesia, which contributed to the significant price decline registered in April/August 2014. But biodiesel production sharply exceeded expectations in Brazil and Argentina so far in 2014, which absorbed growing quantities of soya oil and curbed soya oil exports. This trend of increasing biodiesel production in South America is likely to continue in 2015.

**Brazil:** The Brazilian industry expects a further sharp increase in biodiesel production to 3.7-3.8 million tonnes in calendar year 2015, fuelled by a further increase in the domestic consumption to satisfy the B7 admixture mandate. On top of that, there is the likelihood of increasing biodiesel exports. One of the Brazilian biodiesel producers has received the certificate for complying with the quality and sustainability criteria in the USA and Europe, which will facilitate biodiesel exports to these destinations. In calendar year 2014 Brazil is set

to export 70-80 million tonnes of biodiesel and the volume next year will be considerably higher.

**Argentina:** Biodiesel exports are likely to be boosted to 1.8-1.9 million tonnes in calendar year 2014 (against 1.15 million tonnes last year). Attractive export prices and a reduction of export duties facilitated large-scale export sales in mid-2014. Although domestic consumption fell short of expectations we still estimate biodiesel production in Argentina to reach a record 2.7-2.8 million tonnes in 2014 (against 2.0 million tonnes a year earlier).

Brazil and Argentina are likely to consume about 34% of their soya oil output for biodiesel production in January/December 2014. This is a new high and compares with 29% in January/December 2013 and just 20% in 2009. As a result, exports of soya oil will be curbed. They are likely to decline sizably in the second half of 2014. This contributed to the recovery of world palm oil exports, a trend which is likely to continue in 2015.

## CONCLUSION

In June/September 2014, the world supplies of vegetable oils were sufficiently ample and price competitive relative to the energy market. This stimulated consumption of biodiesel outside the mandates in China, other Asian countries and in West Africa. The large supplies were to some extent caused by the unusually steep increase in crushings of rapeseed and sunflowerseed. But the supply outlook for October/Septem-

ber 2014/2015 is different. With crushings of high oil-yielding oilseeds declining, the growth in world production of seed oils will slow down noticeably in the next 12 months. This is currently somewhat cushioned by large stocks of vegetable oils still available as of end-September 2014. But with the supply growth likely to slow down in the months ahead, the probably appreciating prices are likely to reduce the competitiveness of

vegetable oils in the energy sector, thus slowing down consumption in countries where no biodiesel mandates exist and thus curbing the further upward potential of prices. The further trend in energy prices will therefore be an important variable to watch. The demand response of the energy sector will be an important element in the price analysis. In periods of insufficient production growth of vegetable oils, a slowdown of discretionary

blending (of biodiesel) will help the market in finding a new equilibrium, somewhat limiting the high price volatility seen in preceding years.

(Additional details on world production, demand, trade, stocks and prices of all the major oilseeds, oils & fats and oilmeals can be obtained via [www.oilworld.de](http://www.oilworld.de))

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