

11 September 2014 | Palm Statistics

Plantation sector

CPO production hits all-time high

Maintain NEUTRAL

CPO price (10 Sept 2014) : RM2,045pmt

2014 average CPO price forecast: RM2,600pmt

2015 average CPO price forecast: RM2,650pmt

HIGHLIGHTS

- Crude palm oil (CPO) production entered its peak cycle season earlier than expected with production surging to 2.03mmt in August
- However, lower offtake from China caused a drag on exports
- The unfavourable supply-demand equilibrium has pushed palm oil inventory to 2.1mmt, the highest level since March 2013
- The announcement of the CPO duty exemption for September and October will help stimulate demand and consequently reduce palm oil inventory to levels below 2.0mmt

Review of Malaysia Palm Oil Board's August Statistics

Peak-harvesting cycle came earlier than expected. CPO production in August hit all-time high, surging +22.0%mom and +17.1%yoy to 2.03mmt. The significant rise in CPO production was mainly attributable to the increase in the Fresh Fruit Bunches (FFB) yield of 1.95MT/ha (July 2014 – 1.55Mt/ha), coupled with higher Oil Extraction Rate (OER) of 20.41% (July 2014 – 20.33%). Additionally, the increase in the milling capacity utilisation rate had also contributed to the increase in the production of CPO.

Year-to-date cumulative CPO production at 12.8mmt. The total cumulative CPO production for the year is slightly higher than our expectation, accounting for 65% of our full year's production forecast of 19.7mmt. We believe that the spike in August CPO production reflects the change in the cropping pattern. Generally, CPO production will only reach its peak production cycle in September or October (see Fig.2).


Demand was sluggish. In August, total palm oil exports fell -0.4%mom and -5.8%yoy to 1.44mmt. The decline in total exports was largely due to lower purchases from China (-19.3%mom and -53.4%yoy), the largest buyer of Malaysia's palm oil. The proportion of China's purchases from the total export numbers has shrunk from 30% in November 2012 to only 11% in August 2014. Apart from China, the demand from other major buyers are also on a decline – the EU countries (-23.0%yoy) and Pakistan (-6.8%yoy). In contrast, demand from India has improved. In August, palm oil exports to India increased +3.1%mom and +136.8%yoy to 362,068MT. This is however insufficient to offset the decline in exports to China and the EU countries. This translates into lower cumulative total palm oil export between January to August 2014 of 11.0mmt, -6.6%yoy lower.

Inventory surged to 2.1mmt. The imbalance between supply and demand equilibrium has consequently pushed palm oil inventory higher to 2.1mmt. However, in the coming months we are expecting CPO inventories to level-off as we are anticipating the demand to rebound slightly due to the exemption CPO duty for September and October that has been announced by the Government recently. According to the independent cargo surveyor, Intertek, palm oil

shipment in the first ten days of September surged +41% to 487,995MT compared to 347,094MT in the same period in August.

Outlook for 2H14 expected to remain moderate. Despite the positive efforts by the government, we believe that the expectation of the increase in demand due to the exemption in CPO export duty is insufficient to drive CPO prices above RM2,400pmt. This is mainly due to the stiff competition from other edible oils, particularly soybean. Yesterday, the price gap between CPO and soybean stood at USD60pmt (see Fig.4). This is -32% lower than the three-year average discount of USD185pmt. The narrowing discount of palm oil price to soybean price encourages the substitution effect, shifting some demand away from palm oil to soybean and consequently limiting the upside potential on CPO price.

Sector Recommendation

Maintain NEUTRAL. Since we do not foresee any strong catalyst to lift sentiment in our local plantation sector in the near term, we reiterate our **NEUTRAL** stance on this sector with unchanged average CPO price assumptions of RM2,600pmt and RM2,650pmt for 2014 and 2015 respectively. 

MPOB Palm Oil Statistics (Tonnes)

	Aug-13	2014				2013	2014	
		Jul-14	Aug-14	m-o-m	y-o-y	Jan - Aug	Jan - Aug	y-o-y
Opening Stock	1,663,788	1,656,700	1,684,732					
Production	1,735,284	1,665,661	2,031,754	22.0%	17.1%	11,802,254	12,761,767	8.1%
Imports	7,533	13,307	17,574	32.1%	133.3%	474,357	174,812	-63.1%
Exports	1,526,394	1,443,560	1,437,452	-0.4%	-5.8%	11,780,950	11,003,381	-6.6%
Consumption	212,079	207,376	242,600	17.0%	14.4%	1,454,948	1,866,301	28.3%
Closing Stock	1,668,132	1,684,732	2,054,008	21.9%	23.1%	1,684,732	2,054,008	21.9%

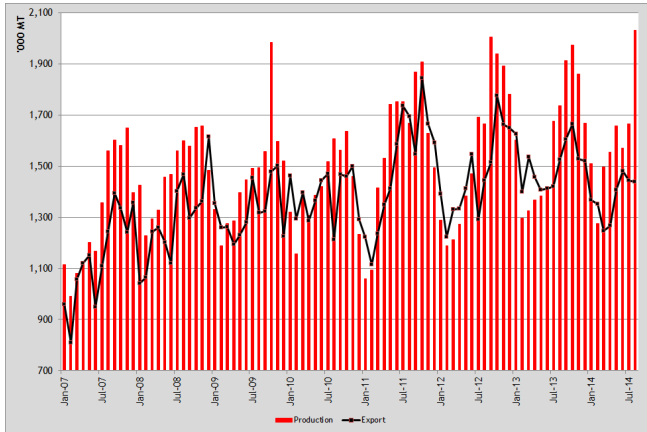
Source: MPOB

Major Palm Oil Exports Destinations (Tonnes)

	Aug-13	2014				2013	2014	
		Jul-14	Aug-14	m-o-m	y-o-y	Jan - Aug	Jan - Aug	y-o-y
China	335,049	193,552	156,199	-19.3%	-53.4%	2,400,251	1,843,003	-23.2%
EU Countries	228,795	203,419	176,199	-13.4%	-23.0%	1,411,357	1,520,690	7.7%
Pakistan	102,721	55,359	95,746	73.0%	-6.8%	968,357	564,033	-41.8%
India	152,896	351,054	362,068	3.1%	136.8%	1,269,286	1,859,431	46.5%
USA	52,558	62,473	66,414	6.3%	26.4%	773,543	543,183	-29.8%
Bangladesh	49,890	9,069	27,108	198.9%	-45.7%	342,079	225,678	-34.0%

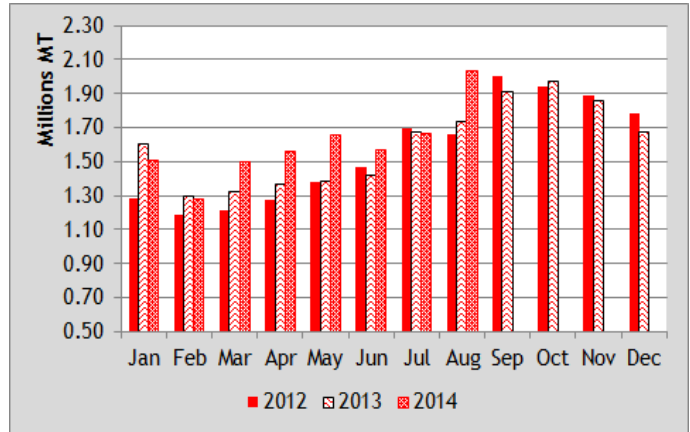
Source: MPOB

Figure 1: Monthly CPO production and export



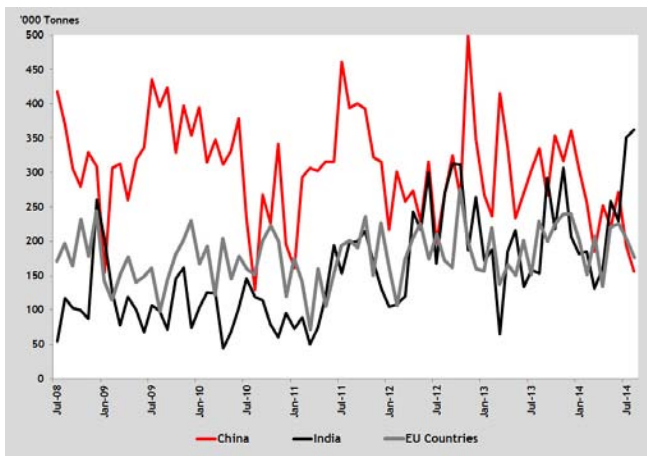
Source: MPOB, MIDFR

Figure 2: Monthly CPO production pattern



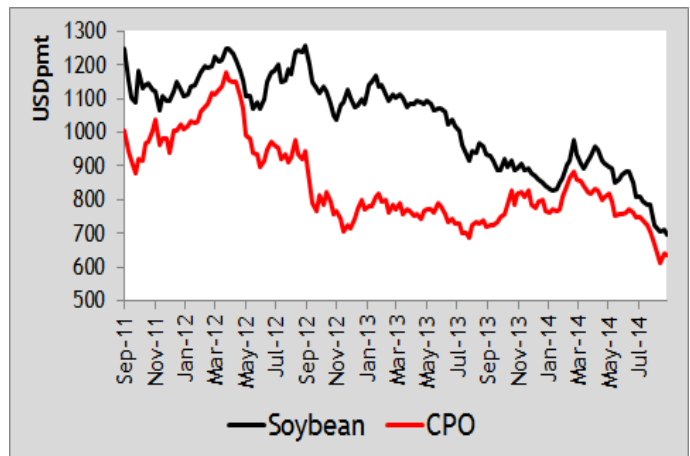
Source: MPOB, MIDFR

Figure 3: Palm oil exports to China, India & EU



Source: MPOB, MIDFR

Figure 4: Price spread between CPO and soybean



Source: MPOB, MIDFR

Daily CPO Price Chart



Source: Bloomberg

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.