

09 April 2014 | Sector update

Plantation sector

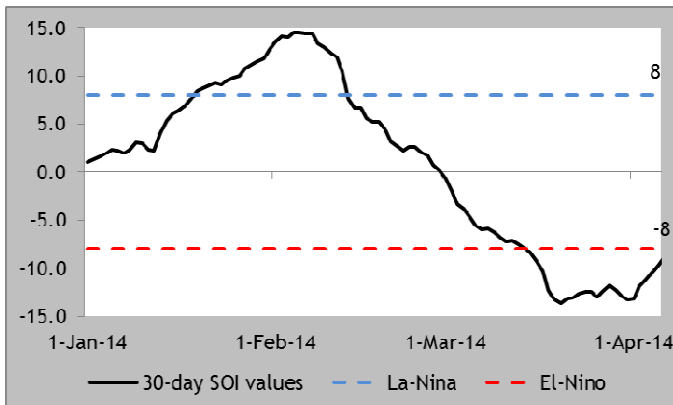
Early signs of El-Nino

Maintain POSITIVE

CPO price forecast: RM2,700pmt

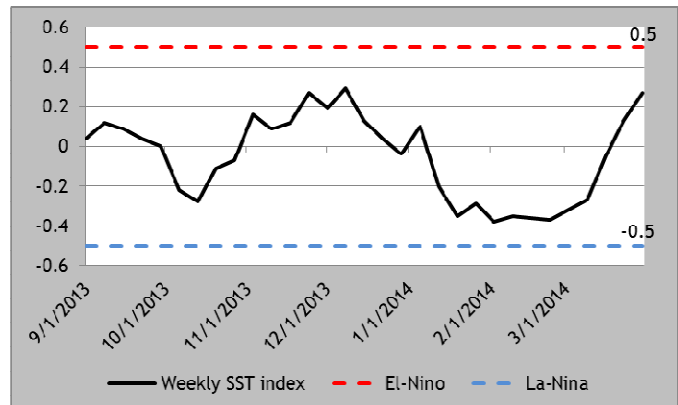
The looming El-Nino. The latest Australian Bureau of Meteorology (ABM) El Niño–Southern Oscillation (ENSO) indicator shows that it is still currently in the neutral zone. However, the values of the indicators have been approaching the El-Nino threshold over the past few weeks. Since the middle of March 2014, the Southern Oscillation Index (SOI) has continued to register anomalies of greater than -8, and the latest approximate 30-day SOI value to 6 April is -9.0 (see Fig. 1). In addition, ABM also added that the Sea Surface Temperature (SST) has steadily warmed since February (see. Fig. 2). The pattern is consistent with an emerging El-Nino.

Figure 1: 30-day SOI values



Source: Australian Bureau of Meteorology

Figure 2: Weekly sea surface temperatures

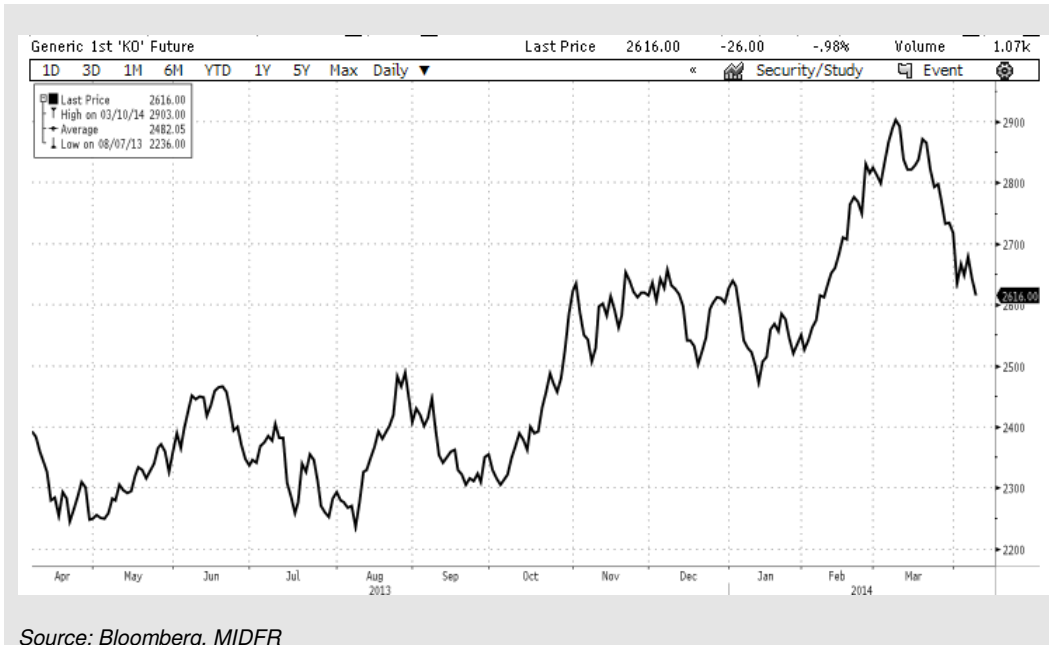


Tight soybean supply outlook likely to be reaffirmed. The United States Department of Agriculture (USDA) will release its World Agricultural Supply & Demand Estimates (WASDE) report on April 9 at 12 p.m., New York time. Pending the announcement, Conab, Brazil's food supply agency, has trimmed its national soybean production estimate by 4.5 million metric tons in March to 85.4 million. This is 3.5% lower than March WASDE projection of 88.5 million metric tons. Concerns over tight supplies of soybean is likely to push soybean price higher and consequently widen the palm oil to soybean discount. As at 8 April 2014, the discount of palm oil to soybean stood at 11.2%, higher than its year-to-date average of 7.8%. As we expect the discount to average in the single digit this year, any upward movement in soybean price is likely to lift CPO price.

Recent drop in CPO price mainly on weaker export sentiment, but production is falling... CPO price closed lower yesterday at RM2,616pmt. Since mid-March, CPO price has been on the decline due to weakening sentiment over exports. For March 2014, the independent cargo surveyors, Intertek Testing Services (ITS) and Societe Generale de Surveillance (SGS) have estimated that Malaysia's palm oil exports fell 3.1%mom and 3.4%mom respectively. Despite a weaker export sentiment, we expect palm oil inventory in March to remain below 1.70mmt as we anticipate a slower production growth due to the dry weather condition. We expect CPO production in March to grow approximately by 1-2%yoy compared to the production growth of 9.4%yoy recorded in March 2013.



DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.