

04 June 2014 | Sector Update

Plantation sector

70% chances of El Niño occurring

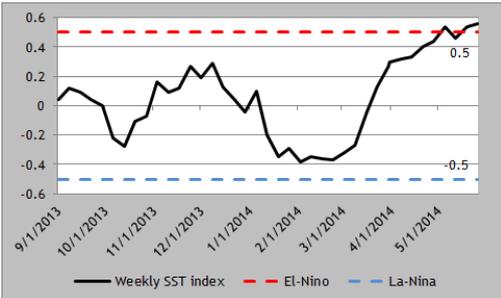
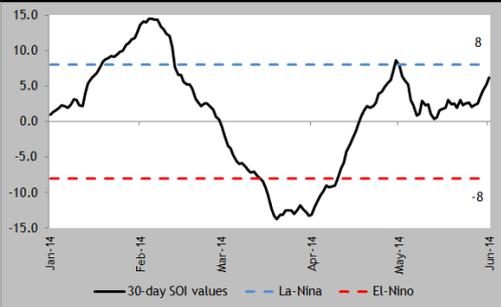
Maintain POSITIVE

CPO price forecast: RM2,700pmt

Update on El Niño

Yesterday, the Australian Bureau of Meteorology (ABM) released an update on the development of El Niño. According to ABM, the El Niño–Southern Oscillation (ENSO) Tracker status remains at El Niño ALERT level. It indicates that there is at least a **70% chance** of an El Niño occurring this year. Additionally, it also suggests that El Niño **will become established by August 2014**.

ENSO Tracker tracks the changes in the likelihood of an El Niño or La Niña occurring. The status of the ENSO Tracker is determined by expert analysis from climatologists and using the criteria as set out below. Any three of the following four criteria need to be satisfied to trigger an El Niño alert:

Indicator	Criteria	Current Update
1) Sea surface temperature (SST)	A clear warming trend has been observed in the NINO3 or NINO3.4 regions of the Pacific Ocean during the past three to six months.	
2) Winds	Trade winds have been weaker than average in the western equatorial Pacific Ocean during any two of the last three months.	Above-average SSTs also extend into the western tropical Pacific. As a result, atmospheric indicators—such as the Southern Oscillation Index and trade winds—have only shown a weak response.
3) Southern Oscillation Index (SOI)	The two-month average SOI is –7 or lower.	 <p>Average SOI in March and April was at -5.8, April and May was at 0.2</p>

Indicator	Criteria	Current Update
4) Models	A majority of surveyed climate models show warming to at least 0.8 °C above average in the NINO3 or NINO3.4 regions of the Pacific Ocean by the late winter or spring	<p>Model outlooks suggest the IOD is most likely to remain neutral through winter, with two of the five models surveyed suggesting a positive IOD may develop during spring.</p> <p>Positive IOD events often coincide with El Niño and are typically associated with large parts of southern and central Australia experiencing lower rainfall than usual</p>

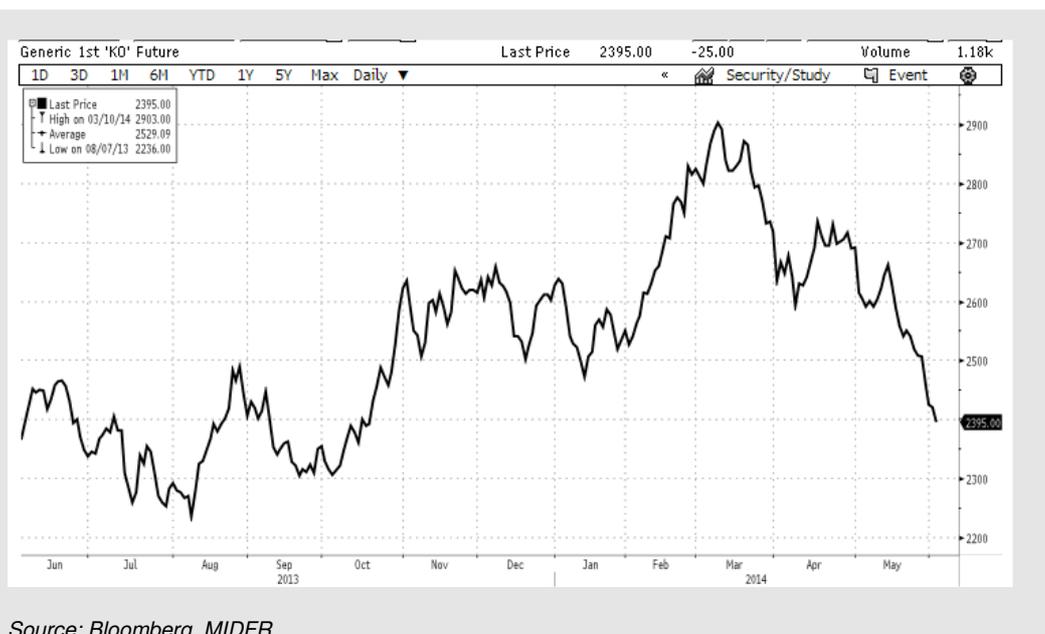
Source: <http://www.bom.gov.au>

Expect rebound in CPO price. Yesterday, CPO price ended lower at RM2,395pmt as market sentiment was dented by reports of Malaysia palm oil inventories likely breaching 2mmt by year-end. However, we hold a contrarian view as we expect CPO prices to rebound in the second half of this year underpinned by (i) increase in purchases from India, China and Pakistan due to the upcoming festive season, (ii) the current inventory level in Malaysia is still healthy at 1.77mmt in April 2014, and (iii) impending El-Niño in second half of this year will exert upward pressure on CPO prices in anticipation of lower production in 2015.

Maintain POSITIVE. In view of this scenario, we maintain our POSITIVE view on plantation sector with average CPO price of RM2,700pmt in 2014.



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.