

Prepared for the American Palm Oil Council's "Global Oils & Fats Forum 2003", October 7, 2003, Beverly Hills, California. All estimates are subject to revision as new data becomes available.

Good morning ladies and gentlemen. First let me thank the American Palm Oil Council for inviting me here to speak with you about the outlook for the US fats and oils markets. My name is Dennis Maxfield and I am the owner of "The Trade News Service". For those of you that are unfamiliar with Trade News, let me offer a brief introduction. Next year will be the 90th year that Trade News has reported news, prices and statistics to the trade. We make no regular attempt at forecasting, and although I will be speaking of estimates for the coming marketing year, the majority of them are in the public domain. With that in mind, and a grain of salt, let's take a look at some of the trends of the market.

(Chart 1) It is now apparent that the hot/dry weather conditions, which were seen across much of the US during the month of August, trimmed the size of this year's soybean crop. While the magnitude of the reduction in crop output is yet to be determined, it is sure to make things tighter for the US market. (Chart 2) In years past, a tighter US soybean crop would have had a major impact in the world marketplace. However, the 2003/04 US crop will account for only about 25 to 26 pct of the world's soybean production, or just half that seen in 1980.

Moving ahead, we have no arguments with the USDA's crush estimate for the 2003/04 season. Given the number of plant closures seen over the past couple of years, capacity has tightened and so only a modest increase in crush could be expected. However, the soybean oil balance sheet is another story. (Chart 3) With the current level of economic growth slower than hoped for, US domestic consumption will continue to rise at a modest pace of about 1.5 pct for the 2003/04 marketing year, to 7.825 million tonnes. (Chart 4) At the same time, given the pace of export sales activity seen over the past season, and expectations that the US will out of necessity have to continue its commitment to providing significant aid and export donations, we believe that the USDA's export estimate is just too low. Even with the prospect of another year of record South American production, we believe that a 50 pct cut in export shipments is unwarranted, but do acknowledge the fact that the pace of exports will have to be reduced by at least 30 pct to avoid even a hint of rationing. Mexico will remain the largest buyer of US crude soybean oil, while Canada will retain that status as far as refined product is concerned (although it noteworthy that the number two destination for refined soybean oil from the US this past season was Cuba).

(Chart 5) As a result, we don't agree with the USDA's increase in soyoil stocks. Instead, it is our opinion that US stocks will be drawn down further, perhaps becoming the tightest that we've seen since the mid-80's. (Chart 6) While there's no real "good" correlation between soyoil prices and stocks/use ratios, given no other inputs I believe that it's fairly clear that prices are more likely to move higher than lower this season.

(Chart 7) The most recent estimate of 2003/04 US cottonseed production is 5.7 million tonnes, up 1.6 pct on the year. The strength in cottonseed oil prices seen during the 2002/03 marketing year prompted a pick up in the crushing pace, and new-crop crusher demand will reach roughly 42 pct of total seed production, or just over 2.4 million tonnes. (Chart 8) None-the-less, it is estimated that US cotton oil production will fall short of the 5-year average of 774 thsnd tonnes, coming in at roughly 758 thsnd tonnes. Both exports and domestic consumption of cottonseed oil are expected to post slight gains in the 2003/04 season. (Chart 9) Cotton oil exports are forecast at 118 thousand tonnes. Mexico will remain the primary destination for crude cottonseed oil, with Canada the principle destination for fully refined cottonseed oil. (Chart 10) Keeping stocks about unchanged at the end of the marketing year, domestic consumption is estimated at 635 thousand tonnes. While consumers generally prefer the taste associated with using cottonseed oil, we don't expect that chippers and others in the snack food industry will be quick to switch back to using a greater percentage of cottonseed oil versus corn due largely to the recent press regarding the trans-fat issue and the "normal" premium of cottonseed oil over corn oil.

(Chart 11) That brings us to the outlook for corn oil. US corn oil production has grown nearly 30 pct over the past decade. We currently estimate 2003/04 production at 1.127 million tonnes, a 1 percent increase over last season. (Chart 12) The relatively high price of corn oil today will keep some potential customers away from the export market. However, we expect that Turkey will remain the primary destination for crude oil and that Saudi Arabia, with its large snack food industry, will remain the top buyer of US refined corn oil. (Chart 13) With the US consumer becoming increasingly more health conscious, not only will we see a modest increase in domestic usage during the 2003/04 season, but we could also see domestic consumption growing by leaps and bounds in the decade ahead. Recently, a report from the USDA's Agricultural Research Service (ARS) and Iowa State University told of new varieties of corn being developed which contain 60 to 70 pct oleic acid, versus the more normal range of 20 to 30 pct. While I'm not a chemist, I have read that studies show oleic acid does help lower cholesterol, and also helps to increase the shelf life of certain products. On top of this, some of these varieties have up to half the saturated fat content typically found in corn oil. The ARS indicated that these new brands could eventually lead to salad dressings with a longer shelf life, cheaper animal feed, and could also lead margarine manufacturers to omit hydrogenation (and thus help reduce trans-fat from the American diet). (Chart 14) Taking it all into consideration, we see only a small increase in corn oil stocks at the end of September 2004. None-the-less, our projection of 42 thousand tonnes keeps stocks at a relatively tight level.

This year's planted acreage of sunflowers dipped to its lowest level since 1992. Harvested area is estimated at 2.255 million acres, an increase of 50 thousand acres over last season. (Chart 15) US production of sunflower oil fell dramatically last season, but is expected to rebound to 274 thousand tonnes in 2003/04, nearly double last year's level. (Chart 16) Given this increase, and the trend toward looking for "healthier" oils, US domestic consumption should also rebound to a level seen two years ago of around 169 thousand tonnes. (Chart 17) As a result, US exports will remain at a historically low

level of 102 thousand tonnes. The majority of crude sunflower oil exports will continue to be shipped to Algeria and other Mediterranean/Middle Eastern countries, while Canada will remain the primary destination for US refined sunflower oil. (Chart 18) Putting it all together, we're expecting sunflower oil stocks to increase from the 10 thousand tonnes estimated at the end of September 2003, to around 16 thousand tonnes at the end of September 2004, with prices moving lower as seed begins to move later this fall.

(Chart 19) US planted and harvested area of peanuts continued to shrink during 2003, falling to their lowest levels since 1982. Mostly favorable weather conditions during the growing season means that there will be less stock going to crush than for edible use. Total production is estimated at a little less than 1.8 million tonnes, and it is expected that about 17 percent of that total will be used for crushing pur(Chart 20) US production of crude peanut oil for the 2003/04 season is estimated at 102 thousand tonnes, a 12 percent drop from last season. (Chart 21) In most years, the majority of peanut oil produced in the US is consumed in the domestic market. In fact, even with this season's smaller output, it is expected that the US will use 125 thsnd in the domestic market. This means that there will have to be a small drawdown in stocks and that imports will have to be maintained at or near last season's pace. (Chart 22) The 2002/03 season's export demand for peanut oil was "artificially" inflated due to the shortfall in supply in Europe. Once India's groundnut crop begins to come in, and supplies of oil are made available for export, we expect that European demand will fade and that US exports will slip back toward levels seen from 1996 through 2001. Canada will remain the primary destination for refined peanut oil of US origin. (Chart 23) The shortfall and strong demand from the European market have pulled crude peanut oil prices to historic highs. As the old saying goes "what goes up must come down", and given the history of this market, we would not expect prices to stay at current levels for any length of time.

(Chart 24) After more than a decade of steady growth in US production of canola seed, production fell by nearly 25 percent in 2002 and is expected to be virtually unchanged for the 2003/04 marketing year, at 706 thousand tonnes. Anticipation of a drop in US exports of canola seed, due largely to the increase in Canadian production (Canada is the primary destination for US exports of canola), has left nearly an additional 90 thousand tonnes of seed available to US crushers for the current marketing year. (Chart 25) Although oil yields are expected to be lower than in 2003/04, the additional tonnage crushed will boost oil production to 252 thousand tonnes. (Chart 26) At the same time, the continued increase in Americans' health consciousness is leading to the development of new products and a greater demand for canola oil. For example, McCain Foods USA in late Aug introduced oven-baked French fries that are cooked in non-hydrogenated, 100 percent canola oil. As other new products are developed, the need for canola oil will have to continue to be met by imports, primarily from Canada. Canadian production has bounced back from the ravages of the drouth of 2002, when seed production totaled just 3.58 million tonnes. It is now estimated that the 2003 Canadian crop will total 6.23 million tonnes. Further, it is estimated that the US will import 523 thousand tonnes of canola oil during the 2003/04 season, nearly all of which comes from Canadian sources. (Chart 27) With the majority of canola oil used for edible purposes, it is estimated that US domestic consumption will total roughly 655 thousand tonnes in 2003/04.

(Chart 28) Turning now to palm and lauric oils, the growth in world palm oil production has shown little sign of slowing down over the past thirty years. Plantation expansion projects are underway not only in major producing countries, but also in India, Pakistan, Mexico, Brazil and a number of other nations. In the last decade alone, world production of palm oil has more than doubled. As with many commodities, US imports of palm oil are elastic, adjusting with the highs and lows in prices. (Chart 29) The relatively “cheap” palm oil prices seen in the world marketplace since the beginning of the millennium have spurred buying interest in the US and pushed imports to their highest level since the mid-1980’s. Most recent data for the 2002/03 season shows imports coming in at 210 thousand tonnes, off 2 pct from the previous season largely due to the 20 percent increase in delivered prices at the US Gulf. Given the outlook for higher global production and the continuation of relatively cheap palm prices, it is estimated that US imports of palm oil will increase by roughly 4.7 pct during the 2003/04 marketing year (Oct-Sep), to roughly 220 thousand tonnes. However, we acknowledge that this figure could increase if the price slide is greater than currently anticipated. (Chart 30) Interestingly, despite the “bad” reputation palm oil earned in the past decade, US domestic consumption has been on the rise. With scientists taking another look at the effects of palm oil on LDL, HDL and total cholesterol, and the current climate regarding trans-fat, palm oil could continue to make inroads in the American diet.

(Chart 31) World coconut oil production for the 2003/04 season is projected at 3.33 million tonnes. Of this total, 43 pct will be produced by the Philippines and 25 pct by Indonesia. (Chart 32) It is estimated that of the 1.94 million tonnes of world coconut oil exports forecast for 2003/04, the US will import roughly one quarter of the total, or 500 thousand tonnes. (Chart 33) Cheap prices during the 2000/01 season pushed domestic consumption to an all-time high of 625 thousand tonnes. However, despite the fact that prices have remained relatively low, the sagging US economy has caused domestic usage (particularly by the chemical industry) to remain relatively weak. Should the US economy continue to show signs of recovering and origin prices for coconut oil remain relatively weak, US demand could outpace the current estimate for the year ahead.

(Chart 34) Similar to coconut oil, world production of palm kernel oil has more than doubled since the early 1990’s. (Chart 35) While palm kernel oil exports have also more than doubled during the same period, US imports have declined from an average of around 16 percent of the world total to just 13 percent. None-the-less, 2003/04 will see the largest US imports of palm kernel oil since the late 1980’s, roughly 200 thousand tonnes. (Chart 36) With US domestic usage of palm kernel oil estimated at 207 thousand tonnes for 2003/04, an increase of about 1 ½ percent from the year which just ended, US stocks at the end of September 2004 will slip to just 22 thousand tonnes, their lowest level in five years.

(Chart 37) Spurred on by strong finished cattle prices, some of the best profits seen in years, and at the expense of Canada’s BSE scare, US edible tallow production during the 2002/03 season is expected to have increased nearly 8 percent from the year before.

(Chart 38) While from the demand side of the coin the outlook for the year ahead

remains relatively good (the economic outlook is slowly improving), supplies are expected to tighten as the number of cattle in feedlots continues to shrink. Since topping out at nearly 12 million head at the end of 2002, US feedlot inventories have shrunk by 20 percent. Latest USDA estimates showed that there were 9.59 million head on feed as of August 1, a 5 percent drop from just a year earlier. In fact, the number of cattle in feedlots has been below year-ago levels since April 2002. Obviously, if this trend continues, kills will be down on the year. Additionally, with live weights off an average of ten pounds from year ago levels, yields can also be expected to be lower. As a result we're projecting a decline in 2003/04 edible tallow production to just short of 900 thousand tonnes. (Chart 39) As Canada works out its BSE problem and the world once again regains confidence and trust in that industry, US exports of edible tallow are likely to dip toward levels seen during 2001/02, with Mexico remaining the top destination. (Chart 40) A similar outlook is seen for US domestic usage of edible tallow, which we now estimate at 677 thousand tonnes for the 2003/04 season. (Chart 41) Naturally, a number of inedible tallow fundamentals mirror those of edible product. However, we will just point out that with feedlot numbers coming off, demand from the feed trade will also be lower, allowing more production to find its way to the export market. (Chart 42) If palm stearin prices remain at a significant discount, consumers will continue their hand-to-mouth buying strategy in the tallow.

(Chart 43) Looking at the season that just ended, US lard stocks at the end of September were estimated to be the tightest on record, at just 5.44 thousand tonnes. Relatively good hog prices and packer margins have kept hog slaughter for 2003 at or near that of a year ago. However, given the most recent quarterly USDA pig report, it is expected that the US hog inventory will shrink by roughly 3 percent as we move into 2004. As a result, hog slaughter will be down by a similar percentage. (Chart 44) If we assume live weights remain about the same, lard production for 2003/04 will total about 463 thousand tonnes. Export off-take will remain steady at 40 to 42 thousand tonnes, with Mexico the largest consumer of US lard, (Chart 45) while domestic consumption will slip to an estimated 421 thousand tonnes.

(Chart 46) In summary, ladies and gentlemen, we see US production of edible fats and oils for the 2003/04 marketing year totaling 11.799 million tonnes, only marginally higher than the preliminary total of 11.768 million tonnes produced in 2002/03. (Chart 47) US imports for 2003/04 will come in just over 1.3 million tonnes, but below the record of 1.339 million set in 2001/02. (Chart 48) US domestic consumption will rise to a record 11.515 million tonnes. Of that total, roughly 30 percent will be consumed in baking and/or frying fats (although this percentage could slip below this level as concerns over trans fat continues to build), and approximately 45 percent will be consumed in salad and/or cooking oils. (Chart 49) Given the relatively tight supply and our outlook for domestic consumption, US exports of edible products will break to 1.510 million tonnes, their lowest level since the 1995/96 season. As a result, US stocks of edible fats and oils on September 30, 2004 will remain tight (Chart 50), at an estimated 992 thousand tonnes versus 917 thousand tonnes at the end of September 2003, the fifth tightest stocks/use ratio (7.6) seen in the past 30 years.

Thank you!