

Global Supply, Demand and Price Outlook of Oils & Fats

Several Challenges Ahead in 2009/10

Paper given at the Global Oils & Forum of the APOC in New Orleans

on 5 – 6 Oct 2009

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Some Introductory Remarks

- Comments to ISTA Mielke GmbH :

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Many Challenges in 2009/10 Season

- **Contrasting global oilseed fundamentals: Tight supplies in Sept/Febr 09/10 and ampleness in March/Aug 2010**
- **Oils/Fats Prices gaining on Oilmeals in the cause of the season**
- **Low world stocks raise dependence on huge S. American soya crop & on more palm oil**
- **Dryness linked to El Niño in May/Sept 2009, but outlook uncertain next 5 – 8 months. Stress on oil palms (slower output growth).**
- **Lower growth in rape & sun oils - - > raise dependence on palm and soya oil**

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A Brief Review

- **During the past 12 months**
- **. . Shockwaves have been witnessed in the global commodities markets (also veg oils):**
 - - **financial collapse of key institutions,**
 - - **economic recession (slower demand)**
 - - **severe weather and crop damage, creating imbalances in oilseeds & products**

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A Brief Review

- **In retrospect: during the 2008/09 season:**
 - **World oilseed output fell below consumption in 2nd consecutive year, creating shortage and diminishing stocks by 23 Mn T**
 - **World soybean crop cut by 9 Mn T (contrary to initial expectations of an increase)**
 - **Drought losses of 19 Mn T of soybeans in South America in Jan/May 2009, resulting in unprecedented reductions in sb oil & meal**

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Worst drought in 70 years in Argentina, Paraguay & southern Brazil

SOYBEANS: Output in South America (Mn T)

	2009	2008	2007	2006	2005	2004
Brazil	57.60*	60.02	58.73	56.94	53.05	50.09
Argentina	32.20*	46.20	48.30	40.80	39.70	32.30
Paraguay . .	3.90*	6.25*	5.86	3.84	4.05	4.12
Bolivia	1.40*	1.45*	1.60	1.55	1.69	1.59
Uruguay . .	1.15*	.88	.82	.63	.48	.42
Total	96.25*	114.80	115.31	103.76	98.97	88.52

- 19 Mn T

+27 Mn T

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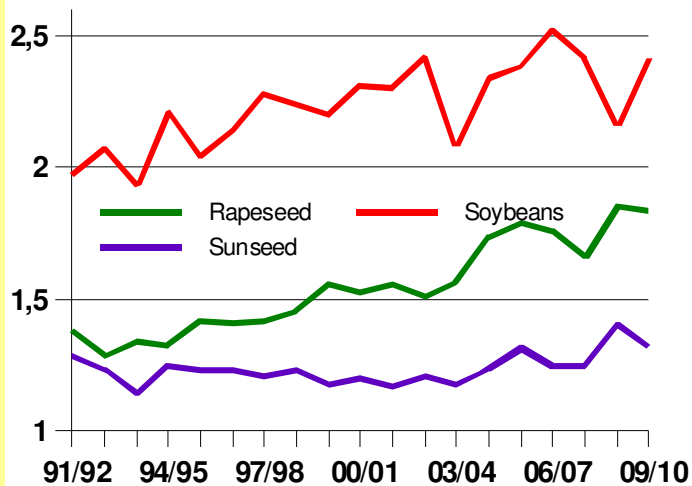
CHINA: Government promoted steep increase in soybean imports in 2008/09 to create reserve stocks

CHINA: Soybean Supply & Demand (Mn T)

	A u g u s t / J u l y				
	09/10F	08/09	07/08	06/07	92/93
Open'g stocks	7.70*	1.80*	2.02*	3.20*	.*
Crop	14.50*	15.70*	13.80*	15.97	10.30
Imports	40.00*	43.17	34.67	28.72	.18
Exports . . . . .	.43*	.39	.49	.44	.32
Crushings . . .	43.40*	40.50*	37.00*	34.80*	4.20*
Other use . . .	12.87*	12.08*	11.20*	10.63*	5.95*
End'g stocks	5.50*	7.70*	1.80*	2.02*	.02*

Yields of Soybeans, Rape & Sunseed

worldwide in Tonnes per Hectare



- Consumers are getting increasingly dependent on fewer suppliers
- Weather changes have a greater impact
- This is one reason for greater price volatility
- World market needs a boost in S. American soybean output by at least 20 Mn T in 2010



**Our latest Projections for 2009/10,
as published in the MONTHLY of
Sept 18**

**can be obtained from the Internet at
www.oilworld.de**

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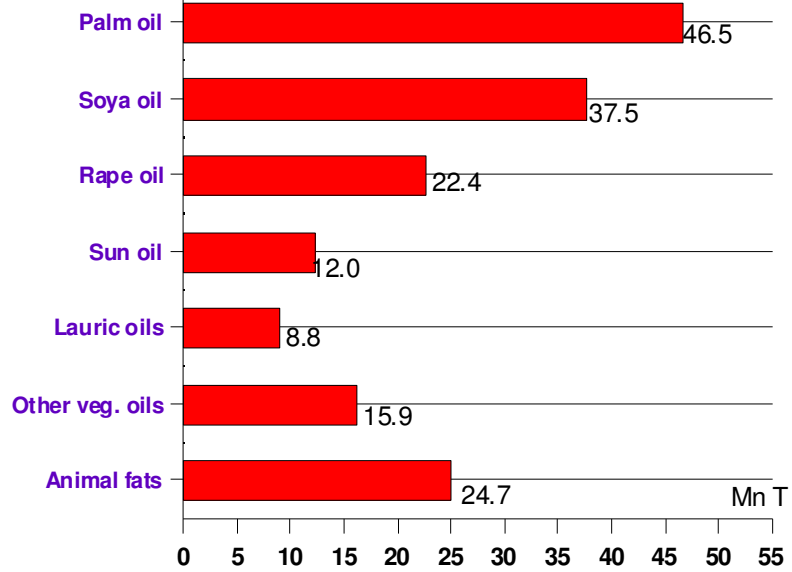
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World production of palm oil has exceeded soya oil

17 Oils & Fats: World Output in Oct/Sep 09/10 = 167.8 Mn T

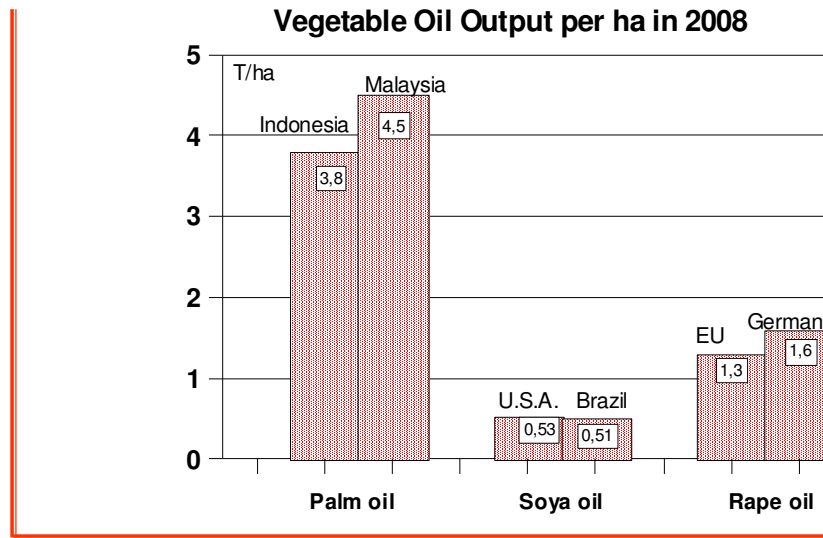


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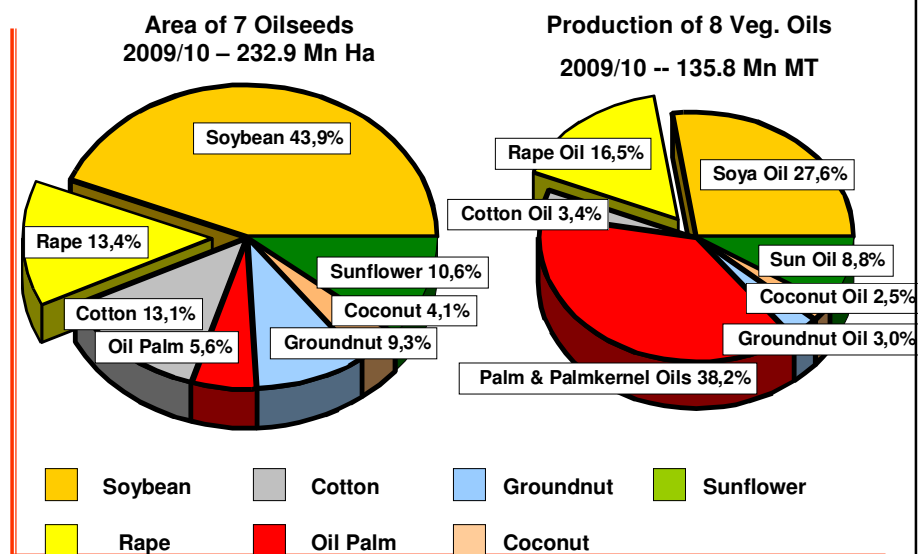
Palm oil yields per ha are much above soya and rape oils



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Palm oil: 6% of the area, but 38% of world veg. oil output



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Rising production of sustainable palm oil

- Successful work of the RSPO
- **World production of sustainable palm oil :**
- Until the end of 2008: 0.4 Mn T annual production (United Plantations and Sime Darby)
- Forecasts of annual palm oil production that will be certified as sustainable **until end of 2009: 1.8 Mn T**

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Declining premiums for sustainable palm oil

- Initially (in July-Sept 2008), certified SPO could be sold at price premiums of US \$ 65-70 per Tonne
- But with increasing quantities offered for export and with demand (actual buying) still subdued, the price premium of certificates for SPO declined to around US \$ 40 in March and to only \$ 20 in Sept 2009.
- Actual European and global purchases of SPO have recently been considerably smaller than expected.
- Additional progress and further expansion of Sustainable Palm Oil Production needed, even if premiums stay depressed.

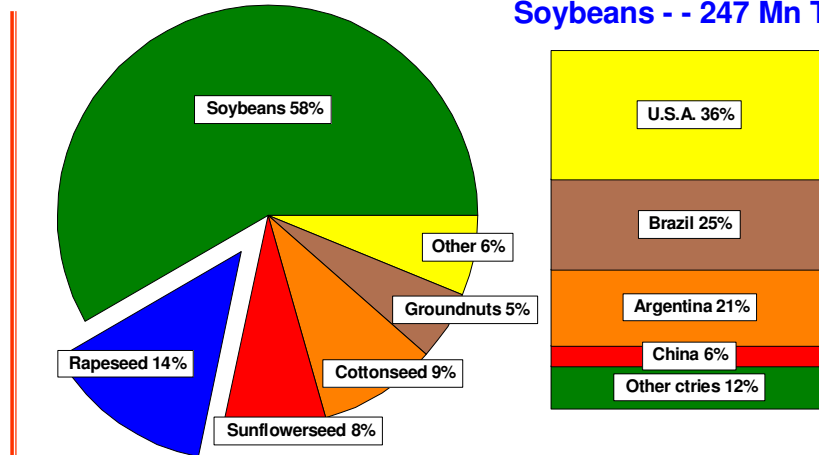
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Global Production of 10 Oilseeds

2009/10 = 423 Mn T

Soybeans - - 247 Mn T



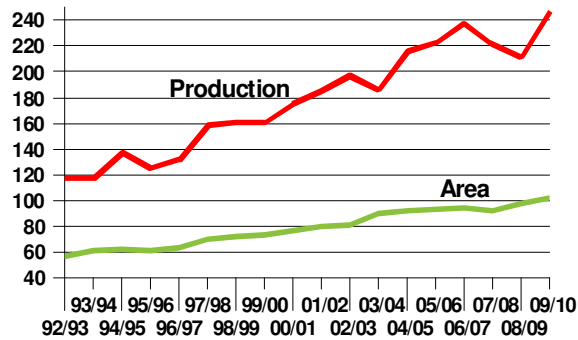
10 OILSEEDS: World Supply and Demand (Mn T)

	Forecast 2009/10F	Change from 2008/09	08/09	07/08	06/07	05/06	04/05	03/04	02/03	01/02
Opening stocks	60.9*	-9.7	70.6	83.5	73.1	64.4	48.1	53.6	49.2	48.1
Production	423.4*	+31.3	392.1	389.7	405.7	391.7	379.1	331.2	329.2	321.9
<i>thereof soybeans</i>	247.1*	+35.3	211.8	220.9	237.5	222.3	216.7	185.7	197.0	184.4
<i>Sunseed</i>	32.4*	-2.0	34.4	29.2	30.1	30.3	26.4	27.0	24.0	21.3
<i>Rapeseed</i>	57.2*	-1.0	58.2	48.7	47.7	49.3	46.2	39.1	33.3	36.7
<i>Oth. oilseeds (b)</i>	86.7*	-1.0	87.7	90.9	90.4	89.8	89.8	79.4	74.9	79.5

Production Growth only in SOYBEANS!

SOYBEANS

World Production (Mn T) and Area (Mn ha)

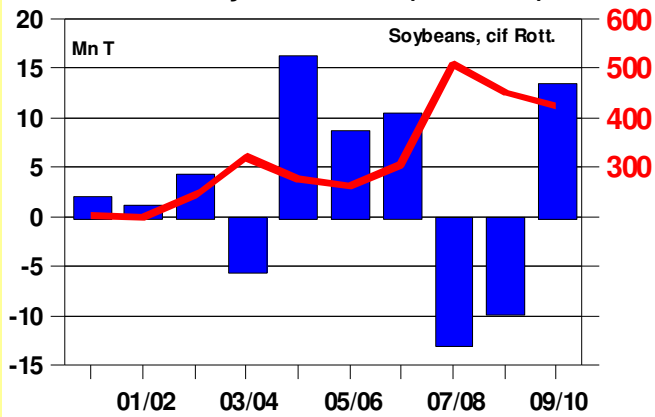




Supplies still down 5 Mn T in Sept/Febr 09/10

- We estimate world production of 10 oilseeds to be boosted by 31 Mn T in 09/10
- . . But northern hemisphere production is set to rise by 5 Mn T only
- - - not enough to offset the low stocks (-10 Mn T)
- S. Hemisphere output +26 Mn T in early 2010

OILSEEDS: Surplus/Deficit of Production and Soybean Prices (in US-\$/T)



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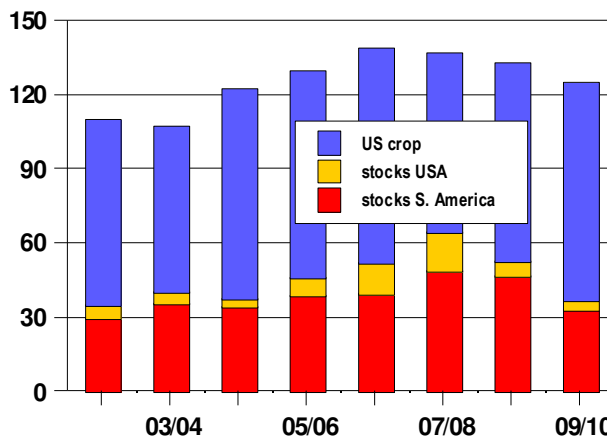
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G-3 Supplies down 8 Mn T in Sep/Febr 09/10

- Record US soybean crop of 88 Mn T (+ 8 Mn) cannot solve the global supply problems
- But not enough to offset low Sept 1 stocks: USA -1.8 Mn S.America -13.8
- G-3 soybean supplies -8 Mn T in Sep/Febr 09/10

G-3 Soybean Supplies in Sep/Febr



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S.American Exports in Sep/Febr 09/10

- In Sep/Febr 09/10 Arg. & Brazil:
- soybean exports -4.7 Mn T
- Crush -4.2 Mn
- Sbo exp -1.1 Mn
- Meal exp -3.8 Mn

Brazil & Argentina: Soya Oil Exports (Mn T)

	from Argentina			from Brazil		
	09/10F	08/09	07/08	09/10F	08/09	07/08
Sept . . .	.32*	.65	.55	.11*	.25	.21
Oct . . . .	.33*	.39	.75	.11*	.22	.28
Nov . . . .	.32*	.33	.53	.11*	.15	.20
Dec30*	.36	.68	.10*	.14	.11
Jan30*	.50	.66	.06*	.12	.23
Feb28*	.40	.35	.10*	.06	.14
Sep/Febr	1.84*	2.63	3.51	.58*	.93	1.16

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Increasing Dependence on US Supplies in Sep/Febr 2009/10

- In Sep/Febr 09/10 the USA is likely to boost :
- Soybean exports up 4.5 Mn T
- Crush +2.7 Mn T
- Sbo exp +0.6 Mn
- Meal exp +1.0 Mn

SOYA OIL : World Exports (Mn T)

	September / February			
	09/10F	08/09	07/08	06/07
U.S.A. . . . .	.90*	.30	.72	.44
Argentina. . . .	1.84*	2.63*	3.51*	2.72*
Brazil58*	.93	1.16	1.02
Other countries	.77*	.71	.75	.72
Total	4.09*	4.57	6.14	4.90

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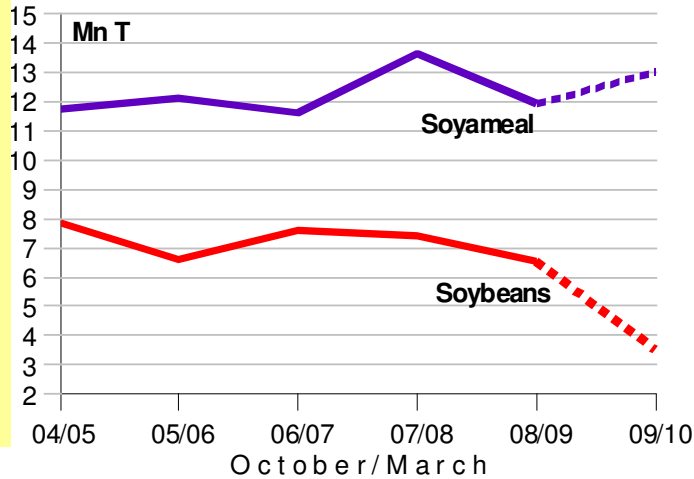
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EU-27: Zero Tolerance GM Import Policy

EU-27: Imports of Soybeans & Meal

- EU's zero-tolerance of unapproved GM varieties (of corn) blocks imports of US soybeans and meal
- "Self employed embargo"
- An unrealistic policy, which is paralyzing trade and jeopardizes the EU livestock industry



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Tightness in Soya Meal in Sept/Febr 09/10

- In Sep/Febr 09/10 Arg. & Brazil: Meal exp –3.8 Mn
- In Oct/Dec 2009 soya meal prices to appreciate by \$ 30 – 40 from current levels in Europe and on the world market

SOYA MEAL : World Exports (Mn T)

	September / February			
	09/10F	08/09	07/08	06/07
U.S.A.	5.00*	3.87	4.33	4.08
Argentina	10.24*	12.05	14.66	11.77
Brazil	4.39*	5.54	5.13	5.70
China . . . . .	.85*	.16	.33	.30
India	3.00*	2.49*	3.06*	2.64*
Other countries	1.44*	1.33	1.61	1.59
Total	24.92*	25.44	29.12	26.08

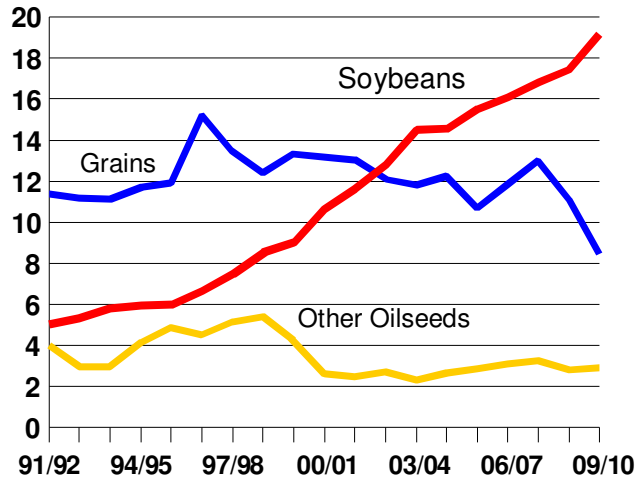
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- Soya rel. more attractive
- Big political uncertainty
- Soya sector provides biggest revenue for federal budget
- Government wants soya area to be shifted to other crops
- Export tax to be raised to 40-45% against 35% now
- Soya area 19.0-19.5 Mn ha, thus 63% all grains and oilseeds

ARGENTINA: Development of Oilseed and Grain Plantings (Mn ha)



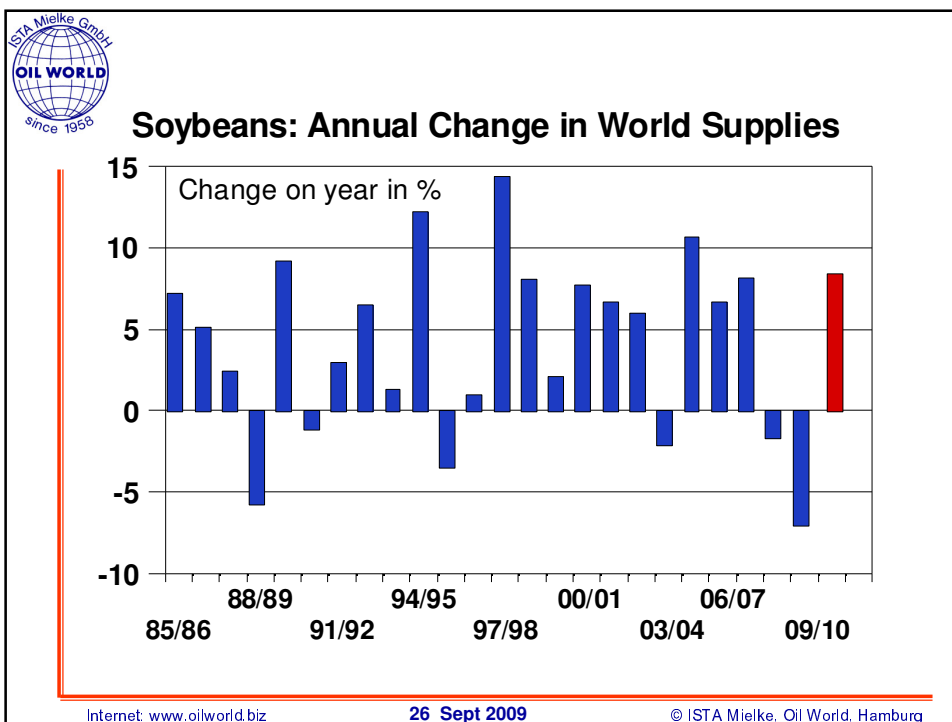
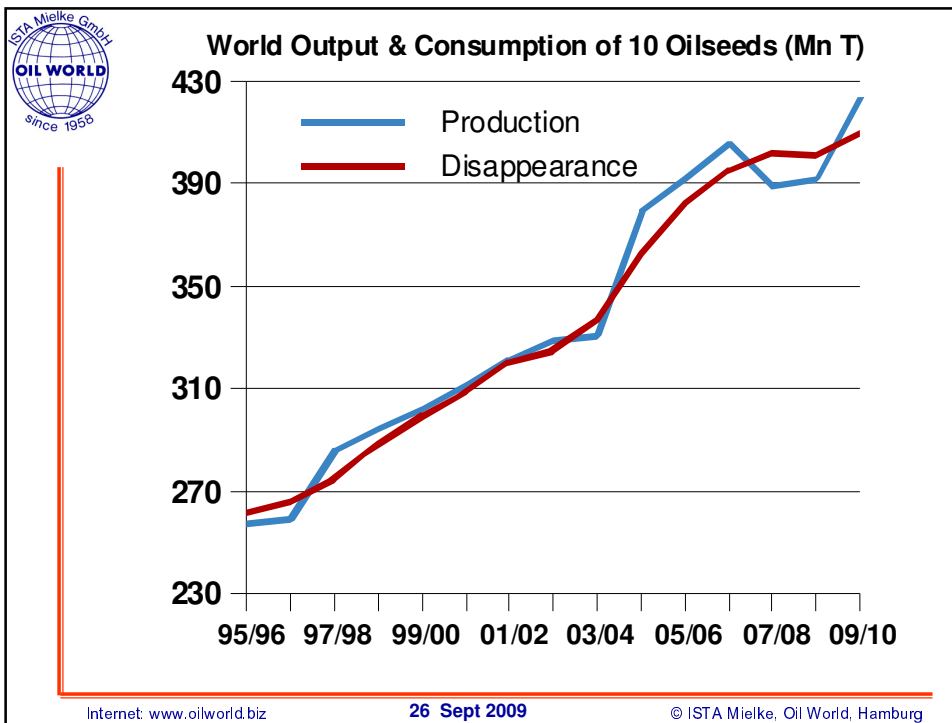
Big Supply Pressure ahead for Soybeans and Meal for March 2010 onward - - but Soya Oil will be Needed

SOYBEANS: Output in South America (Mn T)

	2010F	2009	2008	2007	2006
Brazil	62.00*	57.60*	60.02	58.73	56.94
Argentina	52.00*	32.20*	46.20	48.30	40.80
Paraguay . .	5.80*	3.90*	6.25*	5.86	3.84
Bolivia . . .	1.90*	1.40*	1.45*	1.60	1.55
Uruguay . .	1.30*	1.15*	.88	.82	.63
Total	123.00*	96.25*	114.80	115.31	103.76

+27 Mn T

Assumptions: 1) good weather and 2) increase in plantings by 2.4 Mn ha for 2010 crop. . (final area could be higher)

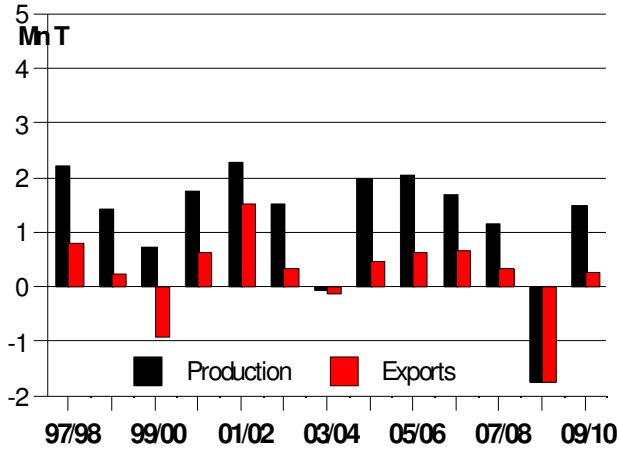




Record Drop in Output & Exports in 08/09

Soya Oil World Output & Exports

Change from Year ago



- Soya oil exports dropped by 1.7 Mn T in 2008/09, and will again drop in Oct/Dec
- . . . due to smaller production and higher soya oil us for biodiesel in S. America.
- But global dependence on soya oil will rise in 2010

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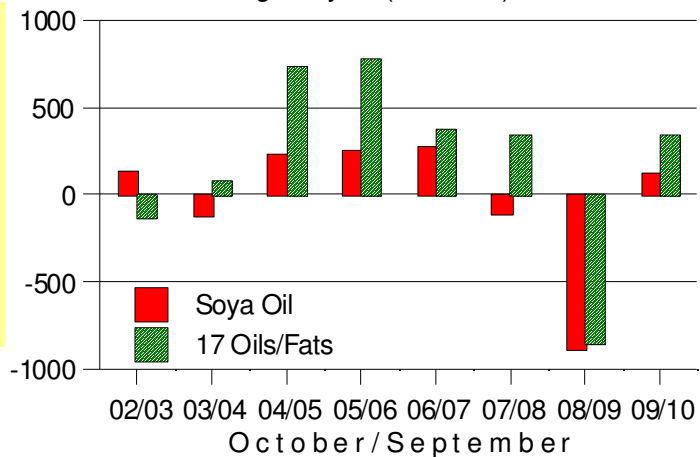
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US Consumption of Oils & Fats

Change on year (in 1000 T)



- In Oct/July 2008/09:
- Sharp decline in US soya oil consumption for biodiesel by 0.5 Mn T
- and for food by 0.28 Mn T from a year earlier

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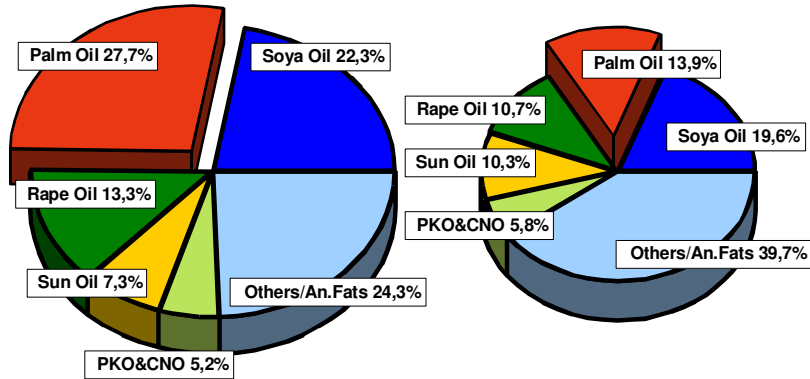
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World Usage of 17 oils & fats more than doubled.
Palm Oil is the leader; usage boosted from 11.4 Mn T (or 13.9%) in 90/91 to 46.6 Mn T (27.7%) in 2009/10

World Consumption of 17 Oils & Fats

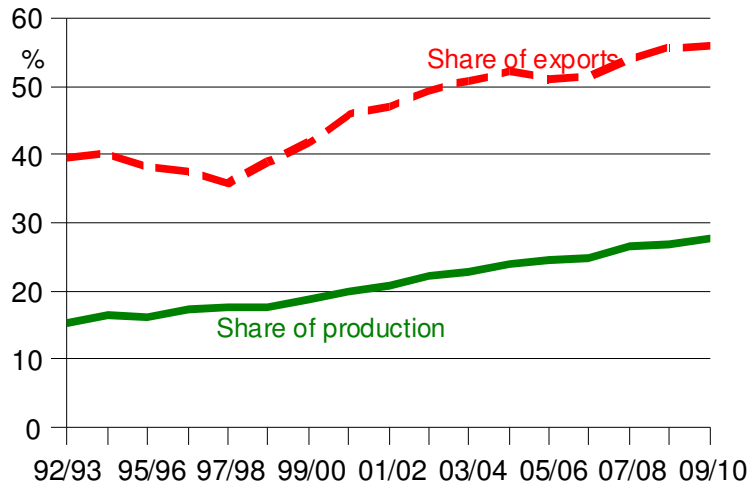
2009/10 -- 168.3 Mn T

1990/91 -- 81.8 Mn T



Palm Oil: Share of World Market

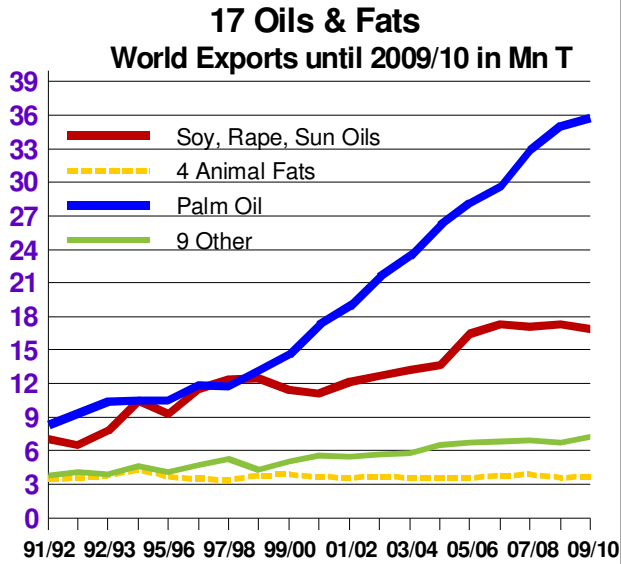
In % of all 17 oils & fats





Rising Global Dependence on Palm Oil

- **Palm oil** now accounts for 56% of world exports.
- World **palm oil** exports 35.0 Mn T in 2008/09, up **200% since 1997/98**
- Exports of **soya, rape & sun oils** 17.4 Mn, up 40%
- Exports of all 17 oils & fats rose by 90% to 63 Mn T in Oct/Sept 2008/09



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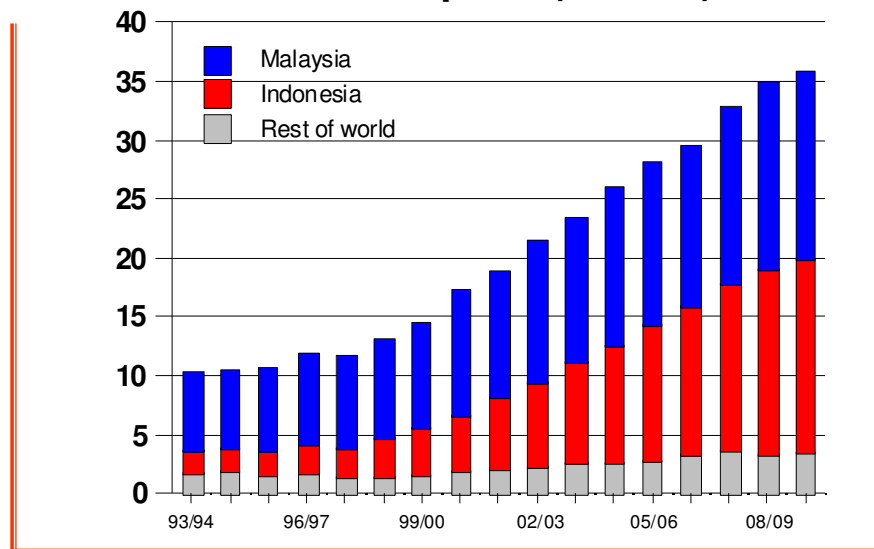
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Dominance of Indonesia & Malaysia

Palm Oil Exports (in Mn T)



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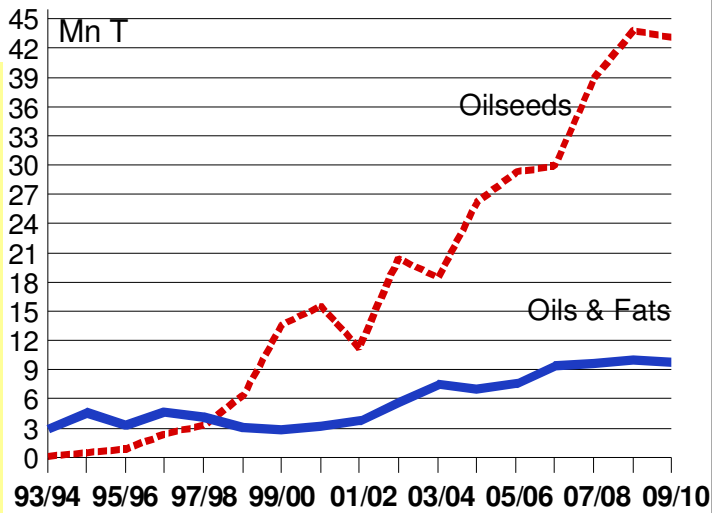
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CHINA : Imports of Oilseeds and Oils & Fats

- China is the biggest world importer, accounting for:
- Almost 50% of world oilseed imports and
- 16% of world oils & fats imports in 2008/09
- Big stocks accumulated in 2008/09



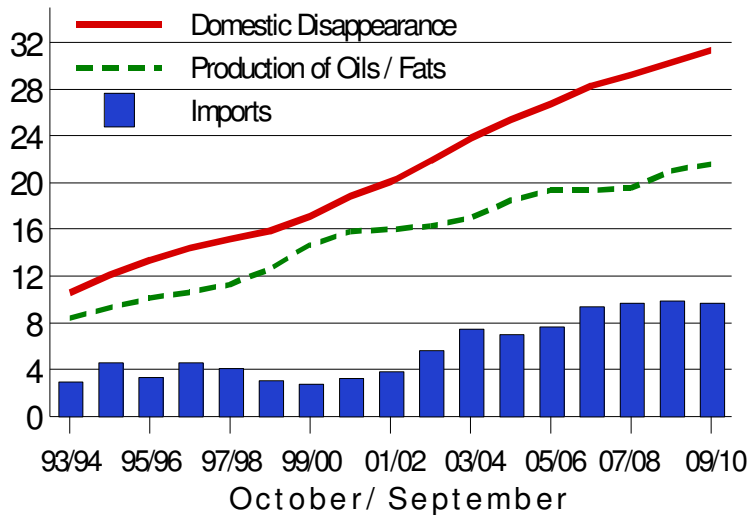
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CHINA: Domestic Supply & Demand and Imports of Oils & Fats (MnT)



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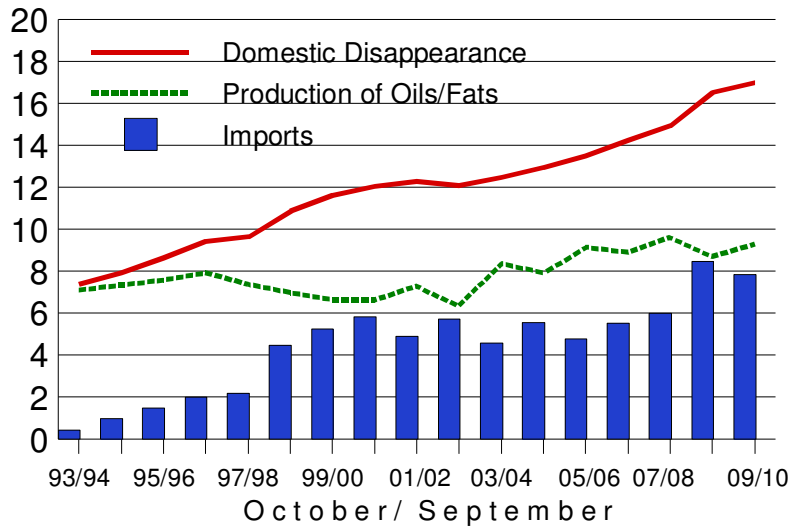
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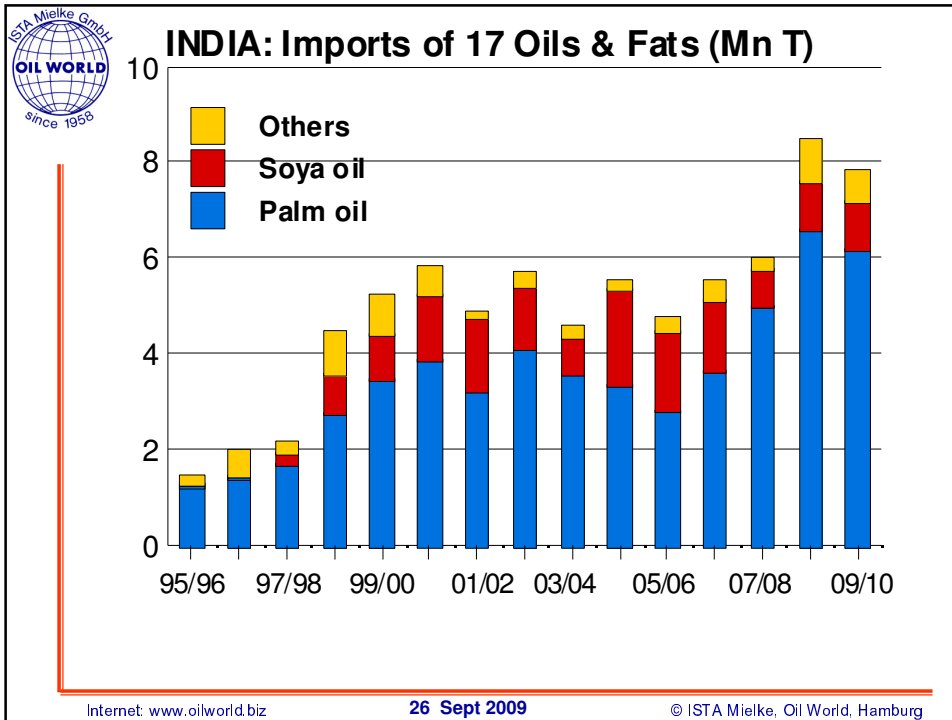
- Big stocks accumulated in 2008/09
- Decline in imports of palm oil and soya oil in Oct/Dec moderate the tightness
- And contribute to seasonal recovery in Mal. palm oil stocks

CHINA: Summary Balance of 17 Oils & Fats (Mn T)

	October/September				
	09/10F	08/09	07/08	06/07	92/93
Production	21.66*	21.01*	19.60	19.40	7.68
Imports	9.73*	9.93*	9.67	9.40	1.52
Soya oil	2.10*	2.46*	2.73	2.40	.10
Rape oil . . . . .	.35*	.40*	.28	.33	.15
Palm oil	6.00*	5.85*	5.56	5.54	1.11
Exports	.18*	.14*	.24	.24	.25
Stock change	-.17*	+.50*	-.24	+.31	-.44
Consumption	31.38*	30.30*	29.27	28.25	9.39
Soya oil	9.75*	9.45*	9.25	8.30	.84
Rape oil	5.52*	5.17*	4.59	4.74	2.60
Palm oil	6.07*	5.64*	5.66	5.46	1.08
Caput use (kilos)	23.6*	22.9*	22.3	21.6	8.0
Population (Mn)	1331*	1323*	1314	1306	1169

INDIA: Domestic Supply & Demand and Imports of Oils & Fats (MnT)





Key Factors Determining World Supply, Demand and Prices

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El Niño Conditions

- **Considerable rainfall deficits of 15 – 30% in Malaysia and Indonesia in May/July 2009**
- **Effecting palm oil production with different time lags**

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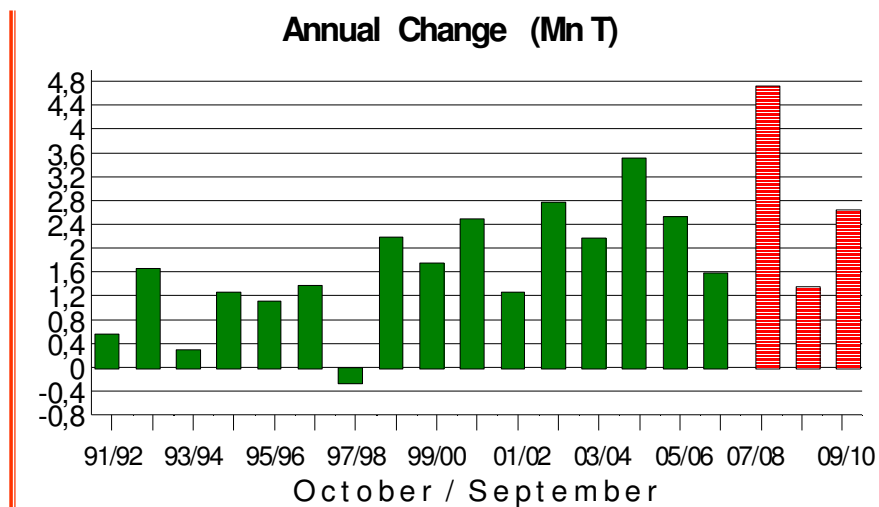
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World output of palm oil showed a below average growth in 2008/09, and end-Sept 2009 stocks down 0.4 Mn T

Palm Oil : World Production

Annual Change (Mn T)



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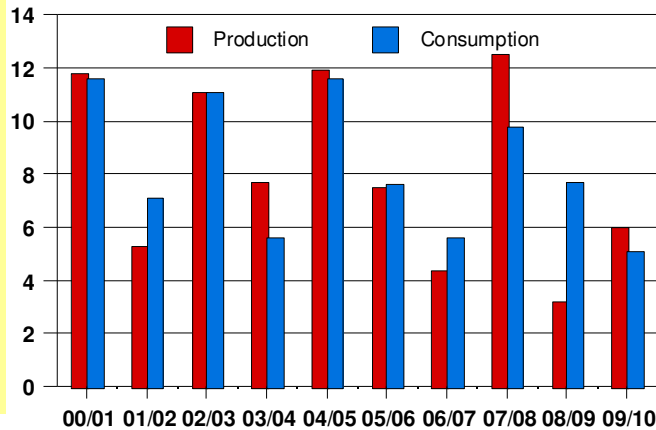
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- Due to low stocks at the start of 2009/10, world palm oil supply is set rise by only 3.8% next season,
- . . . despite a recovery in world production by 6%
- There has already been damage from El Niño in June/Aug 2009.
- Palm oil output to stay below expectations in 2009/10.

PALM OIL World Production vs. Demand

Growth Rates in %



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El Niño Conditions

- **El Niño has become a fact, but its further development remains unclear**
- **Rainfall deficits of 15 – 30% in Malaysia and Indonesia in May/July 2009 (oil palms stressed), but some improvement occurred lately**
- **Indian rain 26% below normal in June/Aug 09**
- **Less rain in Australia**
- **But improved rainfall in Argentina + S. Brazil now forecasts for Sept/Dec 2009**
- **Impacts for 2010: If El Niño continues, it is likely to be bearish for oilmeals but bullish for vegetable oils**

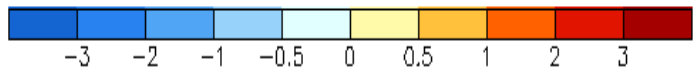
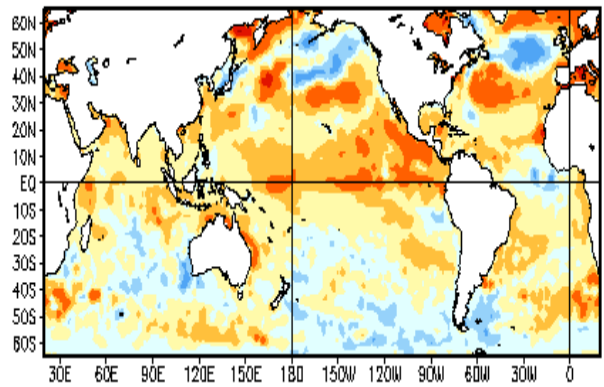
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Average SST Anomalies 23 AUG 2009 - 19 SEP 2009



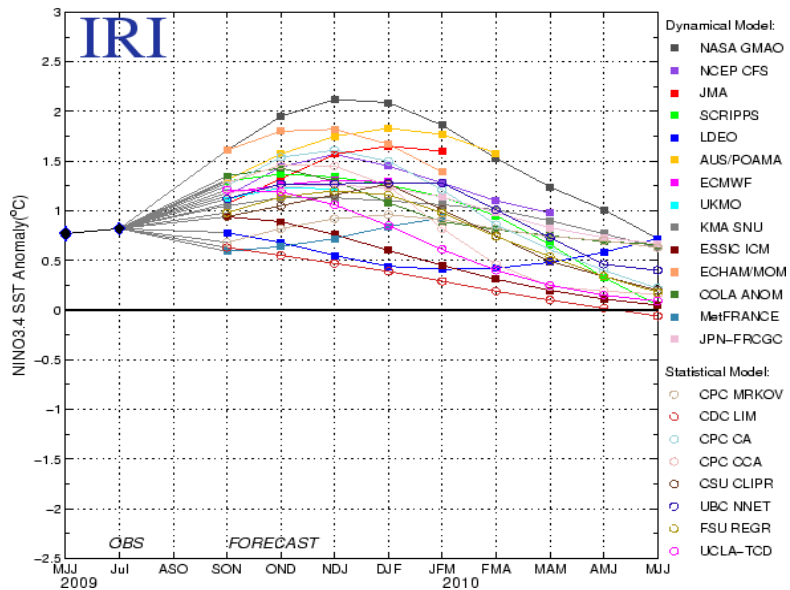
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Model Forecasts of ENSO from Sep 2009



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Price Prospects in Sept/Febr 2009/10

- **High price volatility is likely to continue in the 2009/10 season**
- **Supply tightness in Sept/Febr 2009/10, which is not yet reflected in current prices**
- **I consider the Nov 2009 soybean futures to be undervalued**
- **In the cash markets soybeans are much firmer**
- **South American soya oil prices appreciating**

- **The USA is already sold out for Oct and Nov 09 export of soybeans & meal (logistical constraints)**
- **Strong world import demand for US soybeans, meal and oil - > is price supportive**

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Price Prospects in Sept/Febr 2009/10

- **Due to the shortage of soybeans, many crushers (in Europe and elsewhere) will raise processing of rapeseed and sunflowerseed in Sept/Dec 2009,**
- **which should be bearish for vegetable oils but supportive for oilmeals**
- **Economic prospects have improved**
- **Mineral oil prices, currencies, inflation**

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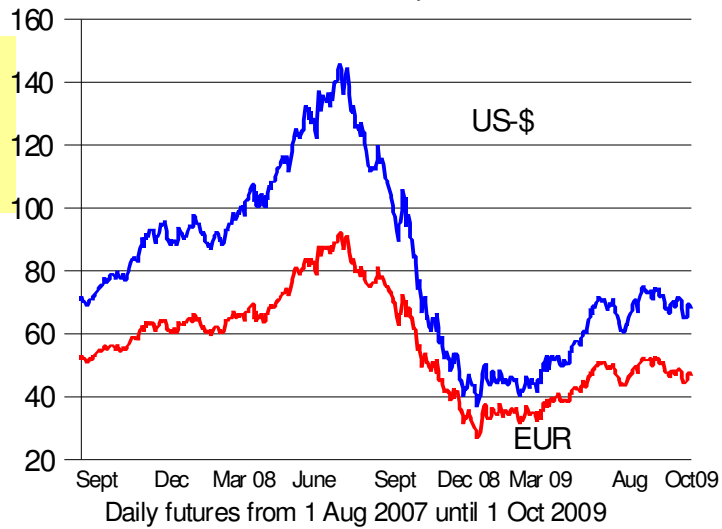
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Daily Brent Crude Oil Prices

in US-\$ and EUR per Barrel

- We expect crude oil prices to appreciate further to US \$ 75-85 in 2010



Internet: www.oilworld.biz

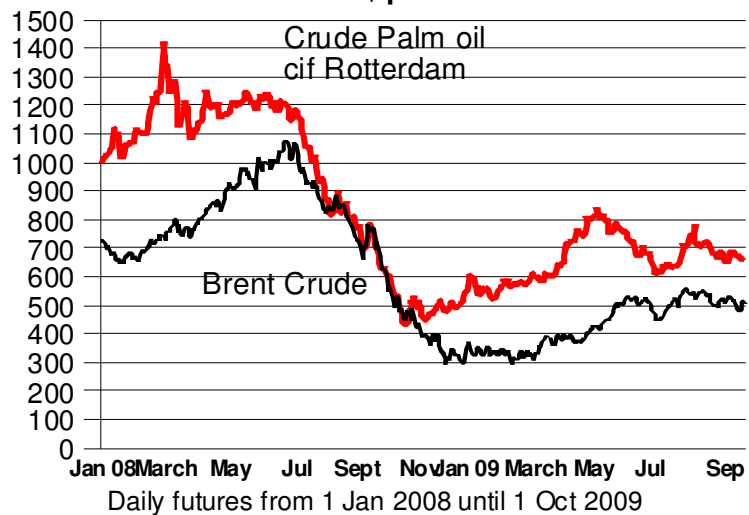
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Daily Prices of Crude Palm Oil & Brent Crude

in US-\$ per Tonne



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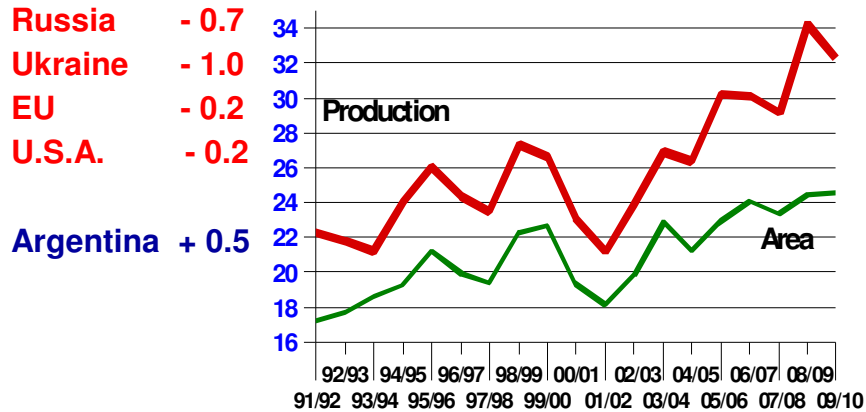
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2009/10 World Output Down 2.0 Mn T

SUNFLOWERSEED

World Production (Mn T) and Area (Mn ha)



- Russia** - 0.7
- Ukraine** - 1.0
- EU** - 0.2
- U.S.A.** - 0.2
- Argentina** + 0.5

In 2009/10 world sunfl.seed crush -1.4 Mn T (vs. +5.5 Mn)
and sun oil output -0.7 Mn T (vs. +2.6 Mn T in 08/09)

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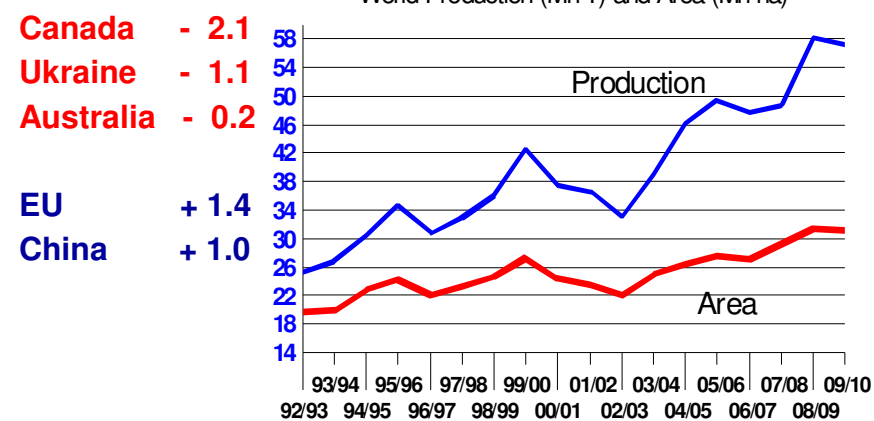
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2009/10 World Output Down 1.0 Mn T

RAPESEED

World Production (Mn T) and Area (Mn ha)



- Canada** - 2.1
- Ukraine** - 1.1
- Australia** - 0.2
- EU** + 1.4
- China** + 1.0

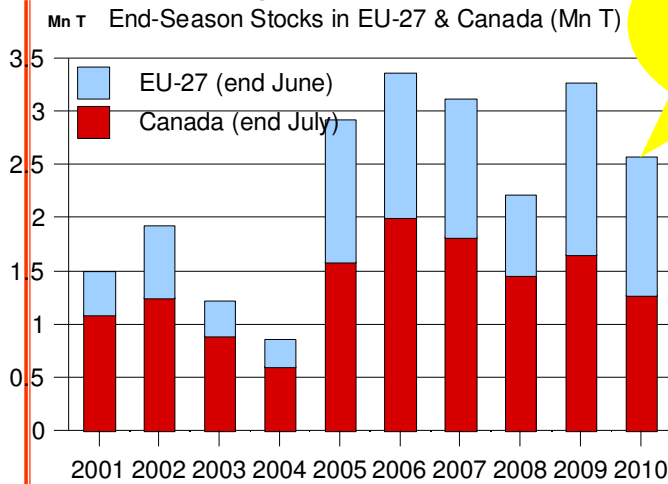
In 2009/10 world rapeseed crush +3.0 Mn T (vs. +3.6 Mn)
and rape oil output +1.2 Mn T (vs. +1.7 Mn T in 08/09)

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Rapeseed & Canola



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Price Prospects in 2009/10

- **Palm oil well supported at current levels, as stocks currently unusually small,**
- **but high stocks in India and China**

- **Risks of higher veg oil prices, due to**
 - **low world stocks at export locations,**
 - **production losses in India**
 - **accelerating demand (economic recovery)**
 - **larger biodiesel output in 2010**

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Price Prospects in Mar/Aug 2010

- **El Niño is bearish for oilmeals but bullish for vegetable oils – (further trend uncertain)**
- **As soybean crush is boosted, meal prices will be under pressure to stimulate demand**
- **Soya oil to rise relative to soya meal and will have to finance a larger share of crush value**
- **Soya meal prices could fall by US-\$ 100 – 120**
- **Soybean futures to fall below \$ 8.00 per bu**
- **Higher global demand of soya oil, due to insufficient supplies of palm, sun and rape oils**
- **Global Veg Oil Demand (food+non-food) is set to exceed production in 2009/10**

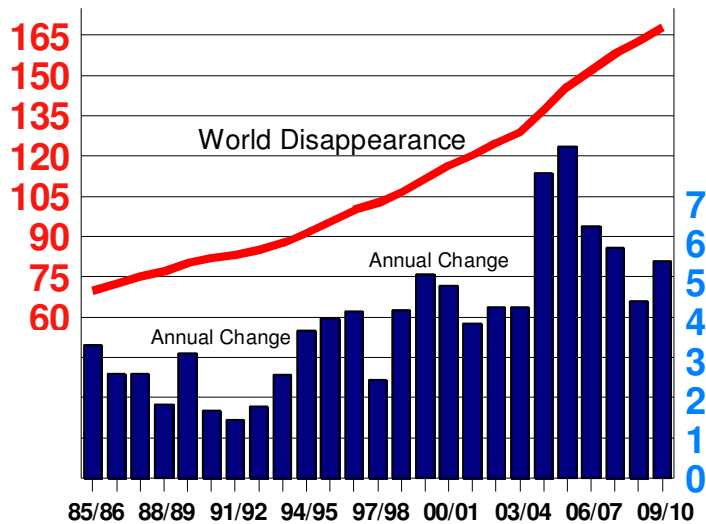
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17 Oils & Fats : World Disappearance Total Usage and Annual Change (Mn T)



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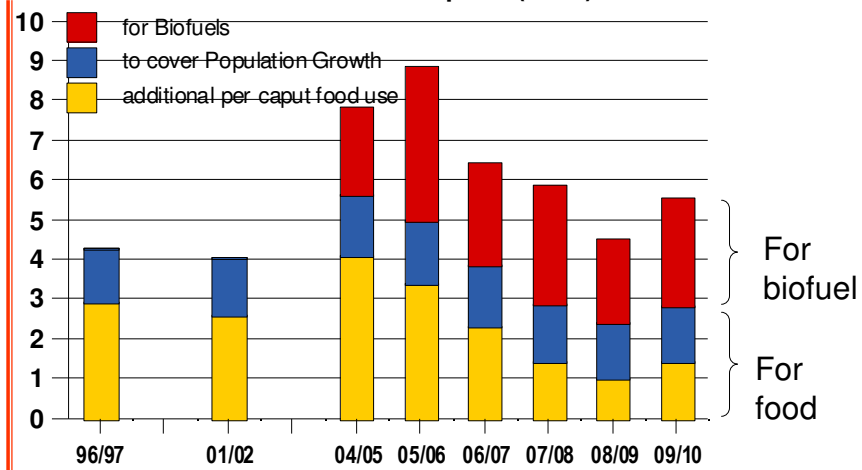
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17 Oils & Fats

Growth of World Consumption (Mn T)



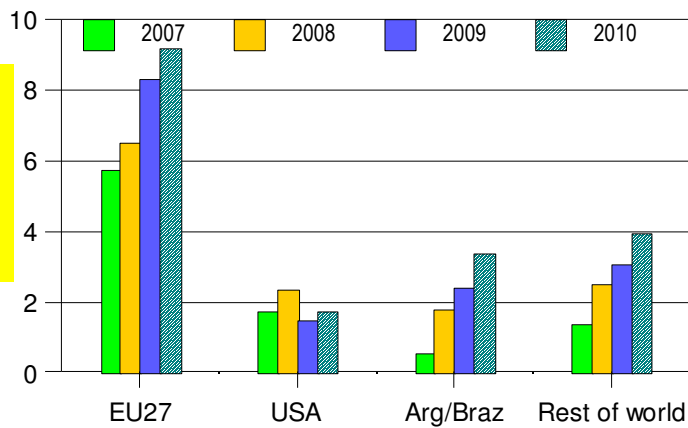
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World Production of Biodiesel, Mn T

Also in 2009/10 biodiesel will be a key growth market for oils/fats



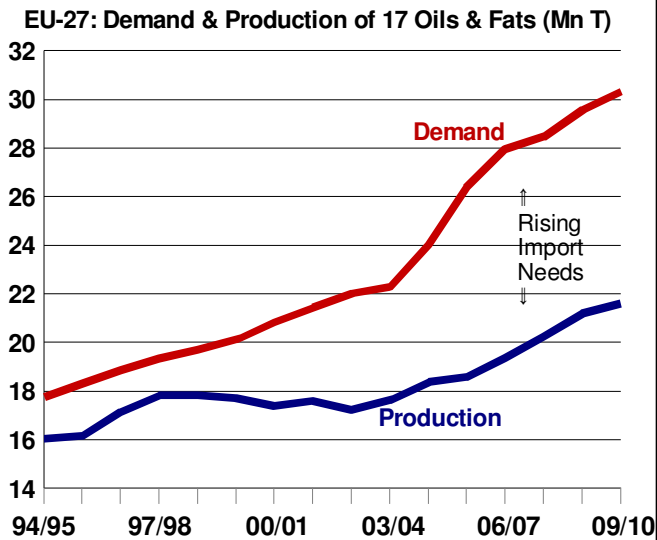
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EU demand outpacing production growth

- Driven by biofuels, total EU usage of oils & fats boosted by 7.4 Mn T five years to 2008/09
- But as EU output rose only 3.6 Mn T, net imports of oils & fats were raised by 3.8 Mn,
- making the EU-27 the world's largest importer of 10.1 Mn T in 2008/09



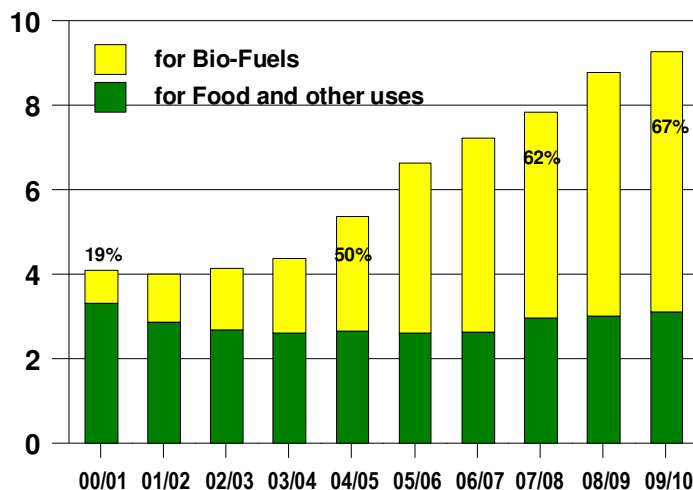
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EU-27 : Consumption of Rape Oil Sharp Increase for Bio-Fuels (Mn T)



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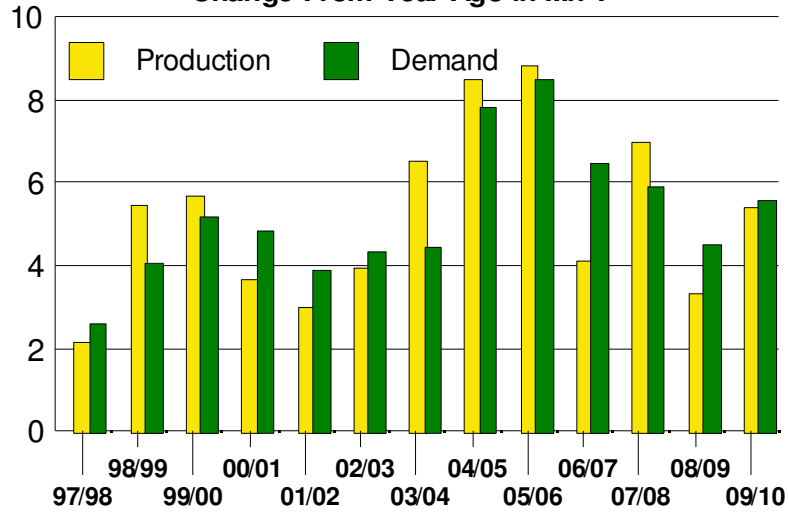
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17 OILS & FATS: Production & Demand

Change From Year Ago in Mn T



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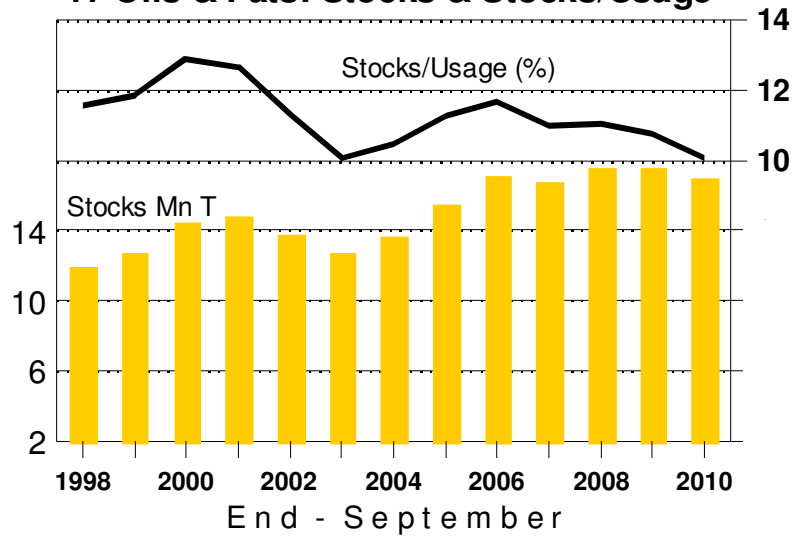
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Stocks relative to annual usage to drop again in 09/10

17 Oils & Fats: Stocks & Stocks/Usage



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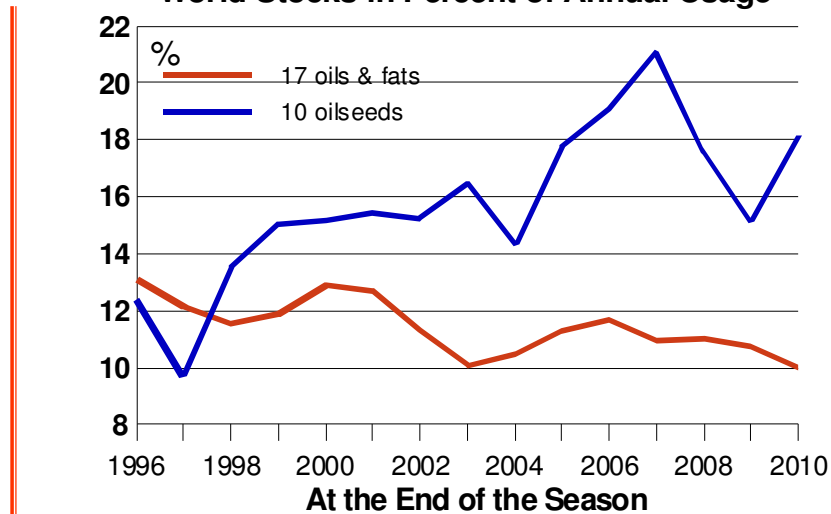
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Oilseed Stocks Recover, Oils/Fats Stocks Likely to decline Further in 2009/10

World Stocks in Percent of Annual Usage



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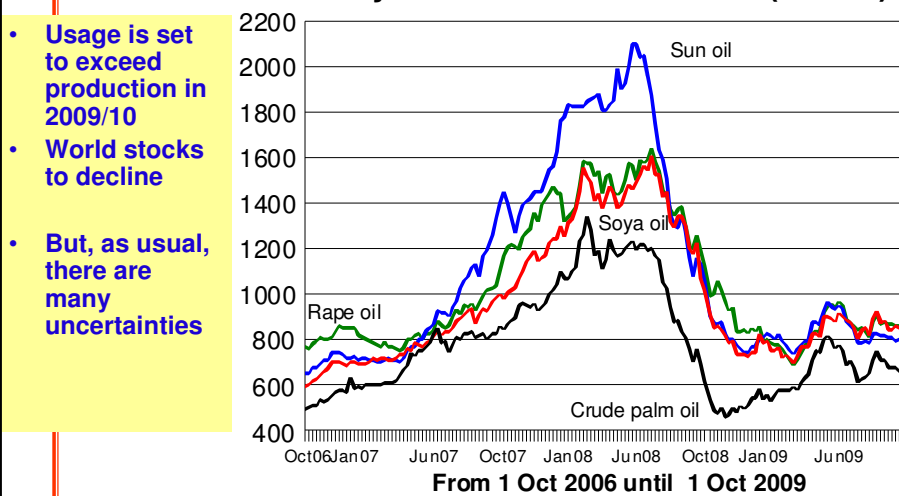
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There is Upward Potential for Edible Oil Prices in 2009/10

Weekly Oil Prices in Rotterdam (US-\$/T)



- Usage is set to exceed production in 2009/10
- World stocks to decline
- But, as usual, there are many uncertainties

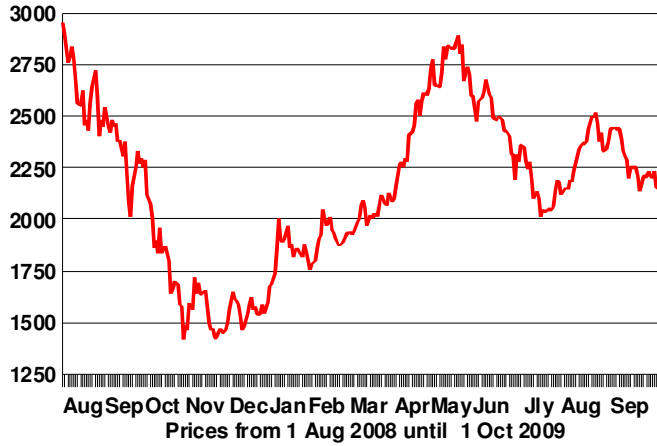
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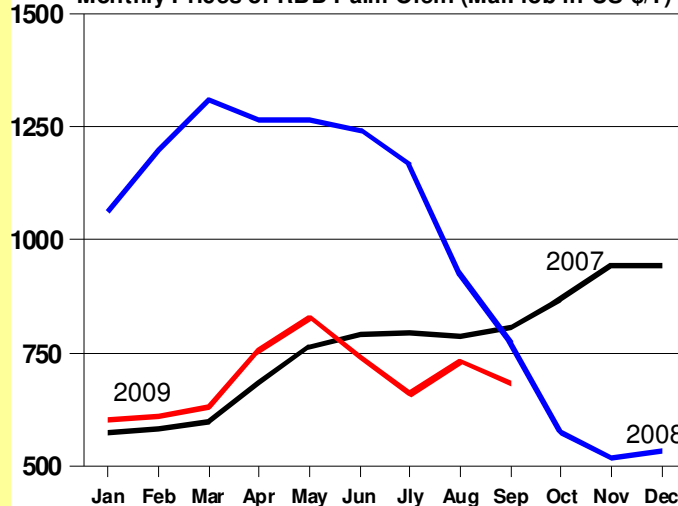
- Palm oil futures in Malaysia could come under temporary pressure in Oct & Nov on rising stocks (2000 to hold)
- Tightening in Jan/Mar 2010
- Prices should appreciate in Jan/June 2010, probably to 2400 – 2500 Mal. Ringgit

MALAYSIA: Crude Palm Oil Futures Close
First position in Malaysian Ringgit/T



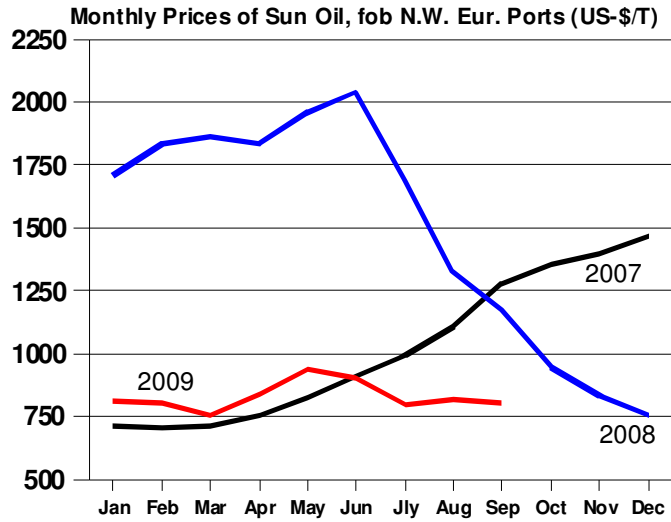
- Palm olein is set to trade between 650 – 750 in Oct/Dec (well above last year)
- The forecast price range is wide at US \$ 720 – 850 in Jan/June 2010, depending on the strength of El Niño, purchases of India & China, and other factors.

Monthly Prices of RBD Palm Olein (Mal. FOB in US-\$/T)





- Sun oil supplies are still large at the moment and prices at a discounts to soya and rape oils - a good buying opportunity.
- But supplies will tighten in Jan/Sept 2010, pulling prices above those of soya and rape oils.



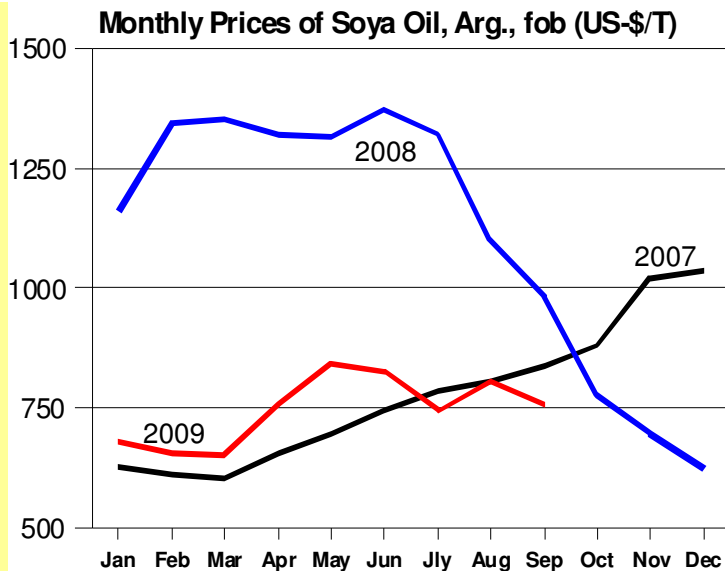
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- Arg. soya oil prices will continue to strengthen in Oct/Dec on tight supplies and widen their premium to palm oil.
- World production to rise only from March 2010 onward.
- Soya oil will then be supported by sun oil & palm oil as well as the weakness of meal.



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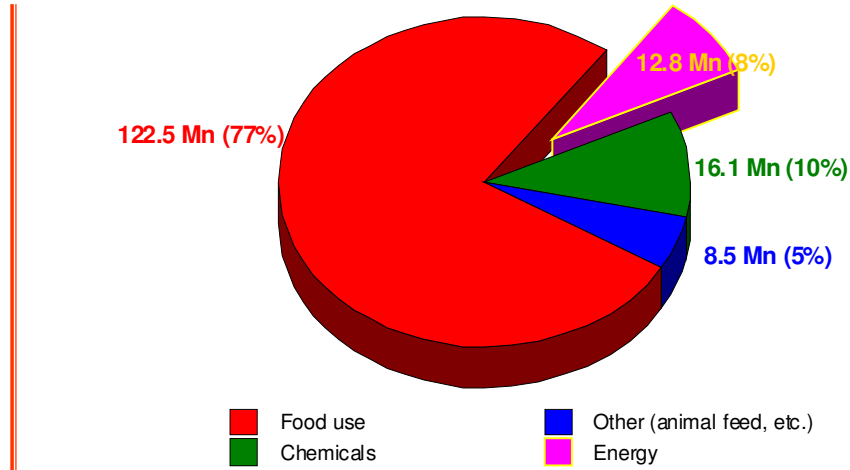
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8% of world oils & fats consumption used for energy

17 Oils & Fats: World Consumption, by Category

Jan/Dec 2008 total: 159.9 Mn T



Source: ISTA Mielke GmbH, OIL WORLD, May 2009

Internet: www.oilworld.biz

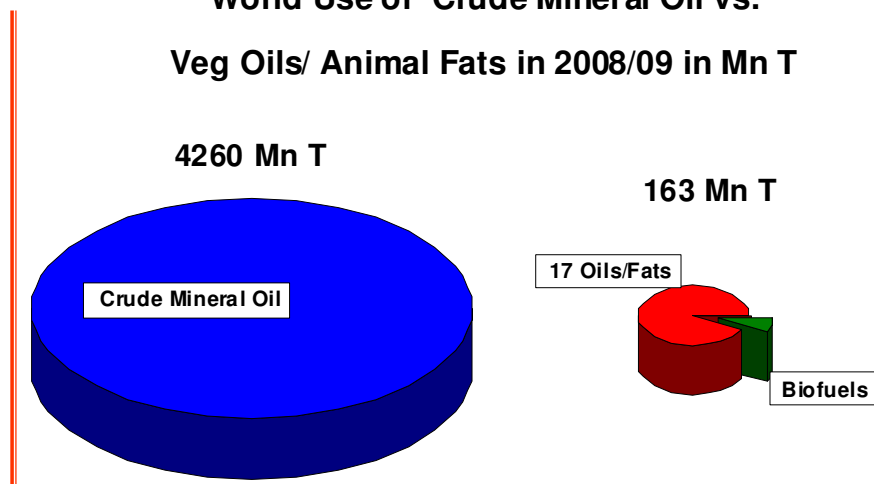
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Biofuels produced from oils & fats CANNOT even partly solve the global energy problems

World Use of Crude Mineral Oil vs. Veg Oils/ Animal Fats in 2008/09 in Mn T



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Thank You for Your Kind Attention !

If I can be of assistance to you in the future, you are invited to contact me any time.

More details and background information have been released in the Oil World MONTHLY of 18 Sept 2009, which can be obtained from the Internet.

Thomas Mielke

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