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Challenges for edible oils in coping with demands

Part 2

"Rising populations mean boom time for palm oil in particular will continue"

OF THE six regions of the world, only two regions – Asia Pacific and the Americas – are net exporters of edible oils and fats. Palm oil forms the bulk of the exports from the Asia Pacific, while in the case of the Americas, it is soybean oil.

With the global population increasing by 70 to 80 million a year and the demand for edible oils and fats expanding by four to five million metric tonnes a year, the major importing countries have been moved, where possible, to raise local production of edible oils and fats.

However, this cannot be done on sufficient large scales because of various limitations, the major one being the lack of suitable, arable land.

Therefore, says MPOC Chief Executive Officer Tan Sri Dr Yusof Basiron in his working paper, *Glimpse of 2011 – Pointers for 2011 on Global Oils & Fats Trade* presented at the POTS KL 2010 held in early October, it will be left to the net exporting countries to cope with the rising demand for edible oils and fats.

Here, in this issue's presentation of the second part of his paper, we look at the situation in some of the major net importing countries.

One of the biggest importers of edible oils and fats in the world is China, where the usage of edible oils has been growing in tandem with the growing population.

However, imports fell by 225,500 MT to 4.5 million MT in the Jan-June 2010 period, and this could be attributed to excessive crushing of soybean for oil as well as feed meal for livestock.

China's soybean oil imports also fell substantially due to its trade dispute with Argentina. For the period Jan-June 2010, total soybean oil imports fell by 712,800 MT to 256,300 MT.

However, the country's import of palm oil has not been affected by this cutback in oils and fats imports. For Jan-June 2010, palm oil imports rose by 177,400 MT to 3,048,000 MT. Export from Malaysia rose by 440,500 MT to 2,065,300 MT, while the import of Indonesian palm oil fell by 273,900 MT to 971,700 MT.

Figure 1: China Soybean Oil Import (Jan-June 09 vs. 10)

China enjoys a growing gross domestic product (GDP), which was recorded by the China State Council Development Research Centre at 8.9% in 2009, with the 2010 GDP projected to be 9.25%. The country's population recorded a 0.9% growth, or 11.9 million more to 1.33 billion in 2010.

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In the case of soybean, the large crushing capacity available in the country and growing demand for soybean meal has encouraged more crushing. In the period January to June 2010, soybean crushing increased by 3.2 million MT to 23.7 million MT, with the trend expected to continue till the year end.

Increased crushing means that China is not expected to import high volumes of oils and fats, at least in the coming year.

India to export less, import more

In the case of India, its domestic production of edible oils and fats is forecast to drop to 8.08 million MT this year, from 9.13 million MT in 2006. Imports this year are expected to climb to 8.7 million MT, as against 5.15 million MT in 2006.

However, this will still be a shortfall, since consumption for this year is estimated at 17.5 million MT. India also exports a limited amount of oils and fats: the amount was 332,000 MT in 2006, but this is expected to drop to 300,000 MT this year.

The country's GDP growth for 2010 has been forecast at 6% to 7%, with population growth put at 1.66%, or an increase from 1.19 billion to 1.21 billion.

Between January and August this year, India's imports of oils and fats were 5.9

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Ready for Correction

by Benny Lee
Chief Market Strategist
of NextView Group

THE palm oil market extended its bullish trend last in November, after the futures price went into minor correction, to a 33-month high on Dec 14 at RM3,766 per metric tonne on Bursa Malaysia. The price immediately pulled back to a low of RM3,471 before settling at RM3,658 on Dec 23.

November was the sixth consecutive month of gains for the price of crude palm oil. The price jumped 17.4% then. The price of crude palm oil has increased 54% in six months. I had expected the market to take a breather in November, but it continued to break the then immediate resistance level at RM3,400. The price is currently at historic high level.

The market continues to attract more interest as the trading volume is at its highest level ever. Average daily trading volume in November was 12,900 contracts, as compared with 12,300 contracts in October. On Nov 18, the number of contracts traded was 24,831, the highest ever in a single day.

However, trading volume started to ease in the last two weeks of December, with only 9,700 contracts on a daily average. Open interest increased marginally in November as compared with October. With the On-Balance Volume (OBV) indicator, these indicators indicate that there is strong increase in accumulation (long positions).

The bullish palm oil price is factored by the bullish sentiment in commodities. The OBV indicator indicates that there is very little selling pressure. Increase in soybean oil and crude oil prices attributed to the increase in crude palm oil price despite a sharp decline in exports. Lower supply in vegetable oils is expected globally because of unexpected weather conditions.

According to cargo surveyors SGS (Malaysia) Sdn Bhd, Malaysia's palm oil export estimates during the Dec 1-20 period fell 27% compared with the same period last month, to 799,071 MT. Another surveyor, Intertek Services Sdn Bhd estimated exports at 26% to 776,910 MT.

The strong uptrend has caused average prices to continue to increase as well. The 30-day short-term moving average, currently at RM3,456, has been supporting the rally well since September. The mid- and longer-term 60- and 90-day moving averages now range between RM3,000 and RM3,200. A new, steeper linear uptrend line was created in the past two months, showing a very aggressive bullish market. From the trend indicators, there is no sign at all that the trend is being threatened.

FCPO daily chart as a 23 December 2010.
Charted by Benny Lee using NextView Advisor Professional

Momentum indicators are a little mixed. The Relative Strength Index (RSI) and MACD indicators show a bearish divergence against crude palm oil price trend while the Momentum Oscillator shows a bullish convergence. A bearish divergence in an uptrend indicates a weak uptrend and a convergence indicates a strong uptrend.

The wide difference between the top and bottom bands of the Bollinger Bands indicates that the price is still volatile, but the tightening of the bands in the past two weeks shows that the volatility has subsided. The average weekly trading range last month was similar to the previous month at RM200. This shows that the market was still volatile last month.

At a glance, the technical indicators do not show any sign of weaknesses at all. The uptrend is steadily strong. Fundamentally, with bullish sentiment over commodities, the uptrend may be able to be supported. However, there are warning signs from the technical indicator that indicate the market may be overheating, or has created a big bubble.

First, my extreme high price level is at RM3,600 and the price has gone beyond this level. This, in my analysis, is considered highly overbought. Second is the high volatility which has probably found a peak at RM200 on a weekly basis. Third, the two out of three momentum indicators indicate a weakening uptrend. Fourth, the sharp increase in the uptrend line is an indication of a bubble and last, the decline in volume for the past two weeks indicates weaker sentiment.

All these are signs that the market is ready for a correction. These indicators tell me that we need better catalysts in order for the uptrend to continue, and not the news that everyone already knows. The average price is between RM3,200 and RM3,400 and in my opinion, the price of crude palm oil is more sustainable at this range.

I'd like to take this opportunity to wish all of you a Merry Christmas and a wonderful and happy New Year. ■

Mr. Benny Lee is a private trader, trainer and sought-after speaker in the financial market. He is the Chief Market Strategist for NextView Group. NextView Group is a group of companies in the Asian region that provides a leading real-time investment tool for both professional and retail investors. NextView is also a leading Investor Education training provider. For more information, log on to www.nextview.com.

The above analysis and commentary is based on the writer's personal opinion towards the price of crude palm oil using technical analysis and should not be construed as any form of investment advice. The writer will not be responsible for any decision made from using the above article.

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MARKET *Insights*

EU-27: Rising Import Requirements for Fats and Oils

THE EU-27 nations have been major users of oils and fats in Europe. The strong expansion of the biofuel sector there in the last few years, coupled with insufficient domestic output of oils and fats, have boosted the consumption of oils and fats and further strengthened the position of EU-27 as a net importer oils and fats. The last few years has also seen bigger consumptions of four major oils – rapeseed, sunflower, soybean and palm oil.

Profile of Oils and Fats

EU-27 is a major producer of rapeseed oil, with the main producers being Germany and France, accounting for 5.44 million metric tonnes (MMT) or about 56% of the total rapeseed oil produced in the region. Other major edible oils produced are sunflower oil, soybean oil and olive oil.

France and Spain are the leaders in sunflower oil production; Germany, Spain and Netherlands are the main producers of soybean oil; while Spain and Italy produce the most olive oil. Total production of oils and fats has increased from only 17.86 MMT in 1998 to more than 21.6 MMT in 2009. Production in 2010 is forecast to hit the 22.3 MMT mark as a result of better yields of oilseeds and higher crushing activities.

Production of rapeseed oil is expected to increase to 9.57 MMT in 2010, an increase from 9.0 MMT in 2009. Production of soybean oil is expected to remain stagnant, with an increase of a mere 27,000 MT estimated for 2010 on a year-to-year basis, but sunflower oil production is estimated to decrease by 165,000 MT in 2010 from a year before.

Demand for oils and fats in EU-27 has been on an increasing trend the last few years. Total consumption was recorded at a mere 19.21 MMT in 1991, and by 2009, it had grown 30.02 MMT. The trend is expected to grow in 2010, with total consumption estimated to hit 31.2 MMT. The importance of the energy sector and increasing demand from the food and industrial sectors are the main drivers that will shoot up the consumption rate of oils and fats in the EU-27, as shown in Table 2.

Oilseeds Situation

In the oilseeds sector, rapeseed crushings continue to rise, with 22.84 MMT of rapeseeds expected to be crushed in 2010, an increase of 1.4 MMT from a year before, mainly on account of higher crop estimates in the UK and France. Due to the global supply of rapeseeds shrinking, EU-27's rapeseed import is expected to decline to 2.07 MMT in 2010, down 630,000 tonnes from 2008. Rapeseed imports from the two main supplying countries, Ukraine and Australia, have gone down sizeably.

However, imports of soybeans are set to register a significant rise, by around 1.1 MMT to 14.26 MMT in 2010 because of increased requirements from the EU

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Table 1: Historical Patterns of Production, Consumption and Net Import

Year	Production ('000 tonnes)	Consumption ('000 tonnes)	Net Import ('tonnes)	% (Net Import / Production)
1998	17860	19214.9	1649.1	9.2
1999	17801	19545.6	1732.6	9.7
2000	17687	20134	2338.1	13.2
2001	17559	21050.9	3411.6	19.4
2002	17527	21982.7	4027	23.0
2003	17468.7	22289.3	4529.7	25.9
2004	17709	22682	4948.1	27.9
2005	18414	24449	6211	33.7
2006	18793	26915	8392	44.7
2007	19604	28162	8202	41.8
2008	20570	28970	8569	41.7
2009	21622	29974	8248	38.2
2010F	22317	31206	8782	39.4

Table 2: Total Usage of 17 Oils and Fats and the Importance of the Energy Sector (MMT)

	2009	2008	2007	2006	2005
Total Usage	**30.02**	**28.99**	**28.16**	**26.92**	**24.45**
For Energy	**9.52**	**8.25**	**7.29**	**5.99**	**3.62**
Biodiesel	8.40	7.39	6.02	4.88	2.89
Electricity	0.80	0.38	0.44	0.53	0.35
Direct Usage	0.32	0.48	0.83	0.58	0.38
Other Uses (a)	**20.5**	**20.74**	**20.87**	**20.93**	**20.83**
Capita usage (b)	41.3	41.9	42.3	42.5	42.5
GDP Growth	-4.1%	0.9%	3.1%	3.4%	2.2%

Source: Oil World

They'll do anything

to stop palm oil growth…

NUTRITIONAL issues associated with the saturated fat content of palm oil used to be one of the key ingredients of the 1980s anti-palm oil campaign, but using scientific data, Malaysia has been successful in warding off these attacks.

However, the saturated fat issues re-emerged through not just anti-palm oil lobbying by rivals in the industry but also by vested commercial interests.

These came in the form of barriers set up through national and international rules and regulations, such as those imposed by the World Health Organisation, Food and Agriculture Organisation and the American Heart Association.

The result is that now, food labelling and nutritional claims associated with fats and fatty acids, including the Codex Alimentarius, have a potential impact on the global oils and fats trade, says MPOC Deputy CEO Dr Kalyana Sundram in his paper at last month's POTS KL 2010, *Nutrition, Dietary Guidelines and Food Labelling: Their Potential Impact on Oils and Fats Trade*.

Cholesterol-free cooking oil means less than 2mg cholesterol per serving; or 5gm or less total fat per serving. It also means 20% or less total fat on dry weight basis; 2gm or less saturated fatty acids per serving; or 6% or less saturated fatty acids on a dry weight basis.

The fact is that none of the oils and fats will qualify for a cholesterol-free claim. Giving an example, Dr Kalyana says of all the contents in the globally popular Cadbury chocolate – cocoa power, sugar, milk solids, permitted food additives and colorants and CPSO palm fat – palm oil fat is the only sustainable ingredient in the product.

Giving another example of the irrational opposition to palm oil, he cited the unscientific move by the highly developed country Denmark. This Scandinavian nation has proposed a "sin tax" on saturated fat.

The aim is to reduce overall saturated fat consumption by imposing a tax of 25 kroner per kilogramme of fat in an attempt to further increase the health and longevity of the Danish population.

However, this move is not supported by sound scientific principles. Even the Danish Dairy Board and a number of Danish associations are not in favour of this legislation, which they pointed out is also not in keeping with the European Food Safety Authority (EFSA) Dietary Reference Values for Fat Consumption.

Domestically-sourced meat and dairy products containing saturated fats are exempted from this law, making the Danish move discriminatory against foreign products such as palm oil, he adds.

In his paper titled *Are we about to start the Bull Run? Mapping the market thought on oil and oilseeds complex,* P.V. Murali Krishna argues that more than land constraint, it is labour shortage that will be worrisome for the supply of food and related necessities such as edible oils in the coming years.

And this will be especially so for countries like India and China, which are becoming major demand centres. Urbanisation, says Murali, is pulling agriculture-based labour out of the villages, making these nations more import-dependent on food crops.

His study of arable land as a percentage of total land among major oilseed producing countries shows that arable land in the United States accounts for only 19.04% of the total land, unlike 56% in Ukraine. For some of the other major oilseed producing countries, it is 10.19% in Argentina, 11.09% for China and 7.43% for Russia.

The global vegetable oilseed and oil production trends, he said, are turning palm oil-centric, because for most of the other crops, the oilseed output varies greatly, with yields at the mercy of erratic weather, resulting in unsustainable production growth.

However, in Malaysia and Indonesia, plantation expansions have led to higher palm oil production. With soybean and rapeseed oils being increasingly used for biofuel production in the United States and countries of the European Union, palm oil is gaining prominence for edible consumption.

Proof of this is the rising share of palm oil in the total vegetable oils trade. Asia as a whole accounts for close to half of the global edible oil consumption.

Palm, soybean and rapeseed are the preferred oils in Asia, with China and India consuming close to 64% or 40 million metric tonnes of the total Asian consumption of vegetable oils.

Sustainability: Challenges and Opportunities for Palm Oil

THE global production of edible oils and fats totalled 58.6 million MT in 1990-91, of which palm oil made up 22.7% and soybean oil, 28.7%. However, in 2009-10, total global oils and fats production more than doubled to 136.9 million MT, with palm oil making up 38.2% and soybean oil, 27.8%.

The World Bank's forecast is that the middle-income group will be 1.2 billion strong by 2030 – or a 200% increase since 2005. Of the global palm oil consumption of 38.2 million MT currently, Asian consumption accounts for 68%.

With population growth, increased prosperity and stagnant oilseed production in the major consuming countries, where will the extra edible oils demanded, when per capita consumption is expected to touch 30kg per person, come from?

The solution can only be in palm oil, says the adviser to the Roundtable on Sustainable Palm Oil (RSPO), M.R. Chandran, in his paper presented at the POTS KL 2010 early last month.

However, he adds, there are problems because a lot of dirt has been raised about the sustainability of palm oil. NGOs, especially those in the developed countries of the West, have accused the oil palm industry of degrading the environment and depleting the planet of rainforests.

These NGOs have launched campaigns worldwide to harness support against palm oil, and they are succeeding to an extent. The campaigns could well cause a significant damage to palm oil in the eyes of a consuming public that considers itself socially-conscious.

And along with this, food service players and retailers are becoming more demanding, and this can impact entire value chains.

While the industry has been harping on its best management practices, civil society continues to point at deforestation, climate change, loss of biodiversity and social issues and conflicts arising from the expansion of land under oil palm as examples of gaps in the sustainability claims of the industry.

Extensive and poorly managed expansion of oil palm plantations to meet global demands for food and fuel have had grave consequences, Chandran says – until the industry's response came in the form of the Roundtable on Sustainable Palm Oil or RSPO.

This business initiative by the World Wide Fund for Nature (WWF), Aarhus, Golden Hope, Malaysian Palm Oil Association (MPOA), Migros, Sainsbury and Unilever was registered in Switzerland as a not-for-profit organisation on April 8, 2004.

RPOS's aim was to promote the growth and use of sustainable palm oil through cooperation within the supply chain and open dialogue with its stakeholders.

RSPO is the first multi-stakeholder for the entire supply chain of an extensively traded and used commodity that addresses sustainability. RSPO Certification is an economic market-based instrument to raise awareness and provide incentives to both producers and consumers.

Sustainable palm oil is palm oil is delivered through eight basic principles that form the basis for RSPO certification standards:

- Transparency
- Legal Compliance
- Economic Viability
- Best Practices
- Economic Responsibility
- Responsibility to Community
- Responsible New Plantings
- Continuous Improvement

Under RSPO, various steps are taken to ensure that the sustainable palm oil marketed is genuine, even though there are costs involved in the process – which can be up to RM12 per MT. For instance, sustainable oil is kept apart and is traceable to the plantation.

RSPO does not do "green-washing", and neither does it make misleading, commercial-type claims. It is a robust standard for certification, with technical substantiation, and its certification logo is recognised to be on par with other successful accreditations such as Fair Trade and Global Compact.

In the longer-term, RSPO will dispel the negative perceptions of palm oil held by consumers in the European Union and the United States, Chandran points out, adding that over the last seven years, some of the most useful outcomes for Certified Sustainable Palm Oil (CSPO) have come out of the standard setting process, rather than the standard itself.

RSPO is already a success story, compared with other commodity alliances and at current price levels, the production of CSPO is quite rewarding. Therefore, the industry should not wait for customers to come forward and demand Green Palm Oil, for there should be no reason any more for consumers to refuse to use this sustainable vegetable oil.

Oil palm plantations will continue to be sustainable for the next 100 years, he adds, provided the industry continues to act responsibly.

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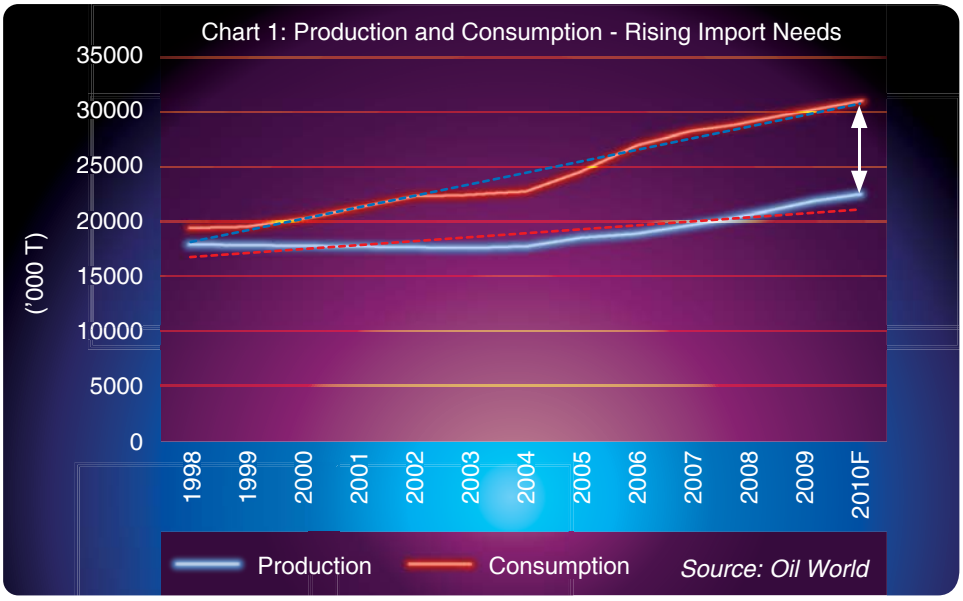
EU-27: Rising Import Requirements for Fats and Oils

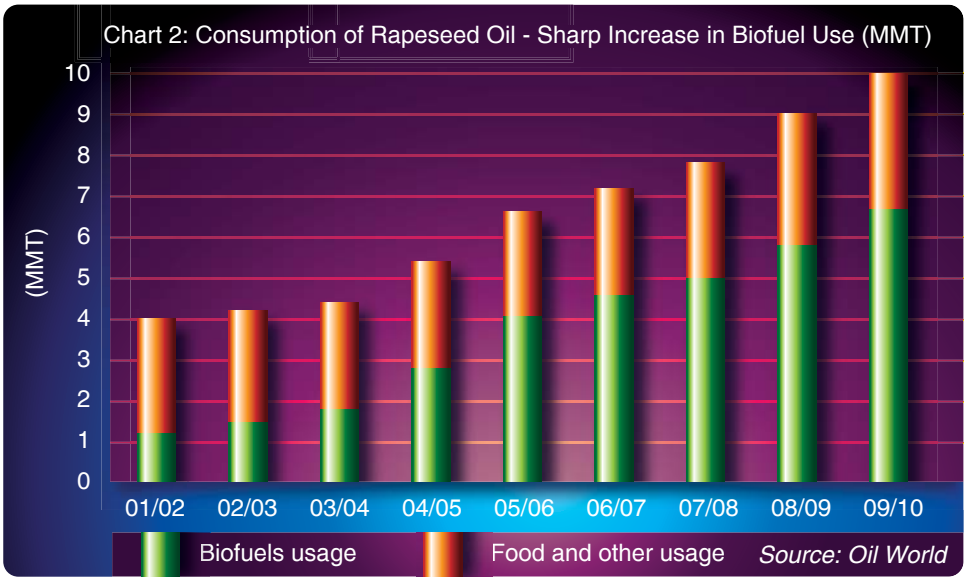
crushing industry as well as insufficient supplies of rapeseed. According to *Oil World*, soybean crushings have picked up in recent months to reverse the sizable decline in the preceding two years. Hence, it is estimated that 12.94 MMT of soybeans will be crushed in 2010 to meet the increasing consumption demand for oils and fats.

Table 3: Biodiesel Production by Country (MMT)

	2010F	2009	2008	2007	2006
France	2.30	2.00	1.86	0.87	0.74
Germany	2.55	2.49	2.67	2.93	2.55
Italy	0.87	0.76	0.59	0.46	0.50
Poland	0.51	0.44	0.35	0.20	0.17
Spain	0.67	0.52	0.24	0.21	0.14
Austria	0.34	0.28	0.23	0.27	0.12
Belgium	0.38	0.35	0.28	0.17	0.03
Finland	0.24	0.18	0.09	0.07	.
Netherlands	0.34	0.17	0.10	0.09	0.02
U.K.	0.30	0.24	0.20	0.16	0.17
Portugal	0.27	0.22	0.18	0.14	0.09
Other EU	0.98	0.75	0.60	0.45	0.35
Total	**9.75**	**8.40**	**7.39**	**6.02**	**4.88**

Source: Oil World





Increasing Growth of the Biofuel Sector

The biodiesel industry appears to be very well-developed and to continue to grow over the next few years. As major producers of rapeseed oil, Germany and France are the leaders in biodiesel production, accounting for 4.85 MMT or about 50% of the total production of biodiesel in EU-27. Table 3 shows in detail the production figures of the other member states.

The strong demand for rapeseed oil, almost exclusively for use in the biodiesel industry, is expected to continue as member states fulfil the current legislation target of 5.75% biofuel blend. Chart 2 shows the dominance of rapeseed oil in the biofuel industry.

The continued strong expansion of the biofuel sector in EU-27 as shown in Chart 3 will propel the consumption of oils and fats in this particular region. It is no doubt that the expanding biofuel sector will again be the key growth market for oils and fats in 2010-11, as is the case in the current season.

Oils and Fats Market Outlook for 2010

Insufficient domestic output will not be able to satisfy the rising rate of oils and fats consumption in the EU-27. This increased demand is almost entirely for the production of biodiesel and in fuel use for generating heat and electricity. EU production of biodiesel is forecast to increase by 1.3 to 1.5 MMT in 2010, thus accounting for the bulk of rising domestic biodiesel requirements, stemming primarily from higher mandatory admixture.

This demand growth for biodiesel is almost fully covered by rapeseed and sunflower oils, leaving a gap in the food sector for the domestic producers to fill. As a result of insufficient domestic output to cover the region's vast population of more than 498 million, EU-27 is expected to continue to import oils and fats, mainly palm oil. Chart 4 shows the net import trend for the last few years and why this trend is expected to continue.

Based on the previous five-year average stock usage ratio of 7.7%, the estimated supply and demand projection is that EU-27's consumption will increase to 31.2 MMT in 2010. With the growing consumption of oils and fats by the energy sector leaving a shortage for the food sector, the net import is also estimated to increase to 8.78 MMT in 2010. Table 4 sums up the oils and fats supply and demand balance estimated for 2010.

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Challenges for edible oils
in coping with demands

million MT, while the total imports in 2009 were 8.9 million MT. The total palm oil import during the Jan-Aug 2010 period was 3.9 million MT.

The European region is a net importing region for edible oils and fats. The EU-27, Russia and Ukraine have the highest impacts on oils and fats scenario in Europe, with palm oil being an important commodity to supplement local demand.

Palm oil's price discount against soybean, rapeseed and sunflower oil has remained intact, making palm oil an economic alternative. The oil also enjoys an encouraging growth in demand in the new EU member states in Eastern Europe, as well as the CIS countries.

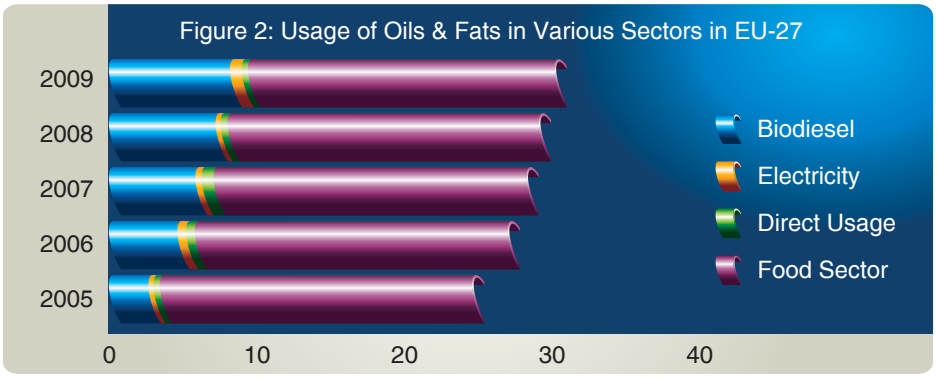
Russia has become a major importer of palm oil due to insufficient domestic output of oils and fats and huge demand for its sunflower oil from EU member states. Ukraine is an important redistribution hub for palm oil in Eastern Europe, where food manufacturers are expected to continue leaning towards cheaper oils, especially palm oil.

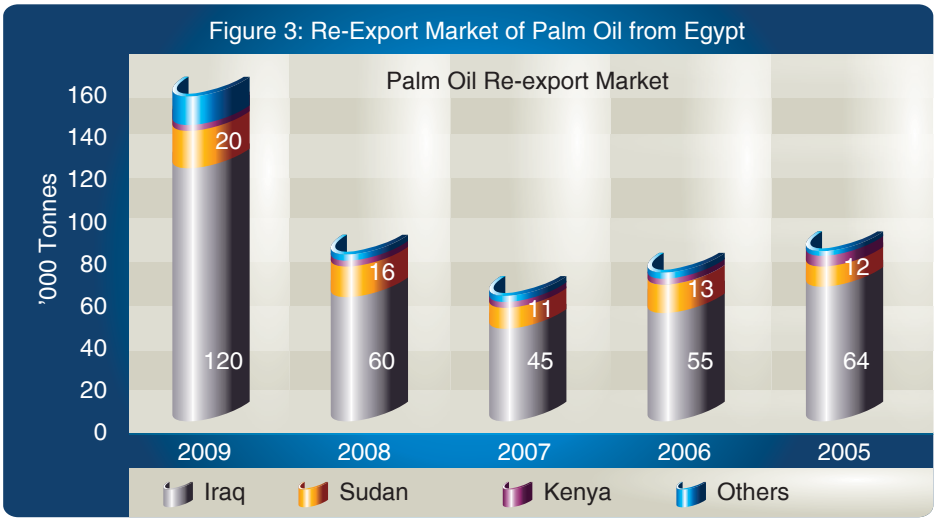
Among the instrumental factors for the continued demand for palm oil among the EU-27 is the shortage of edible oils faced by the food industry as a result of the ongoing strong expansion of biofuel use, which largely takes up rapeseed and sunflower oils.

Compounding the situation are the insufficient supplies of rapeseed, especially from Ukraine, and stagnation in the production of sunflower oil. Nevertheless, the price margins with soybean, rapeseed and sunflower oils have remained intact, making palm oil an economic alternative.

As for its biofuel policy, the EU Commission remains very determined that oils used in biofuel production to fulfil the targeted reduction of carbon dioxide emissions must be certified as having been produced within the sustainability guidelines it has set.

In Russia and Ukraine, bumper crops, higher crushing activities and domestic consumer preference continue to boost sunflower oil consumption. However, the weather is a key variable to watch in the coming year, as it could affect prospects and production forecast of both sunflower and rapeseed.





Other factors are the economic meltdown affecting the region and the devaluation of the Ukrainian currency. These could have an influence on the demand for palm oil, although palm oil import remains high, compared with the imports of other vegetable oils.

Egypt: A key hub for re-export

Among the Middle East countries, Egypt is one of the major importers of edible oils and fats, a significant amount of which is re-exported to countries in the region, including North Africa.

Soybean oil is the major oil produced by the country, accounting for 63.5% of total domestic output. However, this is not enough and as at July this year, some one million MT of soybean was imported, or 26% more than the previous year, translating into a pronounced increase of soybean crushing and supplies of soybean oil.

Production of butter fat and local cotton oil is estimated at the same level as the last five years – around 120,000 MT. Total local production of oils and fats at the end of 2010 has been estimated at 410,000 MT.

Population increased at average 3.1% a year from 62.8 million in 1996 to some 84.5 million estimated at the end of 2010. The consumption-population ratio increased significantly, from only 16.7kg/person/year in 1996 to 20.5kg in 2009 and is expected to reach 21kg/person/year by the end of 2010. The industrial usage of oils and fats supported this increase in ratio.

Egypt has an encouraging economic environment, where GNP recorded at around 240.7 LE billion in 1996 grew to 1.082 LE trillion in 2009, and is expected to be around 1.24 LE trillion for 2010.

The consumption of oils and fats is estimated to be around 1.731 million MT by the end of 2010, or an increase of 29,000 MT over 2009. Of the 287,000 MT of oils re-exported last year, 54% was palm oil and 32% soybean oil, with the others being sunflower, corn and olive oils.

Iraq is the most important market, importing about 58% (or 168,000 MT). Sudan posted an uptrend intake of palm oil from Egypt, importing 20,000 MT last year, compared with 12,000 MT in 2005.

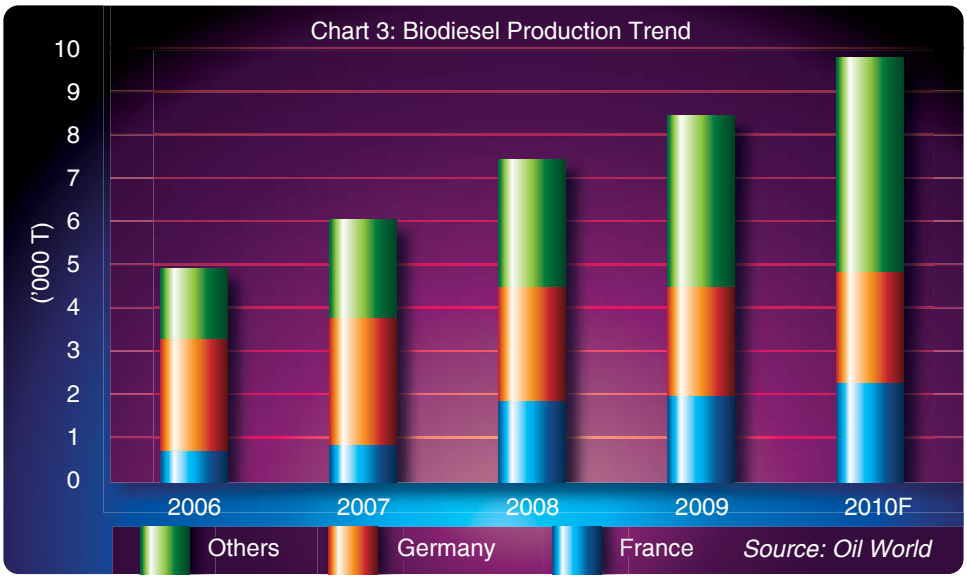
Malaysian palm oil appears to have taken advantage of the 3% to 4.5% duty imposed by Indonesian government this year to improve its market share in Egypt. To cover the expected surplus in exports and consumption of oils and fats, Egypt would need to surpass the total import recorded last year.

However, this has been capped due to a better local production of oilseeds in the first half of 2010. Egypt's oils and fats imports for 2010 are expected to exceed 1.6 million MT, an increase of about 100,000 MT over the 2009 figure.

Overall, vegetable oils and fats prices in the coming year are expected to remain strong globally, especially that of palm oil. It must be noted that the production of oils and fats grows at slower pace vis-à-vis consumption – which is a key factor behind the strong edible oil prices.

Continued from page 9

EU-27: Rising Import Requirements for Fats and Oils



Outlook for 2011 and Factors that need Monitoring

From January to November 2010, Malaysian palm oil exports to EU-27 touched 1,941,728 MT, an increase from 1,661,719 MT or 16.9% on a year-on-year basis and will remain an important commodity to supplement the local industry. The strong growth in consumption of rapeseed oil, in particular by the biofuel sector, which accounts for more than 60%, has also led to a shortage in the food sector and higher price of rapeseed oil.

The food sector has therefore replaced rapeseed oil with other more attractively priced vegetable oils, mostly palm oil. Although the price of palm oil has increased significantly since 2007, the price margin with soybean, rapeseed and sunflower oils have remained intact. This margin has made palm oil an economic alternative in the growing EU oils and fats market.

Palm oil is used for industrial purposes, including combustion for heat and electricity generation and its use in the production of biofuels is also on the rise. In 2009, the use of palm oil for heat and electricity generation increased substantially in Germany and Italy. However, effective Jan 1, 2011, the use of palm oil in heat and power generation in Germany is expected to decline as a result of the implementation of legislation on sustainability certification.

The EU Commission is very determined to demand certificates for biofuels, showing that they fulfil the targeted reduction of carbon dioxide emissions and are produced within the sustainability guidelines. The size of the EU biofuels market and the feedstock used in coming years, however, will partly depend on how fast the EU-27 member countries implement the underlying renewable energy directive.

At present, most member states are not yet ready to comply with the directive. The target of 10% incorporation of biofuel in transport fuel use will require a more even widespread use in the EU as compared with the current situation, with a considerable gap between states with an already high usage and other member states with a very low incorporation rate.

There are other factors to watch in the first quarter of 2011, primarily weather and crop developments in the western part of Europe. According to *Oil World*, there is speculation that the current autumn-winter rapeseed plantings in Germany were considerably higher than expected. If the estimates are confirmed, production prospects for 2011 will be improved. The large carry-over soybeans stock is also another factor to be monitored, since the EU crushing industry will fully utilise the oilseeds available in the domestic market.

Renewable energy mandates will be the key factor leading to rising rates in the production and consumption of oils and fats in EU-27. If the weather permits, crop estimation will remain favourable and this will give a better outlook for the production side. Nevertheless, as a traditional net importer, the EU-27 is expected to continue to import more oils and fats, with the net import in 2011 forecast to reach 9.37 MMT. ■ Azriyah

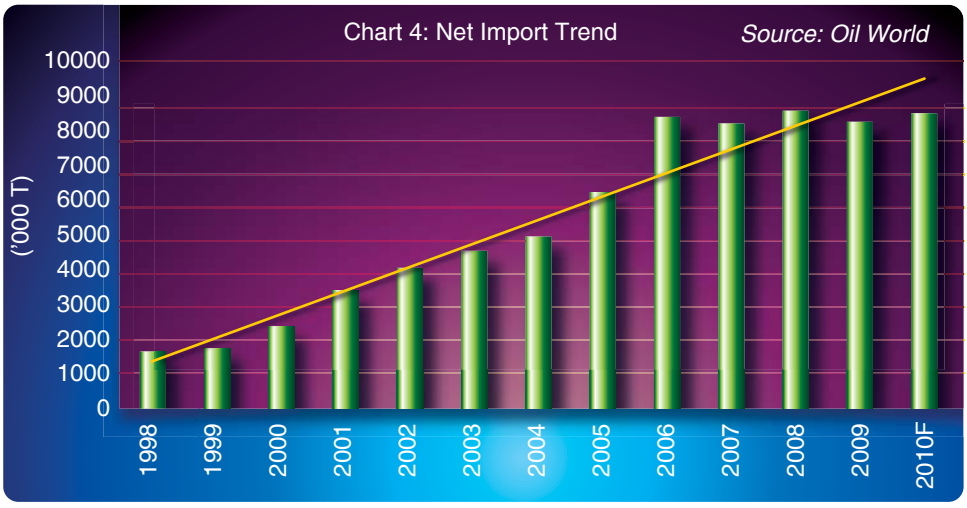


Table 4: Oils and Fats S&D for EU-27 (2010E)

('000 MT)	2006	2007	2008	2009	2010E
Opening Stock	2,654	2,924	2,568	2,737	2,633
Production	18,793	19,604	20,570	21,622	22,317
Imports	9,816	9,720	10,103	9,893	10,395
Exports	1,424	1,518	1,534	1,645	1,613
Consumption	26,915	28,162	28,970	29,974	31,206
Ending Stock	2,924	2,568	2,737	2,633	2,526
Stock Usage Ratio	10.3%	8.7%	9.0%	8.3%	7.7%

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