



# MALAYSIAN PALM OIL FORTUNE®

MALAYSIAN PALM OIL COUNCIL

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## Pakistan's Edible Oil Market Rebounds



OILS and fats consumption in Pakistan registered a 16% increase during the calendar year 2009 and stood at 3.22 million metric tonnes (MT), as against 2.77 million MT in 2008. Despite Pakistan's worsening economic and security situation and ongoing financial crisis, its edible oil market rebounded and regained the lost volume. Chart 1 shows a consistent increase of approximately 3% in oils and fats consumption in Pakistan, which correlates directly with its 1.5% population growth rate and 3% urbanisation. This consistent trend was checked last year when an extraordinary decline of 12% was seen in the consumption of oils and fats in Pakistan, bringing it down to its lowest level in eight years.

### Indigenous Oilseeds

Agriculture is one of the major income-generating sectors of Pakistan and has always had a major share in the country's gross domestic product. Despite this, Pakistan continues to remain a net importer of edible oils. In the crop year 2009, domestic production of oilseeds declined to 778,000 MT from the previous year's 833,000 MT (refer to Table 1).

Despite the efforts of the Pakistan Oilseed Development Board (PODB), the production of indigenous oilseeds is showing a consistent decline. This declining trend is mainly attributed to low priority given to oilseed crops. Wheat,

rice, maize, sugar and cotton are the major crops of Pakistan, which consistently occupy more than 60% of all fertile land. This cropping pattern for the last three decades has led to increased import of edible oils for meeting domestic demands. At present, indigenous oilseed production is enough to meet only 25% of the annual oils and fats consumption.

### Edible Oil Import

Imports of oils and fats by Pakistan have shown an increase of 18%, which is consistent with the overall increase in

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consumption of oils and fats in the country. After the sharp decline of 12% in 2008, the import of oils and fats registered a significant increase and brought the momentum back to the market. The Table 2 shows the variation in the fraction-wise imports in the last two years:

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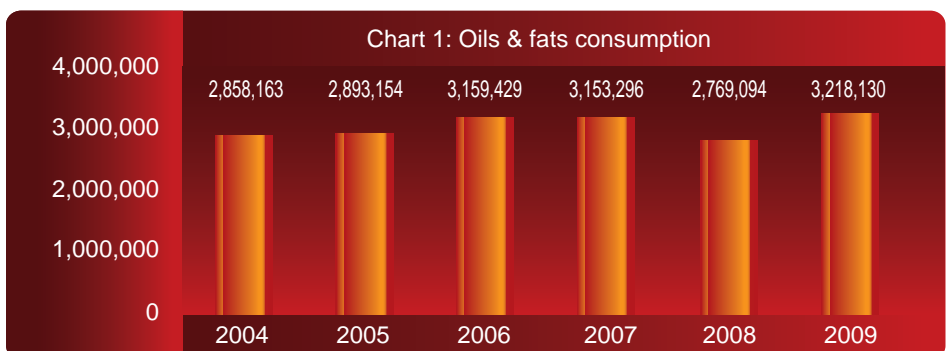


Table 1: Production of Major Oilseed Crops

Crop	Oil Produced in Crop year 2007	Oil Produced in Crop year 2008	Oil Produced in Crop year 2009
Cotton Seed	478,000	428,000	371,000
Mustard	63,000	58,000	69,000
Sunflower	249,000	264,000	287,000
Canola	65,000	83,000	51,000
<b>Total</b>	<b>855,000</b>	<b>833,000</b>	<b>778,000</b>



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## More Correction Expected

by *Benny Lee*  
Chief Market Strategist  
NextView Group



FCPO daily chart as at Feb 5, 2010.  
Charted by Benny Lee using NextView Advisor Professional

THE price of crude palm oil went into a correction last month after hitting a high of RM2,726 per metric tonne as prices of commodities fell worldwide. The price of crude palm oil futures (FCPO) in Bursa Malaysia fell to an intraday low of RM2,393 on Jan 27, before rebounding sharply in the next few days to close at RM2,521 on Feb 5. The price was volatile last month, with uncertainty looming in the global economy. Many expected the price to rise because of a potential increase in demand for the Chinese New Year festival in mid-February, but instead the price fell.

I mentioned last month that a buying opportunity exists when the market dips because of a strong bullish trend. We were looking at RM2,600 as the support level but it went RM200 lower. This has caused the short-term trend to turn bearish. The 30-day moving average started to decline in the third week of January and the price of FCPO is currently below this short-term moving average. However, the long term trend is still bullish. The 60- and 90-day moving averages are still increasing and the price of FCPO is currently at the 60-day moving average. Therefore, the price of FCPO is currently in an uptrend correction.

Malaysian palm oil exports for January rose 24% to 1.48 million metric tonnes from December 2009, according to cargo surveyor SGS (M) Bhd, and this is well within expectations. Another cargo surveyor, Intertek Agri Services, said the export for December was 1.5 million MT. IOI Group Executive Director and Malaysian Palm Oil Council (MPOC) Chairman Dato' Lee Yeow Chor said at a recent industry conference that

Malaysia's palm oil output is likely to be lower in February-March because of floods in Sabah, which will make harvesting and transportation of palm fruits difficult. He added that this may lead to an increase in the palm oil price because the demand is still high.

There has been an improvement in trading volume last month. The average daily trading volume in January was 9,500 contracts, 22% higher than the December 2009 daily average of 7,800 contracts. However, open interest for the month of January was 15% lower than in December 2009 and the average daily open interest for January was 21,000 contracts. The open interest has been declining since October 2009 and this indicates that many positions were traded short-term.

The price volatility has caused whipsaws in the momentum indicators. The momentum indicators were in the bear's territory when the price of FCPO pulled back last month. However, the strong rebound in the third week of January made the momentum indicators go back to the bull's territory. The RSI indicator went as low as 36, but managed to

rebound to above 50. The rest of the other momentum indicators are also behaving the same.

The strong rebound was because of fresh buying as the price dipped 11% in a month. The buying is expected to continue until the price reaches around RM2,600 because the bullish momentum in the last two weeks may continue in the next one or two weeks. The price will technically be overbought when it reaches RM2,600 and anything above this level may not be attractive anymore. This level is therefore the technical resistance.

The price of FCPO is currently in the middle of an uptrend channel after correcting from the resistance level of this channel. From the chart it looks like the correction is not completed and price may fall lower to the uptrend support level, if it is not able to break above the RM2,600 resistance level. The support level for the uptrend channel is at RM2,300 and the long-term 90-day moving average is at RM2,390. Therefore, we are looking at the possibility of the price moving to RM2,350 to RM2,400 to complete the correction. ■

*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.*

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*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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# China's Animal Husbandry Industry Booms

## Market for Palm Kernel Cake and Palm Oil Products for Ruminants Expands

AS A huge farming nation, China's animal husbandry output totalled RMB1,612.52 billion (RM1 = RMB1.982) in 2007, or 33% of its total agricultural output value. China's meat and egg output tops the world list, with its meat output making up 24.7% of the global market share and egg output, 37.7%. The animal husbandry industry has become the most robust sector and a pillar for the Chinese rural economy, with the country moving steadily forward to becoming a leader in animal husbandry (Figure 1).

The rapid growth of this industry is therefore causing the demand for animal feed to increase constantly. However,

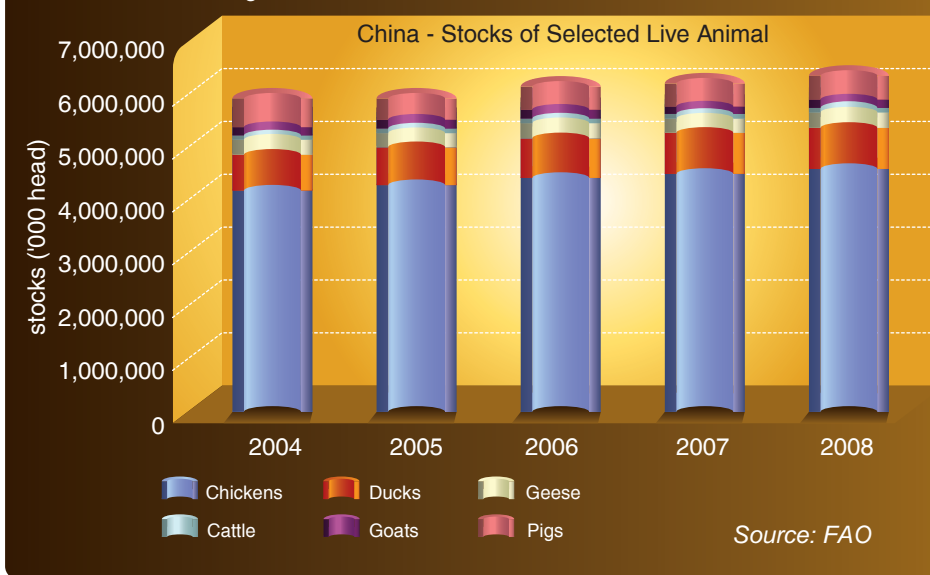
local sources for livestock feeding materials is becoming more and more pressing, based on the current food grain production, as well as the conversion percentage of livestock feed. This year, China's shortage of grains for animal feed is expected to reach 100 million metric tonnes (Chen Jianbo, 2001; Xiang Yun, 1996). The country faces a shortage of protein animal feed of up to 15 million MT a year, causing the addition of protein to animal feed to be reduced, despite some of this protein feed being imported.

In recent years, with the speeding up of strategic adjustment of the national agricultural structure, China has

this change in the feeding method, the demand for various concentrated feed has increased significantly, and there is a distinct shortage of protein feed.

China's feed resources are "energy feed", which are from food grains such as corn (which is inadequate), protein feed mainly in the form of soybean meal, a by-product of soybean oil processing, besides roughage such as straw, husk and bush. With intensified demand for feed for ruminants, it has been increasingly pivotal to effectively increase the safety of cattle and lamb feed, to increase product quantity and at the same time, upgrade product quality. The mad cow disease outbreak in Europe has made China to explicitly prohibit the addition of animal-based products in the feed for ruminants. This is where the use of feed such as palm kernel cake and palm oil products come in.

Figure 1: Stocks of Selected Live Animal in China



the gradual reduction of arable land in China and a sharp growth of the population as well as the unrestrained expansion of per capita demand for farm and farm by-products, now that the people have adequate food and clothing, has caused China to face serious imbalance in the development of animal husbandry and the animal feed industry.

The proportion of grains used in livestock feed is expected to reach 38% this year (Ren Fuping, 2007). The lack of

intensified efforts in restructuring its animal husbandry industry, with the production of ruminants taking priority. The dairy cow industry is seeing unprecedented development with the production of milk and dairy products and their consumption registering rapid growth. In an effort to reduce damage to the ecological environment by grazing animals, China has been promoting the shelter feeding method for beef cattle and dairy cows, but allows dairy cows to graze during periods in summer. Due to

### Palm kernel cake

Palm kernel cake (PKC) is priced low and available abundantly, is non-toxic and causes no side effect to animals. It contains a medium level of energy and protein, is a valuable feed resource suitable for cattle and sheep and has sound palatability. Due to the constant growth of the feed price since 2009, the replacement of part of the expensive soybean meal and corn with PKC can

Continued on page 9 ▶



# We can help Haiti rise again

TUESDAY, Jan 12, 2010: The world this day was jolted by shocking news that Haiti, the Western hemisphere's poorest country, has been devastated by a massive 7-magnitude earthquake, the worst earthquake to hit a Caribbean country in the last 200 years.

The epicentre of the earthquake was just 15km southwest of Haiti's capital, Port-au-Prince, where an estimated 2.5 million people live cramped in a 38sq-km area. A quick calculation would give a density figure of more than 65,000 people inhabiting a square kilometre of the city, compared with Kuala Lumpur which holds only about 7,388 people per square kilometre.

Barely 15 hours after the disaster, news agency Reuters reported that 14 UN peacekeepers were killed during the quake while "a large number", estimated to be in the hundreds, were missing from the city's United Nations building, one of the many heavily damaged buildings that included the presidential palace, the Ministry of Commerce, Foreign Ministry, the tax office, schools and hospitals.

By Friday, Jan 15, more than 50,000 people were feared dead. A week after the tragedy, the number of bodies buried in mass graves had reached 75,000. Two weeks later, the Haitian Health Ministry declared that there were 150,000 casualties while the number of injured was raised to 200,000 people. Only 134 managed to be rescued alive up to then.

And the world just realised the severity of the situation in Haiti.

### The Aftermath.

The first quake shook Haiti for less than two minutes. But the trail of devastation Mother Nature left in her wake was unimaginable. Realising the extent of

damage the quake had inflicted upon his country, Prime Minister Jean-Max Bellerive – addressing a donor conference in Montreal soon afterwards – said the earthquake had set his country back by four to five years and it would take up to 10 years for Haiti to be rebuilt. According to CNN, the quake caused 20,000 commercial buildings and 225,000 residences to collapse.

About two million survivors very soon faced the shortage of basic necessities such as food, shelter and medication. Foreign aid was not forthcoming due to the heavily damaged infrastructure, made worse by the fact that Haiti's modern infrastructure and developments were centralised in the capital city.

The main seaport was damaged and this in turn cut the supply line for foreign aid to reach Port-au-Prince. It took several days before the port could be made operational, with help from the US Coast Guard, and a few aid vessels were able to berth there.

Nevertheless, the local industry, heavily reliant on textile, with its exports making up about 90 per cent of Haiti's total exports, was expected to resume business as most plants are located

outside the affected area. The International Monetary Fund (IMF) estimated that 80 per cent of the textile industry was capable of operating.

The IMF has already pledged US\$100 million in emergency assistance to Haiti. Foreign aid and donations are estimated to have reached more than US\$1 billion, although most of the money is going to NGOs assisting with aid work and search-and-rescue missions.

### The Malaysian Connection

A distance of 17,555km separates Malaysia from Haiti. With the Atlantic Ocean on one side and the Pacific Ocean on the other, Haiti is not a territory familiar to many Malaysians. Nevertheless, Haiti and Malaysia share a common connection unknown to many.

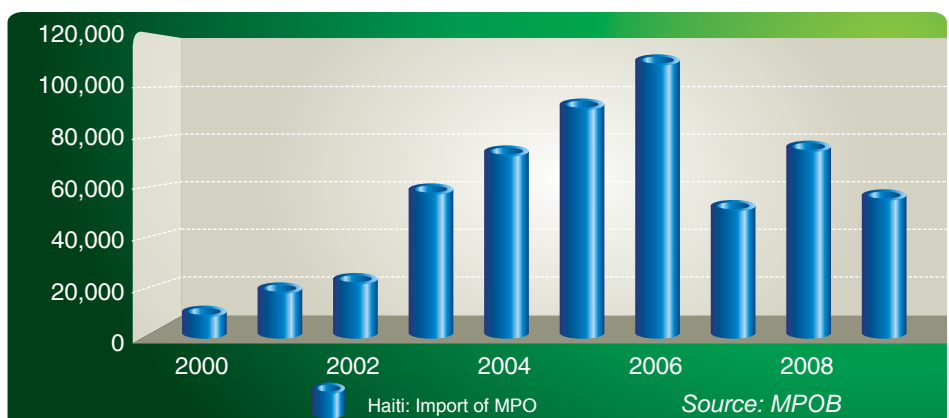
The close link between Malaysia and this Caribbean country, like that between Malaysia and more than 150 other countries around the world, is palm oil.

As a matter of fact, outside of the United States, Haiti is the biggest importer of Malaysian Palm Oil (MPO) in the Americas. Last year, Haiti imported 53,769 metric tonnes of MPO or 53.2 per cent of the total MPO imported by all the countries in Americas, excluding the US. In comparison, Brazil, the third biggest importer of MPO in the Americas, imported only 19,686 MT of MPO the same year.

The import of MPO by Haiti has been steadily increasing since 2000. In that year, the country imported about 6,369 MT of MPO, compared with the record import of 105,107 MT in 2006. This is more than a 16-fold growth within a span of just six years.

Although the import of MPO dipped slightly in 2007, with the volume imported reduced by half to about 50,442 MT, the amount rose to 75,561 MT the following year.

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## Pakistan's Edible Oil Market Rebounds

the physical refining industry. The refining industry was already facing problems from increased financial and operation costs when direct competition from

88%. This advantage will increase to 15% from January 2010 and will remain at this level till 2014. Chart 2 shows the performance of Malaysian palm oil vis-à-vis Indonesian palm oil in the last five years:

Table 2: Edible Oil Import Comparison

Commodity	2008	2009	Change in Vol.	Change in %
Crude Palm Oil	546,195	453,926	-92,269	-16.89
Palm Oil	343,920	733,085	389,165	113.16
Palm Olein	641,260	556,214	85,046	-13.26
Palm Fats *	39,652	93,851	54,199	136.69
Finished Palm Products	27,435	35,932	8,497	30.97
<b>Total Palm Imports</b>	<b>1,598,462</b>	<b>1,873,008</b>	<b>274,546</b>	<b>17.18</b>
Soybean oil	20,969	48,596	27,627	131.75
Tallow	39,098	29,720	-9,378	-23.99
<b>Total Oils &amp; Fats</b>	<b>1,658,529</b>	<b>1,951,324</b>	<b>292,795</b>	<b>17.65</b>

Source: Alpine Marine Services

Edible oil imports touched 1.95 million MT last year, the highest mark achieved so far. Palm oil, which is the main imported commodity, showed variation in import volumes. RBD palm oil has strengthened, with over 113% increase whereas both palm olein and CPO have shown a 13% and 17% decline in import respectively. Considering that palm oil is predominantly used in the manufacture of vanaspati, RBD palm is the most suitable raw material and its favourable price structure has boosted the import of this fraction.

This increase in the import of RBD palm oil has directly affected the import of CPO, which is the main raw material for

imported RBD palm oil further deepened the problems. It is expected that RBD palm oil will further erode the import share of palm olein, whereas CPO will continue to maintain a 25% share of the total palm oil imports by Pakistan.

Pakistan has always been one of the more dependable and trusted export destinations for Malaysia. In 2009, Pakistan imported 1.73 million MT of palm oil from Malaysia, becoming the second largest buyer after China. The Free Trade Agreement which came into effect in January 2008 provided a 10% duty advantage to Malaysia, which has been fully capitalised by Malaysian exporters and the share has gone up to

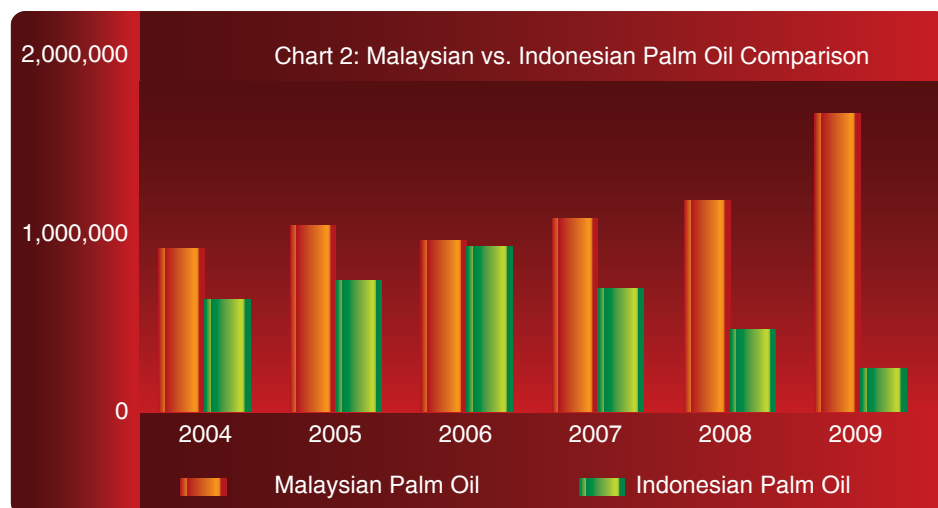
The Indonesian government has also been active in pursuing its Free Trade Agreement with Pakistan and it is expected that this agreement will come into effect during fiscal year 2010. It is expected that an initial discount of 10% will also be offered to Indonesian palm oil for the first two years, and thus Malaysia will continue to have a 5% advantage.

### Outlook for 2010

PODB recently devised a five-year oilseed policy, with guidelines for the intercropping of oilseed crops with traditional crops. The Islamabad government has also provided minimum price support to safeguard the interests of farmers. According to official government estimates, PODB forecasts a 40% increase in the production of sunflower and canola seeds in the 2010 crop year. However, this forecast appears unrealistic, considering that Pakistan expects to face a severe water shortage during the winter crop cycle.

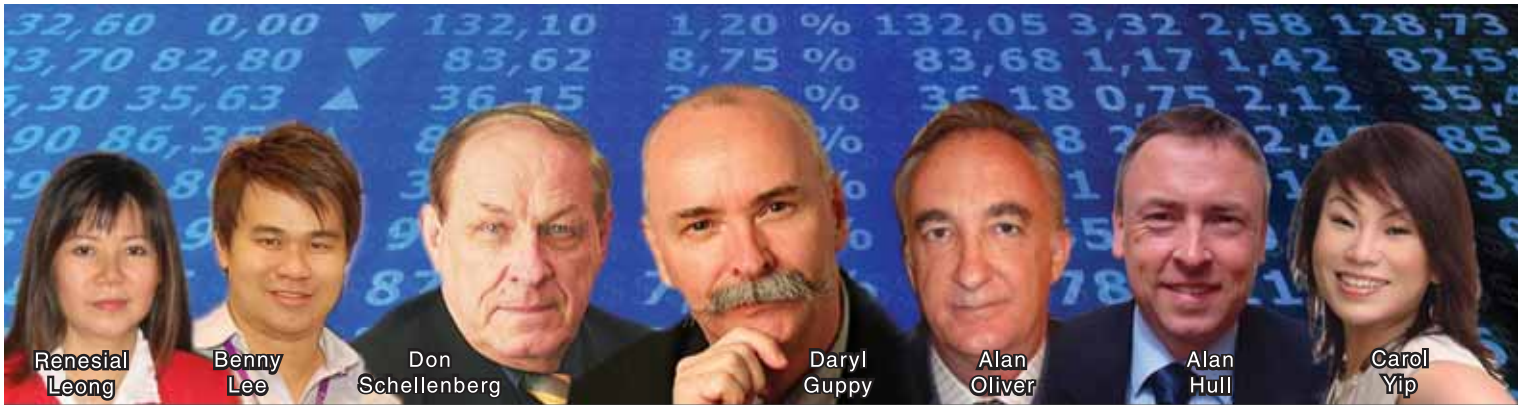
Edible oil imports will show an increase of approximately 3% in the calendar year. RBD palm oil imports will increase further and reach 50% of the total import volume, with CPO maintaining its existing volume while the import of palm olein may reduce further.

Malaysia could lose some of its market share in 2010 as a result of the Indonesia-Pakistan FTA. If carried out on the same lines as the Malaysia-Pakistan FTA, then Indonesia will get an initial 10% duty discount for the first two years, while from this year, the Malaysian duty advantage has already increased to 15% and will last till 2014. Besides the 5% duty advantage, Malaysian palm oil has also strengthened its position in Pakistan and enjoys a very strong footing. The number of suppliers has increased in the last two years and Malaysian joint venture projects in refining and storage at the jetty are also fully operational. The FTA with Indonesia is likely to improve that country's market share in Pakistan, but Malaysia will continue to play the lead role in the local oil palm market. ■ Faisal



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## China's Animal Husbandry Industry Booms

### Market for Palm Kernel Cake and Palm Oil Products for Ruminants Expands

significantly reduce the production cost of ruminant feed, which is a major reason for China's feed industry to start importing PKC. According to *Oil World*, the import of PKC by China in 2009 jumped significantly from almost nil or insignificant to close to 300,000 MT (Figure 2).

The addition of fat has the following nutritional functions:

1) It can increase the energy concentration in the daily ration. Compared with energy feed from starch and corn, the energy value of fat is higher;

the acidosis of the cattle and other abnormalities caused by high and concentrated feed can therefore be prevented;

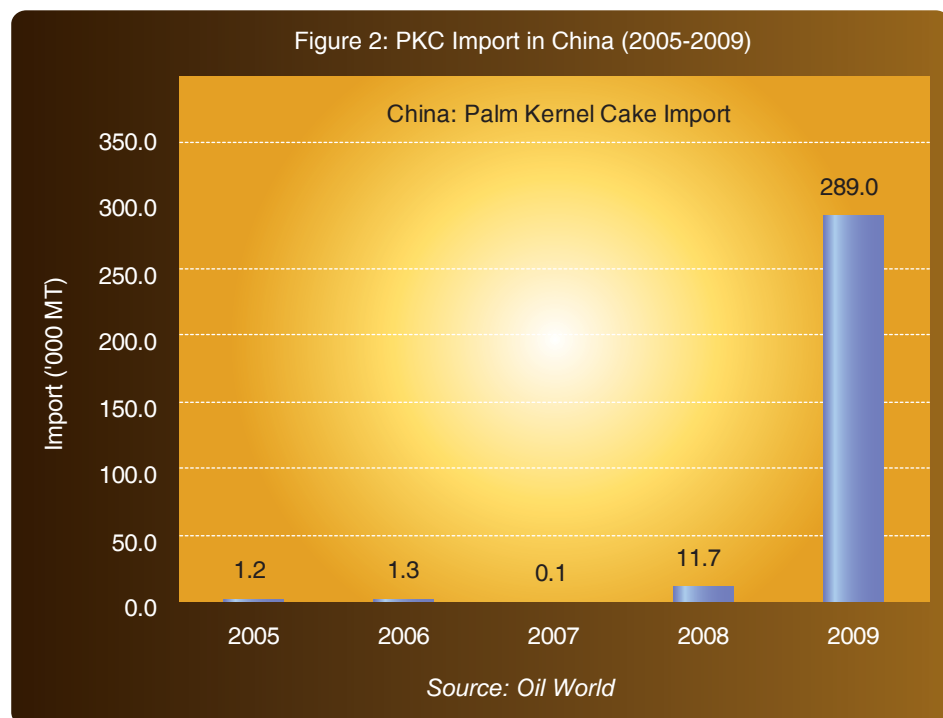
- 4) The addition of fat can reduce the production of methane; and
- 5) The addition of fat in the extremely hot summer can reduce the loss of metabolic heat, which can benefit the heat resistance of cattle. Among other things, fat can increase the meat output of ruminants, improve the quality of the livestock products, increase the reproductive capacity of

high total output but its net milk production is also high. Adding palm fatty acid products can directly balance the energy; while adding calcium fatty acid causes the calcium level in the feed to be balanced.

#### Calcium Fatty Acid (Ca-FA)

At present, research is focused on fatty acid amide and fatty acid calcium. The reaction between fatty acid and amine forms fatty acid amide, which effectively reduces the degradation and hydrogenation of fatty acid by the rumen micro-organisms, and its toxic action on the micro-organisms is also reduced. However, as indicated by the feeding test, fatty acid amide can reduce the food intake of animals but the production cost for fatty acid amide is also high. The application is therefore impeded. Calcium fatty acid can combat these disadvantages and present insolubility in

Figure 2: PKC Import in China (2005-2009)



2) The long-chain fatty acid in the fat (C16-C22) can directly enter the galactophore (milk duct) to synthesise milk fat, as well as increase the content of medium- and long-chain fatty acid and polyunsaturated fatty acid to further increase the milk fat rate and milk output rate;

3) The addition of fat into the daily ration will not reduce the intake of roughage feed. The low milk fat rate syndrome,

the animal and reduce ruminant breeding costs as well.

Palm acid is a kind of linear chain saturated fatty acid containing 16 carbon atoms. Sharing exactly the characteristics of stearic acid, it has for a long time been sold and applied as stearic acid. With the fast development of the fine chemical products sector, the application of palm acid in feed has been expanded. The palm fatty acid product not only features



the rumen environment and further break down into fatty acid and Ca<sup>2+</sup> after it reaches the true stomach and the small intestine, which supply additional fatty acid and calcium at the same time.

The development of the ruminant feed industry in China will certainly provide a broad market and business opportunities for the application of Malaysian palm kernel cake and palm oil-based feed in years to come. ■ Teah



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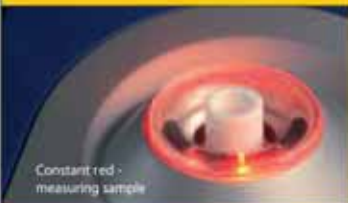
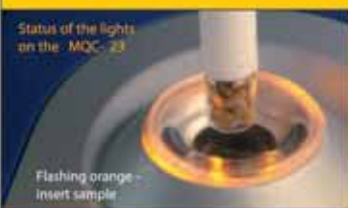
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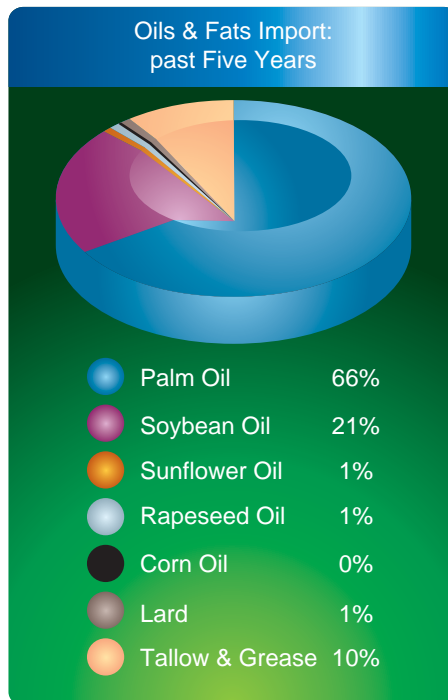
## We can help Haiti rise again

In terms of oils and fats, Haiti is not a producing country, depending very much on imports to meet the requirements of its people. About 10 million Haitians consume 124,000 MT of oils and fats annually.

Haiti imports soybean, sunflower, rapeseed and corn oils, although palm oil remains the country's biggest import, accounting for about 66 per cent of the 577,700 MT of oils and fats imported into Haiti over the past five years.

Haiti imports soybean oil from Dominican Republic, the US, Argentina and Canada. Its palm oil supply comes mainly from Malaysia. Almost 99% of palm oil in Haiti can be traced to Malaysia.

Almost all of the palm oil imported into Haiti is used for food. Refined, bleached and deodorised or RBD palm olein is the biggest palm oil product entering the



country. In 2008, RBD palm olein made up about 85% of its total palm oil import. The figure decreased slightly in the year 2009, with RBD palm olein constituting 77% of the total palm oil imported.

Apart from RBD palm olein, RBD palm stearin is the next biggest import in Haiti.



In 2009, about 10% of its palm oil imports were RBD palm stearin. This product made up about 13% of the palm oils imported into the country in the year 2008.

Despite the distance, never mind the language barrier and for all its intentions, Haiti, in one way or another helped elevate the status of Malaysian Palm Oil in the Americas by being a loyal supporter of Malaysian Palm Oil over the years. The MPO industry can do a lot of good by reciprocating that goodwill shown by the Haitians during this most trying of times for them by rallying our resources together and just giving unconditionally.

Perhaps Malaysians, especially the Malaysian Palm Oil industry, will see the irony as an auspice, and for the industry to unite with the Haitians during this period of national calamity that has befallen the poor country. ■ Fadzi

## Malaysian Palm Oil Export Value to Exceed RM100b by 2020

MALAYSIA'S palm oil exports which hit an all-time high of RM65.2 billion in 2008, fetched only RM49.59 billion in export earnings last year – largely because of lower prices for the oil, which is the world's largest selling edible oil.

The last time the country saw a dip in export earnings was in 2005, when prices were somewhat subdued.

The average crude palm oil price dropped to RM2,244.50 last year, compared with RM2,859.50 recorded in 2008.

Late last month, Plantation Industries and Commodities Minister Tan Sri Bernard Dompok stated that Malaysia's export of palm oil products would exceed RM100 billion in 2020 as a result of strong production.

To achieve the target, Tan Sri Bernard Dompok said, the government would also move to generate exports of more value-added products, services and palm oil-related technologies.

The minister expects the price to remain at the present RM2,400 to RM2,600 per metric tonne level, which he said would also make farmers and plantation owners happy.

Both Indonesia and Malaysia, which control 90 per cent of the world palm oil production, reported record outputs last year. Export of Malaysian palm oil in 2009 recorded an increase of 2.9 per cent to 15.87 million MT. The top five buyers of Malaysian palm oil are China, the EU, Pakistan, India and the United States.

China remained the biggest importer of Malaysian palm oil, with its demand increasing 6.3 per cent to 4.03 million MT from 3.79 million MT in 2008 – or 25.4 per cent of the total palm oil exports from Malaysia.

Other markets such as India and Pakistan also saw a significant increase in the

import of palm oil, at 38.7 per cent and 39.8 per cent respectively.

Palm oil is today widely used in the food sector in the US, blended with other vegetable oils to make trans fat-free baking fats and deep-fry oils

According to Malaysian Palm Oil Council Chief Executive Tan Sri Datuk Dr Yusof Basiron, palm oil is, in the globalised market, increasingly seen to complement soybean oil.

Analysts would say that palm oil was in direct competition with soybean oil, but in reality, Tan Sri Datuk Dr Yusof said, food manufacturers preferred blended oils and fats.

In the US for example, oils and fats are usually blended to meet the American Heart Association's recommended dietary oil requirements to improve blood cholesterol ratio. Essentially, the blended edible oil should contain an equal composite of saturated, mono-unsaturated and poly-unsaturated fatty acids. ■ ED

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