



IV CONGRESO PALMERO CPAL 2023

SANTO DOMINGO DEL CERRO

LA ANTIGUA GUATEMALA - 2023



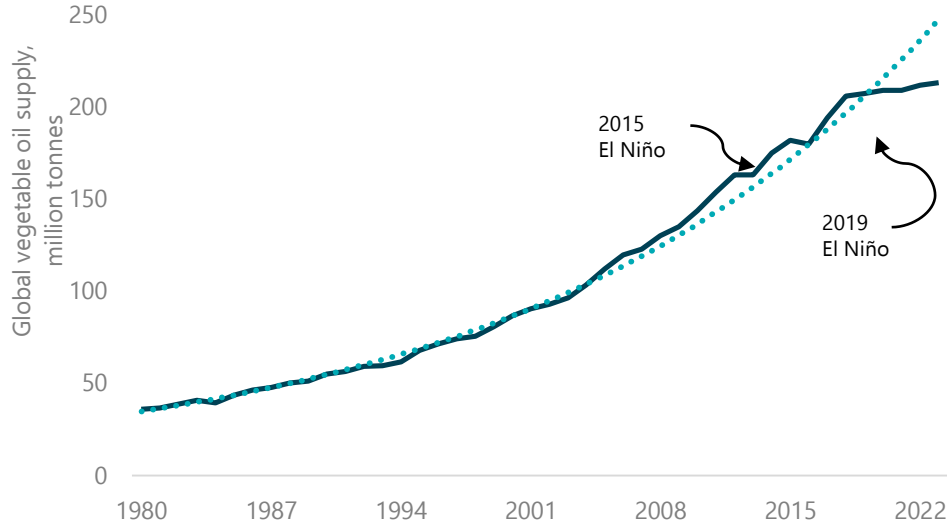


THE SHORT- AND LONG-TERM OUTLOOK FOR THE OIL PALM

Dr Julian Conway McGill

VEGETABLE OIL SUPPLY HAS FALLEN BEHIND

When compared to the long run trend



Global vegetable oil production against trend since 1980

From 1980 until 2019 global vegetable oil output grew, following an exponential pattern (with annual fluctuations due to the weather).

From 2019 production fell significantly behind trend. If output had kept pace at historical rates, supply would be close to 250 million tonnes.

What caused this slowdown?

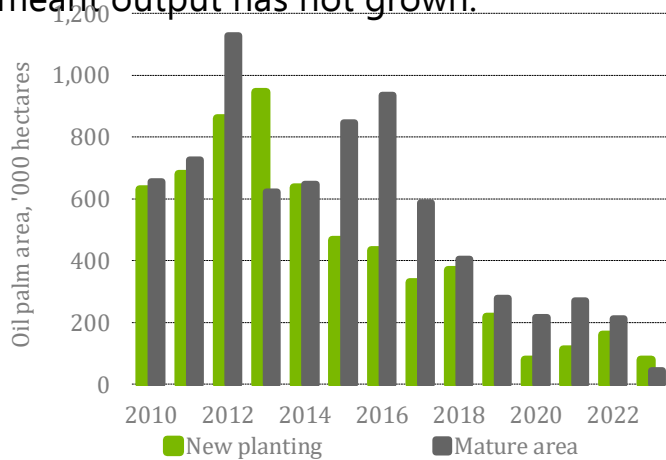
INDONESIAN AREA GROWTH HAS SLOWED

From a flood to a trickle

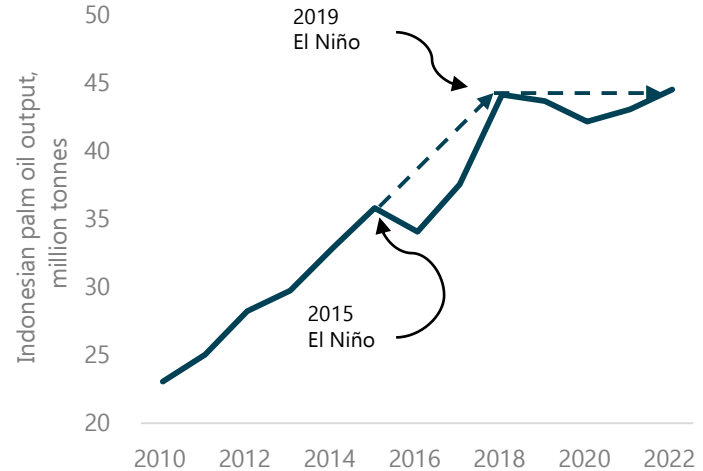


Large Indonesian plantings from 2010 led to a rapid growth in mature area, increasing output.

The expansion in area has now slowed substantially and coupled with stagnant yields this meant output has not grown.



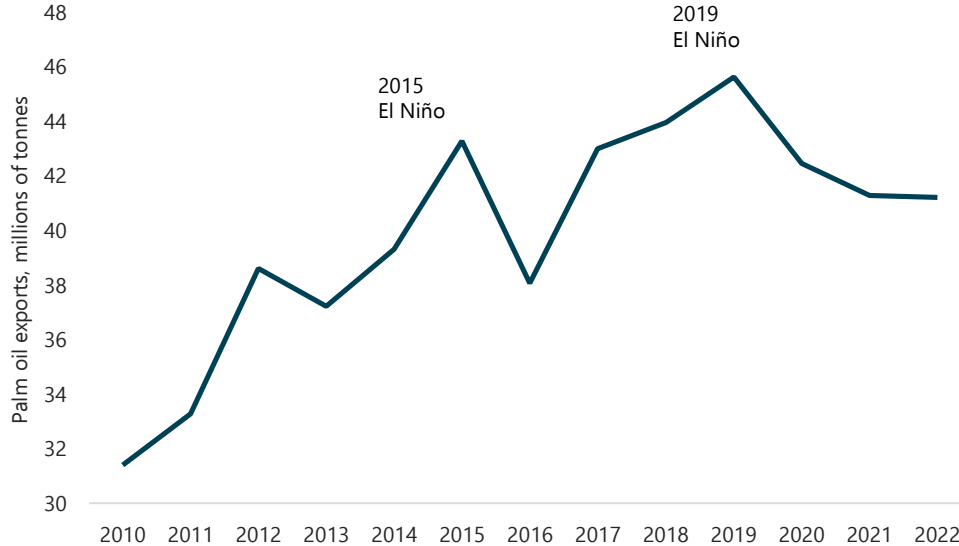
Planting and mature area growth in Indonesia



Indonesian palm oil output

WE HAVE REACHED “PEAK PALM”

Supply is not increasing enough to grow exports



Exports of palm oil (crude and refined) since 2010

As Indonesian domestic consumption, in particular for biofuels, has grown the exportable surplus has been reduced.

We reached “peak palm” in 2019 – the highest level of exports.

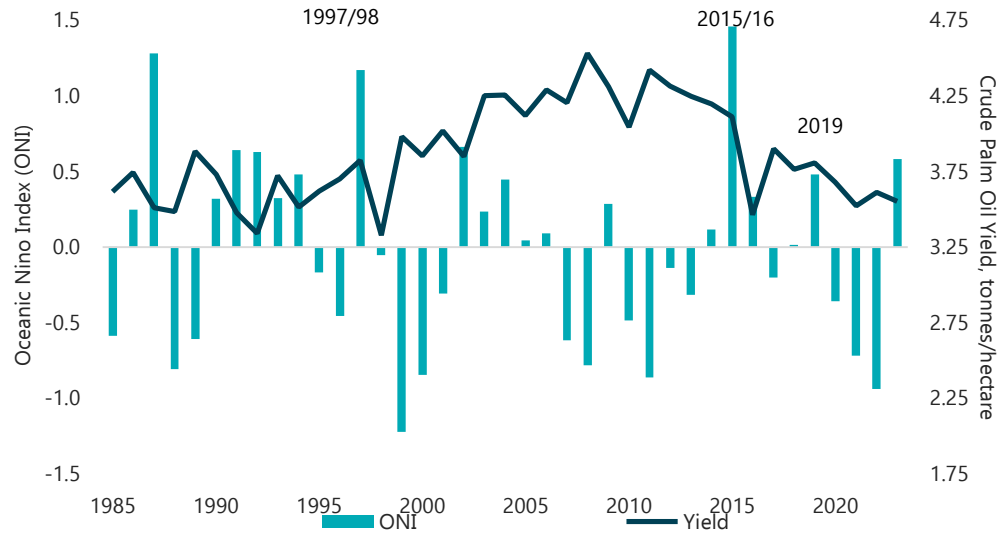
The supply and demand dynamics of palm oil have been fundamentally altered to - the advantage of the growers.

Will the current El Niño reduce output further?

THE IMPACT OF THE EL NIÑO ON PALM OIL



History does not appear to be repeating itself



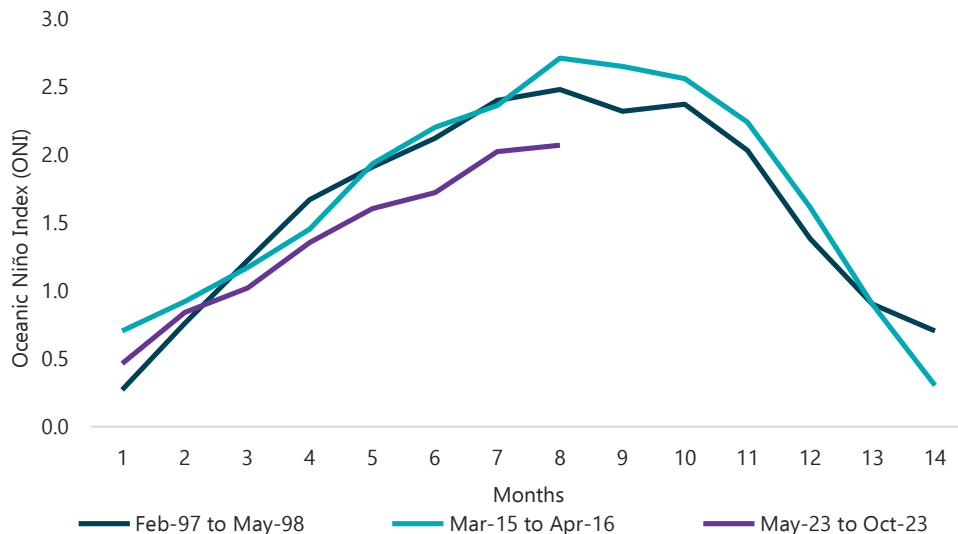
An El Niño, can result in droughts in South East Asia reducing palm oil output, with a lag. Management issues in Malaysia have already reduced yields as much as the 2015 El Niño.

Average ONI against Malaysian crude palm oil yield

THE IMPACT OF THE EL NIÑO ON PALM OIL



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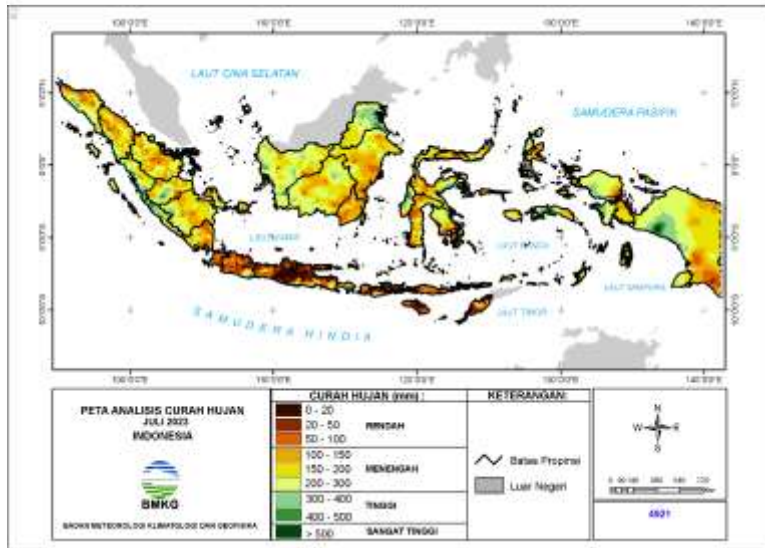
Comparing 1997-98, 2015-16 and 2023 Oceanic Niño Index

An El Niño, can result in droughts in South East Asia reducing palm oil output, with a lag. Management issues in Malaysia have already reduced yields as much as the 2015 El Niño.

Initially the ONI followed the same trajectory as the major 1997/98 and 2015/16 events. The intensity now looks less severe.

THE IMPACT OF THE EL NIÑO ON PALM OIL

History does not appear to be repeating itself



Rainfall in Indonesia July 23 to January 2024

An El Niño, can result in droughts in South East Asia reducing palm oil output, with a lag. Management issues in Malaysia have already reduced yields as much as the 2015 El Niño.

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Only a few regions in Indonesia experienced brief droughts.

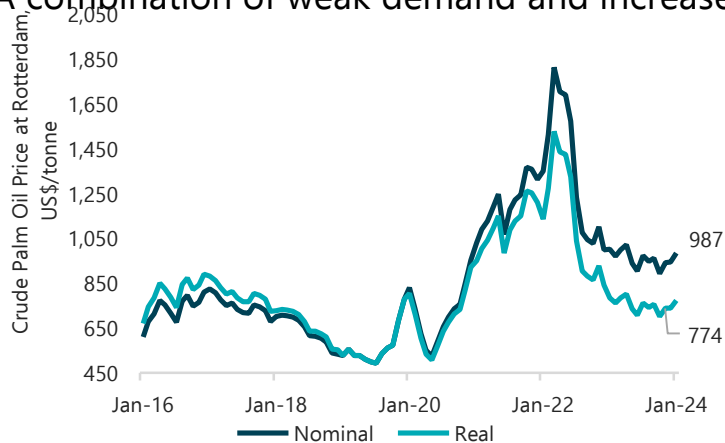
PRICES HAVE STILL DECLINED STRONGLY

Even more if we take inflation into account

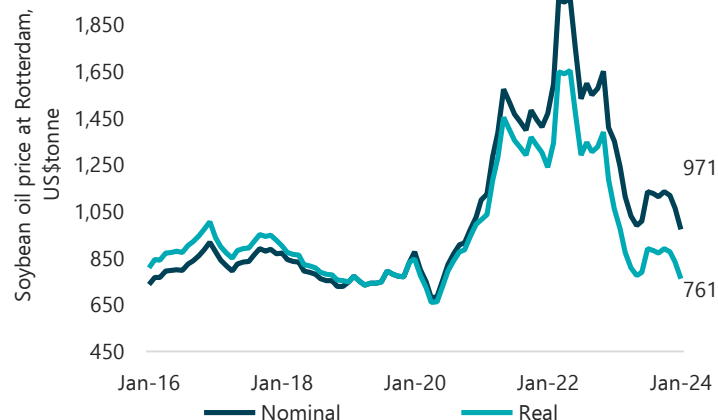


Despite the weak increase in palm oil output, prices declined substantially from record heights. In inflation adjusted terms prices are back to levels around 2016-17. What happened?

A combination of weak demand and increases in the supply of other vegetable oils.



Palm oil prices nominal and real (inflation adjusted)



Soybean oil prices nominal and real (inflation adjusted)

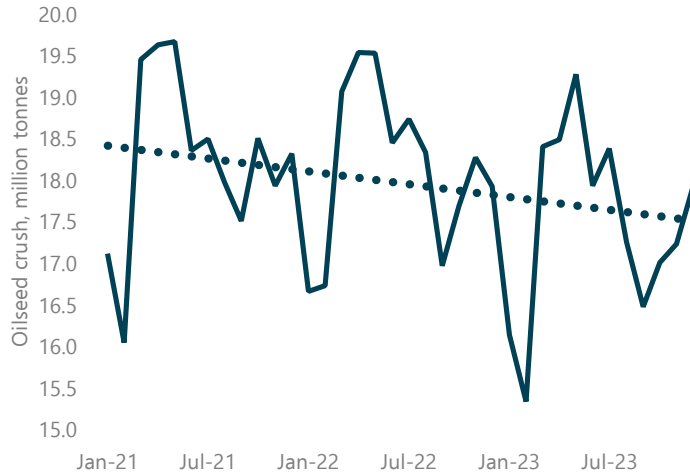
OIL SUPPLY INCREASED IN 2023

Despite a lower crush

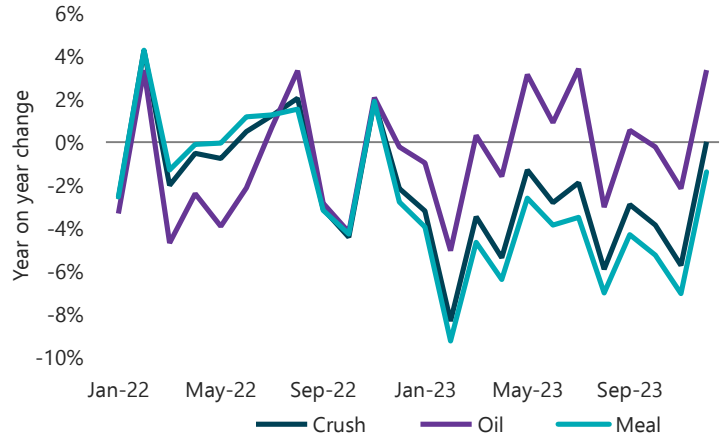


Based on the most reliable monthly data available, the oilseed crush declined in 2023. Yet vegetable oil supply grew marginally.

How was this possible?



Oilseed crush, millions of tonnes



Year on year change in crush, oil and meal

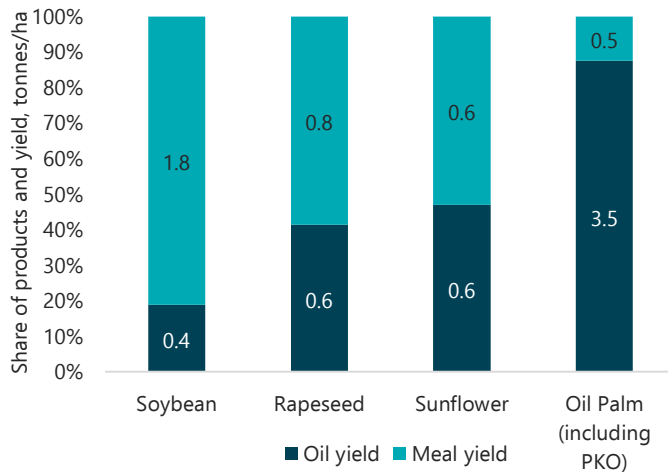
THE SHARE OF OIL CROPS CRUSHED MATTERS

Fewer soybeans means more oil

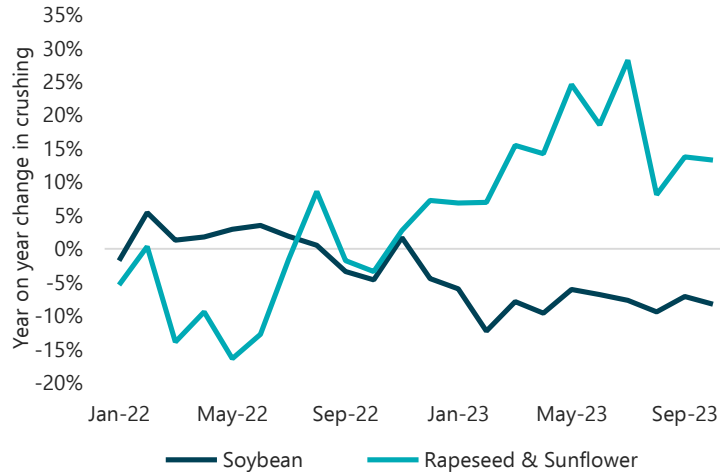


The oil content of soybeans is much lower than those of rapeseed and sunflower. Crushing more rapeseed/sunflower means greater oil output, without more meal.

This is how the market has been balanced in 2023.



Share of oil and meal in oil crops



Year on year change in soy vs rapeseed & sunflower crush

IT WASN'T DUE TO A SHORTAGE IN SOYBEANS

Even with Argentina's disastrous harvest



Global soybean stocks and the stocks-to-use ratio

Soybean stocks have increased substantially over the past two decades.

The stocks-to-use ratio has also increased, despite a higher crush.

The general expectation is for soybean stocks to continue to grow.

Speculators are also placing large bets on declines in the soybean price.

The key point is that those seeds need to be crushed.

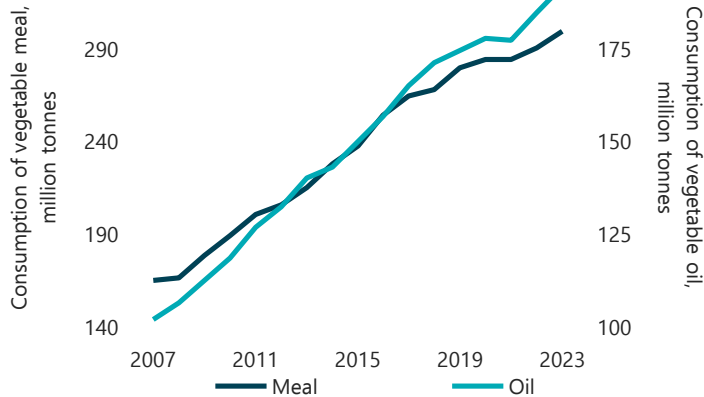
WEAK DEMAND GROWTH IS THE ISSUE

Especially for protein meal



Vegetable meal and oil demand move at different rates – palm oil used to balance the market.

At present meal demand is very weak, due to poor demand for meat (particularly in China). Vegetable oil demand, however, has benefited from biodiesel.



Growth in global meal and vegetable oil demand



Annual growth rate in meal and oil demand



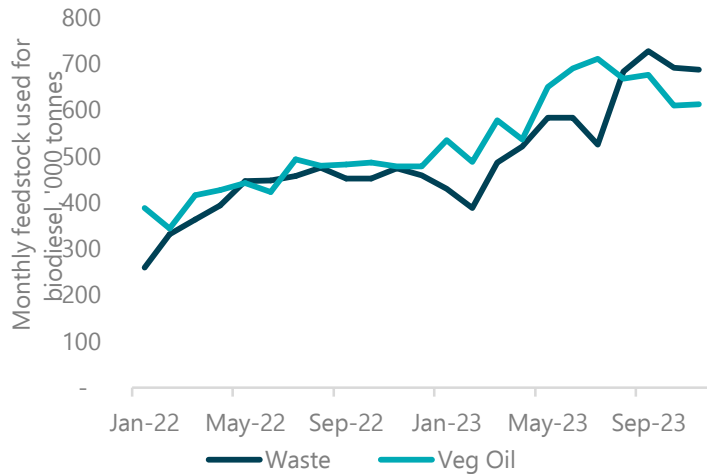
THE US HAS BEEN RAMPING UP BIODIESEL

It seemed like the growth would never end...



Post-pandemic there has been a surge of investment in renewable diesel in the US. While mainly focused on “waste” oils, it has also increased demand for soybean oil.

The result has been to increase the importance of soybean oil in crush margins.



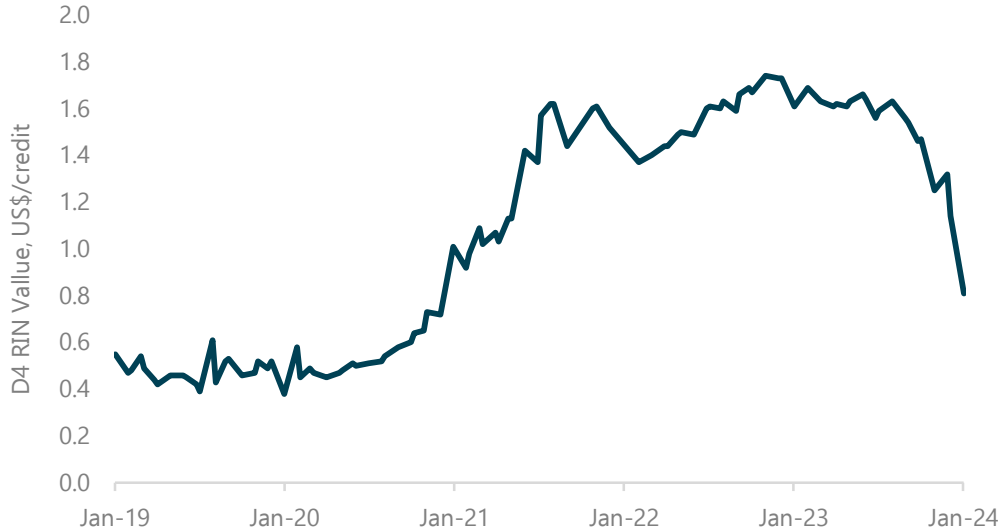
US waste material and vegetable oil used in biodiesel



The oil share in the soybean crush margins

RECENTLY RIN VALUES HAVE COLLAPSED

Signalling the end of the biodiesel boom?



D4 RIN prices

After the US mandate was only increased marginally, overproduction of biodiesel has contributed to a collapse in RIN values.

A decline in soybean oil prices in the US and higher gasoil prices have also contributed.

The market is temporarily oversupplied, and margins are weaker, but companies don't seem to be slowing down.

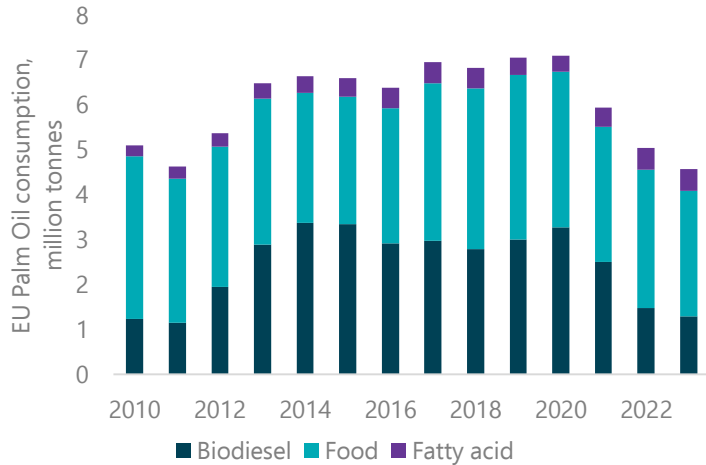
IN EUROPE PALM BIODIESEL IS DECLINING



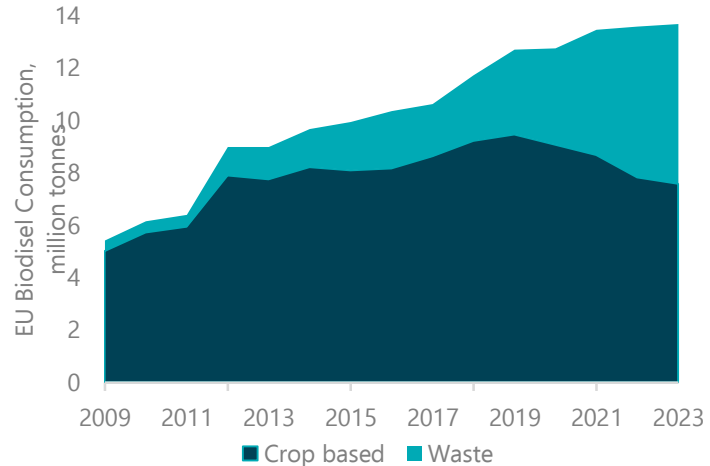
What does the shift to waste mean?

EU palm oil imports have declined substantially due to accelerated phasing out of palm oil.

Overall EU biodiesel consumption continues to grow focusing on “waste” materials. Recently, there has been a focus on the provenance of waste – anti dumping duties may well be likely.



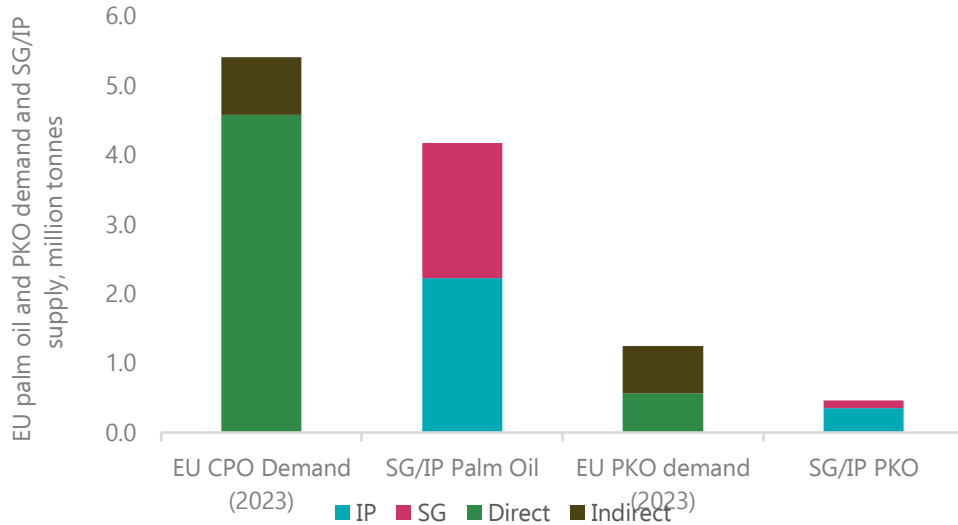
EU palm oil consumption split by main end use



EU biodiesel consumption crop based vs waste

WHAT WILL HAPPEN WITH THE EUDR?

Time is running out.



EU palm oil and palm kernel oil demand against IP/SG volumes, 2022/23

While there are differences between RSPO SG/IP and the requirements of the EUDR, broadly it's the best indicator we have of how much oil may comply.

One important point to note is that the EUDR doesn't just cover the oils, but also most products derived from these oils.

The problem will be securing sufficient volumes of the PKO co-product.

CONCLUSIONS

So what does this all mean?



1. The biggest long-term shift in vegetable oils is the dramatic slowdown in palm oil output.
2. In the short term, rapeseed and sunflowerseed have responded to the high prices and brought down vegetable oil prices, while balancing weak demand for meal.
3. In the longer term, they face rotational constraints, and the marginal growth will come from soybean oil. Soybeans are abundant, but to unlock their oil they need to be crushed. This creates a co-product problem, with meal oversupplied relative to demand.
4. Longer term, the US and EU are ramping up demand for biodiesel. While based mainly on “waste” feedstocks, in reality it adds to overall demand for lipids, often palm oil.
5. In the short term, however, the question is whether US biodiesel is oversupplied. While RIN values are collapsing and margins declining, will companies slow down output?
6. At the same time, a major short term factor is likely to be the EUDR for which time is running out. This will be a particular issue for PKO but also effect pricing of CPO.

Fundamentally we feel there is likely to be a shortage of vegetable oils in general, and palm oil in particular. As demand recovers and SAF mandates become firm this will mean higher prices, though in 2024 the increase will probably only be slight.



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PhD. Julian Conway McGill