

World Economic Outlook

Transitions and Tensions

OCT 13

World Economic Outlook

Recovery Strengthens,
Remains Uneven

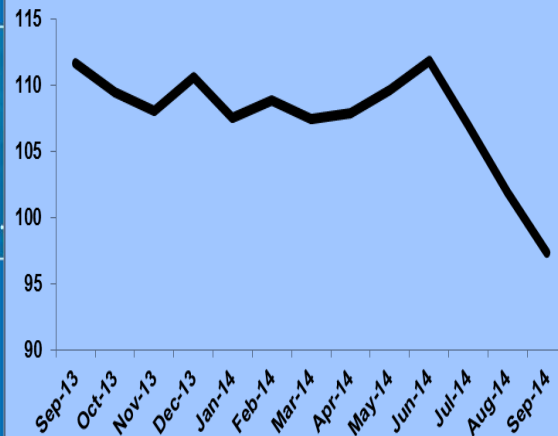
APR 14

World Economic Outlook

Legacies, Clouds, Uncertainties

OCT 14

Brent Crude (\$/bbl)



Elucidating Conundrum of Palm Oil under illusion of Global Economy Well-Being

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IMF : I AM FLEXIBLE



Global Growth Under Illusion of “Well Being”

- **OCT'13** : Global growth is in low gear, the drivers of activity are changing, and downside risks persist. China and a growing number of emerging market economies are coming off cyclical peaks. Global growth is projected to strengthen from 2.9% in 2013 to **3.6%** in 2014
- **APR'14** : Global activity has broadly strengthened and is expected to improve further in 2014–15, with much of the impetus coming from advanced economies. Global growth is projected to strengthen from 3% in 2013 to **3.6%** in 2014 and 3.9% in 2015
- **OCT'14** : Despite setbacks, an uneven global recovery continues. Largely due to weaker-than-expected global activity in the first half of 2014, the growth forecast for the world economy has been revised downward to **3.3%** for 2014 and **3.8%** in 2015



VUCA

(volatility, uncertainty, complexity, and ambiguity)

OR

Splendid VUCA

(vivacious, unreal, cracked, and astonishing)

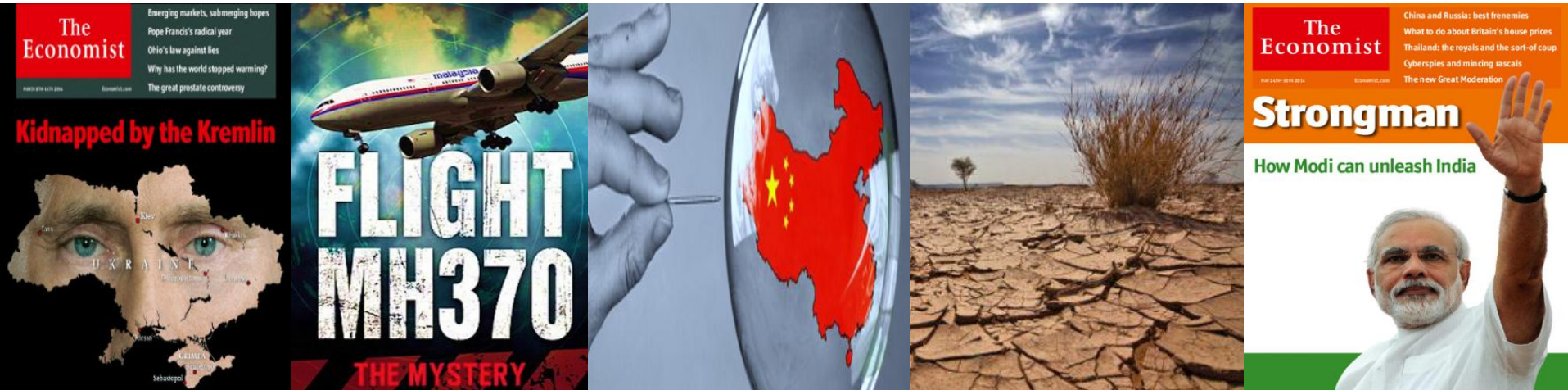


VUCA

**Term coined by US Army War College & better
explained by Taleb's Black Swan**



VUCA stands for the volatility, uncertainty, complexity, and ambiguity—reflecting an unstable and rapidly changing economic environment. Better explained by concept of Black Swan (ie) combination of low predictable events with large impacts



First Half of 2014 has witnessed several such events from on going turbulence in Middle Eastern Countries to Russia invading Ukraine to Missing Malaysian Flight to Ferry Mishap in South Korea to Chinese Shadow Banking to Searching for El Nino to Change in leadership in World Largest Democracy (India), etc. All of the events has taken world by surprise



Q3 of 2014 has been more surprising & interesting compared to first half of 2014, as many unforeseen events unfolded . It can be rightly said in the real sense that period was *vivacious, unreal, cracked, and astonishing*. Had far more reaching effected

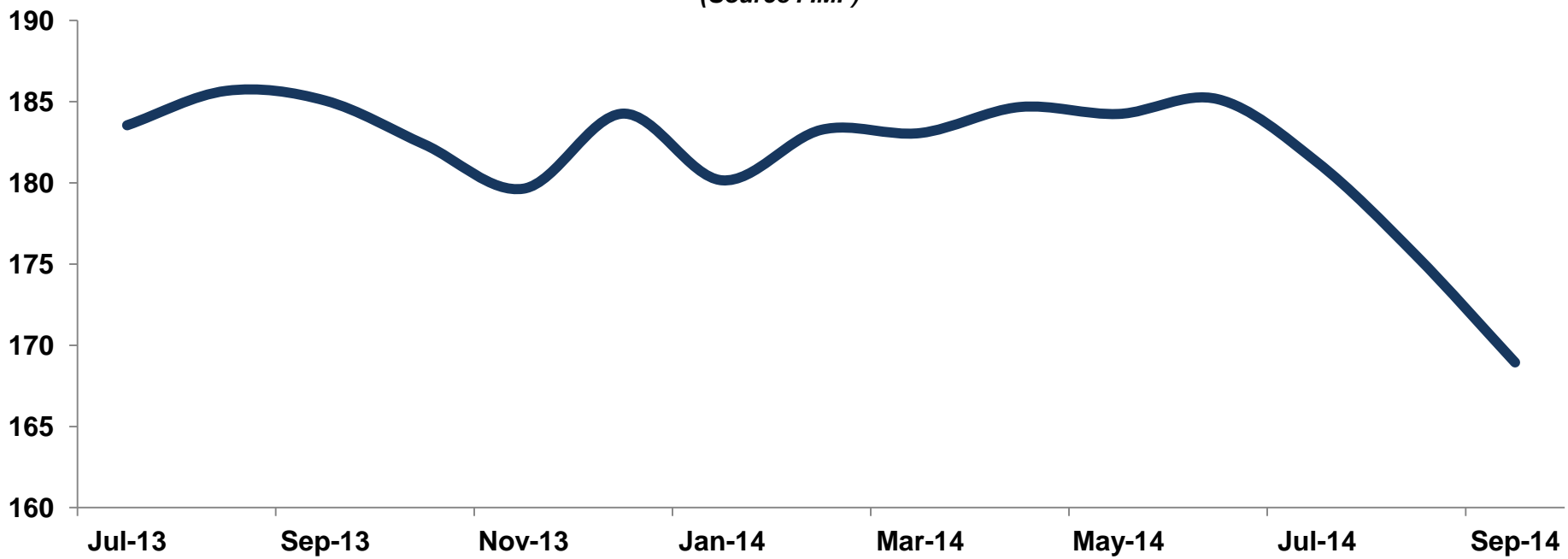


No respite in Middle East to Issue between Russia&Ukraine to Malaysia Flight getting shot down to Argentine Debt Default to Chinese Structural Change to Palestine – Israel Conflict to Bill Gross exit from PIMCO, Protest in Scotland & Hong Kong to Global Weather Risk,Ebola,etc. Is it the case that markets (commodity) had already factored in all of this?



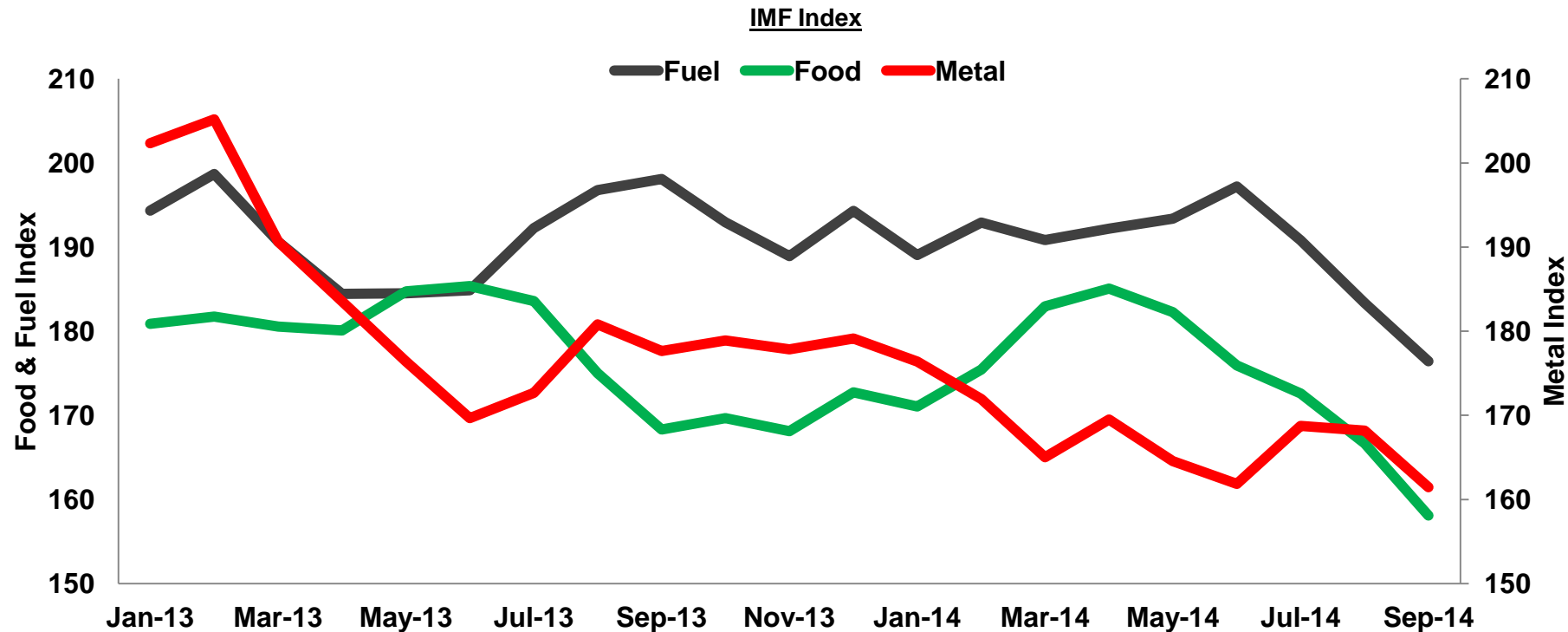
Even though events during the period under review were rare but commodity markets reacted differently. Ideally due to rise in geopolitical unrest in turn raises the concern on supply side risk in turn higher commodity prices. However, it had a reverse impact.

IMF Commodity Price Index (Q3 2013 to Sep 2014)
(Source : IMF)





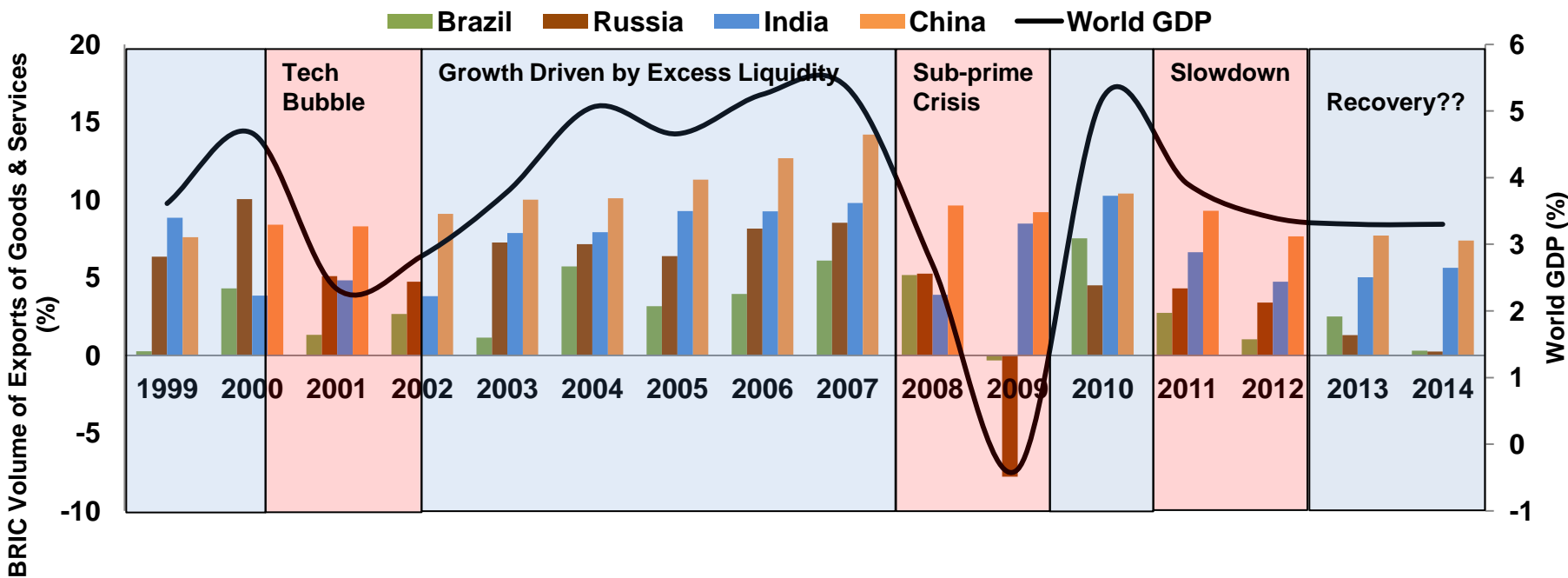
The reverse impact on commodities was on account of *structural change* in global economy taking place since the beginning of current calendar year. Early indicator was well demonstrated in proxy barometer of global health (ie) metal prices, tumbled later food & fuel followed





Structural Change in the form of Global Economic Power shift has been taking place on account of Emerging Economies Growth Model which was export driven (ie) dependent on Developed Economies Consumption instead of driven by its domestic demand & which continues to be the case

World GDP vs BRIC Volume of Exports of Goods & Services

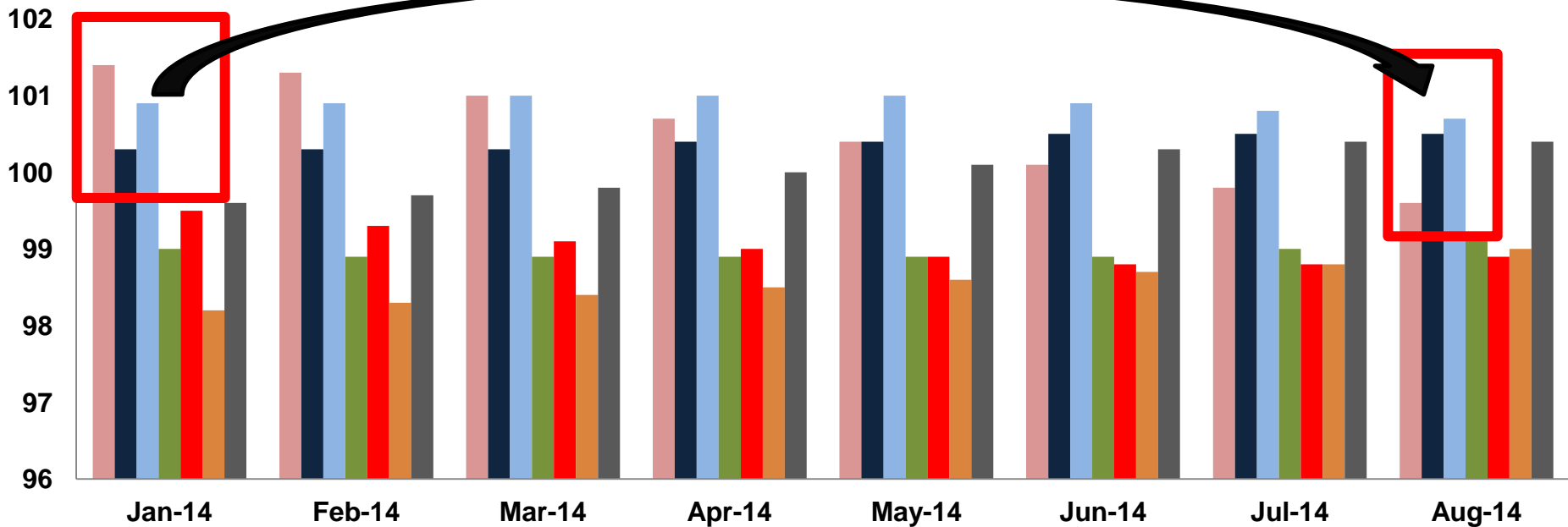




However, growth momentum which picked up during the start of current calendar year on the back of reforms by Fed & Abenomics but all of it has started to fade. BRIC's on the other hand has been totally side-lined & US is in the driving seat for global growth

OECD Composite Leading Indicator Index (Jan to Aug 2014)

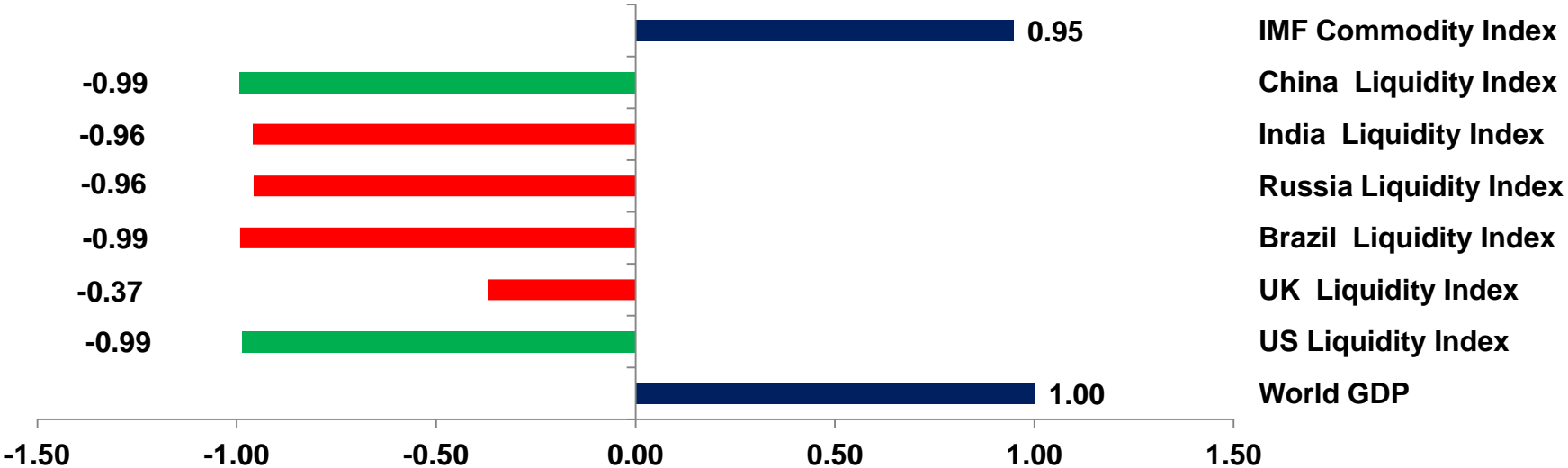
Japan US EU Brazil China India Russia





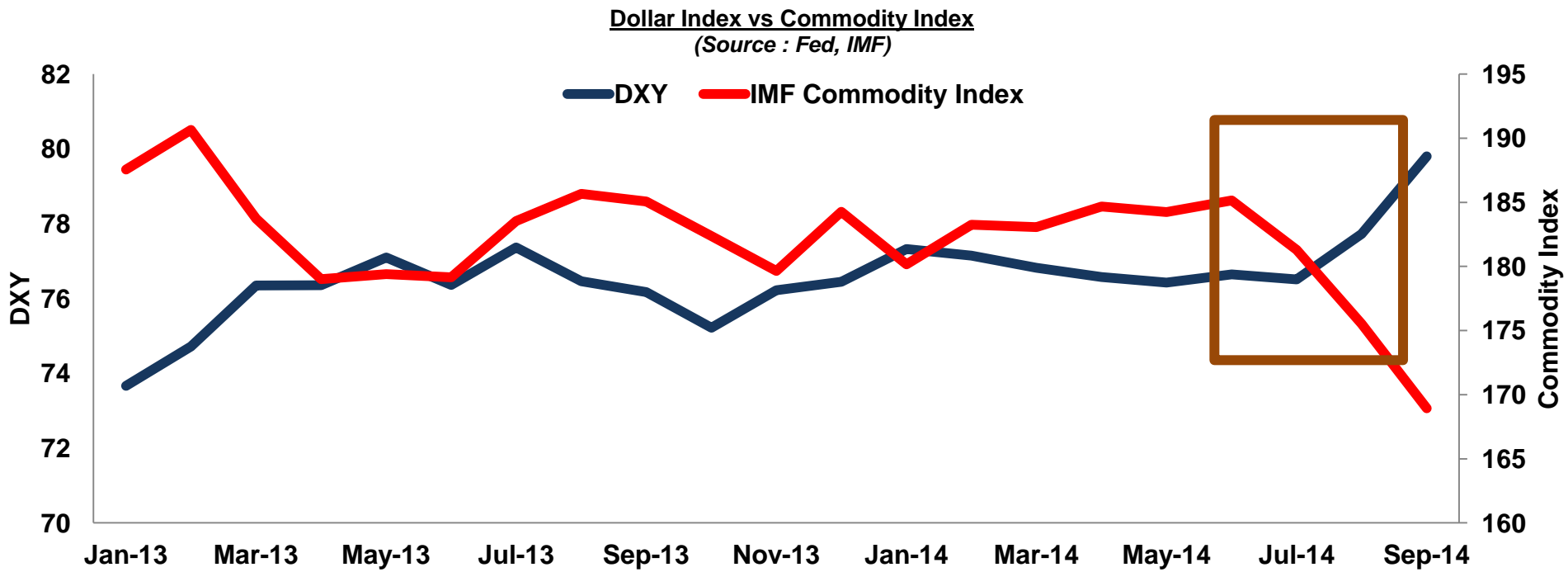
With growing uncertainty in turn has lead to more complexity, wherein the fundamentals holds little or no significance and it's the G2 & not the G20 which has been the major influencing factor in dictating terms for global growth

Global Growth & Commodity Index v/s Liquidity Index
(Source : OECD & IMF)





With US being the dominant factor for global growth and maintaining momentum besides Fed's on going intervention along with Chinese commodity financing issues In turn Dollar has been strengthening which has an inverse effect on commodity prices.

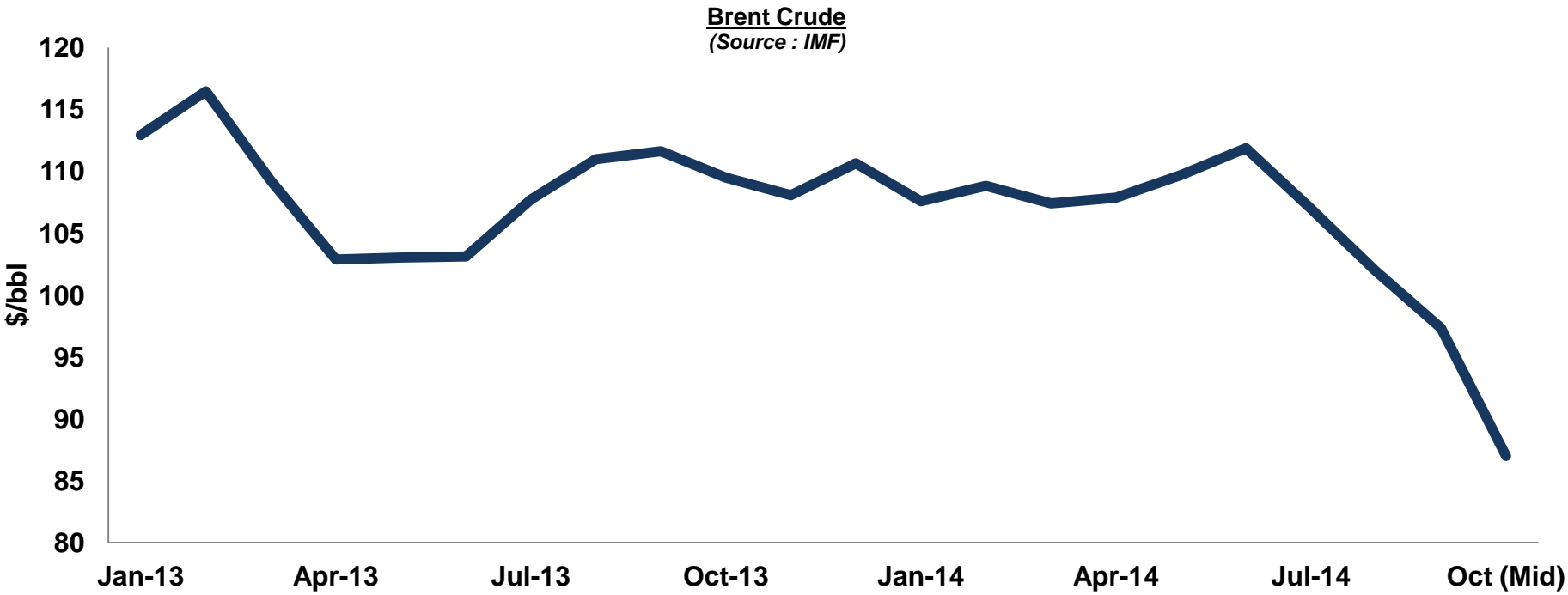




Oil (crude) **is well if All** (global economy) **is Well**



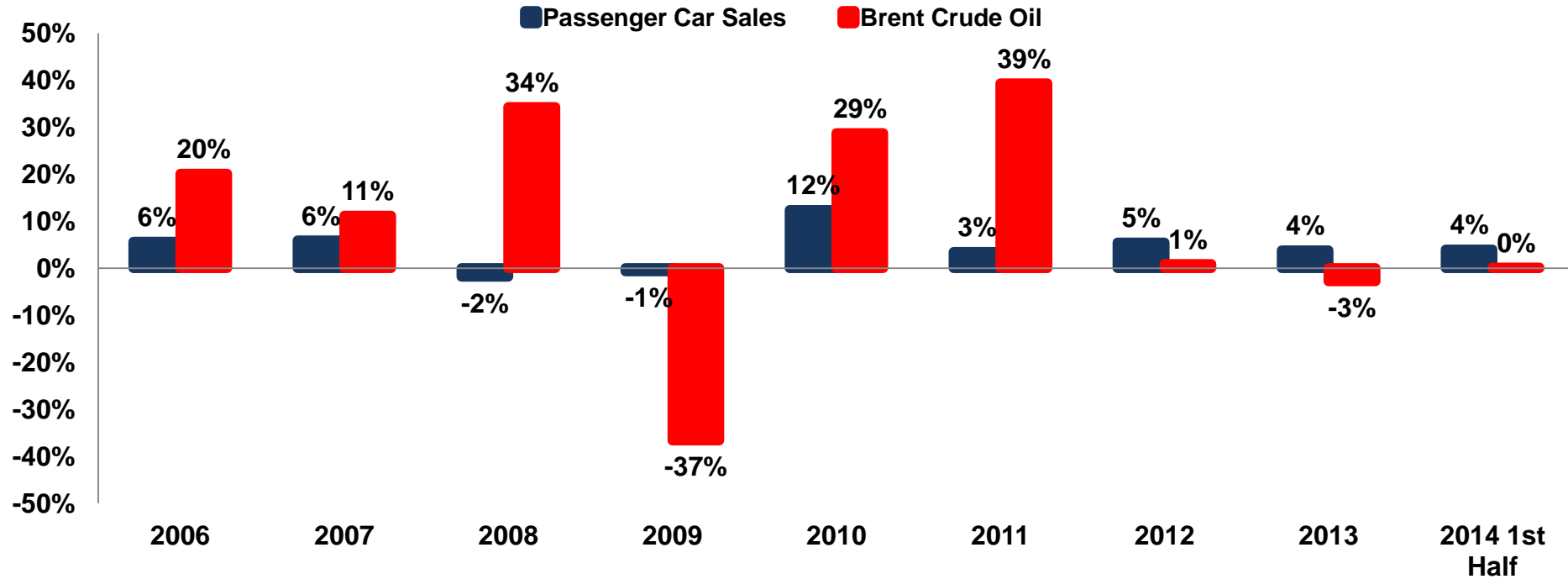
Under the illusion of recovery in global growth Brent Crude stood its ground until second half of current year post which prices tanked sharply as it became clearer that fundamentals of global growth are under weaker hands & markets are well supplied but demand nowhere to be seen





Global Passenger Car Sales has been growing at single digit except for 2008-2009 wherein demand slumped and 2010 being exceptional year starting at lower base (demand grew at double digit). 1st half of 2014 has seen demand growing at 4% compared 2013 same period but crude prices remain static

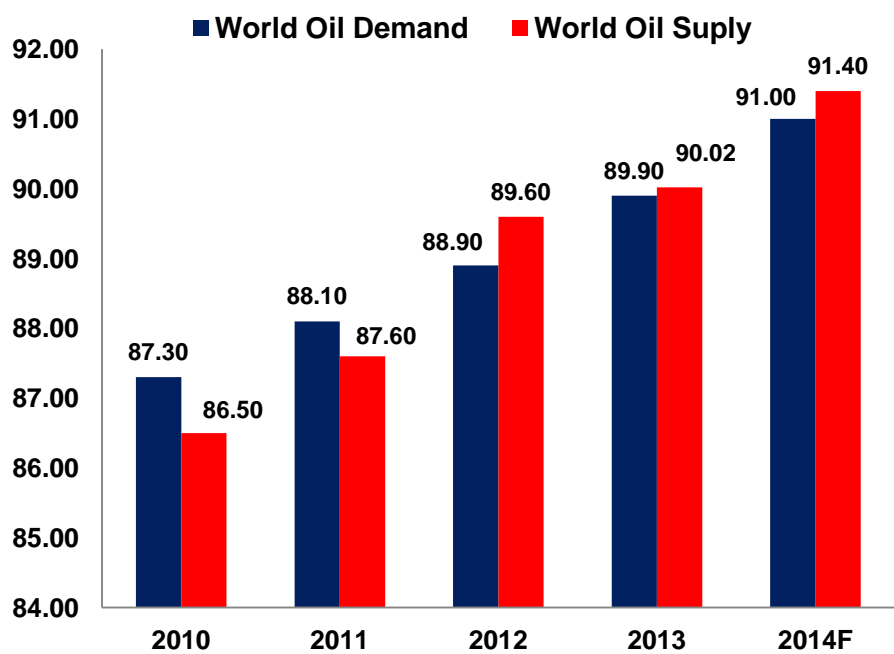
Growth Change (%) : World Passenger Car Sales vs Brent Crude Oil
(Source : OICA)



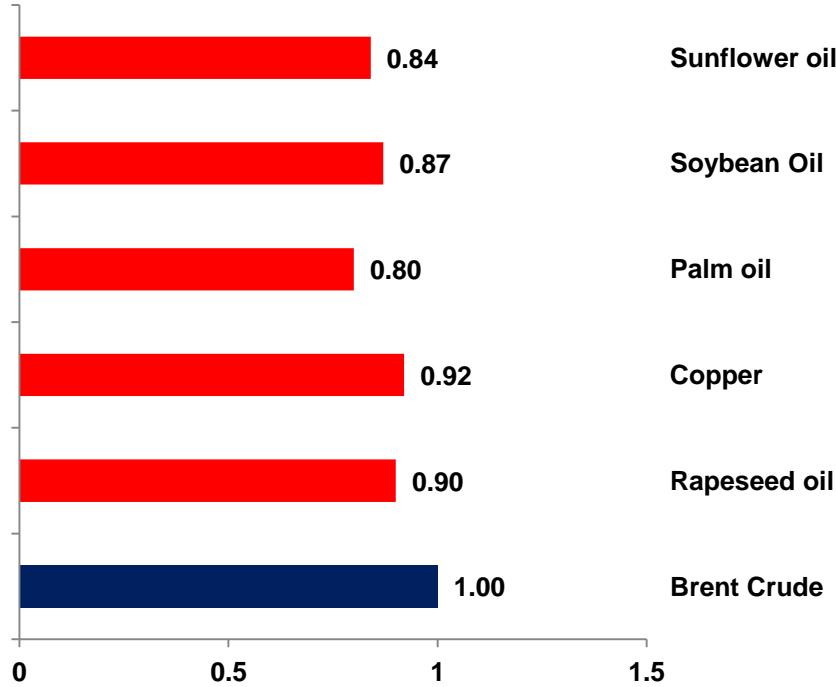


Crude oil fundamentals seems to be fairly balanced. Market is well supplied due to the ramping up of supply from Libya and Iraq despite violence situation in the region along with US rising crude oil production However, it continues to maintain strong correlation with Edible Oil Prices due to BioD

World Demand & Supply of Petroleum (MB/D)
(Source : OPEC)



Brent Crude vs Edible Oil : Correlation Graph

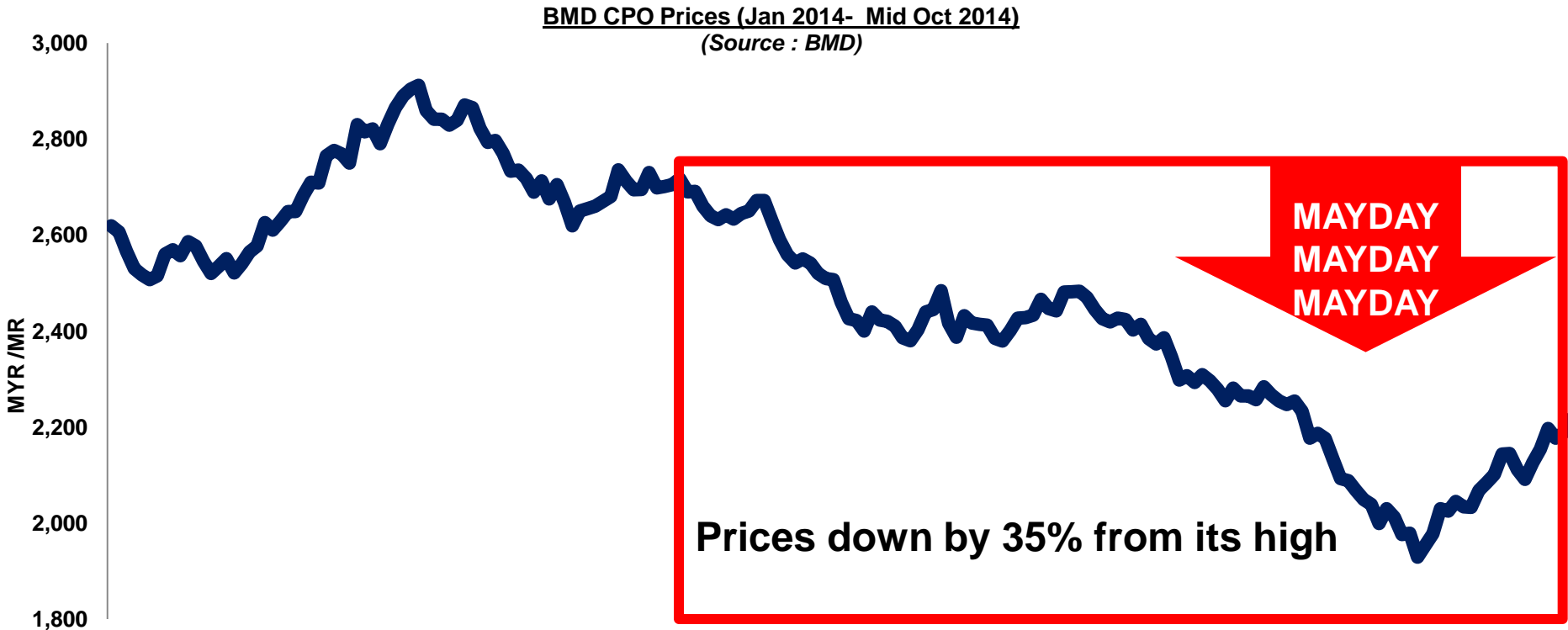




Impact on BioD Feedstock in Asia



CPO (Crude Palm Oil) prices started CY 2014 on a positive note as it made a high of 2916 MYR during Mar 2014 (which was post POC 2014) on the back of dryness at producing centre, steady petroleum prices, etc but post which there has continuous sell-off as it made a low of 1914MYR during early Sep

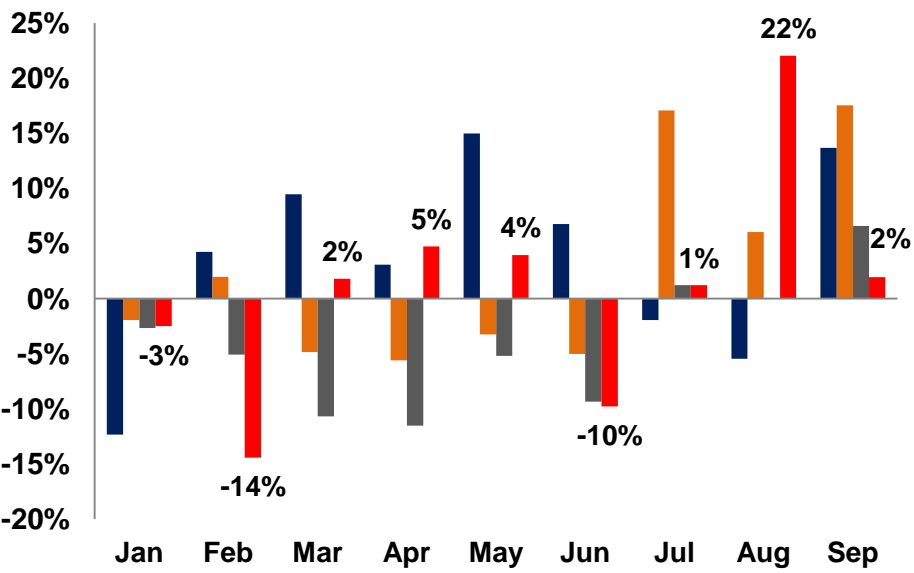




Sell-off was on the back of revival of rains at the producing centres, futile search for EL Nino, good supply of seed oil, currency fluctuation & steady petroleum price. Along with revival production numbers, feeble demand and stock build-up at producing centres (Sep uptick in exports due to export tax)

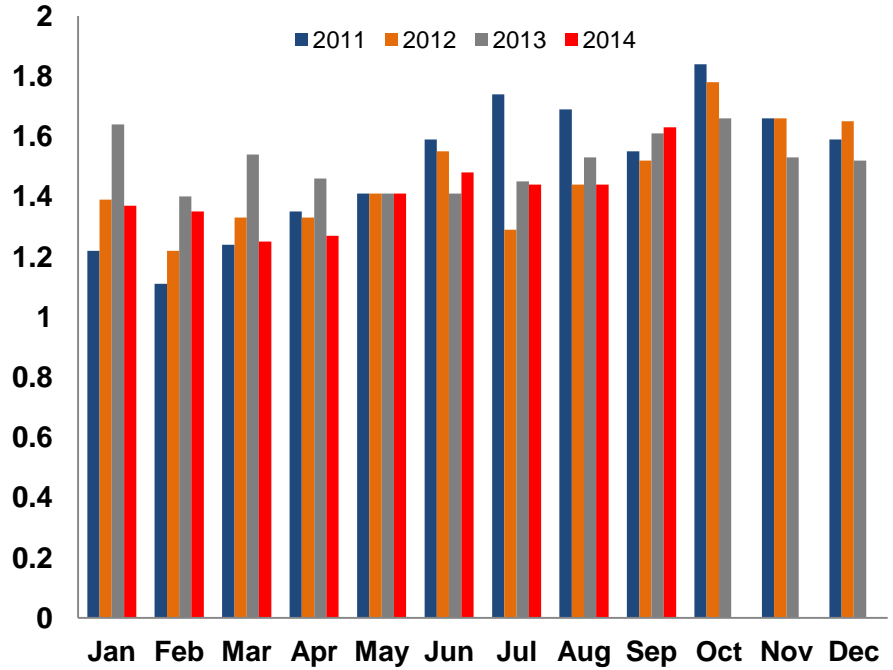
Palm Oil Stocks Trend (M-o-M)
(Source :MPOB)

■ 2011 ■ 2012 ■ 2013 ■ 2014



Malaysian Palm Oil Exports
(Source : MPOB)

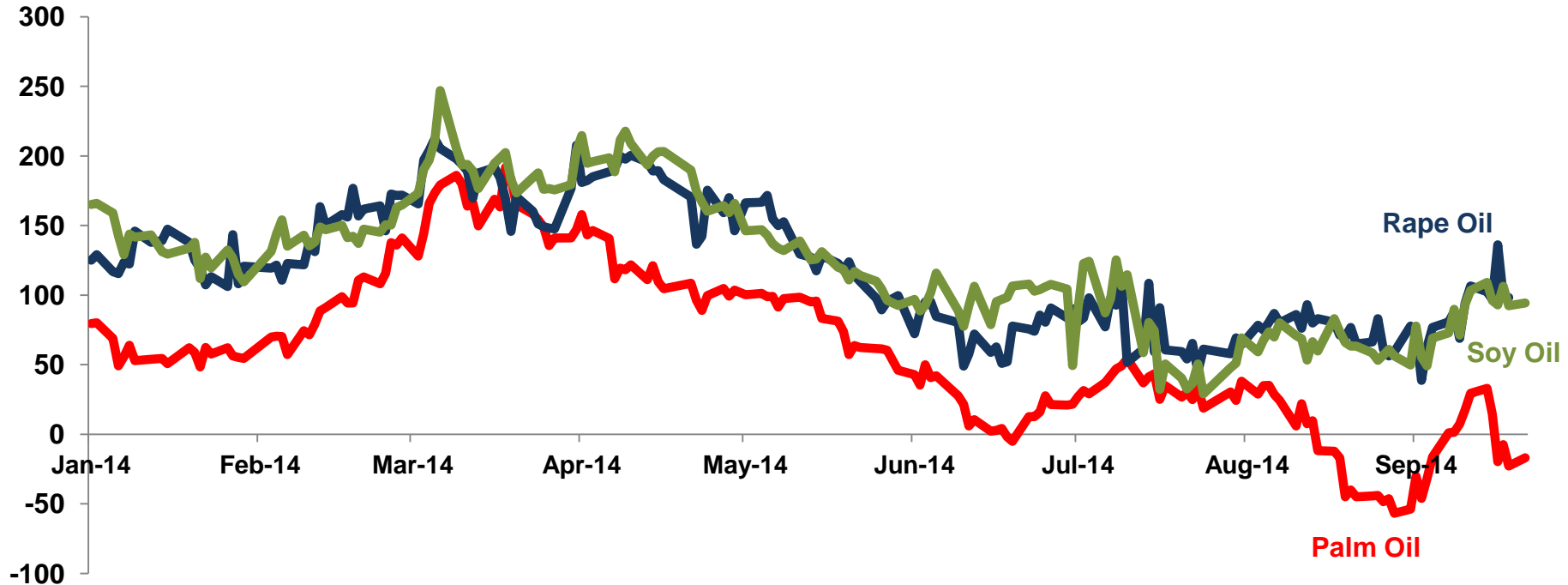
■ 2011 ■ 2012 ■ 2013 ■ 2014





Even if fundamentals continues to remain weak but Palm Oil always tends to find saviour in the form of petroleum prices. Reason being supportive for USD MYR as Malaysia in net exporting nation along with demand rationing towards BioD, it's the cheapest feedstock compared to other edible oil

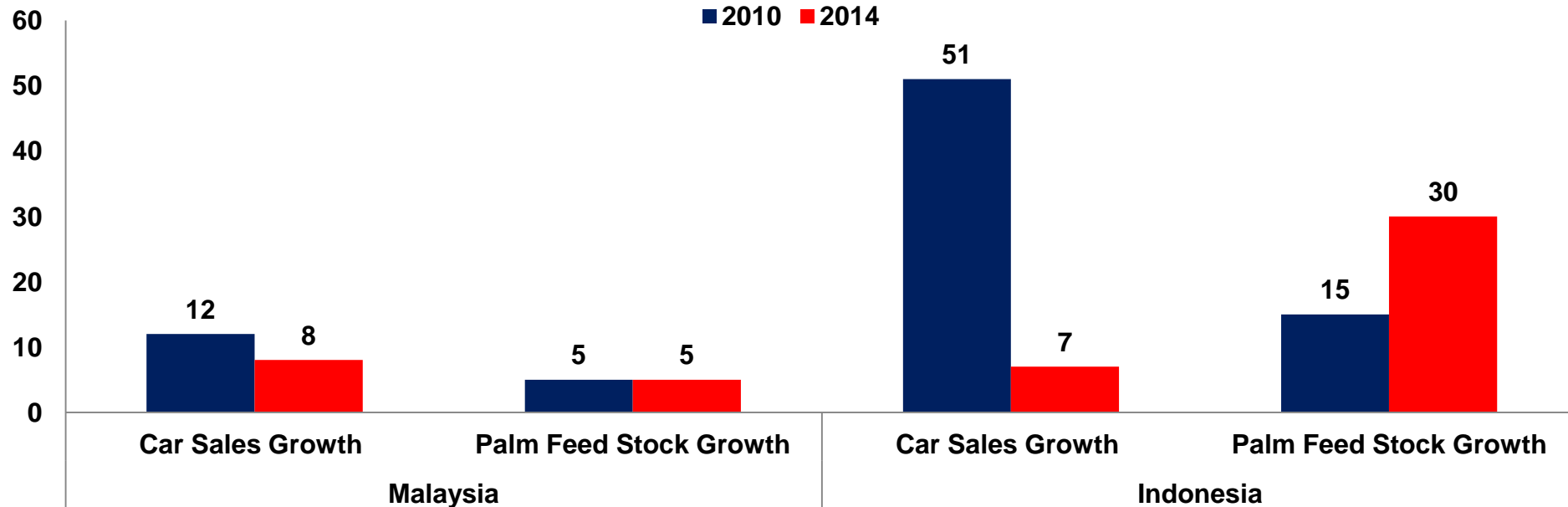
Brent Crude vs BioD FeedStocks (\$/Ton)





Major Palm Producing Centres (Malaysia & Indonesia) continues to have good growth in car sales with more disposable income in consumers hand but interesting fact is usage of Palm for BioD, in turn to support prices from falling in global markets

% Growth in Car Sales & Palm Feed Stock for BioD
(Source : USDA, OECD, MPOB)



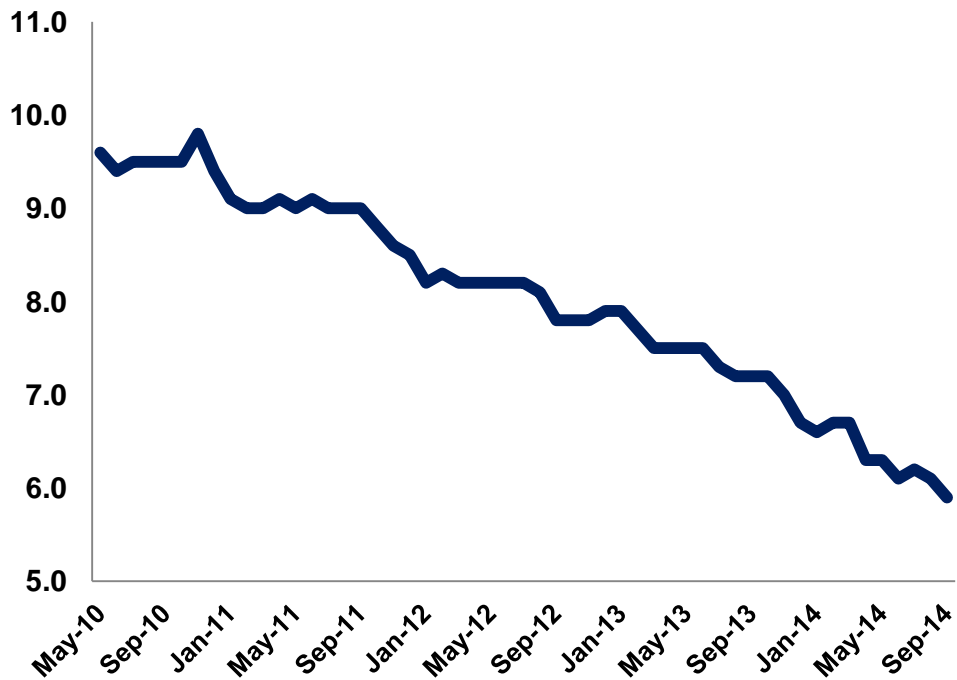


Outlook : Negating the illusion of *“Well Being”*

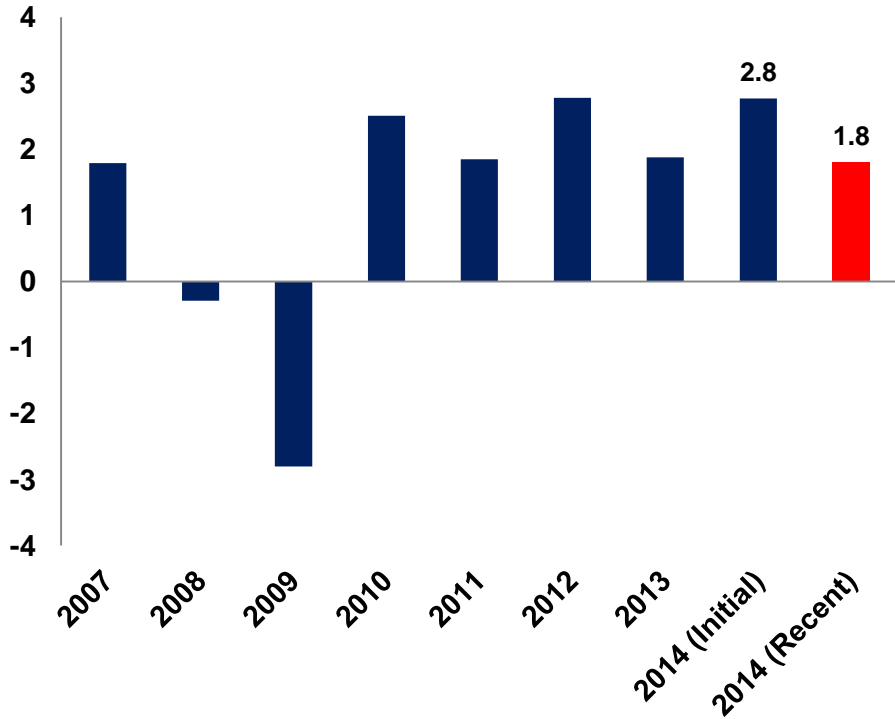


Global Economy will continue to remain under VUCA influence but possibility of it getting intensified in turn could further derail the global growth. US will be in the drivers seat to navigate the global growth but any hiccup by Fed intervention needs to be watched out carefully

US Unemployment Rate
(Source : Fed)



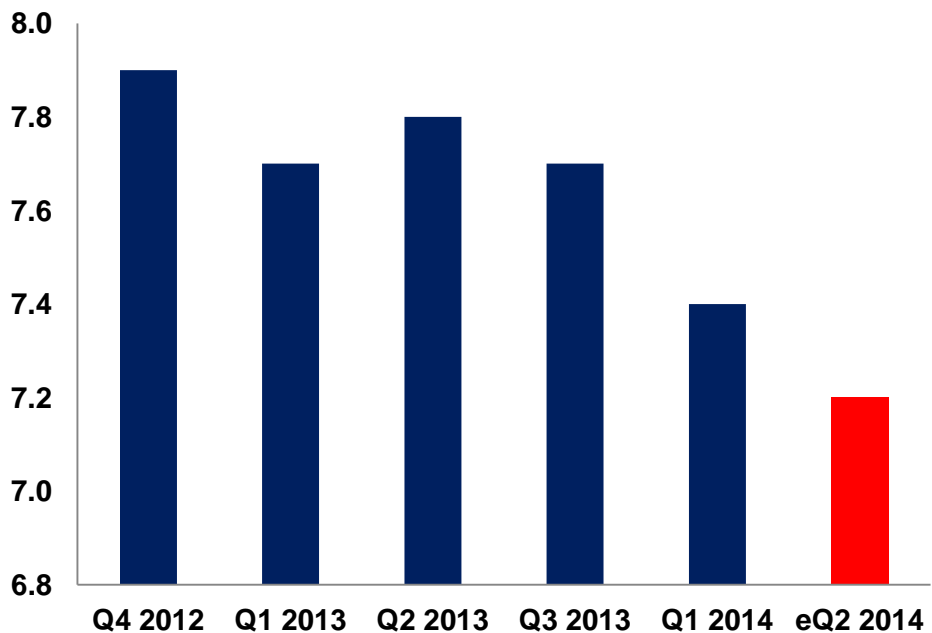
US GDP Growth (%)
(Source : Fed & IMF)



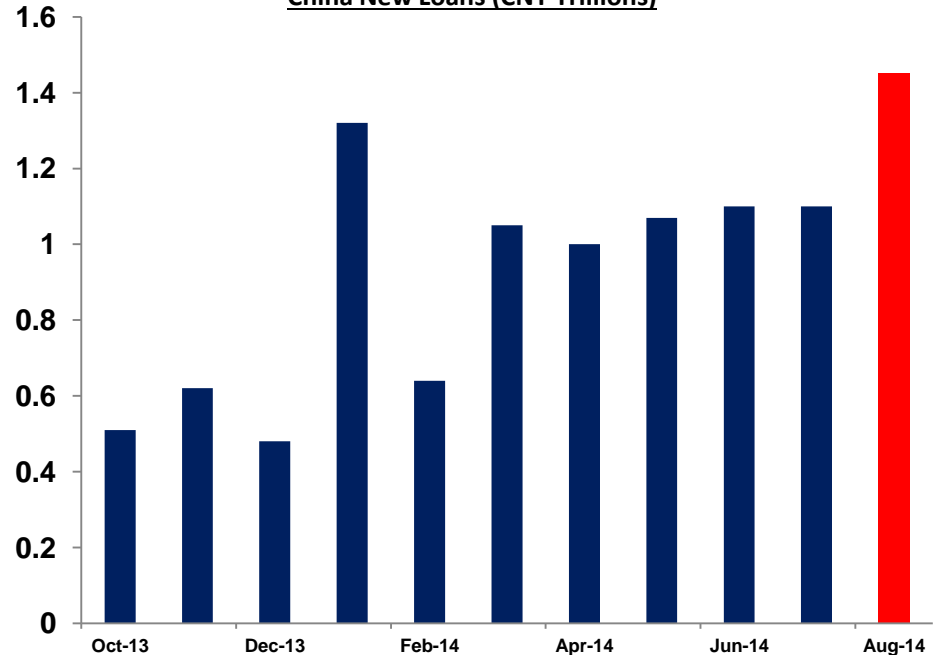


China continues to struggle with its growth as its financial sector is getting out of its “Shadow”. However, to keep the wheel churning there has been huge influx of liquidity in the system which is heading towards housing sector(NO-MONEY-DOWN-LOANS). Possible BLACK SWAN

China Q-o-Q GDP Growth (%)



China New Loans (CNY Trillions)

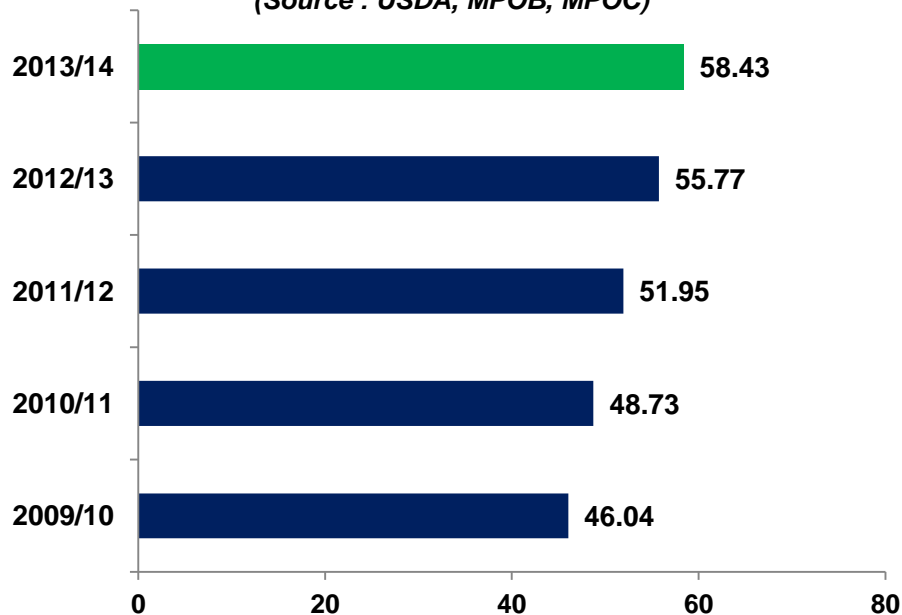




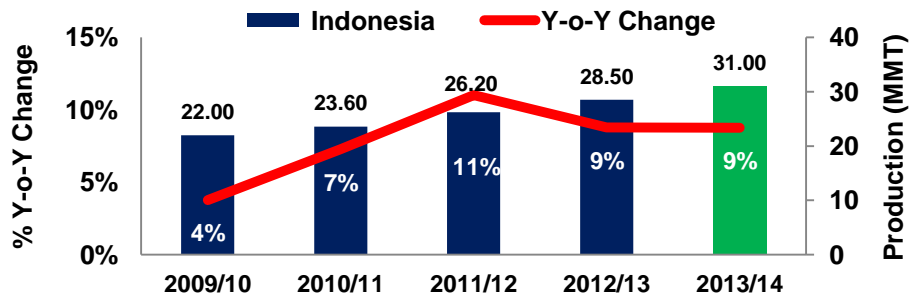
Palm oil production in both Indonesia & Malaysia after dry spell during the start of CY has recovered sharply & expected to maintain momentum. OVERALL WEATHER RISK LOOMS which can only alter output but at present markets are well supplied & winter weak demand would cheap in

World Palm Oil Production (MMT)

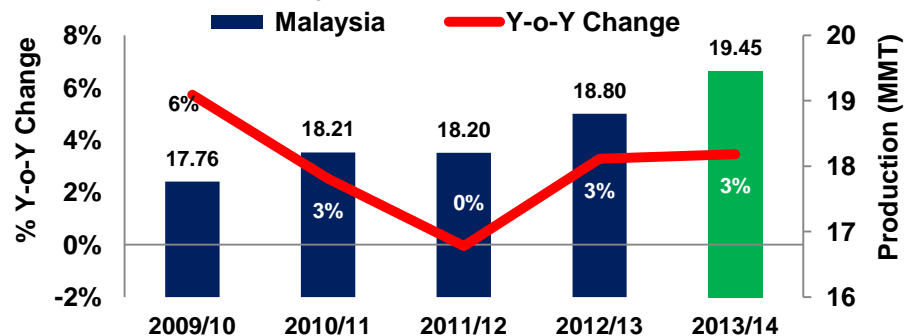
(Source : USDA, MPOB, MPOC)



Indonesia Palm Oil Production



Malaysia Palm Oil Production

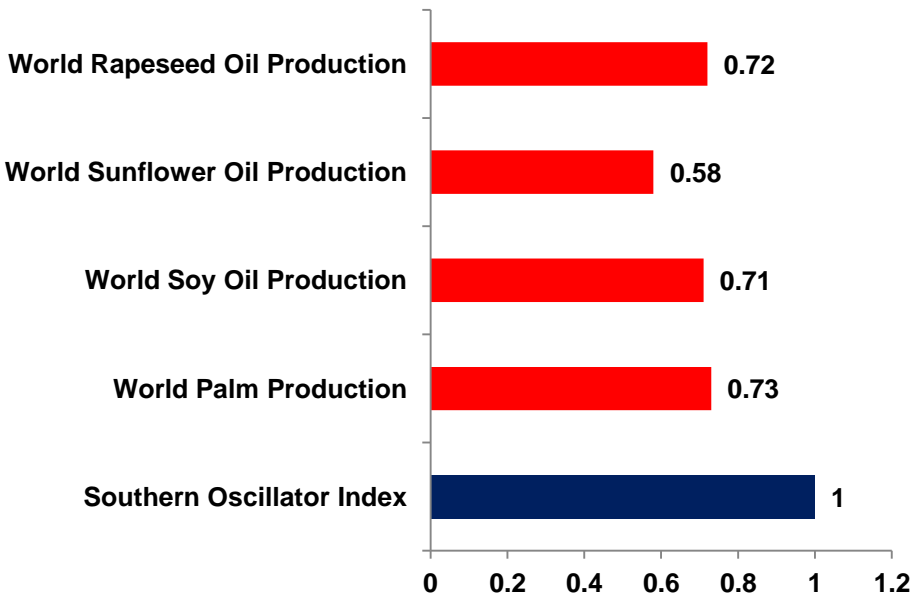




In case EL Nino warning turns out to be true its impact on Palm Oil production will be only witnessed during start of 2015. However, weather will be favourable for Soybean (LatAM & US). Monsoon dependent Indian Kharif Crop will get impacted & can result in higher inflation in turn weak USD INR

Weather Impact Metrics Postulated on Palm Oil						
	Southern Oscillator Index (SOI)	World Palm Oil Production (POP)	World Palm Oil Exports (POE)	World Palm Industr y Use (PIU)	World Palm Food Use (PFU)	Palm Oil Prices (POP)
SOI	1					
POP	0.70	1				
POE	0.73	0.99	1			
PIU	0.69	0.99	0.99	1		
PFU	0.81	0.99	0.99	0.99	1	
POP	0.85	0.80	0.80	0.81	0.81	1

Southern Oscillator Index vs Edible Oil :
Correlation Graph



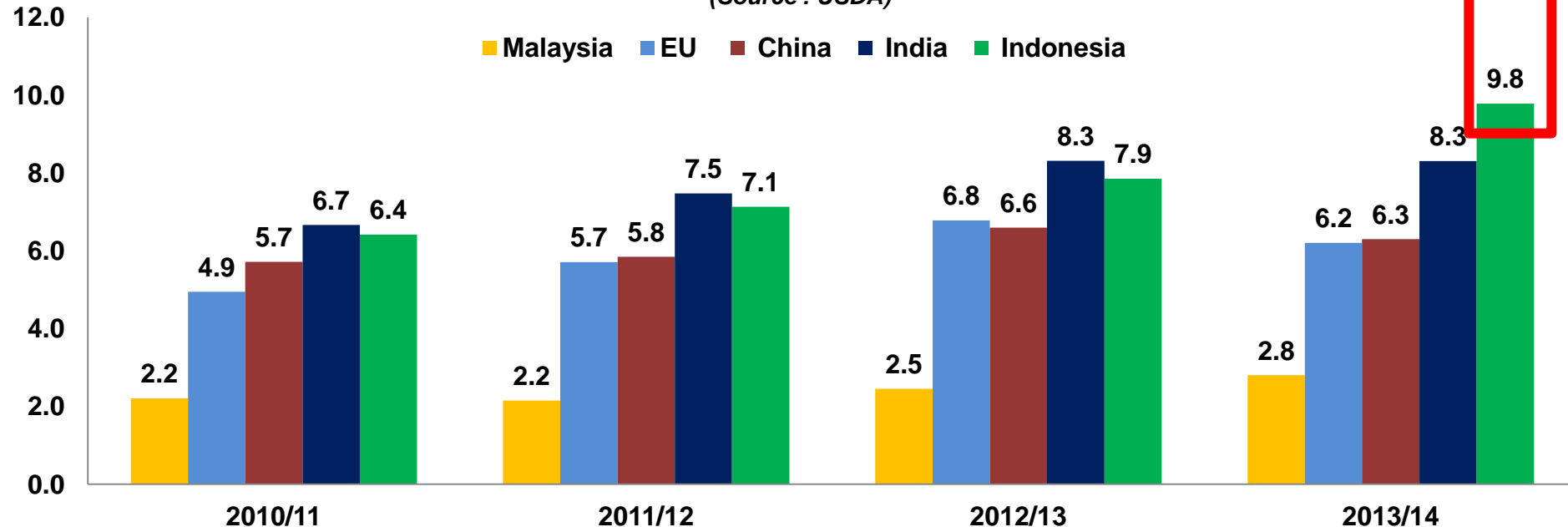


On the consumption front major importing destination will remain more or less at same levels as last couple of years. But it will be producing centres which is expected to report increase in demand, as they unveil their TRUMP CARD of BioD which will act as a minimum support price (MSP) for CPO

Palm Oil Demand (MMT)

(Source : USDA)

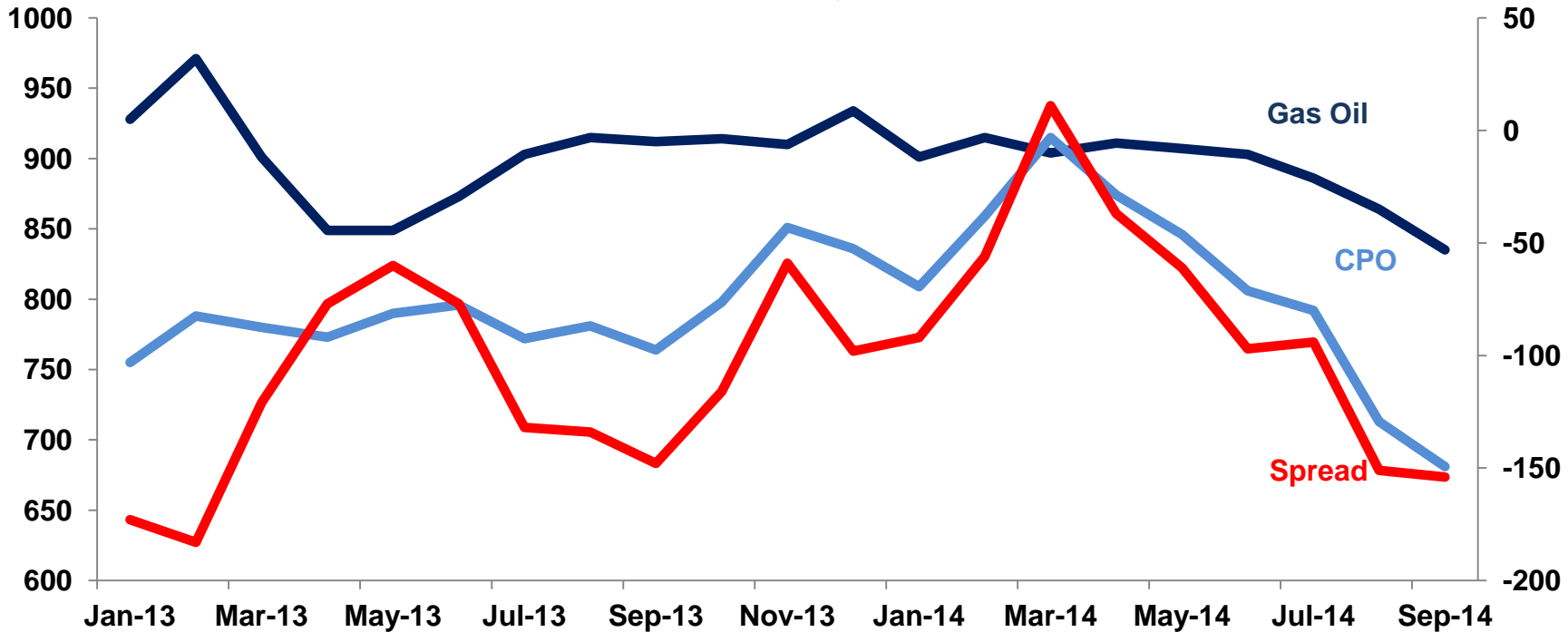
■ Malaysia ■ EU ■ China ■ India ■ Indonesia



Discount between Gas oil vs CPO vs Brent leading to viable Biodiesel Parity at Indonesia. However, Gas oil price is interlinked to Brent, hence Brent prices will play a decisive role in demand rationing when it comes to BioD but tanking Brent Prices is not healthy



Spread : CPO & SingGas Oil (\$/Ton)

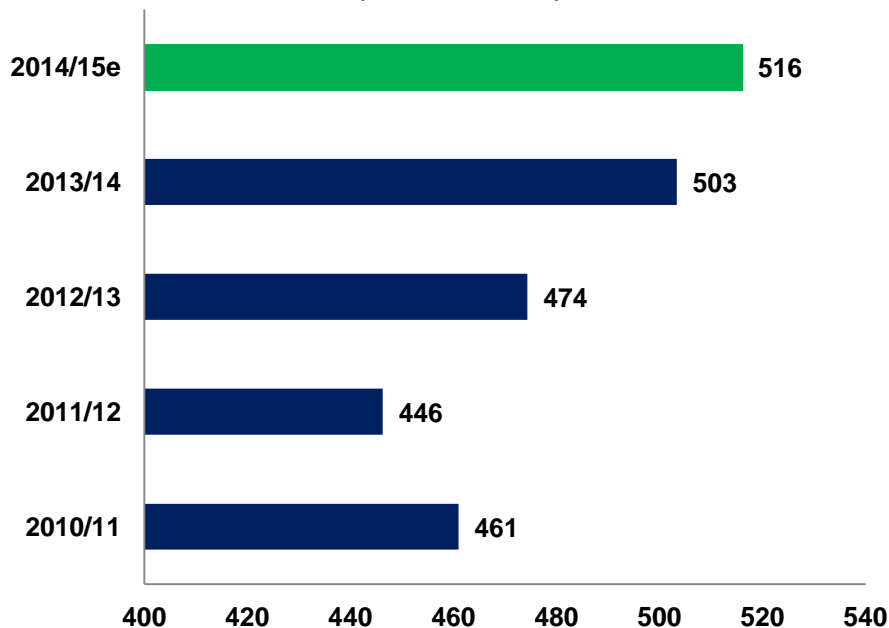




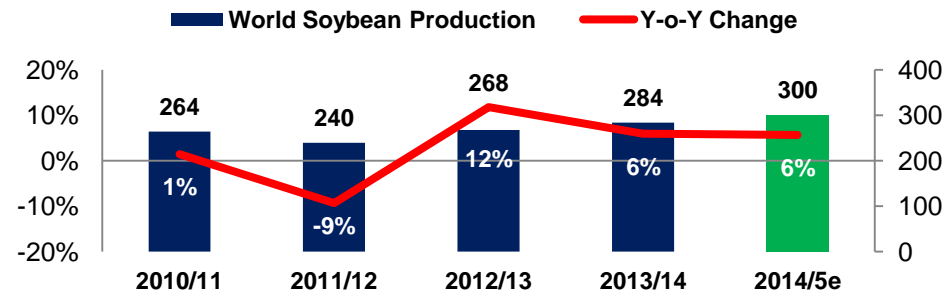
However, Oil Year is been dominated by oilseeds complex. Leading its way will be soybean followed by rapeseed & sunseed crop. Reason being good LatAm crop from Argentina (53-54mmt) & Brazil (89-90mmt). Even if there are any weather glitches world will have enough seed to extract oil

World Oilseeds Production (MMT)

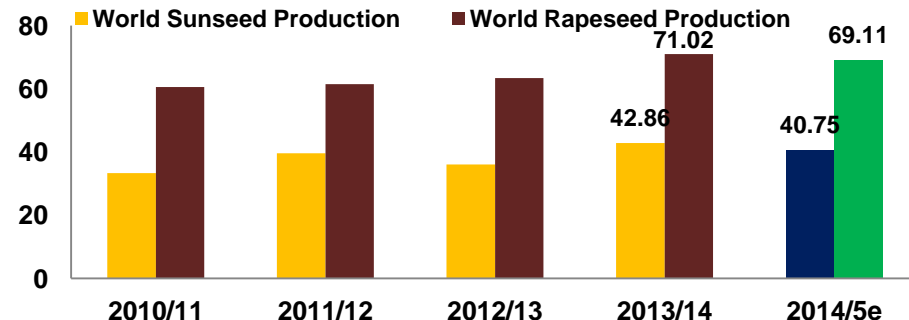
(Source : USDA)



World Soybean Production (MMT)



World Sunseed & Rapeseed Production (MMT)



Concluding Remarks



- Asian markets are very price sensitive : BioD becomes priority at feedstock producing centres for arresting prices from falling further & at consuming centres only if economy is growing at good pace which at present is being curtailed by CAD (*Current Account Deficit*)
- US being in the driving seat DXY strengthened in 2014 = in turn reverse impact on commodities (trend likely to continue unless China shapes up & petroleum importing nations can improve their CAD in falling crude oil prices)
- We are at the crucial juncture for setting base for next year 2015 : US & China would direct global growth in turn direct impact on currency & commodities. China need to find solution internally & not outside for its structural change
- At the moment ICE is closely watched (ie) Iraq, China commodity financing & Ebola (previously E was El Nino which seems to have fading effect like Spanish Football Team)
- Outlook for Brent Crude shared at Palm Oil Conference (POC Mar 2014 : KL) Brent Crude Oil to see below \$90/bbl and markets at present at those levels. It will weaken BioD trump card at producing centres. Only saviour will be if SEA STORAGE increases (witnessed when Brent touched \$140/bbl)
- Overall veg oil markets are well supplied at present its taking cues from ICE. CPO market structure has changed from deep Backwardation during start of year to Contango. Which was very well played out as views shared @POC 2014 wherein it was most "CONTRARIAN & VERY BEARISH" later @ POTS India 2014 wherein bearish view was intact with cautious outlook. But markets took everyone by surprise by giving up major gains as it touched 1914MYR early Sep. At present prices are hovering in the range of 2200-1900MYR . However, with winter starting (low palm demand in winter due to solidification) & if brent crude tanking sharply in that case markets can re-test previous lows of 1900MYR and with DXY strengthening it would further intensified downslide towards 1500MYR. Again CHINA can be only saviour if PBOC injects more liquidity in the system (highly possible as countries foundation is weak)



Thank You

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