



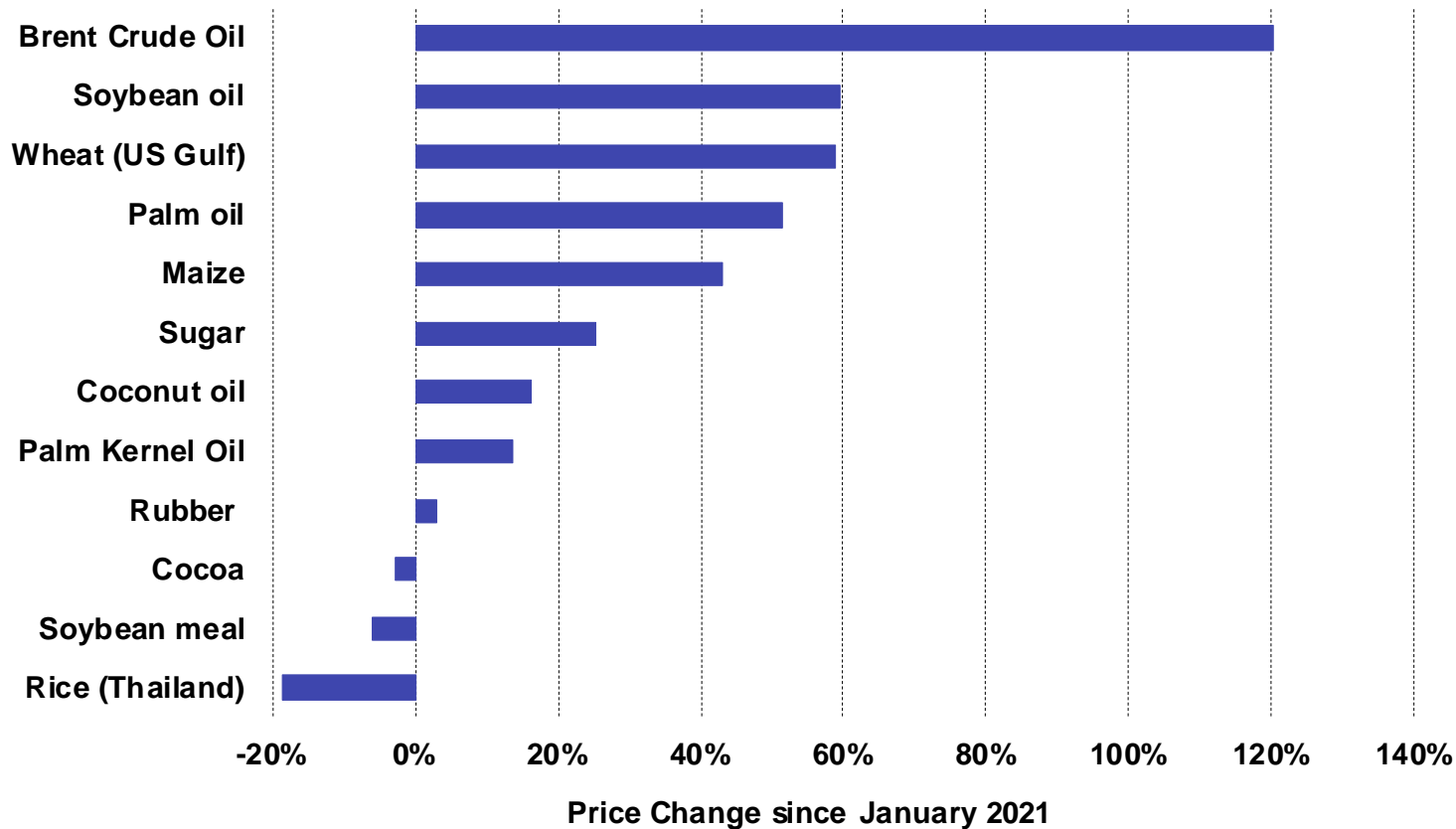
Edible Oils, Oilseeds and Biofuels – Weather, Protectionism or a Green Revolution to Reign?

Dr Julian Conway McGill

CME Group - Second Annual APAC Agri Week

(Many) commodity prices have appreciated strongly

Change in monthly average commodity prices since January 2021



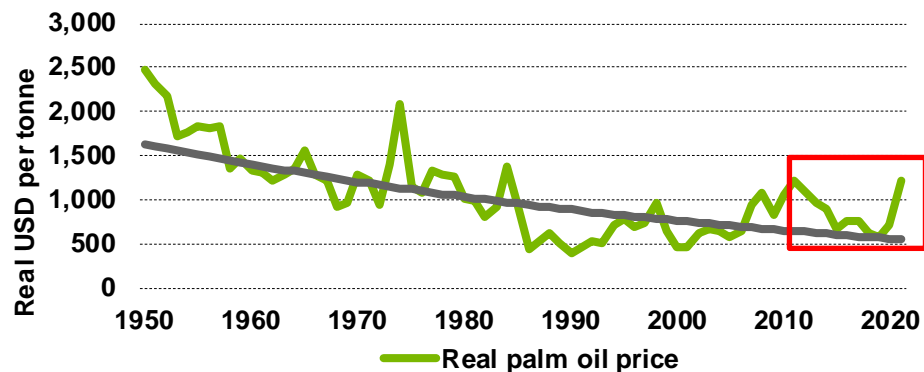
The EU and US are currently engaged in two “wars”:

1. A proxy war against Russia over the fate of the Ukraine.
2. A war against ‘carbon’ to reach “net zero”.

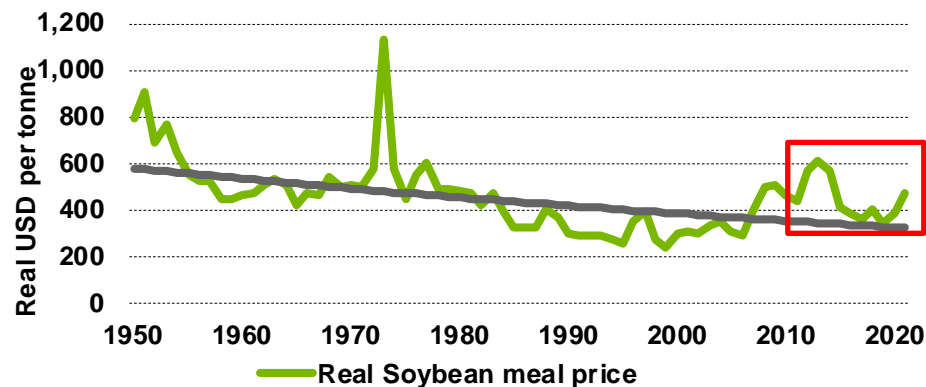
Both of these conflicts have pushed up commodity prices by creating additional demand while producing uncertainty and encouraging underinvestment.

Prices are above their long run trends

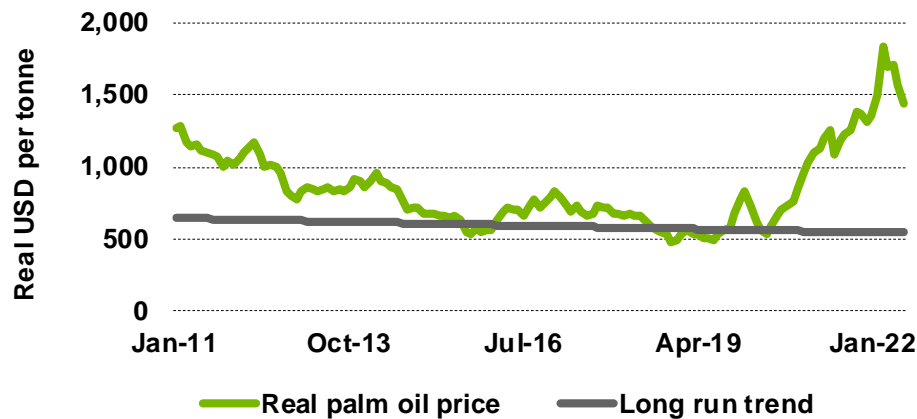
Annual palm oil prices and long run trend



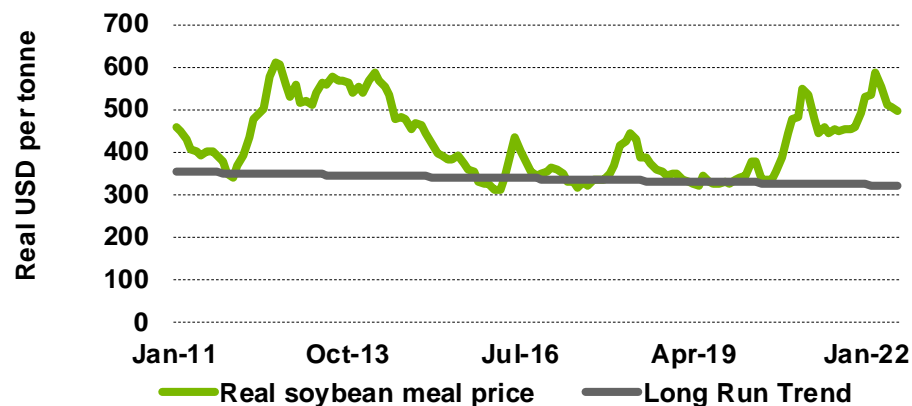
Annual soybean meal prices and long run trend



Monthly palm oil prices and long run trend

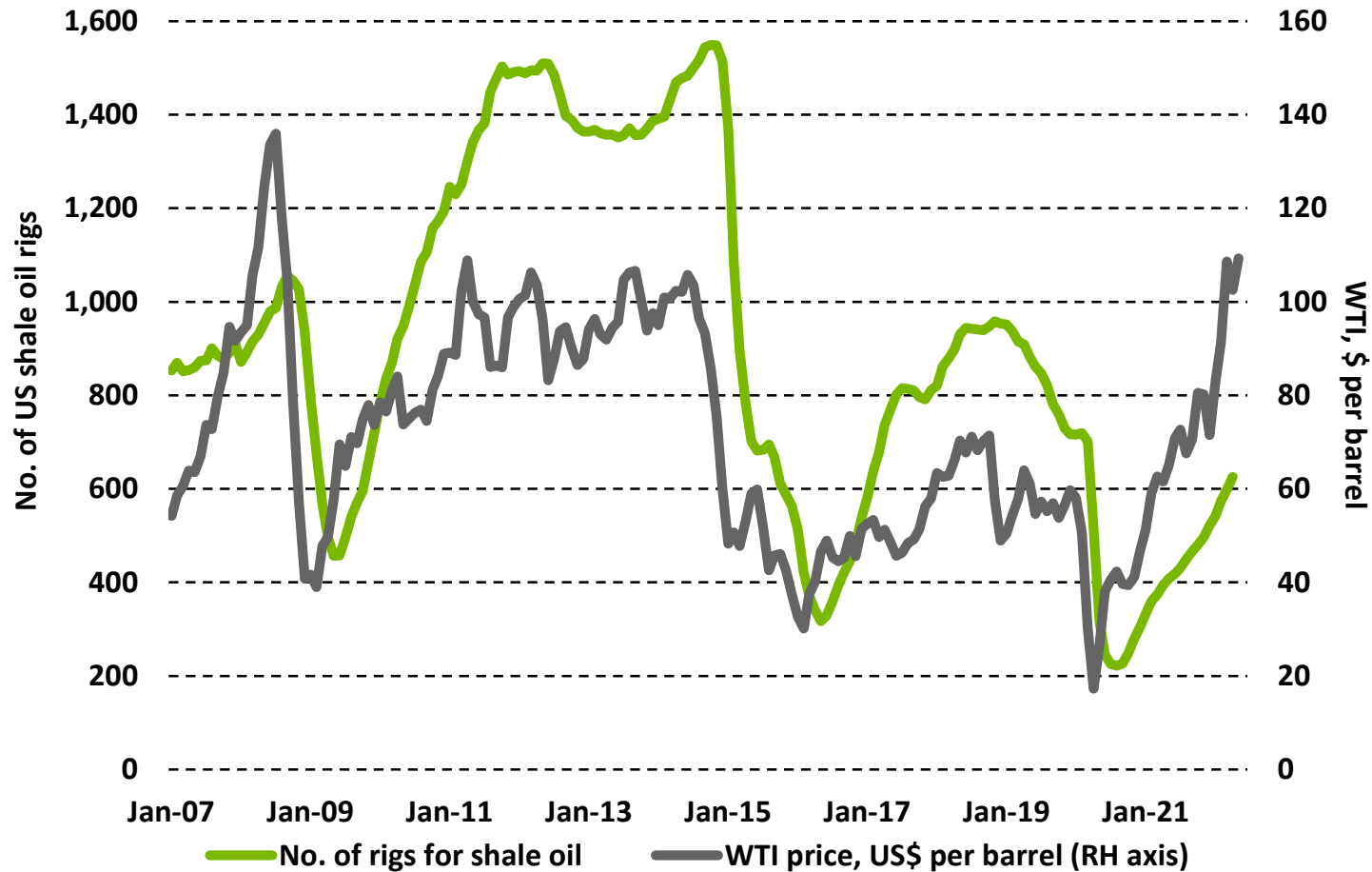


Monthly soybean meal prices and long run trend



We need US investment in fracking to replace Russia

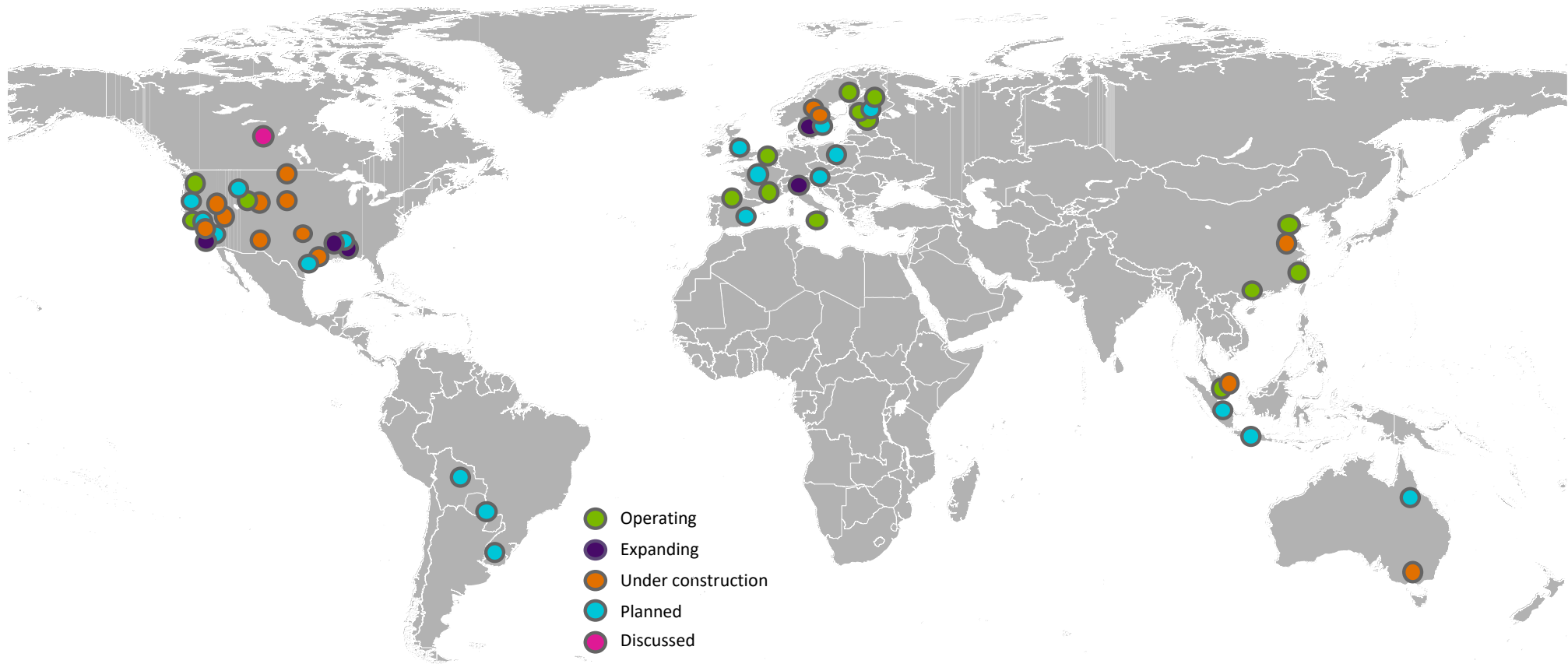
Crude oil price against number of rigs drilling for shale oil



Instead, investment is flowing into renewable diesel

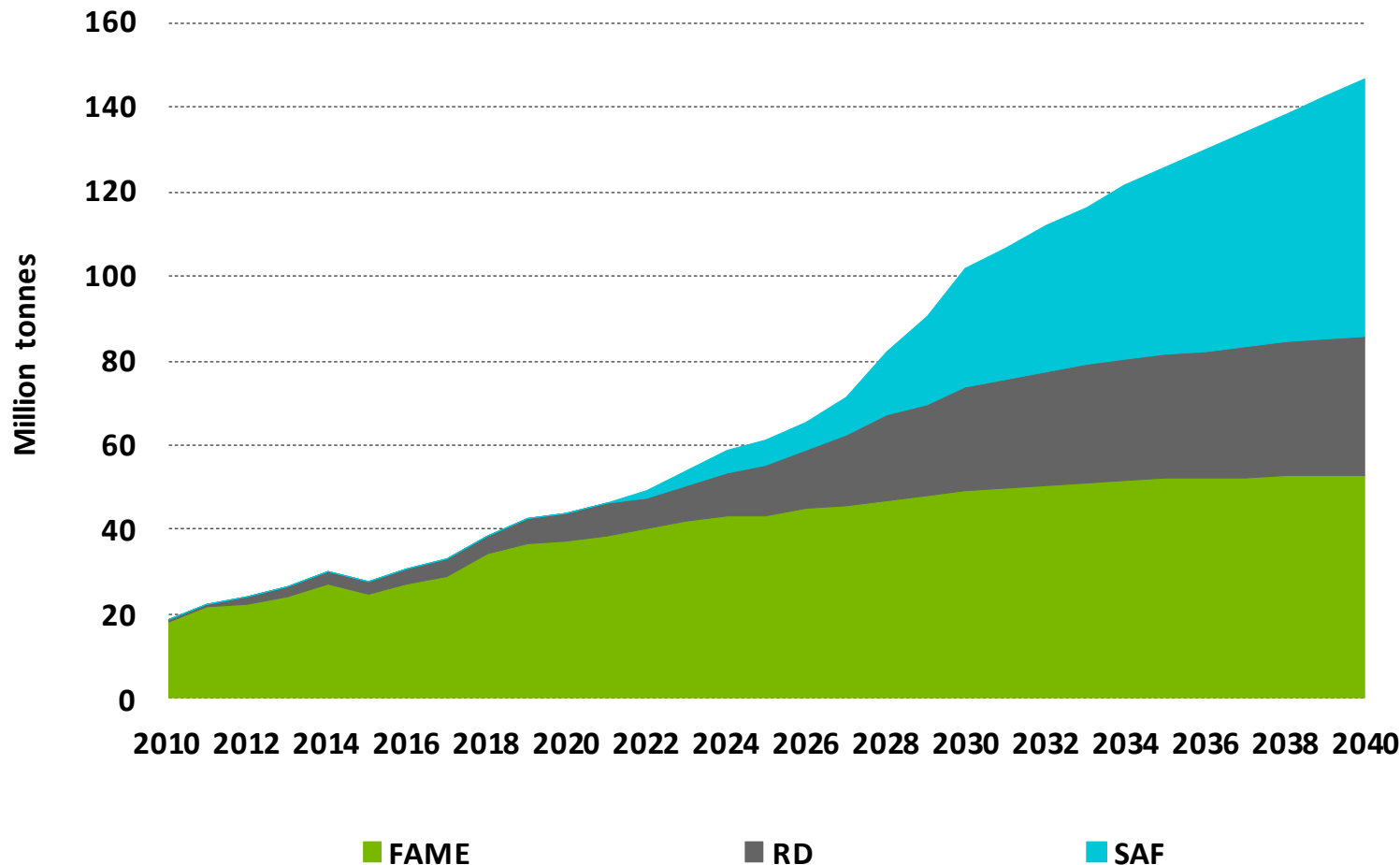


Renewable diesel capacity (plants with annual capacity of over 100,000 tonnes)



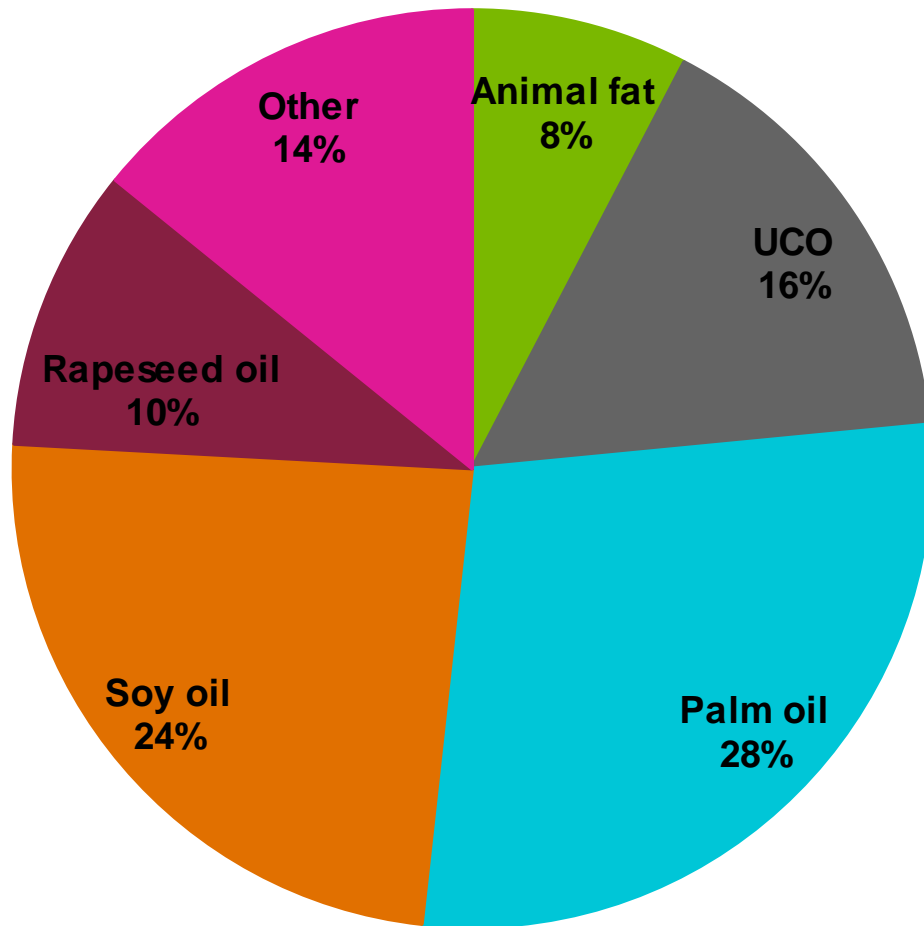
Which will require large amounts of feedstocks

Fatty Acid Methyl-Ester (FAME), Renewable Diesel (RD) and Sustainable Aviation Fuel demand, historical and forecast



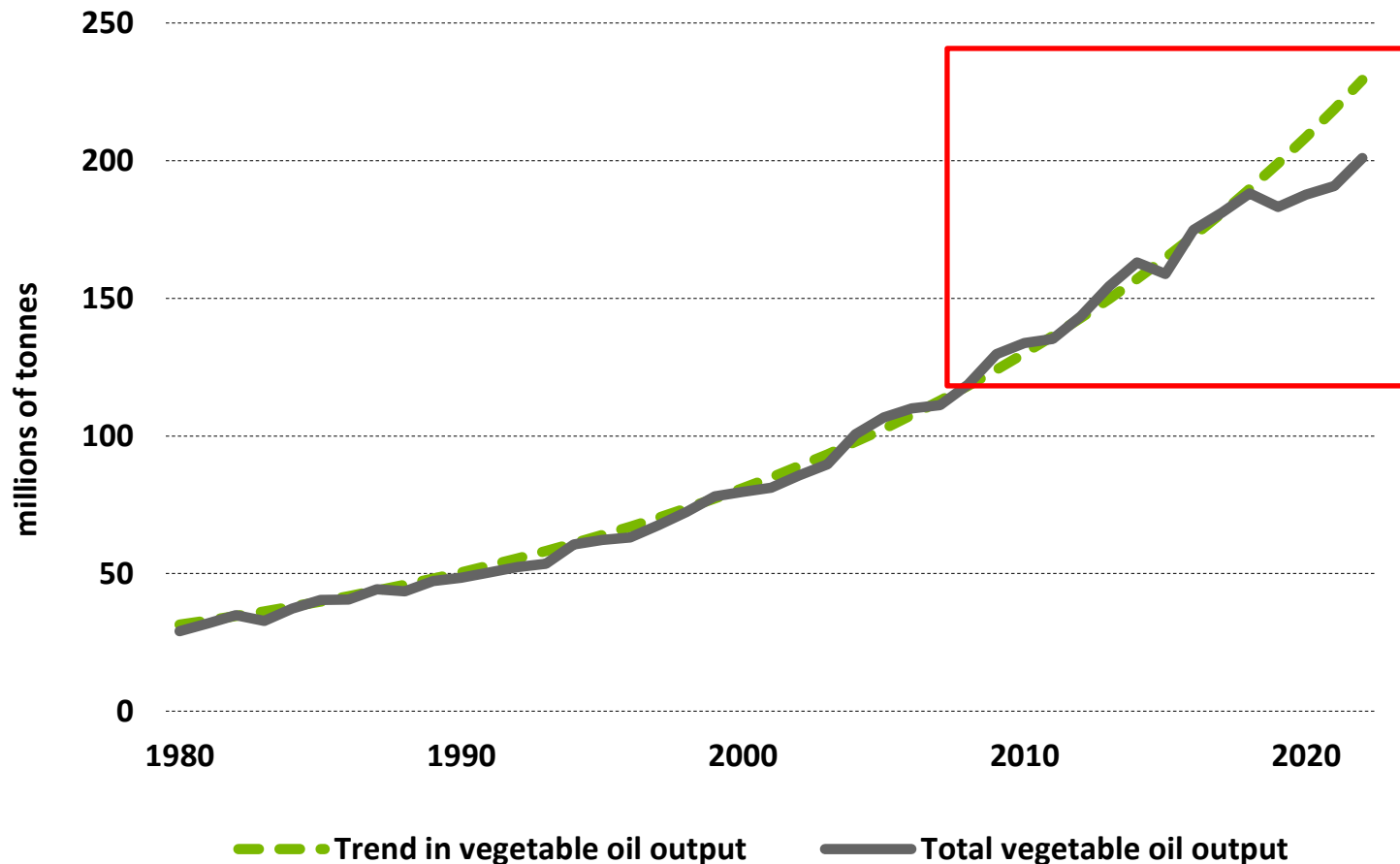
And will rely mostly on vegetable oils

Global biodiesel and SAF feedstock use, 2021



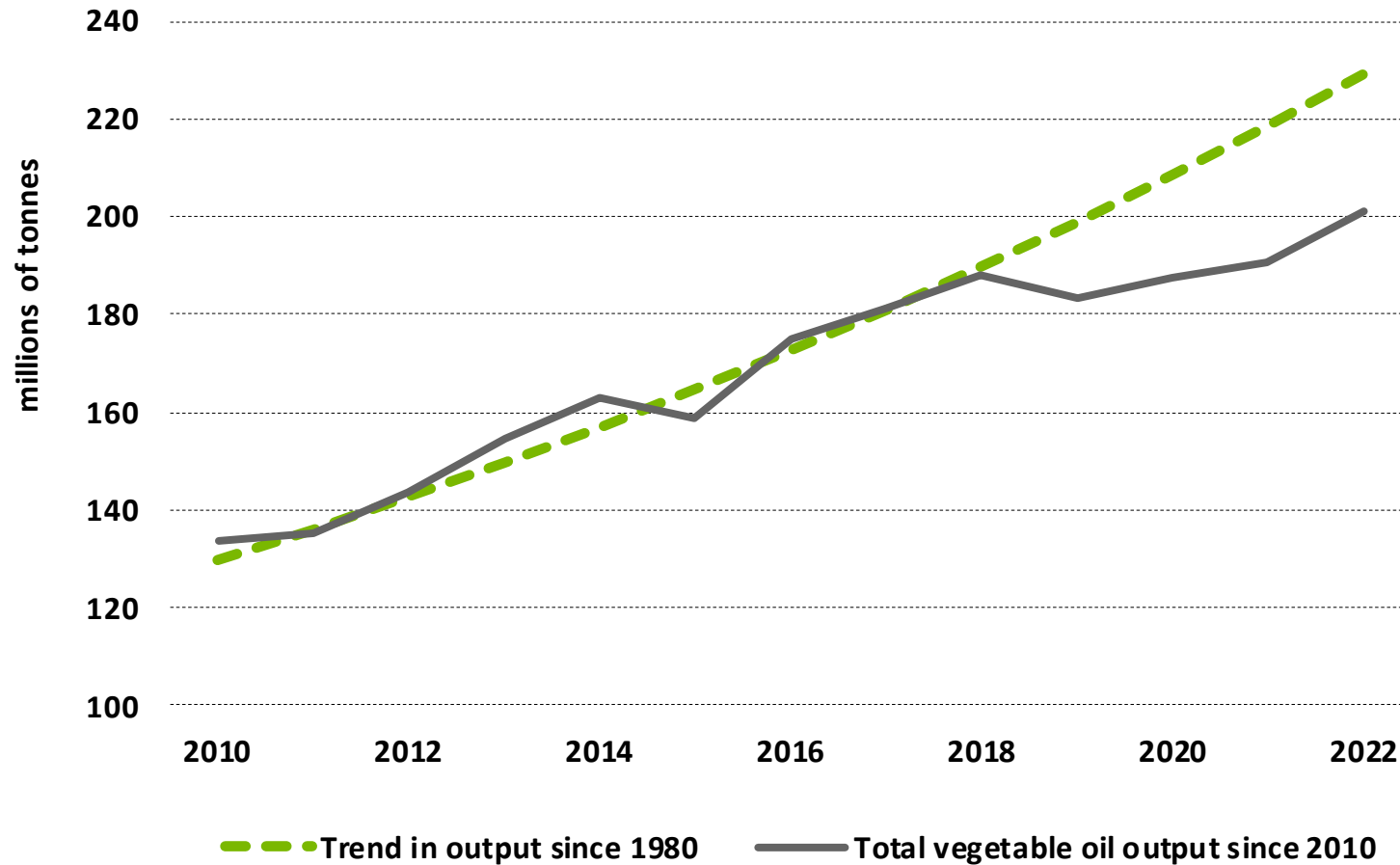
While vegetable oil output has slowed dramatically

Global vegetable oil output against long run trend



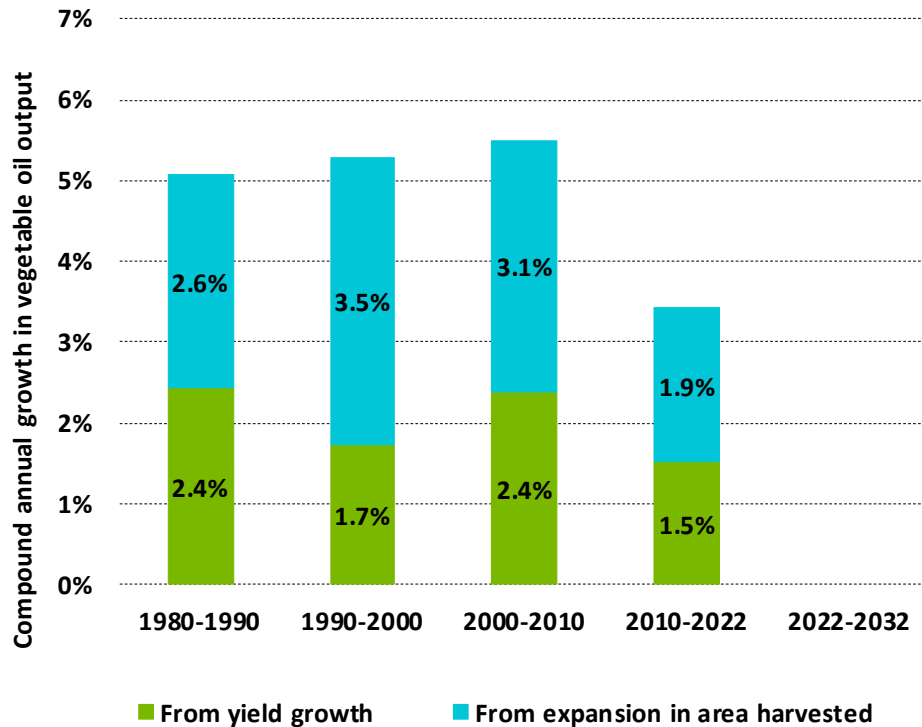
While vegetable oil output has slowed dramatically

Global vegetable oil output since 2010 against long run trend

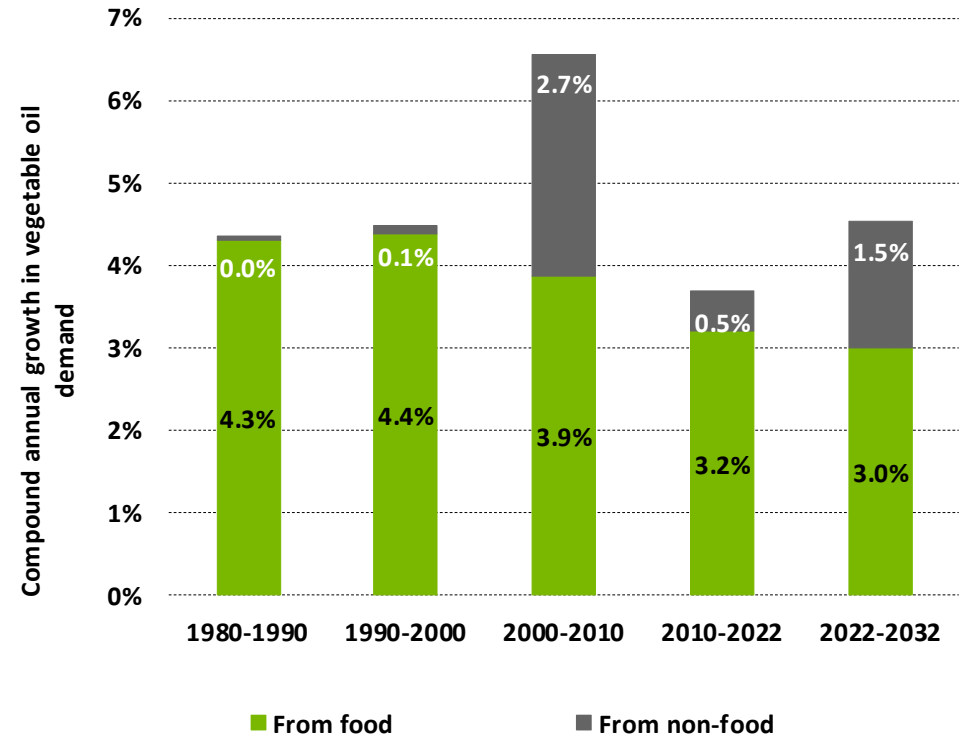


The last decade has seen structurally lower growth

Annual growth rate in supply by decade



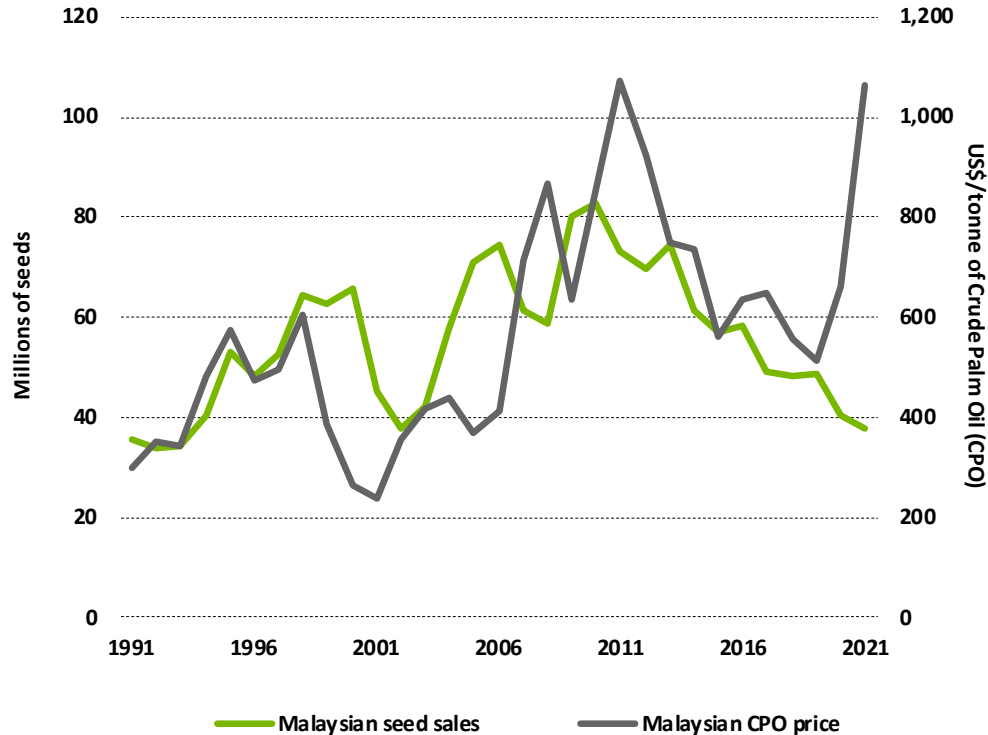
Annual growth rate in demand by decade



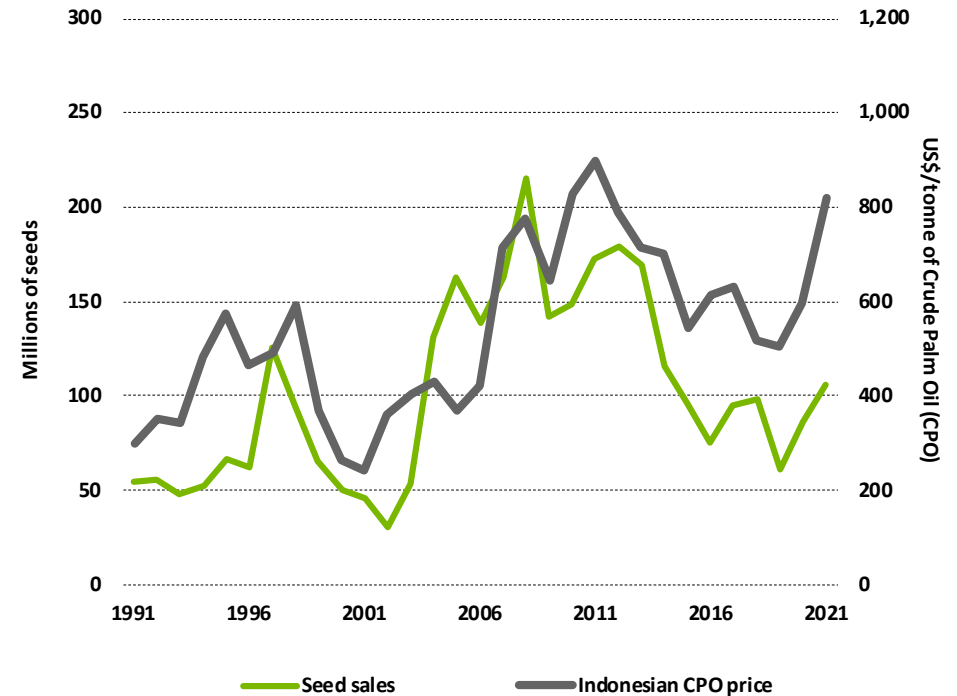
Unlike in 2010 – oil palm will not provide supplies



Malaysian seed sales against the CPO price

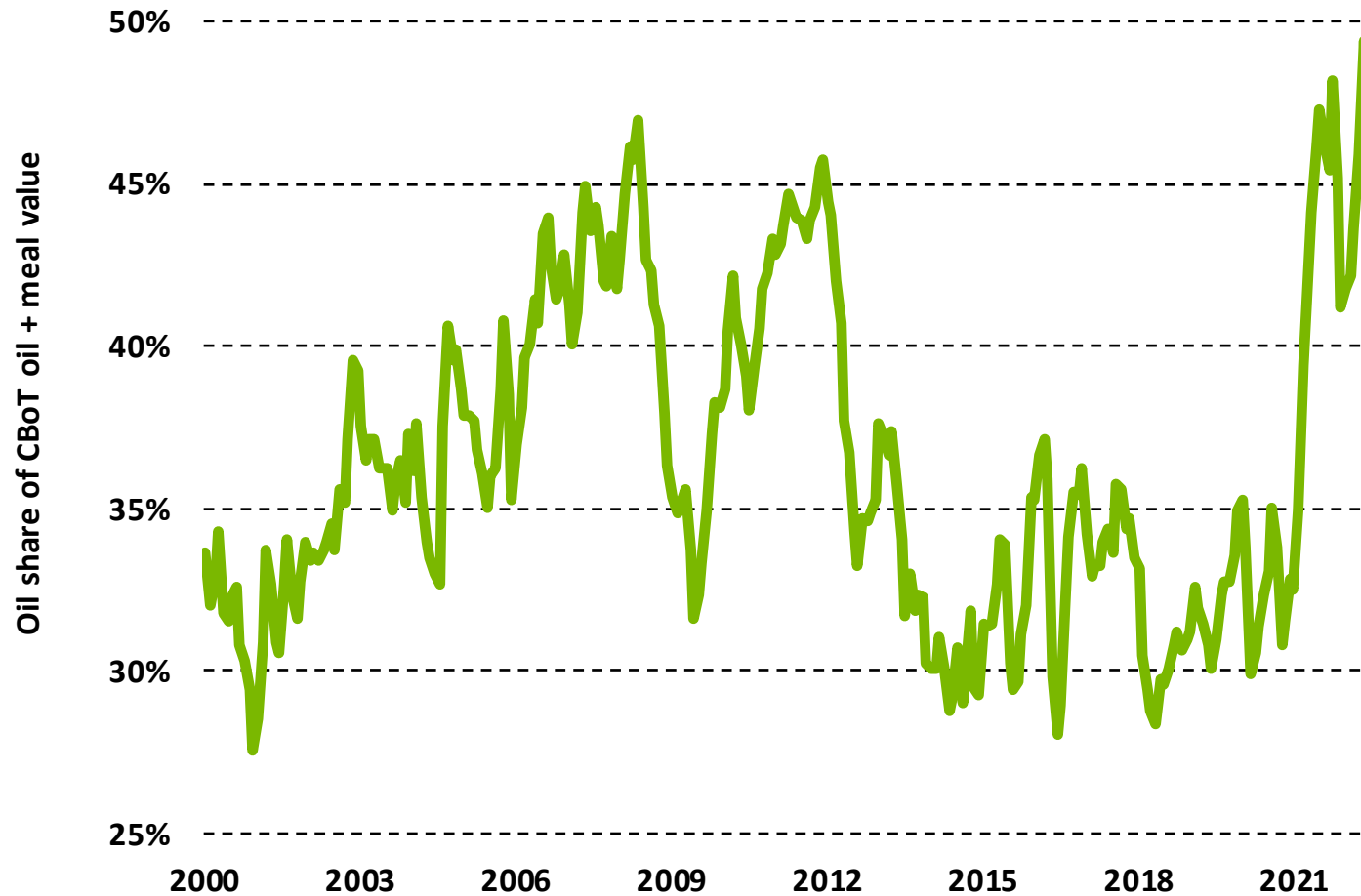


Indonesian seed sales against the CPO price



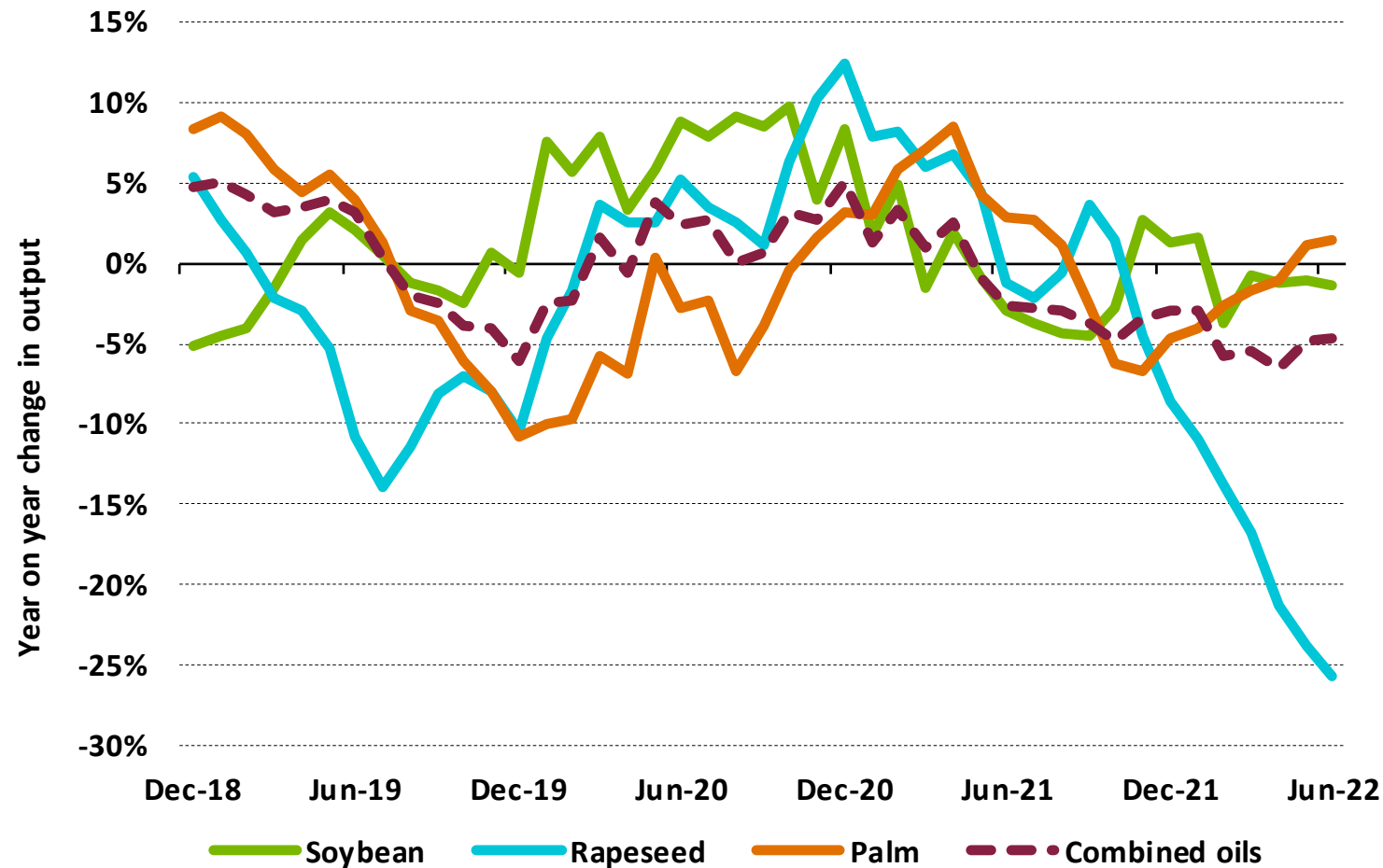
So we are relying on the soybean for its oil

Share of soybean oil in total soybean crushing value since 2000



Until recently crushing has been disappointing

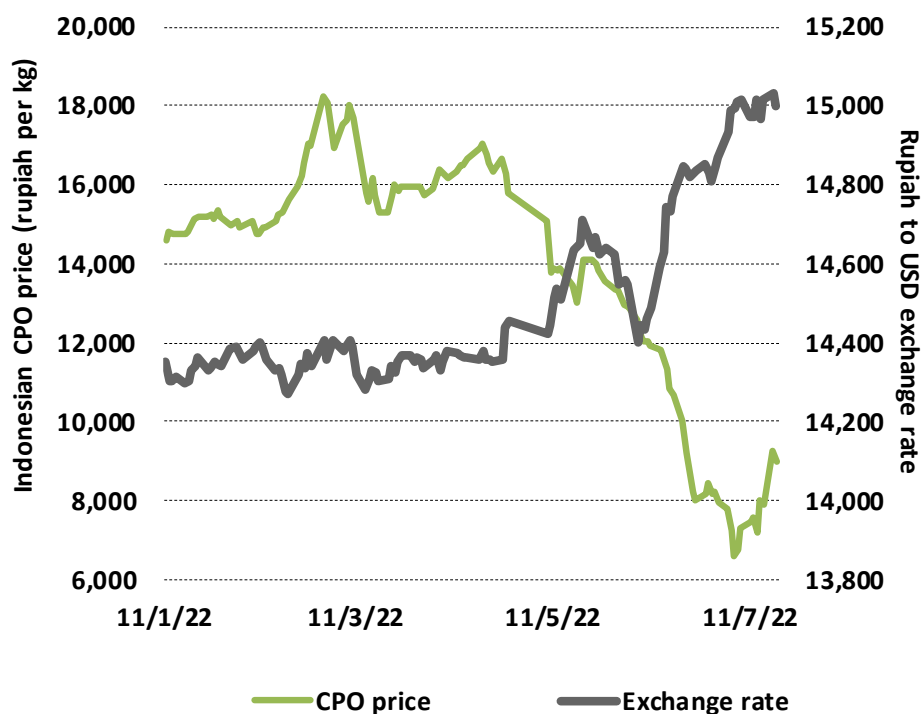
Year on year change in leading vegetable oil output



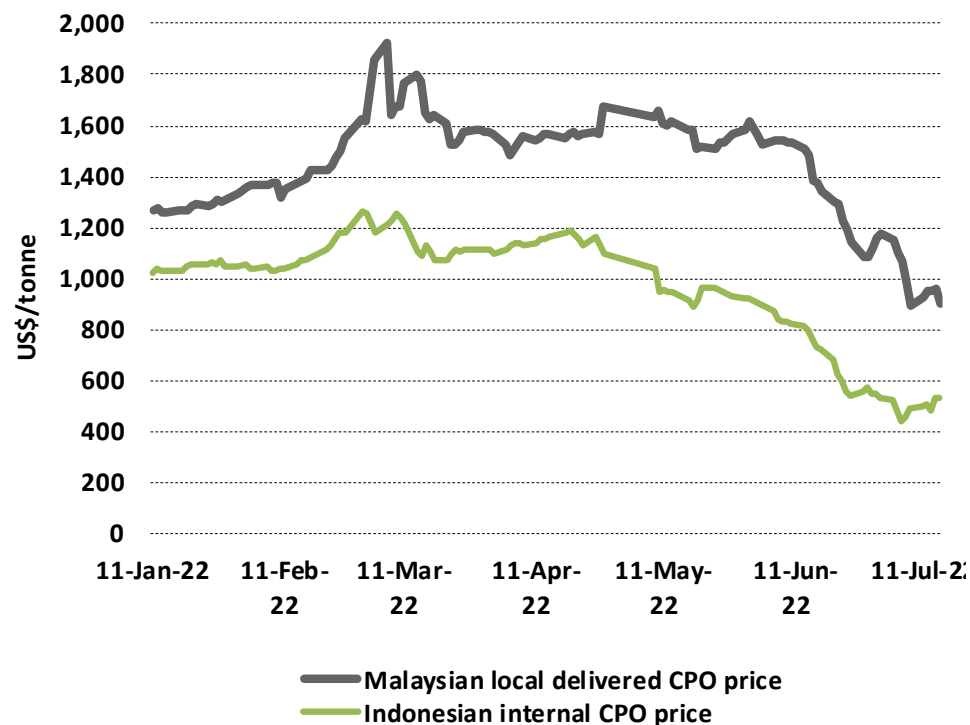
Indonesia, is now desperate to export palm oil



Indonesian CPO price in rupiah/kg against USD exchange rate



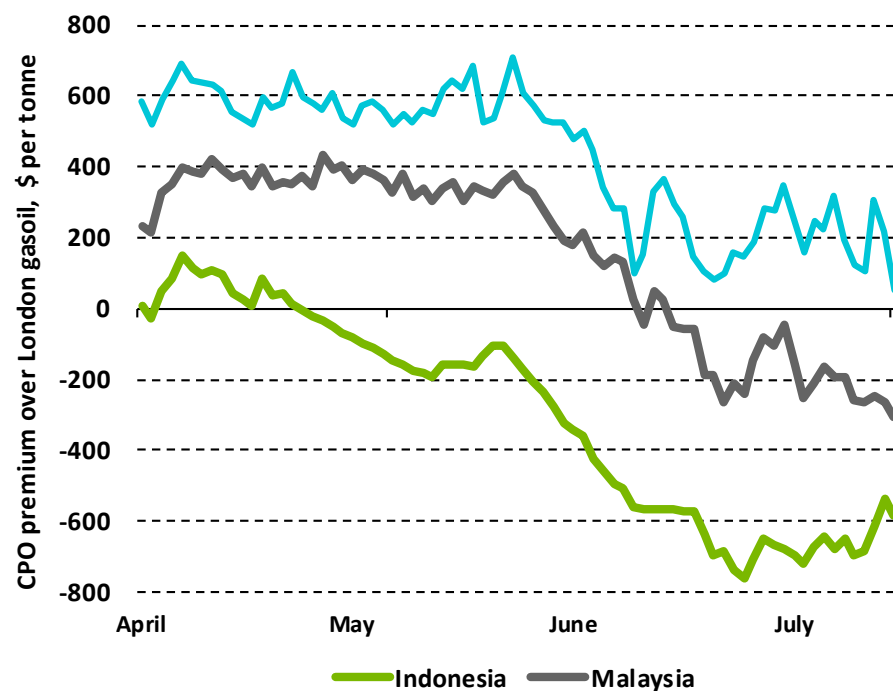
Indonesian and Malaysian local CPO price in US\$/tonne



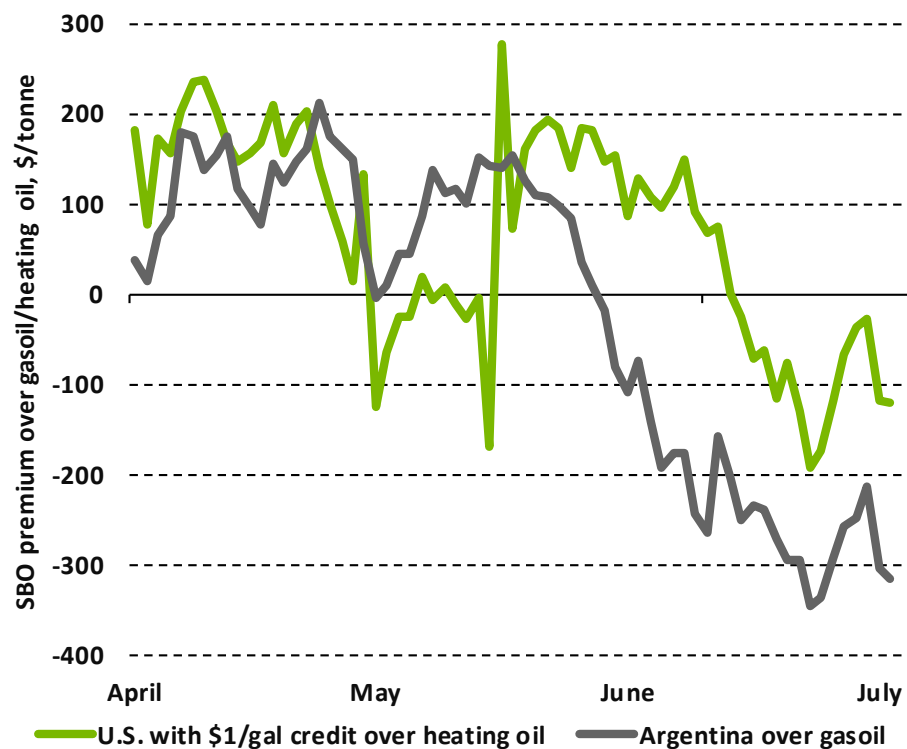
Which means palm oil is competitive as a fuel



Local S.E. Asian CPO premia over London gasoil

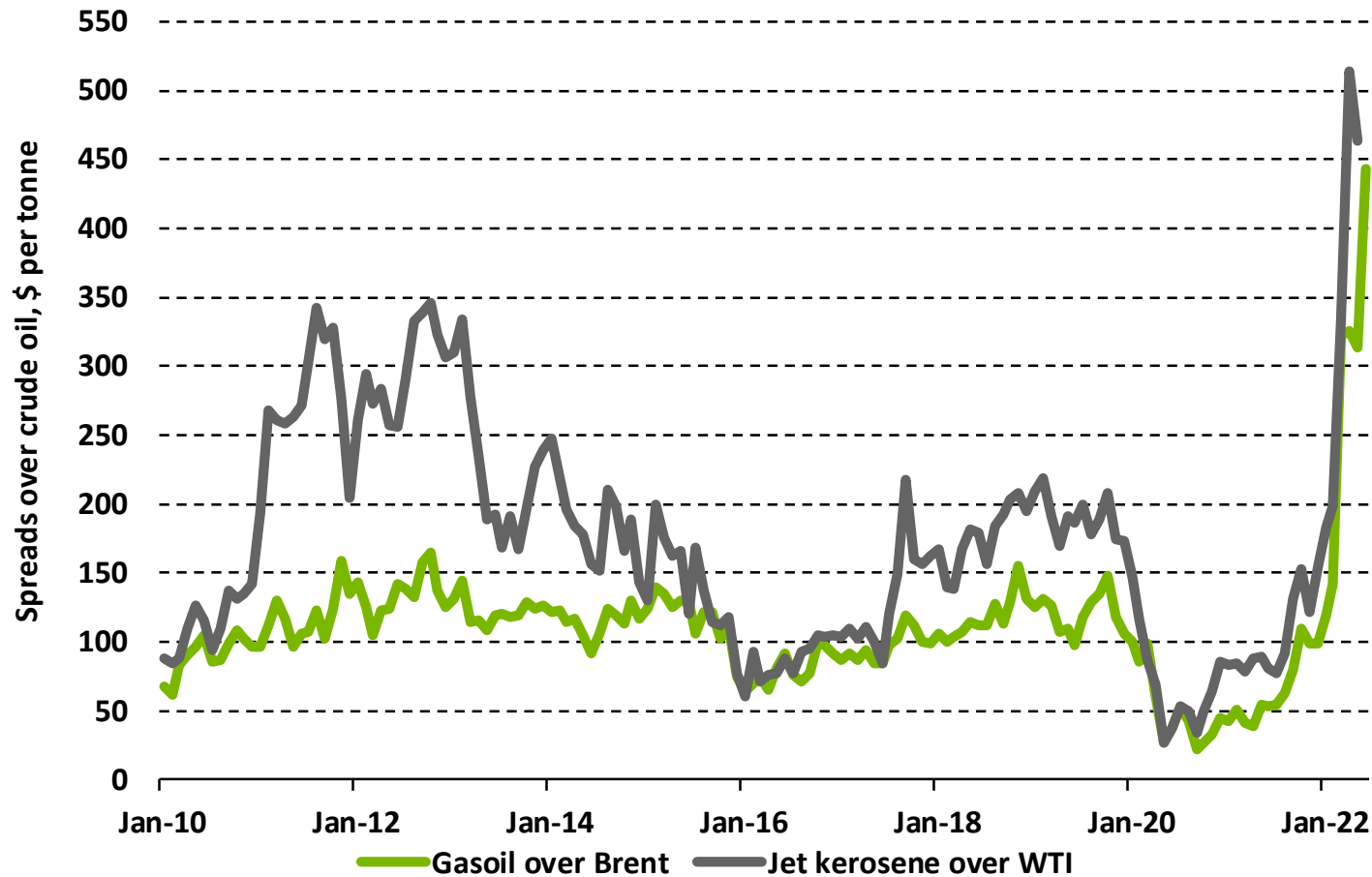


Local American soy oil premia over distillate fuels



Which is also driven by the conflict with Russia

Spreads (“cracks”) between refined gasoil and kerosene against crude oil





Short term softening, long term imbalance

- Indonesia is now a distressed seller unable to store its growing palm production. The result has been to make palm competitive as a fuel, but discretionary biofuel usage alone is insufficient to reduce the stocks. The volume of exports from Indonesia now will be critical.
- However, there are clear indications that demand destruction has occurred and palm oil will have to price itself into the market.
- In addition, there is some indication that crushing – at least for soybeans – is improving (barring further COVID lockdowns in China). Supporting this further is the fact that the coming harvests of seed crops look good for now (outside of war-ravaged Ukraine).
- In the short term therefore, it is likely that prices will weaken further. However, given the structural decline in vegetable oil production, coupled with a new boom in biofuels, suggests that prices over the long will remain significantly above their level in previous decades.

Price forecasts (US\$ per tonne/per barrel, North West Europe)

	Crude Palm Oil	Soybean Oil	Coconut Oil	Palm Kernel Oil	Rapeseed Oil	Sunflower Oil	Brent Crude Oil (US\$/Barrel)
Last Month (Jun 2022)	1,561	1,740	1,794	1,553	2,142	1,741	118
Jul-22	1,377	1,504	1,576	1,265	1,699	1,544	100
Aug-22	1,265	1,469	1,591	1,295	1,606	1,485	97
Sep-22	1,231	1,466	1,564	1,283	1,568	1,474	97
Oct-22	1,213	1,459	1,577	1,311	1,545	1,469	97
Nov-22	1,187	1,422	1,535	1,284	1,526	1,479	97
Dec-22	1,130	1,389	1,479	1,243	1,484	1,463	97



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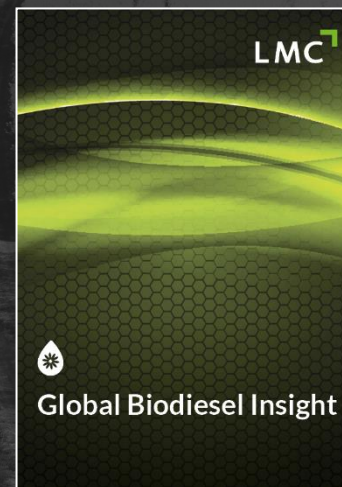
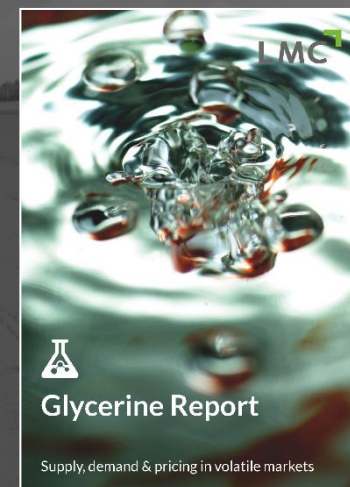
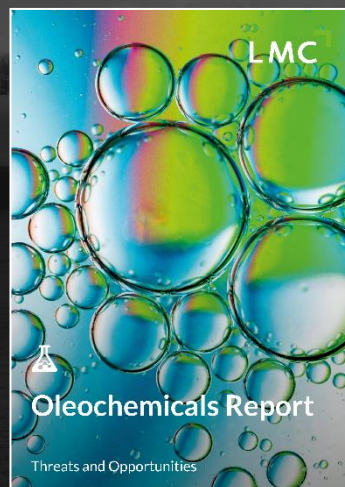
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