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SPECIAL REPORT

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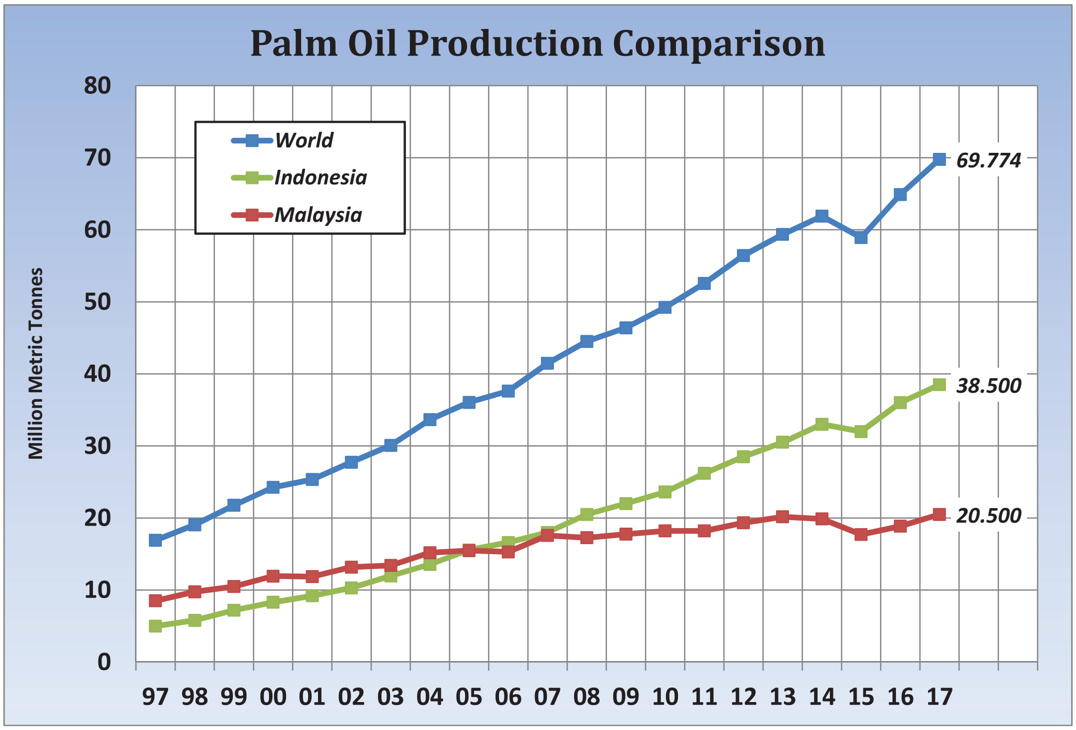
February 20, 2018

Palm Oil Outlook



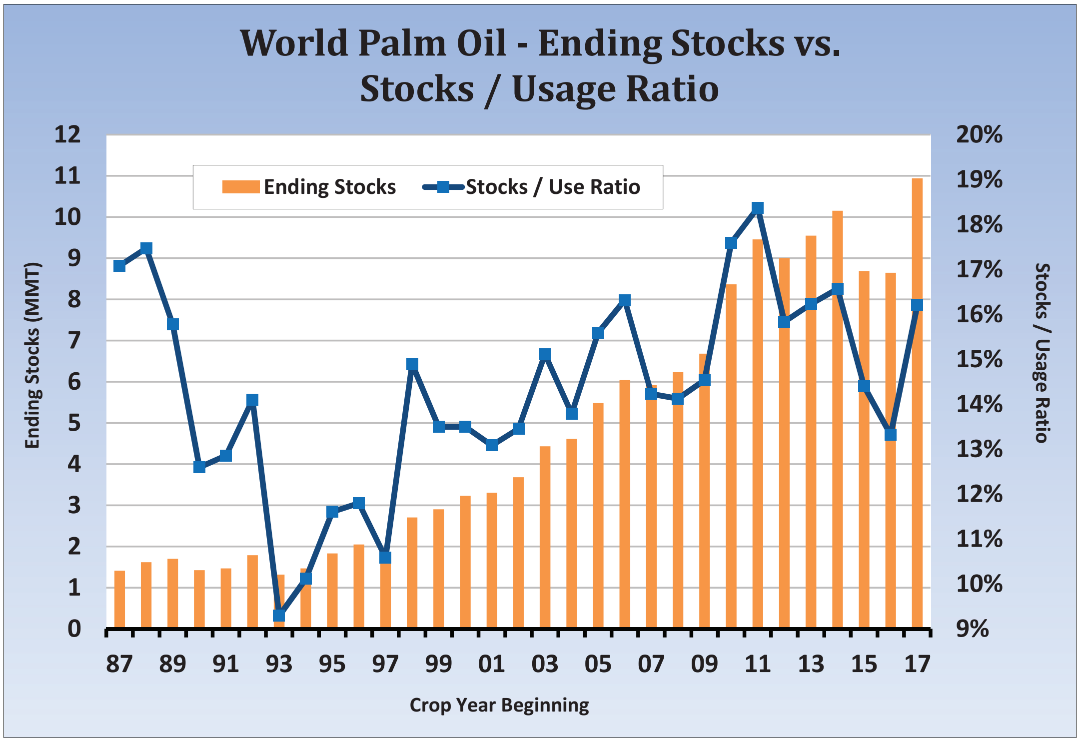
The huge supply of palm oil on the world market could keep the price trend mostly down for the months ahead. While global demand factors remain strong, the strong production and burdensome supplies continue to more than offset the positive demand tone. The surge in palm oil production for 2017, especially from Indonesia, sparked a more than 15% decline in palm prices for January, and it may take significant weather problems in Southeast Asia, South America or the US this year to offset the supply pressures.

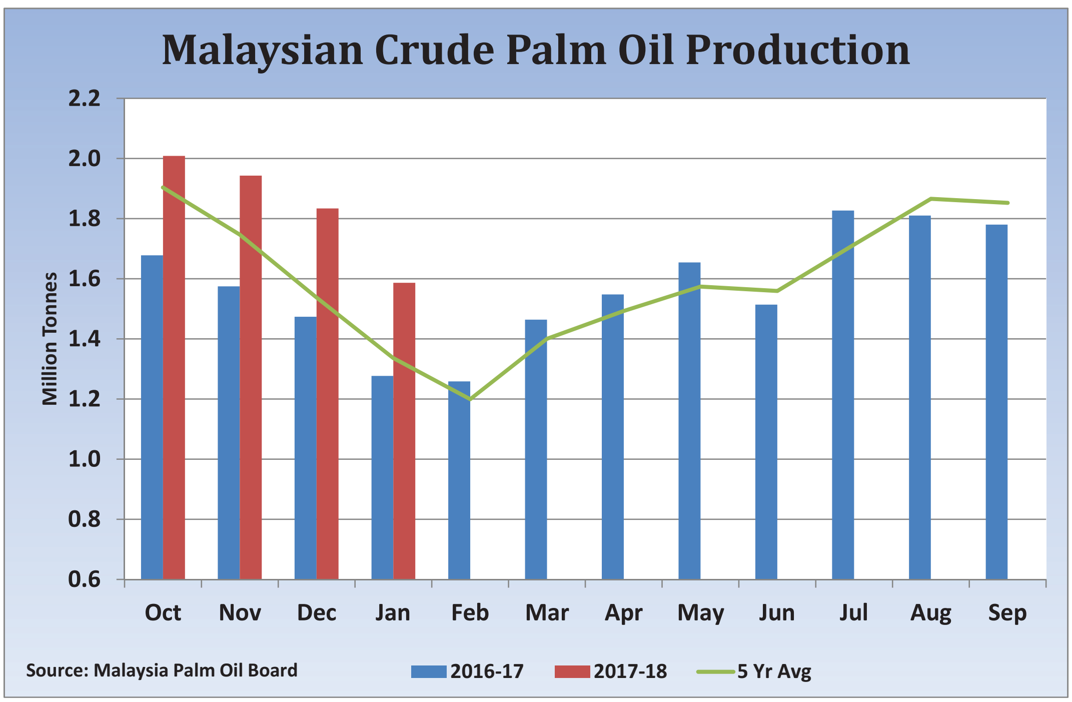
Indonesia's palm oil production for 2017 jumped to a record-high 38.5 million tonnes, up 6.9% from the previous year. Malaysia's production was a record at 20.5 million tonnes, up 8.7%. While global demand grows at a steady pace, the surge in production was more than the market could absorb, and world ending stocks for palm oil moved from a six year low to a record high. However, world palm oil production growth in 2018 is expected to slow to 3-4%, and this could help ease the burdensome stocks situation.

Palm oil prices have recovered off of the January lows, as Indonesia's weather has been less than ideal. Traders estimate that Indonesian production in January may have slipped to roughly 3.6 million tonnes, which would be down more than 5% from December and would be its lowest monthly production total since June 2017. Heavy rains since December in key growing areas have helped curb production. Monthly Malaysia palm oil stocks fell in January for the first time since June 2017, and they fell from the highest level since November 2015, as the cheap price apparently boosted demand.

From a seasonally low early in the year, palm oil production is expected to improve from March forward, and this is seen as a bearish force for the market.

Another potentially negative force for prices is higher soybean crushing rates in response to the surge in soybean meal prices over the past few months, as increased crushing would spark higher soybean oil production. The strength in meal prices is attributable to the drought situation in Argentina. While the US and Brazil lead the world in soybean exports, Argentina is the world's largest export of soybean meal. Global

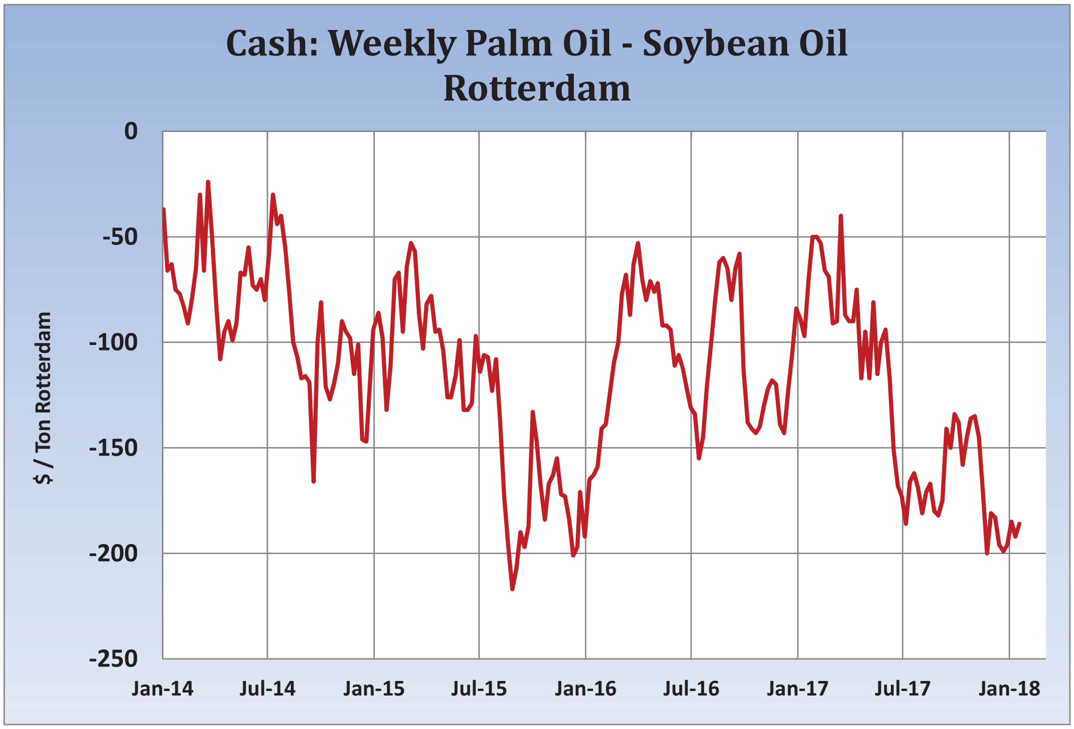


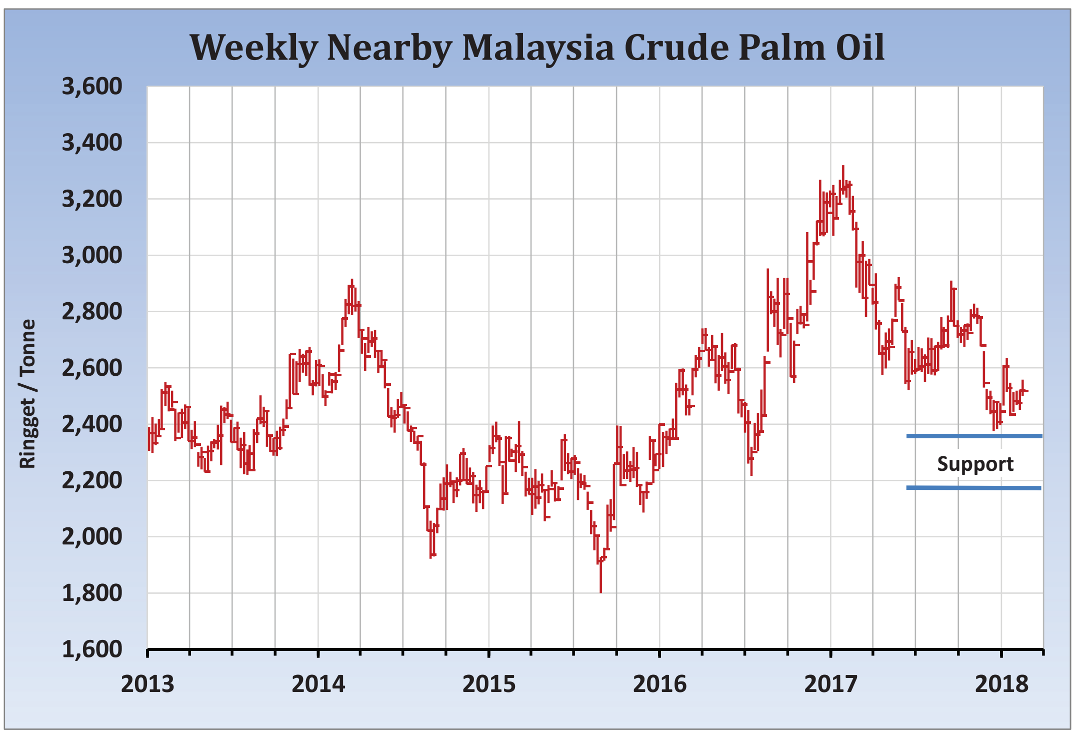


soybean supply is ample, and there is not too much concern for any type of tightness in beans. The threat on the Argentina crop is real, and the US is already crushing at a near-maximum pace.

Palm oil demand may begin to pick up steam in the months ahead, as it is relatively low-priced compared to soybean oil. The chart below shows the spread between soybean oil and palm oil prices over the past four years. When palm oil's discount to soybean oil is wide ($150-$200/tonne) there is a tendency for end users to shift to more palm oil usage relative to soybean oil.

With the strong global demand trends, a slowdown in the growth in palm oil production for 2018 and the discount of palm to other oils, the nearby palm oil futures find some major support and bottoming-type action near the 2,300 to 2,100 level.





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