



Market Headline: CPO drifts marginally higher ahead of key monthly reports

The Tuesday Morning Updates

- BMD CPO futures were modestly higher with traders cautious ahead of key inventory and exports figures.
- Despite palm oil price at 10-day highs, concern over weakening demand from key importing countries continue to weigh.

Early Asian Trade

BMD crude palm oil November benchmark futures rose modestly Monday for a third straight day, closing at its highest in 10 days on hopes of better demand in September, even as expectations of an increase in stocks and production capped gains.

The benchmark palm oil contract for November delivery on the Bursa Malaysia Derivatives Exchange rose 21 ringgit, or 0.46%, to 4,331 ringgit a tonne. It earlier hit an intraday high of 1.8%.

Despite weakening exports in August, prices had stayed elevated due to strength in the edible oil markets world-wide. Other fundamental drivers are also weakening, according to Reuters survey, Malaysia's end-August palm oil inventories jumped 16.3% from July to 1.74 million tonnes. Production rose 11.2% to 1.7 million tonnes, while exports slumped 12.3% to 1.24 million tonnes.

According to another survey by Bloomberg, inventories probably swelled to 1.74 million tons in August, the highest since December 2019, before the pandemic exacerbated labour shortages and hurt production. Output likely rebounded 9% month-on-month in August, while exports sank 15%.

Yet September may bring in some tidings, prices may drift higher on support from lower production values as from 1-5 Sept SPPOMA which showed a drop of 24.74% and a robust 88% rise in exports for the same period. Although the current month is just kicking off, it is likely that the trend in exports and production may not follows August pattern.

Written By: Avtar Sandu
Rep No.: ASX100038851
Phone: (65) 65311509
Email: avtar@phillip.com.sg
pfpl_commentaries@phillip.com.sg

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The Palm Oil Commentary and Key Drivers Ahead

The market's focus is on official data from Malaysia Palm Oil Board (MPOB) on stockpiles, production and exports which due on 10th September.

Palm Oil Analytics (POA) had penned the following expectations for fundamental reports due released this week in a note.

- 1) MPOB August supply & demand data - This will be the most watched data this week but will only appear at the end of the week, 10 September. Focus will be on the extent of end-month stock rise. POA estimates stocks to rise by 16% to 1.735 million tons, soaring to 14 months high in response to higher production and lower exports. Production is expected to post a 12% rise at the start of the peak production month on yield recovery following lower output in July (-5.17%). Exports are projected to be down 10% and imports to fall by 8%. Production is seen improving in September and October following favorable weather in July in the form of above average rainfall providing ample soil moisture for higher yields and oil output. However, persistence of worker shortage likely to weigh down on potential output. Malaysia peak production months August to October accounts for one third of annual production. Exports are likely to be lower after all 3 cargo surveyors pegged a sharp fall ranging from 14.62—17.77%.
- 2) MPOA 1-31 August production estimate—Production is expected to rise by around 12% in August from the previous month but still end 8—8.50% lower than the same time last year. MPOA full month August last year was up 1.87%, led by strong growth from the state of Sarawak. Malaysia Palm Oil Association or MPOA data covers 2 million hectares or 36% of oil palm planted area in Malaysia. Actual data is due on Monday or Tuesday.
- 3) USDA World Supply & Demand Estimate for September – Focus will be on U.S soybeans production size for marketing year 2021-22 which just began in September. Expectation is for a higher production from 4.34 billion bushels pegged in August. The crush volume could be lowered in view of reduced EPA blending target proposal leading to smaller biofuels use from 11.50 billion pounds projected in August report. U.S soybeans ending stocks could see a small hike from the current 155 million bushels, but could still be at 7-8 years low in realized. Brazil and Argentina crop size likely to be maintained at 144 and 52 million tons respectively.

Market View

Despite day-to-day fluctuations in the palm oil market, crude palm oil prices are however expected to have their best annual showing in a decade as world economies emerge from the ravages of the coronavirus. Although Palm oil are at multi-year highs, reflecting lower than expected production and stocks year-on year. World production of palm oil and soybean oil have also fallen short of expectations. The seasonally higher production season ahead may not be as fruitful as previously assumed judging from estimates of July production. Do expect high volatility as bears try to gain the upper hand from establish bulls amid a background where a shortage of edible oils remains.

World usage of palm and other vegetable oils for energy is still staying at a very high level. This would require rationing the edible oil food sector. This would keep good prices relatively elevated unless biodiesel mandates are reduced.

DAILY BMD FCPO NOVEMBER21 FUTURES



(Courtesy of Phillip Nova)

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