



## Market Headline: Stronger exports and weaker MYR boost CPO futures

### A Morning Market Commentary

#### Summary

- Palm rebounds on weaker ringgit, costlier U.S. Soybean Oil
- November production of Palm expected to be significantly better than last year and marginally higher than October. Noticeable impact on stocks - Palmoilanalytics
- Indonesia CPO reference price to reach the highest on record in December
- La Nina to have short term impact on CPO output

BMD crude palm oil futures rebounded from the Tuesday's deep correction, breaking a retreat of 3 sessions as costlier soyoil on the Chicago Board of Trade (CBOT) supported palm futures. CPO prices also had the support of a weaker Ringgit. The dollar had firmed upon release of minutes of the Fed Nov meeting.

The benchmark palm oil contract for February delivery on the Bursa Malaysia Derivatives Exchange rose 57 ringgit, or 1.2%, to 4,909 ringgit (\$1,166.31).

The ringgit MYR against the dollar made the edible oil more attractive for holders of foreign currency. The strength in the U.S. dollar and bets that the Federal Reserve could raise interest rates sooner than anticipated is expected to keep the Dollar strong at the back of appreciating U.S. Treasury yields.

Indonesia's total palm oil exports are expected to fall for a second year by 0.34% in 2021 from a year earlier, the vice chairman of the country's palm oil association said on Tuesday while exports of Malaysian palm oil products for Nov. 1-20 rose 24.9 percent to 1,149,481 tonnes from 920,085 tonnes shipped during Oct. 1-20, cargo surveyor Societe Generale de Surveillance.

Malaysia's November CPO production emerged better than expected after MPOA posted a marginal rise of 0.35% in the first 20 days of this month versus the same time a month ago. There had however been a noticeable increase recorded in Sabah and Sarawak rising by 2.35% and 7.77% respectively said Palmoilanalytics in a note. November production is seen doing significantly better than last year but just marginally higher the previous month with a noticeable impact of stocks.

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Indonesia CPO reference price for December shipment is forecast to reach the highest on record to US\$1350-1355/ton or US\$71 to 67 higher than November and up for the fourth successive month. This means the export tax and levy will remain unchanged from November at the top rate of US\$375 on CPO said POA in the note. The actual announcement will be made next week. Malaysia is expected to have an extended window of opportunity for CPO exports in December on price advantage.

Palm Oil Analytics has also highlighted the effects of a La Niña event on palm production. According to the POA note, the Australian Bureau of Meteorology has declared that a La Niña event has occurred for the second consecutive year, bringing wetter weather to Asia Pacific and dryer conditions in the Pacific side of the Americas. Current climate models suggest that this year’s event could be however be short-lived. Nonetheless, it could have a pronounced effect on palm oil, since La Niña events bring with them a certain amount of weather disruption.

**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 wet weather ahead may bring-in some surprises in 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 severely reduced. Yet 3rd month palm prices appeared to have peaked above 5000 Ringgit for now with some analysts forecasting an increase in production in edible oils next year.

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