Market Headline: CPO futures gain 30.7% in 2021, up for 3 consecutive years

A Morning Market Commentary

Summary

- Palm oil futures ended 2021 30.7% higher on poor production to log 3 consecutive years of gains.
- Weekend rain and floods in Malaysia to affect production further.

BMD crude palm oil futures on Friday closed higher to clock a third straight annual gain, with tight production and robust demand expected to keep prices firm next year. Palm futures had jumped 30.7% in 2021 as a pandemic-fuelled labour shortage hammered output in the world's second-largest producer, while demand picked up after countries eased lockdowns. Prices averaged around 4,149.57 ringgit this year.

The benchmark palm oil contract for March delivery on the Bursa Malaysia Derivatives Exchange settled up 14 ringgit, or 0.3%, at 4,697 ringgit a tonne. Expectation of lower production in Q1 2022 was offset by the drop in Dec exports which fell 5.11%. Malaysia Dec output is poised to deteriorate from worsening flood situation in the peninsular. Output data from MPOA and S&D estimate from pollsters will determine CPO pricing direction next week.

With Dec production and year-end stocks poised to be noticeably lower, CPO prices could find support to climb higher at the start of trading in 2022 next week. Sathia Varqa, co-founder of Singapore-based Palm Oil Analytics said in a note that 2021 has been a year of supply shortages and weather disruptions. Demand returned, but supply struggled to keep up. High prices fuelled inflationary pressure in major importing countries, warranting trade policy changes while other analysts and traders expect global demand for commodities is expected to remain robust in 2022 and underpin prices as the world economy continues to recover, although similar price jumps are unlikely.

The Council of Palm Oil Producing Countries said on Thursday that palm prices are expected to stay strong in 2022 as production will remain constrained due to soaring fertiliser costs and long-standing labour shortages. CPOPC said that palm oil prices in 2022 would likely continue to trade in a bullish range around $1000 per tonne.

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Floods have hit 7 states in Malaysia and thousands of people were evacuated, taking the total affected by heavy rain in the last two weeks to over 125,000, the National Disaster Management Agency said. The agency said in a statement that Kelantan, Terengganu, Pahang, Johor, Malacca, Negeri Sembilan and Sabah were still affected by floods, and 8,727 people were taking shelter at 128 relief centres.

On the exports front, AmSpec Agri Malaysia data shown exports of Malaysian palm oil products for December fell 5.1 percent to 1,491,985 tonnes from 1,572,312 tonnes shipped during November.

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. But as the months go by and exports start to wane as inventories built up in importing countries, bearish sentiment had crept in by the year-end as demand destruction becomes a concern too.

The seasonally wet weather ahead may bring-in some surprises in lower production. Do expect high volatility as bears try to gain the upper hand from establish bulls. 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 on BMD appeared to have peaked above 5000 Ringgit for now with some analysts forecasting an increase in production in edible oils next year.

BMD FCPO MAR22 FUTURES (Continuous Active Month)

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