



Market Headline: CPO futures rally 3% on weather woes

A Morning Market Commentary

Summary

- Palm oil futures posted a 3.3% gain, weekend rain and floods to affect production.
- Soybeans on CBOT gains double digits on South American dryness.

BMD crude palm oil futures on Monday greeted the New Year with stunning gains to post a 3.3% rise to 4857 Ringgit a tonne, the highest in a month for the most active contract. Worsening flood conditions in peninsular Malaysia covering the west and the southern part of the country is widely expected to reduce CPO output in December and January. SPPOMA Dec full month growth fell 8.50% extending the decline that started in September.

The benchmark palm oil contract for March delivery on the Bursa Malaysia Derivatives Exchange was up 160 ringgit, or 3.3%, at 4,857 ringgit a tonne.

CPO futures had closed the outgoing year higher for a third straight annual gain. Tight production and robust demand had kept prices firm with palm futures gaining 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.

In a note, Palmoilanalytics wrote that the price rise in palm oil is driven by fundamentals of low production and higher exports. The analyst opined it means stock usage will be higher leading to year-end stocks to finish at 1.55— 1.60 mil tons, slightly better than 1.265 mil tons at Dec-20. Prices will remain elevated in Jan and Feb until production improves.

Chicago soybean futures also posted gains with prices rising by about 1.5% on Monday as traders returning from the New Year break price on the weather risks for South American crops as well as supply concerns in vegetable oil markets.

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Rain relief in parched southern Brazilian growing belts had also weighed on prices late last week but forecasts for hot, dry spells in Argentina this month has raised fears over potential yield losses in South America. In Argentina, moisture deficits could expand to affect more than half of soybean crops by next week, the Commodity Weather Group said in a note.

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)



(Courtesy of Phillip Nova)

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