



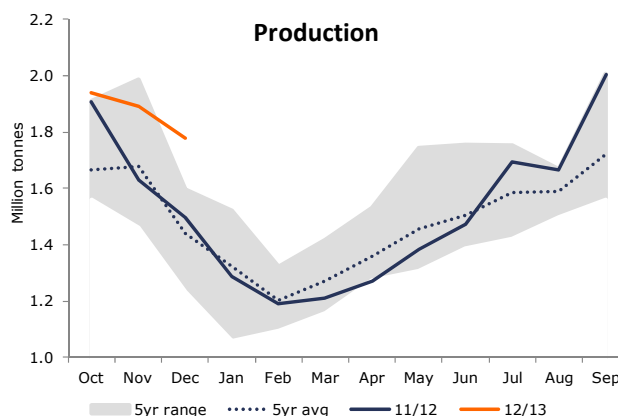
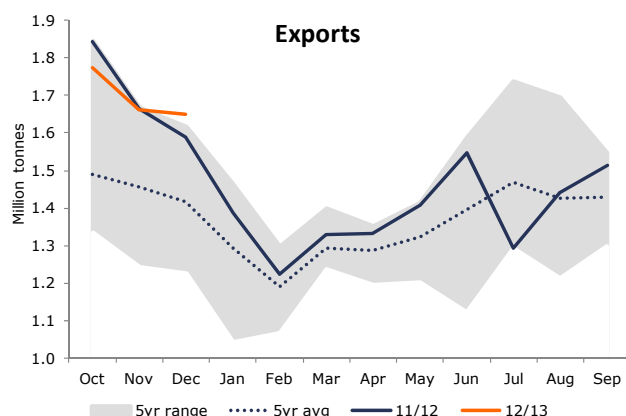
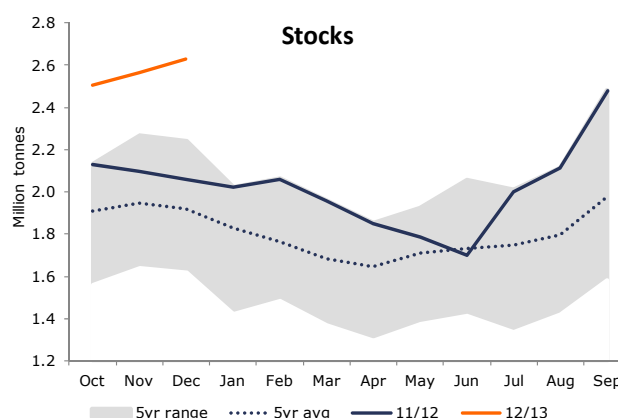
Palm Reading – Record High Stocks, Again

The Malaysian Palm Oil Board's (MPOB) 10 January data release was bearish as higher than expected production pushed stocks to new highs for a fourth consecutive month. Malaysia's palm oil production for the month of December was a record high of 1.78 million tonnes—up 19% YOY and slightly above average trade estimates. Fresh fruit bunch (FFB) yields fell more than 6% MOM to 1.85 tonnes per hectare but were the highest level ever reported for the month of December. Stocks rose 28% above year-ago levels to a record high 2.63 million tonnes—4% above average trade estimates.

Strong palm oil production and uncertainty around China's import demand is likely to keep MDEX Palm oil prices range bound. Palm oil production in December exceeded our expectations and is likely to prolong the period that stock levels remain elevated. Uncertainty around future import demand, particularly to China, has acted to limit upside price moves. While spill over sentiment from the broader grain and oilseed markets, based on our expectations for bullish USDA reports on 11 January, will likely limit the downside price moves for MDEX Palm oil. We expect this will keep prices range bound in coming weeks until a seasonal slowdown in palm oil production is likely seen in March providing upside price movements.

December MPOB palm oil data summary:

	2012		2011	Trade Est.	MOM chg	YOY chg
	Dec	Nov	Dec			
Thousand tonnes						
Production	1,780	1,891	1,494	1,740	-6%	19%
Exports	1,650	1,662	1,591	1,600	-1%	4%
Stocks	2,628	2,566	2,057	2,530	2%	28%



Source: Bloomberg, MPOB, Rabobank

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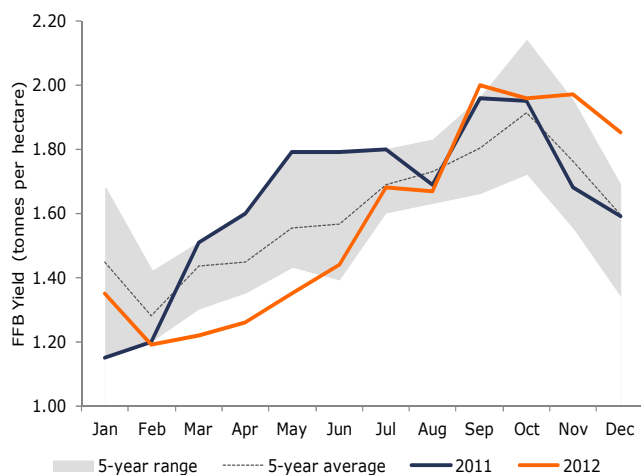
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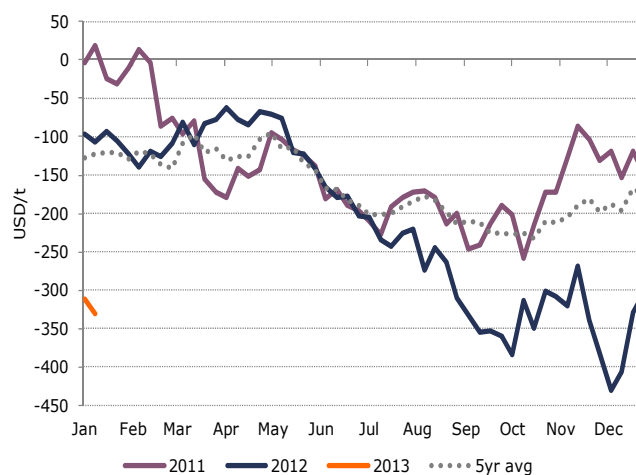
Uncertainty around China's palm oil import demand is likely to continue to weigh on MDEX Palm oil prices.

China's National Grain & Oils Information Center (CNGOIC) reported palm oil stocks at China's ports rose to a record high 1.1 million tonnes in early January. However, Q4 consumption in China tends to be low and from 2008 to 2010 was also accompanied by falling stocks. This trend has shifted in recent years with Q4 stocks building in 2011 and 2012. We do not view this as particularly bearish as China's current inventory levels are roughly two months of usage which is not record high in terms of stocks-to-use. Additionally, China's total vegetable oil imports for the month of December reached 1.12 million tonnes—the highest on record. Since 2006 palm oil has accounted for roughly 75% of China's monthly vegetable oil imports. Whereas, from July to November 2012 palm oil accounted for only 68% of China's total vegetable oil imports. We believe the demand outlook is being clouded by Chinese legislation on the use of retail edible oil blends and lower reported per store sales by major food service companies in 2H 2012. This has likely continued to weigh on export demand into the beginning of January. Malaysia's palm oil exports for the first 10 days of January were reported down 34% MOM by Societe Generale de Surveillance and 25% lower by Intertek.

Palm oil's price spread to other oils still historically large but likely to narrow by the end of Q1 2013. During the month of December, MDEX Palm oil's price discount to CBOT Soy oil averaged USD 375/tonne and its discount to Brent Crude oil averaged USD 108/tonne. Although the spreads have narrowed slightly in the first two weeks of January they remain historically large. A renewal of the USD 1 per gallon US biodiesel blender's credit has proven supportive of CBOT Soy oil prices, in contrast to the bearish sentiment surrounding the record high palm oil stock levels. We expect that this – and the anticipation of a bullish USDA WASDE report on 11 January— will continue to be supportive of CBOT Soy oil prices. The USDA is expected to confirm that global grain and oilseed stock levels remain historically low which should continue to support prices across the broader grain and oilseed markets. This should partially offset the bearish sentiment in the palm oil market, yet the MDEX Palm oil price discount relative to CBOT Soy oil is likely to remain larger than normal. In the medium to longer term we view this price discount as unsustainable and expect a seasonal slowdown in palm oil production to emerge by the end of Q1 2013 which should narrow the price discount to CBOT Soy oil.

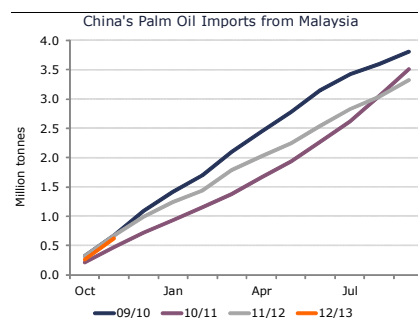
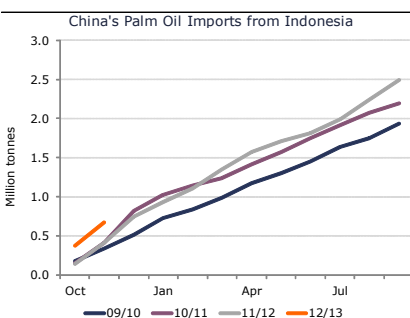
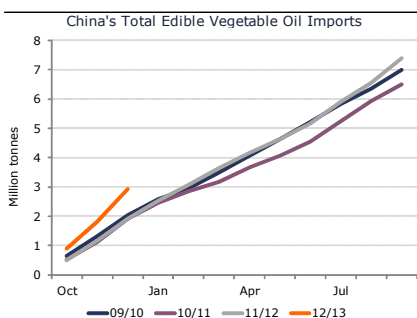
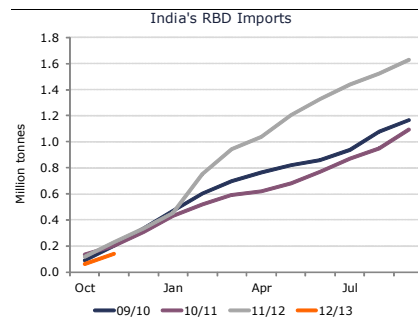
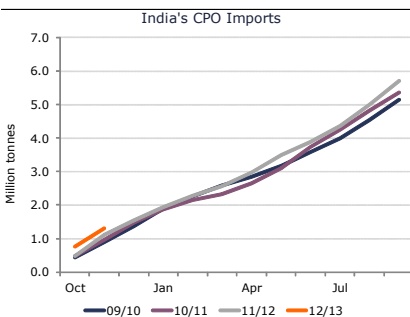
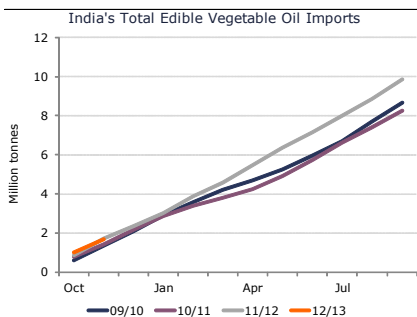
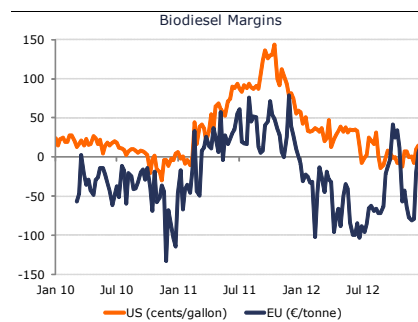
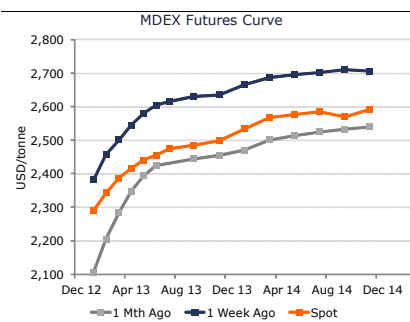
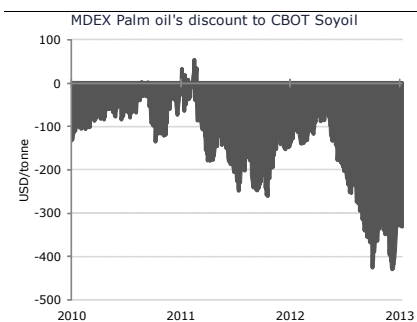
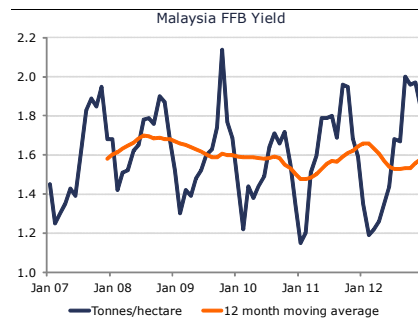
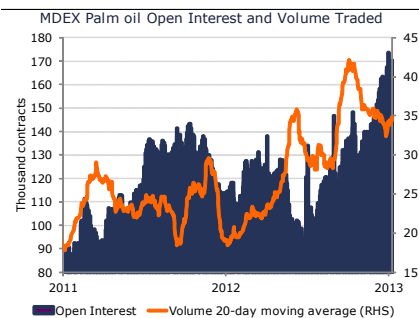
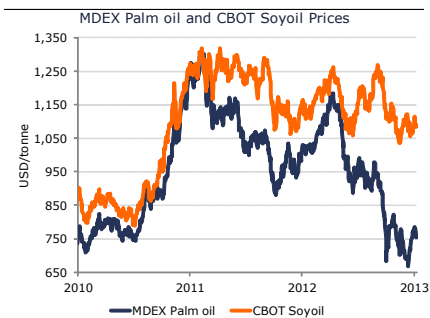
Above average yields in Malaysia have kept palm oil production high


Source: MPOB, Rabobank

MDEX Palm oil's price discount to CBOT Soy oil is historically large for this time of year


Source: Bloomberg, Rabobank

Monthly Palm Oil Charts



Source: Bloomberg, CARD, FOLicht, MPOB, Rabobank

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