



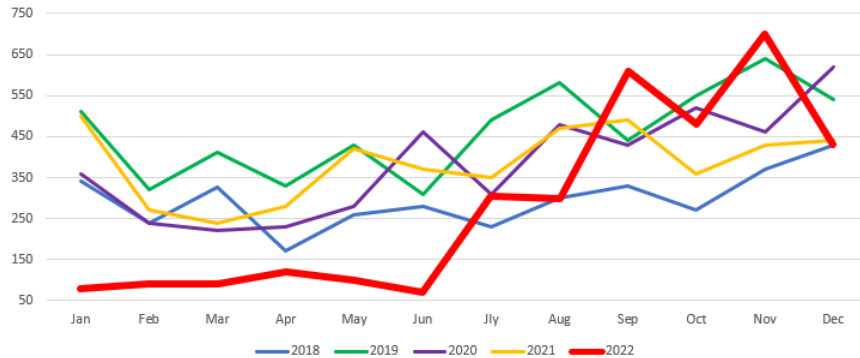
# Palm Oil Price Outlook 2023: The Chinese Market Perspectives

Prepared for: POC 2023

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8 March 2023

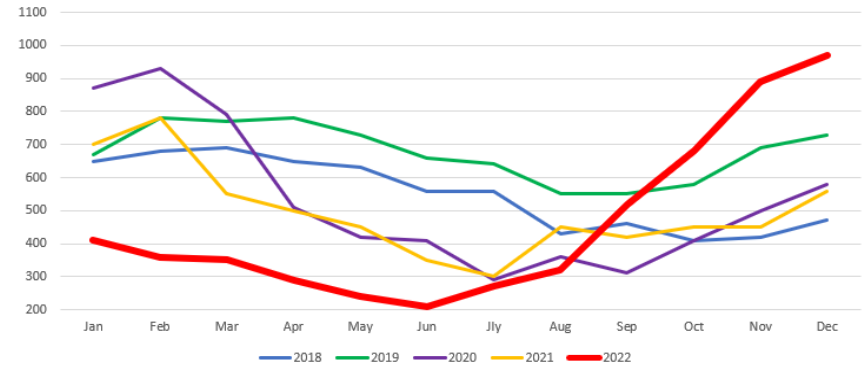
# REVIEW OF 2022 CHINA PALM MARKET (RBD PALM OLEIN)

China Monthly Olein Imports (000MT)



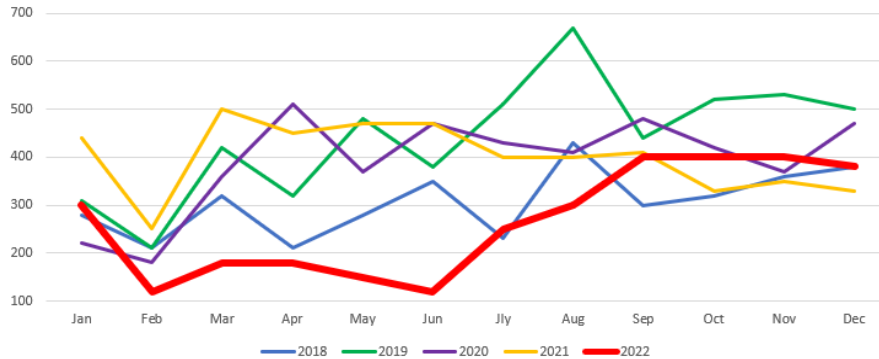
Source: AQSIO, March 2023

China Monthly Olein Stocks (000MT)



Source: Pansun, March 2023

China Monthly Olein Demand (000MT)



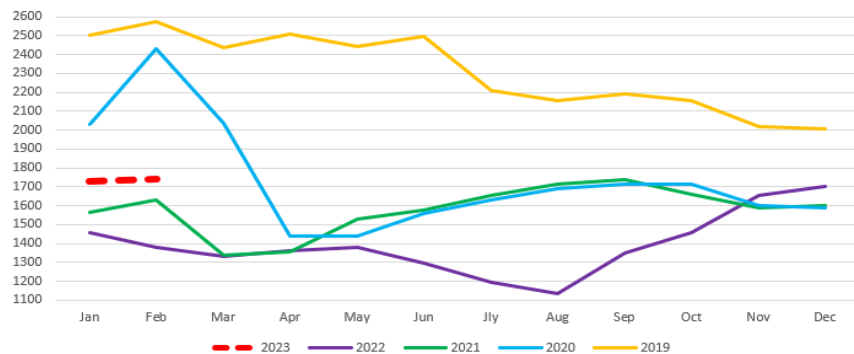
Source: Cargill, March 2023

Note: Data collected by Cargill, not reflecting the full market volume.

- 2022 annual Olein import at 3.4 million MT, down 26% YoY. Olein demand also reduced to 3.2 million MT, down 33% YoY.
- Demand was at 10 year's low in FH2022 due to record high POBO spread and poor catering services demand. However, demand gradually recovered to normal range in LH2022 when Olein's discount to Soyoil re-established.
- End 2022 stocks were very heavy as a result of bigger import programme in Sept/Dec 2022.

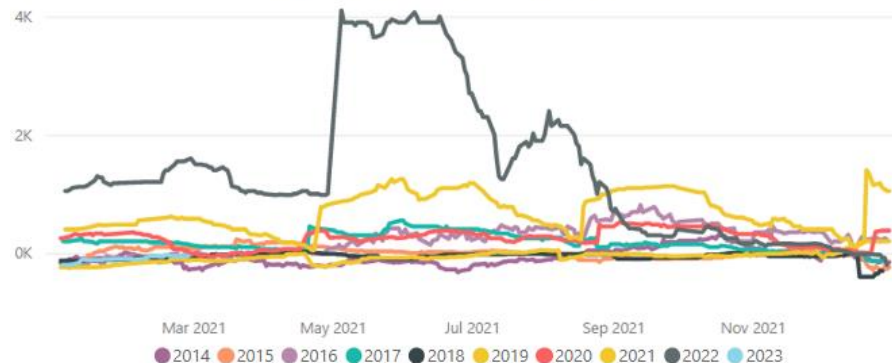
# OUTLOOK OF 2023 CHINA PALM MARKET - WHERE ARE WE TODAY

China Port SBO/RSO/Palm Commercial Stocks (000MT)



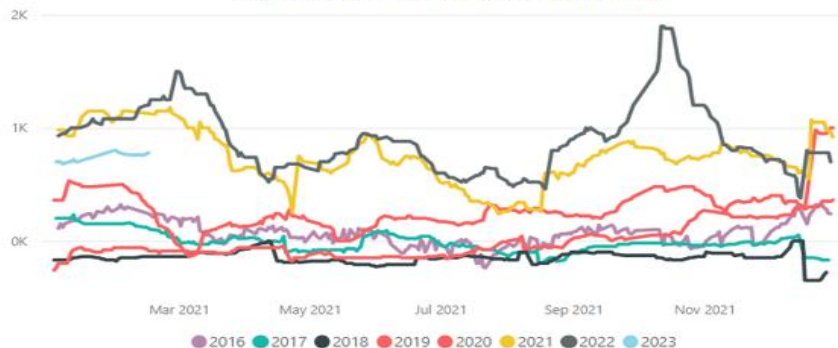
Source: Pansun, March 2023

Guangdong Cash RBD Olein Basis (CNY/MT)



Source: Pansun, March 2023

Guangdong Cash Refined SBO Basis (CNY/MT)

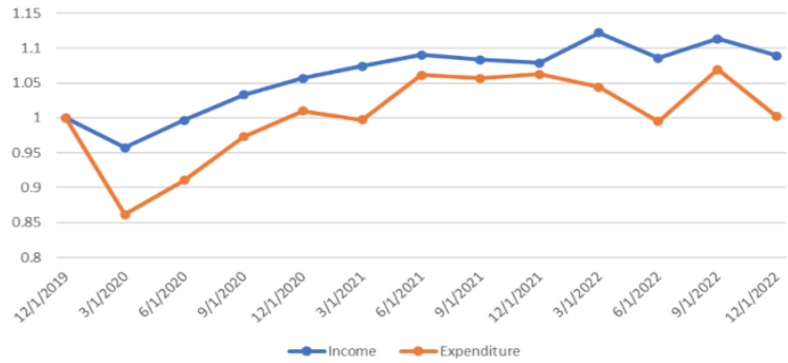


Source: Pansun, March 2023

- The market entered 2023 with relatively tight total vegoil stocks and the expectation that stocks will gradually grow to a more balanced level in the coming months. Hence nearby Soyoil basis remains relatively high, but Olein basis is close to 0.
- The stocks build over last 6 month is all from Olein due to improved import margin and origin push. Both Soyoil and Rapeoil stocks declined gradually from poor import margin and crush margin.
- Different from a year ago, on a cash basis and futures combined level, China is traded around import parity for all major vegoils. We would expect regular/normal order flow from China if current import margin stays.

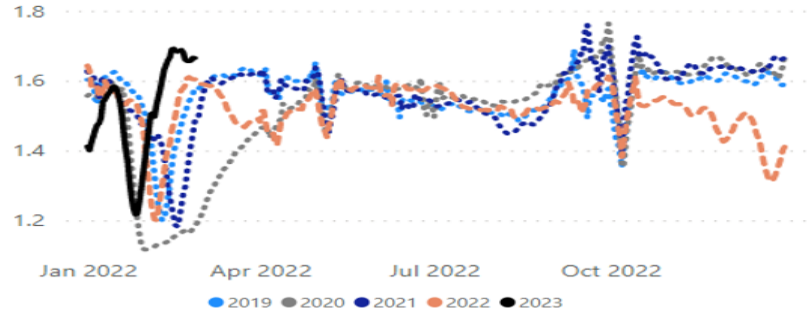
# OUTLOOK OF 2023 CHINA PALM MARKET – A VEGOIL TOTAL DEMAND RECOVERY STORY

Urban Resident's Income and Expenditure as % of 2019 (CPI Adjusted)



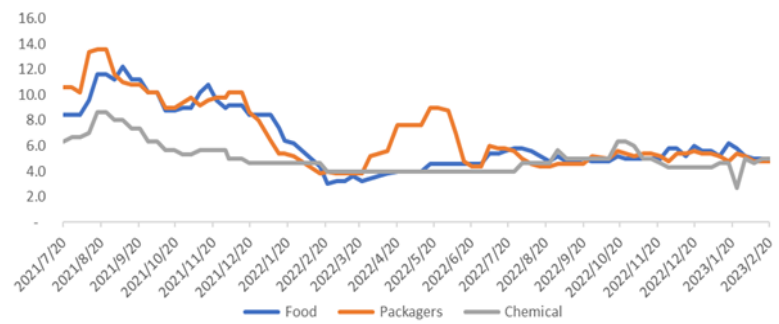
Source: Wind, March 2023

National Land Road Congestion Index



Source: Wind, March 2023

Pipeline Vegoil Coverage (Number of Day's Demand)



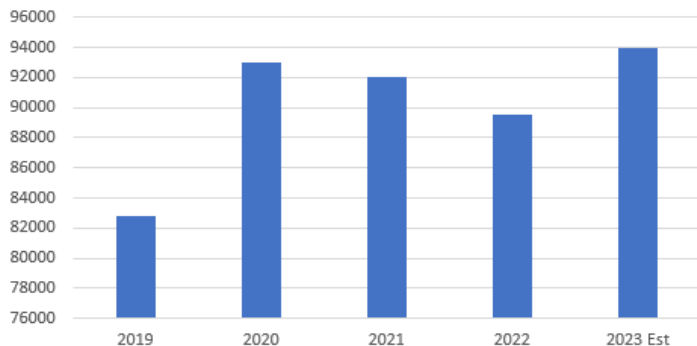
Source: Cargill, March 2023

- As Covid-19 is behind us, the main theme of 2023 will be a total demand recovery story. How fast/strongly the demand could recover and if there will be any unexpected demand shock from new Covid waves are to be answered.
- Since the outbreak of Covid-19 on Jan 2020, urban resident's income and expenditure were resilient during most time of 2020 and 2021, however growth was stagnant in 2022. With the economic activities back to normal, both income and expenditure shall experience a recovery which helps vegoil consumption.
- Mobility also recovered to pre Covid-19 level as no more travelling restrictions.
- Vegoil pipeline inventories remain low, but it might go back to the normal level if people re-gains confidence on business operation and price.

Note: Data collected by Cargill, not reflecting the full market volume.

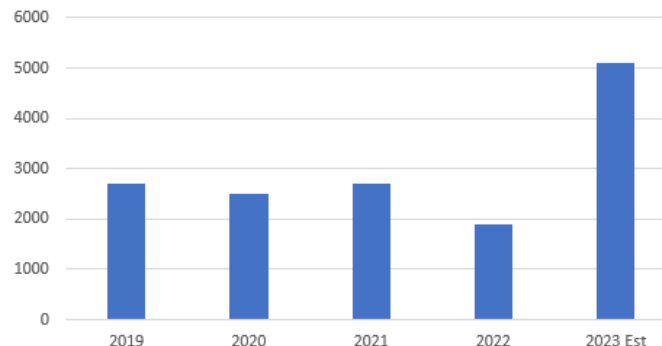
# OUTLOOK OF 2023 CHINA PALM MARKET – INCREASED SUPPLY OF COMPETING OILS

## Yearly China Soybean Crush (in KMT)



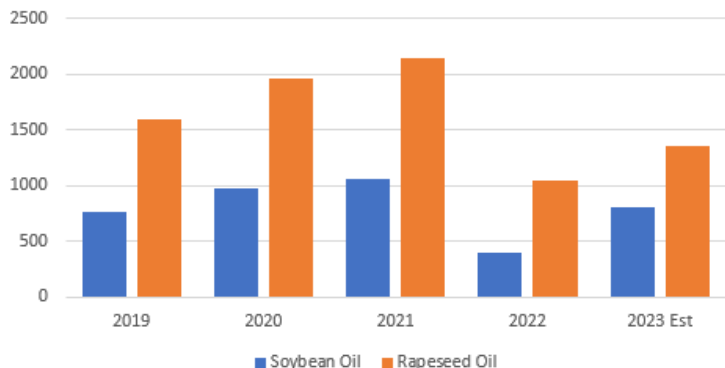
Source: Pansun, March 2023

## Yearly China Imported Canola Crush (in KMT)



Source: Pansun, March 2023

## Yearly China SBO/RSO Import (in KMT)



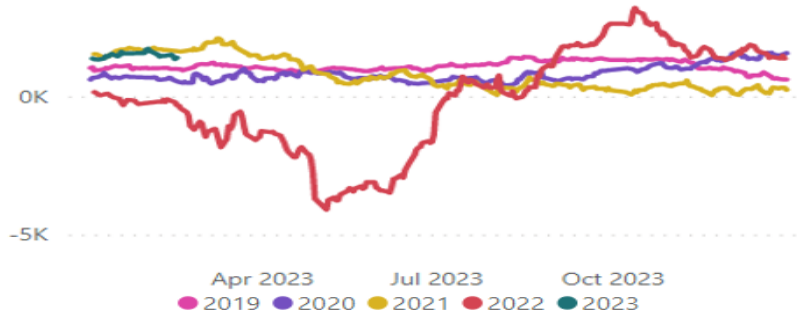
Source: Pansun, March 2023

- 2023 China soybean crush would be at 5 year high due to recovered animal feed demand.
- 2023 China imported canola seeds crush would be over 5 million MT due to a bigger Canadian canola seeds crop and smooth import trade flow.
- 2023 imported soybean oil and rapeseed oil volume would also grow on YoY perspectives, though not reaching the 2021 peak.
- There is no shortage from competing oils, rather supply would be relatively sufficient. Hence if Olein gets less competitive on relative values, Olein may lose demand to other vegoil.



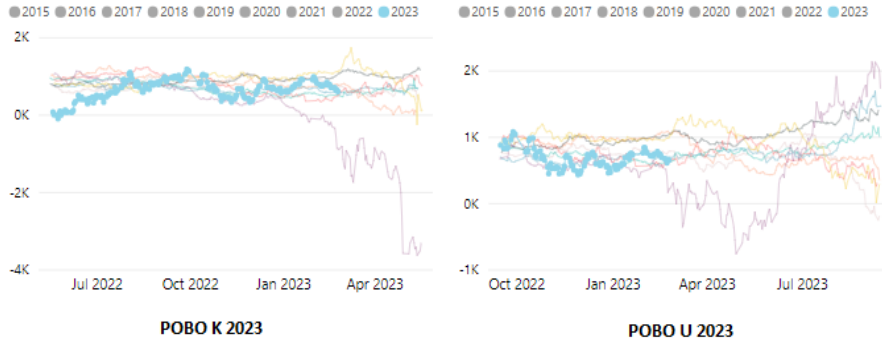
# OUTLOOK OF 2023 CHINA PALM MARKET – POBO SPREAD IN THE HISTORICAL RANGE

Guangdong Cash Refined SBO & Olein Price Spread (CNY/MT)



Source: Pansun, March 2023

DCE Soybean Oil and Palm Olein Futures Price Spread (in CNY/MT)



Source: Dalian Commodity Exchange, March 2023

Port Weekly Olein Delivery Volume (000MT)\*

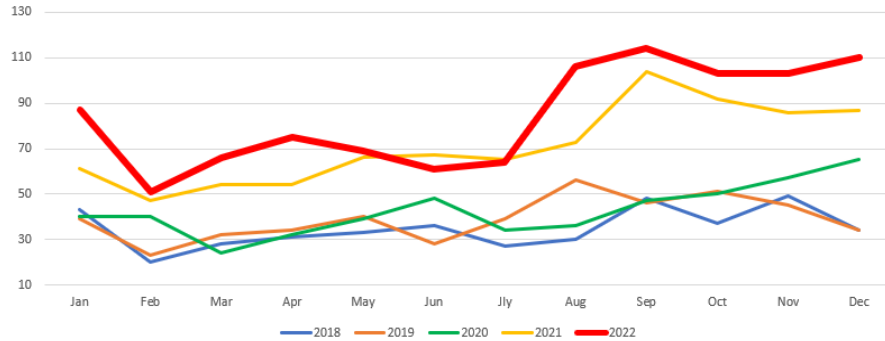


- China cash POBO spread remains relatively wide which is supportive on nearby Olein demand.
- Forward POBO spreads on DCE May23 and Sept23 futures are on the lower side of the historical range. If the forward spread narrows another \$15-20/Mt from current \$90/Mt, Olein might start to lose demand to Soyoil.
- Last year's extreme POBO spread gave us an example on how demand could be switched even for some of the core demand.
- With today's global SnD picture, Palm may not afford to lose too much demand in China unless 2023 Malindo production is disappointing again.

Note: \* Data collected by Cargill which may not reflect the full market volume.

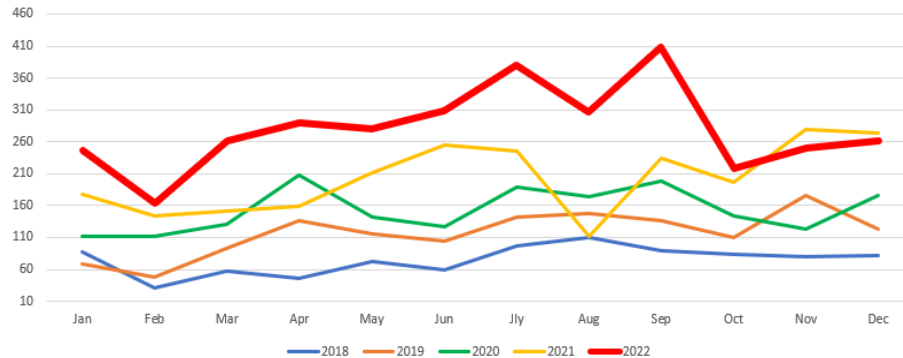
# OUTLOOK OF 2023 CHINA PALM MARKET – OFF BALANCE SHEET FACTORS

China Monthly Shortening Palm Products Imports (000MT)



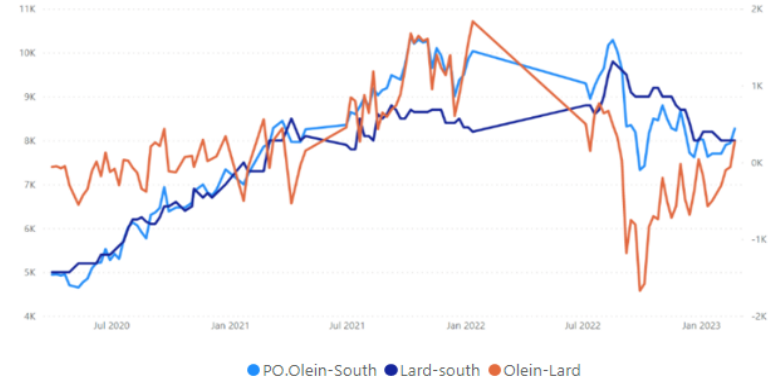
Source: AQSIIQ, March 2023

China Monthly UCO/UCOME Export (000MT)



Source: AQSIIQ, March 2023

South China Cash Olein & Animal Fat Price Spread (CNY/MT)



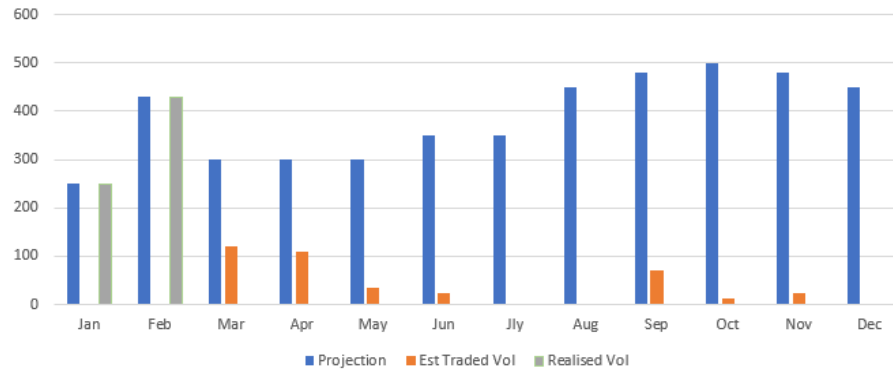
Source: Pansun, March 2023

- Shortening palm products imports increased 18% YoY to 1Mmt in 2022 due to favoured Indonesia export levy structure.
- Olein lost price competitiveness against animal fat in feed oil sector during FH2022 which resulted a 200-300Kmt demand loss in this sector in 2022. Olein re-gained price competitiveness under current price structure so demand may recover to 2021 level (YoY up 200-300Kmt).
- UCO/UCOME export increased 38.5% YoY to 3.4Mmt in 2022 and created some non-traditional Olein demand.

Note: Cash Olein price data collected by Pansun. Other data collected by Cargill, not reflecting the full market volume.

# OUTLOOK OF 2023 CHINA OLEIN MARKET – IMPORT PROJECTION & COVERAGE

2023 China Olein Import Projection (000MT)\*\*



Source: AQSIO, Cargill, March 2023

DCE M+2 Olein Import Margin (USD/MT)



Source: Dalian Commodity Exchange, Pansun March 2023

Year 2022 Market Share

In-house Importers	45-50%
Flat Price Traders	30-40%
Imp Margin Traders	10-25%

Normal Year Market Share

In-house Importers	15-25%
Flat Price Traders	0-20%
Imp Margin Traders	55-85%

Source: Cargill, March 2023

- If current POBO spread (cash and futures forward) stays throughout the year, 2023 Olein import could recover to 4.6 Mmt from 3.6 Mmt in 2022. Import would be back to the 2020 and 2021 level.
- With forward cash basis returns to a relatively normal level and no obvious “story” in the palm market, importers would be more disciplined to use Import Margin as their key buying considerations. Also, with stocks are at more manageable level, in-house importers may have reduced appetite to move the oil to China this year.

2023 forward coverage (excluding the so-called in-house trades) is relatively low for Apr/May/June. However, sitting with enough inventories, importers afford to wait for a while to extend the coverage.

Different from 2022, forward import margin based on DCE Olein futures price and CNF quote is only at small disparity, so market is not far from connecting new trades.

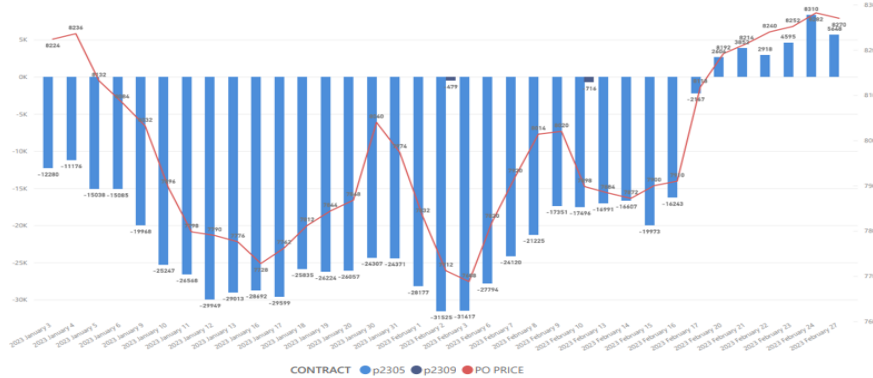
Hedge fund’s trading behavior continues to bring big price volatility and therefore affects the physical buying pace.

Note: \* Import Margin = DCE - CNF\*1.09\*1.09\*FX - Discharge Cost \*\* Realized vol from AQSIO. Others by Cargill, est vol may not reflect the full market volume.



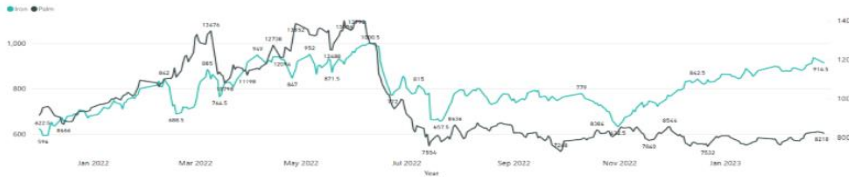
# OUTLOOK OF 2023 CHINA OLEIN MARKET – OTHER FACTORS AFFECTING BUYING PACE

Quants Background Broker Net Position vs Price on DCE Palm Futures

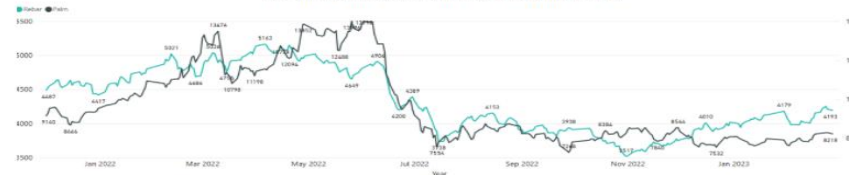


Source: Dalian Commodity Exchange, March 2023

DCE Palm & DCE Iron Ore Daily Price Chart (in CNY/MT)

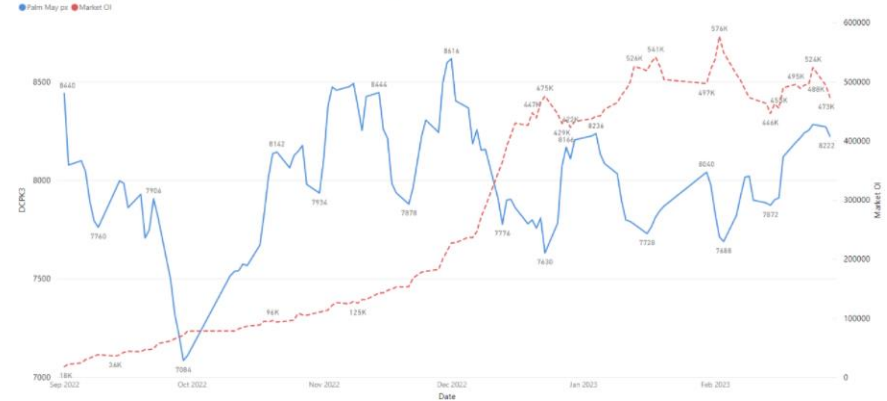


DCE Palm & SHFE Rebar Daily Price Chart (in CNY/MT)



Source: Dalian Commodity Exchange, Shanghai Commodity Exchange, March 2023

DCPK3 Price vs Open Interest



Source: Dalian Commodity Exchange, March 2023

- There are a growing number of macro/quants funds to trade DCE Palm futures as the underlying to express their commodity view. Many of them are also trading a basket of commodities and equities. They put more weights on macro and technical indicators than detailed SnD when making trading decisions. When they choose or change the direction, price may be influenced by their behaviour.
- Open interests of DCE May 2023 Olein futures are off recent highs. Market structure at 470K contracts is neutral to balanced.
- Government policies in key producing & consuming countries have a big impact on price action and SnD outlook but they are hard to predict. To avoid the policy uncertainty, consumers and investors are putting risk management as top priority than business profitability.

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