

Palm Drops to Lowest in More Than Three Years on Record Supplies
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By Ranjeetha Pakiam

July 25 (Bloomberg) -- Palm tumbled to the lowest level in more than three years as global supplies of the world's most-consumed cooking oil climb the most since 1999 and demand expands at the slowest pace in more than a decade.

Futures slumped as much as 3.2 percent to 2,151 ringgit (\$672) a metric ton in intraday trading on the Bursa Malaysia Derivatives in Kuala Lumpur, a level not seen since October 2009, before closing at 2,170 ringgit. Soybean oil, an alternative, fell to the lowest level since 2010.

Prices of palm, used in everything from candy to biofuel, are extending a yearlong bear market as world stockpiles are poised to surge 21 percent to a record 9.5 million tons by the end of 2013-2014 and demand expands 4.4 percent, the least in 12 years, U.S. Department of Agriculture data show. Rising soybean oil supply will add to the glut, with U.S. growers set to reap their biggest-ever crop of the beans from September. The price slide may cut costs at companies such as Unilever.

"It's a double whammy," Carey Wong, an analyst at OCBC Investment Research Pte., said by phone from Singapore today.

"We see supplies of substitute oils rising and also on the demand side we do see a potential drop off."

Futures plunged 26 percent in the past year as the Standard & Poor's GSCI Index of eight agricultural commodities dropped 27 percent and the MSCI All-Country World Index of equities advanced 23 percent.

Production Forecast

Palm production, accounting for 35 percent of cooking oil supply, will expand 5 percent to 58.1 million tons in 2013-2014, USDA data show. Output doubled over the previous decade, led by Indonesia and Malaysia. The predicted stockpiles are equal to 17 percent of demand, the highest level since 1989, data compiled by Bloomberg show.

Supplies of soybean oil, the second most-consumed edible oil, will rise to a record for a fifth year and reach 44.6 million tons, the USDA predicts.

Palm reached a three-month high of 2,491 ringgit on June 20 as buyers accelerated purchases before the start of the Muslim holy month of Ramadan in July. Stockpiles in Malaysia, the biggest producer after Indonesia, fell to the lowest level in more than two years in June as output dropped in the biggest-producing state, industry data show.

Demand slowed this month as buyers may have stocked up in May and June for the Eid celebrations, according to Ong Chee Ting and Chai Li Shin, analysts at Maybank Investment Bank Bhd. Shipments from Malaysia fell 7 percent in the first 25 days of July from the same period in June, said surveyor Intertek.

Growing Cycle

Palm oil may drop to 2,000 ringgit after July as Ramadan demand subsides and output increases, Dorab Mistry, director at Godrej International Ltd., said on May 21. While palm is produced year-round, supply typically accelerates in the second half because of growing cycles.

The discount to soybean oil shrank to \$283.25 a ton today, compared with an average of about \$305 in the three months ended June 30, according to data compiled by Bloomberg. Soybean oil futures fell 1.2 percent to 43.59 cents a pound.

“With demand and the near-term export data not so strong, the worry is that the narrowing of the discount may reduce the attractiveness of palm as an edible oil versus soybean oil,” said Ivy Ng, an analyst at CIMB Investment Bank Bhd.

Unilever, the second-biggest consumer goods company, sees low- to mid-single digit commodity-cost inflation in 2013, down from high single-digit increase across food, home and personal care products in 2012, according to the company in January. Lower prices may further cut global food costs tracked by the United Nations’ Food & Agriculture Organization. The Rome-based group’s food price index is 11 percent below the record reached in February 2011, with its oils and fat index dropping 10 percent in the past year.

Refined palm oil for January delivery lost 0.9 percent to 5,516 yuan (\$899) a ton on the Dalian Commodity Exchange, the lowest level at close for the most-active contract since March 2009. Soybean oil fell 1.4 percent to end at 7,142 yuan a ton, the lowest since October 2009.

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