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# Veg. Oil Monthly Research Report

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**Domestic Market Highlights**

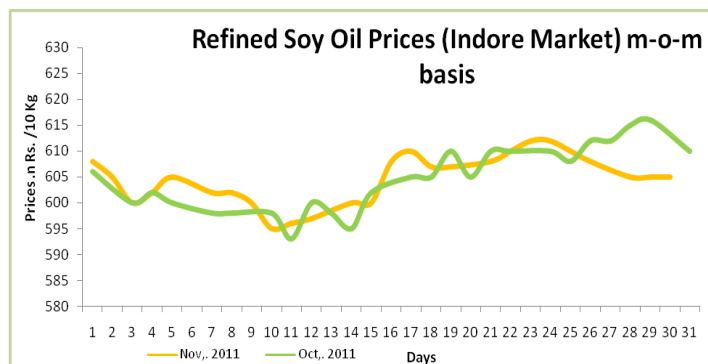
- *Domestic edible oil prices traded with a steady to firm bias during the month and is likely to remain firm in a Dec. month*
- *Govt. plans to bring oil palm under MSP mechanism to bridge the domestic demand and supply gap. MSP mechanism might incorporate in 12th five year plan. Import duty remains unchanged to zero and 7.5% on crude and refined edible oils respectively.*
- *Depreciating INR touches 53.10 levels on 13 Dec 2011 which leads to expensive imports this might support palm oil prices to trade with a positive bias in near to medium term*

**International Market Highlights**

- *Malaysia's November palm oil ending stocks fell 1.5 percent to 2,068,754 tons as compared to October month 2,100,578 tons.*
- *Malaysian palm oil products exports for the period of 1-30 November fell by 8.7 per cent stood at 1,537,556 million tonnes from 1,684,077 tonnes shipped during 1-30 October.*
- *Ukraine will produce 3.25 million tons of sunflower oil in 2011/12 MY (September-August) up by 5% as compared to the previous MY.*
- *Edible oil prices at the bench mark market of CBOT, traded with steady to weak tone during the month. CBOT closed to 49.60 cents/pound (Jan'12 contract) on 9 Dec. 2011. Meanwhile, Malaysian palm oil futures prices trade with a firm bias during the Month and rose by from MYR 2944/MT to MYR 3012/MT during the month. CPO futures at BMD closed to MYR 307/ MT (Jan'12 contract) on 9 Dec. 2011*

**Soy oil:**
**Domestic Market Fundamentals**

- Soy oil average prices (Indore market) declined by 0.02 per cent to Rs. 604.58 per 10 kg in Nov as compared to previous month prices (average prices of month). During the Nov. month soy oil traded with a steady to weak bias due to weak global cues amid good supply from plants keep the prices in a range bound.
- Government has allowed import of edible oils (except coconut oil) under Open General License (OGL), in order to bridge the gap between demand and supply of edible oils in the country. However import duty remains unchanged to zero and 7.5% on crude and refined edible oils respectively.
- We expect soy oil likely to trade with a steady bias due weak global cues; however seasonal demand might support the prices in near to medium term.


**International Market Fundamentals**

- According to the latest government's weekly crop progress report, Farmers have planted 66 percent (12.4 million ha.) of the record 19 million hectares forecasted for soy this season up by 6% as compared to previous year and advancing by 10 percent during the seven day's period.
- Weather conditions for soybean in Latin America are to be seen as a major uncertainty in the near to medium term. Below-normal rains and above-normal temperatures lead to reduction in soil moisture in southern Brazil in the recent days. Crop stress is likely to intensify if dryness persists.

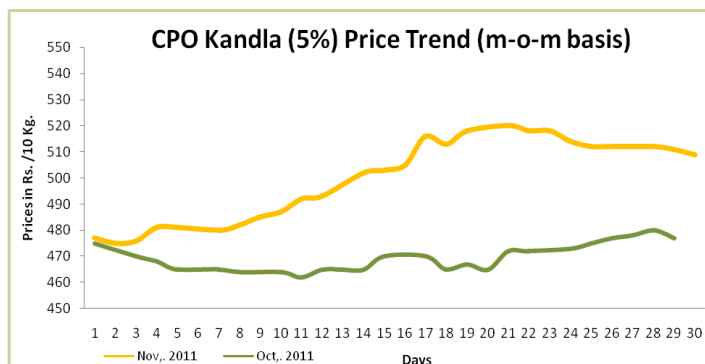
**Soy oil parity analysis:-**

Values in Rs per 10Kg	Soy oil parity on 12 Dec 2011	Avg. Soy oil parity – Nov. Month	Avg. Soy oil parity – Oct. Month	Avg. Soy oil parity – 3 Months
Indore	-19	8	37	24

Crushing plants (ex-Indore) are in disparity as on 12<sup>th</sup> Dec. Considering average plant delivery seed at Rs 2275/qlt and meal prices at Rs 15950/MT. Adding processing costs and other expenses, soy refine production cost works out to 628/10 kg. Adding 5% VAT and 0.15% commission as brokerage the total cost is approx. Rs 660.0 per 10Kg which is more compared to the prevailing spot price of 641/10 Kg on 7<sup>th</sup> Nov. This indicates plants are in disparity and might hold their oil stocks at present. We expect a tight supply of soy oil continue in near to medium term.

**Palm oil:**
**Domestic Market Fundamentals**

- Palm oil prices (Indore market) rose m-o-m average by 6.37 per cent to Rs. 499.69 per 10 kg in Nov. compared to previous month prices (average prices of month).
- Good demand noticed for RBD Palm olein in major markets on account of better buying support from wholesalers amid bullish cues from international market keeps the prices in a positive note during the month.
- Govt. plans to bring oil palm under MSP mechanism to bridge the domestic demand and supply gap. MSP mechanism might incorporate in 12th five year plan. CACP estimate the production cost to cultivate oil palm is about Rs 44,000 per ton meanwhile landed price for imported CPO is about Rs 50,000. Currently oil palm acreage in India is about 1.75 lakh hectare as against the estimated potential of 10.3 lakh hectare.
- Depreciating INR touches 53.10 levels on 13 Dec 2011 which leads to expensive imports this might support palm oil prices to trade with a positive bias in near to medium term.


**International Market Fundamentals**

- Malaysian palm oil prices stay steady and futures gains after correction from higher levels on 13<sup>th</sup> Dec due to bullish MPOB report. Malaysia's November palm oil ending stocks fell 1.5 percent to 2,068,754 tons as compared to October month 2,100,578 tons on account of low palm output due to heavy rainfall, we expect lower production continues in December month which likely to support the palm oil prices in near to medium term but low exports figures amid weak macroeconomic factors might weigh on the markets. Detail of the Malaysian palm oil balance sheet is as follows:

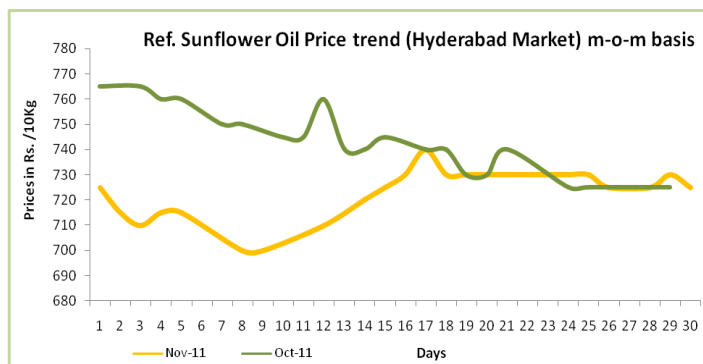
<b>Malaysian Palm Oil Balance Sheet (2011)</b>			
<b>(Quantity in tons)</b>	<b>Nov</b>	<b>Oct</b>	<b>% Change</b>
Opening Stock	327124	321853	+1.64%
Production	1626668	1908422	-14.76%
Import	87198	45478	+91.74%
Export	1660402	1840405	-9.78%
Ending Stock	2068754	2100415	-1.51%

- Indonesia has kept its export tax for crude palm oil (CPO) at 15% for December, unchanged from the previous month. Indonesian government also left its olein palm oil products export tax for next month unchanged at 7%.

## Domestic Market Fundamentals

### Sunflower oil:

- Ref. sun oil traded with a steady bias during the month; moreover prices couldn't recover up to previous month high on account of shifting of demand to other cheaper edible oils.
- As per the latest report from Ministry of Agriculture, Rabi sowing of sunflower is lagging year on year. As on 9<sup>th</sup> December area under sunflower were reported at 3.08 lakh hectares down by 9.68% during the same period last year when it was seen at 3.41 lakh hectares.
- Slow pace of sowing amid good supply in international markets keep the Ref. sun oil in a soft note in near to medium term. However depreciating INR coupled with seasonal demand might support the prices. We expect Ref sun oil likely to trade in the price band of Rs 710-760 per 10 Kg.



## International Market Fundamentals

- According to Ukroliyaprom, Ukraine will produce 3.25 million tons of sunflower oil in 2011/12 MY (September-August) up by 5% as compared to the previous MY. Ukraine's share in the world production of sunflower oil might reach the level of 25%. Sunflower oil export volumes are forecasted at the level of 2.7 million tons (in 2010/11 MY - 2.65 million tons).
- Ukraine completed sunflower seed harvesting from of 4.6 million hectares with production is reported at 8.8 million tons. According to the Ministry of Agrarian Policy and Food, the general production of sunflower in 2010 was 7.1 million tons throughout the areas of 4.4 million ha.
- According to the forecast made by ProZerno Ltd., In 2011/12 MY sunflower oil production in the Russian Federation will total 3.1 million tons. Sunflower oil export volumes were forecasted at the level of 850 thousand tons, rapeseed oil 160 thousand tons, soybean oil - 180 thousand tons. Market participants is expecting, general production of sunflower in Russia will total 8.78 million tons, rapeseed - 1.025 million tons, soybean - 1.63 million tons.

## Edible oil supply and demand Analysis -:

Net edible oil supply during 2011-12 is likely to increase 7.74% backed by record Kharif edible oil production and optimistic outlook for Rabi mustard oil production for ensuing season. Considering better supply for 2011-12 marketing year and relatively higher beginning stocks we estimate total edible oil import to decline by 4.4% to 8 million tonnes. Considering prevailing higher edible oil prices, edible oil demand to improve marginally by 1.9% compared to previous year. However, consumption during 2010-11 registered sharp growth to the tune of 6% y-o-y. Sluggish growth in demand and higher supply y-o-y may lead to surge in ending stocks by 36.79% to 4.3 million tons.

Balance sheet of Indian Edible Oil	2009-2010	2010-11 Estimated	2011-12 Projected
Value in million tons			
Beginning Stock	1.23	2.58	3.35
Production	7.33	7.90	9.16
Imports	8.82	8.37	8.00
Total Supply	17.38	18.85	20.51
Exports	....	....	....
Total Demand(Consumption)	14.80	15.70	16.00
Ending Stock	2.58	3.35	4.31

Despite surge in edible oil ending stocks we do not expect any immediate fall in edible oil prices as the domestic edible oil price is determined by international factors.

#### Edible oil Shipments at Indian Ports during Nov. month (2011)

Product	November Shipments (tonnes)	October Shipments (tonnes)	% Change
Crude Soybean Oil	8000	61961	-0.87
Crude Palm Oil	601405.5	649805.1	-0.07
RBD Palm olein	6000	19739.7	-0.70
Palm Oil	128800	96798	+0.33
Crude Sunflower Oil	38250	52370	-0.27
PALM FATTY ACID	61500	3999.99	+14.38
<b>Total edible oils</b>	<b>843,956</b>	<b>884,674</b>	<b>-0.05</b>
Source: Ben Line Agencies(India) Pvt. Ltd.			

#### USDA's WASDE Report Analysis:-

Parameters	2009-10	2010-11 Est.	2011-2012		% Change
			Nov'11	Dec'11	
US origin					
Soybean planted acreage m.a.	77.5	77.4	75	75	0.00%
Soybean Harvested acreage m.a.	76.4	76.6	73.7	73.7	0.00%
Soybean yield, in b / a	44.0	43.5	41.3	41.3	0.00%
Beginning Stocks, in m.b.	138	151	215	215	0.00%
Soybean production, in m.b.	3359	3329	3046.00	3046.00	0.00%
Soybean imports, in m.b	15	15	15	15	0.00%
Soybean crush, in m.b.	1752	1650	1635	1625	-0.61%
Soybean exports, in m.b.	1501	1520	1325	1300	-1.89%
Residual, in m.b	18	38	32	32	0.00%
Soybean ending stocks, in m.b.	151	200	195	230	17.95%
Soy meal production, in '000 short tons	41707	39683	38835	38685	-0.39%
Soy meal ending stocks, in '000 short tons	302	300	300	300	0.00%
Soy oil production, in million lbs	19615	19090	18670	18700	0.16%
Soy oil for Bio-diesel, in million lbs	1680	2300	3600	3600	0.00%
Soy oil ending stocks, in million lbs	3406	2871	2080	2280	9.62%
At other origins					
Soybean production in Argentina, in m.t.	54.5	49.5	52	52	0.00%
Argentina soybean beginning stock m.t.	16.59	22.28	22.88	22.88	0.00%
Soybean production in Brazil, in m.t.	69	74.5	75	75	0.00%

Brazil soybean beginning stock m.t.	12.04	15.84	22.31	22.22	<b>-0.40%</b>
Soybean import in China, in m.t.	50.34	52	56.5	56.5	<b>0.00%</b>
Chinese soybean ending stock, in m.t.	13.26	14.21	13.26	13.26	<b>0.00%</b>
Global soybean ending stocks in m.t.	59.35	65.88	63.56	64.54	<b>1.54%</b>
Global soy oil ending stocks, in m.t.	3.18	3.07	2.41	2.64	<b>9.54%</b>
Global veg oil ending stocks in m.t.	12.93	11.23	11.76	12.01	<b>2.13%</b>
Global soy meal ending stocks in m.t.	6.12	6.57	8.75	8.28	<b>-5.37%</b>
b / a – Bushels per acre; m.b. – Million bushels; m. t. – Million tons ; m.a. - Million acres					

### USA Origin

USDA released its monthly world agricultural supply and demand report on 9<sup>th</sup> Dec in which USDA kept harvest area and soybean yield unchanged. Soybean production pegged at 3046 million bushels in Dec. estimates unchanged. Soybean export figure for current year fell by 1.89% and stood at 1300 Million bushel.

USDA reduced world soy oil production by 0.37 per cent to 42.91 MMT (in its December month report) compared to 43.07 MMT productions in November month projections. The US soybean production stay at 3060 million bushels meanwhile increased the US ending stocks of soybean oil by 9.62 per cent to 2280 billion bushel which might weigh on CBOT soy oil prices in near to medium term.

### Other Origin

Due to low overseas demand global soy oil ending stock rose by 9.54% stood 2.64 million tons however, beginning soybean stocks in Argentina remain unchanged as compared to November month estimates. Meanwhile, Weather conditions for soybean in Latin America are to be seen as a major uncertainty. Below-normal rains and above-normal temperatures lead to reduction in soil moisture in southern Brazil in the recent days. This might leads to lower soy production in South America if unfavorable persists

Higher soy oil ending stocks on global front keep the soy oil prices to trade with a soft note meanwhile high imports from china for upcoming Chinese new year might lend underlying support to the soy oil prices in near to medium term.

### Impact on Indian Soy prices

The price impact of this month's USDA report is to be bearish for both soy oil and soy beans. The December estimates for soy beans in South America has remained unchanged from November estimates, however higher than expected global ending stocks for soy beans and soy oil amid gloomy EU debt crisis could weigh on the prices. Meanwhile depreciating INR might support the soy oil prices in medium term.

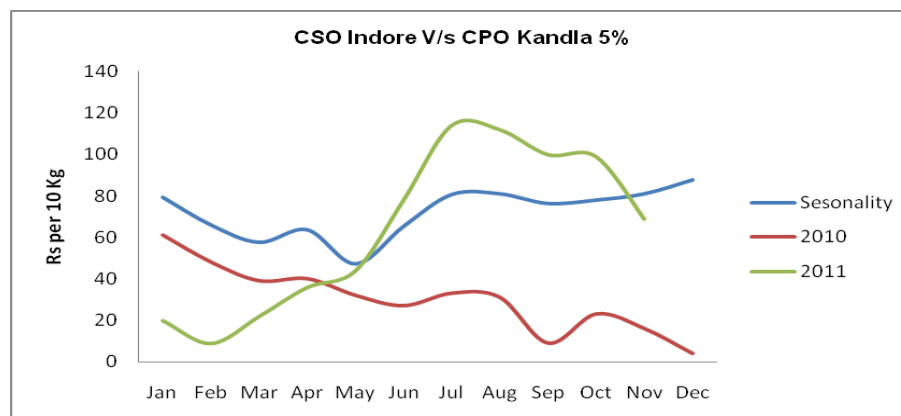
### Crude Soy Oil Import Landed Cost Calculation (Parity/Disparity):

Landed Cost Calculation as on 07/12/2011	CSO Argentina	CSO Brazil	CSO US
FOB USD per ton	1137	1124	1101.85
Freight (USD/MT)	65	55	50
C & F	1201.7	1178.9	1151.9
Weight loss (0.25% of FOB)	2.84	2.81	2.75
Finance charges (0.4% on CNF)	4.55	4.50	4.41
Insurance (0.3% of C&F)	4	4	3
CIF (Indian Port - Kandla)	1213	1190	1162
CVD	0	0	0
Duty USD per ton	0	0	0
CVD value USD per ton	0	0	0
E cess (2% on duty) USD per ton	0	0	0
Exchange rate	51.44	51.44	51.44
Landed cost without customs duty in INR per ton	62381	61200	59797
Customs duty %	0%	0%	0%
Base import price	580	580	580
Fixed exchange rate by customs department	50.05	50.05	50.05
Duty component in INR per ton	0	0	0
Clearing charges INR per ton	353	353	353
Brokerage INR per ton	83	83	83
Total landed cost INR per ton	62817	61636	60233
Domestic Market price INR per ton Soy Degum Kandla	61500	61500	61500
Total landed cost USD per ton	1221	1198	1171
Domestic Market price USD per ton Soy Degum Kandla	1196	1196	1196
Parity INR/MT (Domestic - Landed)	-1317	-136	1267
Parity USD/MT (Domestic - Landed)	-25.60	-2.65	24.62

Source: Agriwatch/ Reuters

### Seasonality vs. Current year Spread difference between CSO Indore and CPO Kandla 5%

November month average price spread between CSO Indore and CPO Kandla 5% stood at Rs 69 per 10Kg which narrowed by Rs 30 per 10 Kg as compared to Oct. month on average basis. Considering seasonality index of price spread between CSO Indore and CPO Kandla 5%, we expect spread likely to narrow further by Rs 10-15 per 10Kg due to good supply of soy oil amid heavy rainfall in Malaysia keeps the palm oil prices in a steady to firm tone in medium term. Moreover spread is likely to stay at lower side when compared with its seasonality. Market participants can sell CPO Kandla 5% at 525-530 level in medium term; meanwhile one can take the opportunity to buy crude soy oil Indore at 575-580 level.





**International Market Dynamics**
**China**

China bought Soybean 5.70 million tonnes in November, an increase by 49.6% compared to the October month import of 3.81 million tonnes, presented by General Administration of Customs of China. Relatively, China has increased its import of veg. oils by 31.4 percent compared to October. China imported 6.70 lakh tonnes of veg. oils from the overseas in November.

China has cancelled 3 lakh tons of ref. palm oil over the last month due to cheaper domestic palm oil as compared to imported palm oil. China had already overbooked the cargos, meanwhile, market participants are expecting that imports in January to March next year would be 500,000 tonnes each month, which will surpass the last year's first quarter imports which was 1 million tons.

**INDONESIA**

Indonesia has kept its export tax for crude palm oil (CPO) at 15% for December, unchanged from the previous month. Indonesian government also left its olein palm oil products export tax for next month unchanged at 7%.

**South America**

**Argentina** – According to the latest government's weekly crop progress report, Farmers have planted 66 percent (12.4 million ha.) of the record 19 million hectares forecasted for soy this season up by 6% as compared to previous year and advancing by 10 percent during the seven day's period. Moreover 1.65 million ha sun seed has planted of the forecasted 1.69 million ha.

**Brazil** – According to Safras & Mercado, soybeans the soybean planting in the 2011/12 season is 98% complete in Brazil. The work pace is ahead of the same period last year, when 96% of the area had been sown, and is also above the average for the period, of 94%. The data are part of the survey by Safras & Mercado until December 9. In the week earlier, the figure was at 93%.

### Technical Analysis (Futures) RSO (Refined Soybean Oil): Monthly Chart



**Outlook – Soy oil traded with a firm note during the month. We expect prices stay firm in a coming month, however any technical dip from current level might act as a buying opportunity for a short term.**

- ❖ Any close below 651.00 in monthly chart shall change the sentiments and might bring the prices in bearish phase.
- ❖ EMA continue to act as a good support while oscillators remain in tune with the prices showing minimal divergence.
- ❖ Expected price band for next month is 659-681.00 level in near to medium term.

**Strategy:** We recommend Market participants to go long in NCDEX (Jan. contract) at dip levels towards 659-663 for a target of 681.00 and then 685.00 with a stop loss at 649.50 on closing basis.

**RSO NCDEX (Jan. contract)**

Support & Resistance				
S2	S1	PCP	R1	R2
630.00	643.00	670.00	695.00	715.00

### Technical Analysis (Futures) CPO (Crude Palm Oil): Monthly Chart



**Outlook - We expect prices likely to be steady to firm for a coming month, however any technical dip from current level might act as a buying opportunity for a short term.**

- ❖ Candlestick chart pattern reveals firmness in the prices during the month.
- ❖ RSI and other indicators stand supportive for the prices and this might lead to extend the gains further for short term.
- ❖ Any close below 512.10 in monthly chart shall change the sentiments and might bring the prices in bearish tone.
- ❖ Expected price band for CPO is 516.80-531.60 level in near to medium term.

**Strategy:** Buy CPO in MCX (Jan. contract) at dip levels towards 516-518 for a target of 528.30 and second target of 531.60 with a stop loss at 512.10 on closing basis.

#### CPO MCX (Jan. contract)

Support & Resistance				
S2	S1	PCP	R1	R2
505.00	509.80	523.00	534.00	542.00

**Monthly spot price comparison**

Commodity	Centre	Prices(Per 10 Kg)		
		30-11-2011	31-10-2011	30-09-2011
Refined Soybean Oil	Kota(Loose)	620	625	635
	Rajkot (Loose)	630	620	625
	Jaipur (Loose)	635	645	650
	Hyderabad+ VAT	-	665	705
	Delhi (Loose)	645	650	660
	Kakinada	-	640	655
	Mumbai +VAT	621	628	630
	Indore	605	610	615
	Soy Degum Mumbai+VAT	610	600	590
	SoyDegum Kandla/Mundra+VAT	612	602	595
	Haldiya Port (Loose)	646	629	631
	Akola (Loose)	631	646	664
	Amrawati (Loose)	631	646	664
	Jalna	640	646	656
	Nagpur	631	646	672
Palm Oil	Chennai RBD Palmolein (Loose)	570	530	545
	Hyd. RBD Palmolein VAT	605	565	590
	Delhi RBD Palmolein (Loose)	595	580	580
	Kandla CPO (5%FFA)	509	475	482
	Kakinada RBD Palmolein (Loose)	561	529	536
	Mumbai RBD Pamolein+ VAT	570	535	585
	Kandla RBD Palmolein +VAT	555	527	560
Refined Sunflower Oil	Mumbai + VAT	695	705	740
	Kandla/Mundra	630	645	660
	Erode (Exp. Oil)+VAT	700	687	725
	Hyderabad Exp +VAT	725	725	765
	Chennai (Loose)	715	695	770
	Bellary (Exp. Oil)+VAT	651	626	643
	Latur (Exp. Oil)+VAT	646	646	676
	Chellakere (Exp. Oil)+VAT	636	631	666
Groundnut Oil	Rajkot (Loose)	840	850	850

	Chennai (Loose)	860	760	870
	Delhi (Loose)	820	875	860
	Hyderabad Exp +VAT	820	800	970
	Mumbai + VAT	850	860	880
	Gondal+VAT	840	-	855
	Jamnagar +VAT	840	-	860
	Narsarropeth+VAT	821	741	821
	Prodattour+VAT	851	771	841
<b>Rapeseed Oil</b>	Mumbai (Exp. Oil) +VAT	694	680	652
	Alwar (Expeller Oil)(Loose)	671	653	633
	Kota (Expeller Oil) (Loose)	670	650	615
	Jaipur (Expeller Oil) (Loose)	675	655	625
	Delhi (Exp. Oil) (Loose)	710	688	670
	Sri Ganga Nagar(Exp Oil-Loose)	678	657	630
	Hapur+VAT	745	681	-
	Kolkatta	-	-	-
	Agra (Kacchi Ghani Oil) +VAT	710	695	
<b>Refined Cottonseed Oil</b>	Mumbai +VAT	600	632	650
	Rajkot (Loose)	605	635	627
	Delhi (Loose)	580	622	605
	Hyderabad (Loose)	625	650	680
<b>Sesame Oil</b>	Delhi	725	650	630
	Mumbai	775	775	775
<b>Rice Bran Oil (40%)</b>	Delhi	535	560	550
	Punjab	550	550	550
<b>Rice Bran Oil (70%)</b>	Delhi	430	425	420
<b>Malaysia Palmolein USD/MT</b>	FOB (Dec)	1080	1030	-
	CNF (Dec) - India	1115	1065	-
<b>Indonesia/Malaysia CPO USD/MT</b>	FOB (Dec)	965	950	-
	CNF(Dec) - India	1000	985	-
<b>Argentina FOB (\$/MT)</b>		<b>30/11/2011</b>	<b>31/10/2011</b>	<b>30/9/2011</b>
Crude Soybean Oil Ship (Nov)		1112	1133	1092
Refined Soy Oil (Bulk) Ship (Nov)		1151	1172	1130
Sunflower Oil Ship (Nov)		1072	-	-
Cottonseed Oil Ship (Nov)		1092	1113	1072

Refine Linseed Oil(Bulk) Ship (Nov)	1132	1153	1112
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