

**Bryan Durkin**  
**“Partner’s Address”**  
**POC2017**  
**Grand Ballroom, Shangri-La Hotel**  
**Kuala Lumpur, Malaysia**  
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**Thank you, Emcee, for that thoughtful introduction.**

- For those who have not met me before, my name is Bryan Durkin, President of CME Group.
- CME Group has been a key participant at the Palm & Lauric Oils Price Outlook Conference for the past few years, and are pleased to continue that commitment.
- On behalf of CME Group, I would like to congratulate our partner, Bursa Malaysia, on the 28<sup>th</sup> anniversary of hosting this conference.
- Just like our partnership with them, this conference has continued to flourish over the years. It remains the premier palm oil industry conference, and I am pleased to be able to address all of you this morning.

**I would like to begin by recognizing the distinguished officials with us today:**

- **YB Datuk Seri Mah Siew Keong**, Minister of Plantation Industries & Commodities, Malaysia.
- **YBhg Datuk Seri Tajuddin Atan**, Chief Executive Officer of Bursa Malaysia Berhad.
- **Mr. Wang Feng Hai**, Chief Executive Officer of the Dalian Commodity Exchange.
- We are honored to have you here today, thank you for joining us.

**Many of you present are familiar with CME Group and what we do.**

- Our company represents a primary marketplace for price discovery and risk management for participants in energy, financial and agricultural markets worldwide, including the global grain and oilseed markets.
- We at CME Group work in close coordination with partners such as Bursa Malaysia. Together, we are committed to ensuring that our grain and oilseed markets continue to function effectively as we build for the future.

**Bursa Malaysia Derivatives and CME Group have had a strategic partnership since 2009.**

- CME Group has 25 percent ownership of BMD and one of four seats on the board. So we are working hand-in-hand with BMD to continue building a liquid and vibrant palm oil derivatives market for regional and global users in more than 150 countries.
- CME Group licenses the settlement prices of the Crude Palm Oil Futures (FCPO) contract to settle cleared OTC calendar swaps. And we facilitate the global distribution of BMD's contracts through the CME Globex electronic trading platform. This enables BMD to provide improved accessibility and elevate the presence of the benchmark Malaysian derivatives worldwide.

**This strategic partnership has paved the way for the internationalization of BMD.**

- As mentioned, it means global accessibility and visibility through the migration of BMD products onto our Globex trading platform, begun in September 2010. It also includes the subsequent benchmarked trading rules based on Globex standards and increased foreign demography. This all led to remarkable growth in volumes traded.
- Bottom line, the CME Group/BMD partnership has given strength and confidence to the Malaysian derivatives market.

**We are very pleased to note that the BMD's market continued to achieve significant milestones in 2016.**

- Total FCPO volume for 2016 set an all-time high of 11.42 million contracts, surpassing the previous record of 10.98 million contracts achieved in 2015.
- On February 22, 2017, FCPO daily volume set an all-time high of 97,813 contracts, surpassing the previous record of 91,149 contracts achieved on February 5, 2015. Open interest hovered in the range of 200,000 contracts.
- In 2016, BMD's total derivatives volume was up 1.2 percent, creating a record annual volume.
- BMD's total contract volume has more than doubled since launching of the CME Globex platform in 2010. Volumes traded grew from 6.15 million contracts in 2010 to 14.23 million contracts in 2016, representing a CAGR or year over year growth of 15 percent.
- Average daily volume was up 1.2 percent from the prior year to 57,829 contracts in 2016.

**BMD has also successfully launched new contracts.**

- For example, the refined bleached and deodorised (RBD) palm olein futures were launched in 2014.
- It provides a more complete solution to manage refining margin risk, by making available for hedging the finished product leg of the refining spread.

- At the same time, it enables end users – primarily Chinese importers who purchase palm olein instead of crude palm oil – to hedge against unfavorable price movements in the marketplace and thus secure their import margins.

**In collaboration with BMD, CME Group launched U.S. dollar-denominated crude palm oil swaps in 2013, which have since grown dramatically.**

- In the fourth quarter of 2016, the contract set a record volume high of 35,704 contracts cleared. And, for the whole year, it had cleared more than 3 million metric tons of crude palm oil, which represents close to 17 percent of total 2016 Malaysian CPO production.
- Since launch, the swap contracts have cleared more than 5.7 million metric tons of palm oil, representing more than 230,000 contracts. In addition, open interest is stretched out till June 2018, representing a significant and genuine demand from both domestic and international participants to hedge their physical needs.
- The product set has now expanded to six including futures and options, in addition to the already active swap contracts. In February this year, we achieved a milestone at our clearing house, allowing the comingling of customer margins for commodity futures and options together with swap and forwards. This comingling will benefit customers and the overall derivatives market by reducing trading costs and allowing for more efficient capital usage.

**The successful partnership that we have today with BMD would not have been possible without the support of various key personnel at Bursa Malaysia**

- I especially want to mention again Datuk Seri Tajuddin, CEO of Bursa Malaysia Berhad, and also recognize Mr. Sree Kumar CK Nayar, Acting CEO of Bursa Malaysia Derivatives Berhad.
- Datuk Seri Tajuddin, Sree Kumar and the rest of the leadership of Bursa Malaysia Berhad and Bursa Malaysia Derivatives have shown great foresight in successfully developing their business.
- I would also like to congratulate Jamal, the new CEO of Bursa Malaysia Derivatives Berhad, and say how much we look forward to working with him in the months and years ahead.
- Once again, I would like to take this opportunity to congratulate all of them for putting Bursa Malaysia on the world map.

**This is a critical time for our industry.**

- Palm oil futures rode a bit of a rollercoaster in 2016, as covered by agrimony.com. The early weeks saw prices extending their recovery from a six-year low reached in 2015. But futures once again fell back as the half year stage – and peak production in South East Asia – approached.

- However, prices recovered sharply from July, as evidence grew that peak South East Asian output would come in shy of expectations. This shortfall was blamed on lingering damage from dryness caused by the 2014-15 El Nino. Furthermore, the revival in oil prices boosted values of a vegetable oil which is used largely in making biodiesel.
- Kuala Lumpur futures gained 25 percent over 2016.
- But the question is, will output now recover at last, and bring fresh price weakness in 2017? Or are factors, such as labor shortages, holding back output too?
- According to experts, 2017 should enjoy a sharp rebound in international palm oil production. Production is forecast to be up by 9 million metric tons, or 5 percent, to a record 186 million metric tons.
- At the same time, palm oil demand growth will be slightly sluggish as traditional buyers such as China and India slow down their vegetable oil import growth rates. The Chinese government appears to be focusing more on rival soybean oil and to increase its own modest levels of domestic production.
- This means that, once currency factors settle down, the fundamentals all point to a sharp fall in CPO prices. One thing that could stop CPO prices falling below \$500 a metric ton is the BPDP [ the Indonesian oil palm estate fund, which oversees biodiesel subsidies in the country ].
- Instead of prices falling below \$500 in 2017, Indonesia's biodiesel policy should help stabilize the CPO market, allowing third-quarter FOB prices to settle around \$500.

**Working together in this environment, CME and BMD are committed to continue growing the suite of palm oil offerings for the industry – which will enhance Bursa Malaysia's position as the global price benchmark for palm oil.**

- In fact, the members of our team here today – Tim Andriesen, Dave Lehman and Nelson Low – will be meeting with their counterparts at BMD to further leverage the great working relationship we have.

**So in closing, let me just say that CME Group is committed to our partnership with BMD and to work towards further globalization of the palm oil market.**

- The growth and success to date can be attributed to the hard work of BMD and you, the participants of this conference.

**Thank you.**