



Market Headline: Palm oil boosted by lower inventories data

The Thursday Morning Updates

- Palm prices opens firm on carry-over momentum although technical indicators are overbought.
- Palm Futures on BMD had reverses early losses in the previous session and climbed to multi-year highs on a supply squeeze
- CBOT oilseeds slide on profit-taking during early Asian Trading Thursday

Early Asian Trade

Benchmark Malaysian palm oil May21 futures firmed up at opening on Thursday morning on carry-over strength from a strong closing in the previous session. Malaysian palm oil futures had reversed early losses on Wednesday and closed at a 13-year high as February inventories and production fell more than anticipated, but a slump in exports during the first 10 days of March capped the gains.

The benchmark palm oil contract for May delivery on the Bursa Malaysia Derivatives Exchange ended up 59 ringgit, or 1.51%, at 3,974 ringgit a tonne.

It had earlier declined as much as 1.7% after data from cargo surveyors showed exports during March 1 to 10 slumped 22% from the same period in February. Malaysia's palm oil inventories fell more than expected in February as production declined to its lowest in five years and imports plunged, industry regulator data showed on Wednesday. The Malaysian Palm Oil Board (MPOB) said in a monthly report that stockpiles fell 1.8% from January to a three-month low of 1.3 million tonnes, while output fell 1.85% to 1.11 million tonnes,

Chicago Board of Trade soybean futures closed lower on Wednesday on a round of profit-taking from this week's multi-year highs, after the U.S. Department of Agriculture's monthly supply/demand report on Tuesday failed to offer bullish news. With fresh fundamental supportive factors, the CBOT oilseeds market is a getting jittery with commodity funds hold a net long position in CBOT soybean futures which could leave the market open to bouts of long liquidation.

In a supporting factor, Argentina's Rosario Grains Exchange cut its estimate of the country's 2020/21 soybean harvest to 45 million tonnes, from 49 million previously, citing dry weather.

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The Palm Oil Commentary and Key Drivers Ahead

Worries about a tight U.S. and global supplies plus rains delaying Brazil's soy harvest continue to support CBOT soy futures. Port premiums for Brazilian soybeans have turned negative as rains disrupt harvesting and transportation of the oilseeds in key growing states such as Mato Grosso, agribusiness consultancy Safras & Mercado said. Dryness in Argentina which had afflicted the Pampas grains belt since mid-2020 was relieved by substantial rainfall early this year, but some parts of the soy belt are still dry.

Despite the tightness in supplies, the crude palm oil production is moving ahead to a seasonal high production period and March would bring a shift in supply and demand trends, as output in top growers Indonesia and Malaysia recovers from the seasonal slump between November and February.

In the bigger vegetable oils market, prices of edible oils soybeans, rapeseed and palm oil among others have recently rallied to multiyear highs recently driven by dryness in Argentina and the outlook that the edible oil shortage would not be able to solve by the soybean harvest in Brazil. US soybeans exporters are also reported to be almost sold out and the new crop would not be available until September.

Market focus continues to be on South American harvest progress. The harvesting in Brazil has been impeded by rainfall recently with logistical and transportation challenges affecting deliveries of beans. The weather in Argentina is also needs to be watched as increasing dryness would affect growing crop conditions.

In the longer term, the palm oil plantations continue to face challengers in increasing output. The weather phenomena La Nina that has wreak havoc across the world and had unleashing heavy rains in Southeast Asia may cause the recovery in palm oil production slower than expected.

Market View

Despite day-to-day fluctuations in the palm oil market, Crude palm oil prices are however expected to have their best annual showing in a decade as world economies emerge from the ravages of the coronavirus.

Prices of Palm oil have reached multi-year highs in the first half of this month, reflecting lower than expected production and stocks. World production of palm oil and soybean oil has also fallen short of expectations. Although price volatility has increased in the futures markets recently, fundamentals have not structurally changed.

Further world usage of palm and other vegetable oils for energy is still staying at a very high level. This would require rationing the edible oil food sector. This will keep good prices relatively high unless biodiesel mandates are reduced.

DAILY BMD FCPO MAY21 FUTURES



(Courtesy of Phillip Nova)

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