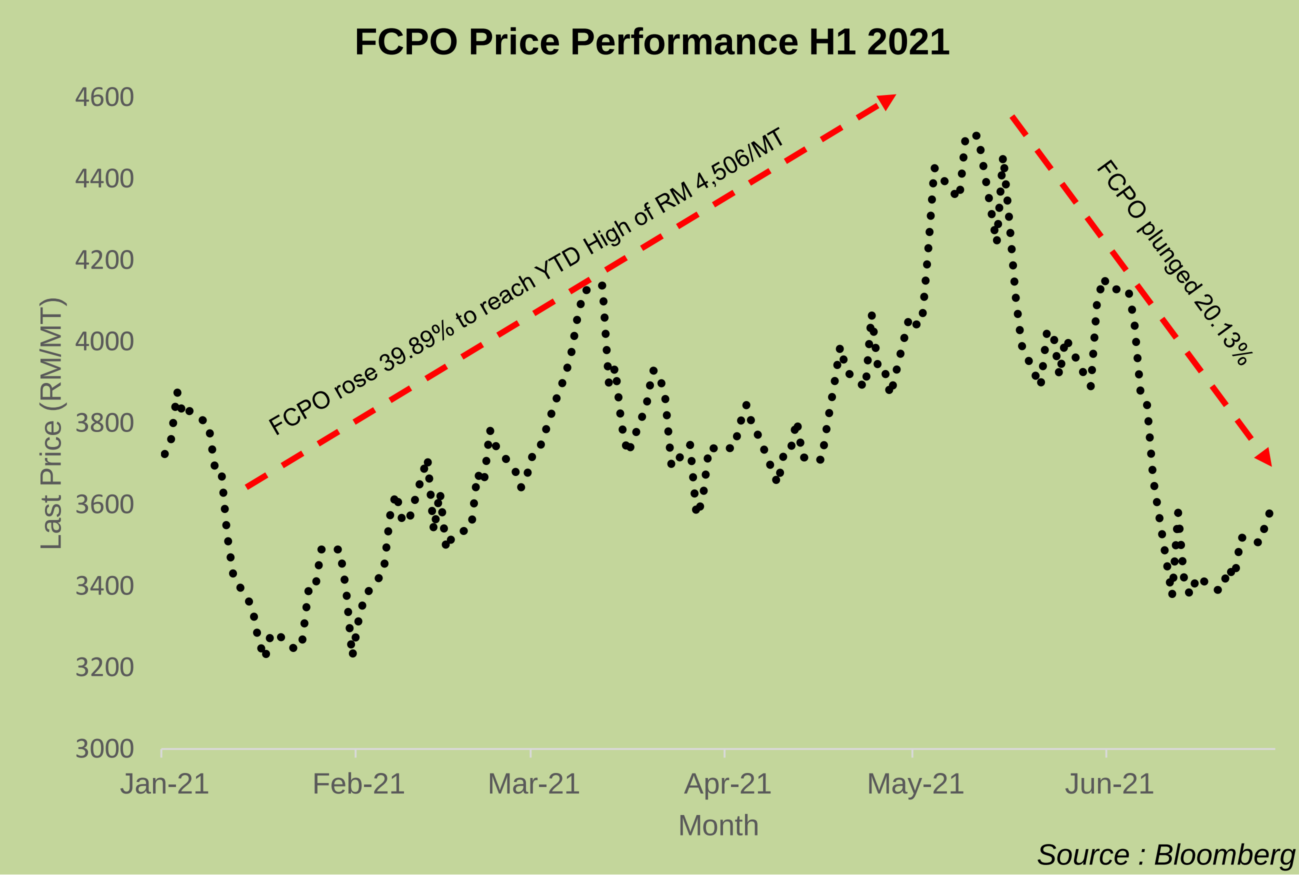
Kenanga Futures Sdn Bhd

KF Spotlight : FCPO Market Review H1 2021 and Preview of H2 2021
By Zainal Aiman

High Price	: 4,506 (12/05/2021)	Low Price	: 3,221 (20/01/2021)	Performance Change (%)	:-0.03



It has been an another roller coaster year so far for FCPO market in H1 2021. FCPO kicked-off the year relatively well when it climbed to break the RM 3,800 level in the first week of January before plunging to its YTD low of RM 3,221/MT on 20 January 2021.

However, prices bounced soon after, climbing 39.89% to break RM 4,000 level and reach its YTD high of RM 4,506/MT on 12th May 2021. The narrative began to change in the end of May when the benchmark BMD contract plunged as much as 20.13% to close H1 2021 with RM3,599/MT.

Let's have a look at some of the major factors affecting FCPO prices in the year so far.

H1 2021 Market Review

Slower Production Growth

The slower Malaysia's palm oil production growth in 2020 was carried over into the first half of 2021 as the total supply of CPO for the period of January to June 2021 registered at 8.36 million, compared to 9.05 million registered in the same period last year. The main factor that contribute to this slump in growth is labour shortage as the country froze the hiring of foreign labour amid the pandemic situation. As an industry that largely depends on foreign labour as its major workforce, Ministry of Plantation Industries and Commodities reported that country's plantation industry has suffered around 32,000 labour shortages due to coronavirus restrictions.

Stronger Soybean Oil Prices

Prices of the rival soybean oil was in a strong mode for most part of 2021 so far. Apart from disruption in harvesting activities due to unfavourable weather in South America regions, rally in prices were also driven by soaring Chinese imports and rising demand for crop-based fuels. As competing vegetable oils, the positive price movement of soybean oil has brought a positive impact to palm oil prices in H1 2021.

Lower Palm Oil Export Hinder the Price Performance

Based on data from MPOB, the total palm oil exports for the first 6 months of 2021 has dropped 9.36% to 7.07 million compared to 7.80 million in the same period last year. The decrease can be attributed to the lower demand from major buyer China whose import dropped from 1.26 million in Jan to June 2020 to 739,041 tonnes in Jan to June 2021. However, the losses was offset by improving demand from top buyer India as Malaysia's palm oil exports to India increased by more than eightfold to 1.58 million tonnes from January until June 2021 — from 391,149 tonnes recorded during the same period in 2020.

Source : MPOB and Reuters

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Factors to Watch in H2 2021

Distortion in Palm Oil Supply Expected to Persist
Initially, palm oil production is expected to rebound in second half of 2021 due to the annual seasonal high cycle that typically begins in July. However, the resurgence of COVID-19 cases in Malaysia has forced the world's second largest palm oil grower to implement another economic restrictions Although palm oil plantation is allowed to continue to operate, the recent restrictions is likely to exacerbate a labour shortage with restrictions of new foreign labour intake.

Improvement in Demand
Despite the challenges amid the COVID-19 situation, palm oil demand is expected to improve in coming months, supported by replenishment activities from two major importing countries, India and China. According to data from MPOC, palm oil stock was on downward trend since March but will slowly recover in coming months due to the narrowing spread of Soybean oil and Palm oil. Meanwhile in India, the government just announced on 29th June to cut the base import tax on crude palm oil to 10% which could make palm oil more attractive that other rival vegetable oils.

Malaysia and Indonesia's Biodiesel Program
Biodiesel program accounts for large proportion in terms of domestic consumption of palm oil. Malaysia's B20 program in the transport sector, which entails a 20% mix of palm biodiesel into petroleum, was earlier scheduled to be completed by mid 2021. However, due to Coronavirus situation, the government has decided to delay the implementation by end of 2022. Meanwhile, the top producer Indonesia had also decided to push their B40 program to 2022 due to record high palm oil prices and lower fuel consumption. This would also give some cap to the upside potential of crude palm oil prices for the rest of the year.

Source : MPOB, MPOC and Reuters

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Factors to Watch in H2 2021

The Uncertainty on Soybean Oil Prices

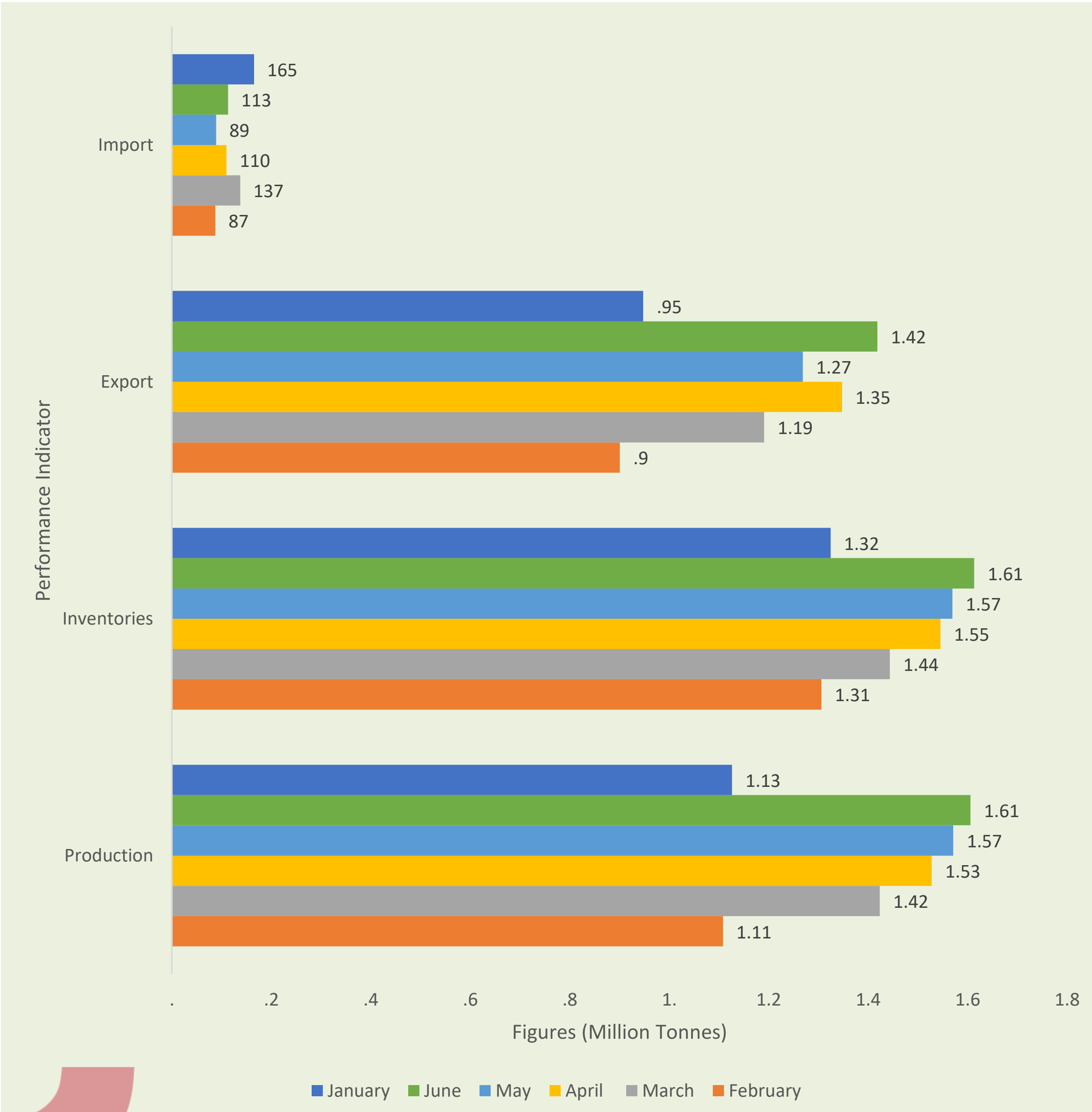
Early of the year saw the hike in palm oil prices was mostly supported by the rally in rival soybean oil prices, where the supply of the latter was dampened due to unfavourable weather in South America regions. However, soybean oil has begun to show some volatility in its prices due to two major factors. The first factor is the improving hot and dry weather with beneficial weekend rainfall in American Farm Belt. The second factor is on the recent US biofuel programs. Although the new plan might lift the US soybean demand, however there is still some uncertainty around the implementation following the possibility of providing small oil refineries exemption from the program.

Palm Oil Export Levy

Although palm oil export is showing better prospects in coming months, the recent decision from Malaysian government to maintain the export tax for CPO at 8% for August 2021 might provide some limit to the upside potential of CPO's prices. The rate would be effective from 1st July to 31st August 2021, which is a continuation of the export tax rate since 1st January 2021. This would also place Malaysia in a tough situation as the top palm oil producing country Indonesia has imposed new palm oil export levies starting on 2nd July 2021 which saw the tax has been reduced to below 30% from 36.4%.

Source : MPOB, MPOC and Reuters

Key Performance Indicator of Crude Palm Oil Physical Market



Source : MPOB and MPOC

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A Short Term Price Outlook

Source : Bloomberg

Commentary

FCPO reached its YTD high level of RM 4,506 in May when MACD bullish crossover was formed in April. Nevertheless, the volatility haunted the market when prices slumped in late May amid the formation of MACD bearish crossover.

In the short term, we maintain a positive outlook in FCPO prices as the MACD is poised to show a bullish signal, while fundamental data is showing a weaker Malaysian currency and slow production growth. FCPO might face a strong resistance level at RM4.200, and if this level is broken, FCPO might face the next resistance level of RM4,500. Overall, we expect FCPO to trade within a range of RM4,000 to RM4,500 in the near term.

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