



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 32, February 2012

a) Global price review

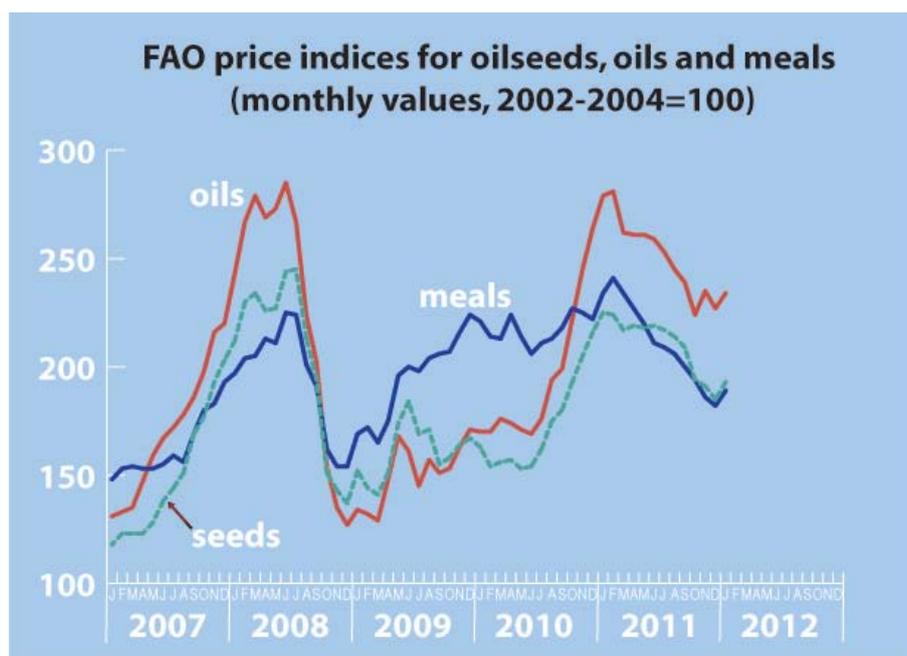
The general downward trend in prices observed throughout the oilseed complex since about March of last year has come to a halt in January. The trend reversal refers to the markets for oilseeds, oils/fats as well as meals, with the three respective FAO price indices rising between 3-4% compared to their December values. Although below the corresponding values recorded in January 2011, the current levels are high in historical terms.

The generalized strengthening in prices primarily reflects concerns regarding tighter than earlier anticipated fundamentals in the oilseed complex – triggered by further deteriorating crop prospects in South America. Based on this development, a critically low supply of soy at the global level appears unavoidable.

Under the lead of soybeans, the oilseed price index appreciated by over 4% in January. Prices have risen in response to reports about first crop losses in parts of Argentina, Paraguay and Brazil, where poor rainfalls continued due to La Niña. In fact, maize crops have been affected even more than soy, contributing to firm global grain prices, with spill-over effects to soybean markets.

With soy production falling in both the United States and South America, global soybean supplies and export availabilities will be well below original expectations. In order to keep crush levels at last season's level a sizeable reduction in global inventories seems inevitable. Moreover, renewed competition for land between grains and soybeans in 2012/13 and

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* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **January 2012**. Previous issues can be downloaded from the FAO website at URL <http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/>

Global price review - *cont'd*

indications that global rapeseed supply and demand could remain tight (for a third consecutive season) are adding uncertainty to the market.

As to meals, the rise in the price index (also by 4%) does not surprise, given the high protein content of soybeans. Tightening fundamentals for soybeans - as well as grains - can only push meal prices up, especially amid signs of reviving global meal demand.

The key driving factors behind the increased oils/fats price index are firming export demand for palm and soy oil, combined with a slow-down in palm oil production and the prospect of below average export availabilities of soy oil. In Southeast Asia, the seasonal decline in palm oil production has been magnified by excessive rainfall caused by La Niña. Moreover, experts expect weak production growth to continue in the coming months. With palm oil import demand on the rise, there is concern about possible reductions in Malaysian palm oil inventories. At the same time, the prospective tightening in global soyoil supplies (which might extend to rapeseed oil) will increase the market's dependence on palm oil, also because this season's large sunflower oil supplies are being rapidly absorbed by the market.

b) Selected policy developments and industry news

BANGLADESH – edible oil prices:

Reportedly, the government renewed its commitment to prevent retail prices for (mostly imported) edible oils from rising despite growing market pressure. In recent years, the government obtained assurance from domestic processors to keep prices below a set level in major cities.

CHINA – futures markets: The State Grain Administration announced that additional grain futures contracts will be launched between now and 2015. The objective is to improve the access of farmers and companies to tools to hedge risks and to improve price discovery for grains. Currently, soybean, soymeal, soyoil and palm oil contracts are traded at the Dalian Commodity Exchange, where participation of industry clients and institutional investors (both national and foreign) is reported to be on the rise.

CHINA – soybean crushing capacity: According to the state-backed China National Grain & Oils Information Center, the country's annual oilseed crushing capacity expanded by 15 million tons last year, with most new facilities processing soybeans. During 2012, the nation's soybean crushing capacity is anticipated to increase further to 125 million tons – even though actual crush demand should not exceed 70 million tons. Part of the currently installed capacity uses outdated technologies and therefore is likely to be phased out over the next few years.

CHINA – import restrictions

- **Oilmeal imports from India:** Based on the detection of hazardous chemicals in rapeseed meal consignments last year, China decided to suspend oilmeal imports

from India effective January 1st. Traders expect China to fill the gap through meal from domestic crushers and by shifting to other foreign suppliers. As to India, the China's measure threatens close to half of the country's rapeseed shipments and potentially cuts the country's overall feedstock exports (consisting of rape, soy and groundnut meal) by at least 10%. Meanwhile, Canada, who is China's leading supplier of rapeseed and rapeseed meal, should benefit from the measure (although some observers pointed out that Canada's exports are very competitive this season irrespective of the ban). Reportedly, India and China are working to resolve the issue, and a Chinese inspection team is expected to visit India to appraise measures taken by India.

- Olive oil imports from Italy: Reportedly, China suspended the importation of Italian olive oil while authorities are conducting a probe into possibly fraudulent labelling practices of 13 Italian olive oil exporters.

EUROPEAN UNION – GM soybeans: Following the lack of consensus among EU member states, the European Commission is expected to approve the importation and processing - but not cultivation - of four new GM varieties that previously received green light by the EU's Food Safety Authority. To avoid the repetition of such deadlocks in the future, member states are engaged in discussions on what grounds GM crops could be banned on a country-by-country basis.

INDONESIA – biodiesel subsidy: Reportedly, for fiscal year 2012, the subsidy granted to biodiesel manufacturers has been raised further to Rp 2500-3000 per litre distributed (compared to, respectively, Rp 1000, 2000 and 2500 in fiscal years 2009, 2010 and 2011).

INDONESIA – certified sustainable palm oil: Besides the recently launched,

government-backed certification scheme ISPO, the RSPO expects its certification activities in the country to expand strongly in the coming years. Reportedly, many companies have applied for and are passing through the RSPO auditing process. Estimated at around 2.3 million tons in 2011, the country's annual production of certified palm oil is expected to reach 5.6 million tons by 2015, possibly overtaking Malaysia's output of certified product. The projected amount would represent about 20% of Indonesia's total production and about half of global certified production.

INDONESIA – palm oil export tax: Based on a rise in the benchmark price for palm oil, the export tax collected on crude palm oil has been set at 16.5% for February (compared to the 15% rate in effect since November 2011). The tax for refined palm oil moves from 7 to 8%.

INDONESIA – soybean market: According to industry sources the re-introduction of the 5% duty on soybean imports (effective last month) has driven up prices of soy food products on domestic markets. The country depends strongly on imports, with annual soy production and consumption estimated at 0.8 and 2.5 million tons respectively.

PARAGUAY – soybean losses: Severe drought has hit Paraguay's agriculture harder than elsewhere in South America, leading the country to declare a state of emergency. Reportedly, special drought relief measures have been put in place for farmers and rural communities. As for most other crops, 40% of the nation's soybeans crop seems to be under threat. Soybean is the biggest export earner of Paraguay, which ranks fourth among world soybean suppliers. Expanding sharply since 2007, the soybean sector suffered heavy losses also in 2009, again due to lack of rainfall.

PHILIPPINES – coconut planting

support: Reportedly, an additional 13.8 million coconut seedlings are going to be distributed to farmers in 2012 under the National Coconut Productivity Programme. For comparison, last year, 3.11 million seedlings have been distributed. Taking advantage of growing demand for coconut-based products, including biodiesel, the programme aims at revitalizing the country's stagnating coconut production.

UKRAINE – railway cars shortage:

Reportedly, the country's State Railway Administration decided to temporarily ban its railway cars from leaving the country in a bid to secure domestic transportation. The move is expected to hit shipments of sunflower meals to customers in the EU, the CIS and the Baltic – possibly leading to accumulation of domestic stocks and temporary halts in crushing. Reuters, APK

UNITED STATES – biodiesel

production: EPA's official figure for 2011 biodiesel production is reported at 3.67 mill tons, which compares to 1.30 mill in 2010. Hence last year's production exceeded the nation's 2011 target of 2.67 mill tons (established under RFS) by about one third. Reinstatement of the biodiesel tax credit at the end of 2010 has played a

major role in the production rise. The industry is urging the government to renew the tax break that has expired end of 2011, also proposing that the production target for 2013 be raised from currently ≥ 3.34 mill tons to 4.28 mill tons.

UZBEKISTAN – edible oil import duty:

With effect from last month, the government raised the excise duty on edible oil importation from formerly 5% to 10%, but no less than USD 0.16 per litre.

Sustainable soybean: Scandinavian *Arla*

Foods, one of the world's largest dairy companies, has announced that it will use exclusively sustainably sourced soybean meal by 2015. Soy-based animal feed employed by the company is going to be certified under the Roundtable on Responsible Soy (RTRS).

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)⁶</u>		
	Soybeans ¹	Soybean oil ²	Palm Oil ³	Soybean Cake ⁴	Rapeseed Meal ⁵	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	550	1308	1147	418	279	215	256	221
Monthly								
2009 - October	427	891	676	413	187	158	153	207
2009 - November	442	939	728	422	196	164	163	216
2009 - December	448	931	791	425	219	167	171	224
2010 - January	435	919	793	407	243	163	170	221
2010 - February	406	915	804	393	230	154	170	214
2010 - March	410	920	832	381	200	156	176	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	171	214
2010 - June	408	860	794	342	194	154	169	206
2010 - July	426	911	811	361	225	162	176	211
2010 - August	457	1002	901	389	245	175	194	213
2010 - September	468	1036	910	398	277	180	199	218
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
¹ Soybeans (US, No.2 yellow , c.i.f. Rotterdam) ² Soybean oil (Dutch, f.o.b. ex-mill) ³ Palm oil (Crude, c.i.f. North West Europe) ⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam) ⁵ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill) ⁶ Please note that the indices for historic years have undergone a revision in December 2011								
<i>Note:</i> The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each <i>Sources:</i> FAO and Oil World								