

Palm oil heading for a fall

A decline in the price of the commodity may help cool global food costs

MUMBAI: Palm oil, the world's most-used cooking oil, may drop for the first time in three years as favourable weather boosts supplies and a global economic slowdown weakens demand, potentially cooling world food costs.

Prices in Malaysia, the global benchmark, may decline to RM2,800 per tonne by December, according to the median forecast in a *Bloomberg* survey of 10 analysts and importers at the *Globoil* India conference in Mumbai on Sept 24 and 25. The tropical commodity, which has slipped 21% this year, more than doubled in the previous two years.

A decline in the price of the oil, used in everything from biodiesel and cosmetics to chocolate and potato chips, may help cap global food costs monitored by the United Nations that climbed 26% in the past year, and ease pressure on central banks to raise interest rates. India and China are the world's biggest palm oil importers.

Godrej International Ltd, said at the conference. "This is very significant."

Mistry, who has traded the vegetable oil for more than three decades, expects futures in Kuala Lumpur to trade between RM2,800 and RM3,100 till mid-November, before a pickup in demand lifts prices to RM4,000 by April-June.

Prices may drop to RM2,850 a tonne in the next three months, as production expanded in Malaysia and Indonesia, the biggest growers, Thomas Mielke, executive director at industry researcher Oil World, said.

"The recent high prices have hurt demand, confirmed by a slowing down of trade and of crushing," Mielke said. Vegetable oil prices may increase only from January, he said.

Commodities fell to a nine-month low on Friday on deepening concern that governments are running out of tools to avert a global recession, eroding demand for raw materials.

The Standard & Poor's GSCI Index of 24 of energy, metal and agricul-

ture prices touched 594.12 on Friday, the lowest level since Dec 2. The gauge slumped 8.2% last week, the most in four months. The benchmark has tumbled 21% since touching a 32-month high in April.

"There is a panic in the market because everyone remembers 2008," Abdul Rasheed Janmohammad, chairman of the Pakistan Edible Oil Refiners Association, said referring to the selloff in commodities after Lehman Brothers Holdings Inc filed for bankruptcy. "There should be some improvement in confidence for prices to recover."

Palm oil production in Malaysia would peak this month and in October, expanding stockpiles, Mistry said. Output may gain to 19 million tonnes this year in Malaysia, while it may total 25.5 million tonnes in Indonesia, the largest producer, said Mistry, sticking to forecasts made in July.

In Malaysia, production totalled 12 million tonnes in the January-

August period, 8.2% more than a year earlier, while shipments gained 3.8% to 11.3 million tonnes, according to the nation's palm oil board.

Global vegetable oil production this year will expand by nine million tonnes, exceeding the 6.5-million-tonne growth in demand, according to Mistry.

"It is also seen that world stocks will rise significantly," Mistry said. "This rise in stocks will materialise mainly in the second half of the year. That is when palm oil production will be at its highest and Russian and Ukrainian sunflower seed crush will be strong."

The palm oil price may plunge 16% to as low as RM2,525 a tonne by March if Brent crude oil extended its decline to US\$87 a barrel, James Fry, chairman of LMC International Ltd, told the conference. Brent for November delivery fell 1.4% to US\$103.97 a barrel on the London-based ICE Futures Europe exchange on Friday. — Bloomberg



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