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Market Uncertainty Will Lead to an Unpredictable Start to 2010

Palm Oil (prices in Malaysian Ringgit (RM) per MT, \$ value based on most recent exchange rates)



Crude Palm Oil (CPO) has risen in price by almost 25% since early October, hitting highs not seen since earlier in the year. Over the last three months exports have been increasing steadily as demand picked up during the peak season. Global economic recovery has boosted worldwide vegetable oil demand higher and is expected to grow faster than production. November production is expected to fall even further due to monsoon weather in Southern Asia. Furthermore, the rise in the price of crude oil since the summer has also contributed to continued price increases in CPO. At a recent palm oil conference, many analysts predicted that CPO could

continue to rise in price into the first quarter of 2010 as demand is expected to continue to rise with inventories expected to grow at a slower pace. After such a sharp increase in price we expect to see some price consolidation as CPO will trade in a tight range. November and December export and production numbers should provide more direction in the market but overall we see trading in between RM2,450 – RM2750 over the next 2 months (\$720 - \$820).

Crude Oil (\$ per barrel)

Crude oil has fallen sharply off of its highs just one month ago at \$82. Expectations of strong economic growth towards the end of 2009 and beginning of 2010 led to a strong rally from the low prices of the summer. However, as the economy picked up, refineries have increased their operating rates which have led to large increases in inventories. This increase in supply has started to put downward pressure on oil prices as economic growth is coming back but at a very slow rate. Traders have pushed up the price of oil on speculation of global growth of 2010 but they may have been a little too optimistic too soon. With refineries increasing output, it may take some time for inventories to come down enough to push prices back up in the short-term. We see price support in the \$67-\$70 price range and over the next 3-4 months if demand can pick up then prices should return back to \$75-\$77 range. One key factor is many oil companies will work to reduce stockpiles before the end of the year because some states levy taxes on amount in storage at year's end. Once refineries bring down inventories the downward price pressure should subside and prices could start drifting higher again in January.



Chinese Paraffin Wax (\$ per MT FOB)

Over the past few weeks, Chinese paraffin has been steadily increasing in price. The timing is very unusual since December is usually the slowest time of the year and many candle makers will be closing down in a week or two for the end of the year holiday season. Despite the fact that crude oil has pulled back considerably from its October highs, wax prices are still moving higher. We have not noticed any specific increases in demand lately so there is some concern that re-sellers are moving prices higher as a result of reduced inventories rather than increased demand. As January approaches, we see a lot of uncertainty as the Chinese market is raising prices despite current market conditions. If demand stays low into the start of the New Year then prices could come down to move increasing inventory as refineries increase output after the holidays.

If you have any questions or comments about this report or are interested in price quotes on any products, please contact:

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