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## **Palm Oil Surges to New Highs on Short Supply, Crude Oil Slips Lower While Chinese Paraffin Continues to Climb Higher**

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



After spending a week or so trading back and forth around RM2,000, Palm Oil had a huge spike in prices, moving up about 30% over the past two weeks up to RM2,600 (\$719/mt). The key factor in this price spike is a sharp drop off in palm output and supply which led to a supply squeeze and a strong buying frenzy by purchasers to stock up on supply ahead of expected increases in demand. With stocks hitting a 20-month low in Malaysia at the end of March, Palm prices surged as buyers expected April output to also come in lower than expected. As demand starts to rise slowly, the lack of supply could further squeeze prices higher. To make

matters worse, producers in Indonesia and Malaysia could see further drop in palm output due to erratic weather and aggressive replanting programs and recent April data on stockpiles did come in lower than expected.

Palm has jumped up so far in such a short period of time, that it continues to grow less competitive when compared to soybean oil. For comparison, Palm futures are trading at approximately \$719/mt in the benchmark contract and soybean oil futures are trading at around \$799/mt. The delta of \$80 or so between the two used to be closer to \$225 a month or so ago. The surge in palm prices may force many Chinese and Indian buyers to shift to soybean oil which has not risen as fast as palm. Unfortunately, India and China are still currently buying palm in large quantities and with supplies shrinking, we expect to see continued buying pressures and palm hold these levels in the short-term. The key factors going forward are potential increases in output and to what extent palm is replaced by soy in the market due to the narrowing gap between the two.

## Crude Oil (\$ per barrel)

Crude Oil has finally pulled back off of its recent highs near \$56 in a tight consolidation triangle pattern over the past 2-3 weeks. As of mid-day today, oil has finally broken out with a large price spike to the downside as traders fear that the economy is not showing enough signs of increased demand to justify the recent price spikes. We also feel that economic indicators have not shown any indication that demand is stepping up and that oil should be priced over \$50. Most economists expect continued contraction in the economy in the second quarter and into the Summer which could also affect crude oil demand into the summer driving season. Right now we see overhead resistance in the \$52-\$54 area with a possible dip down to the low \$40s near \$43 unless the market starts to get optimistic on future economic growth or the dollar continues to weaken further.



## Chinese Paraffin Wax (\$ per MT FOB)

Chinese refineries continue to run short of supply and have not shown any signs of increasing production. To make matters worse, many refineries are even holding back supply in the face of increasing demand which is putting more upward pressures on prices. Over the past 4 weeks, Chinese prices have inched higher on average \$30 - \$40/mt a week and we see no indication of this trend stopping as refineries are now in the driver's seat with respect to controlling supplies. Demand keeps picking up which should keep this upward trend in prices in tact. With base oil market demand down significantly, production has been cut back which further reduces supplies of paraffin and has buyers trying to get product ahead of any future price increases.

*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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