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Palm Oil Declines Sharply From Its Recent Highs Leading to Wider Differential Between Palm Wax and Paraffin; Crude Oil and Chinese Wax Continues to Push Higher

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

Crude Palm Oil surged to its highest levels since the summer of 2008 after reductions in palm output and increased buying demand led to a rapid price increase of almost 50%. Buyers rushed to buy stocks in expectations of even shorter supplies in the coming months. However, crude palm inventories moved higher as exports dropped and buying pressure slowed significantly. Soybean oil has also come down significantly off of its high of \$0.41/lb down to \$0.36/lb which has also brought palm oil prices down with it. At the end of May, palm oil stocks increased as exports continue to fall leading to sharp drop in prices



Exports are expected to continue to drop at a time when palm oil production is entering its high season. Based on these fundamentals and our belief that palm oil went up way too fast in a short period of time, we expect palm oil to continue to show price weakness and move even lower towards to RM 2,100 (\$590) in the next month or so. Demand continues to slow and recent worries that India, one of the largest importers of palm oil, might impose import duties, will lead to more and more selling pressures.

Crude Oil (\$ per barrel)



Crude oil has increased over 50% since the lows of April and has broken above \$70. Despite a weakened global economy and uncertainty about the economic recovery and how fast it will happen, crude oil supplies have continued to dwindle leading to upward price pressure. Recent attacks by Nigerian militants have shut down some oil fields leading to temporary spikes in the price of crude as well. Overall, most agencies are still lowering their forecasts for global crude demand because of the current economic slump so the recent price spikes might be temporary reactions to current events rather than optimism over future demand. Current military

actions in Nigeria as well as rising tensions in the Middle East will keep the price of oil quite volatile and although the economy is still struggling, we do not see oil moving back to the \$50s any time soon. Therefore, crude oil could pull back in the short-term to \$65-\$66 as overseas tensions subside but we expect crude oil to trade in a wide range of \$65-\$75 a barrel overall until there is a clearer picture over the future of the economy.

Chinese Paraffin Wax (\$ per MT FOB)

After weeks and weeks of incremental price increases due to short supply and increasing demand, Chinese paraffin prices leveled off for the time being. Prior to these recent price hikes, a few months ago speculators and Chinese re-sellers went long large quantities of Chinese paraffin and had to dump product as the demand dried up. In the meantime, many refineries had cut back production or simply withheld product until the pricing situation improved. After a lot of inventory moved at the lower prices, the reduced supply situation hit the market and caused the recent surge in prices over the past few weeks. Oil's price surge to over \$70 a barrel has also caused wax prices to creep higher. Demand will pick up in the next month or so as we enter the high season at the end of the summer and with lower supplies and oil over \$70 we see this trend continuing.

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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