



CPO PRICE OUTLOOK

A PRACTITIONER'S VIEW OF THE MARKET AND INDONESIA'S POLICIES & IMPLEMENTATIONS

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Arif P. Rachmat
CEO, Triputra Agro Persada Group



2017

Insights on **Production, Consumption and Price**

2018

Prediction on Global Palm Oil
Supply Demand & Price Outlook

INDONESIA

Government & Industry

United as One: from Food & Energy Security to Sustainability



2017

“In the Business World, the Rearview Mirror is Always Clearer than Windshield”

-Warren Buffet-

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So How Accurate was My Prediction?

CPO Supply and Demand Forecast 2017

	Δ 2015-16	Δ 2016-17	Remarks
SUPPLY (TON)			
Indonesia	-1.0 M	+3.5 M	↑
Malaysia	-2.5 M	+1.9 M	↑
Others	+0.3 M	+0.7 M	=
DEMAND (TON)			
Indonesia	+2.2 M	+2.5 M	=
Malaysia	-0.2 M	+0.3 M	=
China	-1.0 M	+0.4 M	↑
India	-0.5 M	+0.6 M	↑
EU	-0.1 M	+0.2 M	=
Others	+0.5 M	+0.6 M	=
SUPPLY - DEMAND	-4.1 M	+1.5 M	

STOCKS (TON)	Dec 2015	Dec 2016	Dec 2017F
Indonesia	4.5 M	1.9 M	?
Malaysia	2.6 M	1.7 M	?
China	1.2 M	0.6 M	?
India	1.8 M	1.1 M	?
Subtotal	10.1 M	5.3 M	?

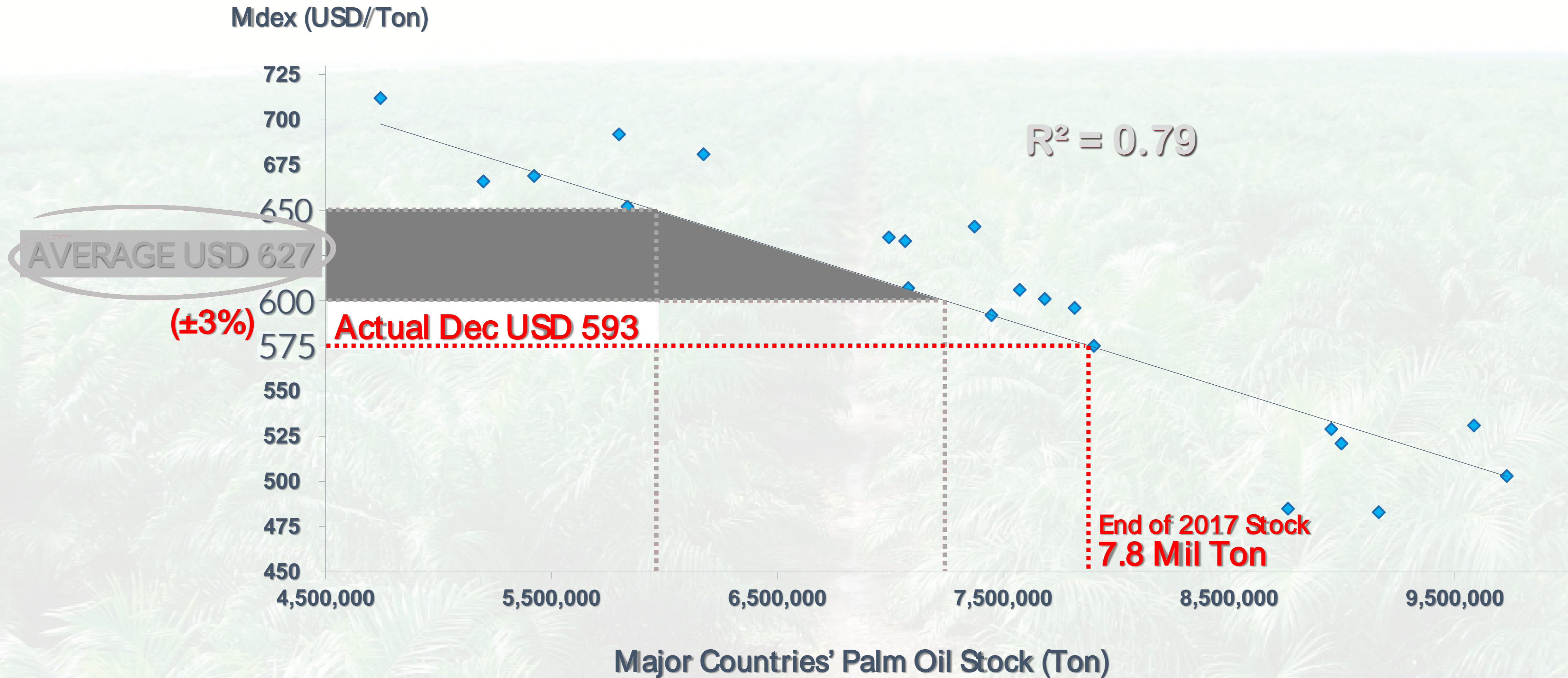
Excess Supply to Replenish Stock Level

Price Would Be USD 600-650 in Q4 2017

Actual Average Q4 2017 : USD 627

Was it SCIENCE or Just LUCK ??

Inverse Correlation Between Stock Level & Price

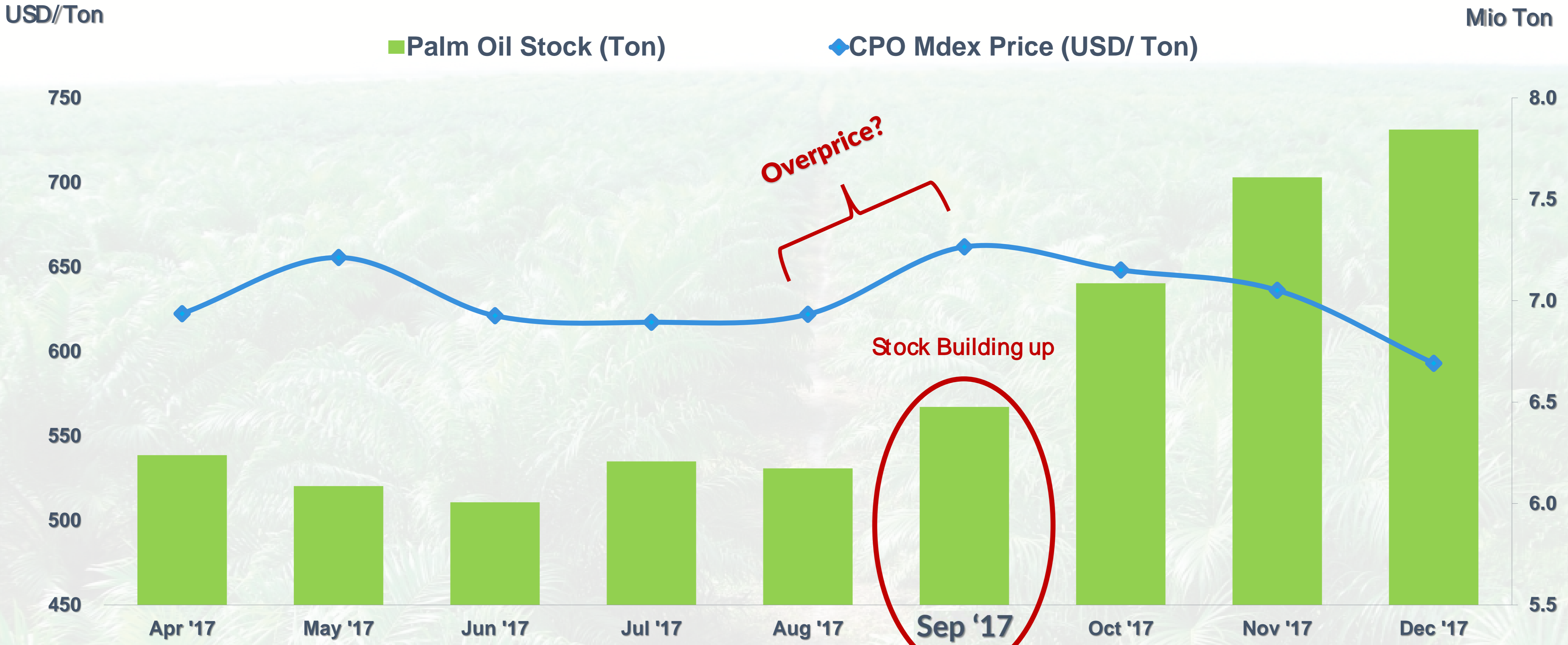


Source : Internal Analysis

Inverse Correlation **HOLDS TRUE** ...

How to **BENEFIT** ?

2017 Stock Level of Major Countries vs Mdex Price

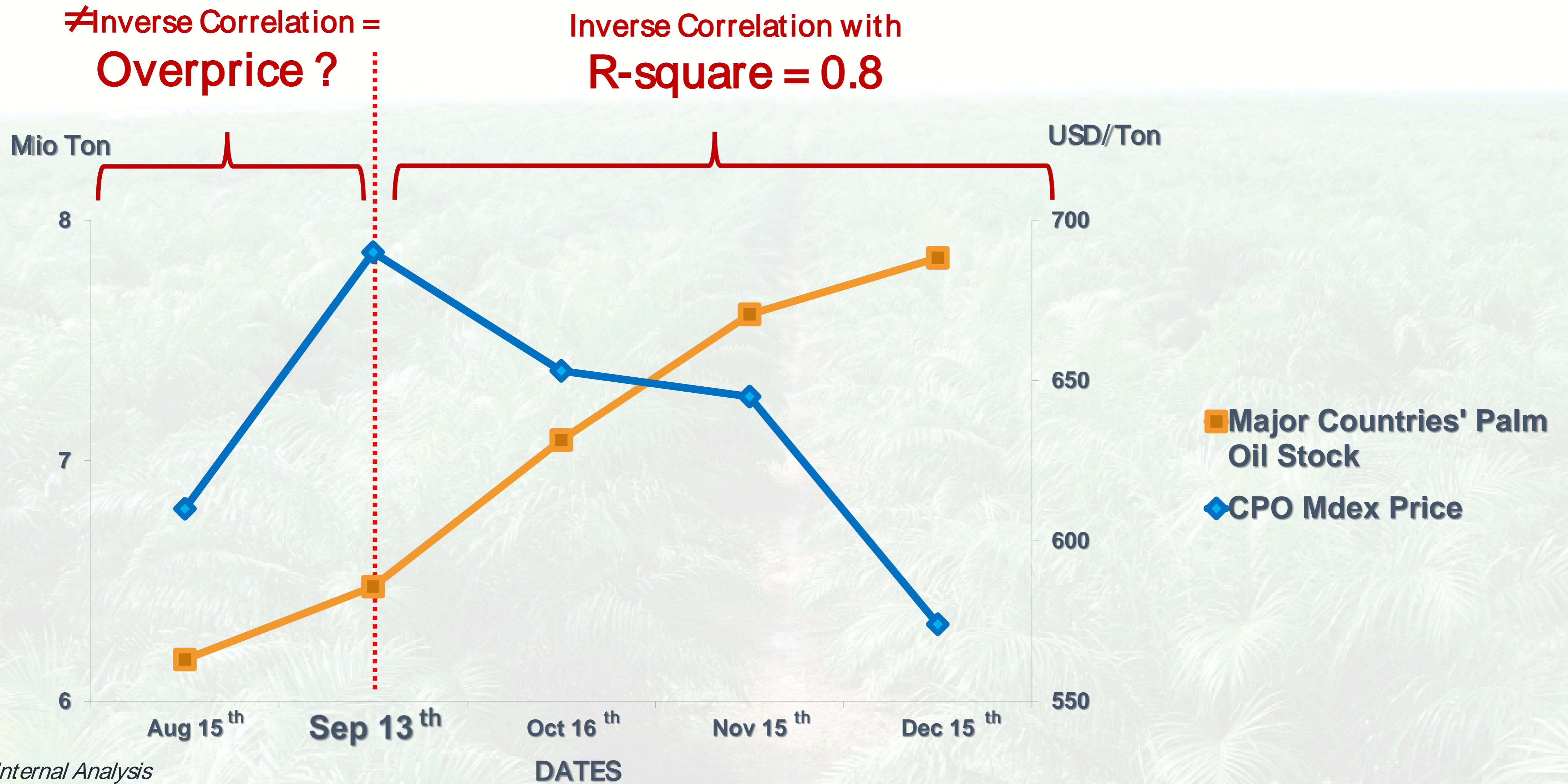


Source : Internal Analysis, MPOB

≠ Inverse Correlatio

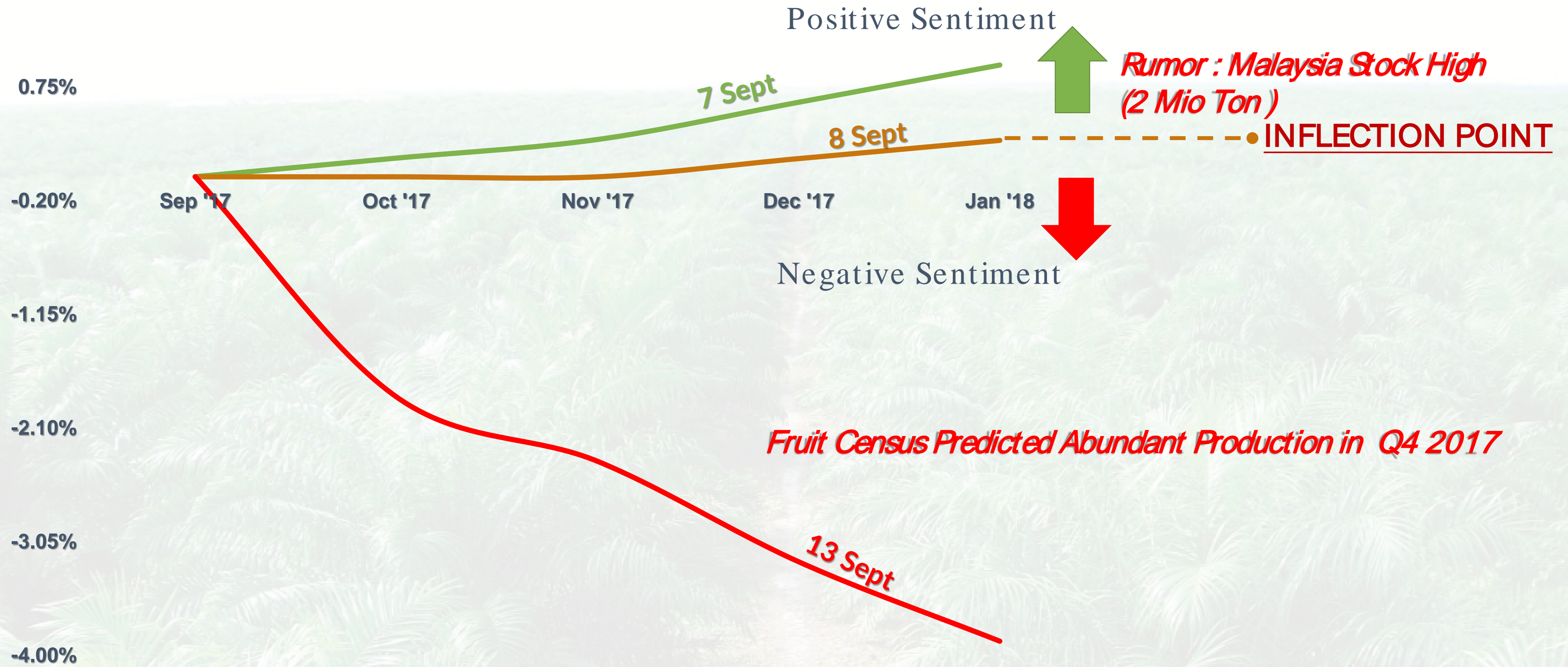
OPPORTUNITY to HEDGE !

Zoom-in Day by Day in Sept 2017



When Market Overprice, **BE ALERT AND READY** to Lock Forward

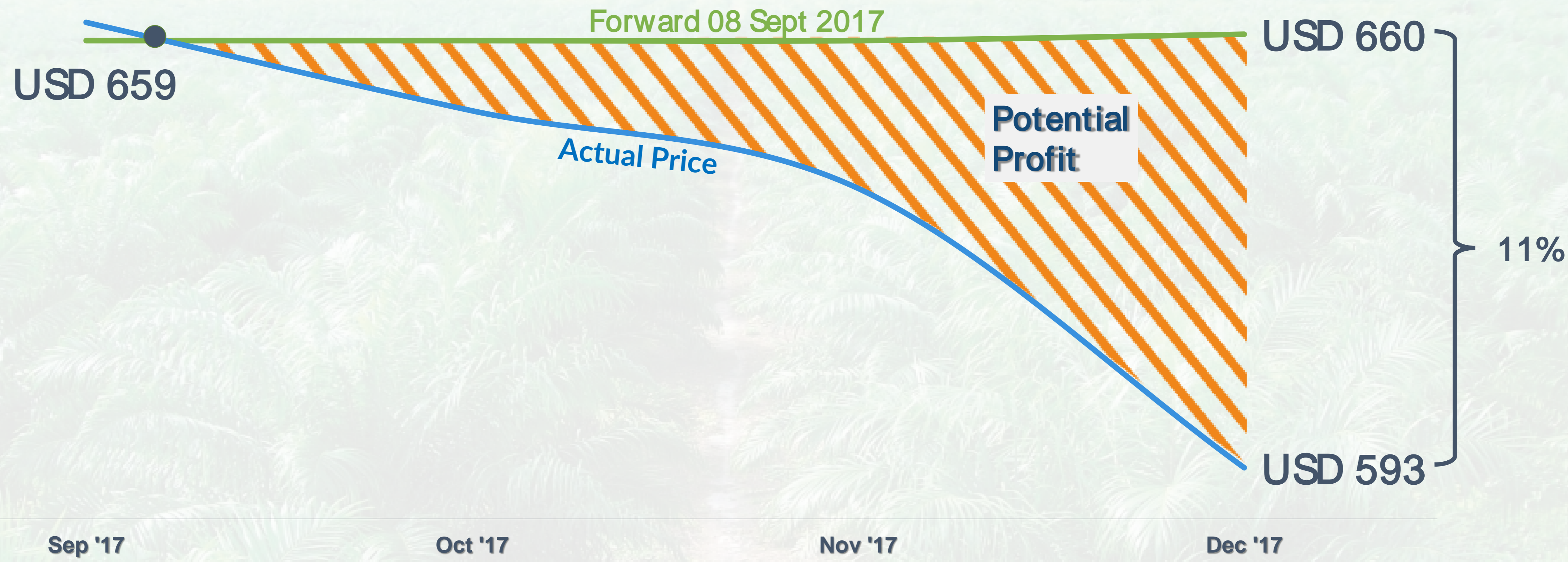
Future CPO MDEX (4 Months Forward) on Sept 2017



Source : Internal Analysis

Sept 8th was the **LAST OPTIMUM TIME** to Sell Forward

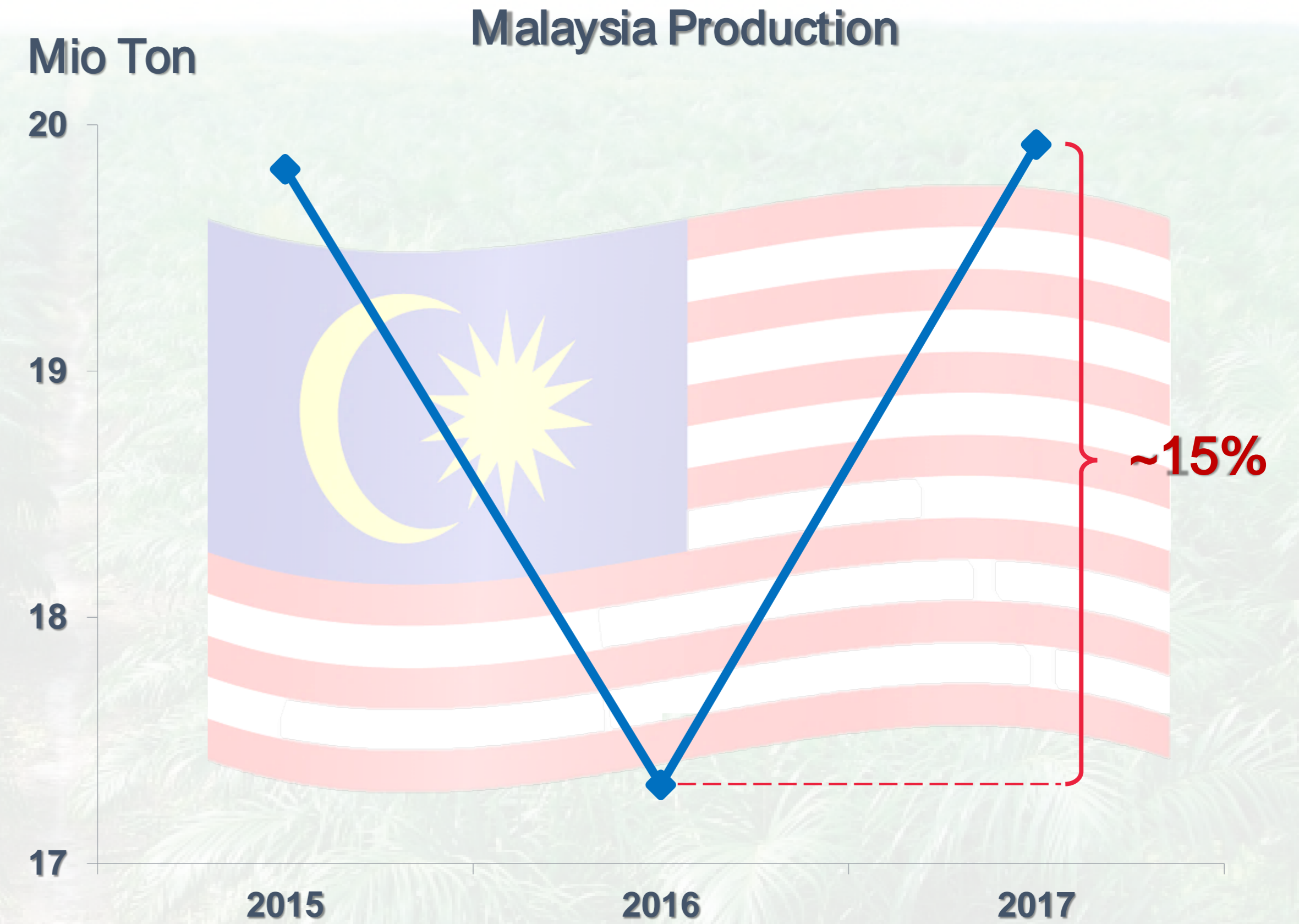
Forward 8 September vs Actual Price



Source : Internal Analysis

When Market Misprice, Take Advantage. But... **SHORT WINDOW !**

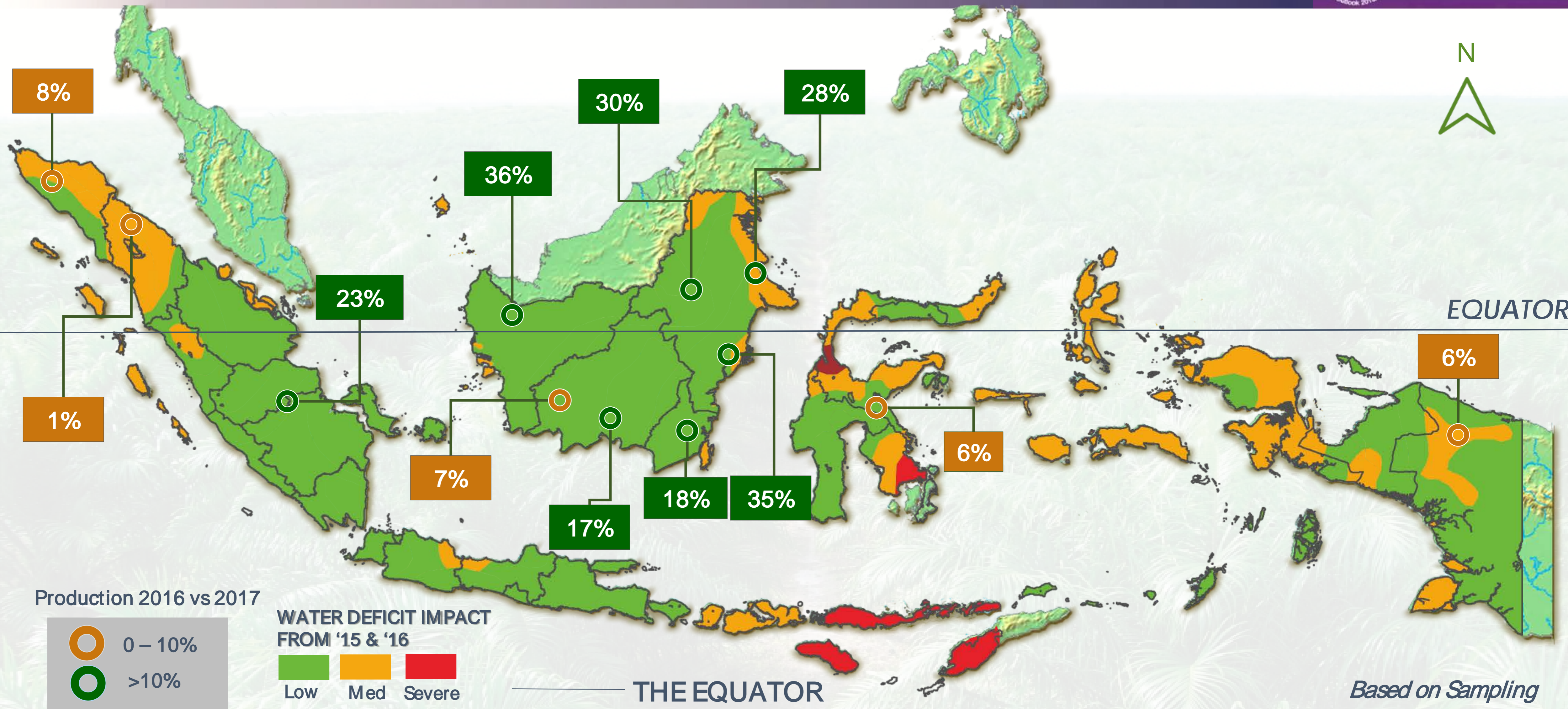
Indonesia and Malaysia CPO Production



Source : Internal Analysis, MPOB

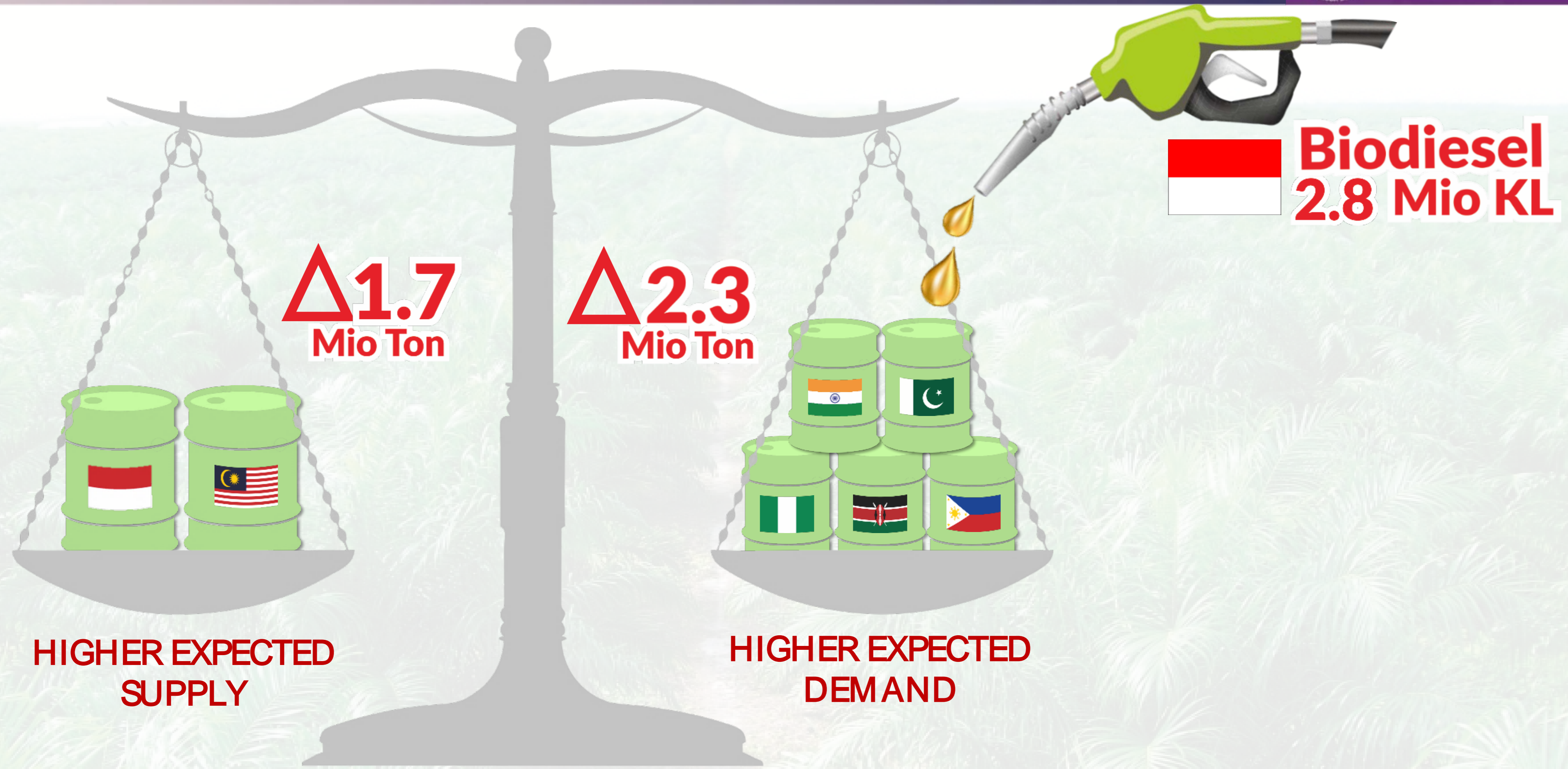
RECOVERY QUICKER than Expected. Indonesia Productions Exceeded 2015

Production 2016 vs 2017



UN-UNIFORM Recovery but **EXCEEDED** Expectation

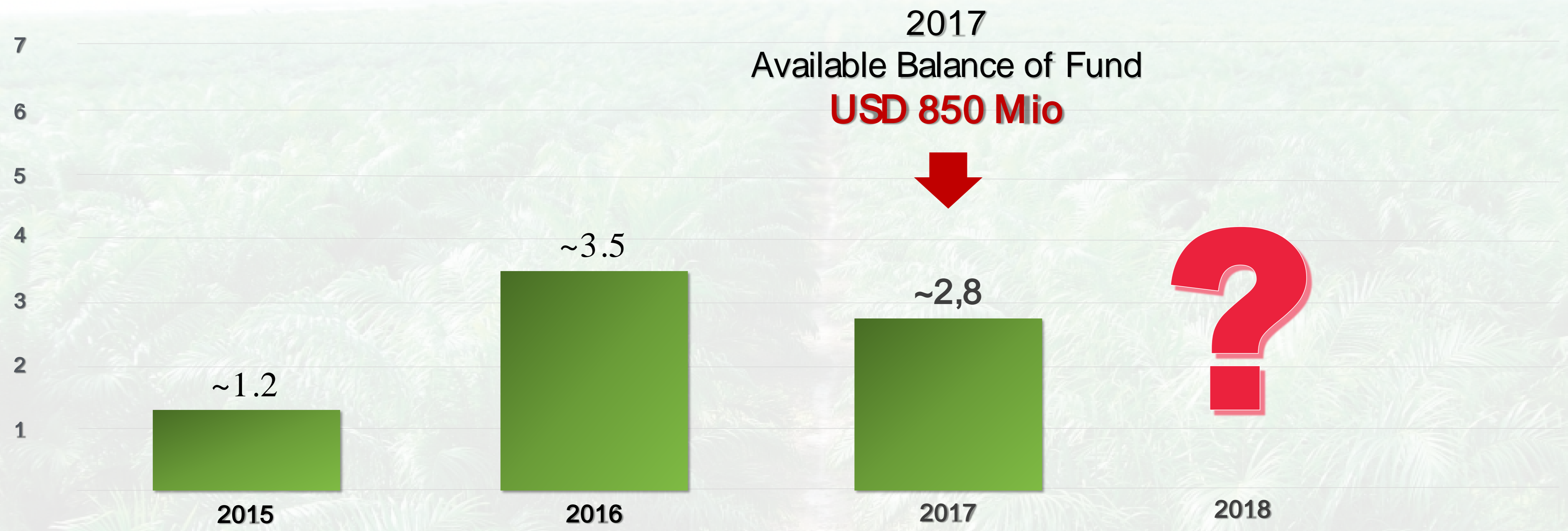
Variations of Actual vs Forecast



Indonesian Biodiesel Serves as **BALANCING FACTOR**

Indonesia Biodiesel Consumption

Mio KL



Source :
- Internal Analysis
- CPO Fund

Do Government and Industry have **AGILITY to ADJUST VOLUME ?**

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“In the Business World, the Rearview Mirror is Always Clearer than Windshield”

-Warren Buffet-

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Prediction on Global Palm Oil Supply Demand & Price Outlook

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- The Indonesian Oil Palm Estate Fund (CPO Fund/ BPDP-KS)



Darmin Nasution



Dono Boestami

- Strong Government Mandate under Coordinating Ministry of Economic Affairs...2 Years in Operations
- Competent Leaders
- Ample Balance of Funds

- Council of Palm Oil Producing Countries (CPOPC)



Mahendra Siregar



M. Jaaffar Ahmad

- Strong Mandate from Indo Malay Government
- In Talks on B5 Biodiesel with China (6 Mio KL), India (2.3 Mio KL), B-7 with Malaysia (1 Mio KL)
- Harmonization of Sustainability Standard to UN SDGs



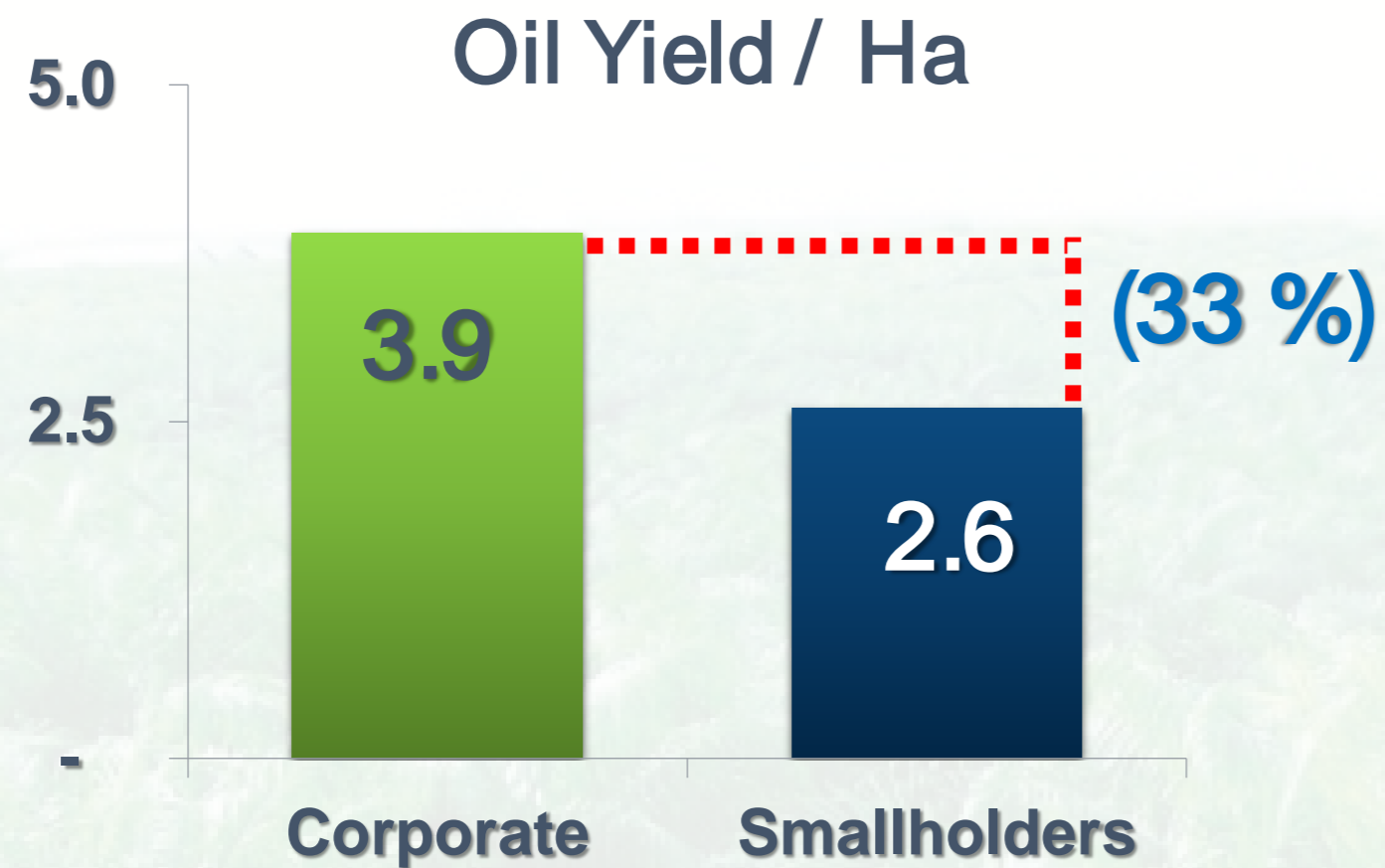
Source : State Secretary Republic of Indonesia

“EU Should End Discrimination Against Indonesia’s Palm Oil”

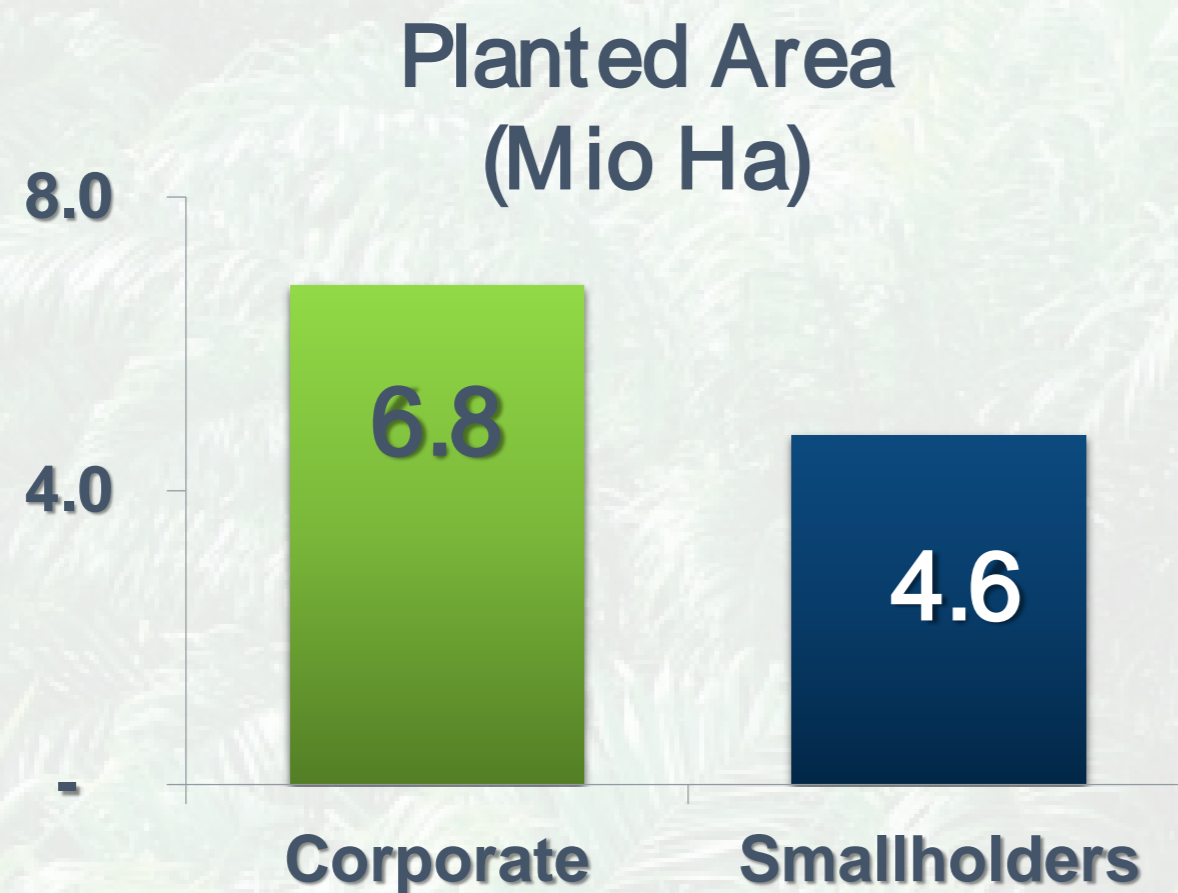
President Jokowi at ASEAN-EU Commemorative Summit, Manila
November 14, 2017

Core National Interest : **LARGEST EXPORT** at Record USD 23 Bio in 2017

Sustainability Solution : Smallholders' Replanting



Potential Additional CPO from Smallholders :
1.3 Ton x 4.6 Mio Ha \sim 6 Mio Ton

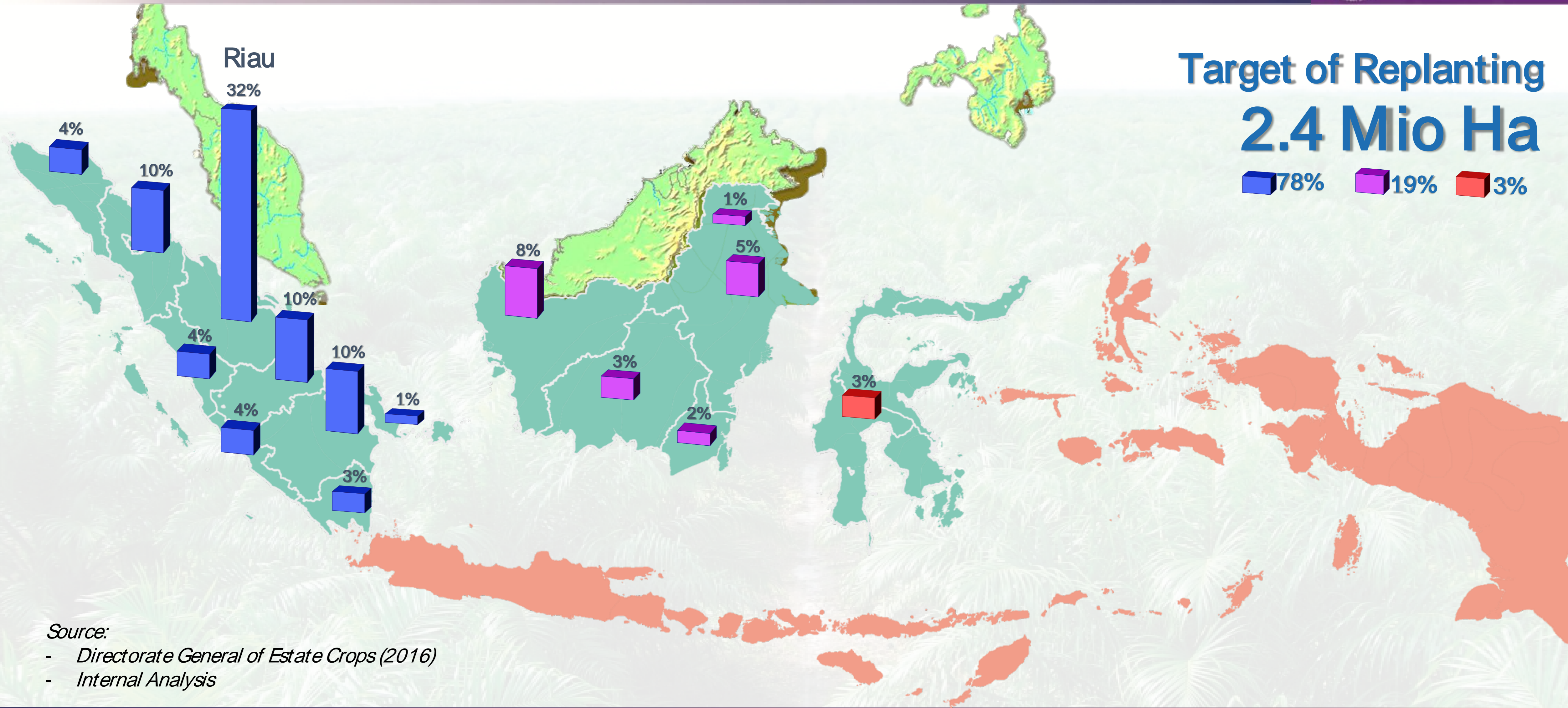


Replanting Target :
 $\frac{4.6 \text{ Mio Ha}}{25 \text{ Year}} \sim$ 185 K Ha/Year

Source: Directorate General of Estate Crops (2016)

3Ps : People-Profit-Planet **ALL BENEFIT**

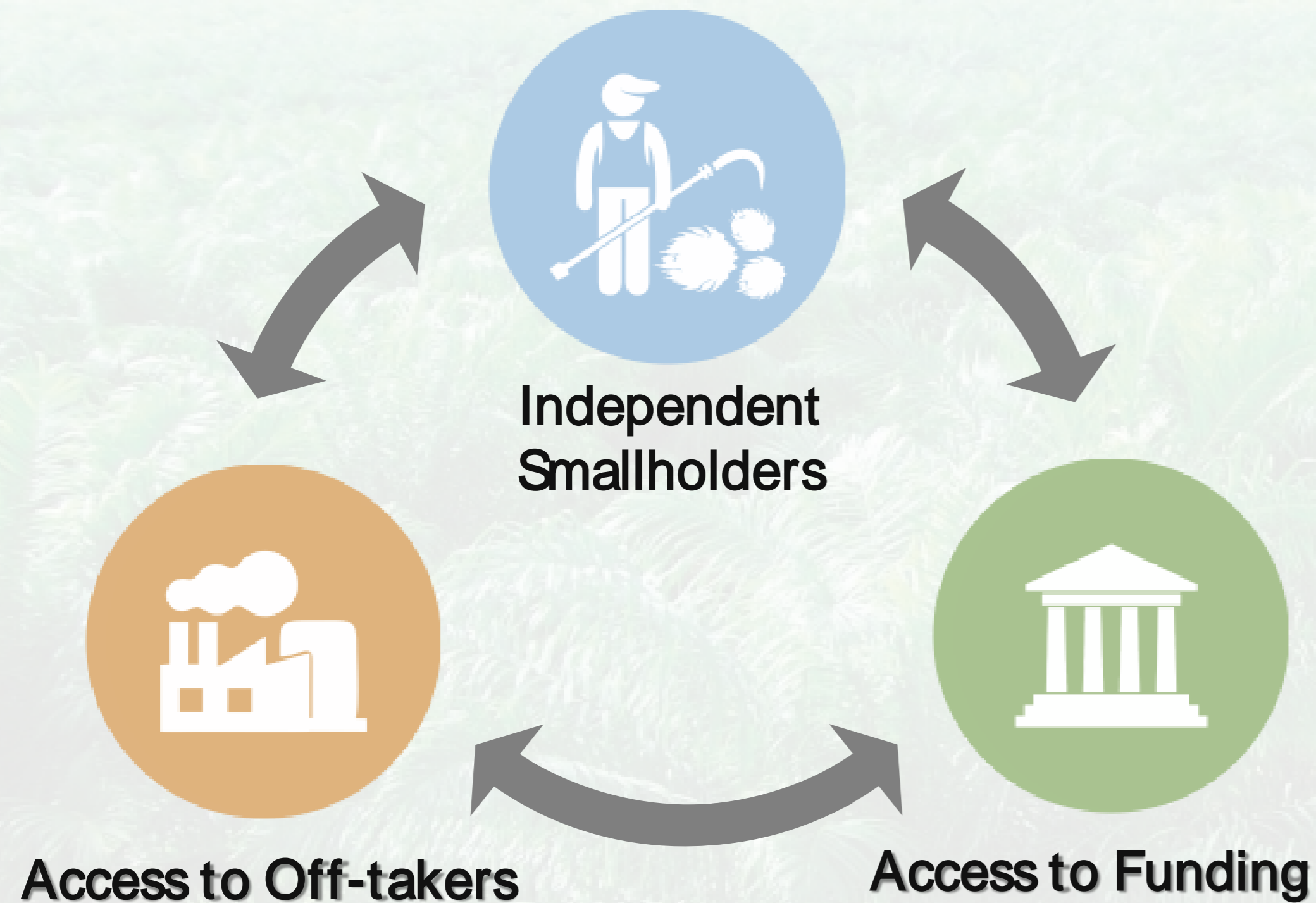
Indonesia's Potential Smallholders Replanting Areas



Source:
- Directorate General of Estate Crops (2016)
- Internal Analysis

~80% of **REPLANTING AREA** Lies in Sumatra (Older Plantations)

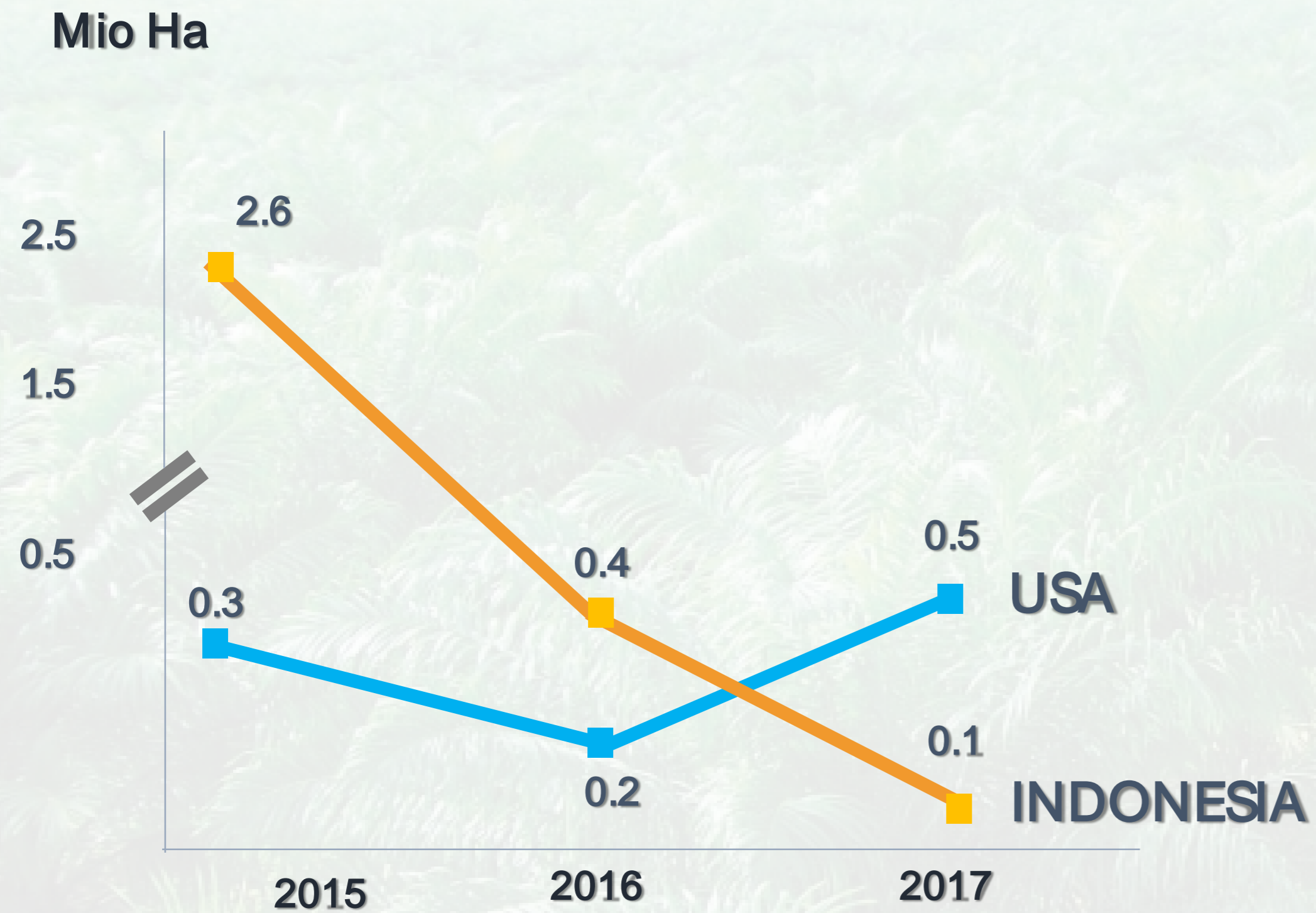
Key Success Factors



-  Massive Land Certification Program (5 Million Certificates, 2017 > Previous 5 Years Combined)
-  Access to Funding : Gov, CPO Fund & SOEs
CPO Fund Allocation Over USD 340 Mio in 2018
-  Commitment by 26 Off-takers as Guarantors of Entire Value Chain

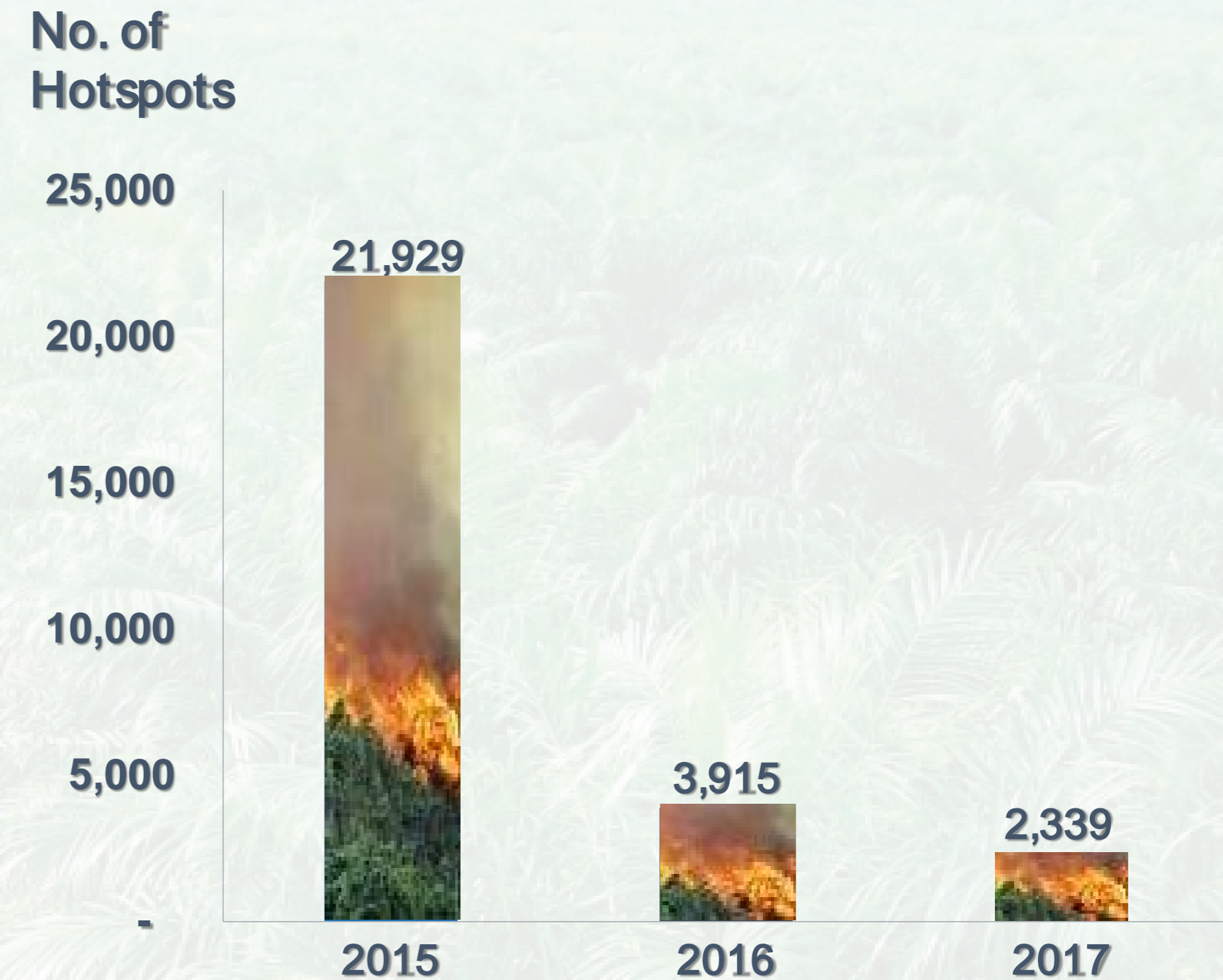
Target **185 K/Year ACHIEVABLE**, Granted these 3 Elements

Wildfire



Sources :
<https://data.worldbank.org/indicator/AG.LND.FRST.ZS> Data 2017

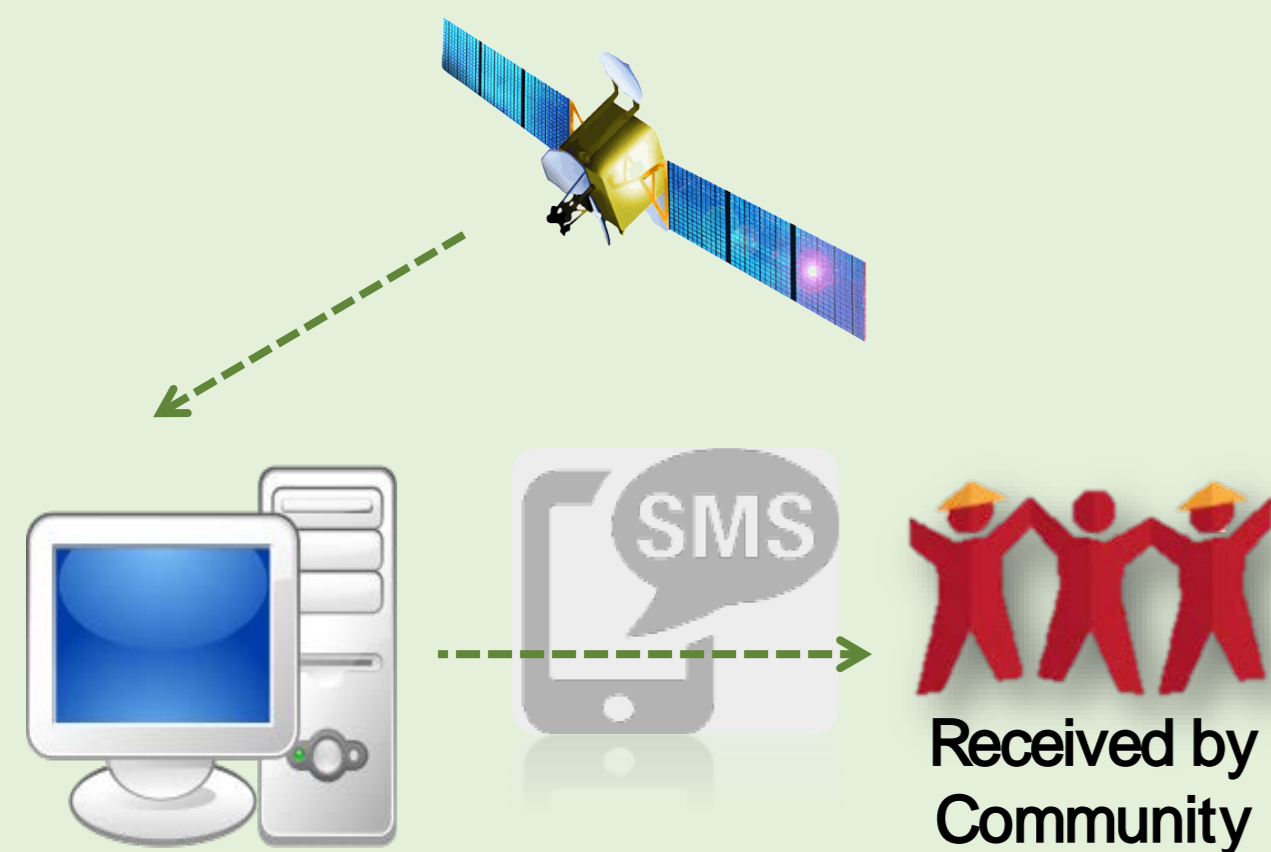
Hotspots in Indonesia-NOAA Satellite



Sources :
- Ministry of Environmental and Forestry Republic of Indonesia
- California Department of Forestry and Fire Protection (Cal Fire)

Use Satellite to **PREVENT WILDFIRE** by Monitoring Hotspots

Hotspot Early Warning System



Prevention

- Initiate Fire Free Village Program
- Apply Hotspot Early Warning System and Fire Danger Rating System

Fire Free Village Program Training, Engagement & Incentive



3-Parties Collaboration Model



Clustering System



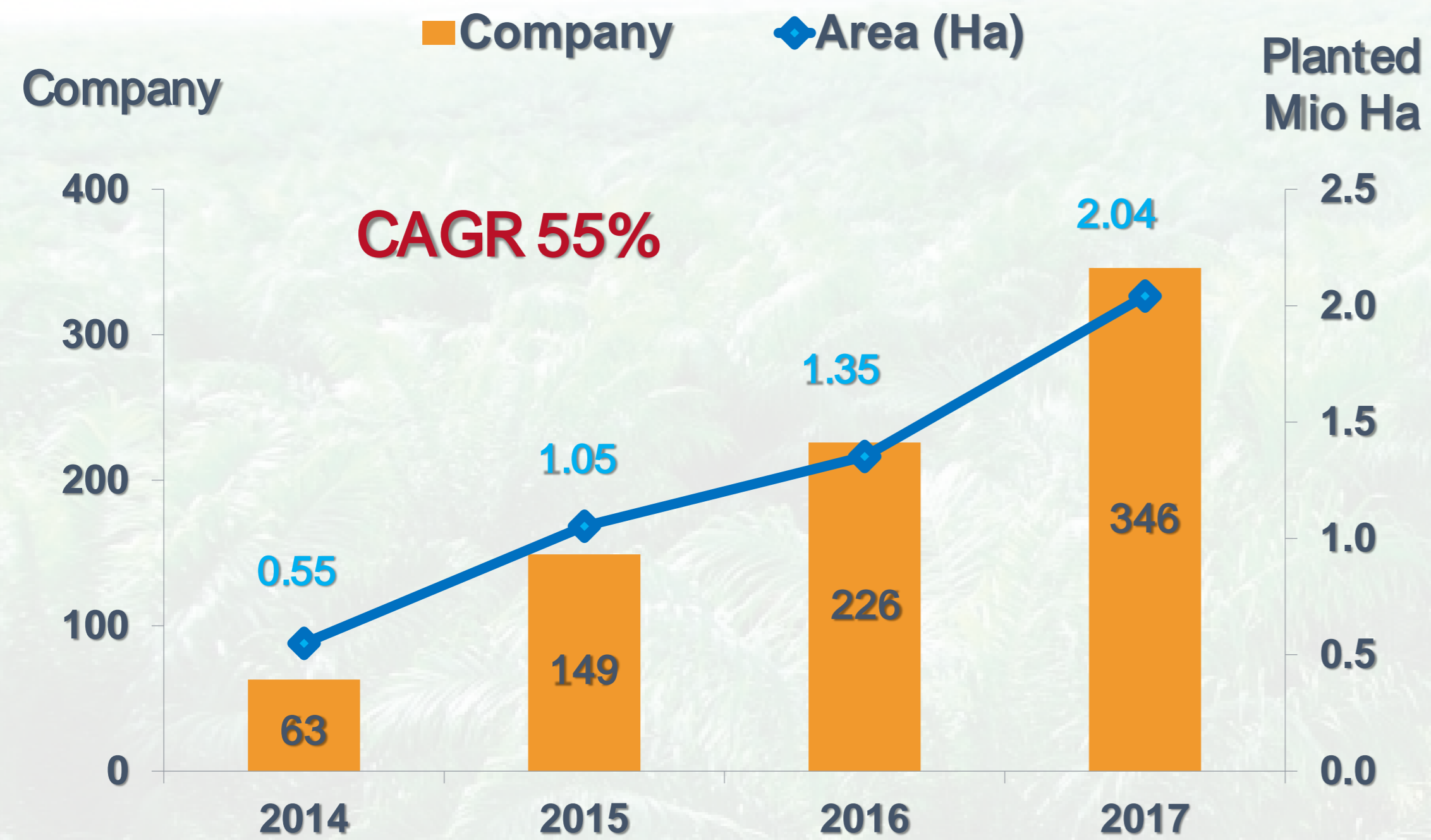
Scaling-up the Model

“Fire free village program” is the core component of clustering system

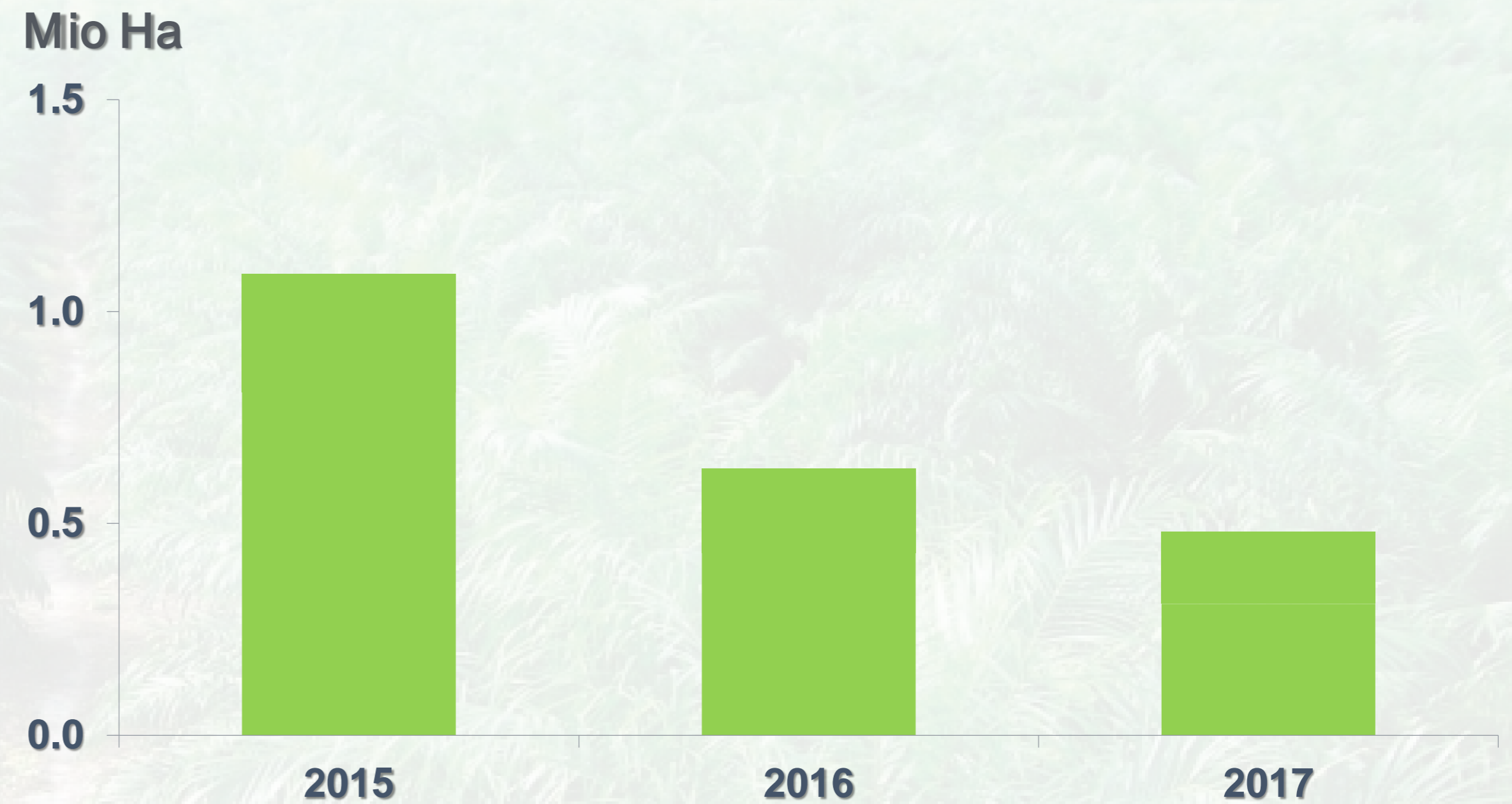
- Ring 1 (inside concession)
- Ring 2 (3 Km from concession)
- Ring 3 (> 3 Km from concession)

Astounding Progress on ISPO

ISPO Certification



Indonesian Deforestation Rate 2015 - 2017 Periods



ISPO certified as of 2017:

 346 companies
  2 Mio Ha
  8.7 Mio Ton CPO

"Indonesia has reduced deforestation mainly due to improvement in government policy in forest management"

Minister Siti Nurbaya at Indonesian Forest & Deforestation Workshop, Jakarta, January 29, 2018

Source: ISPO Commission (2017)

Source: Ministry of Environment and Forestry (2017)

HARMONIZATION with CPOPC Standard Certification and UN SDGs

2017

“In the Business World, the Rearview Mirror is Always Clearer than *Windshield*”

-Warren Buffet-

2018

“Prophecy is a Good Line of Business, but it is Full of Risks”

-Mark Twain-

INDONESIA

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United as One: from Food & Energy Security to Sustainability



Financial Times, January 8, 2018



New Hampshire

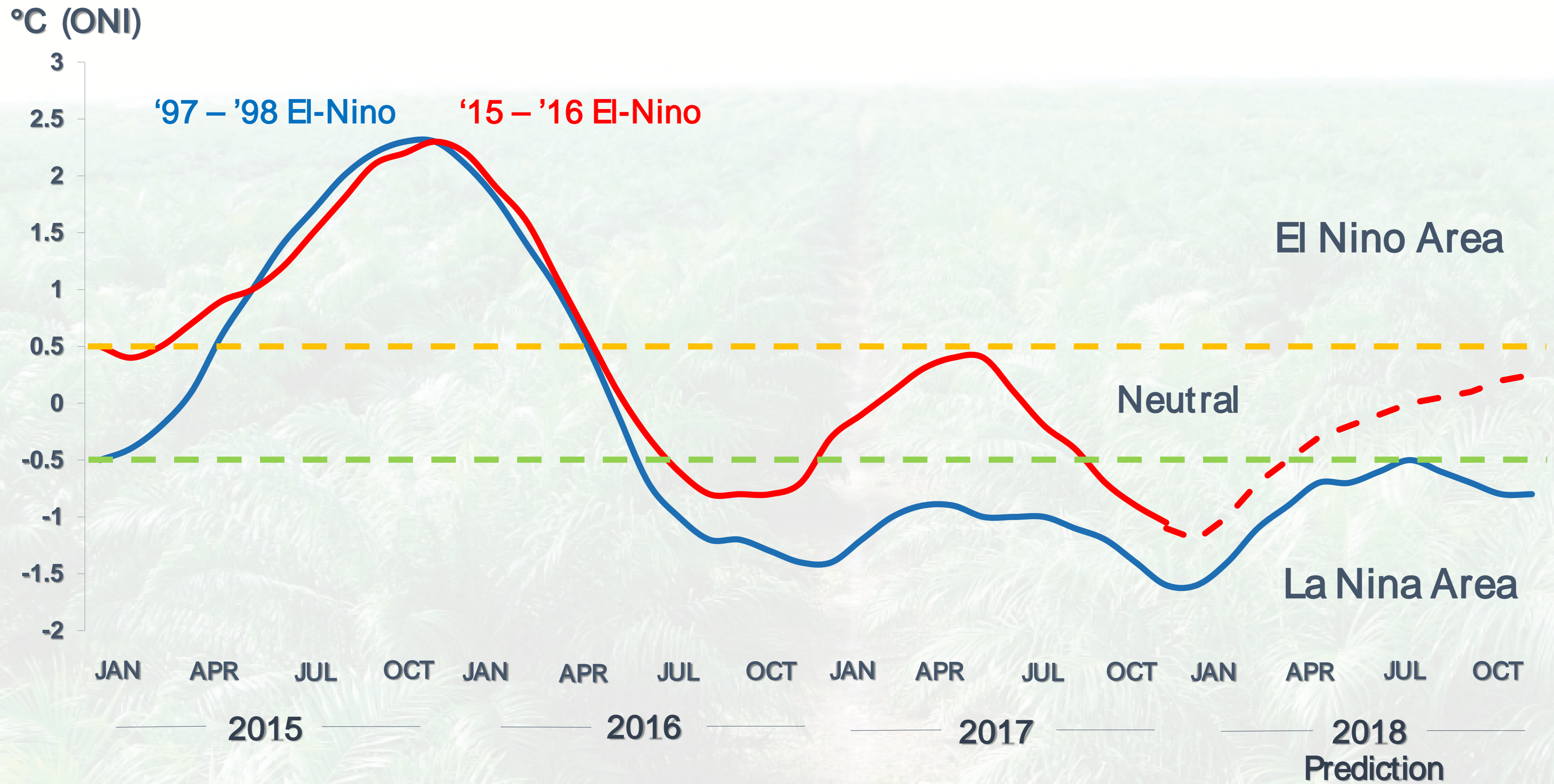


Sydney

Δ 120°C

Do These Extreme Temperatures Increase the Chance of **EL NINO/LA NINA**

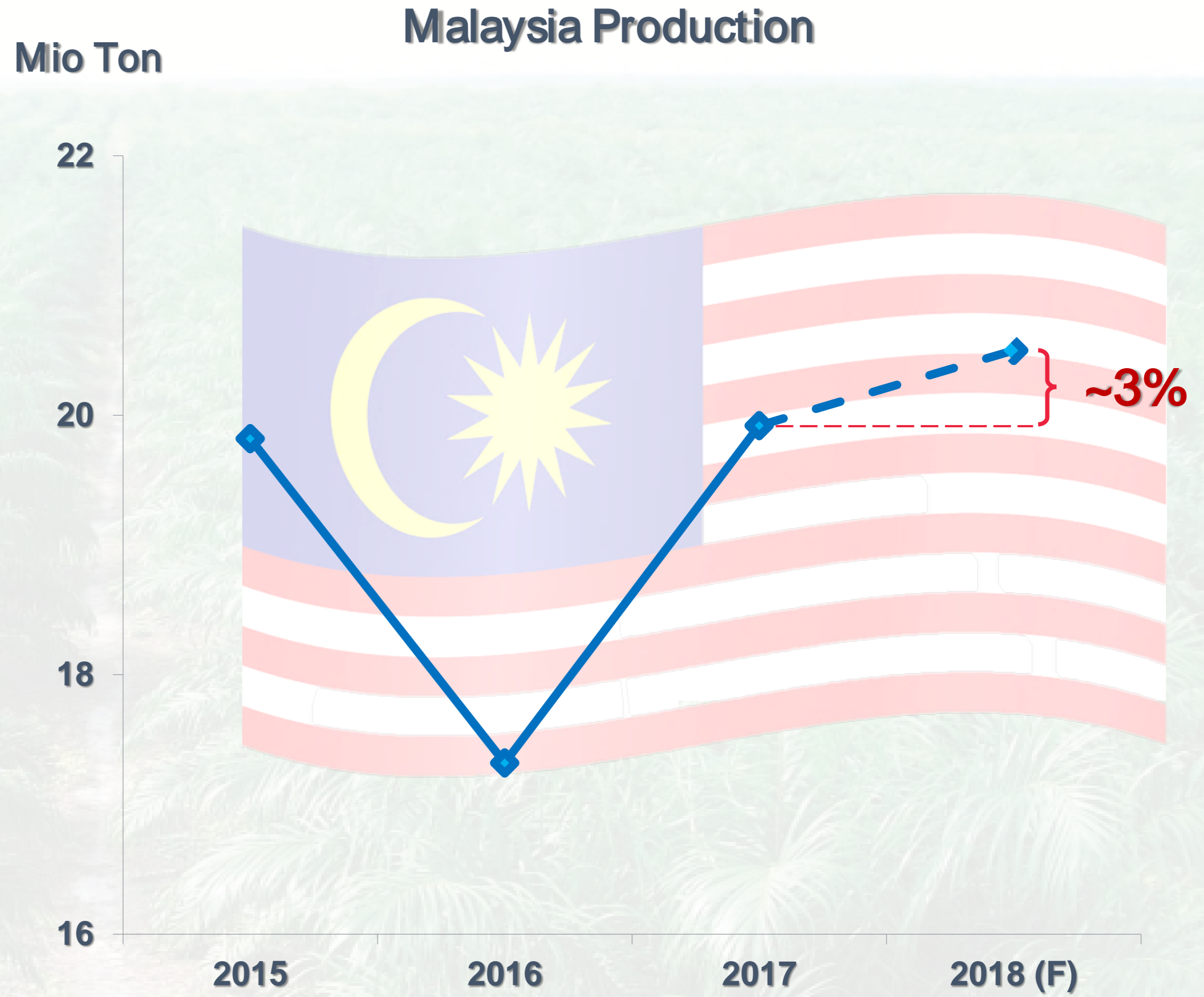
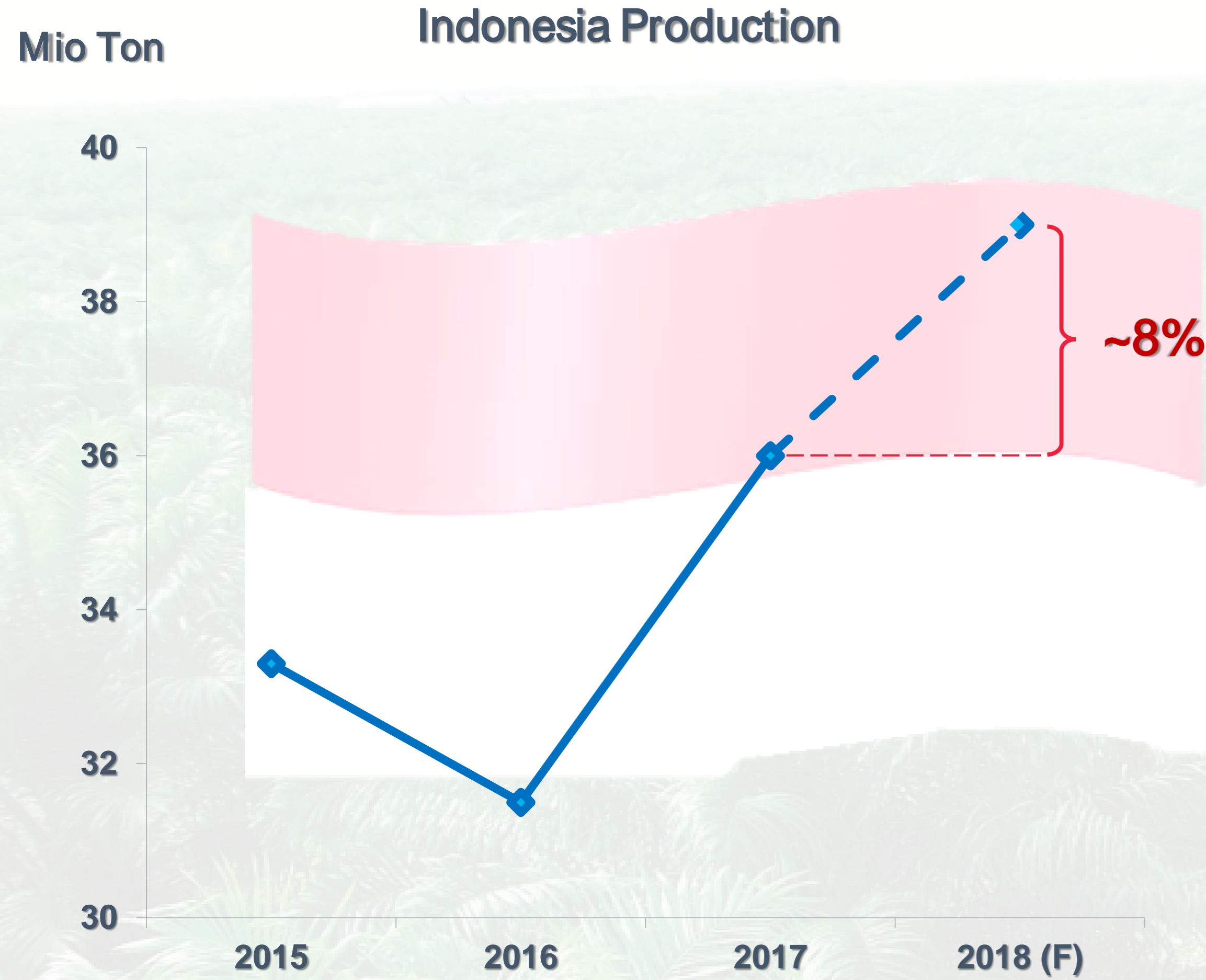
Will There be El Nino / La Nina ?



Source : NOAA, Ganling 2017-10

If the Pattern Repeats itself, Expect **MODERATING** Weather

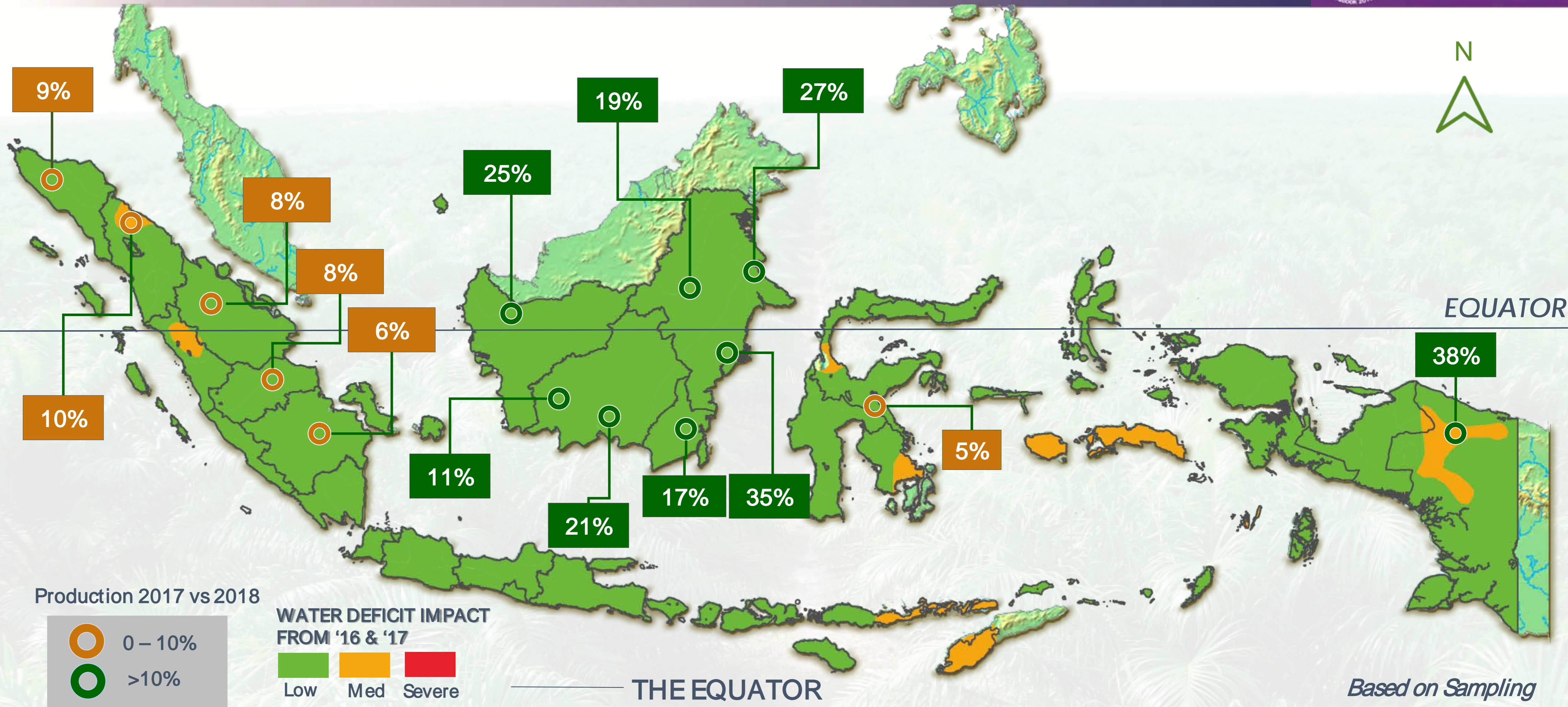
Indonesia and Malaysia CPO Production



Source: Internal Analysis, MPOB

Indonesia and Malaysia Production Increase around **3.6 MIO TON**

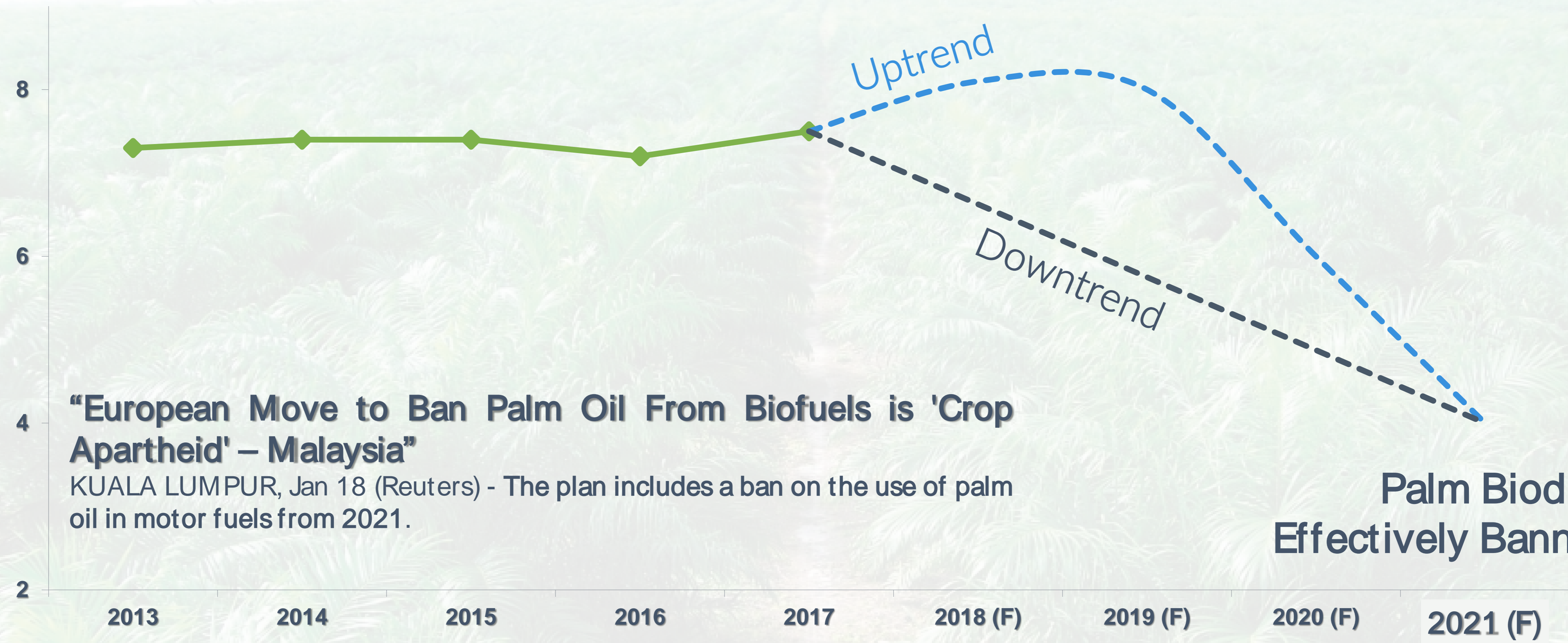
Production 2017 vs 2018 (F)



The Last 24 Months, Less Impact of Water Deficit... **STRONG PRODUCTION**



Mio Ton



“European Move to Ban Palm Oil From Biofuels is 'Crop Apartheid' – Malaysia”
KUALA LUMPUR, Jan 18 (Reuters) - The plan includes a ban on the use of palm oil in motor fuels from 2021.

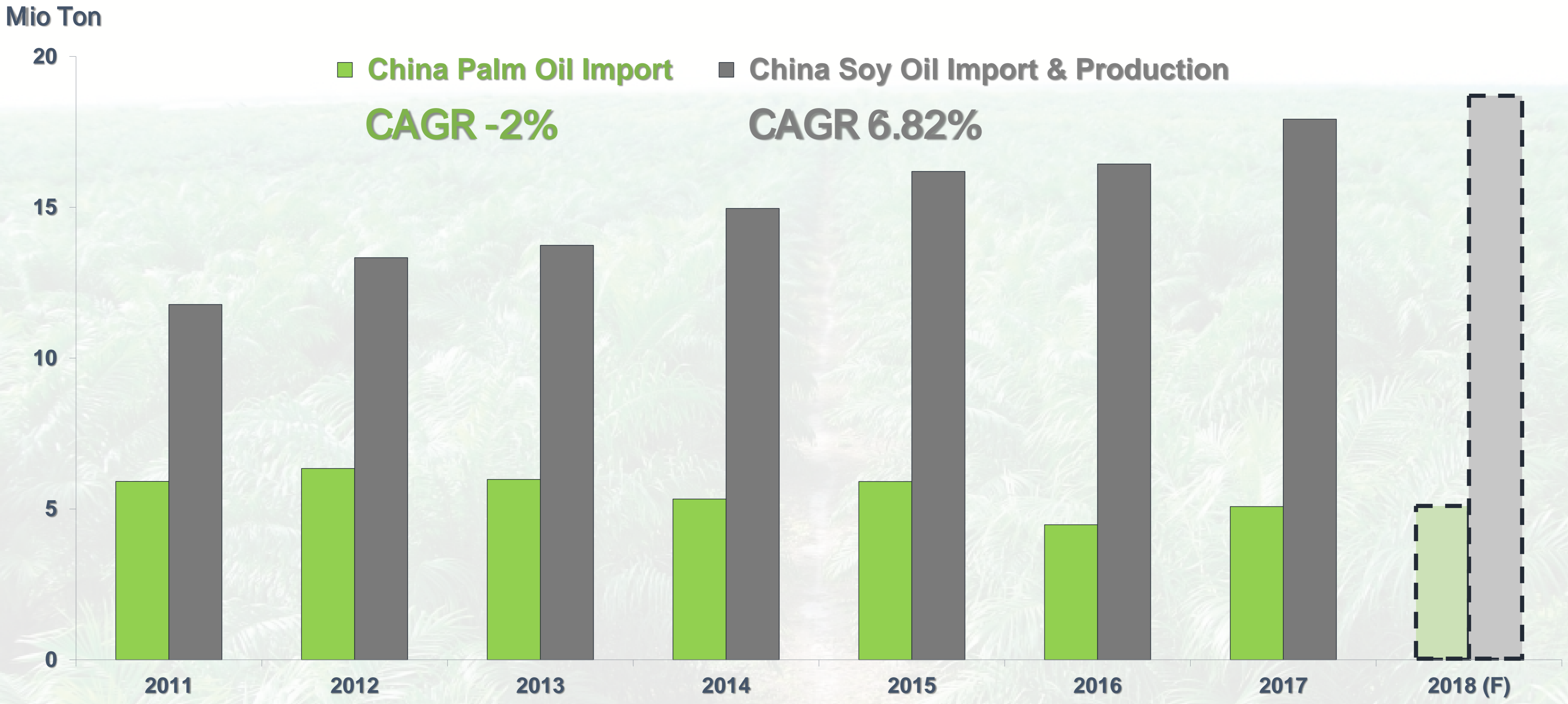
Palm Biodiesel Effectively Banned ?

Source : Oil World

Expect the Demand Remain **BUOYANT** in 2018

China Palm Oil Import

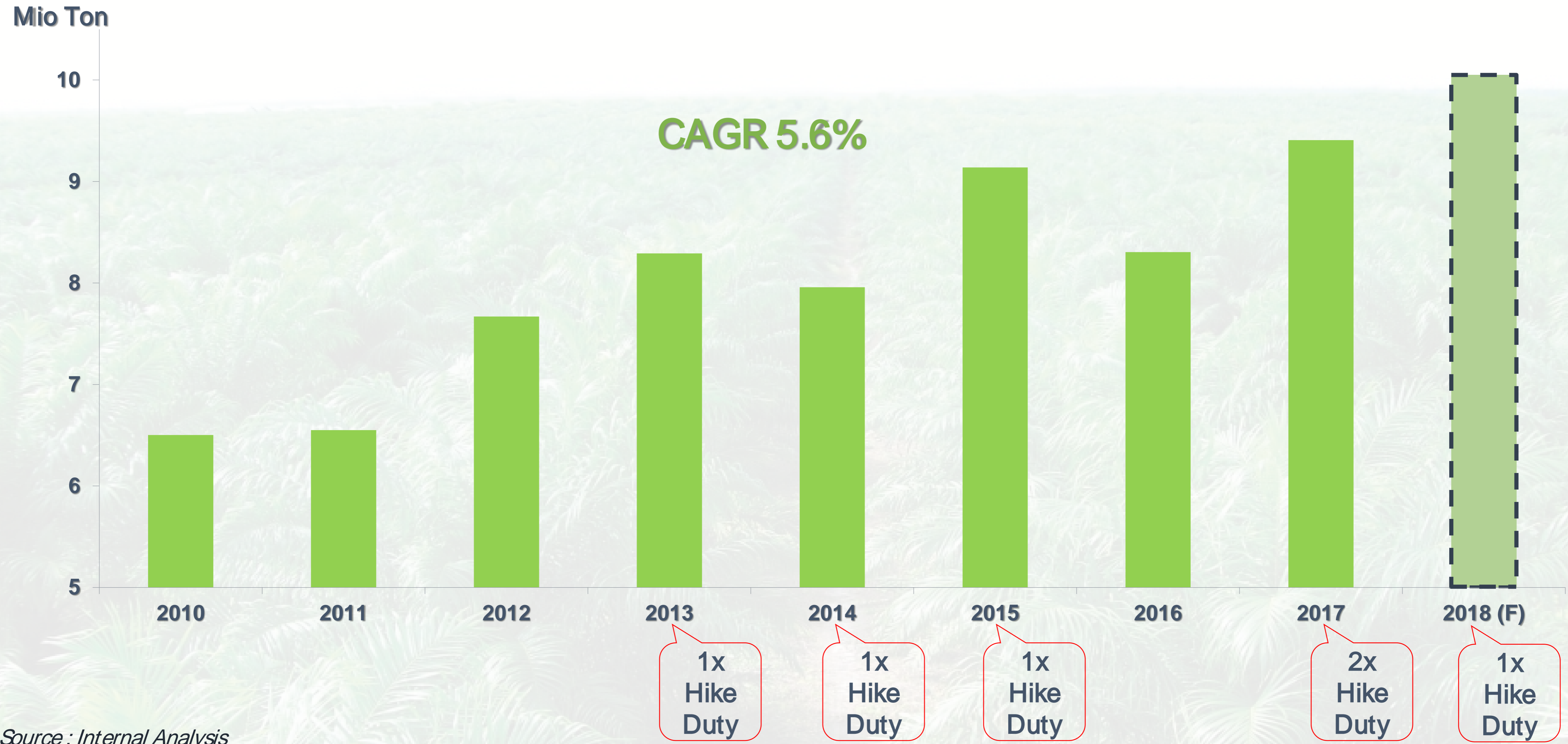
➔ **Remain Flat**



Source : Internal Analysis

Potential Additional Demand for Biodiesel around **6 MIO TON (B5)**

India Palm Oil Import



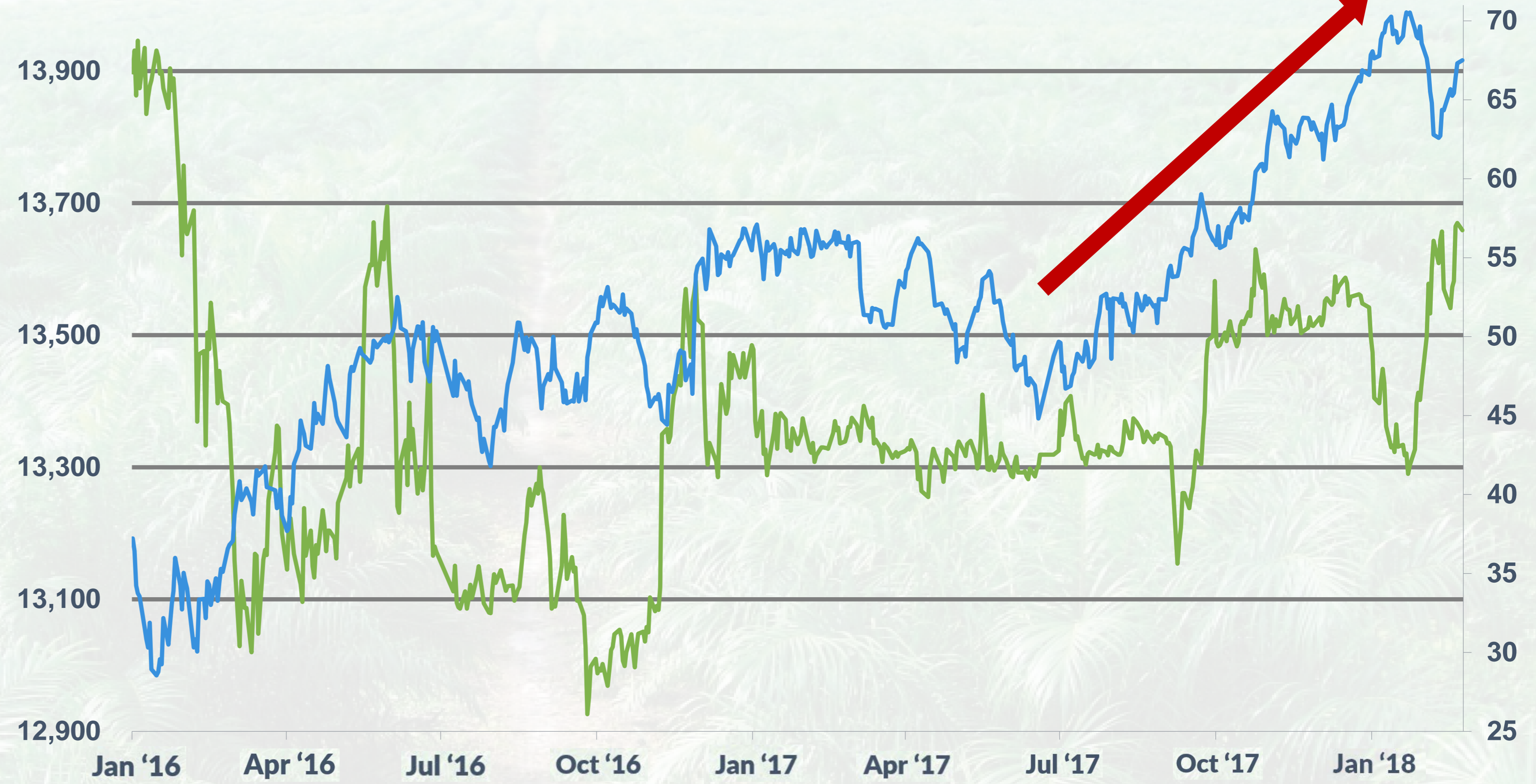
Despite Multiple Hikes of Import Duty, **DEMAND** Continue to **GROW**

Forex USD vs Commodity Price

USD vs IDR

USD/bbl

—USD vs IDR —Crude Oil (Brent)

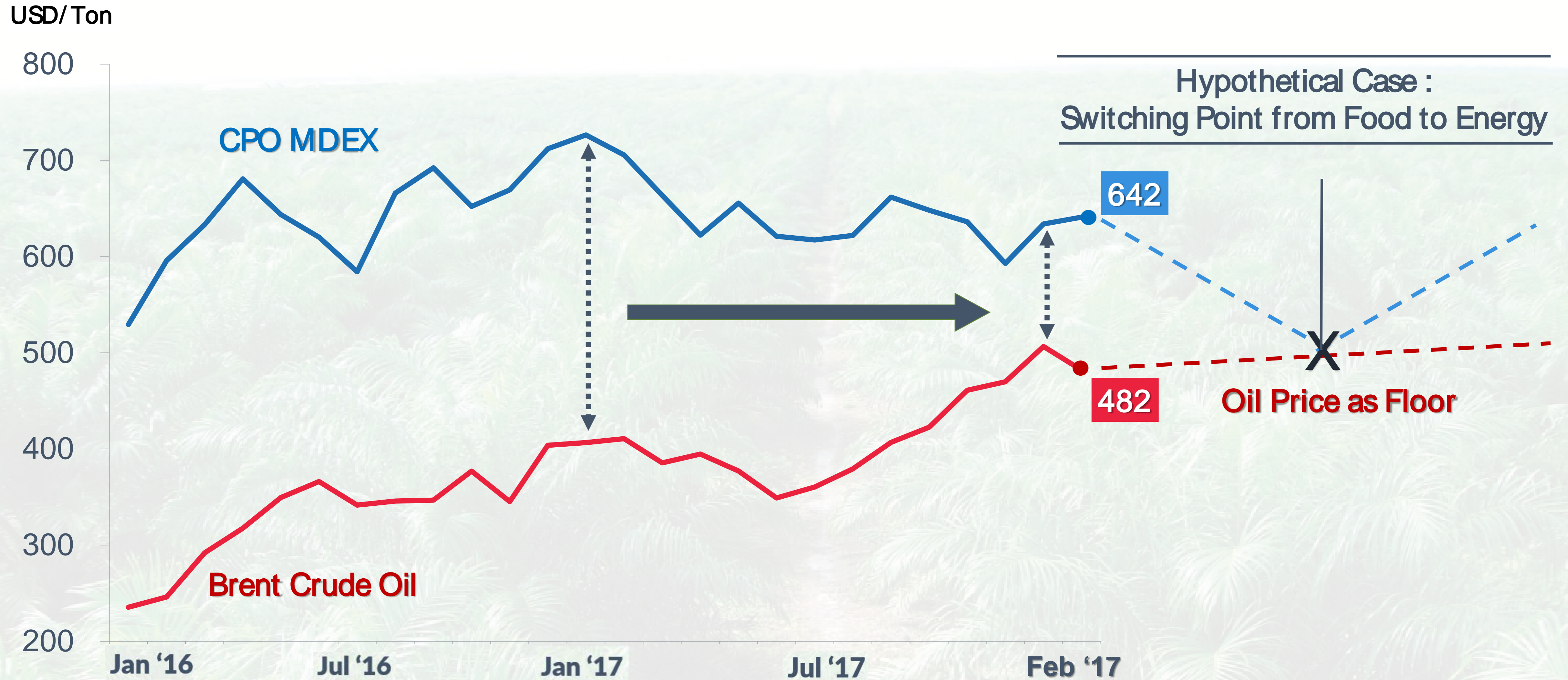


“Obviously a weaker dollar is good for us as it relates to trade & opportunities”

Source : Bloomberg

Despite Weak Dollar Rhetoric, Commodity Price **ALREADY PRICED-IN**

Crude Oil & CPO Prices



Narrower Spread CPO vs Oil Price Leads to **LESS FUND** Requirement for Biodiesel

Indonesia Biodiesel Consumption Projection



Source :
- Internal Analysis
- CPO Fund

*Assumptions 2018 :
▪ Brent Crude Oil : USD 60 //Barrel ▪ Domestic CPO : USD 650 //Ton

Biodiesel as **STABILIZING FACTOR** to CPO Price

CPO Supply and Demand Forecast 2018

		<u>Δ2016-17</u>	<u>Δ2017-18</u>	<u>Growth Rate</u>
SUPPLY (TON)	 Indonesia	+4.5 M	+3.0 M	↓
	 Malaysia	+2.6 M	+0.6 M	↓
	 Others	+1.3 M	+0.5 M	↓
DEMAND (TON)	 Indonesia	+0.3 M	+0.9 M	↑
	 Malaysia	+0.2 M	+0.2 M	≡
	 China	+0.5 M	+0.0 M	≡
	 India	+1.1 M	+0.6 M	≡
	 Europe Union	+0.5 M	+0.3 M	≡
	 Others	+2.4 M	+1.3 M	↓
Σ SUPPLY – DEMAND		+3.4 M	+0.8 M	

Source : Internal Analysis

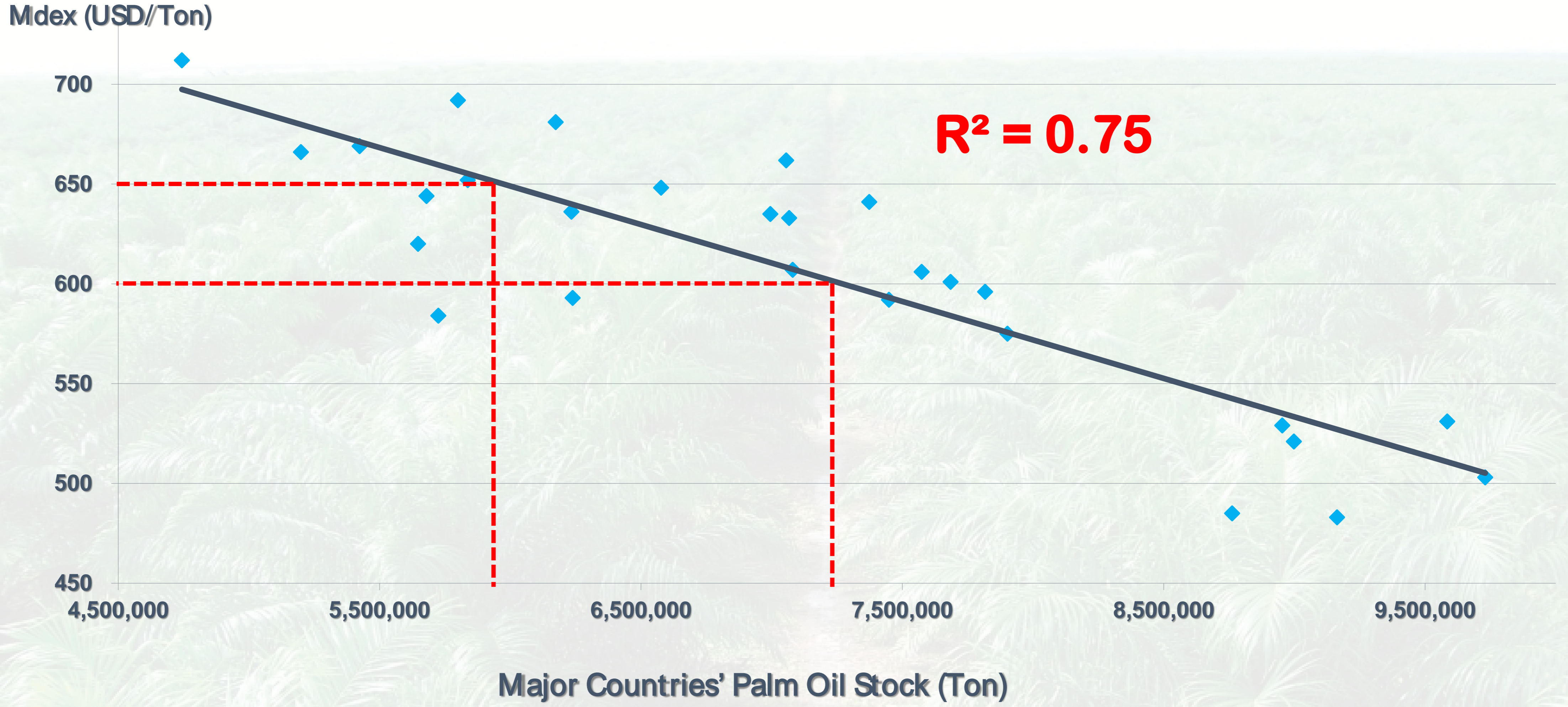
Note ≡ (± 0.5 M)

Price Would Be **USD 600 – 650** in **Q3 2018**

An aerial photograph of a vast palm tree plantation. A narrow dirt path winds through the rows of trees. A large, semi-transparent white graphic, resembling a stylized 'S' or a curved arrow, is overlaid on the left side of the image. The text 'THANK YOU' is printed in a dark blue, sans-serif font across the middle of this graphic.

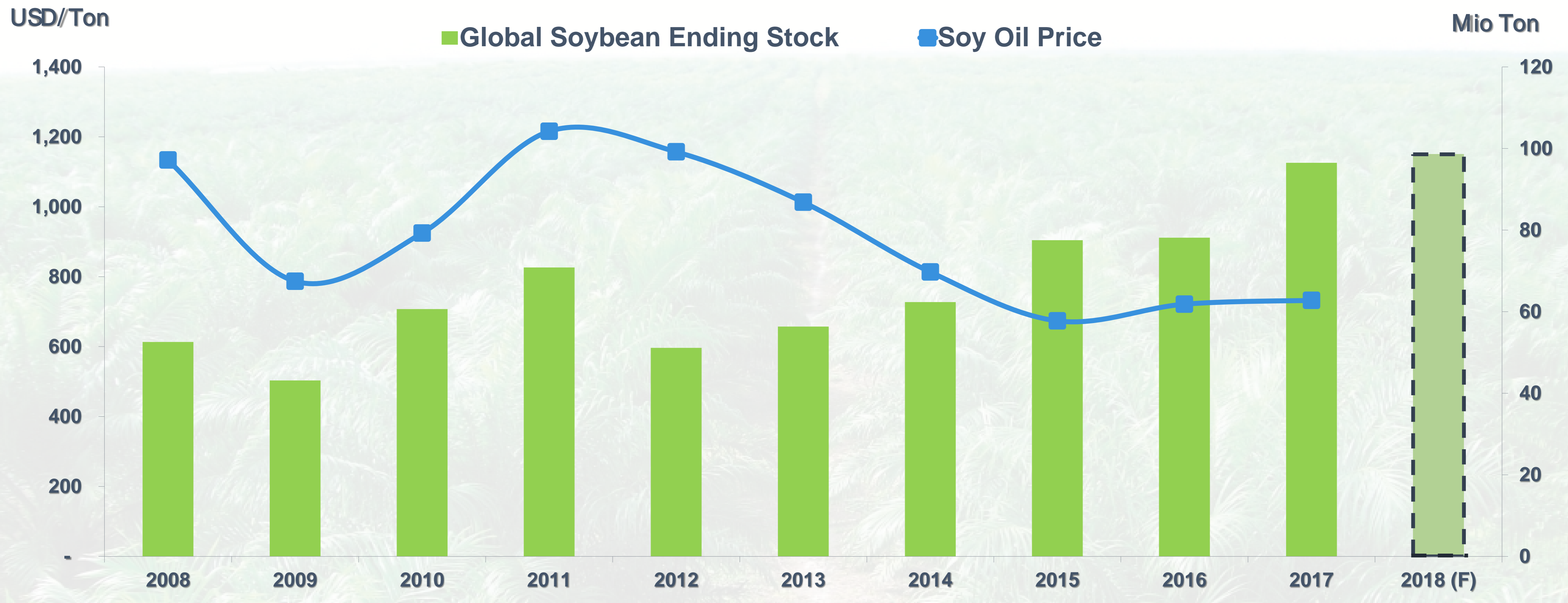
THANK YOU

Regression Palm Oil Stock vs Mdex Price



MODERATE Correlation

Soybean Stock and Price



Source : USDA, CBOT

Soybean Stock Projected to be **FLAT** thus Price will be **STABLE**