

## **OILMEAL EXPORT PROSPECT & PRICE OUTLOOK 2009-10**

### **PAPER PRESENTED BY ATUL CHATURVEDI, CEO, M/s. ADANI WILMAR LTD. AHMEDABAD At SEA Annual General Meeting 2009 On 25th September, 2009**

Good afternoon ladies and gentlemen. Before I begin I would like to thank the old warhorse Mr. Mehta for inviting me to share my views with this august gathering. Mehtaji and his team deserve special kudos from the vegetable Oil Industry for doing a splendid job over the years. For all practical purposes he is a walking Encyclopedia of India Vegetable Oils Industry.

Friends, when I was asked to speak on the Indian Oil Meal Scenario I was reminded of the wonderful analysis my friend Mr. Bharat Mandloi had done on "India's Competitiveness in Meal Exports" a few years back. At that time he had surmised that Indian soyameal was its own worst enemy. In spite of being blessed with 48% protein and with all the logistical advantages it was still selling at discount to Argentinian meal of 44% protein. Indian Exporters took the hint and in the last few years we have seen the discounts shrinking. Consolidation of the soya industry has ensured that bargaining capacity of Indian exporters has witnessed a quantum jump. The inherent advantages of Indian SBM, like high protein, close proximity to consuming markets, ability to export in small size vessels/containers is now being taken full advantage by Indian players to realize higher per unit realization.

Oil Meal Exports...Before I come to soyameal at length a word about other Oil Meals. SEA has just released their data for the period April to August 09. Our worst fears are confirmed with this data.

- Rapemeal exports during April-August 09 are down to 4.17 lakh tons compared to 5.02 lakh tons for similar period of 2008.
- Soyameal exports have dramatically come down to 4.72 lakh tons against 15.9 lakh tons in 2008.
- Similarly, Rice bran extraction is down to 50000mts compared to 100000 mts. Castor meal is no different and is down to 60000 mts from 110000mts.
- Overall the exports have registered a huge downtrend. From a respectable level of 23.35 lakh tons during April-August 08 we are now down to about 10 lakh tons. This drop of 57% is really alarming and needs to be arrested.
- The drop in exports clearly reflects that our estimates for oilseed production in the country are way of the mark. I am given to understand that Govt, estimates for oilseed production for 2008-09 were 281.6 lakh tons compared to COOIT trade estimate of 246.5 lakh ton, lower by 14%. The trade estimates appear more close to reality.

Friends, I would now cover my favourite subject of soyameal which is much closer to my heart and constitutes a major chunk of our meal exports. The new crop marketing would start shortly and it would be in fitness of things to review the year gone by and the lessons learnt.

**1. Demand Supply Matrix :-** In order to get a clear picture of last season I would attempt to highlight some salient features.

- The year started with highly optimistic estimates of about 10.8 Million tons of Soya Crop. However, as the crop marketing started depression set in as market yard arrivals dramatically reduced prompting some knowledgeable players to the extent of predicting the crop was around 8 million tons. The arrival of soyabeans in the mandis reduced to a trickle from February onwards and prices also skyrocketed
- The truth as always seems to be lying somewhere in between. Consensus is now developing in the industry that the crop may be closer to 9.5 million tons. The bean arrivals during August/September certainly confirms this theory. I have been associated with soya industry in one way or the other for almost three decades, but have never seen such heavy arrivals during August/September. Once the farmer was convinced that drought is no longer a factor he is releasing the held back stocks.
- The Indian farmer seems to be having the last laugh. Agri incomes during last few years have tremendously improved financial capacity of the farmers. Easy availability of Agri Credit is also a boon to the farming community. Distress selling by the farmers during harvest time is a thing of the past. If the price is not right the farmer refuses to sell. The crushing industry will have to live with this reality and plan procurement accordingly.
- Further, with the coming of age of commodity exchanges the rules of the game are changing. Information arbitrage now is a thing of the past.
- During the current year we expect Indian Soyameal Exports to be about 3.7 to 3.8 Million Tons. This figure includes Bulk, Container as well as exports to SAARC countries by Road as well as Rail.
- Domestic consumption is estimated at about 2.5 Million Tons.
- Production, domestic consumption and exports OF Edible grade soya flour and Hi Pro soyameal is rising and we estimate it at around 0.3 million tons.

The summarized picture for the year would be as below:

Total Crop	- 9.5 million tons.
Retained for sowing	- 1.0 million tons

Marketable surplus	- 8.5 million tons
Exports of meal	- 3.8 million tons
Domestic consumption + Edible Grade	- 2.76 million tons
Total Meal consumption	- 6.56 million tons (equivalent to 8 Million tons beans)
Carry over expected	- 0.5 million tons (probably for the first time.

## **2. Indian Soya Meal – Dwindling Exports**

- During the current year Indian exports were very robust initially in November and December '08 but gradually petered out. Overall, we expect exports to be lower by 36 % compared to the previous year.
- Lack of farmer selling and resultant high seed prices in India gradually ensured India priced itself out of S.E.Asian markets. This was inspite of a good local crop and lower Argentinian Crop – Our traditional rival in S.E. Asian markets.
- U.S. Soyameal which was never very competitive in our target markets of S.E.Asia is gradually gaining a good foothold. Indian high prices also allowed China to fill the breach for a short period.
- Discount of Indian meal over US meal continues to widen on account of quality and perception related issues.
- India's share of the Asian market for Soyameal is currently around 25% out of total consumption of about 12.5 to 13 million tons in Asia. Indian Exports are slightly above 3 million tons.
- Vietnam continues to be our major destination with about 1.0 million tons import, followed by Japan at around 0.6 Million Tons.
- We are loosing market share in Korea, Indonesia, Thailand etc. Even in S.E.Asian destinations the realization is coming down in comparison to US/Argentinian meals.

## **3. Domestic Soyameal – Increasing consumption**

- No discussion on Indian Soyameal can be complete without mentioning our own consumption which is gradually increasing thereby reducing our dependence on Exports.
- With rising income levels poultry and meat consumption is growing in the country. It is estimated that our poultry industry is growing at almost 15% per annum.

- Given the high energy levels available from Soyameal we feel the biggest beneficiary in coming years would be Soyameal and its consumption is bound to witness a quantum jump. We can safely assume a growth of anywhere between 10 to 15% in domestic consumption.
- According to some estimates by the year 2011 -12 domestic disappearance of Soyameal could be as high as 3.4 to 3.5 Million Tons. Further reducing our dependence on Exports.
- Some analysts have gone to the extent of predicting India would stop exporting meal few years down the road if our Soya crop does not keep pace with increase in domestic consumption of meal.

#### **4. Price Outlook – Soyameal**

I find myself totally incompetent to speak on this subject. The only ones qualified to comment on price outlook are either Dorab Mistry or Thomas Mielke. I have a very small neck and I find it difficult to stick to it out.

Anyway let me make an attempt by analyzing price influencing factors in the coming months.

- Confidence in the financial markets in the world is still some way off. Funds don't have the appetite to drive our markets as they are still licking their wounds.
- Fundamental factors are being sidelined in price discovery. Non fundamental factors are influencing our markets big time making the job of poor Traders more difficult.
- USA is staring at a record crop in excess of 88 million tons. Coupled with this the Corn Crop is also superb and the threat of frost is behind us. In nutshell the crop is made.
- The deficit of Argentine is more than made up by USA. Planting intention in Southern hemisphere will also start exerting pressure on future prices. Argentina is looking to increase acreage for Soya and predictions are that they would plan a crop in excess of 52 Million tons. This is bearish for our markets as we go into early part of next year.
- China continues to sit on huge reserve stock of beans of about 5 million tons not knowing how to dispose the same. This overhang will keep a lid on runaway values.
- US meal to Europe is facing Corn dust issues and would exert further pressure on US prices. This can be considered bearish for US meal but mildly bullish for India.
- Indian Crop, after a few hiccups is shaping up quite well. Some analysts are of the view that our crop could be closer to 10 million tons. Coupled with a carryover of 0.5 million ton we can expect pressure to start building.

- Further, Indian exporters are not starting the season with a big book and will necessarily have to be aggressive to win back market share.
- Consumers in importing countries are not willing to hold large inventories. The Japanese bug of JIT (Just in Time) seems to have caught up with them.
- With a large crop US Exporters would be aggressive during Oct/Feb window in order to get rid of extra stocks before new Latin American Crop exerts further pressure.
- A weak US dollar would benefit American Exporters and encourage them to be more competitive.
- On the demand side we feel if our meal is competitively priced we should be able to regain some of the lost tonnage.
- Consumers in our target markets of S.E.ASIA are largely uncovered for October-December period. Selling meal should not pose too much problem.

Overall, keeping all the factors in mind we feel Indian values would remain under pressure .Maybe the short term mantra could be SELL FIRST BUY LATER.

Before I wind up I would like to touch upon a subject which is disturbing our industry and can have serious long term repercussions if remedial actions are not initiated immediately. Rumours are floating that some unscrupulous Manufacturers/Exporters are adulterating Soya meal with – God only knows what- for short term gains. I feel our industry and trade can ill afford such black sheep among us as it tarnishes our fair name. The efforts of last few years to bridge the discount between our meal and Argentinian/US meal will be defeated if we do not isolate these elements. The silver lining in all this is that buyers are becoming more discerning and the gap between good suppliers and bad ones is widening.

Being an eternal optimist I am sure the industry will overcome these minor hiccups and continue to progress in coming years.

Thank you and happy trading for the new crushing season...

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