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Bearzilla

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IT'S been an extremely stressful month which began with the Indonesian unrest snowballing, weakening the ringgit and rupiah to about 3.7800 and 9500, respectively. Ringgit sentiment eroded further to 4.0000 levels on Prime Minister Datuk Seri Dr Mahathir Mohamed's statement that interest rates should be lowered, and palm prices re-penetrated the RM2500/MT levels.

As Indonesia plunged into crisis and riots rocked the country, massive trade covering emerged on perception that Indonesian palm supply would be disrupted. Coupled with ringgit weakness, the KLCE surged.

Market sentiment flared further as crude supply remained tight due to water shortage at some mills caused by the extremely dry spell. Despite more comfortable end-Apr 98 supply-demand statistics, palm prices were well supported above RM2500/MT. End-Apr 98 Porla production and stocks were pegged at 617,608 MT (+3.16%, within estimate) and 630,251 MT (+0.56%, against trade estimate of about 580,000 MT), respectively.

However, palm products faltered as FOB Spot Olein out-priced itself at US\$730/MT and consumer interest tapered off. Despite bouts of covering frenzy which reached a high of RM2562/MT, heavy selling pressure emerged from the trade, especially producers, to cap further upside.

Market sentiment reversed as President Suharto resigned and the tension quickly eased. The ringgit strengthened to 3.7600 levels and more importantly, a deluge of Indonesian palm supply flooded the market as oil owners capitalised on the lull to ship out stocks to safer havens. Prices collapsed to low RM2400/MT levels very quickly.

Further bearishness arose from the Indian sub-continent as India and Pakistan, both major palm consumers, proceeded with their nuclear tests inducing economic sanctions and a state of nationalistic paranoia. Inaccurate reports of India increasing palm import duty - it raised duty on many items except palm oil - and of Pakistan restricting foreign exchange activities sent prices tumbling to a low of RM2242/MT.

Prices remained pressured despite weakness in the regional currencies sparked off by the battered yen, which slipped from 132 to the US dollar a month ago to 139. Despite the ringgit slumping to 3.9600 levels, prices barely recovered to close at around RM2300/MT.

The general consensus is that with Japan and the yen now feeling a loss of investor confidence, there will be further economic weakening in Asia. In due course the Chinese economy will likely come under fire, as China faces tremendous competition from a heavily depreciated Asia. Simplistically, the outlook remains grim and the regional currencies will likely be further depressed if the yen weakens.

Palm factors have also been very volatile with possible policy changes in the Indian sub-continent. So far, talk of India hiking palm import duty by 8% and of Pakistan changing foreign exchange controls (especially on the issuance of letters of credit), is untrue. The sentiment of uncertainty and paranoia will slowly dissipate if the outcome of the Pakistani Budget, tabled on June 15, is positive. Meanwhile, rumours of Pakistan raising palm import duty are rife.

Demand has been disappointing in the last few months due to the supply-induced premium for palm products and much interest has shifted to soft oils. End-May 98 disappearance is estimated at 650,000 MT. Pakistan and India continue to be major buyers of around 110,000 MT and 80,000 MT in

bulk, respectively, and China, of 65,000 MT.

Traditionally, demand from the Indian sub-continent increases in the second half of the year but with the current tension, interest may be curtailed. However, current prices have certainly attracted consumers and China has been active lately. July-August 98 physical products have been heavily traded in the last few weeks, but all should not be tabulated as shipment tonnage, as much may be pure trading.

Palm production is poor as the impact of 'tree-stress' curtails yield. May 98 output is estimated to be unchanged-to-up-3%, at 630,000 MT. More importantly, June/July 98 output is expected to improve slightly, and not register the double-digit percentages of normal years. The East Malaysian crop is said to be badly affected.

In Indonesia, substantial oil stocks have been shipped out in the last few weeks. Local olein prices have been volatile due to reduced stocks and a fluctuating rupiah. If ex-Jakarta olein prices go above Rup 4,000/kg from current levels of Rup 3600/kg, the government may step in to control hyperinflation. Meanwhile, the Indonesian production will be similarly 'tree stressed'. Therefore, Indonesian supply may still be a wild card, especially if the rupiah collapses.

End-May 98 stock is pegged at a relatively tight 600,000 MT. Meanwhile, refining margin is extremely negative as competing oils are relatively cheap on one hand and CPO relatively expensive on the other. This imbalance needs to be corrected soon either by improved demand or a weakened ringgit.

In such uncertain times, sit tight and wait for clearer directions. We will be looking for buy signals from RM2280/MT as we are still bearish on the ringgit.

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