

Palm falls on profit-taking, dry weather worries support

Malaysian Insider

Feb 27, 2014

OLEH THE MALAYSIA INSIDER

Malaysian palm oil futures dipped today as investors booked profits after the previous session's gains, but concerns over unfavourable weather squeezing supplies curbed losses and kept prices near a 17-month high.

Prices jumped to RM2,818 late yesterday, their highest since September 20, 2012, underpinned by worries of dry weather hurting production in Southeast Asia where most of the world's palm oil is grown.

"There's a bit of profit-taking today after the strong rally yesterday. The range will be around RM2,780–RM2,850," said a trader with a foreign commodities brokerage, adding that full month production is slated to fall more than 13% from January's 1.51 million tonnes.

Benchmark prices have climbed nearly 9% in February – their biggest gain in four months – on anticipation that the sharp drop in output would tighten stocks of the tropical oil.

Planters told Reuters that dry weather lasting more than two months can hurt yields six months to two years down the line.

By the midday break, the benchmark May contract on the Bursa Malaysia Derivatives Exchange had edged down 0.8% to RM2,787 (\$852) per tonne, with prices trading between RM2,782–RM2,807.

Total traded volume stood at 11,908 lots of 25 tonnes, just below the average 12,500 lots.

Technicals showed that Malaysian palm oil third month contract is expected to drop to RM2,747, due to the completion of a five-wave cycle that developed from the January 28 low of RM2,519, said Reuters market analyst Wang Tao.

Investors will be keeping an eye on Malaysian export data for the full month of February tomorrow to gauge global demand for the tropical oil.

Export demand had dwindled towards the end of the month, slowing from the rapid growth early February, but traders said end-stocks were widely slated to fall more than 5% from the current 1.93 million tonne level due to weaker output.

In other competing vegetable oil markets, the US soyoil contract for May lost 0.6% in early Asian trade, while the most active May soybean oil contract on the Dalian Commodities Exchange rose 1.1%.

Brazil's crushing association, Abiove, is standing by its forecast for a record soy crop of 88.6 million tonnes despite concerns over heavy rains in top growing state Mato Grosso and dry weather in No. 2 growing state Parana.

Brazil's state government earlier said Parana had lost some 2 million tonnes of soybeans to drought and hot weather in January and February. Smaller supplies of soybeans for crushing would stoke soyoil prices, potentially pushing buyers to rival palm oil.

In other markets, Brent futures slipped towards \$109 today on worries an easing of the severe chill in the United States will lower demand for heating fuels and remove a key support for oil, though supply-disruption concerns kept the losses in check.

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