



MDEX CPO Futures -

Weekly Outlook @ 16-20 January, 2012

Last Week

Recent rally in Mdex FCPO halted at RM 3244 and prices reversed to finish sharply lower. The benchmark Mar12 contract ended 1.9% easier at RM 3148 last Friday as the MPOB and USDA report caught bullish investors especially those betting on Argentine dry weather by surprise. Firstly, the much needed rain hit Argentina and provided some relief to highly stress corn and soybean crops. Same time, MPOB surprised market by providing a bearish S&D data for December. The Malaysian December palm oil production just fell 8% MoM instead of 14% as highly talked by market. This forced end stock continues above 2 million tons for last three quarters, that is 2.053 million tons (2Q11), 2.134 million tons (3Q11) & 2.039 million tons (4Q11).

Summary of MPOB Data for 2010 & 2011– Quarterly :

	CPO Output	%	PO Import	%	PO Export	%	Loc. Dis %		PO End Stock	%
1Q10	3,865,091	(24.2)	273,032	(8.1)	4,147,729	(1.3)	574,685	(7.6)	1,654,966	(26.1)
2Q10	4,111,714	6.4	285,881	4.7	4,085,807	(1.5)	515,320	(10.3)	1,451,434	(12.3)
3Q10	4,687,327	14.0	268,225	(6.2)	4,148,799	1.5	451,292	(12.4)	1,562,912	7.7
4Q10	4,328,333	(7.7)	282,961	5.5	4,257,714	2.6	451,048	(0.1)	1,615,618	3.4
Total:	16,992,465		1,110,099		16,640,049		1,992,345			
1Q11	3,568,466	(17.6)	484,384	71.2	3,559,659	(16.4)	493,796	9.5	1,614,466	(0.1)
2Q11	5,023,464	40.8	239,781	(50.5)	4,315,081	21.2	509,360	3.2	2,052,870	27.2
3Q11	5,287,669	5.3	253,583	5.8	4,964,300	15.0	496,306	(2.6)	2,133,516	3.9
4Q11	5,031,089	(4.9)	280,415	10.6	5,094,879	2.6	310,917	(37.4)	2,039,224	(4.4)
Total:	18,910,688		1,258,163		17,933,919		1,810,379			

On top of rain and unexpected MPOB data, current month's slowing demand for palm oil also begin to worries market as cargo surveyors estimated a drop of 16% to 19% in first 10 days Malaysian palm oil export. Then came another shocking report from USDA whereby larger than expected US end stock for corn dragged its prices to limit down. Overall the estimate for 2011/12 is implies ample of supply/stocks with strong production.

		Production		End Stock		Quarterly Stock	
		Jan Est.	Mkt Est.	Jan Est.	Mkt Est.	Dec11	Mkt Est.
US	Corn	12,358	vs 12,265	846	vs 749	9.642	vs 9.391
US	Soybean	3,056	vs 3,048	275	vs 233	2.366	vs 2.324

Basically, rain in Argentina which expected to improve South American crop with slowing demand and bearish MPOB & USDA data have changed the near term outlook for FCPO from supportive to a weaker market.

Trading Strategy System

Our Position Trading System has turned SHORT at RM 3176 on 13 Jan'12 - means we have exited our long position with a profit of RM 115/t @ RM3176 - RM3061) and currently holding SHORT position at RM 3176.

For Current Week & Near Term

We expect more downside pressure for Mdex FCPO prices as South American weather is favorable for crop progress lately. We believe in latest climate report that La Nina is currently at or nearing its peak and anticipate that it would not harmful to South American corn and soybean crops anymore. The ongoing economic worries in EU also expected to fuel the downward pressure by strengthening US Dollar. On the other side, technical outlook also has changed to weak for FCPO prices. Locally, we gathered infos that the demand for palm oil to flatten after recent festival period.

Following our last week's outlook for 1H2012, now onwards FCPO prices should start to fall gradually to check it nearest low RM 2971 (or in extreme case to RM 2754) in 1H2012. However, before that Bears should face some obstacles to break the chart's immediate and strong support area around 3110 to 3080 soon.

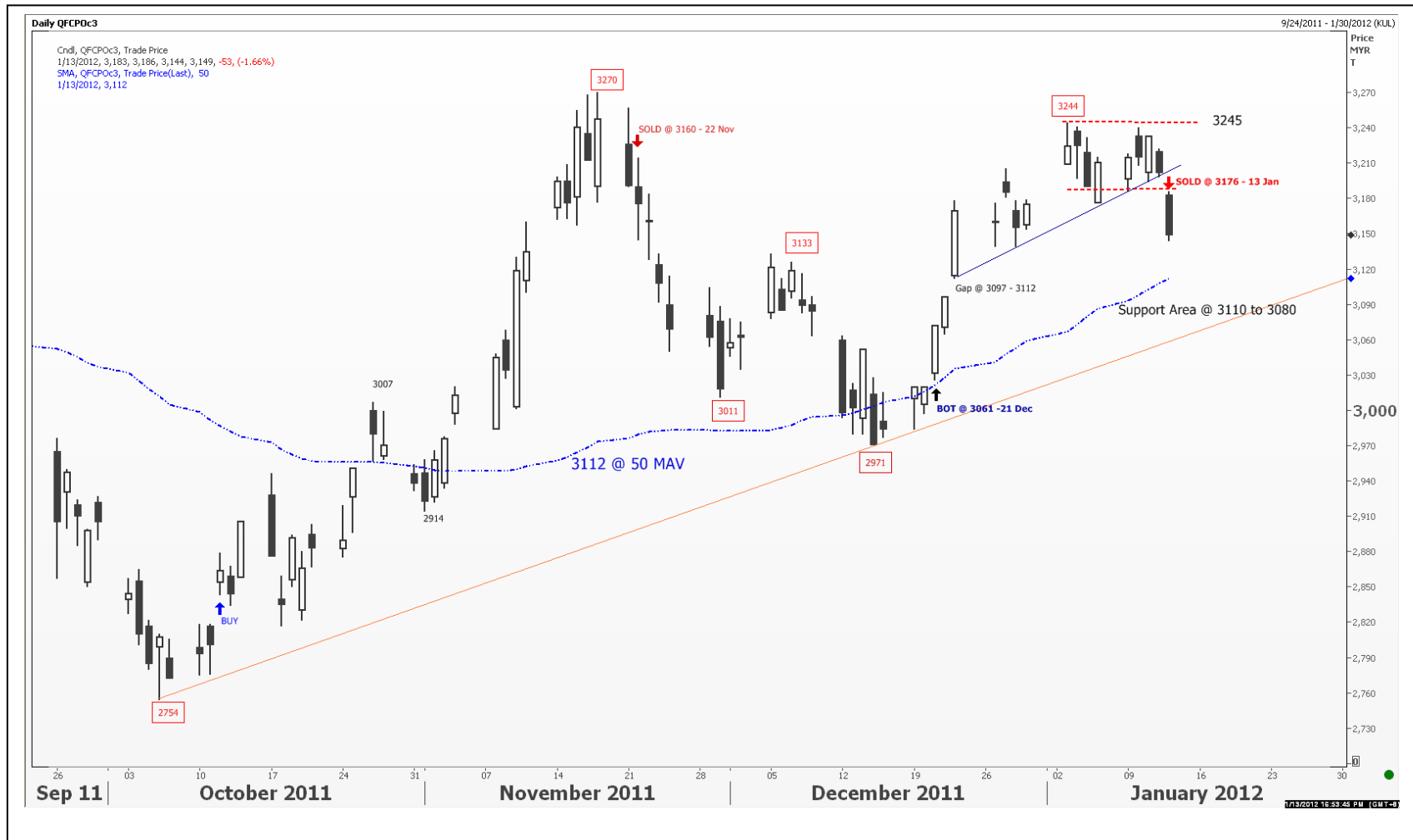
Anyhow for the week, we expect a gap down opening and to test the lower side of support area at RM 3080. After that, it may experience a mild rebound or consolidation for recent sharp fall. Nevertheless, failure to hold above RM 3080 may push FCPO prices to continue its fall to test RM 3020 eventually. Resistances are at RM 3150 & RM 3180/3200. Supports are noted at RM 3115, RM 3080 & RM 3020. Week's possible range is between RM 3020 to RM 3170.

Technical Outlook for 1H2012:

	Friday's close	Trend	Resistance (extreme side)	Support (extreme side)
Mdex CPO:	3211	Sideways	3250 (3350 or 3470)	2900 (2750)
CBOT Spot:	50.80	Sideways	53.60 (55.35 or 56.80)	48.10 (44.10)

Charts:

Mdex FCPO: Support area – 50 days MAV @ 3112 & Trend support line @ 3080



Mdex FCPO vs Cbot SBO: Both to fall to check their nearest low 2971 & 48.10 respectively



