JANUARY
2018

YOUR BROKER FOR
WASTE-BASED FEEDSTOCK AND BIODIESEL

Market Watch

Every month, **GREENEA** provides our clients and partners with reliable and up-to-date information about feedstock and biodiesel markets. All the information in our monthly Market Watch is based on the last traded prices.

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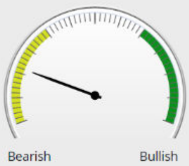
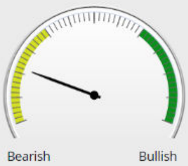
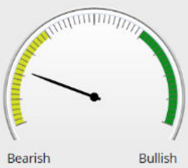
DOUBLE COUNTING INDICATORS

DOUBLE COUNTING	PRICE TREND	DOUBLE COUNTING	PRICE TREND
UCO - EU		UCOME EU	
TALLOW CAT 1 & 2		TME EU	

VEG-OIL: FIGHT OVER PALM OIL

- **European Union** to introduce ban on palm oil use in biofuels starting from 2021.
- **Malaysia's** government lifted export tax on crude palm oil for the next 3 months to boost export.

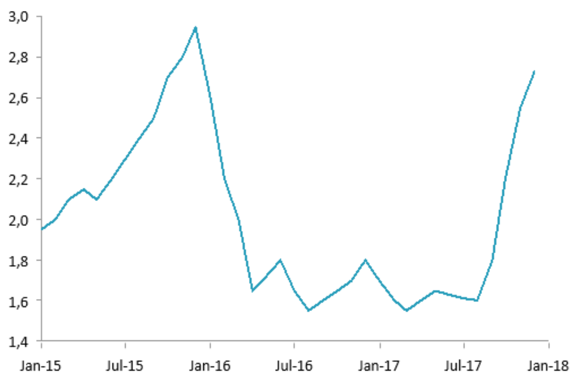
On the 17th of January, the EU Parliament approved the final draft of the RED II directive that should be implemented starting from 2021. The key changes include **phasing out of palm oil use in biofuels** which is justified by deforestation and sustainability issues in the producing countries. This decision is viewed as discriminatory by **Indonesia and Malaysia, who announced that they will seek support at WTO.** Export of palm oil is the key revenue source for Malaysia while the EU, so far, is its second biggest buyer after India. Last year, 15% of the export from Malaysia went to Europe, it was equivalent to 2 million tons.

At the beginning of the year, in order to boost export, **Malaysia suspended its export tax on crude palm oil for three months** to increase the country's competitiveness in the world market. They believe that this move will help to support the prices and reduce the stockpiles. However, if the CPO stocks in the country fall below 1.6 million tons before the 3-months period ends, the suspension will be lifted.

In 2018, **the rebound in CPO production due to favourable weather conditions and thus constantly growing stockpiles will continue to weight on the prices.** In Malaysia, with supply outgrowing demand, the stocks have been growing since July 2017, reaching a two-year-high in December. Malaysian Palm Oil Board estimates that the country's production of CPO will grow by 3% in 2018 reaching 20.5 million tons and exports will go up by 5.1% which could limit the stockpile increase and give some relief to the prices. Yet, strong ringgit will be a challenge, making CPO more expensive for foreign buyers. The next weeks should give us some more visibility on the actual trend development.

MALAYSIAN PALM OIL STOCKPILES

(IN MILLION TONS)

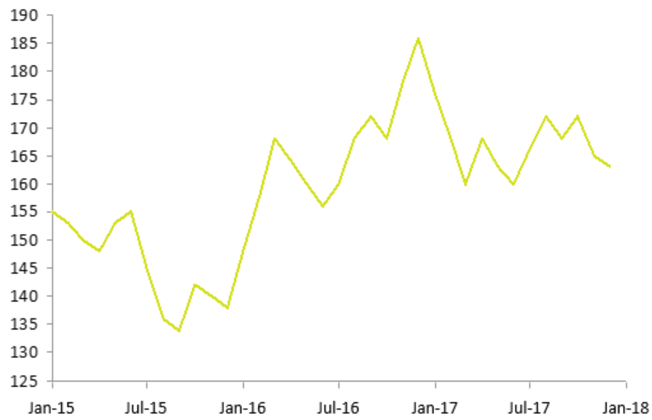


In China, the demand for palm oil before the Chinese New Year's festivities is lower than expected as the country drifted more towards other vegetable oils. Record-high soybean imports and sales of rapeseed oil reserves limited the need for palm oil imports. However, the demand for palm oil in China is forecasted to increase in 2018 as the growing output will continue to pressure prices making the CPO more competitive against other oils.

The **recent downwards trend in soybean prices was mainly due to USDA announcing higher US inventories and lower exports**. Improved weather conditions in South America since mid-December also add pressure to the prices.

The **Vegetable Oil Price Index**, showing the monthly changes in the price of the veg-oil complex, was largely influenced by the drop of palm, soybean and rapeseed oils in December (-5.6% from the previous month) and reached a 5-month-low.

FAO GLOBAL VEGETABLE OIL PRICE INDEX



UCO: DIFFICULT TIMES AHEAD

- **Europe:** strong price correction due to downwards trend on the UCOME market.
- **Imports:** prices supported by strong Euro against USD.

The UCO market is about to face a difficult period. Currently, the UCO collectors are still questioning the situation on the UCOME market, not fully believing in the continuous downwards trend. Unfortunately, they will have to face the reality as **UCOME prices lost almost 50 euros per ton in the last days.** As a result, biodiesel producers were forced to reduce their margins **which will put pressure on feedstock prices in the next weeks.**

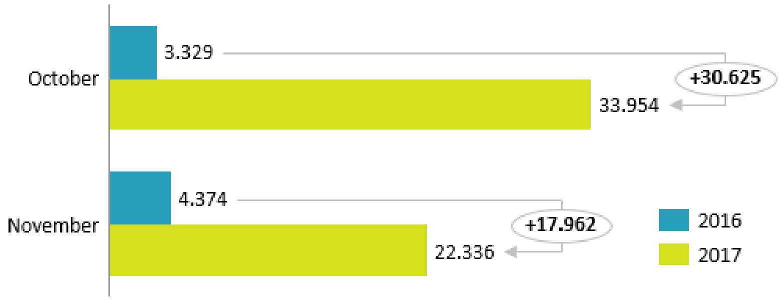
We believe that the next months will be challenging for the UCO collectors as there is no sign of rapid rebound in biodiesel prices. Thus, we can expect **new bids at around €580 per ton ExW Spain and around €620 per ton ExW Holland.**

The import market is still resisting quite well, hoping that the fall in prices in Europe will not be confirmed. Unfortunately, overseas collectors will also have to correct their prices down.

Currently, **UCO FFA 5%, IV 75 in flexitanks is being offered at 680 USD** per ton without firm interest from European buyers. The only factor giving some support to import prices is strong Euro against USD.

The growth of UCO export from China to the EU is unprecedented. Between October 2016 and the same period in 2017, we see a 10-fold increase. In November, the volumes went slightly down but the data for December is not yet available. However, the import volumes should stay high in 2018.

EUROPEAN UCO IMPORT FROM CHINA (IN MT)
(source: Chinese Customs)



ANIMAL FAT: LIMITED FALL IN PRICES

The **market of animal fat cat 1 experienced a sharp downwards correction in December** when the Q1 contracts were being renewed. However, if the contracts of animal fat were made on monthly, instead of quarterly, basis, the price decrease would have been much stronger for February and March. This, in turn, could have pushed the producers to sell their fat again to power generation plants instead, as in the old days.

However, most of the animal fat cat 1 producers sold their production for the whole quarter. The small quantities that remain will be a challenge to market.

The **market of animal fat cat 3 is much more diversified and thus resists better** the changes in FAME 0°C prices. When the biodiesel market is falling down, other segments, e.g. feed, oleochemicals may be more competitive and thus support the cat 3 prices.

GLYCERIN: THE DEMAND IS SLOWING DOWN

The price of crude glycerine seems to have already reached its peak. Since the EU opened its door to the Argentinian market, the offered volumes of glycerine increased. The situation may repeat in the case of Indonesia as European Union withdrew its claim from WTO and should reopen the market to PME imports from there. So, on the one hand the global production of glycerine is increasing but on the other hand, the demand is stable or even declining. This puts **pressure on the prices worldwide.**

However, the trade fight between the EU and Argentina does not seem to be finished and may further influence the market in the next months. This will largely depend on the outcome of the EBB's complaint to the EU Commission and its decision to start countervailing duty investigation.

On the demand's side, **Chinese appetite for crude glycerine took a hit** after a 150,000 MT refinery was closed by environmental authorities. Big volumes of glycerine had to be redirected to other consumers which created some chaos on the Chinese market.

In addition, the strong EUR against the USD makes the European glycerine market even less competitive and less liquid.

We see **volumes offered at around 440-60 USD/MT offered FOB South America and at around 230 to 370 €/MT FOB Europe,** depending on the quality. The spread is very wide but so are the differences in product parameters. However, currently, there is not much interest from the buyers and the next months look bearish.

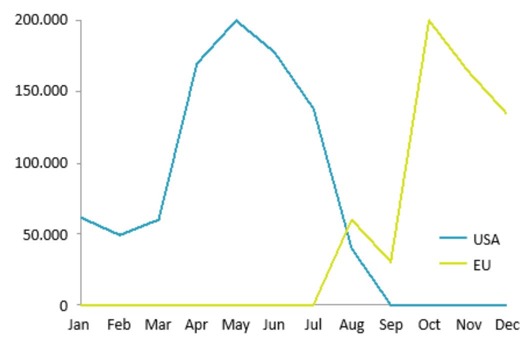
BIODIESEL: BACK TO 2014

- **UCOME and TME:** prices lost around 40-60 euros per MT in the last week of January.
- **FAME and RME:** big pressure coming from increasing SME imports and possible opening of the market to PME.

The EU **biodiesel market is already under pressure from the massive SME import from Argentina** while the imminent cancellation of anti-dumping duties for PME from Indonesia should further increase the biodiesel import to Europe. This had a negative impact on the FAME and RME prices in January. Argentinian SME previously exported to the US is now finding its way to the EU. The average monthly quantities exported to the EU since August are around 118 kT. Monthly shipments to the US in the first 8 months of the year were on average at 112 kT.

The next weeks should also bring decision regarding EBB's complaint to the EU Commission about possible start of countervailing duty investigation.

SME EXPORT FROM ARGENTINA IN 2017
(in MT)



FAME fixed spot price felt by around 40 USD to 810 USD/MT when RME price corrected by 55 USD/MT down to 865 USD/MT.

GO price reached its highest level since January 2014 by increasing by around 20USD/MT in January. This accentuates the downward impact on FAME and RME premium which dropped by 40 and 70 USD/MT respectively.

FAME 0°C premium traded at around 185-190 USD/MT for Jan-Feb loading, which is the lowest premium since November 2014.

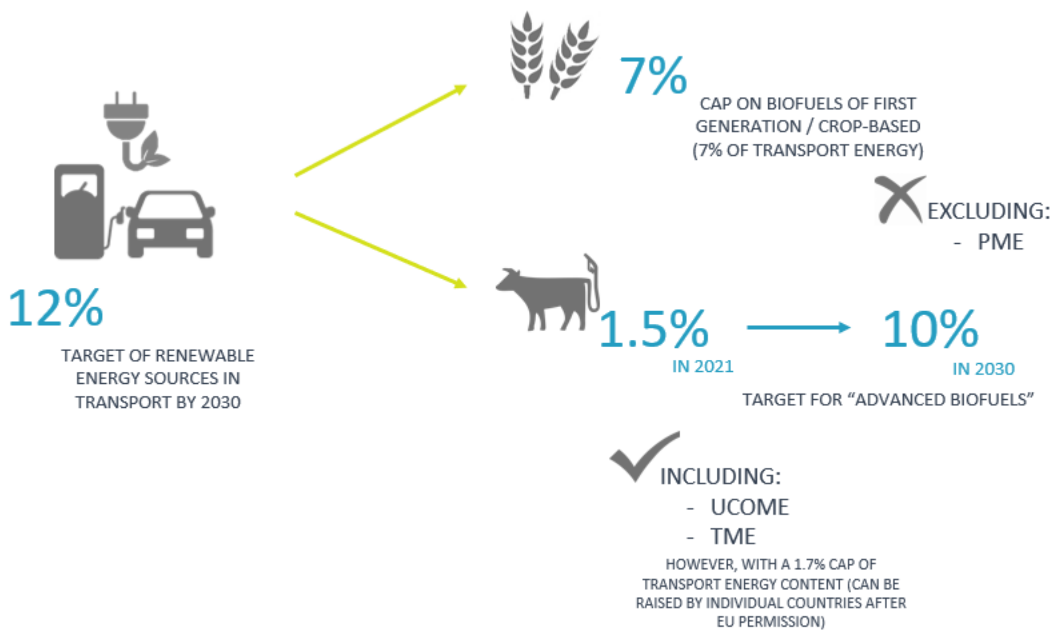
On the DC market, the UCOME and TME prices followed the trend of the single-counting material. The rise of Euro against dollar up to 1.25, also highest since December 2014, further penalizes the fixed price in EUR for EU producers.

Both **UCOME and TME prices lost around 40-60 €/MT in the last week of January.** The current incentive for buying UCOME over FAME 0°C is at its highest since 2014 with a premium for DC over FAME 0°C similar to premium of FAME 0°C over GO. This penalizes strongly the interest for blending physical DC products instead of buying tickets.

With the increase of mandates in several countries worldwide, it is expected that the demand will grow. Main blenders and refineries should open their tenders in the coming months.

The **new draft of RED II** approved by the European Parliament brought some changes to the discussion on the shape of the biofuels market in the EU after 2021. By 2030, there should be 12% of renewable energy sources in transport. The cap on crop-based fuels is set at 7%. Palm oil will be banned from use from 2021. Target for “advanced biofuels” should increase from 1.5% in 2021 to 10% in 2030. UCOME and TME were added to the list of “advanced biofuels” and thus can benefit from DC. However, with a cap of 1.7%.

DRAFT OF THE KEY CHANGES IN RED II



ONCOMING EVENTS: FEBRUARY

Lignofuels 2018
7-8 February
Amsterdam, The Netherlands

3rd Biomas Trade & Power Europe
7-8 February
Copenhagen, Denmark

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www.greenea.com

FOR MORE INFORMATION, PLEASE CONTACT:

Fabien Hillairet
+33 5 79 97 97 51
fabien.hillairet@greenea.com

Victor Allemandou
+33 5 79 97 97 52
victor.allemandou@greenea.com

Katarzyna Gołąb
+33 5 79 97 97 53
katarzyna.golab@greenea.com

Arthur Limouzy
+33 5 79 97 97 54
Arthur.limouzy@greenea.com

GREENEA

5 chemin des Perrieres 17330 Coivert – France

Tel +33 5 79 97 97 50
Fax +33 5 46 33 93 57