MAY
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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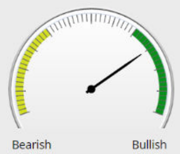
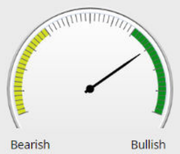
DOUBLE COUNTING INDICATORS

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

VEG-OIL: DRY WEATHER DOWNGRADES EU RAPESEED

- **EU:** rapeseed forecast lowered significantly due to dry weather across the continent
- **Palm oil:** lower demand from the EU and India puts pressure on the prices

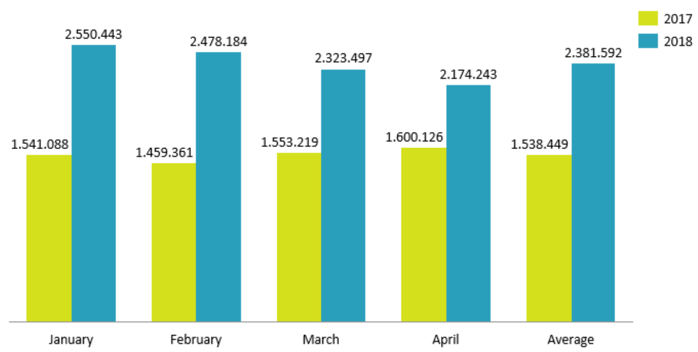
Last week, we have seen **the sharpest fall in Malaysian palm oil prices in 7 weeks.** This was caused mainly by weak demand coming from overseas as well as a decrease in prices of competing oils on the US Chicago Board of Trade. The exports of palm oil products from Malaysia between 1 and 25 of May 2018 fell by 13.5% - 16.6% (depending on the source) compared to the same period last year. The reintroduction of palm oil export tax of 5% in May contributed to the trend.

The **trade tensions between China and the US have eased** in the second half of May. Sinograin, the Chinese state buyer has been seen on the market asking for soybean of US origin. Unnamed sources state that Cofco has also been allowed to buy US grain again. This should help to stabilize the situation on the veg-oil market that has been affected by the looming trade war.

The exports from Indonesia, one of the two biggest palm oil producers next to Malaysia, also decreased. This is largely due to restrictions coming from the EU and India. The latter increased sharply its import duty for CPO (from 30% to 44%) and for refined palm oil (from 40% to 54%) causing a drop of demand there. At the same time, the US is launching an investigation into alleged biodiesel dumping case and Chinese authorities have tightened the controls of imports of vegetable oils.

Monthly closing stocks of palm oil in Malaysia (in tonnes)

Source: MPOB



While export of palm oil and derivatives fell down in Indonesia, the production increased due to favourable weather conditions and expansion of the plantation territories. In Q1 2018, the production reached 10.41 million tons which constitutes an increase of 24% compared to the same period in the year before (8.4 million tons). As a result, the stocks increased putting pressure on the prices.

In Europe, hot and dry weather may cause reduced yield for rapeseed. **The EU cut its rapeseed yield forecast of 2018 below the level from 2017.** Germany downgraded its crop forecast from 4.62 million tons to 4.12 which would be a decrease of 3.3% compared to last year. In Poland, rapeseed production can be even 23% lower than last year.

UCO: FINALLY AN UPWARDS TREND

- **Europe:** UCO shortage helps to push the prices up
- **Imports:** lowest exchange rate since November 2017 is punishing the prices in USD

The **market of UCO has been bullish since April**, however, the question remains whether this trend will continue throughout the summer. Today, we see the prices at around 635/645 euros per ton DDP NWE.

If we look at the current UCO / UCOME spread, there is still some space for the UCO prices to go up. In November 2017, the UCOME price was at today's level (around 880 euros per ton) and the spread was on average at €190. However, today it is at around €220. But **poor availability of UCO in Europe as well as from overseas, especially in the last 10 days, is pushing the prices up and squeezing the margins.**

The import market is currently influenced by two factors: Asian exporters' fear that the upwards trend will not last long so better to benefit from the higher prices when they last and the lowest Euro / USD exchange rate since November 2017.

Given the constraints of sourcing and strong demand, the UCO in bulk as well as in flexi tank still enjoyed a rise of between 4.5% and 6% between May and June, depending on the quality.

We note that UCO with FFA 5%, IV 80 is at around $645 per ton CIF. Thus, we believe that the market still has an upside potential and the only possible risk could come from the evolution of the EUR / USD exchange rate.

ANIMAL FAT: BULLISH MARKET FOR CAT 1

The **animal fat market of cat 1 should benefit from a strong upward movement** due to the renewal of quarterly contracts. However, this is not so obvious because the producers of cat 1, in the last few years, have been working directly with the TME producers, which limits their visibility of the biodiesel market.

The analysis of biodiesel market prices is not limited to a comparison with the evolution of the fuel price but depends on several other factors. In Q1, the average price of TME was €725 per ton FOB, in Q2 the market of TME is mostly already sold out at around €770. At the same time, the continuous bullish trend should push the Q3 prices to the levels of 860 euros per ton. We are thus going back to the levels from Q3 / October 2017.

Consequently, **the prices of animal fat with FFA max 15/20% should be at least around €430-460 per ton**. The upwards trend is supported by several factors: limited supply in the EU, low or even non-existent import, increasing demand due to rising mandates, the end of PFAD in Italy and temporary arbitration with the US.

Animal fats cat 3 with FFA 3% to 5% are between 610 to 625 euros per ton, depending on the quality.

GLYCERIN: LACK OF DEMAND ON THE MARKET

Despite the bullish trend on the biodiesel market, the sales of glycerin for Q3 seem to be quite complicated.

The **Asian market is oversupplied with glycerin** and most of the Epichlorohydrin producers want to delay their purchases to see how the market develops. Several cargos purchased by traders or importers are in the ports waiting for a buyer. Even if only small volumes have been traded, price indication is at around 350 USD/MT CFR China.

Moreover, on the Eastern European market, the previously very high prices of glycerin forced the anti-freeze liquids producers to look for a substitute. They seem to have been successful which pushed the demand significantly down. The buyers are currently waiting for the summer season to finish.

Today, the **liquidity on the glycerin market is very low.** European producers do not want to decrease the prices too much for Q3 while buyers are not ready to bid.

So, crude glycerin 75% / 80% for technical purposes is still offered between 180 to 270 euros per ton ExW depending on the quality, however, only small volumes have been contracted in the last weeks.

BIODIESEL: LIQUIDITY FINALLY BACK TO THE MARKET

- **Limited supply of SME from Argentina** contributed to a price increase in Europe
- **UCOME and TME** prices went up by around 16% in May only

The reduction in production by some RME plants in Europe in Q2 and limited imports of SME and PME during the last two months pushed the biodiesel prices significantly up in May. **The average prices of FAME 0°C and RME in May were respectively 65 USD/MT and 50 USD/MT higher compared to April.**

The announcement from the 24th of May about the registration of each batch of SME imported from Argentina as well as the potential implementation of new antidumping duties gave further boost to the FAME prices in spot but also for Q4-18 and Q1-19. However, these duties will be in force earliest from the end of October with the retroactivity of 3 months. Due to that, SME imports will be probably put on hold till the end of July when the situation is already clarified and the values of duties well published.

The market that was in contango in Q4 2017 and the beginning of 2018 is back to strong backwardation. Thus, **May was a record month for the TME and UCOME, following the rise of FAME 0°C.**

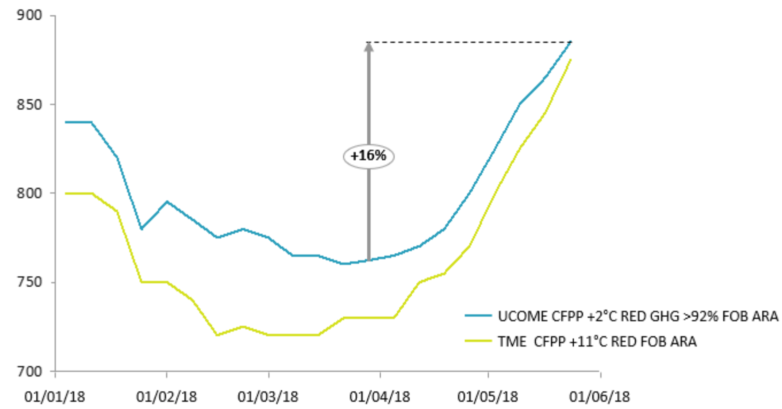
The double counting market is going strong, the liquidity is high and what we are disturbed by now is low supply.

We have come from €825 per ton at the beginning of the month to €890 FOB ARA last week and then back to 875 €/MT at the end of May. The **same trend was seen on the TME market with an increase of 60-70 euros per ton.** The producers of UCOME are today largely sold-out for June and only few parcels are left for July.

The DC incentive is pressured by the increase of GO price (reaching 700USD/MT) and the ratio of FAME 0° vs DC premium close to 2. The announcement by OPEC about a potential increase in production brought back the GO price to a downward trend increasing the FAME premium and then increasing again the DC incentive. Even if FAME is traded in the ARGUS window at much higher price, producers should remember that most of the DC biodiesel is sold 1 to 2 months in advance.

UCOME and TME price development (in Euros)

Source: Greenea



With the strong backwardation of $35 for May/June and $50 for May/July **UCOME market prices are around 890 €/MT for June/July and 875 €/MT for Q3 while TME is traded 15-20 €/MT lower.** TME market benefits in Q3 from a low value of CFPP point and high demand coming from the Italian market.

ONCOMING EVENTS: JUNE

Oleofuels 2018
6-7 June
Helsinki, Finland

EFPRA
20-23 June
Barcelona Spain

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