

# Palm oil's rare premium leads to 'wash out' in India, say dealers

Reuters

Mumbai

Indian buyers have opted to cancel 75,000 tonnes of palm oil purchases for the first time in many years and switch to rival soft oils, such as sunflower oil and soyoil, five industry officials said.

Palm oil usually trades at a discount to soft oils, but import restrictions by top producer Indonesia have helped to push palm oil to a premium, making sun oil and soyoil more attractive to buyers.

This has prompted some Indian buyers to reduce purchases of palm oil for May shipments and increase soft oil imports. They can do this via mutual agreements with importers to cancel the sales - a process known locally as a "wash out".

This allows a buyer to sell back a product to the seller based on a pricing formula that includes the prevailing market price. Lower palm oil



imports by India, the world's biggest buyer of vegetable oils, could weigh on Malaysian palm oil prices, but support soyoil and sunflower oil prices.

## NEGATIVE MARGINS

A few buyers decided to opt for a wash out because of negative margins prevailing in the local market, said Sandeep Bajoria, chief executive of Sunvin Group, a vegetable oil brokerage and consultancy firm.

Crude palm oil (CPO) imports are currently being

offered at about \$1,050 a tonne, including cost, insurance and freight (CIF), in India for May delivery, while palm oil imported in the past few months is now priced between \$1,000 to \$1,010, dealers said.

Wash outs are relatively rare in the Indian vegetable oil industry and the quantity is usually small at around 5,000 to 10,000 tonnes, said a Mumbai-based dealer with a global trade house.

Price-sensitive Asian buyers traditionally rely on palm oil because of low costs and quick shipping times. But palm oil has moved to a premium at the same time as soft oil prices have dropped, partly due to a record rapeseed crop.

Palm oil's discount to rival oils was much as \$500 in the December quarter, but now it is holding a rare premium of more than \$30 per tonne over sunoil for May shipments, dealers said.