

MARKET COMMENTARY

RME premiums extend losses

Biodiesel markets saw a quiet end to a quiet week with most players absent from the market as they balance end of year books.

RED Fame 0 was pegged at \$180-200/t fob ARA for Argus loading dates for 20 December-10 January and an unanswered offer was posted at \$200/t for 20-30 December but little else was heard.

Value was assessed steady at \$190/t with a \$35/t RED-non-RED spread.

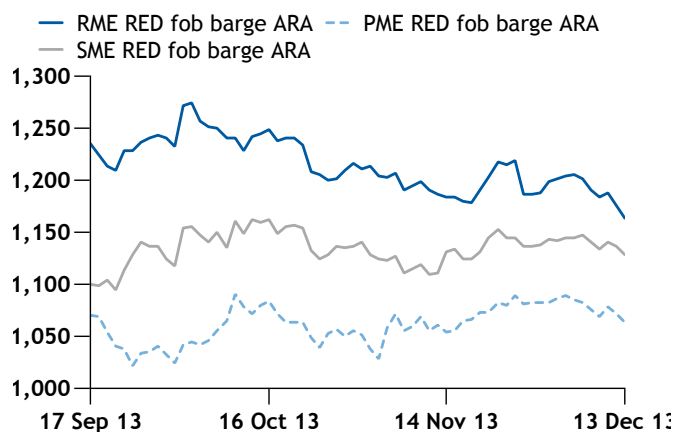
Offers for RED RME came down by \$5/t from Thursday at \$265/t for ARA for 15-20 December and \$260/t for 20-25 December, but this still was not enough to attract buyers. Non-RED RME was also aggressively offered at \$205/t for balance of December loading but again found no bidders.

RED RME was assessed at \$245/t with a \$50/t RED-non-RED spread.

A \$130-165/t fob ARA RED PME range was pegged for balance of December loading but buyers and sellers came no closer to making a deal. Swaps trading was similarly muted, with a flat Q2/Q3 RED RME spread the only deal seen.

Little more was heard on waste-derived biodiesel, with indicative values pegged around €950-960/t fob ARA for ISCC EU UCOME and around €985-995/t for ISCC DE UCOME, although buyers were hard to come by at these higher levels. ISCC EU TME was pegged at €925/t.

RED RME vs RED PME vs RED SME, fob barge ARA \$/t



PRICES

| Biodiesel spot prices | | | \$/t |
|-------------------------------------|----------|----------|--------|
| | Bid | Ask | ± |
| RED | | | |
| Palm OME fob ARA range | 1,058.00 | 1,068.00 | -8.00 |
| Rapeseed OME fob ARA range | 1,158.00 | 1,168.00 | -13.00 |
| Soya OME fob ARA range | 1,123.00 | 1,133.00 | -8.00 |
| FAME 0° C CFPP fob ARA range | 1,103.00 | 1,113.00 | -8.00 |
| FAME -10° C CFPP fob ARA range | 1,148.00 | 1,158.00 | -13.00 |
| FAME 0° C CFPP cif Genoa | 1,138.00 | 1,148.00 | -8.00 |
| UCOME EU fob ARA range | 1,299.00 | 1,309.00 | -5.00 |
| Differential to FAME | | +196.00 | |
| UCOME DE fob ARA range | 1,354.00 | 1,364.00 | -5.00 |
| Differential to FAME | | +251.00 | |
| Tallow OME fob ARA range | 1,264.00 | 1,274.00 | +2.00 |
| Differential to FAME | | +161.00 | |
| Non-RED | | | |
| Palm OME fob ARA range | 1,023.00 | 1,033.00 | -8.00 |
| Rapeseed OME fob ARA range | 1,108.00 | 1,118.00 | -28.00 |
| Soya OME fob ARA range | 1,088.00 | 1,098.00 | -8.00 |
| FAME 0° C CFPP fob ARA range | 1,068.00 | 1,078.00 | -8.00 |
| FAME -10° C CFPP fob ARA range | 1,098.00 | 1,108.00 | -28.00 |
| FAME 0° C CFPP T1 cif ARA range | 980.00 | 990.00 | -8.00 |
| Feedstocks | | | |
| Rapeseed oil fob Dutch Mill €/t | 727.00 | 729.00 | -2.00 |
| Palm Olein Malaysia/Indonesia fob | 830.00 | 835.00 | |
| Arg SBO diff to CBOT 1st mth €/lb | 0.60 | 1.00 | - |
| International | | | |
| PME fob Malaysia | 1,000.00 | 1,010.00 | |
| PME fob Indonesia | 865.00 | 875.00 | |
| PME fob Singapore | 1,000.00 | 1,010.00 | |
| SME fob Argentina upriver | 890.96 | 899.77 | -19.83 |
| SME fob Houston B100 (12 Dec) | 1,199.02 | 1,228.92 | -12.29 |
| SME fob Houston B100 (12 Dec) €/USG | 401.01 | 411.01 | -4.11 |

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Feedstocks

European vegetable oil prices opened lower on Friday, shadowing significant declines in Paris rapeseed futures. But despite rapeseed futures reversing losses later in the session, fob Dutch Mill prices settled lower compared with Thursday.

The February-March-April (FMA) contract was discussed between €726-730/t near open, but offers rose to €733/t in a volatile session, following later intra-day gains in rapeseed futures. No trades were heard on the strip, but bids and offers narrowed to €730/t and €731/t late in the day. The contract was assessed at midpoint 731/t. The prompt December-January position's discount to the FMA was maintained at €3/t, unchanged from the previous session and in line with the day's discussions. Further ahead, product for May-June-July delivery upheld a narrow premium to the FMA, with discussions ranging €731-732/t near close.

The Argentinian bean oil market shrugged off declines in Chicago soybean oil on Friday to move higher at the end of the week, supported by improved demand and lower supply. Product for January was offered at 100 basis points above the Chicago bean oil futures screen for January, with bidding at 60 basis points above. Further ahead, the May-June-July position was discussed between 110-130 basis points below the Chicago screen for January.

European ethanol

European ethanol markets were subdued at the end of the week, but Argus RED T2 prices were indicated approximately €1/m3 higher following a single trade on the afternoon spot market.

On the T2 paper market, interest was thin. T2 December paper traded at €494/m3, while on the spreads the January/February T2 spread changed hands at - €4/m3.

Muted discussion continued into the afternoon spot market, which hosted one trade. Fob Rotterdam T2 product changed hands at €494/m3 for 18-22 December delivery, compared with trading at €493/m3 during the previous session. Argus RED T2 ethanol prices were subsequently assessed at a range of €490/m3 bid and €494/m3 offered across the Argus 5-15 day forward price window, compared with €489-493/m3 during the previous session.

Asia-Pacific

Asian palm methyl ester (PME) prices held steady even as trading activity was minimal and buyers held off on purchases.

With Asian PME buyers and sellers reluctant to show numbers, bids were notionally pegged around the high-\$900s/t fob Malaysia level for end January shipment. Most

| RME RED swap | | | | \$/t | |
|--------------|-------|-------|---------|-------|--|
| Contract | RED | | Non-RED | | |
| | Bid | Ask | Bid | Ask | |
| Dec | 1,150 | 1,160 | 1,115 | 1,125 | |
| Jan | 1,135 | 1,145 | 1,100 | 1,110 | |
| Feb | 1,130 | 1,140 | 1,095 | 1,105 | |
| 1Q14 | 1,130 | 1,140 | 1,095 | 1,105 | |
| 2Q14 | 1,120 | 1,130 | 1,085 | 1,095 | |

| Fame 0°C CFPP swap | | | | \$/t | |
|--------------------|-------|-------|---------|-------|--|
| Contract | RED | | Non-RED | | |
| | Bid | Ask | Bid | Ask | |
| Dec | 1,090 | 1,100 | 1,055 | 1,065 | |
| Jan | 1,090 | 1,100 | 1,055 | 1,065 | |
| Feb | 1,090 | 1,100 | 1,055 | 1,065 | |
| 1Q14 | 1,090 | 1,100 | 1,055 | 1,065 | |
| 2Q14 | 1,095 | 1,105 | 1,060 | 1,070 | |

| PME RED forward physical | | | \$/t | |
|--------------------------|-----|-----|-------|-------|
| Contract | Bid | Ask | | |
| Dec | | | 1,040 | 1,050 |
| Jan | | | 1,040 | 1,050 |
| Feb | | | 1,045 | 1,055 |
| 1Q14 | | | 1,045 | 1,055 |
| 2Q14 | | | 1,055 | 1,065 |

| SME RED forward physical | | | \$/t | |
|--------------------------|-----|-----|-------|-------|
| Contract | Bid | Ask | | |
| Dec | | | 1,110 | 1,120 |
| Jan | | | 1,110 | 1,120 |
| Feb | | | 1,110 | 1,120 |
| 1Q14 | | | 1,110 | 1,120 |
| 2Q14 | | | 1,115 | 1,125 |

| Fame -10°C CFPP forward physical | | | \$/t | |
|----------------------------------|-----|-----|-------|-------|
| Contract | Bid | Ask | | |
| Dec | | | 1,105 | 1,115 |
| Jan | | | 1,090 | 1,100 |
| Feb | | | 1,085 | 1,095 |
| 1Q14 | | | 1,085 | 1,095 |
| 2Q14 | | | 1,075 | 1,085 |

| Reference prices | | | | \$/t | |
|--|--------|----------|-------|------|--|
| | Month | Settle | ± | | |
| Malaysia palm oil futures <i>ringgit/t</i> | Feb | 2,561.00 | -51.0 | | |
| | Bid | Ask | ± | | |
| Glycerine fob SE Asia | 550.00 | 570.00 | 0.0 | | |
| German diesel 10ppm barge | 929.50 | 930.00 | -8.50 | | |
| Gasoline 95R cif NWE | 933.00 | 933.50 | -9.25 | | |

buyers for standard palm biodiesel continued to remain on the sidelines, with sellers saying they felt little pressure to adjust offers lower because feedstock palm oil values have held firm. Selling indications were pegged around the low-\$1,000s/t fob Malaysia.

Front-month US heating oil futures were trading around \$951/t, with its premium to palm oil feedstock widened further to \$130/t from \$125/t in the previous session. Regional benchmark crude palm oil (CPO) futures on the Malaysian derivatives market slid to 2,561 ringgit/t (\$791/t), following weak export data.

Limited supplies continued to keep Asian ethanol prices firmly supported, with offers from Pakistan and Thailand kept to small spot volumes. Rising feedstock molasses costs in Pakistan have prompted a few producers to maintain offers of anhydrous ethanol around the low-\$900s/t fob Karachi level. Pakistani producers have been actively exporting cargoes to Europe. Pakistan is benefiting from the EU's duty-free import quota which encouraged higher demand from European buyers and drove Pakistan's ethanol domestic production higher this year.

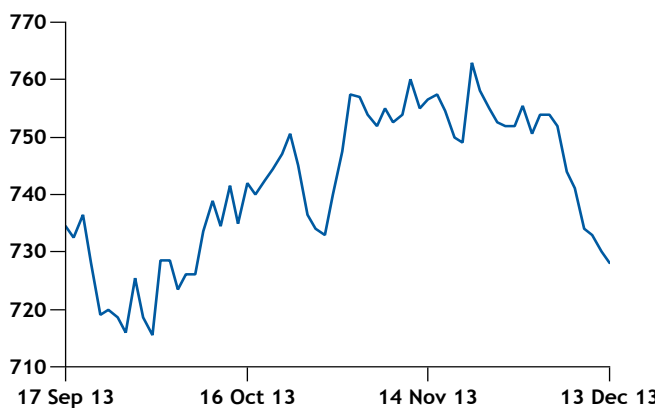
Thailand's current strong appetite for domestic gasohol has restrained many producers from exporting ethanol this month. Even with at least three new plants running at near full capacities, output from these facilities was mainly to fulfill domestic requirements.

Feedstock molasses consumption in Thailand has also been rising this year to 150-160mn t/yr from 100mn t/yr seen in the previous year, followed by cassava of around 2mn t/yr.

Thailand could resume exports intermittently early next year Impress Ethanol's 200,000 l/d (1,260 b/d) plant is successfully commissioned in the first quarter of next year.

Rapeseed oil fob Dutch Mill

€/t



| Ice gasoil swap | | | \$/t |
|----------------------|--------|--|-------|
| | Value | | ± |
| 7 to 28 days forward | 917.68 | | -7.82 |

| Ice gasoil settle | | | \$/t |
|-------------------|--------|--|-------|
| Contract | Value | | ± |
| Jan | 917.75 | | -7.75 |
| Feb | 916.75 | | -8.50 |
| Mar | 915.00 | | -9.00 |

| Crude rapeseed oil | | | | €/t |
|--|----------|-----|-----|-----|
| | Contract | Bid | Ask | |
| Rapeseed oil fob Dutch Mill | - | 727 | 729 | |
| Rapeseed oil fob Dutch Mill, first forward strip | FMA | 730 | 732 | |

| Palm olein Malaysia/Indonesia fob | | | \$/t |
|-----------------------------------|-----|-----|------|
| Contract | Bid | Ask | |
| Jan | 830 | 835 | |
| Feb | 830 | 835 | |
| Mar | 830 | 835 | |

| Ethanol spot prices | | | | \$/t |
|--|--------|--------|--|--------|
| | Bid | Ask | | ± |
| RED | | | | |
| T2 fob Rotterdam inc duty €/m ³ | 490.00 | 494.00 | | +1.00 |
| T2 fob Rotterdam inc duty | 852.50 | 859.25 | | -0.13 |
| Differential to Eurobob oxy | -70.50 | -64.25 | | |
| Non-RED | | | | |
| T2 fob Rotterdam inc duty €/m ³ | 490.00 | 494.00 | | +1.00 |
| T2 fob Rotterdam inc duty | 852.50 | 859.25 | | -0.13 |
| Differential to Eurobob oxy | -70.50 | -64.25 | | |
| T1 fob Rotterdam ex duty \$/m ³ | 630.00 | 640.00 | | |
| T1 cif Rotterdam ex duty \$/m ³ | 620.00 | 630.00 | | |
| International | | | | |
| fob Pakistan | 920.00 | 930.00 | | |
| fob Pakistan (hydrous) | 860.00 | 870.00 | | |
| cfr Mumbai | 918.75 | 928.75 | | |
| fob Thailand | 870.00 | 880.00 | | |
| cfr Philippines \$/m ³ | 660.00 | 670.00 | | |
| B-grade cfr northeast Asia \$/m ³ | 630.00 | 640.00 | | |
| Pakistan del Mideast Gulf | 938.00 | 948.00 | | |
| Rotterdam del Mideast Gulf | 866.50 | 879.25 | | |
| EN spec fob Santos Brazil (12 Dec) \$/m ³ | 670.00 | 720.00 | | |
| Santos del Mideast Gulf (12 Dec) | 924.25 | 987.50 | | |
| Los Angeles del Singapore (12 Dec) | 898.93 | 908.97 | | -21.76 |

US

The US biodiesel market ended the week on a quiet note as many participants were off-desk attending industry events.

Differentials shifted sideways yet again in thin trade, while RIN values hovered near the previous day's levels.

Offers in the physical market were scarce as discussions proved hushed throughout the session.

Ethanol RINs were again valued between 29c and 30c/RIN, while biodiesel credits hovered slightly higher. Offers for 2013 vintage D4 RINs surfaced at 34c/RIN, 2c over the previous day's levels, however, bids held flat with Thursday's assessment.

A 0.52c/lb drop in December soybean oil pressed the HOBOS spread 2.5c wider near midday to stand at 101.99c/USG. Meanwhile, a 1.42c drop in the front month heating oil contract to trade near 296.5c/USG, limited the spreads gains. Soybeans were lower as well, trading 4.75c below Thursday's settlement, with trade occurring near 1320c/USG near midday.

NEWS

Brazil bumper crop augurs biofuel blend hike

A recent bumper forecast for Brazil's 2013/14 soybean crop bodes well for an increase in the mandatory biodiesel blend to 7pc (B7) from a current 5pc, says Odacir Klein, president of the Brazilian Biodiesel Union (Ubrabio).

Brazil's 2013/14 soybean crop is expected to reach 90mn t, up 10.5pc over the 81.5mn t produced in 2012/13, according to the government crop supply agency Conab.

"The large soybean harvest is one more reason for the government to move ahead with its decision to increase the biodiesel blend to 7pc," Klein told *Argus*.

Ubrabio expects President Dilma Rousseff to issue a presidential decree sometime over the next month raising the biodiesel blend to B6 for March-June 2014 and to B7 from 1 July 2014 until 1 January 2016, when the blend will be increased to 10pc.

If the decree is issued by mid-January, there will be sufficient time to increase the blend before the next auction, due in late January or early February.

Klein added that the recent 8pc hike in diesel prices at the refinery should give the government further reason to raise the blend.

Soybean oil was used to manufacture roughly 70pc of the biodiesel produced in October.

Klein said soybeans have been fundamental for the development of the biodiesel industry in Brazil, but added that beef tallow is expanding its share. In October, beef tallow was used as feedstock for 22pc of the biodiesel

| Biodiesel spot price averages December to date | | \$/t | |
|--|----------|----------|--|
| | Bid | Ask | |
| RED | | | |
| Palm OME fob ARA range | 1,073.30 | 1,083.30 | |
| Rapeseed OME fob ARA range | 1,186.30 | 1,196.30 | |
| Soya OME fob ARA range | 1,135.00 | 1,145.00 | |
| FAME 0°C CFPP fob ARA range | 1,115.00 | 1,125.00 | |
| FAME -10°C CFPP fob ARA range | 1,176.30 | 1,186.30 | |
| FAME 0°C CFPP cif Genoa | 1,149.00 | 1,159.00 | |
| UCOME EU fob ARA range | 1,292.00 | 1,302.00 | |
| UCOME DE fob ARA range | 1,348.60 | 1,358.60 | |
| Tallow OME fob ARA range | 1,253.30 | 1,263.30 | |
| Non-RED | | | |
| Palm OME fob ARA range | 1,038.30 | 1,048.30 | |
| Rapeseed OME fob ARA range | 1,152.80 | 1,162.80 | |
| Soya OME fob ARA range | 1,100.00 | 1,110.00 | |
| FAME 0°C CFPP fob ARA range | 1,081.50 | 1,091.50 | |
| FAME -10°C CFPP fob ARA range | 1,142.80 | 1,152.80 | |
| FAME 0°C CFPP T1 cif ARA range | 993.50 | 1,003.50 | |
| Feedstocks | | | |
| Rapeseed oil fob Dutch Mill €/t | 740.80 | 743.30 | |
| International | | | |
| PME fob Malaysia | 999.50 | 1,009.50 | |
| PME fob Indonesia | 864.00 | 874.00 | |
| PME fob Singapore | 999.50 | 1,009.50 | |
| SME fob Argentina | 910.22 | 924.11 | |

| Ethanol spot price averages December to date | | \$/t | |
|--|--------|--------|--|
| | Bid | Ask | |
| RED | | | |
| T2 fob Rotterdam inc duty €/m ³ | 494.00 | 498.50 | |
| T2 fob Rotterdam inc duty | 856.55 | 864.33 | |
| Differential to Eurobob oxy | -85.78 | -78.50 | |
| Non-RED | | | |
| T2 fob Rotterdam inc duty €/m ³ | 494.00 | 498.50 | |
| T2 fob Rotterdam inc duty | 856.55 | 864.33 | |
| Differential to Eurobob oxy | -85.78 | -78.50 | |
| T1 fob Rotterdam ex duty \$/m ³ | 660.60 | 670.60 | |
| T1 cif Rotterdam ex duty \$/m ³ | 650.60 | 660.60 | |
| International | | | |
| fob Pakistan | 943.00 | 953.00 | |
| fob Thailand | 893.00 | 903.00 | |
| Pakistan del Mideast Gulf | 961.00 | 971.00 | |
| Rotterdam del Mideast Gulf | 905.25 | 917.95 | |

manufactured in Brazil.

The country began its mandatory biodiesel program in 2008 at a 2pc blend. This blend rose to 5pc in January 2010, the maximum allowed by current legislation.

Spanish blenders put on the brakes

The blend rate for Spanish biofuels fell to its lowest point in close to four years in October, around one third of the demand levels of a year ago. The reductions are the result of producers and distributors cutting biodiesel volumes in an attempt to hit reduced state mandates by the end of the year.

Spain consumed 65,200 tonnes of biofuels in October, down 68pc against 201,100t of demand seen in the same month a year ago, according to advance data from the country's strategic reserve (Cores). The share of 2.9pc can be contrasted against a share of 9.1pc in the same month a year previously while in October 2011 biofuels took a 7.6pc tranche of Spanish road transport fuels. In the year to the end of October Spain has consumed 1.1mn t of biofuels, down by 48pc against the 2mn t of demand in the first ten months of 2012. From 1 January to 31 October in 2011 Spain burned just over 1.5mn t of biofuels. In share terms Spain hit a 9.2pc share in the first ten months of 2012 against a 5pc share in the same period in 2013.

The fall is also marked against previous months in 2013. The next lowest month for biofuel demand was September (91,900t) and the previous lowest share was 4.5pc, also in September. The steep cuts in October come as a result of the government revision of biofuel blend targets in February. Then lawmakers argued that the cost of adding biofuels to diesel and gasoline were hiking pump prices for consumers. Spain's previous 2013 targets for biofuel blend levels were a 6.5pc share in all transport fuels, made up by a 4.1pc share of gasoline for bioethanol and a 7pc tranche for biodiesel in diesel. But these figures were cut by Madrid for 2013 - and an unspecified number of following years - to a 4.1pc share overall. This will be made up of a 4.1pc share for biodiesel and a 3.9pc slice for bioethanol, the government says.

Speaking to Argus market participants say the fall is the result of Spanish distributors over blending in the first nine months of the year. Even with the fall in the blend rate in October biofuels still hold a 5pc share of Spanish road fuel demand, suggesting more reductions in biofuel blending will come in the remaining two months of the year as distributors seek to hit the 4.1pc mandate. Domestic producers will likely be adversely affected - although Spanish output for the year will rise against 2012 - as buyers dry up through to 31 December.

Biodiesel demand in Spain has been the hardest hit, falling by 75pc to 43,173t in October against the 176,000t burned in the same month in 2012. In October 2011 Spanish biodiesel demand stood at 138,000t. The level was the lowest since January 2009 (42,100t) but was also at a lower level than nine months in 2008 and one in 2007. In the year to the end of October Spanish demand for biodiesel stood at 828,000t, down by 53pc from 1.76mn t of consumption in the same period a year ago. The country consumed 1.4mn t of biodiesel in the the first ten months of 2011.

The country's smaller bioethanol market has been less badly hit with demand at 22,000t for October, down by 12pc against the 25,100t burned in October 2012. In October 2011 Spanish road users consumed 28,000t of bioethanol. Taken as a share bioethanol is holding up much better than biodiesel with a tranche of 5.5pc of gasoline demand, down from 6.2pc in the same month a year previously. In the year to the end of October bioethanol demand stood at 233,300t, down 15pc against the 274,000t burned by drivers in the same period in 2012.

ANNOUNCEMENT

Argus successfully completes losco assurance review

Argus has successfully completed an external assurance review of its oil price benchmarks, including those for the biofuels markets. The review was carried out by professional services firm PwC. An independent and external review of oil benchmark prices is required on an annual basis by international regulators in order to satisfy losco's Principles for Oil Price Reporting Agencies (the PRA Principles).

For more information and to download the report visit our website <http://www.argusmedia.com/About-Argus/How-We-Work>

Argus Assessment Rationale Database

For prices used in financial benchmarks, Argus publishes daily explanations of the assessment rationale with supporting data. This information is available to permissioned subscribers and other stakeholders.

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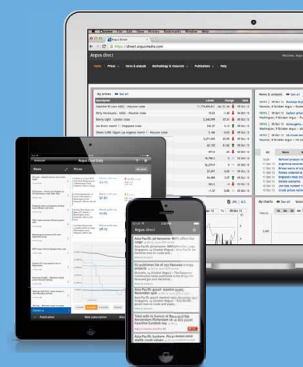
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