



Palm Oil Market Outlook: Risks and Opportunities

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What's happening in the palm market?

- Tight supplies
- Rebound in demand
- Tracking bullish sentiments in rival vegetable oil markets
- Indonesia raised export duties and levies



Source: Bursa Malaysia FCPO, third month

2020/21 (Oct/Sep) palm oil production: below potential

COVID-19 lockdown updates

Malaysia (MYS):

- labour shortages.
- Voluntary lockdown and some palm oil mills temporarily closed due to high COVID-19 infections.

Indonesia (IDN):

- Operations in most estates remain stable.

Country	2019/20 production million tons	2020/21 ^E production million tons
Malaysia	19.3	19.1
Indonesia	45.6	46.0

Source: ^E Estimates as of February 2021

Impacts of adverse weather

Flooding



Poor road conditions

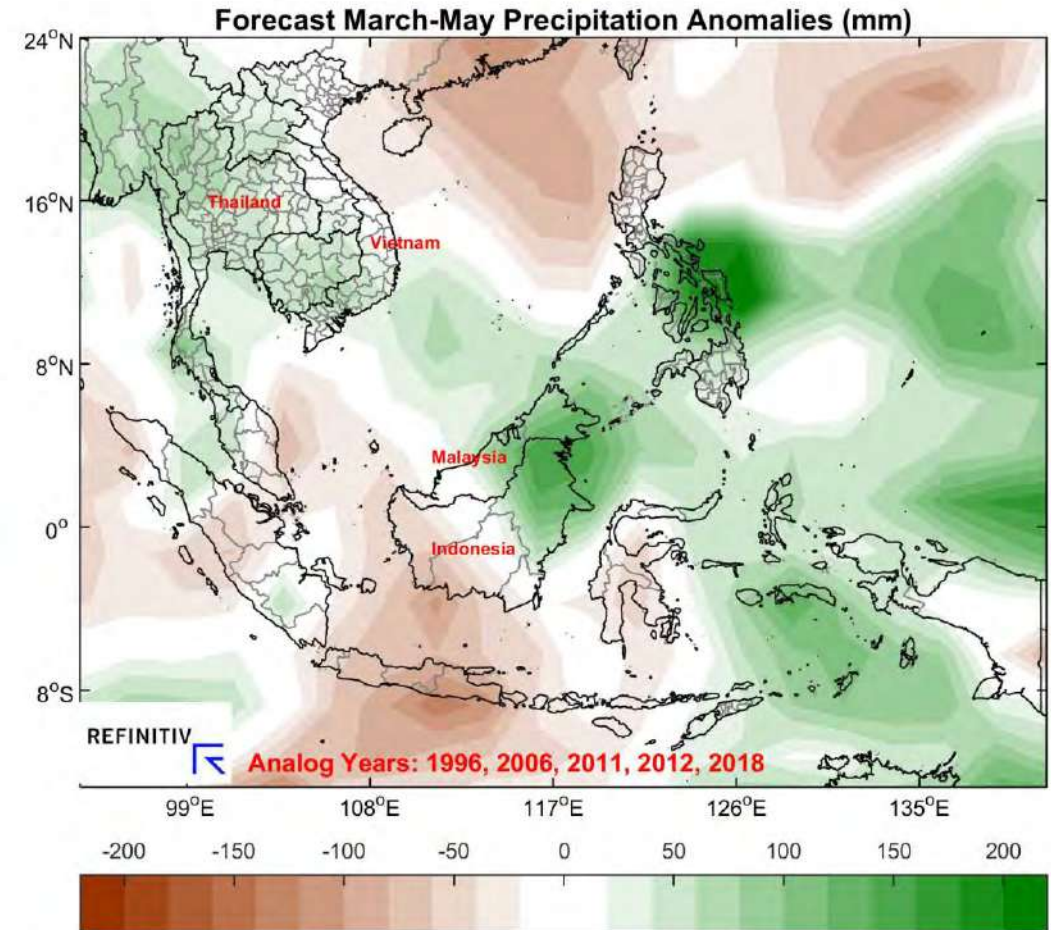


Landslides



March-May'21 weather outlook: mixed weather

- **Below normal rainfall-** Peninsular Malaysia, Sumatra, west side of Sarawak, Kalimantan Barat, Kalimantan Tengah, Kalimantan Selatan, Sulawesi and Jawa.
- **Above normal rainfall-** Sabah, east side of Sarawak, Kalimantan Timur, Kalimantan Utara, Thailand and Vietnam.



Source: Refinitiv Weather

2020/21 (Oct/Sep) palm oil imports from India & China: increase versus 2019/20

- Palm oil imports from India and China are expected to rise - growth in edible oil consumption, a gradual economy recovery and restocking activities.
- EU palm oil imports will likely decline.

Country	2019/20 imports million tons	2020/21 ^E imports million tons
India	7.4	8.7
EU	7.5	7.3
China	6.7	6.9

Source: ^E Estimates as of Feb 2021

India palm oil stocks at low levels

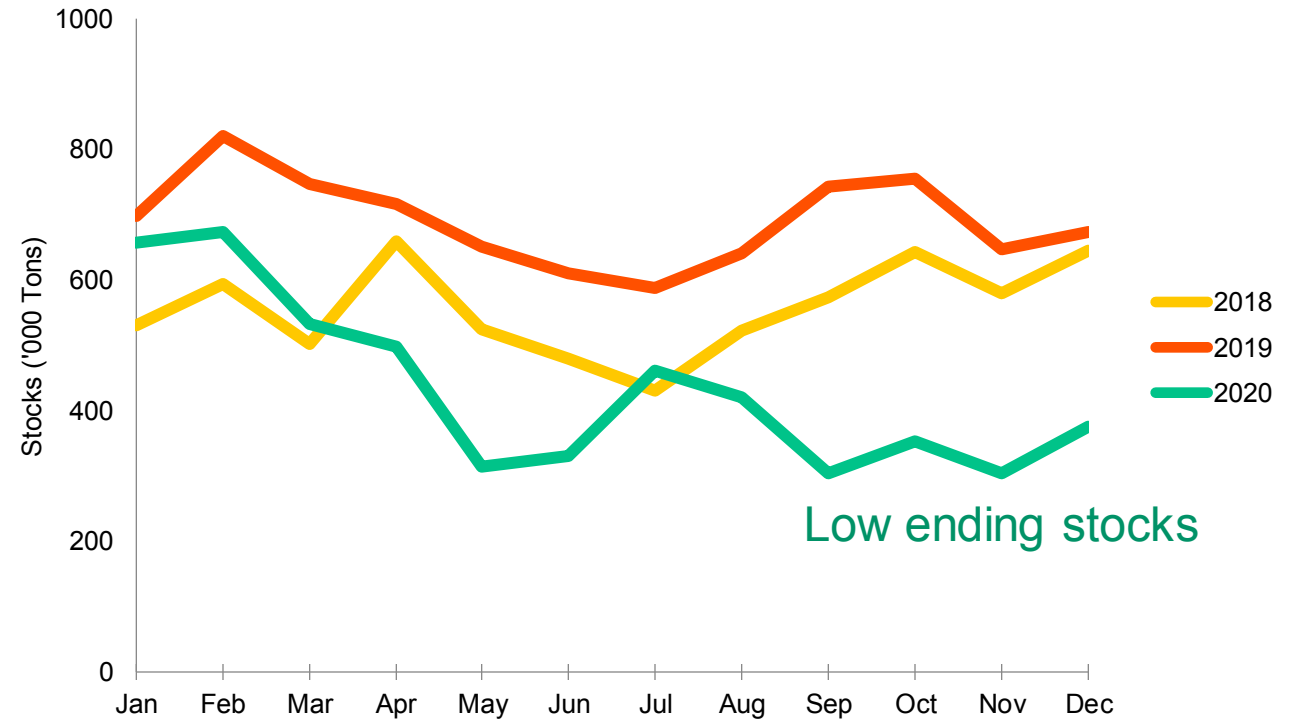
Opportunities:

- Low palm oil inventories – restocking could be on the horizon.
- Gradual recovery in demand.

Caveats:

- Ample rainfall during the monsoon season in 2020 - raise domestic oilseed production this year.
- The new import duty structure narrowed the duty gap between palm oil and other soft oils to 2.75% from 8.25% previously - affect palm oil purchases.

India palm oil stocks



Source: SEA Solvents, MPOC

Rapid recovery of China's economy keeps demand steady

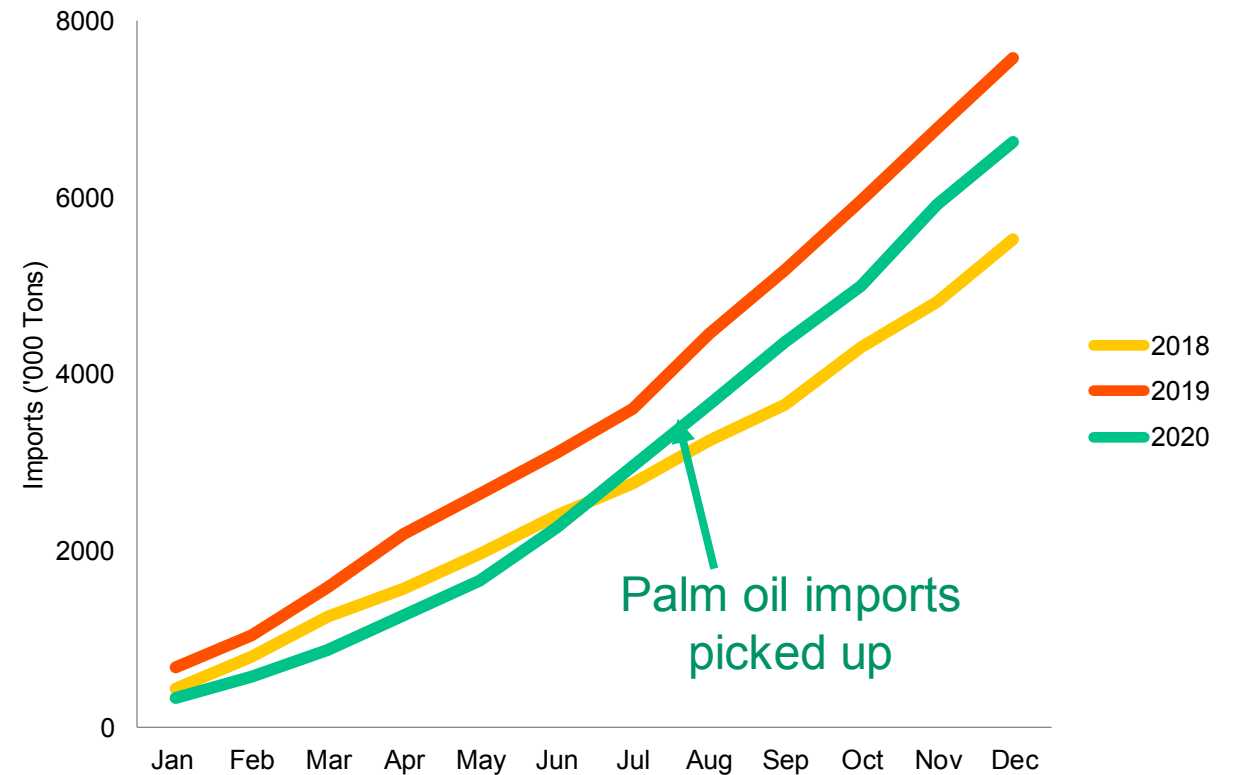
Opportunities:

- Preferred by the food manufacturing and commercial sectors - making instant noodles, frozen foods, snacks, etc.
- Cost-effectiveness and versatile nature.

Caveats:

- Record high soybean imports in 2020/21.
- Higher crushing activities will produce more soybean oil (by-product after crushing) - compete with palm oil in the market.

China palm oil imports



Source: Cofeed

COVID-19 and EU's policies will likely curb palm oil imports

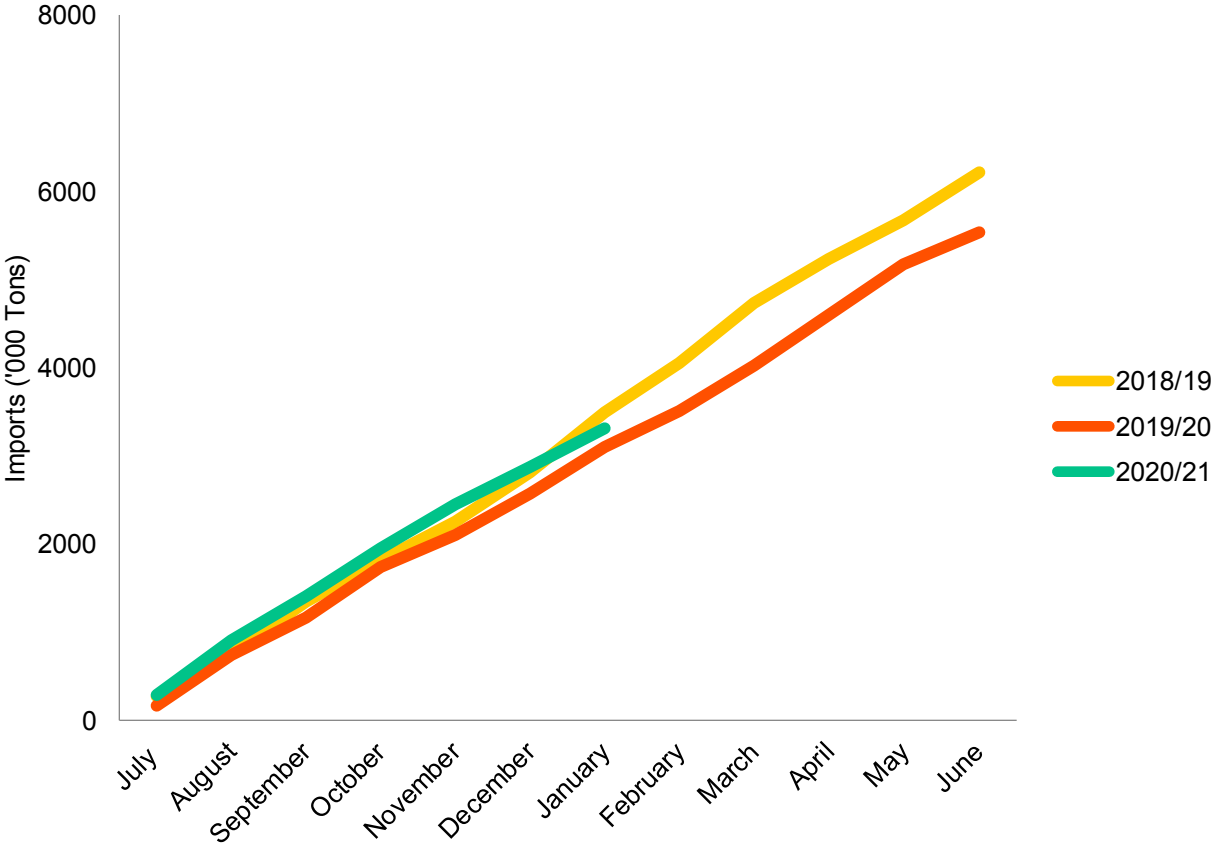
Caveats:

- COVID-19 has slashed demand from the HORECA sector.
- Policies to curb palm oil usage– RED II, new food safety standards on 3-MCPD and GE, contaminants found in refined oil products.

Opportunities:

- A shortfall in rapeseed supplies may keep EU palm oil imports steady.
- Rising biodiesel blending.

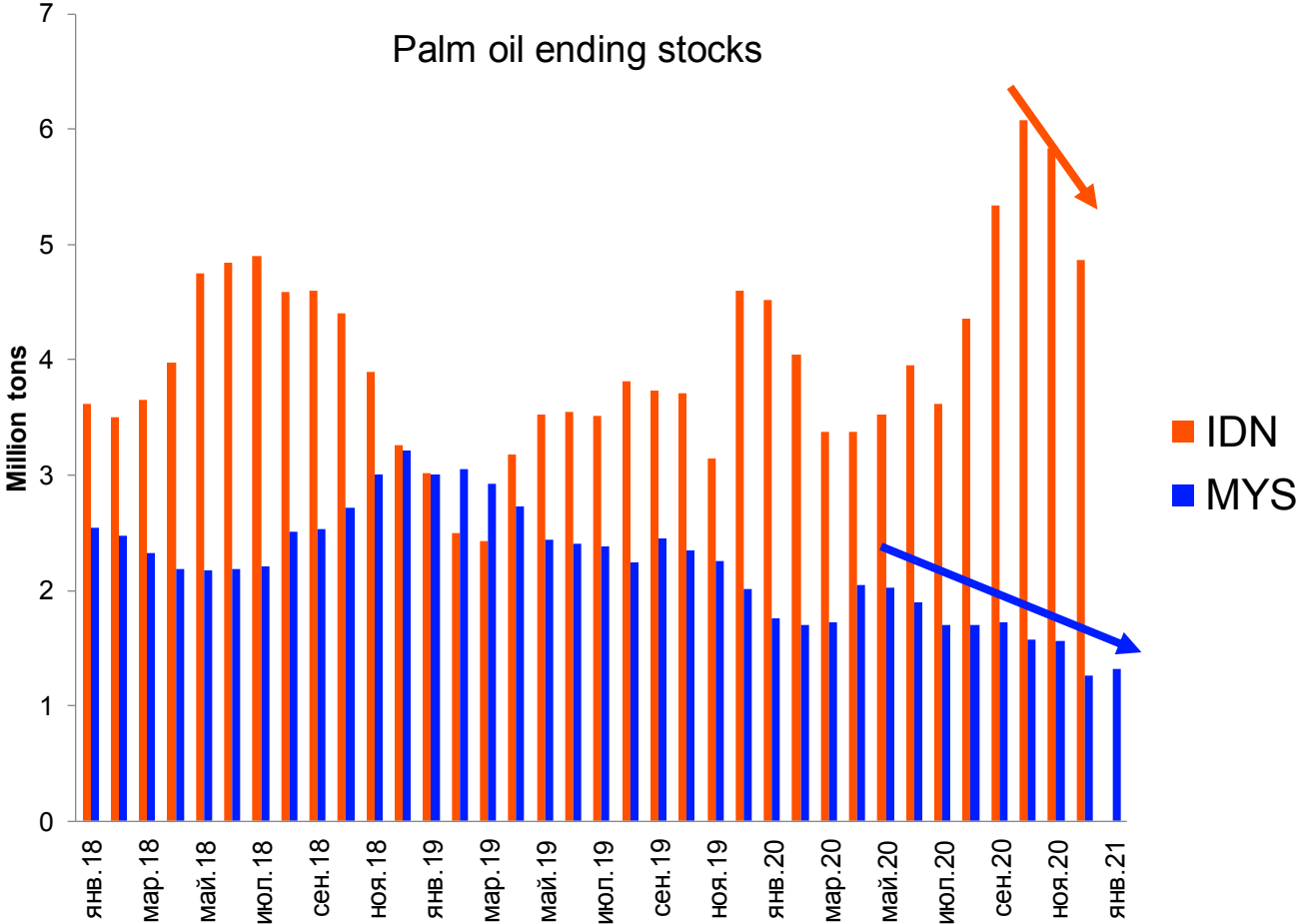
EU palm oil imports



Source: EU Commission Statistics

Supporting driver (1): Lower inventories keep the palm market steady

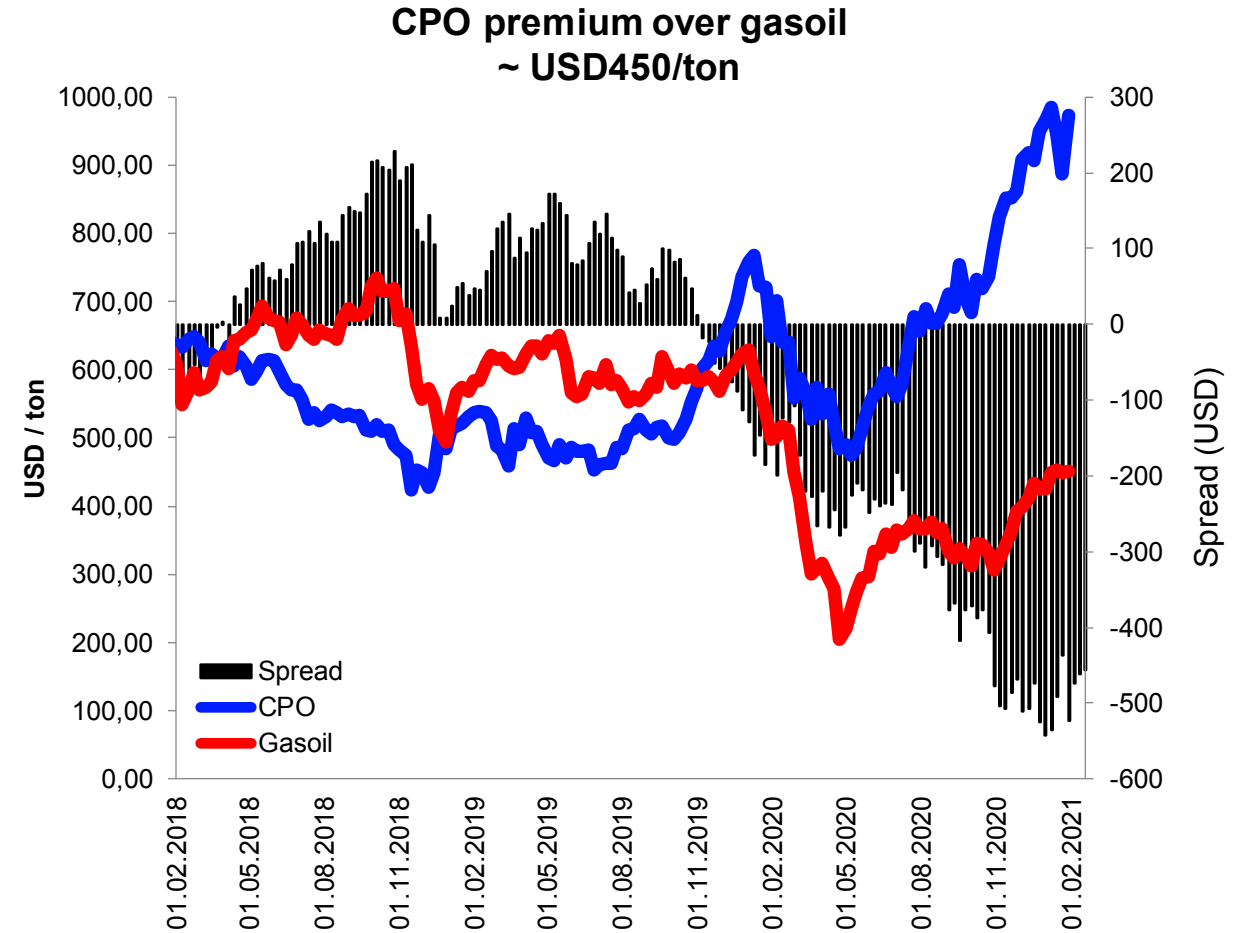
- Ending stocks in Malaysia fell to 1.32 million tons in January 2021, the second lowest level since 2004.
- Indonesia inventories dwindled 19% from a peak of 6.08 million tons in October 2020 to 4.87 million tons in December.



Source: MPOB, GAPKI

Supporting driver (2): Biodiesel policies are supportive

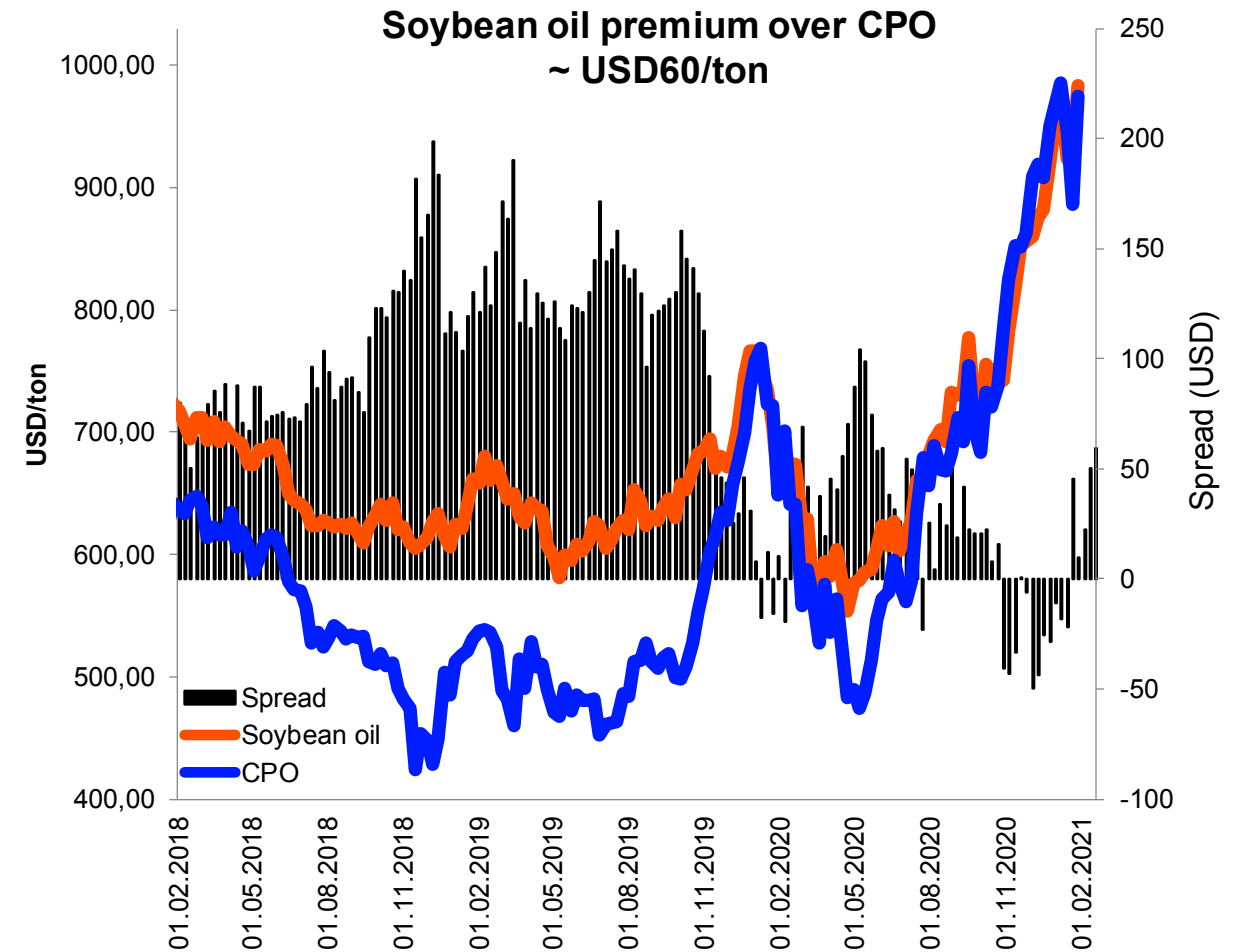
- Despite crude palm oil's (CPO) high premium to gasoil, the Indonesia's B30 biodiesel mandate is continued and expected to absorb about 8 million tons of Indonesia palm oil this year.
- Mineral oil prices are recovering.



Source: ICE low sulphur gasoil futures, Bursa Malaysia FCPO

Supporting driver (3): Soybean oil market remains bullish

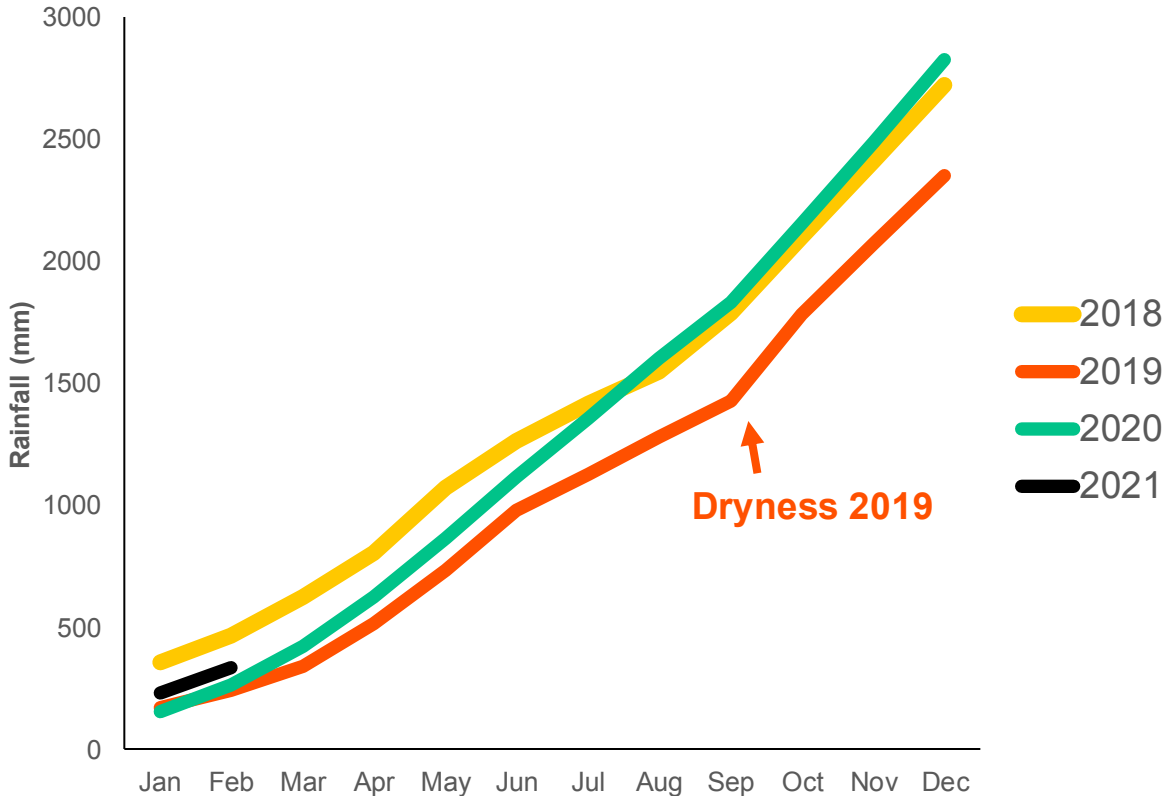
- Bullish market sentiment- soybean oil, sunflower oil, rapeseed oil, etc.
- Palm oil is still cheaper relative to its rival vegetable oils, making palm oil prices appealing in the vegetable oil market.



Source: CBOT soybean oil futures, Bursa Malaysia FCPO

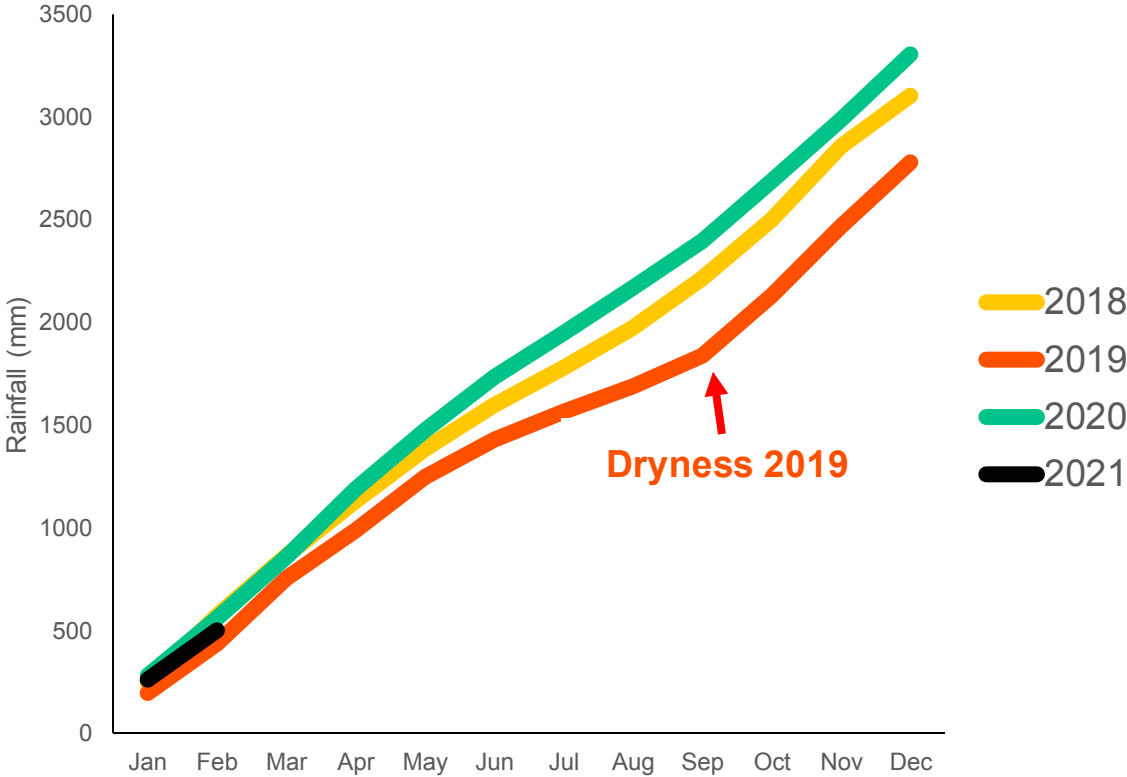
Supporting driver (4): Palm oil yields could be affected by dryness'2019

Malaysia's rainfall totals (Jan-Dec)



Source: Refinitiv Weather

Indonesia's rainfall totals (Jan-Dec)



Source: Refinitiv Weather

Takeaways

- 2020/21 palm oil production - below potential.
- 2020/21 palm oil imports - are expected to rise.
- Palm oil prices will remain supported in the short-term but may gradually weaken over the next few months.

- Risks:
 - i. Potentially weaker appetite for palm oil. High palm prices may curb some demand from price-sensitive markets.
 - ii. South America's soybean output may turn out to be higher-than-expected.
 - iii. Higher oilseed prices may encourage more planting in the next season.
 - iv. Key consuming countries may lower their palm oil imports, in the event of robust domestic vegetable oil output, e.g. China- rising soybean crushing activities.

Thank you