Introduction

The year 2020 is forecasted to be a good year for palm oil in terms of remunerative price for the palm oil producing countries. Indonesia and Malaysia are the two biggest producers and exporters of palm oil globally. Other major producers of palm oil are Thailand, Colombia, Nigeria, Guatemala, Honduras, Ecuador, Papua New Guinea, and Ghana. The crude palm oil (CPO) prices have been on a rallying trend since October 2019, peaking above RM2,800 per tonne on 9th December 2019. The prices of palm oil in the first nine months of the year were subdued because of persistent high stock, slower demand from major importers India and China and the European Union decision on EU’s Renewable Directive II (RED II), which will phase out palm oil deemed unsustainable from the European biofuel market by 2030. The trade differences between Malaysia and India in October were projected to dampen the sales and prices further.

CPOPC organized the First Palm Oil Supply and Demand Outlook Conference (POSDOC) in Malaysia on 22nd October 2019 to change the perspective of the market. As palm oil is a market-driven industry in many producing countries, CPOPC wanted all stakeholders to be cognizant and updated on the supply, demand, and price in the global market going into 2020. The market then was fed with gloomy forecasts and a lack of informed data. The next 2-3 months were, therefore, crucial for the industry to digest all the numbers and data going forward. The focus of the conference is to develop a Supply and Demand Balancing Strategy to ensure that the market price is remunerative for the industry to remain sustainable. The industry needs to explore areas of mutual interest to work together, to share common experiences to address problems as well as to optimize opportunities.

The conference was successful in providing a strategic platform for interaction and in-depth deliberation on three key aspects related to the palm oil industry, namely production supply, market demand, and price outlooks. The event enabled CPOPC to publicize the forecasted supply and demand messages that successfully sensitized the market. Palm oil prices have soared since then, and the upward trend is likely to continue as demand would increase due to a combination of factors including greater use of palm oil-based biodiesel and low production of palm oil in 2020.
Reversal of Market

The momentum of discussion at POSDOC was further amplified positively at the International Palm Oil Conference (IPOC) in Bali, Indonesia, at the end of October 2019. Several top analysts referred to the POSDOC view and concurred that dry weather and haze would decrease production, supported by Indonesia pledges on implementing compulsory biofuel programs. CPOPC was invited to be a panelist at the conference and presented the sentiments of discussion at POSDOC earlier. The positive indications gave another push to prices, extending the rally onwards into November.

The market enthusiasm can be attributed to:

1. The lengthy drought in Sumatera and Kalimantan early in the year has resulted in many palm oil companies to reduce fertilizer application. Companies opted not to manure because the oil palm trees would not benefit much from the fertilizer application during extremely dry conditions. Additionally, due to persisting low palm oil prices over the year, companies decided to minimize their expenses by reducing manuring. These have led to decreasing fruit production and eventually reduced palm oil supply in the market.

2. Several analysts, including at Globoil Conference 2019 in Mumbai, India, held in September, have forecasted that palm oil price shall be flat until the end of 2019 and in the first quarter of 2020. Discussion during the Globoil also suggested that Indian importer will not buy palm oil from Malaysia, which might be intended to create an oversupply situation in Malaysia to cause a price collapse. As a result, the Indian buyer started to buy from Indonesia producers. However, the Indians unexpectedly lost their bargaining power in the duopoly market. The fact is, Indonesia could not provide a sudden supply to the whole Indian’s need without raising the price. Hence, the price has moved on since then, which has also lifted the Malaysian price, which becomes relatively cheaper, leading to further positive trends.

3. Importantly, the bullish sentiment is also due to the mandatory biodiesel program. It is well accepted that the recent price spike is due to Indonesia's announcement to launch the 30 percent biodiesel blend (B30) program in 2020.
The program would envisage absorbing over 9 million tonnes more CPO. On the other side, Malaysia is preparing for B20 next year; when both volumes combined, it will generate considerable CPO consumption. The B30 and B20 have created a bullish scenario that demand will outstrip supply, and as a result, the price increased.

The POSDOC has managed to inform the market on supply & demand balance potential based on the above market scenarios. As a result, it supported the price recovery and rally. The CPO price was at RM 2,236 when the POSDOC was held on 22nd October 2019, then soared to RM 2,580 on 11th November 2019 and to RM 2,807.50 on 11th December 2019. A significant jump of almost RM 600 over two months. This fluctuation contrasted with a flat trend of price forecast in September at Globoil for last quarter 2019 and 1st Quarter of 2020, which did not materialize.

Most industry analysts forecast that prices of CPO will remain at elevated levels in 2020. Benchmark futures may average RM 2,600 (US$628) a tonne, the highest in three years, according to the median of 25 estimates in a Bloomberg survey, versus an average of RM 2,240 reported for this year. Lower production in palm oil producing countries, increasing biodiesel mandates, and robust food demand would be the key price drivers in 2020.
Production Outlook

Analysts are revising their outlook for production in Indonesia and Malaysia due to dry weather and lack of fertilizer application. LMC International forecasts global palm stockpiles to reduce next year as slow output growth coincides with a boost to biodiesel mandates. The relentless pressure from NGOs to stop oil palm planting, as well as the slowdown in new planting due to low prices earlier and a moratorium in Indonesia, will inevitably keep production growth low in the next few years.

Industry efforts to be more sustainable will become more crucial in 2020, especially since it could lead to more companies or countries restricting the use of palm oil. There are fears that the EU, which wants to phase out palm use in biofuel, may look to the food sector next. CPOPC has advised the palm oil producing countries that the EU’s proposed limits on 3-MCPD esters may impact palm oil usage in food products and is set to be enforced legislatively to meet acceptable safety levels of the food processing contaminant. CPOPC has agreed that one maximum level of 3-MCPD at 2,500 µg/kg for all vegetable oils should be adopted,
as the acceptable safety limit for consumption. CPOPC will be organizing a 'Forum on 3-MCPD and GE' on 7th February 2020 in Jakarta, Indonesia, to help prepare the industry to meet this level.

The national sustainable certification scheme in Malaysia will become mandatory for growers next year, even as palm oil producing countries continue working together to counter discriminatory measures against palm oil. The weather calamities that affect soybean crops in the United States of America and South America or sunflower planting in the Black Sea countries could also tighten supplies and support edible oil prices, including palm oil.

Demand Outlook

The B30 biodiesel mandate in Indonesia is key to palm oil's price direction. The policy will help increase CPO prices, improve industry competitiveness, and divert biodiesel into the domestic market. Nevertheless, biodiesel mandates in Indonesia and Malaysia are facing scrutiny, as palm oil trades at a large premium of almost US$ 100 a tonne to gasoline, compared with an average discount of US $54 in the past year. The mandate will make palm oil more expensive to blend into biodiesel and require increased financial incentives. Indonesia has decided to reimpose export levies to fund the mandate starting from January 2020. Malaysia has also announced to impose its export duty from January 2020 onwards. Any failure to fulfill the mandate would not support palm oil prices.

The price rally has been so sudden that it threatens the palm oil’s traditional perception as cheap vegetable oil for food and fuel. Palm oil hit parity with soybean oil for the first time since 2011, reducing its price competitiveness against other edible oils and prompting buyers to consider alternatives. While a political trade argument between Malaysia and India disappeared in November, the markets are still on the lookout to see whether India may want to increase its import duties, which could affect palm oil purchases.

China, meanwhile, has increased its buying since July as African swine fever reduced its hog rearing and lowered domestic demand for soybean meal.
The China National Grain and Oils Information Center expects palm oil imports to reach a ‘record 7 million tonnes in the year starting October, as the tropical oil fills the gap.
Performance of Palm Oil in Indonesia

Palm oil is one of Indonesia's top foreign exchange earners and contributes 1.5 to 2.5 percent to Gross Domestic Products (GDP). It, directly and indirectly, provides a livelihood for more than 16 million people. On top of that, palm oil is the second-biggest contributor to Indonesian exports. Palm oil contributed more than 9 percent to Indonesia's total export value in 2018, lower than its contribution in 2017 of 11 percent. The main reason for the declining export value is the lower CPO price in 2018 compared to 2017. Low CPO prices have continued in the first nine months of 2019.

As a consequence, Indonesia's CPO export value declined 17.2 percent year-on-year (yoy) in this year's first nine months, greater than the 10.5 percent decrease in the same period last year. However, Indonesia's CPO export volume in the January-September period grew 1.9 percent yoy, a reversal from the 1.9 percent contraction in the same period last year. This figure indicates that the demand for CPO remains strong in 2019, especially from China.

Indonesian palm oil faces serious challenges from its main importers, such as India and the European Union. India has been reducing its dependency on the commodity and is shifting to local vegetable oils, such as rapeseed oil. The situation worsened for Indonesian palm oil when India imposed a lower import tariff for Malaysian refined palm oil until September 2019.

On the other hand, Indonesia and other palm oil producing countries have challenged the EU discriminatory policy against palm oil through many fora. However, Trademap data show that the EU's CPO import volume grew 8.2 percent yoy in this year's first seven months despite all its negative campaigns.

To promote sustainable palm oil and combat negative campaigns on the sustainability of palm oil, Indonesia has maintained the moratorium on issuing permits for new oil palm plantations while enforcing sustainability standards through the Indonesian Sustainable Palm Oil (ISPO) certification program.
Performance of Malaysian Palm Oil

Palm oil is still the best agri-commodity for Malaysia. The industry contributed 4.5 percent to the Malaysian Gross Domestic Product (GDP) and RM 67.5 billion of export earnings to the country in 2018. However, there was a declining export value because of lower crude palm oil (CPO) price in 2018 compared to 2017. The low CPO prices continued in 2019. Based on the Malaysian Palm Oil Board (MPOB) average CPO price, the forecast for 2019 would be RM 2,120 per tonne, supported by a strong average of RM 2,820 per tonne in December 2019.

Internally, the CPO supply will likely decrease in 2020 due to lower production. A lower CPO price throughout 2019 has forced growers to reduce their fertilizer applications, especially in plantations owned by smallholders whose productivity is lower compared to those owned by private companies. The lack of fertilizer will reduce production in the upcoming year, starting in the fourth quarter of 2019 onwards to 2021. There was a report of drier weather and lower rainfall volume for 3 to 4 months in Pahang, Selangor, and Perak in the first quarter of 2019 and Sabah in the third quarter of the year. There will be less FFB due to floral and bunch failure during the dry season that will affect production in 2020. In November and December, several states in Peninsular Malaysia were flooded that may affect the harvesting and transportation of FFB.

The CPO production will also be limited because there will be a small increase in the total plantation area this year. Malaysia has enforced various new policies such as the capping of the total oil palm cultivated area to 6.5 million hectares; a stop on new planting of oil palm in the peatland; ban on the conversion of forest reserved areas for oil palm cultivation, and the opening up of oil palm plantation maps available for public access.

The Malaysian palm oil industry is facing significant challenges in complying with the national sustainable certification standard by next year, with over a third of plantations yet to meet the sustainability standards. The Malaysian Sustainable Palm Oil (MSPO) certification, which requires growers to meet certain standards on protecting the environment and workers' rights, is set to be mandatory from January 2020. As of the end of October, about 58.3 percent of 5.85 million hectares of land under oil palm cultivation had achieved MSPO certification. As the country enters 2020, significant challenges remain towards achieving 100 percent mandatory MSPO certification.
Conclusion

The total palm oil production in Malaysia and Indonesia is expected to be flat next year, due to dry weather and low fertilizer application. Low or no fertilizer application in the first half of 2019 plus dry weather and the lower planting of new areas will combine to give a production increase of just one million tonnes next year. It is forecasted that Malaysia’s CPO output to rise by 2.6 percent to 20.0 million tonnes in 2019. The production in Malaysia is forecasted lower between 19.3 to 19.5 million tonnes in 2020, while the Indonesian output is forecast to increase by just one million tonnes to 44.0 million tonnes.

It is forecasted that starting from March 2020, world stocks of vegetable oils are likely to deplete, making the price outlook bullish. There will be higher demand from key markets like China and India, and a push to use more palm oil in biofuels by Indonesia and Malaysia, which will augur well for lower stocks and higher prices.

China’s soybean crushing activity and imports of rapeseed and rapeseed oil are expected to fall, leaving palm oil with a big opportunity. China has turned out to be the best importer for palm oil in 2019 and will continue to be so in 2020 due to edible and industrial demand. Palm oil and sunflower oil will replace soybean oil in China. China is a palm olein market. As long as the palm olein price discount to soybean oil is still good, there is an opportunity to gain more market share. The good news is despite high imports of palm oil this year, the palm oil inventory in China is still low.

India, the world’s top edible oil consumer, is set to import 16.3 million tonnes of edible oils for the 2019/2020 marketing year started on 1st November, compared with shipments of 15.6 million tonnes in the previous year. Of this, palm oil imports would be 9.9 million tonnes, slightly up from 9.5 million tonnes in the previous year. Demand from India so far is still strong. Indian dependence on imports is rising due to flat domestic production and higher per capita income. Palm oil is still the main imported oil. Palm oil accounts for larger sales volume due to competitive pricing, and low vegetable oil prices will encourage more consumption. Statistics have shown that despite high import, the edible oil stock is still low, which will augur well for palm oil demand as long as the palm oil price discount to soft oil is still good.
The demand for palm oil for food production will remain strong as the population grows. Replacing palm oil as a consumer food ingredient would be a challenge, as the commodity has a wide range of derivatives used in various products.

The demand for CPO for biodiesel will definitely increase as Indonesia, Malaysia, and Thailand are increasing their national blends of diesel and fatty acid methyl esters (FAME) to make biodiesel. For instance, Indonesia will increase its mandatory biodiesel policy from B20 to B30 in January 2020. The policy is expected to see an additional 3.3 million tonnes of CPO being absorbed domestically to produce 9.6 million kiloliters of FAME by 2020. Similarly, Malaysia is also planning to increase its biodiesel blend from B10 to B20 for the transportation sector and B7 to B10 for the industrial sector in 2020. The obligation is expected to absorb more than 1.3 million tonnes of CPO domestically.

In other words, if the CPO supply is limited due to lack of fertilizer applications and extreme weather, the biodiesel implementation will further limit the palm oil supply from both Indonesia and Malaysia; therefore, the outlook for palm oil in 2020 will be positive.