

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Malaysia

### Oilseeds and Products Update

#### September 2017

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**Report Highlights:**

Labor shortages, compulsory holidays (including three major ones in August and September) as well as voluntary holidays tacked on to create longer leave meant there were fewer days left to collect fresh fruit bunches (FFB). With the El-Nino weather anomaly moderately recorded, production of FFB started to recover, but it was still below Pre-El Nino production levels (MY2014/2015 production). As a result, MY2016/17 production recorded by MPOB was at 18.9 million tons compared to Post's forecast of 19.5 million tons. There were no major weather anomalies recorded for the rest of the marketing year.

**Post:**

Kuala Lumpur

**Executive Summary:**

Palm Oil Production, Supply, and Demand Table

<b>Oil, Palm</b>	<b>2015/2016</b>		<b>2016/2017</b>		<b>2017/2018</b>	
<b>Market Begin Year</b>	<b>Oct 2015</b>		<b>Oct 2016</b>		<b>Oct 2017</b>	
<b>Malaysia</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	0	0	0	0	0	0
Area Harvested	4,800	4,800	4,900	4,900	0	5,200
Trees	0	0	0	0	0	0
Beginning Stocks	2,641	2,641	1,546	1,546	0	1,279
Production	17,700	17,700	19,500	19,500	0	21,000
MY Imports	816	816	800	800	0	450
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	21,157	21,157	21,846	21,846	0	22,729
MY Exports	16,621	16,621	17,000	17,000	0	18,000
MY Exp. to EU	2,000	2,000	1,900	1,900	0	2,000
Industrial Dom. Cons.	2,290	2,290	2,400	2,400	0	2,450
Food Use Dom. Cons.	650	650	720	720	0	700
Feed Waste Dom. Cons.	50	50	50	50	0	40
Total Dom. Cons.	2,990	2,990	3,170	3,170	0	3,190
Ending Stocks	1546	1,546	1,676	1,676	0	1,539
Total Distribution	21,157	21,157	21,846	21,846	0	22,729

(1,000 HA) ,(1,000 trees) ,(1,000 MT)

## Malaysian Palm Oil Board (MPOB) MY 2016/17 Data

	Beginning Stocks	Production			Imports	Total Supply	Exports	Dome stic	Ending Stocks
		We st	Eas t	Tot al				DIS*	
(In 1,000 metric tons)									
<b>Oct - Sept</b>									
2016/17	1,547	9,910	8,948	18,858	632	21,037	16,305	2,713	2,019

\*Disappearance (Domestic Consumption)

### Production

GOM's strict enforcement regarding clamping down on foreign illegal workers by penalizing both employer and employee including fines and prison sentences saw many employers sending back illegal workers to avoid punishment. High cost of rehiring foreign workers (in which costs are deducted from the worker's salary) and depreciation of Malaysian currency makes Malaysia less attractive for returning foreign labor.

Although analysts expect production of palm oil to increase in the last quarter of the marketing year 2016/17 (July till September 2017), manpower issues, slower than expected production recovery of palm tree and fewer working days for August and September, caused production levels to fall short of projected production of 19.5 million tons. Malaysian Palm Oil Board (MPOB) recorded production of 18.9 million tons for marketing year October 2016 till September 2017 (MY2016/17). MY2016/17 production levels were still below pre-El Nino production levels of MY2014/15 which were at 19.88 million tons.

Although GOM introduced various initiatives in resolve labor issues, it was, however, insufficient to overcome the problem in the short term. Most industry stakeholders believe GOM needs a more realistic and holistic approach in resolving labor issues in the palm oil sector with a long term solution. For instance a transparent policy specifically for the palm oil industry should be drafted to ensure the labor issue can be addressed and will not pop up from time to time.

Production for 2017/18 is forecast to increase to 21 million tons as trees fully recover from tree stress, and the industry can address labor issues. Total harvested area in 2017/18 is projected to increase to 5.2 million hectares, an area with palm trees that produce fruit at least once or twice a year. Fully matured hectare equivalent (MHE) area for 2017/18, is estimated at 2.74 million hectares, an area where plantation with palm trees that produces fruits at least 4 times a year.

### August vs. September Comparison 2017

	Beginning Stocks	Production			Imports	Total Supply	Exports	Domestic	Ending Stocks
		West	East	Total				DIS 3/	
(In 1,000 metric tons)									
<b>2017</b>									
August	1,785	980	830	1,810	42	3,637	1,488	207	1,942
September	1,942	970	810	1,780	41	3,763	1,515	229	2,019
Percentage Change		1.02	2.41	1.66			1.81		3.96

### Jul-Sept Time Period – Quarterly Comparison 2013-2017

	Beginning Stocks	Production			Imports	Total Supply	Exports	Domestic	Ending Stocks
		West	East	Total				DIS 3/	
(In 1,000 metric tons)									
<b>Jul - Sept</b>									
2017	1,527	2,937	2,480	5,417	136	7,080	4,403	658	2,019
2016	1,774	2,484	2,517	5,001	21	6,796	4,658	591	1,547
2015	2,142	3,159	2,666	5,825	285	8,252	4,899	712	2,641
2014	1,657	3,015	2,580	5,595	69	7,321	4,510	721	2,090
2013	1,646	2,965	2,357	5,322	76	7,044	4,548	712	1,784

### Price

September's monthly average price was \$727.50, up from \$690.50 in August. Increased prices are due to improving export demand from China. Export to China increased by 41.6% from 194,251 tons in August to 275,155 tons in September. Increased exports to China are expected in the month of August and September as China starts to build up stocks of cooking oil.

In line with the increase in CPO price, the Refined/Bleached/Deodorized (RBD) Palm Oil FOB average price increased to \$747/ ton in September from \$730 in August.

### Stocks

Stocks increased from 1.9 million tons in August to 2.0 million tons at the end of September due to low export figures recorded during the month of September. As production of soybean projected to be high in upcoming months, demand for palm oil are expected to soften, and this will lead to increasing ending stocks till the end of the calendar year 2017.

### TRADE

#### 2017/18 Outlook

Crude palm oil (CPO) exports for marketing year (MY) 2017/18 are forecast at 18 million tons, a million tons more than MY 2016/17. The increase is based on improved demand from China, India and Middle East.

### **MPOB’s MY2016/17 Data**

Total exports for MY2016/17 was 16.305 million tons, below Post’s projection at 17.15 million tons. Less exports recorded for the marketing year were due to less CPO production recorded as recovery does not pick up as expected and increased in export tariff from 5.5% in July to 6.5% in September 2017. MPOB’s data shows MY2016/17 production still below pre-El Nino season (MY2014/15 production level) which recorded production at 19.9 million tons.

As export prices are influenced by the end stock level, it is important for Malaysia to maintain end stocks at manageable levels to avoid any panic in the market. The acceptable and manageable end stock currently stood around 1.5 to 2.0 million tons.

### **Imports**

Import estimates remained the same, as Malaysian government (GOM) maintains import restrictions on CPO to reduce end stock at a manageable level.

### **CONSUMPTION**

#### **2017/18 Outlook**

Palm oil consumption was stable with a slight increase of 20,000 tons, from 3.17 million tons in MY 2016/17. The increase is in line with population growth and marginal growth in biodiesel production for domestic consumption.

### **MPOB’s MY2016/17 Data**

Consumption for MY2016/17 was at 2.7 million tons which is lower than post projection at 3.17 million tons. The drop in domestic consumption was attributed to abolishment of cooking oil subsidies on November 1, 2016. From November 1, 2016, the price of subsidized cooking oil (palm oil) were subjected to market demand and supply.

#### **Five Major Export Markets for Malaysia Palm Oil Monthly Analysis (in metric tons)**

<b>2017</b>	<b>July</b>	<b>August</b>	<b>September</b>
China	188,738	194,251	275,155
India	161,458	183,286	182,791
EU	213,357	176,673	108,579
Pakistan	78,310	68,131	127,907
USA	50,547	43,836	47,044
Others	706,697	822,017	773,828
<b>Total</b>	<b>1,399,107</b>	<b>1,488,194</b>	<b>1,515,304</b>

**Export duty rates for crude palm oil (CPO) - 2017**

<b>Month (2017)</b>	<b>Duty Rate</b>
November	6.5%
October	6.0%
September	5.5%
August	5.5%
July	5.5%
June	6.0%
May	7.0%
April	7.5%
March	8.0%
February	7.5%
January	7.0%

**Prices – 2016 and 2017**

	<b>Crude #1</b>	<b>RBD Palm Oil</b>	<b>RBD Olein</b>	<b>RBD Stearin</b>
	<b>US\$/MT</b>	<b>US\$/MT</b>	<b>US\$/MT</b>	<b>US\$/MT</b>
January 2016	565	533	535	493.5
February	640	598	605.5	563
March	686	625	630.5	599
April	722	693.5	703	650
May	706	679	691	615.5
June	683	641	653	605.5
July	651	603	610	592.5
August	736	653	676.5	638
September	756	728.5	730.5	693.5
October	716	669.5	675	684.5
November	751	689.5	699	703
December	788	737.5	738	740
January 2017	809	746	752	749
February	774	729	757	742
March	736	701	706.5	678
April	685	671	679	618
May	727	681.5	693.5	606
June	677	667.5	673.5	597
July	665	713	718	688.5

August	690.5	730	735	727
September	727.5	747	754	755

(Source: MPOB)

#1- Prices FOB North-West Europe Market US\$/MT

Exchange Rate: US\$1 = RM4.28 (July 28, 2017)

RBD= Refined, Bleached and Deodorized (RBD)