



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date:02/9/1999

GAIN Report #MY9014

Malaysia

Grain and Feed

Annual Grain and Feed

1999

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Report Highlights: The Malaysian grain market was hard hit by the South East Asian currency turmoil. Consumption of feed corn dropped 15% in 1997/98. Demand for wheat-based products showed little growth as consumers shifted to relatively less expensive rice. The Malaysian economy is slowly recovering from the economic turmoil and we expect consumption of grains to rebound in 1998/99. With the completion of the Panamax facilities and an greater usage of GSM program, U.S. might be able to export 350 TMT of corn in 1998/99 and 400 TMT in 1999/2000 to Malaysia.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Kuala Lumpur [MY1], MY

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Executive Summary

--TOTAL GRAINS --

1997/98 was a disappointing year for the Malaysian grain market with both domestic consumption and imports taking a plunge. Consumption of feed corn took the hardest knock since the start of the South East Asian currency turmoil in July 1997. Demand for wheat-based products showed little growth as consumers shifted to relatively less expensive rice. The Malaysian economy is slowly recovering from the economic turmoil and we expect consumption of grains to rebound 3.6 percent in 1998/99. With no significant production of wheat or corn and with a fairly stagnant production of rice, Malaysia depends on grain imports for its growing demand. Grain importers have started using GSM program and more U.S. grains are expected to come this way.

-- CORN --

From being the No.1 corn supplier to Malaysia in marketing year 1995/96 with exports of 1.56 MMT and a market share of 60 percent, the U.S. market share slipped to only 5 percent in 1997/98. China returned to the Malaysian corn market with vengeance and captured 57% market share. Imports from Indonesia surged as the Indonesian producers disposed their corn overseas following the collapse of its own poultry industry.

The outlook for the Malaysian livestock sector during 1998/99 looks brighter with an economic recovery well on the way. We expect domestic consumption to increase 4% to 2.3 MMT in 1998/99. With the completion of the Panamax facilities at Westport and an expected greater usage of GSM program, U.S. might be able to export 350 TMT of corn in 1998/99 and 400 TMT in 1999/2000 to Malaysia.

-- WHEAT --

U.S.wheat suffered the same fate as corn. U.S. wheat could not match the price of its competitors and its market share dropped to less than 1 percent in 1997/98 compared to 3% in 1996/97 and 15% in 1995/96. Australia, with a large exportable surplus, dominated 62% of the Malaysian wheat market. The only other big supplier was Canada with 32% share.

The outlook for wheat imports in 1998/99 is brighter as the emergence of new hotels, restaurants and bakeries point to an increase in consumption of wheat-based products in the coming year. We expect total imports to increase by 7 percent to 1.17 MMT. Although Australia continues to be the major player in the soft wheat, Canada with reduced exportable surplus may provide more opportunities for U.S. to improve its market share in Malaysia. In addition, as one miller has used the GSM program to bring in wheat into Malaysia and this point, we estimate U.S. wheat exports to Malaysia to reach 35 TMT each in 1998/99 and 1999/2000.

-- RICE --

Milled rice production is estimated to decline to 1.23 MMT for 1998 and is expected to rebound to 1.29 MMT in 1999. Malaysia's imports slipped 2.6 percent to 630 TMT in 1998 as millers worked down their stocks. Thailand dominated 63 percent of the rice import market, followed by Vietnam (25%), China (6%) and India (5%). The U.S. managed to export only 1,000 tons. As for 1999, Malaysia is likely to increase rice imports to meet growing domestic demand as well as building up stocks for the current year. On November 4th 1998, the GOM added the local super grade rice to the controlled rice retail price structure.

		Production	Imports	Exports	Domestic. Disappearance
			(In 1,000 MT)		
Corn	1997/98	48	2146	0	2205
	1998/99	50	2250	0	2300
	1999/00	57	2370	0	2420
Wheat	1997/98	0	1090	92	1035
	1998/99	0	1170	95	1065
	1999/00	0	1220	100	1110
Rice	1997	1280	648	0	1840
	1998	1230	630	0	1900
	1999	1290	680	0	1960

1/ Exchange Rates: 1996 US1.00 = Rm2.51

1997 US1.00 = Rm2.81

February 11 1998 US1.00 = Rm3.79

Corn

(in 1000 Hectares and 1000 MT)

PSD Table						
Country:	Malaysia					
Commodity:	Corn					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Harvested	26	26	27	27	0	27
Beginning Stocks	300	300	263	263	263	263
Production	48	48	50	50	0	57
TOTAL Mkt. Yr. Imports	2146	2146	2250	2250	0	2370
Oct-Sep Imports	2146	2146	2250	2250	0	2370
Oct-Sep Import U.S.	111	111	350	350	0	400
TOTAL SUPPLY	2494	2494	2563	2563	263	2690
TOTAL Mkt. Yr. Exports	26	26	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	2060	2060	2150	2150	0	2260
TOTAL Dom. Consumption	2205	2205	2300	2300	0	2420
Ending Stocks	263	263	263	263	263	270
TOTAL DISTRIBUTION	2494	2494	2563	2563	263	2690

Production

Domestic corn production in Malaysia is insignificant.

Consumption

The poultry sector hit a rough patch in 1997/98 with poultry farmers claiming to suffer heavy losses partly due to lower domestic demand in certain period and partly due to the ceiling on ex-farm price imposed by the GOM. Hardest hit were the small and medium scale operators and some farms were forced to close or cease operation temporarily. The swine sector performed better in 1997/98 with ex-farm prices averaging higher than those in the previous year. Overall demand for feed corn fell 15% in 1997/98.

The Malaysian economy is slowly recovering from the South East Asian economic turmoil started since July 1997. We do not see any big increase in demand for corn in 1998/98 marketing year. With the Ringgit now pegged to the U.S.dollar, feed importers are spared the risk of being caught in volatile currency exchange fluctuations. We expect domestic consumption to increase 4% to 2.3 MMT in 1998/99. The outlook for the Malaysian livestock sector during 1999/2000 looks brighter. Demand for eggs from neighboring Indonesia have been on the increase due to the near collapse of the Indonesian poultry industry. At this point, we expect a 5% increase in domestic corn consumption in 1999/2000.

Trade

Malaysia's imports dropped 14% in 1997/98. China returned to the Malaysian corn market with vengeance and captured 57% market share. Although some big shipments of U.S. corn came in during the first quarter of the marketing year, the United States market share dropped from 33% in 1996/97 to only 5% in 1997/98. Argentina and Indonesia managed 16% each. Imports from Indonesia surged as the Indonesian producers disposed their corn overseas following the collapse of its own poultry industry. Vietnam and South Africa were out off the market in 1997/98.

In line with the increase in feed consumption, we estimate Malaysia's imports to rise 4.8 % to 2.25 million tons of corn for the current (1998/99) marketing year. China with its bigger harvest is U.S.'s biggest competitor in the Malaysian corn market. China has been selling more corn to Malaysia in smaller vessels which work well in the current economic situation. The South American corn has been a smaller crop this season. Partly due to the utilization of GSM credit facilities, U.S. sales of corn are moving ahead from last year's levels. It is likely that U.S. export sales could increase to about 350,000 tons in 1998/99, well below the peak of 1.56 million tons in 1995/96 but higher than the 111,000 tons realized in the previous year (1997/98).

As for 1999/2000, imports are expected to reach 2.37 MMT. With the completion of the Panamax facilities at Westport and more usage of GSM, U.S. might be able to export close to 400 TMT of corn to Malaysia.

Corn Imports

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	Oct97/Sep98 for 1997, Data for 1998 Oct98/Sep99 - Not Available		
Imports for	1997		1998
U.S.	111	U.S.	
Others		Others	
China	1220		
Indonesia	353		
Argentina	349		
Netherland	61		
Thailand	30		
Burma	14		
U.A.E	4		
Total for Others	2031		0
Others not listed	4		
Grand Total	2146		0

Stocks

While the Malaysian economy is on better footing, corn traders are still cautious on cash-flow problems and prefer to keep stocks to a minimum in order to reduce exposure to risk.

Policy

Production Policy

The GOM has no definite plans to develop a viable domestic field corn industry. Domestic corn production is unlikely to expand significantly in the foreseeable future.

Marketing

Market Development Opportunities

There has been some strong interest in using the GSM program since 1998. Several corn importers turned up at our first 1999 GSM luncheon-seminar held on Feb 9th. Agatt office plans to have more such events to introduce the program to potential users and bankers. The first purchase of corn under GSM program was concluded in December, 1998 and we expect to see more U.S. corn coming into the Malaysian market in the near future.

Buyers/end users lack knowledge on how to maintain the quality of imported corn in tropical conditions (especially in view of the installation of bigger facilities to cater for Panamax size imports). Attache has suggested that U.S. Grain Council use MAP funds to conduct seminars for major feedmillers and importers throughout Malaysia. For longer term development, we suggest a scientific collaboration to initiate grain inspection/handling simulation studies in the U.S. & based on info learned, initiate grain storage trials with one or two feedmillers in Malaysia.

One challenge for the US Grain Council is to increase corn consumption in the food, beverage, brewery and industrial sector. The snack and breakfast cereal food industry has been growing fairly rapidly. This growth should continue in the near term. There is also some likelihood of expansion in the production of modified starches. Thus, technical seminars to transfer technology in corn processing and corn food manufacturing would help to accelerate demand in these areas.

Wheat

(in 1000 Hectares and 1000 MT)

PSD Table						
Country:	Malaysia					
Commodity:	Wheat					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Harvested	0	0	0	0	0	0
Beginning Stocks	184	184	147	147	162	167
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	1090	1090	1170	1170	0	1220
Jul-Jun Imports	1090	1090	1170	1170	0	1220
Jul-Jun Import U.S.	8	8	35	35	0	35
TOTAL SUPPLY	1274	1274	1317	1317	162	1387
TOTAL Mkt. Yr. Exports	92	92	90	95	0	100
Jul-Jun Exports	92	92	90	95	0	100
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1035	1035	1065	1065	0	1110
Ending Stocks	147	147	162	167	190	177
TOTAL DISTRIBUTION	1274	1274	1317	1327	190	1387

Production

Wheat is not produced in Malaysia.

Consumption

Despite all the worries caused by the South East Asian currency turmoil since July 1997, domestic consumption rose 2% to 1.0 MMT in 1997/98 marketing year. The strongest growth was recorded in the noodle sector which also caters for exports to overseas countries.

The Malaysian economy has improved and its stock market index has doubled since the financial crash in 1997. Consumers seem to be willing to spend more on essential items. In addition, the emergence of new hotels, restaurants and bakeries point to an increase in consumption of wheat-based products in the coming year. With a brighter economic outlook, we expect a 3% recovery in wheat consumption in 1998/99 and 1999/2000.

Domestic wheat prices are controlled by the Malaysian Government under the Supplies Regulation Act (1974). The retail flour price remained at RM1.20 (US\$0.32) per kilo since 1997.

Trade

In 1997/98, total wheat imports fell 3 percent to just below 1.1 MMT as millers worked down their stocks. U.S. wheat was not competitive and virtually lost all its market share to Canada. With a large exportable surplus, Australia dominated almost 62% of the Malaysian soft wheat market. Ukraine and Hungary emerged as new competitors. Malaysia also imported some wheat flour from Australia, Netherlands, Japan and China.

The outlook for 1998/99 wheat imports is much brighter with and we expect total imports to increase by 7 percent to 1.17 MMT. Although Australia continues to be the major player in the soft wheat, Canada with reduced exportable surplus may provide more opportunities for U.S. to improve its market share in Malaysia. In addition, at one miller has used the GSM program to bring in wheat into Malaysia and this point, we estimate U.S. wheat exports to Malaysia to reach 35 TMT each in 1998/99 and 1999/2000.

Exports of wheat flour rose 26% percent in 1997/98 with increased demand from Vietnam and Thailand. We expect only small increases in 1998/99 and 1999/2000.

Wheat Imports

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	Jul97/Jun98 for 1997, Jul98/Sep98 for 1998		
Imports for	1997		1998
U.S.	8	U.S.	10
Others		Others	
Australia	670	Australia	193
Canada	356	Canada	33
Ukraine	18	Ukraine	24
Hungary	17		
Uruguay	12		
Netherlands	4		
Japan	2		
China	1		
Total for Others	1080		250
Others not listed	2		
Grand Total	1090		260

Wheat Exports

Export Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	July/June		
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
Singapore	52		
Vietnam	19		
Thailand	13		
Burma	4		
Brunei	4		
Total for Others	92		0
Others not listed			
Grand Total	92		0

Marketing

Market Development Opportunities

The effort being made by the U.S. wheat industry to develop wheat varieties suitable for making noodles is a good first step towards a larger market share in the Malaysian market. Competitive pricing and trade servicing activities continue to be important tools to maintain the U.S. share in the high protein wheat market.

Competitor Activities

The Australian and Canadian Wheat Boards are known to provide exceptional service in all aspects of trade. Having control over both pricing and marketing activities, the boards can offer attractive discounts as well as respond quickly to Malaysian complaints about grain quality or other issues related to sales. The AWB even has its own ships to provide low cost and efficient transportation for its products.

Rice

(in 1000 Hectares and 1000 MT)

PSD Table						
Country:	Malaysia					
Commodity:	Rice, Milled					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Harvested	655	655	645	625	0	660
Beginning Stocks	438	438	508	526	408	486
Milled Production	1280	1280	1260	1230	0	1290
Rough Production	1970	1970	1940	1890	0	1985
Milling Rate(.9999)	6497	6497	6495	6508	0	6499
TOTAL Imports	630	648	550	630	0	680
Jan-Dec Imports	630	648	550	630	0	680
Jan-Dec Import U.S.	1	1	1	1	1	1
TOTAL SUPPLY	2348	2366	2318	2386	408	2456
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	1840	1840	1910	1900	0	1960
Ending Stocks	508	526	408	486	0	496

Production

El Nino induced flooding followed by dry spells in many rice growing areas caused much damages to yields and paddy output in 1998. Consequently, harvested area fell to 625,000 hectares and paddy output dropped 4% to 1.2 MMT in 1998. In order to save on expenditures on rice imports, the GOM is encouraging farmers to increase planted area. Barring any adverse weather conditions, we expect harvested area to rebound to former level of 660,000 hectares and paddy output to increase to 2 MMT in 1999.

A pilot rice-project using U.S. expertise and technology (launched early 1998 in the state of Sarawak) runs into problems. Reportedly, the equipments used are too heavy for the soggy paddy soil and keep sinking into the ground. If it achieves its claim of a yield of 8 tons per hectare compared to the national average of 3.0-3.5 tons, the down trend in Malaysia's padi production would be reversed.

Consumption

We estimate domestic consumption to increase by about 3.2-3.3 percent in 1998 and 1999 to reflect the shift from wheat-based to rice-based products amidst the economic downturn. While rice retail prices remain unchanged since 1993, wheat flour prices have seen two hikes since 1996.

On November 4th 1998, the GOM added the local super grade rice to the controlled rice retail price structure. The ceiling price structure is as follows (in RM per kg):

Zone	Standard Grade	Premium	Super
A) Kedah, Kelantan, Perlis, Seberang, Krian K. Selangor & S. Bernam	0.98	0.01	1.65
B) Trengganu, Penang & Perak	0.99	1.06	1.70
C) Federal Territory & Selangor	1.01	1.07	1.75
D) N. Sembilan & Malacca	1.03	1.09	1.75
E) Johor, Gua Musang & Pahang	1.04	1.11	1.80

The support prices for padi rice has been increased from RM49.61 to RM55.00 per 100 kg for long grain and from RM46.30 to RM51.69 per 100 kg for medium grain since December 1997. In addition, all rice farmers receive a subsidy of RM25 per 100 kg of padi delivered to a licensed mill or drying facility.

Trade

Malaysia's imports slipped 2.6 percent in 1998 as millers worked down their stocks. From available statistical data, Thailand dominated 63 percent of the rice import market, followed by Vietnam (25%), China (6%) and India (5%). The U.S. managed to export only 1,000 tons. As for 1999, Malaysia is likely to increase rice imports to meet growing domestic demand as well as building up stocks for the current year.

Rice Imports:

Import Trade Matrix			
Country:		Units:	1,000 MT
Commodity:			
Time period:	Jan-Dec for CY97 and Jan-Sep for CY98		
Imports for	1997		1998
U.S.	1	U.S.	1
Others		Others	
Thailand	461	Thailand	305
Vietnam	173	Vietnam	123
Pakistan	8	China	28
India	5	India	22
		Pakistan	6
Total for Others	647		484
Others not listed			
Grand Total	648		485

Stocks

In normal years, Malaysia needs to keep only two to two and a half months of stocks.

Policy

Production Policy

In order to cut cost of imports, the GOM is reviewing its rice policy to increase self sufficiency from 65 percent to 72 percent. However, the target is not within sight unless the GOM is able to address the various issues such as varietal and yield improvements, the restructuring of farm production systems including greater mechanization, improved farm management practices, and the reduction of post-harvest losses. It will take some time before any significant increase in hectares take place.

Marketing

Rice imports from the United States are mainly Calrose rice consumed by Japanese and Korean expatriates. Contributing factors to the U.S. absence from the market include lower prices, the desire to enhancing regional relationships, cheaper freight, and shorter shipping times for competitors' rice. While the opportunities for sales of U.S. rice in Malaysia are still very limited, the absence of a price ceiling on imported high grade rice and the incorporation of LPN, the Malaysian Rice Authority, may help to create a small niche market for imports of branded, packaged rice from the United States. Now may be the right time for the U.S. Rice Council to reestablish contacts with the newly incorporated organization — Syarikat Padi Beras Nasional (BERNAS) — to explore potential sales opportunities.