

**Required Report:** Required - Public Distribution

**Date:** October 04, 2022

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## **Report Name:** Oilseeds and Products Update

**Country:** Malaysia

**Post:** Kuala Lumpur

**Report Category:** Oilseeds and Products

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### **Report Highlights:**

Post adjusts the Marketing Year (MY) 2021/22 palm oil production forecast down to 18.2 million metric tons (MT), due to ongoing labor shortages. The MY2021/22 palm oil export estimate is revised to 16 million MT, a drop of 500,000 MT due to the estimated drop in production and resumption of Indonesian palm oil exports. Palm oil prices continue to fall as key buyers, India and China, prefer soybean oil to palm oil.

## Palm Oil, Production, Supply and Distribution

Oil, Palm	2020/2021		2021/2022		2022/2023	
Market Begin Year	Oct 2020		Oct 2021		Oct 2022	
Malaysia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	5400	5400	5450	5450	5500	5500
Trees	0	0	0	0	0	0
Beginning Stocks	1790	1790	1626	1658	1876	1358
Production	17854	17854	19000	18200	19800	19000
MY Imports	1300	1300	900	900	1100	1000
Total Supply	20944	20944	21526	20758	22776	21358
MY Exports	15878	15866	16120	16000	16720	16450
Industrial Dom. Cons.	2600	2600	2660	2600	2700	2700
Food Use Dom. Cons.	770	750	800	730	835	750
Feed Waste Dom. Cons.	70	70	70	70	70	70
Total Dom. Cons.	3440	3420	3530	3400	3605	3520
Ending Stocks	1626	1658	1876	1358	2451	1388
Total Distribution	20944	20944	21526	20758	22776	21358
(1000 HA), (1000 TREES), (1000 MT)						

### Production

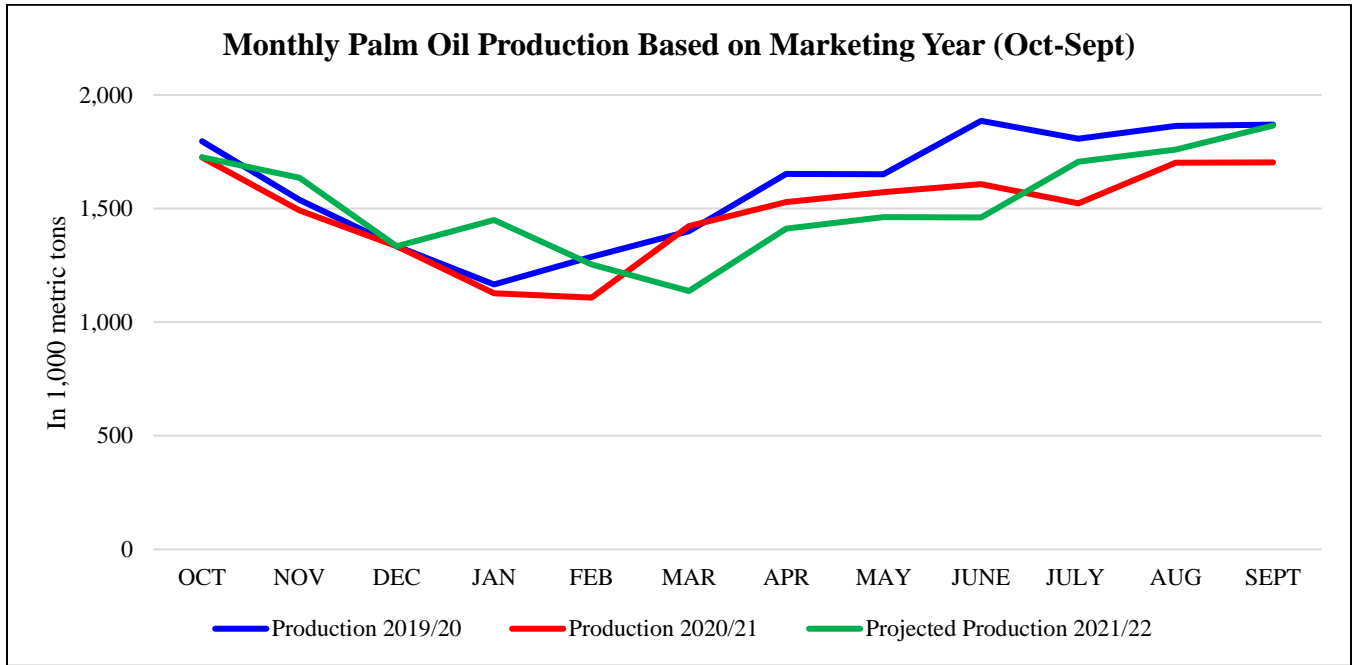
Post's MY2021/22 palm oil production estimate is adjusted down to 18.2 million MT. This decrease is based on the acute labor shortage the industry currently faces, which has not been addressed as quickly as anticipated.

During the COVID-19 pandemic in 2019-2022, the Government of Malaysia (GOM) halted the intake of new foreign workers. Additionally, many existing migrant workers chose to return to their home nations and were not allowed reentry. On April 1, 2022, the GOM reclassified COVID-19 as endemic and reopened international borders, once again allowing in theory the intake of foreign migrant workers to Malaysia. To ensure the palm oil industry operates at an optimum level, the GOM approved 32,000 migrant workers for the industry. However, progress on this initiative has been slow due in part to delays finalizing and implementing bilateral agreements on labor recruitment with the respective countries, namely Bangladesh and Indonesia. Indonesian and Bangladeshi workers started to arrive in mid-June, though in much smaller numbers than originally agreed upon.

Palm oil potential yield is expected to recover in CY2022 with favorable weather recorded in CY2021 and trees recovering from tree stress. However, the GOM's lack of progress in securing foreign labor for the plantations has led to a drop in fresh fruit bunch (FFB) collection, which in turn affects the production of palm oil.

While the price of palm oil reached an all-time high earlier this year and plantation companies can offer higher salaries to local Malaysians, the initiative to recruit local Malaysians to take jobs in the plantation

sector has been unsuccessful. Most Malaysians are not interested in the harsh conditions and demanding nature of work in the sector. Without adequate labor, some palm fruits are left to rot on the trees and the replanting program is kept on hold. Overall, the industry estimates the shortage of about 25,000 laborers has resulted in a loss of 3.18 million MT of palm oil per year.



Source: Malaysian Palm Oil Board (MPOB)

Note: The 2021/22 projection is based on FAS Kuala Lumpur analysis for the marketing year.

**Consumption**

Consumption for MY2021/22 is estimated to decline from 3.45 million MT to 3.4 million MT as food use domestic demand drops in association with high cooking oil prices. In MY2020/21 the price of domestic cooking oil retailed at RM29.70 (USD\$6.75) for a 5Kg pack, below the maximum ceiling price of RM30.00 (USD\$6.80). However, on July 1<sup>st</sup> 2022, the GOM removed the subsidy on domestic cooking oil and prices subsequently increased by more than 40 percent. A 5Kg pack now retails around RM42.50 (USD\$9.70).

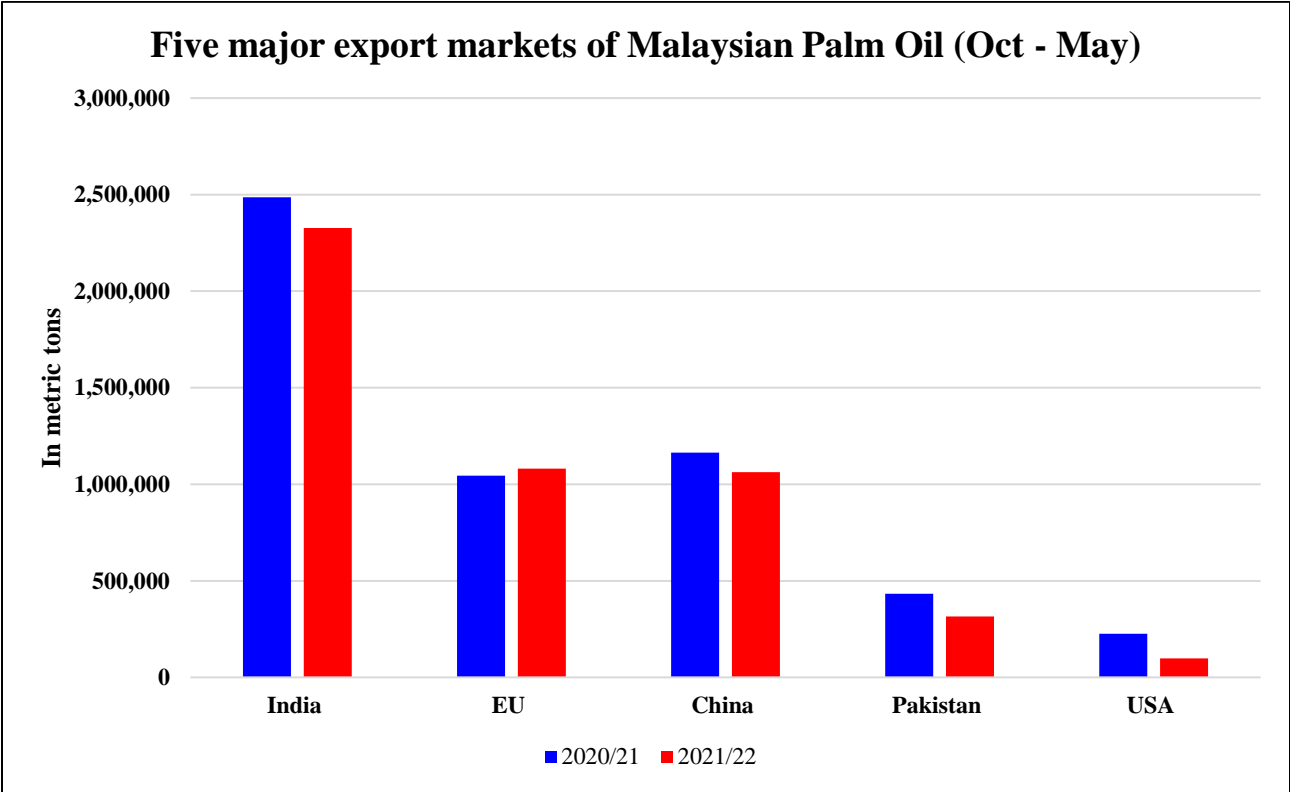
Industrial domestic consumption for MY2021/22 remains the same as the B20 biofuel rollout has been delayed to the end of 2022. The higher forecast for industrial use in MY2022/2023 reflects the GOM’s expressed commitment to this date. However, political uncertainty and local fiscal budget constraints may further delay the B20 implementation into the first quarter of 2023 or later.

**Trade**

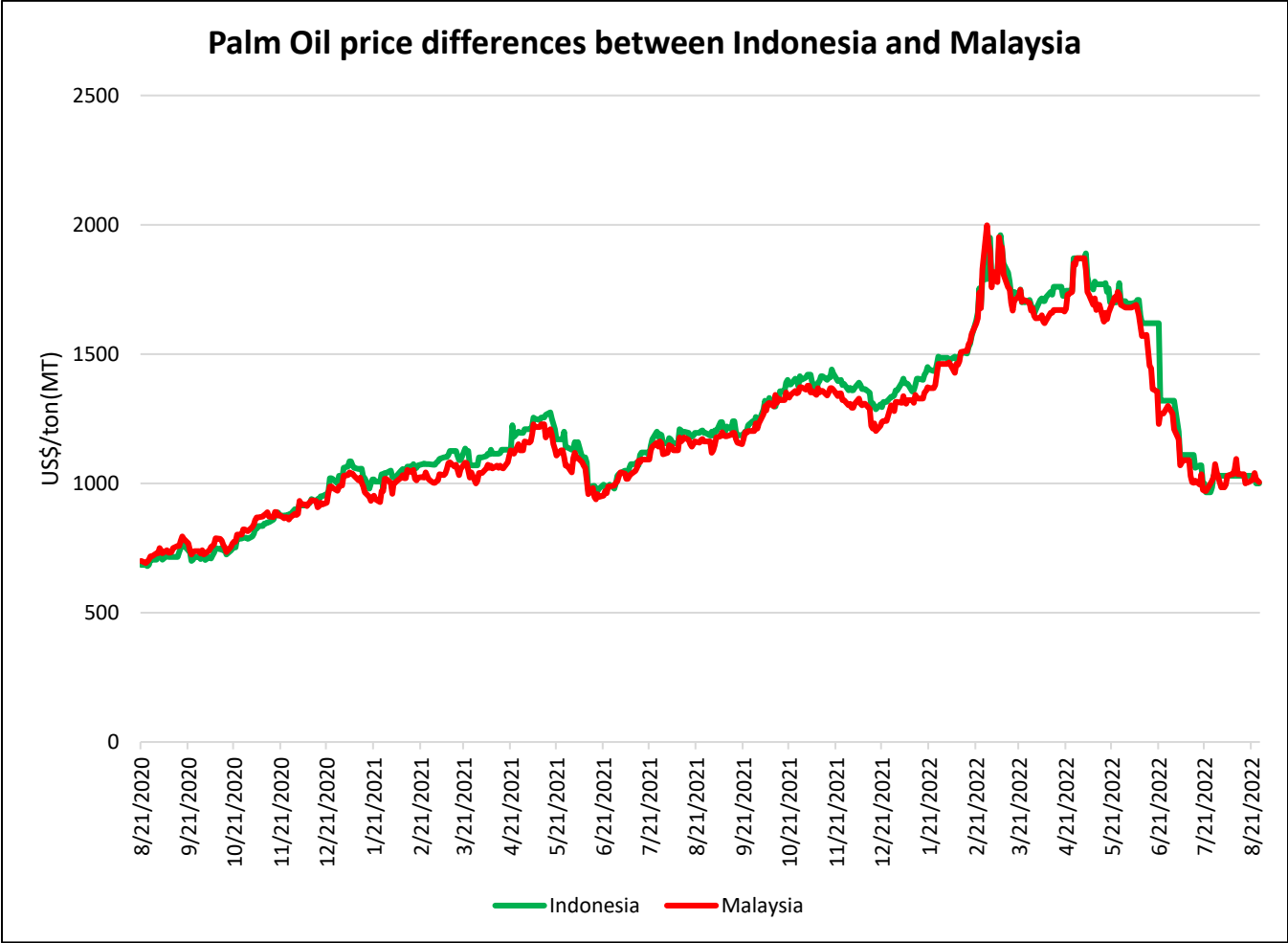
The MY2021/22 palm oil export estimate is down to 16 million MT. This revision is based on tight supply due to production constraints. It also reflects a preference by key buyers, India and China, for soybean oil over palm oil even though the price of palm oil has continued to fall since June 2022.

Generally, palm oil export trends are in decline except to the EU, where the Russia/Ukraine conflict has disrupted the vegetable oil supply. Palm oil has made up a significant portion of the deficit.

The import estimates for MY2021/22 are revised down to 900,000 MT, reflecting Indonesia’s tightened restrictions on palm oil exports and ongoing Domestic Market Obligations (DMO). The DMO requires palm oil companies to supply a portion of their production to the Indonesian government cooking oil programs at a fixed ratio of local consumption to exports. Initially, the ratio was 1:5, but on July 1, 2022, the ratio increased to 1:7 to reduce high inventory. This caused a sudden influx of Indonesian palm oil imports to Malaysia resulting in a drop in price for Malaysian exports.



Source: Malaysian Palm Oil Board (MPOB)



Source: International Grains Council

**Attachments:**

No Attachments