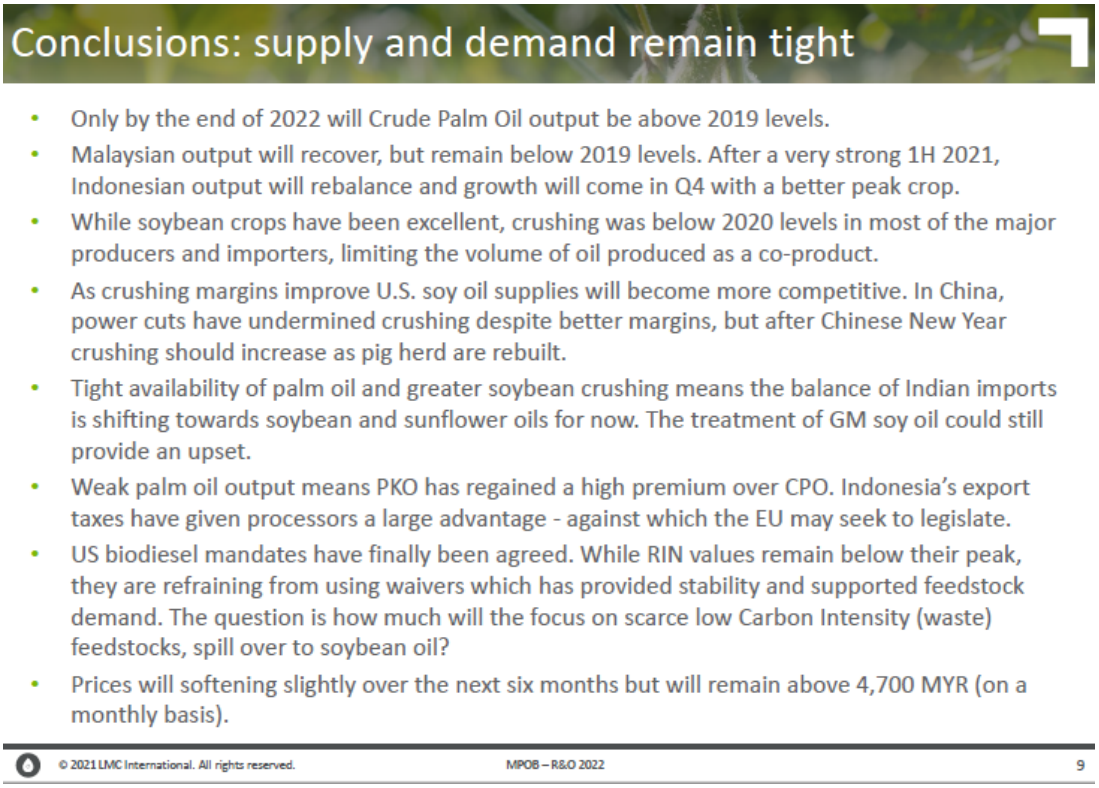
UOBKayHian

UOB Kay Hian Asean Plantations Highlights – 14 Jan 22

Sector Update:

Palm Oil Will Stay Above 4,700 Ringgit Over Next Six Months: LMC. Palm oil will likely ease over the next six months but remain above 4,700 ringgit ($1,124) a ton as supply constraints that have pushed prices to record highs are set to persist, according to LMC International. It will take another 12 months before palm oil production in Southeast Asia recovers to end-2019 levels, Julian Conway McGill, LMC's regional head, said in slides prepared for a seminar. This will imply three full years of zero growth as output from Malaysia and Indonesia shrank in 2020 and 2021, he said. Palm oil prices have more than doubled in the past three years, driven by a severe labor crunch in Malaysia and tight global vegetable oil supplies. The Covid-19 pandemic shuttered borders in the No. 2 grower and froze new recruitment of foreign workers, sending annual production to a five-year low. The weak output from Malaysia was no surprise but the decline in Indonesia's production after one of its strongest first-half performance came as a shock, McGill said. He expects Malaysian production to rise 2.6% this year to 18.6 million tons and Indonesia's output to climb 5% to about 47 million tons. (Source: Bloomberg)

Figure 1: Key Conclusion From LMC from MPOB Seminar



Source: LMC

Malaysia's Biodiesel Production to More Than Double Through 2030. Malaysia's biodiesel production may rise from 1m tons last year to 2.5m tons by 2030, according to the Malaysian Biodiesel Association. Output is expected to rise to 1.2m tons this year and 1.5m in 2025, MBA President Unnikrishnan Unnithan said in slides at a seminar. (Source: Bloomberg)

Figure 2: Malaysia Biodiesel Statistics

Year (mt)	Production	Exports	Blended Locally
2011	173,220	49,999	20,343
2012	249,213	28,983	113,276
2013	472,129	175,032	185,039
2014	600,524	87,856	295,451
2015	763,532	178,942	382,000
2016	500,857	83,581	350,000
2017	720,410	235,291	358,586
2018	1,089,964	515,467	429,213
2019	1,422,871	609,777	641,878
2020	906,156	378,582	803,307
2021	1,000,000	362,475	700,000*

*Note: * Projection*
Source: Malaysian Biodiesel Association

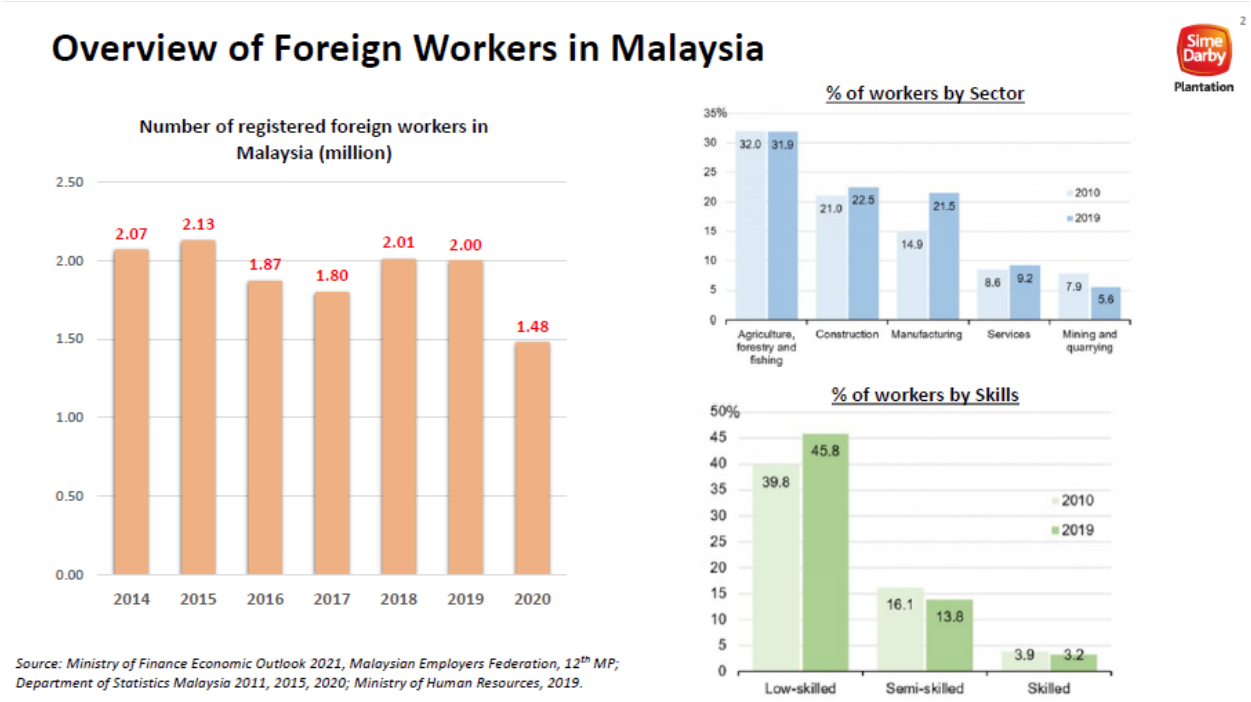
Figure 3: Malaysia Biodiesel Projection

Year (mt)	Production	Exports	Blended Locally
2021	1,000,000	362,475	700,000
2022	1,200,000	250,000	950,000
2025	1,500,000	200,000	1,300,000
2030	2,500,000	300,000	2,150,000

Source: Malaysian Biodiesel Association

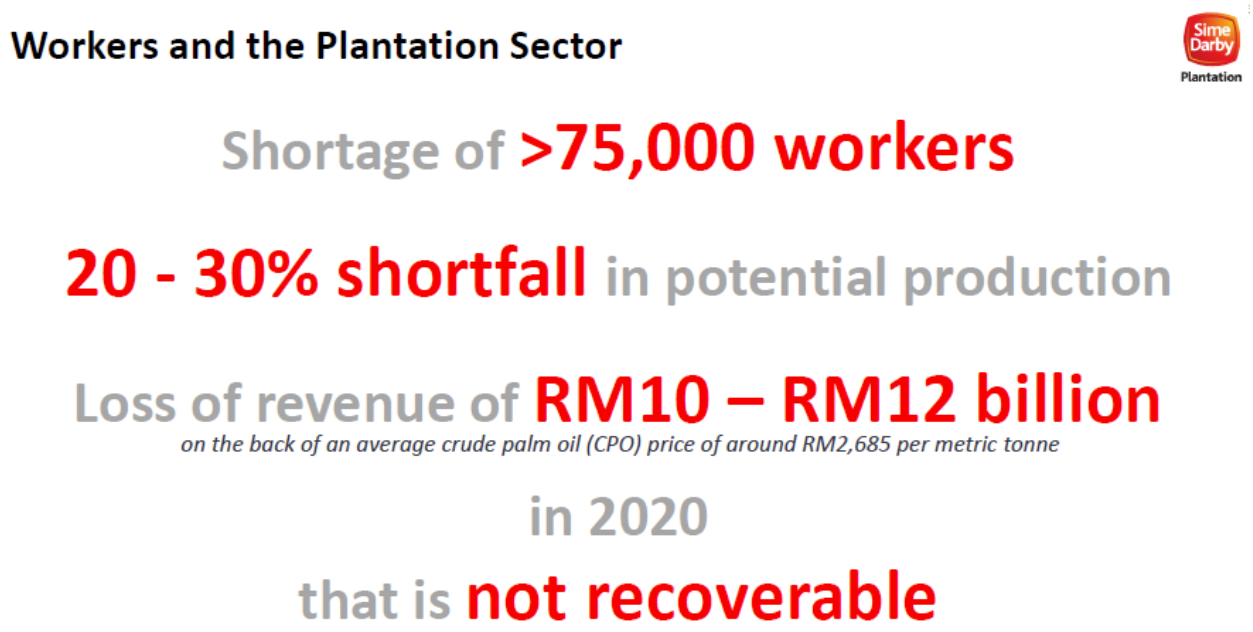
Sime Darby Plantation sees labour shortages worsening in early 2022. Sime Darby Plantation Bhd warned on Thursday that labour shortages at palm oil plantations in Malaysia because of coronavirus border closures will worsen in early 2022 compared to the last six months until workers are allowed to return. Mohamad Helmy Othman Basha, managing director at Sime Darby Plantation, also told a conference that there was a shortage of more than 75,000 workers resulting in a potential 20%-30% hit to production. Minister of Plantation Industries and Commodities Zuraida Kamaruddin told reporters on the sidelines of the conference that talks were still ongoing between Indonesia and Malaysia, with Indonesian migrant workers only expected to enter around mid-February. Malaysia is also discussing labour supply agreements with India, Bangladesh and Thailand to provide workers for the plantation sector, she said. (Source: Reuters)

Figure 4: Overview of Foreign Workers in Malaysia



Source: Sime Darby Plantation

Figure 5: Impact of Workers Shortage on Plantation



Source: Sime Darby Plantation

India Solvent Extractors Association wants Centre to restrict import of refined palm oils to save local refining industry. Stating that narrowing of import duty difference between refined and crude palm oils has the potential to kill the domestic refining industry, industry body SEA on Thursday demanded that the Centre again curb the import of refined palm oil and reinstate the earlier duty differential of 11 per cent between the two oils. In December 2021, the government reduced import duty on RBD palmolein and RBD palm oils by 5.5 per cent to check prices of edible oils in the domestic market. With this reduction, the import duty difference between refined palm oils and crude palm oil (CPO) was reduced to 5.5 per cent. In a letter written to Union Food Secretary Sudhanshu Pandey, Mumbai-based Solvent Extractors Association of India (SEA) President Atul Chaturvedi said: "We strongly appeal to the government to reinstate duty differential of 11 per cent between crude and refined palm oil as was prevailing prior to December 20, 2021 by reducing agri cess on CPO by 5 per cent. This would ensure a differential of 11 per cent in import levies between CPO and refined palm oils." He also demanded that the government place again the import of RBD palmolein and refined palm oil under restricted list with immediate effect or at least from April 1, 2022. "This will enable the domestic refining industry to have a level playing field and in line with our Prime Minister's vision of Make In India," he added. Chaturvedi said the duty differential between CPO (raw material) and refined palm oil (finished product, which was 11 per cent earlier and has now been reduced to 5.5 per cent, has the potential of destroying the CPO refining industry in the country. Further, buyers are shifting to refined palm oils as exporting countries like Indonesia and Malaysia levy higher taxes on CPO shipments than on refined palm oil, he added. Chaturvedi also said, "We fear CPO imports in our country would now get replaced with refined palmolien and our palm refining industry would be reduced to being mere 'packers' seriously compromising heavy investments made in industry." This situation needs to be corrected before investments turn sour and add to the non performing assets (NPAs) of lenders, he said adding that the current reduction of duty difference has come as a blow not only to domestic palm oil refining industry but to oilseeds farmers as well. (Source: Bloomberg)

China to produce 40% more soybeans by 2025 in self-sufficiency drive. China said it would raise domestic soybean output sharply in the next four years, in a drive to boost self sufficiency in supply of the oilseed, according to an official document released on Thursday. The country has set a goal to produce about 23 million tonnes of soybeans by end of 2025, up 40% from current output levels of 16.4 million tonnes, the Ministry of Agriculture and Rural Affairs said, releasing its 14th five-year plan on crop farming. Expansion of soybean and oilseeds production in 2022 was urged during a top central leadership policy meeting in late December. The 2025 goal also comes as the pandemic continues to roil farm produce supply chains and trade tensions linger between China and the U.S., its second-largest supplier of soybeans. China relies on the global market for 85% of its soybean demand and the import origins are highly concentrated, the ministry said in the five-year plan document. (Source: Reuters)

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