

**OVERVIEW OF THE MALAYSIAN OIL PALM INDUSTRY 2016****FOREWORD**

Prolonged dry weather conditions and below average rainfall brought about by the El-Nino weather phenomena during the second half of 2015 and into the first half of 2016 had impacted the Malaysian oil palm industry performance in 2016. The year 2016 saw crude palm oil (CPO) production declined by double-digit, which drew down palm oil stocks and pushed up palm oil prices. High palm oil prices had influenced exports to major markets as the discount of CPO to soyabean oil narrowed. Average CPO price in 2016 was higher by 23.2% to reach RM2,653.00 per tonne. Higher palm oil prices also helped to increase the export revenue by 7.3% to RM64.58 billion from RM60.17 billion in 2015.

Oil palm planted area in 2016 reached 5.74 million hectares, an increase of 1.7% as against 5.64 million hectares recorded in the previous year. This was mainly due to the increase in new planted areas, especially in Sarawak, which recorded an increase of 4.7%. Sabah is still the largest oil palm planted State, with 1.55 million hectares or 27% of the total oil palm planted area, followed by Sarawak with 1.51 million hectares or 26%. Meanwhile, Peninsular Malaysia (with 11 States) accounted for 2.68 million hectares or 47% of the total planted area.

In 2016, CPO production recorded a decline of 13.2% to 17.32 million tonnes as against 19.96 million tonnes produced in 2015. The decrease was due to lower FFB processed, down by 12.0% arising from lower FFB yield, which declined by 13.9% and also lower oil extraction rate (OER). CPO production in Peninsular Malaysia, Sabah and Sarawak decreased by 15.7%, 15.3% and 3.2% to 8.89 million tonnes, 4.85 million tonnes and 3.59 million tonnes respectively.

The FFB yield for 2016 was also lower, down by 13.9% to 15.91 tonnes per hectare as against 18.48 tonnes per hectare achieved in 2015. The El-Nino phenomenon beginning in the second half of 2015, with prolonged dry weather conditions and below average rainfall had impacted the production of FFB in 2016. FFB yield for Peninsular Malaysia declined by 16.0% to 15.77 tonnes per hectare as against 18.77 tonnes per hectare achieved in 2015. Sabah registered a decline of 14.5% to 17.10 tonnes per hectare as against 19.99 tonnes per hectare achieved in the previous year. Sarawak's FFB yield was relatively lower at 14.86 tonnes per hectare or down by 8.3% as compared to 16.21 tonnes per hectare achieved in 2015.

The National OER in 2016 declined by 1.4% to 20.18 percent mainly due to unfavourable weather conditions and lower quality of FFB processed by palm oil mills. OER in Peninsular Malaysia, Sabah and Sarawak declined by 1.2%, 2.1% and 0.6% to 19.76 percent, 21.11 percent and 20.02 percent respectively.

Total exports of oil palm products declined by 8.2% to 23.29 million tonnes in 2016 from 25.37 million tonnes exported in 2015. Total export revenue, however, increased by 7.3% to RM64.59 billion compared to the RM60.17 billion achieved in 2015 due to higher export prices. Palm oil export revenue increased by 5.1% to RM43.37 billion as against RM41.26 billion in 2015. Palm oil off-take declined by 8.1% to 16.05 million tonnes as compared to 2015 due to lower demand, especially from India, China, the EU and USA.

India maintained its position as the largest Malaysian palm oil export market in 2016, with an intake of 2.83 million tonnes or 17.6% of total palm oil exports, followed by the European Union (EU) 2.06 million tonnes (12.8%), China 1.88 million tonnes (11.7%), Pakistan 0.88 million tonnes (5.5%), Turkey 0.66 million tonnes (4.1%), Philippines 0.63 million tonnes (3.9%) and USA 0.59 million tonnes (3.7%). These seven (7) markets combined accounted for 9.52 million tonnes or 59.3% of total Malaysian palm oil exports in 2016.

Palm oil exports to India declined significantly by 23.3% to 2.83 million tonnes in 2016, from 3.69 million tonnes exported in 2015 due to higher intake of soft oils, namely soyabean oil and sunflower oil because of its price competitiveness. Import of soyabean oil rose by 7.9% to 3.88 million tonnes and sunflower oil increased by 7.0% to 1.58 million tonnes in 2016.

The decline in export of palm oil to the EU, down by 15.3% to 2.06 million tonnes from 2.43 million tonnes was due to higher supply availability of soyabean oil from the crushing of soyabean, up by 4.8% to 15.15 million tonnes as well as higher intake of sunflower oil, up by 57.3% to 1.55 million tonnes in 2016 due to the implementation of the EU-Ukraine Comprehensive FTA that became effective since 1<sup>st</sup> January, 2016.

China, P.R came in as the third largest market for Malaysian palm oil, with an intake of 1.88 million tonnes or a decline of 20.9% from 2.38 million tonnes. The decline was due to higher intake of soyabean, amounting to 83.23 million tonnes (up by 1.49 million tonnes or 1.8%) for domestic crushing activity as against 81.74 million tonnes in 2015.

Pakistan maintained its position as the fourth largest export market similar to the same position that it held in year 2015, with an intake of 0.88 million tonnes. Export of palm oil to the country, however, increased by 21.0% from 0.73 million tonnes attributed to lower imports of palm oil from Indonesia.

Meanwhile, the intake of Malaysian palm oil to Turkey also increased by 64.8% to 0.66 million tonnes due to lower import of soyabean from Ukraine and USA as well as sunflower oil from Russia in 2016. In addition, the implementation of the Malaysia-Turkey FTA that became effective on 1<sup>st</sup> August 2015 had also contributed to the increase.

The lower exports (down by 3.6% to 0.63 million tonnes) of palm oil to the Philippines was attributed to the high supply availability of coconut oil for domestic consumption. Similarly, palm oil intake by USA declined by 16.1% to 0.59 million tonnes from 0.70 million tonnes exported in 2015 as a result of higher import of palm oil from Indonesia.

Palm kernel oil exports declined by 13.5% to 0.92 million tonnes in 2016 from 1.07 million tonnes in 2015 mainly due to lower demand from USA, the EU and Japan. The EU was the major export market for palm kernel oil with 0.25 million tonnes (or 26.6% of total palm kernel oil exports), followed by China 0.13 million tonnes (14.3%) and USA 0.13 million tonnes (13.9%).

Exports of palm kernel cake also declined by 15.7% to 2.21 million tonnes in 2016 as against 2.63 million tonnes in 2015 due to lower demand mainly from New Zealand, which was down by 490,296 tonnes. The major palm kernel cake export markets were the EU with 0.68 million tonnes (or 30.6% of total palm kernel cake exports), New Zealand 0.53 million tonnes (23.9%), South Korea 0.28 million tonnes (12.4%), Pakistan 0.21 million tonnes (9.6%) and China 0.19 million tonnes (8.7%).

Similarly, exports of oleochemical products declined by 3.3% to 2.76 million tonnes in 2016 from 2.85 million tonnes in 2015. The lower export of oleochemical products was due to lower demand from the EU, UAE, India, China and Vietnam. The EU was the major export market for oleochemicals with 0.53 million tonnes (19.2% of total oleochemical exports), followed by China 0.39 million tonnes (14.2%), USA 0.27 million tonnes (9.6%) and Japan 0.23 million tonnes (8.5%). The major oleochemical products exported were fatty acids (0.92 million tonnes or 33.4% of total oleochemical exports), followed by fatty alcohol (0.56 million tonnes or 20.2%), methyl ester (0.48 million tonnes or 17.3%), soap noodles (0.41 million tonnes or 14.9%) and glycerine (0.39 million tonnes or 14.2%).

Imports of palm oil declined by 59.6% to 415,414 tonnes, down from 1.03 million tonnes recorded in 2015. The decline in overall palm oil imports for 2016 was due to lower export demand for palm oil during the said period, i.e. down by 8.1% or 1.41 million tonnes to 16.05 million tonnes as compared to 17.45 million tonnes in 2015 as well as the ample palm oil supply availability arising from higher opening stocks, which amounted to 2.63 million tonnes (up by 30.7% or 618,151 tonnes) to cater for the local processing sector. In addition, the higher Indonesian CPO prices (averaging at RM2,811.00/tonne) as compared to the Malaysian CPO average price of RM2,653.00/tonne was deemed as a disincentive for Malaysian imports

of Indonesian CPO. Almost all of the palm oil imports (both CPO and PPO) were sourced from Indonesia.

Palm oil stocks closed at 1.67 million tonnes, a decline of 36.7% from 2.63 million tonnes recorded in December 2015. The lower closing stocks was mainly due to lower CPO production, down by 13.2% or 2.64 million tonnes and lower palm oil imports by 59.6% or 612,743 tonnes.

In 2016, the prices of all oil palm products were traded higher. CPO price was traded higher by 23.2% or RM499.50 per tonne to reach RM2,653.00 per tonne as compared to RM2,153.50 per tonne in 2015. The highest traded price was in December at RM3,200.00 per tonne and the lowest price was in January at RM2,250.50 per tonne. The higher CPO price during the year was mainly due to lower CPO production as dryness caused by El-Nino weather phenomena, which lowered FFB yield, thus boosting palm oil prices, coupled with firmer competing vegetable oil prices, i.e. SBO price and weaker Ringgit as against the US Dollar, which made palm oil cheaper as compared to other vegetable oils in the world market.

Processed palm oil export prices were also traded higher. RBD palm oil price was traded higher by RM431.00 or 18.9% to RM2,710.50 per tonne, RBD palm olein up by RM480.50 or 21.0% to RM2,769.50 per tonne, RBD palm stearin up by 592.50 or 28.8% to RM2,650.50 per tonne and PFAD traded higher by RM560.00 or 29.4% to RM2,462.50 per tonne.

The average price of palm kernel (PK) in 2016 increased by RM1,083.50 per tonne or 70.9% to RM2,611.00 per tonne as compared to RM1,527.50 per tonne during the same period of 2015. The higher PK price was mainly due to the bullish domestic crude palm kernel oil (CPKO) price sentiment. The price of CPKO in 2016 also increased by RM2,119.50 per tonne or 62.8% to RM5,492.50 per tonne from RM3,373.00 per tonne registered during the same period of 2015. The higher prices were in tandem with the firmer world lauric oil prices in 2016, namely that of CPKO higher by US\$342 or 41.9% to US\$1,290 per tonne and coconut oil higher by US\$366 or 33.0% to US\$1,475 per tonne.

The average FFB price at 1% OER was higher by reach 31.0% to reach RM30.08 in 2016, up from RM22.96 achieved in the previous year, which was also in tandem with the higher CPO and PK prices. Based on the National OER, the average price of FFB in 2016 was equivalent to RM594/tonne as against RM459/tonne recorded in the previous year.

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## SUMMARY ON THE PERFORMANCE OF THE MALAYSIAN OIL PALM INDUSTRY, 2016 &amp; 2015

	2016	2015	DIFFERENCE	
			VOLUME / VALUE	(%)
<b>PLANTED AREA (HECTARES)</b>				
MALAYSIA	5,737,985	5,642,943	95,042	1.7
PENINSULAR MALAYSIA	2,679,502	2,659,361	20,141	0.8
SABAH	1,551,714	1,544,223	7,491	0.5
SARAWAK	1,506,769	1,439,359	67,410	4.7
<b>CPO PRODUCTION (TONNES)</b>				
MALAYSIA	17,319,177	19,961,581	(2,642,404)	(13.2)
PENINSULAR MALAYSIA	8,886,638	10,536,467	(1,649,829)	(15.7)
SABAH	4,847,253	5,722,967	(875,714)	(15.3)
SARAWAK	3,585,286	3,702,147	(116,861)	(3.2)
<b>CLOSING STOCKS (TONNES)</b>				
CRUDE PALM OIL	877,082	1,593,073	(715,991)	(44.9)
PROCESSED PALM OIL	789,591	1,040,867	(251,276)	(24.1)
<b>TOTAL PALM OIL</b>	<b>1,666,673</b>	<b>2,633,940</b>	<b>(967,267)</b>	<b>(36.7)</b>
<b>EXPORT (TONNES)</b>				
PALM OIL	16,045,957	17,454,213	(1,408,256)	(8.1)
PALM KERNEL OIL	923,097	1,066,694	(143,597)	(13.5)
PALM KERNEL CAKE	2,213,847	2,626,969	(413,122)	(15.7)
OLEOCHEMICALS	2,757,756	2,850,495	(92,739)	(3.3)
BIODIESEL	83,581	178,942	(95,361)	(53.3)
FINISHED PRODUCTS	489,071	440,594	48,477	11.0
OTHER PALM PRODUCTS	780,832	752,388	28,444	3.8
<b>TOTAL EXPORTS (TONNES)</b>	<b>23,294,140</b>	<b>25,370,294</b>	<b>(2,076,154)</b>	<b>(8.2)</b>
<b>EXPORT REVENUE (RM MILLION)</b>				
PALM OIL	43,369.28	41,257.50	2,111.78	5.1
PALM KERNEL OIL	4,886.66	4,080.40	806.26	19.8
PALM KERNEL CAKE	873.69	936.01	(62.32)	(6.7)
OLEOCHEMICALS	12,721.93	11,295.43	1,426.50	12.6
BIODIESEL	247.70	483.57	(235.87)	(48.8)
FINISHED PRODUCTS	2,052.46	1,728.54	323.92	18.7
OTHER PALM PRODUCTS	440.10	388.04	52.06	13.4
<b>TOTAL REVENUE (RM MILLION)</b>	<b>64,591.82</b>	<b>60,169.49</b>	<b>4,422.33</b>	<b>7.3</b>
<b>IMPORT (TONNES)</b>				
PALM OIL	415,414	1,028,158	(612,743)	(59.6)
PALM KERNEL OIL	143,436	224,563	(81,128)	(36.1)

	2016	2015	DIFFERENCE	
			VOLUME / VALUE	(%)
<b>PRICE (RM/TONNE)</b>				
FFB (MILL GATE)	594.00	459.00	135.00	29.4
CPO (LOCAL DELIVERED)	2,653.00	2,153.50	499.50	23.2
PALM KERNEL (EX-MILL)	2,611.00	1,527.50	1,083.50	70.9
CPKO (LOCAL DELIVERED)	5,492.50	3,373.00	2,119.50	62.8
RBD PALM OIL (FOB)	2,710.50	2,279.50	431.00	18.9
RBD PALM OLEIN (FOB)	2,769.50	2,289.00	480.50	21.0
RBD PALM STEARIN (FOB)	2,650.50	2,058.00	592.50	28.8
PFAD (FOB)	2,462.50	1,902.50	560.00	29.4
<b>OER (%)</b>				
MALAYSIA	20.18	20.46	(0.28)	(1.4)
PENINSULAR MALAYSIA	19.76	20.01	(0.25)	(1.2)
SABAH	21.11	21.57	(0.46)	(2.1)
SARAWAK	20.02	20.15	(0.13)	(0.6)
<b>FFB YIELD (TONNES / HECTARE)</b>				
MALAYSIA	15.91	18.48	(2.57)	(13.9)
PENINSULAR MALAYSIA	15.77	18.77	(3.00)	(16.0)
SABAH	17.10	19.99	(2.89)	(14.5)
SARAWAK	14.86	16.21	(1.35)	(8.3)

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