

PALM OIL PRICES FORECAST: WILL “SKYROCKET” IN 2021?

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RESUME

Even in the pandemic, the palm oil industry has succeeded in providing good performance both in terms of production and domestic consumption. The palm oil industry has also succeeded in establishing itself as a regional economic locomotive and become a major source of export foreign exchange which has succeeded in increasing the trade balance surplus. Besides, the trend of palm oil price (CPO CIFF Rotterdam) has also increased from USD 592 per ton in June to USD 847 per ton in November, which is the highest price since 2015.

The high palm oil prices will continue until the second quarter of 2021 and it is even estimated to reach USD 1000 per ton. This is due to low global palm oil stocks as an implication of the not optimized of growth production due to bad weather and lower productivity because lack of fertilizer used, on the other hand, global demand of palm oil has gradually recovered post-Covid along with industrial activities that are returned normal operations and access of export-import ports are reopened.

This level of palm oil price is beneficial for producers, especially smallholder farmers, but also has the potential to become a boomerang that brings losses due to reduced competitiveness in the global market so that the demand for palm oil will decline. The increase in the price of palm oil will reduce the price difference between palm oil and other vegetable oils (soft oils). This condition has the potential will shifting the demand for palm oil to soft oils such as soybean oil, rapeseed oil and sunflower oil.

Therefore, it is necessary to optimize the absorption of palm oil by the domestic processing industry in a strategy to maintain global stock stability at a certain price level that is still profitable for producers and remains an incentive for importer countries. It can be achieved by optimizing the absorption of palm oil by the domestic processing industry. The implementation of the mandatory B30 policy which is continued in 2021 can be one of a solution because it will increase domestic consumption, so that the global palm oil price that will be formed is USD 750-850 per ton.

INTRODUCTION

2020 is a year full of uncertainty, even many people consider that this year to be a disaster year due to the Covid-19 pandemic. More than 1.7 million died around the world cause of the SARS-Cov virus (WHO, 2020) and millions of people lost their jobs due to sluggish economic activity. Indonesia and several other countries such as the United States, Singapore, South Korea, and the European Union has negative economic growth which led to an economic recession (BPS, 2020).

Even though the Indonesian economy has a slowdown as a result of the pandemic, however the national palm oil industry (from the plantation to the downstream industry) has succeeded in establishing itself as a regional economic locomotive (PASPI, 2020^a) until has become a major source of export foreign exchange which has succeeded in increasing the surplus of Indonesia's trade balance, despite weak demand from importing countries due to the pandemic (PASPI, 2020^c).

Sitanggang (2020) explains that the performance of the palm oil industry in 2020 shows that there has been an increase in palm oil (CPO) production even though it is relatively small, which is only 0.47 percent, as a result of El Nino and decreased

productivity due to lack of use of fertilizers in the previous years. On the other hand, there was an increase in domestic palm oil consumption, especially by the oleochemical industry (48.98 percent) and the biodiesel industry (22.97 percent). The increase in demand for palm oil by the oleochemical industry is due to the increasing need for raw material to produce toiletries and hygienic products such as soap, detergent, hand sanitizer, where market demand for these products has increased significantly amid the pandemic (PASPI, 2020^b). Meanwhile, the increased demand for palm oil by the biodiesel industry was driven by the implementation of the mandatory B30 policy.

The implications of the supply-demand performance of the Indonesian palm oil industry, as the world's largest producer and exporter of palm oil, also affect global palm oil stocks which are more limited, so it cause increase in palm oil prices in the second half of 2020. The average monthly CPO CIFF Rotterdam price has experienced an increase from USD 592 per ton in June to USD 847 per ton in November (Figure 1). Even the price of palm oil (CPO CIFF Rotterdam) in November 2020 was the highest since 2015.

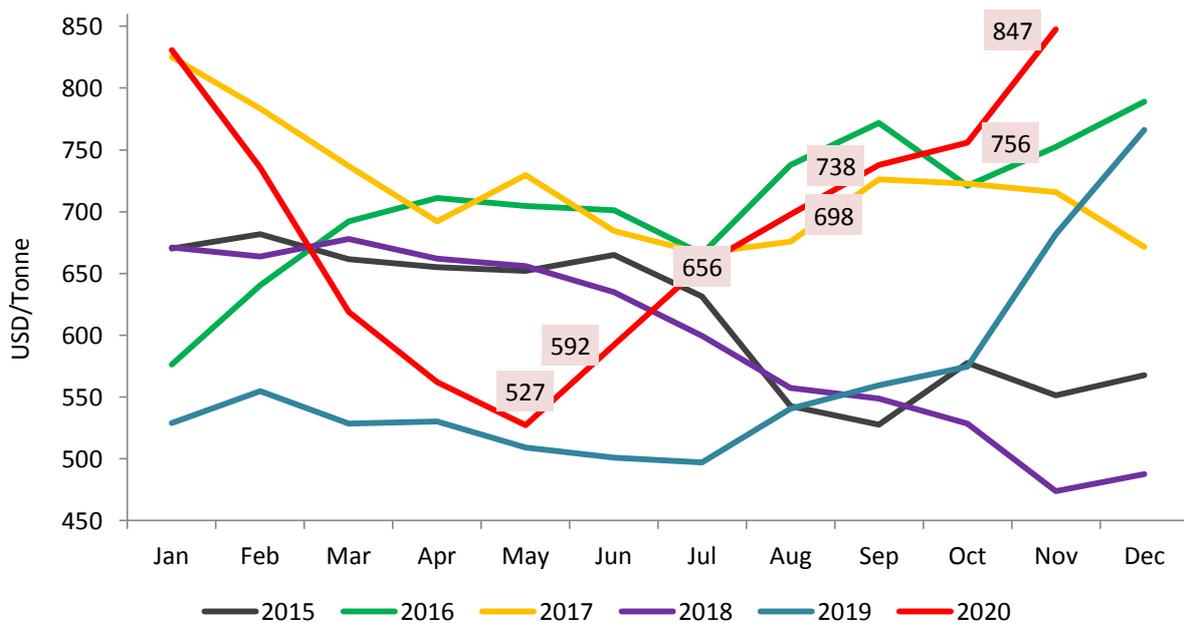


Figure 1. CPO CIF Rotterdam Prices (Source: MPOB, 2020)

The positive trend in CPO prices also transmitted on the FFB price was reached Rp. 2,545 per kilogram in September 2020 (Disbun Riau, 2020). The sparkling trend in palm oil prices in 2020 is a blessing for producers, especially smallholder oil palm farmers, amid the pandemic. But on the other hand, this positive trend in palm oil prices has also been responded to by the implementation of The Ministry of Finance Regulation (PMK) 191/2020 related to new tariffs on export levy of CPO and other palm oil products to be used as a source of funding for mandatory biodiesel programs, replanting (PSR), and other programs (PASPI, 2020^e).

The explanation above summarizes of the performance of the national palm oil industry in 2020. Furthermore, this paper aims to discuss the projection of palm oil prices in 2021 by analyzing the forecast of production and consumption of palm oil.

THE PROJECTIONS OF GLOBAL PALM OIL PRODUCTION AND CONSUMPTION IN 2021

Palm Oil Production in 2021 is estimated will be lower as a result of the El Nino anomaly that occurred several years ago and the La Nina climate that occurred in 2020 which caused high rainfall so cause transport FFB from the plantation to the mill harder, especially if the garden road was damaged (Fry, 2020). Apart from the impact of the climate, the FFB production is not optimal because of the decrease in productivity as a result of the low use of fertilizers on oil palm plants, especially in smallholder plantations. This is because the reduced use of fertilizers is a form of cost-effectiveness carried out by producers, amid the declining price trend in 2018-2019. The lower productivity is also caused by not optimized of plantation maintenance since the Covid-19 pandemic, thus affecting FFB and palm oil production in Indonesia and Malaysia.

Indonesia and Malaysia as the largest palm oil producers in the world with a share of 84 percent (USDA, 2020), are expected to produce palm oil reach of 50 million tons for Indonesia and 20 million tons for Malaysia,

so the global palm oil production has increased by 4 million tons compared than previous year (Mistry, 2020). Not much different from the projections above, Sitanggang (2020) also predicts that Indonesia will produce CPO with a volume of 49 million tons and a CPKO production volume of 4.9 million tons in 2021. The increasing of palm oil production in 2021 is also the impact of La Nina which cause increasing productivity (PASPI, 2020^d).

Palm Oil Consumption in 2021, especially in major palm oil consumer countries such as Indonesia, India, the European Union, and China (USDA, 2020) is expected to recover and return to normal after the Covid-19 Pandemic. Improvements in economic conditions also a signal of an increase in demand for palm oil in 2021. The international agency such as IMF (2020) estimates that the economies of that countries will improve in 2021 as indicated by a positive GDP of 6.1 percent for Indonesia, 8.8 percent for India, 5.2 percent for the European Union, and 8.2 percent for China. Demand for palm oil from importing countries such as India and China is also expected to gradually recover along with industrial activities that are returned normal operations and access of export-import ports are reopened.

Mistry (2020) mentions that there are two shocks that are a game-changer in global demand such as the implementation of the mandatory B30 policy in Indonesia and stock re-building in China. If the mandatory B30 is still implemented by the Government of Indonesia in 2021, then palm oil consumption for the biodiesel industry will be around 8 million tons so the total domestic consumption will be 18.2 million tons (Sitanggang, 2020). Meanwhile, along with the post-pandemic recovery of China's catering industry, it will increase the demand for palm oil imports (Derong, 2020). In addition, the global demand for palm oil is also expected to increase along with the single-use cooking oil (Fry, 2020).

PROSPECT OF PALM OIL PRICE IN 2021

The trend of palm oil prices is relatively high, even the price in November 2020 is the highest price since 2015. Global commodity market analysts have predicted this higher palm oil prices will continue until the second quarter of 2021. This is due to low global palm oil stocks as an implication of the not optimized of growth production and demand for palm oil has gradually recovered post-Covid.

President Director of ISTA Mielke GmbH, Thomas Mielke also estimated that the price of CPO CIFF Rotterdam could reach USD 1000 per ton in 2021 (Majalah Sawit Vol. IX Ed. 110, 2020). This condition could potentially lead to a decrease in demand. Mehta (2020) has also predicted that if the price of palm oil remains high it will have an impact on reducing demand of palm oil in India.

In addition, it is feared that the increase in prices will reduce the competitiveness of palm oil in the vegetable oil global market. The increase in the price of palm oil will reduce the price difference between palm oil and other vegetable oils (soft oils). This condition has the potential will shifting the demand for palm oil to soft oils such as soybean oil, rapeseed oil and sunflower oil. It is also estimated that the price of palm oil in the first quarter of 2021 will be very competitive with the price of soybean oil because the price difference is very thin. This makes importing / consumer countries, such as China, have the potential to switch to consuming soybean oil instead of palm oil. The same thing happened in early 2020, where the monthly average CPO price for CIFF Rotterdam in January 2020 reached USD 831 per ton (MPOB, 2020), it cause competing between palm oil and sunflower oil. This condition becomes an obstacle to boost demand for palm oil in the global market.

However, the possibility of a shifting demand from palm oil to soft oils relatively small. Although palm oil stocks have decreased, but production will still dominate global production of vegetable oil in 2021. This is because other vegetable oil productions are also expected will decline

due to low productivity because of bad weather and pests (Fry, 2020). The production of rapeseed is expected decline of 10 percent from the production in 2013/2014, as a result of the chemical spray ban imposed by the European Union Government. Even rapeseed cultivation is considered become not profitable, so that the area is decreasing which results in decreased production volume. Apart from declining rapeseed production, sunflower production will also be disrupted in 2021 as a result of drought in Southeast Europe. Meanwhile, soybean production also expected to decline due to drought. Even Mehta (2020) was estimated that soybean production will decrease by 5 to 20 million tons.

The price of palm oil is too high is give benefit for producers, especially smallholder farmers, but it also has the potential to reduce demand and lack competitiveness in the global market which could lead to a shift to other vegetable oil competitors, so it will make loss. Therefore, palm oil stakeholders in Indonesia, as the largest palm oil producer country in the world, need a strategy to maintain palm oil supply so that it can achieve global stock stability at a certain price level that is still profitable for producers and remains an incentive for importer countries. This can be achieved by optimizing the absorption of palm oil by the domestic processing industry.

One of them is through the absorption of the biodiesel industry by implementing the mandatory B30 policy. Sitanggang (2020) explains that if the Indonesian government decides to continue the mandatory B30 in 2021, there will be an increase in domestic palm oil consumption of around 12 percent, so that the global palm oil price that will be formed is USD 750-850 per ton.

CONCLUSION

Even in the pandemic, the palm oil industry has succeeded in providing good performance both in terms of production and domestic consumption. The palm oil industry has also succeeded in establishing itself as a regional economic locomotive and

become a major source of export foreign exchange which has succeeded in increasing the trade balance surplus. Besides, the trend of palm oil price (CPO CIFF Rotterdam) has also increased from USD 592 per ton in June to USD 847 per ton in November, which is the highest price since 2015.

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