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Rising demand for biodiesel might impact Malaysian crude palm oil industry

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Malaysian crude palm oil (CPO) prices are expected to rise in 2024, as stagnant production despite rising demand for biodiesel is seen offsetting the impact of higher output of rival oils.

Benchmark palm prices will average RM3,950 a metric tonne in 2024, up 4.06% from 2023, according to the median estimate of 18 analysts and industry participants. Average prices had fallen 23 per cent last year.

â??The key driver that will influence the price of CPO for this year is implementation of B35 biodiesel mandate in Indonesia, which is expected to limit global palm oil supply for export market,â? said Ahmad Parveez Ghulam Kadir, director-general of the Malaysian Palm Oil Board.

Indonesian palm oil exports are set to fall around 4% t to about 29 million metric tonnes this year as domestic consumption rises with mandatory palm oil-based biodiesel blending of 35%, the Indonesia Palm Oil Association (GAPKI) said.

Stagnant output

Top producers Indonesia and Malaysia are expected to see little impact to production from the dry El Nino weather that started in the second half of 2023.

CPO output in the worldâ??s biggest producer Indonesia is forecast to rise 0.6% to 48.87 million tonnes this year, the poll showed.

â??El Nino affected maybe only 10%-15% of Indonesian palm oil producing areas, so I think the impact on production is minimum,â?• Fadhil Hasan, a GAPKI official said, adding that CPO output expected is to rise around 4% to 50.92 million tonnes.

Meanwhile, Malaysiaâ??s production is seen at 18.75 million tonnes, up 1% from last year, as the labour situation improves in the worldâ??s second-biggest producer.

â??The labour shortages are still a major problem, but they have become less pronounced. As a result, companies are becoming more willing to fertilise, which usually improves output with a lag,â?• said Julian Conway McGill, economist at Glenauk Economics.

Competitive rival oils

Palm oil competes with soyoil, sunflower oil and rapeseed oil. A rebound in soyoil supplies, especially from South America, is poised to provide stiff competition to palm oil in 2024.

Demand for palm oil could weaken in the first half as soyoilâ??s premium over palm oil is expected to fall due to a rise in the crushing of beans, with South American supplies expected to increase by 11%, said Aditya Jeripotula of the Global Commodity Research.

Substitution from other oils is likely to push down global palm oil demand, including from the industry, by 2%-3%, Jeripotula added.

Demand from the European Union could also be crimped by a new law aimed at protecting forests, which involves strict regulation of the sale of commodities linked to deforestation, said a New Delhi-based trader with a global trade house.