

Palm oil rally hits inventory roadblock as Malaysian stocks loom

09 July 2026 | Features

After gaining nearly 2 per cent this week and more than 10 per cent over the past year, palm oil is entering a consolidation phase where stronger exports, firmer crude oil and a weaker ringgit are being countered by expectations of record Malaysian inventories and softer import demand from India



Palm oil prices retreated modestly on Thursday after a strong run in recent sessions, as the market struggled to extend gains in the face of mounting supply concerns. Benchmark Malaysian palm oil futures settled at MYR 4,596 per tonne, down 0.28 per cent on the day, reflecting a market that remains fundamentally supported but increasingly cautious ahead of fresh inventory data.

The latest correction does little to alter the broader trend. Palm oil has gained 1.99 per cent over the past week, 1.28 per cent during the month, 10.83 per cent year-on-year, and 13.48 per cent since the beginning of 2026, underscoring its position as one of the stronger-performing agricultural commodities this year. During Thursday's session, prices traded within a relatively narrow band of MYR 4,566-4,596 per tonne, after closing at MYR 4,609 in the previous session. The market, however, is increasingly caught between two competing narratives. While demand indicators have begun to improve and external macroeconomic factors remain supportive, expectations of a sharp build-up in Malaysian inventories are preventing traders from pushing prices decisively above the MYR 4,600 mark.

Supply concerns return to centre stage

The biggest source of uncertainty remains Malaysia's stock position. Trade estimates suggest the country's palm oil inventories may have climbed to their highest level on record in June as production continued to outpace demand. The prospect of overflowing stocks has prompted investors to reduce bullish positions ahead of the release of official data from the Malaysian Palm Oil Board (MPOB), which is expected to offer a clearer picture of production, exports and inventory levels.

Historically, MPOB stock figures have acted as one of the most influential catalysts for global edible oil markets. A larger-than-expected stock build could reinforce expectations of abundant near-term supply, while any downside surprise could quickly revive buying interest. For now, traders appear unwilling to make aggressive directional bets before those numbers are published.

Exports provide an important counterbalance

Offsetting concerns over inventories is a noticeable improvement in export demand. Cargo surveyors estimate that Malaysian palm oil exports during 1-5 July increased by 10.6 per cent to 11.1 per cent compared with the corresponding period in June. Although based on only a few days of trade, the data suggests overseas buying has strengthened at the beginning of the third quarter after a relatively subdued June.

Export growth remains particularly significant because it determines whether rising production can be absorbed without further swelling inventories. Stronger shipments would help ease concerns over excess supply and provide a firmer foundation for prices. However, the sustainability of this recovery remains uncertain.

India remains the missing piece

One of the biggest drags on market sentiment continues to be India. The world's largest importer of edible oils sharply reduced palm oil purchases in June, with imports reportedly falling to their lowest level in 14 months. The decline reflects slower buying by refiners amid ample domestic vegetable oil inventories and changing price dynamics between palm oil and competing edible oils.

India's purchasing decisions carry enormous weight in the global market. Any prolonged slowdown in imports could significantly weaken export demand from Malaysia and Indonesia, making it more difficult for producers to reduce inventories despite higher shipments elsewhere. Consequently, traders are closely watching Indian buying patterns over the coming weeks for signs of renewed demand.

Crude oil and currencies continue to lend support

While agricultural fundamentals remain mixed, developments in energy and currency markets are providing important support. International crude oil prices remained close to \$73.5 per barrel, following a 4.4 per cent rally in the previous session. Higher crude prices improve the economics of biodiesel production, making palm oil a more attractive feedstock for renewable fuel blending programmes across several producing countries.

At the same time, the Malaysian ringgit has weakened against major currencies, improving the export competitiveness of Malaysian palm oil by making shipments cheaper for overseas buyers. These two macroeconomic factors have helped cushion the market against supply-side pressures.

Global vegetable oils send mixed signals

Cross-market movements continue to shape palm oil sentiment. Firmer Dalian edible oil futures in China have provided positive cues, reflecting relatively healthy demand expectations in one of Asia's largest consuming markets. In contrast, softer Chicago soyoil futures have limited the upside. Since palm oil and soybean oil compete directly in global food and industrial markets, weakness in soyoil often spills over into palm oil pricing by reducing the latter's relative competitiveness.

This divergence between Asian and U.S. edible oil markets has contributed to the current range-bound trading environment.

Palm oil still among agriculture's stronger performers

Despite recent volatility, palm oil continues to outperform several major agricultural commodities over the longer term. Soybean prices have risen 17.31 per cent over the past year, while cotton has advanced nearly 20 per cent and rapeseed almost 15 per cent. Wheat has posted a more modest 7.89 per cent gain, whereas sugar remains under pressure with an annual decline of 8.13 per cent.

Cocoa continues to be the most volatile agricultural commodity, rising almost 24 per cent over the week despite remaining sharply below year-ago levels after last year's extraordinary rally. Against this backdrop, palm oil's double-digit annual gains reflect relatively resilient fundamentals, even if recent momentum has slowed.

Market outlook

Palm oil has entered what many traders would describe as a consolidation phase rather than a reversal. The underlying fundamentals remain constructive. Export demand is improving, energy markets continue to support biodiesel demand, and currency movements favour Malaysian shipments. Yet these positive drivers are being offset by concerns that production is once again running ahead of consumption.

Unless exports accelerate enough to absorb rising output, inventories are likely to remain the dominant influence on price direction over the coming weeks. The immediate focus now shifts to the upcoming MPOB data. Should official figures confirm a record stock build, palm oil could remain under pressure despite favourable external conditions. Conversely, stronger-than-expected export performance or a smaller inventory increase could provide the catalyst needed for prices to resume their upward trajectory above the psychologically important MYR 4,600 per tonne level.

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