ICRA Indonesia

PRESS RELEASE

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Palm Oil: Sustained Supply, Subdued Demand and Pressure on Prices

PT ICRA Indonesia has today released a commentary on the performance and prospect of Indonesian palm oil industry. The commentary covers supply and demand, competitiveness against its main substitutes particularly soybean oil and key factors affecting its price dynamics.

The highlights of the commentary are as follows:

- The growth in global palm oil production to date is in tandem with the growth in consumption and surpasses the GDP growth in the world economies reflecting sustained palm oil importance in the global market. Palm oil production recorded a compounded annual growth rate (CAGR) of 6.6% in the last five years to about 59.5 million Metric Ton (MT) in 2014 which is comparable with consumption growth of 6.2% to around 57.3 million MT in the same period.
- Indonesia and Malaysia are the dominant producers in the global market. Both countries collectively accounted for about 85.2% of the world's crude palm oil output on average during 2010-2014. Meanwhile, palm oil and soybean oil are the biggest contributors of world vegetable oil. The combined palm oil and soybean oil consumption represented about 61.0% of world vegetable oil consumption on average during the same period.
- Despite the proven competitive advantage of palm oil against its substitutes, high soybean supply in the global market will continue to impact the prices of palm oil. In March 2015, the production of soybean was up to about 47.4 million MT (vs. 47.1 million MT in January). In turn, it increased the global stock to around 3.6 million MT (vs. 3.3 million MT in January) which have pressured palm oil prices.
- Moreover, in tandem with the slowdown in global economy, demand for palm oil was also subdued in the last three months despite the sustained production. Global consumption of palm oil was recorded at around 60.7 million MT in March compared to 60.8 million MT (February), and 60.7 million MT (January). ICRA Indonesia expects palm oil prices to remain under pressure and hover at around USD 650-700/MT in 2015 taking into account the above considerations, apart from El Nino effect which is still uncertain at the moment.
- The latest government regulation to support palm oil industry in the form of CPO export levy is closely related to the recent released B15 biofuel program aiming to spur domestic demand. In addition, the government has kept crude palm oil free of export duty and lowered the benchmark price up to now to respond to the prolonged pressures on palm oil price.

The full commentary is available on www.icraindonesia.com.

For further details please contact:

Setyo Wijayanto
Manager - Analyst
Corporate Ratings
Telephone: (62-21) 576 1516
Email: setyo.wijayanto@icraindonesia.com

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