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Supply concern may lift CPO to RM3,000

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Council: Demand for palm oil continues to remain strong

»It's the supply versus demand mechanism«

TAN SRI DR YUSOF BASIRON

CRUDE palm oil (CPO) prices are likely to hit RM3,000 per tonne over the next six months due to global supply concern.

Malaysian Palm Oil Council chief executive officer Tan Sri Dr Yusof Basiron said demand for palm oil continued to be strong but supply would be tight.

"It's the supply versus demand mechanism. CPO prices will follow its own cycle," he said.

Yusof said India was experiencing a shortage in supply while Argentina and Malaysia were expected to produce less palm oil. CPO price was up RM2 to RM2,301 yesterday.

"Malaysia is projected to produce 17.2 million to 17.3 million tonnes of palm oil this year. Last year, the country produced 17.68 million tonnes," he said, adding that Sabah would be badly affected this year.

Malaysia is currently the number two palm oil producer, with 41% share of the world's palm oil production, and a leading exporter, with 47% share of the world's exports.

Malaysia, Indonesia and Argentina are major net exporters of oils and fats.

Yusof said the palm oil industry was fairly recession-proof as prices recovered quickly.

He said the strong demand trends favouring palm oil would sustain profits.

"For example, if producers would like to maintain a margin of 40%, with the current cost of production of RM1,300, the price of CPO

should be maintained at RM2,167.

"Similarly, if the cost of production is RM1,300 and the current price is only RM1,600, then producers can only expect a margin of

20% to 25%," he said.

Kuala Lumpur Kepong Bhd chief executive officer Datuk Seri Lee Oi Hian believed that CPO prices would hit RM2,500 next year.

He said increased cost of production and stagnating yields were some of the challenges the industry was facing.

Lee said CPO production cost had gone up 2% per tonne in the first half of this year but did not disclose the cost.

At the same time, the industry had to deal with high labour content and heavy dependence on foreign labour, he added.

Sime Darby Technology Centre Sdn Bhd senior vice-president II and Quantum Leap R&D head K. Harikrishna said historical data showed that demand for palm oil as a food product had

always risen despite peaks and troughs in economic cycles.

"CPO price cycles have been influenced by supply and demand dynamics impacted by economic conditions. However, Malaysian palm export data has shown a historical uptrend.

"As a food necessity, palm oil has always been on increasing demand trend due to the world's population growth," he added.

Harikrishna said Sime Darby's CPO production made up about 5.6% of the world's palm oil production.

He said due to limited land bank for expansion opportunities in Malaysia, revolutionary research and development efforts were vital to boost palm oil yields.