

Edible Oils Update: August 2020

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Edible oil imports fall by 14% during November 2019 – April 2020

During the first six months of the oil year 2019-20, edible oil imports decreased by 14% to 6.1 million tonnes compared to the corresponding period a year ago. This decline was primarily on account of a sharp 70% fall in imports of refined palm oil that stood at 0.36 million tonnes during the period.

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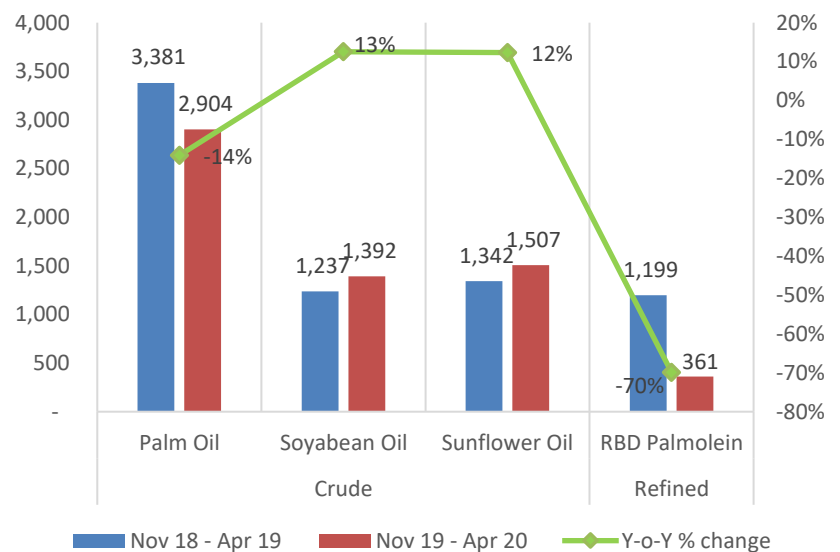
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Chart 1: Variety-wise imports of edible oils (in thousand tonnes)



Source: Solvent Extractors’ Association of India (SEA)

The main reason for the drastic fall in imports of refined palm oil was the placement of refined palm oil under the ‘Restricted’ list with effect from 8th January, 2020. A government notification released by the Directorate General of Foreign Trade (DGFT) stated that the government has amended its import policy for RBD palm oil and RBD palmolein from ‘Open’ to ‘Restricted’ category which means that an importer will now have to get a permit to import this particular kind of edible oil.

While the domestic players in the edible oils industry welcomed this move as they have always expressed concerns to reduce dependency on refined edible oil imports and increase capacity utilisation of domestic oil refineries, it is believed that some conflicts between the Indian and the Malaysian government could also have prompted the Indian government to take such a step.

Last year Malaysia had shipped excessive RBD palmolein taking advantage of lower duty concession compared to Indonesia.

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Also, 14% decline in inbound shipments of crude palm oil impacted the overall imports. This was due to subdued demand from Hotel, Restaurant and Café (HoReCa) segment (the major consumer of palm oil) because of Covid-19 induced lockdown. However, the demand for soyabean oil and sunflower oil increased by 13% and 12%, respectively, as household demand in consumer packs increased.

The demand for edible oils in India was affected due to lockdown situation in the country. Even while restrictions are eased with unlock guidelines; consumption from bulk consumers (major segment) continues to face challenges as home deliveries and takeaway are preferred over dining at restaurants by some consumers. Also, restaurants are advised to operate at reduced capacities which are driven by regulations in respective locations. Further, restriction on social gatherings is also affecting demand of edible oils. All these factors will continue to keep the consumption levels of edible oils low in the country which, in turn, will support the downward trend in their imports.

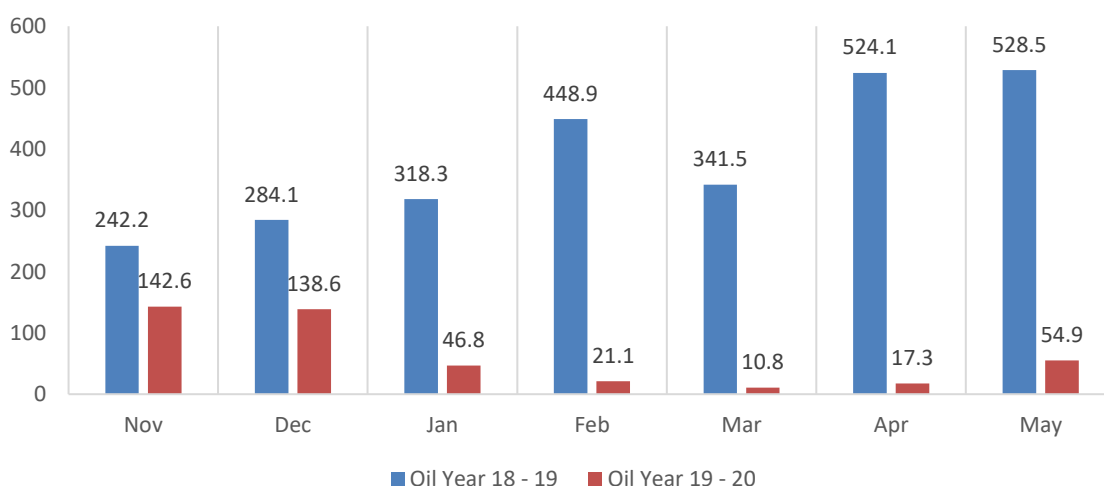
Edible oil imports from Malaysia

India imports palm oil primarily from Indonesia and Malaysia. While edible oil imports from Indonesia fell by 11.2% y-o-y to 2.3 million tonnes, edible oil imports from Malaysia declined by a substantial 67% to 396.2 thousand tonnes during the period November 2019-March 2020. This was mainly due to 5% hike in import duty of Malaysian refined palm oil to 50% in September 2019 which kept the import duties on Malaysian and Indonesian refined palm oil at par.

Also, the top trade body SEA had asked its members to avoid buying palm oil from Malaysia till the time there is some clarity on the government’s move towards the controversial remark given by Malaysia on Jammu & Kashmir at the United Nations session in September 2019. The import duty on refined palm oil however has been reduced to 45% on 1 January 2020.

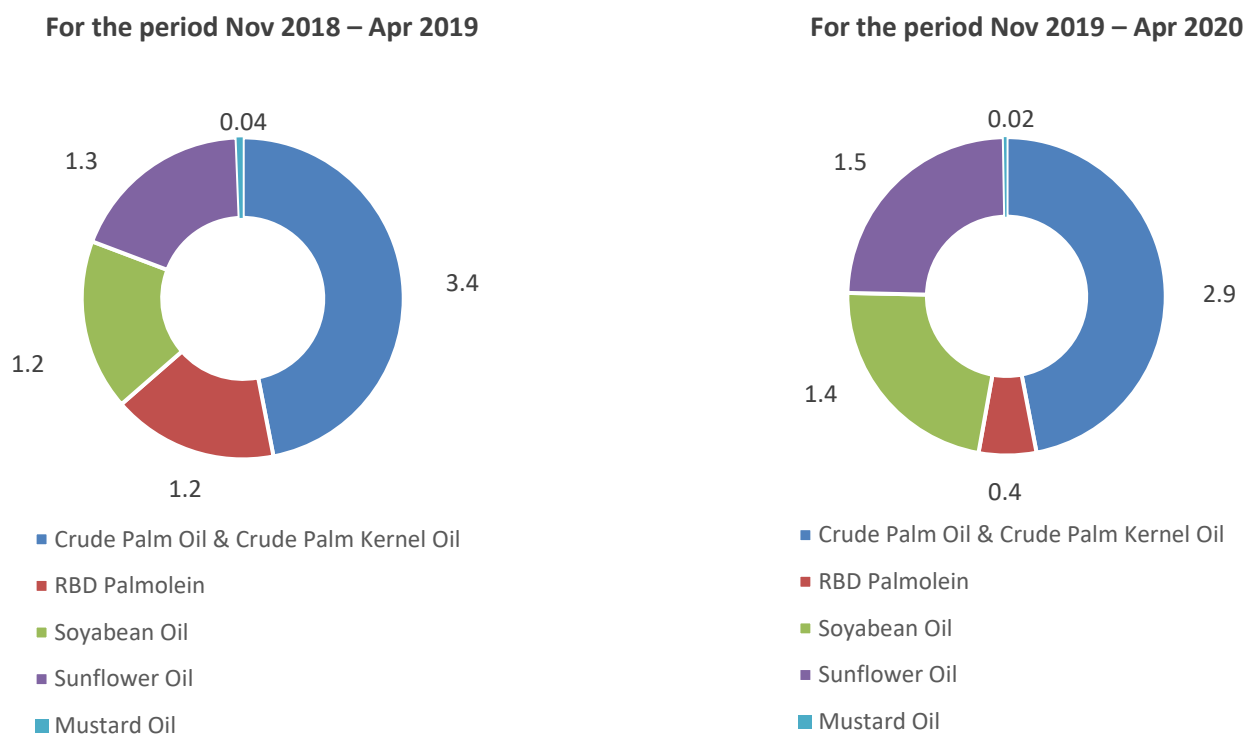
As depicted in chart 2 below, India imported only 432.1 thousand tonnes in the current oil year (November – May) as compared to 2,688 thousand tonnes in the corresponding period a year ago from Malaysia.

Chart 2: Palm oil imports by India from Malaysia (in thousand tonnes)



Source: USDA FAS

Chart 3: Variety-wise share of crude and refined edible oil imports (in million tonnes)



Source:SEA

From the above charts, it can be seen that the share of refined palm oil reduced to as low as 6% (0.4 million tonnes) during November 2019-April 2020 from 16.6% (1.2 million tonnes) in the same period last year. The share of crude palm oil however remained flat at 47% on a y-o-y basis while that of soyabean oil and sunflower oil in total edible oil imports increased to 22.5% (1.4 million tonnes) and 24.4% (1.5 million tonnes) from earlier 17.2% (1.2 million tonnes) and 18.6% (1.3 million tonnes), respectively.

According to the provisional data released by SEA, import of vegetable oil for the month of May 2020 stood at 707.4 thousand tonnes compared to 1,180.7 thousand tonnes in May 2019 implying a significant fall of 40.1%. This is the lowest import in month of May since 2011. The total imports for the current oil year (Nov – May) stood at 6.8 million tonnes compared to 8.3 million tonnes for the same period last year.

Movement in international and domestic edible oil prices

Trade restrictions imposed on import of refined palm oil by India (the largest palm oil importing nation) in January 2020 and weak global demand largely owing to Covid-19 impacted the international price of palm oil as it fell by 28.5% from RM 2,967 per tonne in January to RM 2,121 per tonne in May of current oil year. The prices nevertheless improved by 14% to RM 2,419 per tonne in June 2020 and by 5.2% to RM 2,545 per tonne in July 2020 on a sequential basis. Gradual easing of lockdown measures across the globe and decreasing supply chain disruptions are believed to have supported the growth in prices.

The domestic crude palm oil price moved in accordance with the international prices and fell by 21% from Rs. 80 per kg in January to Rs. 63 per kg in May of current oil year. Also, improvement in domestic crude palm oil price was witnessed in June

2020 (m-o-m rise of 11.1% to Rs.70 per kg) and July 2020 (m-o-m growth of 1.1% to Rs.71 per kg) which again was in line with the movement in international palm oil prices.

Chart 4: Movement in international and domestic palm oil prices

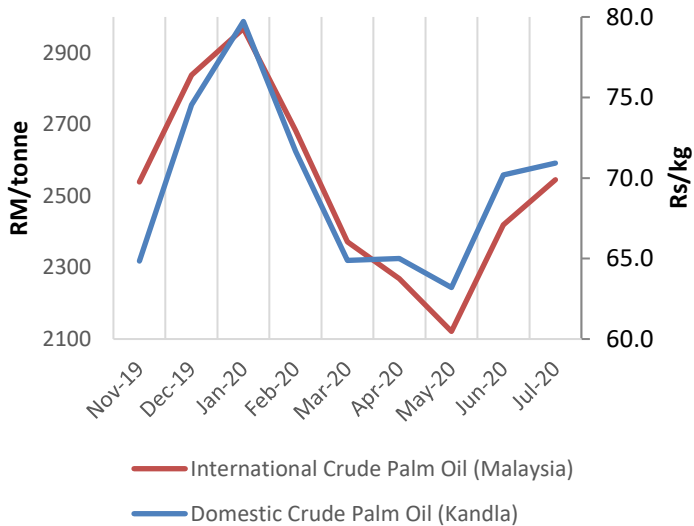
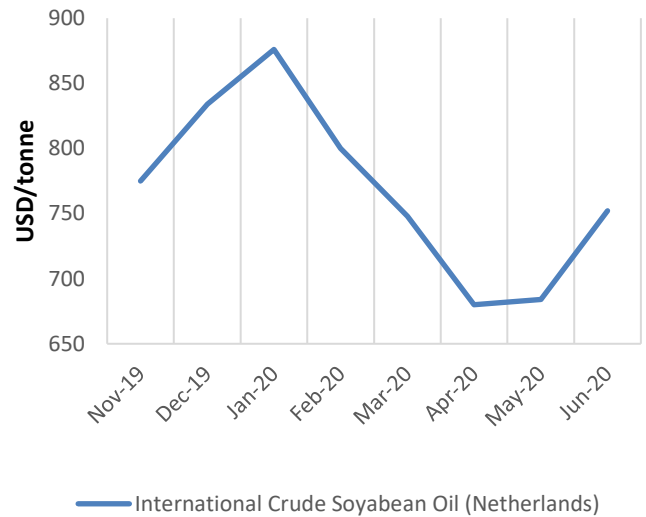


Chart 5: Movement in international and domestic soyabean oil prices



Source: CMIE

The international price for crude soyabean oil peaked in January of the current oil year (November - June) to USD 876 per tonne largely owing to the phase 1 trade deal between US and China where China agreed to increase purchases of American products and services by at least USD 200 billion over the next two years—including soyabeans. However, the prices faced a sharp decline from February to April of the current oil year and averaged at USD 743 per tonne as tensions between the two countries escalated and mitigation efforts taken to contain the spread of Covid-19 created a downward pressure on the prices. The price stood at USD 752 per tonne in June, largely on account of recovery in global demand.

The domestic prices for RBD palm oil and refined soyabean oil for the current oil year (November 2019 - March 2020) averaged at Rs. 75 per kg and Rs. 84 per kg, respectively. The domestic prices for refined soyabean oil for the period June-July 2020 stood at Rs. 83 per kg.

Concluding remarks:

- Imports of edible oil in India during the current oil year (November 2019 – May 2020) stood at 6.8 million tonnes compared to 8.3 million tonnes for the same period last year, a y-o-y fall of 18.1%.
- Even while restrictions are eased with unlock guidelines; consumption from bulk consumers (major segment) will continue to face challenges as restrictions on operations of HoReCa segment continues. Also, preference of home deliveries and takeaway over dining at restaurants will affect consumption of edible oils. Moreover, restrictions on social gatherings will also impact edible oils demand. All these factors will continue to keep the consumption levels of edible oils low in the country which, in turn, will support the downward trend in their imports during the ongoing oil year.

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