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PALM OIL CRISES AND ITS EFFECT ON INDIAN MARKET AND COMPANIES

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ABSTRACT

The passage discusses the ban on palm oil exports by Indonesia and its impact on the Indian FMCG (Fast Moving Consumer Goods) sector. The ban caused a shortage of palm oil globally, leading to increased prices. Indian FMCG companies experienced a decline in stock prices, while cooking oil refiners benefited from the ban. The shortage of palm oil affected the input costs of FMCG products, resulting in price increases. The ban created an opportunity for Indian refiners to process crude palm oil. Overall, the passage highlights the interconnectedness of geopolitics, economics, and the stock market in shaping the palm oil industry.

Keywords: Stock price, Palm oil, Export, Supply- Demand

INTRODUCTION

Indonesia, the world's largest consuming palm oil producer and exporter, had banned the export of palm oil and its raw materials on April 20, 2022. As soon as the news broke, it had a dramatic impact on Indian FMCG stocks.

Indonesia's four-week ban on palm oil exports in 2022 shook global food supply chains. Globally palm oil prices have risen to historic highs and this year's drought and the war in Ukraine have depleted the supply of cooking oil around the world.

Palm oil and its uses

Major oil types that are widely used around the world are of four types: palm oil, soybean oil, canal oil and sunflower oil. Palm oil accounts for 40% of the world supply. In fact, palm oil is the most commonly used vegetable oil in the world. In 2020 alone, global production exceeded 73 million tons. Indonesia is the largest exporter of palm oil with a 60% market share, while Malaysia accounts for 30% of the world's supply. Only two of these countries account for 90% of

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the world's palm oil supply. India is the largest importer of palm oil, with palm oil alone accounting for 60% of her total vegetable oil imports. In fact, we found that over 50% of the products in the average Indian household contain palm oil. This includes cosmetics, processed foods, cakes, chocolate, soaps, shampoos, detergents and even biofuels. Therefore, palm oil is very important for the Indian FMCG sector

Reasons for unavailability of other cooking oils

Now let's take a closer look at other types of oils. Let's start with the first kind of oil - sunflower oil. In fact, Ukraine is the world's largest sunflower oil exporter, accounting for 46% of the world's sunflower seed and sunflower oil production. And the second largest producer is none other than Russia, which exports 23% of the world supply. Russia and Ukraine together export 100 million tonnes of crude sunflower oil, equivalent to almost 70% of the world's total supply. However, Ukrainian exports took a hit when Russia began to invade Ukraine. And because of all the sanctions and hurdles Western countries have imposed on Russia, Russia's sunflower oil exports have also been delayed. As a result, sunflower oil, the second most used and one of the closest alternatives to palm oil in the world, became unavailable in sufficient quantities. Then move on to soybean oil. The main soybean-producing country is none other than Argentina, but there were periods of poor harvests due to bad weather. In Canada, drought also affected canal oil production last year. So even replacing one oil with the other was not possible.

Impact of ban on palm oil exports on Indian FMCG Companies

With Indonesia’s ban on the export of palm oil and its raw materials in April 2022, brands such as Hindustan Unilever, Britannia Industries and Mariko’s share prices fell between 4% and 6%. At exactly the same time, Adani Wilmer's share price jumped 5% to a record high of ₹ 802.8 while Ruchi Soya's share price rose 8%.

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Reasons for shortage of palm oil and Indonesia ban on palm oil exports

Now; The only oil the world's industries depended on was palm oil. And, as we have already seen, just two countries cover 90% of the world's palm oil supply. And here things got even worse. Malaysia, the second largest palm oil producer, was facing a labour shortage due to the coronavirus. Labour is also very important in the palm oil industry as palm oil harvesting is mostly done by hand as palm oil trees are very tall. Therefore, these workers must either climb trees or carry long sticks with sickles to harvest the palm trees. But as soon as the new coronavirus broke out, these workers returned to their homes in India, Bangladesh and Pakistan. As a result, the Malaysian market was also unable to meet this demand. This means that all of the world's demands have been borne by one country, Indonesia. Now the question is, isn't this a great opportunity for Indonesia? Global demand has peaked. Alternative oil is not available in sufficient quantities and Indonesia has a virtual monopoly. In fact, Indonesia was already exporting 60% of her oil at that time. Why did they suddenly ban their country's exports? Well, the short answer is that Indonesia has used a lot of palm oil to produce biodiesel, which is just another kind of biofuel. In 2020, Reuters reported that the company used more than 7 million tons of palm oil out of its total domestic production of 41.4 million tons. Secondly, the industry's distribution line is in complete chaos, which has also caused a lot of confusion. And eventually, as export prices started to rise, people stopped supplying domestic suppliers and started exporting all the palm oil they had. As a result, the price of palm oil in the Indonesian domestic market soared, from 14,000 rupees to 25,000 rupees per litre. As a result, Indonesia's domestic industry faced difficulties. Finally, the Indonesian government has imposed an export ban on palm oil. This situation continues despite the great opportunity to dominate.

RESUL and CONCLUSION

As I said earlier, India is the world's largest importer of palm oil, of which 45% is from Malaysia and the rest is from Indonesia. And the inability of these two regions to meet the extreme demand for palm oil has had a major impact on the Indian industry. And it's not just palm oil, soybean prices have risen 29% and sunflower oil, which was supposed to come from Russia and Ukraine, has risen 90%. And, as we've already explained, palm oil is an integral part of everything in the FMCG sector, from soaps to shampoos, cookies to toothpaste. Palm oil and its derivatives account for almost 20% of the input costs of these consumer goods. So, if soap production costs 10 rupees, palm oil alone will cost 2 rupees. Therefore, palm oil price fluctuations directly affect the profits of companies, ultimately leading to price increases. Soap prices rose nearly 26% in the news, while shampoos and hair dyes rose 8-9%. As such, it had a direct impact on the balance sheets of companies such as HUL, Nestle and Mariko. This is why the stock fell sharply between his 4-6%.

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But here a question arises. What Causes Adani Wilmer Stocks to Rise?

This is because palm oil has four subtypes: refined palm oil, bleached palm oil, deodorized palm oil and crude palm oil. And Indonesia has banned the export of all three types of palm oil except crude palm oil. This means that instead of refined palm oil, only crude palm oil is available, which must then be refined in India. Indian refiners clearly benefited from the ban in Indonesia as there was insane demand to process all the crude palm oil coming out of Indonesia. As a result, stock prices of cooking oil refiners such as Adani Wilmer and Ruchi Soya have risen by 5% to 10% in that short period of time. This is how geopolitics, economics and the stock market work together and one influences the other two for better or worse.

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