

Malaysia Palm Oil Board (MPOB) released its June palm oil performance

- CPO production fell 8.5% MoM to 1.51mn tons in June while increased by 14.8% YoY. The low production in June was due to shorter working days during Ramadhan and Lebaran period which is likely to continue in July. While for the upcoming months, we expect production to maintain its upward trend until its peak in Oct/Nov.
- Exports also fell by 8.4% MoM in June to 1.38mn tons. This brought YTD exports to a 7.3% rise YoY. The Ramadhan and Lebaran festive triggered inventory pile up a month in advance (in May), which was the reason we saw a decrease in June export volume.
- Inventory level drops 1.93% MoM to 1.53mn tons, decreased 13.95% YoY, which reflecting the soft production.

Although CPO output number and inventories remained low in June, we believe CPO prices will maintain low over the next quarter. This is due to the palm oil production which should keep rising, hence inventory level is also expected to rise during the high production / harvesting season. The other concern comes from the potential rising supply of other edible oils, such as soybean and rapeseed oil. While on the demand side, the Intertrek Testing Services reported a 1.9% decrease in palm oil export shipping during the first 10 days of July compared to the same period last month. The softening demand trend continues on and we believe that there will not be any significant increase in the near term. We expect demand boost will be seen close to the widely celebrated and anticipated Diwali and Mid-Autumn Festival by the Indians and Chinese which will be happening in October. **As we believe that CPO price will remain low and should not have any significant fluctuations for the time being, we still maintain our NEUTRAL recommendation on this sector. We recommend NEUTRAL for both AALI (TP IDR17,230) and LSIP (TP IDR 1,690).**

Wilbert

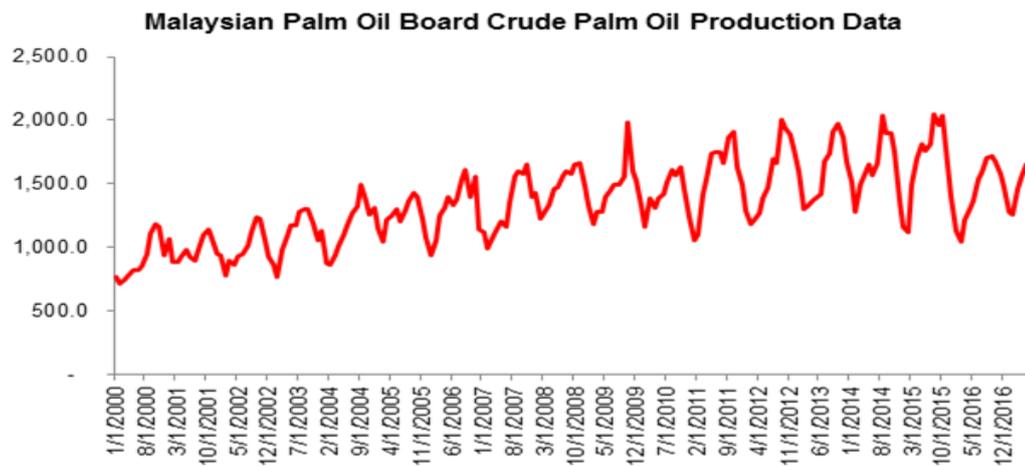
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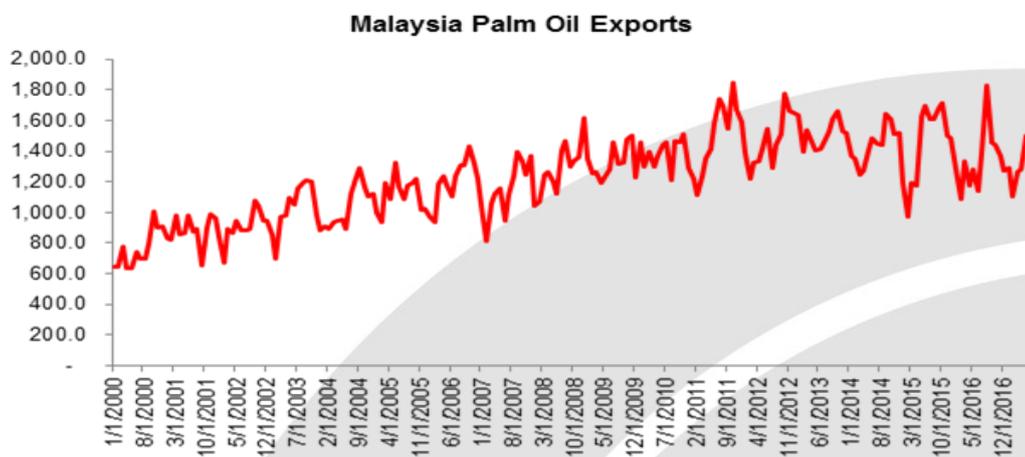


MPOB production data



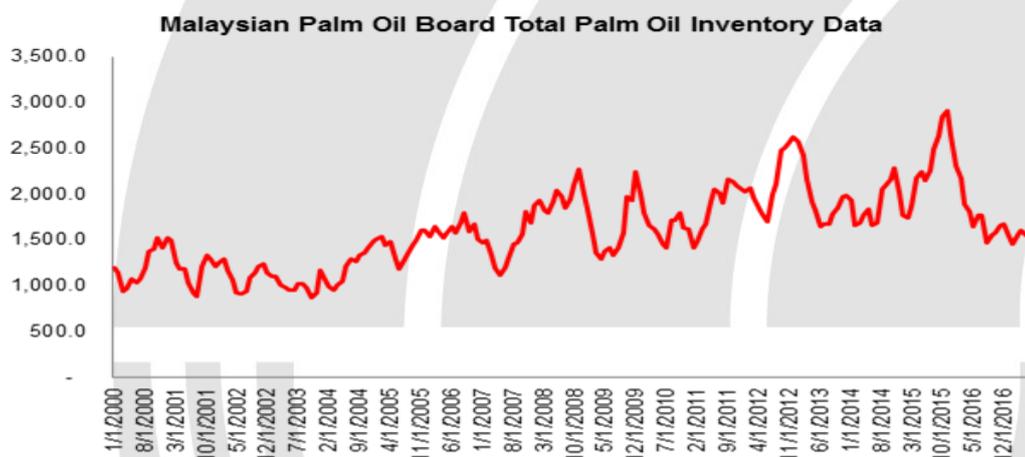
Source: MPOB, Bloomberg, Sinarmas Investment Research

MPOB export data



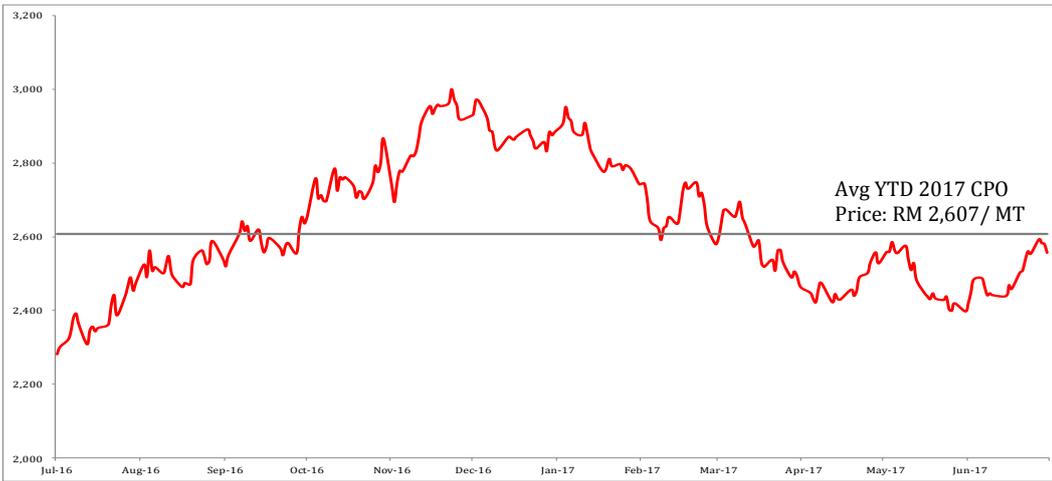
Source: MPOB, Bloomberg, Sinarmas Investment Research

MPOB inventory data



Source: MPOB, Bloomberg, Sinarmas Investment Research

CPO Future Active Contract Price



Source: Bloomberg, Sinarmas Investment Research

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