Kuwait Times
Established 1961

SUNDAY, MAY 1, 2022

Business

Indonesia's palm oil export ban heats up vegetable oil market

Experts see need for public policy on food crisis amid shortages

JAKARTA: Indonesia's decision to suspend palm oil exports in the face of domestic shortages has pushed vegetable oil prices to new highs, further tightening a market already on edge due to the war in Ukraine and global warming. The prices of palm, soybean, European rapeseed and even its Canadian GMO counterpart, canola oil, have reached historic highs following Indonesia's announcement on Wednesday.

"We already had problems with soybeans in South America, with canola in Canada," said Philippe Chalmin, an economics professor at Paris-Dauphine University in France, stating that both crops had been severely affected by extended droughts. Then came devastation for the "sunflowers in Ukraine" due to Russia's destructive invasion, he added. Palm oil is the most consumed vegetable oil in the world, and Indonesia accounts for 35 percent of global exports, according to James Fry, chairman of LMC consulting firm. Indonesia's export ban is designed to bring down prices in the country and limit shortages, according to authorities. But Chalmin said the move "comes at the worst time."

"The rise in prices dates back to last year already and it is exacerbated by the Ukrainian conflict," he explained. Rich Nelson of the agricultural market research and trading firm Allendale said "the industry believes it'll last maybe for one month, perhaps two."

But in the meantime, prices are skyrocketing in a market that was "already accelerated," he said. Unlike other oilseeds, palm fruit does not keep once picked and has to be processed immediately, Fry said. Indonesia's palm oil storage system, which was already holding substantial reserves, is now under further stress, Fry said.

Vicious cycle

Even though the price of vegetable oil, in addition to multiple other agricultural commodities, has been rising for months, demand has yet to slow. "It's difficult to ration demand for food commodities with higher prices," said Arlan Suderman, chief commodities economist at StoneX Financial. Palm oil, which is used heavily in processed food such as instant noodles and baked goods, is also present in other consumer products, such as personal care items and cosmetics. "Eventually it will trickle down," said Paul Desert-Cazenave of consulting firm Grainbow, "but it's still too early to measure price increases to consumers."

MEDAN: A vendor packs vegetable oil at a traditional market in Medan. — AFP

In the short term, the only oilseed that might be able to provide some relief on the vegetable oil market is the soybean. The United States and Brazil, the world's two top soybean exporters, still have available stock, even though more shipments from the countries would only have a marginal impact on edible oil prices. The United States Department of Agriculture (USDA) announced last month that it expects soybean acreage to increase more than 4 percent from last year, while corn would shrink by a comparable amount. The world's top rapeseed exporter, Canada, meanwhile said Tuesday that it expected a seven percent decline in acreage devoted to the GMO rapeseeds used in canola oil. Analysts and economists say they see a need for public policy concerning the food crisis, since in addition to food, vegetable oils are also widely used in biofuels.

Based on the current crisis "we're going to see more pressure on countries to reduce their biodiesel blending mandates, and renewable diesel mandates," Suderman said. "That's going to take time," he warned, "but that's ultimately where you're going to get your biggest demand destruction." Europe passed a directive in 2018 excluding palm oil from renewable energy targets by 2030. Some of the bloc's countries, including France, have already stopped using it. Despite the current turmoil, Indonesia and Malaysia, the world's second-largest exporter, have maintained their respective programs blending palm oil in their biofuels. To make matters worse, many of the major palm oil importers, mainly Egypt, Bangladesh and Pakistan, have seen their currencies depreciate significantly in recent months, said Michael Zuzolo, president of Global Commodity Analytics and Consulting.

Some major oilseed exporters such as the United States and Brazil have, meanwhile, experienced the opposite, with the dollar reaching multi-year highs. "This is kind of the worst-case scenario starting to develop," said Zuzolo. Putting importers in a "negative feedback loop where they're going to have more and more difficulty keeping supplies ample, that's the potential tragedy we're walking ourselves into." — AFP

India seizes $725m from China's Xiaomi over 'illegal' remittances

NEW DELHI: India seized $725 million from the local bank accounts of Xiaomi after a probe found the Chinese smartphone giant unlawfully sent money abroad in the guise of royalty payments, authorities said Saturday. India's financial crime investigations agency began investigating the company in February and said it seized the money from the firm's local arm after discovering it had made remittances to three foreign-based entities.

"Such huge amounts in the name of royalties were remitted on the instructions of their Chinese parent group entities," the Enforcement Directorate said in a statement. Xiaomi did not immediately respond to an AFP request for comment. The firm's India office was raided in December in a separate investigation over alleged income tax evasion.

Other Chinese smartphone markers including Huawei also had their Indian offices searched at the time. Relations between New Delhi and Beijing have been at a low ebb since a deadly Himalayan border clash between soldiers from both countries in 2020. In the aftermath, India's home ministry banned hundreds of mobile applications of Chinese origin, including the popular social media platform Tiktok. The government justified the bans on the apps as safeguarding against threats to India's sovereignty.

Anti-China sentiment has grown in India since the fatal 2020 troop clash, sparking calls for consumer boycotts of Chinese goods. China continues to be a key economic partner for India, with more than $125 billion in bilateral trade last year according to media reports. — AFP

QINGZHOU, China: In this file photo taken on March 15, 2021, employees work on a truck assembly line at a factory for the vehicle manufacturing company Jianghuai Automobile Group Corp. —AFP

China's factory activity dips to lowest in 2 years

BEIJING: China's manufacturing activity slumped to its lowest level since February 2020, official data showed Saturday, the latest sign of economic pain as Beijing doggedly pursues its zero-COVID response. The official Purchasing Managers' Index (PMI), a key gauge of manufacturing activity, clocked 47.4 in April-below the 50-point mark separating growth from contraction-as authorities said that a "decline in production and demand" has deepened.

The figures come as Beijing's policy of stamping out infections with lockdowns and mass testing has been severely challenged by an Omicron-fuelled pandemic resurgence. Dozens of cities, including economic powerhouses like Shenzhen and Shanghai, have been either fully or partially sealed off in recent months. The inflexible approach-even as most of the world learns to live with the virus-has inflicted mounting economic pain, with the curbs snarling supply chains and leaving goods piling up at the world's busiest container port.

National Bureau of Statistics (NBS) senior statistician Zhao Qinghe acknowledged that some enterprises have had to reduce or stop production, while many firms have reported an increase in transportation difficulties. "The production and operation of... enterprises have been greatly affected," Zhao said, according to an NBS statement that also noted the price indexes for raw materials remain "relatively high".

The official non-manufacturing PMI plummeted to its lowest level since early 2020 as well, NBS figures showed, as the country braces for a muted Labor Day holiday. On Saturday, Chinese media group Caixin released its own manufacturing purchasing managers' index, showing a second straight month of deterioration, with the figure dropping from 48.1 to 46.0.

The Caixin survey, which covers small and medium-sized enterprises, is seen by some as a more accurate reflection of China's economic situation than the official government figures, which more closely track the condition of large state groups. "COVID control measures have done a number on logistics," said Caixin Insight Group senior economist Wang Zhe in a statement.

Caixin also noted that firms expressed concerns over how long COVID restrictions would remain in place. On Thursday, tech giant Apple warned that China's COVID lockdowns were among the factors that would dent its June quarter results by $4-8 billion. — AFP

Wall Street ends ugly April with more losses

NEW DELHI: Wall Street stocks concluded a bruising April on an ugly note Friday following disappointing results from Amazon, while European and Asian markets forged higher. Amazon plunged 14.1 percent after offering a disappointing forecast as it battles rising costs amid slowing growth compared with earlier in the pandemic. The company reported its first loss since 2015. The results were the latest in a mixed bag of earnings from large tech stocks, which are widely held and play an important role in major indices. "Amazon was the latest to catch Wall Street off guard, reporting its first loss since 2015 amid a multitude of challenges facing the company," said Craig Erlam, analyst at forex platform OANDA.

"Like many others, the company is struggling to adjust to post-pandemic life, having scaled up massively over the last couple of years," Erlam said. The company's downcast outlook "reminded investors about the slowing growth prospects in an inflationary environment," Briefing.com said. Declines by Amazon and other tech giants Apple and Intel contributed to a 4.2 percent drop in the Nasdaq. The tech-rich index has fallen 13 percent in April.

For equity markets, "an abundance of headwinds remained, most notably expectations of an aggressive Fed tightening cycle, lockdowns in China, persisting inflation concerns, rising interest rates and the recent jump in the US dollar," Charles Schwab investment bank said. Earlier, European stock markets finished higher as investors shrugged off data showing that the eurozone's economy had slowed to 0.2 percent in the first quarter while inflation stayed at record levels. There was also some much-needed good news for China's embattled tech sector.

The official Xinhua news agency reported that a meeting of the government's decision-making body ended with officials saying it was "necessary to promote the healthy development of the platform economy" and "complete its rectification."—AFP

NEW YORK: An Amazon Go store signage is seen in the Financial District on April 29, 2022 in New York City. — AFP

Crisis-hit Sri Lanka says IMF bailout 3 months away

COLOMBO: An International Monetary Fund bailout package for crisis-hit Sri Lanka could take up to three months to arrive, the country's central bank chief said on Friday, as anti-government protests over the economic crisis continue to escalate. The island nation of 22 million people has been rocked by months of acute food, fuel and medicine shortages, prompting widespread protests calling for President Gotabaya Rajapaksa to resign. Central bank chief Nanadalal Weerasinghe said he was hopeful of a staff-level agreement with the IMF within two months, but a final deal would take another three weeks.

"The key objective is to achieve debt sustainability before an IMF program," Weerasinghe said, adding that experts will be named shortly to renegotiate Sri Lanka's external debt estimated at $51 billion.

Two weeks ago, Sri Lanka announced it was defaulting on its foreign debt after running out of foreign exchange to import even the most essential supplies. Weerasinghe told reporters in Colombo that he expected about $3.0 billion from an eventual International Monetary Fund program, but the country would first have to carry out painful reforms.

"The current tax structure is not sustainable. We must go back at least to the level of taxation we had before 2019," he said, referring to a series of tax breaks implemented by Rajapaksa in an election pledge that propelled him to power in November 2019, but devastated state revenue.

Official data released Friday showed year-on-year inflation at 29.8 percent in April, a seventh consecutive record-high-five times above the 5.7 percent in September. Weerasinghe warned inflation could jump even more as fuel and food prices increased sharply with the local currency losing over 40 percent of its value in a month. Census and statistics department figures showed food inflation in April was also a record 46.6 percent higher, up from 30.2 percent in March and 9.0 percent a year ago.

Under pressure, the president has reportedly told dissidents within his coalition government that he is willing to consider forming a unity government but the opposition has refused to join an administration with the powerful Rajapaksa family still in power. The President has meanwhile told legislators that neither he nor his elder brother Mahinda, the prime minister, will step down as demanded by anti-government demonstrators across the country.—AFP