

Post-COVID-19 Market Situation of Palm Oil in China

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INTRODUCTION

The world's economy has faced an unprecedented challenge, which is not encountered before by the novel coronavirus (SARS-nCoV-2) since December 2019. China had taken proactive measures to control the spread of the Coronavirus Disease 2019 (COVID-19) in its country, including lockdown of several cities in the Hubei Province on 23 January 2020, which were the epicentre of the COVID-19 pandemic. Following to the cities lockdown, land transportations between metropolitans (Beijing, Shanghai, Guangzhou) were restricted, and high-speed train services and public places (shopping malls, cinemas *etc.*) in the country were closed to reduce human-to-human transmission through public gathering. These measures have caused severe social and economic impacts on China. The COVID-19 outbreak caused at least USD0.21 trillion or 6.8% losses to China's gross domestic production (GDP) for the first three months of 2020. This is the first recorded negative GDP growth in China's history. The National Bureau of Statistics of the People's Republic of China (NBS) reported that China's GDP for the first quarter of 2020 was USD2.91 trillion, a lower figure as compared with USD3.02 trillion in January-March 2019. The economic losses that impacted the hotel, restaurant and catering (HORECA) industries in China include:

- i. Temporary business suspension of more than 50% Starbucks Coffee Franchises nationwide China (2500 out of 4292 franchises in 160 cities in China) (The Beijing News, 2020a);
- ii. Temporary business suspension of all Haidilao Hotpot

restaurants nationwide. Haidilao is the largest hotpot restaurant in China (Jiemian, 2020);

- iii. Travel restrictions have affected all tourism industries, especially hotels and airline companies, where most of the bookings have been cancelled (21st Century Business Herald, 2020);
- iv. 460 000 companies were declared bankrupt in the first three months of 2020 due to COVID-19 (South China Post, 2020);
- v. Temporary business suspension of more than 90%

beverage shops nationwide China (The Beijing News, 2020b);

- vi. McDonald's China closed more than 300 restaurants in Hubei province (Sina, 2020); and,
- vii. Cinemas in China have been closed during COVID-19 until 20 July 2020. The sales during the Chinese New Year Holiday reduced USD80 million as compared with the year before (People's Daily, 2020).

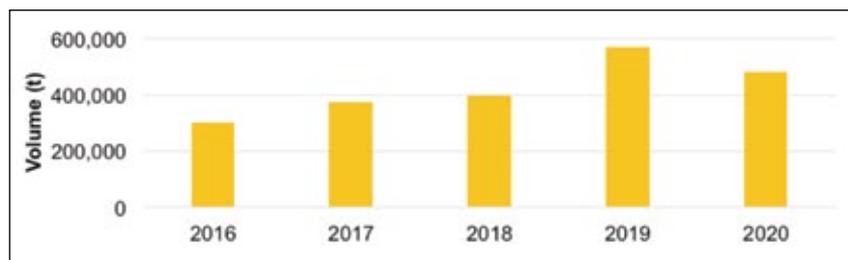
This article discusses the impacts of COVID-19 on palm oil-related markets, as well as new market trends and potentials in China after the COVID-19 pandemic.

IMPACTS OF COVID-19 ON PALM OIL MARKET IN CHINA

Subsequent to the outbreak of COVID-19 in the country, China's import of palm oil dropped by 31.0% to 1.19 million tonnes in the first three months of 2020 as compared with 1.72 million tonnes in 2019 (GACC, 2020a). According to MPOB Statistics, the export of Malaysian palm oil to China decreased by 15.7% from 571 253 t in January-March 2019 to 481 652 t for the corresponding period in 2020 (*Figure 1*). Export of palm kernel cake to China dropped by 32.9% to 34 500 t in January-

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Source: MPOB.

Figure 1. Exports of Malaysian palm oil to China for the period of January-March from 2016-2020.

March 2020 vis-à-vis 51 000 t in January-March 2019. Nonetheless, the export of Malaysian palm kernel oil, an important raw material for surfactants, increased by 20.5% to 33 500 t in January-March 2020 as compared with 28 000 t for the corresponding period in 2019 due to the increased demand for detergents and cleaning agents in China during the COVID-19 outbreak (Figure 2). Export of Malaysian palm-based oleochemicals is also an important derivative for cleaning agents although it slightly dropped to 112 500 t in January-March 2020, the demand still remained at higher level as compared with the previous years.

Another main factor leading to a reduction in China's palm oil imports is the lower custom clearance rate amid COVID-19 outbreak. Customs clearances for many palm oil shipments arrival in

China were delayed as the China's Customs was giving priorities for clearing medical and protective equipment. Most of the imported products (including animal feed, oils and fats) could not be cleared customs on time especially from the end of January to mid-February 2020, due to higher amounts of customs to be cleared at that time and lower customs clearing efficiency.

The drop of palm oil export in January-March 2020 was not the lowest in the past five years as the export was backed by the higher demands for palm oil, which increased significantly after China recovered from COVID-19 and relief from the cities lockdown and movement restrictions in the country. In the past several years, most of the time the export of Malaysian palm oil to China dropped significantly during the Chinese New Year holidays due

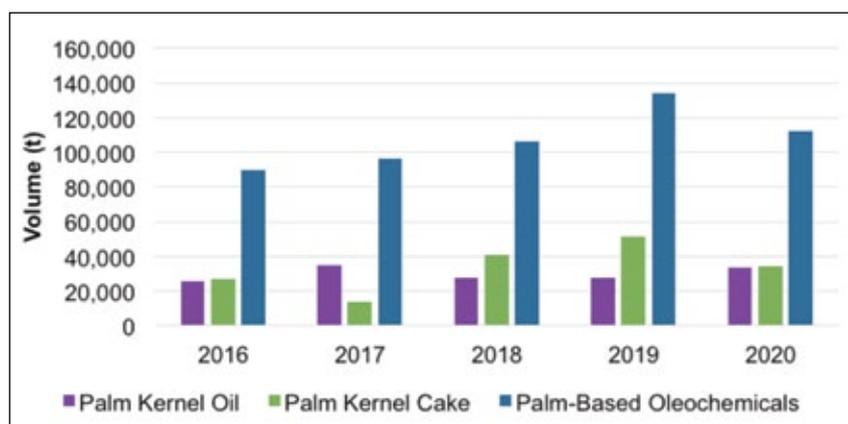


Figure 2. Exports of selected Malaysian palm products to China for the period of January-March from 2016-2020.

to lower demands, where most of the local industry members have stocked up palm oil in the earlier months. Tremendous demand for palm oil was seen especially March 2020 onwards after the resumption of work in China was initiated amid COVID-19. This can be seen from the drastic drop of domestic palm oil stock in China by 24.8% from 1.05 million tonnes as at 28 February 2020 to 0.79 million tonnes as at 3 April 2020 (National Grain Bureau of the People's Republic of China, 2020). The reduce in domestic stocks have caused an increase of palm oil demand in China, where enquiries for palm oil imports to Malaysian exporters have increased.

MARKET REFORMATION IN CHINA AMID COVID-19

Despite the severe negative impacts on the country's economy, China had recovered from the COVID-19 within an incredible short period and initiated resumption of works by stages starting from the mid of February 2020. In addition to the productions and operations in the China's industries, which returning to online progressively, China underwent a change in the structure of their market amid Post-COVID-19.

Changes in Supply Chain: Emerging into an e-Commerce Centric Market

e-Commerce or online shopping encountered an enormous growth when movement restrictions were imposed during COVID-19. The similar trend was seen in the rise of Alibaba Group in 2003 during the Severe Acute Respiratory Syndrome (SARS) epidemic where many purchases were done at home through the Alibaba-owned Taobao online platform that linked peer to peer (P2P) or businesses to consumers (B2C) virtually. During

the current pandemic, the whole supply chain ecosystem emerged further into more electronic centric market, which combined virtual and physical marketplaces. The e-Commerce marketplace further ventured into retail supply chains where most of the shares in the online fresh markets, kiosks, pharmacies and groceries grew by exponentially within a short period. This e-Commerce marketplace for fresh markets, kiosks, pharmacies and groceries is also commonly known as an online-to-offline (O2O) platform, where purchase order is made online and goods are supplied and delivered by physical fresh or supermarkets.

The sales of O2O were reported to be sailing against the current during COVID-19 in which their market shares increased by 5.9% to USD262.5 billion in January-March 2020 year-on-year while other sales in physical markets experienced drastic drops in their shares. According to Suning Group, their O2O sales in the first quarter of 2020 increased by 12.78% as compared with the corresponding period in 2019 (Xinhua, 2020a; 2020b).

Food Supply and Demand

In general, the demand for food-related commodities usually increases as food supply is essential to survival during the global crisis. In addition, the Food and Agriculture Organisation (FAO) warned of global food price increase in which food supply chains were coming under unprecedented pressure as countries put in place restrictive measures to slow the spread of the coronavirus (FAO, 2020). The demand for food, especially those pre-packed and instant foods which can be conveniently purchased through the O2O platform during the movement restrictions, exhibited increasing trend in China during the pandemic.

Instant Food

The demands for pre-packaged foods in China, *i.e.*, instant noodles, frozen dumplings, wontons, and glutinous rice balls increased tremendously in the second half of February 2020 during the COVID-19. These food products became essential daily supplies for the China's citizens who were self-quarantined at home. China's manufacturers have sped up their production to meet the rapidly growing demand in the local market.

Major instant noodle producers like Tingyi (Cayman Islands) Holding Corp, which is more commonly known as 'Kangshifu' in China, and Uni-President China Holdings Ltd, have gradually resumed their productions, which subsequently increased the demands for palm oil and other food ingredients.

Based on NBS, instant noodle demand was dropped in the past three years since 2017 to the lowest tide in 2019, affected by the rise of online food delivery. The drop of demand was reflected in the lower production in year 2019 which reached its lowest tide at 5.73 million tonnes as compared with its highest production in 2017 reaching 11.90 million tonnes per annum (*Figure 3*).

Subsequently, the market of instant noodles experienced growth in the first quarter of 2020 amid COVID-19. Production of instant noodle in China increased by 11.4% in January-February 2020 as compared with the corresponding period in 2019. The production in March 2020 further increased by 30.1% to 733 000 t as compared with February 2020 (*Figure 4*).

Based on industry information, the overall growth rate of instant noodle sales during the outbreak

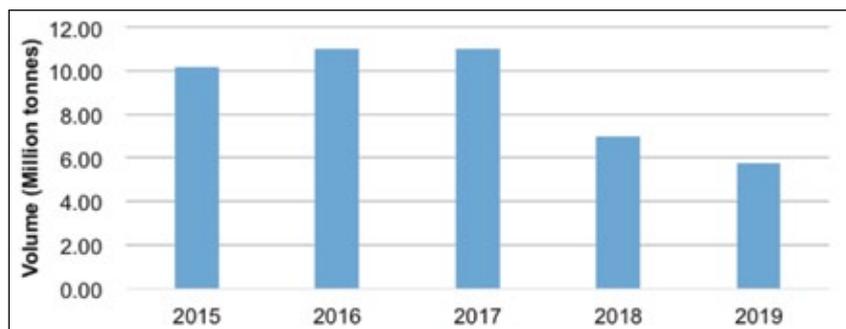
reached 133.34%. Production of Uni-President increased by 297.14% in January-March 2020 as compared with the corresponding period in 2019, while Jinmailang and Master Kong grew by 180% and 150.54%, respectively (China Consumer Network, 2020). On the other hand, sales of instant foods in Tmall online during COVID-19 outbreak was reported to increase by 700% year on year (China Consumer Network, 2020). According to JD Group, the sales of instant food increased 3.5 times to 15.0 million packets during the Chinese New Year in 2020 as compared with 2019 (Yicai, 2020).

The surge in the demand for instant noodles was however slightly reduce in the end of March when restaurants and hotels were gradually back in operation during the resumption of work. Based on the Fresh Hippo, an O2O supermarket owned by Alibaba Group, the sales of instant noodles decreased by 5% in the last three days of March 2020 (Cnwest, 2020).

Vegetable Oils

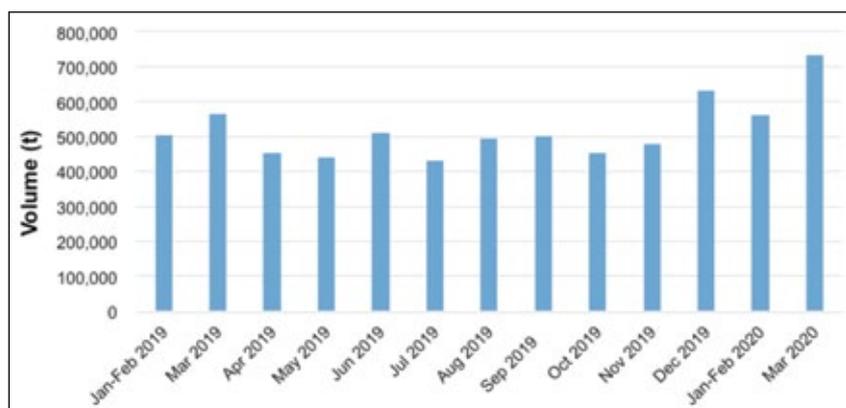
Domestic production of vegetable oils in China decreased by 20.3% to 6.39 million tonnes in January-February 2020 as compared with 7.66 million tonnes in the corresponding period in 2019 (*Figure 5*). The drop in the domestic production of vegetable oils was mainly due to the temporary suspension in local production and operation in China when COVID-19 outbreak was started.

Imports of vegetable oils decreased by 11.8% to 1.22 million tonnes in the first two months of 2020 as compared with the corresponding period in the previous year (GACC, 2020a). In March 2020, the import of vegetable oils decreased by 19.3%



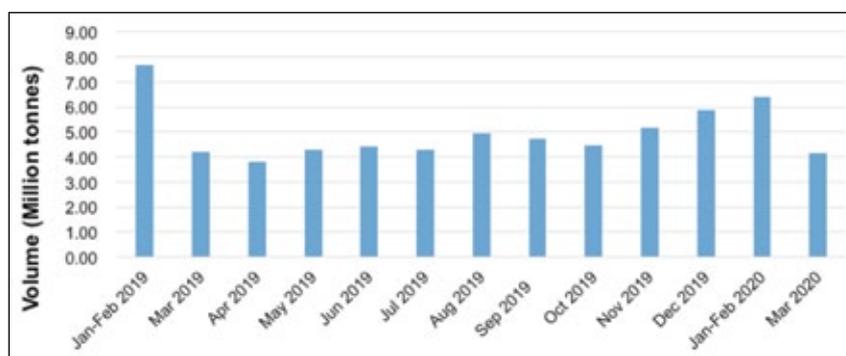
Source: (NBS, 2020b).

Figure 3. Production of instant noodles from 2015-2019.



Source: (NBS, 2020c).

Figure 4. Production of instant noodles by months in 2019 and 2020.



Source: NBS, (2020d).

Figure 5. Production of edible vegetable oil in 2019 and 2020.

to 470 000 t as compared with the previous month. The import in January-February 2020 decreased due to the delayed customs clearance in China while the decrease in March 2020 was due to COVID-19 became pandemic worldwide where productions and trades of oils and fats were affected.

According to China National Grain and Oil Information Centre

(CNGOIC), annual consumption of edible vegetable oil in China was expected to reach 35.0 million tonnes, comprising of 14.0 million tonnes small packaging cooking oils, 16.0 million tonnes medium packs for caterers and 3.0 million tonnes of bulk consumption by the food producers.

The income of catering sector was USD85 billion, dropped by

44.3% in the first quarter of 2020 during the lock down period in Wuhan (NBS, 2020a). The supply of palm and soyabean oils to the catering industry was severely affected during COVID-19. Based on CNGOIC, 80% of the cooking oil used in the HORECA sector comprised soyabean and palm oils. Consumptions of soyabean, palm and rapeseed oils were dropped by 19.4% in the first quarter of 2020 (NBS, 2020a).

The demand for cooking oil in the HORECA sector is expected to increase in April 2020 due to the Post-COVID-19 resumption of work in China and subsequently flatten the decline trend of the cooking demand in China. According to CNGOIC, the consumption of cooking oils in general was estimated to slightly decrease by 0.67% or 230 000 t for 2019/2020 as compared with 2018/2019 (Figure 6).

Snack Foods

Figure 7 presents the online sales of snack foods in Alibaba Group's e-Commerce platforms. The online sales of snack food for January-March 2020 increased by 16.9% to USD3.0 billion as compared with the corresponding period in 2019 (Securities Times, 2020). Sales of snack foods during February and March in the previous years were normally lower as most of the snack foods were stocked earlier in January 2019 before the Chinese New Year. Increasing trend was however seen in February-March 2020 when COVID-19 outbreak occurred in China.

Pastries, cookies, meats and nuts were the four major snack foods consumed during COVID-19 in February and March 2020, accounting for more than 70% shares of the total sales in Alibaba (Figure 8). Most of these snack foods

used palm oil in their productions. The demand for snack food is expected to grow continuously in 2020 and beyond in line with the increased populations of younger generation and e-shoppers.

Food for Special Medical Purpose (FSMP)

The demand for FSMP is expected to grow in 2020 following to the latest announcement of the Nutritional Dietary Guidelines of Novel Coronavirus for Prevention and Treatment by the Chinese Authority (National Health Commission of the People's Republic of China (NHCC, 2020)). The guidelines among others recommended prescription of FSMP to the aged and severely ill patients for protective treatment to enhance body immunity against deceases. Palm-based medium chain triglycerides (MCT) play an important role in FSMP as it provides the efficient energy supply required by the body.

Bubble Tea

More than 90% of beverage shops in China were closed (The Beijing News, 2020c) in January-February 2020 during the COVID-19 outbreak. The e-Commerce big data showed that sales amount of bubble tea increased by 744% in the first week of March 2020 after COVID-19 was gradually relief as compared with February 2020. It was reported by the elema online food delivery company owned by Alibaba that the sales of bubble tea in Shanghai reached USD480 000 in the fourth week of February 2020 when China started to recover from COVID-19. The sales further grew to USD1.0 million in the third week of March 2020 (China News, 2020).

Dairy Products

The production of China's dairy products reduced by 17.2%

to 3.61 million tonnes in January-February 2020 as compared with the corresponding period in 2019 (NBS, 2020b) due to the closure of dairy processing factories amid COVID-19 (Figure 9). The demand for dairy products in China however increased as China's import of dairy products in January-March 2020 increased by 1.8% to 0.87 million tonnes as compared with 0.85 million tonnes in the corresponding period in 2019.

Based on the China's industry estimates, the production output and import of milk are expected to increase with an average growth rate of 2.7% and 3.4% in the next ten years (SCAC, 2020).

China's import of dairy products decreased by 1.3% to 620 000 t during the period of January-February 2020 as compared with 623 004 t in the corresponding period of 2019 due to the negative impacts of COVID-19 pandemic. The import was however increased by 10.3% to 250 000 t in March 2020 as compared with 227 000 t in March 2020 (GACC, 2020b).

OPPORTUNITIES IN CHINA

The demand for palm oil as an important ingredient in cooking, food processing and bakery showed an increasing trend, especially after China started to recover from the movement restrictions. The export of palm oil to China was initially affected due to the breakdowns of supply chain logistics and business suspensions. However, the country recovered from the recession in a relatively short period and the demands are expected to grow further in the second half of 2020.

During this period, the consumers' market in China has shifted to be more e-Commerce centric where more instant, snack and pre-packaged foods were sold through the O2O platform. This market segment consumes

appreciable amounts of oils and fats and is currently emerging rapidly in China. Palm oil has the functional advantages as it can be formulated to meet all sensory and textual requirements in these products apart from its strengths in oxidative stability and thermal resistance.

The demand for palm kernel oil is also expected to increase in 2020 due to higher demand for sanitary products and cleaning agents during or even after COVID-19 attributed by the increased awareness of personal hygiene. In addition, there will be more food producers in China sourcing for palm kernel oil attributed to the increased demand for MCT in the formulation of FSMP.

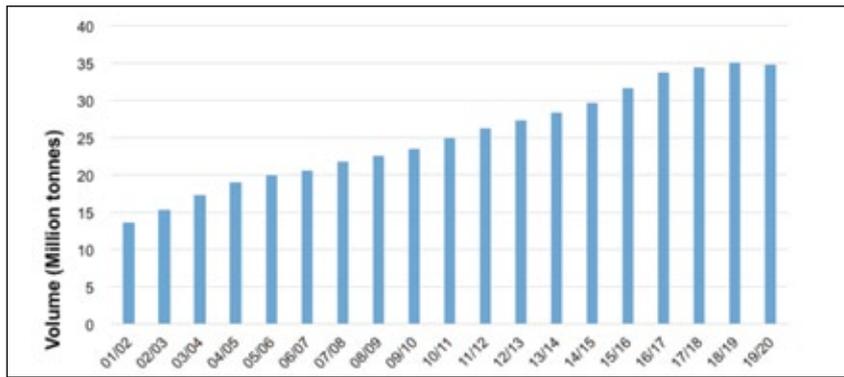
Nonetheless, the recent drastic drop of Brent crude oil price has caused complications to the market in which China's importers may refrain from buying more palm oil at a higher spot price for a certain period in order to avoid risks for palm oil delivering at a lower price upon arrival.

On the other hand, the China's import of soyabeans may decrease following to the recent announcement by the President Donald Trump on possible re-imposition of additional tax on China's products as the US-China bilateral tensions escalate when the both economic giants were debating on the origins of the coronavirus. China's import of palm oil may increase as lower US soyabeans import by the country will lead to higher discount for palm oil against soyabean oil.

Despite all odds, the demand for palm oil in China will remain strong in light of its functionality and versatility strengths.

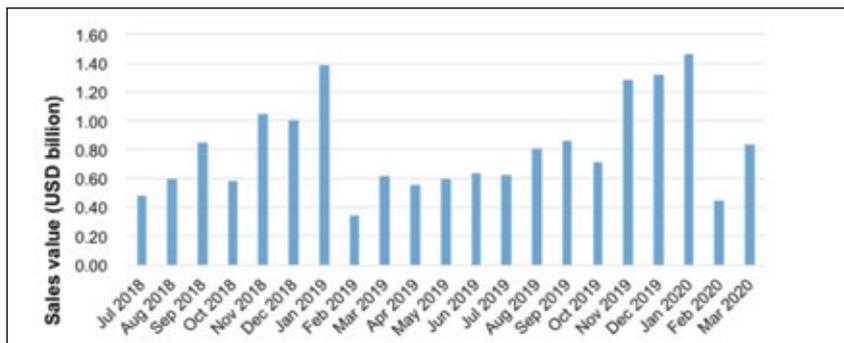
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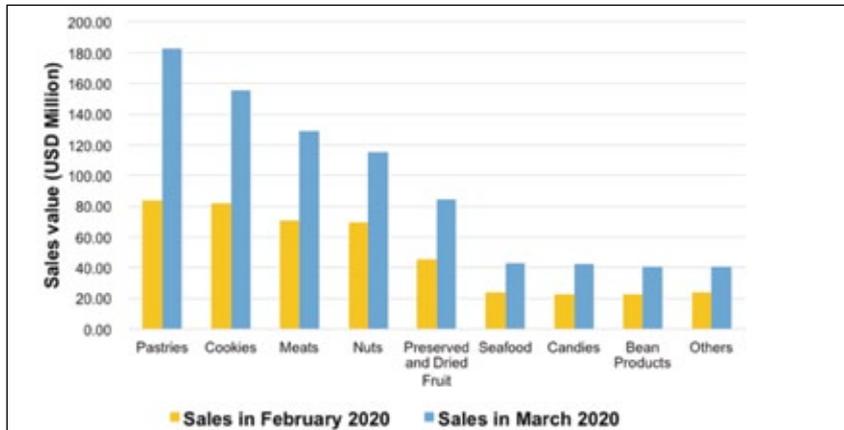
Source: CNGOIC, (2020).

Figure 6. Consumption of edible vegetable oil in China.



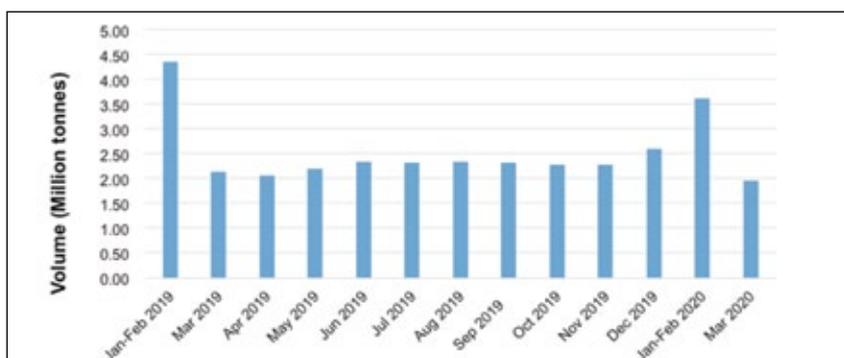
Source: Alibaba Group and Soochow Securities.

Figure 7. Sales of Chinese snack food industry.



Source: Alibaba Group and Soochow Securities.

Figure 8. Sales and shares of different snack foods in February and March 2020.



Source: (NBS, 2020d).

Figure 9. Production of dairy products in 2019 and 2020.

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