The Lagged Harvest: Why El NiÃ±oâ??s Real Bill for Palm Oil Arrives in 2027

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Palm trees punish drought slowly. The dry spell building now shows up in fruit bunches twelve to twenty-four months later, just as biodiesel mandates swallow more of the crop



Walk through an estate in Sabah or Central Kalimantan this November and the palms will look fine. The fronds are green, the harvesters are cutting ripe bunches on schedule, and the mills are running. That is exactly what makes the coming El Niño so easy to misread. The fruit being harvested today was programmed in the tree's tissue during the rains of 2024 and 2025. The fruit that will be missing in late 2027 is being decided right now, in soil that is drying out across Borneo and Sumatra.

The climate signal is not subtle. In its 8 October update, the US Climate Prediction Center put the odds of a strong to very strong El Niño through January to March 2027 at better than 83 per cent, and said there was a high chance the event would outstrip every El Niño on record since 1950. NOAA's forecasters currently expect it to peak in the October to December season. Malaysian brokers MBSB Research place the most probable peak between November 2026 and January 2027.

Most commentary stops there, with a forecast and a price chart. This piece goes further down the supply chain. The real story for 2027 is the collision of three timelines: the slow biology of the oil palm, Indonesia's accelerating appetite for palm-based diesel, and the buying calendars of the importers in South Asia, China and the Middle East who depend on what is left over.

The biology of a delayed shock

Oil palm is not like a wheat field, where a dry month shows up at harvest that same season. Each fruit bunch passes through a long developmental pipeline, and drought can damage it at several points along the way.

The foundational work here comes from the Malaysian Palm Oil Board's own *Journal of Oil Palm Research*. A study by Chow Chee Sing found that rainfall correlates with yield at several distinct time lags. The lag of 20 to 24 months lines up with sex differentiation, the stage when an embryonic inflorescence becomes either a fruit-bearing female or a male flower. Water stress at this stage tilts the ratio towards males, which produce no oil. The lag of 10 to 11 months lines up with inflorescence abortion, when the palm sheds developing female flowers it cannot support. Shorter lags of around six months relate to pollination, and effects in the final two months relate to oil synthesis inside the fruit.

In plain terms, a severe dry spell in late 2026 hits the crop twice. It causes abortions that thin out harvests roughly a year later, and it skews sex ratios that thin out harvests closer to two years later. That is why the industry's own estimates of the lag vary. Malaysian Palm Oil Council chief executive Belvinder Sron has said weather impacts are generally felt after nine to 12 months. Tradeview Capital's Ng Tzyy Loon puts the window at 12 to 24 months. SD Guthrie, the Malaysian planting group formerly known as Sime Darby Plantation, has said it expects El Niño to hit output in 2027 and 2028 after a 12 to 16 month lag, with the rest of 2026 largely unaffected.

There is also a secondary risk that rarely makes the headlines. Haze from fires can cut sunlight to the canopy and may disrupt the pollinating weevil *Elaeidobius kamerunicus*, although analysts note the field effect is not well quantified. Indonesia logged 15,186 hotspots in August alone, according to ASEAN Specialised Meteorological Centre data cited by MBSB, with 87.3 per cent of them in Kalimantan.

Reading the early signals

The precedent everyone reaches for is 2015 to 2016. After the 2015 super El Niño, Malaysia's crude palm oil output fell 13.2 per cent in 2016, according to figures cited by CGS International, and ten major Indonesian plantation companies saw an average drop of 13.4 per cent. Kenanga Research notes that severe El Niño episodes have historically cut global palm oil production by 2 to 5 per cent year on year.

The early data for this cycle is mixed rather than alarming, which is consistent with the lag. MPOB figures show Malaysian estate fresh fruit bunch yields fell 1.5 per cent to 10.83 tonnes per hectare in the first eight months of 2026. Peninsular Malaysia fell 7.8 per cent while Sabah and Sarawak rose 5.8 per cent. MPOB forecasts 2026 crude palm oil production of 19.5 to 19.8 million tonnes, short of the record 20.28 million tonnes of 2025.

In Indonesia, Wilmar reported that its own fresh fruit bunch output fell about 6 per cent to 1.92 million tonnes in the first half of 2026, and flagged declining rainfall in Kalimantan since July. Between 70 and 80 per cent of its Indonesian estates sit in Kalimantan.

The forward-looking numbers are where the lag becomes visible. The USDA's July oilseeds update cut its Malaysian forecast for the 2026 to 2027 marketing year (October to September) to 19.7 million tonnes, down from 20.0 million tonnes the year before, and said moisture stress would mainly bite in the third and fourth quarters of that year. Apex Research thinks Malaysian output in the first half of 2027 could be flat or fall about 7 per cent.

Table: Timeline of a drought, from rainfall to refinery (editorial synthesis of published research and industry estimates)

When	What happens in the field and market	Evidence base
Oct 2026 to Jan 2027	El Niño peaks; rainfall deficits and haze risk across Borneo and Sumatra	NOAA CPC; MBSB Research
0 to 2 months after	Lower oil synthesis in ripening fruit; extraction rates soften	MPOB research (Chow)
Around 6 months after	Pollination stress, compounded by haze	MPOB research; analyst commentary
9 to 12 months after	Inflorescence abortion shows up as thinner harvests	MPOB research; MPOC

12 to 16 months after	Planters’ own central estimate of the main hit	SD Guthrie
20 to 24 months after	Sex-ratio effects reduce female bunches	MPOB research (Chow)
Late 2027 to 2028	Exportable surplus is squeezed as biodiesel demand rises	USDA; Indonesian energy ministry

Table: Selected production and demand signals for 2026 to 2027

Indicator	Latest figure	Source
Malaysia CPO output, 2025	20.28 million tonnes (record)	MPOB
Malaysia CPO forecast, 2026	19.5 to 19.8 million tonnes	MPOB
Malaysia output, MY 2026 to 2027	19.7 million tonnes, from 20.0 million	USDA
Malaysia ending stocks, MY 2026 to 2027	2.56 million tonnes, from 2.8 million	USDA
Indonesia palm oil output growth, 2026	2 to 3 per cent, from about 8 per cent in 2025	GAPKI
Indonesia CPO use for biodiesel under B50	16.3 to 17 million tonnes, from 15.2 million	Indonesian energy ministry

Indonesia’s biodiesel engine meets a thinner crop

If the El Niño story were only about supply, importers could plan around it. What makes 2027 different is that Indonesia, the world’s largest producer, is now burning more of its own crop than ever.

Indonesia’s B50 mandate, a 50 per cent palm-based biodiesel blend, took effect on 1 July 2026 and was formally launched in Karawang, West Java. The policy path was not straight: market participants had largely assumed earlier in the year that funding constraints would keep the country at B40 for 2026. Energy Minister Bahlil Lahadalia has said crude palm oil use for biodiesel will rise to between 16.3 and 17 million tonnes, from 15.2 million tonnes. An energy ministry official put the B50 requirement at 16.7 to 18 million kilolitres of fatty acid methyl ester. President Prabowo Subianto has said authorities should keep pursuing a 60 per cent blend, and the government plans research on a B60 mix.

The programme is funded partly by exporters. Indonesia raised its palm oil export levy from 10 per cent to 12.5 per cent on 1 March 2026 to support biodiesel subsidies. That combination, a higher levy and a larger domestic call on the crop, tends to tighten export supply precisely when the El Niño deficit arrives.

Malaysia is moving the same way, if on a smaller scale. Peninsular Malaysia’s B15 mandate began on 1 June 2026. MPOB estimates that the move from B10 to B12 adds about 130,000 tonnes a year of palm demand, and B15 could add a further 204,000 tonnes, with the full-year effect landing in the 2026 to 2027 marketing year.

Structural supply growth will not rescue the balance sheet either. GAPKI expects Indonesian palm oil output to grow only 2 to 3 per cent in 2026, after a record 56.91 million tonnes in 2025, and cites ageing trees as the main drag. Indonesia’s smallholders manage about 6.9 million hectares, yet the national replanting programme covered only around 384,618 hectares between 2016 and 2025. The plantation fund BPDP is targeting 50,000 hectares in 2026.

What importers face

For the buyers, the risk is not a sudden shortage this winter. It is a slow squeeze across 2027, when lower output and higher biodiesel absorption leave a smaller exportable surplus.

India, the largest buyer, has spent 2026 restocking rather than rationing. The Solvent Extractors' Association of India reported edible oil imports of 151.64 lakh tonnes in November 2025 to September 2026, up 3 per cent, with crude oils making up 95 per cent of the total as crude palm oil displaced refined palmolein. September imports fell 7 per cent to 15.44 lakh tonnes. The USDA lists India, Kenya and China as the key buyers of Malaysian palm oil.

The market is already pricing the lag. Bursa Malaysia's January 2027 contract reached 4,793 ringgit (about US$1,174) a tonne on 22 October. Futures for 2027 traded above RM5,000 in mid-August, and SD Guthrie's trading arm has said prices could reach RM5,200 in the first quarter of 2027. Kenanga expects prices to peak around the first half of 2027.

For price-sensitive importers such as Pakistan and Bangladesh, the pressure point is the shrinking discount between palm and soft oils. The USDA notes that palm's discount to Argentine and Brazilian soybean oil has already narrowed. Kenanga also points to Middle East conflict as a factor that has lifted edible oil demand in 2026. When palm loses its price advantage, importers with thin foreign exchange buffers have fewer places to switch.

How planters are hedging

The plantation companies have three broad levers, and none is a perfect hedge against a two-year lag.

The first is input discipline. Fertiliser is the variable that turns a temporary drought into a lasting yield loss. Agronomist Dr Lee Chin Tui has warned that suspending fertiliser may not hit yields immediately, but mature palms could see average yield declines of about 11 per cent over the following five years. Analysts note that SD Guthrie and KLK had already locked in fertiliser costs, and Kenanga says many planters secured their full 2026 requirements.

The second is water and canopy management. Tek Choon Yee, a long-time industry observer, has noted that estate management, soil type, palm age and local rainfall all shape how hard each plantation is hit. Standard agronomic responses, such as conserving soil moisture and keeping water tables stable on peat, help at the margin, but the region's estates are overwhelmingly rain-fed, so no single practice offsets a severe and prolonged drought.

The third is commercial. Integrated groups with refining and trading arms can use the futures curve, which already prices 2027 above 2026, to lock in forward sales and smooth earnings. Analysts at Apex and Tradeview favour integrated and pure upstream names, and advise caution on companies solely exposed to downstream refining, whose margins tend to compress when crude palm oil gets scarce.

Replanting is the long-term answer but a short-term complication. Felling old palms during a supply squeeze removes productive trees just when prices are rewarding output, which is one reason replanting tends to slow in strong markets.

What to watch in 2027

- Malaysian and Indonesian rainfall in the September to November 2026 window, which MPOC has called critical, and whether a December monsoon softens the deficit.
- MPOB's monthly fresh fruit bunch yield data from the second quarter of 2027, when abortion-driven losses should first appear.
- Whether Indonesia holds B50 through a tight 2027 or quietly adjusts quotas and levies to protect export earnings.
- India's import pace and duty settings as palm's discount to soybean and sunflower oil narrows.
- Fertiliser application rates on smallholder plots, the clearest predictor of whether the 2027 shock lingers into 2028 and beyond.

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