

Review Article

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Global Palm Oil Trade in Q2 2026: Navigating Geopolitical Disruptions, Energy Transition, and Supply-Demand Challenges

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ABSTRACT

This literature review examines the prospects and challenges facing global palm oil commodities in Q2 2026. Palm oil is the world's most widely traded vegetable oil, supplying roughly 40% of global edible oil demand. By 2026, Southeast Asian producers (Indonesia and Malaysia) will continue to dominate production, while market forces will be shaped by tightening supply chains, energy policies, and geopolitical shifts. Key factors include Indonesia's ambitious biodiesel mandates (B40, planned B50) and Malaysia's phased blending targets, which affect domestic demand and export availability. Geopolitical disruptions – notably Middle East conflicts that are pushing up crude prices – may boost biodiesel-driven demand and raise logistical costs. Climate variability (ENSO-related drought risk) and aging plantations will also influence output. On the demand side, strong growth is expected in emerging economies (e.g., India and China). In contrast, developed regions (e.g., the EU) tighten sustainability regulations (e.g., Deforestation Regulation), which limit market access and raise compliance costs. This review applies a thematic, qualitative synthesis of academic literature (2020–2026) to analyze these drivers. We identify five major themes: (1) global trade networks and geopolitical risk; (2) biofuel policy and energy transition; (3) production constraints (climate, replanting); (4) shifting consumption patterns; and (5) regulatory and sustainability issues. Our analysis highlights that while demand remains robust, supply constraints and policy uncertainties will create volatility. The Q2 2026 outlook calls for adaptive policies: balancing biodiesel expansion with export commitments, investing in yield improvements, and deepening international cooperation on sustainability. Policy implications include flexible blending mandates, targeted support for smallholders, and strategic stock management to navigate the complex palm oil market environment.

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JEL Classification: F13, Q17, Q18, Q54, O13.**Introduction**

Palm oil is a linchpin of the global edible oil market. By 2024/25, world palm oil production was on the order of ~79-81 million tonnes, accounting for roughly 33-40% of traded vegetable oil [1,2]. Southeast Asian producers – primarily Indonesia and Malaysia – account for about 85% of this supply [3,4]. The crop's high per-hectare yield and low land requirement have fueled rapid expansion: oil palm produces on the order of 81 million tonnes of oil from ~19 million hectares, versus ~84 million tonnes from soybean+rapeseed on 163 million hectares [1]. This efficiency has made palm oil indispensable to the global food, cosmetics, and biofuel industries, supporting billions of consumers [1]. It also underpins rural economies in producing countries: for example, Indonesia's palm sector contributes on the order of US\$20 billion annually in foreign exchange, and Malaysia's exports ~US\$9-10 billion [3].

However, palm oil's rise has generated significant challenges. Environmental and social controversies – notably links to deforestation and peatland emissions – have sparked regulatory responses. In Europe, for instance, the EU's Renewable Energy

Directive II (2018) and the 2023 Deforestation-Free Regulation (EUDR) have targeted palm-based biofuels and imports, triggering trade disputes with Southeast Asian nations [3,5]. At the same time, shifts in global demand and policy (e.g., stronger biofuel mandates) have placed pressure on supply chains. Climate factors (El Niño-driven dry spells) further complicate production forecasts.

Urgency and Focus

As we enter Q2 (April–June) 2026, these dynamics converge. Recent events (e.g., Middle East unrest, energy price shocks, and delayed biodiesel mandates) suggest both upside and downside risks for palm oil markets. Indonesia, the top producer, has delayed its planned shift from B40 to B50 biodiesel blending due to technical and fiscal constraints, while Malaysia is planning a phased expansion of biodiesel [6]. Global oilseed markets are experiencing volatility, with palm prices momentarily exceeding those of competing oils due to tightness [7,8]. Meanwhile, sustainability rules (carbon, deforestation) are increasingly integrated into trade agreements.

Research Gap

Despite abundant data on palm oil production and trade, there is a need to synthesize recent scholarly work (2020–2026) in the context of these emerging trends. In particular, the literature has yet to fully address the prospects and challenges specific to the early-2026 period, which is shaped by accelerating energy transitions and geopolitical shocks. This review fills that gap

by qualitatively assessing current knowledge on global palm oil supply-demand balances, trade flows, and policy factors relevant to Q2 2026.

Research Questions and Objectives

This article aims to answer: What are the key factors affecting palm oil commodity prospects in Q2 2026? Specifically, we explore how geopolitical disruptions, energy transition policies, climatic risks, and trade regulations influence the supply-demand outlook. We also examine how producing countries' policies (e.g., biodiesel mandates, plantation renewal) modulate these effects. The objectives are (1) to review recent (post-2020) literature on palm oil trade and its drivers; (2) to identify thematic issues impacting the Q2 2026 outlook; and (3) to synthesize policy implications and recommendations for stakeholders navigating this period.

Literature Review

Global Trade Structure and Geopolitical Dynamics

The global palm oil market is characterized by a highly concentrated supply chain and complex geopolitical interplay [2,5]. Indonesia and Malaysia dominate production and export. In 2019, Indonesia's crude palm oil (CPO) exports were roughly US\$14.7 billion, and Malaysia's were about US\$8.3 billion [4]. Together, they control most of the world's palm oil trade; according to network analysis, these two nations remain the core hubs in a "single, large community" trade network even as connectivity grows [2]. Other key players include Singapore, the Netherlands (hub for refiners), and the UAE [2]. On the import side, major purchasers are India and China (each around US\$5-6 billion in palm oil imports in 2019), followed by Pakistan and the European Union collectively [4]. In short, Asia dominates consumption growth, while Europe and the U.S. play secondary roles.

Trade and diplomatic tensions are a persistent theme. The EU's 2018 decision to phase out palm oil from biodiesel (under RED II) triggered an Indonesian WTO complaint [5]. More recently, the EU's new climate laws (e.g., EUDR, RED II) are perceived by producer countries as trade barriers. Termeer (2026) notes that Indonesia has increasingly framed palm oil issues in nationalist terms, reacting strongly to EU sustainability norms [4,5]. Such geopolitical friction complicates market access. For example, the EU's 2023 deforestation regulation – requiring due diligence on commodities – effectively curtails palm oil imports unless strict sustainability criteria are met, pressuring exporters to adapt certifications [3,5]. Simultaneously, India (accounting for >1/3 of Malaysian exports pre-2023) has fluctuated in its duties, reflecting domestic political and economic considerations.

On a broader level, international commodity shocks (e.g. Middle East conflicts) inject volatility. Middle East unrest in 2026 caused oil prices to surge [8], indirectly affecting vegetable oil markets. Higher crude prices make biofuel blending more attractive (since vegetable oils become relatively cheaper than gasoil), creating upward pressure on palm oil prices and demand from the biodiesel industry [8,9]. Additionally, geopolitical tensions raise shipping risk premiums (e.g., insurance/freight costs through key straits), effectively tightening available supplies for long-haul markets [7]. In sum, the literature highlights that the palm oil trade is not only about fundamentals, but also about international relations and policy synchronization [2,3].

Supply-Side Constraints: Production and Climate

Palm oil production is subject to both structural and environmental

constraints. Structurally, expansion is limited: only a few countries have suitable tropical climates, with Indonesia and Malaysia accounting for roughly 85% of global output [3]. Acreage has plateaued in recent years due to land scarcity and stricter land-use policies; instead, yield improvements and rejuvenation of old plantations are needed. Smallholders manage a large share of production (roughly 40% by area in Indonesia [3]), but they often have lower productivity than estates. Studies recommend integrating smallholders through financing and technical support to boost overall output [10]. Aging oil palms also pose a challenge: trees over ~25 years decline in yield, necessitating large-scale replanting programs. Indonesia's "Peremajaan Sawit Rakyat" (smallholder replanting) program targets millions of hectares by the late 2020s, but progress and funding remain issues [11,12].

Climatic factors are critical. Oil palm is sensitive to rainfall and temperature variability [1]. La Niña/El Niño cycles drive swings in yields: droughts during strong El Niño years can sharply reduce Indonesian/Malaysian output, as seen in 2015-16 and 2019 episodes. Climate change adds uncertainty: rising temperatures and erratic rains can stress plantations [1]. CABI (2021) observes a "general lack of climatic resilience" in oil palm, warning of increased pest outbreaks and weather threats [1]. Meteorological forecasts for Q2 2026 suggest a neutral-to-weak ENSO phase, but with potential heat/dryness developing into late 2026 (commodity analytics). If a shortfall occurs, prices could spike in the short term. The academic consensus is that production growth will remain modest (2–3% CAGR recently), implying that major near-term gains must come from intensification rather than area [13].

Demand and Consumption Trends

Global palm oil consumption has been rising, driven by population and income growth [4-14]. It is used in a variety of products – from cooking oils and processed foods to cosmetics and industrial applications – making demand relatively inelastic. FAO projections through 2040 indicate steady growth, especially in Asia and Africa. Recent literature emphasizes that 60-70% of vegetable oil demand is met by palm and soybean oils alone, so shifts in one market can affect the other [14]. Notably, since 2020, the historical comovement between palm and soybean oil prices has weakened as region-specific policies (e.g., biofuel mandates) have begun to dominate local demand conditions [14]. This suggests palm oil markets will increasingly be driven by Asian policy dynamics rather than Western fundamentals.

Key Demand Drivers Include

- **Biofuel Mandates:** Indonesian and Malaysian mandates already consume ~15–20 million tonnes/year of palm oil via biodiesel blending. Indonesia's B30 (30% blend) and now B40 mandates effectively channel a large share of domestic CPO production into fuel [6]. China and other ASEAN countries also have ambitious mandates. As crude prices rise, incentives to blend strengthen [8], likely increasing palm oil use for fuel in Q2 2026. If Indonesia implements B50 (50%) as planned by mid-2026, it could absorb an additional ~5–7 million tonnes of CPO annually [6]. However, academic analysis warns that aggressive blending has trade-offs: beyond a point, further mandates drag on exports and GDP [15].
- **Food Demand:** Large consumers like India and China rely heavily on palm oil for cooking (it is cheaper than alternatives). India alone imported 9–10 Mt of palm oil in 2022, with a large fraction from Indonesia/Malaysia. Demand is expected to grow with urbanization and dietary shifts in Asia and Africa. By contrast, per capita consumption is stagnating or declining in developed markets.

• **Industrial Demand:** Palm oil derivatives (oleochemicals) have niche markets globally. Growth here is slower but stable.

• **Competition:** Palm oil competes with soybean and sunflower oil. Recent price movements (late 2025) saw palm briefly trade at a premium to soybean, indicating tightness. However, given ample soybean inventories in the US and Brazil, analysts believe the overall vegetable oil supply is comfortable [7,14]. Still, palm prices are sensitive to competitor markets and currency swings (MYR, IDR).

The literature stresses regionally segmented demand: Asia's biofuel policies mean its prices are often decoupled from global trends [14]. This complicates forecasting: for Q2 2026, strong domestic blending growth in Indonesia/Malaysia will shore up palm demand even if export markets soften.

Sustainability and Regulatory Environment

Sustainability issues loom large in the palm sector. Environmental concerns (deforestation, peatland CO₂ release) have spurred governance responses. In producing countries, Indonesia's ISPO and Malaysia's MSPO certifications aim to improve practices, but enforcement is uneven [4]. Academics note a paradox: palm oil yields more oil per hectare than other crops, yet it bears the brunt of environmental criticism [1]. Nonetheless, producers face international pressure: for example, the EU's 2023 Deforestation-Free Regulation requires traceability of palm oil supply chains, potentially blocking products linked to forest conversion.

Trade policies reflect these concerns. The EU and other Western buyers are tightening their standards, sometimes sparking accusations of protectionism from producers [4,5]. Conversely, producer countries have begun leveraging diplomacy and coalitions (e.g., within ASEAN) to counter external pressure [4,5]. For Q2 2026, compliance with sustainability norms will be crucial: exporters failing to meet importers' due diligence rules risk losing markets. Recent reviews emphasize that sustainable certifications and technology (e.g. satellite monitoring) are increasingly central to maintaining market access [1,10].

On the policy front, subsidies and fiscal measures are significant. Indonesia's Plantation Fund and export levies have funded biodiesel subsidies [15]. It has been highlighted that these funds are vulnerable to price swings and export volume fluctuations [15]. They conclude that without flexible policies (e.g., dynamic blending targets, diversified feedstocks), long-term goals (energy security and climate) may clash with economic stability [15]. Thus, in Q2 2026, how governments manage biodiesel incentives, blending mandates, and export restrictions will directly influence market balances.

Methodology

This article employs a qualitative literature review approach. We conducted a targeted search of academic databases (Scopus, Web of Science) for publications from 2020 onward on palm oil trade, production, and policy. Keywords included "palm oil trade", "biodiesel policy", "sustainability certification palm oil", "El Niño oil palm", "palm oil geopolitics", etc. We prioritized peer-reviewed articles in reputable journals (*Agricultural Economics*, *Environmental Policy*, etc.) and authoritative reports from government or industry bodies. In addition, insights from industry analyses (e.g., commodity market reports) were synthesized where academic data were sparse. The selected literature was then organized thematically.

In the analysis, we applied thematic coding to identify recurrent issues: geopolitics, biofuel policy, supply constraints (climate,

replanting), demand trends, and regulatory pressures. This is a narrative (qualitative) synthesis, not a systematic meta-analysis: we did not screen every article exhaustively; instead, we curated representative studies to illustrate each theme. We cross-checked factual data (production volumes, policy dates) against official sources (e.g., FAO, USDA, government announcements) when possible, though formal citations were provided for published literature. Limitations include a possible bias toward easily accessible English-language sources and less coverage of emerging issues for which journal articles may not yet exist.

Findings and Analysis

Geopolitical Disruptions and Global Trade Dynamics

A recurrent theme is that palm oil markets are deeply intertwined with geopolitical events. Recent conflicts (Middle East, Ukraine) have reverberated through commodity markets. For example, in early 2026, the Gulf crisis lifted crude oil prices significantly [8]. As multiple analysts note, higher crude prices improve the economics of palm biodiesel: the subsidy gap (palm oil price vs. gasoil) widens, bolstering biodiesel demand (Hassan et al., 2026; Jadhav & Tang, 2026). The oil price shock also raises maritime insurance/freight costs, tightening effective supply chains. Commodity market reports at the time (April 2026) indicated that Malaysian palm futures surged amid "geopolitical uncertainty" and supply concerns [7]. In sum, regional conflicts can generate short-term price spikes for palm oil via energy linkages.

Longer-term, trade policies create structural shifts. Bilateral and multilateral agreements (RCEP, WTO rulings) influence flows. Within ASEAN, Indonesia and Malaysia occasionally coordinate export levies to stabilize their own markets (e.g., Indonesia's export duty on CPO helps support domestic prices). However, these measures sometimes violate free-trade principles, leading to international friction. Academic reviews have highlighted the role of non-tariff measures (NTMs) and trade agreements: for instance, hidden subsidies and technical standards can skew competition [2-4]. It has been shown that institutional similarity and language ties promote palm trade, whereas distance and regulatory differences impede it [2]. Thus, current politics – such as EU-Asia tensions or intra-ASEAN policy coordination – directly shape which trade linkages grow or shrink by Q2 2026.

Of particular note is the persistence of dual role players: the Netherlands (refinery/trade hub) and Singapore (trading center) remain key nodes. Newer markets (the Middle East, Africa) are expanding. Carl Bek-Nielsen (United Plantations) has observed that Middle Eastern countries are increasingly importing palm oil as they diversify away from fossil fuels, potentially becoming stable buyers [8]. Meanwhile, African producers (Ghana, Nigeria) mostly consume domestically or lower-tier refined. The literature suggests that palm oil diplomacy is evolving: Indonesia, for example, is using international forums to advocate for the mutual recognition of sustainability standards and to challenge perceived trade bias [4]. By Q2 2026, such geopolitical maneuvers will bear on tariffs, quotas, and market access.

Energy Transition and Biofuel Policies

Palm oil's role in the energy transition is pivotal. Indonesia has aimed to become the largest biodiesel market. The country moved from B20 (20% blend) to B30 by 2022, and then to B40 by late 2024. In early 2026, the debate is whether to implement B50. Industry actors had planned B50 in July 2026, but domestic reports indicate this has been postponed due to technical, financial, and logistic constraints [6,16]. Our review of academic sources confirms this caution. Judijanto (2026) and related analyses

argue that direct B50 in 2026 is not feasible without addressing infrastructure gaps, engine compatibility, and feedstock adequacy [16,17]. A systematic review of Indonesia's biofuel policy notes that higher blending mandates come with "multidimensional complexities" (e.g. subsidy burdens, supply uncertainty) that could slow progress [17].

Empirical modeling (Fitraday et al. 2026) quantifies the trade-offs: biodiesel penetration boosts domestic demand and GDP in the short run, but excessive blending adversely affects exports and national output [15]. Essentially, diverting too much CPO to fuel reduces export earnings. Indonesian analysts highlight a fiscal paradox: the Plantation Fund finances subsidies via export levies, but lower exports squeeze this funding [15]. In practice, the government has responded by freezing B50 for 2026 (as reported by the official news) and adjusting quotas [16]. Malaysia, for its part, remains more conservative. As of early 2026, it has a B10 national mandate (with regional B20/B30 plans) [6]. The Malaysian government is upgrading blending depots to eventually support B20-B30 by the late 2020s, with full B30 targeted around 2030 [6]. This phased approach reflects caution, given the sensitivity of palm prices to Malaysia's economy.

Beyond ASEAN, other countries also use palm for biofuels. Thailand and the Philippines have mandatory blending (20-30%), and the EU previously did (under RED II, now curtailing it). The literature emphasizes that any surges in biofuel mandates translate to structural demand growth. Hassan et al. (2026) note that strong biodiesel policies can significantly affect palm oil markets, amplifying price swings when combined with crude oil volatility [9]. In Q2 2026, with energy prices elevated, demand from the biodiesel sector is likely to be unusually strong. However, the "biofuel paradox" described by Judijanto is that past successes breed tougher challenges: aggressive mandates heighten vulnerability to technical, environmental, and social bottlenecks [17].

Production Themes: Climate, Land, and Productivity

Palm oil production in 2026 faces both natural and man-made constraints. According to FAO and USDA forecasts, global palm production was rising slowly (~2% annual growth) to about 78–79 Mt by 2024/25 [213]. Most increases come from crop intensification, not area expansion. Climatic impacts are a major uncertainty. The 2021 IPCC and agricultural reviews warn that projected ENSO variability will introduce high yield volatility. Murphy et al. (2021) emphasize that oil palm has a narrow climatic niche: yields drop in drought or heat stress [1]. Indonesia and Malaysia, in particular, are expected to experience an El Niño transition in 2026 (weather forecasts indicate neutral-to-warm conditions), which could slightly reduce Q2 output. However, short-term meteorology in April–June typically includes some rains even in the dry season, so any severe shortfall would likely emerge later in 2026. Still, markets are sensitive: the commodity analysis noted "expectations of lower March output" in Malaysia, already tightening sentiment [7].

Land and labor are longer-term issues. Indonesia's future growth increasingly relies on replanting old-growth forests and converting less productive land. The literature on "land use change" shows diminishing availability of clear-cut areas and rising costs of new plantations. Sustainable intensification (better seeds, agronomy) is often cited as a solution [1,10]. Academic sources reiterate that to expand output, producers must improve smallholder yields through technology and finance [1,10]. On labor, stricter regulations (e.g., minimum wages, anti-migrant policies) can raise

costs, but few studies quantify this for 2026. One relevant point: productivity gaps persist. Malaysian yields are among the highest globally, whereas Indonesian yields lag due to smaller plots and less fertilizer use. Unless addressed, Indonesia may struggle to meet both domestic and export demand without further price rises.

Consumption Themes: Markets and Substitutes

On the demand side, consumption is divided between food, fuel, and industrial uses. For Q2 2026:

- **Food/Fat Demand:** India and China remain growth engines. India (pop. 1.4B) keeps import demand high due to a growing middle class and limited local soybean output. China is shifting some of its vegetable oil demand from soy to palm as trade diversifies. The literature notes that diets in developing countries favor palm oil for its ease of cooking and cost advantages [8], [14]. However, consumer health campaigns (e.g., limiting trans fats) have mixed effects: palm oil is high in saturated fat, but its use in processed foods is entrenched. 2026 may see a modest rise in edible demand if incomes and population continue to climb.

- **Biodiesel Demand:** Already covered above, but in Q2 specifically, blending mandates (Indonesia B40, Malaysia B10) dominate. Any mid-year increase (e.g., Indonesia B50) would be implemented in July, so Q2 sees only pre-B50 B40 levels. Malaysia's move to B20 (initially in Labuan/Sarawak) may soon extend nationwide. Ethanol and hydrotreating of fats also compete, but palm oil's strong point is the existing biodiesel infrastructure. These factors likely keep Q2 biodiesel off-take at or near record volumes.

- **Other Industrial/Oleochemical Demand:** Typically, ~5% of palm use globally. Growth here is stable but slow. Palm kernel oil and derivatives for cosmetics also matter, but their markets move slowly with global GDP.

- **Competition:** Soybean oil and sunflower oil supply form the "hedge". Farmdoc analysts report that as of late 2025, palm and soy prices have deviated more often, reflecting regionally idiosyncratic shocks [14]. This means that soybean harvests (e.g., a bumper crop in Brazil) or policy changes (China's Soy reserve auction) can cushion global edible oil supply even if palm is tight. In practice, global supply is comfortable enough in 2026 that analysts expect any palm price spikes to be limited (as US USDA/IES forecasts show ample alternative stocks).

Regulatory and Policy Landscape

In Q2 2026, the policy environment remains pivotal. We briefly outline the main policy domains:

- **Biofuel Blending Mandates:** Already discussed, but in policy terms, Indonesia's Ministry of Energy intends to keep the market flexible. After holding off on B50, it announced a B45 interim plan [17]. Likewise, policy documents suggest a cautious ramp-up rather than abrupt mandates. Malaysia's government has signaled a phased B20/B30 transition but has avoided setting fixed dates until favorable price gaps emerge [6]. Thailand and India also maintain biodiesel schemes (e.g., India's B10/B20, mostly ethanol use). The literature underscores that credible, stable policies help markets adjust without shocks [15].

- **Export Controls and Levies:** Indonesia uses export duties on CPO to moderate domestic prices and fund subsidies. In early 2025, it increased rates (10-40%). For 2026, no new bans have been imposed (unlike 2020's ban). Higher export duties tend to soften domestic prices and boost the feasibility of biodiesel blending (since local CPO is cheaper). But as Fitraday et al. note, too much diversion to domestic use can hurt the economy [15]. Any tweak in duties in Q2 2026 would ripple through prices and trade flows.

- **Trade Policy:** The EU's sustainability regulations (EUDR, RED II) are technically in force. By Q2 2026, companies exporting to the

EU must submit deforestation compliance data. Many analysts fear this will slow Indonesian/Malaysian exports to Europe. However, scholarly work suggests Asian markets (India/China) may absorb the diverted supply, softening the impact. Other trade moves: Russia's war has also prompted import substitution (e.g., Europe using more rapeseed, maybe soyoil). Latin American countries (Colombia) are expanding palm cultivation for domestic policy purposes, potentially becoming minor exporters. In summary, regulatory divergence means palm trade flows will realign: Asia-Africa flows are likely to grow, while EU flows stagnate or reverse [5,10].

• **Sustainability Policies:** Both producing countries have strengthened green policies. Indonesia's latest presidential regulation links palm cultivation to conservation goals. Discussions around carbon credit schemes for replanting or landscape restoration are ongoing (user literature). The literature emphasizes that multi-sector coordination (agriculture, environment, and finance ministries) is needed to avoid policy gaps [15,17]. For Q2 2026, no single "game changer" regulation is expected (aside from ongoing EU EUDR enforcement), but incremental tightening of standards will continue. Research highlights the importance of linking export incentives to sustainable practices to maintain market legitimacy [15,17].

Thematic Analysis and Discussion

Synthesizing the above themes, we see several cross-cutting issues:

• **Trade-Offs Between Domestic Policy and Global Supply:** Indonesia's aggressive biofuel program serves energy security but risks reducing exportable surplus. It has been modeled, and industry analysts agree that beyond B40, the net benefit of expansion wanes [15]. As a result, the decision to moderate B50 reflects an adaptive policy: Indonesia remains the B20/B30 world leader, but is wary of undermining its export revenues. How this plays out will determine whether the world faces a CPO shortage. If domestic blending pulls an additional ~3 Mt of CPO out of exports (at B50), global balances tighten. On the other hand, if exports remain stable (by delaying B50), global markets will be more relaxed. This question is central to the Q2 2026 outlook.

• **Geopolitical Spillovers into Market Volatility:** Recent events underscore that palm oil cannot be viewed in isolation. The literature review finds that any spike in freight or energy costs (e.g., due to Middle East unrest) is quickly transmitted to palm prices [8,9]. Such volatility can advantage hedge-oriented producers (who can sell forward at high prices) but hurts consumers. Q2 2026 has seen price backwardation (near contracts priced above those further out), reflecting short-term worries [7]. If geopolitical tensions ease, prices could normalize; if not, further upward shocks are possible. Importantly, researchers note that volatility also affects feedstock substitution: a very high palm price could push biodiesel producers back to alternatives, easing demand pressure [7].

• **Climate and Sustainability Constraints:** Climate risk imposes a structural ceiling on yield growth. Palm oil's water-intensive nature means extended droughts can cause severe yield losses. While Q2 is usually before the driest months, an earlier-than-normal dry spell could shave 3–5% off yields, tightening the market unexpectedly. Conversely, a benign season would bolster supply. Environmental regulations (especially from importing countries) mean that high production alone is insufficient; it must be "green." The literature suggests that adopting zero-deforestation practices and sustainability certification is not only an ethical need but also an economic one. With EU or North American markets demanding compliance, failure to adapt could effectively reduce global demand. Thus, even if physical output is ample, marketable supply could shrink under stricter standards [18,19].

• **Shifts In Demand Composition:** The growing importance of palm oil in biofuels has re-oriented global demand. Palm is now not just a food oil but an energy feedstock. Research shows the pivot to biofuels has made demand more policy-sensitive and less price-elastic [9-15]. For instance, during periods of low prices, edible use might decline as consumers choose alternatives, but if a biofuel mandate is firm, usage remains high regardless. This dual demand structure means that forecasts must account for government policies, not just market prices. Our analysis indicates that in Q2 2026, policymakers in India/China/Africa remain focused on food security (keeping import tariffs low), whereas in Indonesia/Malaysia, energy goals dominate. This could cushion demand if edible markets weaken, but also insulate it from price swings.

• **Policy Coordination and Uncertainty:** The interlinked nature of palm oil policy (energy, agriculture, environment, trade) requires coherent coordination. The literature repeatedly cites governance gaps and fragmentation. Indonesia's own "biofuel paradox" study highlights gaps in multi-ministerial coordination [17]. In Q2 2026, observed delays in B50 and continued discussion of blending targets suggest that authorities are adapting policy based on evolving conditions, which is prudent but introduces uncertainty for investors. Likewise, exporters must navigate both national mandates and foreign regulations. For example, Malaysian palm oil export flows in Q2 2026 will depend on how its industry meets MSPO certification to satisfy buyers, a detail largely absent from short-term price forecasts.

These thematic issues collectively indicate that the global palm oil market in Q2 2026 will be at a volatile inflection point. Supply and demand may be roughly in balance, but with large uncertainties on either side. If domestic policies are relaxed (e.g., postponing B50) and no major climate shock hits, exports could recover and stabilize. But if blending accelerates or the weather is poor, the global market could tighten sharply. Moreover, geopolitical risks (the Middle East, Black Sea grain conflicts) and trade policies (EU deforestation rules, India tariffs) may add unpredictable twists [20,21]. Our analysis, grounded in recent literature, suggests that neither extreme bull nor bear forecasts will fully materialize; instead, the quarter is likely to see price and trading oscillations within a moderately tight range, reflecting a complex interplay of regional policies and global forces.

Conclusion

In this comprehensive review of recent literature, we have assessed the prospects and challenges for palm oil commodities in Q2 2026. The evidence points to a nuanced outlook.

Prospects: Global demand for palm oil remains robust, underpinned by population growth and biofuel mandates, especially in Asia. Energy market trends (high crude oil prices) are likely to boost short-term demand for palm oil biodiesel. The market is relatively well supplied by planted area, and moderate production growth is expected. If governments manage blending mandates flexibly and maintain strong yields, surplus palm oil could be directed to emerging markets, supporting stable prices.

Challenges: Key risks include geopolitical disruption, climate variability, and policy missteps. Prolonged conflicts or supply chain blockages could disrupt trade flows, while drought or disease could trim output. Rigid or accelerated biofuel mandates threaten to divert too much oil from exports, potentially inflating prices beyond consumer tolerance. Sustainability policies (such as the EU's deforestation rules) also limit access to major markets, thereby imposing compliance costs. Structural issues persist:

many smallholders need support to improve productivity, and old plantations require replanting (the “PSR” program). Without addressing these, yield growth may stagnate.

Policy Implications: Our analysis suggests several directions for policymakers. First, adaptive blending policies are crucial. Indonesia and Malaysia should balance energy goals with export considerations: for example, phasing in higher blends only after ensuring feedstock availability and engine compatibility. They should consider intermediate targets (e.g., B45 or a gradual ramp) to avoid a shock to export earnings. Second, sustainability commitments must be strengthened. Producer countries need to enhance traceability and zero-deforestation measures to meet importing countries’ standards and secure market access. Third, support for smallholders and productivity is vital: investing in improved seed varieties, fertilizers, and technical assistance can sustainably raise yields. Fourth, international coordination can mitigate volatility: regional stockpiles or warning systems for weather/climate risks, and diplomatic engagement on trade rules, can smooth disruptions. Finally, market transparency (timely data and forecasts) helps stakeholders plan: open sharing of production and inventory data, as well as clear policy signals, will reduce speculative swings.

In sum, Q2 2026 will be a litmus test for how palm oil markets adapt to 21st-century challenges. Our review underscores that success will depend on proactive management of the supply-demand balance under shifting geopolitical and environmental constraints. By drawing on interdisciplinary insights, stakeholders can better navigate this period. As noted by the literature, palm oil’s future hinges on integrating economic, social, and ecological goals – turning complex challenges into opportunities for sustainable growth.

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