

Supply and Disappearance - A Review

Malaysia's production of CPO in the first 11 months of 1991 was 5.73 million tonnes indicating a marginal increase of 40 412 tonnes or 0.71% over production in the same period the year before. Thus actual production in 1991 is anticipated to be very close to that forecasted earlier at 6.25 million tonnes, that is, falling close to the trend line following the cyclical pattern. Total production of palm oil could have been higher in 1991 if not for the haze that occurred for three months in the second half of the year. The haze affected extraction rates due to lack of sunlight received by the palms for photosynthesis. Rainfall during 1991 had not been good with many parts of Malaysia receiving lower amount since June. Some haze is also anticipated in 1992. In 1992, Malaysian CPO production is forecast at 6.748 million tonnes.

Except for April 1991, monthly production of CPO in the first half of 1991 was lower than that of the corresponding months of the previous year (*Table 1*). The first peak production at 468 533 tonnes occurred in April 1991, while in 1990, it was in March at 454 098 tonnes. The second production peak for both 1991 and 1990 occurred in September with 1991 at 691 120 tonnes against 634 662 tonnes in September the previous year.

The amount of palm oil in stock at the beginning of 1991 was 719 095 tonnes and 6.25 million tonnes were expected to be produced during the year, making an estimated total of 6.969 million tonnes available for trade from Malaysia. On the other hand, total Malaysian palm oil available for trade in 1990 was 7.15 million tonnes. This explains the better prices received by palm products in 1991 against that received in 1990. Considering that ending stocks of palm oil in Malaysia might exceed 900 000 tonnes in 1991 and production in 1992 being forecasted at 6.748 million tonnes, total availability for trade may amount to 7.648 million tonnes in 1992.

Exports of Malaysian palm products during the first 11 months of 1991 declined by 5.22% when compared with the total for the

corresponding period of the previous year. After taking into account local consumption, as well as making some adjustments for losses, the cumulative exports during these periods were 5.314 million tonnes in 1990 against 5.015 million tonnes in 1991. Of the palm oil exported, less than 2% was in the form of crude palm oil while more than 98% was in the form of processed palm products.

Table 2 illustrates the major importers of Malaysian palm products between January and September. Pakistan was the largest importer of Malaysian processed palm products with imports of 778 444 tonnes. Her breakdown of imports during January to August 1991 included, among others, 580 052 tonnes RBD palm oil, 42 154 tonnes RBD palm olein and 1 504 tonnes RBD palm stearin. Total imports of Malaysian palm oil during the first three quarters of 1991 far exceeded last year's imports of 702 455 tonnes mainly caused by the suspension of the PL-480 assistance on soyabean oil imports from the U.S. This led to the substitution of soyabean oil with RBD palm olein in the vegetable ghee blend.

The second largest importer was China, importing 519 840 tonnes of Malaysian palm oil during January to September 1991. For the same period of the corresponding year, she imported 509 716 tonnes thus giving an increase of nearly 2%. Among the palm products imported during January to August 1991 were 303 011 tonnes RBD palm oil and 25 503 tonnes crude olein. Apart from rising palm oil imports due to the products being established in the country as well as the favourable techno-economic benefits offered by the oil, imports are also a function of oil crop production in China. Recently, China faced unfavourable drought and flood that undermined oilseeds production.

Singapore was the third largest importer of Malaysian palm oil during the period with imports of 490 824 tonnes. Imports during January to September 1990 amounted to 525 586 tonnes which is a decline of 34 762 tonnes or 6.6%. In the first eight months of 1991, she imported

TABLE 1. MALAYSIAN PALM OIL: SUPPLY AND DISAPPEARANCE BY MONTH (tonnes)

Year	Beginning Stock	SUPPLY		Adjusting Balance	DISAPPEARANCE		Ending Stock
		Production	Total		Exports	Total	
1984	142 748	3 714 795	3 857 543	233 301	3 183 451	3 416 752	440 791
1985	440 791	4 134 463	4 575 254	289 152	3 434 025	3 723 177	852 077
1986	852 077	4 542 249	5 394 326	269 922	4 558 806	4 828 728	565 598
1987	565 598	4 531 960	5 097 558	365 574	4 218 344	4 583 918	513 640
1988	513 640	5 027 496	5 541 136	403 269	4 342 010	4 745 279	795 857
1989	795 857	6 056 501	6 852 358	741 113	5 051 330	5 792 443	1 059 915
JAN 1990	1 059 915	444 594	1 504 509	36 105	464 541	500 646	1 003 863
FEB	1 003 863	419 768	1 423 631	7 406	387 786	395 192	1 028 439
MAR	1 028 439	454 098	1 482 537	62 672	488 695	551 367	931 170
APR	931 170	412 302	1 343 472	44 815	461 111	505 926	837 546
MAY	837 546	553 461	1 391 007	54 576	504 319	558 895	832 112
JUN	832 112	519 632	1 351 744	81 329	447 295	528 624	823 120
JUL	823 120	562 282	1 385 402	38 323	493 269	531 592	853 810
AUG	853 810	622 389	1 476 199	82 095	516 187	598 282	877 917
SEP	877 917	634 662	1 512 579	65 969	508 831	574 800	937 779
OCT	937 779	572 717	1 510 496	46 962	561 564	608 526	901 970
NOV	901 970	493 907	1 395 877	124 013	480 906	604 919	790 958
DEC	790 958	404 810	1 195 768	63 726	412 947	476 673	719 095
TOTAL		6 094 622			5 727 451		
JAN 1991	719 095	331 406	1 050 501	54 579	359 608	414 187	636 314
FEB	636 314	331 926	968 240	23 355	281 651	305 006	663 234
MAR	663 234	432 213	1 095 447	35 073	434 438	469 511	625 936
APR	625 936	468 533	1 094 469	42 391	469 191	511 582	582 887
MAY	582 887	547 921	1 130 808	101 726	450 693	552 419	578 389
JUN	578 389	498 732	1 077 121	82 862	488 816	571 678	505 443
JUL	505 443	603 778	1 109 221	20 150	485 091	505 241	603 980
AUG	603 980	658 118	1 262 098	47 922	534 765	582 687	679 411
SEP	679 411	691 120	1 370 531	56 213	497 071	553 284	817 247
OCT	817 247	662 801	1 480 048	62 316	498 732	561 048	919 000
NOV	919 000	503 676	1 422 676	35 356	515 466 ^c	550 822	871 854
DEC	871 854 ^b	NA	NA	NA	NA	NA	NA

^a Summation of the month's totals do not always equate to the total for the year, because adjustments made to the latter are not incorporated into the former.

^b Preliminary
NA not available

^c Estimate

Source: Palm Oil Update, PORLA (various issues)

mainly RBD palm olein (291 356 tonnes), RBD palm oil (75 168 tonnes) and RBD palm stearin (47 939 tonnes). Other palm products imported included 6 346 tonnes CPO, 1 648 tonnes CPS, 1481 tonnes CP olein, 1 154 tonnes NP oil as well as some small amounts of the other semi-processed palm products. However, Singapore reexported most of these imports.

The EEC as a region imported 453 519 tonnes of Malaysian palm products during the first nine months of 1991 against 399 627 tonnes for the corresponding months in 1990. The largest importer was The Netherlands. She imported 182 117 tonnes during these months in 1991 against 141 837 tonnes for the same period in 1990. During January to August 1991, her imports comprised among others 65 127 tonnes RBD palm oil, 46 791 tonnes RBD stearin as well as 21 839 tonnes CPO. Much of the imports were reexported in bulk and in the form of various end products. Imports of palm oil have been strongly influenced by the big differential in price against soyabean oil. Imports by the United Kingdom and West Germany are also shown in *Table 2*. These two member countries of the EEC recorded a slight decline in imports in 1991 when compared to 1990.

Egypt was the fifth largest importer of Malaysian palm products. Cumulative imports for January-September 1991 were 216 688 tonnes, a decline of 26 070 tonnes or 10.74%. There has been a significant increase in imports of RBD palm oil by Egypt. A total of 117 260 tonnes were imported during January to August 1991 against 70 540 tonnes imported in 1990. On the other hand, imports of RBD palm olein declined from 27 481 tonnes to 5 313 tonnes and that of RBD palm stearin from 144 631 tonnes to 86 115 tonnes during January-August 1990 and 1991, respectively. The upsurge in imports of RBD palm oil was mainly due to its favourable price discount of about US\$55 over RBD palm olein. Since both these products were used for vegetable ghee production, RBD palm oil again offers techno-economic advantages since it requires minimal or no hydrogenation.

The sixth largest importer, Japan, registered an increase with imports of 213 796 tonnes

against 192 582 tonnes during January to September 1991 and 1990, respectively. Imports during January-August 1991 comprised 91 002 tonnes RBD palm oil, 66 441 tonnes RBD palm olein, 27 642 tonnes RBD stearin and 10 057 tonnes of crude palm oil.

The quantum of Malaysian palm oil exports to other major destinations is shown in *Table 2*. Though more palm oil would be made available for trade by Malaysia, it is anticipated that price prospects would be better in 1992. This is due to the recent introduction of the credit facility of M\$600 million by Malaysia to boost her palm oil exports. Such a programme would remove about 600 000 tonnes of Malaysian palm oil from the free market thus making the amount of Malaysian palm oil available in the free market in 1992 to the same level as that of 1991.

PRICES

The performance of palm oil and palm oil products prices is stronger this year compared to 1990. The January-November price of palm oil (cif Rotterdam) averaged US\$336/tonne compared to only US\$285/tonne previously. The average palm oil price of was US\$321/tonne (FOB Malaysia) compared to US\$275/tonne for the same trading period last year. RDB palm olein price average for the period was US\$391/tonne (cif Rotterdam); that was higher by US\$65/tonne than last year. The period's average price for palm kernel oil was US\$400/tonne compared to only US\$334/tonne. Similarly, the average price of RBD palm stearin during the period of US\$289/tonne was higher by US\$5/tonne compared to last year.

The sweeping higher prices for palm oil and palm oil products this year were directly related to the decline in the supply of palm oil. The year's price movement started with a high key in January. In January, RBD palm olein was at US\$411/tonne (cif Rotterdam), RBD palm oil at US\$342/tonne (FOB Malaysia) and palm kernel oil at US\$353/tonne. Then, following the price movement of other oils, the prices of palm oil and its products dwindled slightly during the middle of the year due to a higher holding stock during the first quarter. Then prices rebounded as stocks diminished. In November the prices recovered to

TABLE 2. MALAYSIAN EXPORTS OF PALM OIL TO MAJOR DESTINATIONS (tonnes)

Countries	1989 Jan-Dec	1990 Jan-Dec	1990 Jan-Sept	1991 Jan-Sept
Processed Palm Oil				
India	276826	494768	462112	65283
Pakistan	612734	702455	557933	77844
Singapore	833600	731658	525586	490824
E.E.C.	469824	553323	399627	453519
Japan	258884	274699	192582	213796
Indonesia	325459	0	0	4979
Iraq	123161	137646	137646	0
Iran	41603	10573	8478	2898
Jordan	120109	45939	45922	42229
Korea Rep.	157617	215091	150918	151349
U.S.A.	123203	143782	104516	99783
Saudi Arabia	111919	86061	67403	68049
Egypt	214211	346442	242758	216688
China P.R.	489488	737123	509716	519840
U.S.S.R.	375369	160473	115074	73638
Australia	65123	58615	42677	35196
Turkey	149415	191118	133873	133642
Yemen A.R.	60038	85245	60083	72010
Mozambique	31896	49025	37634	6783
Bangladesh	14882	25190	18823	36205
Kenya	12400	19168	18298	499
United Kingdom	(54928) *	123208	85910	85406
Netherlands	(146179)*	203441	141837	182117
West Germany	(26846)*	70041	50527	49671
Rest of the World	305111	565108	387070	671383
Sub-Total	5172872	5633502	4218731	3939037
Crude Palm Oil				
Indonesia	0	0	0	0
Netherlands	4329	54471	35437	21839
United Kingdom	0	13754	7131	3060
Egypt	0	0	0	0
Singapore	39	10747	1154	7448
Rest of the World	157	14977	9581	33162
Sub-Total	4525	93949	53303	65509
TOTAL	5177397	5727451	4272034	4004546

* The EEC 1989 total is inclusive of these three countries total.

Source: PORLA, Update (various issues)

be fairly close to the level of the January prices. RBD palm olein closed at US\$397/tonne in November while both palm oil and palm kernel oil overtook the January prices to US\$362/tonne, respectively. All palm oil and palm oil product prices closed higher than a year ago as large orders from India, Pakistan and Egypt strengthened the market.

From January to November this year, palm oil and palm oil products prices, on the average, were at a discount relative to other oils. RBD palm olein (cif Rotterdam) was sold at an average discount of US\$64/tonne over soybean oil (FOB Rotterdam). In January, the discount was US\$44/tonne. This is only 42% of the size of January 1990 discount that was at US\$104/tonne. However, the price discount increased to a maximum of US\$93/tonne in October to close at US\$69/tonne in November. The price discount of RBD palm olein against soybean oil was lowest in February at US\$41/tonne (*Table 3*).

A higher price discount was recorded when RBD palm oil is compared to cottonseed oil. The average discount for January-November was US\$193/tonne. This is only 56% of last year's average for the same period. This shows that the price spread between the two oils was narrower in 1991 than the preceding year. The price spread started with a US\$230/tonne discount but increased to US\$273/tonne in June. From June onwards, the spread began to converge to close at US\$108/tonne in November representing only 39% of the price discount in November 1990 (*Table 3*).

The price spread between RBD palm stearin and tallow, both at cif Rotterdam reference point, was at an average discount of US\$61/tonne for the January-November 1991 trading period. The price discount opened at US\$101/tonne in January and decreased to US\$79/tonne a month later. The price spread closed at US\$45/tonne in March and was at its narrowest in November at US\$27/tonne discount compared to US\$94/tonne the preceding year. In 1990, the narrowest price spread between RBD palm stearin and tallow occurred in April.

Contrary to the other palm oil products,

palm kernel oil did better especially from May 1990 to March 1991. Compared to the other major lauric oil *i.e.* coconut oil, the price was equal in May 1990 and started to obtain a premium in June at US\$3/tonne. After June 1990 and until March 1991, except for September 1990, the price of palm kernel oil was at a premium to coconut oil. However, the average January-November 1991 prices were at a discount of US\$15/tonne compared to US\$5/tonne for the same period in 1990. In the year 1991, the price spread widened from April onwards with a major leap in June to a maximum of US\$61/tonne in October. This movement in price discount was mainly due to the faster increase in the price of coconut oil relative to palm kernel oil attributable to a slack in supply from the Philippines because of the volcanic eruption of Mount Pinatubo on 11 June 1991.

The 1991 prices of palm oil products were competitive with respect to other oils. RBD palm olein was at a discount to soybean oil and cottonseed oil. The oil was at a premium to coconut oil during the first half of 1991. Palm kernel oil was at a premium to coconut oil only until the first quarter of 1991, after which the latter commanded a premium over the former due to short supply from the Philippines. Compared to 1990, the average discount in prices this year was higher by US\$10/tonne. RBD palm stearin was always at a discount against other oils for January-November period of 1990 and 1991 (*Figures 1 and 2*).

Examining the fundamental factors affecting the 1992 palm oil market, we predict that the price prospect for Malaysian palm oil would be slightly 'bullish'. Better precipitation during the last quarter of 1991 is expected to boost oil palm yield and more palm oil would be released to the market. Holding stocks increased to over 900 000 tonnes in October but decreased slightly to 870 000 tonnes in November and is expected to close lower in December if the trend in 1990 prevails. Hence, the beginning stock in January of 1992 would be much lesser than in 1990 but more than in January 1991.

The above factors are expected to increase the supply of Malaysian palm oil. On the other hand, the recently introduced M\$600 million credit facility would boost demand by about 600 000

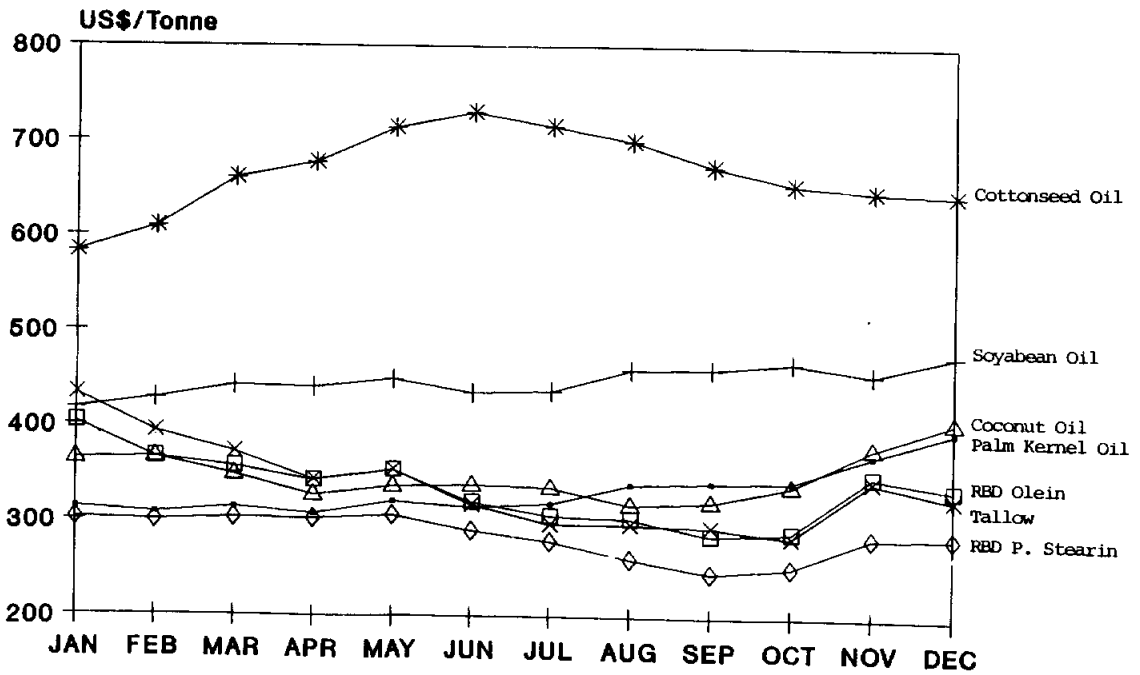


Figure 2. Prices of Selected Oils and Fats 1991

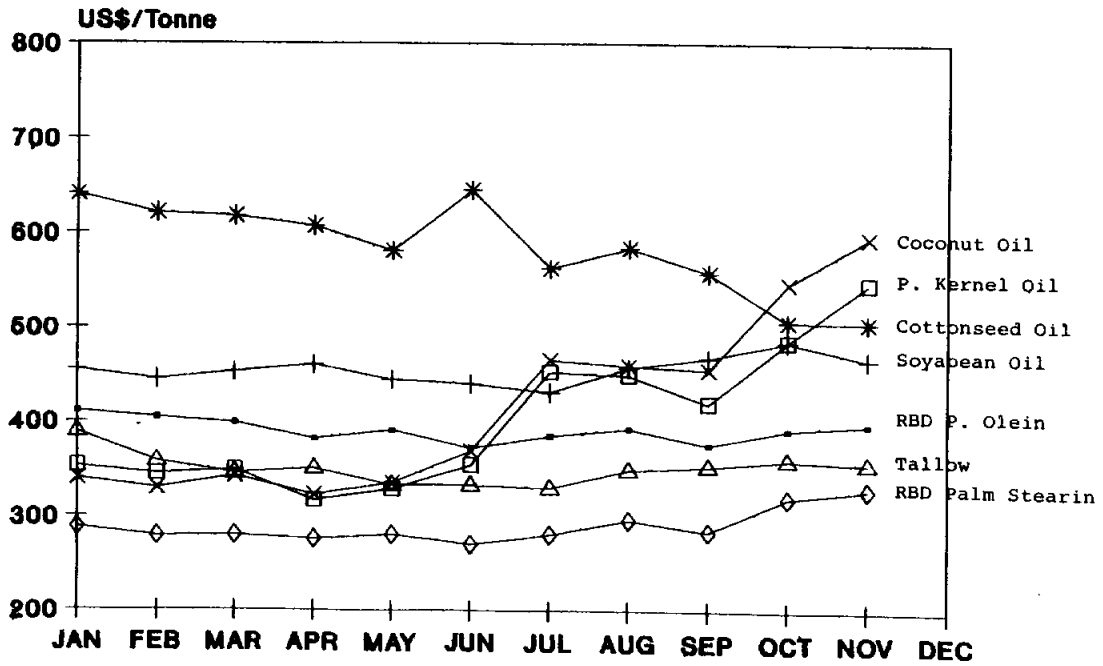


Figure 1. Prices of Selected Oils and Fats 1990

TABLE 3. PRICE OF SELECTED OILS AND FATS (US\$/tonne 1990 and 1991)

Year	RBD Palm Oil (US\$/tonne)		Cottonseed Oil (US\$/tonne)		Soybean Oil (US\$/tonne)		Tallow (US\$/tonne)		RBD Palm Oil (US\$/tonne)		RBD Palm Oil (US\$/tonne)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1984	786	724	829	1037	1155	-118	595	531	+64	750	728	
1985	543	572	710	551	590	-39	445	421	+26	504	501	
1986	323	342	489	288	297	-9	263	296	-33	258	257	
1987	390	334	497	426	442	-10	349	356	-7	329	343	
1988	471	463	599	569	565	-26	443	413	+30	418	437	
1989	375	432	572	472	517	-45	348	366	-18	328	350	
JAN (1990)	313	417	583	403	433	-30	302	364	-62	267	279	
FEB	308	428	610	366	393	-27	300	366	-66	265	271	
MAR	314	442	661	357	372	-15	303	348	-45	273	286	
APR	307	440	677	342	343	-1	302	327	-25	266	267	
MAY	320	449	714	353	353	0	305	336	-31	279	281	
JUN	315	435	730	320	317	+3	290	338	-48	269	272	
JUL	318	437	716	305	297	+8	279	335	-56	268	279	
AUG	339	460	700	303	297	+6	261	317	-56	274	291	
SEP	341	461	674	286	294	-8	246	321	-75	271	284	
OCT	342	468	655	269	284	+5	252	338	-86	276	290	
NOV	370	458	648	348	343	+5	284	378	-94	316	332	
DEC	396	476	645	335	325	+10	285	406	-121	395	346	
AVG (Jan-Nov)	328	445	670	334	338	-5	294	343	-59	275	285	
AVG (Jan-Dec)	332	447	668	334	336	-2	294	343	-64	289	298	
JAN (1991)	411	455	641	353	340	+13	288	389	-101	342	349	
FEB	404	445	621	345	330	+15	279	358	-79	334	338	
MAR	399	453	618	349	343	+6	280	346	-66	327	348	
APR	382	460	607	317	323	-6	276	351	-75	303	319	
MAY	391	444	581	329	335	-6	280	333	-53	314	318	
JUN	372	440	645	354	369	-15	270	333	-63	301	311	
JUL	385	431	563	452	465	-13	281	330	-49	320	341	
AUG	393	457	594	449	459	-10	296	349	-53	327	338	
SEP	376	468	558	419	455	-36	284	353	-69	308	323	
OCT	392	485	508	485	546	-61	320	360	-40	324	345	
NOV	397	466	505	546	595	-49	329	356	-27	333	362	
AVG (Jan-Nov)	381	455	604	409	415	-15	289	351	-61	321	336	

RBD Palm Olein, Mal. CIF Rott; Soyabean Oil, Dutch FOB ex-mil; Cottonseed Oil, US, PBSY, CIF Rott; Palm Kernel Oil, Mal. CIF Rott; Coconut Oil, Phil./Indo., CIF Rott; RBD Palm Stearin, CIF Rott; Tallow US Bleach Fancy, CIF Rott; RBD Palm Oil, FOB Mal; Palm Oil, Sum/Mal, CIF. N. W. Europe.

Source: Oil World
Prepared on 2nd Jan. 1992

tonnes outweighing the price depressing factor of increased supply. These combined factors are expected to pressure the prices to a higher level. The movement is beginning to be seen during the last quarter of 1991 as all prices are taking a slight

upward swing (*Figure 2*).

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