Supply and Disappearance – A Review

Production of CPO in Malaysia in the first five months of 1992 was 2.22 million tonnes, an increase of 109 727 tonnes or 5.2% over production in the same period last year. Except in May, production of CPO in each of the first five months of 1992 was higher than in the corresponding months of 1991 (*Table 1*). Based on this pattern of production, it is very likely that the total output in 1992 will be very close to that forecast earlier: 6.755 million tonnes or 10% more than in 1991, when it was 6.14 million tonnes.

One of the reasons for the expected increase is the rise in oil palm areas entering maturity. The total mature area in 1991 was 1.814 million hectares against 1.648 million hectares the year before.

Even though the majority of the CPO produced in the country is from West Malaysia, the contribution from East Malaysia has been increasing and becoming more significant. For instance, East Malaysia accounted for 12.9% of Malaysia's production in 1990, while her share rose to 15.1% in 1991.

The amount of palm oil in stock at the beginning of 1992 was 682 946 tonnes and since 6.755 million tonnes are expected to be produced during the year, an estimated total of 7.438 million tonnes will become available for trade from Malaysia. In the previous year, a total of 6.86 million tonnes of palm oil, comprising 719 095 tonnes beginning stock and 6.141 million tonnes of actual production, were available. Though there will be 0.758 million tonnes more Malaysian palm oil available for trade in 1992, price prospects are expected to be good. This is so particularly because of the inability of last year's world supply to accumulate sufficient safety stocks to cushion the world market against unforeseen weather calamities. Global inventories of six major vegetable oils were probably down by nearly 0.6 million tonnes in January 1992. The reduction in stocks was likely to widen further until April 1992.

After taking into account local consumption, as well as making some adjustments for losses, cumulative exports of Malaysian palm products for the first five months of 1992 increased by 5% from the total for the corresponding period last year. The cumulative exports during the two periods compared were 2.1004 million tonnes in 1992 and 1.9955 million tonnes in 1991. The exports in the first five months of 1992 led to monthly ending stocks declining from 585 816 tonnes in January to 456 023 tonnes in May (*Table 1*).

Table 2 shows the major importers of Malaysian palm products from January to March in 1991 and 1992. The EEC as a region imported 193 232 tonnes during January to March 1992, an increase of 29.5% year-on-year. Imports for the whole of 1990 were 553 323 tonnes, while for 1991 they were 637 362 tonnes. The main cause behind the increase in imports of palm oil is the substitution of vegetable oils for animal fats in cooking fats and margarine and butter. There was a decline in the butter market throughout the 1980s because of its price and its unhealthy attributes, and consumers have switched from using lard and compound cooking fats, containing animal fats, to vegetable oil.

Among the EEC countries, the Netherlands continued to be the largest single importer of Malaysian palm oil, taking a total of 83 589 tonnes during January-March 1992, of which 3006 tonnes was CPO and the balance processed palm products.

Singapore was the second largest importer of Malaysian palm products during the first quarter of 1992, accounting for 178 037 tonnes of processed palm oil and 346 tonnes crude palm oil. During the same period last year, she took 146 578 tonnes of processed palm oil and was the third largest importer. However, these imports were mostly re-exported.

The third largest importer during January to March 1992 was Pakistan, with 138 614 tonnes. For the same period last year, she imported 165 663 tonnes. Since Pakistan's imports increased to 967 834 tonnes in 1991 from 702 455 tonnes in 1990, it is expected that they will continue to be high in 1992. The suspensions of soyabean oil under PL-480 aid programme and the techno-economic advantage of RBD palm oil in vegetable ghee manufacture are the main reasons for the rise in imports.

India was the fourth largest importer of Malaysian palm products, taking 88 939 tonnes during January to March 1992. This was an increase of 41 894 tonnes or 89% by comparison with the corresponding period last year. In 1991, India's imports totalled 157 283 tonnes, a decline of 353 877 tonnes

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

		SUPPLY			DISAPPEARANCE			
	Year	Beginning Stock	Production	Total	Adjusting Balance	Exports	Total	Ending Stock
	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
	1990	1 059 915	6 094 622	7 154 537	707 991	5 727 451	6 435 442	719 095
JAN	1991	719 095	331 406	1 050 501	54 609	359 578	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	35 075	434 436	469 511	625 936
APR		625 936	468 533	1 094 469	42 096	469 186	511 582	582 887
MAY		582 887	547 921	1 130 808	101 702	450 717	552 419	578 389
JUN		578 389	498 732	1 077 121	77 321	494347	571 668	505 453
JUL		505 453	604 639	1 110 092	20 844	485 268	506 112	603 980
AUG		603 980	658 118	1 262 098	44 721	537 966	582 687	679 411
SEP		679 411	691 120	1 370 531	66 218	497 066	563 284	807 247
OCT		807 247	662 696	1 469 943	51 109	499 855	550 964	918 979
NOV		918 979	503 755	1 422 734	33 234	517 564	550 798	871 936
DEC		871 936	41 0 294	1 282 230	62 651	536 633	599 284	682 946
TOTAL[a]			6 141 353			5 564 267		
JAN	1992	682 946	395777	1 078 723	56 129	436 778	492 907	585 816
FEB		585 816	382860	968 676	70 494	390 251	460 745	507 931
MAR		517 931	442459	960 390	78 091	397 378	475 469	484 921
APR		484 921	493139	978 060	59 094	409 044	468 138	509 922
MAY		509 922	507491	1 017 413	94 364	467 026[b]	561 390	456 023
JUN		456 023[c]	NA	NA	NA	NA	NA	NA

[a] The sum of the month's totals does not always equal to the total for the year, because adjustments made to the latter are not incorporated into the former.

[b] Preliminary

[c] Estimate

NA: not available

Source: *Palm Oil Update, PORLA* (various issues)

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

Countries	1990	1991	Jan-Mac 1991	Jan-Mac 1992
Processed Palm Oil				
India	511 160	157 283	47 045	88 939
Pakistan	702 455	967 834	165 663	138 614
China	737 123	640 956	70 857	29 774
EEC	553 323	637 362	149 218	193 232
USA	143 782	144 388	30 666	40 742
Iran	10 573	2 898	258	5 580
Iraq	137 646	0	0	0
Indonesia	0	19 430	4 979	86 904
Egypt	346 442	288 530	54 835	47 404
USSR	160 473	99 304	1 505	2 980
Saudi Arabia	86 061	104 417	27 535	25 481
Singapore	731 658	715 302	142 574	178 037
Japan	274 699	309 145	67 612	67 077
Jordan	45 939	54 285	11 600	7 008
Republic of Korea	215 091	212 176	54 102	47 894
Australia	58 615	49 698	9 047	16 520
Turkey	191 118	195 184	24 057	34 769
Yemen	85 245	93 021	18 853	24 592
Mozambique	49 025	20 207	3 727	1 510
Bangladesh	25 190	55 701	7 475	22 018
Kenya	19 168	2 247	499	0
Others	548 716	704 019	138 872	137 786
Sub-Total	**5 633 502**	**5 473 387**	**1 030 980**	**1 196 861**
Crude Palm Oil				
Indonesia	0	6 943	0	17 975
Netherlands	54 471	22 342	19 806	3 006
U.K.	13 754	3 060	3 060	0
Egypt	0	0	0	0
Singapore	10 747	9 900	4 004	346
Rest of the World	14 977	48 635	17 815	6 219
Sub-Total	**93 949**	**90 880**	**44 685**	**27 546**
Total	**5 727 451**	**5 564 264**	**1 075 665**	**1 224 407**

Source: *Palm Oil Update, PORLA (various issues).*

TABLE 3. PRICES OF SELECTED OILS AND FATS 1991 AND 1992 (US$/tonnes)

products Year/ Months	RBD Palm Olein (CIF) (Rott) (1)	Soyabean Oil (FOB) (Rott) (2)	Cottonseed Oil (CIF) (Rott) (3)	Spread (1)–(2) +Premium –Discount	Spread (1)–(3) +Premium –Discount	Palm Kernel oil (CIF) (Rott) (4)	Coconut oil (CIF) (Rott) (5)	Spread (4)–(5) +Premium –Discount	RBD Palm Stearin (CIF) (Rott) (6)	Tallow (CIF) (Rott) (7)	Spread (6)–(7) +Premium –Discount	RBD Palm oil (FOB) (M'sia) (8)	Palm oil (CIF) (Rott) (9)
1985	543	572	710	−29	−167	551	590	−39	445	421	+26	504	501
1986	323	342	489	−19	−166	288	297	−9	263	296	−33	258	257
1987	390	334	497	+56	−107	426	442	−16	349	356	−7	329	343
1988	471	463	599	+8	−128	539	565	−26	443	413	+30	418	437
1989	375	432	572	−57	−197	472	517	−45	348	366	−18	328	350
1990	332	447	668	−115	−336	334	336	−2	284	348	−64	260	290
JAN (1991)	411	455	641	−44	−230	353	340	+13	288	389	−101	342	349
FEB	404	445	621	−41	−217	345	330	+15	279	358	−79	334	338
MAR	399	453	618	−54	−219	349	343	+6	280	346	−66	327	348
APR	382	460	607	−78	−225	317	323	−6	276	351	−75	303	319
MAY	391	444	581	−53	−190	329	335	−6	280	333	−53	314	318
JUN	372	440	645	−68	−273	354	369	−15	270	333	−63	301	311
JUL	385	431	563	−46	−178	452	465	−13	281	330	−49	320	341
AUG	393	457	584	−64	−191	449	459	−10	296	349	−53	327	338
SEP	376	468	558	−92	−182	419	455	−36	284	353	−69	306	323
OCT	392	485	506	−93	−114	485	546	−61	320	360	−40	324	345
NOV	397	466	505	−69	−108	546	595	−49	329	356	−27	333	362
DEC	411	442	514	−31	−103	607	636	−29	339	349	−10	344	376
AVG(Jan–May	**397**	**451**	**614**	**−54**	**−217**	**389**	**334**	**5**	**401**	**355**	**46**	**324**	**334**
AVG(Jan–Dec	**393**	**454**	**579**	**−61**	**−186**	**417**	**488**	**−16**	**294**	**351**	**−57**	**323**	**389**
JAN (1992)	418	429	507	−11	−89	699	738	39	339	342	−3	357	383
FEB	435	414	503	21	−68	651	702	−51	332	330	2	368	382
MAR	464	434	530	30	−66	620	644	−24	328	345	−17	388	396
APR	465	425	519	40	−54	651	647	5	330	344	−14	385	402
MAY	451	438	583	13	−132	617	640	−23	329	348	−19	378	392
Avg(Jan–May)	**447**	**428**	**528**	**19**	**−81**	**648**	**674**	**−26**	**332**	**342**	**−10**	**375**	**391**

RBD Palm Olein, Mal.CIF Rott; Soyabean Oil, Dutch FOB ex–mill; 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*

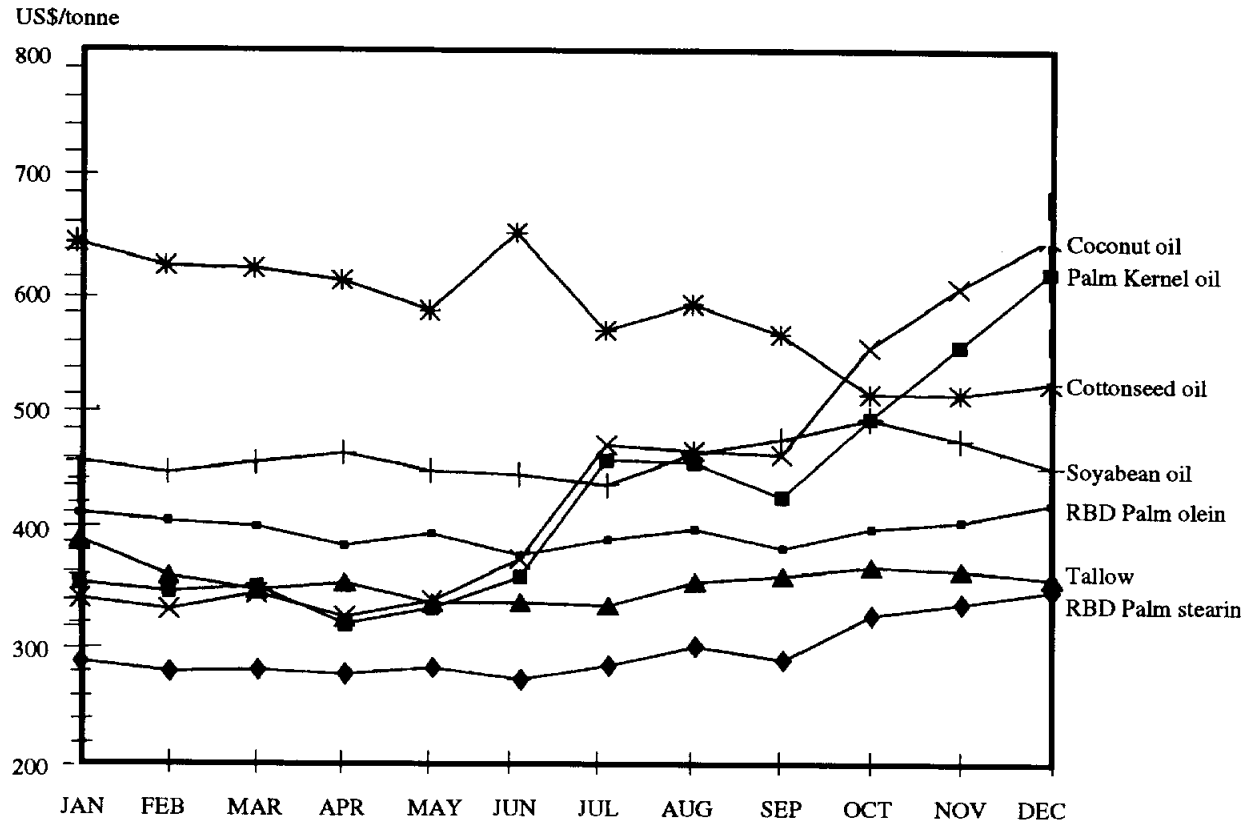

Figure 1. Prices of Selected Oils and Fats 1991

from 1990. The decline was due to the better harvest of locally grown oilseed crops. However, there is expected to be a deficit of about 1.39 million tonnes of oils and fats in 1992. This implies more imports of oils and fats. Even though there are foreign exchange limitations, palm oil could be the appropriate oil to purchase, considering its price competitiveness.

Indonesia, the fifth largest importer of Malaysian palm products took 86 904 tonnes during January to March 1992. Imports during the same period last year reached only 4979 tonnes, while imports for the whole year totalled 19 430 tonnes. The big jump this year is attributable to a domestic shortage arising because high world coconut oil prices has led to greater quantities of coconut oil being exported. Purchases of palm oil were required to meet demand as well as ease the price rise before the festive season. Beginning stocks in January 1992 were estimated at 250 000 tonnes, very much down from 500 000 tonnes a year earlier. Export shipments of palm oil, mostly destined for Europe, have been postponed.

Japan was the sixth largest importer of Malaysian palm oil during the first quarter, taking 67 077 tonnes, against 67 612 tonnes during the same period in 1991. In 1991, total imports of Malaysian palm products increased to 309 145 tonnes from 274 699 tonnes the previous year. Based on performance in the first quarter of 1992, Japan's imports for the whole of 1992 will most probably exceed 300 000 tonnes.

In the first three months of 1992, South Korea was the seventh largest importer. However, her intake declined to 47 894 tonnes from 54 102 tonnes during the same period in 1991. Collaborative work between Korea and Malaysia is being planned on the utilization of palm products as raw materials for detergents and cosmetics.

Imports by Egypt, the eight largest importer of Malaysian palm products, declined from 54 835 tonnes in the first quarter of 1991 to 47 404 tonnes in the same period this year. The decline was due to the rising prices of palm products *vis-a-vis* other oils and fats. Palm-based products such as vegetable ghee are well accepted in Egypt. Palm stearin has also replaced 90% of the tallow which was formerly imported for the soap industry. Specialty fats which are palm-based are also imported for the chocolate industry. Concerted efforts are being made to promote blends of sunflowerseed oil with palm olein. It

is envisaged that Egypt will increase imports of palm products in the second half of 1992 since their prices will then be more favourable.

PRICES

Higher demand, tighter supply of oilseeds and palm oil, and stagnating supply of animal fats caused world prices of fats and oils to rally sharply during the first five months of this year. Dry weather in most growing areas of the USA, related to the El Nino event, gave little prospect of downward pressure on soyabean prices. Tight vegetable oil supplies are reported in South American countries and this also contributed to the general rise in prices. The only prospect for a production increase lies with palm oil.

The prices of palm products rallied across the board towards the end of last year, and the trend continued in the first half of this year. The palm oil monthly average price increased from US$383 per tonne (cif Rotterdam) in January to US$392 in May. RBD palm oil firmed to US$378 per tonne (FOB Malaysia) in May from US$357 per tonne in January. RBD palm olein, stearin and palm kernel oil all showed major price improvements in May, as compared to January and the same month last year.

The increases in prices of palm oil and palm oil products followed the general behaviour of prices of other oils and fats, which resulted from the global shortage in stocks. A moderate increase in production, with high off-take and low stocks in Malaysia since October of last year have pressured palm oil prices upward. For January to May, production was reported at 2 221 726 tonnes, showing an increase of only about 5% year-on-year, and 5% below PORIM's forecast. The small production increase combined with high off-take drove stocks down to only 456 023 tonnes against 585 816 tonnes in January and 682 946 tonnes in December 1991. Tightness in the palm oil market was also experienced in Indonesia, the world's second most important producer of palm oil. Stocks in Indonesia also ran low, causing the government to intervene by suspending or delaying export contracts in order to maintain adequate supplies for local consumption and to arrest further local price rises. Malaysia benefited from this situation with a gain in its market share, but this will be limited by our own dwindling stocks and the reaction of importers to the price increase. Already, China has reacted by revising her purchase plan downwards and becoming a reserved buyer. Not only that, China also became a vigorous reseller in the light of recent official statistics showing a better-than-expected domestic oilseed production.

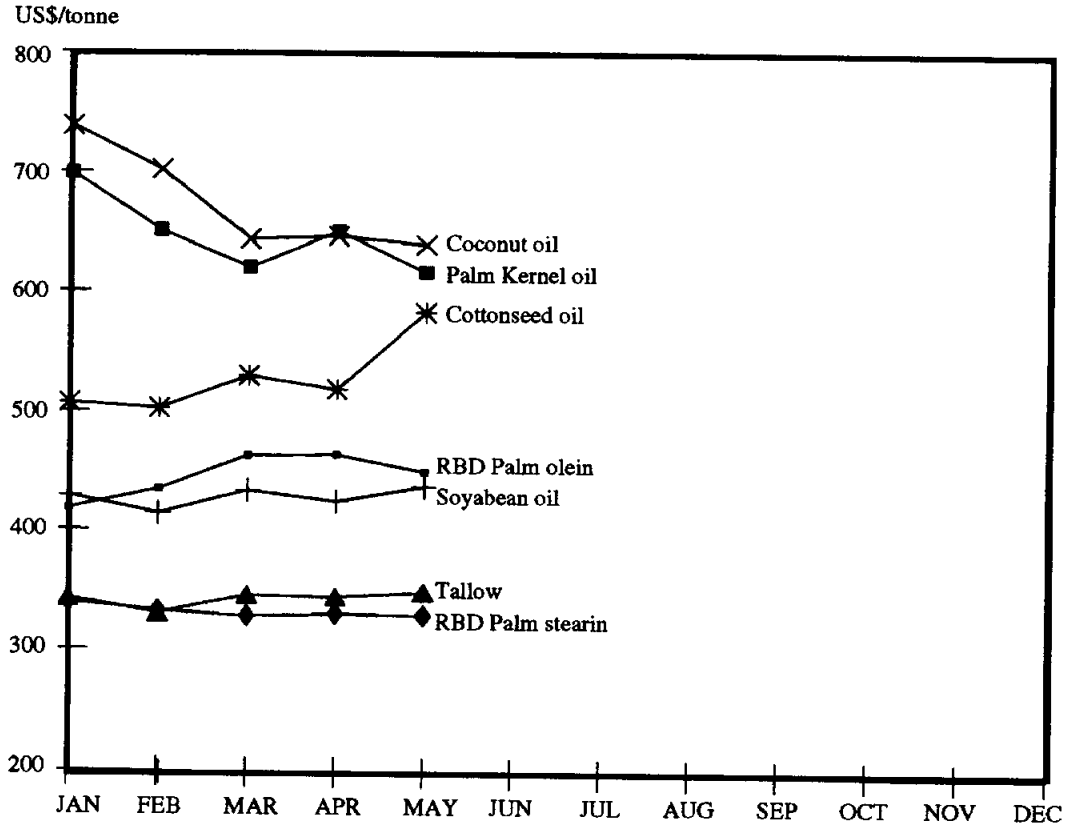

Figure 2. Prices of Selected Oils and Fats 1992

On the lauric oil scene, palm kernel oil, like the other palm oil products, showed price improvements during January to May by comparison with both the first quarter and the whole of last year. The average price during the period was US$648 per tonne (cif Rotterdam) against only US$339 per tonne a year earlier and the average price of US$417 per tonne for the whole of 1991. However, the average price in May this year was US$617 per tonne, down from US$699 per tonne in January, following a similar trend for coconut oil prices, which eased to average US$640 per tonne in May from US$738 per tonne in January. The price behaviour of lauric oils seems to be contrary to the movement of other oil prices and is somewhat puzzling in view of the fact that the Philippines was also affected by El Nino, and prospects for improved production and export of coconut oil are, accordingly, not very good.

The lauric oil price rally during the second half of last year was due to the impact of the Mount Pinatubo disaster in the Philippines. The rally started in June last year and finished in January 1992. The prices of palm kernel and coconut oils reached US$699 per tonne (cif Rotterdam) and US$738 per tonne, for the month respectively. After January, prices retreated to the lower averages for May of US$617 per tonne and US$640 per tonne for palm kernel and coconut oils respectively, indicating some recovery in production of coconut oil after the Mount Pinatubo shock. Between January and May, some price adjustments occurred due to stock fluctuations. Stocks of palm kernel oil were at 50 217 tonnes in April, up from 48 357 tonnes in March. However the March stock figure was considered low, which forced palm kernel oil prices up to US$651 in April. When the stock level recovered in April, the May price adjusted down to US$617 per tonne.

Like other palm oil products, RBD palm stearin showed a price increase in the first five months of 1992. The average price (cif Rotterdam) for the period was US$332 per tonne, against US$281 per tonne in the same period last year. It was even higher than last year's average price of US$294 per tonne.

After enjoying price competitiveness for the past several years, palm oil has become more expensive than soyabean oil again. The last time this occurred was in 1987 and 1988, when RBD palm olein was at premiums of US$56 per tonne and US$8 per tonne respectively over soyabean oil. RBD palm olein was at a discount for the next three consecutive years, 1989-1991. By February 1992, RBD palm olein was again at a premium to soyabean oil, at US$21 per tonne. The price spread averaged US$19 in favour of RBD palm olein owing to high off-take and low stocks. The spread increased to a maximum of US$40 per tonne in April from US$21 per tonne in February and started to narrow in May, reaching US$13 per tonne.

RBD palm olein was sold at a discount to cottonseed oil since 1985. However, the discount narrowed by more than 50% from US$336 per tonne in 1990 to only US$186 per tonne in 1991, and in the first five months of 1992 it averaged only US$81 per tonne. The narrowing of the discount shows that RBD palm olein can be substituted for cottonseed oil, which is becoming less competitive.

There was a wide price spread between palm kernel oil and coconut oil in favour of the latter during the first five months of this year, by contrast with the situation in the same period last year, when palm kernel oil was at an average premium of US$5 per tonne. This year it was at an average discount of US$26 although it commanded a premium for a short time during January and again in April.

RBD palm stearin was sold at an average price of US$10 below that of tallow during January to May. However, RBD palm stearin was more competitive than in the same period last year when it was at an average discount of US$46 per tonne to tallow. Last year, RBD palm stearin was sold at an average discount to tallow of US$57 per tonne.

The general tightness in the world oils and fats market is likely to benefit Malaysian palm oil producers. Prices are expected to be better this year for all oils, and while the supply of other oils is likely to remain constricted, that of Malaysian palm oil is expected to increase. PORIM forecasts the total production of crude palm oil this year at 6 755 009 tonnes, compared with the realized production of 6 141 353 tonnes last year, for an increase of 10 per cent. This increase is expected, because of a rise in yield following the recovery of the palms from last year's drought in many areas. In addition, more areas will enter maturity this year. However, the first five months of the year have shown only a modest increase of production of 5% year-on-year, and the achievement of the expected 10% increase will depend on performance in June and the second half of the year.

In view of the current tightness in the world oils and fats market, with higher demand and lower-than-expected supply, Malaysian palm products will continue to enjoy favourable prices. Considering the increase in both output and prices, Malaysian producers are expected to net a higher revenue from palm oil sales, and hence Malaysia will earn more foreign exchange from this source. The better price spreads between palm oil and palm oil products relative to other oils are not expected to affect sales significantly in the short term. The improvement of price spread is good for the image of palm oil by showing the world that it is as good as any other oil if not better.

(For more information please contact Mohd Nasir Hj. Amiruddin or Mohd Noor Mamat, TE&TAS Division, PORIM).

ERRATA

Palm Oil Developments No. 16 (March 1992)

Page	Line	Should read
10	5	Some of the *useful blends are shown below, with their solid fat contents.*

Palm Oil Developments No. 15 (September 1991)

Table 5. (pg. 6)	should read :"COLD STABILITY OF *DOUBLE* - FRACTIONATED PALM OLEIN (IV60 AND IV65) AND BLENDS WITH CANOLA OIL
Table 6. (pg. 6)	Last column, first line should read: IV65 10 - 15 days
pg. 2	Third Author of Paper : Flingoh Oh