

Prices

The prices of palm oil and palm products were higher during 1992 when compared to the previous year. The average price for palm oil (CIF Rotterdam) was US\$391/tonne in 1992 compared to US\$333/tonne in the previous year. The average price for RBD palm oil (FOB Malaysia) too has increased to US\$376/tonne from US\$320/tonne. Increases in prices could also be observed in other palm products such as RBD palm olein and stearin (CIF Rotterdam) and palm kernel oil (CIF Rotterdam). During the first ten months of 1992 their prices averaged US\$447/tonne for olein, US\$344/tonne for stearin and US\$590/tonne for palm kernel oil compared to US\$391, US\$285, and US\$385 respectively for the same period in the previous year.

The prices of these products rallied across the board towards the end of 1991 (*Figure 1*). These trends, except that of lauric oils, continued to increase until October 1992 and showed major price improvements as compared to January and the same month of 1991 (*Figure 2*). For example, RBD palm stearin's past price trend continued to increase in 1992 with major improvement observed at the later part of the year. A similar picture could also be observed for palm olein's price movement, where a major improvement was observed in October at US\$452/tonne compared to US\$418/tonne in January. Tallow also has the same scenario. However, the price movement of soyabean oil has shown that the oil is facing a critical year during 1992. The price average for January to October went down to US\$427/tonne from US\$454/tonne for the same period in 1991. In 1992, its price was high in June at US\$456/tonne, and low at beginning and later part of the year (*Figure 2*).

The increases in the prices of palm oil and palm oil products followed the general behaviour of the prices of other oils and fats, which resulted from the global shortage in stocks. A moderate increase in production, with a high off-take and low stocks in Malaysia since October 1991 have pushed palm oil prices upward. For the first ten months of 1992, production was reported at 5 289 022 tonnes, showing a moderate increase of only about 1% from last year's production during the same period. As at October 1992, stocks averaged 528 261 tonnes, very much less than 661 183

tonnes, the average stocks for the same period of 1991. On a month-to-month basis, the effect of stocks on prices could be seen more clearly. The stocks, at one time, dropped to 398 053 tonnes in June 1992 from 585 816 tonnes in January. Since prices are negatively related to stocks, they rose to US\$465/tonnes in June from US\$418/tonne in January for RBD palm olein, to US\$389/tonne from US\$357/tonne for RBD palm oil, to US\$404/tonne from US\$383/tonne for palm oil (cif Rotterdam) and to US\$357/tonne from US\$339/tonne for RBD palm stearin.

Tightness in the palm oil market was also experienced in Indonesia, the world's second most important producer of palm oil. Stocks in Indonesia for the first half of 1992 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 dwindling stocks and the reaction of importers to the price increases. Already, China has reacted by revising her purchase plans 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.

However, as the stocks rebounded again starting July due to an increase in local production (September was the peak production month), the prices of palm oil and palm products were affected and they went down slightly in October 1992. As such, Malaysia re-gained its market share due to the drop in prices.

On the lauric oil scene, palm kernel oil, like the other palm oil products, showed major price improvements during January to October 1992, compared to the same period in 1991. As mentioned earlier, its average price during that period was US\$590/tonne (CIF Rotterdam) against only US\$385/tonne during the same period last year or against US\$417/tonne for the whole of last year (*Table 3*). Although its average price shows improvement, its price movements in 1992 are trending downwards. The average price, which started with a high note at US\$699/tonne in January,

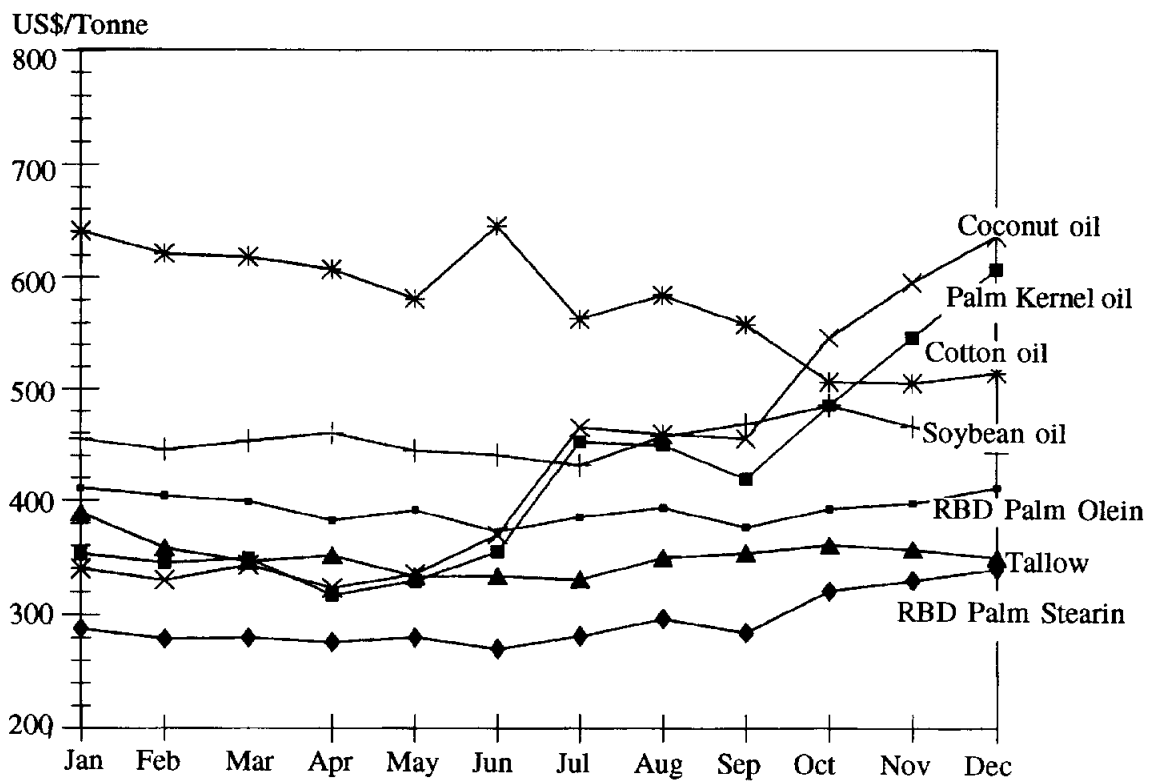


Figure 1. Prices of Selected Oils and Fats 1991.

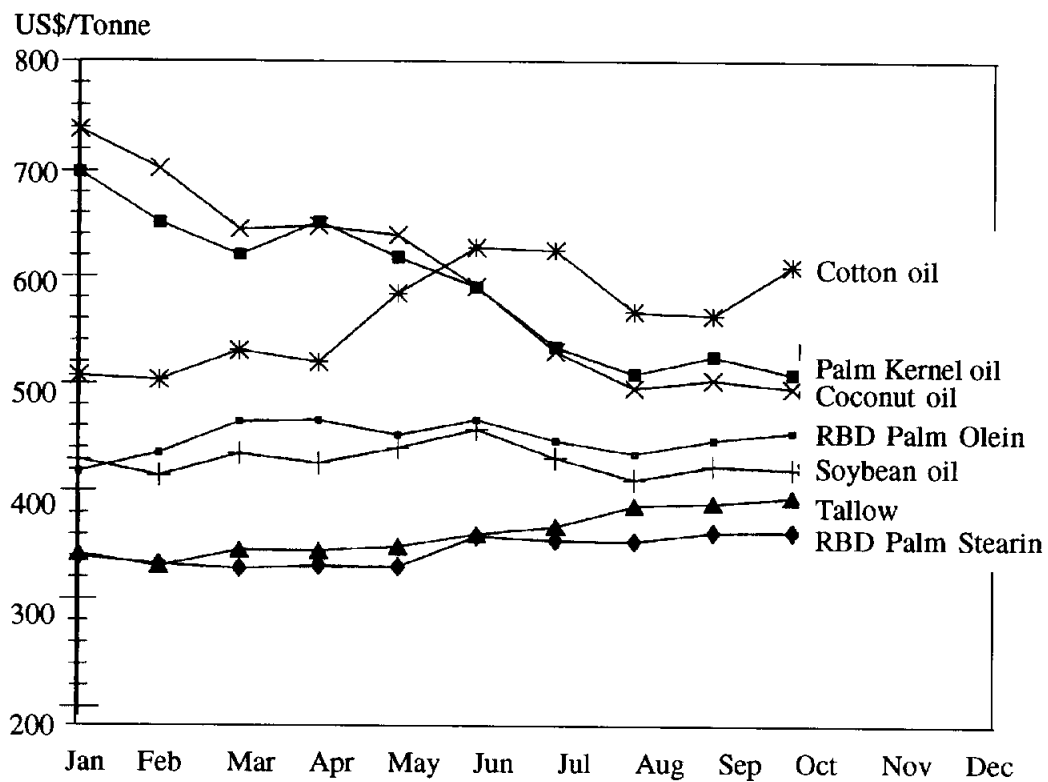


Figure 2. Prices of Selected Oils and Fats 1992.

declined towards October at US\$506/tonne (*Figure 2*). A similar trend for coconut oil prices was also observed where the price in October was US\$493/tonne, down from US\$738/tonne. 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 improvement in production and export of coconut oils are accordingly, not very good.

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/tonne and US\$8/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/tonne. The spread increased to a maximum of US\$40/tonne in April from US\$21/tonne in February and started to narrow in June, reaching US\$9/tonne. It widened again in July and became bigger towards October at US\$34/tonne. This makes this year's average spread at US\$20/tonne in favour of palm olein.

RBD palm olein has been sold at a discount to cottonseed oil since 1985. However, this discount narrowed by more than 50% from US\$336/tonne in 1990 to only US\$186/tonne in 1991, and in the first ten months of 1992 it averaged only US\$110/tonne. The narrowing of the discount shows that RBD palm olein can be substituted for cottonseed oil, which is becoming less competitive.

The spread between palm kernel oil and coconut oil was smaller in 1992 when compared to the

previous year. Palm kernel oil was sold at an average discount of US\$7/tonne until October 1992, whereas the discount used to be at US\$12/tonne during the same period in 1991. The average spread narrowed down because palm kernel oil was being sold at premium for most of 1992. Thus the performance of palm kernel oil price was much better in 1992 when compared with 1991.

In the case of RBD palm stearin, it was sold at an average of US\$16/tonne below that of tallow during January to October 1992. This was a repetition of the previous year but at a much lesser discount. During the same period in 1991, the discount was as large as US\$67/tonne. The smaller discount reflects the competitiveness of RBD palm stearin over tallow in 1992.

In general palm oil and palm oil products were more competitive in 1992 when compared to 1991. The above paragraphs have shown comparisons between palm oil and its products against other oils and fats. All these comparisons showed better performances by palm oil and palm oil products against other oils and fats. As such palm oil and palm oil products became more competitive and were used to substitute other oils and fats.

Malaysian palm oil producers have benefited from the competitiveness of palm oil and palm oil products during 1992. While the supply of other oils and fats remained tight, that of Malaysian palm oil had increased until November 1992. Furthermore, this situation happens when prices of palm oil and its products are in good prospects.

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