

1994 and 1995 Prices of Palm Oil and its Products

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Palm oil and its products have set another record in the history of oils and fats by being bullish in 1994. The last time they performed well was in 1984 (*Figure 1*). Within this ten-year period, they were bearish in 1986 and another time in 1990. In the former, prices of all selected oils and fats, including palm oil, were low due to an oversupply of oils and fats in the world market. The scenario in 1990, however, was quite different since the palm products did not perform well when compared to other oils and fats, resulting in wide discounts between them. Only in 1991 did these palm products show any recovery when their prices increased steadily until 1994 to set a new 10-year high record (*Figure 2*). In spite of this, their growth stopped temporarily in 1993 as their prices dropped, affecting their own performance; otherwise there would have been a smooth price trend for palm oil and its products from 1990 to 1994.

The high average prices of palm oil and its products in 1994 reflected their good performances during the year. The CIF price of RBD palm olein was about US\$604 per tonne in 1994 compared to US\$434 per tonne in 1993, reflecting an increase of about 39% (*Table 1*). The olein achieved this price after growing monthly at a rate of about 4.74%. In the case of palm kernel oil, its price at Rotterdam grew monthly at 2.8% to reach US\$629 per tonne in 1994 from US\$437 per tonne in 1993 (an increase of about 44%). The price of RBD palm stearin had an increment of about 24% during 1994 to reach US\$460 per tonne. Its monthly growth rate was the highest of all the oils and fats (6.34%). The crude palm oil price at the Rotterdam market had similarly increased by about 40% in 1994. The equivalents of these palm products such as soya bean oil, cottonseed oil, coconut oil and tallow, also increased during the year but at lower rates than those of the palm products.

The competing prices of palm oil and its products against their equivalents in 1994 had narrowed down the price gaps among them (*Table 1*). As a result, the discounts between the price of RBD palm olein (CIF) and that of soya bean oil at Rotterdam (FOB) had dropped to US\$12 per tonne in 1994 from US\$44 per tonne in 1993. In comparison with cottonseed oil at the Rotterdam market, its discount also dropped to US\$135/tonne in 1994 from US\$274 in the previous year. For lauric oils, palm kernel oil (CIF) became more expensive than coconut oil (CIF) by US\$21 per tonne in 1994, compared to the discount of US\$13

in 1993. In the case of palm stearin, its premium over tallow increased further to US\$9 per tonne in 1994 from US\$3 in 1993.

Palm oil and its products were weak in the first half of 1994, resulting in big gaps in prices, especially between RBD palm olein (CIF) and soya bean oil (FOB) and between olein and cottonseed oil (CIF). The weakness was caused by the large volume of palm oil in stock in Malaysia at the beginning of the year (1.17 million tonnes). This was the spill-over effect of the bumper crop production in 1993 that resulted in an over-production during the year. This effect carried into 1994, however, lasted for only a few months as the stocks declined drastically to about 450 000 tonnes in May 1994. By this time, Malaysia and consequently the world, already felt the tightness in supply as a result of the stress on the Malaysian trees after over-producing in the previous year. At the same time, the world also felt a tight supply situation of other oils and fats and higher demand for palm products. This gave a basis for the prices of palm products to recover and to keep on rising towards the end of year to become premiums to their counterparts (*Table 1*). *Figure 3* clearly illustrates graphically the performances of these palm products in comparison with other oils and fats. The prices of these oils and fats were wide apart at the earlier part of the year but, after recovery, they rallied to taper and to narrow down their gaps towards the end of 1994.

The good performances of the palm products in the second half of 1994 continued into the first half of 1995 (*Figure 2*). This means that they even performed better in 1995 than in 1994. As a result they averaged higher than their own averages during the same period of 1994 and higher than their own 1994 averages (*Table 1*). With the exception of cottonseed oil, their equivalents too improved their own performance in price development by being higher than their own prices in 1994 either during the first six months' period or the whole year.

The differences in prices showed that prices of palm oil and its products were higher than their own equivalents. RBD palm olein was sold higher than soya bean oil by US\$76 per tonne during the first six months of 1995 while being cheaper in the previous year. When sold at Rot-

TABLE 1. PRICES OF SELECTED OILS AND FATS (US\$/Tonne)

Products	RBD Palm Olein (CIF) (Rott) (1)	Soya bean 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)	Coconut (CIF) (Rott)	Spread (4)-(5) +Premium -Discount	RBD Stearin (CIF) (Rott) (6)	Tallow (CIF) (Rott) (7)	Spread (6)-(7) +Premium -Discount	RBD Palm oil (FOB) (Rott) (8)	Palm oil (CIF) (Rott) (9)
1984	786	724	836	62	-50	1037	1155		-118	595	531	64	750	729
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	280	290
1991	393	454	579	-61	-186	417	433		-16	294	351	-57	323	339
1992	449	429	579	20	-130	571	578		-7	349	366	-17	379	394
1993	434	478	708	-44	-274	437	450		-13	370	367	3	370	378
1994	604	616	739	-12	-135	629	608		21	460	451	9	531	528
Jan (1994)	462	602	863	-140	-401	567	595		-28	367	385	-18	399	404
Feb	469	577	823	-108	-354	546	573		-27	363	387	-24	396	387
Mar	457	588	805	-131	-348	532	539		-7	360	383	-23	402	395
Apr	518	584	772	-66	-254	565	560		5	381	383	-2	444	434
May	572	594	793	-22	-221	619	599		20	391	396	-5	491	488
Jun	596	571	749	25	-153	623	608		15	411	415	-4	513	508
Jul	587	560	668	27	-83	590	579		11	423	426	-3	508	494
Aug	666	600	672	66	-6	625	596		29	454	449	5	581	575
Sep	708	672	672	36	36	679	622		57	484	499	-15	610	614
Oct	688	642	644	46	44	684	621		63	527	509	18	606	616
Nov	768	706	705	62	63	766	706		60	656	549	107	713	707
Dec	754	693	701	61	53	756	692		64	708	628	79	703	719
Avg (Jan-June)	512	586	801	-74	-289	575	579		-4	379	392	-13	441	436
Avg (Jan-Dec)	604	616	739	-12	-135	629	608		21	460	451	9	531	528
Avg. monthly Change(%)	4.74	1.44	-1.75			2.8	1.53			6.34	4.66		5.48	5.59
Jan(1995)	693	674	706	19	-13	666	622		44	646	603	43	649	655
Feb	730	663	675	67	55	666	636		30	629	516	113	674	661
Mar	763	652	674	111	89	669	632		37	622	518	104	705	687
Apr	710	610	631	100	79	616	619		-3	543	504	39	634	625
May	681	595	620	86	61	612	616		-4	511	485	26	610	611
Jun	684	611	663	73	21	669	668		1	553	504	49	622	631
Avg(Jan-June)	710	634	662	76	48	650	632		18	584	522	62	649	645

RBD Palm Olein, Mal. CIF Rott; Soya bean Oil, Dutch FOB ex-mill; Cottonseed Oil, US, PESY, 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

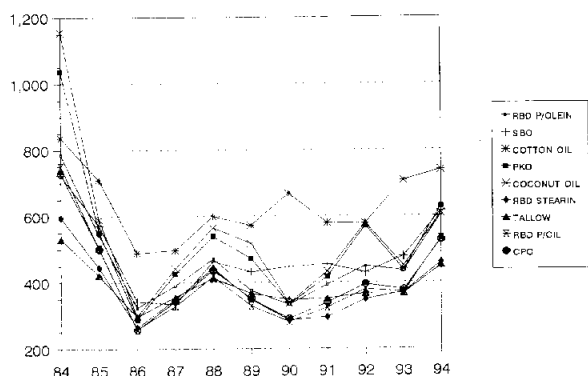


Figure 1. Prices of selected oils and fats (1984-1994).

terdam market during this period, it was also more expensive than cottonseed oil by US\$49 per tonne, compared to big discounts in the previous year. Palm kernel oil and RBD palm stearin continued to be dearer than their equivalents this year than last year.

Although the prices of these palm products (and their equivalents) were much better than previously, they were actually decreasing every month. The prices of RBD palm olein, soya bean oil and cottonseed oil dropped monthly at 0.15%, 1.9% and 1.14% respectively while RBD palm stearin and tallow at much higher rates of 2.8% and 3.3% respectively. The monthly declining prices of palm products were in accordance with the rising stocks of Malaysian palm oil. The average stocks level of palm oil from January to June 1995 (671 161 tonnes) had already exceeded last year's level of 619 388 tonnes (Table 2). Only the price of lauric oils increased during this period, i.e. price of palm kernel oil rose at 0.24% monthly and that of coconut oil by 1.5%. The growth in price of palm kernel oil was due to the high local consumption of the oil in the Malaysian oleochemical industry. In the case of coconut oil's price, it increased monthly due to an expected drop in world production of coconut oil as a result of less favourable precipitation in producing countries, especially the Phillipines.

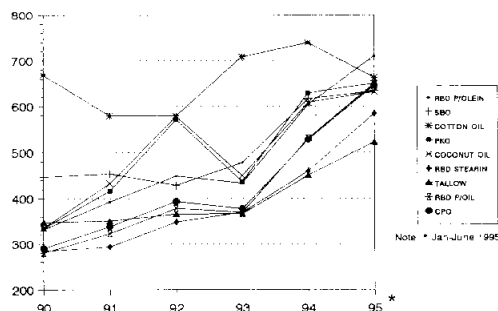


Figure 2. Prices of selected oils and fats (1990-1994).

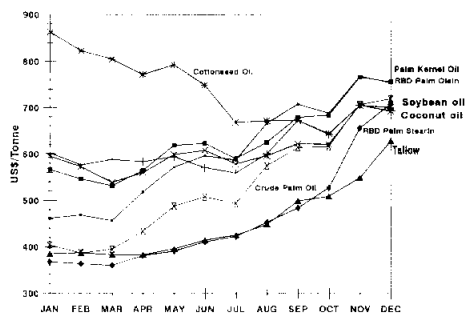


Figure 3. 1994 Prices of selected oils and fats.

For the second half of 1995, it is most likely that the stocks of palm oil will recover. Since production from South East Asia has now started its seasonal rise, it is unlikely that demand can absorb the robust production growth of palm oil. Stocks of other vegetable oils are also expected to rise as world production grows faster than demand in the major producing and consuming countries. Therefore the prices of palm products are expected to drop slightly in the second half of 1995.

However, weather conditions may change this scenario. The delayed plantings of this year's soya bean crop in several growing areas are likely to have a negative impact on yields. There is a possibility of frost damage later this year, as freezing conditions might be experienced in several mid-western and northern areas of USA before full maturity has been reached.

TABLE 2. THE MONTHLY BALANCE OF MALAYSIAN PALM OIL IN 1995 ('000 Tonnes)

Variables	January	February	March	April	May	June	Total/Average
Opening Stocks	750	808	715	701	665	566	701
Production	617	529	572	581	580	611	3490
Imports	1	4	15	9	2	5	36
Total Supply	1368	1341	1302	1291	1247	1182	4092
Local Disappearance	107	101	66	86	159	83	602
Exports	453	525	535	540	522	528	3103
Total Demand	560	626	601	626	681	611	3705
Closing Stocks	808	715	701	665	566	571	671