

Price Scenario in 2000 and Prospects in 2001

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The prices of selected oils and fats were generally low at the beginning of the year 2000 and continued to decline (for the second consecutive year) to register the lowest prices since 1998, the last peaked year recorded by these oils and fats (*Table 1*). One of the main reasons for the low prices in 2000 was the oversupply of oils and fats in the world market, due mainly to the supply situation of palm oil and soyabean oil. The world palm oil production increased from 20.5 million tonnes in 1999 to 21.6 million tonnes in year 2000. The Indonesian share of production had increased from 30% in 1999 to 32% in year 2000 while the Malaysian share dropped slightly from 51% to about 50% during this period (*Table 2*). Thus, Indonesian palm oil again provided serious competition to Malaysian palm oil in the world market during the year 2000. On the other hand, soyabean oil production increased from 24.7 million tonnes in 1999 to 25.4 million tonnes in 2000. Overall, the total production of oils and fats in 2000 increased by 5.0 million tonnes (*i.e.* by 4.6%) from the

previous year. This overall increase in production was actually higher than the average increase in production in the past which had been in the range of 2 to 3 million tonnes. This situation could have been a bearish factor for oils and fats prices in 2000.

Prices of palm products fell significantly by as high as -36% in the case of palm kernel oil and -23.5% in the case of RBD palm stearin (*Table 1*). The price of soyabean oil dropped by -21% from US\$ 427 t⁻¹ in 1999 to

TABLE 1. ANNUAL PRICES OF SELECTED OILS AND FATS (US\$ t⁻¹)

Year	RBD palm olein (CIF) (Rott) (1)	Soya-bean (FOB) (Rott) (2)	Cotton-seed oil (CIF) (Rott) (3)	Spread* (1)-(2)	Spread* (1)-(3)	Palm kernel oil (CIF) (Rott) (4)	Coconut oil (CIF) (Rott) (5)	Spread* (4)-(5)	RBD palm stearin (CIF) (Rott) (6)	Tallow (CIF) (Rott) (7)	Spread* (6)-(7)	RBD palm oil (FOB) (M'sia) (8)	Palm oil (CIF) (Rott) (9)
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
1995	694	632	665	62	29	678	665	13	573	522	51	634	636
1996	581	552	595	29	-14	728	752	-24	450	506	-56	505	531
1997	605	565	613	40	-8	652	657	-5	466	529	-63	529	546
1998	710	626	718	84	-8	687	658	29	548	466	82	632	671
1999	491	427	563	64	-72	694	737	-43	358	361	-2.6	411	436
2000	349	338	489	11	-140	444	450	-7	274	290	-16	285	310
Change 1999/00:													
%	-28.9	-20.8	-13.1			-36.0	-38.9		-23.5	-19.7		-30.7	-28.9
US\$	-142	-89	-74			-250	-287		-84	-71		-126	-126

Notes: 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.

*+ = premium.
- = discount.

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TABLE 2. WORLD PRODUCTION OF OILS AND FATS ('000 t)

	1999 (%)	2000 (%)
Production of Palm Oil:	20 526	21 591
Malaysia (share of total production)	10 554 (51)	10 842 (50)
Indonesia (share of total production)	6 250 (30)	6 900 (32)
Exports of Palm Oil (yearly growth):	13 815	14 922 (8)
Malaysia	8 914	9 081
Indonesia	3 319	4 140
World Production of Soyabean Oil	24 732	25 380
World Production of Oils and Fats (yearly growth):	109 120	114 164 (4.6)

Source: Oil World Annual (2000).

US\$ 338 t⁻¹ in 2000 while cottonseed oil's price declined by -13.1% after declining from US\$ 563 t⁻¹ in 1999 to US\$ 489 in

year 2000. It can be seen that between palm olein, soyabean oil and cottonseed oil, the former had led the others in the price drop. The

prices of the two lauric oils, namely coconut oil and palm kernel oil, had declined by -38.9% and -36% respectively. RBD palm stearin registered a bigger price drop (-23.5%) than that of tallow (-19.7%). From the above, it can be seen that most palm products had led the other oils and fats in the 2000 price drop.

In year 2000, the price of RBD palm olein competed very closely with that of soyabean oil. The smaller spread of US\$ 11 t⁻¹ in 2000 (*Table 1*) indicated this close competition as bigger spreads were observed in 1998 and 1999. This meant that RBD palm olein was still sold at higher prices than that of soyabean oil in 2000, albeit at a

TABLE 3. MONTHLY PRICES OF SELECTED OILS AND FATS (US\$ t⁻¹)

Months	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Avg. (Jan-Mar)	Avg. (Jan-Dec)	Chg. (Jan-Dec)
2000															
RBD palm olein (1)	394	373	387	409	369	360	354	342	323	297	295	285	385	349	-109
Soyabean oil (2)	371	357	362	368	340	328	340	329	312	313	316	321	363	338	-50
Cottonseed oil (3)	501	493	513	555	522	501	473	466	469	459	460	457	502	489	-44
Spread (1)-(2)*	23	16	25	41	29	32	14	13	11	-16	-21	-36	21	11	-
Spread (1)-(3)*	-107	-120	-126	-146	-153	-141	-119	-124	-146	-162	-165	-172	-118	-140	-
Palm kernel oil (4)	628	580	556	557	483	436	401	366	326	318	354	317	588	444	-311
Coconut oil (5)	654	591	552	550	481	437	400	371	332	340	367	329	599	450	-325
Spread (4)-(5)*	-26	-11	4	7	2	-1	1	-5	-6	-22	-13	-12	-11	-7	-
RBD palm stearin (6)	298	285	305	322	295	295	276	265	239	210	240	256	296	274	-42
Tallow (7)	339	309	306	294	294	289	269	266	275	281	269	292	318	290	-47
Spread (6)-(7)*	-41	-24	-1	28	1	6	7	-1	-36	-71	-29	-36	-22	-16	-
RBD palm oil (8)	328	311	323	344	305	301	291	277	259	229	235	216	321	285	-112
Palm oil (9)	348	332	349	372	324	315	312	306	288	255	257	265	343	310	-83
2001															
RBD palm olein (1)	277	267	292										279		
Soyabean oil (2)	306	302	328										312		
Cottonseed oil (3)	441	424	447										437		
Spread (1)-(2)*	-29	-35	-36										-33		
Spread (1)-(3)*	-164	-157	-155										-159		
Palm kernel oil (4)	304	269	281										285		
Coconut oil (5)	319	285	290										298		
Spread (4)-(5)*	-15	-16	-9										-13		
RBD palm stearin (6)	244	243	244										244		
Tallow (7)	335	275	272										294		
Spread (6)-(7)*	-91	-32	-28										-50		
RBD palm oil (8)	215	205	234										218		
Palm oil (9)	254	240	215										236		

Notes: 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.

* + = premium, - = discount.

Source: Oil World Annual (2000).

reduced spread. However, olein lost to cottonseed oil by US\$ -140 t⁻¹ in 2000 and this discount was bigger than the discount in 1999 (US\$ -72) and in 1998 (US\$ -8).

The prices of all these selected oils and fats had generally been on a downturn from January to December of 2000 (*Table 3*). It is clear that these prices spread more widely at the beginning of the year than at the end of the year. They were also found to be higher in the first half than in the second half of the year. The low prices in the second half had pulled down the price averages for the year. Among these oils and fats, cottonseed oil, soyabean oil, stearin and tallow seemed to have quite stable price trends with less fluctuations during the year (last column of *Table 3*). The prices of other palm products such as RBD palm olein, palm kernel oil, RBD palm oil and coconut oil indicated wider variations. For example, the price of olein dropped by US\$ -109 t⁻¹ from US\$ 394 t⁻¹ in January to US\$ 285 t⁻¹ in December (*Table 3*). In the case of palm kernel oil and coconut oil, each registered a drop of more than US\$ 300 t⁻¹ during the year.

Oils and fats continued to maintain low prices in the first quarter of 2001, although there

was a slight improvement in prices in March compared to February (*Table 3*). However, the average prices of oils and fats during the first quarter of the year were much lower than their respective average prices in the same quarter of the previous year. This implies that oils and fats did not have an improvement in prices based on their performance in the first quarter of 2001, compared to that of the previous year.

Table 3 also shows that palm products had been out performed by their respective competitors in the first quarter of 2001 as all of them were discounted. The spread between RBD palm olein and soyabean oil in the first quarter of 2001 was US\$ -33 t⁻¹ compared to a premium of US\$ 21 in the same quarter of 2000 or a premium of US\$ 11 t⁻¹ for the whole of last year. Olein also lost to cottonseed oil by US\$ -159 t⁻¹ in the first quarter of 2001. It was discounted by US\$ -118 t⁻¹ in the same quarter of 2000. RBD palm stearin was sold US\$ 50 cheaper than tallow in January to March of 2001 compared to a discount of US\$ 22 t⁻¹ in the same quarter of 2000. In addition, palm kernel oil was also sold cheaper than coconut oil. Generally, bearish sentiments

prevailed in the first quarter of 2001 and thus oils and fats, especially palm products, were affected and sold cheaper than the others.

Will the bearish situation continue to prevail in the other quarters of 2001? If we let the data *speak for itself*, past patterns could be used to determine the future direction of price. A study shows that if this were allowed to happen price of palm oil would continue to maintain at the current level in the coming quarters of 2001. However, for Malaysian palm oil, its future price could also depend on the government efforts to counter and improve the low price scenario for palm oil. The Malaysian Government's long-term and short-term strategies, such as the oil palm replanting scheme, CPO burning and biodiesel projects are all aimed at improving the price scenario for palm oil. Through these government interventions, it is anticipated that stocks and the production could be reduced, thus increasing the price of palm oil.

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