

Price Scenario of Selected Oils and Fats in 2002 and 2003

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It is a well-known fact that prices of oils and fats in the world market are very volatile. Prices fluctuate in a manner that reflects the supply and demand situations in the world. Any shortage will lead to an increase in prices and any surplus may result in a fall. As reflected in *Table 1*, there is clear evidence of the variability of these price movements in the past. The price of refined bleached deodorized (RBD) palm olein, for instance, showed a rising trend in the long-term from US\$ 332 t⁻¹ in 1990 to US\$ 426 t⁻¹ in 2002. However, the price fluctuated yearly in a random fashion depending on the world demand and supply of oils and fats during the period. Other oils and fats also behaved in the same manner, as indicated in *Table 1*.

The development of prices of selected oils and fats during recent years is shown in *Figure 1*. The prices declined in 2001 from 2000 and later increased gradually until early 2003 (January-April). With the exception of cottonseed oil, the prices formed a bandwidth in which they moved together in the same direction, resulting in higher prices in 2003 (January-April) than in 2000. In the case of the cottonseed oil price, it was the leader in the price increase as its price increased at a significantly faster rate than the prices of the other oils and fats. It was worth US\$ 489 t⁻¹ in 2000, US\$ 556 t⁻¹ in 2002 and US\$ 1097 t⁻¹ in 2003. Hence, it was alone in the price race, leading that of other oils.

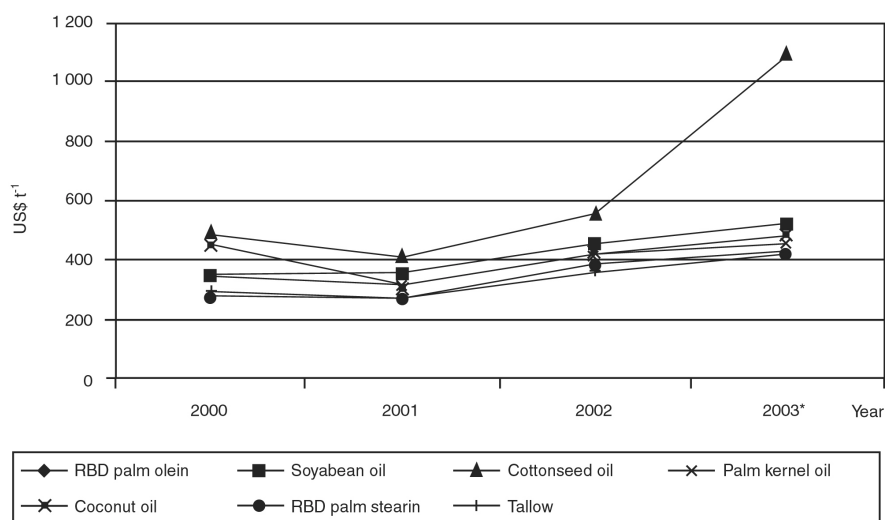
Generally, all prices improved in 2003 compared with the previous year. All prices averaged higher for the first four months of 2003 both during the same period of 2002 and during the whole of 2002. RBD palm olein average price for 2003 was US\$ 476 t⁻¹ compared to US\$ 377 t⁻¹ during the same period of 2002 and US\$ 426 t⁻¹ during the whole of 2002 (*Table 1*).

Palm kernel oil and stearin were also sold at much higher prices in 2003 (January-April) than in 2002 (either for the same period or the whole of 2002).

A much clearer picture can be seen in *Figure 2* which illustrates monthly developments of these prices in 2002 and 2003 (until April). It can be seen that all prices were more or less at the same competitive levels for the period of January 2002 to July 2002 as they demonstrated unity or closeness with one another during the period. They tended to move together with

no sign of deviations. However, starting from August 2002, the price of cottonseed oil started to deviate to become an outlier in the group. The soyabean oil price also attempted to break away from the group but managed to do so only for a short time until the end of 2002 after which it rejoined the group, leaving the cottonseed oil price on its own until April 2003.

The close relationship of these prices can be measured in terms of their spreads at certain points in time, indicating either a premium or a discount. Here, we are comparing palm products with other oils and fats in their respective groups for the purpose of comparing their performance with the others. This can be achieved by analysing *Table 1* again, which contains columns showing the differences in price between RBD palm olein and soyabean oil, RBD palm olein and cottonseed oil, palm kernel oil and



Note: * January - April.

Figure 1. Annual prices of selected oils and fats (2000-2003).

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

Products	RBD palm olein	Soya-bean oil	Cottonseed oil	Spread (1)-(2)	Spread (1)-(3)	Palm kernel oil	Coconut oil	Spread (4)-(5)	RBD palm stearin	Tallow	Spread (6)-(7)	RBD palm oil	Palm oil
Year	(CIF) (Rott)	(FOB) (Rott)	(CIF) (Rott)	+Premium -Discount	+Premium -Discount	(CIF) (Rott)	(CIF) (Rott)	+Premium -Discount	(CIF) (Rott)	(CIF) (Rott)	+Premium -Discount	(FOB) (M'sia)	(CIF) (Rott)
	(1)	(2)	(3)			(4)	(5)		(6)	(7)		(8)	(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	-3	411	436
2000	349	338	489	11	-140	444	450	-6	274	290	-16	285	310
2001	317	354	414	-37	-97	308	318	-10	264	324	-60	259	286
2002	426	454	556	-28	-130	416	421	-5	376	360	16	375	390
2002													
Jan	385	389	408	-4	-23	339	362	-23	306	312	-6	327	338
Feb	369	358	408	11	-39	359	376	-17	302	299	3	312	330
Mar	374	353	420	21	-46	358	366	-8	313	309	4	320	338
Apr	379	370	431	9	-52	411	411	0	330	314	16	329	349
May	402	397	443	5	-41	419	420	-1	363	315	48	352	371
June	442	438	462	4	-20	441	446	-5	427	400	27	393	411
July	430	470	474	-40	-44	438	445	-7	405	385	20	384	406
Aug	463	503	579	-40	-116	440	443	-3	413	384	29	414	425
Sept	430	494	556	-64	-126	412	410	2	390	385	5	390	400
Oct	443	517	595	-74	-152	430	434	-4	392	379	13	394	408
Nov	480	577	851	-97	-371	456	457	-1	428	404	24	431	442
Dec	503	585	1 043	-82	-540	487	482	5	442	438	4	450	465
Average:													
Jan-Apr	377	368	417	9	-40	367	379	-12	313	309	4	322	339
Jan-Dec	426	454	556	-28	-130	416	421	-5	376	360	16	375	390
2003													
Jan	500	535	1 107	-35	-607	498	494	4	441	455	-14	449	458
Feb	493	521	1 115	-28	-622	474	477	-3	438	416	22	441	452
Mar	462	508	1 105	-46	-643	436	441	-5	417	419	-2	411	426
Apr	448	524	1 060	-76	-612	406	421	-15	396	400	-4	401	412
Average:													
Jan-Apr	476	522	1 097	-46	-621	454	458	-5	423	423	1	426	437

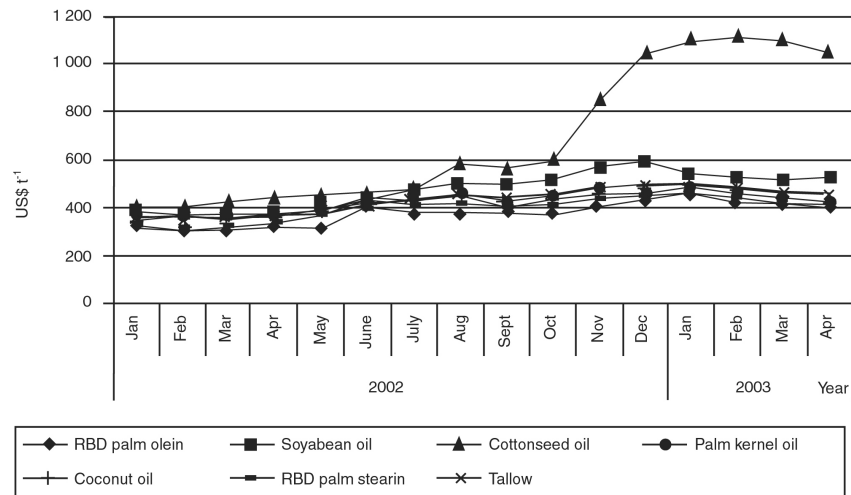
Notes: RBD palm olein, Mal.CIF Rott; soyabean oil, Dutch FOB ex-mill; cottonseed oil, US, PBSY, CIF Rott; palm kernel oil, Mal. CIF Rott; coconut oil, Phil/Indo, CIF Rott; RBD palm stearin, CIF Rott; Tallow US Bleach Fancy, CIF Rott; RBD palm oil, FOB Mal; Palm Oil, Sum/Mal, CIF.N.W.Europe.

Source: Oil World.

coconut oil, and RBD palm stearin and tallow. As mentioned earlier, prices of these oils and fats (except for cottonseed oil) were very close to one another (*Figure 2*) and hence the spreads should be relatively small. Thus, the spread between the price of RBD palm olein and that of soyabean oil constituted a discount of -US\$ 28 t⁻¹

in 2002, narrowing the gap made in the previous year of -US\$ 37 t⁻¹ (*Table 1*). The discount increased further in 2003 to about -US\$ 46 t⁻¹. Palm kernel oil continued to be sold cheaper than coconut oil in the international market in 2002 and in 2003 (January-April) by about -US\$ 5 t⁻¹. The price of stearin was less competitive when

compared with that of tallow and was sold at a premium in 2002 of US\$ 16 t⁻¹. The premium had been narrowed down to US\$ 1 t⁻¹ in 2003. So RBD palm stearin was the only palm product that registered a premium over its competitor, tallow, both in 2002 and in the first four months of 2003, while other palm products



Note: * Jan - April.

Figure 2. Monthly prices of selected oils and fats (2002-2003).

registered a discount against their respective competitors.

Being the leader in the price increase, the price of cottonseed oil spread out widely from the other prices starting from the second half of 2002 (Figure 2). Hence, in comparing its price with olein, it was observed that the spread (which was a discount) increased significantly from -US\$ 97 t⁻¹ in 2001 to -US\$ 130 t⁻¹ in 2002 and later to -US\$ 621 t⁻¹ for the first four months of 2003.

It can be seen that prices of oils and fats were very competitive with palm products in the first four months of 2003, with gaps

between respective competitors (except for cottonseed oil) being small. Many factors could contribute to this development. A significant one was the development of the palm oil industry in Malaysia. Production was on the rising trend since February 2003, and exports by the country rose to almost one million tonnes in April 2003 from 856 889 t in January 2003. Total exports amounted to 3.495 million tonnes in the first four months of 2003 compared with 3.269 million tonnes in the same period of 2002. Consequently, this reduced the stock level from 1.1 million tonnes

in January to 0.974 million tonnes in April 2003. This positive development of the Malaysian palm oil industry encouraged and provided a platform for the prices of palm products to be firmer than before.

Prices of the selected oils and fats are expected to be firmer for the coming eight months of 2003. Palm product prices will be closer to their competitors' prices, thus maintaining the small spreads that they achieved in the first four months of 2003. This is because stock levels of palm oil will continue to be less than a million tonnes in this period.