

Prices of Selected Oils and Fats in 2004 and 2005

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INTRODUCTION

The prices of oils and fats generally move in tandem with each another. This is evident from *Figure 1* which shows their movements from 2002 to 2005. Due to their similarities in end-uses and characteristics, some of them are close substitutes and their prices become competitive with one another. Tough competition occurred in 2002 when the prices were very close with each other; however, the bandwidths in *Figure 1* widened towards 2005 with cottonseed oil becoming the *culprit* by its price deviating significantly from those of the others. Excluding the cottonseed oil price, the bandwidth of all the other prices would have had the same width and moved in tandem all along the period.

If we were to look at the prices of oils and fats with the same characteristics and end-uses, we may have a clearer picture of the general movement of prices. For the group of soyabean oil, palm oil and cottonseed oil (*Figure 2*), the prices of soyabean oil and palm oil were closely related, indicating a high substitutable behaviour between the two oils. They recorded steady prices, ranging from USD 400 t⁻¹ to USD 600 t⁻¹ during 2003 to 2005 except between the second half of 2003 to the first half of 2004 when soyabean oil almost reached USD 700 t⁻¹. Palm oil was always discounted to soyabean oil, especially from 2004 to 2005. The discount averaged USD 104 t⁻¹ for 2004 and USD 106.3 t⁻¹ and USD 91.4 t⁻¹ for the first 10 months of 2004 and 2005, respectively (*Table 1*). Between 2004 and 2005, the smallest spread registered was in

February 2005 with a discount of only USD 71 t⁻¹ and the biggest in August 2004 with a discount of USD 140 t⁻¹.

Cottonseed oil was the *culprit*, as mentioned above, as its price did not follow the general movement of the palm oil and soyabean oil prices. It, however, is not a good product to substitute either palm oil or soyabean oil. It recorded a high premium over palm oil. In 2003, it recorded the highest premium of USD 404 t⁻¹ since the start of the millennium (*Table 1*). In 2004, the premium was reduced to an average of USD 173 t⁻¹ with monthly premiums above USD 100 t⁻¹ in the first 10 months of the year. For the first 10 months of 2005, the premium increased further to an average of USD 248 t⁻¹.

The two lauric oils had tough competition for share in the oleochemicals market. There was high demand for them as the oleochemicals industry is expanding. Since they are highly substitutable, their prices were very close with one another and strongly correlated (*Figure 3*). The spread between the two oils was

very narrow, at less than USD 15 t⁻¹ between the period of 2000 and 2004 (*Table 1*). For the first 10 months of 2005, *Table 1* shows that palm kernel oil was sold higher than coconut oil at an average premium of USD 5 t⁻¹. Only in January and February was palm kernel oil discounted to coconut oil.

The world market also provided tough competition between RBD palm stearin and tallow. This is reflected by their close prices especially in 2004 when stearin was discounted only marginally at USD 2 t⁻¹. In the first 10 months of 2005, stearin was discounted at a higher USD 48 t⁻¹.

Overall, the prices of all the selected oils and fats in *Table 1* were lower in 2005 (the first 10 months) than 2004 for the same period. The prices of RBD palm olein and soyabean oil both declined by 13% while that of cottonseed oil by 2%, maintaining its average price in 2005 at above USD 701 t⁻¹. Palm kernel oil and coconut oil both registered declines of 2% and 5%, respectively. Between stearin and tallow, the former recorded a greater reduction in price by 15% compared to 5% for tallow.

Based on the price movements in 2004 and the first 10 months of 2005, it is likely that the prices of oils and fats, especially that of palm oil, will experience slight increases in the last two months of 2005 and the second half of 2006. This may be due to many significant factors. Although India limited its demand for Asian palm oil in the second half of 2005, this may not hinder an increase in

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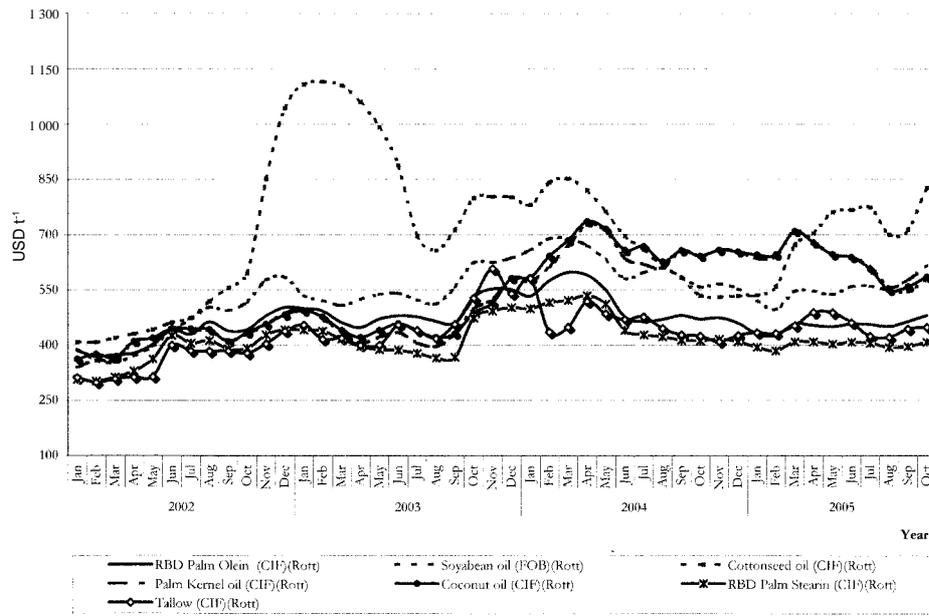


Figure 1. Prices of selected oils and fats (2002-2005).

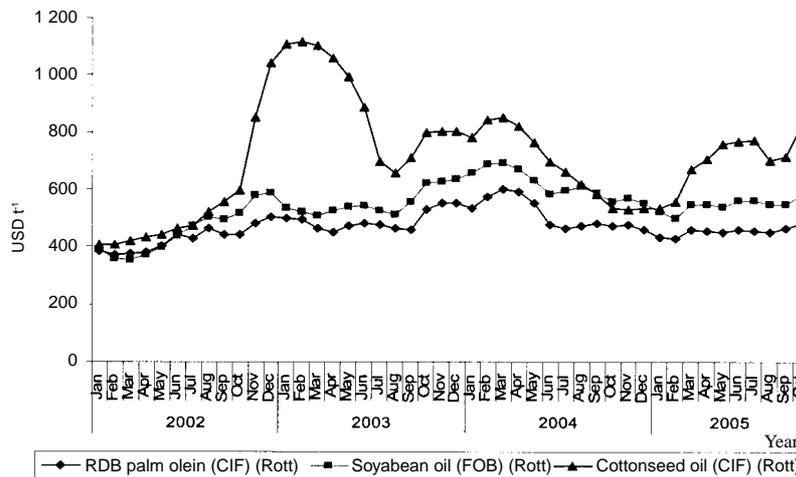


Figure 2. Prices of soyabean oil, palm oil and cottonseed oil (2002-2005).



Figure 3. Prices of palm kernel oil and coconut oil (2002-2005).

TABLE 1. PRICES OF SELECTED OILS AND FATS (USD t⁻¹)

Products Year/ Month	RBD palm olein (CIF) (Rott) (1)	Soya- bean oil (FOB) (Rott) (2)	Cotton- seed 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)
	2000	349	338	489	11	-140	444	450	-6	274	290	-16	285
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
2003	491	554	895	-63	-404	459	467	-8	420	461	-41	437	443
2004	512	616	685	-104	-173	648	661	-13	461	463	-2	459	471
2004													
Jan	533	658	781	-125	-248	572	584	-12	499	581	-82	483	496
Feb	575	689	842	-114	-267	614	642	-28	516	436	80	527	535
Mar	598	691	852	-93	-254	669	685	-16	522	449	73	544	550
Apr	590	671	820	-81	-230	727	736	-9	535	519	16	533	538
May	550	632	763	-82	-213	711	716	-5	512	485	27	500	513
June	477	581	697	-104	-220	636	658	-22	440	470	-30	429	440
July	464	597	660	-133	-196	620	669	-49	428	477	-49	417	426
Aug	470	610	616	-140	-146	610	627	-17	423	446	-23	421	432
Sept	481	585	583	-104	-102	657	657	0	414	428	-14	434	439
Oct	471	558	535	-87	-64	643	642	1	412	425	-13	413	431
Nov	475	567	531	-92	-56	660	659	1	416	410	6	411	433
Dec	460	553	534	-93	-74	656	654	2	410	427	-17	394	423
2005													
Jan	431	521	536	-90	-105	636	646	-10	395	434	-39	367	402
Feb	426	497	558	-71	-132	641	646	-5	385	432	-47	362	403
Mar	458	546	672	-88	-214	710	710	0	409	453	-44	400	435
Apr	454	547	704	-93	-250	681	679	2	409	489	-80	397	429
May	450	538	761	-88	-311	647	647	0	403	488	-85	395	417
Jun	458	559	767	-101	-309	639	639	0	408	461	-53	391	419
Jul	456	561	774	-105	-318	613	607	6	405	424	-19	391	417
Aug	451	549	700	-98	-249	558	550	8	394	421	-27	386	407
Sep	464	545	713	-81	-249	577	559	18	396	444	-48	396	420
Oct	481	580	827	-99	-346	618	586	32	408	449	-41	407	442
Nov	-	-	-	-	-	-	-	-	-	-	-	-	-
Dec	-	-	-	-	-	-	-	-	-	-	-	-	-
Average (Jan-June):													
2004	520.9	627.2	714.9	-106.3	-194.0	645.9	661.6	-15.7	470.1	471.6	-1.5	470.1	480.0
2005	452.9	544.3	701.2	-91.4	-248.3	632.0	626.9	5.1	401.2	449.5	-48.3	389.2	419.1

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/Ind, 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.

total demand for palm oil. Good news comes from China which will eliminate its import tariff rate quota on edible oils next year, coupled with its rising consumption of palm oil. Thus, China may continue to import palm oil and other oils and fats. Other favourable factors are that

the Philippines may increase its palm oil consumption in future, soyabean rust in Brazil and the impending use of palm oil for biodiesel. With all these favourable factors, it is believed that prices of edible oils and fats, especially that of palm oil, will be strengthened in the short-term.