

Past Prices of Oils and Fats and Short-Term Prospects for Palm Oil Price

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INTRODUCTION

The prices of oils and fats were generally bullish from 2001 to 2004. However, except for cottonseed oil, they turned bearish in 2005. Price recovery in some of them is expected in 2006, as indicated by their higher prices in the first three-quarters of the year. Prices of olein, stearin and soyabean oil are expected to increase while those of cottonseed oil, tallow, coconut oil and palm kernel oil are expected to decline. The prospects for these oils and fats, especially palm oil, will continue to strengthen in 2007 due to the *El Nino* effect, developments in the Indian market and the diversion of some production to biodiesel production, a new demand for palm oil.

PAST PERFORMANCE OF OILS AND FATS

Oils and fats underwent a period of bullishness from 2001 to 2004, increasing annually. The price of RBD palm olein was USD 317 t⁻¹ in 2001 and USD 512 t⁻¹ in 2004, an increase of about 61% (Table 1). Other palm products and selected oils and fats had similarly increased their prices. However, in comparing across these oils and fats, olein was weaker than soyabean and cottonseed oils with discount to them widening. With soyabean oil, the discount widened from USD 37 t⁻¹ in 2001 to USD 104 t⁻¹ in 2004 and with cottonseed oil from USD 97 t⁻¹ to USD 173 t⁻¹ during the same period. Palm kernel oil

performed well vis-à-vis coconut oil with only a small discount throughout the period. Stearin had improved its performance, becoming more competitive with tallow with a small discount of only USD 2 t⁻¹ in 2004.

A different scenario was observed in 2005 when most prices - palm olein, soyabean oil, palm kernel oil, coconut oil, stearin and tallow - fell (Table 1). One of the main factors was the increased production of most oils and fats. Production of palm oil in Malaysia, for example, increased by about 7% in 2005 compared to 2004. This had increased the availability of palm oil in the market that would depress prices. Only cottonseed oil price increased to USD 711 t⁻¹ in 2005 compared to USD 685 t⁻¹ in 2004, widening its premium over olein to USD 256 t⁻¹ in 2005 from to USD 173 t⁻¹ in the previous year. Lauric oils continued to strengthen

in 2005, but with palm kernel oil at a premium to coconut oil of USD 10 t⁻¹. The discount of stearin to tallow increased from USD 2 t⁻¹ in 2004 to USD 44 t⁻¹ in 2005.

The monthly performances of these oils and fats in 2005 are shown in Figures 1a to c. Prices of olein and soyabean oil were largely in tandem, except for some months (Figure 1a) in the first and last quarters of year when the lines narrowed slightly. In the second and third-quarters, the spread expanded to as large as USD 105 t⁻¹ in July.

Price of cottonseed oil portrayed a completely different pattern from palm olein and soyabean oil. Figure 1a shows that it deviated from olein and soyabean oil prices and did not move in tandem with them. Traditionally, it is sold at a premium to olein and soyabean oil. In comparison with olein, the smallest discount was in January with a value of USD 105 t⁻¹ and the biggest premium was in November with USD 350 t⁻¹.

As mentioned earlier, palm kernel oil was at a premium to coconut oil in 2005. Figure 1b shows the development of these prices in the year, very close together but, overall, with palm kernel oil slightly more expensive. Comparing prices of stearin and tallow, tallow was clearly more expensive than stearin throughout the year (Figure 1c).

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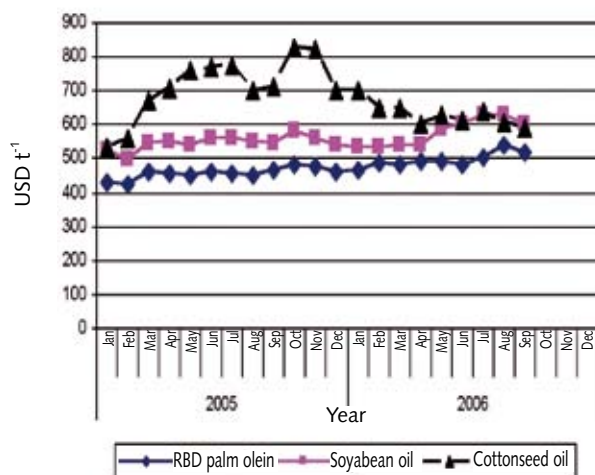
TABLE 1. PRICES OF SELECTED OILS AND FATS (USD t⁻¹)

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)	Coco- nut 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	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
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
2005	455	545	711	-90	-256	627	617	10	405	449	-44	389	422
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	474	560	824	-86	-350	614	582	32	417	453	-36	396	444
Dec	459	537	700	-78	-241	590	553	37	431	441	-10	379	429
2006 Jan	468	532	699	-64	-231	606	569	37	454	446	8	399	424
Feb	485	535	647	-50	-162	623	591	32	471	430	41	407	445
Mar	483	539	649	-56	-166	592	575	17	471	422	49	408	440
Apr	493	540	601	-47	-108	576	578	-2	474	404	70	413	439
May	493	588	629	-95	-136	560	583	-23	478	410	68	420	440
Jun	480	601	610	-121	-130	535	575	-40	468	404	64	415	437
Jul	503	630	637	-127	-134	557	583	-26	473	434	39	435	471
Aug	537	629	607	-92	-70	572	606	-34	492	461	31	470	510
Sep	517	602	592	-85	-75	548	609	-61	482	451	31	449	497
Oct	-	-	-	-	-	-	-	-	-	-	-	-	-
Nov	-	-	-	-	-	-	-	-	-	-	-	-	-
Dec	-	-	-	-	-	-	-	-	-	-	-	-	-
Average (Jan - Sept):													
2006	495	577	630	-82	-135	574	585	-11	474	429	45	424	456
2005	450	540	687	-91	-237	634	631	2	400	450	-49	387	417

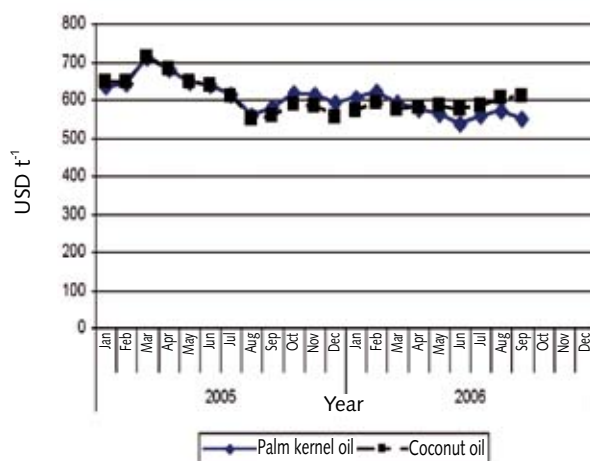
Notes: RBD palm olein, Mal.CIF Rott; soyabean oil, Dutch FOB ex-mill; cottonseed oil, US PBSY, CIF Rott.; palm kernel oil, Mal. CIF Rott; coconut oil, Phil/Ind., CIF Rott; RBD palm stearin, CIF Rott; tallow US Bleach Fancy, CIF Rott; RBD palm oil, FOB Mal; palm oil sum/Mal, CIF, N.W Europe

Source: Oil World (various issues).

a) Prices of RBD palm olein, soyabean oil and cottonseed oil.



b) Prices of palm kernel oil and coconut oil.



c) Prices of RBD palm stearin and tallow.

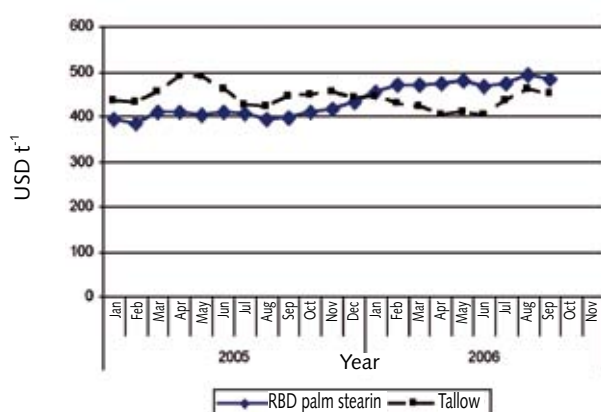


Figure 1. Price trends of oils and fats – 2005 and 2006 (USD t⁻¹).

PROSPECTS

The year 2006 has thus far give a mixed pictures of prices with some expected to increase and others decrease. In the first three-quarters of the year, the average prices of RBD palm olein, soyabean oil, and RBD palm stearin were above their prices in the same period the previous year (Table 1). The oils are also above their average prices for the whole of previous year.

It is forecast that the last quarter of 2006 and all 2007 will continue to be bullish for some of these oils and fats, especially palm oil. More palm oil is expected to be diverted to biodiesel, diminishing the supply somewhat. In addition, the *El Nino* may impact the production of palm oil. The likely *El Nino* drought is expected to slash the output of palm oil in Malaysia and Indonesia. Thus, 2007 will only see a slight increase in production, probably smaller than the increase in demand, constraining the availability of palm oil in the market and pushing its price up. Development of the Indian market can also affect the price of palm oil in short-term. The country has reduced the duties on palm products, and imports are likely to rise.

The above developments would be bullish for palm oil with the price expected to rise to USD 435 t⁻¹ and USD 465 t⁻¹ for the whole of 2006 and 2007 respectively.

CONCLUSION

In the short-term, the prices of oils and fats, especially palm oil, will continue to be bullish - a spill over effect of the increases in 2006 into 2007. The positive and encouraging factors are the production of biodiesel, *El Nino* weather and increased imports by India.