

# Prices of Selected Oils and Fats and the Prospects of Palm Oil Price in 2008

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## INTRODUCTION

The oils and fats sector has been bullish for the past few years. The sector enjoyed continuous surging prices since 2006 until the middle of 2008. Analysts related this scenario to the movements of fossil fuel price in the world market which recorded a similar trend. The surge in fossil fuel prices is mainly due to the political instability of most oil-producing countries, concerns about the environment, as well as long-term threats from depleting petroleum reserves. As a result, prices of petroleum as well as oils and fats were seen to be up-trended while showing a high correlation during the period. Palm oil price, for example, has been swaying to the tune of the petroleum price. The analysts hypothesized that the price of petroleum has become a new contributing factor affecting the prices of oils and fats.

However, the scenario prior to 2006 was quite different as there was a mixture of relationships between prices of petroleum and those of oils and fats, and they moved quite independently. They showed negative correlation in some periods while being positively associated in others.

Besides this new petroleum price factor, the role of stocks in influencing prices of oils and fats has gradually become less important, especially for palm oil. In the past, high stocks often caused the price of palm oil to decline and *vice versa*. However, the situation is different at present as the price and stock of palm oil together had increased or decreased during the same time. It is difficult to predict how long this relationship will stay, as it defies the traditional theoretical economic relationship.

## PRICES OF OILS AND FATS IN THE PAST FEW YEARS

The oils and fats sector has been said to be bullish since 2006. Most of the oils and fats recorded significant yearly increases in their prices. The price of refined, bleached and

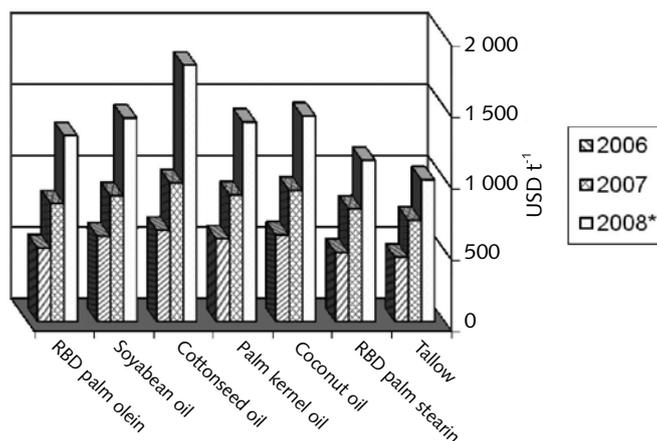
deodorized (RBD) palm olein, which averaged at USD 515 t<sup>-1</sup> in 2006, increased by 61% in 2007 to USD 827 t<sup>-1</sup>, and further by 58% in 2008 (January – June) to reach a record high of USD 1304 t<sup>-1</sup> (Figure 1 and Table 1). The price of soyabean oil also increased by 47% from 2006 to 2007, and by another 62% in 2008, while cottonseed oil jumped by 52% and 82% in 2007 and 2008, respectively. Cottonseed oil

is still the most expensive oil in the market, registering at USD 1796 t<sup>-1</sup> in 2008, compared to USD 1425 t<sup>-1</sup> for soyabean oil and USD 1303 t<sup>-1</sup> for RBD palm olein. Other selected oils and fats also showed gains of more than 50% during this period, except for stearin and tallow, prices of which increased by less than 50% in 2008.

The selected oils and fats also competed among themselves within each year. As indicated in Figure 2, their prices being very close, they were competing with one another in 2006 and in 2007, with the price of cottonseed oil leading, followed closely by coconut oil, soyabean oil and palm kernel oil. Only in 2008 (January to June), did we see wider differences between their prices. Nevertheless, cottonseed oil again emerged as the most expensive oil in 2008 as its price recorded a significant increase of about 82% from 2007; the positions of other oils and fats remained the same as before.

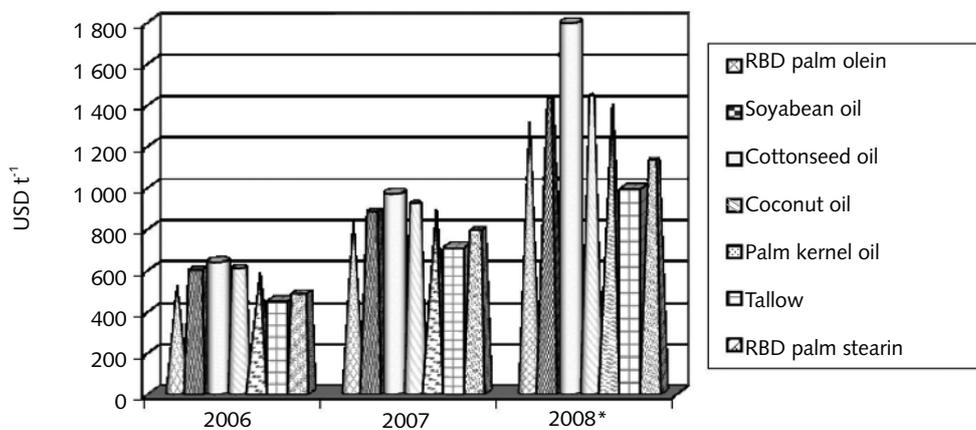
This observation is supported by Figure 3, which also illustrates that the prices of these oils and fats rallied seriously in 2006 and 2007, forming a narrow bandwidth in both years while accelerating their way upwards. In 2008, however, a wider bandwidth was noted, starting from the second half of 2007

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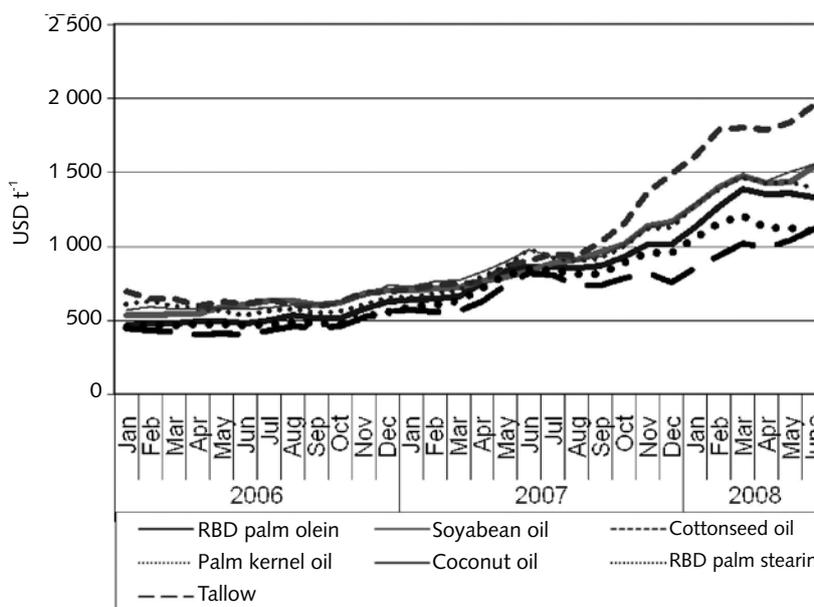
Note: \*January - June 2008.  
Source: Oil World (various issues).

Figure 1. Yearly price development of selected oils and fats from 2006 to 2008\*.



Note: \*January - June 2008.  
Source: Oil World (various issues).

Figure 2. Developments in the prices of selected oils and fats from 2006 to 2008\*.



Source: Oil World (various issues).

Figure 3. Monthly developments in the prices of selected oils and fats from 2006 to 2008 (January-June).

TABLE 1. MONTHLY PRICES OF SELECTED OILS AND FATS (USD t<sup>-1</sup>): 2006 TO 2008

Year	Products	RBD palm olein	Soya-bean oil	Cotton-seed oil	Spread+ (1)-(2)	Spread+ (1)-(3)	Palm kernel Oil	Coco-nut oil	Spread+ (4)-(5)	RBD palm stearin	Tal-low	Spread+ (6)-(7)	RBD palm oil	Palm oil
		( 1 )	( 2 )	( 3 )			( 4 )	( 5 )		( 6 )	( 7 )		( 8 )	( 9 )
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	518	615	628	-97	-110	557	626	-69	478	461	17	450	507
	Nov	576	675	690	-99	-114	601	656	-55	521	525	-4	511	547
	Dec	626	699	697	-73	-71	647	732	-85	559	560	-1	559	583
2007	Jan	641	697	708	-56	-67	653	731	-78	592	570	22	569	599
	Feb	647	714	738	-67	-91	678	763	-85	603	556	47	573	605
	Mar	662	718	748	-56	-86	701	769	-68	632	564	68	593	622
	Apr	749	761	758	-12	-9	795	828	-33	718	628	90	675	710
	May	831	788	866	43	-35	863	894	-31	806	737	69	770	772
	Jun	859	833	905	26	-46	969	979	-10	840	823	17	781	805
	Jul	860	885	949	-25	-89	924	929	-5	843	808	35	789	811
	Aug	853	909	938	-56	-85	903	910	-7	814	735	79	782	821
	Sep	870	959	1 028	-89	-158	923	930	-7	815	736	79	798	835
	Oct	928	1 012	1 150	-84	-222	1 001	1 010	-9	887	783	104	848	881
	Nov	1 014	1 138	1 370	-124	-356	1 116	1 131	-15	960	822	138	935	952
	Dec	1 015	1 164	1 493	-149	-478	1 134	1 153	-19	961	758	203	948	950
2008	Jan	1 130	1 276	1 609	-146	-479	1 277	1 285	-8	1 058	854	204	1 053	1 059
	Feb	1 267	1 400	1 786	-133	-519	1 386	1 382	4	1 159	935	224	1 192	1 160
	Mar	1 385	1 476	1 804	-91	-419	1 462	1 471	-9	1 209	1 020	189	1 291	1 249
	Apr	1 352	1 425	1 789	-73	-437	1 428	1 443	-15	1 129	992	137	1 247	1 174
	May	1 358	1 436	1 834	-78	-476	1 434	1 502	-68	1 127	1 039	88	1 250	1 208
	June	1 329	1 537	1 955	-208	-626	1 397	1 551	-154	1 098	1 118	-20	1 199	1 213
Average:														
2006		515	599	641	-	-	581	607	-	485	451	-	445	478
2007		827	882	971	-	-	888	919	-	789	710	-	755	780
2008*		1 303.5	1425	1 796.17	-	-	1 397.33	1 439	-	1 130	993	-	1 205.33	1 177.17

Notes: RBD palm olein, Mal.CIF Rott; soyabean oil, Dutch FOB ex-mill; cottonseed oil, US PBSY, 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; palm kernel oil, Mal., CIF Rott.

X = + refers to positive spread means premium.

- refers to negative spread means discount.

\* January – June 2008.

Source: Oil World (various issues).

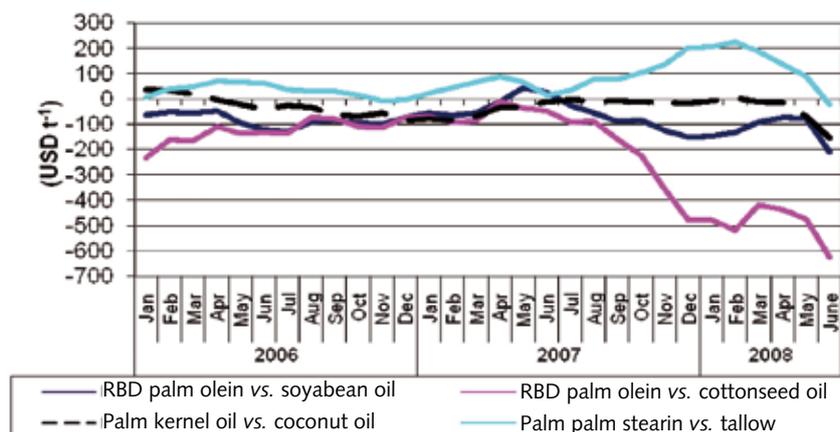
with cottonseed oil price leading (registering at USD 1955 t<sup>-1</sup> in June 2008), while tallow was at the bottom at a price of USD 1118 t<sup>-1</sup> in the same month (Table 1).

Although these prices were very close together in 2006 and 2007, they still showed some differences, as measured in terms of spread. Figure 4 shows the distribution of price spreads between RBD palm olein and soyabean oil, RBD palm olein and cottonseed oil, palm kernel oil and coconut oil, and RBD palm stearin and tallow. RBD palm olein was always being discounted by soyabean oil during the period from 2006 to 2008, except in May and June of 2007 (see also Table 1).

The spread between cottonseed oil and olein widened as the discounts increased in magnitude and continuously dipped towards the end of 2007 to USD 519 t<sup>-1</sup> in February 2008 after which the discounts hovered around USD 450 t<sup>-1</sup>. Prices of lauric oils rallied, making a small spread in the past three years. By contrast, of all these spreads, only RBD palm stearin registered positive spreads most of the time for being more expensive than tallow in the past few years.

**NEW PETROLEUM PRICE FACTOR AFFECTING THE PRICES OF OILS AND FATS**

Due to the escalating petroleum price, concerns over energy security and environmental considerations, many countries have turned to alternative energy sources which are renewable by nature. One of the sources is biodiesel which may be produced from oils and fats. In this respect, Europe has been the forerunner in using biodiesel with production increasing from about 2.88 million tonnes in 2005 to 6.11



Source: Oil World (various issues).

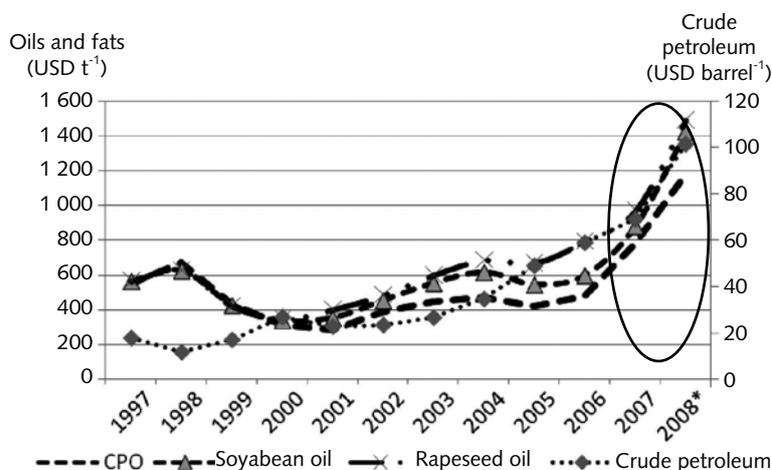
Figure 4. Monthly spread between the prices of oils and fats (2006 - 2008).

million tonnes in 2007 (de Lavigne, 2007). The feedstock used in Europe is mainly rapeseed oil (60%-70%), followed by soyabean oil (20%-30%). This created an additional demand for these feedstocks, and consequently as the price of crude oil increased to about USD 150 per barrel previously, the increased usage of such feedstocks for the alternative fuels had resulted in a supply shortage then, causing their prices to surge.

This development in crude oil price has caused prices of feedstocks to increase recently in tandem (represented by the oval shape

in Figure 5). The price of rapeseed oil has closely tracked crude oil prices since 2005. However, palm oil and soyabean oil prices started to track the crude oil prices only from the middle of 2006, when they were used as feedstocks for these alternative energy resources. Prices of both palm oil and soyabean oil increased at a faster rate than rapeseed oil as the demand for former oils was higher.

Figure 5 also shows that crude oil prices have no definite relationship with prices of feedstocks prior to 2006. Between 1997 and 2000, a negative relationship was



Note: \*January - June 2008. Source: Oil World (various issues).

Figure 5. Development of prices of crude oil and feedstocks.

established, while from 2000 until 2005/2006, there was a mixture of relationships. It is hard to establish a definite relationship prior to 2006.

### DIMINISHING INFLUENCE FROM ENDING STOCKS OF PALM OIL

In the past, ending stocks of palm oil often showed indications of some relationships to its price. *Figure 6* illustrates the negative relationship between the two parameters, *i.e.* increasing stocks go with declining price, or *vice versa*, prior to 2006. A very obvious relationship was observed during the period from 1998 to 2006, as indicated by a high correlation index of about -0.87.

From 2006 onwards, the relationship between the two variables reversed. *Figure 6* shows that they are presently in tandem, both increasing at the same time. Malaysian ending stocks of palm oil have reached about 2 million tonnes in June 2008, yet the price is seen

to accelerate upwards to reach RM 3493 t<sup>-1</sup> in June 2008. The local scenario of palm oil stocks has gradually lost its influence on the price of palm oil while external factors continue to play a more prominent role.

### PROSPECTS OF PALM OIL PRICE IN 2008

Palm oil will continue to have good prospects in the future. It has several uses, both in food and non-food applications. In addition to these traditional uses, it also has a new usage as a feedstock for the production of biodiesel, thus creating an additional demand for it. A portion of available palm oil will be channeled to this new application.

Due to several commitments from several countries, there is a tendency that the world will continue to use renewable energy from oils and fats in the future. This becomes a factor that can guarantee

the continuous bullishness of the palm oil sector and other related sectors in future.

In relation to this, the average palm oil price has been forecast to reach RM 2900 t<sup>-1</sup> in 2008, provided that crude oil price continues to increase or is at least maintained at the current level; otherwise the price of palm oil may be estimated at a lower level. Stocks are expected to remain high but gradually declining towards the end of the year. It is expected also that prices of other feedstocks will remain bullish, and that soyabean oil would continue to be sold at a higher price than palm oil.

### CONCLUSION

The prices of palm oil and other selected oils and fats will continue to be bullish in 2008. Driving factors towards this bullish scenario are, among others, an increased export demand from major importing countries, and palm oil being cheaper than soyabean oil will continue to be used as feedstock for the production of biodiesel.

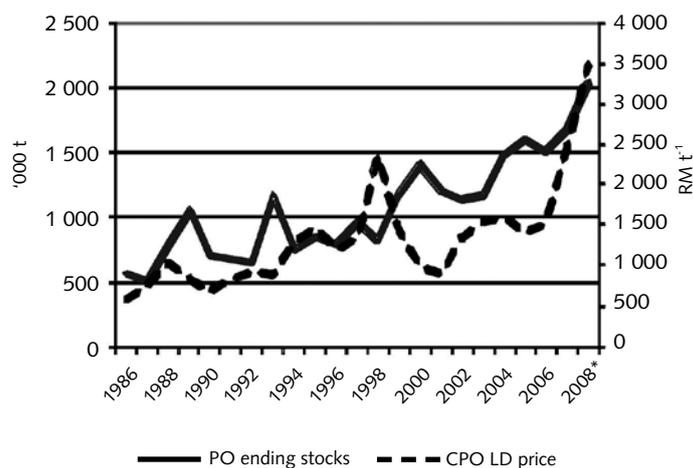
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Source: Oil World (various issues).

Figure 6. The relationship between crude palm oil (CPO) price and ending stock of palm oil.