

# Price Scenario of Selected Oils and Fats in 2001

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The year 2001 is becoming another bearish year for some oils and fats, especially palm products. This is based on the fact that prices of these selected oils and fats were generally low in the first 10 months of 2001 compared to their prices in the same period of the previous year. *Table 1* indicates that the average price of refined, bleached and deodorized (RBD) palm olein was down to US\$ 307 t<sup>-1</sup> in 2001 from US\$ 361 t<sup>-1</sup> in 2000. The price of cottonseed oil declined from US\$ 495 t<sup>-1</sup> in 2000 to US\$ 415 t<sup>-1</sup> in 2001. The prices of other oils and fats, namely palm kernel oil, coconut oil, RBD palm stearin, RBD palm oil (FOB Malaysia) and crude palm oil (CIF) also showed the same trend. In the case of the FOB price of soyabean oil, *Table 1* indicates a reverse price pattern, as it was sold higher in 2001 at US\$ 346 t<sup>-1</sup> than its price in the same period of 2000 (US\$ 342 t<sup>-1</sup>). Tallow is another commodity that showed an increase in price, selling at US\$ 324 t<sup>-1</sup> in 2001 against US\$ 292 t<sup>-1</sup> in 2000. *Table 1* illustrates that the prices of these oils and fats (except soyabean oil and tallow) had continuously declined for the third

consecutive year since 1998.

However, on a monthly basis, the prices of the above selected oils and fats fluctuated in a random manner, as can be seen in *Figures 1* and *2*. It is clear from these figures that while the prices fluctuated, they also tended to move in the same direction in each month. For instance, the prices of soyabean oil, RBD palm olein, and cottonseed oil, together, declined in January 2001 from December 2000 and continued to fall in February 2001 from January 2001, but later rose

TABLE 1. ANNUAL PRICES OF SELECTED OILS AND FATS (US\$ t<sup>-1</sup>)

Products	RBD palm olein (CIF) (Rott) (1)	Soya-bean oil (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
2000@	361	342	495	19	-134	465	471	-6	279	292	-13	297	320
2001@	307	346	415	-39	-108	306	315	-9	258	324	-67	248	277

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.

@average for January to October.

\* + = premium.

- = discount.

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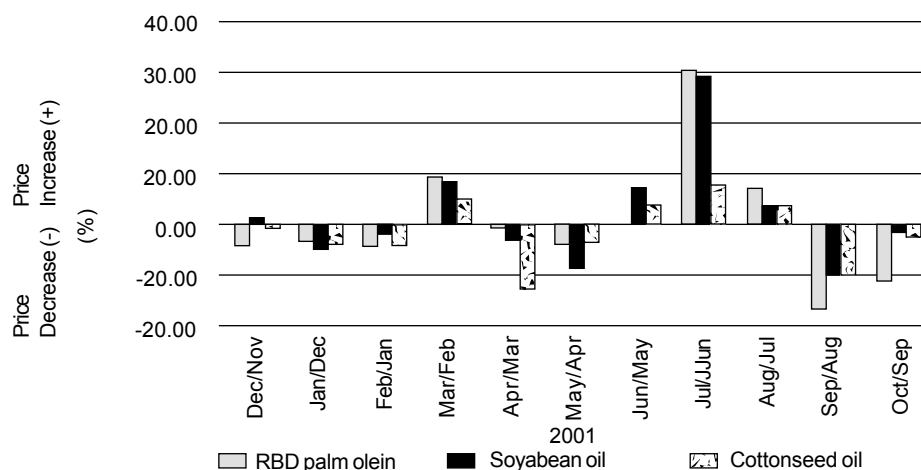


Figure 1. Monthly price change in 2001: RBD palm olein, soyabean oil and cottonseed oil (%).

in March 2001 from the previous month (Figure 1). Generally, this scenario also happens to the prices in other groups of oils and fats, such as palm kernel oil and coconut oil, and palm stearin and tallow (Figure 2). The oils and fats in the same group would generally react in the same manner to any factor that might affect their price developments due to the fact that they are highly substitutable with one another. The only difference is the magnitude of their average monthly change. This would affect their average prices for the whole of 2001 which as mentioned

earlier, have dropped from the previous year. In this case, palm products registered a bigger price fall than their competitors.

As a result of the above, palm products were always discounted. For instance, RBD palm olein was sold at a discount to soyabean oil by -US\$ 39 t<sup>-1</sup> during the first 10 months of 2001 after enjoying premium status since 1995 (Table 1). Cottonseed oil also continued to be superior in term of price compared to olein as it was sold higher than olein by US\$ 108 t<sup>-1</sup>. The price of coconut oil slightly overtook that of palm kernel oil by US\$ 9 t<sup>-1</sup>. The biggest spread

(discount) in Table 1 is the one between the prices of stearin and tallow, in favour of the latter by -US\$ 67 t<sup>-1</sup> to record the biggest discount since 1990. Figure 3 shows clearly the various discounts that palm products had registered with soyabean oil, cottonseed oil, tallow and coconut oil. Over the year 2001 (January - October), none of the palm products were sold higher than their competitors.

Development of the prices of oils and fats, especially those for palm products would depend very much on the developments related to oils and fats in the

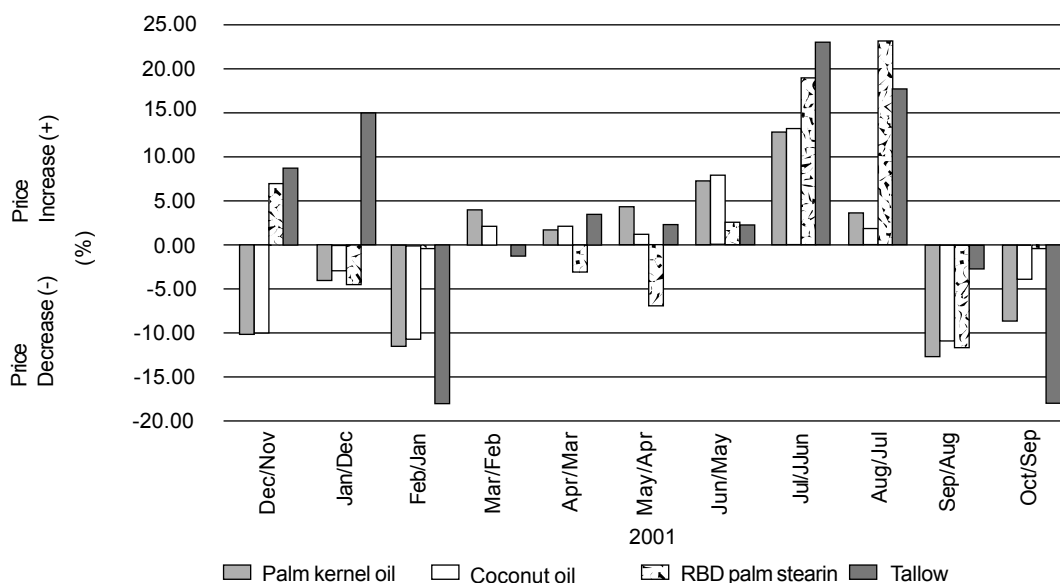


Figure 2. Monthly price change in 2001: palm kernel oil, coconut oil, RBD palm stearin and tallow (%).

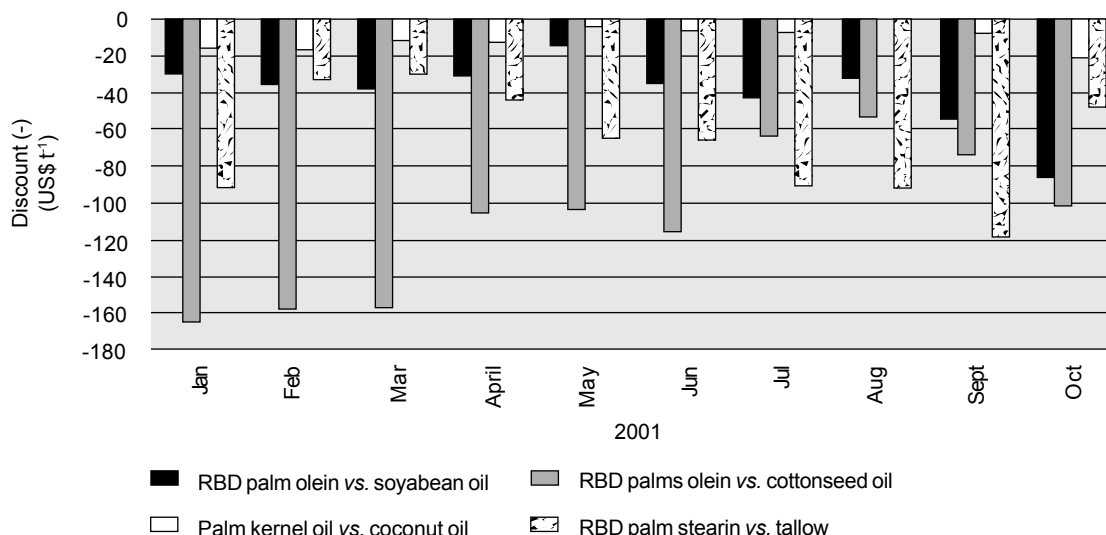


Figure 3. Price discounts and premiums in 2001 (US\$ t<sup>-1</sup>).

world market. Thus, the prices of palm products were partly affected by the developments in the local as well as in the world environment. During the early part of 2001 (January to March), the Malaysian palm oil industry was worried about the abnormal two-peak production pattern of palm oil. The first peak had already happened in January 2001 with production exceeding 1 million tonnes and the second one was expected in October 2001. This pattern resulted in an expectation of a high production level for 2001. This was a bearish factor for the palm oil industry. To worsen this condition, the stock of palm oil locally was also very high, *i.e.* exceeding 1 million tonnes in most months. Both stock and production levels

increased the total availability of palm oil in the country. This was another bearish factor for the palm oil price.

Another development that could have indirectly affected the Malaysian palm oil industry was the war between US and Afghanistan, which hampered ships from carrying oil to some destinations that in a way, affected the Malaysian exports of palm oil.

The Malaysian Government was aware since beginning of the year about the situation of high stock level and increasing production trend towards October. Through MPOB, a seminar was carried out to find ways of how the industry could face the challenge about the bearish situation of palm oil price and

how the price could be sustained or improved. The government also carried out a programme called *Intensive Replanting Scheme* introduced during the early part of the year. Under this programme, trees above 25 years old need to be felled and replanted. It is a successful programme that up to 13 November 2001, the total number of applications received was 7028, amounting to 171 774 ha (85% of the target hectareage of 200 000 ha). Out of the total hectareage of 171 774 ha, 128 665 ha had been approved and 26 807 ha had been felled. In the absence of this government intervention programme, it is believed that price of palm oil should be lower than the present level.