

# Prices of Selected Oils and Fats and Prospects of Palm Oil Price in 2007

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## INTRODUCTION

Prices of most oils and fats were generally bullish during the period of 2001 to 2004. They moved in tandem, forming a general up trend during the period. However, they were bearish the following year, then recovered in 2006. But this was not the case with cottonseed oil where price independently followed a different pattern since 2001.

In 2007, the prices are expected to continue to strengthen. As indicated by their performance in the first-quarter of 2007, they will continue to perform better for the remaining months of the year. The most notable will be the palm oil. The high demand for palm oil has led to a decline in its stocks and, consequently increase in its price.

## PERFORMANCE OF OILS AND FATS IN 2007

Most oils and fats recorded increasing prices during 2001 to 2004 (*Figure 1*). With the exception of cottonseed oil, they moved in parallel with one another. However, the cottonseed oil price only increased until 2003 after which it fell.

Between 2004 and 2006, the prices fluctuated about with those in 2005 slightly lower than in 2004 and in 2006. *Figure 1* shows this clearly, especially for the prices of RBD palm stearin, RBD palm olein and soyabean oil. For instance, RBD palm stearin was USD 405 t<sup>-1</sup> in 2005 and USD 461 t<sup>-1</sup> and 485 t<sup>-1</sup> in 2004 and 2006, respectively (*Table 1*). A wider band occurred in 2005 with RBD palm stearin at the

bottom and cottonseed oil at the top. Generally, except cottonseed oil, the prices were bearish that year. Prices then mostly recovered in 2006. RBD palm olein increased from USD 455 t<sup>-1</sup> to USD 515 t<sup>-1</sup> and soyabean oil from USD 545 to USD 599 t<sup>-1</sup> (*Figure 1* and *Table 1*). The price of RBD palm stearin increased by USD 80 t<sup>-1</sup> and tallow by USD 2 t<sup>-1</sup>. Cottonseed oil and the two lauric oils (coconut oil and palm kernel oil), however, fell.

The irregularities in the price movements resulted in price differentials between the oils and fats. Palm olein was usually at a discount to soyabean oil except in 2000 when it commanded a premium of USD 11 t<sup>-1</sup> (*Figure 2*). The discount increased toward 2004 and then slightly narrowed toward 2006. The discount of RBD palm olein to cottonseed oil was irregular and inconsistent, ranging from -USD 99 to -USD 404 t<sup>-1</sup>.

RBD palm stearin and tallow are very competitive oils and have generally fluctuated in the same manner, with tallow usually being slightly more expensive (*Figure 3*). The spread between coconut oil and palm kernel oil was quite consistent during 2000 to 2004, with the former usually USD 5 to USD 13 t<sup>-1</sup> higher except in 2005 when PKO was higher oil by USD 11 t<sup>-1</sup>. This, however, did not last long as palm kernel oil became bearish again the following year at a discount to coconut oil of USD 26 t<sup>-1</sup>.

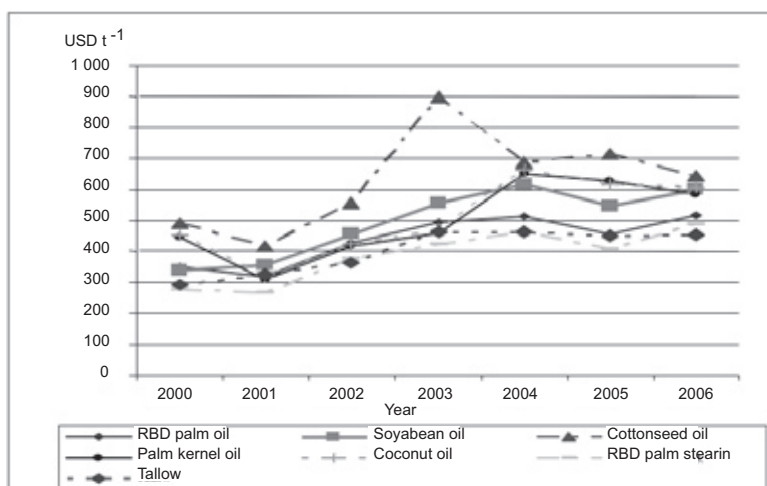


Figure 1. Performance of prices of selected oils and fats.

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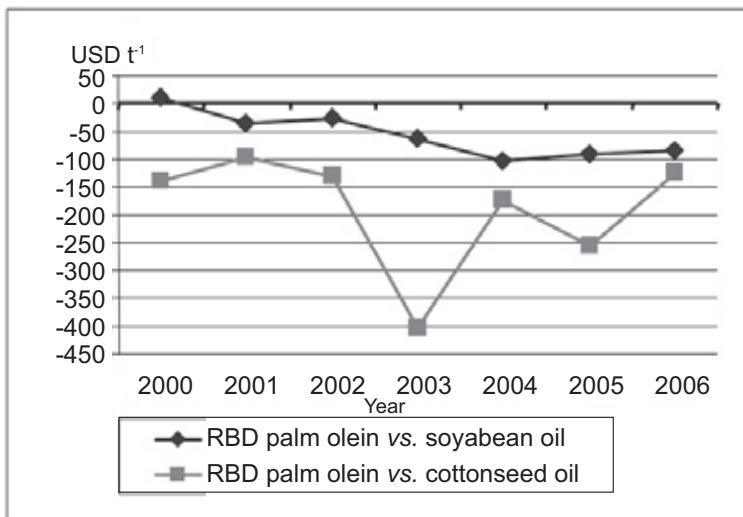


Figure 2. Spread - RBD palm olein vs. soyabean oil and cottonseed oil.

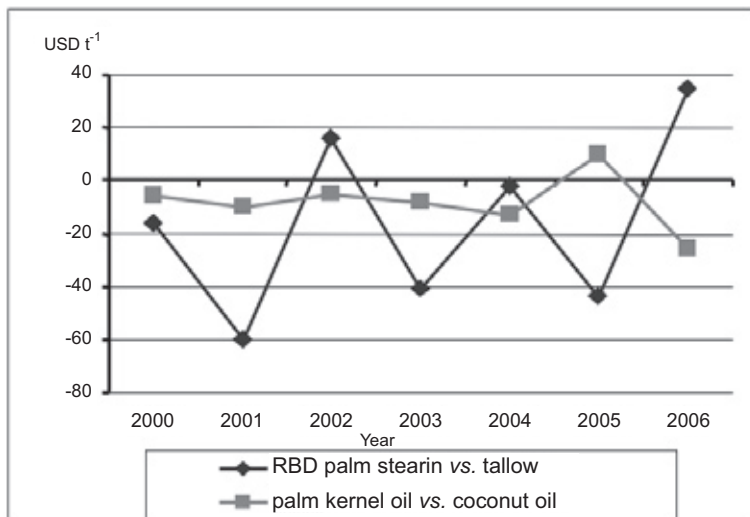


Figure 3. Spread - RBD palm stearin vs. tallow and soyabean oil versus cottonseed oil.

Remarkable increases in the prices of edible oils and fats were observed in the first quarter of 2007, a continuation of the up trend from the last quarter of 2006. RBD palm olein averaged USD 650 t<sup>-1</sup> for the first three months of 2007, an increase of USD 171 t<sup>-1</sup> over the average price of USD 479 t<sup>-1</sup> in the same period 2006 (Table 1). The prices of other palm products also increased - palm stearin by USD 144 t<sup>-1</sup> and palm kernel oil by USD 70 t<sup>-1</sup>. Non-palm products performed similarly well, all of them exceeding their own averages for the whole of 2006.

The bullish scenario for all edible oils and fats, especially palm oil, was mainly due to the rising demand for vegetable oils as feedstock for

biodiesel. The stock of palm oil in Malaysia fell to an unexpectedly low level of 1.18 million tonnes in April 2007, due mainly to high demand (both export and local) and poorer production because of stress to the palms. In this respect, the exports of Malaysian palm products to China, India and the USA had risen considerably since the beginning of the year. The increase in China's intake was mainly due to the removal of its import quota on edible oils and the increase in India, to cutting of its import duty.

**PROSPECTS**

Edible oils and fats have good prospects in the near future based

on many bullish factors especially for palm oil. It is forecast that the demand for palm oil will continue to increase, further reducing stocks. The increasing demand will be driven by, inter alia high energy demand and increasing real income in both China and India. Both countries and also the USA will continue to import palm oil for their own consumption. On the other hand, Malaysian production of palm oil is only expected to increase moderately due to residual stress on the palms from the floods and droughts in 2006. It is now estimated that the production of palm oil may not reach the 16.5 million tonnes projected earlier for 2007. Consequently, stocks will fall, maybe to below one million tonnes towards the end of the year.

Another contributing factor is the expected limited supply of soyabean oil from farmers in North America and South America as a result of the switching to corn and sugar cane respectively, lured by the demand for ethanol production. The fall in soyabean oil supply should push up the prices of all edible oils, including that of palm oil, which is expected to average USD 630 for the year.

The soyabean oil price will also surge, but at a slower rate than that to palm oil. As a result, palm oil may narrow its discount to soyabean oil.

**CONCLUSION**

The prices of edible oils and fats will be bullish in 2007. The bullish scenario which started in the last quarter of 2006, is driven by many factors such as the moderate increase in Malaysian palm oil production, increased export demand from China, India and the USA, and farmers switching from growing soyabean to corn and sugarcane.

TABLE 1. PRICES OF SELECTED OILS AND FATS (USD t<sup>-1</sup>)

Year/ month	Products	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) (Rott) (8)	Palm oil (CIF) (Rott) (9)
		2005	Jan	431	521	536	-90	-105	636	646	-10	395	434	-39
	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	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	570	605
	Mar	662	718	748	-56	-86	701	769	-68	632	564	68	593	622
<b>Average (Jan - Mar):</b>														
	2006	479	535	665	-57	-186	607	578	29	465	433	33	405	436
	2007	650	710	731	-60	-81	677	754	-77	609	563	46	577	609
<b>Average (Jan - Dec):</b>														
	2005	455	545	711	-90	-256	627	617	10	405	449	-44	389	422
	2006	515	599	641	-84	-126	581	607	-26	485	451	34	445	478

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.

Source: Oil World.