

Prices of Selected Oils and Fats in 2006 to 2008 and Prospects of Palm Oil Price in 2009

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INTRODUCTION

Prices of oils and fats have been fluctuating in the past, with ups and downs in the global market. *Figure 1* shows that they had been accelerating upward since 2006 up until June 2008 after which they plummeted towards end of the year. The uptrend movements were closely affected by the petroleum price which had surged from USD 57.39 per barrel in January 2006 to USD 133.52 in July 2008 (*Figure 2*). The increase in the petroleum price had caused many countries to start using alternative fuels which may come from various feedstocks, such as rapeseed oil, soyabean oil or palm oil. This had created additional demands for these feedstocks which in turn raised their prices to an even higher level. However, from July 2008, price of crude oil recorded a downward trend to reach USD 39.71 per barrel in December 2008. In tandem with this, prices of vegetable oils and fats had also followed suit. Beside the petroleum factor, which consequently led to the usage of biodiesel, there may be other factors which have influenced palm oil price and they will be highlighted later in the article. This article will also take the opportunity to project the prospect of palm oil price in 2009.

PERFORMANCE OF PRICES OF SELECTED OILS AND FATS SINCE 2006

It was observed that prices of the vegetable oils and fats were very close to one another in 2006. A narrow bandwidth of prices was formed, indicating that they had moved in tandem and had increased on a month-to-month basis (*Figure 1*). In fact, some of the spreads were smaller than before, as indicated by the small discounts or premiums among themselves (*Figure 3*). For example, refined, bleached and deodorized (RBD) palm olein was discounted over soyabean oil by only USD 83.83 t⁻¹ and over cottonseed

oil, only USD 41.75 t⁻¹ (*Table 1*). Between lauric oils, palm kernel oil was discounted over coconut oil by USD 25.8 t⁻¹. However, RBD palm stearin was at a premium over tallow by only USD 34.42 t⁻¹.

The recovery of vegetable oils and fats prices, especially palm products in 2006 from 2005, was mainly due to the positive sentiments arising from the anticipated demand from the biodiesel industry. This anticipated demand in turn created additional uptake for these vegetable oils and fats. Led by soyabean oil, prices of other oils and fats, including palm products, were also being influenced. In addition, the rise in world crude oil prices also spurred local palm oil market sentiments. Other influential factors for the rise in palm products prices in 2006 include the worries over the massive disruption in

supplies from the torrential rain in palm oil producing areas, especially the southern part of West Malaysia.

In 2007, the narrow bandwidth of oils and fats prices continued to exist only for the first half of year after which it widened, indicating wider dispersion of some prices towards the end of year (*Figure 1*). The highest price was recorded by cottonseed oil which averaged at USD 971 t⁻¹ in 2007 and the lowest, by tallow at USD 710 t⁻¹ (*Table 1*). Overall, all these prices thronged upwards during the year. Price of RBD palm olein increased by 61% in 2007 from 2006 while prices of soyabean oil and cottonseed oil increased by 47% and 52% respectively. Both coconut oil and palm kernel oil showed almost identical percentage of increments in their prices. In the case of RBD palm stearin, its price had surged at faster rate than that of tallow.

The narrower bandwidth in the first half of 2007 produced smaller spreads for some of the oils and fats compared to the spreads in the second half due to the wider dispersion of the prices. As a result, the average discounts for the year between RBD palm olein and soyabean oil had been reduced to USD 54 t⁻¹ in 2007 from USD 83 t⁻¹ in 2006. However, the discounts between the olein and cottonseed oil increased further to USD 89 t⁻¹ from USD 42 t⁻¹ in the previous year (*Table 1*). The discounts between coconut oil and palm kernel oil prices similarly increased in 2007 to USD 31 t⁻¹ from USD 26 t⁻¹ in 2006. Between RBD palm stearin and

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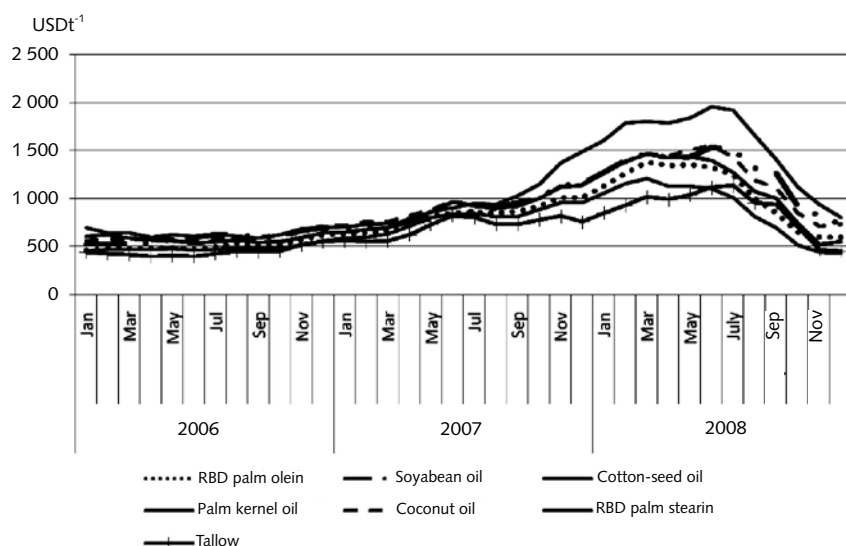


Figure 1. Past development of prices of selected oils and fats.

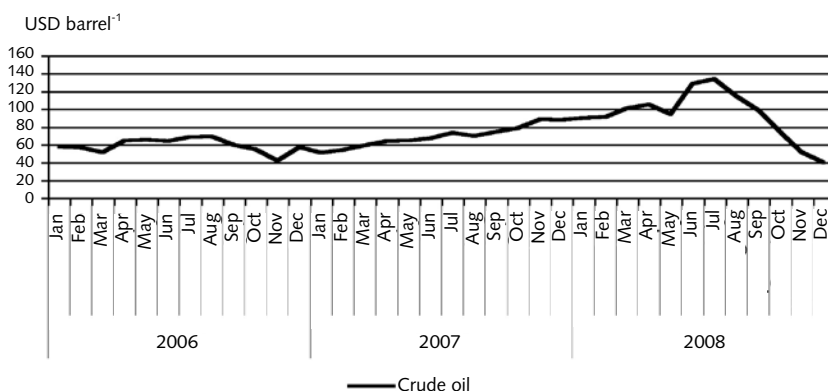


Figure 2. Past development of crude oil price.

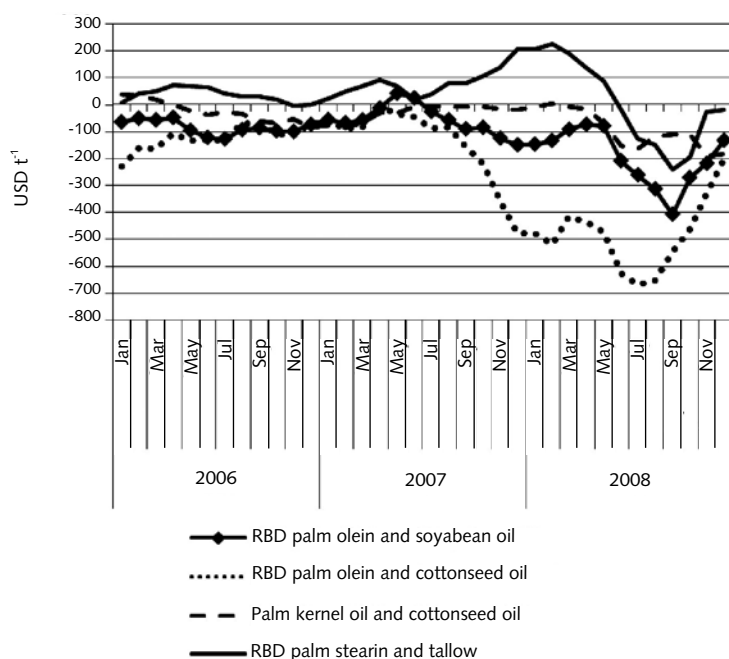


Figure 3. Development of price discounts and premiums in 2006-2008.

tallow, the former was traded higher than the latter by about USD 79 t⁻¹ in 2007. The development of the price discounts and premiums during the year can be seen clearly in *Figure 3*, with some closer to the horizontal zero axis, giving an indication that the spreads are very narrow.

The price situation in 2007 for, especially palm products was mainly influenced by the structural changes in the global oils and fats market and again the increase in crude oil price. As a result, crude palm oil (CPO) price was observed to be coupled closely with crude oil price and they often moved in tandem.

In 2008, the scenario of prices of the oils and fats appeared to be different than those in the previous two years. The prices formed a wider band throughout the year, which is a continuation from the development in the previous year (*Figure 1*). Despite this, all prices were higher than in 2007 and reached their highest levels during the first half of the year. It was observed that all palm products were traded at their record highest prices in March while non-palm products in June (except tallow in July at USD 1137 t⁻¹). Thus, RBD palm olein, palm kernel oil and RBD palm stearin prices reached their peaks at USD 1385 t⁻¹, USD 1462 t⁻¹, and USD 1209 t⁻¹ respectively in March while the price peaks for soyabean oil, cottonseed oil and coconut oil were USD 1537 t⁻¹, USD 1955 t⁻¹ and 1551 t⁻¹ respectively in June (*Table 1*). They, however, declined towards the end of year after the peaks (*Figure 1*).

Corollary to the above, the average prices of oils and fats in 2008 were higher than their respective prices in the past. RBD palm olein averaged at USD 1280.8 t⁻¹, soyabean oil at USD 1513.9 t⁻¹ and cottonseed oil at USD 1863 t⁻¹ (*Table 1*). For other oils and fats, the prices of palm kernel oil and coconut oil had averaged out at USD 1247 t⁻¹ and USD 1322 t⁻¹ respectively while RBD palm stearin and tallow at USD 981 t⁻¹ and 970.5 t⁻¹ respectively. The percentage increase in prices in

TABLE 1. MONTHLY PRICES OF SELECTED OILS AND FATS (USD t⁻¹): 2006 TO 2008

Year	Products Month	RBD palm olein	Soya-bean oil	Cotton-seed oil	Spread*	Spread*	Palm kernel oil	Coconut oil	Spread*	RBD palm stearin	Tallow	Spread*	RBD palm oil	Palm oil
		(1)	(2)	(3)	(1)-(2)	(1)-(3)	(4)	(5)	(4)-(5)	(6)	(7)	(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
	July	1 250	1 511	1 919	-261	-669	1 272	1 436	-164	1 011	1 137	-126	1 115	1 128
	Aug	1 009	1 322	1 661	-313	-652	1 072	1 193	-121	810	960	-150	879	885
	Sept	859	1 266	1 405	-407	-546	999	1 110	-111	696	938	-242	743	771
	Oct	657	928	1 119	-271	-462	746	856	-110	517	712	-195	564	545
	Nov	606	824	938	-218	-332	527	719	-192	445	475	-30	489	488
	Dec	606	738	811	-132	-205	554	740	-186	437	456	-19	511	503
Average (Jan -Dec):														
	2006	515	599	641	-83.83	-41.75	581	607	-25.8	485	451	34.42	445	478
	2007	827	882	971	-54.08	-89.42	888	919	-30.6	789	710	79.25	755	780
	2008	1 280.8	1 513.9	1 863	-233.10	-349.10	1 247.3	1 322.9	-75.6	981.4	970.5	10.90	1 053.3	1 039.2
Growth (%):														
	2006- 2007	60.69	47.22	51.59	-	-	52.85	51.41	-	62.70	57.54	-	69.81	63.12
	2007- 2008	54.80	71.74	91.88	-	-	40.41	43.96	-	24.35	36.69	-	39.49	33.19

Note: 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.

* = positive number refers to premium, negative number refer to discount.

Source: Oil World (various issues).

2008 from 2007 ranged between 24% (stearin) to 92% (cottonseed oil).

The wide bandwidth in 2008 resulted in wider premiums or discounts compared to the previous year. In one instance, the discount between olein and soyabean oil surged to USD 233 t⁻¹ compared to USD 54 t⁻¹ in 2007 while that between olein and cottonseed oil increased to USD 349 t⁻¹ from USD 89 t⁻¹. Similarly between the two laurics oil, palm kernel oil was discounted higher in 2008 at USD 75.6 t⁻¹ compared to that of USD 30.6 t⁻¹ in 2007.

The firmness of prices of these oils and fats in the first half of 2008, especially for palm oil, was actually being supported by higher crude oil prices, demand for biodiesel and the tight global supplies of vegetable oils and fats. In contrast, bearish sentiments prevailed in the second half with crude oil prices and vegetable oils prices experienced a sharp decline. In addition, the world was facing a high stock level of palm oil, global financial crisis and fears over global economic recession.

FACTORS AFFECTING THE MOVEMENT OF PALM OIL PRICE

Prices of palm products were observed to have accelerated since January 2008 until March 2008. Prices of RBD palm olein, palm kernel oil and RBD palm stearin reached their peaks respectively at USD 1385 t⁻¹, USD 1462 t⁻¹ and USD 1209 t⁻¹. Since then their prices moved to lower levels until end of year with prices of RBD palm olein at USD 606 t⁻¹, palm kernel oil at USD 554 t⁻¹ and RBD palm stearin at USD 437 t⁻¹ in December 2008. Prices of other oils and fats also behaved in the same manner and this clearly shows the volatility of oils and fats prices in the short period. Many factors had contributed to this development, especially for the palm oils sector.

One of the contributing factors is the price of crude oil in the global market. The crude oil price had

increased earlier due to the world's concern over energy security, depletion, and environmental considerations. As a result, many countries then turned to alternative energy sources which are renewable in nature. One of these is biodiesel which may be produced from oils and fats. In this respect, Europe has been the front runner in using the biodiesel with production increasing from about 2.88 million tonnes in 2005 to 6.11 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 crude oil rose to about USD 133 per barrel in July 2008, the increased usage of oils and fats for the alternative fuels had caused a supply shortage resulting in their prices to surge in tandem with crude oil prices (Figure 4). Price of rapeseed oil has closely tracked crude oil prices much earlier since 2005 while palm oil and soyabean oil prices started to track the crude oil prices only in the middle of 2006 when they were used as feedstocks for alternative energy resources. Prices of both palm oil and soyabean oil had increased at faster rates than rapeseed oil as there was an increased in demand for them.

Another significant contributing factor affecting palm oil price is the traditional influence of soyabean oil. Figure 4 shows the close association between the palm oil and soyabean oil prices. The correlation index between them during the period of 2006 until 2008 is 0.90, indicating a positive relationship which means that as price of soyabean oil increases, price of palm oil will increase and *vice versa*. This is due to the fact that soyabean oil is a close substitute for palm oil in many applications.

Stock also play a very important role in determining the level of palm oil price. In the past, ending stock of palm oil has shown some indications of a negative relationship with price of CPO. Stock increases while

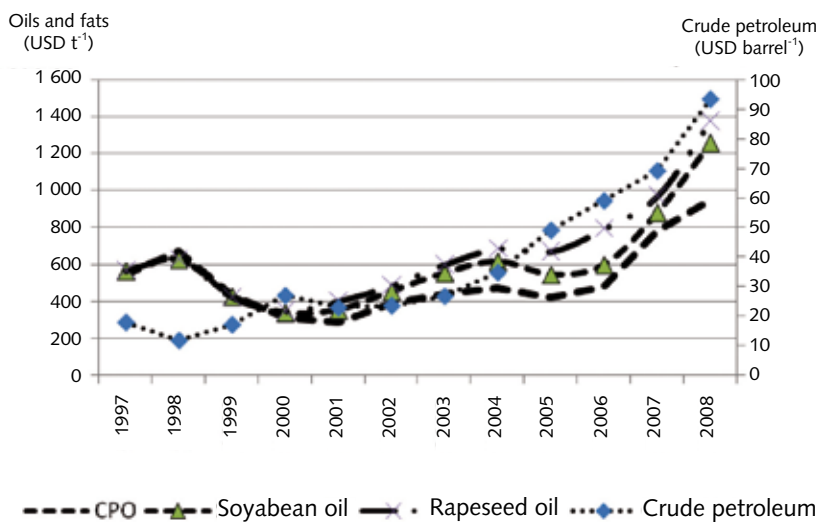
price declines or *vice versa*. A very obvious relationship was during the period of 1998 until 2006 (Figure 5). The correlation index is high, about -0.87 during the period. From 2006, the relationship between the two variables reversed, moving in tandem. Malaysian ending stocks of palm oil has reached about 2 million tonnes in June 2008 and the price was seen still accelerating upwards to reach RM 3595 t⁻¹. The local scenario of palm oil stocks has gradually lost its influence on the price of palm oil during the period while external factors continue to play a more prominent role. However, they resumed to their traditional inverse relationship towards end of year where stock still remained high while price had declined (Figure 6).

PROSPECTS OF PALM OIL PRICE IN 2009

Palm oil will continue to have good prospect in future. It has many uses, both in food and non-food applications. Besides, it is now also a feedstock for the production of biodiesel, thus creating additional demands. A portion of palm oil supply will be channelled to this new application.

As a result of commitments from several countries, it is very likely that the world will continue using oils and fats for renewable energy in future. This becomes a factor that can guarantee bullishness in the oils and fats, including palm oil sector, in future.

In 2009, the prospect for palm oil is expected to be bright due to a few bullish factors. Supply of palm oil from Malaysia is expected to be tight this year with a total production of about 18 million tonnes, which is an increase of only about 1.7% from the previous year. The tight production can be attributed mainly to the stress of the oil palm trees which had over-produced in 2008. It is the biological nature of the trees to have a production cyclical effect



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

Figure 4. Developments of prices of crude oil and various feedstocks.

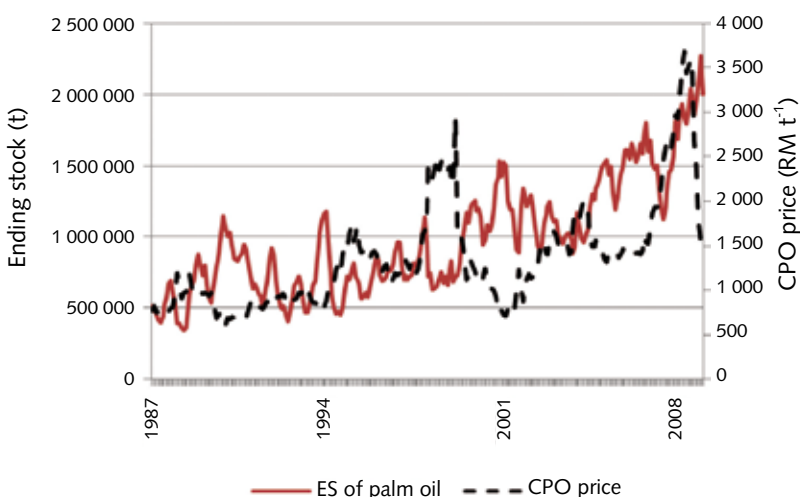


Figure 5. Long-term relationship between palm oil ending stock (ES) and price of crude palm oil (CPO).

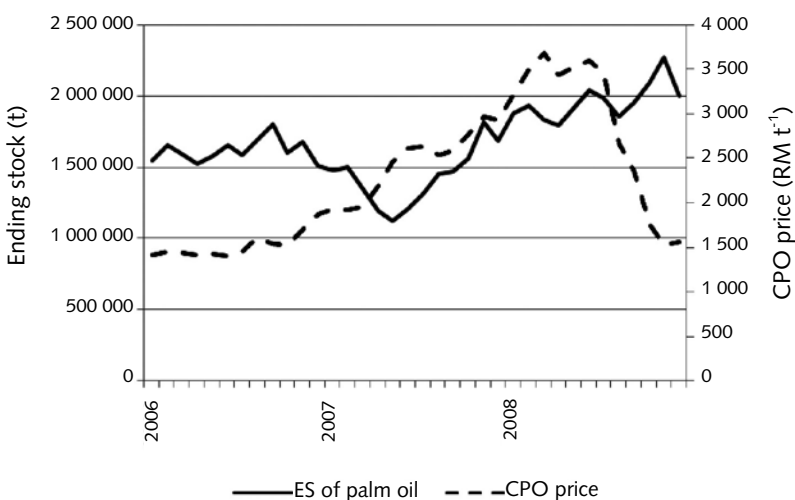


Figure 6. Short-term relationship between palm oil ending stock (ES) and price of crude palm oil (CPO).

every three to four years. Exports of Malaysian palm oil is also expected to show good performance during the year with leading importers such as China, India, European Union and USA continuing to increase their imports. The increase in exports and tight supply of palm oil will reduce the stock level of palm oil, expected to be at about 1.5 million tonnes by the end of year.

In view of the above, palm oil price is expected to be firmed as in 2009. The price has been accelerating upwards since January 2009 until May 2009 from RM 1853 t⁻¹ to RM 2282 t⁻¹ (as at 14 May 2009). The current stock situation of about 1.2 million tonnes in April 2009 is a good sign of price recovery for palm oil which is consistent with the conventional economic theory. All these factors will influence the price which has been forecasted to average at around RM 2300 t⁻¹ to 2400 t⁻¹ for 2009.

CONCLUSION

The price of palm oil and other selected oils and fats will continue to be bullish in 2009. Driving factors towards this bullish scenario are among others, increased export demand from major importing countries, higher soyabean oil prices, low stock level and tight supply of palm oil, beside the additional demand for biodiesel production.

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