

Prices of Selected Oils and Fats and Prospects of Palm Oil in 2009

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INTRODUCTION

The oils and fats were characterized by the volatility of their prices which had moved in large magnitudes on the upswing and downswing within the short period of a year. While following the momentum of the swing, they were affected by several factors, among which were petroleum price and their use in biodiesel production. The recent increase in petroleum price has caused many countries to start using alternatives which may come from various feedstocks, such as rapeseed oil, soyabean oil or palm oil. This has created additional ways of using these feedstocks which in turn has raised their prices to a higher level. When petroleum price dropped towards the end of 2008, the prices of vegetable oils and fats followed suit. Besides the petroleum factor, which consequently led to the use of biodiesel, there may be other factors which influence palm oil price. This article highlights the developments in prices of selected oils and fats, the main factors affecting palm oil price and the prospects of palm oil in 2009. It is forecast that palm oil price will firm up at around RM 2300-RM 2400 in 2009.

PERFORMANCE OF SELECTED OILS AND FATS PRICES SINCE 2007

During the period from January 2007 until June 2009, each of the selected oils and fats has nicely formed a look-alike bell-shaped curve for prices which are symmetrically distributed around their means or averages and have left and right tails. If the prices are randomly distributed, statistically they can be said to be normally distributed. The selected oils and fats which are of relevance to this article are

refined, bleached and deodorized (RBD) palm olein, soyabean oil, cottonseed oil, crude palm oil, palm kernel oil (PKO), coconut oil, RBD palm stearin and tallow, the prices of which are shown for the past 30 months in *Figures 1, 2 and 3 and Table 1*.

It may be seen that the left tail of each curve consists of the prices of each selected oil or fat during 2007, and that the right tail consists of the prices for the first six months of 2009. The prices in 2008 formed the bell-shaped curves and are significantly higher than those in the two tails.

The prices on the left hand side show a gradual increase. For instance, the price of soyabean oil increased from USD 697 t⁻¹ in January 2007 to USD 1164 in December 2007. Similarly, RBD palm olein price increased from USD 641 to USD 1015 t⁻¹ while cottonseed oil price went from USD 708 to USD 1493 t⁻¹ (*Figure 1 and Table 1*). Showing the same trends, PKO, coconut oil, RBD palm stearin and tallow prices were lower in January 2007 at USD 653, USD 731, USD 592 and USD 570 t⁻¹, respectively, than at the end of the year when they were respectively USD 1134, USD 1153, USD 961 and USD 758 t⁻¹ (*Figures 2 and 3 and Table 1*).

In terms of averages for the year 2007, these oils and fats averaged at USD 827 (RBD palm olein), USD 882 (soyabean oil), USD 971 (cottonseed oil), USD 888 (PKO), USD 919 (coconut oil), USD 789 (RBD palm stearin) and USD 710 (tallow). These averages show that some of the oils and fats were relatively competitive, as indicated by the closeness of their prices. Hence, olein and soyabean oil competed in their prices, and the former was discounted by USD 54.08 t⁻¹. PKO and coconut oil also competed, and the former was discounted by USD

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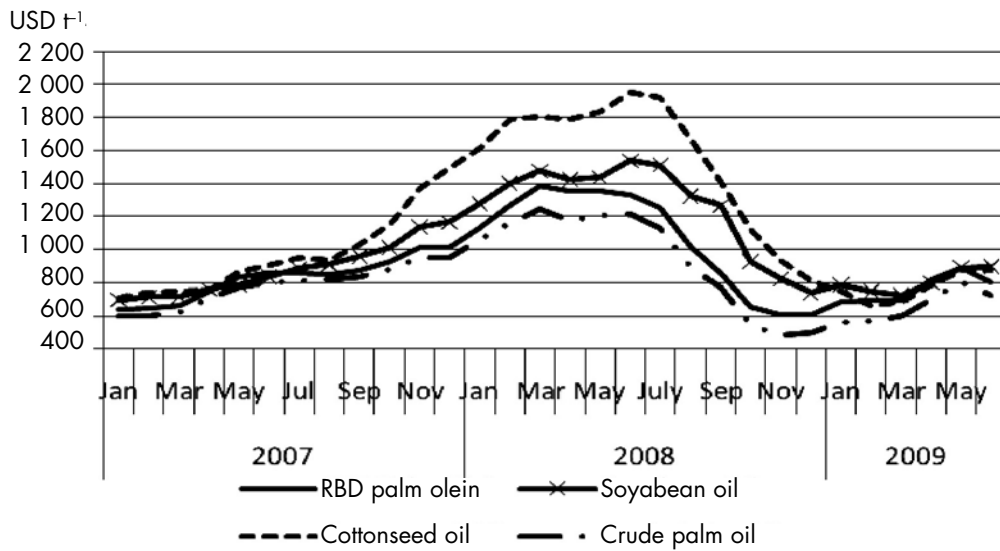


Figure 1. Prices of refined, bleached and deodorized (RBD) palm olein, soyabean oil, cottonseed oil and crude palm oil.

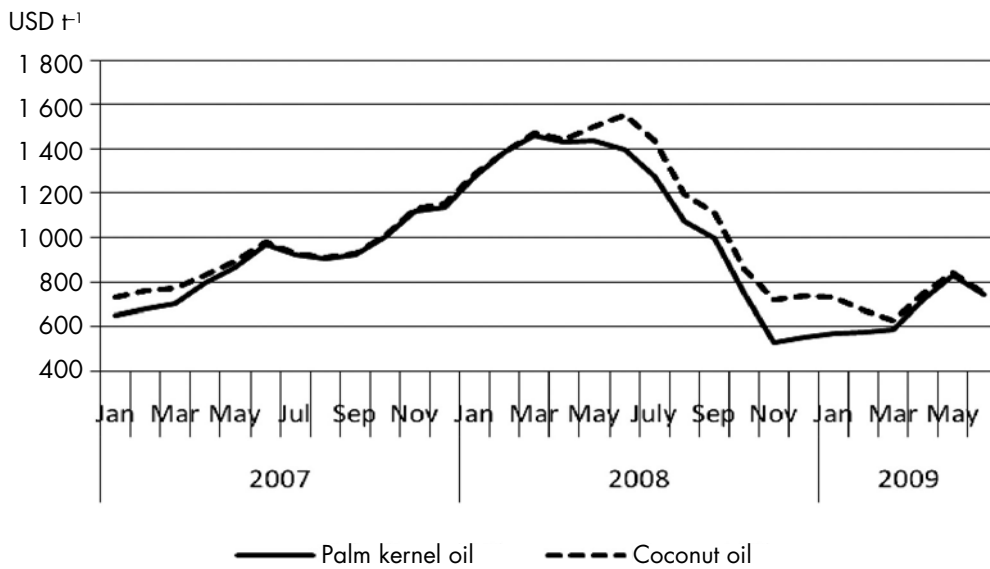


Figure 2. Prices of palm kernel oil and coconut oil.

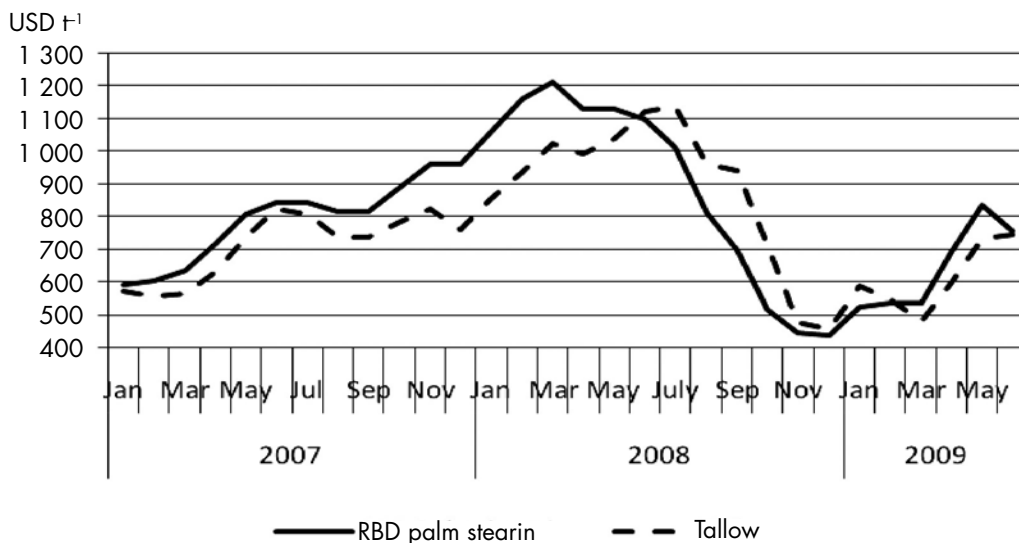


Figure 3. Prices of refined, bleached and deodorized (RBD) palm stearin and tallow.

TABLE 1. MONTHLY PRICES OF SELECTED OILS AND FATS (USD t⁻¹), FROM 2007 TO 2009*

Year	Products Month	RBD palm olein	Soya-bean oil	Cotton-seed oil	Spread [†]	Spread [†]	Palm kernel oil	Coco-nut 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)
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	852	206	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
	Sep	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
2009	Jan	685	789	747	-104	-62	570	734	-164	522	585	-63	566	562
	Feb	696	748	663	-52	33	574	674	-100	536	548	-12	577	571
	Mar	696	727	684	-31	12	587	625	-38	537	480	57	595	598
	Apr	822	801	791	21	31	717	747	-30	691	600	91	716	702
	May	892	892	870	0	22	830	843	-13	833	730	103	799	801
	June	805	896	875	-91	-70	741	747	-6	757	743	14	732	726
Average:														
	2007	827	882	971	-54	-144	888	919	-31	789	710	79	755	780
	2008	1 067	1 262	1 553	-194	-485	1 130	1 224	-95	891	886	5	961	949
	2009*	766	809	772	-43	-6	670	728	-59	646	614	32	664	660

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.

[†] = if +, it refers to positive spread (premium); if -, it refers to negative spread (discount).

* = January 2009 to June 2009.

Source: Oil World (2006; 2007; 2008).

30.58 t⁻¹. Only stearin performed better than the other palm products as it was sold at higher prices (by USD 79.25) than tallow. As in the past, cottonseed oil outperformed olein as its price was higher than the price of olein by USD 143.50 in 2007.

Analysing the prices in 2008, it can be seen that they generally continued to escalate from the previous year and up-trended until the middle of 2008. They then de-trended in the second half after recording their highest prices between March and July. For palm products, the highest prices were recorded in March, with olein at USD 1385, PKO at USD 1462 and stearin at USD 1209 t⁻¹, while non-palm products recorded their highest prices either in June (soyabean oil, cottonseed oil and coconut oil) or in July (tallow).

Unlike in 2007, the prices in 2008 varied quite widely with the highest being that of cottonseed oil and the lowest being tallow. The former averaged at USD 1553 t⁻¹ while the latter at USD 886 t⁻¹. Within this bandwidth, some oils and fats were competing in price. Olein was sold cheaper than soyabean oil by USD 194 t⁻¹, a bigger discount than in 2007 (USD 54.08 t⁻¹). It was even sold far cheaper than cottonseed oil by USD 485, which almost tripled the discount of USD 143.50 in 2007. The competitiveness of stearin, was continuously being challenged by tallow, and its premium in 2008 over the latter was reduced to USD 5 from USD 79.25 t⁻¹ in 2007 (*Figure 3* and *Table 1*). In the lauric oils sector, PKO was discounted by coconut oil by USD 95 t⁻¹ (*Figure 2* and *Table 1*).

The behaviour of the selected oils and fats in the first half of 2009 (the right tail) was quite similar with that in 2007 (the left tail), except that they were slightly lower. Similar oils and fats tended to group together and competed stiffly with one another in price, unlike the scenario in 2008. RBD palm olein, soyabean oil and cottonseed oil competed in one group (*Figure 1*), lauric oils competed in another group (*Figure 2*), and RBD palm stearin and tallow in a third group (*Figure 3*). Hence, the competition resulted in a smaller price variation between them. In this respect, the variation between RBD palm olein and soyabean oil in the first six months of 2009 was reduced to -USD 43 t⁻¹ from -USD 194 in 2008, while that between olein and cottonseed oil, to -USD 6 t⁻¹ from -USD 485. This was the result of the decrease in olein's average price by 28% which was smaller than the decreases in soyabean oil and cottonseed oil prices by 36% and 50%, respectively. It is interesting to note that the price of cottonseed oil dropped significantly in 2009 to USD 772 t⁻¹ from USD 1553. PKO was sold at USD 59 t⁻¹ cheaper than coconut oil in 2009, while stearin was sold at a price higher by USD 32 t⁻¹.

PALM OIL PRICE FACTORS

The volatility in the prices oils and fats were characterized by their fluctuations in large magnitudes on the upswing and downswing within the short period of a year. The highest monthly average palm oil price was recorded in March 2008 at USD 1249 t⁻¹. This was followed by RBD palm oil at USD 1291 t⁻¹, RBD palm stearin at USD 1209 and RBD palm olein at USD 1385 (*Fig-*

ure 4). However, the prices of soyabean, cottonseed and coconut oils, recorded their highest levels in June 2008 at USD 1537, USD 1953 and USD 1551 t⁻¹, respectively. They were followed by tallow price at USD 1137 t⁻¹ in July 2008.

The developments in the price of palm oil over the past 30 months were affected mainly by the contributions from higher crude petroleum prices, the demand for biodiesel, the tight global vegetable oils situation and higher vegetable oils prices.

The increase in prices of crude petroleum was due to the world's concern over energy security, depletion and environmental considerations. As a result, many countries now turn to alternative energy sources which are renewable and sustainable. One of the sources is biodiesel which may be sourced from oils and fats, including palm oil. However, rapeseed oil (60%-70%) and soyabean oil (20%-30%) are heavily used in Europe as feedstocks for biodiesel. This has created an additional demand for such feedstocks, and consequently as crude petroleum price increased to about USD 133 barrel⁻¹ in July 2008, the increased use of feedstocks for the alternative fuels caused a supply shortage, thus causing their prices to surge in tandem with crude petroleum prices. The price of rapeseed oil closely tracked crude petroleum prices much earlier (since 2005) while palm oil and soyabean oil prices started to track crude petroleum prices only in the middle of 2006 when they were also being used as feedstocks for these alternative energy resources (*Figure 5*). Prices of both palm oil and soya-

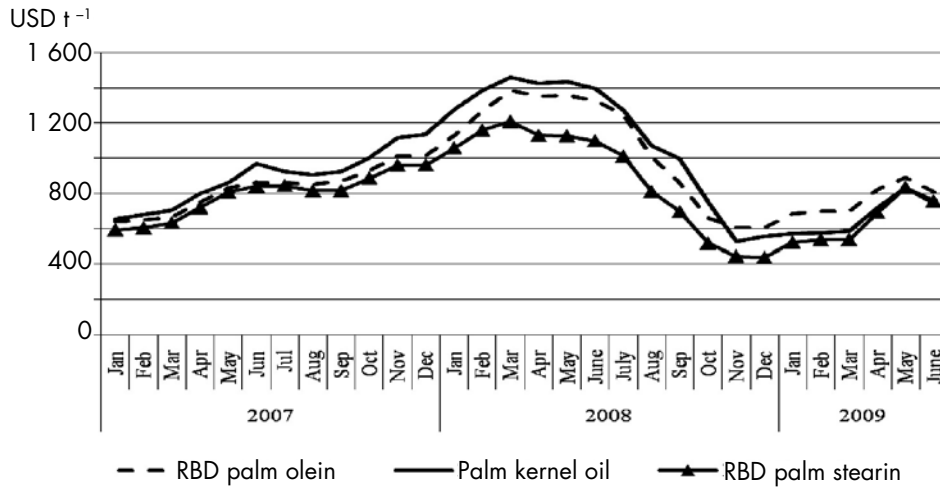


Figure 4. Past developments in palm product prices.

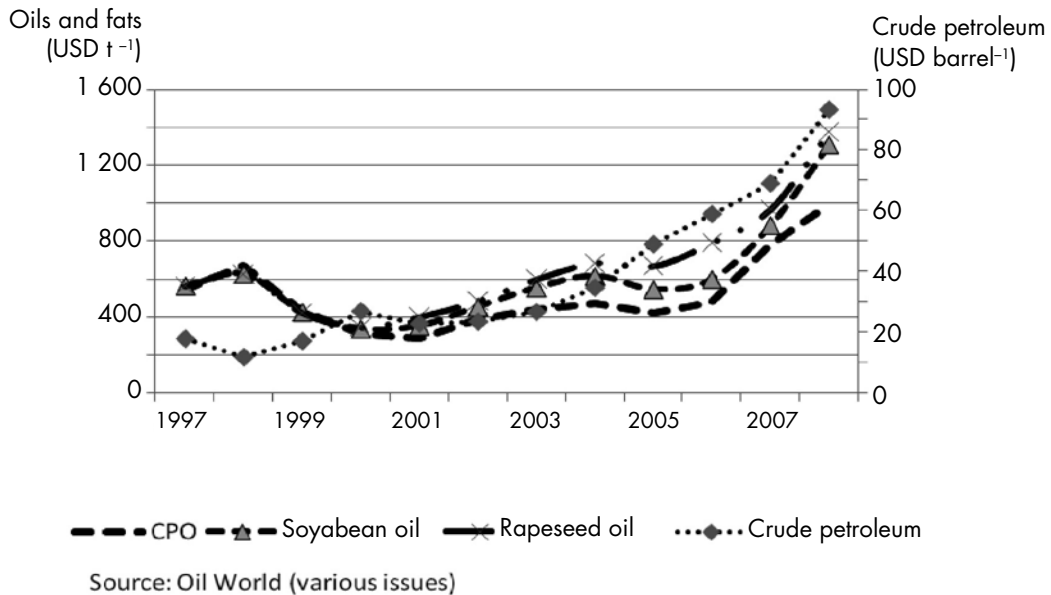


Figure 5. Prices of crude palm oil (CPO), soyabean oil, rapeseed oil and crude petroleum.

bean oil have increased at faster rates than rapeseed oil as there is an increase in demand for them.

Another significant contributing factor affecting palm oil price is the traditional influence of soyabean oil price. Figure 1 shows the close association between the prices of palm oil and soyabean oil. The correlation index between them during the period from 2007 until 2009 (the first six months) is 0.90, indicating a positive relationship which means that as the price of soyabean oil increases, the 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. As such, they are very competitive and closely linked with one another.

Stocks also play a very important role in determining the level of palm oil price. In the past, ending stocks of palm oil have shown some indications of a negative relationship with the price of crude palm oil (CPO) (Figure 6). Stocks increase while price declines, or vice versa. A very obvious relation-

ship was seen during the period from 1998 until 2006. The correlation index was high, at about -0.87, during that period. From 2006, the relationship between the two variables reversed, moving in tandem. Malaysian ending stocks of palm oil reached about 2 million tonnes in June 2008, and the price was seen still to be accelerating upwards to reach RM 3595 t⁻¹. The local scenario of palm oil stocks gradually lost its influence on the price of palm oil during the period, while external factors continued to play a more prominent role. However,

they resumed to their traditional inverse relationship towards the end of the year when stocks still remained high while price declined (Figure 7). In 2009, the scenario remained the same.

PROSPECTS OF PALM OIL IN 2009

As highlighted in the previous article in *Palm Oil Developments No. 49* (Ramli, 2009), palm oil will continue to have good prospects in the

future. Beside its food uses, it has additional use in non-food applications. It is now being used as a feedstock for the production of biodiesel, thus, creating an additional demand for it. A portion of available palm oil will be channelled to this new application.

Due to several commitments from several countries, there is a tendency that the world will continue using renewable energy from oils and fats in the future. This be-

comes a factor that can guarantee the continuous bullishness of the palm oil sector and other related sectors in the future.

In 2009, palm oil's prospects are supposed to be good. A few bullish factors will help increase palm oil price to a high level. Production of palm oil is expected to be tight this year with an estimated total of about 17.6 million tonnes which is a reduction of 0.6% from the previous year. The tight production situation

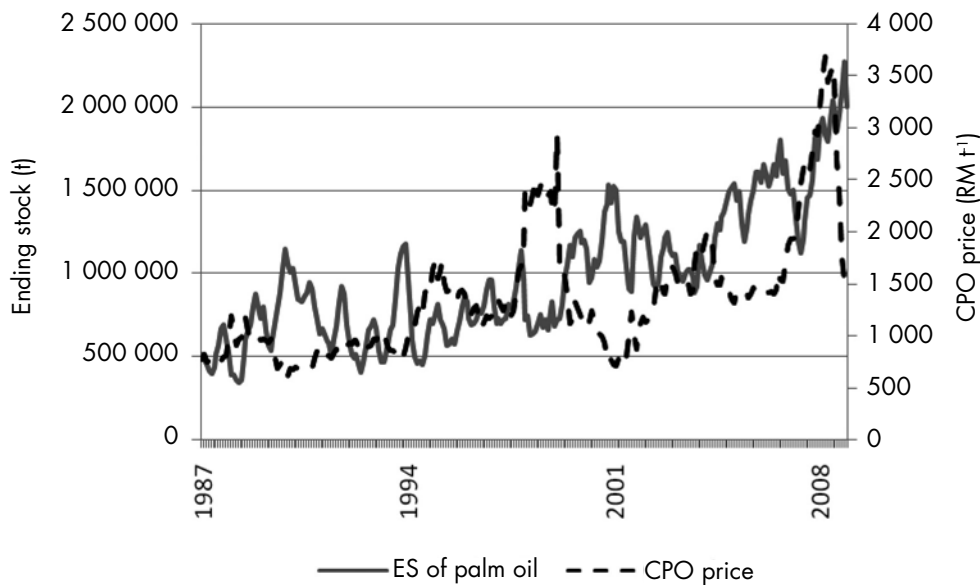


Figure 6. Long-term relationship between palm oil ending stock (ES) and price of crude palm oil (CPO).

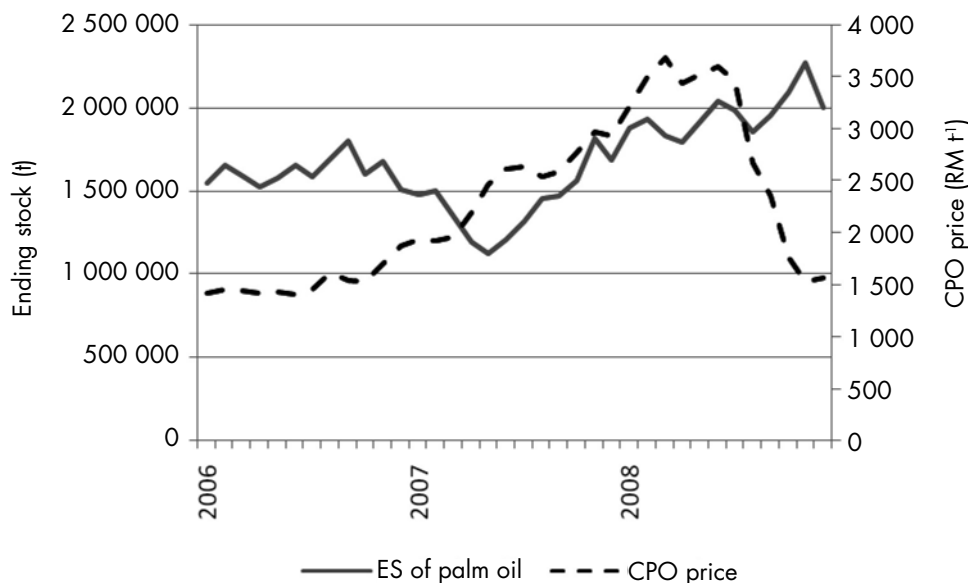


Figure 7. Short-term relationship between palm oil ending stock (ES) and price of crude palm oil (CPO).

in the country is mainly attributed to the stress on the palms due to over-production in 2008. It is the biological nature of the palms to show a cyclical effect on production quite regularly, once every three to four years. Exports of Malaysian palm oil are also expected to perform well during the year with leading importers such as China, India, European Union and USA continuing to increase their import volumes. The increase in exports and the tight supply of palm oil will reduce the stock level of palm oil, expected to be at about 1.5 million tonnes at the end of the year.

Having said all this, palm oil price is expected to firm up in 2009. The price has been accelerating upwards since January 2009 until May 2009, moving from RM 1853 to RM 2165 t⁻¹. The current stock situation of about 1.2 million tonnes (in April 2009) is a good sign of price recovery for palm oil which follows conventional economic theory. Together, all these factors will influence price which has been forecast at around RM 2300 to 2400 t⁻¹ for 2009.

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