

An Overview of the Prices of Selected Oils and Fats in 2009

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INTRODUCTION

The volatility of oils and fats prices is a significant feature of the oils and fats sector. With no exception for the prices of palm products, the upswing and downswing of their prices imply that there are different factors affecting the prices at different times of the year. In 2009, speculation over the low production of palm oil in the early part of the year partly affected palm oil prices until the middle of the year. The volume of palm oil stock and soyabean oil price in the international market also influenced the palm oil prices. In addition, the trend of crude oil price also had some effect. This article discusses the prospects of palm oil prices in 2009 which appear to be good towards the end of the year. Our analysis shows that palm oil price is likely to firm up at around RM 2300 – RM 2400 in 2009.

PALM OIL PRICE PERFORMANCE IN RELATION TO THAT OF OTHER SELECTED OILS AND FATS IN 2009

The trading of oils and fats is characterized by the volatility in their prices. This characteristic clearly appeared during the period starting from 2007 until the present when bell-shaped curves were formed for the prices of selected oils and fats which were symmetrically distributed around 2008, leaving the prices in 2007 and 2009 as their tail-ends (*Figure 1*). This general pattern of prices was well demonstrated by the prices of refined bleached deodorized (RBD) palm olein (olein), soyabean

oil (SBO), cottonseed oil (CSO), palm kernel oil (PKO), coconut oil (CNO), RBD palm stearin (stearin) and tallow. Their prices had moved by large magnitudes on the upswing and downswing within the period under study. They had, in fact, escalated at the beginning of the period and burgeoned in 2007 until the middle of 2008 after which they gradually tumbled and slid towards the end of 2008. They then slowly petered out in the first quarter of 2009 and fluctuated along a moderate ascending trend until October 2009 (*Figure 1* and *Table 1*).

As shown in *Figure 2*, the prices in 2009 escalated quite moderately. There was a surge in price for olein from USD 685 t⁻¹ in January to USD 734 t⁻¹ in October, SBO from USD

789 to USD 897, CSO from USD 747 to USD 847, PKO from USD 570 to USD 726, stearin from USD 522 to USD 682, and tallow from USD 585 to USD 671 t⁻¹. The only exception was CNO for which the price slid from USD 734 in January to USD 706 t⁻¹ in October.

The selected oils and fats also traded in a small rangebound in the first 10 months of 2009, thus producing a smaller variation between their highest and lowest prices. For instance, olein was traded at the lowest price of USD 685 t⁻¹ in January and at the highest price of USD 892 t⁻¹ in May, making a gap of USD 207 t⁻¹ (*Figure 2*). Meanwhile the gap for SBO was USD 170 t⁻¹ after being traded in a rangebound between USD 727 in March and USD 897 t⁻¹ in October. The gap for CSO was USD 212 t⁻¹ with the highest traded price of USD 875 in June and the lowest of USD 663 t⁻¹ in February. The price gap for PKO was USD 260 t⁻¹ (the highest was at USD 830 in May and the lowest was at USD 570 t⁻¹ in January), while for CNO the gap was USD 218 t⁻¹ (the highest being USD 843 in May and the lowest being USD 625 t⁻¹ in March), for stearin it was USD 311 t⁻¹ (the highest being USD 833 in May and the lowest being USD 522 t⁻¹ in January) and

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**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
	July	725	837	802	-112	-77	666	686	-20	666	664	2	647	640
	Aug	793	886	851	-93	-58	729	747	-18	734	808	-74	764	723
	Sep	740	846	797	-106	-57	704	701	3	694	841	-147	720	674
	Oct	734	897	847	-163	-113	726	706	20	682	671	11	708	680
Average:														
	2007	827	882	971	-54	-143.50	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*	759	832	793	-73	-34	684	721	-37	665	667	-2	682	668

Note: RBD palm olein, Mal. CIF Rott; soyabean oil, Dutch FOB ex-mil; 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 October 2009.

Source: Oil World (various issues).

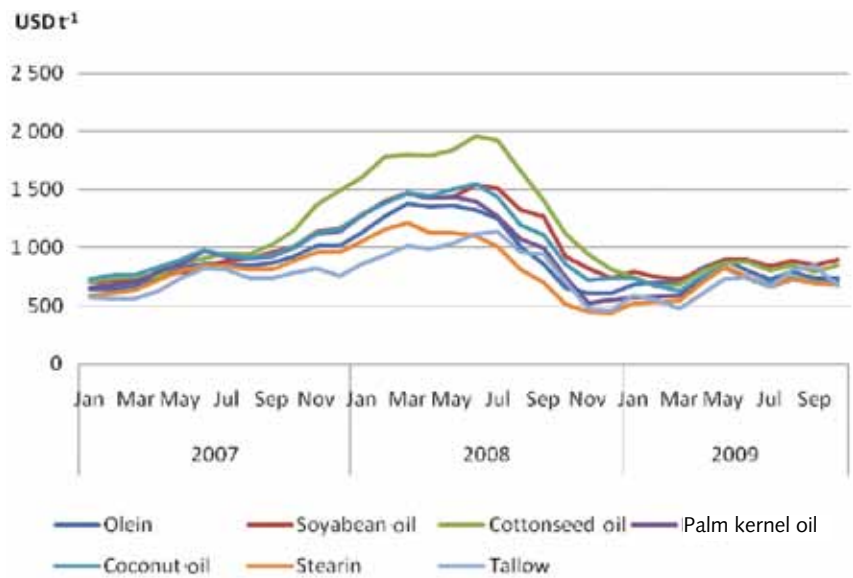


Figure 1. Prices of selected oils and fats from 2007 until 2009.

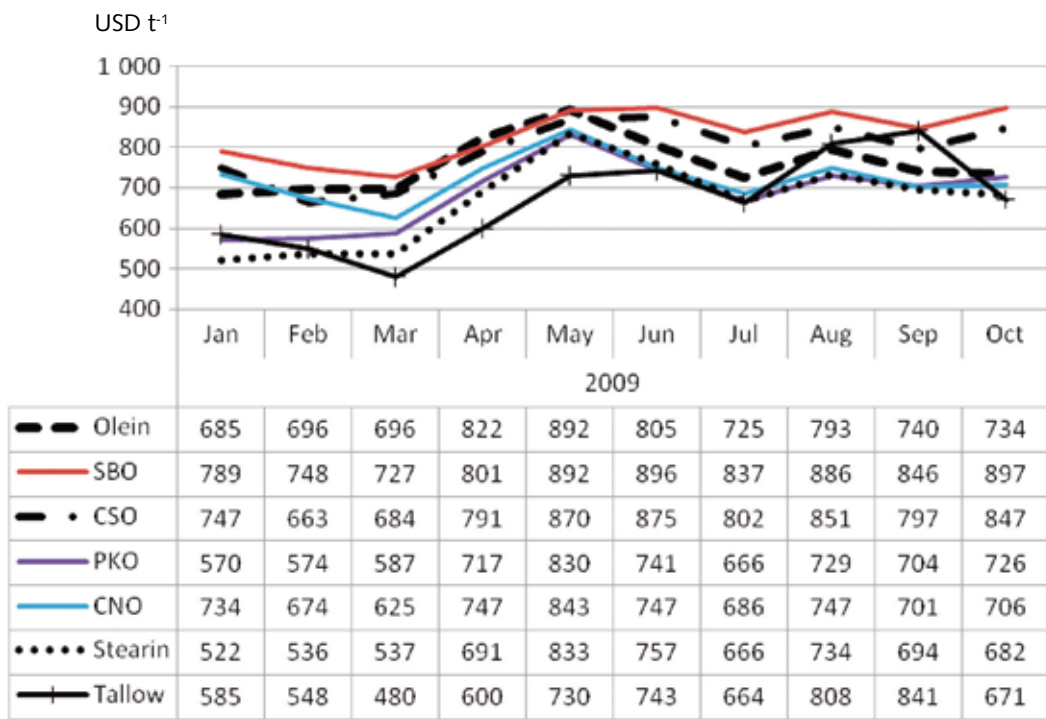


Figure 2. Prices of the selected oils and fats in the first 10 months of 2009.

for tallow it was USD 328 t⁻¹ (the highest being USD 808 in August and the lowest being USD 480 t⁻¹ in March). Overall, tallow was traded in a wider rangebound than the other oils and fats in the first 10 months of 2009. Interestingly, most of the prices peaked in the months of May and June.

As mentioned above, the price of each selected oil and fat fluctuated within its own rangebound. *Figure 3* contrasts the monthly price changes of the selected oils and fats in 2009 (January to October). The lines in the area below zero on the y-axis represent declines in prices and those above zero represent a surge in prices. Thus, CSO, SBO,

CNO and tallow recorded a fall in their prices in February while others surged in that month. SBO, CNO and tallow continued to fall in March while olein maintained its February price and CSO, PKO and stearin recorded a surge in their prices. All the oils and fats showed a significant surge in price in April and May with stearin recording the

highest increase of USD 154 t⁻¹ in April and olein the smallest increase of USD 70 t⁻¹ in May.

The prices of SBO, CSO and tallow continued to increase in June while the others went the opposite direction. In July, all of the selected oils and fats were bearish as they recorded lower prices than in June. Nevertheless, a recovery in their prices was recorded in August; however, this lasted for only one month as they all (except tallow) tumbled and slid again to become bearish in September. In October, the prices of the selected oils and fats appeared to recover except for olein, stearin and tallow. Tallow recorded the biggest decline in price of USD 170 t⁻¹. In general, the characteristics of price volatility were clearly demonstrated by the price movements in 2009.

Figures 1, 2 and 3 also show that the prices of the selected oils and fats were very competitive in 2009. Generally, they tagged very closely with one another and moved in almost the same direction. The gap between any two prices of oils and fats at any point of time can be measured as spreads. Figure 4 demonstrates clearly the spreads between the related oils and fats. Within the olein, SBO and CSO group, olein normally traded lower than SBO and CSO in the past. However, there were also times when it was sold at a higher price than SBO and CSO. For instance, in April 2009, it was sold at a premium relative to SBO by USD 21 t⁻¹ while in May, both olein and SBO were sold at the same price. With CSO, olein was traded at a premium from February until May 2009. For the lauric oils group, PKO was significantly discounted against CNO in January 2009 by USD

164 t⁻¹, but the discount reduced gradually until August (USD 18 t⁻¹) after which it improved and was sold at a premium over CNO in September and October. For the stearin-tallow group, the price of stearin had a better performance than tallow from March until July and also in October; other months showed a domination of discounts.

PALM OIL PRICE FACTORS

High volatility was the main feature of the oils and fats prices, including that of the palm oil sector (Figure 5). Prices of all the three palm products generally moved in the same direction and very close to one another. The up and down of the 2009 monthly prices were caused by many related factors.

In January 2009, olein price was up by USD 79 t⁻¹, PKO price by USD 16, and stearin by USD 85 from their respective prices in December 2008. The high traded prices were mainly due to their good export performance in December 2008 which had expanded to 1.6 million tonnes from 1.3 million tonnes in the previous month. Stocks of palm oil also played an important role as the industry had anticipated a low level of supply in the first quarter of 2009 due to the low production cycle. The stock in December 2008 was 2.0 million tonnes and reduced to 1.8 million tonnes in January 2009. Another factor was the surge of crude oil price which increased to USD 40 per barrel, and then to USD 50 per barrel – both within the month of January.

In February 2009, olein price was USD 11 t⁻¹ higher than its price in the previous month while PKO and stearin traded higher by USD 4 and USD 14 t⁻¹, respectively,

than the previous month. This development was affected partly by the news of the palm oil imports by China and India. China had increased her imports in February due to her concern over the tight supply of soyabean oil caused by the drought that had occurred in Argentinian soyabean-producing areas. Furthermore, there was speculation over the tight supply of palm oil during the year due to low palm oil production and stocks. India's participation in the import tender for 12 000 t of palm oil could also be factored in to have influenced the palm oil prices in February 2009. While palm oil prices increased, prices of other oils and fats, such SBO, CSO, CNO and tallow, fell during the month.

Palm oil prices were bullish again in March as they recorded higher prices than in the previous month. Among the factors causing the bullishness were the low stock level of 1.4 million tonnes which had started since the previous month, and also the price of crude oil which had stayed firm during the month. Prices of other oils and fats (except that of CSO) continued to be bearish from the previous month.

In April and May, prices of all the selected oils and fats turned bullish. The low stock level of palm oil in the country in the previous month helped to influence the prices of palm products. The stock reduced to 1.4 million tonnes in March, then to 1.29 million tonnes in April but increased slightly in May to 1.37 million tonnes. The Malaysian government was also timely in introducing a replanting program which further exacerbated the tight supply of palm oil. On top of that, the production of palm oil recorded

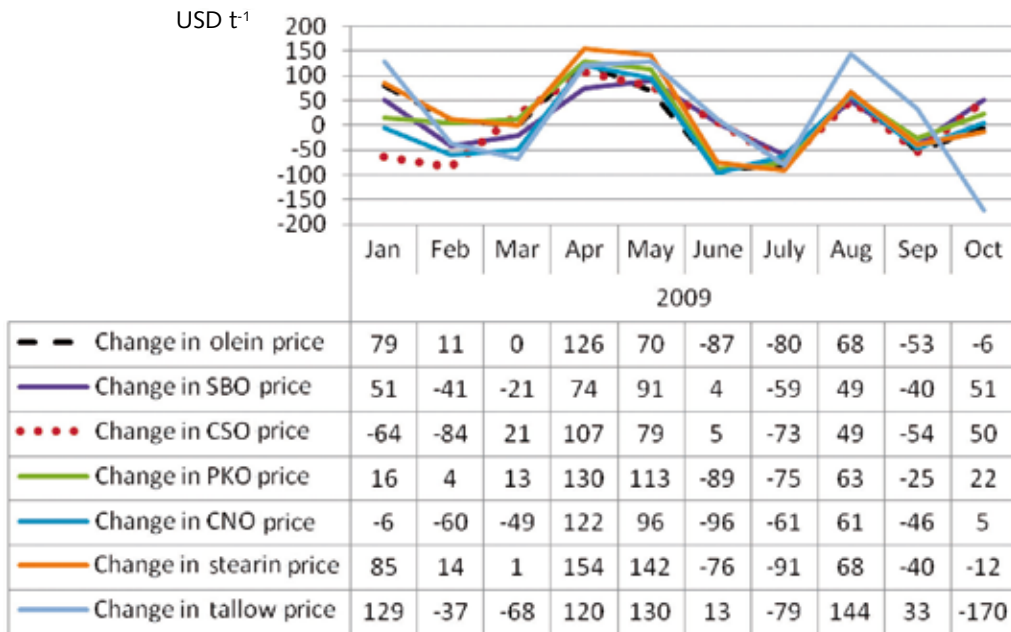


Figure 3. Monthly change in prices of selected oils and fats in 2009.

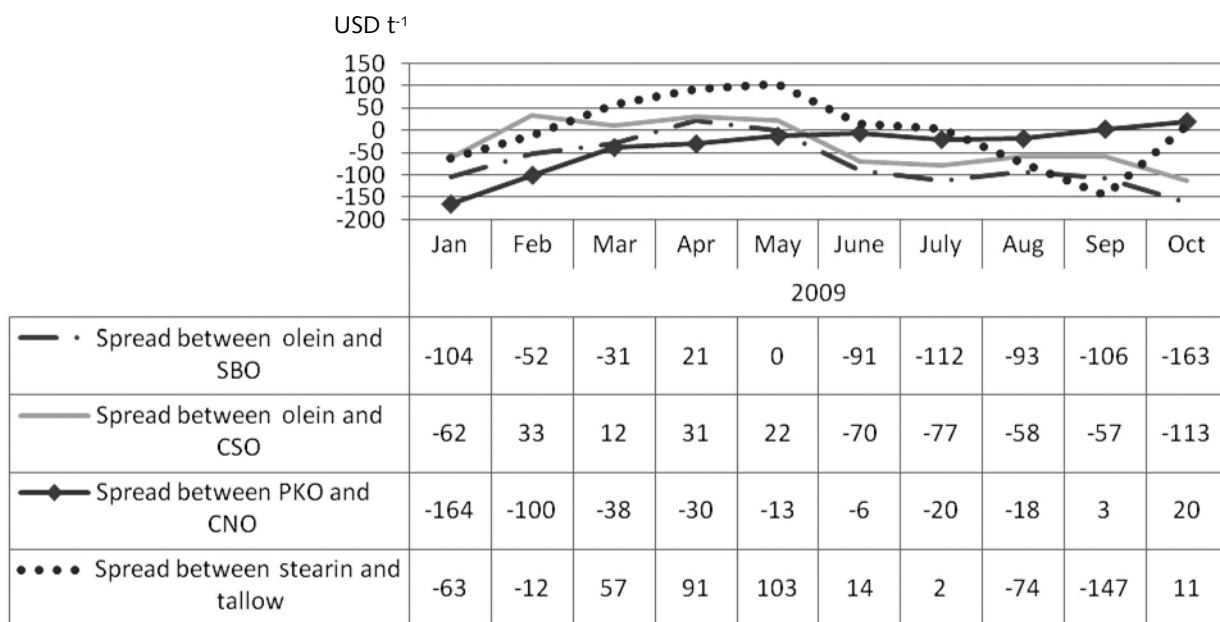


Figure 4. Spreads between related oils and fats in 2009.

a slight increase, and exports recorded good performance.

In June, the performance of palm products deteriorated as their prices dropped. The performance continued to deteriorate in July. There was a lack of fundamental factors to support palm oil prices

in both these months. There were rumours that palm oil production was expected to increase during the two months as the oil palms recovered from the biological yield stress, following the seasonal uptrend pattern. Weaker export demand for palm oil could also have exacerbated the stock situation.

There were also reports of rain and good weather conditions in US and India which favoured the growth of soyabean. This depressed the soyabean futures and caused adverse effects on the local market. Lastly, palm oil prices were also pressured by a drop in crude oil prices, down to USD 63 per barrel

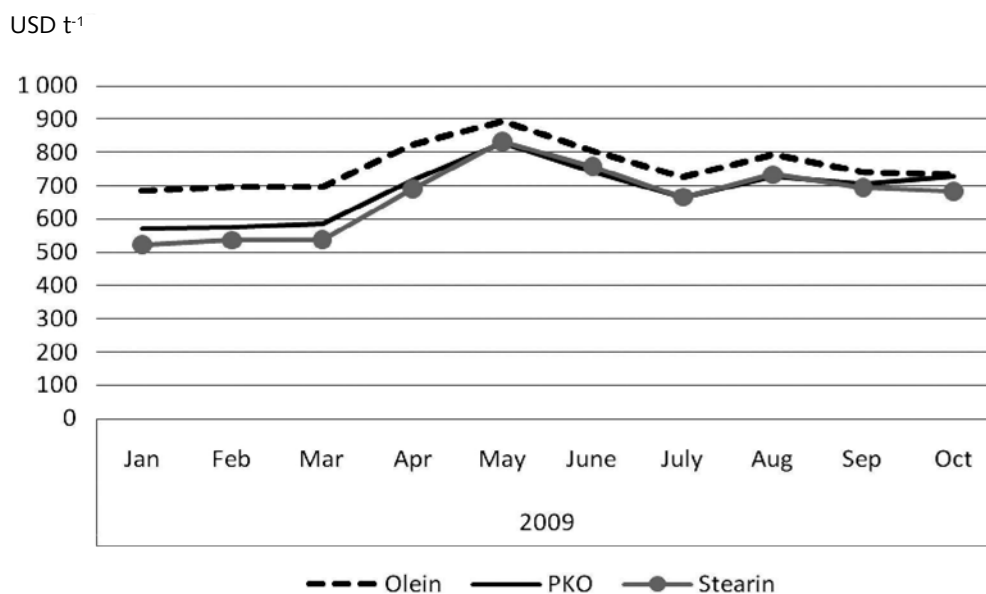


Figure 5. Development of palm products prices in 2009.

due to the bigger than expected rise in US gasoline stocks within the month of June.

A rebound in prices was recorded by all the selected oils and fats in August 2009. Olein traded at USD 68 t⁻¹, higher in August than in July, while the traded prices of PKO and stearin rose by USD 63 and USD 68 t⁻¹, respectively. Palm products gained support from the stronger July palm oil exports, the rising soyabean oil markets and a rebound in crude oil prices. Exports of palm oil in July rose to 1.4 million tonnes from 1.2 million tonnes in June, while soyabean oil prices rose due to a tight supply in July/September 2009. The rise in crude oil price towards USD 70 per barrel was supported by the global economic recovery.

All the selected oils and fats (except tallow) traded lower in September 2009 than in August. Olein was sold at USD 53 t⁻¹ cheaper than in the previous month. Meanwhile, the price of PKO was also USD 25 t⁻¹ less

and the price of stearin was USD 40 t⁻¹ less in September than in the previous month. One of the bearish sentiments for the month was the concern over higher palm oil production which had escalated due to the high production cycle, weaker demand and the built-up stock level of palm oil. The stock increased by 6.2% to 1.4 million tonnes in August from 1.332 million tonnes in July. Export performance was poor in August as it recorded a fall of 9.5% from the exports in July. In addition, the market was under pressure in line with the weakness in the global vegetable oils market after the US Department of Agriculture (USDA) raised its forecast on soyabean output to a record of 3.245 billion bushels. Thus, soyabean oil supplies were expected to rise, given the good weather in the country, and this mitigated the current tightness in palm oil stocks.

In October 2009, among the three palm products, only PKO showed recovery when it traded at USD 22 t⁻¹ higher than in September

while olein and stearin traded lower. The bearishness of most palm products was mainly due to a lack of market direction. One of the related factors causing this lack was the sentiment that China, the biggest vegetable oils buyer, was not active in the market due to an eight-day national holiday. Another supporting factor was the fall of crude oil price to below USD 70 per barrel which added pressure on the vegetable oils market including palm products.

PROSPECTS OF PALM OIL PRICE IN 2009

It was mentioned in *Palm Oil Developments No. 50* (Ramli, 2009) that palm oil will continue to have good prospects in the future. This is due to the fact that it has an additional usage in biodiesel production. This means that a portion of available palm oil will be channeled to this new application. In addition, Malaysian palm oil production is expected to fall slightly to 17.6 million tonnes in 2009 from 17.7 million tonnes

in 2008, representing a reduction of 0.6%. This may be due to the stress of the oil palms which follows a cyclical pattern of the production and the floods that occurred in most of the producing areas in the country which hampered harvesting and transportation activities. Exports of Malaysian palm oil is also expected to perform well during the year with leading importers such as China, India, European Union and US 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 year.

All said and done, palm oil price is expected to firm up in 2009. The price has been accelerating upwards since January 2009 until the time of writing, from RM 1853 t⁻¹ to more than RM 2400 t⁻¹, despite the increasing stock level. Again, there was a break from fundamentals in that stock level and price had increased in tandem. However, the external factors carried more weight in influencing the current recovery of palm oil price. In concluding this article, it is reiterated that the previous forecast of palm oil price at about RM 2300 to RM 2400 t⁻¹ for 2009 remains.

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