

An Overview of the Prices of Selected Oils and Fats in 2010

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INTRODUCTION

The oils and fats sector has always exhibited a very common feature of volatility. This is true of the palm products for which the upswing and downswing of their prices imply that there are different factors affecting them at different times of the year. In 2009, speculations on the low production of palm oil in the early part of the year partly affected palm oil prices until the middle of the year. Other factors included the developments in the palm oil stock and soyabean oil price in the international market. Another influencing factor was the development of crude petroleum oil price. In 2010, speculations on the *El Niño* will probably be the main factor affecting production and indirectly affecting prices. This article discusses the development of palm oil prices in 2009 which appear to be good for the palm oil industry, and the prospects in 2010 for which prices are forecasted to be in the range of RM 2500- RM 2800.

PALM OIL PRICE PERFORMANCE IN RELATION TO THE PRICES OF OTHER SELECTED OILS AND FATS FROM 2008 UNTIL THE PRESENT

It is a known fact that oils and fats are characterized by the volatilities in their prices. *Figure 1* clearly shows this characteristic for the period from 2008 until the present. The prices were high in the first three-quarters of 2008 and formed a wide bandwidth. In the last quarter of the year, they dipped down and the bandwidth narrowed. This general pattern

of prices was demonstrated well 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. The price of RBD palm olein averaged USD 1067 t⁻¹, while those of SBO and CSO averaged USD 1262 and USD 1553 t⁻¹, respectively (*Table 1*). This gives a spread of USD 194 t⁻¹ in favour of SBO and USD 485 t⁻¹ in favour of CSO when compared to RBD palm olein. The prices of PKO and CNO were quite competitive as indicated by the small spread of USD 95 t⁻¹ in favour of CNO. Greater competition was observed between

the prices of RBD palm stearin and tallow where the spread averaged USD 5 t⁻¹ in favour of stearin.

In 2009, the upswing and downswing of prices of palm products were not as large in magnitude as compared to the previous year (*Figure 1*). The price of olein escalated at the beginning of the year and burgeoned to reach USD 892 t⁻¹ in May, after which it gradually tumbled and slid towards the end of the year to USD 687 t⁻¹. On average, olein price leveled out at USD 747 t⁻¹, lower than in 2008 (*Table 1*). The same pattern was shown by the prices of PKO and RBD palm stearin which averaged USD 702 and USD 679 t⁻¹, respectively, during the year. Beside palm products, prices of other oils and fats also showed poor performance, especially CSO, SBO, and CNO oils compared to their performance in 2008. They were slowly eking out in the first-quarter of 2009 and fluctuated along a moderately ascending trend until the end of the year (*Figure 1* and *Table 1*). The close competition between these oils and fats reduced the corresponding spreads. For example, the spread between SBO and olein reduced to USD 101 t⁻¹ in 2009 (in favour of SBO) from USD 194 t⁻¹ in 2008,

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TABLE 1. MONTHLY PRICES OF SELECTED OILS AND FATS (USD t⁻¹) FROM 2008 TO 2010*

		RBD palm olein (1)	Soy- bean oil (2)	Cotton- seed oil (3)	Spread ** (1)-(2)	Spread ** (1)-(3)	Palm kernel oil (4)	Coco- nut oil (5)	Spread **	RBD palm stearin (6)	Tallow (7)	Spread ** (6)-(7)	RBD palm oil (8)	Palm oil (9)
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
	Jun	1 329	1 537	1 955	-208	-626	1 397	1 551	-154	1 098	1 118	-20	1 199	1 213
	Jul	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
	Jun	805	896	875	-91	-70	741	747	-6	757	743	14	732	726
	Jul	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	849	-163	-115	726	706	20	687	680	7	663	680
	Nov	694	931	915	-237	-221	753	729	24	721	733	-12	703	725
	Dec	687	933	925	-246	-238	829	768	61	764	754	10	766	792
2010	Jan	721	923	905	-202	-184	878	784	94	793	728	65	774	793
	Feb	855	914	888	-59	-33	894	798	96	805	735	70	778	798
	Mar	884	915	875	-31	9	995	921	74	867	825	42	809	832
Average:														
	2008	1 067	1 262	1 553	-194	-485	1 130	1 224	-95	891	886	5	961	949
	2009	747	849	814	-101	-67	702	726	-23	679	681	-2	687	683
	2010*	820	917	889	-97	-69	922	834	88	822	763	59	787	808

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.

*January to March 2010.

**if positive, it refers to a premium; if negative, it refers to a discount.

Source: Oil World (2007; 2008; 2009).

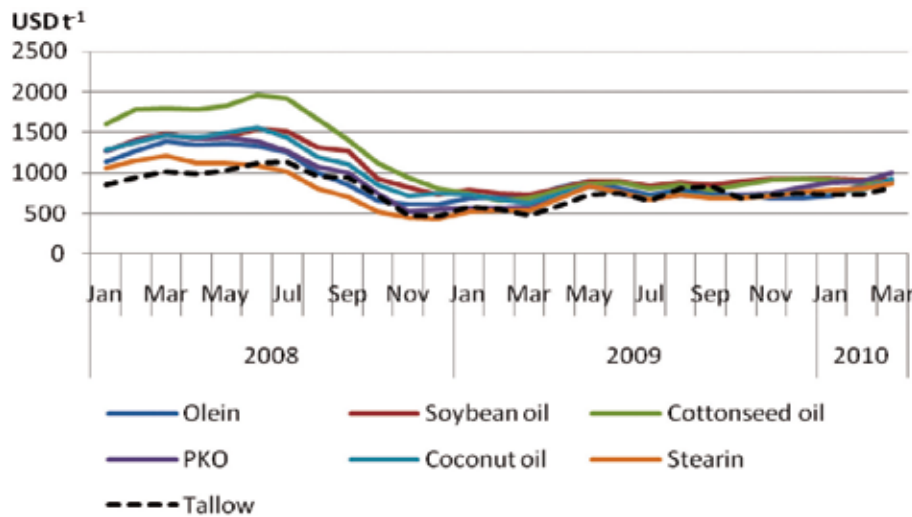


Figure 1. Prices of selected oils and fats from 2008 until 2010 (January to March).

while the spread between CSO and olein was significantly reduced to USD 67 from USD 485 t⁻¹ in 2008. In the case of lauric oils, CNO was still sold at a higher price than PKO, but the spread reduced to USD 23 from USD 95 t⁻¹, while between stearin and tallow, the latter was sold only slightly higher (by USD 2 t⁻¹) than the former.

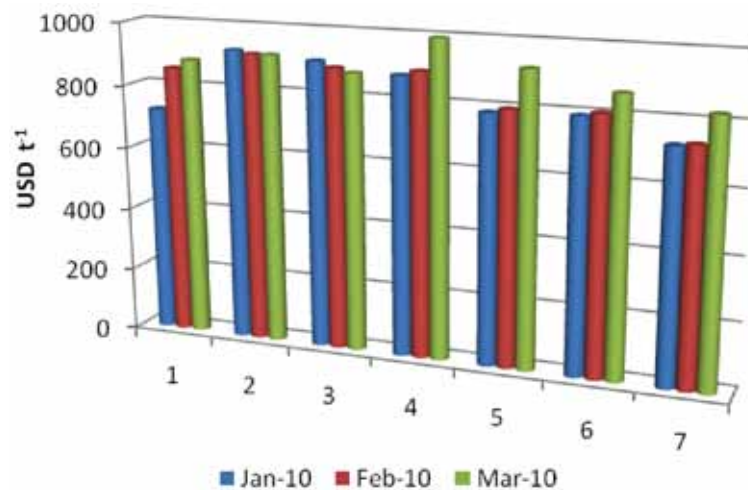
In 2010, the palm products had shown a recovery in their prices, especially in the first-quarter (Figures 1 and 2), and traded in a moderate range bound. The price of RBD palm olein surged from USD 721 in January to USD 855 t⁻¹ in February, and further to USD 884 t⁻¹ in March (Table 1). The prices of PKO and RBD palm stearin also improved, especially from February to March. All these palm products averaged out at USD 820, USD 922 and USD 822 t⁻¹, respectively, in the first-quarter of 2010, higher than their prices in the same period the previous year as well as for the whole period of 2009. CNO and tallow prices showed similar trends as those of palm

products. The trends of SBO and CSO prices, however, moved in a different direction with their prices detrending respectively from USD 923 to USD 917 t⁻¹ and from USD 905 to USD 875 t⁻¹. The average prices of these two commodities in the first-quarter of 2010 were also higher than their averages in 2009

for the same period as well as for the whole year.

PALM OIL PRICE FACTORS

High volatility was the main feature of the oils and fats prices, including that of the palm oil sector. Figure 1 demonstrates that these selected



Note: 1 = RBD palm olein; 2 = Soyabean oil; 3 = Cottonseed oil; 4 = Palm kernel oil; 5 = Coconut oil; 6 = RBD palm stearin; 7 = Tallow.

Source: Oil World (2007; 2008; 2009).

Figure 2. Prices of the selected oils and fats in the first-quarter of 2010.

oils and fats prices were competing more stiffly in 2009 than in 2008 while generally moving in the same direction. This stiff competition continued into 2010. Many related factors caused this development.

In January 2009, olein price was up by USD 79 t⁻¹, PKO price by USD 16 t⁻¹, and stearin by USD 85 t⁻¹ from their original prices in December 2008 (Table 1). The high traded prices were mainly due to the good export performance in December 2008 which had expanded to 1.6 million tonnes from 1.3 million tonnes in the previous month. The stock of palm oil also played an important role as the industry had anticipated a low level in the first-quarter of 2009 due to the low production cycle. The stock in December 2008 was 1.994 million tonnes, and was reduced to 1.8 million tonnes in January 2009. Another factor was the surge of crude oil price which had increased to USD 40 barrel t⁻¹, and then to USD 50 barrel t⁻¹, 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 were traded higher by USD 4 and USD 14 t⁻¹, respectively, than in the previous month (Table 1). This development was effected partly by the news about palm oil imports by China and India. China had increased her imports in February due to her concern over the tight supply of SBO caused by the drought that had occurred in Argentine soyabean-producing areas. Furthermore, there was a speculation about the tight supply of palm oil during the year due to low palm oil production and low stock. India's participation in the import tender for 12 000 t of

palm oil could also be factored in for influencing the palm oil prices in February 2009. While palm oil prices increased, prices of other oils and fats, such as SBO, CSO, CNO and tallow, fell during the month.

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

In April and May, the prices of all the selected oils and fats turned bullish. The low stock level in the country in the previous month helped to influence the palm product prices. 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 on time in introducing a replanting programme which further strengthened the tight supply of palm oil. On top of that, production of palm oil recorded a slight increase, and export showed good performance.

In June, the performance of palm products deteriorated as their prices dropped. 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 have exacerbated the stock situation. There were also reports about rain and good weather conditions in the United States and India which favoured the growth of soyabeans. This depressed the soyabean futures, and brought about adverse effects in the local market. Lastly, palm oil prices were also pressured by the drop in crude oil prices, down to USD 63 per barrel due to a bigger than expected rise in US gasoline stocks in the month of June.

A rebound in the prices was recorded by all the selected oils and fats in August 2009. Olein was traded USD 68 t⁻¹ higher in August than in July, while PKO and stearin traded prices rose by USD 63 and USD 68 t⁻¹, respectively. The palm products gained support from stronger July palm oil exports, rising SBO markets and a rebound in crude oil prices. The exports in July rose to 1.409 million tonnes from 1.227 million tonnes in June, while SBO prices rose due to a tight supply in July/September 2009. The rise in crude oil price to 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, PKO price was also less by USD 25 t⁻¹ while stearin price was less by USD 40 t⁻¹ in September than in the previous month. One of the bearish sentiments for the month was the concern over higher production of palm oil which had escalated due to entry into the high production cycle, weak demand and build-

up of the 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 a fall of 9.5% was recorded for 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, SBO supplies were expected to rise, given the good weather conditions in the country, and this mitigated the prevailing tightness in palm oil stocks.

In October 2009, among the three palm products, only PKO showed recovery when it traded 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 a 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.

In November 2009, only olein reported a lower price than in the previous month while the other palm product prices increased. The palm oil discount to its rival SBO widened, and this encouraged India and China to purchase more palm oil. These buyers were mostly concerned over fears of the monsoon rains which might affect production in 2010, and thus were encouraged to purchase more palm products. In addition, other factors

such as reports by Societe Generale de Surveillance (SGS) about the strong exports by Malaysia, the weakening US dollar, the firming up of Chicago Board of Trade (CBOT) and Dalian SBO futures, and the crude petroleum oil price (which had risen to above USD 79 per barrel) influenced the prices in that month.

In December 2009, similar factors as in the preceding paragraph affected the development of prices of oil palm products. However, an additional factor, indeed the most important of all, was the opinion from world commodities analysts that palm oil and other selected oils and fats might record higher prices in 2010; this gave significant weight in affecting palm oil prices in December 2009.

Firmer prices were recorded in January 2010. Among factors affecting the development of these prices were the lower palm oil stocks due to lower production, the fear that China might slow down in her demand after some credit tightening measures came into effect in the country, and the country's lunar new year festival in the coming month, February.

Prices of palm products continued to firm up in February 2010. One of the factors was the positive sentiments on market talks of a decline in the January palm oil stock due to strong exports and a fall in the production. Production and stock declined by 13.1% to 1.3 million tonnes and by 10.7% to 2 million tonnes, respectively, while exports surged by 19.4% to 1.5 million tonnes. Many analysts associated the decline in production with the potential effect of *El*

Niño because Malaysia had been experiencing weather which was hotter than usual. They expected a resurgence in *El Niño* weather conditions this year. Crude oil prices also climbed higher towards USD 75- USD 80 per barrel.

In March 2010, the palm oil prices traded higher in the first half of the month, and lower in the second half. In the first half of the month, crude oil price rose to USD 80 per barrel after China maintained her economic stimulus package which in effect gave support to most of the vegetable oils market. The high prices were also due to the bullish MPOB data on palm oil stocks, production and exports. In the second half of the month, the price of crude oil declined which was similarly followed by that of SBO. At this time, there were pressured rumours of high March palm oil production due to the arrival of rains that could end concerns over *El Niño* and its impact on production.

Generally, the prices in the first-quarter of 2010, especially palm products, were on the rise.

PROSPECTS OF PALM OIL PRICE IN 2010

The previous *Palm Oil Developments No. 51* mentioned that palm oil will continue to have good prospects in 2009. In this respect, it appears that palm oil prices have stabilized and averaged at a comfortable level which is higher than its cost of production. The price of palm oil averaged RM 2236 t⁻¹. This is due to the use of palm oil in biodiesel production, a result of the industry channeling a portion of its available palm oil to this new application. On

top of that, the production of palm oil, as expected in *Palm Oil Developments No. 51*, recorded a decline in volume to 17.6 million tonnes in 2009 from 17.7 million tonnes in 2008, representing a reduction of 0.6%. This decline was due to the stress to the oil palms following the cyclical nature of production and the floods that occurred in most producing areas in the country, hampering harvesting and transportation activities. All these caused a bullish factor to the oil palm industry in 2009.

In 2010, the prospects of palm oil will still remain bullish. The

production of palm oil is expected to recover to 17.8 million tonnes. This will give an opportunity to the world's palm oil consumers to purchase more palm oil, especially leading importers such as China, India, the European Union and Pakistan. Exports of palm oil by Malaysia are expected to amount to about 16.9 million tonnes. The increase in exports will reduce the stock level of palm oil, expected to be at about 1.6 million tonnes at the end of year.

All in all, the palm oil price is expected to be more firm in 2010. The price has been hovering around

RM 2600 t⁻¹ in the first-quarter of 2010. It is expected that the price will be in the range of RM 2500 to RM 2800 t⁻¹ for the ensuing period until the end of 2010.

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