

1993 and 1994 Palm Oil Prices

Ramli Abdullah

The price performance of palm products in 1993 was not as good as in 1992 which saw great improvements over those of 1991. This is because the average CIF prices of most of palm products dropped during the year. CIF price of palm oil, for example, declined to US\$378/tonne from US\$394/tonne in the previous year. RBD palm olein dropped by US\$15/tonne in 1993 while palm kernel oil dipped by a larger amount of US\$134/tonne. Although the prices of these palm products were doing better in the first and last quarters of 1993, the drop in prices in the second and third quarters pulled down their average prices. Due to this, their prices stayed behind that of other selected oils and fats. Only RBD palm stearin improved during the year as there was an increase in price of US\$21/tonne in 1993. Its price more or less stabilized around US\$370 during the year (*Table 1*).

The major bearish factor that caused the deterioration of price performances of palm products in 1993 was the large South-East Asian palm oil supplies, especially from Malaysia. Malaysia alone registered about a 16% increase in palm oil production over the previous year. The high Malaysian production level, coupled with increasing

ending stocks towards the end of year had effectively deteriorated the price performance of most palm products in 1993.

Palm product prices did not follow those of soyabean and cottonseed oils. While palm product prices weakened during the year, prices of soyabean oil and cottonseed oil strengthened during this period. The average price of US\$480/tonne for soyabean oil surpassed that of the whole of last year (*Table 1*). Improvements in average prices were observed during the four quarters of 1993; from US\$438/tonne in the first quarter to US\$528/tonne in the fourth quarter. Similar past trends could also be observed for cottonseed oil for which its average price in 1993 increased drastically to US\$708/tonne. Its average price in 1992 was US\$579/tonne.

The firmness of the soyabean oil and cottonseed oil prices in 1993 was mainly due to the global shortage of stocks of oils and fats, which in turn was the result of lower production and strong demand for these oils and fats. Adverse weather conditions were recorded in the USA, Argentina, South-east Europe and South-east China since the

TABLE 1. PRICES OF SELECTED OILS AND FATS (US\$/TONNE)

products	RBD Palm Olein (C/F) (Rott) (1)	Palm Soyabean Oil (FOB) (Rott) (2)	Cottonseed Oil (C/F) (Rott) (3)	Spread (1)-(2) + Premium - Discount (4)	Palm Kernel oil (C/F) (Rott) (4)	Coconut oil (C/F) (Rott) (5)	Spread (4)-(5) + Premium - Discount (6)	RBD Palm Stearin (C/F) (Rott) (6)	Tallow (C/F) (Rott) (7)	Spread (6)-(7) + Premium - Discount (8)	RBD Palm oil (FOB) (M/sia) (8)	Palm oil (C/F) (Rott) (9)
1985	543	572	710	-29	551	590	-39	445	421	+26	504	501
1986	323	342	489	-19	288	297	-9	263	296	-33	298	257
1987	390	334	497	+56	426	442	-16	349	356	-7	329	343
1988	471	463	599	+8	108	565	-26	443	413	+30	418	437
1989	375	432	572	-57	472	517	-45	348	366	-18	328	350
1990	332	447	668	-115	334	336	-2	284	348	-64	280	290
1991	393	454	579	-61	417	433	-16	294	351	-57	323	339
JAN (1992)	418	429	507	-11	699	738	-39	339	342	-3	357	383
FEB	435	414	503	21	651	702	-51	332	330	2	368	382
MAR	464	434	530	30	620	644	-24	328	345	-17	388	396
APR	465	425	519	40	651	647	5	330	344	-14	385	402
MAY	451	439	583	12	617	638	-21	329	348	-19	378	392
JUN	465	456	626	9	589	589	0	357	359	-2	369	404
JUL	445	429	623	16	532	528	4	353	366	-13	376	382
AUG	433	409	565	24	507	494	13	352	385	-33	364	382
SEP	445	421	561	24	523	501	22	360	387	-27	376	391
OCT	452	418	607	34	506	493	13	366	392	-32	378	396
NOV	466	437	655	29	499	496	3	377	400	-23	401	413
DEC	452	435	673	17	463	461	2	369	390	-21	390	401
Avg(Jan-Dec)	449	429	579	20	571	578	-7	349	366	-17	379	394
JAN (1993)	468	444	698	24	457	444	13	379	377	2	404	410
FEB	485	433	688	52	459	439	20	381	364	17	416	425
MAR	480	438	701	42	428	427	1	384	367	17	407	408
APR	453	448	699	5	405	402	3	382	373	9	388	392
MAY	430	448	692	-18	262	418	-17	379	369	10	369	371
JUN	413	461	705	-48	292	436	-24	367	361	6	351	356
JUL	414	505	824	-91	410	460	-30	364	356	8	351	362
AUG	412	483	665	-71	253	414	-41	366	364	2	348	356
SEP	405	489	651	-84	246	424	-27	365	358	7	343	352
OCT	392	491	656	-99	264	419	-28	347	357	-10	328	333
NOV	404	536	717	-132	313	464	-15	353	370	-17	350	357
DEC	448	558	794	-110	346	612	-14	368	382	-14	385	409
Avg(Jan-Dec)	434	480	708	-46	437	450	-13	370	367	3	370	378
JAN (1994)	462	602	863	-140	567	595	-28	367	385	-18	399	404
FEB	469	577	823	-108	546	573	-27	363	387	-24	396	387
MAR*	445	582	800	-137	522	530	-8	355	383	-28	395	393

RBD Palm Olein, Mal. C/F Rott; Soyabean Oil, Dutch FOB ex-mill; Cottonseed Oil, US, P/BSY, C/F Rott; Palm Kernel Oil, Mal. C/F Rott; Coconut Oil, Phil./Indo., C/F Rott; RBD Palm Stearin, C/F Rott; Tallow US Bleach Fancy, C/F Rott; RBD Palm Oil, FOB Mal; Palm Oil, Sum/Mal, C/F, N. W. Europe.
 * 10th Mar. 1994
 Source: Oil World

beginning of 1993. Flooding had damaged most of the soyabean, cottonseeds and corn acreage, and prevented plantings and replantings. Submerged young plants as well as shortening of the growing period and exposure to early frosts have resulted in reduced yield. These events had obviously lowered the production of these crops and markets were alarmed by these crops losses. Although production declined, demand in contrast increased especially when Russia reappeared in the US soyabean market which caused an increase in US soyabean crushings. In addition, demand also increased due to the shifting away of markets from Argentina and Brazil to the US markets. This happened because of the marketing/transport problems and relatively high prices in these two countries. The lower production and increase in demand reduced the world stocks and thus strengthened the prices of soyabean oil and cottonseed oil.

The 1993 performances of other selected oils and fats such as tallow and coconut oil were as bad as palm products (*Table 1*). The average price of tallow was US\$367 per tonne, which was just about the same as that in the previous year (US\$366/tonne). In the case of coconut oil, it experienced a drop of US\$128/tonne from the previous year as a whole. Being a major determinant for lauric oil

prices, the fall of coconut oil prices led to the decline of palm kernel oil.

The weakening of prices of palm products and coconut oil and the strengthening of soyabean oil and cottonseed oil prices in 1993 widened further the spread of palm oil vis-a-vis other oils and fats. In other words, the position of palm products was challenged again by these oils and fats. Looking at the spread between RBD palm olein and soyabean oil, olein was again sold cheaper (as happened in 1989 to 1991) than soyabean oil at an average discount of US\$46/tonne. In contrast, it was sold at US\$20/tonne higher than soyabean oil in 1992 (*Table 1*).

RBD palm olein has always sold cheaper than cottonseed oil. As shown in *Table 1*, olein has been at a discount since 1985. The biggest spread between the two oils was in 1990 when palm olein was sold US\$336 cheaper than cottonseed oil. With the spread (discount) of about US\$274/tonne in 1993, it became the second largest discount so far. The movements in prices of palm kernel oil (CIF) and palm olein were the same. Palm kernel oil lost to coconut oil (CIF) by US\$13 in 1993, after losing US\$7 in the previous year.

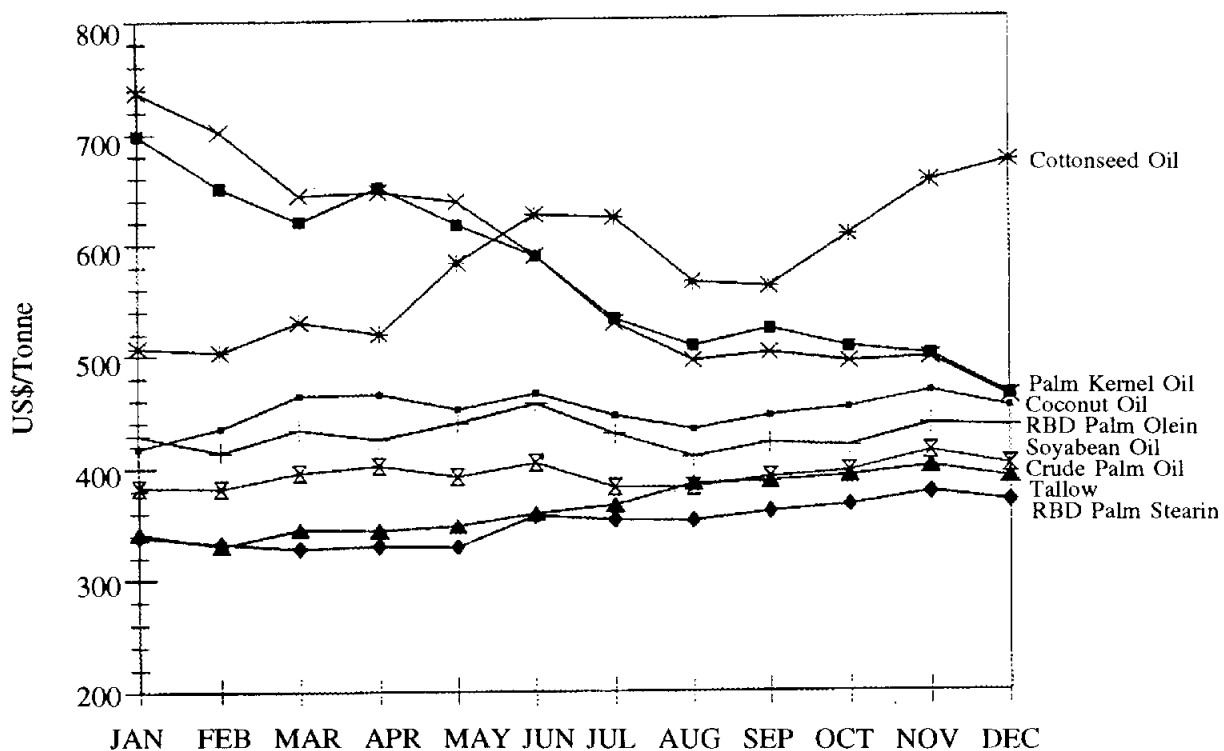


Figure 1. 1992 Prices of Selected Oils and Fats

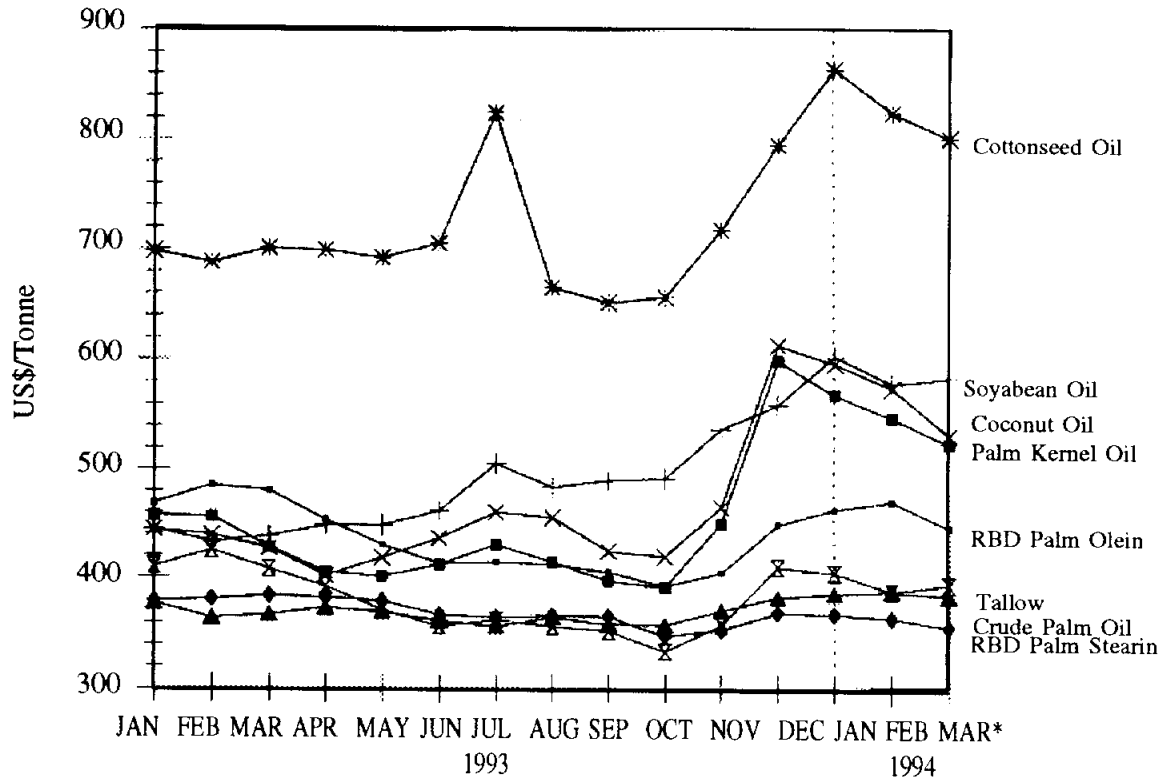


Figure 2. 1993 & 1994 Prices of Selected Oils and Fats

As mentioned before, only RBD palm stearin has done better than other palm products in 1993. Due to an increase in its average price and the static growth of the price of tallow, the RBD palm stearin became more expensive than tallow by US\$3/tonne. For the previous four years, palm stearin was cheaper than tallow.

The price competition in 1993 was quite different from that of the previous year. Prices were widely spread out in 1992 (Figure 1), especially in the first half of the year. As the year came to an end, prices of cottonseed oil seemed to be running away from the rest of the oils and fats and became the most expensive oil. Figure 2 shows the prices in 1993, which is the extension of the price scenario in 1992. Cottonseed oil continued to be the most expensive among the selected oils and fats, having quite a constant price of around US\$700/tonne throughout 1993. The other oils and fats continued to be in competition with one another. Tough competition was observed in early 1993 and prices spread out in the last quarter of the year.

The poor performance of the prices of palm products continued until the first quarter of 1994. Although the prices in the first quarter of 1994 were high compared to those in 1993, the spread (discount) of palm products vis-a-vis other selected oils and fats worsened and became wider. This was due to prices of other oils and fats improving and strengthening during the quarter. A common observation for the prices of these oils and fats including palm products was that their prices moved downwards from January until March 1994.

Another bearish situation could be expected for palm oil in the near future. With a slight increase in production that is estimated and an increase in exports demand for palm oil this year, the supply situation may be tight. This situation will improve the performance of palm oil price which is hoped to stabilize and later to recover and firm up until the end of the year.