

# 1994 Prices of Palm Oil

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1994 was a bullish year for palm oil and its products. Prices of these products averaged high during the year, setting new 10-year highs since 1984 (Figure 1).

Prices were low initially compared to those of other selected oils and fats (Figure 2), mainly due to the large volume of palm oil in stock in Malaysia (1.17 million tonnes). Due to this, RBD palm olein at Rotterdam was sold at US\$462 per tonne CIF in January 1994 against the higher soya bean oil price (FOB) at US\$602/tonne and cottonseed oil at US\$863 (Table 1). Both CIF prices of palm kernel oil and RBD palm stearin at Rotterdam were lower than their equivalents, *i.e.* coconut oil and tallow by US\$28 per tonne and US\$18 per tonne respectively in January 1994. Thus, there existed a wide spread of prices at the beginning of the year as illustrated in Figure 2.

During the year, prices of palm products rallied to new highs practically towards the end of the year. They increased at faster rates than those of the other selected oils and fats. Price of RBD palm olein, for example, grew faster every month than that of soya bean oil and cottonseed oil (4.74%, 1.44% and -1.75% respectively) (Table 1). In another comparison, the price of palm kernel oil increased more steeply than that of coconut oil (2.8% versus 1.53%). Between RBD palm stearin and tallow, the price of the former grew at 6.34% monthly and the latter at 4.66%. Both RBD palm oil at local market and at Rotterdam increased monthly at 5.48% and 5.5% respectively. The bigger growth rates for palm products prices forced them to overtake the prices of other selected oils and fats at the end of the year. As a result, they were sold at higher prices than their counterparts. In this case, all the selected oils and

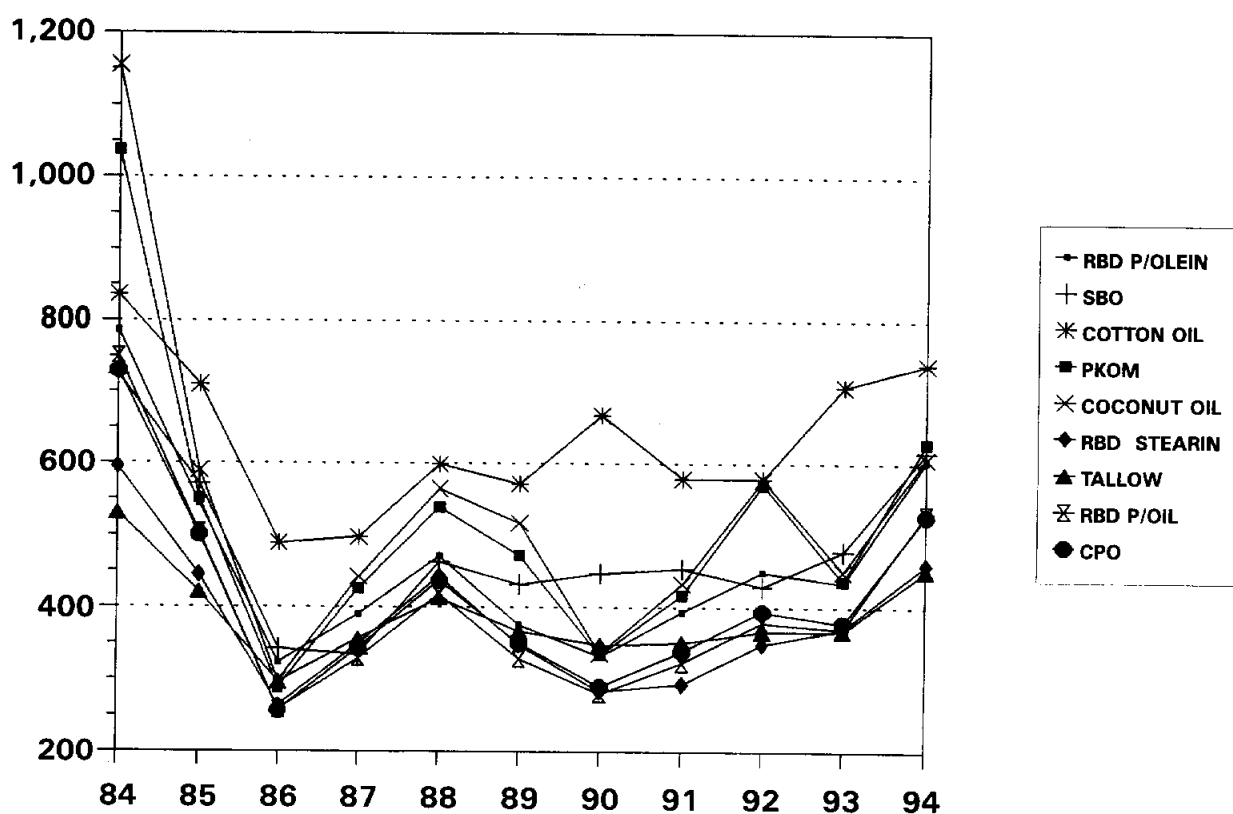


Figure 1. Prices of Selected Oils and Fats (1984 - 1994)

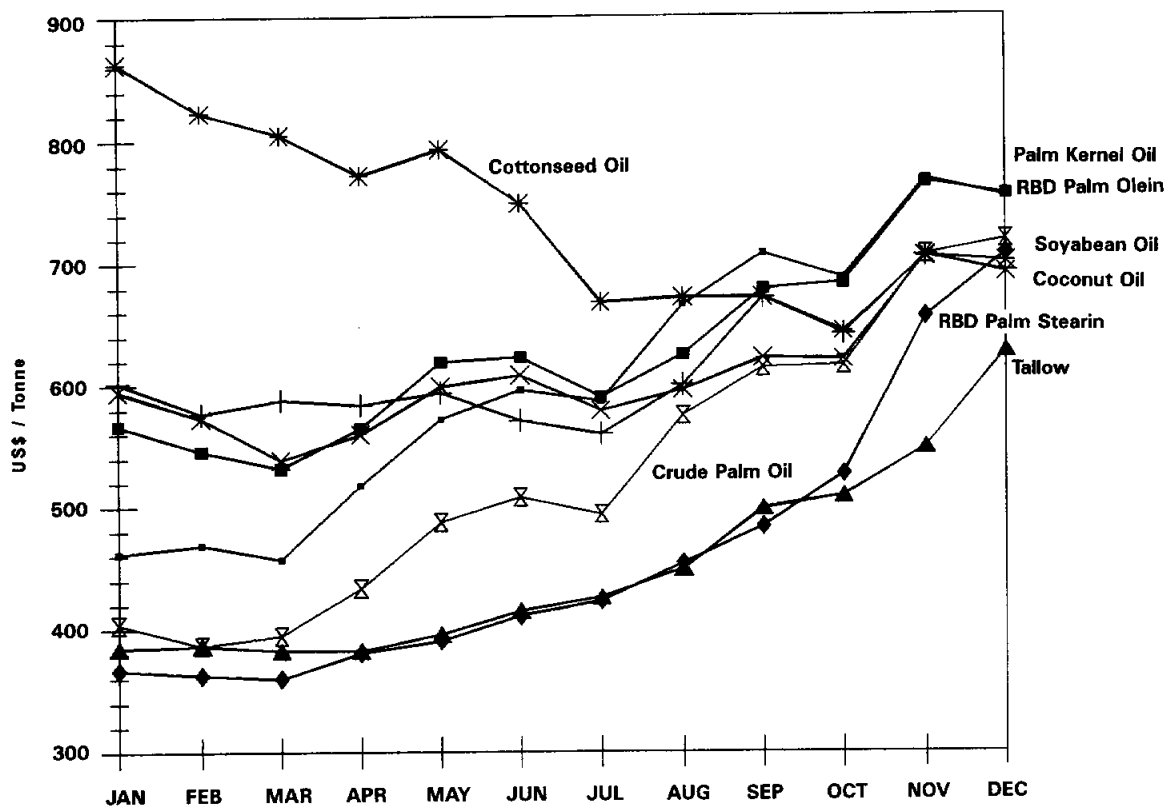


Figure 2. 1994 Prices of Selected Oils and Fats

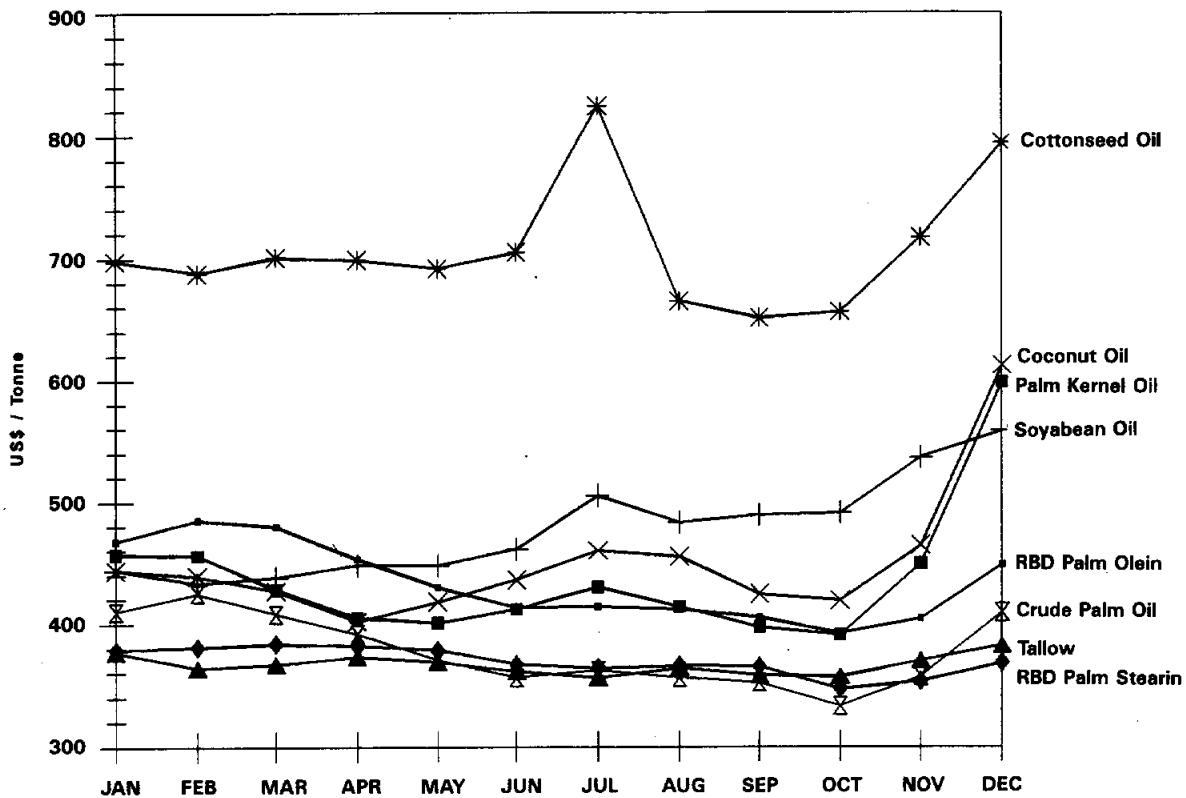


Figure 3. 1993 Prices of Selected Oils and Fats

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

Products	RBD Palm Oil (CIF) (1)	Soyabean Oil (FOB) (2)	Cottonseed Oil (CIF) (3)	Spread (1) - (2) + Premium - Discount	Palm Kernel Oil (CIF) (4)	Coconut Oil (CIF) (5)	Spread (4) - (5) + Premium - Discount	RBD Palm Oil (FOB) (6)	Tallow (CIF) (7)	Spread (6) - (7) + Premium - Discount	RBD Palm Oil (FOB) (8)	Palm Oil (CIF) (9)
1984	786	724	836	62	1037	1155	-118	595	531	64	750	729
1985	543	572	710	-29	551	590	-39	445	421	+26	504	501
1986	323	342	489	-19	288	297	-9	263	296	-33	258	257
1987	390	334	497	+56	426	442	-16	349	356	-7	329	343
1988	471	463	599	+8	539	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	433	396	-2	294	348	-57	280	290
1991	393	454	579	-61	417	433	-16	351	351	-17	323	339
1992	449	429	579	20	571	578	-7	349	366	-17	379	394
1993	434	478	708	-46	437	450	-13	370	367	3	370	378
1994	604	616	739	-12	629	608	22	480	451	10	531	528
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	689	5	405	402	3	382	373	9	388	392
MAY	430	448	692	-18	401	418	-17	379	369	10	369	371
JUN	413	461	705	-48	412	436	-24	367	361	6	356	356
JUL	414	505	824	-91	430	460	-30	364	356	8	351	362
AUG	412	483	665	-71	414	455	-41	366	364	2	348	356
SEP	405	489	651	-84	397	424	-27	365	358	7	343	352
OCT	392	491	656	-99	391	419	-28	347	357	-10	328	333
NOV	404	536	717	-132	449	464	-15	353	370	-17	350	357
DEC	448	558	794	-110	598	612	-14	368	382	-14	385	409
Avg (Jan-Dec)	434	478	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	367	-24	396	387
MAR	457	568	805	-131	532	539	-7	360	383	-23	402	395
APR	518	584	772	-66	565	560	5	381	383	-2	444	434
MAY	572	594	793	-22	619	599	20	391	396	-5	491	488
JUN	596	571	749	25	623	608	15	411	415	-4	513	508
JUL	587	560	688	27	590	579	11	423	426	-3	508	494
AUG	666	600	672	66	625	596	29	454	449	5	581	575
SEP	708	672	672	36	679	622	57	484	499	-15	610	614
OCT	688	642	644	46	664	621	63	527	509	18	606	616
NOV	768	706	705	62	766	706	60	656	549	107	713	707
DEC	754	693	701	61	756	692	64	708	629	79	703	719
Avg (Jan-Dec)	604	616	739	-12	629	608	22	480	451	10	531	528
Avg. monthly change (%)	4.74	1.44	-1.75		2.8	1.53		6.34	4.66		6.48	5.59

RBD Palm Oil, Mal. CIF Rott; Soyabean Oil, Dutch FOB ex-mill; Cottonseed Oil, US, PBSY, CIF Rott; Palm Kernel Oil, Mal. CIF Rott; Coconut Oil, Phil./Indo., 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.

fats became more competitive to one another and the spread narrowed down and tapered towards December 1994 (*Figure 2*).

There are many factors which contributed to this development over the year and the major ones are as follows: During the year, Malaysian production of palm oil declined to 7.22 million tonnes, despite expansion in mature as well as planted areas. This represents a reduction of about 181 000 tonnes of palm oil from the previous year of about 7.4 million tonnes. The drop in production was mainly due to the biological factor of the trees which were stressed in the previous year. Therefore 1994 was a resting stage for the Malaysian oil palm trees and a tight supply was experienced. Lower-than-expected production in other South East Asian countries, such as Indonesia, was also observed and this raised prices of palm products at the international market. In addition to palm oil, other vegetable oils in the world were also experiencing at shortages, mainly due to poor weather conditions, natural disasters and economic changes in some countries.

Aggressive export activities also took place during the year due to increases in demand from overseas by at least 10% from the exports of the previous year. The world demand for palm oil rose strongly in many countries and the largest demand came from China where she imported more than 1.2 million tonnes. China replaced Pakistan as the largest importer of Malaysian palm oil in 1994.

A significant increase in world palm oil import demand in 1994 and the lower-than-anticipated South East Asian palm oil production resulted in a larger-than-expected drawdown of Malaysian and Indonesian palm oil stocks. Palm oil at the international market rallied in prices in response to lower inventories and continued tight Malaysian supplies. Prices at the local market surged as a

result of these price increases at the international market.

The above price rally resulted in a further narrowing of the price margin between palm products and other selected oils and fats. *Table 1* shows that the spread between RBD palm olein and soya bean oil for the year declined to -US\$12 per tonne, compared to -US\$46 per tonne in 1993 and between RBD palm olein and cottonseed oil also reduced to US\$135 per tonne from US\$274 per tonne in the previous year. In the case of palm kernel oil and coconut oil, the former was sold higher than the latter by US\$22 per tonne, compared to the discount of US\$13 per tonne in 1993. RBD palm stearin was sold higher than tallow by US\$10 in 1994, compared to only US\$3 per tonne in 1993.

The above scenario was totally different from that in 1993 when prices of the Malaysian palm products were poor. Their prices averaged lower than that of the other oils and fats (*Table 1*) and thus, most of them were at discounts to the other selected oils and fats. *Figure 3* shows the poor price rally for these palm products.

After resting for a year in 1994, production by Malaysian oil palm trees is expected to be back to normal. Malaysian production is estimated to be about 7.7 million tonnes in 1995. As such, total availability of palm oil for trade is forecast at 8.449 million tonnes, an increase of about 56 000 tonnes from what was available in 1994. Prospects of easing tightness would be realized in 1995 and the prices of palm products are expected to drop slightly in the early part of the year. However, the probable increase in demand for palm oil and the less dramatic increase in the oils and fats production would maintain and strengthen the prices of palm oil and its products. Thus 1995 could be another good year for palm products.

