

1996 Prices of Oils and Fats

□ Ramli Abdullah

Since the last two years, oils and fats were bullish in the world market. Their prices recovered tremendously in 1994 from 1993 and competed with one another, especially towards the end of year. Comparatively, palm products performed better in price than other major oils and fats, resulting in smaller price gaps among them. The price trends continued surging in 1995 with palm products improving their positions further to become more expensive than their respective equivalents and sold at bigger premiums than before. Thus RBD palm olein at CIF market was sold at US\$62 per tonne higher than soyabean oil (FOB) and at US\$29 per tonne more expensive than cottonseed oil (CIF). Between the two lauric oils (at Rotterdam market), palm kernel oil price was at premium over that of coconut oil by US\$13 per tonne (*Table 1*). It is interesting to note that the 1995 prices of these oils and fats were more or less lying within a certain bandwidth of prices and competed within that range which was quite stable throughout the year (*Figure 1*).

The current year (1996) then indicates the decline in prices of these oils and fats, especially palm products. With the exception of lauric oils, the average prices of other oils and fats dropped during the first half of 1996, as compared to their own prices during the same period of last year or during the whole of last year. For instance, price of RBD palm olein (CIF) averaged at US\$576 per tonne during the first half of the year,

lower than its own price of US\$710 during the same period of last year. Within the same group as palm olein, prices of soyabean oil and cottonseed oil also declined in 1996 to US\$563 per tonne and to US\$604 per tonne respectively from their own prices in 1995. Following the same price pattern of RBD palm olein or soyabean oil are the stearin and tallow. Only the lauric oils showed price increments since 1993 (*Table 1* and *Figure 1*).

The price situation in 1996 also indicates variations in the price gaps of these oils and fats. Between RBD palm olein and soyabean oil, the olein, on the average, is still at premium over soyabean oil (*Table 1*). However the premium value is getting smaller (US\$13 per tonne) than that of last year (US\$62 per tonne). This is due to the fact that the olein grew at a slower rate (0.11% monthly) than the soyabean oil (0.5%). Nevertheless the olein was at discounts over the cottonseed oil for most of the time during the first six months of 1996. Its discounts averaged to about US\$27.7 per tonne, compared to an average premium of US\$29 last year. It is also shown in *Table 1* that the other palm products, such as palm kernel oil and RBD palm stearin, were sold at discounts over coconut oil and tallow during January to June of 1996. The slower growth rate of palm kernel oil price compared to that of coconut oil resulted in the latter to be more expensive. In another comparison, price of tallow dropped at a monthly rate of - 0.9% while price of stearin dropped at

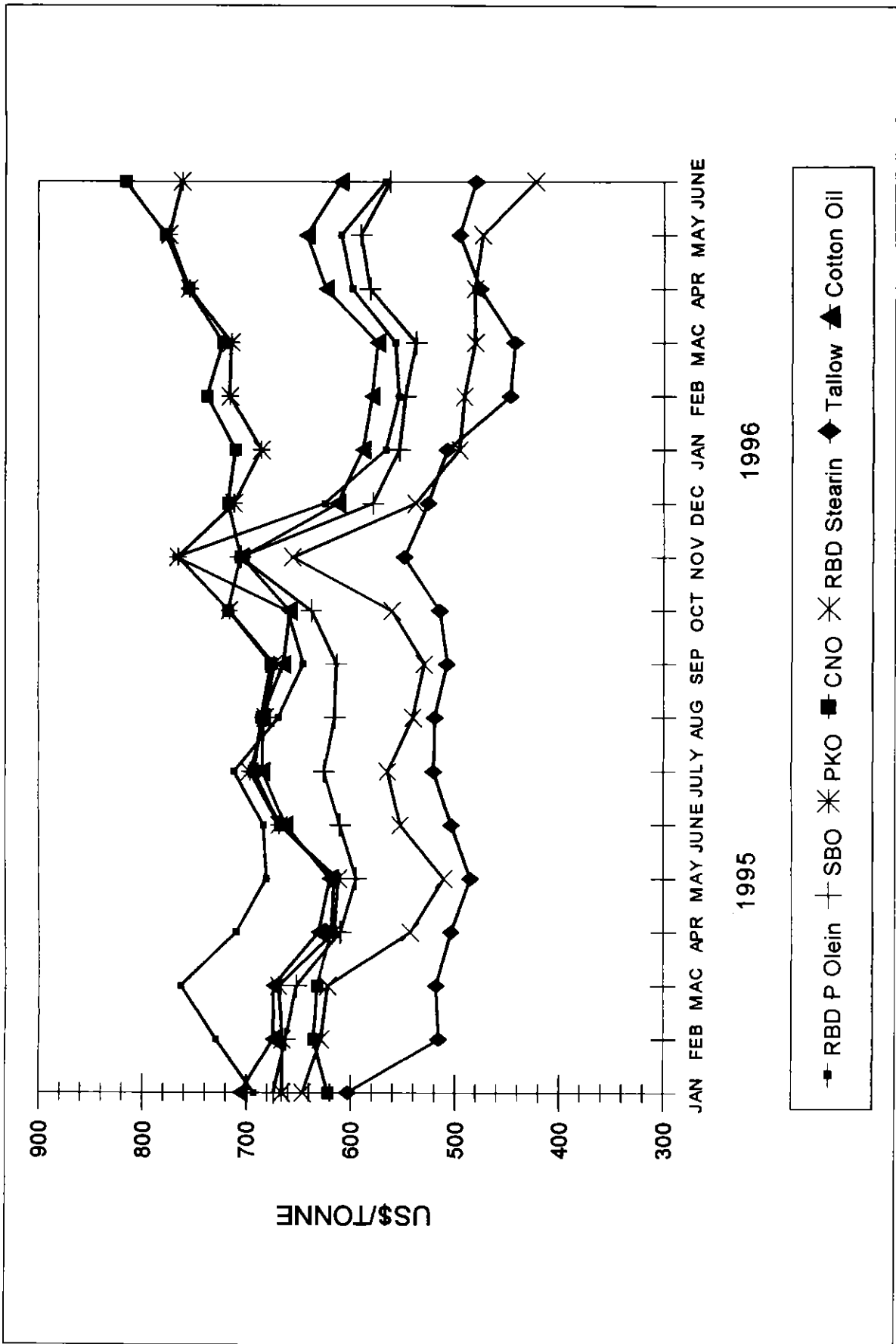


Figure 1. 1995 and 1996 Prices of Selected Oils & Fats.

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

Products	RBD Palm Oil (C/F) (1)	Palm Oil (FOB) (Rott) (2)	Soyabean Oil (C/F) (Rott) (3)	Cottonseed Oil (C/F) (Rott) (3)	Spread (1)-(2) +Premium -Discount	Spread (1)-(3) +Premium -Discount	Palm Kernel oil (C/F) (Rott) (4)	Coconut oil (C/F) (Rott) (5)	Spread (4)-(5) +Premium -Discount	RBD Palm Stearin (C/F) (Rott) (6)	Tallow (C/F) (Rott) (7)	Spread (6)-(7) +Premium -Discount	RBD Palm oil (FOB) (M'sia) (8)	Palm oil (C/F) (Rott) (9)
1984	786	724	836	836	62	-50	1037	1155	-118	595	531	64	750	739
1985	543	572	710	710	-29	-167	551	590	-39	445	421	+26	504	501
1986	323	342	489	489	-19	-166	288	297	-9	263	296	-33	258	257
1987	390	334	497	497	+56	-107	426	442	-16	349	356	-7	329	343
1988	471	463	599	599	+8	-128	539	565	-26	443	413	+30	418	437
1989	375	432	572	572	-57	-197	472	517	-45	348	366	-18	328	350
1990	332	447	668	668	-115	-356	384	336	-2	284	348	-64	280	290
1991	393	454	579	579	-61	-186	417	433	-16	294	351	-57	323	339
1992	449	429	579	579	-20	-130	478	450	-13	349	366	-17	379	384
1993	434	478	708	708	-44	-274	629	450	-13	370	370	3	370	378
1994	604	616	739	739	-12	-135	629	608	21	460	451	9	531	528
1995	694	632	665	665	62	29	678	665	13	573	522	51	634	636
JAN (1995)	693	674	706	706	19	-13	666	622	44	646	603	43	649	655
FEB	730	663	675	675	67	55	666	636	30	629	516	113	674	661
MAR	763	652	674	674	111	89	669	632	37	622	518	104	705	687
APR	710	610	631	631	100	79	616	619	-3	543	504	39	634	625
MAY	681	595	620	620	86	61	612	616	-4	511	485	26	610	611
JUN	684	611	663	663	73	21	669	668	1	553	504	49	622	631
JULY	712	626	685	685	86	27	697	693	4	565	521	44	652	655
AUG	670	616	685	685	54	-15	682	686	-4	541	520	21	609	616
SEP	646	614	665	665	32	-19	674	677	-3	530	508	22	583	586
OCT	661	638	659	659	23	2	717	718	-1	561	515	46	602	615
NOV	768	706	705	705	62	63	766	706	60	696	549	107	713	707
DEC	615	575	614	614	40	1	705	712	-7	523	520	3	557	583
Avg(Jan-June)	710	634	662	662	76	49	650	632	18	584	522	62	649	645
Avg(July-Dec)	679	629	669	669	50	10	707	689	8	563	522	41	619	627
Avg(Jan-Dec)	694	632	665	665	62	29	678	685	13	573	522	51	634	636
JAN (1996)	567	554	589	589	+13	-22	686	711	-25	496	508	-12	504	535
FEB	554	548	580	580	+6	-26	716	738	-22	481	447	+44	501	518
MAR	558	538	575	575	+20	-17	715	723	-8	481	443	+38	482	519
APR	599	582	624	624	+17	-25	755	756	-1	481	476	+5	528	562
MAY	610	581	643	643	+19	-33	775	778	-3	474	496	-22	536	552
JUNE	567	564	610	610	+3	-43	762	817	-55	423	480	-57	487	509
Avg(Jan-June)	578	563	604	604	13.0	-27.7	735	754	-19.0	474	475	-0.67	508	539
Avg. monthly change (%)	0.11	0.45	0.81	0.81			2.16	2.85		-3.05	-0.90		-0.54	-0.85

RBD Palm Oil, Mal, C/F Rott, Soyabean Oil, Dutch FOB ex-mill, Cottonseed Oil, US, PBSY, 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.

Source: Oil World

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a bigger rate of -3.05% monthly since the beginning of this year, resulting in tallow to be more expensive than stearin.

It is interesting to observe that the competition of these oils and fats in 1996 is obvious within their own groups, consisting of oils having similar technical aspects. Therefore the price of RBD palm olein competed and hence moved in tandem with that of cottonseed oil and soyabean oil during the first half of the year (*Figure 1*). They were more or less stabilised during the period. In another group, the price of RBD palm stearin moved together with that of tallow and their trends, unlike those of olein, cottonseed oil and soyabean oil, were seen to move downwards. Another close association is between price of coconut oil and that of palm kernel oil. Overall, the price trends of liquid oils moved in between those of lauric oils and solid/fat oils.

The range of prices was also very wide this year compared to last year (*Figure 1*). As of June 1996, the prices ranged widely from as low as US\$423 per tonne for stearin to as high as US\$817 per tonne for coconut oil, while a narrower range of prices between US\$496 per tonne for

stearin to US\$711 per tonne for coconut oil was observed at the beginning of the year.

Thus the scenario in the first half of 1996 marked the beginning of the slide in prices, especially that of non-lauric oils, to settle lower than their own prices in the previous year. However the situation is not that bad for palm products since other oils and fats also experienced downturn in their prices (*Table 1*). The developments of these prices, however, depend so much on their progress in the local scene as well as in the world market. Fundamentally speaking, it is the supply and demand factors that determine them.

The tumbling of the palm oil prices in 1996 was partly due to its local factors in Malaysia and partly due to the developments in other oils and fats, especially soyabean oil whose production was very uncertain due to unpredictable weather. Although the actual production of this commodity is still uncertain at this stage, there was already a high production in Malaysia in the first half of 1996. The production reached almost 3.7 million tonnes, compared to 3.5 million tonnes and 3.05 million tonnes during the same periods of 1995 and 1994 respectively (*Table 2*). We can also expect a slightly

TABLE 2. MALAYSIAN STATISTICS OF PALM OIL IN 1996 ('000 tonnes)

Variables	January	February	March	April	May	June	Total/Average
Opening Stocks	860	826	727	688	695	715	752
Production	566	428	644	616	723	722	3698
Imports	6	-	2	4	-	3	15
Total Supply	1432	1254	1373	1308	1418	1440	-
Local Disappearance	85	92	117	79	150	96	620
Exports	521	435	568	533	553	570	3179
Total Demand	606	527	685	612	703	666	-
Closing Stocks	826	727	688	695	715	774	738
Price (RM/tonne)	1245.00	1221.00	1198.00	1253.00	1281.00	1160.00	1226.42

lower production of palm oil in the second half of year due to its higher production in the first half of the year. In spite of this production situation, stocks of palm oil built up during the second quarter of the year, raising the total availability of palm oil towards June 1996 (Table 2). This may be a factor which forces prices of palm oil to drop from the previous year.

In the case of palm kernel oil, its price is still surging up (higher than that of 1995) due to limited supply in the world market. It is highly demanded by the oleochemical plants for the production of oleochemicals, resulting in reduced amount available for the world market. The prices of the other lauric oil *i.e.* coconut oil, have remained high too due to a likely slowing down in production and exports in South-East Asia.

The soyabean oil price also has some factors that had caused them to fluctuate. The main ones *i.e.* the fear of a poor harvest in the US, by far the world's

largest producer, and grains taking away acreage from oilseeds in Argentina, had resulted in a market crisis. The poor harvest was due to the excessively dry weather which threatened the development of the soyabean plants in US while excellent profit prospects at current prices of wheat gave Argentinian farmers higher returns on investment relative to sunseed, soyabeans, linseed and cottonseed. These factors had made forecasters to reduce their soyabean production estimates.

The prices of oils and fats in the second half of 1996 are still uncertain. Some rumours (forecasts) reported that the prices would be maintained or would continue to decline while others say that the prices would return to their 1995 levels as the decline in the first half of 1996 is only temporary. In any case, no one can ever predict the weather, the main determining factor of prices which is yet to be observed. ■