Summary of 1996 Prices of Oils and Fats

☐ Ramli Abdullah

Despite a stiff competition in the world market, prices of oils and fats generally increased in the past few years. Since 1990, their performance improved and steadily increased to their highest levels in 1995 to set another high record in the history of oils and fats prices (*Figure 1*). Among these oils and fats, palm oil and its products were the star performers and performed better than other oils and fats in each year. This can be explained in terms of price differentials between palm products and their related or equivalent oils or fats. The differentials between them were large in 1990 and palm products were discounted most of the time. For instance the discount between palm olein and soybean oil in 1990 was US$115 per tonne, while the differential between stearin and tallow was US$64 per tonne (with stearin being priced lower than tallow). The discount was even bigger when compared between palm olein and cottonseed oil (US$336 per tonne). From 1990 onwards, due to the better performance of palm products over others, the price spreads or differentials narrowed down and finally, in 1995, all palm products became the premium items in the market. Their prices in 1995 averaged higher than other oils and fats, resulting in olein to become premium to soybean oil and to cottonseed oil by US$62 and US$29 per tonne respectively. Other palm products were also sold at premiums over their equivalents in 1995 (*Table 1*).

After recording high prices in 1995, the oils and fats (except lauric oils) then registered lower prices in 1996 (*Figure 1*). While declining, the prices of these non-lauric oils and fats clustered together, segregating themselves from the prices of lauric oils which continued to surge from 1995. It is clear from *Figure 2* that the prices of lauric oils and non-lauric oils were wide apart in 1996, especially towards the end of year. This scenario was different in 1995 where prices of both lauric and non-lauric oils clustered together to form a certain bandwidth of prices.

Corollary to the above, it is worth an effort to analyse the price trend of each of these oils and fats between 1995 and 1996. *Table 1* shows that RBD palm stearin (CIF) was priced at US$450 per tonne in 1996 compared to US$573 per tonne in 1995, indicating a monthly growth rate of –1.12%. Tallow also registered a lower price of US$506 per tonne in 1996 versus US$522 per tonne in 1995. Although declined from 1995 to 1996, its price had grown positively at 0.65% monthly during 1996. The average prices of other oils and fats in 1996 such as RBD palm olein (CIF), soybean oil (FOB), and cottonseed oil (CIF) were about US$581, US$552, and US$595 per tonne respectively which were lower than their own previous prices in 1995. Among these three oils, only olein grew positively within the year. The two lauric oils in *Table 1* registered higher prices at US$728 per tonne for palm kernel oil and at US$752 per tonne for coconut oil. The palm kernel oil price had grown at a positive monthly rate of 0.83% while that of coconut oil slided at –0.88%.

In terms of performance between palm products and their equivalents, it is shown in *Table 1* that RBD palm olein continued to perform better in price than soybean oil in 1996. The price spread between the two indicates that olein was at premium to

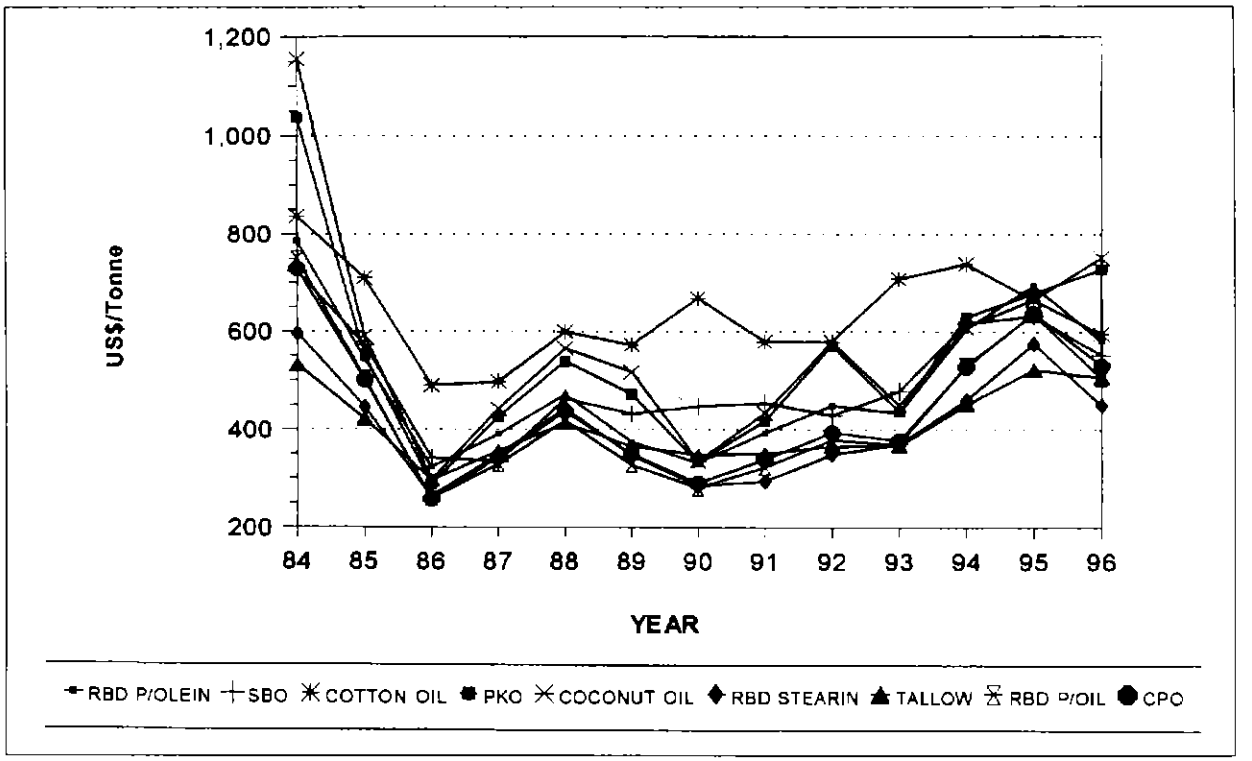

Figure 1. Prices of Selected Oils and Fats (1984-1996)

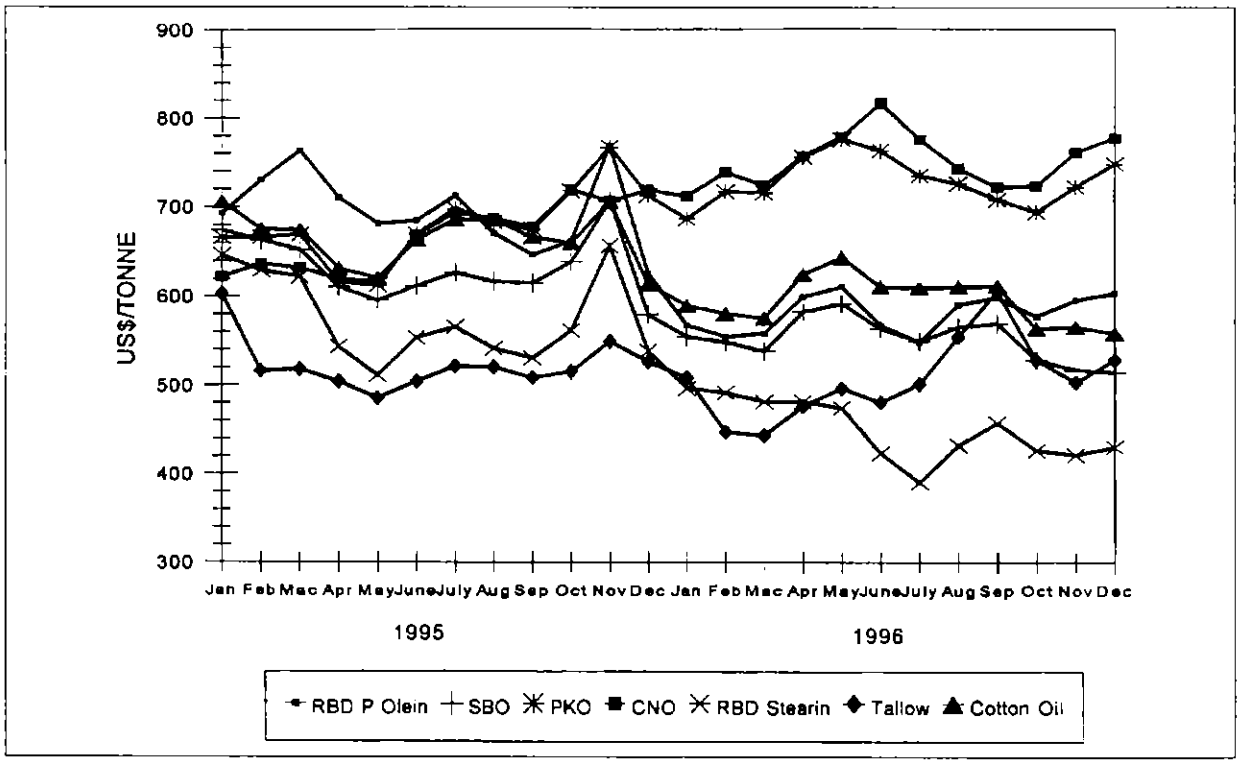

Figure 2. 1995 and 1996 Prices of Selected Oils and Fats.

soybean oil for the second consecutive year by an average of US$29 per tonne. This premium was, however, smaller than that in 1995 *i.e.* US$62 per tonne and the price spread between the two oils widened in the second half of 1996. Cottonseed oil, on the

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

Products / Year/ Months	RBD Palm Olein (CIF) (Rott) (1)	Soyabean Oil (FOB) (Rott) (2)	Cottonseed Oil (CIF) (Rott) (3)	Spread (1) – (2) +Premium –Discount	Spread (1) – (3) +Premium –Discount	Palm Kernel oil (CIF) (Rott) (4)	Coconut oil (CIF) (Rott) (5)	Spread (4) – (5) +Premium –Discount	RBD Palm Stearin (CIF) (Rott) (6)	Tallow (CIF) (Rott) (7)	Spread (6) – (7) +Premium –Discount	RBD Palm oil (FOB) (M'sia) (8)	Palm oil (CIF) (Rott) (9)
1984	786	724	836	62	–50	1037	1155	–118	595	531	64	750	729
1985	543	572	710	–29	–167	551	590	–39	445	421	+26	504	501
1986	323	342	489	–19	–166	288	297	–9	263	296	–33	258	257
1987	390	334	497	+56	–107	426	442	–16	349	356	–7	329	343
1988	471	463	599	+8	–128	539	565	–26	443	413	+30	418	437
1989	375	432	572	–57	–197	472	517	–45	348	366	–18	328	350
1990	332	447	668	–115	–336	334	336	–2	284	348	–64	280	290
1991	393	454	579	–61	186	417	433	–16	294	351	–57	323	339
1992	449	429	579	20	–130	571	578	–7	349	366	–17	379	394
1993	434	478	708	–44	–274	437	450	–13	370	367	3	370	378
1994	604	6126	739	–12	–135	629	608	21	460	451	9	531	528
1995	694	632	665	62	29	678	665	13	573	522	51	634	636
JAN (1995)	693	674	706	19	–13	666	622	44	646	603	43	649	655
FEB	730	663	673	67	55	666	636	30	629	516	113	674	661
MAR	763	652	674	111	89	669	632	37	622	518	104	705	687
APR	710	610	631	100	79	616	619	–3	543	504	39	634	625
MAY	681	595	620	86	61	612	616	–4	511	485	26	610	611
JUNE	684	611	663	73	21	669	668	1	553	504	49	622	631
JULY	712	626	685	86	27	697	693	4	565	521	44	652	655
AUG	670	616	685	54	–15	682	686	–4	541	520	21	609	616
SEP	646	614	665	32	–19	674	677	–3	530	508	22	583	586
OCT	661	638	659	23	2	717	718	–1	561	515	46	602	615
NOV	768	706	705	62	63	766	706	60	656	549	107	713	707
DEC	615	575	614	40	1	705	712	–7	523	520	3	557	583
Avg (Jan – Dec)	**694**	**632**	**665**	**62**	**29**	**678**	**665**	**13**	**573**	**522**	**51**	**634**	**636**
Avg. monthly change (%)	**–0.68**	**–1.18**	**–1.11**			**0.66**	**1.29**		**–1.43**	**–1.18**		**–0.88**	**–0.71**
JAN (1996)	567	554	589	+13	–22	686	711	–25	496	508	–12	504	535
FEB	554	548	580	+6	–26	716	738	–22	491	447	+44	501	518
MAR	558	538	575	+20	–17	715	723	–8	481	443	+38	492	519
APR	599	582	624	+17	–25	755	756	–1	481	476	+5	528	562
MAY	610	591	643	+19	–33	775	778	–3	474	496	–22	536	552
JUNE	567	563	610	+4	–43	762	816	–54	423	480	–57	487	508
JULY	548	549	609	–1	–61	734	775	–41	390	501	–111	460	476
AUG	590	565	610	+25	–20	725	742	–17	432	554	–122	501	513
SEP	598	569	611	+29	–13	707	721	–14	457	605	–148	520	545
OCT	577	528	563	+49	+14	693	722	–29	426	528	–102	5902	532
NOV	595	517	565	+78	_30	721	760	–39	421	503	–82	511	550
DEC	603	514	558	+89	+45	747	777	–40	430	528	–98	523	561
Avg (Jan – Dec)	**581**	**552**	**595**	**29.0**	**–14.25**	**728**	**752**	**–23.3**	**450**	**506**	**–55.58**	**505**	**531**
Avg. monthly change (%)	**0.65**	**–0.60**	**–0.41**			**0.83**	**–0.88**		**–1.12**	**0.65**		**-.47**	**0.57**

RBD Palm Olein, 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.

Source: Oil World, various issues

other hand out-performed olein in 1996 by being premium to the latter by US$14.25 per tonne. In 1995, cottonseed oil was at a discount to olein by US$29 per tonne. Both palm kernel oil and RBD palm stearin were also out-performed by coconut oil and tallow by US$23.30 and US$55.58 per tonne, respectively. Generally, it can be said that only olein performed better than the other palm products in 1996 based on its premium status.

The overall price performance of these oils and fats in 1996, as mentioned above, had largely depended on a few key fundamental factors. The bearishness of palm oil prices could be due to the poor export performance from Malaysia during the first half of 1996. One of the reasons was that China was not an active participant in the market since the country imposed an import quota on palm oil. There was also a lack of import licences in the country as the Chinese authority did not issue new or renew import licences during the year. These are the factors that inhibited China from being active in the market. Furthermore, the cold weather towards the end of the year made it difficult to deliver palm oil. Until November 1996, China imported only 764 458 tonnes of palm oil from Malaysia, compared to 965 964 tonnes during the same period of 1995.

Higher than estimated palm oil production in 1996 also added pressure to the already weakening prices of palm products. Malaysia, the main producer of palm oil, produced an unexpected amount of 8.4 million tonnes in 1996, representing an increase of 7.3% from the previous year. This achievement was due to the good Malaysian weather, higher palm oil extraction rate, and increase in planted area.

The bearishness of palm oil prices in 1996 indicated a stronger demand for the Malaysian commodity by other countries besides China. More palm oil was requested in the second half of the year when the palm oil prices were more bearish than that in the first half. Coupled with an increase in Indonesian export due to the lowering of export duties by the Indonesian government, the world export of palm oil increased from 10.33 million tonnes in 1995 to 11.1 million tonnes in 1996.

Another fundamental development could have been the campaign by environmentalist group (Greenpeace) and other pressure groups, mainly in Europe, against genetically engineered US soybean. This campaign gave a positive impact on the intake of rapeseed, sunflower and palm oil in Europe after food manufacturers reduced or totally eliminated the use of soybean oil in favour of the three mentioned oils. As a result, there was a tight supply of soybean oil in 1996, with only 20.092 million tonnes in production compared to 20.228 million tonnes in 1995. Since the campaign generated considerable uncertainty and scepticism among consumers, exports of soybean oil declined to 4.869 million tonnes in 1996 from 5.685 million tonnes in the previous year due to lesser demand overseas. This gave an advantage to palm oil over soybean oil.

The above describes the possible factors that could have determined the prices of oils and fats in 1996. The price scenario in 1997 may be as firm as 1996, depending on the fundamentals. The production of oils and fats in 1997, as a whole, may be tight. This is because increase in production of palm oil, may offset the decline in production of other oils and fats, *i.e.* soybean and groundnut oils. With production expected to be around 8.7 million tonnes and opening stocks of about 0.79 million tonnes, total availability of Malaysian palm oil is expected to slightly increase in 1997 from the previous year (9.5 versus 9.2 million tonnes). However, this volume may be small enough to meet the increasing demand by the world. China will be back as active purchaser in the market, while India and Pakistan are expected to maintain their active participation. Thus, on the whole, the price scenario of oils and fats in 1997 is expected to be as good as that of the previous year. ■