

1996/1997 Prices of Oils and Fats

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Although facing a stiff competition in the world market, prices of palm products averaged high during the first five months of 1997. Their prices rebounded in an attempt to further improve their performance in the market over the previous year (*Table 1*). On the other hand, prices of other selected oils and fats (except tallow) continued to decline during this period.

Among the palm products, RBD palm olein out-performed the others. Its average price during the first five months of 1997 was US\$631.4 per tonne, an increase from US\$581 per tonne in the previous year. RBD palm stearin's price increased to US\$482.2 during the same period of 1997 from US\$450 per tonne in the previous year while palm kernel oil, more or less, maintained its previous year's price at about US\$720 per tonne.

Soybean oil's price was US\$536.8 per tonne during the early part of this current year which saw a continuous fall since 1995. The price of cottonseed oil also experienced a decline in 1997 for the third consecutive year since 1994. Its price for the first five months of 1997 was US\$591.8 per tonne, compared to US\$739 per tonne in 1994. Coconut oil was also bearish in the early part of this year with its price falling to US\$727.2 per tonne. Its price was on a positive trend during the last four years. Of all the selected oils and fats, only tallow showed the same price movement as those of palm products by registering a slight increase in price over the previous year. Its price in 1997 and in 1996 were US\$571 and US\$506 per tonne respectively. On the

whole, prices of palm products were bullish again in 1997 and higher than their own prices in the previous year.

Table 1 shows that the price differential between RBD palm olein and soybean oil was US\$94.6 per tonne while that of RBD palm olein and cottonseed oil was US\$39.6 per tonne during the first five months of 1997. This meant that RBD palm olein was sold at a premium to soybean oil and the cottonseed oil by US\$94.6 and US\$39.6 per tonne respectively. These premiums were also higher this year than that of the previous year. It gives an indication that the olein out-performed again the other two oils.

The discount of palm kernel oil over coconut oil in this current year was only US\$4.4 per tonne. The small amount was due to the fall of the coconut oil's price from US\$752 in 1996 to US\$727.2 per tonne in 1997. The prices of these two lauric oils were almost close to one another while in the previous year the differential was by US\$23.3 per tonne.

The competition between RBD palm stearin and tallow in the first five months of 1997 resulted in the narrowing down of the price differential of stearin and tallow. Stearin was sold cheaper than tallow by US\$29.2 per tonne during the period but the differential was bigger in the previous year where as RBD stearin was sold at a discount to tallow by US\$55.58.

Figure 1 shows the general direction of prices of selected oils and fats. Prices of the non-lauric oils generally moved in a certain

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

Products	RBD Palm Olein (CIF) (Rott) (1)	Soybean 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)
Year/ Months													
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	688	-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	616	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 (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	502	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-May)	578	563	602	15	-24.6	729	741	11.8	485	474	10.6	512	537
Avg. monthly change (%)	1.90	1.70	2.29			3.12	2.31		-1.13	-0.31		1.61	-0.88
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		0.47	0.57
JAN (1997)	632	534	571	98	61	754	767	-13	478	566	-88	555	567
FEB	639	527	580	112	59	757	768	11	509	554	-45	565	580
MAR	622	541	601	81	21	730	737	7	486	498	-12	545	559
APR	635	541	602	94	33	705	710	5	479	455	24	555	562
MAY	629	541	605	88	24	668	654	14	459	484	-25	545	553
Avg (Jan-May)	631	537	592	94.6	39.6	723	727	4.4	482	511	-29.2	553	564
Avg. monthly change (%)	-0.10	0.33	1.47			-2.96	3.86		-0.91	-3.62		-0.43	-0.60

RBD Palm Olein, Mal. CIF Rott; Soybean 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

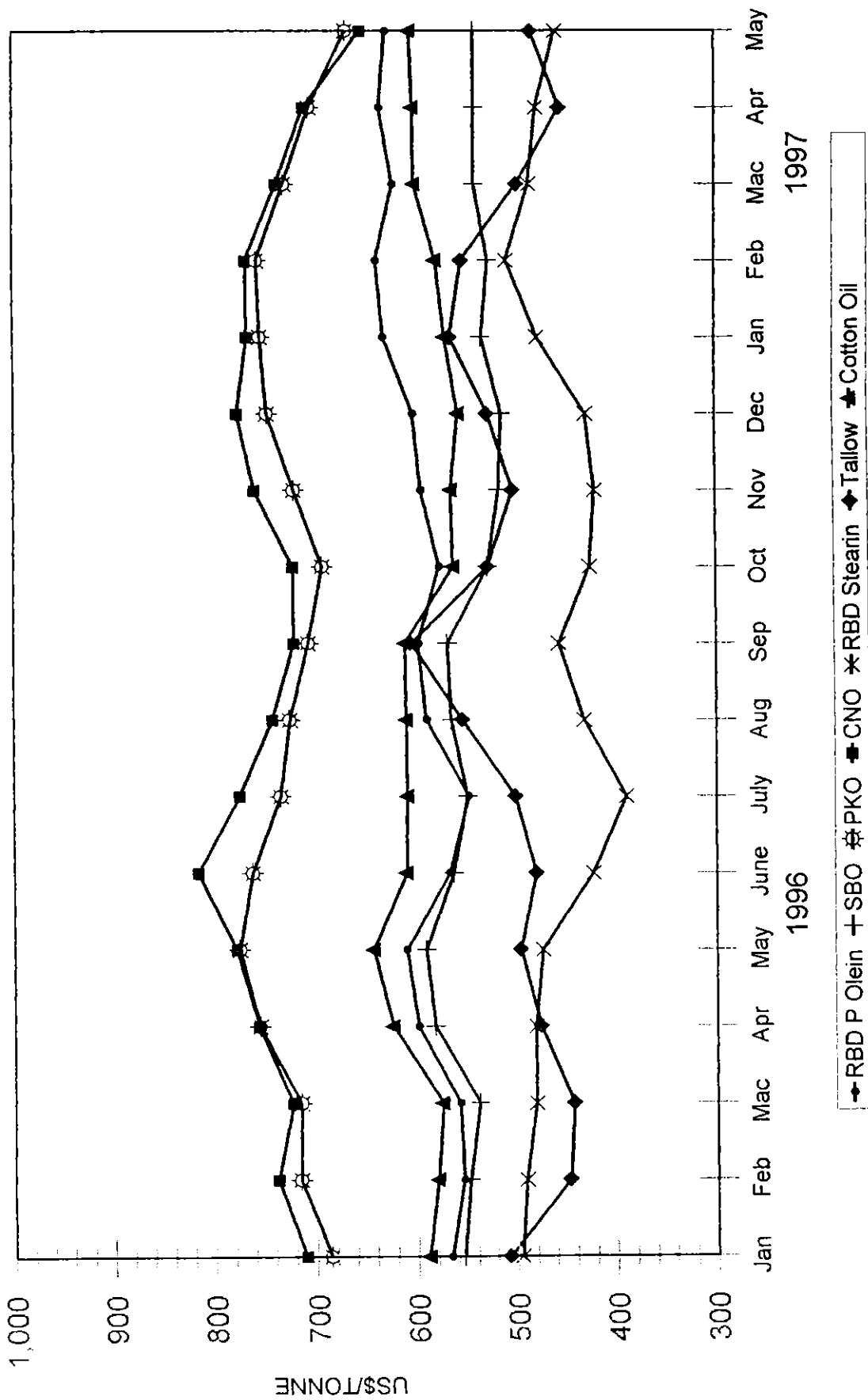


Figure 1. 1996 & 1997 Prices of Selected Oils and Fats

bandwidth since the beginning of 1996. The price trend of tallow moved wildly across the bandwidth. It reached its peak in September 1996 and then had been on a declining trend. Due to its wild movement, its price differential with stearin was wide apart especially in September 1996. Prices of the two lauric oils, palm kernel and coconut oils, were segregating themselves from the non-lauric oils and were at high level all the time. Towards May 1997, their prices, however, declined and became closer to those of non-lauric oils.

The above price scenario of oils and fats is normally driven by market forces. Fundamentally speaking, supply and demand factors of these oils and fats determine their prices in the world market.

Soybean oil's price was observed to be stable since January 1997, mainly due to the development of the US soybean industry. The US soybean crop had an excellent start with very early plantings and generally good weather for germination and early growth. It is expected that the crop would produce good yield this year. This has resulted in the stability of soybean oil's price. Prices of other oils and fats (except palm products) had been affected by the development of this soybean crop.

The stability in the soybean oil price encouraged export opportunities of most oils and fats, including palm products. Many countries such as China, India, Pakistan *etc.* had been active in the market and increased their imports of oils and fats especially soybean oil. Argentina also imported soybean oil from the US due to the shortage of oil supply as a result of bad drought that took place in the country recently.

Palm oil's development indicates that the oil may have its own markets and market forces which are not directly affected by the soybean oil industry. This is because palm

oil prices had been on a premium for the first five months of 1997 over that of other oils and fats.

The total availability of Malaysian palm oil during 1997 is about 9.5 million tonnes. It is higher than the total availability in the previous year of about 9.25 million tonnes. With this large availability of palm oil for trade, demand for Malaysian palm oil by various consuming countries, either small or big, can easily be met regardless of the high prices of palm oil. This was made possible since world income growth is improving in most countries. Based on the forecast made by International Monetary Fund, the world income is expected to grow by 4.4% in 1997. Palm oil is also taking the opportunity of the low stocks/usage ratio of oils and fats that was reported by the *Oil World* and hence it was demanded heavily to meet the shortage. As a result, Malaysian palm oil exports in the January-May 1997 period increased to about 2.7 million tonnes from the same period of last year.

It can be concluded that the first half of 1997 was very bullish for palm products. This is due to the fact that they performed well over the period by being higher in prices than in the previous year. They also performed well over other oils and fats during the same period since the premiums of RBD palm olein over soybean and cottonseed oils were higher than in the last year and the discounts of other palm products over other oils and fats were getting lower than before.

In the second half of 1997, prices of oils and fats may depend heavily on weather. The good prospects of soybean oil made in the first half of 1997 may be damaged if the weather turns bad. This may affect prices of other oils and fats too. Palm oil prices is expected to fall slightly in the coming months due to the normal peak production periods in September-October 1997.