Price Scenario of Selected Oils and Fats in 2001 and Prospects in 2002

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Palm products recorded another bearish year in 2001 as prices continued to decline along the trend that began in 1999. The price of refined bleached deodorized (RBD) palm olein averaged out at US$ 317 t^{-1}, RBD palm stearin at US$ 264 t^{-1}, RBD palm oil at US$ 259 t^{-1}, crude palm oil at US$ 286 t^{-1}, and palm kernel oil at US$ 308 t^{-1} and all these were lower than their corresponding prices in the previous year (*Table 1*). Prices of some other oils, namely cottonseed oil and coconut oil also showed the same pattern in 2001, averaging at US$ 414 t^{-1} and US$ 318 t^{-1} respectively which were lower than their corresponding prices in the previous year. However, prices of soyabean oil and tallow did show an improvement in 2001 compared to the prices in year 2000.

Figure 1 illustrates the change in prices of palm products in 2001 over 2000. Palm kernel oil registered the biggest price decline of about -US$ 136 t^{-1} while the smallest price fall was shown by RBD palm stearin at -US$ 10 t^{-1}. Other palm products also registered lower prices in 2001; where the reduction in prices ranged from -US$20 to -US$ 40 t^{-1}. *Figure 2* shows changes in the prices of selected non-palm products such as soyabean oil, cottonseed oil, coconut oil and tallow. It can be seen that the price of soyabean oil had increased by US$ 16 t^{-1} while that of tallow rose by US$ 34 t^{-1}. On the other hand, the prices of cottonseed oil and coconut oil declined significantly at -US$ 75 t^{-1} and at -US$ 132 t^{-1} respectively. It can be seen from *Figures 1* and *2* that both lauric oils, *i.e.* palm kernel oil and coconut oil, recorded significant downward trends in prices in 2001 compared to 2000.

Many factors, both internal and external to the oil palm industry, contributed to the weakening of prices of palm products in 2001. Probably the most significant factor was the substantial increase in Malaysia's palm oil production - from 10.8 million tonnes in the year 2000 to 11.8 million tonnes in 2001. Malaysia had two significant peak months in the year 2001, one in the first quarter (January) and the other was in the fourth quarter. Past records never showed January as a significant peak month. Production during the first quarter of 2001 amounted to 2.84 million tonnes, accounting for about one quarter of the total production of 11.8 million tonnes during the year. In contrast, production in the first quarter of 2000 accounted for only about 20% of total production of the year. The high production during the first quarter of the year contributed to bearish sentiments for the oil palm industry in 2001. Besides this factor, the high palm oil stocks in 2001 also played a significant role in negatively affecting palm oil price in Malaysia. The stock was high at 1.4 million tonnes at the beginning of 2001 and was generally high throughout the year as indicated by the year's average of closing stock at 1.2 million tonnes.

Another development that indirectly affected price of palm oil was the war between US and Afghanistan which hampered ships from carrying the oil to destinations in the region. As a result, Malaysia was able to export only 10.6 million tonnes in 2001. Although this was an increase from the total export of the previous year, without such an incident, Malaysian export volume of palm oil could perhaps have been even higher.

However, it is possible that prices of palm products could have fallen to a much lower levels in 2001 if not for the corrective and proactive measures undertaken by the Malaysian Government and the Malaysian oil palm industry. The most significant measure was the accelerated replanting programme, which provided incentives for trees above 25 years of age to be replanted because of their uneconomical production. This programme, which had targeted 200 000 ha to be replanted was successful as it was well received by the industry. Other measures included the burning of crude palm oil as fuel. These measures contributed somewhat to contain the price decline and consequently prices settled down at reasonable levels in 2001, although still lower than the previous year.

Although it is still early to determine price directions of these oils and fats in 2002, price

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TABLE 1. PRICES OF SELECTED OILS AND FATS (US$ t^{-1})

Products / Year	RBD palm olein (CIF) (Rott) (1)	Soya-bean oil (FOB) (Rott) (2)	Cotton-seed 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)
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	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
1996	581	552	595	29	-14	728	752	-24	450	506	-56	505	531
1997	605	565	613	40	-8	652	657	-5	466	529	-63	529	546
1998	710	626	718	84	-8	687	658	29	548	466	82	632	671
1999	491	427	563	64	-72	694	737	-43	358	361	-3	411	436
2000	349	338	489	11	-140	444	450	-6	274	290	-16	285	310
2001	317	354	414	-37	-97	308	318	-10	264	324	-60	259	286
2002													
Jan	385	389	408	-4	-23	339	362	-23	306	312	-6	327	338
Feb	369	358	408	11	-39	359	376	-17	302	299	3	312	330
Mar	374	353	420	21	-46	358	366	-8	313	309	4	320	338
Avg+	**376.0**	**366.7**	**412.0**	**9.3**	**-36.0**	**352.0**	**368.0**	**-16.0**	**307.0**	**306.7**	**0.3**	**319.7**	**335.3**
Avg*	**278.7**	**312.3**	**437.7**	**-33.7**	**-159.0**	**283.7**	**297.7**	**-14.0**	**243.3**	**294.0**	**-50.7**	**218.0**	**249.3**

Notes: 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.

\+ Jan - March 2002.

* Jan - March 2001.

Source: Oil World.

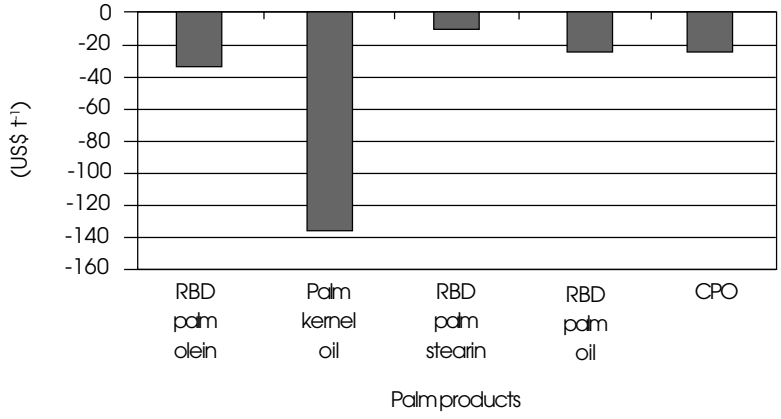

Figure 1. Change in prices of palm products in 2001 over 2000.

developments in the first quarter of the year have shown that there would be a price recovery this year. Prices of most oils and fats in the first quarter of 2002 were higher than their prices in the corresponding period of 2001 (*Figure 3*). RBD palm oil registered the biggest increase in price (by US$ 101 t^{-1}), followed by RBD palm olein (by US$ 97.3 t^{-1}), and crude palm oil (by US$ 86 t^{-1}). It can be noticed that price of soyabean oil, averaging at US$ 367 t^{-1} in the first quarter of 2002, also had a positive price change by US$ 54 t^{-1} over the same period of last year. In addition, prices of palm kernel oil and coconut oil too registered almost the same amount of price change (positive) over the two periods. On the other hand, cottonseed oil showed a slight deviation in price trend from those of other oils and fats, as it had shown a negative price change (-US$ 26 t^{-1}) during the two periods.

The average prices of these selected oils and fats in the first quarter of 2002 can also be compared against their own prices for the whole year of 2001. All of them (except cottonseed oil and tallow) recorded higher prices in the first quarters of 2002 than their own average prices for the whole year of 2001 (*Figure 3*). Soyabean oil had a change in price by US$ 13 t^{-1} while others had price changes of more than US$ 40 t^{-1}. Contrary to this, tallow and cottonseed oil showed negative price changes of -US$ 17 t^{-1} and -US$ 2 t^{-1} respectively.

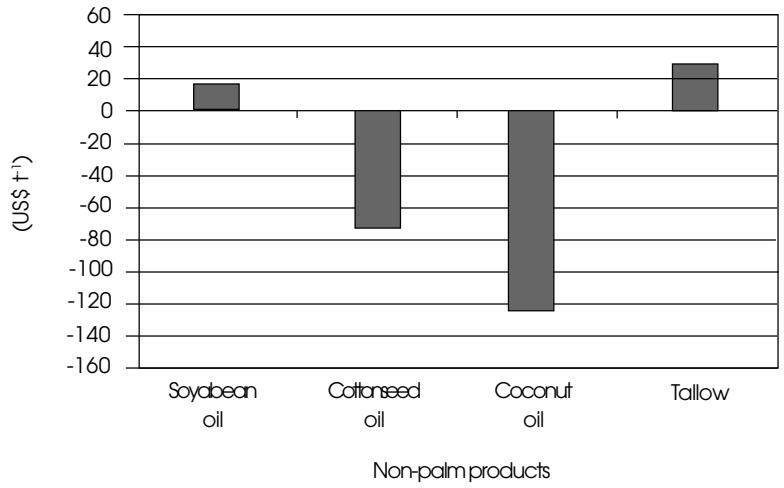

Figure 2. Change in prices of selected non-palm products in 2001 over 2000.

discount was not much different from that of the discount in the first quarter of 2001 (-US$ 14 t^{-1}). The price of RBD palm stearin was also found not to be significantly different from that of its competitor, tallow, as a premium of only US$ 0.3 t^{-1} was recorded during the first quarter of 2002. Nevertheless, this can be considered as a good performance for stearin, which in the past three years had been at a price discount to tallow.

Of course, there are some driving factors that point to a better performance of palm oil prices this year. The most significant one is the expectation of lower production of Malaysian palm oil in 2002. Production is expected to be lower than that of the previous year. Malaysia is expected to produce about 11.6 million tonnes, a slight reduction from that of 2001. The reduction could be due to many factors such as stress of the trees after having overproduced the previous year, the cyclical effect, and reduction in planted areas due to the replanting programme. All these effects synergistically could bring down the production level thus bringing prices of palm products to higher levels.

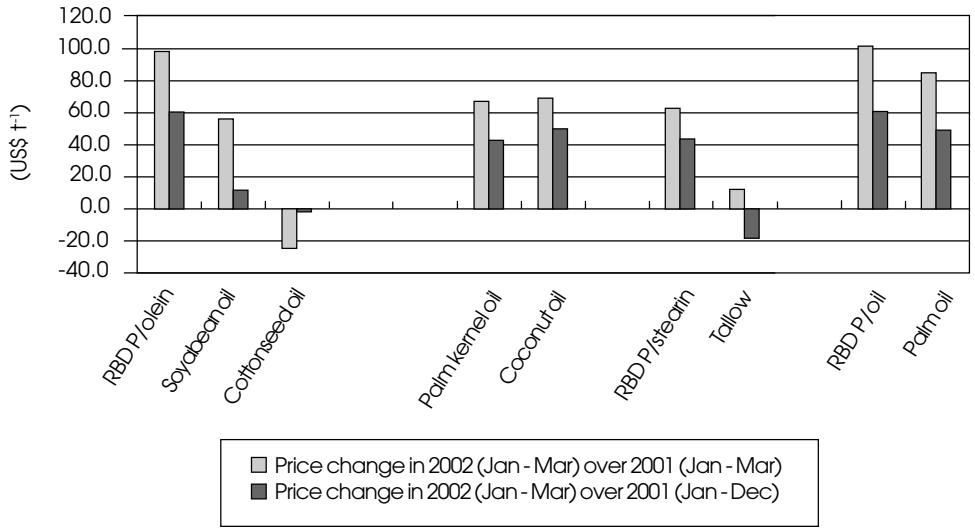

Figure 3. Price change of selected oil and fats in 2002 over 2001.

Thus, it can be said that prices of some selected oils and fats are already showing signs of recovery this year as their prices were better off than their prices in 2001. However, the direction of prices of cottonseed oil and tallow in 2002 are not yet certain, as they have not yet shown signs of recovery.

We have seen the price developments of these selected oils and fats over their performance in the past. We will now do a comparative analysis of prices of these oils and fats for the period January to March 2002. On the average, price of RBD palm olein was observed to be higher than that of soyabean oil by US$ 9.30 t^{-1} during the period (*Table 1*). Obviously, this was a better performance for olein as it was at a discount of -US$ 33.7 t^{-1} to soyabean oil in the same period of 2001. There was a spread of -US$36 t^{-1} between olein and cottonseed oil, in favour of the latter. This however, was smaller than the spread between these oils in the same quarter of 2001 (-US$ 159 t^{-1}). This indicates that price of olein had accelerated positively at a much faster rate than that of cottonseed oil.

Palm kernel oil, on average, was sold at US$ 16 t^{-1} cheaper than coconut oil during January to March 2002. However, the