Price Prospects for Selected Oils and Fats in 2005

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This report analyses the performances of prices of selected oils and fats, namely, RBD palm olein, soyabean oil, cottonseed oil, lauric oils (palm kernel oil and coconut oil), RBD palm stearin and tallow in the past few years and their prospects in 2005. Based on their performances from 2000 to 2004, the prices of the first two products (olein and soyabean oil) increased at decreasing rates (*Table 1)*. In 2002, the prices of olein and soyabean oil grew at 34.4% and 28%, respectively, from 2001 whereas the growths in 2004 from 2003 were reduced to 4.3% for olein and 11.2% for soyabean oil. A similar scenario can be observed for the prices of RBD palm stearin and tallow with each indicating smaller increases of about 9.8% and 0.4% respectively, in 2004 from the previous year. Conversely, a poor performance was shown by cottonseed oil which price in 2004 was USD 685 t^{-1} compared to a much higher price in 2003 of USD 894.7 t^{-1}, a considerable decrease of 23.5%. Lower production of cottonseed oil in 2003 pushed up its price and higher production in 2004 pulled down its price. The prices of lauric oils, however, showed a different scenario as they rose significantly in 2004 by about 41% for both palm kernel and coconut oils. Stiff competition between these two products that lead to increases in their prices indicated the growing demand from the oleochemicals industry. Therefore, in 2004, it can generally be said that all the prices accelerated but at different rates except for cottonseed oil.

It can be seen in *Table 2* that all the prices were higher in the first half of 2004 than in the second half of the year. The average price of olein was USD 554 t^{-1} in the first six months against about USD 470 t^{-1} in the second half. That of stearin was USD 504 t^{-1} in the first half compared to USD 425 t^{-1} in the second half. In fact, all the other prices showed the same behaviour with their prices higher in the first half than in the second half of the year.

In comparing the prices in the first half of 2005 with their own prices in the first half of 2004, all the prices were lower in the former period except for palm kernel oil. The average price of palm kernel oil in 2005 (first half) was USD 659 t^{-1}, slightly higher than USD 655 t^{-1} in 2004, the same period (*Table 2*). Unlike the price of palm kernel oil, the average prices of olein, soyabean oil, cottonseed oil, coconut oil, stearin and tallow were USD 416, USD 535, USD 666, USD 661, USD 401 and USD 460 t^{-1}, respectively, in the 2005 period (January to June) which were much lower than in 2004, the same period. Generally, the prices of these selected oils and fats continued to decline from 2004 to the first half of 2005.

An analysis of the monthly performance indicated that the prices of the selected oils and fats fluctuated considerably from 2002 to 2005. After grouping the oils and fats by their nature or characteristics, the prices of oils and fats from the same group tended to move in tandem with one another. Generally, if price of one oil or fat decreased/increased, the prices of the other oils or fats in the same group would also decrease/increase. This scenario can be seen very clearly in *Figures 1* and *2.* The prices of olein and soyabean oil are graphed together with that of cottonseed oil, showing both olein and soyabean oil prices moving in tandem. This indicates that soyabean oil and olein are substitutable with one another in the world market. The cottonseed oil price series also showed quite the same price pattern as those of palm oil and soyabean oil. However, it was not close enough with the other two series; it was wide apart in some years but the price pattern is generally moving in the same direction. It is not a perfect substitutable product to palm oil and soyabean oil. In the case of the laurics oils, their

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TABLE 1. GROWTH RATES OF PRICES FOR SELECTED OILS AND FATS

Year	Growth rates of prices (%)						
	RBD palm olein	Soyabean oil	Cottonseed oil	Palm kernel oil	Coconut oil	RBD palm stearin	Tallow
2000	–	–	–	–	–	–	–
2001	-9.2	4.7	-15.3	-30.6	-29.3	-3.6	11.7
2002	34.4	28.2	34.3	35.1	32.4	42.4	11.1
2003	15.3	22.0	61.0	10.3	10.9	11.7	28.1
2004	4.3	11.2	-23.5	41.2	41.5	9.8	0.4

TABLE 2. COMPARISON OF AVERAGE PRICES IN 2004 AND IN 2005 (USD t^{-1})

Selected oils and fats	2005	2004	
	January - June	January - June	July - December
RBD palm olein	416	554	470
Soyabean oil	535	654	578
Cottonseed oil	666	793	577
Palm Kernel oil	659	655	642
Coconut oil	661	670	651
RBD palm stearin	401	504	425
Tallow	460	490	436

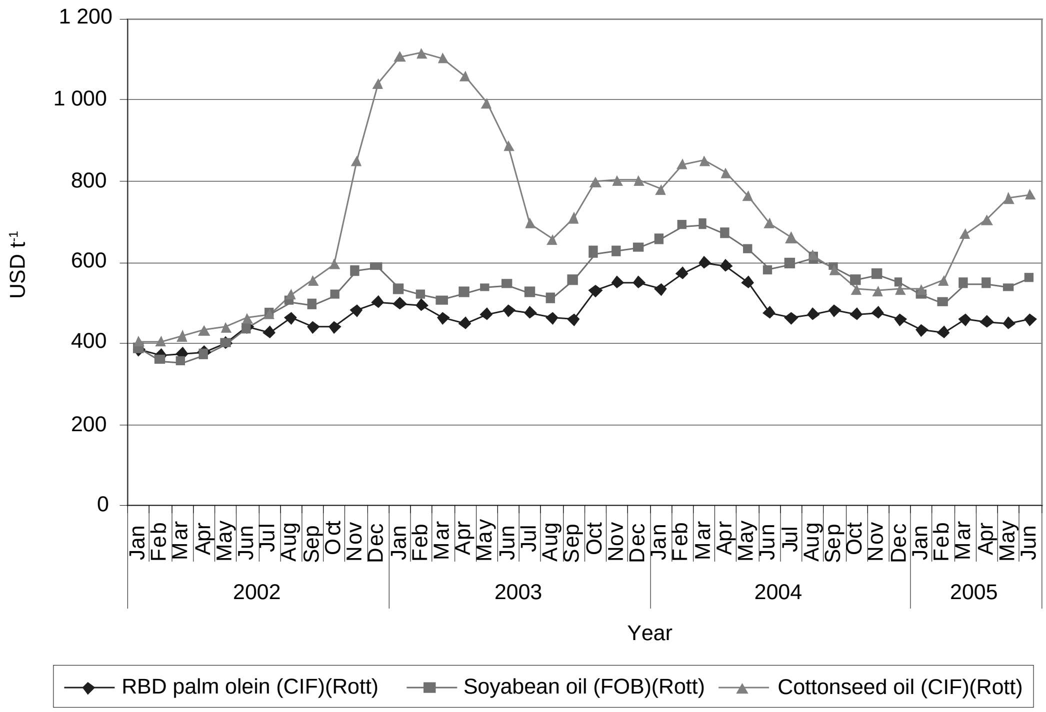

Figure 1. Price development of soyabean oil, RBD olein and cottonseed oil (2002-2005) (USD t^{-1}).

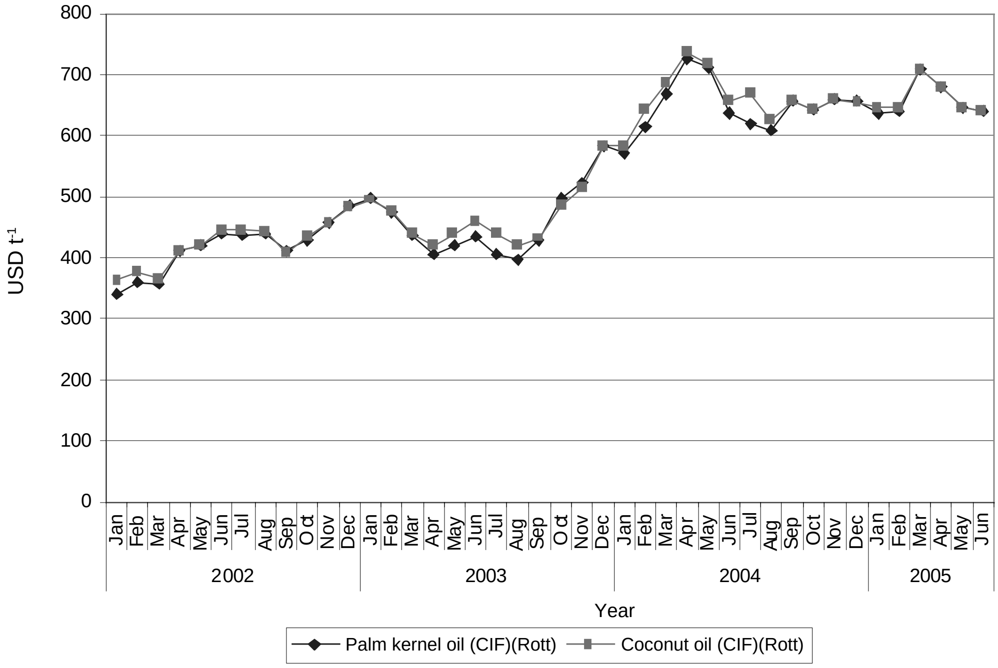

Figure 1. Price development of palm kernel oil and coconut oil (2002-2005) (USD t^{-1}).

prices were also very closely related with one another, indicating substitutability.

Although the prices of oils and fats in the same group moved in the same direction, they differed due to various factors, thus, the existence of a spread. *Table 3* shows the spread between related oils and fats. The spread between olein and soyabean oil had been negative since 2001, with olein sold at a discount to soyabean oil. The magnitude of the spread increased over the years from -USD 37 t^{-1} in 2001 to -USD 104 t^{-1} in 2004. Olein was sold even cheaper than cottonseed oil as the spread between the two oils was wider than that between olein and soyabean oil. Stearin and tallow were very competitive as the spread reduced towards 2004 to -USD 2 t^{-1}.

In 2005, olein continued to be sold at a discount to soyabean oil and cottonseed oil. In the first half of 2005, the average discount to the former was USD 88.5 t^{-1} and to the latter USD 220 t^{-1}. Stearin was discounted to tallow by USD 58 t^{-1} compared to a premium of USD 14 t^{-1} in 2004, same period. [On average the discount was minimal (USD 2 t^{-1}) to tallow for whole 2004.] Thus, in 2005 (first half) a wider spread occurred between these oils and fats. However, in the case of palm kernel oil and coconut oil, competition continued to persist in the world market as the spread between them was very small (USD 2.2 t^{-1}).

Based on the price movements in 2004 and in the first half of 2005, it is likely that the prices of oils and fats, especially that of palm oil, will be maintained in the second half of 2005 as in the previous months. This may be due to many significant factors. Although India may limit its demand for palm oil in the second half of 2005, this may not hinder the increase in demand for palm oil. The good news comes from China which will eliminate its import tariff rate quota on edible oils from next year, coupled with its rising consumption of palm oil. Other favourable factors are that the Philippines may increase its palm oil consumption, soyabean rust in Brazil and the future use of palm oil (as biodiesel) as an alternative fuel to power vehicles. With all these favourable factors, it is believed that the prices of oils and fats, especially that of palm oil will be maintained in the short-term.

TABLE 3. PRICES OF SELECTED OILS AND FATS (USD t^{-1})

Products / Year/Month	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)
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	426	454	556	-28	-130	416	421	-5	376	360	16	375	390
2003	491	554	895	-63	-404	459	467	-9	420	461	-41	437	443
2004	512	616	685	-104	-173	648	661	-13	461	463	-2	459	471
2004													
Jan	533	658	781	-125	-248	572	584	-12	499	581	-82	483	496
Feb	575	689	842	-114	-267	614	642	-28	516	436	80	527	535
Mar	598	691	852	-93	-254	669	685	-16	522	449	73	544	550
Apr	590	671	820	-81	-230	727	736	-9	535	519	16	533	538
May	550	632	763	-82	-213	711	716	-5	512	485	27	500	513
June	477	581	697	-104	-220	636	658	-22	440	470	-30	429	440
July	464	597	660	-133	-196	620	669	-49	428	477	-49	417	426
Aug	470	610	616	-140	-146	610	627	-17	423	446	-23	421	432
Sept	481	585	583	-104	-102	657	657	0	414	428	-14	434	439
Oct	471	558	535	-87	-64	643	642	1	412	425	-13	413	431
Nov	475	567	531	-92	-56	660	659	1	416	410	6	411	433
Dec	460	553	534	-93	-74	656	654	2	410	427	-17	394	423
2005													
Jan	431	521	536	-90	-105	636	646	-10	395	434	-39	369	402
Feb	426	497	558	-71	-132	641	646	-5	385	432	-47	362	403
Mar	458	546	672	-88	-214	710	710	0	409	453	-44	400	435
Apr	454	547	704	-93	-250	681	679	2	409	489	-80	397	429
May	450	538	761	-88	-311	647	647	0	403	488	-85	395	417
Jun	458	559	767	-101	-309	639	639	0	408	461	-53	391	419
Jul	–	–	–	–	–	–	–	–	–	–	–	–	–
Aug	–	–	–	–	–	–	–	–	–	–	–	–	–
Sep	–	–	–	–	–	–	–	–	–	–	–	–	–
Oct	–	–	–	–	–	–	–	–	–	–	–	–	–
Nov	–	–	–	–	–	–	–	–	–	–	–	–	–
Dec	–	–	–	–	–	–	–	–	–	–	–	–	–
Average (Jan-June):													
2004	553.8	653.7	792.5	-99.8	-238.7	654.8	670.2	-15.3	504.0	490.0	14.0	502.7	512.0
2005	446.2	534.7	666.3	-88.5	-220.2	659.0	661.2	-2.2	401.5	459.5	-58.0	385.3	417.5

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/Ind, 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.