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REASONS FOR PRICE FLUCTUATIONS

PALM oil is an important commodity as it contributes almost four per cent to the country's gross domestic product amounting to approximately RM45 billion per year.

The recent low price at RM1,972 per tonne (in November last year) generated great interest in segments of the population as low prices have affected many smallholders.

Although the statistics recorded a steep downward trend in recent months, the general opinion in the industry is that it may not decline further, and at most will hover at the current price of around RM2,100 per tonne, as shown over the past month.

Fluctuations in prices are common for world commodities, including soya bean and corn. Soya bean oil price was at US$732 (RM2,983) in the last week of January compared with US$690 in December. Sunflower oil recorded a steep price reduction at US$703 in December when it was almost reaching US$780 six months earlier.

The price trends of palm oil affecting local growers are influenced by demand and supply, and other technical factors. Malaysian palm oil production is consumed only up to 18 per cent locally and the balance is exported to India, Europe, China, Africa and the Middle East. Thus, the volatility of global oils and fats demand will affect its price. For instance, the slowdown of palm oil exports to China since June 2018 has resulted in the build-up of palm oil stocks that caused the price to go down. The price and production of competing vegetable oils such as soya bean, corn, sunflower and rapeseed oil also affect palm oil price.

As the yield of these competing oils increase, the demand volume for palm oil reduces. This, again, will lead to an increase in stockpile causing a reduction in palm oil price. Similarly, changes in import policies by the importing countries, such as in regulations or tax structure, can affect the volume of palm oil exports.

When the European Union, in April 2017, banned unsustainable palm oil imports for food and biofuels by 2020, Malaysia felt the impact almost immediately. It was reported that EU imports fell by 15.34 per cent compared with the previous years.

Prices are also affected by the level of production/yield of the crop itself. The two episodes of El Nino in 1997-1998 and 2015-2016, which caused severe droughts, had affected the yield badly causing a shortage of palm oil stocks. During the latter episode, the price of crude palm oil rose to RM3,200 from RM1,800, where smallholders enjoyed the returns of almost RM700 per tonne of fresh fruit bunches (FFB).

The planting and replanting schemes in 2011 and the fertiliser aid scheme in 2015 had contributed to the increase in the production of FFB now as the plants have matured and begun to fruit at a commercially viable volume.

To be fair to the palm oil industry, we should recognise the factors that influence the price cycles of this commodity. Prices of crude palm oil now are still at the higher range compared with between 2003 and 2006 when prices stayed at an all-time low of below RM1,900 per tonne. We are accustomed to the high price range seen in the last 11 years since 2008 that we have forgotten the downturn in prices of the past.

Nevertheless, there is a need to address the low income earned by the 650,000 smallholders whose livelihood depends solely on oil palm output. The household income of these smallholders shrank significantly when the FFB price fell below RM300 per tonne recently. Perhaps, a financial aid scheme such as the one given to rubber smallholders, Bantuan Musim Tengkujuh (aid scheme for the monsoon season), can be set up for approaching the low-production months and the aid would help greatly.

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