



**MARA INSTITUTE OF TECHNOLOGY
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PRICE DISCOVERY FOR CPO

**A GRADUATION PROJECT PAPER IN FULFILMENT TO
THE REQUIREMENT OF
ADVANCED DIPLOMA IN BUSINESS STUDIES (FINANCE)**

**TO THE SCHOOL OF BUSINESS AND MANAGEMENT
MARA INSTITUTE OF TECHNOLOGY
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30th OCTOBER 1995

ACKNOWLEDGEMENT

In preparing a project paper, one must rely on a large set of one's colleagues. As the project paper appears in successive editions, my debt of thanks becomes ever more extensive. First of all I would like to thank to Allah for giving me the will and strength against all odds and I also would like to thank all the following people for their comments and suggestions for improvement :

1. Pn. Yang Fazlina Abd. Aziz - Lecturer of ITM, Shah Alam
2. Roslan Baba - PRO of KLCE
3. Tuan Hj. Azmi Kulup Ismail - Pg.Tadbir Ekonomi PORLA

Special thanks are due to a number of other people as well, Dr. Rokiah Hassan and to all my classmate. Especially to Said Idris who willing to help me and read the entire paper and checked the grammar for me, thanks.

The preceding list of my debt is quite long. The contributions of everyone mentioned above help to make the project paper possible. To all of them who helped me to finish this project paper, I extend my sincerest thanks. I will responsible for any remaining deficiencies.

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Abstract

Lead - lag relations between cash and futures prices of CPO may arise as an important issue. This research will focus on the price discovery process for CPO. Price discovery in futures markets refers to the use of futures price in determining cash market prices¹.

Firstly, I will study the relationship between spot market in physical and futures market in the KLCE and to determine whether CPO futures price is capable of providing some relevant information for predicting the spot. The period of study is from January 1990 - December 1994.

In order to determine the relationship between futures and spot price, I have used the simple linear regression (Least-Squares Method), and the result showed that there is a linear relationship between spot price and futures prices between the year of 1990 to 1994. Futures prices appear to be a reliable tool for the prices of spot prices in physical market.

Secondly, I studied whether KLCE CPO futures prices can be a good forecaster for the future spot price, and as a result it showed that futures prices is an unbiased estimator in predicting the future spot price.

¹Ted C. Schroedler, Barry K. Goodwin (1991) "Price Discovery and Cointegration for Live Hogs," Journal of Futures Market. page 685 - 696 .

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CHAPTER 1

Introduction

One of the most important economic functions of a futures market is *Price Discovery*. The price of money generated by the interest rate futures market reflect the combined views of large numbers of buyers and sellers as to the current supply and demand situation and the relationship of price 12 - 18 months hence.