



UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF MACROECONOMIC
VARIABLES ON THE CRUDE PALM OIL (CPO)
PRICES: INDONESIAN EVIDENCE**

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ABSTRACT

Crude palm oil (CPO) is the largest agricultural commodity that contributes significantly to the Indonesian economy. Currently, Indonesia has been addressed as a top CPO producer and holds the position as the first-largest exporter in the world. However, the prices of the crude palm oil (CPO) are particularly volatile and may be affected by the Indonesia economy. Therefore, the aim of the study is to examine the impact of macroeconomics on the crude palm oil prices in Indonesia. The study has selected Indonesia stock index (IDX), interest rate, gross domestic product (GDP) and consumer price index (CPI) as the independent variables and the dependent variable is the crude palm oil (CPO) prices. The period of the study is 11 years from 2010 until 2020. The study has collected the data from secondary data and used time series data as a model to analyze the relationship of the variables. The findings revealed that only the stock index has a significant relationship. While other variables do not have a significant relationship with the crude palm oil prices.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Crude palm oil is the main contributor to the economic growth of tropical countries (Naidu & Moorthy, 2021). Indonesia is the largest exporter of crude palm oil in the world. Indonesia has provided and supplied oil palm to half of the world. In particular, it has produced to the world around 50 million MT in a year (Neo, 2021). Also, Pittman (2013) stated that Indonesia accounted for global production around more than 80% together with Malaysia. Furthermore, starting from 2006 until now, Indonesia remains the top producer and consumer of palm oil commodities. Besides, the palm oil sector has become an important role in the Indonesian economy as around 11 percent of export earnings was contributed from palm oil production (Council of Palm Oil Producing Countries, 2021). According to Aziz & Applanaidu (2017), Indonesia has around 70 percent of palm oil plantations of which Sumatra is the main hub of production. While, East and West Kalimantan are the other areas of palm oil plantation. Having a huge area of palm oil plantations is one of the reasons Indonesia became the top exporter across the world (Destiarni et al., 2021).

Based on the study of Destiarni et al., (2021), the researcher compiled the data from Subdirektorat Statistik Tanaman Perkebunan (2017) showed that the production of Indonesia CPO has risen every year with the largest increase happening in 2016 approximately at 53.28 percent. Also, the researcher revealed that the production of crude palm oil is expected to increase. As the Food and Agriculture Organization (FAO) stated that Indonesia palm oil production is expected to grow by 25 percent in 2029 and remain the biggest palm oil producer to global production (Suwastoyo, 2020). Therefore, this research will determine the most influence of macroeconomic variables on the CPO prices in Indonesia by deriving the data of 11 years from 2010 until 2020 and measuring the relationship by using time series data.