



**THE RELATIONSHIPS OF OLIVE OIL, PRICE OF SOYBEAN OIL, INTEREREST  
RATE, PRICE OF CRUDE OIL, EXCHANGE RATE, TOWARDS THE PRICE OF  
CRUDE PALM OIL IN MALAYSIA**

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## Table of Contents

LETTER OF SUBMISSION .....	iii
ACKNOWLEDGEMENTS.....	iv
LIST OF TABLES.....	ix
LIST OF ABBREVIATION.....	x
ABSTRACT.....	xi
1.1 INTRODUCTION .....	1
1.1.1 Overview of Palm Oil and Palm Oil Industries .....	1
1.1.2 Overview of Soybean Oil.....	2
1.1.3 Overview of Crude Oil.....	2
1.1.4 Overview of Olive Oil.....	3
1.1.5 Overview of interest rate.....	4
1.1.6 Overview of exchange rate .....	4
1.2 BACKGROUND OF THE STUDY .....	5
1.3 PROBLEM STATEMENT .....	6
1.4 RESEARCH OBJECTIVE .....	7
1.4.1 The main research objective: .....	7
1.4.2 The specific research objective:.....	7
1.5 RESEARCH QUESTION.....	8
1.5.1 The main research question : .....	8
1.5.2 The specific research question: .....	8
1.6 SCOPE OF STUDY.....	8
1.7 SIGNIFICANCE OF STUDY .....	9
1.7.1 To the researcher.....	9
1.7.2 To the palm oil industry .....	9
1.7.3 To the Investor .....	9
1.8 LIMITATION OF STUDY.....	10
1.8.1 Accuracy of data .....	10

## **ABSTRACT**

Crude palm oil is one of the major commodities that are trade in Malaysia. The fluctuation of its price will affect the overall economic performance and it will cause a trouble to many parties. Instability of CPO prices will cause a big problem in Malaysian economy development and give a significant risk to producers, traders, consumers and others that involve in the production and marketing of CPO. Therefore, in this study, the researcher tries to examine the factors that influence the price of CPO in Malaysia. From this study, there are five determinant factors that could influence the price, which are soybean oil price (SOB), crude oil price (CO), olive oil price (OLO), interest rate (IR) and exchange rate (EX). The study employs Multiple Linear Regression Method to analyze the relationship between all the five independent variables and the dependent, CPO price by using time series data from 2010-2012. All data are collected by monthly basis. The scope of study for the research is based on the agriculture business area, which concentrated on the price of CPO and the factors affecting its price in Malaysia. In this research, the researcher expects that the soybean oil, crude oil, olive oil, interest rate and exchange rate will have strongly significant relationship between the prices of CPO in Malaysia.



## CHAPTER 1

### 1.1 INTRODUCTION

#### 1.1.1 Overview of Palm Oil and Palm Oil Industries

The palm oil is extracted from the mesocarp of the fruit of an oil palm species called *Elaeis guineensis*. There are a lot of palm oil tree in the world especially at South East Asia. Malaysia and Indonesia are the country that have a lot of palm oil tree and be a largest producer of Crude Palm Oil (CPO) in the world. The palm oil contributed 13% of total vegetable oil production in the world 2012. There are two main products which are palm oil and palm kernel oil. The palm oil is from the mesocarp contains mainly *palmitic acid* and *oleic acid*. The fatty acid is about 50% saturated. The palm kernel oil is more than 80% saturated of fatty acid and it contains *lauric acid*. The process of CPO by physical refining process that the oil is turned into golden yellow colour refined oil for further end use application.

The Palm oil was first introduced to Malaysia as an ornamental plant in 1870. The planted area were increased rapidly, which in 1985 about 1.5 million hectares were planted with palm tree and it had increased to 4.3 million hectares in 2007 and in 2011 the total planted area was 4.917 million hectares. CPO becomes the most important commodity crop in Malaysia.

The production of CPO increased over the years, from 4.1 million tons in 1985 to 6.1 million tons 1990 and to 16.9 million tons in 2010. In 2011, it was reached 18.9 million tonnes.

The average price of CPO in Malaysia for year 2012 was RM 3,291 per MT and it was decreased to RM 2,903.37 per MT for year 2009 due to the low demand on that commodity, based on Malaysian palm Oil Board (MPOB) statistic.