UNIVERSTI TEKNOLOGI MARA

ECONOMIC FACTORS AFFECTING PRICE OF CRUDE PALM OIL (CPO) IN MALAYSIA

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ABSTRACT

Palm oil sector is one of the crucial revenue earners for Malaysia's economy after the electrical and electronic, petroleum and chemicals industries (MATRADE, 2021). Palm oil has been used in various sectors which are foods, cosmetics as well as being processed into biodiesel to be blended with petro-diesel as an alternative renewable fuel. A typical commodity market, like palm oil, faces fluctuations in its key variables, like price. As suggested by the cobweb theorem, the causes of price fluctuation in a commodity market are mainly attributed to its supply and demand (Zabid, Abidin, Applanaidu, 2017). Thus, the purpose of this research is to investigate the relationship between the price of crude palm oil (CPO) and macroeconomic factors. Thus, the aim of this study is to find the significant relationship between the price of CPO and the production of CPO, export of CPO, and inventory of CPO based on the supply and demand theory.

Contents

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

The background of the study, as well as the problem statement, are presented in this chapter. It contains the research questions and objectives, as well as the significance, scope, and limitations of the study, as well as a list of definitions and abbreviations.

1.2 BACKGROUND OF STUDY

The palm oil industry, together with the electrical and electronic, petroleum, and chemicals industries, is one of the most important revenue generators for Malaysia's economy (MATRADE, 2021). According to the Malaysian Palm Oil Board (MPOB), Malaysia will be the world's second largest producer of palm oil in 2020, with a total production of 19.9 million tonnes of palm oil (PO), accounting for approximately 26 percent of global production of PO. POS has been used in a variety of industries, including food and cosmetics, as well as being converted into biodiesel and combined with biodiesel to serve as an alternative renewable fuel source (Zabid, Abidin, Applanaidu, 2017).

Back in the year 2018, Malaysia continued to be the second largest producer and exporter of PO in the world amounting to producing 19.52 million tons or 27% of global production of PO. As the world's population and per capita income continue to expand, the demand for PO is predicted to grow in lockstep with this development (Mukherjee & Sovacool, 2014). In part, this is due to an increase in the consumption of PO-based food products by humans, as well as the availability of attractive subsidies for biodiesel.

As previously stated by Ab Rahman, Balu, and Shariff (2013), the behaviour of CPO prices is significantly influenced by four important essential elements. To begin, there is PO supply, which includes the production of CPO, the inventory of PO, and the import of PO. After that comes demand for PO. Second, there is a demand for PO in the context of the export of PO-derived products. The cost of close alternative goods, such as soybean oil (SBO) and rapeseed oil (RSO), should also be considered. Because of the biodiesel factor, the price of brent crude oil (BCO) has risen to become the fourth fundamental factor that can influence the price behavior of crude palm oil (CPO) in the worldwide market. The price