



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF CRUDE PALM OIL
PRICE IN MALAYSIA**

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ABSTRACT

In general, the crude palm oil industry has contributed significantly to the economy of Malaysia. Furthermore, Malaysia is the world's second largest palm oil producer and exporter in the world after Indonesia. However, the price of crude palm oil (CPO) is uncertain, and the trend shows a lot of fluctuations over the past 20 years. Due to the circumstances, the aim of the study is to investigate the macroeconomic variables that affected the crude palm oil prices in Malaysia from 1990 to 2019. Using the Ordinary Least Square (OLS) method, the effect of the independent variables which is money supply, foreign direct investment (FDI), inflation rate and interest rate will be examined. Data of the Malaysian crude palm oil price is used as the dependent variable while the other four variables, namely money supply, foreign direct investment (FDI), inflation and interest rate are used as independent variables. According to the findings, the data revealed that the interest rate has a considerable impact on the price of crude palm oil. Money supply, foreign direct investment (FDI), and inflation rate all had statistically minor effects on crude palm oil in Malaysia.

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CHAPTER ONE INTRODUCTION

1.1 Introduction

Oil prices have fluctuated significantly over the past few years, rising and falling dramatically at different intervals. Since oil is a strategic commodity that has a major impact on the global economy and macroeconomic factors such as inflation, recession, GDP, interest rates and exchange rates.

In 2017, Malaysia was second-ranked in the export of oil palms worth USD 9.7 billion. Moreover, the production of palm oil in Malaysia also ranked second in the same year, totaling 21 million metric tons. The industry also contributes to Malaysia's overall socioeconomic well-being by creating jobs, supporting the domestic economy, and increasing government revenue through taxation and royalties.

The palm oil industry is regarded as a vital industry that contributes significantly to Malaysia's Gross National Income (GNI). The Malaysian Palm Oil Council (MPOC) was established in 1990 to promote its products and market expansion by improving the image of palm oil and promoting its acceptance through new technologies, economic benefits, and environmental sustainability. The MPOC was renamed Malaysian Palm Oil Board (MPOB) in 1998 to promote and establish goals, strategies, and priorities for the Malaysian palm oil industry's well-being