



UNIVERSITI TEKNOLOGI MARA

**THE INFLUENCE OF PALM OIL PRICE
MOVEMENT UNDER BURSA DERIVATIVE
MALAYSIA**

**NUR HUZAIFAH BINTI ABD AZIZ
2018400864**

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ABSTRACT

Malaysia is the second-largest global palm oil exporter after Indonesia and it is mainly exporting to other countries such as India, Singapore, China and the United State. However, this ranking is able to change due to a few factors such as Interest Rate, Global economic performance (Inflation Rate) and the Exchange Rate. In this study, time series data from 2012 to 2020 were obtained monthly and the total of observations is 108. The objective of this research is to find out whether Macroeconomics' variable have correlation with the Palm Oil Price Movements under Bursa Derivative Malaysia. Regarding this study, there are many factors or influences that affect the Palm Oil Price Movement. There are three factors to be highlighted in this research which is Interest Rate, Inflation Rate and Exchange Rate. Furthermore, a multiple regression model was used to analyse the relationship between each factor to the dependent variable which is the Crude Palm Oil (CPO) Price. The findings revealed that all independent variables have the predicted sign and the exchange rate has a clear positive relationship, making it one of the most significant factors influencing Malaysian palm oil supply and demand. A solid understanding of this discussion will be extremely useful to the investors who invest in a Crude Palm Oil Futures under the Bursa Derivative Market. In a nutshell, this research suggests that policymakers should regulate the national currency to prevent fluctuations in Malaysian palm oil price movement.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Malaysia is one of the countries that have the most valuable mineral resources such as petroleum, natural gas, crude oil, antimony, mercury, and gold. The most noteworthy is from the oil industry which includes gas and crude oil. Malaysian crude oil has been categorized as a high-quality product until foreign countries are willing to invest in Malaysia to purchase crude oil. According to the Energy Information Administration (EIA), Malaysia exported 25% of its oil supply in 2016, which was 192,511 barrels per day. While the World Data Atlas, Malaysian crude oil reserves reported at 534,000 barrels per day in November 2020, up from 524,000 barrels per day the previous month. This modification resulted in a 1.91% increase.

Moreover, crude oil has its human applications, such as crude palm oil, which could be used in daily activities. Crude palm oil is a natural resource produced primarily in Southeast Asia. This is because Southeast Asia has a suitable soil type to produce all those raw materials. The introduction of crude palm oil was done by the British in the initial of 1870's as a luxurious plant. According to Malaysian Palm Oil Council (MPOC), in the early 1960's oil palm tree planting held to reduce the country's economic dependency on rubber and tin and the Malaysia government realized the importance of palm oil to Malaysia's economy and had transformed the oil palm tree planting into a commercial crop to gain the valuable crude oil. Malaysia currently has 4.49 million hectares of land and generates 17.73 million tonnes of palm oil and 2.13 tonnes of palm kernel oil.

Hence, Malaysia has been listed as a larger producer and exporter of crude palm oil after Indonesia. Most noteworthy, crude palm oil is one of the most important contributors to Malaysia's economy after petroleum and accounting for one-tenth of the national GDP over the last decade. According to Abdullah Dahlan & Rahman (2015), CPO is the fourth largest contributor to gross national income with 8% which is RM 54.7 billion and is expected to rise to RM178 billion in the next year..