



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

(2010-2012)

MOHAMAD AKIB BIN KASIM

2011551417

BACHELOR OF BUSINESS ADMINISTRATION

(HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

JOHOR

DECEMBER 2013

ACKNOWLEDGEMENT

Alhamdulillah, all praise to Almighty Allah S.W.T, the most merciful and most benevolent for giving me strength and patience in completing this project paper. I would like to thank and gratitude to my lecturers, Miss Rosmah bte Abdul Ghani and Madam Ruziah bte Latiff, for all their advices, time, and support in guide me to complete this project paper. Without their guidance, I cannot complete this project very well. Their kindness in give me some idea and information are very precious and as a backbone to me. Besides that I wish to thank to my family members and classmate for all their support and encouragement during the time in complete this research. Thanked for all the suggestion and encouragement either directly or indirectly. All the kindness will always remembered by me.

Thank you

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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 *olie 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.