



**UNIVERSITI TEKNOLOGI MARA**

**FACTORS INFLUENCING MALAYSIAN CRUDE  
PALM OIL FUTURES MARKET VOLATILITY**

**NUR AYNAA BINTI MOHD NAZRI  
2019217572**

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## **ABSTRACT**

Palm crude oil futures (FCPO) fluctuating price often happen due to its derivative market volatility. The reason behind the rise of crude palm oil supply and demand levels are out of balance, which is a major factor driving the price increase. Multiple data reports from Malaysia, one of the world's largest CPO producers, are what initially drove the price increase for CPO. It also due to the environmental impact of palm oil production such as weather, and the market price of oil substitution such as Brent crude oil and soybean oil. Sometimes, it happened driven by the concern over a supply constraint from the biggest palm oil producer in the world, Indonesia. Due to the price rally, the researcher is interested to investigate the factors influencing Malaysian crude palm oil futures market volatility. In this study, crude palm oil futures (FCPO) is the dependent variable and the independent variables involved are US Soybeans futures, exchange rates, Brent crude oil price and interest rates. All data and information gathered is a secondary data which consists of time-series type of data. The timeframe of the study is monthly-based, including 16 years' observation from year 2005 to 2020. Based on the study, the only significant variable towards FCPO is Brent crude oil price meanwhile the other three variables which are interest rates, exchange rates and US Soybeans futures are likely to be insignificant.

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## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Palm oil is produced from palm oil fruits, which grow in bunches weighing between 10 and 25 kilograms. A normal, healthy, productive palm oil tree is able to contribute as many as 12 to 14 bunches every year. As claimed by McCarthy (2022), Malaysia is the second largest country that produces the most palm oil after Indonesia, followed by Thailand. As in 2019, Malaysia has produced about 19% of palm oil production, covering as much as 26% of palm oil's global production share. Other palm oil producing countries include Colombia, Nigeria, and Guatemala, which produced less than 2% of the world's share of global production.

Palm oil is in very high demand due to its products that are mostly used in human daily lives. According to Khamis, Hameed, Nor, Che Him, Mohd Salleh and Mohd Razali (2018), the produced oil is widely used in food and non-food products worldwide due to the versatility and diversity of its applications. For example, palm oil has become the main or additional ingredient of commercial products such as ice cream, soap, coffee whiteners, biscuits, animal feed, cosmetics, detergents, margarine, cake, and pastry, and the most important use in Malaysia is cooking oils.

The oil palm industry in Malaysia has grown rapidly over the last 100 years. However, the commercialization only started back in 1917 in Selangor, which marks the establishment and development of Malaysia's palm oil industry. The Journal of Oil Palm Research (2018) stated that the dramatic growth is proven, from only 55,000 hectares in 1960 to 193,000 hectares in 1970. The covered and planted area reached 1.02 million hectares in 1980 and kept growing and expanding to 2.03 million hectares in 1990. As for the latest palm oil coverage, it has expanded to 5.74 hectares in 2016 and has kept growing until today. Malaysian Palm Oil Board (2017) stated that the main reason for the vast and fast production of palm oil is the Malaysia's weather sunny and humidity all year round.