



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF CRUDE PALM OIL
FUTURES (FCPO) PRICE IN MALAYSIA**

**RABIATUL HUSNA BINTI ZAHARI
2019218372**

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ABSTRACT

Malaysia is the second-largest global palm oil exporter after Indonesia. Crude palm oil futures (FCPO) is a futures contract traded on Bursa Derivatives Malaysia, providing market participants a global price benchmark for the Crude Palm Oil Market. The objective of this research is to find out whether the economic variable has a correlation with the FCPO price in Malaysia. Regarding this study, there are many factors that influence the FCPO price movement in Malaysia. There are four factors highlighted in this research which are gross domestic product (GDP), inflation rate, olive oil price, and sunflower oil price. In this study, will be using Eviews to test the hypothesis. The secondary data will be gone through a few assumptions tests such as multicollinearity test, normality test, white test for heteroscedasticity, and more. Correlation analysis and multiple linear regression will also be conducted to reveal the findings. The secondary data from 1991 to 2020 is obtain yearly and the total of the observations is 30. Furthermore, a multiple regression model is use to analyse the influence of each factor on the dependent variable. A solid understanding of this discussion will be extremely useful to the investors who make options in FCPO under the Bursa Derivative Market. From the findings in this study, can see only the sunflower oil price is significant to the palm oil futures (FCPO) price. Meanwhile, the other three variables; GDP, inflation rate, and olive oil price are not significant.

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TABLE OF CONTENT

ABSTRACT	i
ACKNOWLEDGMENT	ii
TABLE OF CONTENT	iii-vii
LIST OF TABLE	viii
LIST OF FIGURE.....	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction.....	1-2
1.2 Research Background	2-3
1.3 Problem Statement.....	4
1.4 Research Questions	5
1.5 Research Objectives.....	5-6
1.6 Significant of Study	6
1.7 Scope of Study	6
1.8 Limitation of Study	7
1.9 Definition of Terms.....	7
1.9.1 Crude palm oil futures (FCPO) price	7
1.9.2 Gross Domestic Product (GDP)	7
1.9.3 Inflation rate	7
1.9.4 Olive oil price	7
1.9.5 Sunflower oil price	7-8
1.10 Summary.....	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction	9
2.2 Crude Palm Oil Future (FCPO) Price	9-10

CHAPTER 1: INTRODUCTION

1.1 Introduction

Malaysia is well known as one of the countries with the most valuable mineral resources, including crude oil. Malaysia is listed as the second-largest producer and exporter of crude palm oil after Indonesia. Malaysian crude palm oil has been categorized as a high-quality product until foreign countries are willing to invest in Malaysia and import our crude oil into their countries. In general, palm oil in Malaysia is edible and exported globally. According to the Energy Information Administration (EIA), Malaysia exported 25% of its oil supply in 2016, 192,511 barrels per day. While the World Data Atlas, Malaysian crude oil reserves were 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.

Crude Palm Oil Futures (FCPO) is a derivatives contract between a buyer and a seller to take and make very at a future date delivery. It is a physically-settled contract, which means that upon the expiry of the agreement, the buyer and seller would have to take and make delivery of the physical CPO. The price and the amount of the commodity are fixed at the time of the agreement. Most contracts contemplate that the actual delivery of the item will fulfill the deal. Traders decide to make a call option (buy) or put option (sell) of the contract based on the prediction of FCPO price in the future. Usually, the estimation is made after looking into internal and external factors that influence the FCPO price.

Back to history, Malaysia has a strong track record in the palm oil sector. However, there has been a volatile price outcome movement over the last decade; the latest was in 2022. Many factors can influence the palm oil price movement, such as Interest Rate, Global economic performance and the Exchange Rate. Those macroeconomics are not permanent every year. FCPO price is also affected by market volatility, currency stability and political problems. The FCPO price movement is constantly fluctuating because Malaysia has to compete with Indonesia to gain the demand from other central importer countries, for instance, China and India. Since 2013 China drastically dropped Malaysia's palm oil demand for several reasons and started to shift to Indonesia's palm oil. In the Malay Mail dated May 11, 2022, the palm oil prices will also be shaped by China's inventory, which is believed to be low while the economy has yet to fully restart, and firm hydrocarbon oil prices will encourage biodiesel usage if vegetable oil prices weaken sufficiently.