



**FACTORS THAT AFFECT CRUDE PALM OIL (CPO) PRICES
IN MALAYSIA**

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ABSTRACT

In the economy, there are many factors that may affect the changes of crude palm oil prices in Malaysia. It may be affected by internal or external factors. However, to find the best variable that cause the changes prices of crude palm oil are still become the biggest question. This research is the study of analyzing the data in commodity agriculture industry. The purpose of this study is to analyze the factors that affect the crude palm oil (CPO) price in Malaysia.

This project paper is carried out to providing better understanding for the readers regarding the factors that will affect the price of Crude Palm Oil in Malaysia. The variable that be involved under this research is the dependent variable which is crude palm oil (CPO) price and the independent variable which are palm oil supply (exports), palm oil demand (imports), foreign exchange and interest rate. The study period for this study is from 1982 until 2015 and the data were collected for 34 years. This research is conducted by using time series data.

The method used for this research is Unit root test to see whether the data is stationary or vice versa. There are also Regression Analysis, Correlation Analysis and Descriptive Analysis. Furthermore, the are other test involved which are Normality test, Auto correlation Test, Heteroscedasticity Test, Multicollinearity Test and RAMSEY Reset Test. The test will be done between dependent and independent variable.

Chapter 1

INTRODUCTION

1.1 Background of Study

The oil palm tree (*Elaeis guineensis* jacq.) originates from West Africa where it grows in the wild and later was developed into an agricultural crop. Oil palm had been introduced to Malaya (later known as Malaysia) by the British government in the early 1871 as ornamental plants for landscaping (MPOC Publication). The first commercial palm oil cultivation was done in Selangor in 1917. In the early 1960s, palm oil cultivation increased significantly under the government diversification program to reduce Malaysia's dependency on rubber and tin.

Later in the 1960s, the government introduced land settlement schemes for planting oil palm as a means to eradicate poverty for the landless farmers and smallholders. The oil palm plantations in Malaysia are largely based on the estate management system and smallholder scheme. For a better life of Malaysians population and in intention to improve economic potential, Malaysia Government was introduced Federal Land Development Authority (FELDA) in 1961.

Palm Oil cultivation is a significant contributor to Malaysia's economy, providing both employment and income from exports. Exports of Malaysia's sustainable palm oil is a vital income source as this healthy oil accounts for more than five percent of Malaysia's exports, with an approximate value of US\$20billion. New initiatives are expected to increase this value significantly in future years.