
**INTRODUCTION TO
CRUDE PALM OIL**



CPO

WHAT IS CRUDE PALM OIL (CPO)?



mesocarp

An edible oil that derived from the mesocarp (reddish pulp) of the oil palms

The world's most widely used edible oil



The pulp of the mature fruit typically contains 56% - 70% of edible oil.

WHAT DOES PALM OIL LOOK LIKE?



CRUDE PALM OIL

- Rich orange colour
- Used for domestic cooking in Southeast Asia, Africa and parts of Brazil

REFINED PALM OIL

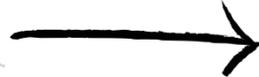
- Pale yellow and odourless
- Mostly used in Europe and the United States
- Used for margarine, spreads, sauces, cakes and pastries



WHERE DOES PALM OIL COME FROM?



Bunches of fruits are harvested from the palm oil tree.



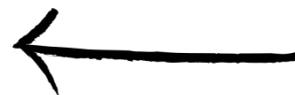
Harvested bunches are transported to factories where they are first sterilised and then threshed.



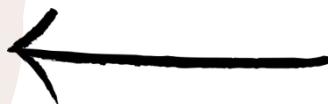
Individual fruits are separated from the bunch.



Fruits go through a digester, to then be mechanically pressed in order to extract oil from the pulp.



Crude palm oil is further refined through physical and chemical processes depending on what the end product should be.



Refined palm oil is produced.

USAGE OF CRUDE PALM OIL



FOOD PRODUCTS

- Cooking Oil
- Margarine
- Ice Cream
- Chocolate
- Instant Noodles

PERSONAL CARE

- Lipstick
- Shampoo
- Soap
- Toothpaste

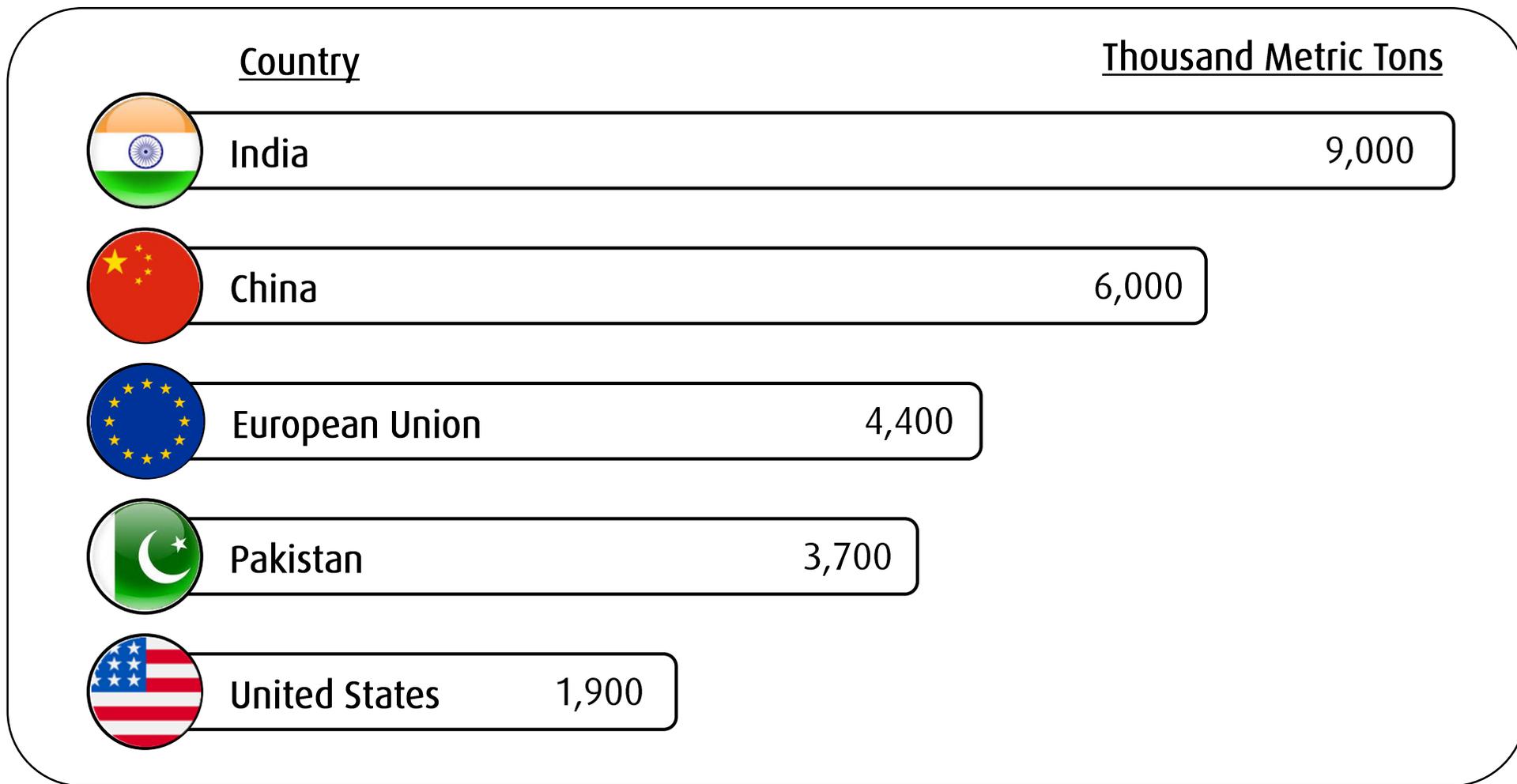


OTHERS

- Biofuel
- Candles
- Lubricants

DEMAND FOR CPO

The top 5 palm oil importers worldwide in 2023 are shown below:



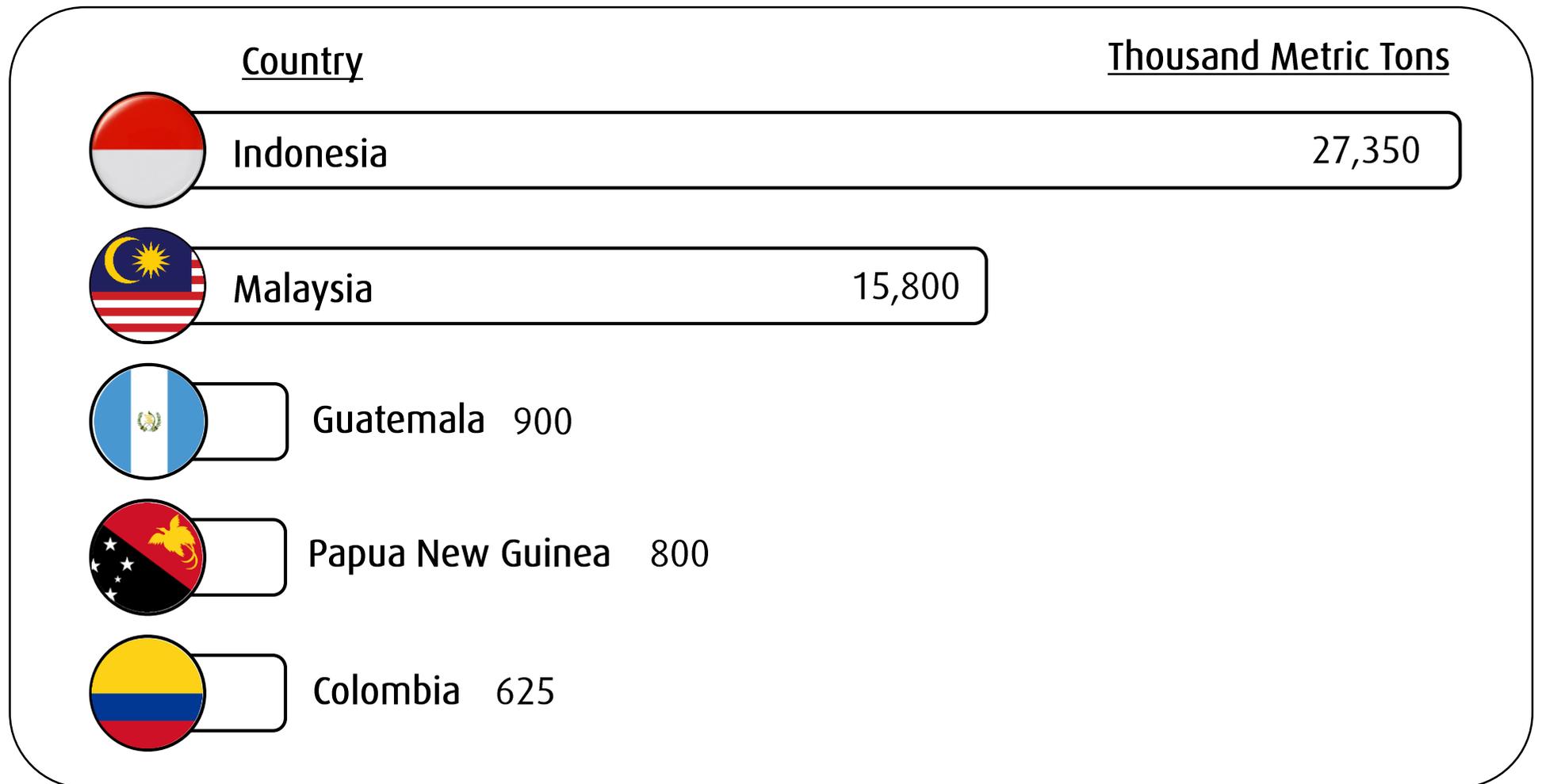
Palm oil is used in a wide range of products across the world:

- Food : 68%
- Industrial applications: 27%
- Bioenergy : 5%



SUPPLY OF CPO

The top 5 exporter of palm oil worldwide in 2023 are shown below:



Both Indonesia (59%) and Malaysia (24%) are the largest palm oil producer across the globe.

FACTORS AFFECTING DEMAND AND SUPPLY



PRICES OF RIVAL AND EDIBLE OIL

Prices of competing oil such as soybean oil and sunflower oil may affect the price movement of CPO.

WEATHER EVENTS OR NATURAL DISASTERS

Unfavourable weather or seasonal pattern such as drought or rainy season might disrupt CPO production due to harvesting difficulties.





CHANGES OF IMPORT/EXPORT POLICY

Countries that engage in import or export of physical CPO may change its policy involving the transaction to cater to local consumption or to entice foreign buyers.

CHANGES OF GOVERNMENT POLICY

Top CPO producers may change their government mandate regarding biofuel (B40 biodiesel mandate for Indonesia & B20 biodiesel mandate for Malaysia). This will impact the consumption of CPO domestically and elevate prices.



CURRENCY MOVEMENT

Palm oil may attract more foreign buyers if the Ringgit weakens, while strengthening the Ringgit will cause foreign buyers to purchase less palm oil due to lower purchasing power.

WHAT IS CRUDE PALM OIL FUTURES (FCPO)?

A Ringgit Malaysia ("MYR")
denominated, Shariah-compliant
futures contract traded on Bursa
Malaysia Derivatives ("BMD")

A risk management solution for
edible oils and fats industry
players, and a price risk
management tool for fund
managers and financial
institutions

Provide ease of access
worldwide as it is traded
electronically

Can hedge up to a 3-year
contract, thus providing a more
effective forward hedging
instrument and increase the
permutation for spread

WHY TRADE FCPO?

A highly traded product with volatile market thus provides easy entry and exit

A regulated Shariah-compliant contract in commodities product

Speculate and gain leveraged exposure to movements in CPO prices

A tool to hedge against the risk of any unfavourable price movements in the physical market



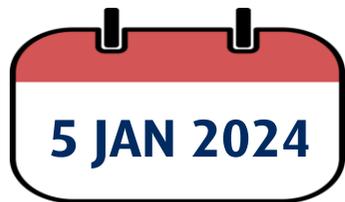
CONTRACT SPECIFICATIONS

Crude Palm Oil Futures

Contract Code	FCPO
Underlying Instrument	Crude palm oil
Contract Size	25 Metric Tons (MT)
Minimum Fluctuation	1 pt = RM 25
Settlement Method	Physical delivery
Contract Month	Spot month and the next 11 succeeding months, and thereafter, alternate months up to 36 months ahead
Trading Hours	10:30 - 12:30, 14:30 - 18:00 *21:00 - 23:30 (T+1 Session)

TRADING EXAMPLES

Bullish Market



You think the price of FCPO will go up and BUY 1 lot @4,074



You close your position and SELL 1 lot @4,174

$$\begin{aligned} \text{Gross Profit} &= \text{Price Difference} \times \text{Contract Size} \\ &= (4,174 - 4,074) \times \text{RM } 25 \\ &= \text{RM } 2,500 \end{aligned}$$

Bearish Market



You think the price of FCPO will go down and SELL 1 lot @4,074



You close your position and BUY 1 lot @3,954

$$\begin{aligned} \text{Gross Profit} &= \text{Price Difference} \times \text{Contract Size} \\ &= (4,074 - 3,954) \times \text{RM } 25 \\ &= \text{RM } 3,000 \end{aligned}$$



Mezzanine Floor, Block B, Plaza Zurich, No. 12, Jalan Gelenggang, Bukit Damansara, 50490 Kuala Lumpur



+603-2080 8678



helpdeskfutures@hlib.hongleong.com.my



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