



ADVANCED INTERNATIONAL JOURNAL
OF BUSINESS, ENTREPRENEURSHIP
AND SMES
(AIJBES)

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ANALYZING THE IMPACT OF CRUDE PALM OIL PRICES ON STOCK MARKET RETURNS IN MALAYSIA

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Article Info:

Article history:

Received date: 29.12.2025

Revised date: 15.01.2026

Accepted date: 11.02.2026

Published date: 01.03.2026

To cite this document:

Norramadan, N. R., & Mohamed, S. (2026). Analyzing The Impact of Crude Palm Oil Prices on Stock Market Returns in Malaysia. *Advanced International Journal of Business Entrepreneurship and SMEs*, 8 (27), 28-37.

DOI:10.35631/AIJBES.827003

Abstract:

Crude palm oil (CPO) is a very important part of the Malaysian economy especially its role in export income, employment, and performance of capital market. The price changes in CPOs, as one of the major manufacturers of palm oil in the world, are significant to companies traded in Bursa Malaysia and stock market movements in general. This paper will review the correlation between stock market performance in Malaysia and the movement of crude palm oil prices between 2014-2024 based on a discussion-based approach. The paper, through a synthesis of the recent empirical and conceptual research, identifies the major transmission channels that link the changes in the CPO price to the stock market performance of the company in terms of profitability, macroeconomic factors, global market dynamics, and investor behaviour. The research adds to the body of knowledge by offering a comprehensive conceptual model that integrates some of the recent world occurrences like recovery in the aftermath of the pandemic and the volatility in commodity prices. The results can be of great help to the investors, as well as policy-makers and players in the market of emerging economies that rely heavily on commodities.

Keyword:

Commodity Prices, Crude Palm Oil Prices, Financial Markets, Stock Market Returns



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Introduction

Prices of commodities are important factors that influence the performance of the economic and financial markets, especially in the emerging economies where the dynamics of exporting natural resources are high. Of these goods, the crude palm oil (CPO) has taken a central stage in the Malaysian economy because of its high value of export earnings, employment, and industries. One of the largest producers and exporters of palm oil in the world, Malaysia, is also affected by shifts in CPO prices that have significant effects on the macroeconomic stability and the financial market performance (Rahman et al., 2021; Bank Negara Malaysia, 2023; World Bank, 2024).

Alterations in the prices of CPO have direct effects to the financial performance of the leading palm oil companies listed under Bursa Malaysia including Sime Darby Plantation, IOI Corporation and Felda Global Ventures. Amendments in CPO prices influence corporate profitability, production expenses and investment choices, which, in turn, are translated into the stock rates and market indexes in general. CPO price variations at the macroeconomic level affect inflationary pressures, exchange rates, and trade balances as well, which affect investor expectations and stock market dynamics in general (Lau et al., 2020; Ismail and Abdullah, 2022).

The correlation between the price of commodities and the stock market performance is a subject that has been studied widely in the literature. According to the available literature, there is an indication that an increase in commodity prices can improve stock market returns by raising corporate income and export availability. Nonetheless, high price volatility may also contribute to the uncertainty, investor lack of confidence, and market risk, especially in less diversified financial systems in emerging economies (Kanjilal and Ghosh, 2021). The empirical data about these connections are not so consistent, which means that the effect of the commodity price fluctuations on the stock markets is strongly situation dependent.

The recent events in the world have aggravated the necessity to learn about the commodity-stock market relationships. COVID-19 and the recovery post-pandemic and subsequent global supply chain disruptions have added to the increased volatility of the commodity markets and financial systems in the world. These external shocks have affected emerging markets, Malaysia being one of them, especially because of depending on the export of commodities and the world demand situation (Salisu et al., 2020; IMF, 2023).

Although the literature on commodity prices and stock market performance is increasing, there are still a number of gaps in the research. To begin with, most previous research studies are largely concerned with short-term empirical estimation and does not adequately account in one analytical framework in consideration of corporate-level impact, macroeconomic processes, global market forces as well as investor behaviour. Second, a little focus has been put on period-specific developments, including the recovery preceding and following the pandemic and recent global commodity price shocks in particular in the area of the Malaysian palm oil industry in 2014 to 2024. This has led to the fact that the ways in which CPO price changes affect stock market performance in recent times had not been synthesised sufficiently.

The proposed research is expected to fill these gaps through a detailed discussion-based analysis of how the price of crude palm oil and stock market performance change in Malaysia in the year 2014 to the year 2024. Instead of using empirical modelling, the paper integrates the recent empirical and conceptual research to identify the important channels of transmission between the dynamics of CPO prices and stock market performance. Through this method, the study aims at improving the knowledge on the interaction of commodity price changes in the financial markets in the context of an emerging economy.

This paper has a triple contribution. First, it gives a unified conceptual framework that relates crude palm oil prices to the performance of the stock market on a corporate, macroeconomic, global and behavioural level. Second, it includes the recent global events, such as post-pandemic recovery and commodity market volatility, which have lacked adequate focus in previous literature. Third, the discussion-based method provides policy-relevant information to investors, policymakers, and other players in the financial market interested in financial market stability and dependence on commodities in Malaysia and other emerging economies.

Literature Review

It is imperative to first see literature available that looks into the relationship between the crude palm oil (CPO) prices and stock market performance in Malaysia. This discussion mentions both the economical and the financial aspects on how the price movements impact on the overall economy and the investor action.

Price and Volume of Commodities in The Stock Markets

The correlation between commodity prices and stock market performance has been given a lot of research on the financial economics literature especially when it comes to an emerging economy. Stock markets are affected by the commodity prices in many ways that include variations in production expenses, corporate profits, inflation, and speculations of the investors. In a commodity-exporting economy, an increase in the commodity price will usually be linked to growing performance in the stock markets because of growth in export earnings and profitability of businesses (Gokmenoglu and Fazlollahi, 2021).

The results of empirical research on this relationship are not consistent, however. As some of the studies record a positive relationship between the rise in commodity prices and stock market returns, others record that the increased commodity price volatility may have negative impacts on the market performance due to the augmented uncertainty and exposure to risk. Hassan et al. (2022) prove that commodity price shock has an asymmetric influence on stock market volatility in the emerging markets where negative price shocks produce a greater market response compared to positive price shocks. These contradicting results indicate that the influence of commodity prices on the stock markets is dependent on the economic structure, maturity of the market, and the global conditions.

Palm Oil Crude Prices and Stock Performance at the Firm Level in Malaysia

Crude palm oil is a strategic entry point in the Malaysian economy and directly impacted the financial performance of the listed plantation companies in Bursa Malaysia. A number of studies dedicated to agricultural products note that the fluctuations in the prices of palm oil

have a considerable impact on the stock returns of firms because of variations in revenue margins, cost-efficiency, and dividend anticipations (Cheah & Ng, 2020).

Yusoff and Noor (2022) discover that stock returns tend to be positive in response to rise in prices of palm oil among Malaysian plantation companies. Their results however also show that the periods of steep increase and decrease in prices can have a detrimental effect on the valuation of a firm because operational uncertainty rises. On the same note, Abdul Karim et al. (2021) state that the high volatility of the prices of commodities can undermine investor confidence, especially in emerging markets in the ASEAN where plantation companies are closely connected to the global demand. These results would suggest that the association between the prices of crude palm oil and the stock performance of firms is not a simple one and might be different in relation to various market stages.

International Uncertainty, Macroeconomic Conditions and Market Transmission

The stock markets are also sensitive to the movements of commodity prices using the other macroeconomic and global transmission mechanisms. The fluctuations in the prices of commodities influence the inflation, exchange rates and the monetary responses of the policy, which consequently lead to the influence of the investor sentiment and capital flows. These external shocks are especially susceptible to the emerging markets since they are more susceptible to the global commodity demand and international financial conditions (Khalid et al., 2021).

According to recent research the presence of global uncertainty and geopolitical risk in increasing the commodity-stock market linkages is highlighted. Nguyen et al. (2023) demonstrate that uncertainty about price of commodities is a major factor that enhances stock market volatility in the emerging economies particularly when the global economy is under strain. Equally, Baldi et al. (2022) discover that global energy and commodity price shocks have spillover effects in stock markets, which supports the notion that international issues should be considered when examining commodity price movements. This evidence underlines the fact that the changes in commodity prices cannot be considered outside the context of world financial and macroeconomic conditions.

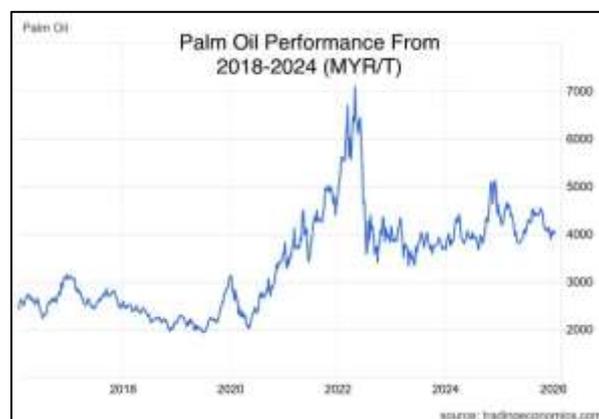


Figure 1: Summary of The Performance of The Malaysian Palm Oil Industry in 2018-2024

Source: tradingeconomics.com

The Figure 1 shows the palm oil prices in the year 2018 to 2024 in MYR per tonne. The palm oil prices between 2018 and 2019 were weak and largely stable, which has been an indication of a difficult situation in the market. In 2020, there was a slight volatility followed by a steep rise in prices between late 2020 and early 2022 to a peak as a result of the lack of supplies and increased global demand. Following the high prices of 2022, the price fell and moved in a moderate range between 2023 and 2024, which suggested a price re-adjustment and stabilization. In general, the trend indicates a more volatile one and higher prices in the period after 2020 than in the previous years.

Post Crisis and Recent Market

The latest crises in the world have brought new aspects of the commodity stock market relationship. The events of the COVID-19 pandemic and thereafter economic recovery phases have been marked by increased volatility in commodity markets as a result of disruption of supply chains, changes in the global demand, and policy interventions. The analyses of post-crisis dynamics indicate that investor behaviour is more commodity price sensitive and such behaviour amplifies communication between commodity market and stock price.

Within the Malaysian context agricultural commodity prices such as crude palm oil has been greatly fluctuating in the past crisis periods which has impacted the performance of firms and the market as a whole. According to Abdul Karim et al. (2021), emerging markets have higher volatility spillovers in the periods of crisis, and therefore it is possible that traditional commodity-stock market associations are enhanced in the situation of high levels of uncertainty. However, there has been little synthesis of these impacts at the firm-level, macro-economic, and global levels as most of the literature investigates the impacts separately.

Research Gap and Theoretical Framework

Theoretically, the price of commodities and the performance of the stock market can be described in relation to each other in a number of interdependent channels. The corporate profitability channel implies that an increase in commodity prices increases the firm earnings and valuation whereas the macroeconomic channel focuses on the influence of inflation, exchange rates and response of the policy. Moreover, the investor sentiment channel focuses on the role of the commodity price volatility impacting on the market expectations and risk perceptions, especially in the emerging markets where financial systems are less diversified (Hassan et al., 2022; Khalid et al., 2021).

Even with the vast amount of literature, there are still a number of gaps. To begin with, most research works are preoccupied with empirical estimation that do not sufficiently incorporate theoretical processes at varying levels of analysis. Second, mostly recent period-specific developments have not been given much attention, including post-crisis and post-pandemic volatility in the Malaysian palm oil industry. Third, the previous literature tends to examine the impact of firms and the macroeconomic impacts separately, which provides a disjointed picture of the general commodity-stock market relationship.

Discussion

The objective of the study is discussed in this discussion, which is to investigate how the movement of prices of crude palm oil (CPO) affects the performance of the stock markets in

Malaysia over the years 2014 to 2024. The analysis is based on the synthesised literature and with the help of it the discussion is composed of three primary transmission channels: corporate-level effects, macroeconomic and global transmission mechanisms, and investor sentiment and market behaviour.

Transmissions of CPO Price Movements at the Corporate Level

On the firm level, the changes in the CPO prices directly affect the financial performance of the Bursa Malaysia listed plantation companies. An increase in the price of CPOs will have the effect of increasing corporate profitability in terms of raising revenue margins, which can be reflected in better stock price and investor confidence. On the other hand, reducing or extremely unstable CPO prices may squeeze profit margins, augment the operational uncertainty, and adversely influence the firm valuation. These mechanisms can be supported by the fact that changes in commodity prices have a strong impact on the stock performance of firms in the commodity-dependent economy (Yusoff and Noor, 2022; Hassan et al. 2022).

The year 2014 through 2024 recorded a few instances of strong fluctuations in CPO prices, which were influenced by variations in the global demand, supply shocks as well as policy intervention. In times of persistent increases in prices, positive returns on the expectations of earnings benefitted plantation stocks on average. Nevertheless, bouts of highly volatile events especially in periods of global shocks to the economy increased the risk at the firm level and diminished the performance of stock markets, which is in line with emerging market research (Cheah and Ng, 2020).

Global and Macroeconomic Transmission Channels

In addition to the effects at the firm level, the CPO price movement also affects the Malaysian stock market via the macroeconomic and global effects. Being one of the significant export products, the fluctuations of the CPO prices influence the balance of trade, the exchange rates, and inflationary pressures, which can be offset by monetary policy and reflect on the financial market conditions. Such macro-financial connections have been extensively reported in the emergent economies in which commodity exports are the key factors (Gokmenoglu and Fazlollahi, 2021).

The year between 2014 and 2024 was defined by a greater exposure to the global shocks, such as geopolitical tensions and global supply chain disruption. CPO prices during these times were affected by the world financial situation and the effect was subsequently spilled over to the Malaysian stock market. This finding is consistent with those who note that global uncertainty enhances the effect of commodity-stock market transmissions (Khalid et al., 2021).

Investor Sentiment and Market Behaviour

Another medium on which CPO price movements influence the stock market performance is the investor sentiment. Commodity price volatility can also be an indicator of underlying economic insecurity, so it can affect the perception of risk by investors and their decisions on portfolio allocation. In the emerging markets, like Malaysia, where investors are more likely to be susceptible to external shocks, the changes in CPO prices can increase the volatility of the stock market.

In the periods of crisis and post-crisis, such as the COVID-19 pandemic and the following period of response, the investor behaviour shifted to becoming more reactive to the commodity price signals. The increased uncertainty in these periods enhanced the passage of CPO price movements to the performance of the stock market, implying that the commodity-stock market links could become stronger in times of economic stress.

Period-Specific Insights (2014–2024)

The analysis of the 2014–2024 period shows that the correlation between the prices of CPOs and the stock market performance is active and develops under the influence of the global and domestic situation. Commodity price volatility levels and stock market sensitivity to external shocks were higher in the post-pandemic period, especially. These advances confirm the opinion that the recent global crisis has changed the intensity and character of the links between commodity and stock markets in emerging economies (Baldi et al., 2022).

Policy Implications to Investors and Policymakers

The results of this discussion are significant to the investors and policymakers. Better knowledge of the transmission channels between CPO prices and the performance of stock markets can be used to increase risk management and investment decision making. To policymakers, it is important to understand the macro-financial interconnections between commodity prices and financial markets in order to formulate policies that would help enhance market stability and resiliency in commodity-based economies.

Conclusion

The paper presents a discussion-based analysis of the correlation between the price movements of the crude palm oil (CPO) and the stock market in the years 2014 to 2024 in Malaysia. Through the synthesis of new empirical and conceptual literature, the paper outlines three main transmission channels, which include corporate-level effects, macroeconomic and global mechanisms, and investor sentiment and market behaviour. The results show that the changes in CPO prices have a significant impact on the stock market not only in direct interaction with the plantation companies but also in general macro-financial and behavioural patterns, especially at times when the world is more uncertain than ever and after the pandemic (Yusoff and Noor, 2022; Hassan et al., 2022).

The contribution of the study to the literature is in three major ways. First, it provides a comprehensive conceptual framework connecting the prices of CPOs to stock market performance in a variety of ways, bridging the gap of literature in which the effects of each are frequently studied independently of the rest. Second, it integrates recent period-specific changes, such as the recovery after the pandemic and the volatility of the global commodity markets, which offer information about how the developing markets that may rely on commodities react to external shocks. Third, the discussion-based model provides policy-related directions to the investors and policymakers aiming to address risk and improve financial market stability.

In spite of this contribution, the study has a number of limitations. To begin with, it is a conversational-based conceptual study and therefore does not offer empirical estimation of the extent of CPO price effects on stock market returns, which restricts quantitative validation.

Second, the analysis is based on the secondary literature that might fail to capture the heterogeneity of firms and high-frequency market dynamics. Third, although the paper uses recent events that were taking place in the globe, it is likely that in the future, unexpected crises could change the relationship between commodities and stock markets and this would restrict the generalisability of the results. These weaknesses can be solved in future studies through the use of empirical modelling, firm-level data, or cross-country comparisons to confirm and elaborate the conceptual findings herein (Cheah and Ng, 2020).

To sum up, it is important to appreciate how the price changes of CPO influence the performance of the stock market among investors, policymakers and other market participants in Malaysia and other emerging economies. The coupled framework that has been formulated in this paper gives a comprehensive view of the relationship between commodity and stock markets and the essence of looking at corporate, macroeconomic, global and behavioural variables when examining the dynamics of the financial markets in commodity-dependent economies.

Acknowledgements: The authors would like to express their sincere gratitude to Universiti Teknologi Mara for providing the necessary resources and support throughout the course of this research. Special appreciation is extended to colleagues and peers who contributed valuable insights and constructive feedback, which greatly enhanced the quality of this paper.

Funding Statement: No Funding

Conflict of Interest Statement: The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have contributed to this work and approved the final version of the manuscript for submission to the Advance International Journal of Business, Entrepreneurship, and SME's (AIJBES).

Ethics Statement: This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.

Author Contribution Statement: All authors contributed significantly to the development of this manuscript. Nurul Raudhah Norramadan was responsible for the conceptualization, methodology, and overall supervision of the study. Suhana Mohamed handled data collection, analysis, and interpretation of results. Then, both of us contributed to the literature review, drafting, and critical revision of the manuscript. All authors read and approved the final version of the manuscript prior to submission.

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