



Investors could possibly be using the haze as signals of productivity by SGX-listed palm oil companies, says Prof Li. With him are students Fang Chunchun (left) and Dong Xiao Peng. PHOTO: KELVIN CHNG

Haze: a possible cue for palm oil investors

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WHILE the sight of haze can send some scrambling to grab N95 masks off pharmacy shelves, it might also be a cue for investors to buy something a little different – palm oil company stocks.

A study from the National University of Singapore (NUS) has found that when the Pollutant Standards Index (PSI) level in Singapore falls within the unhealthy range, a higher PSI would mean higher palm oil stock returns.

The research also revealed that palm oil returns increase in the presence of rainy weather.

The analysis was conducted by final-year accountancy students Dong Xiao Peng, Fang Chunchun, Seah Wei Chong and Wang Yiqing as part of their accounting theory course last year.

Professor Oliver Li, who supervised the group, told *The Business Times* in an exclusive interview that investors might be using the haze as sig-

nals of productivity by SGX-listed palm oil companies.

"Possibly, investors are actually using these as cues for investing in the palm oil industry. Rain is good for agricultural products – that increases the price. And when we see a lot of haze, it perhaps suggests that they (palm oil companies) will be planting more trees, so that will increase future productivity," he noted.

These findings run contrary to common belief about investor behaviour.

"We found that on rainy days, the Singapore market is low. And on a sunny day with haze, the market is also low ... it's a question of sentiment – with low sentiment (of investors), stock price is low," said Prof Li, referring to the phenomena of bad weather putting investors in a bleak mood, resulting in their delayed responses to market fluctuations.

"But for the palm oil industry, it's the opposite ... we found that on rainy days, the price is up. On sunny days when there's a lot of haze, the stock price is also high."

Ms Fang proposed that more immediate factors might be at play as well. Haze affects the productivity of the plantation workers and suppresses the growth of the palm oil trees, potentially leading to a decrease in production supply, she said. This drives up palm oil prices and in turn, the share prices of palm oil companies.

To investigate the effects of haze on palm oil stocks, Ms Fang and her team had constructed a palm oil index that tracks the share price performance of Singapore-listed palm oil companies for the past 10 years.

The students then tested their self-constructed index against a palm oil market index available on the Malaysian stock exchange to determine its reliability as a proxy.

The six companies that were singled out derive more than 90 per cent of their revenue from palm oil. The students also controlled for the effect of month on stock returns – studies have shown, for instance, that there is a tendency for stock prices to rise on the last day of December and the first week of January.

Prof Li, who is also the Musim Mas Professor of Sustainability, said that the findings have implications for ethical investments. Musim Mas is a firm that manages palm oil plantations and manufactures palm oil products.

"When there is burning, the price of that industry actually goes up, so that means investors are actually buying shares from companies in that industry. That is suggesting that they are not paying attention to sustainability," explained Prof Li. "If you care for sustainability, you cannot do lip service. You have to take action, and action can be reflected in your investment behaviour."

Mr Dong reckons that the research can be taken further. "The main limitation is that because these hotspots are not in Singapore, we are affected by the direction of the wind," he said. "So in the future if it's possible, we can directly measure the PSI level in the area where the palm oil trees are planted, so this will be a more direct measure of the level of activity there."