

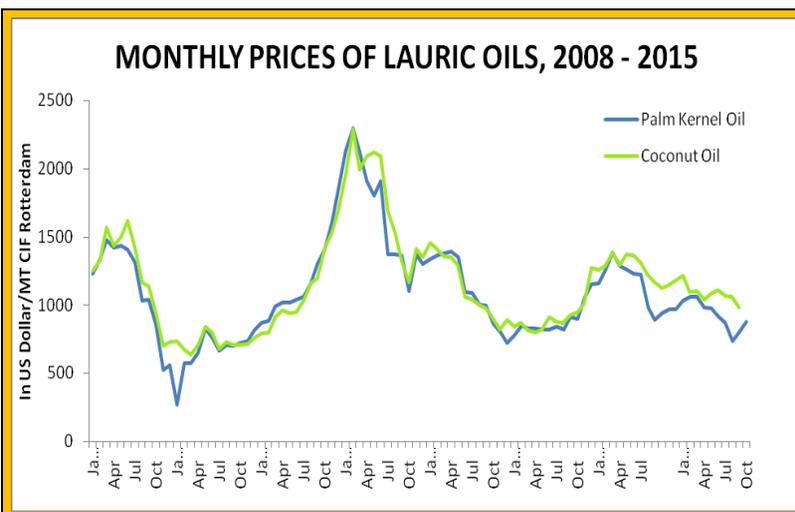
## BEARISH CNO MARKET IN THE SECOND HALF OF 2015

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The coconut oil market in the second half of 2015 is expected to dwindle following a bearish market since the second half of 2014. An uncertainty in the global economy driven by a sluggish economic growth of China has disrupted price trend of commodities including lauric oils in international market. The high premium of coconut oil over palm kernel oil has been prompting a pronounced shift of demand at the expense of coconut oil at least in some countries. The large premiums have also triggered a substantial shift of consumption from coconut oil to other vegetable oils, at least in the key producing countries such as Philippines.

The price premium of coconut oil over palm kernel oil has reached US\$ 285/MT on average in August 2015, versus the 10-year average of US\$ 36/MT. The premium remained stable in the following two months at average monthly level of US\$/MT 219. Since the two lauric oils have a complementary role in the global market, the downtrend in price of palm kernel oil has inevitably brought the price of coconut oil to move down despite a shortfall in the production of coconut oil. Price of coconut oil in October 2015 was US\$1,096/MT or has been reduced by 9.67% compared to the price in January 2015.

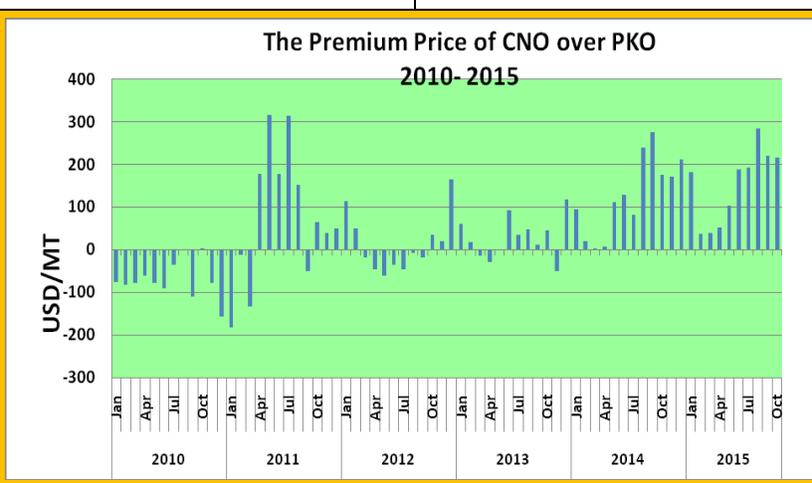
The production of coconut oil would be expected to be lower following a shortage of copra supply and coconut production. Copra production in the Philippines, the top coconut oil

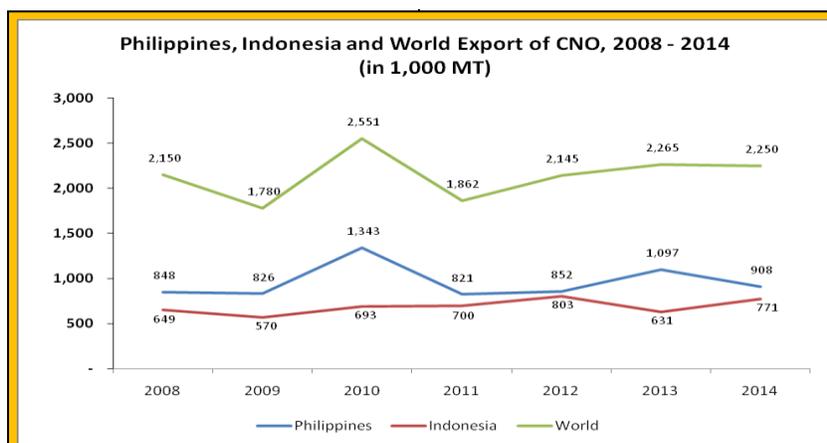


producer, in 2015 is predicted to decline by 1.7% compared to the previous year following the decrease of coconut production. The shortfall of coconut production in the Philippines is mainly due to a persistent impact of typhoons coupled with pest attack and worsened by the current unfavorable weather. Though the government has been promoting and implementing replanting programs, it has been progressing in slower pace than expected due to a lack of seedlings. Hence, it seems that coconut production in the Philippines would take a longer period to recover. As for

Indonesia, recent data from Ministry of Agriculture shows that the coconut production in copra terms in 2015 is expected to decline by 0.5 %. This means that coconut production in Indonesia has been decreasing for three consecutive years at the average of 1.4% per annum.

The main reason for the shortfall in coconut production in Indonesia is the reduction of coconut area due to the change in land use. According to Ministry of Agriculture, coconut area in Indonesia in 2015 has been reduced by 6,299 ha or dwindled by 0.22% compared to that of 2014. In





addition to the reduction in area, the senility of coconut palms has also contributed to the drop in coconut production. The government stated that 12% of the palms are categorized as unproductive and need for replanting. While in India, Coconut Development Board reported that there could be a 20% decrease in production of coconut in the country due to changing weather patterns. While in Sri Lanka, another key producing country, the production of coconut seems to be stagnant for years.

The shortage in the global production has, furthermore, restrained an increasing trend in the global demand. The effect was perceived in 2014 when the world export of coconut oil eased to the volume of 2.250 million MT or experienced a year-on-year decrease by 0.3% after experiencing a substantial increase in previous two years at an average annual growth rate of 10%. The world exports of coconut oil are expected to raise its level to at least the level of 2013 amid a weak growth in global economy and a wide price premium over palm kernel oil as a positive signal coming from official data from two major producing countries, Philippines and Indonesia.

The Philippines and Indonesia remained two major coconut oil

exporters in the world. The countries contributed 75.4% of global supply in 2014. Exports of coconut oil from the Philippines, as expected, declined in 2014 following the decrease in coconut and copra production. Exports of coconut oil from the Philippines were recorded at 0.908 million tons in 2014 which were 17.23% lower than the previous year. The export, however, seems to shortly regain as latest data show a noticeable increase in the first half of 2015. Data from Statistics Philippines Authority shows that from January to June 2015, the export of coconut oil was 416,007 MT or increased by 19.78% compared the volume of 347,302 MT of January-June 2014. The increase in shipments of coconut oil from the Philippines in 2015 has been predicted as the Philippines' industry is adapting the situation by importing raw material and crude coconut oil from other origins and shifting its domestic consumption to palm oil. On the other hand, Indonesia, as the second largest exporting country, has benefited from the shortage of coconut oil supply in the Philippines to widen its global market.

The weakening Rupiah against the USD was also an incentive for exporters of commodities. Exports of coconut oil from Indonesia in 2014 were recorded 0.771 million tones which was 22% higher compared to the previous year

and recorded as the highest level ever. In the period of January-August 2015, the official data from BPS-Statistics Indonesia show that exports of coconut oil from Indonesia has reached 538,408 MT which is higher by 1.38% compared to the same period of last year volume.

It is expected that though the market witnesses a bearish trend in the first half of 2015 and is likely to continue to the second half of 2015, the price would gradually increase as it finds new lowest level. It is worth noting as reference that the lowest ever recorded price of coconut oil, CIF Rotterdam within the last four year was seen in April 2013 at US\$ 800/MT. The price of coconut oil is expected to recover as the price difference between coconut oil and palm kernel oil is narrowing. It is also expected that global demand for coconut oil would increase or at least remain stable as the global economy recovers. The other cause that will probably induce coconut oil price is the government plan of some coconut oil producing countries especially the Philippines to double the biodiesel blend from the current 2.5% to 5%. Such increase is the result of the countries' decision to reduce dependency and import volume of fossil fuel. In the Philippines, in 2012 about 140-150 thousand tons of coconut oil were used for the production of biodiesel and it will increase to approximately 350 thousand tons, when the mandate comes to full implementation. Such change will reduce the Philippines export of coconut oil that will bring a shortfall in global supply.

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