

**First Half 1995**

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# COCONUT OIL: FROM BULLISHNESS TO BEARISHNESS?

By L. Taufikkurahman

Since the beginning of the year, there were conflicting assessments on the prospects for coconut oil for 1995. One report spoke of a bearish outlook for coconut oil while another told a different story. We have also received numerous queries as to the market prospects of coconut oil for 1995, particularly whether prices could be expected to go up or at least maintained at the prevailing level.

In our earlier assessment (*Cocoinfo International, Vol 1 No 2*) we pointed out the possibility of coconut oil market to pressure downward since end of 1994 owing chiefly to the recovery in supply from the Philippines. While the average price of coconut oil in November 1994 registered US\$706/MT, it dropped to US\$636/MT in February 1995. However, still the prices hover at a reasonably high level compared to the corresponding period last year which averaged at US\$573/MT.

In which direction will the market go from now? Let us see some fundamentals and other factors in order to draw some conclusions.

In most coconut producing countries in the Asia and Pacific region with the exception of Indo-

nesia and PNG, the weather conditions in 1994 was favorable for bunch development. This is expected to result in normal production for 1995.

In the Philippines - the major player in the market - production outlook seems to be promising. Normal rainfall pattern that prevailed in 1994 is expected to result

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**"... high level of exports, stocks accumulation and the weakness of overall vegetable oils, point to a bearish outlook for coconut oil in the first half of 1995."**

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in coconut production in 1995 to come closer to its historic peak production achieved in 1990 at 2.629 million tons. There were no significant natural disturbances such as typhoons, volcano eruption or flood that negatively could affect coconut production in 1995. The United Coconut Association of the Philippines (UCAP) in November 1994

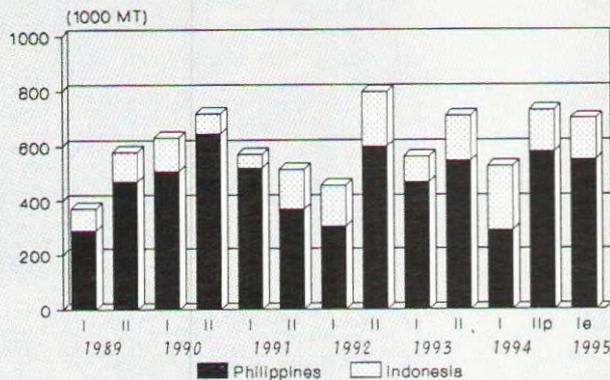
released its production forecast for 1995 at 2.311 million tons copra equivalent. This represents 5% higher than 1994's production, but still about 12% lower than peak production achieved in 1990.

In Indonesia, coconut output is expected to increase further inspite of severe drought experienced in certain areas in the country in 1994. The drought which affected rice and other primary crops in Java was expected to marginally influence coconut production in those areas. The situation will be offset by the increased production from coconuts planted some years ago and are now coming into full bearing. Indonesia will come up with about 2.6 million tons copra equivalent in 1995.

In the most of the South Pacific countries with the exception of PNG, coconut production is estimated to increase further. This is due to better prices given by the respective marketing boards and the increased productivity. In the case of PNG, lower production in 1995 is due to the volcano eruption in East New Britain province in September 1994 which damaged a substantial area under coconut.

In brief, the combined production of coconut in APCC member countries for 1995 is forecast at 8.409 million tons copra equivalent which represent a 3% higher than 1994. Production in non-APCC member countries is estimated to be virtually unchanged as com-

### Export of Coconut Oil (Half Yearly 1989-1995)



pared with 1994. World coconut production is expected to be at 9.769 million tons in 1995 representing a minimal increase over the previous year.

As mentioned above coconut production in the Philippines is expected to improve further in 1995. How much could it be translated into exportable supplies in the first half 1995 which coincides with the normal annual lean season? The preliminary export figures of coconut oil for January and February 1995 at 131430 tons and 102000 tons respectively reveal that exports were much higher than anticipated earlier. However, from February onward, copra arrivals in the processing centers slow down and we expect coconut oil supplies in the following months to decline accordingly. Assuming the Philippines shipments of coconut oil from March to June to be about 80000 tons a month, the cumulative exports of coconut oil in the first half 1995 are about 550000 tons. This represents a 90% increase as compared to the same period last year.

Shipments of coconut oil from Indonesia is difficult to assess. She could suddenly boost her exports if supply from the Philippines slows down as happened in the first half last year. Indonesian's shipments could remain significant during January/February 1995. Suppliers from In-

donesia kept on exporting to maintain their traditional buyers. Although the firm figure is not available yet Indonesia is expected to export an average of 25000 tons a month in the first half 1995 which is 36% lower when compared to the same period last year.

The combined exports of coconut oil from these two major sources in the first half 1995 is then estimated at 700000 tons. This represents a 33% increase as compared to the corresponding period last year, but about 4% lower than that of the second half of 1994.

There is also better prospects for copra exports from South Pacific countries such as Fiji, Solomon Islands and Vanuatu. However the volume is small and it can not affect the market very much.

High exports of coconut oil from the Philippines in the last quarter 1994 and in the first two months of 1995 have led to a corresponding boost in imports by USA, Europe and other countries. This resulted in improvement in stocks in key consuming countries.

The prospects for overall vegetable oils points to a bearish outlook in 1995. World production of oils and fats this season will show the largest quantitative increase ever, according to *Oil World*, the Hamburg based publication. Meanwhile, world demand will remain sizeably behind the increase in total supplies. So it is reasonable to assume that there will be some pressure in prices in the next few months.

Surprises can always occur. But the present outlines of the fundamentals that affect coconut oil markets seem relatively clear for the next couple of months. These are high level of exports, stocks accumulation in key consuming countries and the weakness of overall vegetable oil markets. After enjoying strong market tone and higher price trend since end of 1993, the weakness in the market is now foreseen. In the first half of 1995, the market could be a transition from bullishness to bearishness, not only for coconut oil but also for other competing vegetable oils. □

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### Monthly Prices of Vegetable Oils, 1990 - 1994

