
Market Outlook

Second Half of 1996

WILL THE BOOM CONTINUE?

By L. Taufikkurahman

The years 1994 & 1995 were bright for coconut oil in terms of production, exports volume and prices. In spite of the recovery of production and higher volume of exports during the period, price of copra and coconut oil increased. This led to a significant increase in export earnings from coconut for the coconut producing/exporting countries. In the Philippines for 1995 coconut oil brought in the biggest export earning among the agricultural commodities.

The high price trend continued so in the first half of 1996. With low supply situation during the period, the underlying fundamentals were still bullish. In European market, price of coconut oil sky-rocketed to US\$ 875/MT on June 21, which recorded the highest daily price for a decade. The average price of coconut oil in June 1996 (three weeks average only) was US\$ 861/MT as compared to US\$ 668/MT for the corresponding period last year. It recorded the highest since December 1984.

The above situation was in response to the slow down of coconut oil exports from main origins, especially from the Philippines. Since the beginning of the year, exports of coconut oil from this source have gradually declined.

While coconuts were in lean season in the Philippines, the slowing down in copra output could also be due to the negative effect of the last year's typhoons. There was a significant lower volume of copra entering the commercial stream and the dealer stocks were unusually low in the last few months.

Philippines exports of coconut oil in the first four months of 1996 amounted to 304257 tons which represent a 38% decline as against 493805 tons exported in

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the same period last year. There was a down trend in exports since January 1996 from nearly 112000 tons in December 1995 to 74074 tons in January 1996, 63625 tons in Feb and 78110 tons in March 1996. The cumulative exports of coconut oil for the first half 1996

is expected to be 420000 tons or about 42% lower than for the corresponding period in 1995.

Exports of coconut oil from Indonesia in the first half 1996 was estimated to remain low especially during the period of Jan - Mar 1996. This was due to the higher domestic price of coconut oil compared to international price which encouraged processors to sell in the domestic market. Domestic price was US\$30-40/MT higher than CIF Rotterdam price during the course of 1995 and it continued so up to April 1996. Indonesia was expected to export at an average of 15000 tons a month in the first quarter and 25000 tons a month in the second quarter of 1996.

The combined exports of coconut oil from these two sources in the first half 1996 is estimated to drop to 540000 tons as compared to 802000 tons in the same period last year.

In the last two years the coconut oil market had benefited much from a surge in demand both in edible and inedible uses. In trying to determine the demand trend, let us observe the consumption pattern in several key importing-consuming countries of Europe and in USA. Table below provides the data on cumulative consumption of

coconut oil for the years 1992-1993 and 1994-1995.

Table: Consumption of Coconut Oil (in 1000 MT)

	1992,1993	1994,1995	Change
Europe			
Germany	368.0	495.0	+35%
Italy	102.4	110.0	+7%
Netherlands	106.0	216.0	+5%
UK	68.9	82.0	+19%
France	113.5	93.7	-17%
USA	929.4	992.1	+7%
TOTAL	1788.2	1988.8	+11%

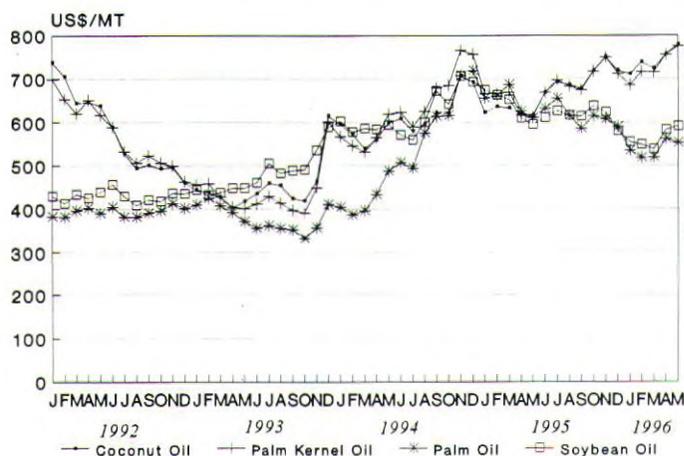
Source: Oil World

The above reveals that the level of consumption has shown a positive growth in most countries observed. The increase ranges from 5% in Netherlands; 7% in USA and 35% in Germany. On the average, it has increased by 11%. What is important is that this was taking place when the price was relatively high in the market.

A closer look at the US market is more interesting. Volume-wise, the increase in consumption is significant, especially when compared to the consumption for the 1990-1991 period. The cumulative consumption of coconut oil by US during the the two years period 1994-1995 increased to about 992100 tons as compared to 929400 tons in 1992-1993 and 794400 tons in 1990-1991. We presume that this was due to many US food manufacturers returning to coconut oil as raw material.

As well known, there was an aggressive anti coconut oil campaign in the US in the late 1980's which alleged that it poses a nutritional and health risk. It led to several food manufacturers to shift to other vegetable oils for their raw material.

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The situation appears to have changed in the recent past. Several researches done in US on dietary use of coconut oil have proved that coconut oil is not harmful as alleged. On the other hand, the medical and nutritional advantages of coconut oil have been disseminated to the American public to correct the public misimpression about coconut oil. The effect of the campaign is now negligible and many food manufacturers have returned to coconut oil.

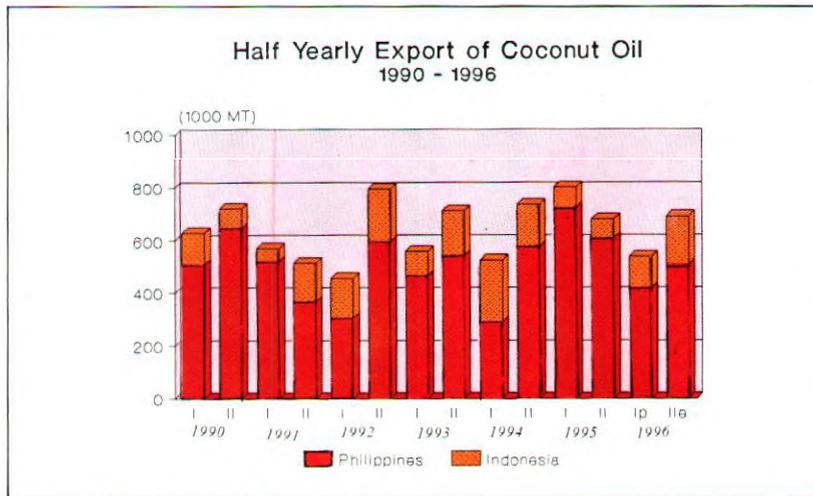
Coconut production in the Philippines is now on the way to recovery from the adverse effects of previous natural calamities. In addition, it is entering its peak production period. It would eventually translate into more supplies in the Philippines local market. Assuming that the exports of coconut oil from this source in the third quarter 1996 could improve to an average of 80000 tons a month and increase further to 90000 tons a month in the last quarter 1996, total exports of coconut oil in the second half will be 510000 tons.

Exports of coconut oil from Indonesia in the second half 1996 will probably recover depending on the price gap bet-

ween domestic and international price. Since April 1996 onward, domestic price has relegated to its normal position as such that it is profitable to ship out coconut oil. According to unconfirmed reports Indonesia shipped out at very large quantity of coconut oil in May 1996. Exports of coconut oil from Indonesia could reach 30000 tons a month in the second half 1996.

If the above materializes, the combined exports of coconut oil from these two sources in the second half 1996 is likely to increase to 690000 tons as compared to 540000 tons in Jan - Jun 1996 and 610000 tons Jun - Dec 1995.

While the supply is expected to improve in the coming months, the demand for coconut oil in major consuming-importing countries such as US and Europe is likely to ease. Premium held earlier by coconut oil against other vegetable oils had widened further making it less attractive among vegetable oils market. As of May 1996, the average premium of coconut oil as against other vegetable oils was as follows: soybean oil US\$ 187/MT and palm oil US\$ 226/MT.



priced vegetable oils

The prospects for other vegetable oils is also bearish for the rest of the year. Palm oil production will enter its annual peak period in October and November.

With the recovery in supplies, the continued uptrend in price of coconut oil in the second half 1996 is unlikely.

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The premiums are such that which consumers have reportedly the price has reached a level at begun to shift to more attractive



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