# Market Outlook

## *First Half 1996*

# Coconut Oil: An Unpredictable Commodity

**By L. Taufikkurahman**

In the vegetable oil complex, co conut oil is always good for a surprise. It being a product of a perennial crop and more than any other oil crop susceptible to vagaries of weather, its supply situation is volatile. This then leads to large swings in price, especially in circumstances where consumers are compelled to have relatively long covers in their books.

At the beginning of the year (Cocoinfo International Vol 2, No1) we anticipated coconut oil market to be in transition from bullishness to bearishness in the first half of 1995. After enjoying a higher price trend since end of 1992 price was expected to weaken during the period. We felt that the weakness would be more pronounced in the second half of 1995. This was based on the anticipated higher supply of coconut oil coming to the market especially from the Philippines. The argument was also supported by a sign of the weakness in other vegetable oil markets.

While the average price did decline up to May 1995, there was a deviation from the trend since June 1995 onward. Cif-Europe price rose to nearly US$700/MT in the third week of June 1995 as compared to the monthly average of US$619/MT in April 1995 and US$616/MT in May 1995. The price continued strong in the second half and it even increased more sharply in the last two months ending November 1995. As of mid-November 1995 prices rose toUS$780/MT which recorded the highest daily price since many years.

Looking at the supply situation in the first half of 1995, our earlier anticipation prooved to be correct. The Philippines exports of coconut oil Jan - Jun 1995 were extremely high and in fact was higher than what we estimated earlier. According to reports from UCAP, exports of coconut oil averaged more than 120,000 tons a month in the first six months of 1995. As a result the cumulative exports Jan-June 1995 increased to 724000 tons as compared to 289649 tons in the same period last year. At the beginning of the year we estimated Philippines exports for Jan - Jun 1995 at 550000 tons.

**While there will be a downtrend in coconut oil supply in the coming months, demand for coconut oil in major consuming-importing countries such as US and those in Europe appears to have enhanced.**

In line with our earlier anticipation, coconut oil shipments from Indonesia slowed down in the first half of the year. During this period domestic consumption of cooking oil was very high which led to a price uptrend. High domestic price of cooking oil induced more coconut oil for domestic consumption. The cumulative exports for Jan-June 1995 decreased sharply to 77023 tons as against 236510 tons in the same period last year.

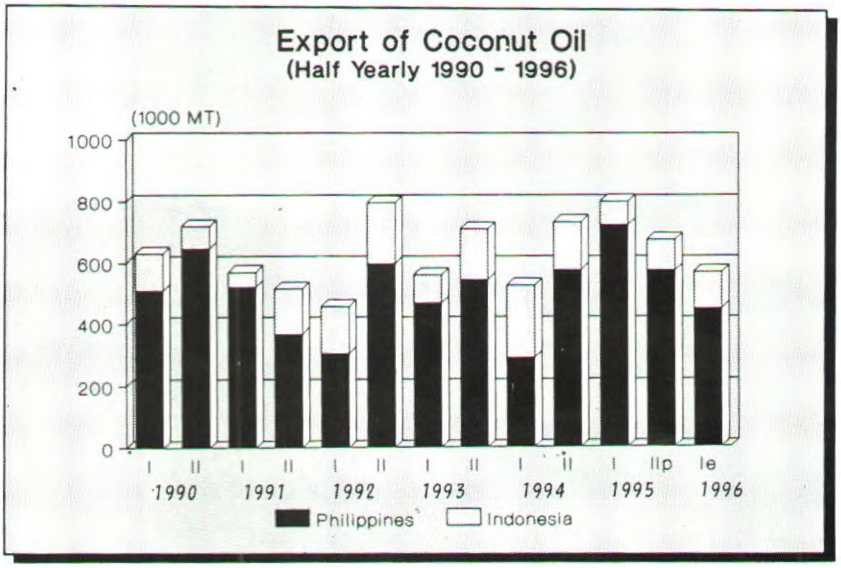
Although there was a sharp decline in Indonesian's shipments, it could not offset the increase in the Philippines exports. The combined exports of coconut oil from these two main sources in the first half 1995 amounted to 815000 tons as compared to 526159 tons in the first half of 1994 or a 55% increase.

In the third quarter 1995, coconut oil supply remained ample. According to preliminary report from UCAP, the monthly shipments of coconut oil in July - September averaged more than 100000 tons a month.

Exports of coconut oil from Indonesia remained low in the same period and it might have continued so up to the end of the year. This was due to continued high price of cooking oil domestically. One producer/exporter from North Sulawesi mentioned that he preferred to sell coconut oil to Java rather than exporting it. As a result Jul-Dec 1995's export of coconut oil is anticipated to be com parable with that of the first half 1995 at 80000 - 90000 tons.

The above clearly indicates that coconut oil supply was ample in the market, not only in the first half 1995 but also in third quarter 1995. It should have commanded a lower price trend.

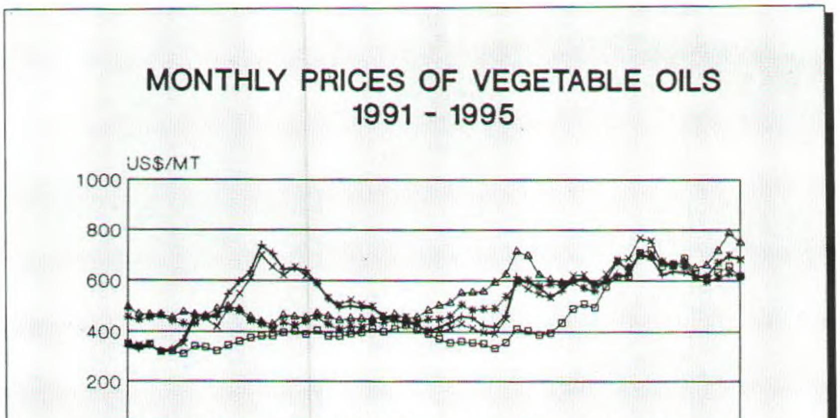
While Philippines exports continued high up to September 1995, it is doubted whether it could be maintained at the same level after October onward. In addition to the drought in Mindanao, the spate of destructive typhoons which hit the major coconut plantations in the country definitely affected the country's coconut production. Typhoon Mameng visited the Southern part of the Philippines on 1 October where coconuts are mostly planted while on October 28 typhoon Zach struck central Philippines. Typhoon "Angela" the latest to visit the country has directly hit the Bicol region, the area which contributes from 25 - 30% of the coconut production. According to one source, the damage was so severe and in some places it up-rooted the trees or there were no nuts or leaves left on the trees.




How far it will affect the coconut production in 1996 is yet to be assessed. Since the effect of the typhoons and drought to coconut production will be felt up to 12 - 14 months, the downward revision of the country's coconut production and exports for 1995 and 1996 is imperative. The country's coconut production estimate for 1995 which was made before the typhoons was 2.513 million tons copra equivalent. Official production forecast for 1996 is not yet available, how ever earlier indications suggest that it could drop to the 1994's level at 2.2 million tons copra equivalent.

How much could be translated into exportable supply in the first half 1996? If we consider the effects of the above disasters and this period also coincides with the normal lean season in the country, exports of coconut oil from the Philippines must be significantly lower. Assuming the exports of coconut oil from the Philippines will drop to an average of 80000 tons a month in the first quarter 1996 and decline further to 70000 tons a month in the second quarter 1996, the total exports of coconut oil in the first half 1996 will be 450000 tons.

Shipments of coconut oil from Indonesia in the first half 1996 is difficult to assess. If the lower exports from the Philippines materializes she could react by higher shipments of coconut oil. How ever, Indonesia is unlikely to repeat her high exports as happened in 1994. It could increase to an average of 20000 tons a month in the first half 1996. *(continued on page 33)*

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activities to promote practical use and increased coconut productivity.

**Membership**

COGENT now has 24 country members. To become a member, an authorized government official of any coconut-producing country could write to either:

*Director General of IPGRI*
*Via delle Sette Chiese 142, 00145*
*Rome, Italy*
*Tel. No. (39-6) 518921*
*Fax No. (39-6) 570309*

*or*

*Dr. Pons Batugal*
*COGENT Coordinator*
*30 Orange Grove Road*
*# 7-00 RELC Building, Singapore 1025*
*Tel. No. 7389611*
*Fax No 7389636*

to indicate his/her country's desire to be a member.

At present, there is no membership fee to join COGENT. To be accepted as a member, the country has to make commitments in terms of protecting, sharing and developing its coconut genetic resources and to collaborate in the implementation of mutually agreed upon research and development activities

Members benefit by having access to information and technology produced by COGENT and coconut germplasm through reciprocal arrangements with other member countries. Coconut researchers also have the opportunity to participate in training courses and research projects which are mutually agreed upon between the country and COGENT. *(Excerpted from IPGRI Newsletter for Asia, the Pacific and Oceania Number 16).*

*(continued from page 27)*

The combined exports of coconut oil from these two major sources in the first half 1996 in likely to drop to 570000 tons. This represents a 21% decline as compared to the corresponding period previous year. While there will be a downtrend in coconut oil supply in the coming months, demand for coconut oil in major consuming-importing countries such as US and those in Europe appears to have enhanced. The consumers showed much interest in the market to look for suppliers in order to get sufficient supplies in December during the Christmas time and the New Year.

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not for faint-hearted men.

After the new year the demand will shift to Asian region where two big festivals will take place in January and February 1996. This includes Chinese new year and Moslem fasting month of Ramadhan. During this period consumption of vegetable oils including coconut oil is anticipated to increase.

The above fundamentals that affect coconut oil market reveal that the market is likely to continue bullish for some more months, probably up to June 1996. But things could change rapidly and as we always say "surprises can always occur". Price could move up and down without notice. Trade in coconut oil is certainly not for faint-hearted men.

*(continued from page 31)*

*CI•How do you think they should be implemented?*

*FF*•We should be like the milk industry - have definite standards that all good manufacturers respect and adhere to even controlled by governments. It hard to believe that I have controlled the STP for only 25 years and have seen the industry grow from a few hundred thousand of world sales to over an estimated 5 billion in coconut cream products.