

### The First Half Of 2008

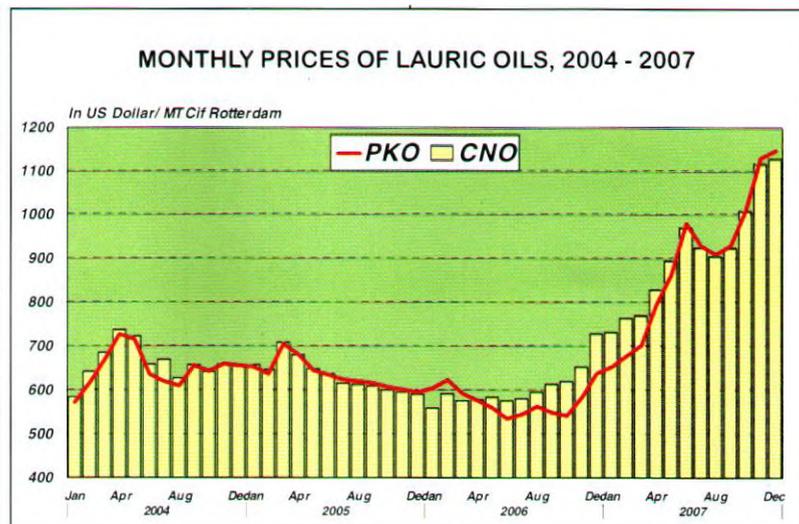
## BULLISH MARKET OF COCONUT OIL IN THE FIRST HALF OF 2008

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The coconut oil (CNO) market experienced an upward trend for the period July – December 2007. The price went up by 5.26%/ month for the said period. The average price was US\$ 1,010/ metric ton, ranging from US \$910 to US \$1,148 (CIF Rotterdam) with an instability index of 10.54%.

The fundamental cause of the improved price is lower total production of coconut oil in the world by 6.65% at 2.88 million metric tons for 2007 as opposed to 3.08 million metric tons in 2006. A low production of coconut oil in the Philippines plays a significant role in the total world production of the oil. The production of coconut oil in the Philippines decreased significantly to 1.1 million metric tons last year from 1.4 million metric tons a year ago (2006) or a decline of 21.4%.

A high domestic use of coconut oil in the Philippines for bio fuel and oleo chemical products had reduced the export quantity of coconut oil from the country to the world market. UCAP data indicated that the Philippines' export of coconut oil was only 0.76 million metric tons out of the 1.1 million metric tons produced in 2007. This means that about 32.6% of the coconut oil production in the Philippines had been consumed domestically. Two years ago (2005), domestic consumption was only 15.2%.



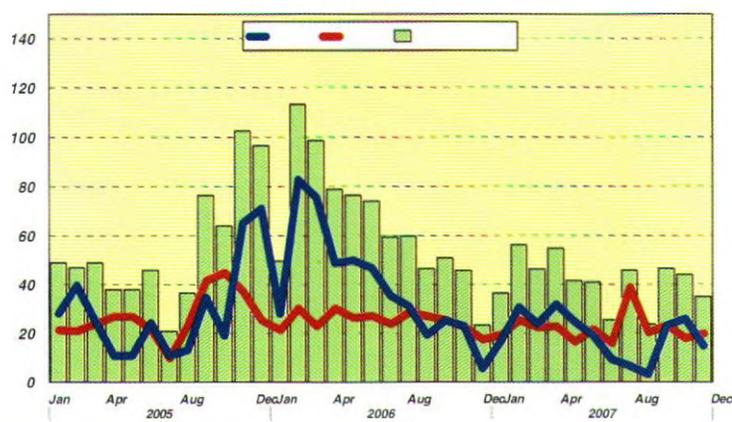
Lower coconut oil export performance of the Philippines had resulted to a decreasing stock in the world market. The production of coconut oil in Indonesia, the second largest producer after Philippines, is relatively better in 2007 and it had an export growth of 40.6%. This, however, did not contribute significantly to enhance the oil stock in the world market. The oil stock in Rotterdam bonded warehouse kept declining at a rate of 6.4% per month during the period January- December 2007.

The monthly average stock level of the oil in Rotterdam was 19,308 metric tons which was 51.03% lower than that of 2006 and about 35% lower than that of two years ago. This figure further went down during the period July – December 2007 to 13,980 metric tons.

The same trend occurred in the USA market in which the monthly average stock was 82,000 metric tons during the period January- December 2007. It went down further to 67,667 metric tons per month for the period July- December 2007. The two figures were respectively 14% and 25.1% lower than the corresponding figures in 2006.

As part of the lauric oil system, the low production of palm kernel oil (PKO) for 2007 in Malaysia was another factor that caused the high price of coconut oil in the world market. Malaysian PKO production for 2007 was 2.96% lower than the production in 2006. The production decreased to 1.89 million metric tons in 2007 from 1.96 million metric tons in 2006. In the meantime, world consumption of PKO increased by 8.9% at 4.5 million metric

**Rotterdam B.W. Opening Stocks of CNO and PKO  
for 2005-2007(1000 x MT)**



tons in 2007 over the consumption level of 2006.

Under the condition where production growth is lower than consumption, the available stock of PKO in the world market should be mobilized to fulfill the demand. The OILWORLD data indicated that the monthly PKO stock in Rotterdam decreased to 22,090 metric tons during 2007 as against 25,333 metric tons in 2006 or a decrease of 12.8% as a result of higher demand.

For the first half of 2008 (January – June), a bullish market of coconut oil is expected prevail even with a little improvement in coconut oil production and export. As indicated by the OIL WORLD, there will be an increase in export volume of coconut oil to the world market in 2008. The total export will be 8.84% higher over the last year's figure to reach 1.97 million metric tons as against 1.81 million metric in 2007.

It is estimated that about 49.5% (0.98 million metric tons) of the total export will be released during the first half of 2008. This export figure is 227,000 metric tons higher (20.5%) than that of January-June 2007. However, the estimated export for the first half of 2008 will still be 6% (84,000 metric tons) lower than the corresponding export figure in 2006.

The Philippines will have a significant contribution to the export growth of coconut oil in 2008 since the country is expected to have better coconut production. UCAP has indicated that there will be an increase of 12 % in the copra production this year to 2.5 million metric tons as opposed to 2.2 million metric tons of last year.

Indonesia will face the same rhythm in its coconut production as the Philippines in 2008. It is expected that the export volume of coconut oil from the two countries during the period January- June 2008 will be 460,500 metric tons (Philippines) and 356,800 metric tons from Indonesia. The two countries' share in the total world export will be 83.4% for the period concerned.

A steady increase of coconut oil demand in non-producing countries particularly in the European Union, the USA and others is expected in 2008. It is forecasted that the demand for January – June 2008 in those countries will increase by 4.0% over last year's figure to reach 1.3 million metric tons. The estimated monthly average demand is about 217,000 metric tons.

Since the export supply of coconut oil for January – June 2008 is still limited at 0.98 million metric tons which is equivalent to 163,000 metric tons per month, there will be a lack of export supply in the

world market as against the consumption figure. Consequently, to meet the consumption requirement of those countries, oil stocks will have to be taken out in addition to the import.

It is calculated that there will be a gap between the demand and the export supply by as much as 320,000 during the first half of 2008 or about 53,000 metric tons/month. In short, for the incoming six months, the available stock of coconut oil in the world market will be drained by 53,000 metric tons per month to cover the consumption gap.

By using OILWORLD data, it is estimated that the open stock of coconut oil in the world market for January 2008 is 144,000 metric tons which is only equal to 66.4% of the estimate average consumption of the non-producing country in the respective month.

The price behavior of coconut oil will be set by a supply and demand condition. Since it is forecasted that there will be lower export supply compared to the consumption, and the stock will gradually decrease to meet the consumption, the price of coconut oil for the period January – June 2008 is estimated to increase. It is expected that the price of coconut oil will be between US \$1,200 and US \$1,300 (CIF Rotterdam) per metric ton or an increase of 20.1% from the price in July – December 2007.

However, price magnitudes of coconut oil in the world market during the said period will not be only affected by the main factors (supply and demand of the commodity itself) but also by other factors involved in the related commodity system. Magnitudes of supply and demand of PKO and other vegetable oils, freight cost, and macro economic indicators such as exchange rate of the coconut exporting countries are part of many factors that should be considered.

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