

The First Half Of 2009**BEARISH MARKET OF CNO DURING
THE FIRST HALF OF 2009***Amrizal Idroes*

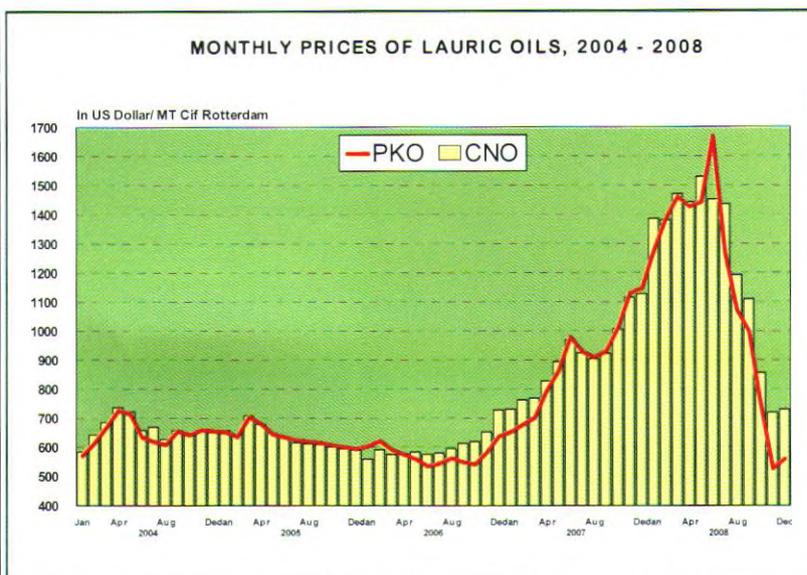
An increase production and higher export volume of lauric oil, especially palm kernel oil [PKO] in July – December 2008 amid the global economic downturn brought down the price of coconut oil [CNO] in the said period. Even the production and export of CNO were on the lower tone at 7.8% and 14.7% respectively during the period. As against last year's figures, the price of CNO could not escape from the pressures.

The price went down by 10.4% every month during the period July – December 2008. The average price was US\$1,007/MT, ranging from US\$719 to US\$1,436 with instability index of 28.5%. Meanwhile, the price of PKO experienced a deeper pain in which prices contracted at a rate of 15.8% per month and averaged US\$863/MT, ranging from US\$527 to US\$1,272 with instability index of 34.7%.

Coconut oil enjoyed a significant premium price over PKO at an average of US\$145/MT or around 19.5% of premium.

Based on OIL WORLD data, the total production of coconut oil for the period July – December 2008 was 1.52 million MT as opposed to last year's production of 1.65 million MT or a decrease of 7.8%. The production of PKO in the same period was 2.59 million MT which is up by 7.4% over the production of last year at 2.41 million MT. The two sources of lauric oil brought the total production from 4.06 million MT to 4.11 million MT, an increase of 1.2%.

Total export of CNO was significantly down by 14.7% in the



period July – December 2008 at 0.92 million MT as against 1.07 million MT a year earlier. In contrast to CNO, the sale of PKO in the world market in the same period increased by 6.8% to 1.5 million MT from 1.4 million MT in the corresponding period a year ago. The significant reduction on CNO export resulted in a lower total export of lauric oil in July – December 2008 to 2.4 million MT from 2.5 million MT last year, a decrease by 2.5%.

There was a change in the consumption pattern of lauric oil as a consequence of the price difference between the two oils which led to consumers' rationalization in choosing a cheaper oil [PKO]. The total consumption of PKO in the world market grew by 9.7% at 2.52 million MT in July – December 2008 as opposed to 2.29 million MT last year. Meanwhile, the consumption of CNO went down by 2.98% at 1.59 million MT as

against 1.64 million MT a year ago. The overall consumption of lauric oil was up by 175,000 MT [4.4%] to reach 4.11 million MT from 3.94 million MT last year.

The monthly stocks of lauric oil during the second half of 2008 was recorded at 310,000 MT a month which was 5.2% higher than the stock available in the previous year. About 15% of the total stock are stored in the Rotterdam warehouse. This stock grew by 5.11%/month [2,000 MT] during July – December 2008 with an average of 41,317 MT.

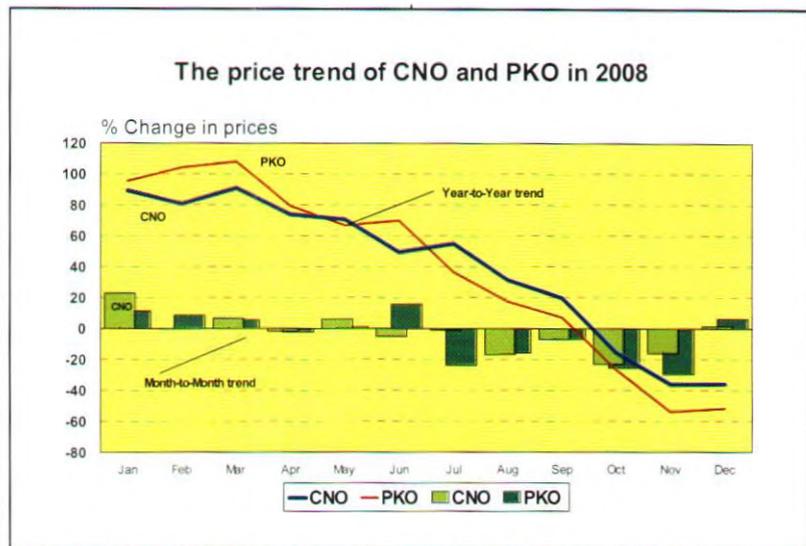
For the first half of 2009, the price of CNO is still expected to be under pressure since the commodity cannot escape from the global effects of economic recession which has created a lower demand amid better production of PKO and crude palm oil [CPO]. It is forecasted that the production of CNO in January – June 2009 would be up by 7.2% to reach 1.63 million MT from 1.52

million MT in the previous six-month period. This production is slightly higher than the production in the corresponding period a year earlier at 1.61 million MT.

About 650,000 MT of the production is estimated to come from the Philippines in January – June 2009. Indonesia's share is estimated at 470,000 MT or 28.8%, of the total production. The two countries share would be around 68.7% of the total production in the said period.

Of the total production, about 62.6% [1.02 million MT of CNO] would be exported to the world market during the first half of 2009. This export figure is 105,000 MT higher than that of the second half of 2008 [0.91 million MT] but 37,000 ton lower than the export in January – June 2008. It is expected that the Philippine's share would be 46% or 470,000 MT and followed by Indonesia by as much as 37% or 380,000 MT.

For PKO, the estimated production for the same period would be up by 4.7% to 2.51 million MT when compared to the production a year ago at 2.40 million MT. Its total export would also increase to 1.48 million MT from 1.31 million MT last year, or a surge by 13.06%. However, the export supply of PKO is slightly down by 18,000 MT [1.2%] when compared to the figure in July – December 2008. For the two sources of lauric oil, their export volume for January – June 2009 would be 4.14 million MT. This is slightly higher [3.6%]



over the figure in July – December 2008 and around 5.7% higher than export in the corresponding period last year at 2.37 million MT .

Since the price of PKO is 19.5% cheaper than the price of CNO, import demands of PKO would be expected to be more preferred than CNO. It is estimated that the import demand of PKO would accelerate by 11.9% to reach 1.5 million MT during the next six months of 2009 from 1.35 million MT in January – June 2008. This is also 4.2% higher than the demand during the second half of 2008. In contrast, the import demand of CNO [1.02 million MT] is forecasted to decline at 6.03% over last year's figure at 1.1 million MT. The global import demand of lauric oil for January – June 2009 would be about 2.54 million metric ton, or an increase by 4.1% over last year's figure [2.44 million MT].

The consumption of lauric oil would be 4.17 million MT which is up from

3.95 million metric tons in the previous year or an increase of 0.8%. Both CNO and PKO's total consumption in January – June 2009 is expected to increase at 2.2% and 6.5%, respectively when compared to last year's figures. The share of CNO and PKO on consumption is 1.63 million MT [39.1%] and 2.54 million MT [60.9%], respectively. The share of CNO on the lauric oil consumption significantly reduces when compared to its share five years ago at 50%.

A slight decrease of lauric oil production compared to consumption is observed in the first half of 2009. The total production of lauric oil is 0.6% lower [25,000 MT] than the consumption. The current stock of lauric oil is more than enough to meet the shortage of production and the stock pattern in the world market would not change significantly when compared to the stock condition in the last six months [July – December 2008] but the stocks would be slightly lower.

Price expectation for CNO during the period January – June 2009 would remain under pressure since there is a significant price gap to the price of PKO and good productions of PKO and CPO during the said period amid the negative impact of global economic recession on the purchasing power of importing countries. It is forecasted that the price would range between US\$700 – US\$800/MT.

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Rotterdam B.W. Opening Stocks of CNO and PKO for 2008 (1000 x MT)

