

The Second Half of 2009

BEARISH CNO MARKET IN THE SECOND HALF OF 2009

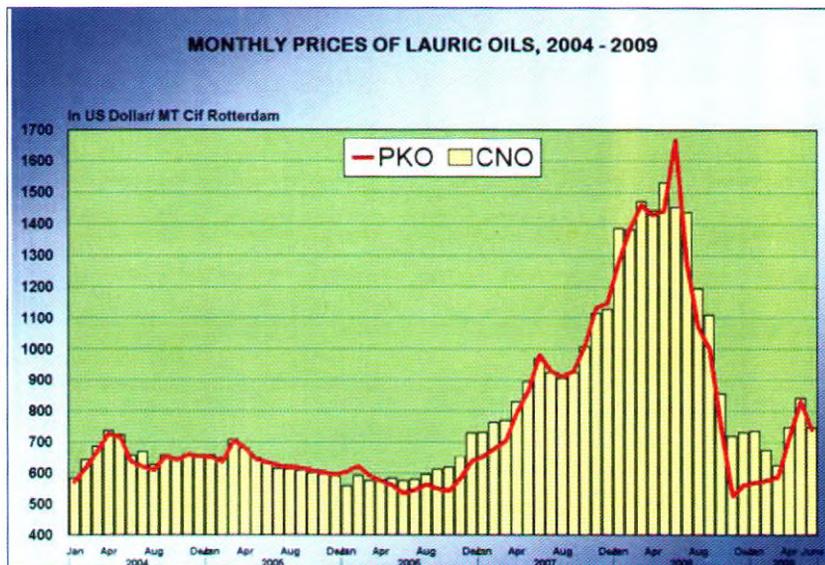
Amrizal Idroes

Low priced CNO was traded during the first six months of 2009 in the world market. Prices averaged at US\$ 733/MT as against US\$ 1,430/MT in the same period a year ago or a decrease by 45%. However, the monthly prices of CNO for that period had an increasing trend at a rate of 3.26% -- prices ranged between US\$625 and US\$842 per MT.

The global economic recession brought down the world demand of coconut oil in the main importing countries, especially in the EU, the USA and China. For the first six months in 2009, total world import of CNO was 815,000 MT as against 1.043 million MT a year earlier or a decrease by 228,000 MT [21.9%]

The EU countries reduced significantly their import demand of CNO, especially from the Philippines by 40.3% to 89,000 MT from 149,000 last year. In compensation to the lower imports of CNO, the countries increased their buying on palm kernel oil [PKO] to fulfill their requirement on lauric oils. The import for PKO was up to 338,000 for the period January – June 2009 from 242,000 MT in the corresponding period of last year, or an increase of 96,000 MT [38%].

The USA faced the same rhythm with the EU where a decreasing trend of import [CNO] was recorded during the said period. As of June 2009, total import of



CNO was 184,540 MT which was 32.2% lower than the import a year ago at 272,850 MT. Meanwhile, the country imported about 185,700 MT of PKO which was 77,250 MT more than that of last year at 108,450 MT. It increased by 71.2%.

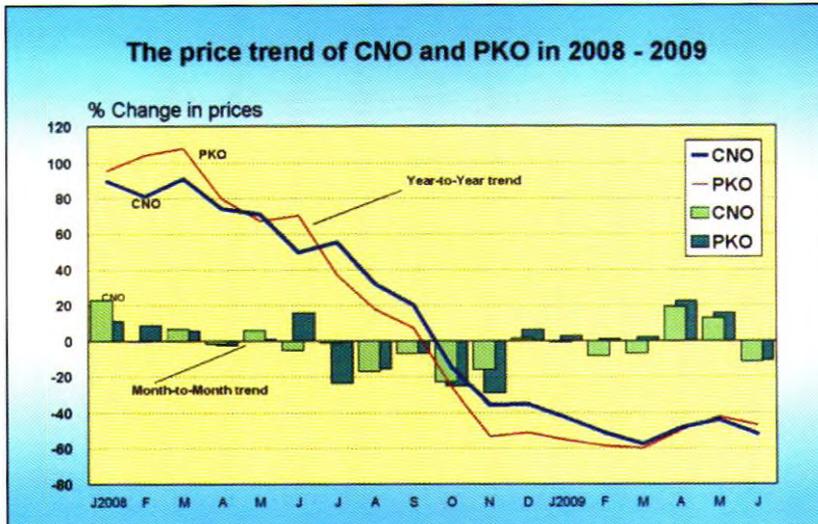
China, one of the main buyers of CNO in the Asian market, imported less quantity of the oil in 2009. Its import went down by 38.8% to 66,600 MT [January -- June, 2009] from last year's figure of 108,800 MT. But, its import demand of lauric oils had a steady increase. Total import of lauric oils for 2009 [as of June 2009] was 331,440 MT. Shares of CNO and PKO on the imported lauric oils were 20% and 80%, respectively.

A lower price of PKO at 9% [US\$64.33/MT] than the price of CNO during the period of January – June 2009 caused the

PKO to be more preferred by the importing countries to meet their domestic demands for lauric oils. The import figures of PKO totaled 1.506m MT for the said period, increased by 10.4% [142,000 MT] over the same figure in 2008 at 1.364m MT. Meanwhile, the import volume of CNO was down by 21.9% at 228,000 MT. These two oils [CNO and PKO] are almost perfectly substitutable.

The monthly stock of CNO in the Rotterdam warehouse for January – June 2009 averaged 18,883 MT which was equal to 35.1% of total monthly consumption of the oil in the EU countries. This stock was 28.75% higher than the average stock in 2008. Lauric oils stock in the same period averaged 36,717 MT as against 36,333 MT of last year or slightly up by 1.1%.

The Philippines as the main



exporting country sold its coconut oil to the world market at a lower mode during January – June 2009 when compared to the export performance a year earlier. The UCAP indicated that the export figure for the country was 268,267 MT. This was far below the export of last year at 499,126 MT or a significant reduction of 46.2% [230,859 MT].

For the second half of 2009, a situation of low import demand for the coconut oil in the world market is expected to persist -- especially for the above main buying countries. Low economic growth of those countries as a result of the global economic recession has led the CNO buyers in these countries to rationalize their requisitions for a cheaper source of the lauric oil to palm kernel oil. Consequently, in the second half of this year, the import demand for PKO will significantly expand at the expense of CNO's import demand.

The Oil World forecast that the import demand of CNO for period of July – September would be down by a rate of 5.2% to 440,000 MT from 464,000 MT in the same period of the previous year. The import demand of PKO would considerably increase to 827,000 for the said period as against

667,000 MT for July – September 2008 or a rise by 24.0%.

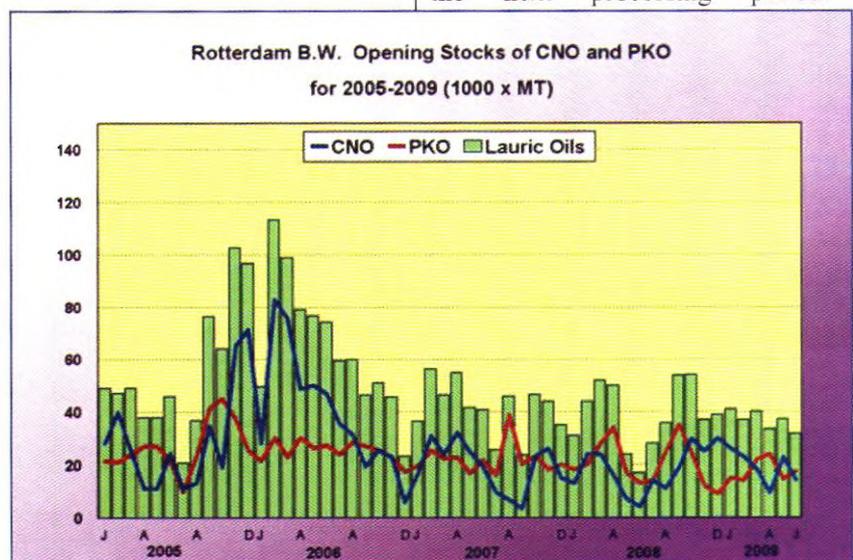
The total import demand of CNO for June – December 2009 would be 6.9% lower [868,000 MT] than that of last year at 932,000 MT. Meanwhile, the import demand of PKO for the same period would rise to 1.55m MT from last year's figure of 1.32m MT – an increase of 17.4% [230,000 MT]. In terms of the lauric oils, the world import demand would go up by 7.4% to 2.42m MT from 1.25m MT last year.

The Philippines' export of CNO is expected to go up in the period of July – December 2009 to compensate its lower export

performance during the first half. But the increase would not be able to bring up the total export of the country higher than last year's figure. It is estimated that the export for the period concerned would be 480,000 MT and total export for 2009 would be about 750,000 MT. This is about 11.5% lower [98,000] than the total export of the country in 2008 at 848,000 MT.

It may be noted that the Philippines has mandated an increase from 1 to 2% blending ratio of coconut methyl ester (CME) with petro diesel since February 2009. This will require about 130,000 MT of coconut oil as feedstock in the production of CME. However, the required volume is small when compared with the annual coconut oil output 1.0 to as much as 1.4 million MT.

The current low price of CNO in the world market is a discouraging factor for CNO manufacturers to have a maximum output – because they will face a minor profit margin or even a loss as a result of high cost of inputs such as fuel, electricity and labor, especially in the case of Indonesia. This would lead the Indonesian CNO manufacturers to take a "wait and see" position or to delay producing the CNO for a certain period, and just accumulate copra from suppliers at current low price for the next processing period.



Consequently, the Indonesian CNO production and export during the second half of this year is expected to have a lower figure than last year. It is estimated that the export would be around 350,000 MT from the total production of 440,000 MT in the same period last year.

A low price of CNO is translated directly to a low price of copra also at the suppliers side, especially the coconut farmers. This is a disincentive for them to produce copra. Instead, they tend to sell directly their fresh nut to

other buyers to obtain a better revenue.

The prevailing price of copra in Indonesia is currently ranging from US\$ 197/ MT to US\$ 315/ MT with an average of US\$239/MT at farm gates. This price is only 43.8% of the price in July last year at US\$546/MT. Meanwhile, in the Philippines the average price of the same for June was US\$415/MT – ranging from US\$381 and US\$459 per MT – which is about 55.1% lower than the average price a year ago at US\$924/MT. When this condition occurs persistently for a long period, a short supply of

copra will occur in Indonesia and the Philippines since the farmers will tend to slow down in producing copra. Consequently, the CNO production and export volumes from the both countries would be threatened.

Forward monthly prices for CNO in the European market for the period of July – December 2009 is forecasted to range between US\$ 650/MT and US\$ 710/MT. These prices will be about 37.5 % lower than those of last year.

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PT. KOKONAKO *Indonesia*

MANUFACTURING & EXPORTING DESICCATED COCONUT AND CRUDE COCONUT OIL (CNO)



FACTORY LOCATION



RAW MATERIAL



LABORATORY FOR MICROBIOLOGY AND CHEMICAL TEST



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