



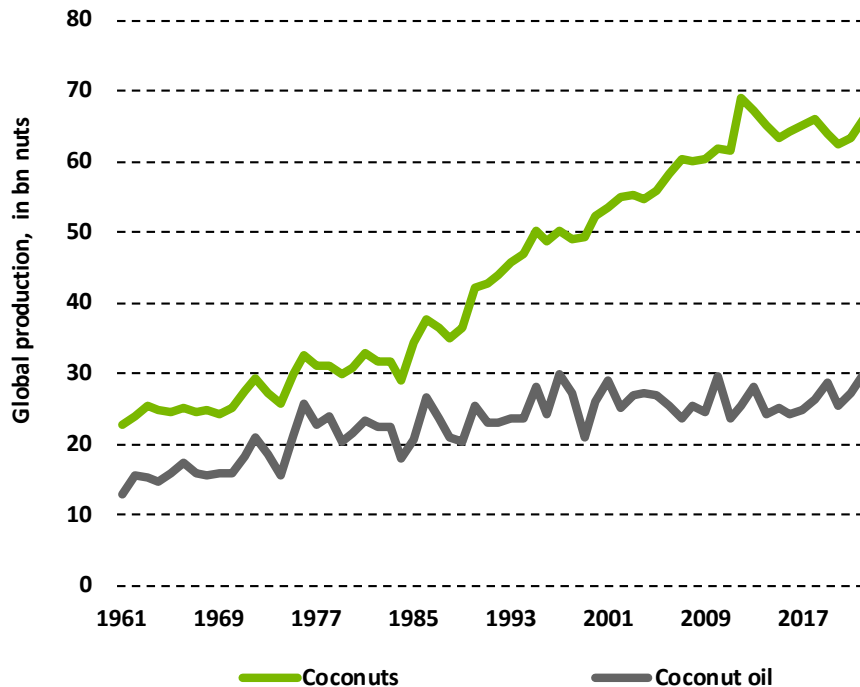
International Lauric Oils, and Coconut Products Outlook

Dr Julian McGill

Coconut supply is no longer increasing

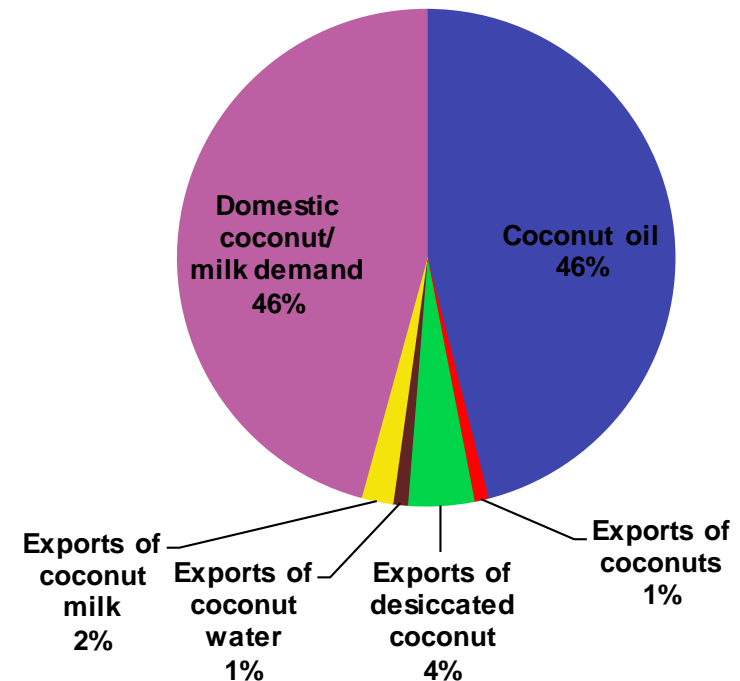
- Coconut output stopped growing over the last decade as both yield and area growth have stagnated.

Global production of coconuts and coconut oil (in nut equivalent), billions of nuts



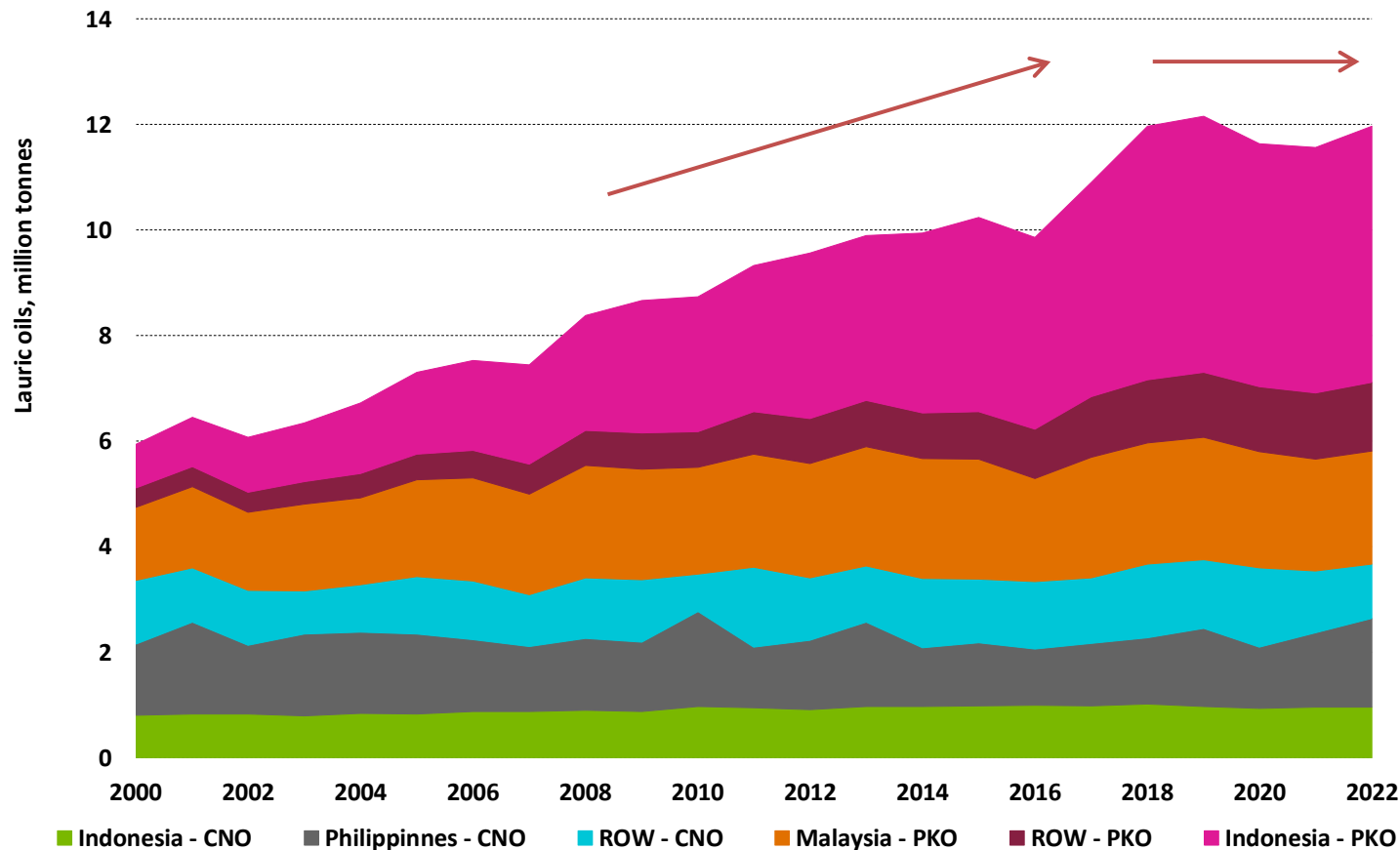
- The reason for this was the very high output of copra in the Philippines coupled with high export taxes on palm kernel oil in Indonesia, making coconut oil relatively abundant.

Share of end use of coconuts nuts by product, 2022



The availability of palm kernel oil is also weak

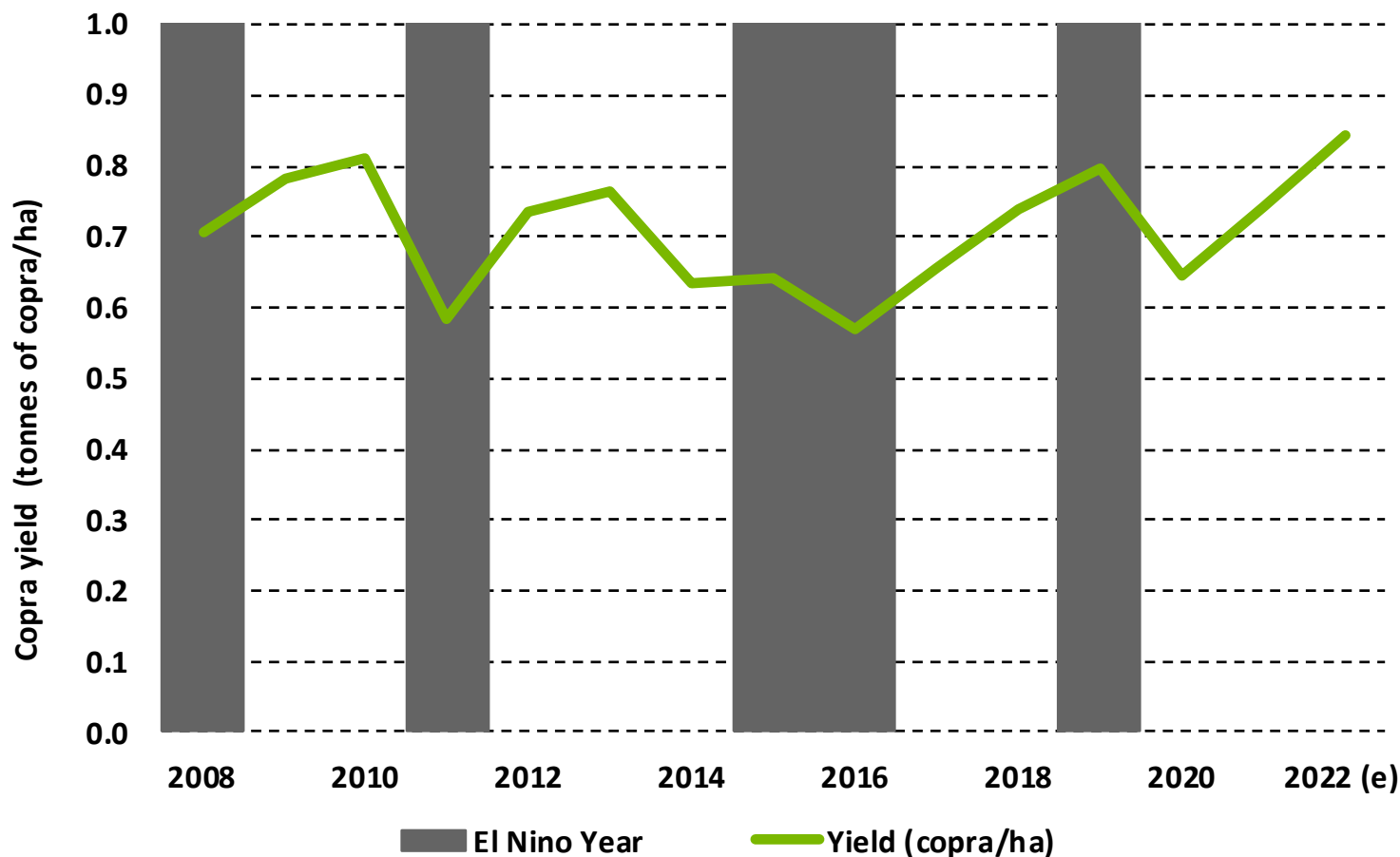
Lauric oil supply by main producer, million tonnes



- Coconut oil has been flat but with large fluctuations in output in the Philippines.
- The growth in lauric oil supply has come from increased Palm Kernel Oil output in Indonesia.
- With slowing area and yield growth output of Palm Kernel Oil has stagnated since 2018.

From 2020 onward coconut yields improved...

Coconut yield in the Philippines since 2008 (tonnes of copra/ha)

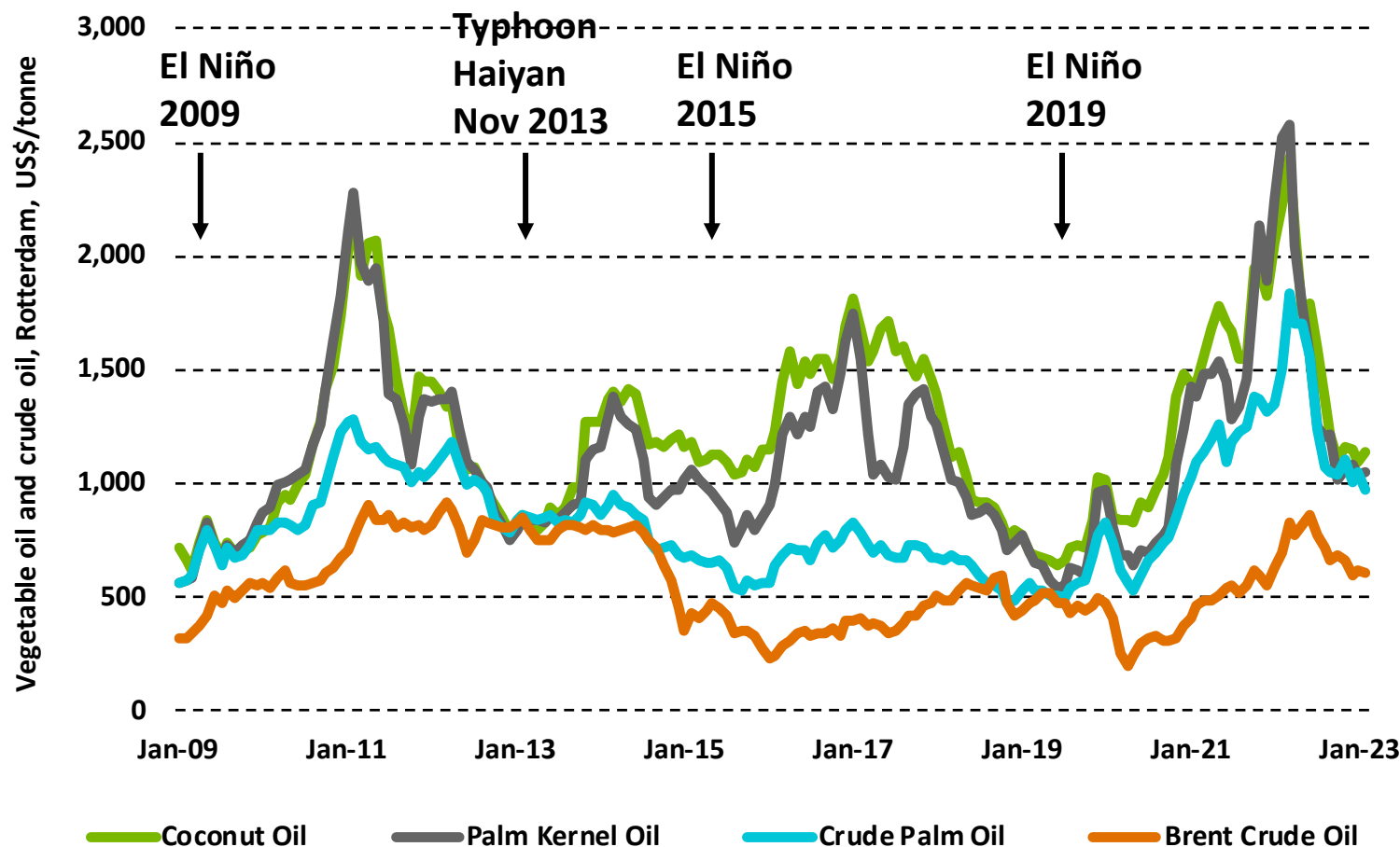


Based on UCAP data until 2020

- Copra yields per hectare fluctuate with weather events, most notably El Niño's which reduce rainfall in South East Asia.
- The 2019 El Nino and typhoon Goni in 2020 reduced copra yields.
- Since 2020 excellent weather conditions meant yields have recovered.
- In 2022 copra supply and quality in the Philippines was exceptional

Up like an escalator down like an elevator

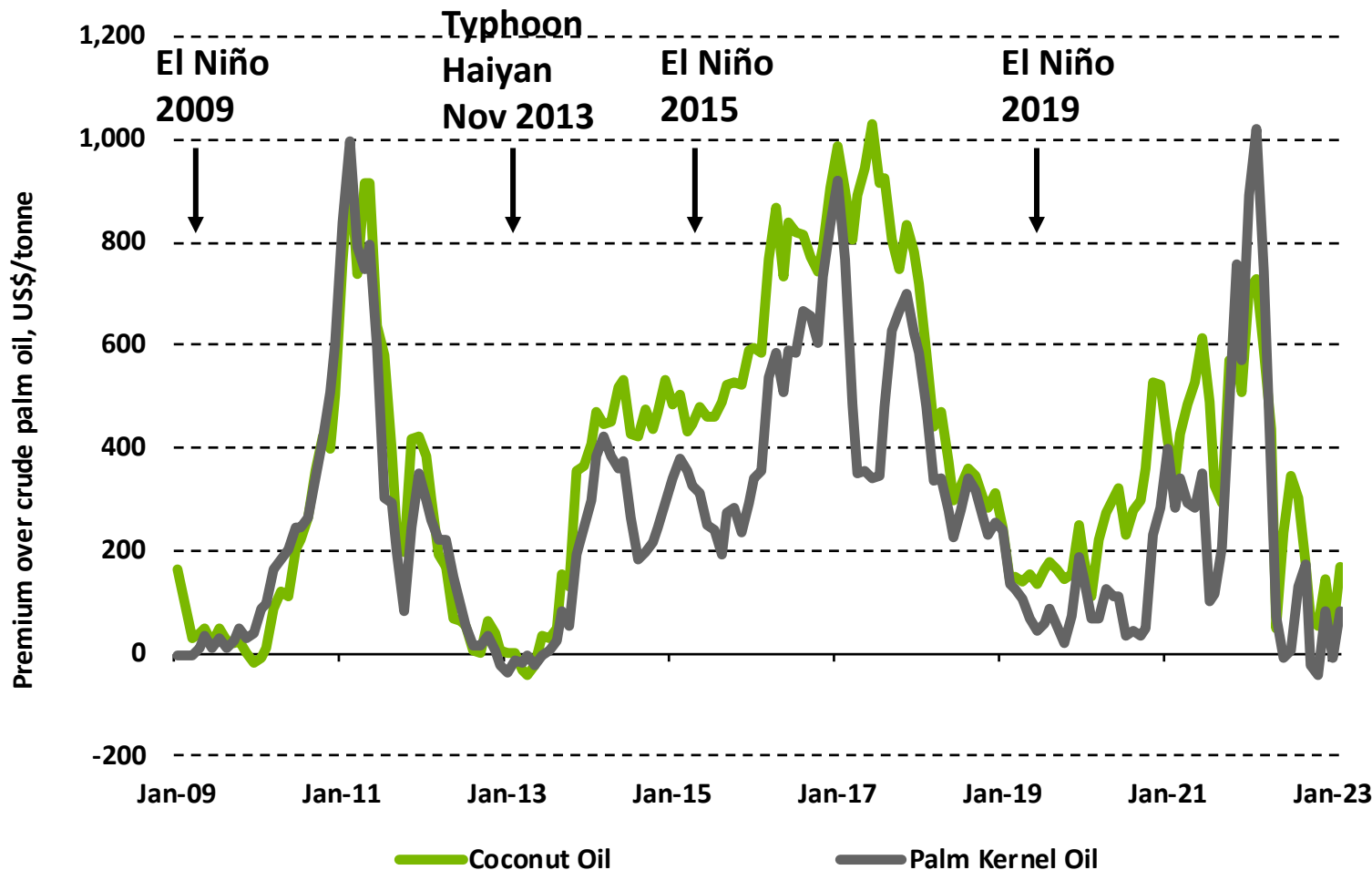
Coconut oil, palm kernel oil, crude palm oil and brent crude oil prices at Rotterdam, US\$/tonne



- Lauric oil prices fluctuates with the climate: poor rainfall and/or typhoons reduce supply and cause prices to rally.
- The reason for the fast response is that lauric oil buyers are relatively inflexible in their choice of vegetable oil
- Over time end-users find ways to reformulate and reduce demand and prices collapse.

Up like an escalator down like an elevator

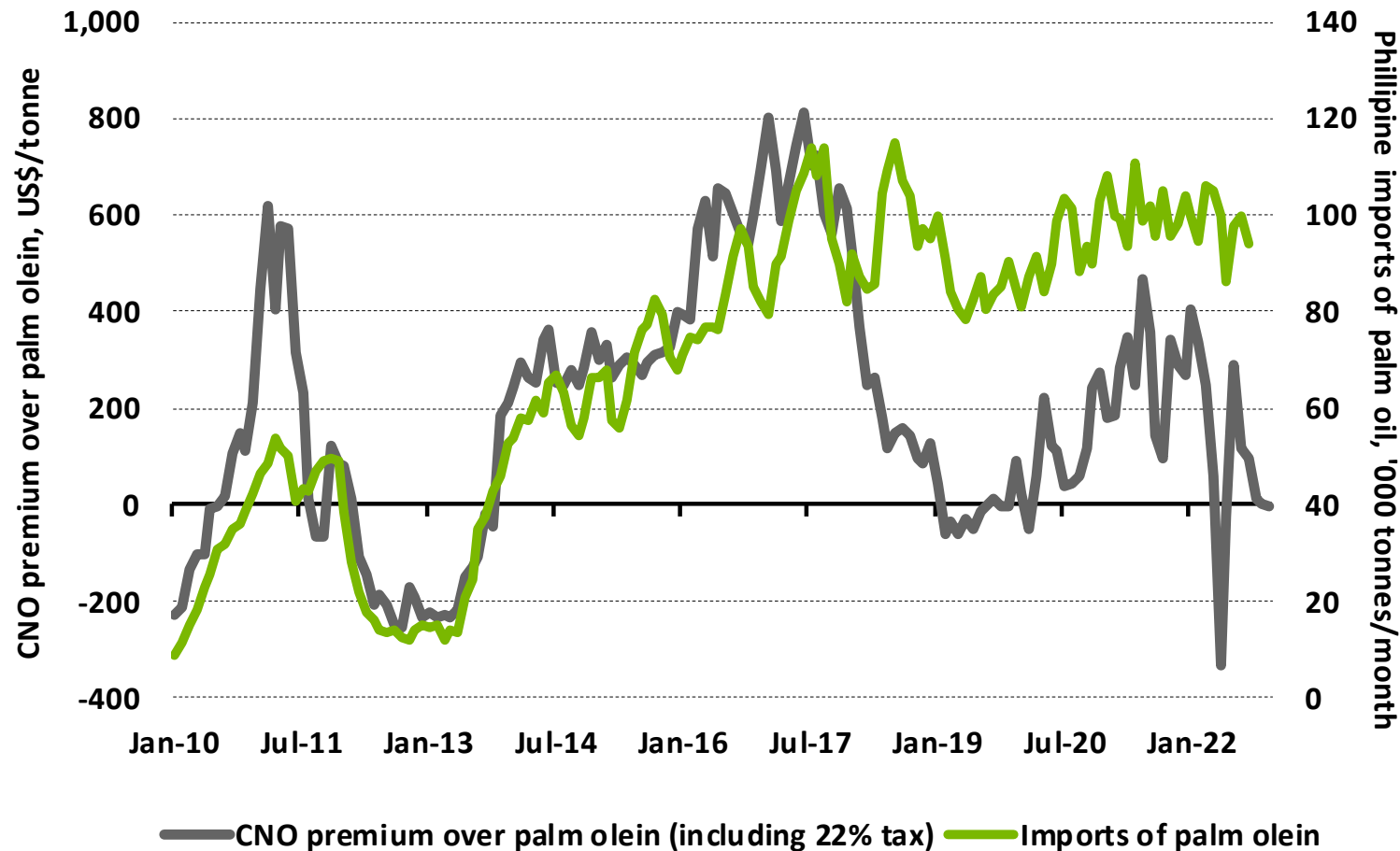
Spread of coconut oil and palm kernel oil over crude palm oil at Rotterdam, US\$/tonne



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Palm olein has replaced coconut oil in the Philippines

Coconut oil premium over palm olein against imports of palm olein into the Philippines

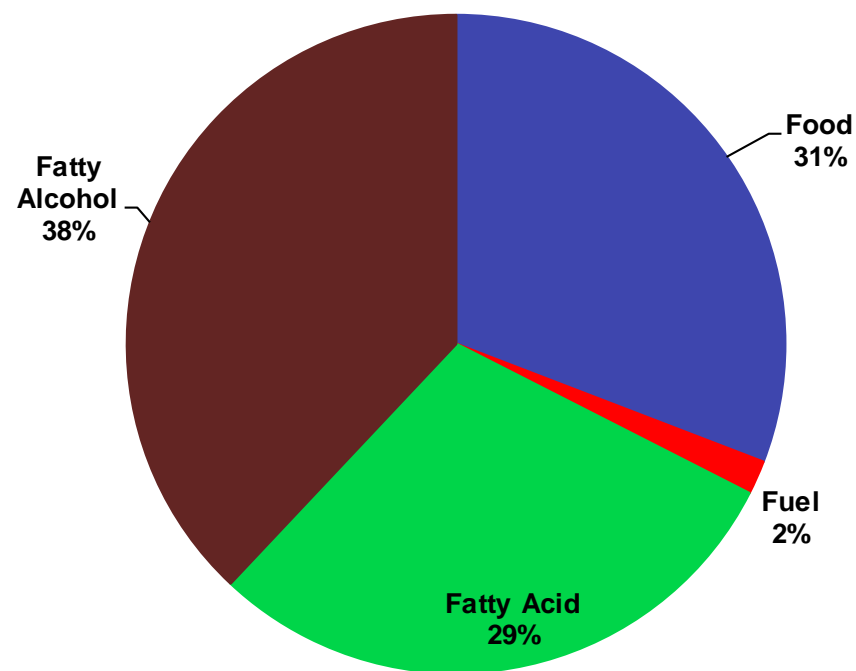


- Historically coconut oil use in the Philippines has followed its premium over imported olein (which is subject to a 12% import tax and 10% VAT)
- It has become apparent, however, that palm olein has replaced coconut oil permanently within the Philippines.
- This is making it very difficult to dispose of excess copra stocks.

Oleochemical demand has been weak

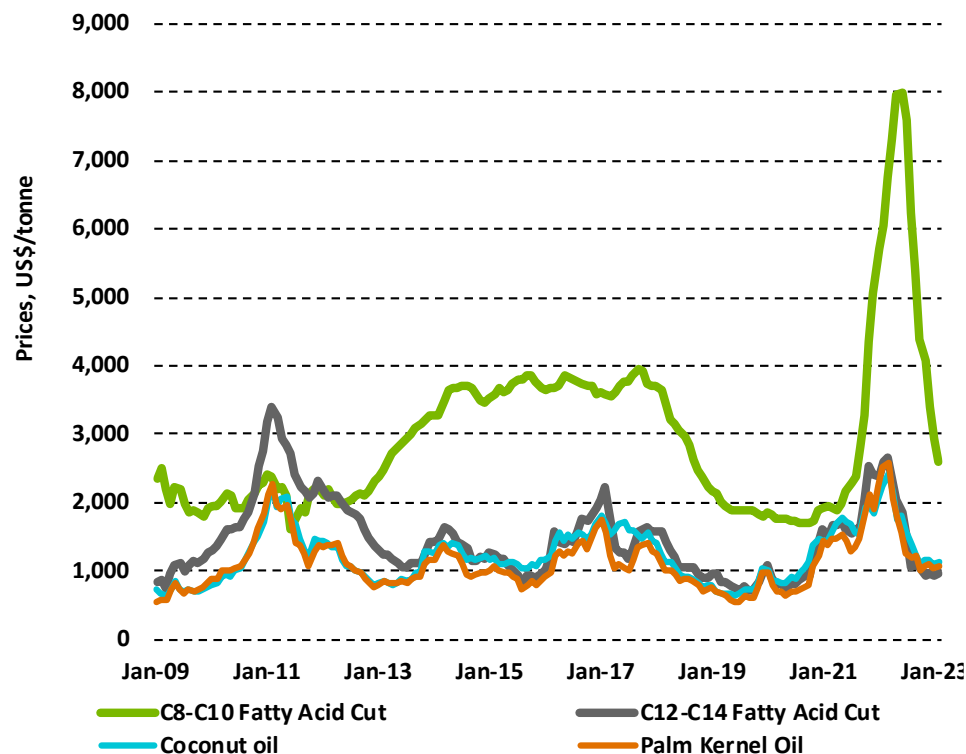
- The majority of lauric oils are used as oleochemicals (fatty alcohol and fatty acid). A very small amount is used as biodiesel in the Philippines.

Share of lauric oils by main end use, 2022



- Oleochemical demand has been weak due to reformulation and economic uncertainty. Short chain fatty acids (C810) prices have now collapsed after an impressive rally.

Coconut oil and palm kernel oil prices alongside fatty acid cuts, US\$/tonne



1. The overall outlook for coconut oil production is weak due to stagnating growth in coconuts and an increase in demand for coconut products other than copra.
2. Coconut water, virgin coconut oil and desiccated coconut exports account for limited volumes in terms of coconuts. However, growing domestic coconut milk consumption is a major competitor for coconuts in certain regions (depending on transportation costs).
3. The recent increase in coconut oil output was primarily due to fantastic weather conditions (as well as some replanting) in the Philippines.
4. A combination of high export taxes on palm kernel oil in Indonesia and record exports pushed coconut oil to an unprecedented discount over palm kernel oil.
5. Today there is still a surplus of copra in the Philippines with suppliers finding it difficult to convince refiners to switch to coconut oil despite it being cheaper than palm olein.
6. The outlook for oleochemical demand is also weak reducing overall lauric oil demand.
7. Coconut oil has distinct functional and sustainability advantages over palm kernel oil which should encourage demand.
8. An increased focus on contaminants (MOSH/MOAH) and certification threaten to reduce those advantages.
9. In the next 6 months the market will continue to need to digest the oversupply of coconut oil and recover from demand destructions keeping prices in line with CPO. Beyond six months a rally will occur, possibly triggered by a major weather event.

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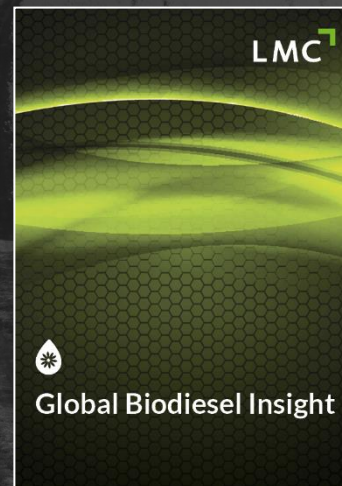
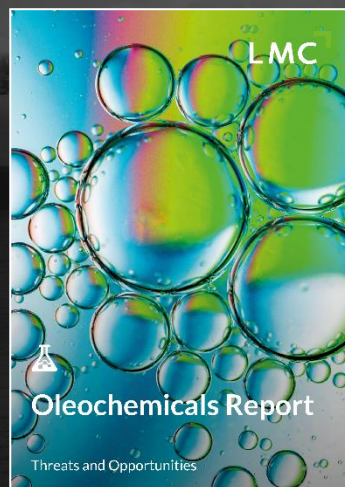
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