Rabobank expects bearish palm oil fundamentals to continue providing downward pressure to palm oil prices in 2018, potentially affecting South-East Asian palm oil companies’ earnings. Despite this, a brighter outlook for lauric oil prices—which includes palm kernel oil—could help to soften earnings pressure for these companies, especially for palm oil companies who largely focus on upstream plantation business.

Increasing global demand for coconut products

Coconut oil (CNO) and palm kernel oil (PKO) are categorised as lauric oils, as both consist to a large degree of lauric acid: approximately 50 percent. Prices for both vegetable oils are highly correlated, as they have similar properties and can substitute one another.

Global demand for coconuts has increased exponentially in the past few years, on the back of increasing demand for coconut products such as coconut water, coconut sugar, and virgin coconut oil. This leaves the oleochemical industry fewer coconuts to be processed for their oil. The combination of increasing coconut product demand and an aging coconut tree population in major producing countries has resulted in increased prices over the past few years. For example, in Indonesia, the price of fresh coconut fruit increased from around IDR 3,000/piece (US$23/piece) in 2012 to around IDR 8,000/piece (US$60/piece) in early 2018.

The world produces sufficient quantities of lauric oils (see Figure 1). Yet the rise in coconut prices has resulted in an increased CNO price—more than doubling over the past five years—which, in turn, drives the PKO price up (see Figure 2). Rabobank expects global coconut prices to remain supported in the short to medium term, as it will take a few years before the rehabilitation of old coconut trees in major producing countries becomes effective.

**Figure 1:** The world has sufficient supply of PKO and CNO, with supply exceeding consumption for six consecutive years, 2012/13-2017/18f

Source: USDA, Rabobank 2018
Stable demand for lauric oils in 2018

Lauric oils are mainly used in the oleochemical industry, due to their high lauric acid content. According to the USDA, industrial usage accounts for about 75 percent and 49 percent of global 2017/18 PKO and CNO application, respectively (see Figure 3).

Other than price support from increasing coconut products, Rabobank expects an almost stable lauric oil demand from the oleochemical industry to continue to support demand for CNO and PKO, thereby providing support for their prices.

Lauric oils are also used in the food industry (for example, to produce margarine, specialty fat, ice cream, chocolate, etc.), and the increasing use of cocoa butter substitutes (CBS) by the chocolate industry drives a rising demand, especially for PKO. Rabobank expects global cocoa prices to increase in 2018 (see our Outlook 2018: Good Buy, Low Prices), which should lend support to global cocoa butter prices in 2018 and keep PKO attractive as a CBS.