



Supply Update 2Q 2022

1) Oil prices remain high

Uncertainty still the main culprit for the recent run-up in prices and the war between Russia and Ukraine made it worse. Several reasons are cited below:

- a) The war between Russia and Ukraine has created the greatest global uncertainty since the outbreak of Covid in 2020. This geopolitical risk is a major threat to world stability. Crude petroleum oil prices have spiked up to \$140 a barrel in the first few days of the war. Recently, crude oil prices have settled around the \$100 per barrel area.
- b) Vegetable prices exploded recently. Ukraine and Russia supply a significant volume of seed oils, particularly sunflower oil. The embargo on Russia has limited supply and the war in Ukraine has aggravated the shortage. Supply chain is the main problem. Established logistics routes were cut due to the ongoing war.
- c) Having one of the major vegetable oils affected by the war created ripples in other vegetable oils. Palm, coconut and soy oils spiked. Prices have hit record highs in March. Since there's no end in sight with the war, elevated prices are seen to last throughout 2022.

2) Palm kernel oil still leading the vegetable oil charge

Though palm oil prices have declined from recent highs, it's still the most expensive vegetable oil in the market. We're now approaching the seasonal production of palm oil Southeast Asia. This helped soften palm oil prices from recent highs. Several reasons were given why there was an unusual price surge on palm oil. 1) uncertainty on sunflower oil due to the Russian invasion of Ukraine, 2) South America seems to be experiencing drought which will affect soybean crop thus trigger a spike in soy oil, and 3) Indonesia's Widodo administration policy limiting the exports of palm.



3) Effects of the global shipping crisis continue to be a burden

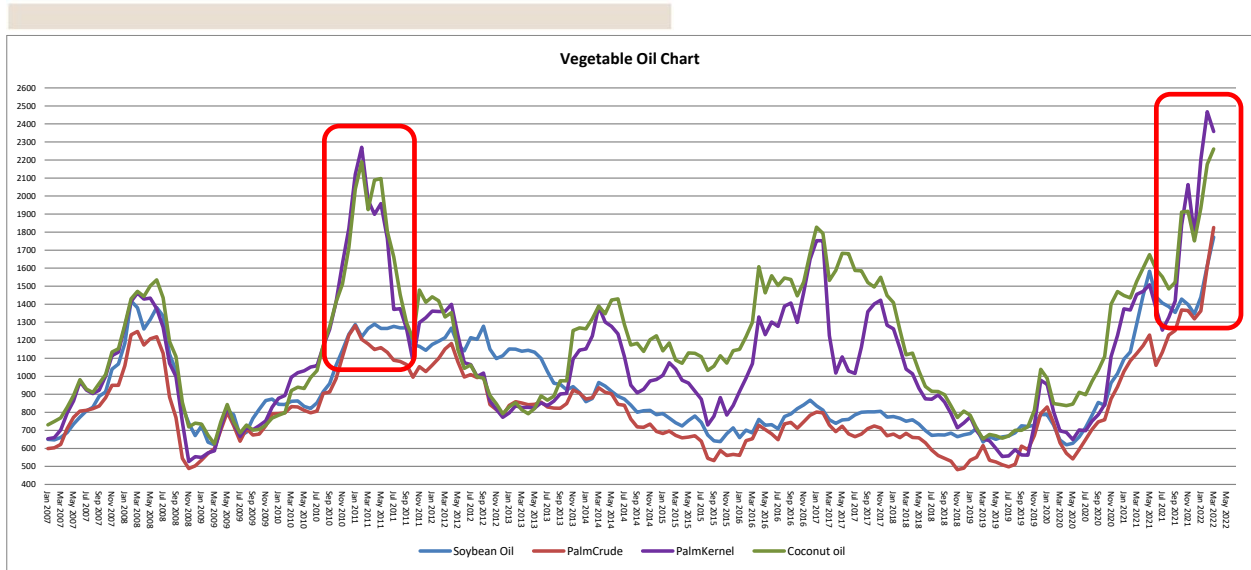
Expect container shipping cost to remain elevated until mid-2023. This will affect consumer prices and economists are worried about runaway inflation.

As the world continues to open, the imbalance between supply and demand has pushed container prices to sky rocket. Shipping lines are making tons of profit but most business were caught off-guard. Due to complex global supply chains, most businesses were not as quick to rebound and restock on their inventories. The sudden rush of orders has drained the container space accessibility. Logistics issues range from shipping delays to raw material availability.

Based on the global index of container shipping prices, a 40 foot container now costs \$10,000 versus approx. \$1,500 before the pandemic. With the ongoing Russia-Ukraine war, crude oil prices will remain high, thus, fuel cost will remain high. Shipping lines have more reason to keep their shipping prices high, if not higher. **(Note: The global index of container shipping prices indicate rates have increase by almost 7 times – in our case containers that pre-pandemic cost \$4500 now cost in excess of \$ 19,000)**

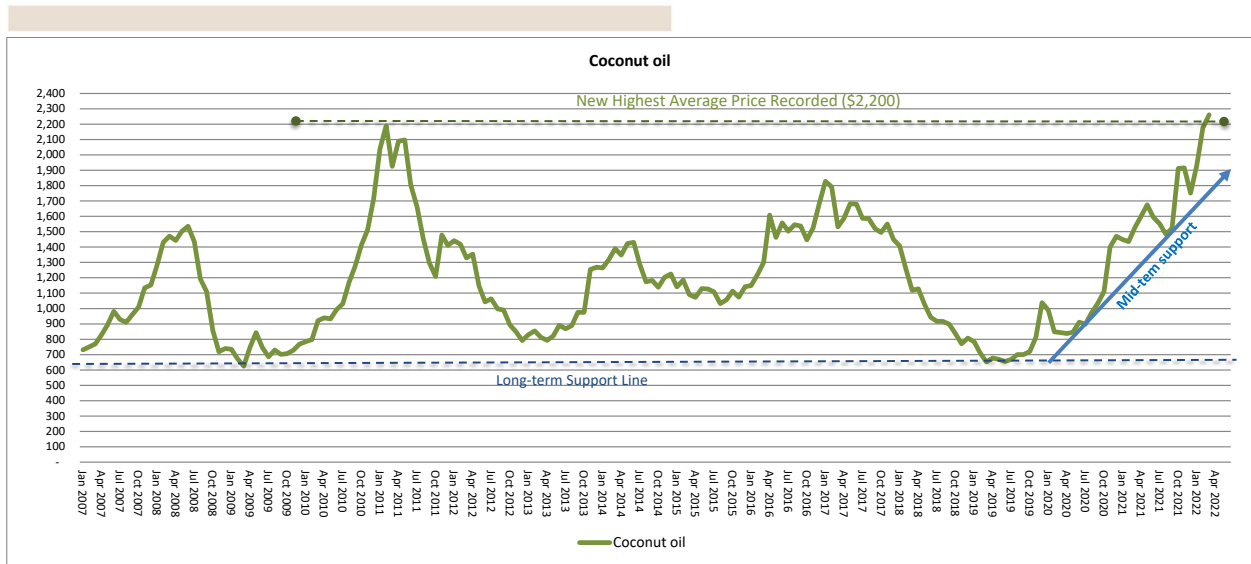
4) Vegetable oil price continue to surge.

Palm Kernel Oil and Crude Coconut Oil have broken previous highs in 2011. Prices broke the \$2,000 per MT levels and are staying in that area. This breakout has surpassed the 1H of 2011 where prices were at record levels at that time. As reported previously, there's a huge similarity in patterns. The run up in Q3 2008 lasted until Q3 2011. That's 12 consecutive quarter of price increases. The start of this bull run was Q2 2020. This new run is predicted to end in 2023 but may extend until 2024. We can expect vegetable oil prices to stay at elevated levels in the near future.



5) Coconut oil price has pierced thru the \$2,000 per MT mark.

As earlier predicted, coconut oil price has kept its momentum this 2022. CNO price has surpassed its record highs in 2011. Coconut oil price briefly touched the \$2,400 per MT mark in March. As mentioned in earlier estimates, CNO price is expected to remain high in 2022. You can notice how steep the mid-term support line is. If prices do soften, prices will be supported by that line. On the other hand, the coconut oil price has broken the \$2,000 mark. And if the same momentum is kept, its anyone's guess how high the price may go.



6) Desiccated Coconut Market

Desiccated prices remain firm with a strong upward bias. Recently, very stiff competition for limited raw material exists among both desiccators and oil millers. The first quarter of the year is seasonally low when it comes to coconut harvests. The peak harvest season typically starts in the 3rd quarter of the year thus the price of coconuts is still high this second quarter. In the face of continuing strong demand by major markets, a strong pressure for commensurately higher prices is being felt by all desiccators. This is expected to be the situation this 2022. Then, add the unending freight rate increases and you end up with exorbitant CNF prices. To add salt to the wound, these same shipping lines asking for high prices are not delivering the goods on time. A lot of stocks are stuck in their ships. Thus, the major importing countries are still experiencing a shortage of goods. Supply chain disruption is expected to continue well into 2023 as there is no end in sight for this shipping crisis. So, whatever inventory on the floor for these importing countries is as valuable as diamonds right now. As mentioned above, freight has increased tremendously in 2021 and freight price is not seen to soften in 2022. This adds further pressure for DCN prices to increase.