



Supply Update 3Q 2022

1) Vegetable Oil prices dropping – UN FAO report

In September, the Food and Agriculture Organization of the United Nation reported significant price drops for several food commodity prices. Vegetable oils was not spared from this drop. In fact, a number of vegetable oils saw double digit percent declines versus previous months.

The closely-watched FAO Food Price Index (the barometer for world food commodity prices) averaged 138.0 points in August, down 1.9 percent from July, marking the fifth consecutive monthly decline since hitting all-time highs earlier in the year. This trend is seen to continue until year end if no catalyst comes into play for a reversal. The Index, which tracks monthly changes in the international prices of a basket of commonly-traded food commodities, nevertheless, remained higher than 2021 levels in the same period.

The FAO Vegetable Oil Price Index continues to decline. In August, a significant 3.3 percent reduction in the index was seen. The oil price index is now lower than August 2021 levels. On the other hand, soy oil prices increased as concerns on the bad weather experience in the US may impact supply. However, this bright light in the vegetable oil sector was put out by lower prices for palm, sunflower and rapeseed oils. Two significant factors are putting pressure on prices. For palm, Indonesia decreased export taxes therefore allowing more palm oil to be sold in the market. While for sunflower oil, the historic agreement letting Ukraine's port open for food export has increase supply in the market.

In general, prices for all types of oil fell month on month with palm oil prices leading the decline. Indonesia has reported plentiful palm oil stocks that are available for export. Remember, there was a threat by the Indonesian government to minimize export due to soaring prices in 1Q 2022. But, the more than expected output of domestic palm oil prevented this from happening.

The softening oil prices is welcomed by the international community. Nevertheless, uncertainties still remain – Ukraine-Russian War, Soaring Inflation and Global Supply Chain disruptions.

2) Plentiful lauric oil stocks

Last July 15, Indonesia lifted the ban on exporting palm crude oil and its derivatives. Thus, surplus stocks were available in the market. This sudden availability caused prices to crash. This also affected the coconut oil prices. Abundance of available palm kernel oil and the peak season for coconut harvest have contributed greatly to the decline in prices. 3Q is typically the peak harvest season for coconut in the South East Asian region.

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With the abundance of inventory in Indonesia, palm oil producers are selling their stocks at hefty discounts creating a buyers' market. Most of the sales are targeted at India where there's an upcoming festival in Oct which creates a spike in demand.

Please note that palm oil export levy waiver was extended up to Oct.31 only. There is still no pronouncement if that'll be extended further.

3) Slowdown in Global Shipping demand

In the 1st week of August, Maersk made a surprise announcement. They predicted a slowdown in global shipping demand. This is attributable to 2 factors – waning consumer confidence (due to soaring inflation) and supply chain disruptions.

Maersk has become a global indicator for the health of international trade. There was a noticeable drop in container volume this year versus last year during the same period. Soaring inflation, bludgeoning energy prices and bleak economic outlook will be affecting demand for 2H 2022. Bottomline, these factors are negatively affecting consumer sentiment.

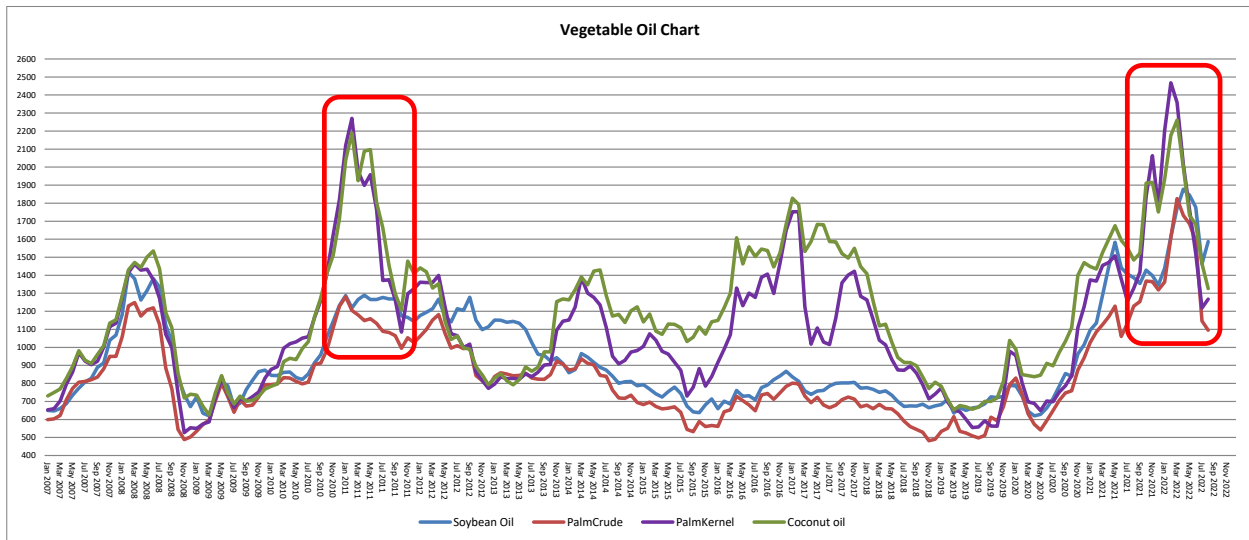
The US and Europe are now experiencing port congestion due to a lot of containers are staying at port and not being picked up. Warehouses are still full of inventory which are not moving as consumers are tightening their belts for the expected recession.

September has a similar story. Freight rates have continued to drop. Global trade volumes are still slow which is due to decreasing demand for goods. Supply chain problems are steadily being solved which also helped ease prices.

Thus, it can conclude that prices of freight will remain stable in the foreseeable future.

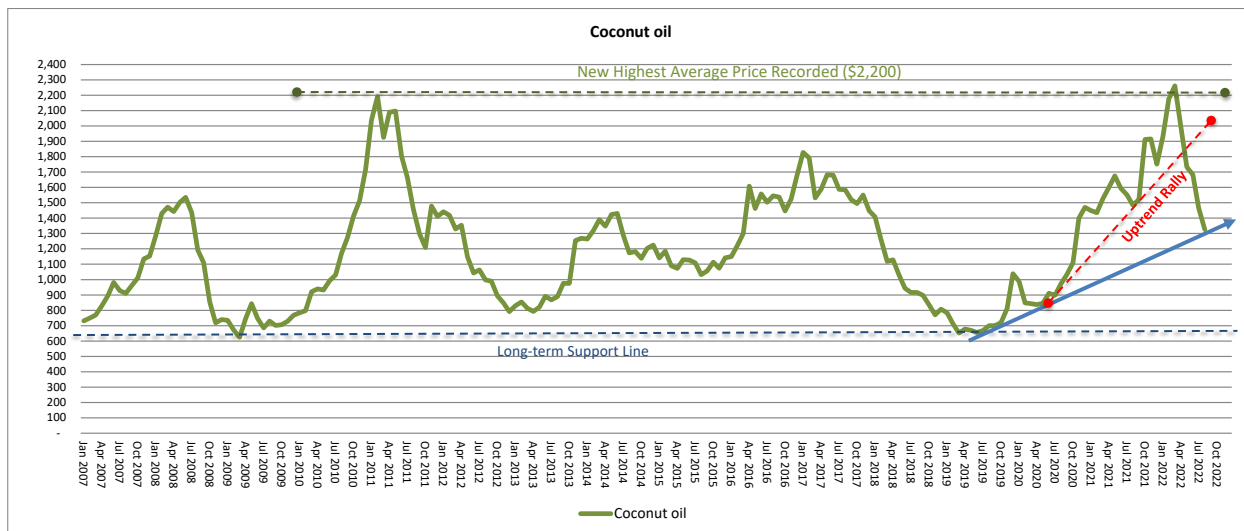
4) Vegetable oil price breaks down

Price of all vegetable fell across the board. From Jan to April 2022, Palm Kernel Oil and Crude Coconut Oil have touched and even exceeded highs in 2011. It's a different story as of late. Prices have dropped significantly. Palm oil had a more significant drop than coconut oil due to that Indonesia opened palm exports earlier than expected. The premium of coconut oil over palm is back at normal levels. This behavior shows similarities with the 1H of 2011 where prices were at record levels at that time then dropped quickly. This bull run is over.



5) Coconut oil price has dropped to the \$1,300/MT level

Coconut Oil prices are back to more manageable levels... CNO had a strong rally starting April 2020. This bull run was started when plants shutdown due to Covid. Supply became scarce thus, prompting price to soar. The end of the bull run was in April 2022. It was a good 2-year run. With the economist fearing a global recession is in the offing, prices have started to drop. We can expect prices to stabilize at these levels. If not, price may hit historical lows like what was experienced almost a decade ago. Yet, uncertainties still remain which makes it hard to predict where prices will be in the next 3 to 6 months. The end of the Ukraine-Russian War is nowhere in sight. Soaring inflation is hitting the wallets of consumers. And the Global Supply Chain crisis is not yet fully over. We need to carefully watch these 3 to see where prices will be headed.



6) Desiccated Coconut Market

Desiccated prices softened versus recent highs. The peak harvest season typically starts in the 3rd quarter of the year. In anticipation of that, prices of coconuts started to decline which desiccators passed on to customers. The earlier prediction that prices will remain elevated in 2022 was debunked the moment the fear of global recession was broadcasted by well know economists. Desiccators, as well as other manufacturers, are still trying to understand how the new global economy will be post-covid. Today, shipping is still a concern and supply chain disruptions are expected to continue well into 2023. If only everyone had a crystal ball, prices would be easier to predict. But we're all human, so it's anybody's guess right now where prices are headed. It's a matter of taking risks!