



Supply Update 3Q 2023

1) El Nino is here!

Today, July 4, the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA - Philippine's weather bureau) has officially declared that El Niño is happening in this side of the Pacific. In the press conference, PAGASA noted that it may be weak now but all the signs point to it strengthening in the coming months. As this increases the probability of below average rainfall, the Philippine government has drafted measures to address the possible effects on the agriculture industry. However, the severity of this El Niño is not yet known but it is predicted to have a significant adverse impact to all agricultural products. Everyone is advised to prepare for the worse. Forecasters expect conditions to worsen towards 4Q 2023 and well into 2024.

PAGASA reported that droughts will occur initially in coconut producing areas along the Pacific seaboard of the Philippines - South Leyte and Camarines Norte (Bicol region). For the past 5 months, below normal rainfall was already experienced in these regions. Dry spells (3 months of below average rainfall) are expected to hit most of Luzon (Philippine's northern island) while a dry condition (3 months of below average rainfall) will hit most of the Mindanao ((Philippine's southern island). Rains are foreseen to be less in 2H 2023 versus previous years. It will certainly impact agriculture and, notably, coconut yields from trees are expected to decrease. All these areas are primary coconut producing areas and we might expect tightening supply starting Q3 and perhaps getting more severe this Q4 2023. For the past 3 years, abundant rain was experienced due to the La Niña effect. Those glory days are over. El Niño is back! As defined by the World Meteorological Organization (WMO), El Nino is a natural phenomenon that happens in cycles. Cycles are typically from 2 to 7 years. It is categorized as the presence of warmer than normal sea surface temperatures which affects the Pacific Ocean. The most concerning effect of this is the drier weathers brought to Western Pacific Countries like the Philippines and Indonesia. While some countries may experience above normal rainfall, most may have severe droughts. This is disconcerting for everyone in the coconut supply chain. As we all know, both these countries are the biggest exporters of coconut - related products. A dry spell hitting these countries coconut farms spells disaster for the whole value chain.

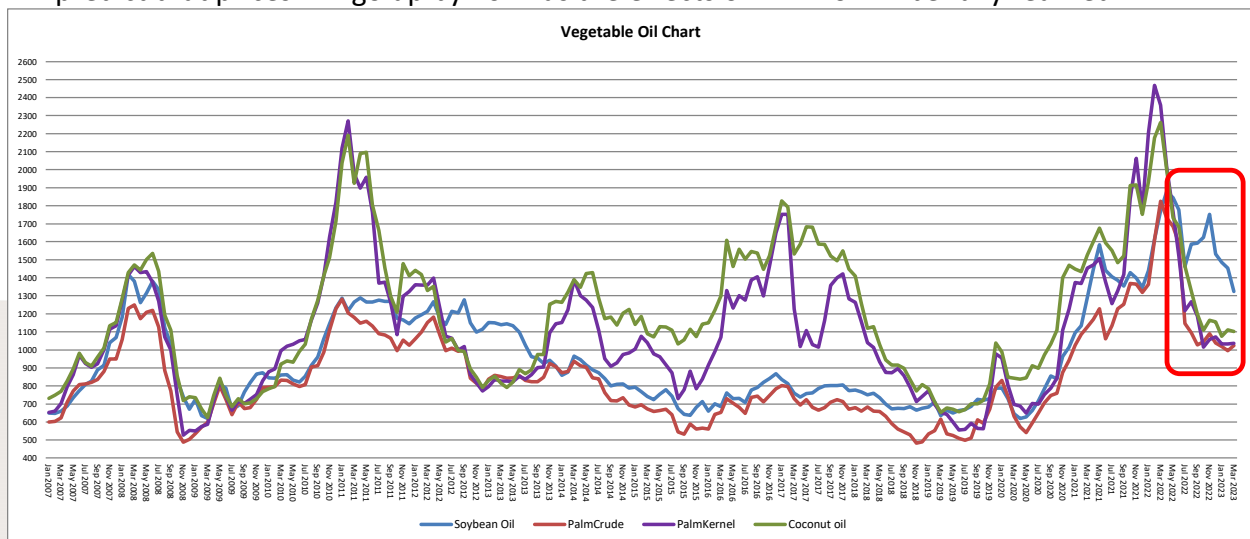
2) Vegetable Prices – the calm before the storm

Fears of recession shook the whole vegetable market towards the end of 2022. Due to bleak outlook on demand, price of all vegetable plunged from the highs in 2022. Price fell across



the board except for soy oil which experienced small uptick Oct 2022 but has also been on a downtrend lately and has stabilized at the \$1,200 to \$1,300 range.

For the lauric oils, palm and coconut, prices have probably bottomed out at the current levels. Both have remained stable and oscillates close to \$1000 per MT. This might be due to market players considering the possible effects of El Nino in South East Asia, the belly of palm and coconut trees. Based on past experiences, harvests are less during El Nino. Yields in 4Q will not be as generous as previous years and may worsen come 2024. There is a big question mark where prices will go in the next 6 months but most of the market players predict that prices will go up by 2024 as the effects of El Nino will be fully realized.

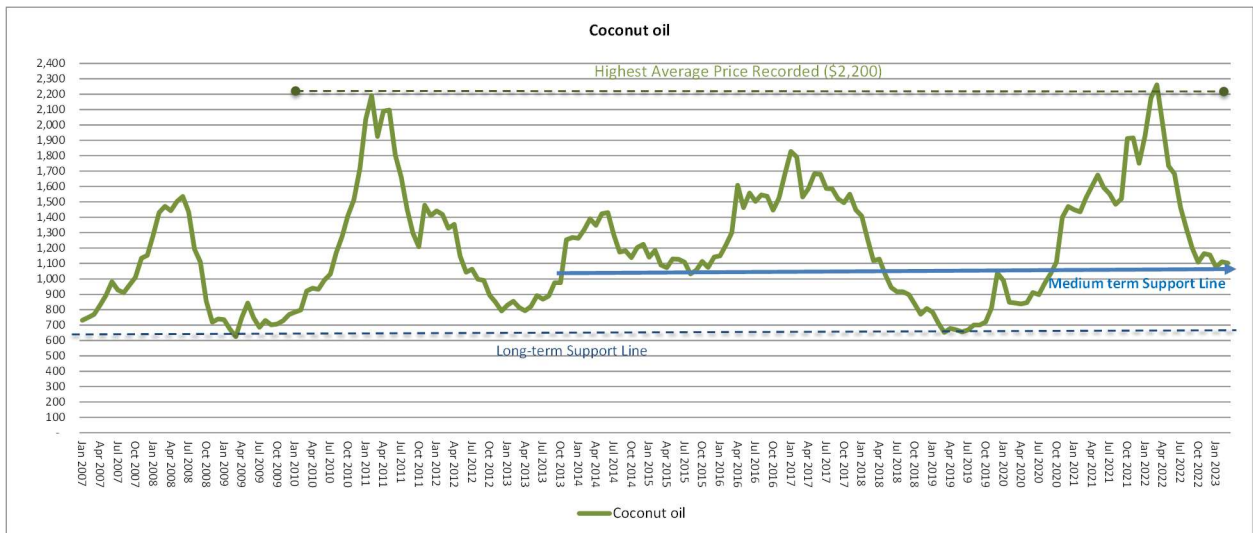


3) Coconut oil price hovering at \$1,000/MT level

After the steep plunge from March 2022 highs, coconut oil prices are back to more manageable levels. Coconut oil prices have ranged from \$1,000 to \$1,100 since the start of 2023. There seems to be a new support forming at these levels. The psychological support of \$1,000 is holding despite the expectation of El Nino hitting this 2H of 2023. This can also be the same reason prices are supported at this level even if a recession (lower demand) is expected. But the news on El Nino may jolt markets as supply is predicted to be less in the coming quarters.



Uncertainties on the severity of the El Nino remains. This makes it difficult to predict where prices will be in the next 6 months. We will leave it up to Mother Nature to see where we will end UP!



4) Desiccated Coconut Market

Though the peak harvest season typically starts in the 3rd quarter of the year, the possible effects of El Nino continue to support prices at current levels. In anticipation of El Nino, prices of coconuts are basically where they were at the start of the year. Prices in 2023 continue to remain depressed due to the continuing fear of global recession but that may not last due to El Nino's adverse effects on agricultural products. The stability of nut harvests may significantly decline in Q3 and Q4 and possibly early 2024 if coconut flowers wilt due to the heat and dry conditions. Desiccators, as well as other manufacturers, are still trying to re-asses the possible impact of El Nino on harvests. Nut cost may be meaningfully higher moving forward. As obstinately high inflation perseveres, production costs are elevated. Manufacturers have no other recourse but to pass on cost to consumers once the negative effects of El Nino are felt.