



Global Cooking Oil Market

In light of recent reports of cooking oil refineries running short of dollars to cover their imports, we decided to look at events shaping the global cooking oil industry. Kenya is Africa's second-largest importer of crude palm oil after Egypt with the majority of the supply coming from Malaysia and Indonesia, 53.33% and 35.03% respectively in 2021. Vegetable oil is a highly imported commodity by most countries and as such is susceptible to global trading shocks.

Due to and during the ongoing crises, major vegetable oil exporters turned to protectionist policies to safeguard their food security. This has caused increased price volatility globally and increased the vulnerability of already food-insecure nations, especially in Africa.

Market segmentation - The global vegetable oil market can be classified by product type, with Palm oil (59.72%), Soybean oil (15.61%), Sunflower oil (13.01%) and Canola oil (6.95%) accounting for the lion's share of global vegetable oil consumption in 2021. Palm oil is the most distributed cooking oil globally with India (17.14%), the European Union (12.74%) and China (10.98%) with the highest consumption. These markets do not produce their own crude palm oil, hence their demand is wholly met by imports.

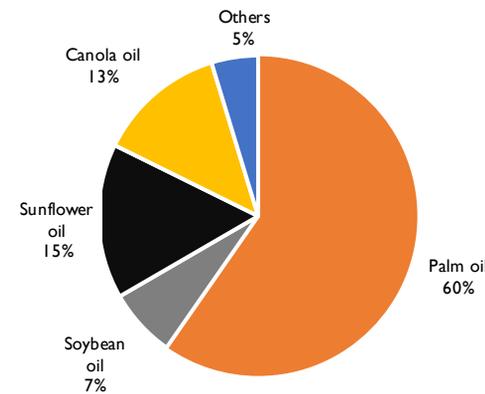
Classification by suppliers - Major soybean oil demand is supplied by Argentina (45.72%), Brazil (15.31%), the EU (8.57%) and the United States (6.38%). Canola oil's major exporters include Canada (47.69%), Russia (15.59%) and the EU (9.63%). Sunflower oil is majorly supplied by Ukraine (42.61%), Russia (31.34%), Argentina (7.35%) and the EU (6.61%) in 2021.

Table 1: Vegetable Oil Prices

Current Vegetable Oil Price/Litre	
May-21	KES 252
May-22	KES 371
y/y Change	47.22%
Jun-22	KES 410

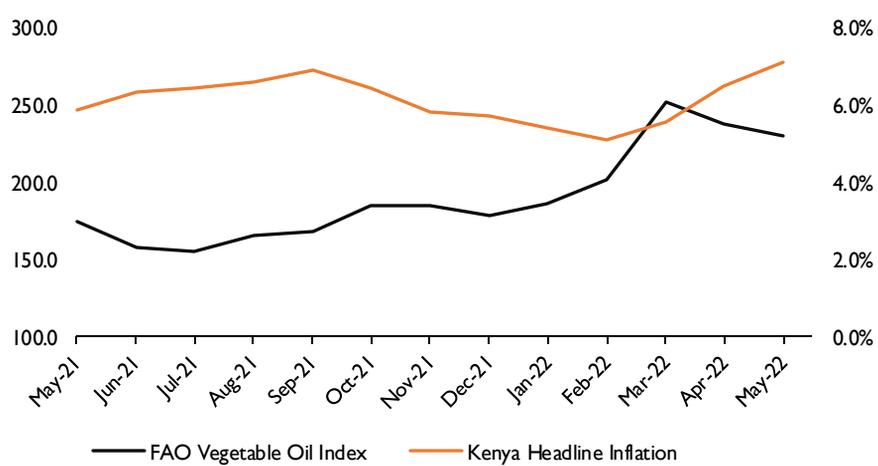
Source: KNBS, AIB-AXYS Research Estimates

Chart 1: Vegetable Oil Market Segmentation



Source: US Foreign Agriculture Service

Graph 1: FAO Vegetable Oil Index vs Kenya Headline Inflation



Source: KNBS, FAO

FAO Vegetable Index – Base 2014-2016 = 100 Kenya Inflation – Base 2019 = 100

Table 2: Summary of current situation

Type of Oil	Largest Producer	Underlying Challenge
Soybean Oil	Argentina	Drought / Export quota
Canola Oil	Canada	Drought
Sunflower Oil	Ukraine	Russian Invasion
Palm Oil	Indonesia	Export ban and quota

HOW DID WE GET HERE?

1. Pre-Russia-Ukraine War

Before the Russian invasion of Ukraine, the global supply of vegetable oil was already depressed due to a variety of factors:

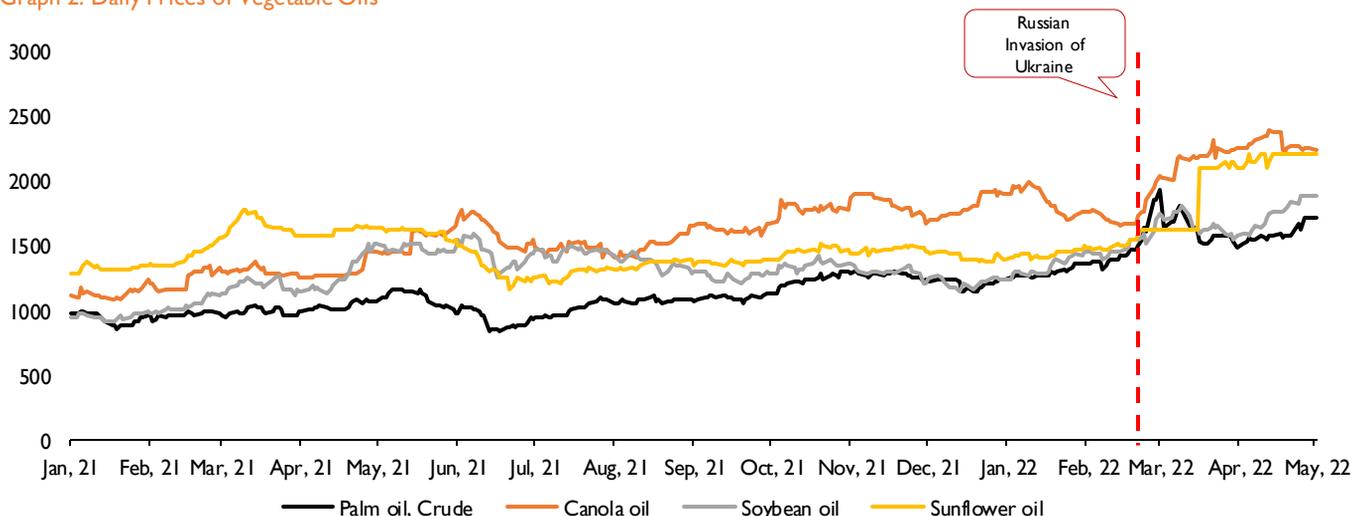
- **Soybeans** – Poor climatic conditions in South America through drought negatively affected soybean production in Argentina, Brazil and Paraguay leading to a projected 5.00% reduction in volumes in 2022 compared to the 136 Mn Metric tons produced in 2021.
- **Rapeseed (Canola)** – Drought conditions in North America saw Canada's canola oil production fall by an estimated 35.00% leading to a subsequent decline of 50% in exports compared to 2021.
- **Palm Oil** – The occurrence of Typhoon Rai in December 2021 and an acute labour shortage worsened by pandemic restrictions on worker mobility drastically affected Malaysia's production of palm oil downwards to 18.00 Mn Metric tons.

2. Post Russia-Ukraine Invasion

Post invasion the increase in vegetable oil prices has hit record highs, negatively affecting net importers, especially in low-income countries including Kenya. Both Russia and Ukraine supply 80.0% of global Sunflower seeds with the war disrupting farming and processing in Ukraine. Other factors driving higher prices include;

- **Russia Trade Sanctions** – international business sanctions against Russia and the imposition of an export quota on sunflower oil by authorities in Russia have further weighed down on the global supply of sunflower oil.
- **Argentina Tariff Change** – In mid-March 2022, Argentina announced an export ban on soybean oil, later reversing this decision on March 31st, and increasing the export tariffs by 300 bps to 33% for soybean meal and soybean oil.
- **Indonesia Export Ban** – At the end of April 2022, Indonesia announced an export ban on crude and refined palm oil which was later reversed and instead imposed quotas to ensure 10 Mn Metric tons are kept locally.

Graph 2: Daily Prices of Vegetable Oils



Sources: Palm Crude oil: Malaysian Board daily price; Canola: Rotterdam spot prices; Sunflower oil: India CIF Mumbai price, AIB-AXYS Research

The Kenyan Situation

- Locally the retail price of cooking oil per litre has nearly doubled within the year. The price increased by 5.3% month-to-month to **KES 370.71** per litre in May 2022, in line with soaring inflation of 7.10% during the month. The largest vegetable cooking oil refinery by market share, **Pwani Oil**, recently announced the temporary shutdown of its oil plant due to an acute shortage of crude palm oil, currently solely sourced from Malaysia, attributed to difficulties in obtaining dollars to meet suppliers' dues in the increasingly competitive market. **Kapa Oil Refineries Ltd** have likewise, ceased operations citing the shortage of palm oil.
- The cooking oil manufacturer's claims came at the heels of similar concerns by the Kenya Association of Manufacturers (KAM) that persistent dollar shortages in the country have mushroomed a parallel exchange rate market above the CBK's official rates; and commercial banks had, in April, imposed caps on dollar purchases. The vegetable oil refineries have indicated that they will seek dollar payments from their distributors and customers going forward, in a bid to seek a reprieve from the current situation.
- On the other hand, the Central Bank and National Treasury remain adamant that the dollar supply in the market is adequate, dismissing KAM's and Pwani Oil's claims. The CBK's forex reserves remained adequate, above the East African Community's (EAC) recommendation of 4.5 months of import cover, and Kenya's statutory requirement of four months, at **4.89 months** of import cover of **USD 8,219Mn**. The reserves are mainly used to service government debt repayment and essential government imports.

Conclusion

- Locally, increased dollar demand in the wake of increased energy and commodity prices remains a threat, especially if unmatched by dollar inflows from our largest foreign exchanges: tea, coffee and horticultural produce. With the Central Bank of Kenya (CBK) signaling reluctance on intervention in the dollar demand market for palm oil importers, we anticipate, further hikes in the prices of vegetable cooking oil amid reduced and competitive decreased supply. We view higher cooking oil prices (likely to touch highs of **KES 500/Litre** before the elections) to continue exerting inflationary pressure on the economy.
- The persistence of the current high prices of vegetable oils is directly dependent on the resolution of the conflict between Russia and Ukraine. Globally, we propose;
 - Suspension or easing of mandates for the use of edible vegetable oils in biofuels in order to alleviate some of the demand pressure on the commodity, lowering prices. Similarly, we anticipate that the export restrictions to the supply of palm oil, soybean oil and sunflower oil will be temporal and limited to the countries that have issued them, with the outlook for production projected to be positive following improved weather conditions in the current year.
 - Government and private sector investment in local production of cooking oil components so as to reduce import demand. Given the local climatic conditions are favorable and expected growth rate of global cooking oil demand this is likely to be a key export earner.

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