

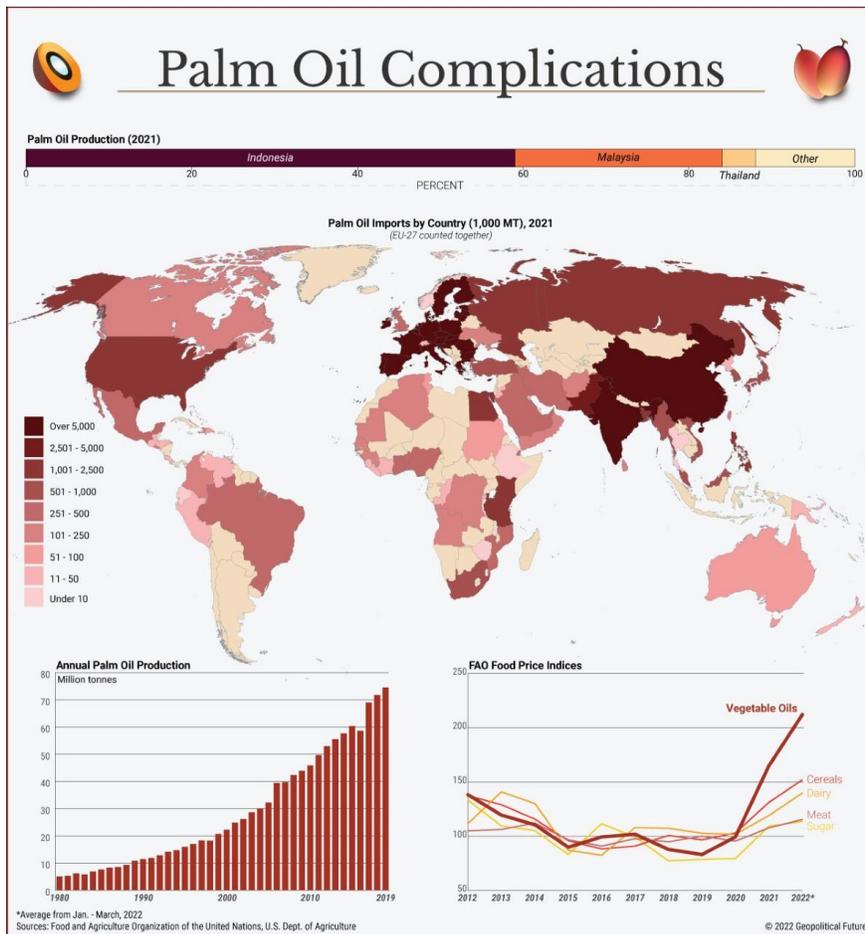
The Outlook: April 29, 2022

Main Street and the Great Palm Oil Crisis

When the world is anxious enough about anything, the media has a field day. It gives us endless headlines meant to inflame the anxiety. Two years ago, when the Virus exploded, at Outlook we remarked: “We’ll be seeing a great many frightening headlines and stories for a while—and very little calm, hard-headed analysis. When the dust has settled, if we ever bother to look back at those flaming headline stories we’ll be stunned at how wrong many of them were, and how little effort was made to look for “the whole picture.” But life goes on and we are all busy, all the time . . . so we probably won’t take the time to look back and make that stunning discovery.”

All that’s nothing profound. It’s just what happens surrounding every frightening event in history, pretty much.

Nowadays the “anxiety field days” surround those Big Worries we noticed a couple of days ago: Ukraine War, China Lockdown Umpteen, Supply Line Chaos, Recession Risk and Inflation. Of course they’re all linked together. A good example was this week’s “Palm Oil Crisis!” Here’s a picture to begin with. No need to scrutinize it. It means, “Everyone uses palm oil—from chocolate bars to soap to ice cream—and there aren’t all that many suppliers.”



Indonesia is the world's biggest supplier of palm oil, shipping about one third of global volume. So it was an anxious headline this week, when Indonesia announced a ban on palm oil exports. It felt a little like Saudi Arabia announcing a ban on oil exports: astounding and frightening at first glance . . . bewildering and senseless at second glance.

The government was responding to skyrocketing palm oil prices and shortages for Indonesian households. "We're coming to the rescue! No foreigners will get our palm oil; only Indonesian voters!" There aren't many politicians who could resist the urge to shout that message from the rooftop.

To us foreigners, of course, it felt like piling on: to the endless list of inflationary, supply-line-chaos events here came Indonesia adding another headache to the pile. But then today came, not a headline but a snippet buried in the financial press. It reported a fact: Indonesia produces 3 times the volume of palm oil that its own people consume. Whatever the reason for Indonesia's current shortage, it's not demand overwhelming supply—not even close. The problem is mainly simple inefficiency of local oil distribution chains, no doubt compounded by other elements of "Supply Line Chaos" which are tossing sand into the gears everywhere else in the world. That is, it's not a permanent problem.

But for Indonesia's farmers, who sell their palm oil to foreigners, it will be a disaster growing every day. And for those poor farmers' competitors—in Malaysia and elsewhere—it will be a gift from heaven, so to speak. With no extra effort, courtesy of Indonesia's political leaders, they'll find themselves making a lot more money. The old-fashioned phrase is: "Unintended Consequences." A more colorful version is: "The road to hell is paved with good intentions."

Political leaders blunder quite often. But quite a few of them—more than we might think—see their mistake pretty quickly and look for a graceful way out . . . quietly. China, for example, announced its outrage a couple of months ago that U.S. financial markets and regulators were insisting that Chinese companies follow the same audit and disclosure rules laid upon American and European companies. "We'll take our marbles and go home," was China's headline announcement. But they haven't exactly left yet. Instead they're having quiet talks with U.S. regulators about how to comply. At Outlook we'd be willing to bet the same thing will happen to the Great Palm Oil Ban . . . quietly, in a few weeks or months.

If we lined all the frightening headlines up in a row, surrounding today's Big Worries, we'd gasp for air and maybe fall into a dead faint. But if we somehow had the time to dig into last year's Frightening Headline List, and find out how a lot of them turned out . . . we'd begin to understand why Main Street USA and even Main Street World haven't rolled over and died in the face of all the anxiety. It takes a lot to stop Main Street. We doubt very much that it's stopping anytime soon.

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