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Indonesia

Grain and Feed Update

Indonesia Grain and Feed Update November 2017

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Report Highlights:

Rice supply and demand forecasts are unchanged from the last report, and only minor changes are made for wheat and corn. The Ministry of Agriculture continues to restrict corn and rice imports, causing domestic prices to be well above international levels. In 2016/17, the U.S. exported 1.2 million tons of wheat, accounting for 11 percent import market share.

Post:
Jakarta

Executive Summary: The PS&D estimates are largely unchanged from the last report. Most of the key developments in the rice, corn, and wheat markets were related to the market distortions caused by the Ministry of Agriculture's (MOA) continued self-sufficiency campaign. MOA's self-sufficiency drive for rice and corn is characterized by clumsy market interventions, import restrictions, and overly optimistic domestic production forecasts. Despite MOA's continued robust but dubious reports of planted area and output expansion, corn and rice area and production forecasts are unchanged from the last report. With the import restrictions maintained, and no changes in consumption forecasts, the rice PS&D is unchanged from the last report. Wheat feed use in 2016/17 is revised upward due to continued replacement of corn with wheat by poultry feed manufacturers. However, to further protect local corn production, MOA is reportedly developing plans to strengthen measures to prevent imported wheat from entering feed channels. The 2017/18 wheat import forecast is maintained. Corn imports are revised slightly higher due to additional demand from a new corn wet mill. MOA continues to ban corn imports for feed manufacturing.

SECTION I. SITUATION AND OUTLOOK

In a November 2017 report on the progress of rainy season, the Meteorology, Climatology, and Geophysics Agency (*Badan Meteorologi, Klimatologi, dan Geofisika, BMKG*) reported that the rainy season had begun in 61 percent of the country, while another 39 percent was still in the dry season. The peak of the rainy season is forecast for December through February 2018. In 2017, rainfall in most parts of Indonesia has been above average and higher than in 2016.

In accordance with several global meteorological organizations, BMKG is forecasting a 67 percent likelihood of a weak La Nina event occurring from the end of 2017 to March 2018. Rainfall forecast to be normal through at least the first quarter of 2018.

Chart 1. 2017/18 Forecast for Onset of Rainy Season

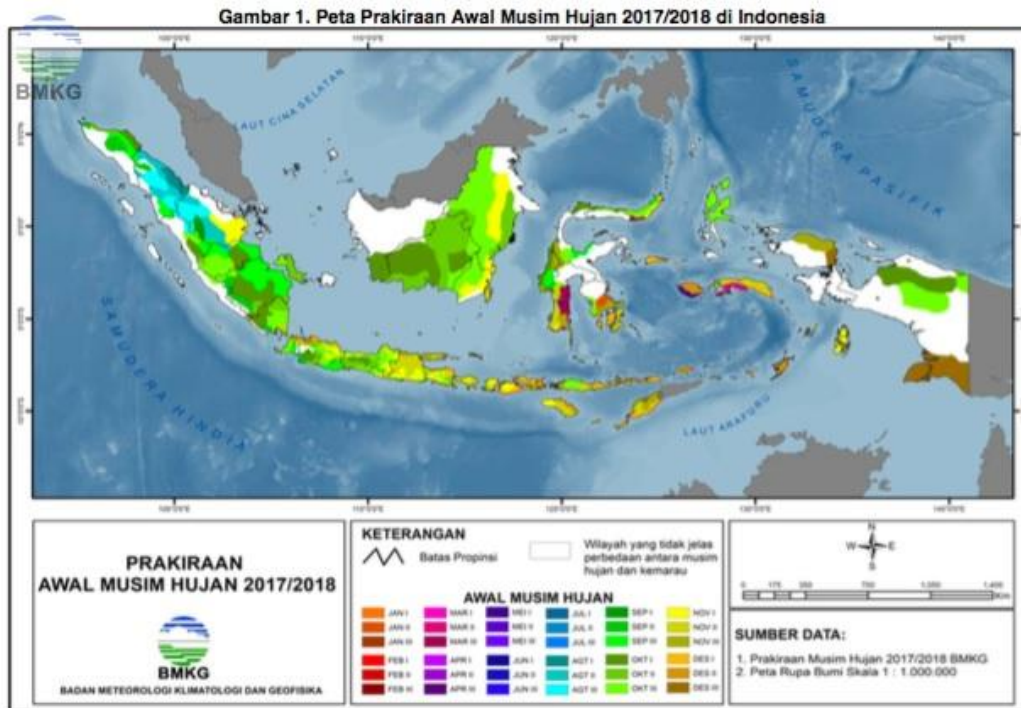


Chart 2. Forecast of Rainfall Intensity in December 2017

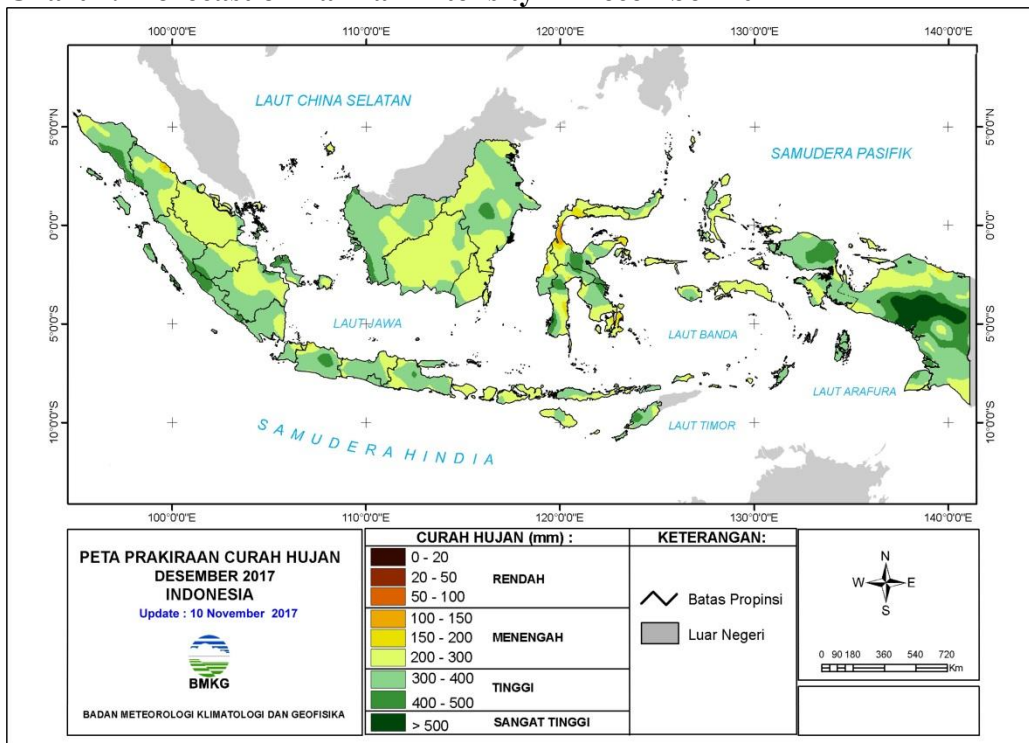


Chart 3. Forecast of Rainfall Intensity in January 2018

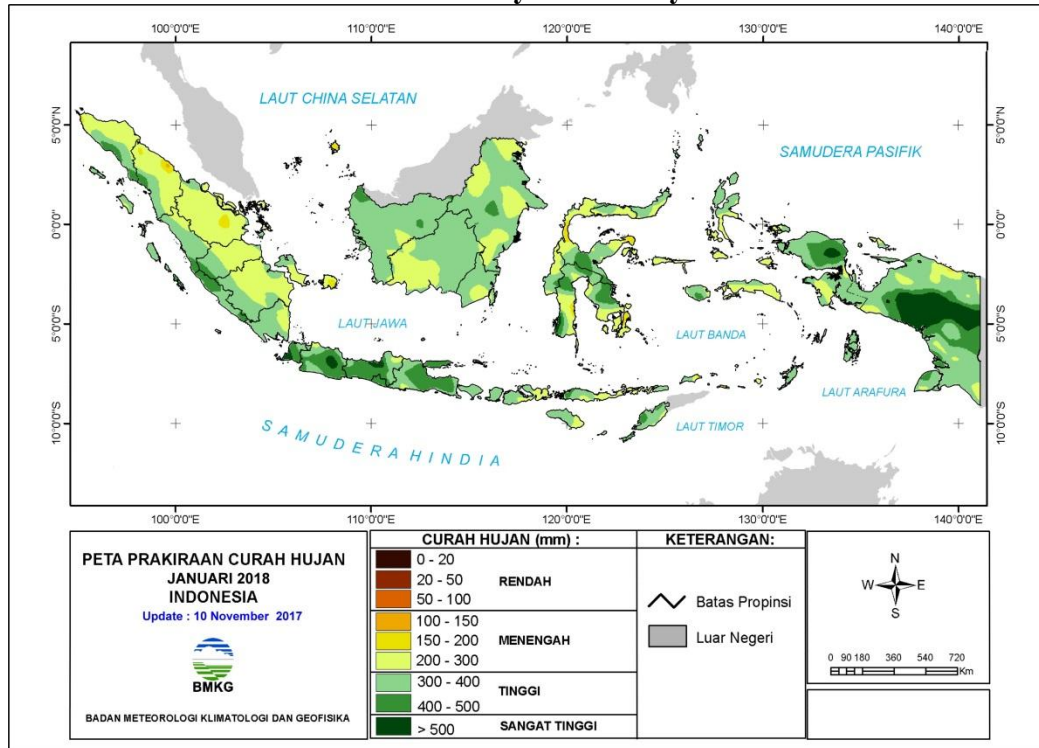
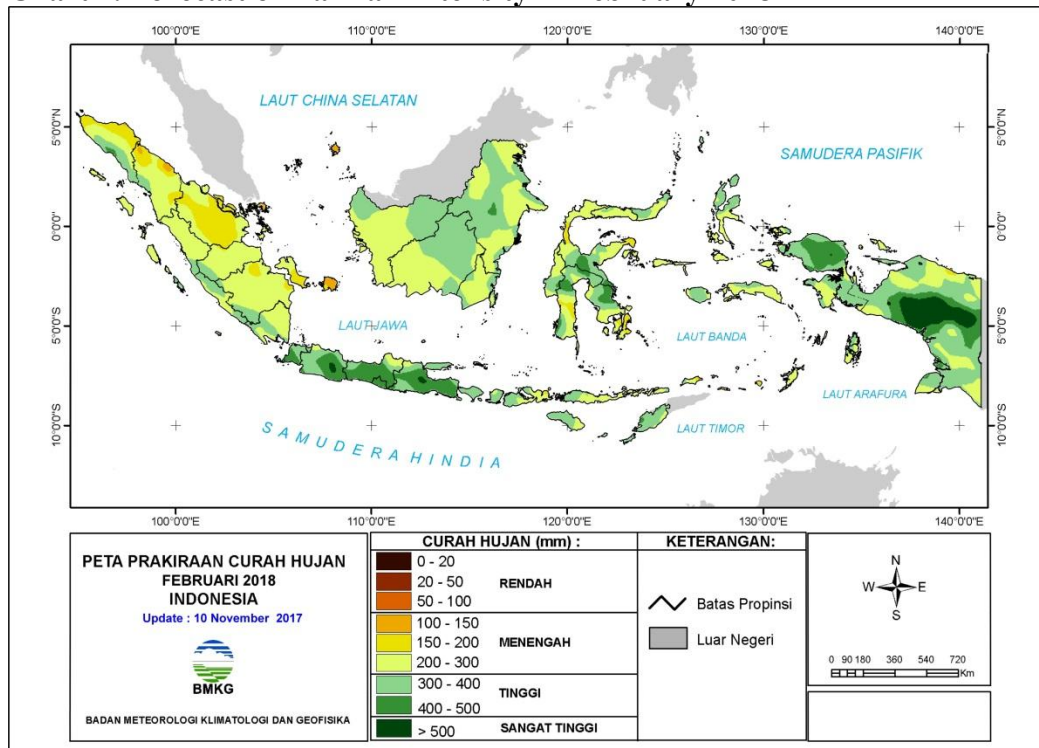


Chart 4. Forecast of Rainfall Intensity in February 2018



Source: BMKG

Average to above average rainfall during recent months, combined with the arrival of rainy season, has led to a rebound in water levels for most major reservoirs. (See Table 1).

Table 1. Water Elevation at West Java Water Reservoirs, August 31, 2017.

No	Reservoir	Reservoir Volume (Million m³)	Elevation and Volume				Res. Volume (% to target)	Condition
			Target		Observed			
			Elevation (m)	Volume (Million m³)	Elevation (m)	Volume (Million m³)		
1	Jatiluhur	2556.00	100.13	791.87	101.05	859.29	1.09	Normal
2	Cirata	973	212.39	283.91	212.05	268.03	0.94	Deficit
3	Saguling	875	635.47	226.69	635.15	217.11	0.96	Deficit
4	Kedungombo	723	90.00	688.41	87.76	599.87	0.87	Deficit
5	Batuteji	690	274.00	687.77	271.66	639.62	0.93	Deficit
6	Wonogiri	556	135.30	328.34	131.06	204.88	0.62	Deficit
7	Wadas Lintang	440	135.30	328.34	169.82	268.73	0.82	Normal
8	Sutami	343	269.47	144.86	266.93	144.84	1.00	Deficit
9	Bili-bili	305.00	84.04	80.49	93.68	183.56	2.28	Normal
10	Wonorejo	122.0	179.27	79.46	171.54	79.44	1.00	Deficit
11	Cacaban	90.00	77.50	49.02	69.93	12.70	0.26	Deficit
12	Kalola	70.00	39.20	66.25	39.64	72.04	1.09	Normal
13	Selorejo	62.3	617.41	27.08	617.67	27.09	1.00	Normal
14	Way Rarem	56.9	54.00	70.45	51.06	44.96	0.64	Deficit
15	Batu Bulan	53.1	60.00	51.94	53.27	20.12	0.39	Deficit
16	Ponre-ponre	49	201.75	17.82	215.75	48.16	2.70	Normal
Total		7,963.99		3,922.70		3,690.44		

Source: Ministry of Public Works, processed by FAS/Jakarta.

Note: "Deficit" indicates water levels lower than target, but above drought condition levels.

Wheat

Based on complete year trade data, wheat imports for 2016/17 are estimated at 10.291 million tons, slightly higher than the previous estimate of 10.176 million tons. The change is due to a slightly greater than expected increase in use of wheat for feed, and 2016/17 feed wheat use is increased to 1.8 million tons, accordingly. U.S. exports increased were 1.2 million tons in 2016/17, compared to 728,000 tons the previous year. Furthermore, for 2017/18, U.S. commitments (exports and outstanding sales) are up again about 50 percent.

Corn

GOI official reports showed remarkable increases in 2016/17 corn production in areas previously unknown to produce corn, i.e. West Java and North Sulawesi. However, in these same areas farm gate corn prices have been high, well above the GOI corn reference prices. Moreover, seed corn has been

scarce and high-priced as well. These factors cast doubt on the accuracy of GOI's corn production numbers in West Java and North Sulawesi. Production losses during the 2016/17 second crop cycle offset the gains during the third crop cycle. Therefore, despite the robust production increases in official GOI reports, no changes are made to the 2016/17 and 2017/18 corn production estimates.

The 2016/17 corn import estimate is increased slightly to 620,000 tons due to slightly greater than expected purchases by wet corn milling facilities producing corn starch. Regarding import demand from animal feed manufacturers, despite internal prices nearly double the equivalent of landed import prices, MOA continues to refuse to allow corn imports for poultry/livestock feed.

Rice

As stated above, BMKG is forecasting a possible weak La Nina during the December 2017 through March 2018 period. Nonetheless, this is not expected to affect 2017/18 rice production. Less and lower quality paddy production during the third crop harvest pushed wet paddy prices higher. BULOG reports shortfalls in its domestic procurement target. However, MOA remains committed to self-sufficiency, continues to maintain that domestic rice supplies are adequate, and refuses to permit imports. As a result, the import estimates are unchanged.

WHEAT

Trade

Demand for flour based foods remains strong and continues to grow. At the same time, competition among local mills remains tight, some mills are experiencing financial difficulties, and consolidation is occurring. Large mills are buying small mills. This restructuring of the sector should bring greater efficiency and contribute to the growing wheat import demand.

MOA continues to refuse to allow corn imports, and will not issue import recommendations for corn substitutes such as feed grade wheat, barley, or sorghum. These import restrictions have resulted in high local corn prices, which climbed even higher during the final quarter of 2017, the lean production period. In recent months, prices paid by mills hovered around Rp. 4,200/kg (\$311/ton), which is above the government reference price of Rp. 4,000/kg (\$296/ton). Meanwhile, landed soft red winter wheat prices have been around Rp. 3,040/kg (\$225/ton), making wheat highly competitive as a feed ingredient. Thus, with import restrictions on corn and feed-grade wheat, feed mills have been buying imported wheat from flour mills.

In early October 2017, MOA signaled it would allow 200,000 tons of feed wheat imports as a "complementary" ingredient for feed production. Local feed millers purchased the full quantity, mostly of Black Sea origin, and the imported wheat arrived in late October through early November. However, alarmed about the potential for more imported wheat to enter feed channels, which would be counter to MOA's corn self-sufficiency drive, reportedly MOA is seeking measures to further clamp down on feed wheat imports next year. Therefore, the 2017/18 wheat import forecast remains unchanged at 10.5 million tons.

Wheat exports to Indonesia during 2016/17 were led by Australia (48 percent), Canada (17 percent),

Ukraine (16 percent), and the United States (11 percent). Australia's majority market share is due to the noodle industry's preference for Australian standard white wheat, price, and Australia's close proximity. U.S. wheat exports to Indonesia during 2016/17 were 1.2 million tons.

To curb wheat flour imports, in January 2017, the Ministry of Finance imposed an additional 5 percent duty on top of the normal 5 percent Most Favorable Nation tariff. As a result, flour imports during the first semester 2017 declined 74 percent to only 32,000 tons wheat equivalent. Therefore, domestic flour dominated the market throughout 2017, with a 99.8 percent market share. Among flour exporters, Turkey held the largest share (53 percent), followed by The Philippines (17 percent), and Canada (9 percent).

Consumption

Wheat consumption is slightly increased for 2016/17 to reflect the higher feed use.

CORN

Production

Corn production and area estimates are unchanged from the previous reports. High local corn prices cast doubt on MOA's robust official production forecasts.

Indonesia's first corn season normally takes place between November and February (49 percent). The second season takes place from March to June (37 percent), while the third runs from July to September (14 percent). With the delayed arrival of the 2016/17 dry season, farmers on rain-fed areas in Lampung, Central Java, and East Java were able to plant corn during the third crop cycle. Above average third crop cycle production offset the slight yield decline resulting from downy mildew incidents observed in Lampung, Central Java, and East Nusa Tenggara during the second crop season. As a result, there is no change in the 2016/17 production estimate.

On May 5, 2017, the Indonesian Ministry of Trade (MOT) issued regulation 27/2017 on staple commodities reference prices. The new regulation revokes MOT regulation 63/2016, but leaves corn reference prices unchanged (See ID1628).

Farm gate corn prices increased as a result of MOA's refusal to issue corn import recommendations, lean season corn production, and MOT's reference price system. In November 2017, farm gate corn prices were ranging between Rp. 3,300/kg (\$244/MT) and Rp. 4,100/kg (\$303/MT), compared to Rp. 3,300/kg (\$248/MT) to Rp. 3,500/kg (\$263/MT) in March 2017.

The government reference price at the farm level is Rp. 3,150/kg (\$233/MT).

Meanwhile, prices paid by feed mill mills were ranging from Rp. 4,200/kg (\$311/MT) to Rp. 4,300/kg (\$318/MT), which is higher than Rp. 3,900/ kg (\$289/MT) in March 2017.

The official feed mill purchase price is Rp. 4,000/kg (\$296/MT).

High corn prices and good moisture conditions are motivating farmers to grow corn over soybeans. However, area expansion is hindered by a lack of arable land, and yield growth is hindered by a shortage of hybrid seed. Hybrid corn is planted on just over half of total corn area. MOA's seed subsidy program has eroded margins for seed producers, leading to cash flow problems, and a drop in seed production. As a result, seed costs increased about 25 percent in the last 6 months of 2017. Due to all the aforementioned factors, and despite MOA's stated plan to increase corn area by 3 million hectares, the 2017/18 corn production forecast is unchanged.

Consumption

Corn use estimates are largely the same as the previous report. Corn accounts for 50 percent of feed formulations and 35 percent of poultry feed production costs. Local feed compounders report that the expensive domestic corn prices cannot be passed on to consumers, lowering feed mills' margins. This, combined with the general economic slowdown, is expected to continue to slow the pace of poultry feed consumption growth. Feed consumption is estimated at 17.0 million tons in 2016/17, with 8.5 million of that coming from corn.

Poultry accounts for 83 percent of animal feed consumption; aquaculture, 11 percent; and the remaining six percent is consumed by cattle and swine. In 2018, feed mill capacity is expected to reach 23.5 million tons per year, and operate at between 70 to 80 percent capacity.

A new corn starch wet mill in East Java has been operational since April 2017. The new mill is running at its full capacity of 600 tons of corn per day, equal to 216,000 tons annually. The new mill will produce corn gluten meal (12,000 tons of installed capacity per year) and corn gluten feed (48,000 tons of installed capacity per year), in addition to starch. The facility uses only imported corn due to its better quality, higher protein, and more consistent supply vis-à-vis local corn. U.S. corn is particularly favored due to higher milling rate.

To obtain approval to import corn for wet milling, mills must declare that the imported corn will only be used for industrial food use and will not be used as a feed ingredient.

The 2017/18 FSI corn consumption is slightly increased reflecting the growing demand from wet mills. However, overall consumption is unchanged as corn for direct human consumption continues to decline.

Trade

Despite feed corn import restrictions, the new corn wet milling facility will increase import demand. Therefore, the 2016/17 corn import estimate and 2017/18 import forecast are raised.

MOA continues to ban corn and corn substitute imports for feed production, while allowing corn imports for food and industrial uses. Only BULOG can import feed corn. In October 2016, MOT authorized BULOG to import a total of 200,000 tons of corn. BULOG managed to bring in the corn by the end of 2016. BULOG's intention was to distribute the imported corn to micro, small and medium poultry farmers. However, until November 2017, BULOG still holds a total of 30,406 tons of imported corn stocks. BULOG has not imported any corn in 2017.

In 2016/17, corn imports originated from the United States (57 percent), Argentina (18 percent), Brazil (17 percent) and Thailand (5 percent).

RICE, MILLED

The rice PS&D is unchanged from the previous report. The narrative below provides information about recent developments in the sector.

Production

Favorable weather and sufficient reservoir water allowed for a third crop on irrigated lowland areas from late June through early July 2017. However, humid field conditions during the dry season, coupled with failure to rotate crops, caused heavy brown hopper infestations throughout Java and southern Sumatera.



Left: 2016/17 3rd crop cycle harvest in East Java. Right: the quality of the harvested paddy.



Left: East Java farmers planting the 2017/18 first paddy crop in November 2017. Right: Sufficient water at irrigation canals in Lamongan, East Java.

Trade

BULOG normally meets 60 percent of its procurement target during the first main harvest period (before June). As of November 20, 2017, BULOG had only procured 2.1 million tons of milled rice equivalent, lower compared to 2.84 million tons procured during the same period in 2016. Despite flexibility provided under MOA regulation No. 3/2017 for BULOG to buy paddy and rice above or below the required quality, BULOG is struggling to meet its target. Prices for medium quality paddy and rice are well above the government purchasing price, and competition with private rice millers vying for domestic supplies is impeding BULOG's procurement efforts. As a result, BULOG had to lower the procurement target to 2.5 million tons. The initial 2016/17 procurement target was 3.7 million tons. One of the several indicators that will trigger GOI to consider imports is when BULOG's procurement realization falls below 60 percent of the target by the end of the second harvest of each year. By lowering the procurement target, BULOG's procurement was assured of staying above the 60 percent threshold; thereby, preventing the administrative trigger to open imports.

BULOG is required to maintain a minimum year end stock level of 2 million tons. BULOG's stocks were 1.2 tons at the end of November 2017. However, MOA maintains its steadfast stance that imports won't be allowed, even for BULOG to rebuild stocks and stabilize climbing prices.

From January to September 2017, Indonesia imported rice from Thailand (32 percent), Myanmar (16 percent), Pakistan (16 percent), and India (13 percent). This was only specialty rice.

Consumption

There are no significant changes in rice consumption trends, and no changes to consumption numbers.

Prices

In line with the off cycle supply season and less than expected production, the price of wet paddy and rice continued to move above the government's purchase price.

Current farm gate wet paddy prices in Java ranged from Rp. 4,500/kg (\$333/MT) to Rp. 6,000/kg (\$444/MT), compared to Rp. 3,500/kg (\$259/MT) to 4,800/kg (\$355/MT) in July. These prices are above the government purchasing price of Rp. 3,700/kg (\$274/MT).

The average prices of medium quality rice in the Cipinang wholesale market in Jakarta increased from Rp. 10,135/kg (\$750/MT) at the end of July 2017, to Rp. 10,625/kg (\$786/MT).

To dampen prices, BULOG has been conducting "market operations", or selling stocks into the market. Since the middle of October 2017, a total of 18,126 tons has been sold to retail markets, mainly in Jakarta, at the maximum retail price of Rp. 8,100/kg (\$600/ton). BULOG plans to continue the market operation until the 2017/18 first harvest arrives.

Policy

On August 24, 2017, the Ministry of Trade issued regulation number 57/2017 on "Maximum Retail Prices (MRP) of Rice". The regulation applies to both medium and premium quality rice. Medium rice is 25 percent broken, while premium is defined as 15 percent maximum broken. The prices assigned to each region are shown in the table below.

No.	Province	Medium Rice MRP (Rp./kg)	Premium Rice MRP (Rp./kg)
1.	Jawa, Lampung, and South Sumatera	9,450	12,800
2.	Sumatera, except Lampung and South Sumatera Sumatera Selatan	9,950	13,300
3.	Bali and West Nusa Tenggara	9,450	12,800
4.	East Nusa Tenggara	9,950	13,300
5.	Sulawesi	9,450	12,800
6.	Kalimantan	9,950	13,300
7.	Maluku	10,250	13,600
8.	Papua	10,250	13,600

PSD TABLES

Table 2. PSD: WHEAT

Wheat Market Begin Year Indonesia	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1315	1315	1990	1990	2411	1991
Production	0	0	0	0	0	0
MY Imports	10045	10045	10176	10291	10500	10500
TY Imports	10045	10045	10176	10291	10500	10500
TY Imp. from U.S.	728	728	1184	1113	0	940
Total Supply	11360	11360	12166	12281	12911	12491
MY Exports	270	270	255	290	300	300
TY Exports	270	270	255	290	300	300
Feed and Residual	1600	1600	1300	1800	1100	1100
FSI Consumption	7500	7500	8200	8200	8600	8600
Total Consumption	9100	9100	9500	10000	9700	9700
Ending Stocks	1990	1990	2411	1991	2911	2491
Total Distribution	11360	11360	12166	12281	12911	12491
Yield	0	0	0	0	0	0

(1000 HA) ,(1000 MT) ,(MT/HA)

Note: Figures in the “New Post” columns are not USDA Official figures.

Table 3. PSD: CORN

Corn Market Begin Year Indonesia	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3300	3300	3400	3400	3500	3500
Beginning Stocks	1666	1666	1823	1823	1013	1038
Production	10500	10500	10900	10900	11350	11350
MY Imports	1778	1778	600	620	500	600
TY Imports	1778	1778	600	620	500	600
TY Imp. from U.S.	185	185	0	355	0	300
Total Supply	13944	13944	13323	13343	12863	12988
MY Exports	21	21	10	5	10	5
TY Exports	21	21	10	5	10	5
Feed and Residual	8000	8000	8500	8500	8600	8600
FSI Consumption	4100	4100	3800	3800	3600	3700
Total Consumption	12100	12100	12300	12300	12200	12300
Ending Stocks	1823	1823	1013	1038	653	683
Total Distribution	13944	13944	13323	13343	12863	12988
Yield	3.1818	3.1818	3.2059	3.2059	3.2429	3.2429

(1000 HA) ,(1000 MT) ,(MT/HA)

Note: Figures in the “New Post” columns are not USDA Official figures.

**Table 4. Indonesian Paddy Harvested Area, Yield, and Production
By Crop Cycle and Ecosystem**

Year	January - April			May – August			September - December			January- December		
	Harvested Area (Ha)	Yield (Cwt /Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt /Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt /Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt/Ha)	Production (Ton)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Paddy Total												
2017*	6,566,135	51.73	33,964,847	5,542,452	50.28	27,87,126	3,680,842	53.11	19,550,281	15,789,429	51.54	81,385,254
2016	5,982,190	52.49	31,399,705	5,330,190	51.86	27,643,361	3,844,572	52.84	20,315,373	15,156,952	52.36	79,358,439
2015	6,157,837	53.68	33,057,115	4,945,473	52.12	25,776,257	3,013,328	54.97	16,564,469	14,116,638	53.41	75,397,841
2014	6,204,910	50.87	31,562,789	4,452,135	51.12	22,757,916	3,140,262	52.63	16,525,760	13,797,307	51.35	70,846,465
2013	6,272,323	51.65	32,398,677	4,510,189	50.92	22,967,655	3,052,740	52.13	15,913,377	13,835,252	51.52	71,279,709
Irrigated Paddy												
2017*	5,711,292	55.45	31,666,534	4,674,432	53.91	25,201,590	3,547,294	53.50	18,976,402	13,933,018	54.44	75,844,526
2016	5,118,507	55.85	28,588,579	5,085,679	52.69	26,797,461	3,781,741	53.15	20,100,189	13,985,927	53.97	75,486,229
2015	5,266,986	57.13	30,088,636	4,784,123	52.74	25,229,780	2,978,128	55.23	16,448,080	13,029,237	55.08	71,766,496
2014	5,271,675	53.97	28,449,116	4,317,116	51.66	22,302,870	3,077,426	53.13	16,350,375	12,666,347	52.98	67,102,361
2013	5,303,794	54.91	29,124,507	4,378,887	51.46	22,533,292	2,989,322	52.63	15,733,809	12,672,003	53.18	67,391,608
Rainfed Paddy												
2017*	850,173	32.68	2,778,446	234,908	35.69	838,480	73,314	37.90	277,890	1,158,395	33.62	3,894,816
2016	863,683	32.55	2,811,127	244,512	34.60	845,901	62,831	34.25	215,183	1,171,026	33.07	3,872,211

2015	890,851	33.32	2,968,479	161,350	33.87	546,477	35,200	33.07	116,389	1,087,401	33.39	3,631,345
2014	933,235	33.36	3,113,673	134,889	33.73	455,046	62,836	27.91	175,385	1,130,960	33.11	3,744,104
2013	968,529	33.81	3,274,170	131,302	33.08	434,363	63,418	28.31	179,568	1,163,249	33.42	3,888,101

Source: Indonesian Statistics Agency (BPS) and MOA.

Note: *: Second forecast figures.

Table 5. Indonesian Corn Harvested Area, Yield, and Production By Crop Cycle

Year	January - April			May - August			September - December			January- December		
	Harvested Area (Ha)	Yield (Cwt/Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt/Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt/Ha)	Production (Ton)	Harvested Area (Ha)	Yield (Cwt/Ha)	Production (Ton)
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Corn												
2017*	2,374,739	49.53	11,762,709	1,657,574	51.86	8,595,379	1,342,345	56.55	7,590,574	5,374,658	52.00	27,948,662
2016	2,114,899	50.31	10,640,490	1,287,138	53.25	6,854,090	1,042,306	58.37	6,083,713	4,444,343	53.05	23,578,293
2015	1,948,050	48.99	9,544,012	1,133,924	51.19	5,804,249	705,393	60.45	4,264,174	3,787,367	51.78	19,612,435
2014	1,890,501	45.54	8,608,935	1,155,714	50.97	5,891,110	790,804	57.01	4,508,381	3,837,019	49.54	19,008,426
2013	1,939,796	45.49	8,823,368	1,089,691	48.74	5,310,778	792,017	55.27	4,377,707	3,821,504	48.44	18,511,853

Source: Indonesian Statistics Agency (BPS) and MOA.

Note: *: Second forecast figures.

Table 6. Exchange Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	13,846	13,395	13,276	13,204	13,615	13,180	13,094	13,300	12,998	13,051	13,563	13,436
2017	13,343	13,352	13,308	13,327	13,321	13,319	13,323	13,351	13,492	13,572	13,511	

Note: Exchange rate is Rp. 13,511/USD 1, as of November 28, 2017.

