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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update November 2015

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Report Highlights:
Indonesia is experiencing an El Nino event characterized by atypical dryness throughout much of its palm oil production regions. Weather data indicates that although this El Nino is strong, the dryness in Indonesia is not as severe as the 1997/98 El Nino event. Field observations and industry sources confirm that production declines are stronger than typical dry season losses. Sources stress, however, that losses are not on par with yield declines experienced in 97/98. Indonesia's new levy and biodiesel subsidy are driving domestic palm oil consumption, pushing industrial consumption up from zero in the first half of the year to 2 MMT by the end of 2014/15. Indonesian soybean production has slightly increased as a result of the current El Nino event, as farmers substituted soy for rice in rainfed areas not receiving enough rain to support a third rice crop.

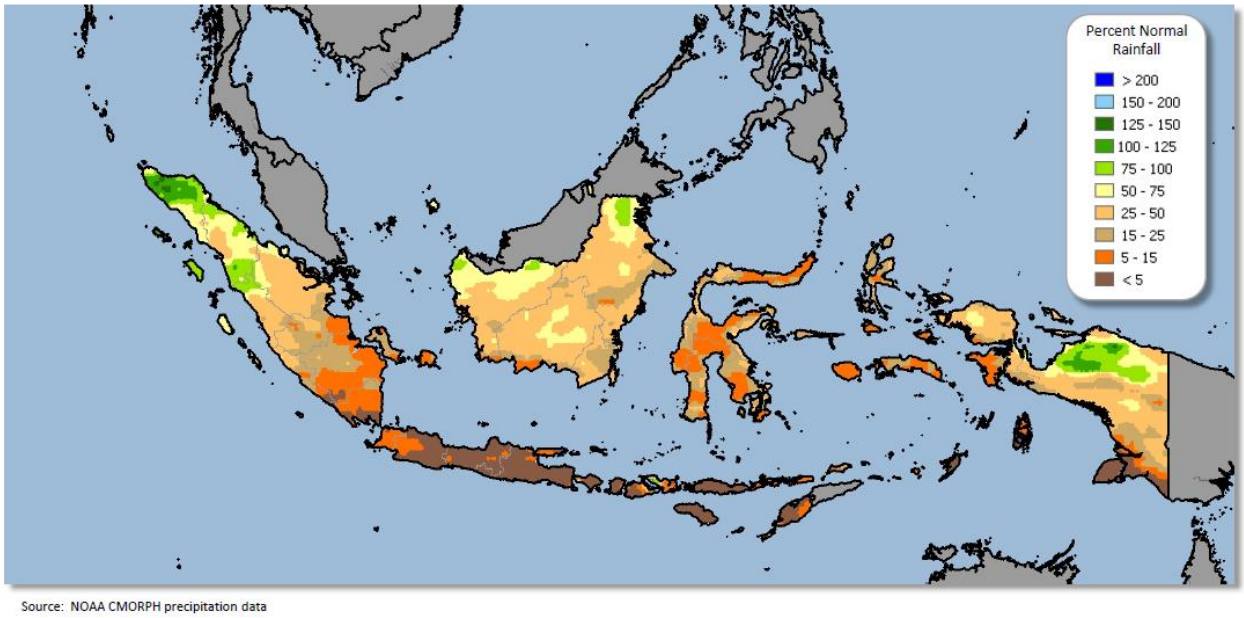
Post:
Jakarta

Oil, Palm

Production
Indonesia is experiencing an El Nino event characterized by atypical dryness throughout much of its palm oil production regions. Weather data indicates that although this El Nino is strong, the dryness in Indonesia is not as severe as the 1997/98 El Nino event. The Indonesian National Weather Agency (BMKG) reports the El Nino started in June, and expects that it will peak in November, carrying on through the first quarter of 2016. As a result, Palm oil production declines are expected to start in December, and will linger through the next year, depending on the severity and duration of the dryness.

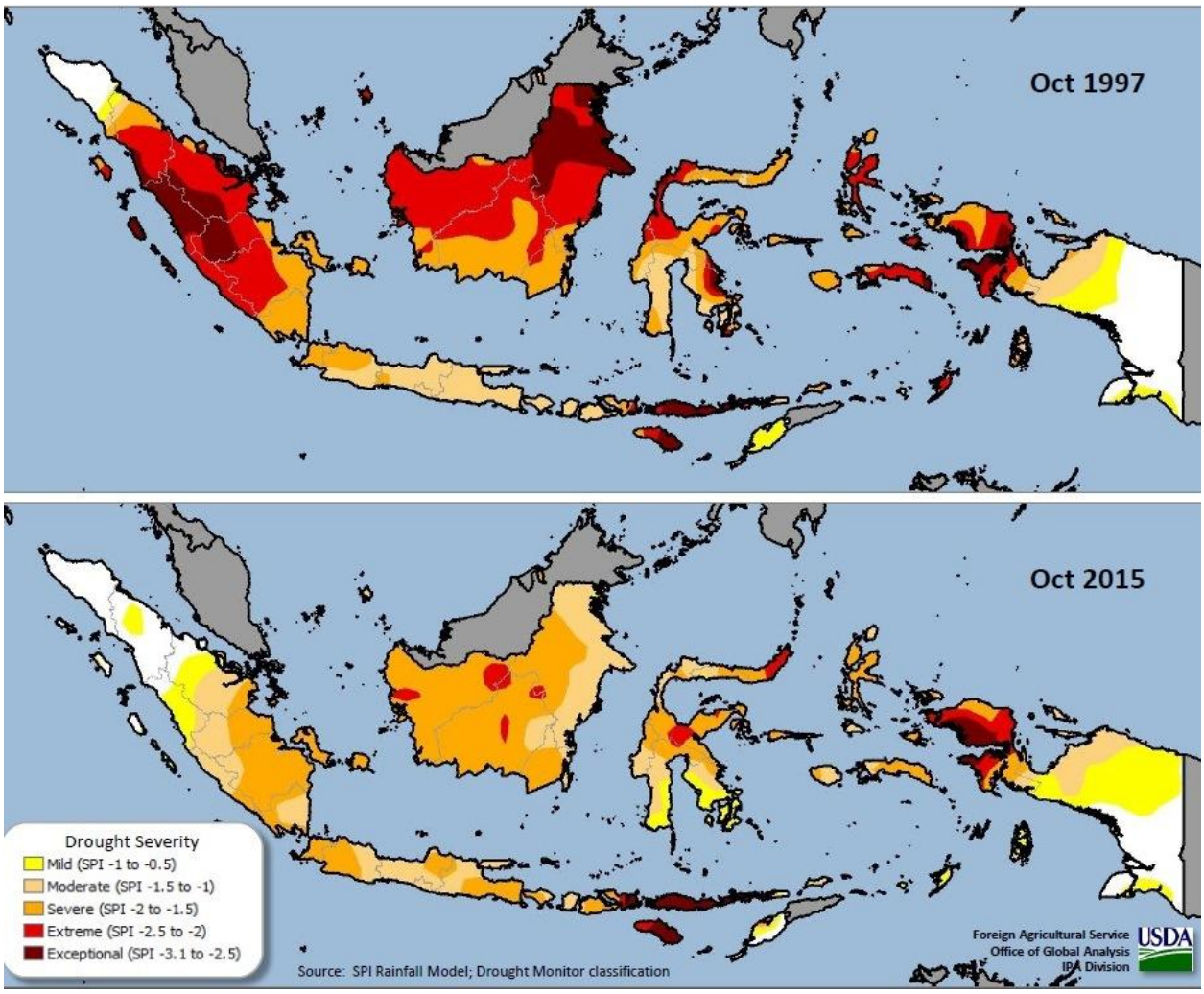
Palm oil plantations require approximately 200 cm of rain per month to achieve optimal conditions. Rainfall below optimal levels, however, must be sustained for at least three months before production declines will occur. In the present scenario, National Oceanic and Atmospheric Administration (NOAA) data shows that precipitation during the July-October period reached between 5 and 50 percent of normal levels in Southern Sumatera, where approximately 24 percent of Indonesia oil palm plantations are located. Northern Sumatera, representing about 47 percent of Indonesia's palm oil production, has received more rainfall during the same period (see Figure 1). Kalimantan, producer of the bulk of the remainder of Indonesia's palm oil, experienced dryness levels similar to Southern Sumatera. As a result, the most significant production issues were experienced in Kalimantan and Southern Sumatera (see Figure 2).

Figure 1. Indonesia: Percent Normal Cumulative Rainfall (June 1 – October 31, 2015)



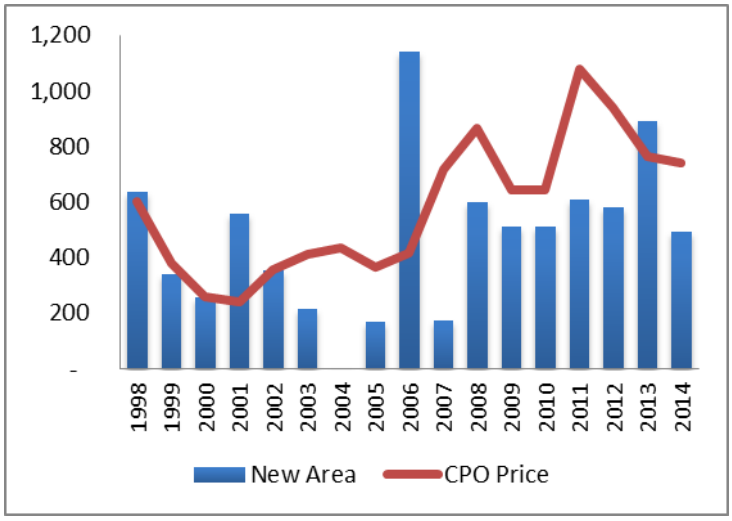
Source: NOAA CMORPH precipitation data

Figure 2. Indonesia: 3-Month Standardized Precipitation Index (SPI) Drought Conditions 1997 vs 2015



Field observations indicate that although El Nino is driving down yields, declines are mitigated by regional weather variations, improved cultivar varieties since the 1997-98 drought, and young plantations reaching maturity. Planting data indicates that new plantings reached near-peak levels in 2013, implying that production continues to rise as plantations reach full maturity. Industry sources confirm that production declines are stronger than typical dry season losses, however, they stress that losses are not on par with yield declines experienced in 97/98. As a result, Post expects that yield declines will offset new production increases, leaving palm oil production flat at 33 MMT in MY 2015/2016. Post will continue to observe production declines over the coming months to determine if further downward revisions are necessary (see Figure 3).

Figure 3: Indonesia New Planting Area (Thousand HA) and CPO Price (USD/MT) 1998-2014



Source: MOA, Indexmundi

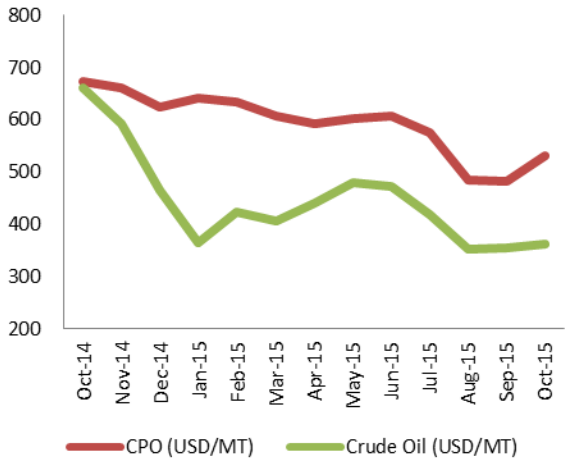
Many palm oil producers comment that in addition to El Nino, forest fire haze has also diminished palm oil production to a small extent. Despite these comments, there is no accurate measure to estimate haze-related losses and Post assumes that the majority of production losses are due to water stress.

Consumption

Indonesia's biodiesel program is driving domestic palm oil consumption. Biodiesel production fell to zero in the first half of 2015, following declining export demand and an uncompetitive subsidy scheme for domestic production. In July 2015, a new export levy was established, charging 50 dollars for every ton of palm oil or palm oil product exported. These funds are in turn used for palm oil industry development, mainly as a subsidy for biodiesel blending. Indonesia Regulation 12/2015 sets a target blending rate of 20 percent for the transportation sector. The mandate applies to both public and private sector fuel blenders, although as of November 2015, only the public sector fuel blenders are complying with the mandate. Regulation 12/2015 also targets 30 percent blending for electricity generation. Industry contacts report, however, that electricity generation blending is not yet taking place as the mandate is unfunded.

Indonesia's biofuel subsidy was rolled out in September, 2 months following the implementation of the palm oil levy. Approximately 158 thousand kiloliters (KL) of biodiesel were distributed in the first procurement period, with the CPO fund agency (BPDKPS) reporting a payment of IDR 27.9 billion (USD 2.1 million) for 6 biodiesel producers (November 2015). Based on anticipated palm oil exports, Post estimates that BPDKPS can collect approximately USD 1.2 billion next year. Assuming stable biodiesel/price spreads, subsidies could potentially reach 3.2 MMT of biodiesel. Subsidized biodiesel will likely remain concentrated in the Public Service Obligation (PSO) transportation sector.

Figure 4: USD Monthly CPO and Crude Oil Price (Converted to MT) 2014-2015



The Ministry of Energy and Mineral Resources (MEMR) recently appointed biodiesel producers for the 2nd procurement period (November 2015 to April 2016). The appointed producers receive the right to bid as suppliers for direct-procurement from Pertamina and PT AKR. The allocation totals 1.8 million KL and 18.4 thousand KL, respectively.

Industry sources claim that additional blending facilities are expected to come online in 2016, raising production capacity. This includes at least two biodiesel production facilities, each with blending capacity reaching 300 thousand MT per year. The government also recently announced a plan to build 33 tanks with a storage capacity of 23 thousand KL. These tanks are intended to help improve biodiesel distribution in outlying areas off of Java.

Based on subsidized consumption in the transportation sector, Post maintains industrial consumption at 3400 MT in MY 15/16. Domestic food consumption is expected to expand at approximately the same rate as population growth. Total Indonesian consumption is thus expected to reach 9420 MT.

Trade

Palm oil continues to trade at a discount vis-à-vis other vegetable oils, with the palm oil-soy spread reaching approximately $94 in October 2015. Palm oil has maintained this competitiveness throughout the last several months, exceeding 2013/14 performance for every month except December (see Figure 5 for historic prices and Figure 6 for monthly performance). Post attributes strong export performance to palm oil's price advantage, forward buying in anticipation of price increases due to the El Nino, and a weak Rupiah. China, India and Pakistan are the leading markets for Indonesian palm oil. Shipments to China were strong, with January - September 2015 exports exceeding China's total CY 2014 imports (see Figure 7).

Post highlights that exports were neither disrupted nor diverted in August/September, despite the 50 dollar premium on Indonesian palm oil resulting from the new levy. Industry sources indicate that the 50 dollar premium has been passed on to producers, thus ensuring Indonesia's competitiveness vis-à-vis Malaysia and other palm oil producers. As a result, Post maintains palm oil exports at 24 MMT in MY 2015/16. 2014/15 exports remain unchanged at 23.5 MMT.

Figure 5: Recent Price Trends for Selected Vegetable Oils (US$/MT)

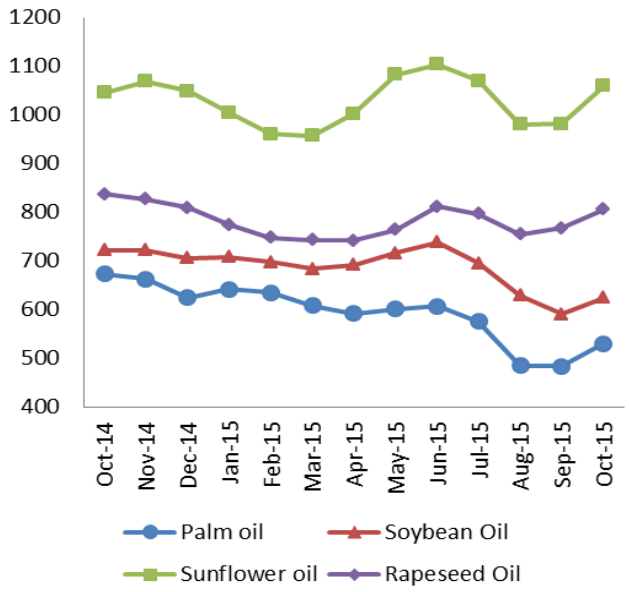


Figure 6: Indonesia Palm oil export by month

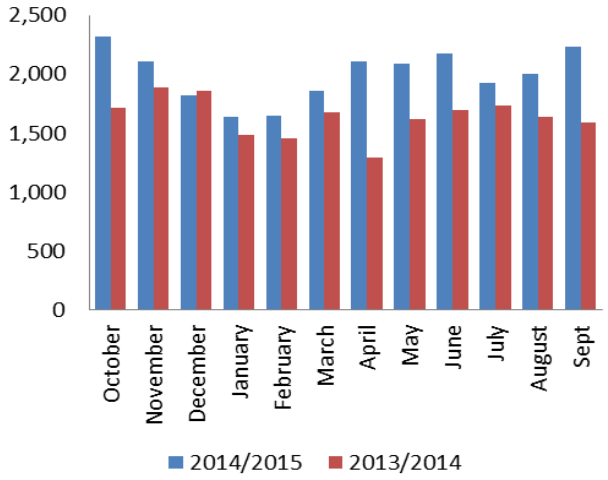
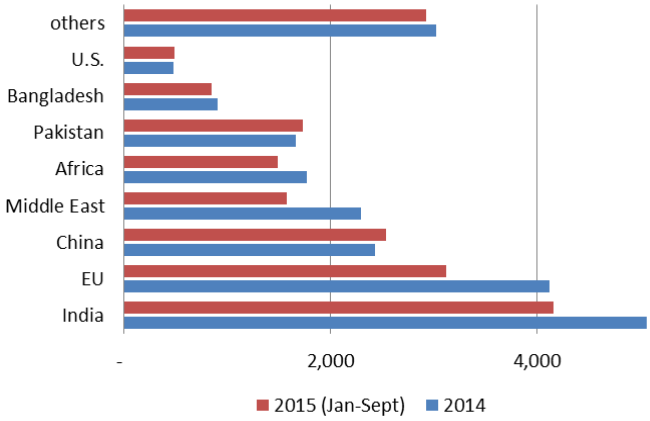


Figure 7: Indonesia Palm oil and Palm Kernel Oil by Destination CY 2014/2015



Stocks

Indonesian palm oil stocks have grown in recent years, as production continues to expand and biofuel exports fell off. Looking to 2015/16, Post expects ending stocks to decline to 2800 MT, following the creation of the new biofuel subsidy and the domestic biodiesel's jump in consumption. Strong export demand and stagnant production are also helping reduce stocks.

Oil, Palm	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct-13		Oct-14		May-15	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	10,325	-	10,640	-	10,800
Area Harvested	8,115	8,115	8,540	8,540	8,965	8,965
Trees	-	1,548,750	-	1,596,000	-	1,643,250
Beginning Stocks	1,758	1,758	1,768	1,540	1,748	3,220
Production	30,500	30,500	33,000	33,000	35,000	33,000
MY Imports	27	27	-	0	-	-
MY Imp. from U.S.	-	-	-	0	-	-
MY Imp. from EU	-	-	-	0	-	-
Total Supply	32,285	32,285	34,768	34,540	36,748	36,220
MY Exports	21,719	21,719	23,000	23,500	24,000	24,000
MY Exp. to EU	3,500	3,500	3,500	3,500	3,500	3,500
Industrial Dom. Cons.	3,400	3,500	4,300	2,000	5,000	3,400
Food Use Dom. Cons.	5,168	5,270	5,400	5,500	5,600	5,700
Feed Waste Dom. Cons.	230	256	320	320	320	320
Total Dom. Cons.	8,798	9,026	10,020	7,820	10,920	9,420
Ending Stocks	1,768	1,540	1,748	3,220	1,828	2,800
Total Distribution	32,285	32,285	34,768	34,540	36,748	36,220
		-	-	-	-	-
(1000 HA) ,(1000 TREES) ,(1000 MT)						

Soybean

Production

Indonesian soybean production has slightly increased as a result of the current El Nino event. Soybean production is concentrated primarily in Central and East Java Provinces, and is grown as part of a rice/corn rotation. It is often planted as a short duration crop during the less productive third planting season (June – September), when rice or corn are not viable alternatives. Approximately 80 percent of Javanese farmland has access to irrigation, with Indonesian farmers tending to favor rice and corn cultivation given its higher profitability. The remaining portion of unirrigated land follows a similar cropping pattern as the irrigated land, favoring rice or corn, and planting pulse or horticultural crops when rainfall isn't sufficient.

During the 2014/15 third production period, excessive dryness resulted in land either being left fallow or being planted to soy. Local farmers reported that given the unusual dryness, soybean was better adapted to some areas due to its shorter duration and lower water requirements. As a result, the third cropping period experienced a decline in rainfed rice production, which was partially offset by increases in soybean production. 2014/15 area harvested is thus increased to 460,000 HA, and production is increased slightly to 630,000 MT. Post's 2015/16 production and area harvested estimates remain at 620,000 MT 450,000 HA, respectively, although this may increase if dryness in 2016 pushes rainfed farmers to substitute soybean for rice and corn again.

Consumption

Indonesian soybean consumption is predominantly used for food use, mainly as an ingredient in Indonesia's large tempeh and tofu industry. Tempeh producers report a strong preference for US beans, noting their uniform size and color. As a staple food product, Indonesia's market for imported soybeans is mature. As a result, consumption is expected to grow at pace with population growth. 2014/15 soybean consumption is thus stable at 2.75 MMT. Post estimates that 2015/16 consumption will reach 2.87 MMT.

Trade

Final trade data shows that 2014/15 soybean imports rose by approximately two percent over the previous marketing year. Import tariffs remain at zero. 2015/16 imports are thus expected to remain stable, reaching at least 2.2 MMT. In previous years, imports have increased due to forward buying based on advantageous pricing. Although local soybean production may increase if dry weather pushes into the 2016 planting season, potential increases are not considered sufficient to offset imports.

Figure 8: Indonesia Soybean Imports, Reported by Exporters

	2012/13	2013/14	2014/15
October	217,561	236,793	59,687
November	61,710	111,349	253,089
December	140,093	207,418	247,938
January	153,441	175,105	165,530
February	101,029	214,902	256,607
March	257,118	308,981	277,139
April	183,723	271,339	156,803
May	110,532	159,915	142,277
June	179,340	86,702	171,108
July	35,468	161,256	90,970
August	139,507	43,710	117,917
September	160,907	88,354	170,954
Total	1,740,429	2,065,824	2,110,019

Source: GTIS

Stocks

Soybean stocks are expected to decline in 2015/16. Stock declines follow a period of stock building, attributable to low soybean prices and forward buying in previous years. 2014/15 stocks were revised slightly upwards, reflecting the slight increase in production.

Oilseed, Soybean	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct-13		Oct-14		May-16	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	450	550	450	500	430	550
Area Harvested	450	450	430	460	430	450
Beginning Stocks	15	15	230	225	120	175
Production	650	675	600	630	600	620
MY Imports	2241	2,240	2075	2,100	2300	2,200
MY Imp. from U.S.	2131	2,000	1900	2,000	2200	2,000
MY Imp. from EU	0	-	0	-	0	-
Total Supply	2906	2,930	2905	2,955	3020	2,995
MY Exports	1	1	0	-	0	-
MY Exp. to EU	0	-	0	-	0	-
Crush	0	-	0	-	0	-
Food Use Dom. Cons.	2645	2,645	2750	2,750	2875	2,870
Feed Waste Dom. Cons.	30	59	35	30	40	30
Total Dom. Cons.	2675	2,704	2785	2,780	2915	2,900
Ending Stocks	230	225	120	175	105	95
Total Distribution	2906	2,930	2905	2,955	3020	2,995
TS=TD	0	0	0	0	0	0
(1000 HA) ,(1000 MT)						