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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update 2016

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Report Highlights:
Palm oil production declines are expected to arrive starting in December 2015 and extend throughout the next six to nine months. Although initial reports indicate some production declines in December and January, growers and analysts both report that initial declines are on par with seasonal drops typically experienced in December and January. Based on this data, Post maintains its original estimate of 33 million tons for 2015/16. Indonesia's palm oil levy and biodiesel subsidy has transformed Indonesian biodiesel consumption. With revenues expected to reach 1.2 billion dollars in 2016 and over 300 million dollars in 2015 revenue rolled over into the new year, Post expects Indonesian biodiesel consumption to reach 3.4 million MT. 2015/16 soybean production is revised downward slightly, based on the expectation that weather more favorable to corn production will enable farmers to plant the more lucrative crop.

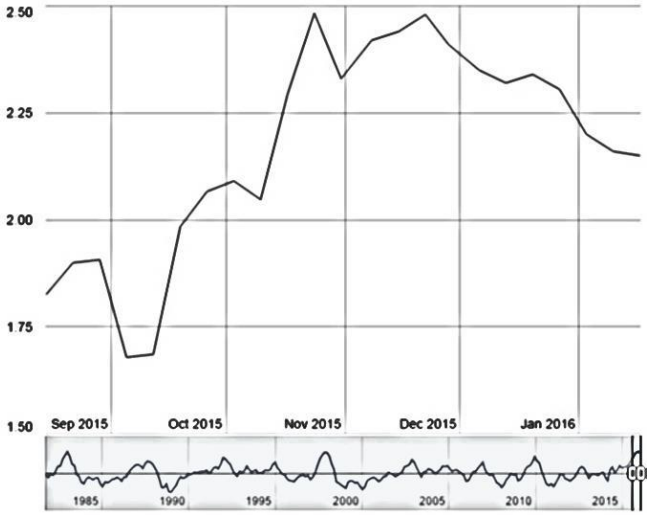
Post:
Jakarta

Oil, Palm
Production
The Indonesian Agency for Meteorology, Climatology and Geophysics (BMKG) reports that the El Nino index has dropped below the threshold indicating a strong El Nino, and is moving towards neutral conditions. The weather agency forecasts that the El Nino will continue to decline in intensity throughout the year. This is confirmed by the National Oceanic and Atmospheric Administration (NOAA), which reported in January 2016 that the strong El Nino phenomenon will weaken to El Niño-Southern Oscillation (ENSO)-neutral during the late spring or early summer.

Based on the dry weather experienced throughout 2015, delayed production declines are expected to arrive starting in December 2015 and will extend throughout the next six to nine months. Initial reports indicate some production declines in December and January. However, growers and analysts both report that initial declines are on par with seasonal drops typically experienced in December and January. For example, two major growers with plantations throughout Kalimantan and Sumatra each reported month-on-month declines within the five to 15 percent range in December and January. Year on year comparisons shows production levels within seasonal averages, however. Jakarta-based oilseed analysts confirm these observations, noting that the full effects of the El Nino are not yet clear, as the current production declines are typical. Indonesian palm oil association GAPKI maintains their 2016 forecast at 33.5 million tons, in-line with USDA estimates.

Based on this data, Post maintains its original estimate of 33 million tons for 2015/16. 33 million tons indicates that new plantings coming online, higher quality cultivars, and multiple climatic regions are helping offset the full effect of the El Nino.

Figure 1. El-Nino Index Information September 2015 – January 2016



Source: http://bmkg.go.id/BMKG_Pusat/Informasi_Iklim/Informasi_Index_El_Nino.bmkg (January 26, 2016)

Consumption

Indonesia's palm oil levy and biodiesel program is growing Indonesian palm oil consumption. Since the implementation of the program, biodiesel blending has taken off rapidly in Indonesia, primarily in the transportation sector. According to the Indonesian Estate Crop Fund for Palm Oil (BPDPS), the levy is expected to generate between 9.5 and 10 trillion Rupiah, more than 90 percent of which will be used to subsidize biodiesel consumption. An additional 5 trillion Rupiah (over 300 million U.S. dollars) of levy revenue remains from 2015 and will be carried over into 2016.

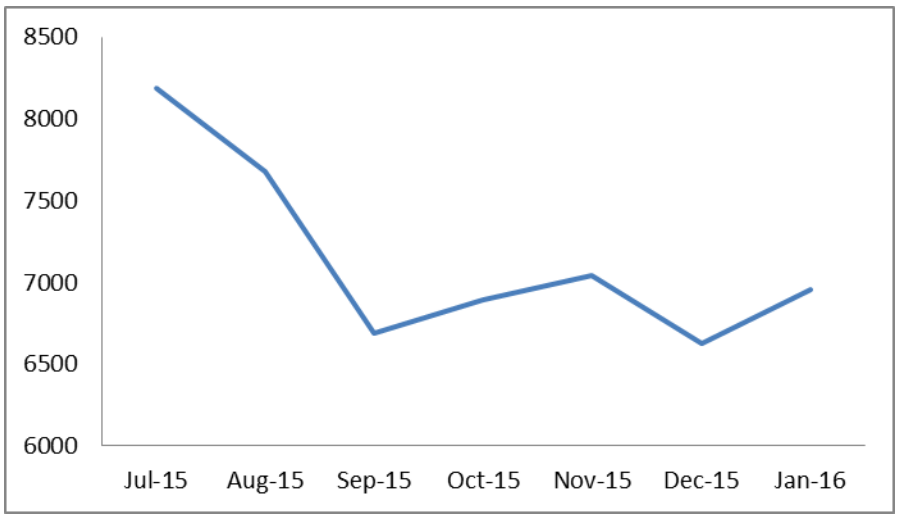
The GOI has set target blending rates of 20 percent for the transportation sector and 30 percent for electricity generation in 2016. BPDPS reports that actual blending rates for the transportation sector average between 10 and 15 percent. Despite the GOI's ambitious agenda on electricity generation, Indonesian power company PLN reports that biodiesel accounts for less than .5 percent of Indonesia's total electricity production. PLN notes that while the GOI maintains ambitious plans to expand biodiesel generators throughout the archipelago, PLN intends to increase the number of coal burning power plants. As a result, even if Indonesia doubles biodiesel electricity generation, it will fall below one percent of total output.

PLN reports that Jan-Oct 2015 biodiesel consumption for electricity generation reached 175,000 kiloliters. Additionally, BPDPS reported payment in November 2015 of 27.9 billion rupiah to 6 biodiesel producers in their first procurement. The 2nd procurement (November 2015 to April 2016) has already awarded contracts for 1.8 million KL of biodiesel from 11 biodiesel producers for Pertamina. Based on the above factors and PLN's expectation that subsidized biodiesel will be available for the full calendar year 2016, (as opposed to the last few months of 2015), Post estimates that biodiesel used for electricity generation could reach as high as 450,000 kiloliters in 2016.

The short term future of biodiesel blending in Indonesia remains strained by unexpectedly low fossil fuel prices. BPDPS reports that initial estimates assumed that crude oil prices would remain above 40 dollars a barrel. Given that prices have dropped well below the 40 dollar mark, there is some concern that the levy may not consistently cover fuel costs throughout the entirety of 2016. Post notes, however, that nearly 5 trillion Rupiah has been rolled over from the 2015 calendar year, providing some buffer against cheap crude oil. Additionally, Post notes that Indonesia expects additional biodiesel infrastructure to come online in 2016, implying that producers remain bullish on the prospects of biodiesel.

Based on anticipated palm oil exports, Post estimates that BPDPS will collect approximately $1.2 billion U.S. dollars in 2016. Assuming stable CPO and crude oil prices and a price gap of 6000 Rupiah per liter, subsidized biodiesel is estimated to reach 2.2 MMT, with total industrial palm oil consumption growing to 3.4 MMT. Human consumption is expected to reach 5.7 MMT, assuming increases due to population growth.

Figure 2. Indonesian Biodiesel Reference Price (IDR/liter)



Source: MEMR

Table 1. Crude Oil/Palm Oil Price Gap, Converted to Rupiah per Liter

CPO price (USD/MT)	22	25	28	31	34	37	40	43	46	49	52	55
660	7,038	6,738	6,438	6,138	5,838	5,537	5,237	4,937	4,637	4,336	4,036	3,736
640	6,758	6,458	6,158	5,858	5,558	5,257	4,957	4,657	4,357	4,056	3,756	3,456
620	6,478	6,178	5,878	5,578	5,278	4,977	4,677	4,377	4,077	3,776	3,476	3,176
600	6,198	5,898	5,598	5,298	4,998	4,697	4,397	4,097	3,797	3,496	3,196	2,896
580	5,918	5,618	5,318	5,018	4,718	4,417	4,117	3,817	3,517	3,216	2,916	2,616
560	5,638	5,338	5,038	4,738	4,438	4,137	3,837	3,537	3,237	2,936	2,636	2,336
540	5,358	5,058	4,758	4,458	4,158	3,857	3,557	3,257	2,957	2,656	2,356	2,056
520	5,078	4,778	4,478	4,178	3,878	3,577	3,277	2,977	2,677	2,376	2,076	1,776
500	4,798	4,498	4,198	3,898	3,598	3,297	2,997	2,697	2,397	2,096	1,796	1,496
	Crude Oil Price (USD/barrel)											

Source: Indexmundi, post calculation, assuming 1$= IDR 14000

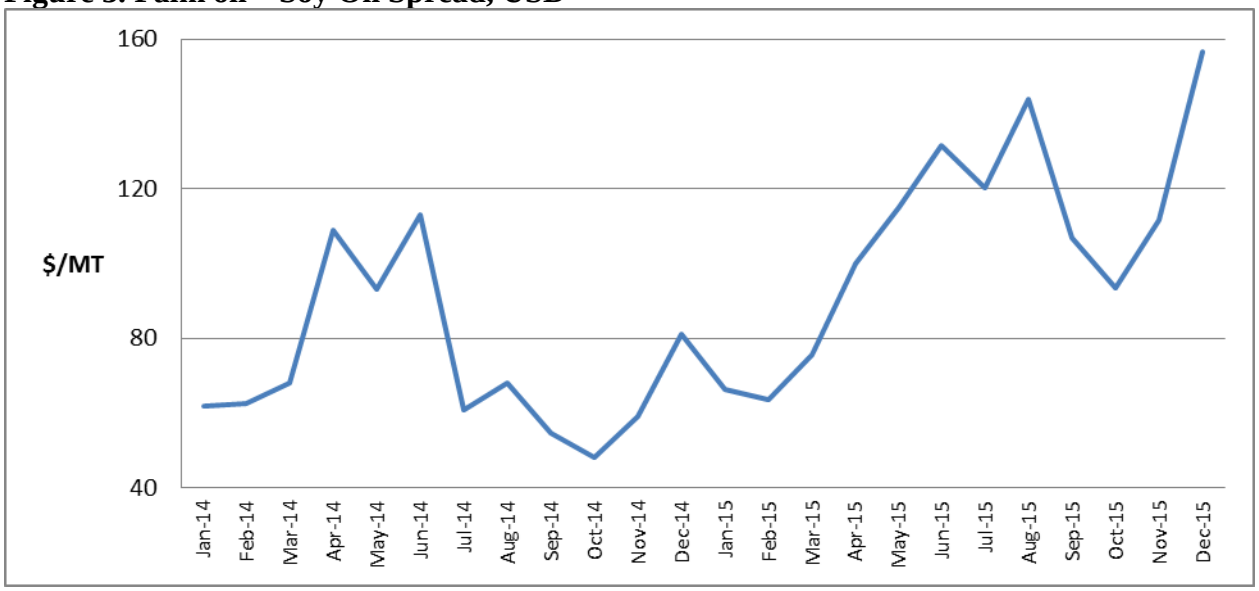
Trade

Palm oil continues to maintain a price advantage over alternate oils, implying ongoing positive export prospects. The spread between palm oil and soy oil averaged $107 per ton in 2015, compared with $73 in 2014. In December 2015, the spread jumped to $157 per ton, assuring a strong incentive for price buyers in important markets such as India. As a result, palm oil exports remained strong through the first quarter of 2015/16, marking a 12 percent increase over the October-November 2014 period.

Strong first quarter palm oil export performance is attributable to leading markets China, India, and Pakistan, with imports up over last year's purchases by 64, 15 and 32 percent, respectively. Buying was bolstered by the weak Rupiah. Post also notes that strong export performance in the first quarter may be the result of forward buying, as some importers anticipated price increases as production declines due to the El Nino-induced dry weather. Considering the possibility of forward buying and robust domestic consumption growth in the biodiesel sector, Post expects that palm oil exports may slow over the coming year. As a result, 2015/16 exports are set at a robust 24 MMT, below 2014/15 levels, but still well above 2013/14 levels. Post revised 2014/15 exports to 25.8 million MT based on final trade data.

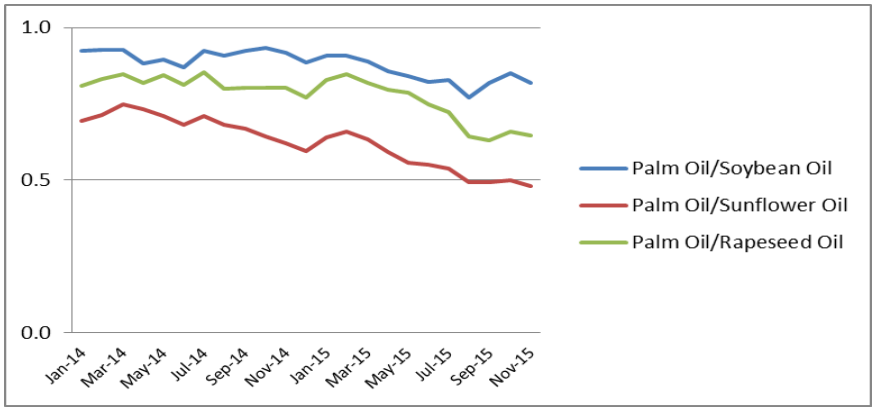
In late January 2016, The French Senate voted in favor of a law increasing the tax on Indonesian palm oil. Reports indicate that the law was implemented in order to combat deforestation and health problems associated with the consumption of saturated fatty acids. Starting 2017, the current import tax of 103 Euros per ton will be raised to 300 Euros. The tax will then increase by 900 Euros per ton by 2020. An additional 3.8 percent tax will also be added to palm oil intended for food use. The Government of Indonesia is protesting this measure as discriminatory. Post notes that France's import of Indonesian palm oil reached approximately 64,000 MT in 2014, or less than .3 percent of Indonesia's total palm oil exports. France's 2015 palm oil imports are on pace for a similar amount, having reached 46,000 MT in the January-September period.

Figure 3. Palm oil – Soy Oil Spread, USD



Source: Indexmundi

Figure 4. Ratio: Palm Oil Prices with Selected Vegetable Oils



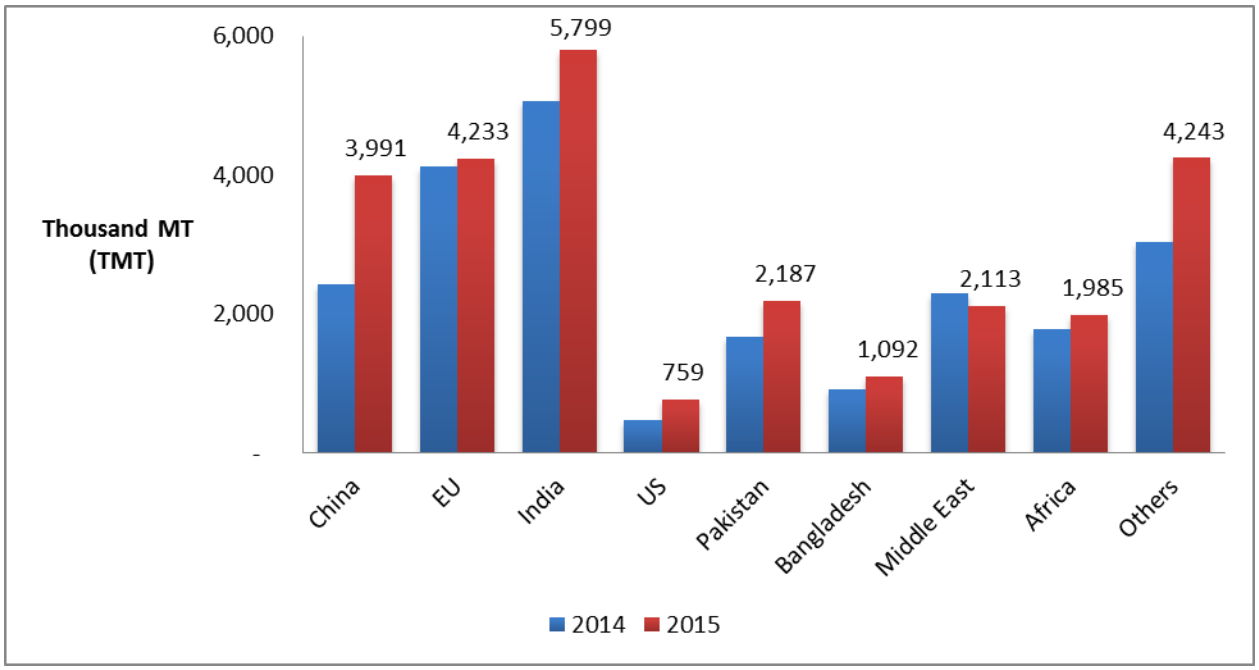
Source: Indexmundi

Table 2. Palm Oil Exports by Month (TMT)

	2013/2014	2014/2015	2015/2016
Oct	1,539	2,734	2,443
Nov	2,456	2,144	2,234
Dec	1,750	2,041	2,346
Jan	1,465	1,881	
Feb	1,849	1,810	
Mar	2,075	1,985	
Apr	991	2,461	
May	1,967	2,089	
Jun	1,918	2,499	
Jul	2,071	1,993	
Aug	1,694	1,991	
Sep	1,937	2,234	
Total	**21,712**	**25,862**	**7,024**

Source: GTIS, GAPKI (in red)

Figure 5: Indonesia Palm Oil by Destination CY 2014/2015



Source: GAPKI

Stocks

Indonesian stocks have shifted into a period of decline. Weaker production due to dry weather plays some role in declining stocks, however demand shifts are the primary driver. The implementation of Indonesia's palm oil levy in summer 2015 has resulted in a large jump in palm oil-based biodiesel consumption, resulting in a 70 percent increase of industrial consumption over 2014/15. This consumption is expected to be sustained for the foreseeable future, offsetting Indonesia's rapid CPO production growth. Sustained strong exports to India, Pakistan and China also support declining stocks. Based on these factors, Post sets 2015/16 stocks at 500 thousand MT. Post also revises 2014/15 palm oil stocks downward to 920 thousand MT due to higher than anticipated exports.

Production, Supply and Demand Data Statistics

Oil, Palm	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct-13		Oct-14		Oct-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	1,546	1,540	1,626	920
Production	30,500	30,500	33,000	33,000	33,000	33,000
MY Imports	27	27	-	0	-	-
MY Imp. from U.S.	-	-	-	0	-	-
MY Imp. from EU	-	-	-	0	-	-
Total Supply	32,285	32,285	34,546	34,540	34,626	33,920
MY Exports	21,719	21,719	25,300	25,800	24,500	24,000

MY Exp. to EU	3,500	3,500	3,800	3,800	3,500	3,500
Industrial Dom. Cons.	3,500	3,500	2,000	2,000	2,900	3,400
Food Use Dom. Cons.	5,270	5,270	5,300	5,500	5,400	5,700
Feed Waste Dom. Cons.	250	256	320	320	320	320
Total Dom. Cons.	9,020	9,026	7,620	7,820	8,620	9,420
Ending Stocks	1,546	1,540	1,626	920	1,506	500
Total Distribution	32,285	32,285	34,546	34,540	34,626	33,920
		-	-	-	-	-
(1000 HA) ,(1000 TREES) ,(1000 MT)						

Soybeans

Production

Soybean production estimates remain on track. Field verification in West Nusa Tenggara confirms that corn plantings suffered due to extended dry weather, leading some growers to substitute soy for corn plantings in 2014/15. Farmers report, however, that financial incentives remain poor for soybeans, and that they will revert back to planting corn. As a result, Post maintains its 2014/15 estimate for soybean production at 630 thousand MT. Assuming that 2015/16 experiences more conducive rainfall and farmers will plant corn, Post revises its production estimate back to 600 thousand MT.

Consumption

Indonesian soybean consumption is dominated by human use and is not expected to change in 2015/16. U.S. soybeans are preferred in Indonesia due to their uniform size, color and suitability for tempeh and tofu manufacturing. Post expects that tempeh and tofu will remain a preferred protein source in Indonesia, especially when considering the rising costs of substitute animal proteins. As a result, Post estimates that total soybean consumption will reach 2.87 million MT in 2015/16, aligning with general population growth and import trends.

Trade

Indonesia's soybean requirement is filled largely by imports. Given the general population's reliance on soybeans as a low cost protein source and Indonesian farmer's reluctance to grow soybeans, Indonesia's imports are expected to keep pace with consumption growth. Based on these factors, Post maintains its 2015/16 estimate at 2.2 million MT. Post raises 2014/15 imports by a slight 10,000 MT to 2.11 million MT, based on final trade data.

Table 3: Indonesian Soybean Imports, Reported by Exporters

	2014/15	2015/16
October	59,687	84,818
November	253,089	214,263
December	247,938	
January	165,530	

February	256,607	
March	277,139	
April	156,803	
May	142,277	
June	171,108	
July	90,970	
August	117,917	
September	170,954	
Oct-Nov Total	312,776	299,081
Total	2,110,019	299,081

Source: GTIS

Stocks

MY 2014/15 soybean ending stocks are revised up slightly to 185 thousand MT, reflecting final import data. MY 2015/16 are expected to decline to 85 MT, partly due to expected lower domestic production.

Production, Supply and Demand Data Statistics

Oilseed, Soybean Market Begin Year Indonesia	2013/2014 Oct-13		2014/2015 Oct-14		2015/2016 May-16	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	450	550	450	500	430	500
Area Harvested	450	450	430	450	430	450
Beginning Stocks	15	15	230	225	170	185
Production	650	675	600	630	600	600
MY Imports	2241	2,240	2150	2,110	2300	2,200
MY Imp. from U.S.	2131	1,850	1900	2,000	2200	1,825
MY Imp. from EU	0	-	0	-	0	-
Total Supply	2906	2,930	2980	2,965	3070	2,985
MY Exports	1	1	0	-	0	-
MY Exp. to EU	0	-	0	-	0	-
Crush	0	-	0	-	0	-
Food Use Dom. Cons.	2645	2,645	2775	2,750	2875	2,870
Feed Waste Dom. Cons.	30	59	35	30	40	30
Total Dom. Cons.	2675	2,704	2810	2,780	2915	2,900
Ending Stocks	230	225	170	185	155	85
Total Distribution	2906	2,930	2980	2,965	3070	2,985
TS=TD	0	0	0	0	0	0

(1000 HA) ,(1000 MT)