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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update 2015

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Report Highlights:
Palm oil production continues to expand as young plantations mature. The introduction of a new palm oil levy will add $50 USD to the cost of each ton of Indonesian palm oil exported. The revenue from this program will be used to subsidize Indonesian biodiesel consumption. Industry sources are bullish that the program will offset low fossil fuel prices and help grow consumption. Indonesian palm oil stocks grew in 2015 due to low domestic industrial consumption and growing production. Stocks are expected to moderate as industrial consumption picks back up. Indonesian soybean plantings are down based on reports that Indonesian farmers are planting more corn. Current soybean imports are on track to reach 2.1 million metric tons in 2014/15. The United States remains the primary supplier of soybeans to Indonesia.

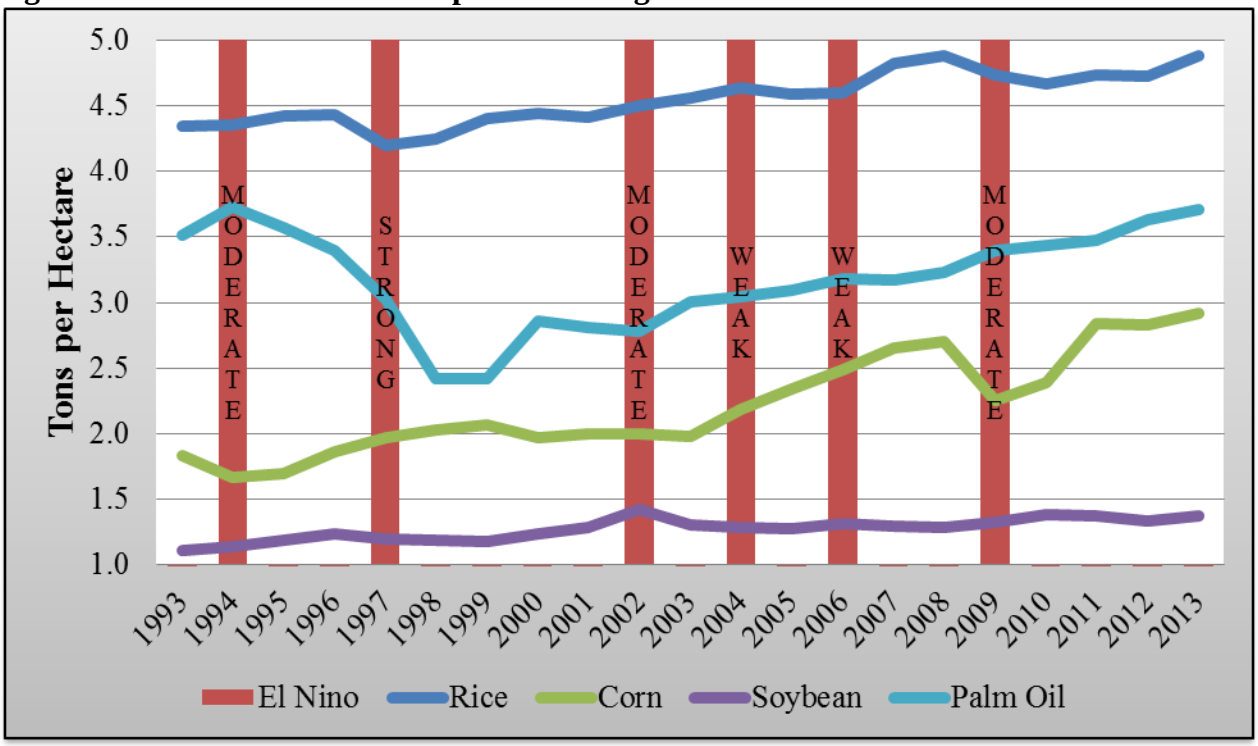
Post:
Jakarta

Oil, Palm

Production
Indonesian palm oil production has continued to grow through 2014/15 due to improving yields in maturing plantations. Certified palm oil seed sales indicate a general slowdown of new planted area, likely due to land disputes with local inhabitants as well as the implementation of the forest moratorium policy. As a result, there are no changes to Post's area planted estimates for 2014/15 and 2015/16 at 10.64 and 10.8 million hectares, respectively. Crude palm oil (CPO) production remains on track for 2014/15 at 33 million metric tons (MMT), however 2015/16 CPO production may decline due to weather concerns.

The arriving El-Nino phenomenon is causing concern for the palm oil industry. The International Research Institute for Climate and Society (IRI)'s July announcement stated that there is a strong likelihood of "drier-than-normal conditions"[1] during the August to October period. The Indonesian National Weather Agency (BMKG) reports that an El-Nino phenomenon started in June. BMKG forecasts that the El Nino will peak in November and carry on into early 2016. Current analysis indicates that the El Nino phenomena will be strong, on par with the 1997/98 El Nino. If this occurs as forecast, palm oil production is expected to decline.

Figure 1: Indonesia: Historic Crop Yield Changes Due to El Nino



[1] See: http://iri.columbia.edu/news/july-climate-briefing-nothin-but-nino/ (accessed on July 25, 2015)

Palm oil production reacts to drought situations on a delayed basis. Typically, oil palms can withstand drought periods (less than 150 mm of rain per month) of up to 3 months with little adverse effect. Beyond 3 months, oil yields start to drop, although drops are usually lagged by 9 months following the onset of drought stress. Post notes that declines experienced in the 1997/98 El Nino are a worst case scenario, and that there are several mitigating factors that may offset this. Post considers the following points of interest when evaluating 2015/16 production potential:

1) Improved varieties have been introduced since the 1997/98 El Nino that offer better drought tolerance than older varieties. These varieties are just starting to reach maturity, as the first of these cultivars were planted in 2004.

2) An El Nino is likely to be strongest in eastern Indonesia, outside of oil palm production areas. Given the geographic diversity of Indonesia's palm oil production areas in Kalimantan and Sumatra, the El Nino effect on palm oil will be varied.

3) Declines in 1997/98 productivity were also tied to plantation lifecycles, some of which were declining in productivity due to age. (1998 marks the beginning of a phase of planting expansion in Indonesia).

4) El Nino phenomena tend to be more severe during Indonesia's dry season and are typically less pronounced during the wet season.

5) Post notes that although meteorological studies indicate a strong El Nino phenomenon is likely, long-term weather forecasting remains highly variable.

Industry experts claim that production declines up to 30 percent are possible following a strong El-Nino. Uncertainty on the strength of the El Nino phenomenon, as well as production increases from young plantations reaching maturity, Post expects that declines of six percent compared to Indonesia's production potential are more likely. As a result, Post revises the 2015/16 production estimate to 33 million metric tons, on par with 2014/15 production. Post also notes that the overall consequences of production shortfalls, if any, will likely be mitigated by record stocks.

Consumption

Indonesian biodiesel subsidies have not been implemented throughout most of 2015. Early in the year, the program was revised, with Indonesia's House of Representatives (DPR) increasing the subsidy upwards following the decline of fossil fuel prices. (Note: biodiesel was not cost competitive against fossil fuels throughout 2014 and earlier, requiring subsidies for blending mandates to be effective. The additional decline of fossil fuel prices rendered the existing subsidy ineffective). The subsidy program has remained unfunded throughout 2015, as a new funding mechanism was developed. As a result, biodiesel blending has fallen close to zero since February/March, 2015. On July 16, 2015, a new plantation fund was implemented, which mandates a levy on exports of palm oil and its derivatives. The levy, to be charged at a rate of $50 USD per ton of CPO and $20-$30 USD per ton of palm oil products will be used to subsidize biodiesel blending. (Palm oil products include, but are not limited to palm kernel oil, biodiesel, and refined palm oil). Biodiesel industry sources report that while the levy has been implemented, the subsidy is not expected to be in place until September 2015.

The Government of Indonesia has increased its biofuel mandatory target for 2015 up to 15 percent. 2016 remains at 20 percent. Post notes that in the past Indonesia has fallen short of its blending mandates due

to blending infrastructure shortfalls and subsidy issues. Despite these shortfalls, growth has been robust, and major urban centers were accessing supplies of B10 in 2014. Blending infrastructure continues to come online, and industry sources report that major population centers, especially those in closer proximity to palm oil production areas, will be better able to meet the mandatory blending requirements. Assuming the successful implementation of the plantation fund and re-implementation of biodiesel subsidies, Post expects that blending will pick up in the last quarter of 2015, and will continue into 2016. If this occurs, Indonesia will be set for palm oil-based biodiesel consumption growth. However, given the hiatus of biodiesel blending in 2015, biodiesel consumption has dropped significantly to an estimated 1.45 million liters.

Based on the drop in biodiesel blending throughout the first half of CY 2015, Post revises MY 2014/15 industrial consumption downward to 2000 MT. MY 2015/2016 industrial consumption is expected to rebound to 3400 MT, assuming record Indonesian consumption of biodiesel due to the anticipated success of the levy-funded subsidy. Total domestic consumption is therefore expected to fall to 7820 in MY 2014/15 and rebound to 9420 MT in 2015/16, assuming that domestic food consumption grows at approximately the same rate as Indonesia's population.

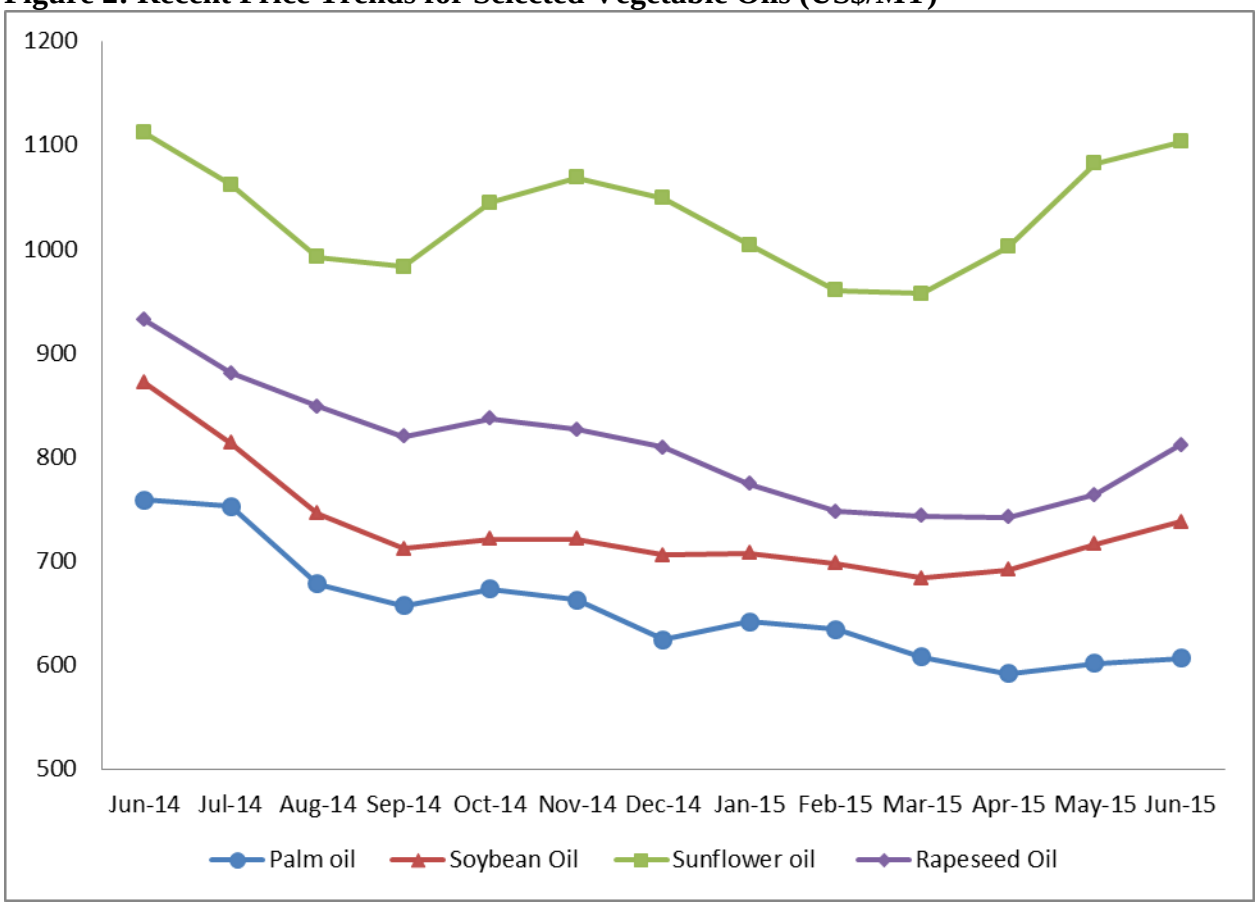
Table 1. Indonesia Biodiesel Mandatory Target as stated in Regulation 12/2015

Biodiesel (Minimum)				
Sector	April 2015	January 2016	January 2020	January 2025
Transportation, Public Service Obligation (PSO)	15%	20%	30%	30%
Transportation, Non-PSO	15%	20%	30%	30%
Industry	15%	20%	30%	30%
Electricity	25%	30%	30%	30%

Trade

Palm oil exports have continued strong throughout the first eight months of the October-September 2014/15 marketing year. Trade data through May 2015 shows that Indonesian palm oil shipments have reached 15.590 MMT, outpacing exports during the same time period by 2.6 MMT in 2013/14 (see Table 2). At this pace Post estimates that Indonesian palm oil shipments may reach as high as 23.5 MMT in 2014/15. Shipments to India, the European Union, and China remain strong due to palm oil's price advantage.

Figure 2: Recent Price Trends for Selected Vegetable Oils (US$/MT)



Source: *www.Indexmundi.com*

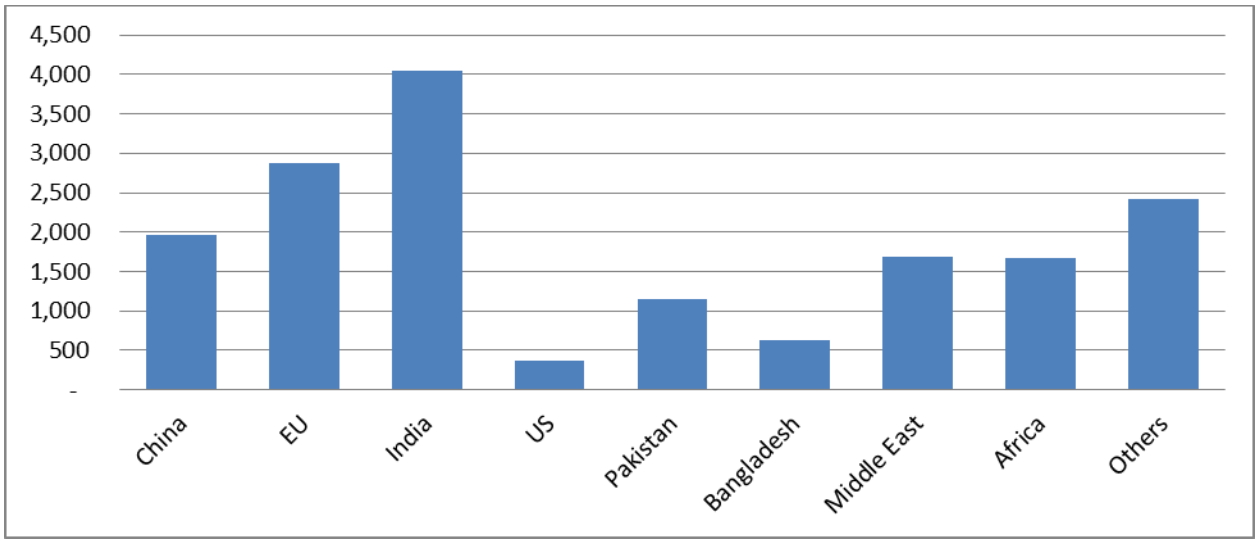
Palm oil prices continue to trend below alternate oils. As of June 2015, the soy oil/palm oil spread reached approximately 130 dollars, implying that export prospects remain strong when compared with the least expensive alternative. As of July 16, 2015, Indonesia's palm oil levy added an additional 50 dollar premium to the cost of CPO exports. With the current price spread palm oil will not lose its price competitiveness. However, some exports may be diverted to alternate origins such as Malaysia. Given the chance for additional export competition based on the levy, Post sets 2015/16 palm oil exports more conservatively at 24 MMT. Post notes, however, that additional analysis is necessary, given that the levy has been operative less than two weeks as of this report.

Table 2: Indonesian Palm Oil Exports by Month, MMT

	2013/2014	2014/2015
October	1,714	2,320
November	1,891	2,110
December	1,854	1,816
January	1,488	1,633
February	1,457	1,651
March	1,678	1,860
April	1,293	2,110
May	1,615	2,093
June	1,697	
July	1,734	
August	1,634	
Sept	1,591	
Oct-May Total	**12,990**	**15,594**
TOTAL	**19,647**	**15,594**

Source: Global Trade Atlas

Figure 3: Indonesian Palm Oil and Palm Kernel Oil Exports by Destination, Oct – May 2014/15, MMT



Source: Global Trade Atlas

Stocks

Indonesian ending stocks are set to grow in 2014/15 due to the precipitous decline in biodiesel production and the continued expansion of palm oil production. Industry sources have confided to Post that Indonesian producers are sitting on excessive stocks, providing an incentive to implement programs to grow domestic palm oil consumption. (The Plantation Fund levy is the result of this effort, and will be used to push significant resources into biofuels development). Given these factors, Post estimates ending stocks will climb to 3.22 MMT in 2014/15. In anticipation of growing biofuel consumption in Indonesia, Post expects that 2015/16 stocks will start to decline, slightly easing to 2.8 MMT in 2015/16. A possible strong El Nino phenomenon will also help draw down stocks, assuming the potential for production declines.

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	1,768	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)						

Oilseed, soybean

Production

The GOI is continuing its push for agricultural self-sufficiency, emphasizing rice, corn, sugar, beef and soybean production. Since the beginning of 2015, self-sufficiency goals have placed a heightened

emphasis on rice production. Long standing price supports for rice production have made this crop a popular choice with farmers, who note that they prefer to grow rice due to its profitability over alternative crops. Most Indonesian farmers, excepting those with agronomic factors that favor soy, will prioritize rice and corn cultivation.

The Jokowi government's push for self-sufficiency includes several programs intended to help farmers, including irrigation development; integrated farm management for paddy, corn, and soybean; seed assistance; fertilizer assistance; and farming machinery and tools assistance. Based on these programs, as well as projected area planted increases, the National Statistical Agency (BPS) is forecasting rice, corn and soy production growth. Post notes this appears overly optimistic, as these estimates rely on harvested area increases in all three crops. Soy and corn are typically grown in rotation with rice, implying that if one crop increases, it does so at the expense of another.

The arriving El Nino phenomenon brings additional uncertainty to soybean's production potential for the coming year. Historically, El Nino's implications for soybean production have been varied. During the 1997/98 El Nino (see Figure 1), yields declined slightly during what was characterized a "strong" El Nino event. In 2002, a moderate El Nino resulted in higher yield losses, while later El Ninos that were either moderate or weak actually coincided with soybean yield improvements. Post notes that soybean yields are often improved by El Ninos when dry periods coincide with the seed ripening and maturity phases. Local agronomists cite improved sunlight and a lack of rain result in improved photosynthesis and diminished exposure to plant pests and disease, resulting in better yields and improved bean quality.

Typically, Indonesian crops have managed El Nino phenomenon in part through access to irrigation systems. Java is endowed with an extensive irrigation network, although reports state that up to 50 percent of the system is in some form of disrepair. As a result, some areas are positioned to withstand El Nino. Conversely, other areas may not have access to sufficient water for rice, leading farmers to grow corn or soy as an alternative. Looking to the 2015/16 growing period, Post will continue to monitor soybean production to determine if dryness will result in declines, or if production will grow as soy is substituted for water intensive crops. Post therefore maintains 450 thousand hectares of area harvested in 2015/16.

Finally, soybean price declines imply that 2014/15 soybean area planted should fall compared to 2013/14 (see figure 4). Following disappointing profits in 2013/14, farmers with planting alternatives indicated that soybeans were a lower priority for them. As a result, 2014/15 soybean planted area decreases to 500 thousand hectares as corn planting increases. Post's production estimate remains unchanged at 620 thousand metric tons, however, noting that despite the decline in planted area, area harvested remains unchanged at 450 thousand hectares. Post notes that ideal growing conditions in 2013/14 helped increase yields at that time, thus explaining the yield drop in 2014/15.

Consumption

Indonesian soybean consumption is driven by human food use. Post expects demand to remain strong for soy-based foods, noting that tempeh and tofu are staple products characterized by fairly inelastic demand. Declining Indonesian consumer purchasing power, led by lower-than-hoped-for GDP growth, a weakening dollar-rupiah exchange rate, and broad-based food inflation (including the animal protein sector) contribute to strong soybean consumption. Given ample global soybean supplies, prices are low, spurring high imports at the end of 2013/14 and helping offset exchange rate losses into 2014/15. As a

result of these factors, Post's consumption estimates remain unchanged, with growth expected to keep pace with population growth.

Trade

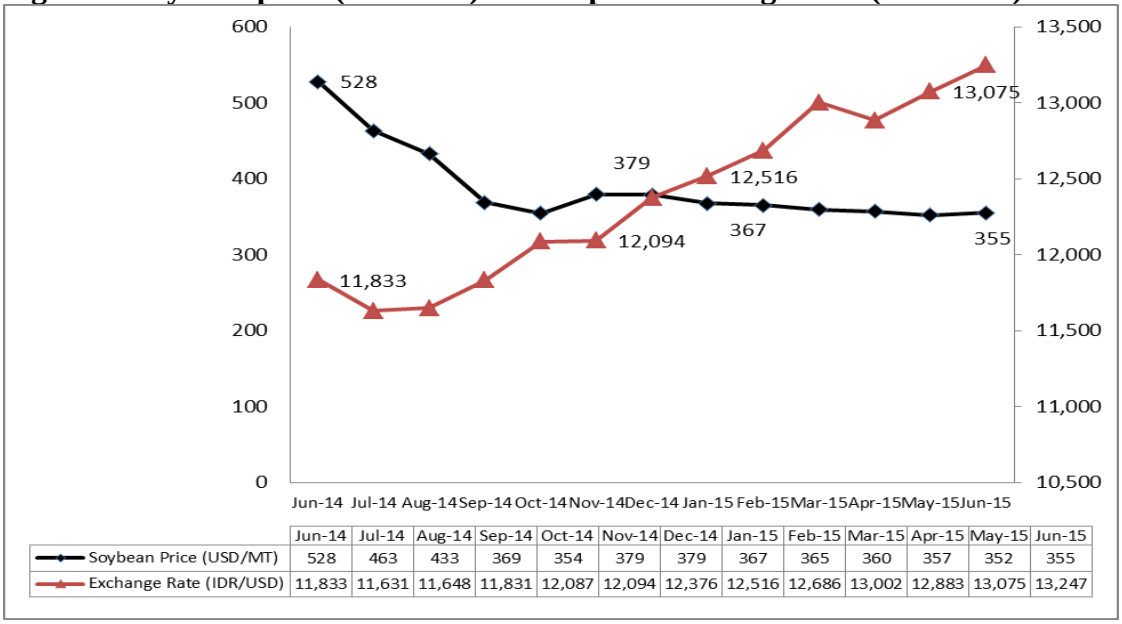
Indonesian import estimates remain unchanged. 2014/15 imports (October-May) were robust, keeping up the strong pace set in late 2014 (see Table 3). 2014/15 trade, as reported by export origin, now measures 1.559 MMT and is on pace to reach Post's estimated 2.1 MMT. Post notes that the declining strength of the Rupiah is offset by low soybean prices (see Figure 4). Low prices, combined with strong consumer demand discussed in the consumption section, will help assure that imports remain on track.

Table 3. Indonesian 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	
July	35,468	161,256	
August	139,507	43,710	
September	160,907	88,354	
Oct-May Total	**1,225,207**	**1,685,802**	**1,559,070**
Total	**1,740,429**	**2,065,824**	**1,559,070**

Source: Global Trade Atlas

Figure 4. Soybean price (USD/MT) and Rupiah Exchange Rate (IDR/USD)



	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
Soybean Price (USD/MT)	528	463	433	369	354	379	379	367	365	360	357	352	355
Exchange Rate (IDR/USD)	11,833	11,631	11,648	11,831	12,087	12,094	12,376	12,516	12,686	13,002	12,883	13,075	13,247

Source: Indexmundi.com, Bank Indonesia

Stocks

Stock estimates remain unchanged. 2014/15 stocks grew as importers bought ahead on low prices starting in 2014. Post expects stocks to steady as consumption grows.

Production, Supply and Demand Data Statistics

Oilseed, Soybean Market Begin Year Indonesia	2013/2014		2014/2015		2015/2016	
	Oct-13		Oct-14		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	165
Production	650	675	600	620	600	620
MY Imports	2241	2,240	2150	2,100	2300	2,200
MY Imp. from U.S.	2131	1,850	1900	1,825	2200	1,825
MY Imp. from EU	0	-	0	-	0	-
Total Supply	2906	2,930	2980	2,945	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	2,860
Feed Waste Dom. Cons.	30	59	35	30	40	30
Total Dom. Cons.	2675	2,704	2810	2,780	2915	2,890
Ending Stocks	230	225	170	165	155	95
Total Distribution	2906	2,930	2980	2,945	3070	2,985
TS=TD	0	0	0	0	0	0
(1000 HA) ,(1000 MT)						