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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update January 2017

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Report Highlights:
Indonesia is experiencing a mild La Niña event, resulting in increased rainfall and pushing palm oil production back to normal levels. Palm oil consumption continues to be driven by Indonesia's biodiesel blending mandate. Industry reports that 2017 biodiesel consumption may drop due to the cost of the blending subsidy, however Post will refrain from revising its estimate until more information is available. Soybean production continues to decline in 2017, as wet weather is expected to encourage farmers to plant more rice and corn.

Post:
Jakarta

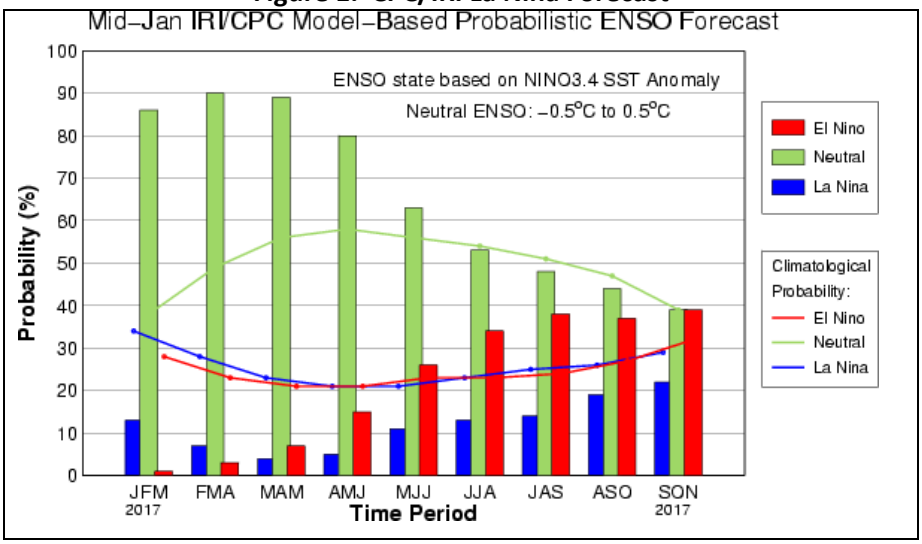
Oil, Palm

Production

The Climate Prediction Center (CPC/IRI) reported in mid-January 2017 that the ocean and atmospheric system remained consistent with a weak La Niña. The agency stated "atmospheric convection remained suppressed over the central tropical Pacific and enhanced over Indonesia," confirming that a weak La Niña event continued throughout December. Forecasts expect that the La Niña will transition to neutral in February 2017, with the El Niño Southern Oscillation (ENSO) continuing as neutral throughout the first half of 2017. CPC/IC data is summarized in 1 below, which indicates a strong probability of ENSO neutral conditions through July 2017, with forecasts for ENSO-neutral conditions trending well above historical averages.

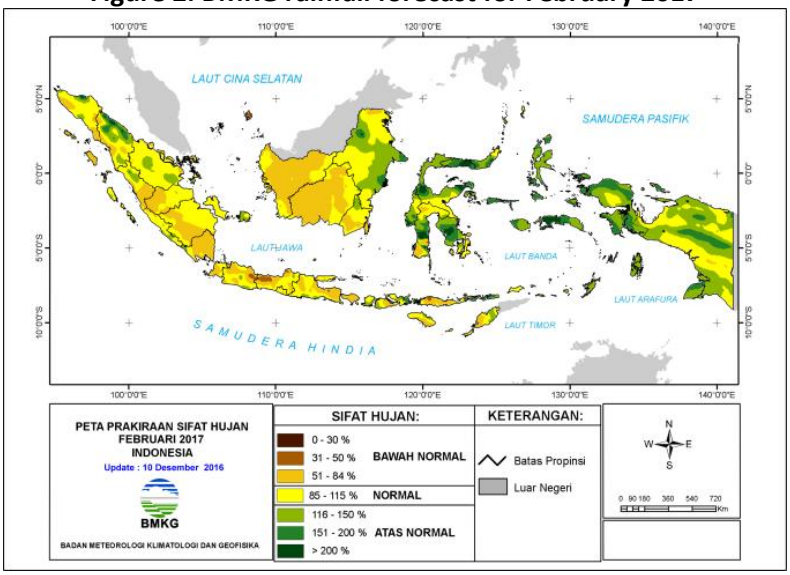
The ongoing La Niña event has led to increased sustained rainfall throughout most palm oil production areas of Indonesia. As a result, previously drought stressed palm oil plantations in Sumatera and Kalimantan are on the path to recovery. Post therefore maintains its production estimates of 32 MMT in MY 2015/2016 and 35 MMT for MY 2016/17, with the expectation that improved rainfall will push 2016/17 production to surpass drought stressed 2015/16 production.

Figure 1. CPC/IRI La Niña Forecast



Source: CPC/IRI
Note: Bar chart represents ENSO occurrence probability, while line graph represents historic averages for the three ENSO conditions.

Figure 2. BMKG rainfall forecast for February 2017



Source**:** BMKG

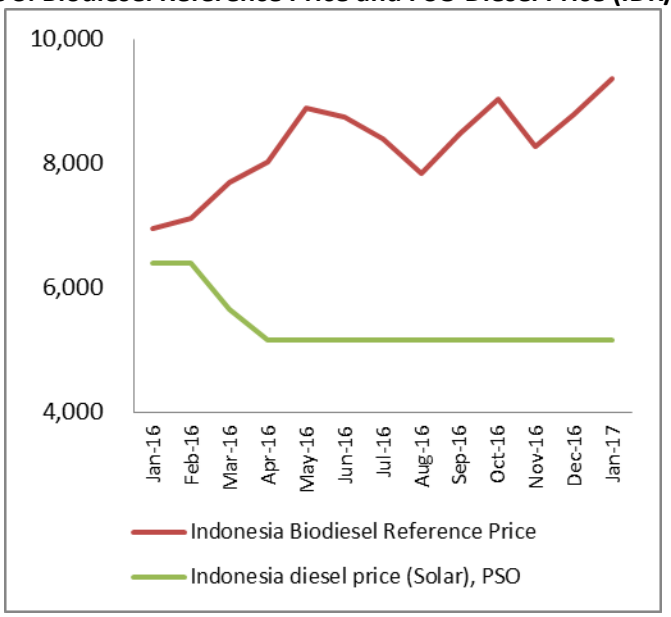
Consumption

Indonesia's biodiesel blending mandate is driving domestic palm oil consumption. Industry contacts indicate that around 3.1 MMT of biodiesel were produced during 2016, a significant jump from 1.4 MMT in 2015, but below 2014 levels. Of that total production, 82 percent were distributed domestically. Distribution covers Indonesia's main population centers in Sumatera, Java, Kalimantan and Sulawesi. Remote areas (including border areas) are experiencing distribution difficulties due to costs and logistics challenges.

The blending mandate is supported by a subsidy mechanism created in late 2015 which collects funds through a levy on palm-oil exports. (The levy charges 50 dollars per ton of crude palm oil (CPO) and decreasing amounts for value-added CPO products). Revenues from the levy are used to cover the price gap between conventional diesel and biodiesel, (see Figure 3). The Indonesian agency managing the palm oil fund, BPDPKS, reports that funds collected through the levy in 2016 reached IDR 11.7 trillion (USD 874 million). BPDPKS anticipates 2017 levy revenues may decline as low as 769 million dollars, as value-added CPO products offset CPO exports.

In addition to declining levy revenues, CPO prices have risen resulting in the biodiesel reference price jumping to IDR 9362 per liter in January 2017 from IDR 8779 in December 2016. Global fossil fuel prices remain low, lowering the amount of biodiesel Indonesia is able to subsidize. Despite these factors, Post notes that Indonesian levy projections are early, as are concerns regarding 2017 palm oil and fossil fuel prices. Additionally, the GOI has left its November 2016- April 2017 procurement allocation unchanged at 1.3 MMT for state-owned fuel Pertamina (the unique distributor of subsidized biodiesel) and 18.27 MT for the industrial sector. As a result, Post maintains MY 2016/17 projections unchanged. MY 2015/16 consumption projections also remain unchanged.

Figure 3. Biodiesel Reference Price and PSO Diesel Price (IDR/liter)



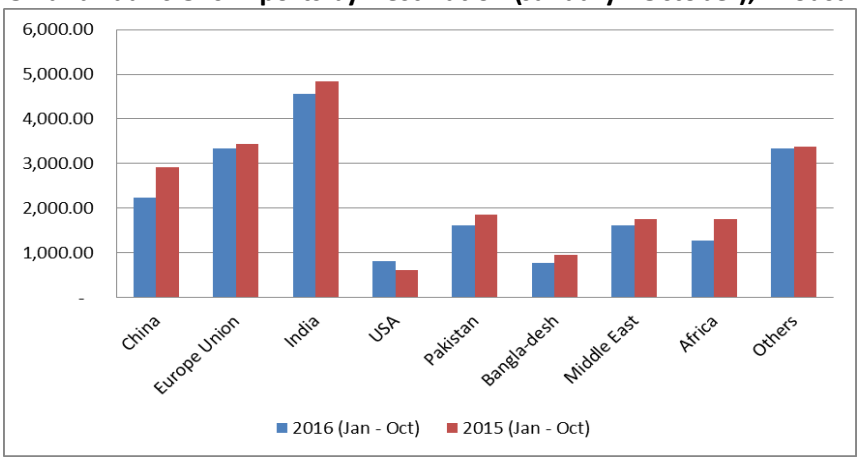
Source: MEMR

Trade

Indonesian Palm Oil Association (GAPKI) data shows Indonesia palm oil export performance declined by 9.4 percent during the January-October 2016 period compared to the same months in 2015 (18.23 MMT to 20.13 MMT). The decline was spread throughout all export destinations, and appears to be price driven. Traders note that stronger palm oil prices prompted a switch to soy oil imports. A key example is India, which was the destination for about 22 percent of 2015 Indonesia's CPO exports. October 2016 shipments were slightly stronger, with month-on-month exports to China and India increasing by over 30 percent. However, strong December and January CPO prices indicate that 2016 exports will not catch up with 2015 performance.

Export performance supports Post's 2015/16 estimate at levels well below 2014/15. Post therefore only makes a slight revision to 2015/16 exports, adjusting upwards to 23.7 MMT, reflecting strong October export performance.MY 2016/17 estimates remain unchanged at 25 MMT.

Figure 4. Palm Oil and Lauric Oils Exports by Destination (January - October), Thousand Metric Tons



Source**:** GAPKI

Stocks

MY 2016/17 palm oil stocks are expected to increase to 1.586 MMT from 1.2 MMT in MY 2015/16, reflecting the recovery of production over 2015/16.

Production, Supply and Demand Statistics

Oil, Palm	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct-14		Oct-15		Oct-16	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	8540	8540	8965	8965	9200	9200
Trees	0	0	0	0	0	0
Beginning Stocks	3210	3210	2734	2426	2214	1206
Production	33000	33000	32000	32000	35000	35000
MY Imports	8	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	36218	36210	34734	34426	37214	36206
MY Exports	25964	25964	23000	23700	25700	25000
MY Exp. to EU	3749	3800	3500	3500	3500	3500
Industrial Dom. Cons.	2000	2000	3700	3600	3650	3600
Food Use Dom. Cons.	5200	5500	5500	5600	5500	5700
Feed Waste Dom. Cons.	320	320	320	320	320	320
Total Dom. Cons.	7520	7820	9520	9520	9470	9620
Ending Stocks	2734	2426	2214	1206	2044	1586
Total Distribution	36218	36210	34734	34426	37214	36206
		0		0		0
(1000 HA) ,(1000 TREES) ,(1000 MT)						

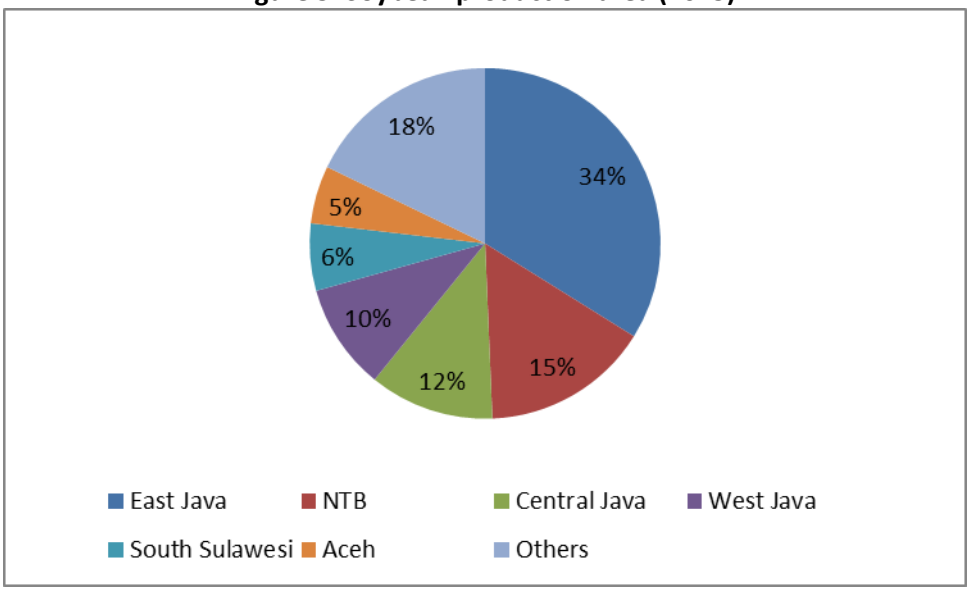
Soybeans

Production

Indonesian soybean plantings fell by at least 10 thousand hectares throughout the primary growing areas of East Java, West Nusa Tenggara (NTB) and Central Java in 2015/16. This falls under a larger trend reported by Statistics Indonesia (BPS), that soybean plantings have undergone a general decline since 2005. 2015/16 planting decisions were driven both by the higher profitability of corn and rice, as well as drought related production factors that led to other pulses such as mung bean. 2016/17 production is expected to decline further, as a return of weather more favorable to corn production is expected to return some 2015/16 soybean plantings back to corn. Soybean planting declines are further supported by farmer reports that many growers returned subsidized soybean seed following their decision to revert

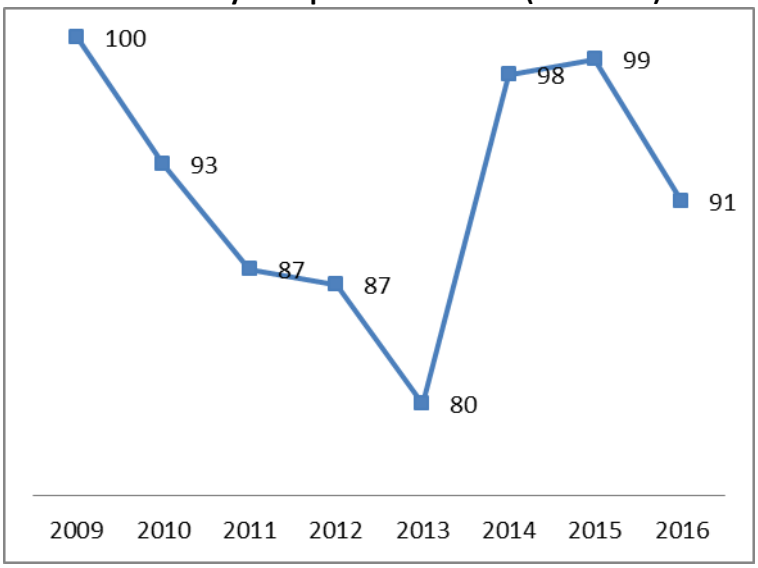
back to corn and rice plantings. Finally, wetter weather may further depress soybean yields, as rain can expose soybeans to additional disease and insect threats. (Farmers report that yields remain low, around 1.3 ton per ha or less). Based on these conditions, Post soybean production estimates are maintained at 565,000 MT for MY 2016/17 and 580,000 MT for 2015/16.

Figure 5. Soybean production area (2015)



Source: BPS

Figure 6. Indonesia Soybean production index (2009=100) 2009-2016



Source: BPS

Consumption

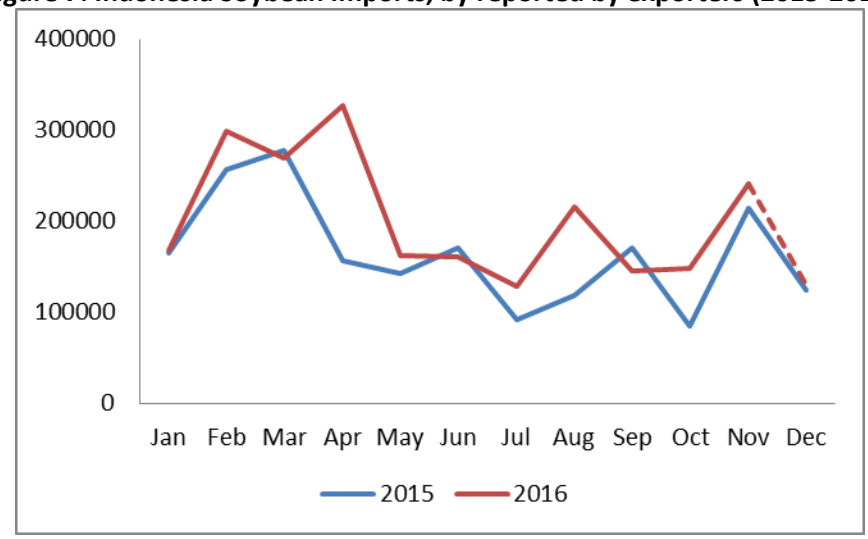
Indonesian soybean consumption is primarily intended for the human food sector, with tempeh and tofu providing Indonesia's lowest cost staple protein. Soybean consumption thus remains relatively stable,

with growth occurring at approximately the rate of population growth. Based on these factors, Post expects MY 2016/17 food consumption to increase over the previous year by 60,000 MT to 2.86 MMT.

Trade

Soybean imports are expected to increase to 2.32 MMT in MY 2016/17, driven by the growth of human consumption sector. Post revises MY 2015/16 imports to 2.295 MMT, based on final trade data.

Figure 7: Indonesia Soybean Imports, by reported by exporters (2015-2016)



Source: GTIS

Stocks

Ending stocks are expected to decline by 6,000 MT to 73,000 MT in 2016/17 based on increasing soybean consumption.

Production, Supply and Demand Statistics

Oilseed, Soybean	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct-14		Oct-15		Oct-16	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	500	500	490	490	480	480
Area Harvested	500	450	490	440	480	430
Beginning Stocks	182	182	65	35	64	79
Production	630	630	580	580	565	565
MY Imports	2006	2006	2250	2295	2400	2320
MY Imp. from U.S.	1900	1945	2200	2269	2300	2300
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2818	2818	2895	2910	3029	2964
MY Exports	3	3	1	1	1	1
MY Exp. to EU	0	0	0	0	0	0
Crush	0	0	0	0	0	0

Food Use Dom. Cons.	2720	2750	2800	2800	2935	2860
Feed Waste Dom. Cons.	30	30	30	30	30	30
Total Dom. Cons.	2750	2780	2830	2830	2965	2890
Ending Stocks	65	35	64	79	63	73
Total Distribution	2818	2818	2895	2910	3029	2964
		0		0		0
(1000 HA) ,(1000 MT)						