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Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update July 2016

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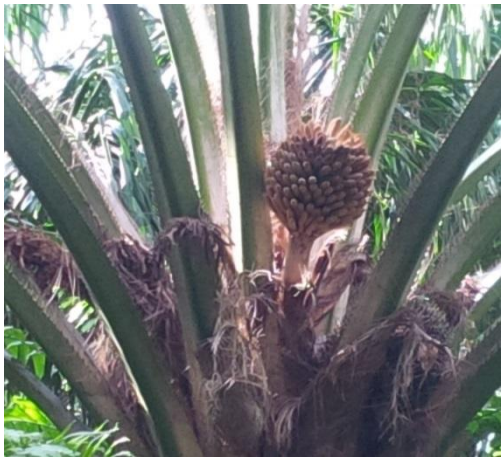
Report Highlights:
Post reduces MY 2015/16 production estimates to 32 million metric tons (MMT), following the 2015 El-Nino weather event that resulted in drought in key production areas. A La Nina event is expected to bring higher than normal levels of rainfall in MY 2016/17, helping palm oil production recover to 33.5 MMT. Indonesia's biodiesel program is driving industrial domestic consumption and is expected to grow to 3.5 MMT, bringing total consumption to 9.62 MMT in MY 2016/17. Soybean production is expected to remain unchanged at 600 thousand MT in MY 2016/17.

Post:
Jakarta

Oil, Palm
Production
An El-Nino weather event resulted in drought throughout Indonesia in 2015, including key palm oil production areas in southern Sumatera and southern Kalimantan. Post field observations in June 2016 verified that production declines are peaking, with plantation managers reporting yield declines as low as 5 percent and as high as 40 percent. Peak yield declines correspond with a lag of approximately six to nine months following dry weather. As a result, fresh fruit bunch (FFB) production has been offset by male flower production by up to 50 percent in some areas. Additionally, FFB are yielding crude palm oil (CPO) at lower rates than normal, mostly due to smaller FFBs with fewer fruits. Considering the severity of production declines in some areas, Post reduces MY 2015/16 production estimates to 32 million metric tons (MMT).

Despite low production, the same production areas in southern Kalimantan and Sumatera are currently experiencing new rainfall, raising expectations for normal conditions in 2016/17. Indonesia's national weather agency (BKMG) supports this, forecasting a La Nina weather event in late 2016. A La Nina event will bring higher than normal levels of rainfall. As a result, Post expects that production levels will start their recovery in 2016/17. Given the severity of stress to some of the plantations, however, full recovery is expected to take up to 24 months under normal rain conditions. Post therefore estimates palm oil production will reach 33.5 MMT in MY 2016/17.

Figure 1. Drought Impact: Increasing male flower Production and Small Fruit Bunches



Source: Post field observation, 2016

According to the Ministry of Environment and Forestry (MEF), a draft regulation is being prepared that

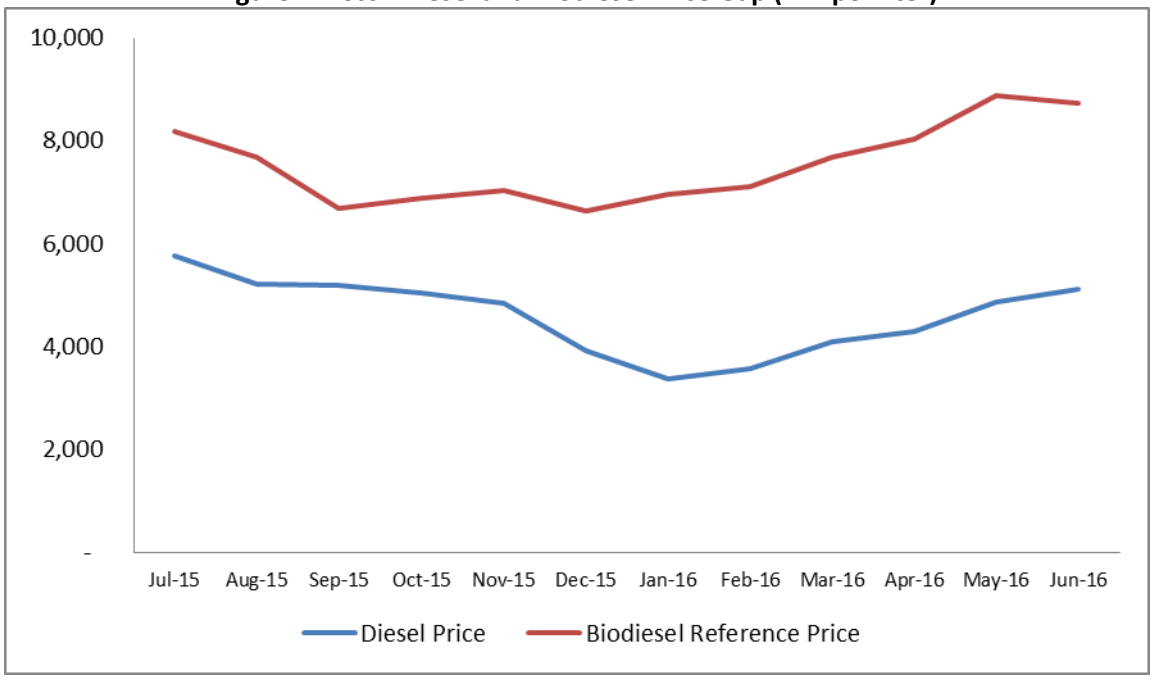
will implement a new moratorium on palm oil plantation expansion. A peatlands forest moratorium was already established in 2011. MEF stated that 950 thousand hectares of forestland conversion permits have already been suspended for palm plantation since the President's moratorium order in April 2016. 950 thousand ha is the equivalent of 11 percent of Indonesia's total existing planted areas.

Consumption

Indonesian palm oil consumption has been transformed through biodiesel blending and a subsidy program implemented in mid-2015. Biodiesel consumption had fallen close to zero by early 2015, but surged ahead following the creation of a levy charged on palm oil exports. Funds gathered through the levy are used to make up the difference between fossil fuels and palm oil-based biodiesel. As a result of the levy program, more than 700 million liters of biodiesel were subsidized in the first quarter of 2016.

The Government of Indonesia (GOI) created the Plantation Fund Agency (BPDPKS) to manage the income generated by the levy as well as distribute the subsidy. BPDPKS reports that the value of the levy in 2016 will reach approximately IDR 9.5 trillion, or 698 million US dollars. Additionally, BPDPKS reports that initial estimates expected fossil fuel prices to stabilize at higher levels than what has occurred. As a result, analysts believe that Indonesia may be able to subsidize between 2.5 – 2.8 billion liters of biodiesel in 2016.

Figure 2. Fossil Diesel and Biodiesel Price Gap (IDR per liter)



Source: indexmundi, MEMR (Ministry of Energy of Mineral Resource)

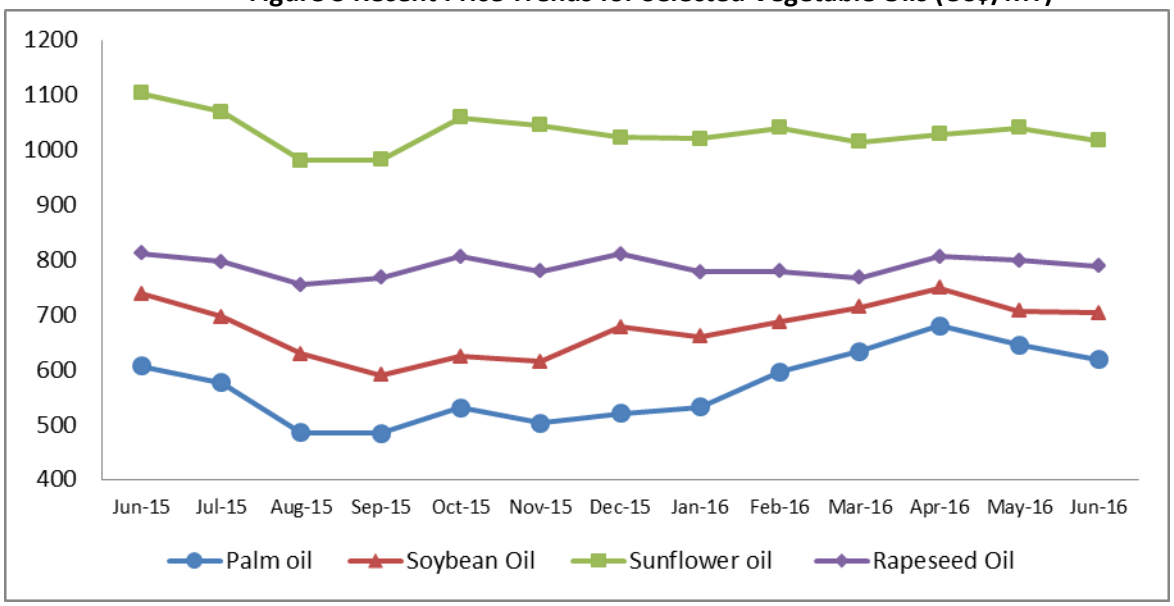
According to the GOI's Regulation 24/2016, BPDPKS has a mandate to subsidize biodiesel for electricity generation. However, Indonesia's state-owned electricity company PLN reports that a significant increase in biodiesel consumption for electricity generation is unlikely, as the company is mainly vested in coal burning power plants. They additionally note that B-30 blend is poorly adapted to the few existing diesel powered generators. As a result, biodiesel consumption will remain primarily in the on-road sector.

Considering the above, Post expects that Indonesian industrial palm oil consumption will reach 3.2 MMT in MY 2015/16 and grow to 3.5 MMT in MY 2016/17. Increasing consumption will be driven by biodiesel transportation sector. Domestic food consumption is expected to reach 5.8 MMT in MY 2016/17, an increase of 100 TMT over MY 2015/16. Increases in food consumption are driven by population growth.

Trade

Palm oil prices reached 680 USD/MT in April 2016, their highest level since October 2014. High palm oil prices correspond with low CPO yields related to the El Nino weather event and the growth of biodiesel blending. Despite CPO price increases, palm oil continued to trade at a discount to soybean oil, with the price differential narrowing to 62 USD in May 2016.

Figure 3 Recent Price Trends for Selected Vegetable Oils (US$/MT)

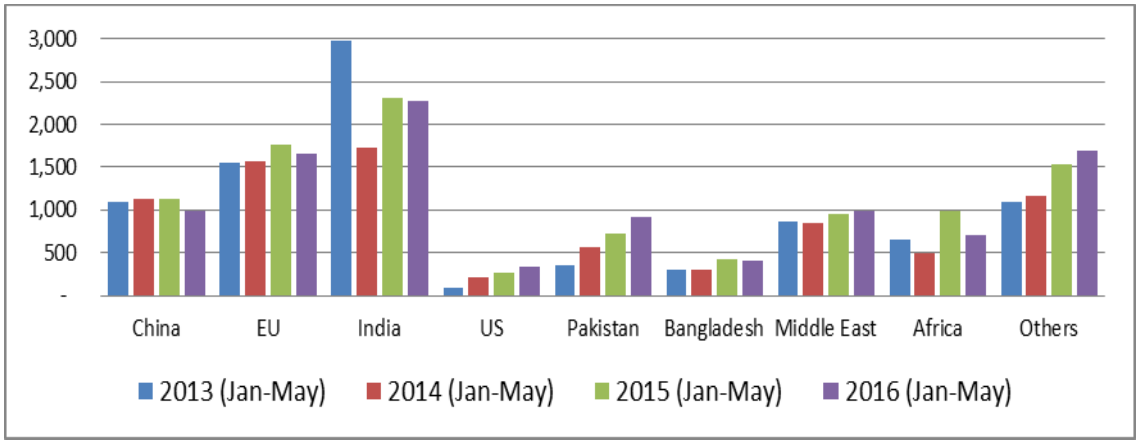


Source: indexmundi

Post expects that Indonesian palm oil exports will decline slightly in 2015/16. The expected decline is the result of palm oil prices, which are further exacerbated by Indonesia's 50 dollar per ton levy on CPO. Additionally, the success of Indonesia's biodiesel blending program is pushing up domestic consumption, offsetting exports. Post notes that export declines to major export destinations have been led by China, the EU, and the African continent. Palm oil exports to China have declined by 12 percent over the previous year, primarily because of softening demand in China due to increased soybean crushing for China's growing livestock sector.

Based on these reasons, Post expects Indonesian palm oil exports will decline from 25.9 MMT in MY 2014/15 to 23 MMT in MY 2015/16. 2016/17 exports are currently estimated at 24 MMT.

Figure 4 Indonesian Palm Oil and Palm Kernel Exports by Destination, TMT



Source: GAPKI

Stocks

Increasing domestic demand is driving down stocks. Ending stocks are revised down to 542 thousand MT in MY 2015/16 and 422 thousand MT in MY 2016/17.

Production, Supply and Demand Data 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	1546	1546	770	762	750	542
Production	33000	33000	33000	32000	35000	33500
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	34554	34546	33770	33262	35750	34042
MY Exports	25964	25964	24500	23000	25750	24000
MY Exp. to EU	3749	3800	3500	3500	3500	3500
Industrial Dom. Cons.	2000	2000	2500	3200	2800	3500
Food Use Dom. Cons.	5500	5500	5700	5700	5850	5800
Feed Waste Dom. Cons.	320	320	320	320	350	320
Total Dom. Cons.	7820	7820	8520	9220	9000	9620
Ending Stocks	770	762	750	542	1000	422
Total Distribution	34554	34546	33770	33262	35750	34042
		0		0		0
(1000 HA) ,(1000 TREES) ,(1000 MT)						

Oilseeds, Soybean

Production

Post field observations in Central Java confirm that prices are too low to induce additional soybean production. Dry weather throughout 2015/16 resulting from an El Nino phenomenon helped further drive down soybean harvested area in favor of shorter duration crops such as mung beans. This is confirmed by seed dealers, who noted a slight decline in soybean sales. As a result, Post estimates that harvested area dropped slightly from 450 to 440 thousand hectares. The resulting production decline is minimal, however, and Post's estimate is therefore left unchanged. The MY 2016/17 Indonesia soybean production estimate also remains unchanged at 600 thousand MT.

Consumption

Soybeans and soybean products such as tempeh and tofu are staple proteins in the Indonesian diet. Indonesian soybean consumption is thus primarily concentrated in the human consumption category. As low cost staple proteins, their consumption is relatively stable, with growth keeping pace with population increases. Based on this analysis, Post estimates Indonesian soybean human consumption will reach 2.77 MMT in MY 2015/16 and 2.79 MMT in 2016/17. Feed soybean consumption is expected to remain stable at 30 thousand MT.

Trade

Indonesia imports approximately 75 percent of its soybean requirement, with U.S. soybeans making up the majority of their imports. Post notes that Indonesian soybean self-sufficiency objectives remain largely unrealized, with local officials and farmers noting that a significant change in local soybean production is highly unlikely. Post therefore expects Indonesia to continue importing soybeans at regular and consistent levels. MY 2015/16 imports are thus estimated to grow to 2.2 MMT and MY 2016/17 will increase to 2.25 MMT.

Table 1: Indonesia Soybean Imports, Reported by Exporters

	2014/15	2015/16
October	59,687	84,818
November	253,089	214,263
December	247,938	123,659
January	165,530	167,437
February	256,607	298,402
March	277,139	269,444
April	156,803	326,513
May	142,277	
June	171,108	
July	90,970	
August	117,917	
September	170,954	
Oct-April Total	1,416,793	1,484,536
Total	**2,110,019**	**1,484,536**

Source: GTIS

Stocks

Indonesian soybean production remains unchanged, while imports and consumption are growing in sync. As a result, stocks remain low. 2014/15 stocks have been revised slightly in order to account for final trade data. 2015/16 and 2016/17 stocks are resulting adjusted to accommodate the slight change in rollover stocks. MY 2015/16 stocks are now set at 34 thousand MT and MY 2016/17 stocks are estimated at 63 thousand MT.

Production, Supply and Demand Data 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	460	500	450	490	450	490
Area Harvested	430	450	450	440	450	440
Beginning Stocks	182	182	65	35	64	34
Production	630	630	600	600	600	600
MY Imports	2006	2006	2300	2200	2400	2250
MY Imp. from U.S.	1900	1945	2200	2000	2300	2000
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2818	2818	2965	2835	3064	2884
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	2870	2770	2970	2790
Feed Waste Dom. Cons.	30	30	30	30	30	30
Total Dom. Cons.	2750	2780	2900	2800	3000	2820
Ending Stocks	65	35	64	34	63	63
Total Distribution	2818	2818	2965	2835	3064	2884
		0		0		0
(1000 HA) ,(1000 MT)						