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Global Agricultural Information Network

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Indonesia

Grain and Feed Update

Indonesia Grain and Feed Update November 2018

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Report Highlights:

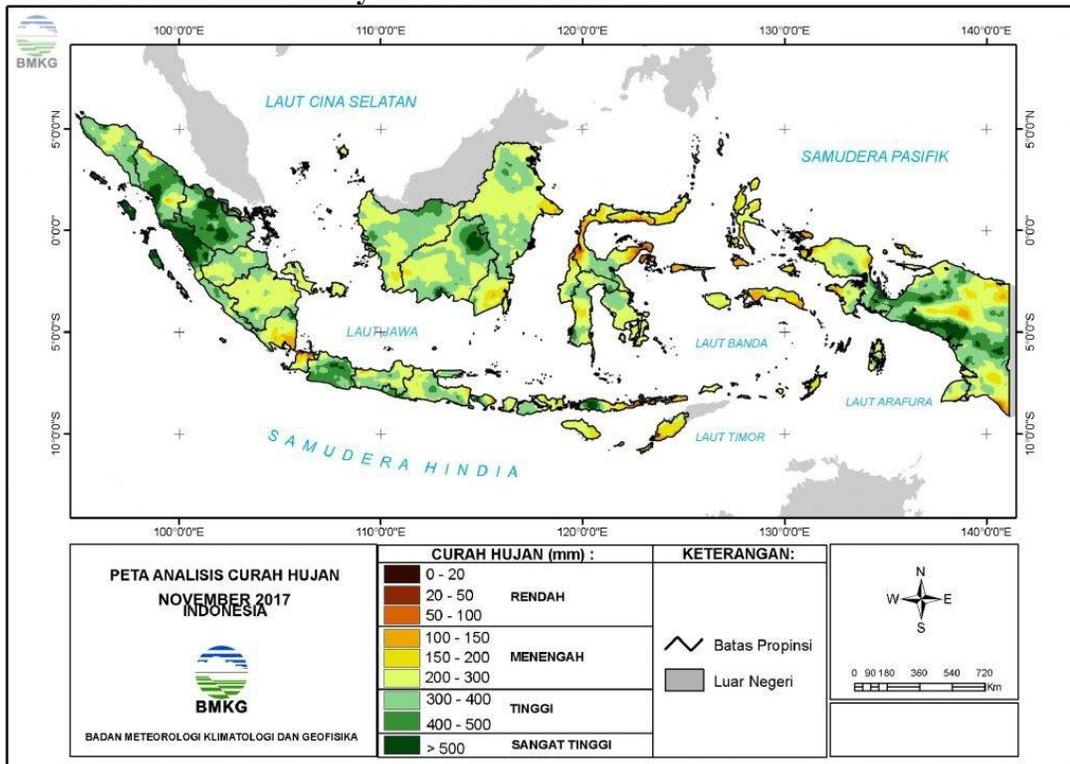
Rice imports in 2017/18 reached 2.15 million tons, the highest level since 2011. Wheat imports are forecast downward due to a weakened rupiah. Following complaints from feed millers about high prices and short supplies, the Government of Indonesia (GOI) authorized 100,000 tons of corn imports for feed use.

Post:
Jakarta

SECTION I. SITUATION AND OUTLOOK

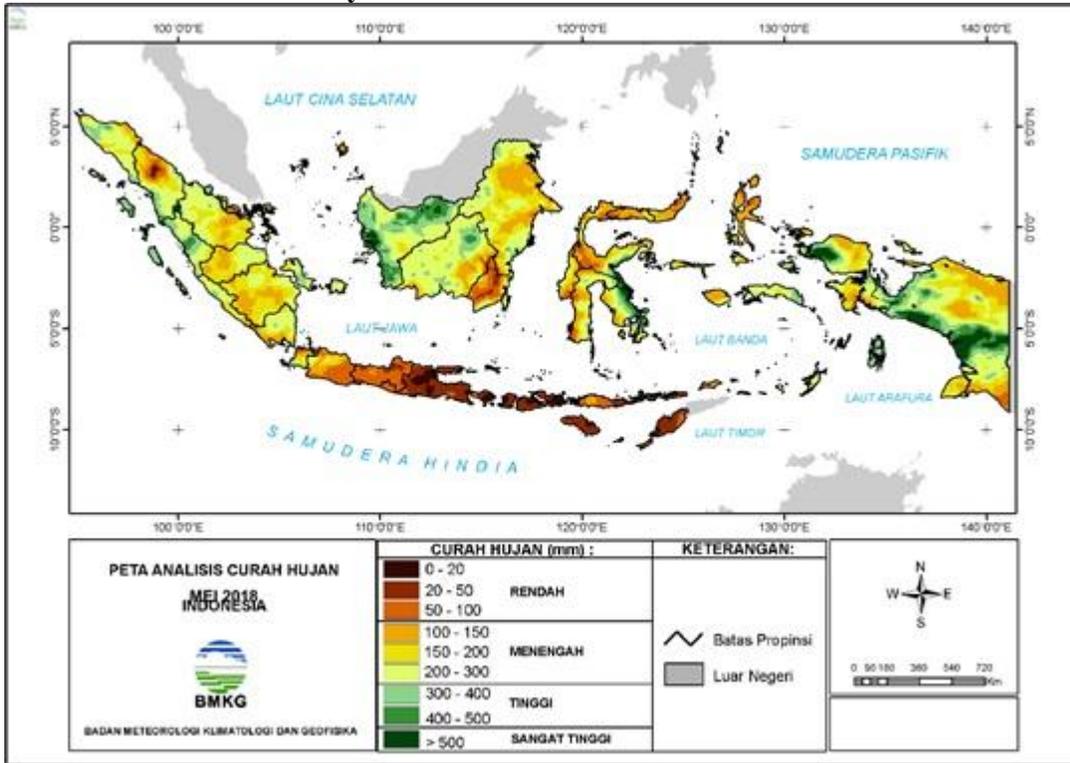
Drier conditions continued during the first crop cycle of 2018/19, which normally starts in October. Some farmers on lowland rain-fed areas are switching to growing corn from paddy during the second crop cycle of MY 2017/18.

Chart 1. Rainfall Intensity in November 2017



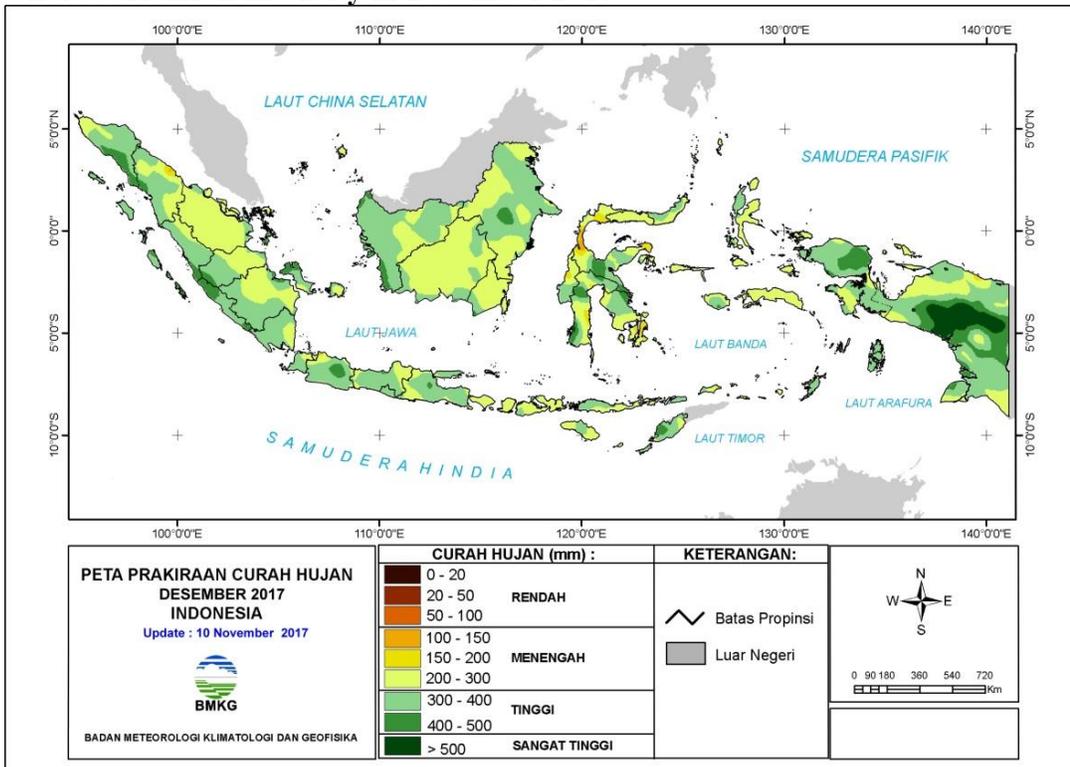
Source: BMKG

Chart 2. Rainfall Intensity in November 2018



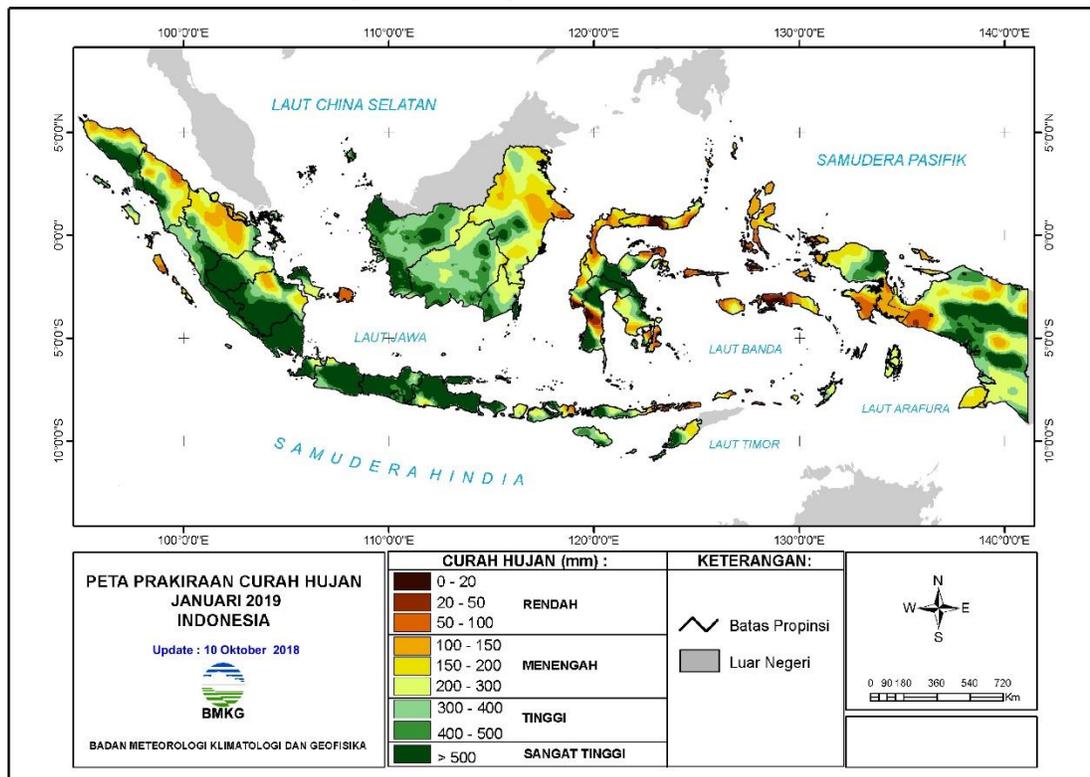
Source: BMKG

Chart 3. Rainfall Intensity in December 2017



Source: BMKG

Chart 6. Rainfall Intensity in January 2019 (forecast)



Source: BMKG

In line with less rainfall, water reservoir levels in major food crop producing areas are lower than the targeted secure level. The following table shows water levels at West Java’s major reservoirs as of November 19, 2018:

Table 1. Water Elevation at West Java Water Reservoirs, November 19, 2018.

No.	Reservoir	Reservoir Volume (Million m ³)	Elevation and Volume				Condition
			Target		Observed		
			Elevation (m)	Volume (Million m ³)	Elevation (m)	Volume (Million m ³)	
1	Jatiluhur	2556.00	100.13	791.87	89.64	n/a	Deficit
2	Cirata	973	212.39	283.91	208.03	n/a	Deficit
3	Saguling	875	635.47	226.69	630.13	n/a	Deficit
Total		4,404.00		1,302.47		n/a	

Source: Indonesian Min. of Public Works, Perum Jasa Tirta II (March 15, 2018), processed by FAS/Jakarta.

Note: “Deficit” indicates water levels lower than target, but above drought condition levels

Wheat

Based on recent trade data, 2017/18 wheat imports are estimated lower at 10.516 million tons compared to the previous estimate of 12.0 million tons. The reduction is primarily due to a weakening rupiah hindering imports (see Table 5). Wheat imports for 2018/19 are forecast to remain at 10.5 million tons.

Corn

Feed milling association data indicates corn consumption for feed is stagnant at 8.5 million tons, despite overall feed production increases. In line with an estimated 5.5 percent overall feed production increase, 2018/19 corn consumption for feed sector is forecast to increase to 8.7 million tons compared to 8.5 million tons in 2017/18.

Rice

Rice imports for 2017/18 are estimated to reach 2.15 million tons, based on realized imports of state-owned purchasing and logistics agency BULOG. Ample stocks will lead to lower imports of 800,000 tons in 2018/19.

WHEAT

Production

Indonesia is fully reliant on wheat imports to fulfill demand by the food industry, households and the feed milling sector.

Trade

Wheat imports for 2017/18 fell short of initial forecasts of 12 million tons due to significant depreciation of the Indonesian rupiah against the US dollar. Imports reached 10.516 million tons, an increase of 340,000 tons from 2016/17. Despite a sharp decline in exports due to drought, Australia remains Indonesia's largest supplier of wheat (30.92 percent), followed by Ukraine (21.35 percent), Canada (16.04 percent) and Russia (13.71 percent). U.S. wheat exports to Indonesia decreased 10 percent in 2017/18 to 1.067 million tons. The United States remains the fifth largest wheat supplier to Indonesia with 9.97 percent market share.

Along with Indonesia's economy, the wheat milling industry is estimated to have grown by five percent in 2017/18. Relatively lower prices for wheat flour and wheat flour-based food compared to rice are shifting consumption away from the Indonesian staple. The Indonesian Flour Mills Association (*APTINDO, Asosiasi Produsen Tepung Terigu Indonesia*) further projects that the total installed capacity of Indonesian flour mills will reach approximately 14.2 million tons by 2024/25. Despite the modest growth, 2018/19 imports are forecast to remain flat at 10.5 million tons as the weak rupiah continues to impede import growth.

According to the Global Trade Atlas, in 2017/18, wheat flour imports declined by 40 percent to 50,507 tons of wheat equivalent, compared to 84,377 tons of wheat equivalent imported in 2016/17. The decline is mainly due to the continued weakness of the rupiah against the U.S. dollar. Domestic flour will continue to dominate the market throughout 2017/18 with a 98.9 percent market share. According to Global Trade Atlas data, Turkey held the largest market share of wheat flour exports to Indonesia (52.15 percent), followed by the Romania (18.2 percent), South Korea (11.57 percent), and Canada (5.59 percent) in 2017/18.

Consumption

Instant noodle prices remain cheaper than rice, causing many lower income consumers to substitute instant noodles for breakfast or dinner. The noodle industry continues to grow rapidly, consuming 70 percent of Indonesia's wheat flour. Bakery industry consumption follows with 20 percent of flour, while household and commercial biscuit producers each consume 10 percent, respectively. Higher consumption of wheat flour-based food increased 2017/18 wheat consumption for food and industrial (FSI) use by 3.65 percent to 8.5 million tons of wheat equivalent compared to 2016/17 of 8.2 million tons of wheat equivalent. Consumption by FSI is forecast to further increase to 8.8 million tons of wheat equivalent in 2018/19.

Government of Indonesia (GOI) continues to ban imports of corn for feed use. The restrictive policy has led feed mills to rely on alternate inputs for fiber in poultry diets as well as in aquaculture and cattle. In addition to increased use of domestic feed ingredients such as rice bran and cassava, feed mills are also using significant volumes of wheat. In line with higher demand overall production of feed, 2017/18 consumption of wheat for feed increased to 2.1 million tons, compared 1.8 million tons in 2016/17.

CORN

Production

Post maintains current production of 11.9 million tons for 2017/18 and 11.95 million tons forecast for 2018/19.

Farmers consider corn as a secondary crop after paddy. The first corn season normally takes place from November to February (49 percent). The second season takes place from March to June (37 percent), while the third runs from July to September (14 percent).

Drier weather that began in May has continued through November 2018. This, combined with competitive corn prices against other secondary crops, has driven some farmers on lowland irrigated areas and upland rain-fed areas to grow more corn over paddy or other secondary crops such as mung bean, peanut, and cassava. However, some of the production increase occurred in more remote areas far away from feed mills such as West Nusa Tenggara and North Sulawesi. Thus, price increases for corn at feed mills' gate have continued to rise. Average prices of corn at the feed mill's gate in North Sumatera reached Rp. 4,800/kg (\$329/ton) in September 2018 from Rp. 4,100/kg (\$281/MT) in May 2018. Average prices in East Java and Jakarta have also significantly increased to Rp. 5,500/kg (\$377/ton) and

Rp. 5,700/kg (\$391/ton) in October 2018 from Rp. 3,850/kg (\$267/ton) and Rp. 4,100/kg (\$285/ton) in May.

Consumption

The feed mills sector consists of 97 feed mills. Installed capacity of the mills is 24.7 million tons while running capacity is 70-71 percent in MY2016/17. Approximately 49 mills are located on Java.

As a result of import restrictions on corn for feed use, feed millers have reduced the percentage of corn in feed formulation from 50-60 percent to 30-40 percent. Therefore, despite increases in feed production (from 17.5 million tons in 2016/17 to 18.4 million tons in 2017/18), consumption of corn for feed remain stable at 8.5 million tons in 2017/18. Consumption of corn for feed is forecast to increase in 2018/19 to 8.7 million tons in line with forecast increase of feed production to 19.3 million tons.

In order to compensate for less use of corn in feed formulation, feed millers have increased their consumption of distillers dried grains and solubles (DDGS). Imports of DDGS in 2017/18 increased by 35 percent to 806,000 tons compared to 598,000 tons during 2016/17. Nearly all of Indonesia's imports of DDGS originate from the United States. (98.5 percent).

Indonesia does not produce dent corn, the preferred variety for wet milling. While restricting imports of corn for feed use by feed mills, GOI allows private companies to import corn for food and industrial use. Recent increases in capacity of the wet milling industry for production of corn starch, corn gluten meal, glucose and fructose is expected to lead to slightly higher consumption of corn for food, seed, and industrial (FSI) use. Post maintains corn for FSI use at 3.85 million tons for 2017/18 and 3.9 million tons in 2018/19.

Trade

Indonesia's corn demand exceeds domestic supply. Domestic production, while modestly increasing, faces challenges due to inconsistent seasonal supplies and poor post-harvest management resulting in high moisture content and high aflatoxin levels. The limited exports that do occur are due to geographic considerations such as the producing area's proximity to neighboring importing countries such as the Philippines. Transportation costs to deliver corn from those areas to feed manufacturing areas in Java and Sumatera are higher than exporting the corn to neighboring countries. Accordingly, exports for 2017/18 are estimated to increase to 210,000 tons compared to previous estimate of 150,000 tons.

Significant price increases in feed producing areas due to shortages of supply from local harvest led self-mixing layer farmers to request GOI intervention to reduce prices by allowing imports. On November 2, 2018, GOI decided to give BULOG authorization to import 100,000 tons of corn for feed. It is expected that Argentina and Brazil will supply the corn to Indonesia, with the shipment arriving in the country by end 2018 or early 2019.

Based on the BULOG purchases, 2018/19 corn imports are forecast to increase to 650,000 tons compared to 550,000 tons imported during 2017/18. According to Global Trade Atlas data, in 2017/18 Indonesian corn imports originated from Argentina (46 percent), the United States (28 percent), and Brazil (26 percent).

RICE, MILLED

Production



Approximately 50 to 55 percent of Indonesian rice production is from Java, while Sumatera and Sulawesi contribute to 20 and 12 percent, respectively. Although only 60 percent of Indonesian paddy field is irrigated, around 85 to 90 percent of Indonesian rice production comes from the irrigated paddy field. Typically, irrigated farms are planted to paddy during the first and second crop cycles (October – February and March – June), and followed by paddy or secondary crops such as corn, mung bean, soybean, peanut, or sweet potato during the third crop cycle (July – October).

Picture: Planting progress of paddy in Central Java, mid Nov. 2018.

Source: FAS Jakarta

The prolonged dry season, extending into November, has provided an opportunity for farmers of some low land paddy fields to switch to growing corn over paddy. It has also pushed back the 2018/19 first paddy planting to mid and late November 2018 from the normal October planting. The planting delay will result in the first main harvest of 2018/19 taking place in March and April, 2019. As a result of some switch to corn, the estimate of 2017/18 harvested area is revised to 12.2 million hectares compared to the previous estimate of 12.25 million hectares. Despite the decline in harvested area, better yields from harvests occurring during the dry crop cycle is expected compensate for the lower area. Post maintains 2017/18 Indonesian milled-rice production at 37 million tons and 2018/19 milled-rice production at 37.3 million tons.

Trade

BULOG set its procurement target at 2.7 million tons of milled rice equivalent for 2017/18. On average, 60 percent of the procurement target is reached by June of each year. However, throughout 2018 BULOG has faced difficulties in procuring domestic paddy due to the high prices of wet and dry paddy and established purchasing price limits (See [ID1808](#)). In order to meet procurement demands, GOI authorized and BULOG imported 1.8 million tons of rice through September, 2018. Additional imports are not expected for 2018. As of October 29, 2018 BULOG's total procurement had reached 2.9 million tons.

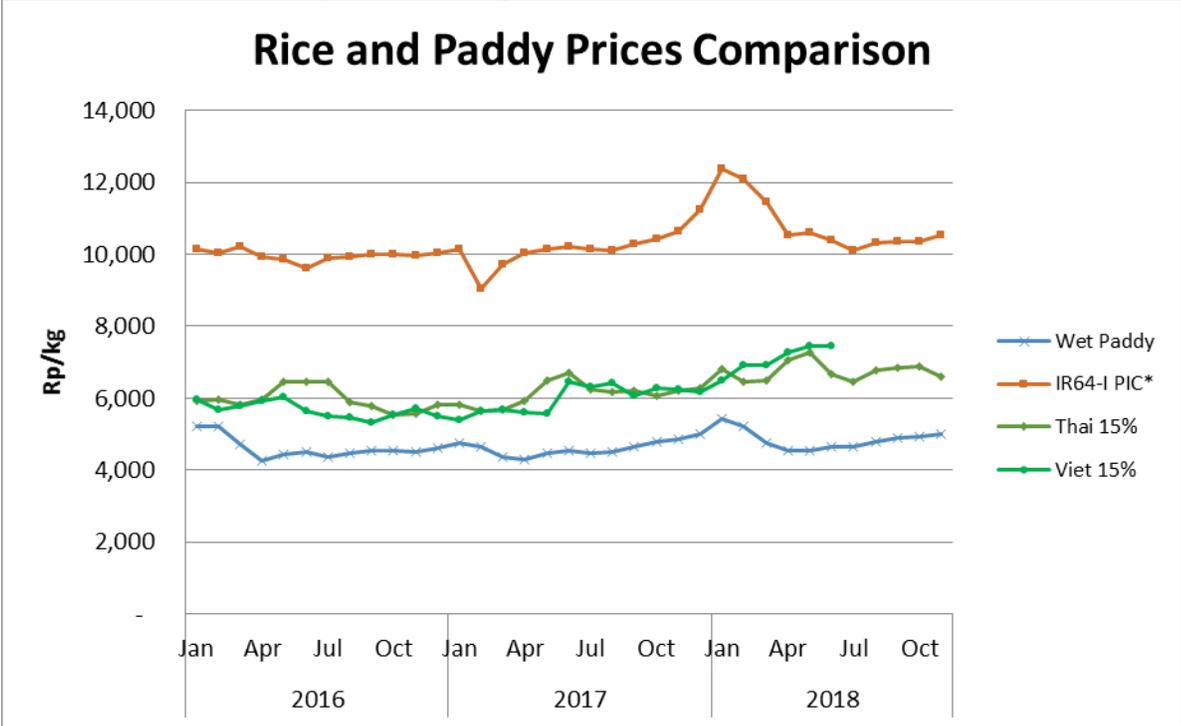
The higher than targeted procurement, and subsequent higher stock levels, resulted in BULOG deciding to distribute three months rice allocations as part of the *rastra* (rice for the poor) program at the beginning of each period. Accordingly, *rastra* for September, October, and November 2018 were

distributed in September 2018. *Rastra* for December 2018, January and February 2019 will be distributed in December 2018.

As of September 2018, BULOG had distributed 960,000 tons of rice under *rastra* and 381,000 tons of rice under market operations. Continuing market sales for the final quarter of 2018 along with *rastra* allocation for December are estimated to leave BULOG with 2.2 million tons of rice stocks at the end of 2018. Under normal *rastra* distribution and market operations this level of stocks should be sufficient to sustain BULOG until the first harvest of 2019, without need for imports.

Millers’ preference to produce premium quality rice over medium quality for better margin has reduced prices of premium quality rice. Due to the longer off-season period, medium rice prices have been steadily increasing since the beginning of October 2018. Wholesale price of IR-64 I at Cipinang wholesale market at the beginning of October 2018 was Rp. 10,275/kg (\$704/ton). The price on November 28, 2018 was Rp. 10,550/kg (\$723/ton).

Chart 7. Rice and Paddy Prices Comparison



Source: BPS, Cipinang rice wholesale market, USDA GAIN reports, processed by FAS/Jakarta.

Considering the abovementioned situation, 2017/18 imports are estimated to reach 2.15 million tons compared to 350,000 tons imported in 2016/17. Imports for 2018/19 are forecast to decline to 800,000 tons due to expected higher production and larger carry-over stocks.

According to Global Trade Atlas, during the period of January to September 2018, Indonesia sourced the imported rice from Vietnam (36 percent), Thailand (34 percent), Pakistan (17 percent), and India (11 percent).

Consumption

Indonesia's per capita rice consumption continues to decline as consumers increasingly switch to wheat flour-based foods such as instant noodle and bread. Increasingly diversified diets among growing middle and upper-middle income consumers is creating demand for Western staples, including bread, pasta and pastries. Rice consumption for 2017/18 is maintained at 38.0 million tons. In line with population growth and increased consumption of wheat, 2018/19 rice consumption is forecast to marginally increase to 38.2 million tons.

Stocks

2017/18 Rice ending stocks for 2017/18 are estimated to increase to 4.062 million tons of milled rice equivalent, tracking with rice production increases and increased imports, compared to 2016/17 ending stocks of 2.9 million tons. Ending stocks for 2018/19 are expected to decrease to 3.96 million tons of milled rice equivalent in line with forecast production increase and lower imports.

PSD TABLES

Table 2. PSD: WHEAT

Wheat Market Begin Year Indonesia	2016/2017		2017/2018		2018/2019	
	Jul 2016		Jul 2017		Jul 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1990	1990	1862	1862	1515	1515
Production	0	0	0	0	0	0
MY Imports	10176	10176	10516	10516	10000	10500
TY Imports	10176	10176	10516	10516	10000	10500
TY Imp. from U.S.	1199	1184	1066	1066	0	0
Total Supply	12166	12166	12378	12378	11515	12015
MY Exports	304	304	263	263	300	300
TY Exports	304	304	263	263	300	300
Feed and Residual	1800	1800	2100	2100	1600	2000
FSI Consumption	8200	8200	8500	8500	8600	8800
Total Consumption	10000	10000	10600	10600	10200	10800
Ending Stocks	1862	1862	1515	1515	1015	915
Total Distribution	12166	12166	12378	12378	11515	12015

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 3. PSD: CORN

Corn Market Begin Year Indonesia	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3400	3400	3450	3650	3500	3500
Beginning Stocks	1799	1799	1035	1035	635	925
Production	10900	10900	11400	11900	11900	11950
MY Imports	639	639	550	550	600	650
TY Imports	639	639	550	550	600	650
TY Imp. from U.S.	355	355	0	147	0	180
Total Supply	13338	13338	12985	13485	13135	13525
MY Exports	3	3	250	210	50	10
TY Exports	3	3	150	210	50	10
Feed and Residual	8500	8500	8300	8500	8600	8700
FSI Consumption	3800	3800	3800	3850	3900	3900
Total Consumption	12300	12300	12100	12350	12500	12600
Ending Stocks	1035	1035	635	925	585	915
Total Distribution	13338	13338	12985	13485	13135	13525
Yield	3.2059	3.2059	3.3043	3.2603	3.4	3.4143

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 4. PSD: RICE, MILLED

Rice, Milled Market Begin Year Indonesia	2016/2017		2017/2018		2018/2019	
	Jan 2017		Jan 2018		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12240	12240	12250	12200	12240	12240
Beginning Stocks	3509	3509	2915	2915	3913	4062
Milled Production	36858	36858	37000	37000	37300	37300
Rough Production	58505	58505	58268	58268	58740	58740
Milling Rate (.9999)	6300	6300	6350	6350	6350	6350
MY Imports	350	350	2100	2150	1200	800
TY Imports	350	350	2100	2150	1200	800
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	40717	40717	42015	42065	42413	42162
MY Exports	2	2	2	3	2	6
TY Exports	2	2	2	3	2	6
Consumption and Residual	37800	37800	38100	38000	38300	38200
Ending Stocks	2915	2915	3913	4062	4111	3956
Total Distribution	40717	40717	42015	42065	42413	42162
Yield (Rough)	4.7798	4.7798	4.7566	4.7761	4.799	4.799

Note: Figures in the "New Post" columns are not USDA Official figures.

Table 5. Exchange Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2016	13,846	13,395	13,276	13,204	13,615	13,180	13,094	13,300	12,998	13,051	13,563	13,436	13,330
2017	13,343	13,347	13,321	13,327	13,321	13,319	13,323	13,351	13,492	13,572	13,514	13,548	13,398
2018	13,413	13,707	13,756	13,877	13,951	14,404	14,413	14,711	14,929	15,227	14,764		14,287

Source: Bank of Indonesia

Note: Exchange rate is Rp. 14,592/USD 1, as of November 22, 2018.