

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 7/25/2014

**GAIN Report Number:** ID1427

## Indonesia

### Oilseeds and Products Update

#### Indonesia Oilseed and Products Update July 2014

**Approved By:**

Thom Wright

**Prepared By:**

Thom Wright, Edy Wiyono

**Report Highlights:**

Indonesia expects a weak to moderate El-Nino phenomenon to arrive during the October to December 2014 period. Crude Palm Oil (CPO) and soybean production are expected to remain stable throughout marketing year (MY) 2013/2014, with delayed effects to CPO production possibly occurring in MY 2014/2015. Historical data suggests that Indonesian CPO production may remain unchanged despite El-Nino. Changes in Indonesia's domestic palm oil consumption estimates may occur if Indonesia does not meet its national biodiesel target this year.

**Post:**  
Jakarta

**Commodities:**

**Executive Summary:**

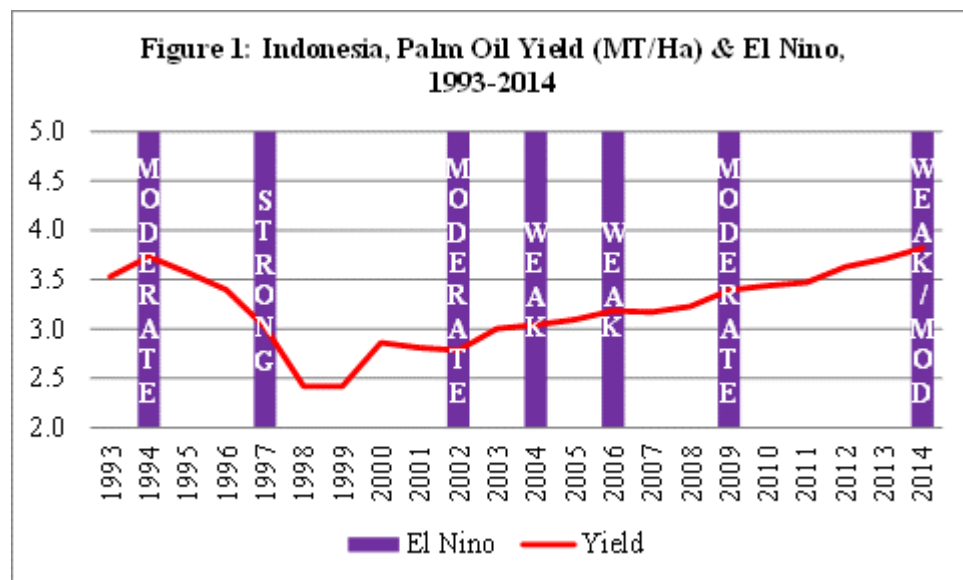
**Author Defined:**

Commodities:  
Oil, Palm

**Production**

Indonesian crude palm oil (CPO) production is expected to reach 31 million metric tons (MMT) in marketing year (MY) 2013/2014, and 33.5 MMT in MY 2014/2015. Post does not expect negative consequences to CPO production this MY from the El-Nino forecast for the end of 2014. El-Nino, however, may cut CPO production in the next MY.

The National Weather Office (BMKG) recently released an El-Nino alert based on estimations from leading international weather and climate agencies. BMKG said that Indonesia may experience a weak-to-moderate El Nino in the last quarter of 2014. An El-Nino event causes abnormal drought conditions in Indonesia that can reduce palm oil yields. The response of palm oil yields to drought incidence, however, is not immediate. Typically the impact of drought on palm oil yields take nine months to appear. El-Nino related CPO production drop, therefore, will occur in the third quarter of 2015, suggesting that Indonesia may register lower-than-estimate CPO production in MY 2014/2015.

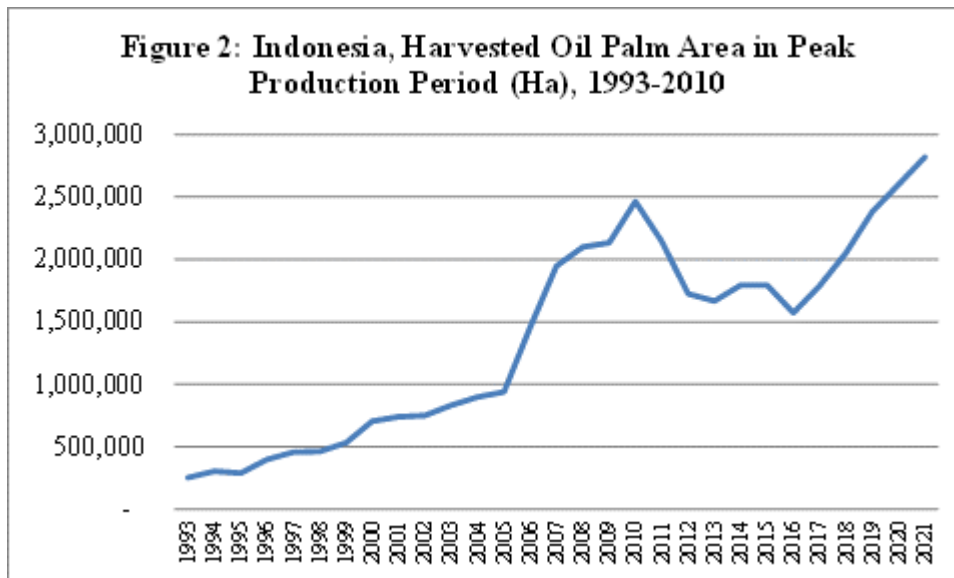


Source: USDA and BMKG

Historical data between Indonesian palm oil yields and El-Ninos suggests that palm oil yields are resistant to weak and moderate El-Ninos, at least since 1998 (see figure 1). Data thus suggests that in spite of El-Nino, 2014 palm oil productivity may stay healthy and Indonesian CPO production may be

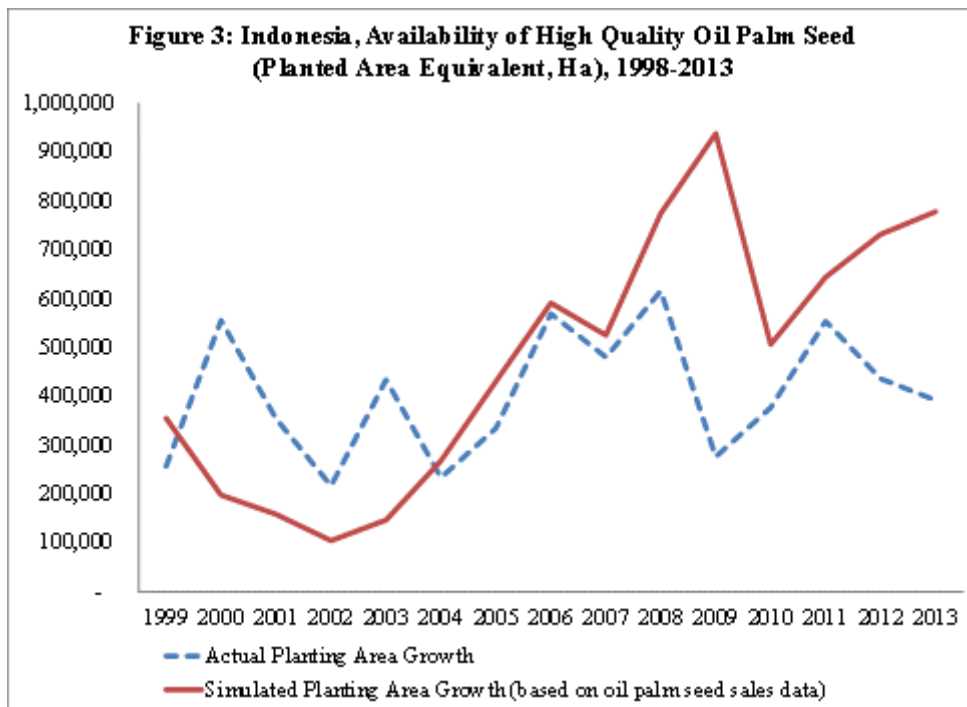
on target in MY 2014/2015. Explanations why palm oil yields have been more resistant to El-Nino since 1998 include:

- **Growing population of oil palm trees in peak production phase.** Oil palms enter their peak production period at 10 to 14 years. A higher population of oil palms in peak production stages is expected to help maintain production growth. Post estimates based on planted area data from 1979 to 2015E show that oil palm populations in peak production stages increased from 500,000 in 1999 to 2.5 million hectares in 2010. A high population of productive trees contributes to palm oil yield resilience during EL-Nino events from 1999-2010. While the calculation shows that optimal plantings peaked in 2010, the population remains high enough to minimize El-Nino risk.



Source: Indonesian Palm Oil Board (recalculated)

- **The wider use of high quality (certified) seed since 2004 has increased plantings of drought-tolerant oil palms.** Figure 3 shows an additional 1.56 million hectares of oil palm planted area during the 2000-2003 period. Supply of certified oil palm seed, however, could only satisfy 39 percent of that additional area, suggesting that 61 percent of oil palm seeds planted during that period were uncertified. Supply of certified seeds has met annual demand since 2004 thanks to the expanding capacity of local oil palm seed breeders.



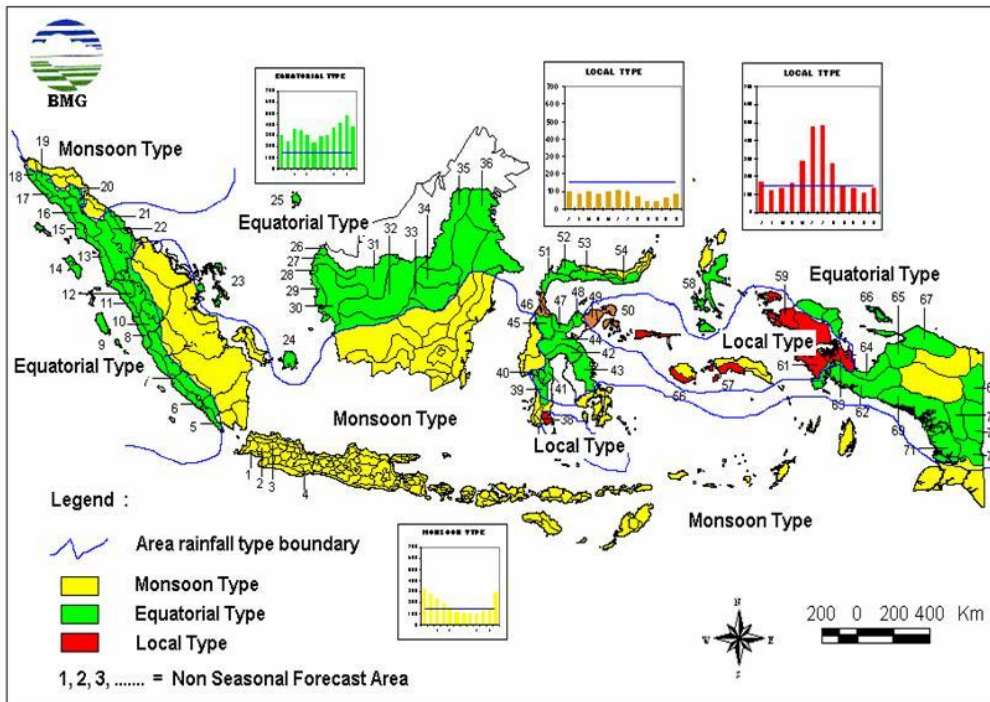
Source: Communication Forum of Oil Palm Seed Producers (recalculated)

- Major palm oil growing islands in Indonesia are less sensitive to El-Nino due to their unique climate types.** Indonesia, based on rainfall characteristics, can be broken down into three climate types: monsoon, equatorial, and local (*see figure 4*). Studies [1] show that the impact of El-Nino is strong in monsoon areas and weak in equatorial areas. 52 percent of Indonesian oil palm area is located in equatorial zones, implying that more than half of oil palm area in Indonesia is less influenced by El-Nino events. Other research [2] studying the correlation between El-Nino and rainfall shows that the lowest correlation is found in central Sumatra most of Kalimantan. The study thus estimates that El-Nino will have little influence on approximately 63 percent of total oil palm area.

<sup>[1]</sup> Tjasyono, B., Ruminta Lubis, A., Harijono, S.W., dan Juaeni, I. (2008). Dampak variasi temperatur samudra pasifik dan hindia ekuatorial terhadap curah hujan di Indonesia. Jurnal Sains dan Dirgantara, 83-95.

<sup>[2]</sup> Tristania, Sona. (2012). Pengaruh El Nino modoki terhadap curah hujan di Indonesia. Institut Teknologi Bandung.

**Figure 4: Indonesia, Three Climate Type based on Rainfall Characteristic**



Source: BMKG

## Consumption

Recent data shows that Indonesian palm oil consumption may reach lower-than-estimated levels in the current and next MY due to the national biodiesel program not reaching its intended potential in 2014. Post nonetheless maintains its current estimate and will continue to evaluate data prior to revising consumption estimates.

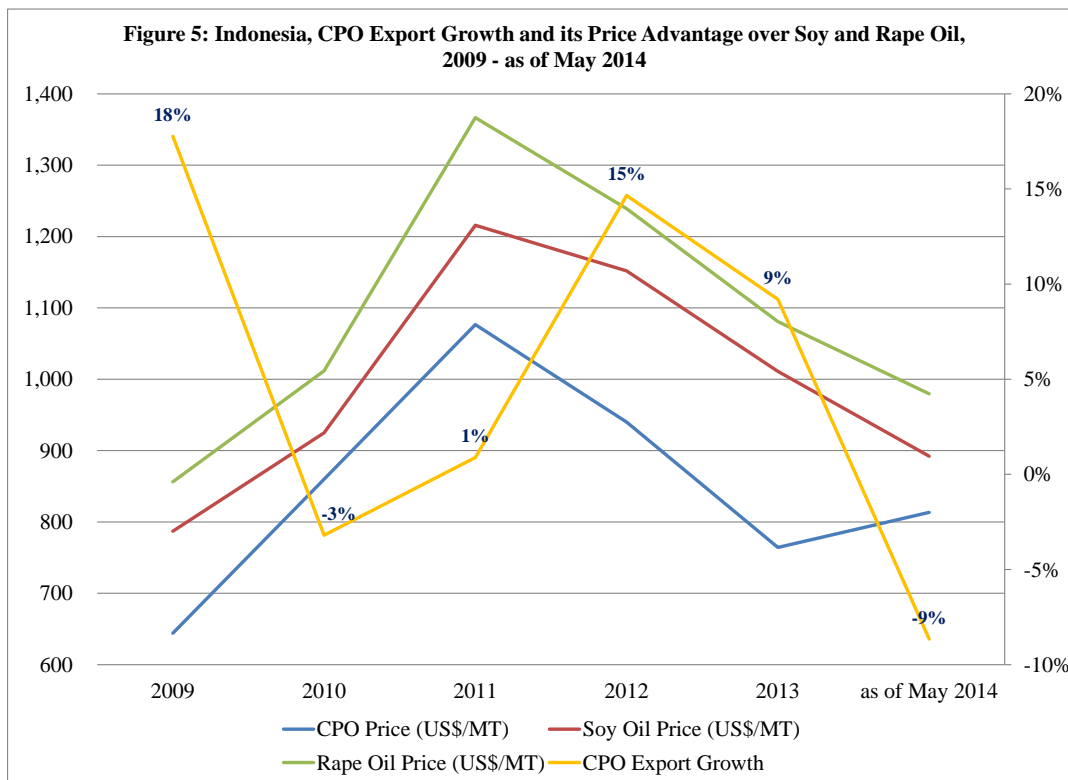
There are three sectors involved in Indonesia's biodiesel program: subsidized diesel oil, power plants, and non-subsidized diesel oil. According to the Ministry of Energy and Mineral Resources, biodiesel blending with subsidized diesel oil will reach 1.34 billion liters in 2014, 82 percent of the initial 1.644 billion liters target, due to limited distribution infrastructure throughout Kalimantan and eastern Indonesia. The power plant and non-subsidized diesel oil sectors are the least ready support the national biodiesel program. The contribution of those two sectors, therefore, is expected to be insignificant to the expansion of Indonesian biodiesel consumption in 2014.

## Trade

Indonesian palm oil exports are predicted to remain stagnant at 20.4 MMT in MY 2013/2014 due to strong price competition from soybean oil. Vegetable oil prices have trended downward over the last three years (see figure 5). While CPO has maintained its price competitiveness over rape and sunflower oil, its price advantage is waning against soy oil. Data shows that soy oil price premiums over CPO

declined in the January-May 2014 timeframe, suggesting that soy oil price competitiveness is almost on par with CPO. Consequently, Indonesian CPO export performance declined by minus 9 percent in the first four months of 2014.

China and India are the largest palm oil export markets for Indonesia. These two countries, however, are also soy oil consuming countries. Trade data shows that China and India's soy oil imports increased 33 percent and 120 percent, respectively, in the first quarter of 2014 due to the downtrend in soy oil price. By contrast, China and India registered a 3 percent and a 30 percent drop in palm oil imports during the same period.



Source: [www.indexmundi.com](http://www.indexmundi.com) and GTIS (recalculated)

## Production, Supply and Demand Data Statistics:

Oil, Palm Indonesia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	9,935	0	10,325	0	10,640
Area Harvested	7,685	7,685	8,115	8,115	8,540	8,540
Trees	0	1,490,250	0	1,548,750	0	1,596,000
Beginning Stocks	1,445	1,445	1,758	1,795	2,618	3,055
Production	28,500	28,500	31,000	31,000	33,500	33,500
MY Imports	38	38	40	40	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	29,983	29,983	32,798	32,835	36,118	36,555
MY Exports	20,373	20,373	20,400	20,400	22,000	22,000
MY Exp. to EU	3,494	3,494	3,500	3,500	3,500	3,500
Industrial Dom. Cons.	2,735	2,735	4,100	3,800	5,000	5,000
Food Use Dom. Cons.	4,882	4,845	5,400	5,300	5,900	6,000
Feed Waste Dom. Cons.	235	235	280	280	320	320
Total Dom. Cons.	7,852	7,815	9,780	9,380	11,220	11,320
Ending Stocks	1,758	1,795	2,618	3,055	2,898	3,235
Total Distribution	29,983	29,983	32,798	32,835	36,118	36,555

1000 HA, 1000 TREES, 1000 MT

Commodity:

Oilseed, Soybean

### Production

Indonesian soybean production in MY 2014/2015 remains stable at 620 thousand MT. This may decline slightly in the event of a possible weak El-Nino phenomenon expected for the last quarter of calendar year 2014. Specifically, MY 2014/15 soybean planting will start in October 2014. The first planting typically accounts for 33 percent of total annual harvested area. If an El-Nino arrives at that time, the rainy season may be delayed. In the absence of enough rain in October, soybean farmers will usually either planting or leave the field idle until the next crop cycle.

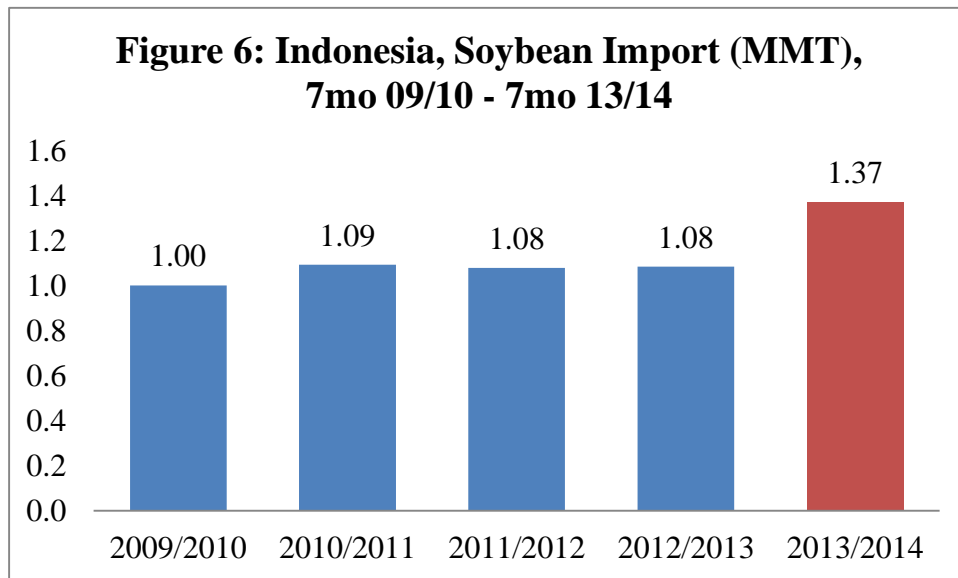
Delayed planting faces two risks. First, delayed planting may result in low quality soybeans if harvest coincides with peak rains in January 2014. Second, farmers will miss their paddy planting window in January and early February 2015. Furthermore, should the El-Nino result in dry conditions throughout October this year, farmers may leave soybean fields idle or grow alternative drought tolerant crops. Post

will continue to monitor the situation and update as required.

### Trade

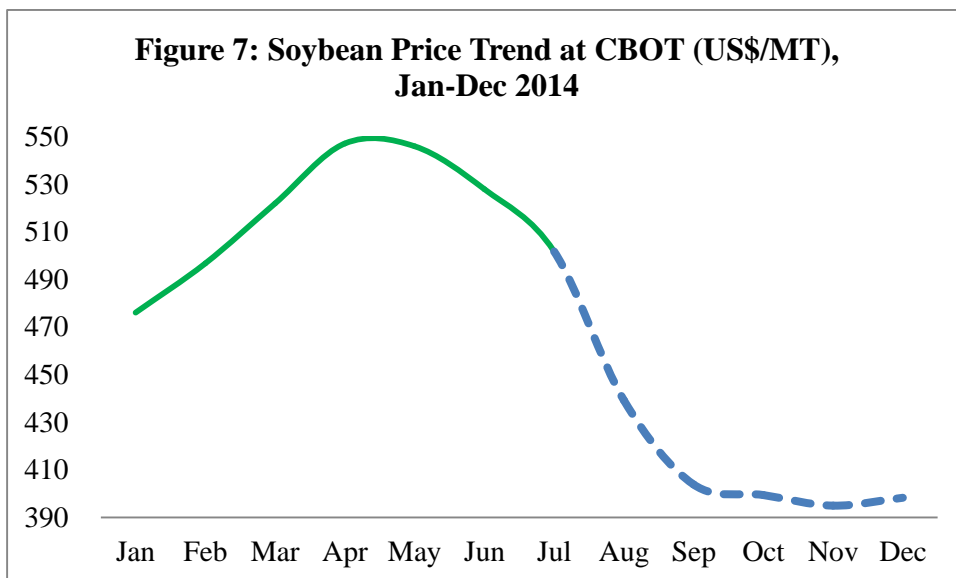
Indonesian soybean imports during the first seven months of the current MY reached a five year high at 1.37 MMT (*see figure 6*) due to the following factors:

- The removal of soybean import barriers and resuming market-based import policies since September 2013.
- The strong likelihood for CBOT soybean prices to continue trending down this year has created a favorable situation for Indonesian importers to increase soybean inventories. CBOT soybean prices have declined from a peak of US\$ 547.19 per MT (April 2014) to the current level of US\$ 501.82. USDA's July 11 estimate indicates higher global soybean production in the current and next MY that will pave the way for further soybean price declines. Futures prices of soybeans as of July 11, 2014 suggest that CBOT soybean price may further decline (*see figure 7*).



Source: GTIS





Source: CME Group and Index Mundi

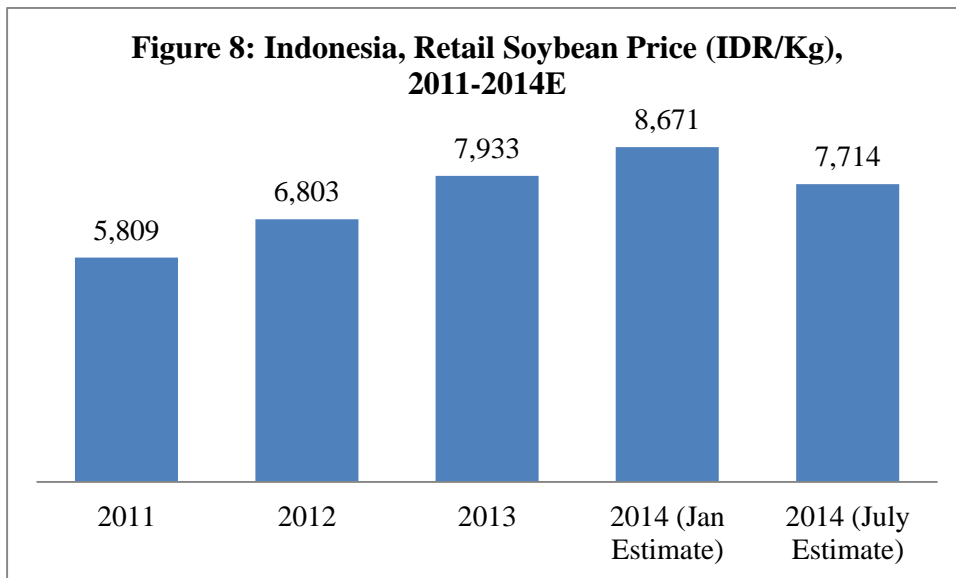
Notes: Green line → average monthly price

Blue dashed line → CBOT future price as of July 11, 2014

Based on the import performance of the current MY's first 7 months suggests that Indonesian soybean imports may reach 2 MMT in MY 2013/2014, followed by declines in MY 2014/15 to normal levels around 1.95 MMT.

### Consumption

Indonesia's tempeh and tofu industries account for 90 percent of Indonesia's total domestic soybean consumption. While the Indonesian rupiah (IDR) remains weak against the U.S. dollar, the tempeh and tofu industries are expected to enjoy favorable soybean retail prices this year due to soybean price declines on the CBOT.



*Source: Indonesian Central Bank and USSEC Indonesia*

Post's January 2014 estimate shows the possible increase in average retail soybean prices from IDR 7,933 per kilogram in 2013 to IDR 8,671 per kilogram in 2014. Recent IDR values against the U.S. dollar and CBOT soybean prices, however, suggest average retail soybean prices may decline slightly over the previous year (*see figure 8*).

**Production, Supply and Demand Data Statistics:**

Oilseed, Soybean Indonesia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	450	550	450	550	450	550
Area Harvested	450	450	450	450	450	450
Beginning Stocks	51	51	15	15	80	80
Production	600	600	620	620	620	620
MY Imports	1,795	1,795	2,000	2,000	1,975	1,950
MY Imp. from U.S.	1,669	1,669	1,725	1,860	1,825	1,825
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2,446	2,446	2,635	2,635	2,675	2,650
MY Exports	2	2	1	1	0	0
MY Exp. to EU	0	0	0	0	0	0
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	2,400	2,400	2,525	2,525	2,550	2,550
Feed Waste Dom. Cons.	29	29	29	29	30	30
Total Dom. Cons.	2,429	2,429	2,554	2,554	2,580	2,580
Ending Stocks	15	15	80	80	95	70
Total Distribution	2,446	2,446	2,635	2,635	2,675	2,650

1000 HA, 1000 MT