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## Indonesia

### Oilseeds and Products Update

#### Indonesia Oilseeds and Products Update November 2014

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**Report Highlights:**

Post revises 2013/14 crude palm oil (CPO) production down by 500,000 metric tons (MT) to 30.5 million MT. Indonesian 2013/14 palm oil exports are revised upward from 20.4 million MT to 21 million MT. MY 2013/14 soybean production is revised upward to 675 thousand MT. Initial concerns for a strong El Nino weather phenomenon have subsided. The U.S. National Weather Service downgraded its confidence in a late 2014 El Nino event from 80 to 58 percent, noting that if an El Nino event does occur, it will be weak. As a result, 2014/15 palm oil and soybean production are unchanged.

**Post:**  
Jakarta

**Executive Summary:** Post revises 2013/14 crude palm oil (CPO) production down by 500,000 metric tons (MT) to 30.5 million MT. Biodiesel growth and blending mandates are helping to expand industrial consumption of palm oil by 39 percent in 2013/14 over 2012/13, and are expected to grow 31 percent in 2014/15. Indonesian 2013/14 palm oil exports are revised upward from 20.4 million MT to 21 million MT.

Initial concerns for a strong El Nino weather phenomenon have subsided. The U.S. National Weather Service downgraded its confidence in a late 2014 El Nino event from 80 to 58 percent, noting that if an El Nino event does occur, it will be weak. As a result, 2014/15 palm oil and soybean production are unchanged. Low soybean prices have fueled imports and stock building. Post estimates that Indonesian importers are 20 percent ahead of their estimated demand, and as a result, will roll higher than expected stocks into 2015. Industry contacts report that traders expect soybean prices to rise in the new year, implying that higher beginning stocks will keep 2014/15 imports below levels seen in 2013/14, and that consumption will drive down 2014/15 ending stocks. MY 2013/14 soybean production is revised upward to 675 thousand MT, based late onset rains that resulted in improved quality and exceptional productivity for soybean farmers.

## **Palm Oil Production**

Initial fears of a potential El Nino have weakened, with November rains arriving in several production areas of Sumatera. The U.S. National Weather Service is now forecasting a 58 percent chance of a late onset El Nino, lowering their original forecast. Although the threat to palm oil production appears low, the adverse effects of dryness on palm oil yields are typically delayed by 6 to 9 months. Looking ahead to 2014/15, a late onset El Nino phenomenon in early 2015 could result in slight production declines towards the end of the marketing year (MY). Post will continue to monitor the situation, but notes that even if yields decline, the overall results of less than optimal weather will be offset by expanded planted and harvested area. Post estimates indicate that there are approximately 1.7 million hectares of Indonesian palm oil plantation at peak production levels. (Palm reaches peak production between 10 and 14 years). Post revises 2013/14 crude palm oil (CPO) production down by 500,000 metric tons (MT) to 30.5 million MT, reflecting dry periods in Sumatera in 2013. 2012/13 and 2014/15 production are unchanged.

## **Consumption**

Post consumption estimates remain unchanged for current year, previous year and out year. Indonesian palm oil consumption continues to grow, both in terms of human and industrial consumption. A key portion of this transformation is Indonesia's biofuels program, (specifically the biodiesel portion) which has helped push up 2013/14 industrial consumption by approximately 39 percent over 2012/13. The trend extended into 2014/15 industrial consumption, growing by approximately 31 percent year on year. Biofuels industry representatives report that Indonesia's biodiesel subsidy has helped Indonesia adopt B10 blends rapidly. Reports indicate that Indonesia is on track to reach its B10 target of 3.3 million tons by the end of calendar year 2014. Encouraged by the success of the program, Indonesia is pushing to expand biodiesel to B20. Blending infrastructure remains a barrier to the expansion of biodiesel adoption throughout the archipelago, although the Indonesian Biofuel Association reports that this is becoming less of a problem. They report that B20 adoption will be limited more by budget constraints than by infrastructure development, noting that expansion of the program is directly tied to Government of Indonesia subsidy costs.

## Trade

Indonesian 2013/14 **palm oil exports** are revised upward from 20.4 million MT to 21 million MT. Local sources citing industry data estimate exports at approximately 20.95 million MT, while Post data sources, available through August 2014, place exports at 19.78 million MT. At this pace, with September data remaining, Post expects exports to hit 21 million MT. 2012/13 and 2014/15 trade estimates are unchanged. In response to falling international CPO prices, the government scrapped export taxes effective October 1, 2014. **Indonesia maintains a policy mechanism whereby export taxes on CPO are scrapped when the average price falls below \$750 per MT.**

2013/14 record level imports are being driven by record production and low prices. Industry sources explain however, that low soybean prices are softening demand for palm oil. More important, biodiesel industry contacts indicate that the growth of Indonesia's industrial consumption may start to reduce some export availability. Although this scenario is feasible, it is likely several years away. Additionally, increased industrial consumption may be offset by future declines to EU destination exports. Under current conditions, however, Indonesian palm oil exports have not dropped off significantly to the European Union, despite EU policies intended to discourage them.

Indonesian exports to the United States are on track to reach 430 thousand MT in 2014. The United States imports refined palm oil almost exclusively, although some small quantities of CPO are also imported. The United States imposes no tariff on Indonesian palm oil. Indonesia is the second largest supplier of palm oil to the United States, following Malaysia.

## Stocks

2013/14 stocks are revised downward from 2.618 million MT to 1.955 million MT. This is based on lower than expected production and strong exports, partly driven by low CPO prices. 2014/15 Ending stocks are also revised downward, reflecting the previous year's stock decline.

## **Soybean Production**

MY 2013/14 soybean production is revised slightly upward based on higher than expected yields. Industry contacts report that late onset rains resulted in improved quality and exceptional productivity for soybean farmers. As a result, Post revises the production number up to 675 from 620 thousand MT.

Initial concerns for a strong El Nino weather phenomenon have subsided. The U.S. National Weather Service downgraded its confidence in a late 2014 El Nino event from 80 to 58 percent, noting that if an El Nino event does occur, it will be weak. Prior forecasts stipulated that an early onset El Nino will result in delayed planting or farmers letting fields lie fallow until the following rice crop. However, Post currently believes that planting is on schedule, with some light rains already having arrived in the soybean production areas of central Java. As a result, the 2014/15 production forecast remains unchanged.

## **Trade**

Trade data indicates that soybean arrivals are 20 percent ahead of the October-August period three year average. Industry sources indicate that low prices and record supply are driving imports in anticipation of a price correction later in 2014 or early 2015. Current imports through August have already exceeded Post's previous forecast of 2 million MT, reaching 2.14 million MT. As a result, Post revises the 2013/14 import number up 200 thousand MT to 2.25 million MT.

2013/14 imports appear to exceed consumption, implying that imports will roll over into 2014/15 beginning stocks, with consumption drawing down 2014/15 beginning stocks. The increase in 2013/14 production is also expected to return to normal levels next year, while consumption will slightly increase, reflecting population growth. As a result, Post adjusts 2014/15 imports up to 2 million MT, still below 2013/14 levels. Post continues to monitor the possibility of a late onset El Nino Phenomenon, which could have the potential to drive down local production, thus spurring additional imports. Post notes however, that at this point, a significant El Nino phenomenon appears unlikely in 2014/15. Post will also monitor Indonesian trade policy changes that may influence 2014/15 soybean imports. The new Government of Indonesia, seated in October 2014, has yet to clarify a specific import policy. While there are no specific threats or opportunities for soybean exports, soybeans are a priority crop for the GOI, and the expectation of new production or trade policies is realistic. For example, some industry sources anticipate that the Government of Indonesia will impose a five percent tariff in 2015 in the event that soybean prices descend below 8000 rupiah per kg.

## **Consumption**

Following the rise in soybean supply, Post revises 2013/14 soybean consumption up from 2.629 million tons to 2.7 million MT. Industry reports say that low prices have stimulated imports, which has resulted in growing stocks. Slow offtake of stocks resulted in storage issues such as discoloration, leading to additional diversion of soybeans for animal feeding/waste. As a result, feed/waste consumption grew to 59 thousand MT from 29 thousand MT, while human consumption grew to 2.645 Million MT from 2.6

million MT in 2013/14. Strong supplies rolling into 2014/15 are expected to push human consumption up from 2.65 to 2.75 million MT.

Indonesian soybean consumption is centered on the tofu and tempeh industry, accounting for an estimated 90 percent of Indonesia's soybean consumption. Post notes that while Indonesia's growing middle class is consuming more meat, soybean-based foods remain popular for their affordability. Price sensitivity remains an important factor as Indonesia is facing high inflation, which is exasperated by the weak rupiah.

## **Stocks**

2013/14 ending stocks are adjusted up to 235 thousand MT from 55 thousand MT. This dramatic rise reflects the upswing in 2013/14 soybean imports. Post analysis indicates that October-August imports are 20 percent ahead of the three year average, mainly due to ample supply and low international prices. Importers are stocking beans with the intention of marketing them following a price correction, which is anticipated for early 2015. Post believes that 2014/15 imports will not keep pace with 2013/14 imports, and therefore expects that 2013/14 ending stocks, rolled over into 2014/15, will drop back down with normal consumption and restrained imports.

## **PSD TABLES**

### **PSD: OIL, PALM**

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	1,955
Production	28,500	28,500	31,000	30,500	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	32,335	36,118	35,455
MY Exports	20,373	20,373	20,400	21,000	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	1,955	2,898	2,135
Total Distribution	29,983	29,983	32,798	32,335	36,118	35,455
CY Imports	1	1	1	1	0	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	20,550	20,550	21,500	21,000	23,000	22,000
CY Exp. to U.S.	50	372	50	430	0	0

Note: The last column of each marketing year is not USDA official data.

## PSD: OILSEED, SOYBEAN

Oilseed, Soybean	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	450	550	450	550	450	550
Area Harvested	450	450	450	450	450	450
Beginning Stocks	51	51	15	15	55	235
Production	600	600	620	675	620	620
MY Imports	1,795	1,795	2,050	2,250	2,200	2,000
MY Imp. from U.S.	1,669	1,669	1,725	2,150	1,825	1,825
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2,446	2,446	2,685	2,940	2,875	2,855
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	2,600	2,645	2,750	2,750
Feed Waste Dom. Cons.	29	29	29	59	30	30
Total Dom. Cons.	2,429	2,429	2,629	2,704	2,780	2,780
Ending Stocks	15	15	55	235	95	75
Total Distribution	2,446	2,446	2,685	2,940	2,875	2,855
CY Imports	1,826	1,785	2,150	2,000	2,200	2,000
CY Imp. from U.S.	1,684	1,643	1,750	1,850	1,850	1,850
CY Exports	2	2	1	1	0	0
CY Exp. to U.S.	0	0	0	0	0	0

Note: The last column of each marketing year is not USDA official data.