

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 7/13/2018

GAIN Report Number: ID1820

Indonesia

Grain and Feed Update

Indonesia Grain and Feed Update July 2018

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Report Highlights:

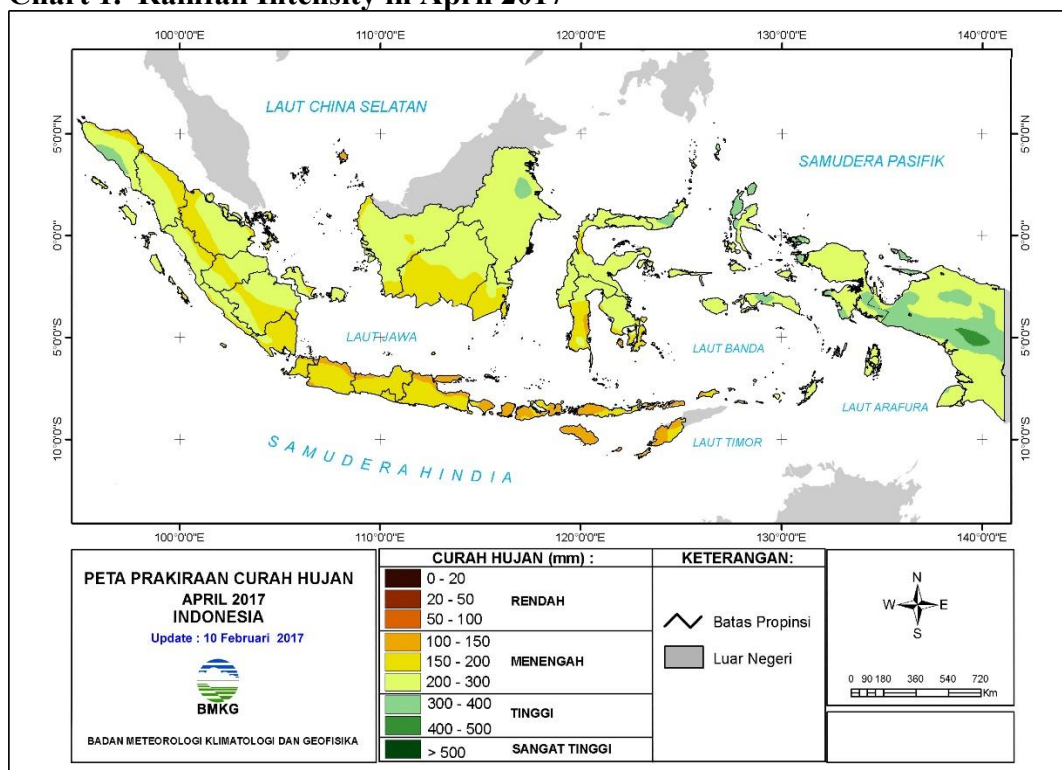
Indonesia's rice imports are expected to reach 2 million tons in 2017/18 due to low stock levels and increased competition from corn plantings. Increased corn production and a weakening rupiah have slowed wheat imports, though demand from both the food and feed sectors are expected to increase in 2018/19

Post:
Jakarta

SECTION I. SITUATION AND OUTLOOK

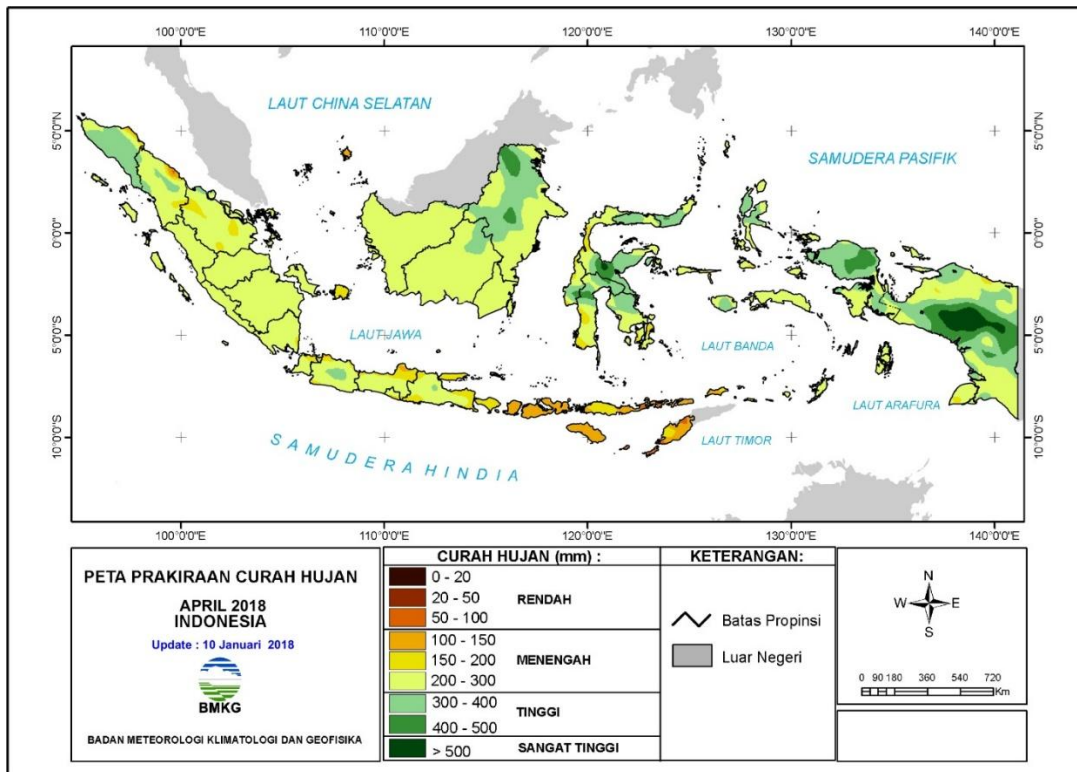
Higher rainfall intensity during the first crop cycle of 2017/18 has provided farmers with favorable conditions to grow paddy. Conversely, these conditions are expected to lead to declining yields for corn. An abrupt weather change at the beginning of the second crop cycle in May 2018 has led to drier conditions compared to the same period of last year. As a result, some farmers on lowland rain-fed areas are switching to corn from paddy.

Chart 1. Rainfall Intensity in April 2017



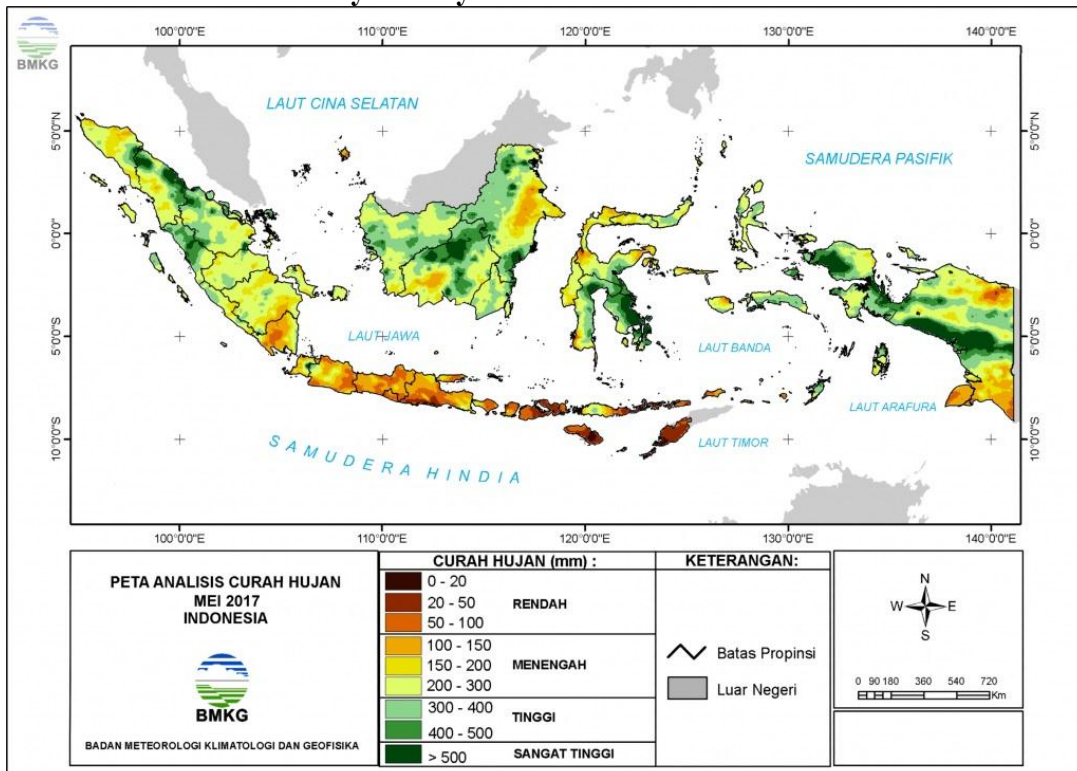
Source: BMKG

Chart 2. Rainfall Intensity in April 2018



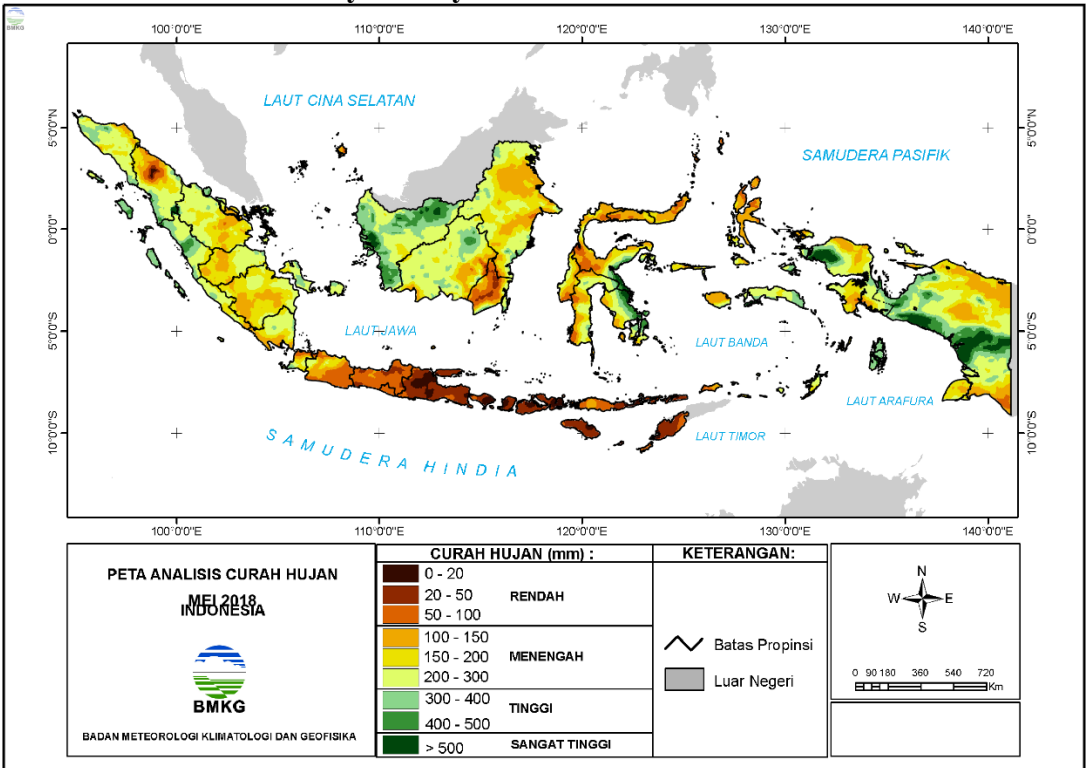
Source: BMKG

Chart 3. Rainfall Intensity in May 2017



Source: BMKG

Chart 4. Rainfall Intensity in May 2018



Source: BMKG

Water reservoirs in major food crop areas are at secure levels. The following table shows water levels in West Java as of June 8, 2018:

Table 1. Water Elevation at West Java Water Reservoirs, June 8, 2018.

No .	Reservoir	Reservoir Volume (Million m³)	Elevation and Volume				Condition
			Target		Observed		
			Elevation (m)	Volume (Million m³)	Elevation (m)	Volume (Million m³)	
1	Jatiluhur	2556.00	100.13	791.87	101.65	n/a	Normal
2	Cirata	973	212.39	283.91	217.37	n/a	Normal
3	Saguling	875	635.47	226.69	640.85	n/a	Normal
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, wheat imports for 2017/2018 are estimated at 12 million tons, 500,000 tons

lower compared to the previous estimate. The reduction is due to lower demand for wheat by feed mills and a weakening Indonesian rupiah. Wheat imports for 2018/19 are forecast to rebound to 12.3 million tons, in line with increased wheat flour-based food consumption and population growth.

Corn

Drier weather at the beginning of the 2017/18 second crop cycle has driven farmers in low land rain-fed areas to switch to planting corn over other food crops. The harvested area expansion is expected to offset lower yields from higher rainfall during the first crop cycle. Accordingly, 2017/18 corn production is estimated to increase to 11.9 million tons compared to the previous estimate of 11.4 million tons. Corn production for 2018/19 is expected to slightly increase to 11.95 million tons. In line with increased availability, 2017/18 corn consumption by the feed sector is expected to increase to 8.7 million tons compared to the previous estimate of 8.4 million tons.

Rice

The 2017/18 harvested area for rice is estimated to decline slightly to 12.2 million hectares due to increased corn plantings. Production for 2017/18 is estimated to remain at 37.0 million tons of milled rice equivalent as a result of better yields due to fewer incidents of pest and disease and increased use of higher yielding varieties. To replenish stocks, Government of Indonesia (GOI) is expected to continue issuing authorizations for importing rice to state-run procurement agency BULOG. Rice imports for 2017/18 are estimated to increase significantly to 2.0 million tons, over 2016/17 imported volumes.

WHEAT

Production

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

Trade

The majority of Indonesia's 27 operating mills are located on Java. Running capacity of the mills reached 70 percent in 2016/17. The industry is estimated to grow by five percent in 2017/18 due to relatively lower prices of wheat flour and wheat flour-based food compared to rice. The Indonesian Flour Mills Association (*APTINDO, Asosiasi Produsen Tepung Terigu Indonesia*) projects total installed capacity of Indonesian flour mills will reach approximately 14.2 million tons by 2024/25.

The weakening Indonesian rupiah and lower demand of wheat by feed mills, as noted by industry association, led to a slowdown of imports during the last semester of 2017/18. Wheat imports for 2017/18 are estimated to decline to 12.0 million tons compared to the previous estimate of 12.5 million tons. There is no change forecast for 2018/19 imports as population growth and demand for wheat flour based-food will continue to drive imports despite a further depreciating rupiah.

The combination of higher demand for feed grade wheat from feed mills and abundant supply from Ukraine and Russia has impacted the primary suppliers of wheat to Indonesia. From July 2017-March

2018 Australia and Ukraine have been the largest suppliers with 28.64 percent and 22.39 percent market share, respectively. Canada (16.6 percent) and now Russia (13.76 percent) followed as the third and fourth largest suppliers. Australia's leading market share is due to the noodle industry's preference for Australian standard white wheat, price, and Australia's close proximity while Ukraine's competitive prices and acceptable quality align with use in traditional cakes and fritters as well as feed use. The United States remains the fifth largest wheat supplier with 11.22 percent market share. U.S. wheat exports to Indonesia in 2017/18 are estimated to reach 950,000 tons.

During the period of July 2017 to April 2018, wheat flour imports declined by 41.4 percent to 45,400 tons of wheat equivalent, compared to 77,493 tons of wheat equivalent imported during the same period of 2016/17. The decline is mainly due to the continued weakness of the rupiah against the U.S. dollar. Domestic flour still holds a nearly 99 percent market share.

Consumption

About 66 percent of Indonesian flour mill customers are small and medium sized wheat-based food producers. These include small scale wet noodle makers, street food vendors, low end bread and bakery businesses, and traditional Indonesian cake makers. Instant noodle manufacturers, middle and upper end bakeries, and cookie and biscuit manufacturers account for the other 34 percent of the market.

Flour production costs have increased as Indonesian electricity and labor rates have risen. This, in addition to the rupiah's weakening exchange rate against the U.S. dollar, has led to increased production costs for mills. As a result, the Indonesian Ministry of Trade's Market Information Center reports that the price of Segi Tiga Biru flour at retail market has been slightly increasing from Rp. 9,281/kg (\$644/MT) on March 13, 2018 to Rp. 9,332/kg (\$648/MT) on April 6, 2018. Industry reports that to adjust to the rupiah's depreciation, wheat flour prices have recently increased by approximately 2 to 3 percent. Despite the price increase, consumption on a per pack basis of instant noodle per one meal time is still cheaper compared to rice.

CORN

Production

Heavy rainfall during the 2017/18 first crop cycle has led to lower yields. Drier weather beginning in May 2018 combined with competitive corn prices against other secondary crops, have driven some farmers on lowland irrigated areas and upland rain-fed areas to grow more corn over paddy or other secondary crops such as mungbean, peanut, and cassava. Average prices of corn at the feed mill's gate in North Sumatera has gone up to Rp. 4,100/kg (\$285/MT) in May 2018 compared to the average prices of Rp. 3,900/kg (\$271/MT) in January 2018. The average prices of corn at feed mill's gate in East Java and Jakarta have been relatively stable at the ranges of Rp. 3,850/kg (\$267/MT) to Rp. 4,100/kg (\$285/MT). Farmers on Java continue taking advantage of Perhutani land (State-administered forestry land) to expand production during the first and second crops cycle of 2017/18.

The local seed industry has reported that seed supply has managed to meet demand. Prices of hybrid corn seed are stable with commercial market price ranges from Rp. 75,000 – Rp. 100,000 per kilogram.

Better yields are expected to be achieved from less pest and disease incidents and drier weather during the second crop cycle. Area dedicated to hybrid corn will reach 55 percent of total area.

Based on the aforementioned factors, 2017/18 corn harvested area is revised higher to 3.65 million hectares compared to the previous estimate of 3.45 million hectares while 2018/19 corn harvested area is forecast to contract to 3.5 million hectares. In line with the increased harvested area, 2017/18 corn production is estimated to increase to 11.9 million tons compared to the previous estimate of 11.4 million tons. Post forecasts increased use of downy mildew resistant and higher yielding hybrid corn seed is estimated to further increase 2018/19 corn production to 11.95 million tons.

Consumption

Uncompetitive prices and high demand have reduced the contribution of corn in the local feed formulation to 30-40 percent. After suffering from reduced margin due to the more expensive domestic corn prices compared to imported corn and other alternative feed ingredients, the weakening rupiah has triggered feed mills to increase broiler feed selling prices to the range of Rp.6,650/kg (\$462/MT) to Rp. 7,150/kg (\$496/MT) in May 2018 from the range of Rp. 6,500/kg (\$451/MT) to Rp. 7,100/kg (\$493/MT) in April 2018. The average prices of layer feed has also increased to the range of Rp.5,000/kg (\$347/MT) to Rp. 5,950/kg (\$413/MT) in May 2018 from the range of Rp. 4,850/kg (\$337/MT) to Rp. 5,800/kg (\$403/MT) in April 2018.

Despite increasing feed costs, commercial poultry feed consumption is still expected to grow over 5 percent to 18.4 MMT in 2017/18, due to increasing demand for processed poultry products which has increased overall live weight at slaughter and number of growing days.

Indonesia's existing corn wet mill capacity of remains unchanged at approximately 330,000 tons per annum. Slightly higher running capacity of the wet milling sector is expected to lead to slightly higher consumption of corn for food, seed, and industrial (FSI) use to 3.85 million tons compared to the previous estimate of 3.8 million tons. Corn consumption for FSI is forecast to continue to increase to 3.9 million tons in 2018/19.

Trade

In line with higher consumption by FSI sector, 2017/18 corn import is estimated to increase to 550,000 tons, compared to 500,000 tons previously estimated. Imports for 2018/19 are forecast to further increase to 600,000 tons, again reflecting higher demand from wet mills. According to Global Trade Atlas, Indonesian corn imports originated from Argentina (45 percent), Brazil (32 percent), and the United States (20 percent) during the period of October 2017 to April 2018.

From October 2017 to March 2018, Indonesia exported a total of 45,250 tons of corn to the Philippines. Traders report that more corn is likely to be exported from the provinces of West Nusa Tenggara and South Sulawesi due to logistical advantages over shipping to Java or Sumatera. Therefore, 2017/18 corn exports are estimated to increase to 150,000 tons compared to the previous estimate of 50,000 tons.

RICE, MILLED

Production

Higher rainfall intensity during the first crop cycle of 2017/18 has provided farmers with opportunity to grow paddy. However, drier weather conditions beginning in May 2018, at the beginning of the second crop cycle, have led some farmers on lowland rain-fed areas to switch to growing corn from paddy. As a result, the estimate of 2017/18 harvested area is revised to 12.2 million hectares compared to the previous estimate of 12.25 million hectares.

The GOI has changed the seed subsidy program scheme in 2017/18 due to low utilization of subsidized seed. Previously, MOA provided the subsidized seeds in collaboration with seed producing state-owned companies. For 2017/18, MOA is attempting to maximize the rural community's role by optimizing 1,000 Independent Seed Villages (villages where there are seed breeders) as part of the government's labor-intensive program that have been established since 2015. The target is to provide seed from the seed breeders at each independent seed village to cover the needs of 3 million hectares (ha) of paddy field, 4 million ha of corn and 500 thousand ha of soybean fields. Farmers will receive the seed for free. The effectiveness of the program remains to be seen. The revised seed distribution scheme along with better yields due to harvest occurring under drier conditions is expected to balance against decreasing harvested area, leaving 2017/18 Indonesian rice production estimate unchanged.



Left picture: Planting progress of paddy in Central Java, mid June 2018. Right picture: early planting of paddy in West Java, May 2018.

Source: FAS Jakarta

The use of high yielding varieties such as Ciherang, Inpari 13, Sinta Nur, and Mekongga by farmers on both Java and outside of Java is expected to continue providing better yields. Therefore, Post forecasts 2018/19 Indonesian rice production to further increase to 37.3 million tons of milled rice equivalent compared to 2017/18 rice production of 37.0 million tons of milled rice equivalent.

Trade

GOI maintains the government purchasing price (*Harga Pembelian Pemerintah, HPP*) for paddy and rice at the same level as stated in Presidential Instruction No. 5/2015 stipulated on March 17, 2015. BULOG can only buy paddy or rice from farmers when the market price is lower than or equal to the HPP. According to presidential instructions, BULOG can buy paddy or rice that meets the following criteria and HPP:

Table 5. Indonesia: Government Purchasing Price for Paddy and Rice 2012-Present

		Inpres 2012			Inpres 2015		
Quality Requirement		Wet Paddy	Dry Paddy	Rice	Wet Paddy	Dry Paddy	Rice
Moisture Content	Max	25%	14%	14%	25%	14%	14%
Empty Husks/Dirt	Max	10%	3%	-	10%	3%	-
Broken	Max	-	-	20%	-	-	20%
Price at farmer's level		Rp. 3,300	-	-	Rp. 3,700	-	-
Price at mill's level		Rp. 3,350	Rp. 4,150	-	Rp. 3,750	Rp. 4,600	-
Price at Bulog warehouse		-	Rp. 4,200	Rp. 6,600	-	Rp. 4,650	Rp. 7,300

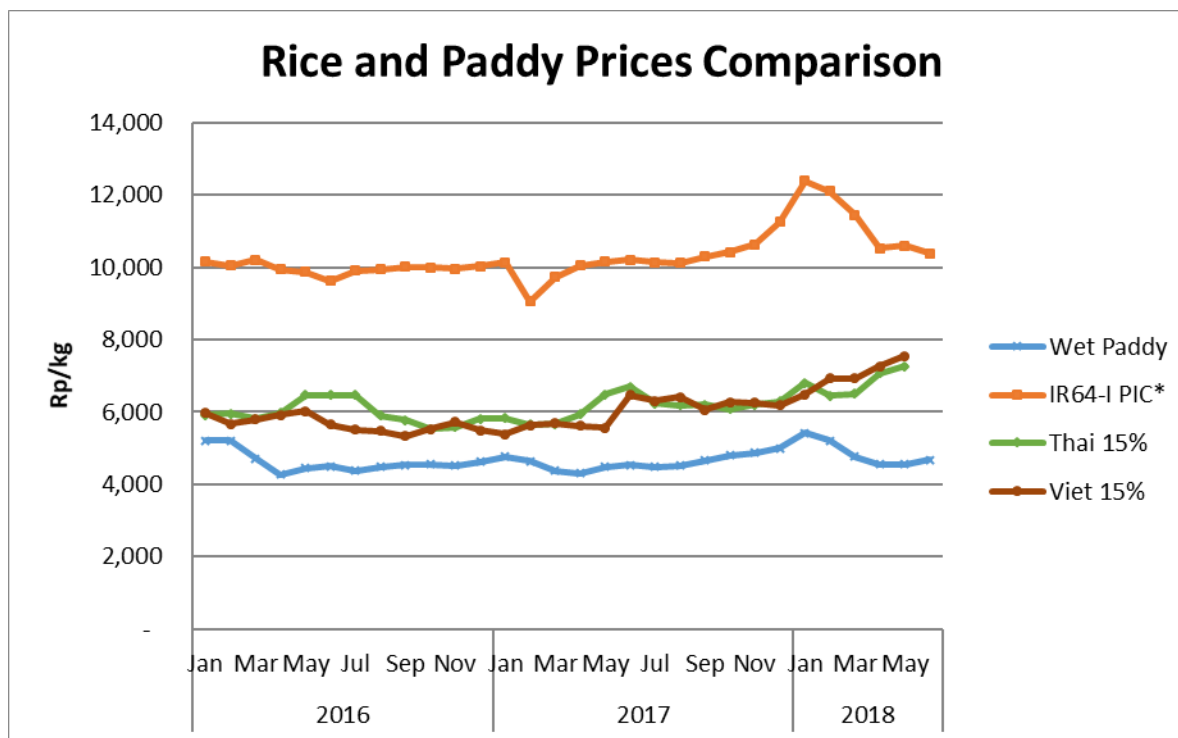
Source: Presidential Instruction No. 5/2015

Nonetheless, Indonesian national statistics agency (BPS) reported that the average price of wet paddy at farmer's level in June 2018 was from Rp. 4,650/kg (\$323/ton), while the average price of dry paddy at mill's level was from Rp. 5,467/kg (\$380/ton), compared to the average prices of wet paddy and dry paddy in May 2018 of Rp. 4,554/kg (\$316/ton) and Rp. 5,373/kg (\$373/ton). The increased prices are due to the ongoing lean season.

BULOG has set its procurement target at 2.7 million tons of milled rice equivalent for 2017/18, normally meeting 60 percent of the procurement target by June of each year. The current high prices of wet and dry paddy have created difficulties for BULOG's domestic procurement.. At the end of June 2018, domestic procurement totaled approximately 900,000 tons of milled rice equivalent. The domestic procurement realization is far below BULOG's procurement of 1.3 million tons during the same period last year.

Millers' preference to produce premium quality rice over medium quality to gain margin has reduced prices of premium quality rice. Prices of premium quality rice at the wholesale market decreased to Rp. 12,365 (\$858/ton) in June 2018 from Rp. 12,636 (\$877/ton) in May 2018. Prices of medium quality rice at the wholesale market have also declined to 10,321/kg (\$717/ton) in June 2018, compared to Rp. 10,588/kg (\$735/ton) in May 2018.

Chart 5. Rice and Paddy Prices Comparison



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

Faced with rising prices prior to the main harvest and BULOG's insufficient stocks to dampen prices, in May MOT instructed BULOG to again import another 500,000 tons of rice in addition to the 500,000 tons of rice imports authorized in January 2018. By the end of June 2018, approximately 800,000 tons of the authorized imported rice had arrived in country. With the arrival of the imported rice and domestic procurement realization, BULOG stocks currently stands 1.6 million tons. BULOG will still need to distribute another 300,000 tons of rice for the poor. Considering the target to have a minimum secure stock level of 2 million tons by the end of the year, especially in facing the upcoming election year of 2019, it seems likely GOI may issue another import authorization.

Considering the abovementioned situation, 2017/18 imports are estimated to increase to 2 million tons compared to 350,000 tons imported in during 2016/17. Imports for 2018/19 are forecast to decline to 800,000 tons due to expected higher domestic production and higher carry-over stocks.

Consumption

Data from the 2013 Indonesian National Economic Survey (Susenas) shows an average decline in per capita rice consumption of 1.62 percent per annum. The decline in rice consumption is partly offset by increasing consumption of wheat flour-based foods such as instant noodle and bread. Relatively stable macro-economic conditions have allowed middle and upper-middle income consumers to diversify their diets to include more western-style foods like bread and pasta. Rather than eating rice three times per day, many Indonesians have switched to eating bread or noodles for breakfast. Restaurants are also driving demand for wheat-based food products. Nonetheless, 2017/18 rice consumption is estimated to increase to 38.0 million tons in line with population growth. For the same reason, 2018/19 rice

consumption is forecast to further increase to 38.2 million tons.

Stocks

Rice ending stocks for 2017/18 are estimated to increase to 3.9 million tons of milled rice equivalent, tracking with rice production increases and increased imports, compared to the previous 2016/17 ending stocks of 2.9 million tons. Ending stocks for 2018/19 are expected to decrease to 3.8 million tons of milled rice equivalent in line with forecast production increase and lower imports.

Policy

On May 22, 2018 Indonesian Ministry of Trade issued regulation number 59/2018 on Rice Labelling. The new regulation requires all rice packers or rice importers to attach a label in Bahasa Indonesia on the package of imported or locally produced:

- a. Premium rice with a maximum 15 percent broken grains, 95 percent milling degree, and 14 percent moisture content.
- b. Medium rice with a maximum of 25 percent broken grains, 95 percent milling degree, and 14 percent moisture content.
- c. Specialty rice to include but not limited to glutinous rice, red rice, black rice, and other special variety rice.

The label must contain:

- a. Brand of the rice.
- b. Type of rice whether it is premium, medium or specialty rice; milling degree, and broken percentage.
- c. Any remarks on blending if the rice is blended with other variety/type of rice.
- d. Net weight in kilogram or gram.
- e. Packing date.
- f. Name and address of the rice packers or rice importers.

If the rice is packed in plastic packages, food grade logo and recycling code must also be attached. The use of other languages, letters, or numerals is allowed when the synonym of the words in Bahasa Indonesia, Arabic, or Latin cannot be identified. The label must be registered with the Ministry of Trade prior to the attachment on the rice packaging. Any packed rice that does not meet the requirement must be withdrawn from distribution. The requirement is exempted on rice directly traded or packed before end user consumers. The regulation will be fully enforced three months following the stipulation date of the regulation which is May 25, 2018.

The goal of the policy is to ensure consumers get what they pay for as mixing of premium and medium quality rice has become more common following the Ministry of Trade issuing a policy on “Maximum Retail Prices (MRP) of Rice” in 2017. The effectiveness of the regulation has been questioned by Indonesian stakeholders as most Indonesian rice is traded in bulk at traditional markets. Customers, especially in rural areas buy rice in small quantities based on daily or weekly demands.

SECTION II. STATISTICAL TABLES

Table 7. 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	1962	1562
Production	0	0	0	0	0	0
Imports	10176	10176	12000	12000	12500	12300
TY Imports	10176	10176	12000	12000	12500	12300
TY Imp. from U.S.	1184	1184	0	950	0	0
Total Supply	12166	12166	13862	13862	14462	13862
Exports	304	304	300	200	300	320
TY Exports	304	304	300	200	300	320
Feed and Residual	1800	1800	2800	3200	3100	2000
FSI Consumption	8200	8200	8800	8900	9400	9300
Total Consumption	10000	10000	11600	12100	12500	11300
Ending Stocks	1862	1862	1962	1562	1662	2242
Total Distribution	12166	12166	13862	13862	14462	13862
Yield	0	0	0	0	0	0

(1000 HA) ,(1000 MT) ,(MT/HA)

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

Table 8. 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	1014	685	764
Production	10900	10900	11400	11900	11900	11950
Imports	639	620	500	550	600	600
TY Imports	639	620	500	550	600	600
TY Imp. from U.S.	355	355	0	100	0	0
Total Supply	13338	13319	12935	13464	13185	13314
Exports	3	5	50	150	50	10
TY Exports	3	5	50	150	50	10
Feed and Residual	8500	8500	8400	8700	8600	8700
FSI Consumption	3800	3800	3800	3850	3900	3900
Total Consumption	12300	12300	12200	12550	12500	12600
Ending Stocks	1035	1014	685	764	635	704
Total Distribution	13338	13319	12935	13464	13185	13314
Yield	3.2059	3.2059	3.3043	3.2603	3.4	3.4143

(1000 HA) ,(1000 MT) ,(MT/HA)

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

Table 9. 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	3905

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
Imports	350	350	2000	2000	1200	800
TY Imports	350	350	2000	2000	1200	800
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	40717	40717	41915	41915	42413	42005
Exports	2	2	2	10	2	6
TY Exports	2	2	2	10	2	6
Consumption and Residual	37800	37800	38000	38000	38200	38200
Ending Stocks	2915	2915	3913	3905	4211	3799
Total Distribution	40717	40717	41915	41915	42413	42005
Yield (Rough)	4.7798	4.7798	4.7566	4.7761	4.799	4.799
(1000 HA) ,(1000 MT) ,(MT/HA)						

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

Table 10. Exchange Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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
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
2018	13,413	13,707	13,756	13,877	13,951	14,404						

Source: Bank of Indonesia

Note: Exchange rate is Rp. 14,404/USD 1, as of June 29, 2018.