

Indonesia CPO Industry

Permata Institute for Economic Research
September 2024

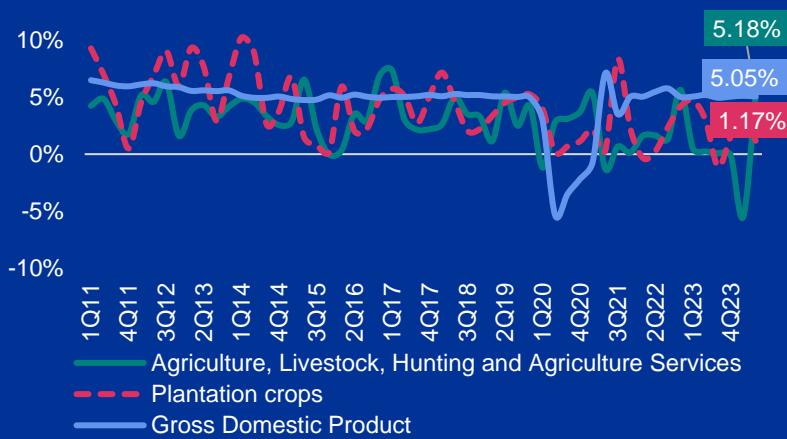


Latest Performance

GDP for Agriculture, Livestock, Hunting, and Agriculture Services recovered in 2Q24 after a significant decline in 1Q24. Following a contraction in 1Q24, the sector's GDP growth in 2Q24 accelerated to 5.18%yoy, slightly surpassing the national GDP growth of 5.05%yoy. The shift in the harvest season due to El Niño, which affected major regions in Indonesia, contributed to the boost in agricultural GDP in 2Q24. Specifically, plantation crops grew by 1.17%yoy in 2Q24, a deceleration from 3.07%yoy in 1Q24, as several commodities, including palm oil, were still impacted by El Niño.

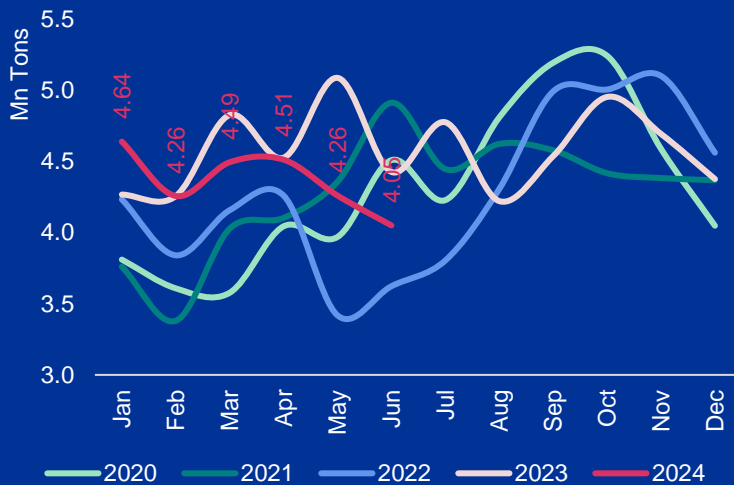
Indonesia's CPO production declined as El Niño affected major CPO-producing regions, while domestic consumption surged. In 1H24, total Crude Palm Oil (CPO) production reached 26.21 million tons, contracting by 4.3%yoy. In contrast, Indonesia's domestic CPO consumption continued to increase in 1H24. During 1H24, domestic CPO consumption amounted to 11.48 million tons, growing by 3.6%yoy. The surge in biodiesel consumption was the main driver of this increase. Biodiesel consumption accounted for 45.22% of total domestic consumption, equivalent to 5.41 million tons, which represented a 14.92%yoy growth. Looking ahead, CPO consumption for biodiesel is expected to rise with the implementation of the B40 initiative in 2025.

Plantation, Agriculture, and Indonesia's GDP Growth %yoy



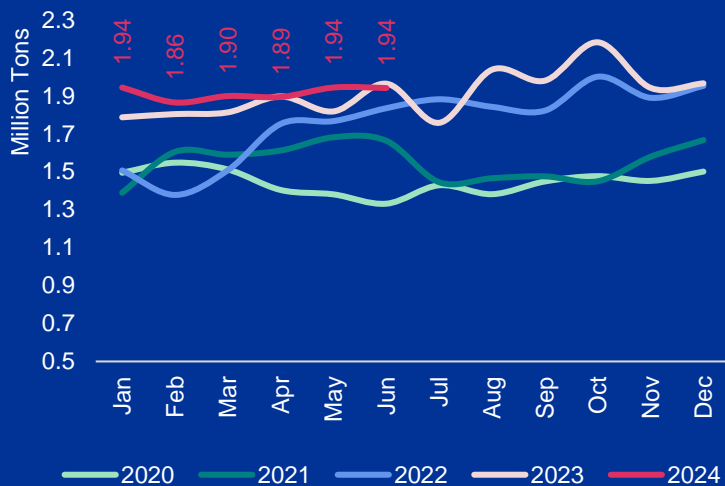
Source: Statistics Indonesia, Permata Institute for Economic Research

Monthly CPO + PKO Production

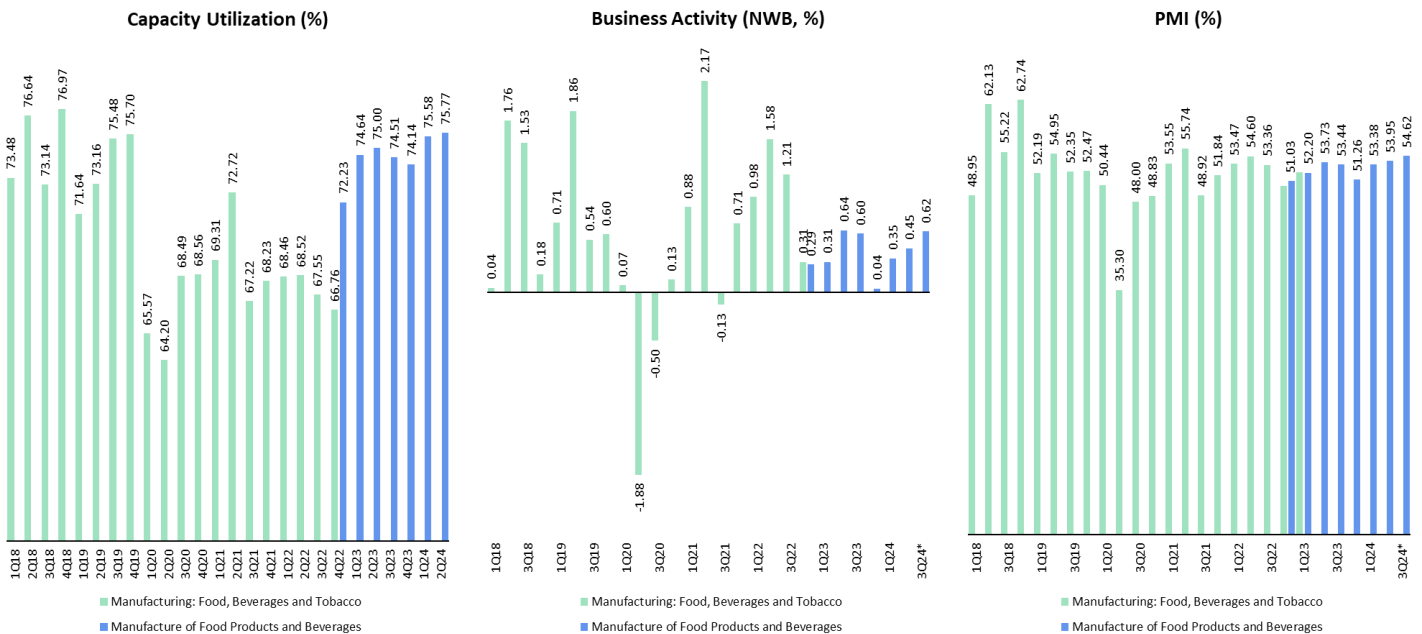


Source: GAPKI, Permata Institute for Economic Research

Monthly CPO Domestic Consumption



Source: GAPKI, Permata Institute for Economic Research

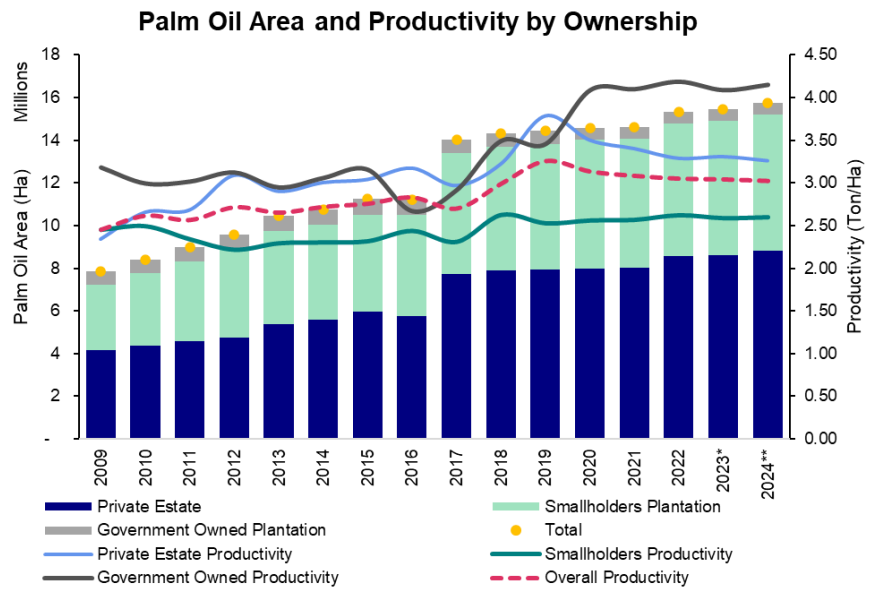
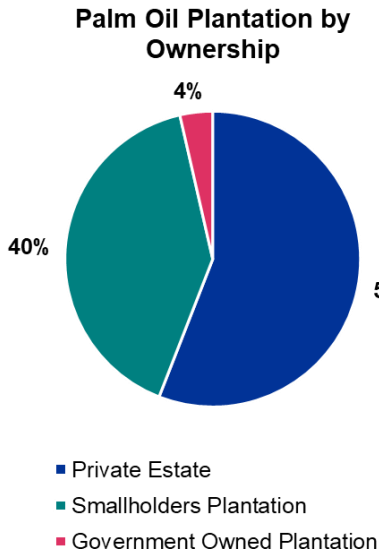


Source: Bank Indonesia, Permata Institute for Economic Research

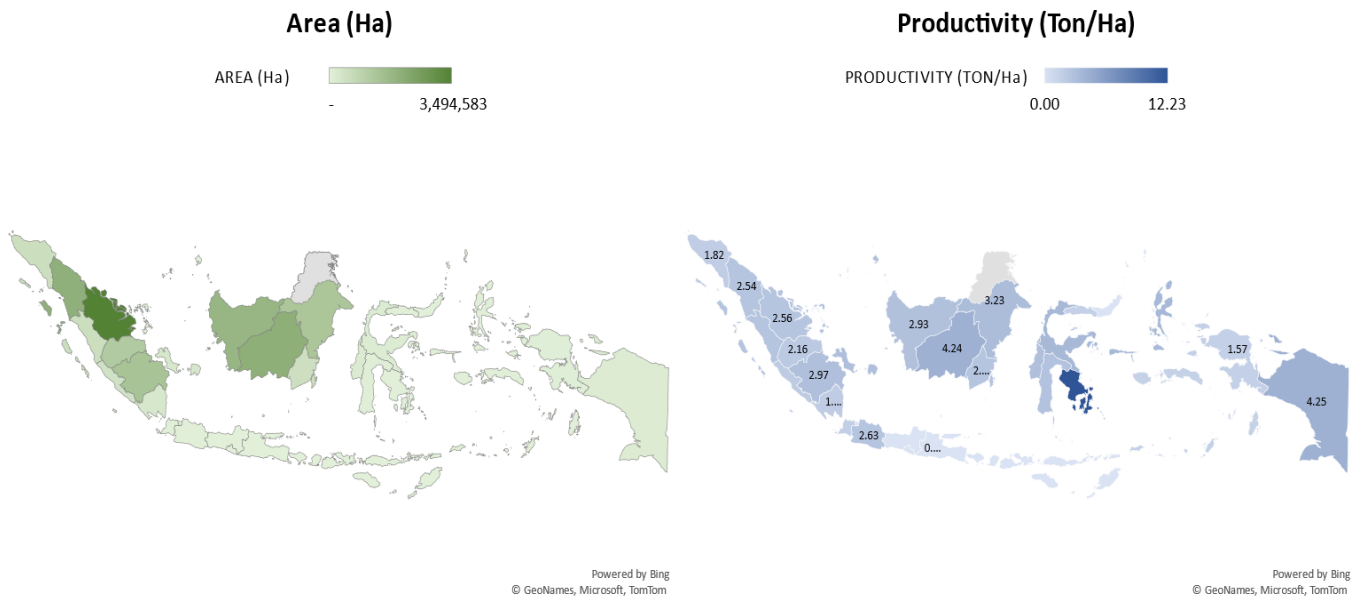
In 2Q24, capacity utilization for the Manufacture of Food Products and Beverages accelerated to meet domestic demand during Ramadan and Eid al-Fitr. It reached 75.77% in 2Q24, up from 75.58% in 1Q24 and 74.14% in 4Q23. Similarly, business activity in food and beverage manufacturing continued to increase in 2Q24, reaching 0.45%, up from 0.35% in 1Q24. Moreover, Bank Indonesia's PMI for the manufacturing of food products and beverages also indicated a similar trend of continuous growth in activity, as reflected by the index. Looking ahead, food and beverage manufacturers remain optimistic, expecting increased business activity and a higher PMI index in 3Q24 as the pressure from El Niño subsides. This improvement could contribute to rising food consumption and enhanced plantation production, further boosting the food industry.

Industry Landscape

Private estates dominate Indonesia's palm oil plantation ownership. According to Statistics Indonesia, in 2024, around 8.8 million hectares (mn ha), or approximately 56% of Indonesia's palm oil plantations, were owned by private companies. This was followed by smallholder plantations, which covered 6.3 mn ha, and government-owned plantations, which accounted for 563 thousand (th) ha. However, in terms of productivity, government-owned plantations surpassed those owned by private companies. In 2024, Indonesia's average palm oil productivity recorded 3.03 tons per hectare. Government-owned plantations achieved a productivity level of 4.15 tons per hectare, while private estates produced 3.26 tons per hectare, and smallholder plantations yielded 2.60 tons per hectare.



Source: Statistics Indonesia, Permata Institute for Economic Research



Source: Statistics Indonesia, Permata Institute for Economic Research

By region, Riau has the largest palm oil plantation area in Indonesia, while Southeast Sulawesi has the highest productivity. According to a report by Statistics Indonesia, 20.8% of Indonesia’s palm oil plantations are located in Riau, followed by South Kalimantan (12.1%) and North Sumatra (12.0%). In terms of production, Riau also leads with the highest crude palm oil (CPO) production, totaling 8.9 million tons, followed by South Kalimantan with 8.6 million tons and West Kalimantan with 5.3 million tons. Regarding productivity, palm oil plantations in Southeast Sulawesi achieved the highest productivity level, yielding 12.23 tons per hectare, followed by Papua with 4.25 tons per hectare and Central Kalimantan with 4.24 tons per hectare.

Input Origin by Industry	Input Origin Mapping					
	Animal & Vegetable Oil			Palm Oil		
	Proportion of Total Raw Material Input (%)	%Domestic	%Import	Proportion of Total Raw Material Input (%)	%Domestic	%Import
Palm Oil	57.4%	100%	0%	21.9%	100%	0%
Animal and Vegetable Oils	35.8%	100%	0%	0.0%	NA	NA
Banking Financial Services	1.3%	97%	3%	10.2%	97%	3%
Trade other than Cars and Motorcycles	1.1%	100%	0%	6.8%	100%	0%
Grains and Other Foodstuffs	1.1%	1%	99%	0.0%	NA	NA
Fertilizers	0.0%	NA	NA	22.8%	73%	27%
Agricultural, Forestry and Fisheries Services	0.0%	NA	NA	17.5%	100%	0%
Pesticides	0.0%	NA	NA	6.2%	50%	50%
Other Financial Institution Services	0.3%	99%	1%	1.8%	99%	1%
Agricultural Infrastructure	0.0%	NA	NA	1.7%	100%	0%
Oil and Gas Refinery Products	0.1%	71%	29%	1.7%	72%	28%
Roads, Bridges and Ports	0.0%	100%	0%	1.5%	100%	0%
Others	2.9%	NA	NA	7.9%	NA	NA
Total	100%	98.5%	1.5%	100%	89.6%	10.4%

Source: Statistics Indonesia, Permata Institute for Economic Research

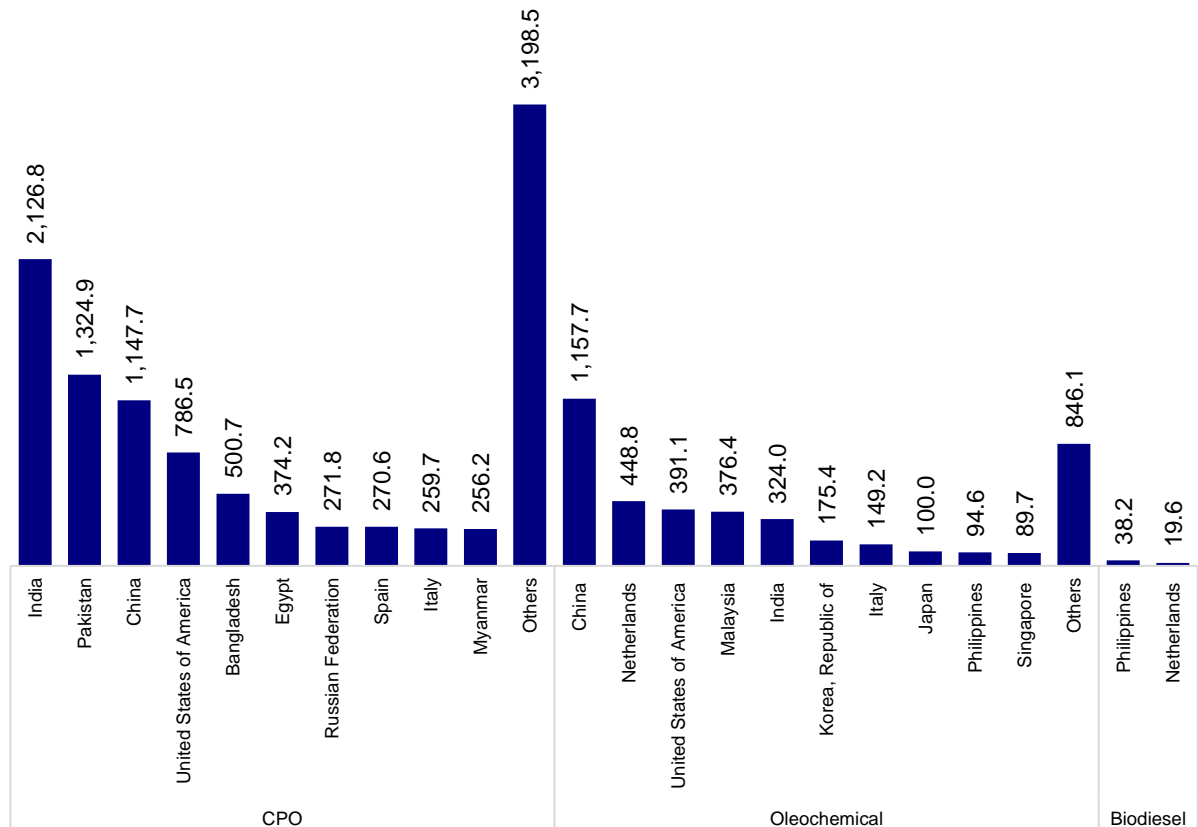
Palm oil dominates the animal and vegetable oil industry in Indonesia. According to Statistics Indonesia's Input-Output table, the Crude Palm Oil (CPO) industry is a key component of the animal and vegetable oil sector, with 57.4% of its input sourced from palm oil plantations. Within its supply chain, fertilizer is the largest raw material input for palm oil plantations, accounting for 22.8% of the total input. Approximately 27% of the fertilizer used in palm oil plantations is imported, while 73% is sourced domestically. This dependency exposes the palm oil plantation sector, and to some extent the CPO industry, to exchange rate risks and supply risks related to the global fertilizer industry. The second-largest input for the animal and vegetable oil industry comes from within its own sector, indicating that the industry has a relatively small supply chain.

The export market is the main consumer of Indonesia's animal and vegetable oil industry. According to the 2016 Input-Output data, 44.5% of Indonesia's animal and vegetable oil output is consumed by the export market. This is followed by the animal and vegetable oil industry itself, which accounts for 23.2%, and the domestic household sector, which contributes 14.0%. As for export destinations, India was the primary market for Indonesia's CPO products from January to July 2024, with an export value of USD 2,126 million. Pakistan became the second-largest destination, with an export value of USD 1,324 million, surpassing China, which was the third-largest importer of Indonesia's CPO with an export value of USD 1,147 million. Slow economic growth in China has led to a decreased demand for Indonesia's CPO products. However, export market diversification could support Indonesia's CPO exports, which experienced a -7.7% year-over-year contraction. On the other hand, China remains the main export destination for Indonesia's oleochemical products, followed by the Netherlands and the USA. Nonetheless, potential trade restrictions from India could negatively impact CPO exports in the near future, making export diversification and downstream processing options a priority for exporters.

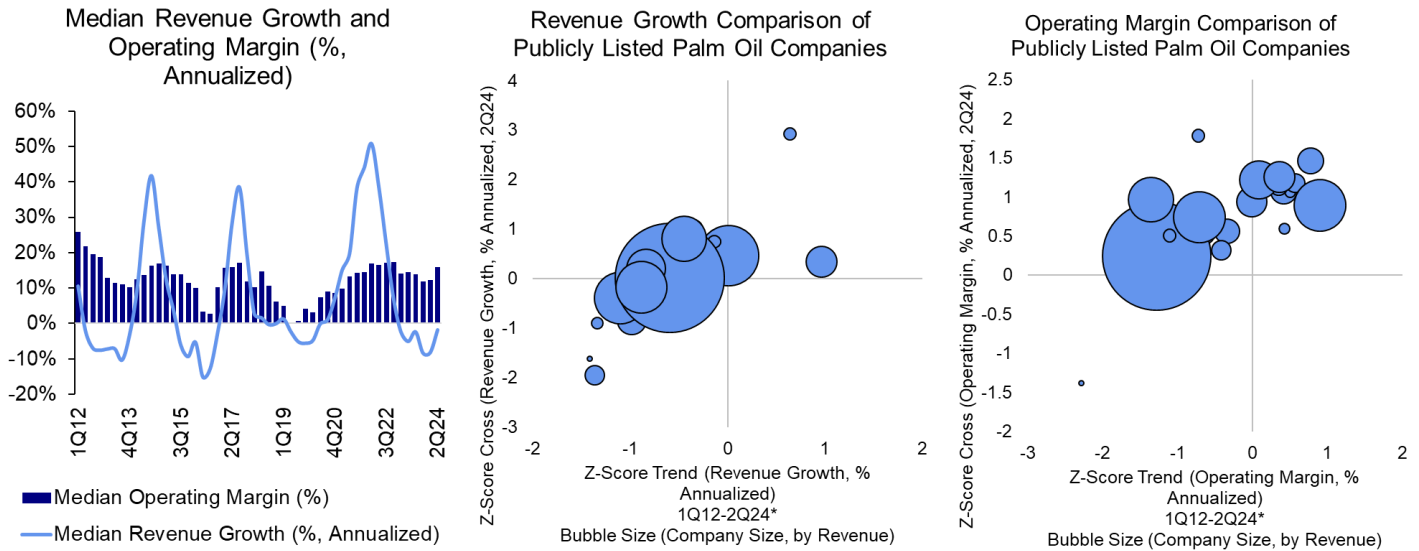
Output Users by Industry	Animal & Vegetable Oil			Palm Oil		
	Share (%)	Domestic Industry Origin Output (%)	Output of Foreign Industry Origin (%)	Share (%)	Domestic Industry Origin Output (%)	Output of Foreign Industry Origin (%)
Intermediate Consumption	42.0%	92%	8.0%	86.3%	100%	0.0%
Animal and Vegetable Oils	23.2%	100%	0.0%	79.9%	100%	0.0%
Provision of Food and Drink	4.5%	83%	16.7%	0.0%	NA	NA
Basic Chemicals Except Fertilizers	3.8%	100%	0.0%	0.0%	NA	NA
Soap and Cleaning Materials	3.2%	68%	31.6%	0.0%	100%	0.0%
Cosmetics	2.1%	72%	27.7%	0.0%	100%	0.0%
Bread, Biscuits and the Like	1.3%	87%	13.2%	0.0%	NA	NA
Palm Oil	0.0%	NA	NA	5.8%	100%	0.0%
Other Chemicals	0.1%	100%	0.4%	0.3%	100%	0.0%
Synthetic Resins, Plastic Materials and Synthetic Fibers	0.0%	22%	77.6%	0.1%	100%	0.0%
Household and Office Furniture Other Than Metal	0.0%	NA	NA	0.1%	100%	0.0%
Pharmaceutical Products	0.0%	77%	23.3%	0.1%	100%	0.0%
Traditional Medicines	0.0%	98%	2.2%	0.0%	100%	0.0%
Other Industrial Processing Products	0.0%	100%	0.0%	0.0%	100%	0.0%
Others	3.8%	NA	NA	0.0%	NA	NA
Final Consumption	58.0%	97%	2.8%	13.7%	100%	0.0%
Household Consumption	14.0%	88%	11.6%	0.0%	NA	NA
LNPRT Consumption	0.0%	NA	NA	0.0%	NA	NA
Government Consumption	0.0%	NA	NA	0.0%	NA	NA
Gross Fixed Capital Formation	0.0%	NA	NA	13.4%	100%	0.0%
Inventory Change	-0.6%	100%	0.0%	-0.2%	100%	0.0%
Exports of Goods (F.o.b)	44.5%	100%	0.0%	0.5%	100%	0.0%
Services Exports	0.0%	NA	NA	0.0%	NA	NA

Source: Statistics Indonesia, Permata Institute for Economic Research

7M24 Export Value by Product & Countries (USD Million)



Source: Statistics Indonesia, Permata Institute for Economic Research



Source: Bloomberg, Permata Institute for Economic Research

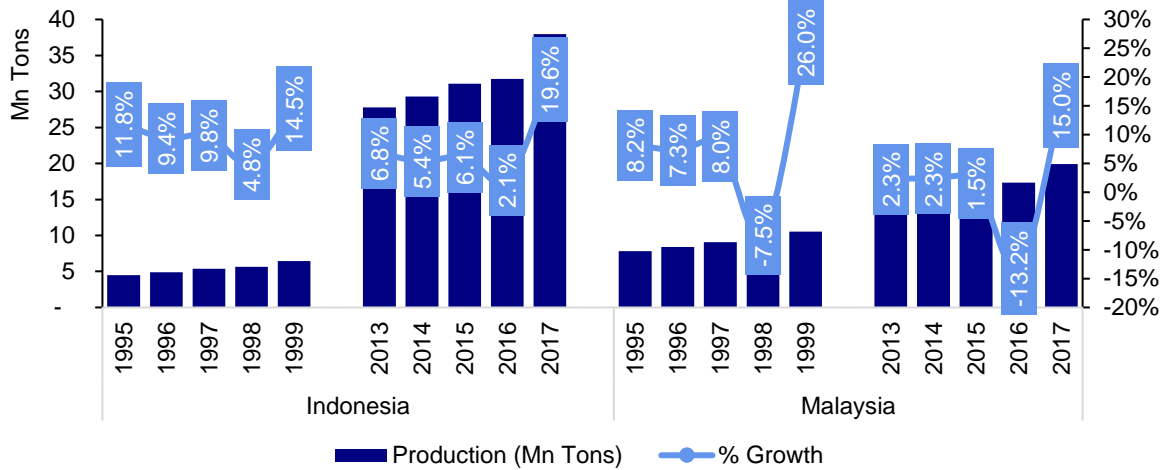
On average, CPO companies in Indonesia still could maintain their operating margin despite declined in production. Following dropped in CPO production, in 2Q24, the median level of 25 publicly listed CPO companies' revenue growth was -1.8%yoy, marginally better than -8.2%yoy contraction in 1Q24. On the contrary, the median of publicly listed CPO companies in 2Q24 was 15.93%, higher than 12.31% and 11.88% in 1Q24 and 4Q23, respectively, and indicating robust performance. Furthermore, most companies also have successfully maintained their operating margins, although some have experienced margins below their historical trends.

Outlook

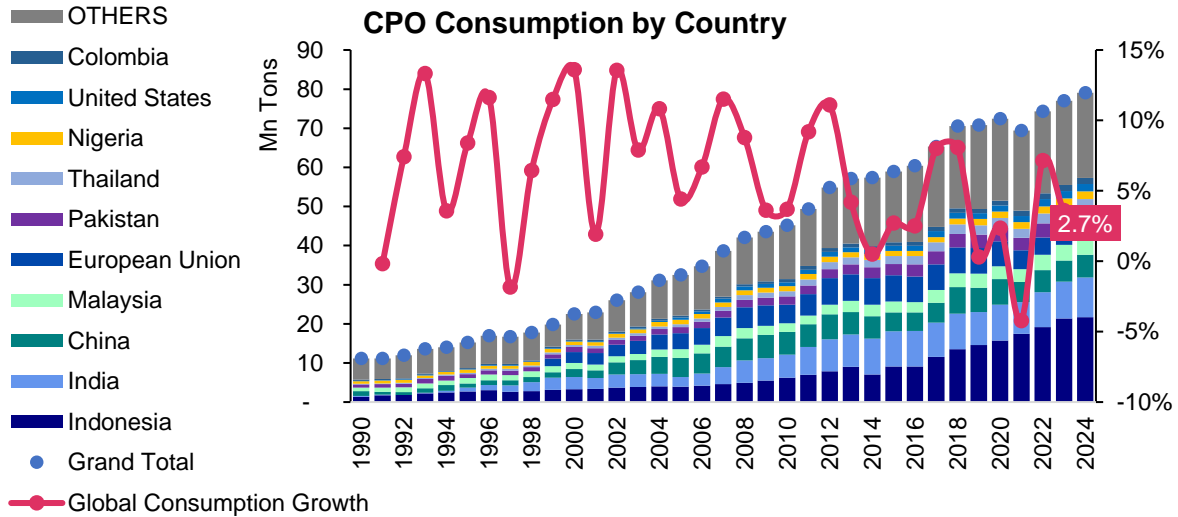
As the impact of El Niño diminishes, crude palm oil (CPO) production from major producers such as Indonesia and Malaysia are expected to rebound in the coming year. Historical analyses of El Niño's effects on CPO production in these two countries have shown similar patterns. Following the peak of El Niño (with a Nino Index above 2.0) in 1997 and 2015, production volumes in both Indonesia and Malaysia experienced deceleration and contraction. However, in the second year after the El Niño peak, a significant recovery in production was observed.

Conversely, global CPO consumption growth continues to decelerate. The USDA predicts that global palm oil consumption will grow by 2.7% in 2024, a slower rate compared to the 3.6% growth in 2023. This deceleration is attributed to weaker global demand, particularly from China, which is expected to face slower economic growth, and from European Union countries. Looking ahead to 2025, the outlook for major importers suggests limited drivers for increased CPO consumption. China's economic growth is expected to remain uncertain, and India's anticipated hike in import duties on crude and refined edible oils may further dampen global CPO demand next year.

CPO Production in Indonesia and Malaysia when El Nino occurred.



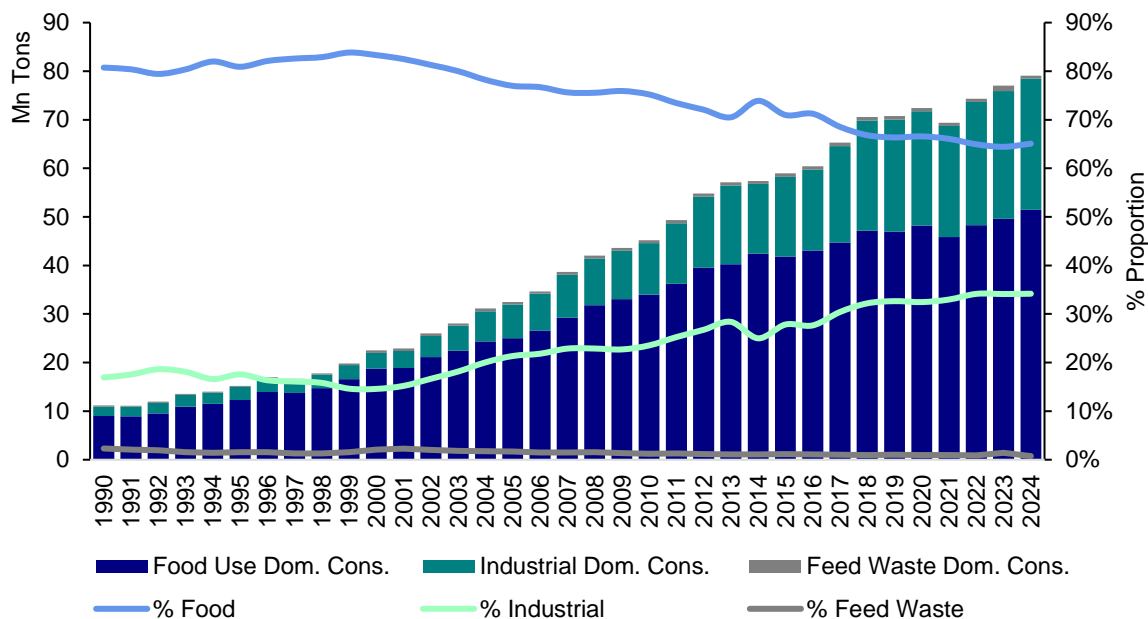
Source: Bloomberg, Permata Institute for Economic Research



Source: USDA, Permata Institute for Economic Research

Historically, palm oil usage has shifted from primarily food consumption to increased industrial consumption, particularly in biofuels. This trend is driven by the growing demand for biofuels as several governments, including Indonesia, have mandated their use to promote greener energy. In 2025, Indonesia plans to increase the proportion of biofuel in domestically marketed automotive diesel fuel from 35% to 40%. As the largest consumer of CPO, this rise in Indonesia's biofuel consumption could help offset the anticipated decline in global CPO demand, thereby stabilizing prices and preventing significant drops.

Global Palm Oil Consumption by Use

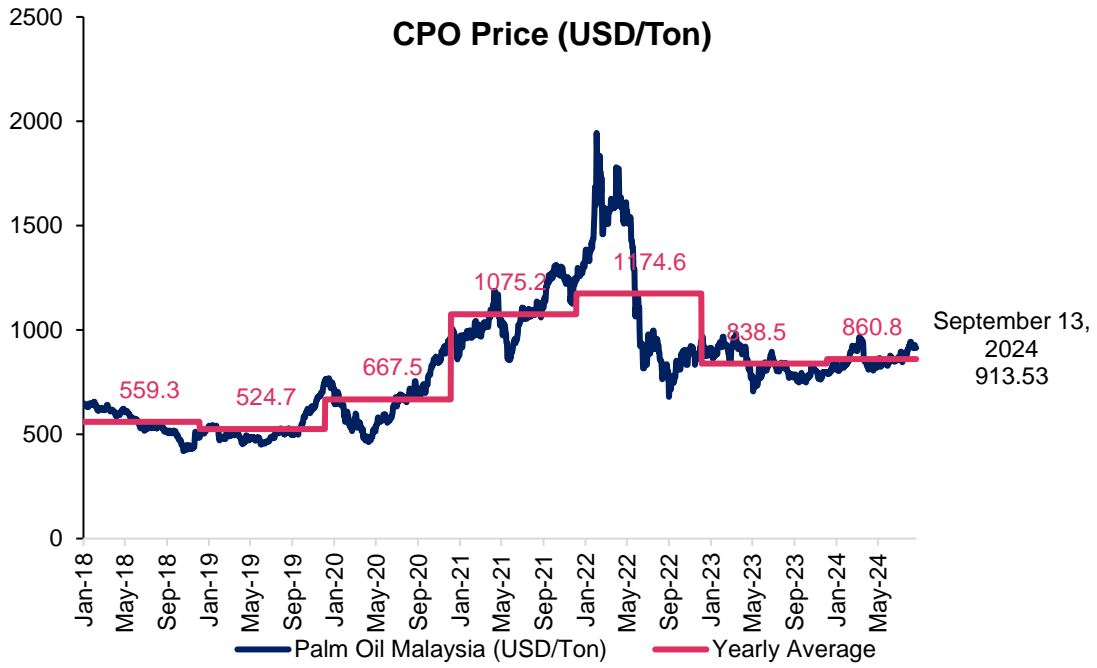


Source: USDA, Permata Institute for Economic Research

In line with these global production and consumption expectations, CPO prices are forecasted to decrease next year. According to Bloomberg Consensus Forecasts, CPO prices are expected to decline over the next two years. By the end of 2024, CPO prices are projected to reach USD 925 per ton, slightly higher than the September 18 spot forecast of USD 902 per ton. The lower CPO production from Indonesia and Malaysia due to the current El Niño effect has driven prices higher this year. However, as supply conditions normalize and demand potentially wanes among major consumers next year, according to Bloomberg Consensus Forecast, CPO prices are expected to decrease to USD 882 per ton in 2025 and USD 853 per ton in 2026.

Indonesia Palm Oil Industry also faces several opportunities and challenges going forward. For the opportunities, the continuity and commitment from the government to increase biofuel usage gives captive demand for Indonesia palm oil producers in the long-run, reduce dependency from the export market. Furthermore, Indonesia also has opportunities to diversify its export to Africa, Asia, and the Middle East to reduce concentration risks, and maintain their significant buyers, such as China and India, as their economy remain promising in the long-run.

The challenges facing Indonesia's palm oil industry stem from increased global scrutiny of its practices, which could lead some markets to reduce or even cease their demand for Indonesian palm oil. For instance, the European Union Deforestation Regulation (EUDR) now requires proof that palm oil is not linked to deforestation, a requirement that poses significant difficulties for Indonesian smallholders who struggle with traceability. As a result, exports to the EU have already decreased by 20%, with further declines anticipated. Rising deforestation could further damage global consumer perceptions, potentially leading to discrimination against Indonesia's palm oil exports. Furthermore, the aging of palm oil trees in Indonesia has also become a major concern. Many trees are past their peak productive age, and without significant replanting efforts, yields may continue to decline. The government is attempting to address this with various replanting initiatives, but progress has been slow.



Bloomberg Futures and Consensus Forecast		As of Sep 18, 2024			
Indicators	Spot	Futures/Forecast	2024	2025	2026
Palm Oil RM/metric ton	902	Futures	911	837	818
		Forecast	925	882	853

Source: Bloomberg, Permata Institute for Economic Research

Thank you!

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