

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Indonesia

Coffee Semi-annual

Indonesia Coffee Semi-annual Report 2015

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Report Highlights:

Indonesia is experiencing a strong El-Nino phenomenon. Despite dry weather, total production increased by approximately 20 percent (10.605 bag GBE) over 2014/15. This is led by Robusta production, which managed to avoid the worst of the El Nino dryness in 2015/16. The most significant declines in the 2015/16 production period will be experienced amongst Arabica growers, whose main production/harvest period coincided with unusually dry weather. Post will continue to follow the progress of Arabica production/flowering and will report on potential Arabica declines in 2016/17 in its next report. Post expects MY 2015/16 coffee exports will increase to approximately 8.08 million bags GBE. Increased exports are the result of strong Robusta production, a weakened Rupiah (vis-à-vis the dollar) and declining Robusta prices.

Commodities:

Coffee, Green

Production

Indonesia is experiencing a strong El-Nino phenomenon, although USDA weather data analysis characterizes it as weaker than the El Nino experienced in 97/98. Data from Indonesia's weather agency (BMKG) indicates that below-normal rainfall has spread throughout most of Indonesia's coffee production areas starting in July 2015. While many of the regions typically experience dry weather in July and August, the dry period has extended into November, with weather agencies reporting that the El Nino is expected to last until February 2016. Coffee producing regions influenced by dry weather include North and South Sumatera, Java, Southern Kalimantan, Southern Sulawesi and West Nusa Tenggara.

Figure 1: Drought Conditions in Robusta Production Area, Central Java, Early September 2015

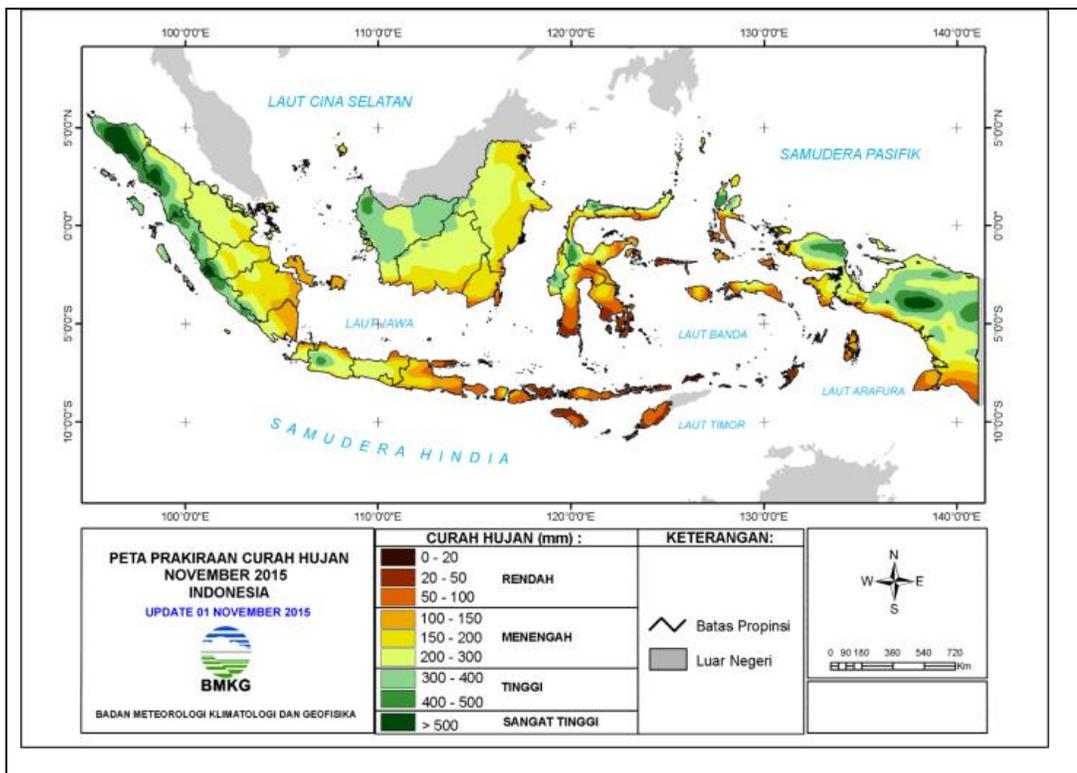


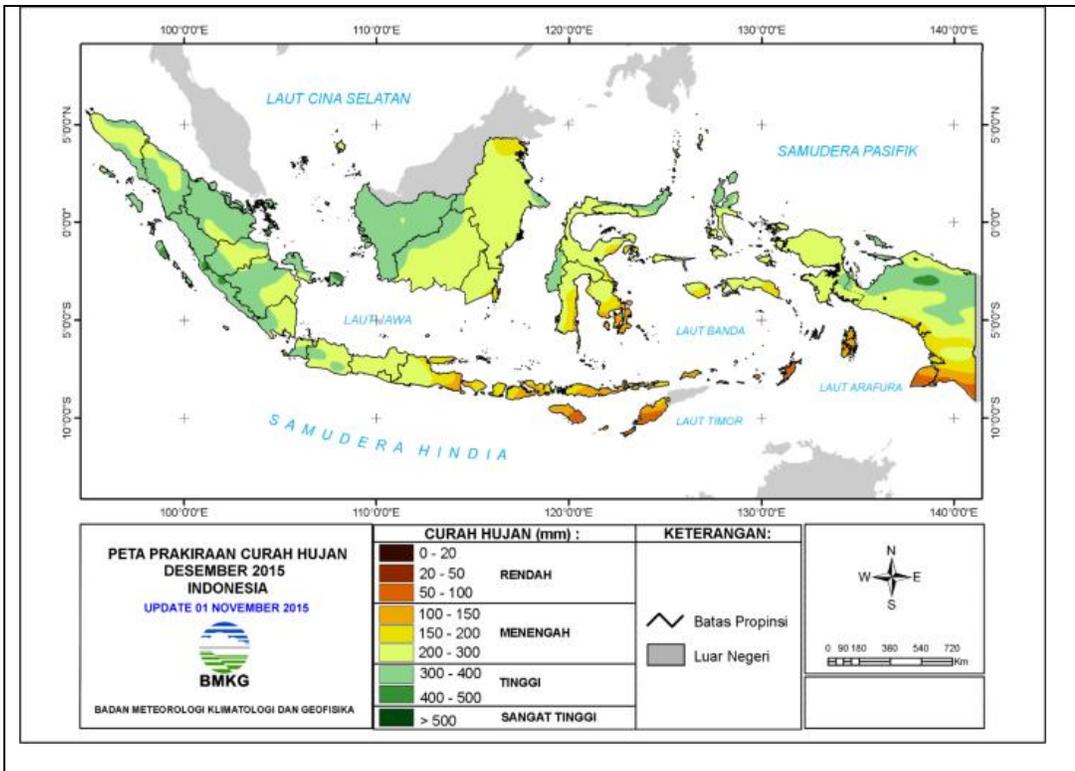
Source: Industry Contacts

Yields are expected to decline next season due to dry weather brought on by El Nino. The most significant declines in the 2015/16 production period will be experienced amongst Arabica growers, whose main production/harvest period coincided with unusually dry weather. 2015/16 Robusta production, however, is unchanged, as bean maturing and harvest occurred prior to the dry period that started in July 2015. Based on these factors, 2015/16 Robusta production remains unchanged at 9.3 million bags green bean equivalent (GBE) while 2015/16 Arabica production is reduced by 10 percent to 1.305 million bags GBE.

Post notes that despite dry weather, total production increased by approximately 20 percent (10.605 bag GBE) over 2014/15 due to favorable weather during the flowering period. This is led by Robusta production, which managed to avoid the worst of the El Nino dryness in 2015/16, and was able to recover from below average 2014/15 production. Industry and farmer sources state, however, that Robusta flowering on Java (August and September) has been negatively influenced by dry weather. It therefore appears likely that Robusta production declines will be more acute in the 2016/17 period. Post will continue to follow the progress of Arabica production/flowering and will report on 2016/17 Arabica prospects in its next report.

Figure 2: BMKG Expected November and December rainfall.





Source: BMKG

Coffee planting area remains stable with no indication of expansion. Most plantations are operated by smallholders and are characterized by low-intensity management styles and lower yields. Although unlikely, Indonesia could experience yield increases through improved management of existing plantations.

Consumption

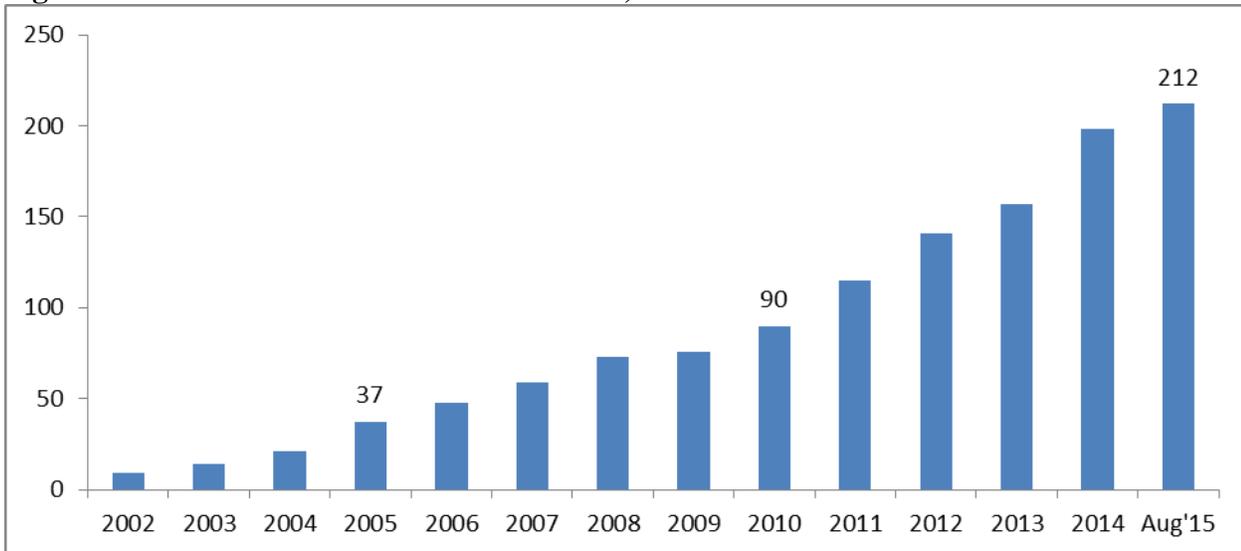
Indonesian coffee consumption continues to increase, backed by an expanding middle class and growing promotional efforts, including prime-time television advertising, newspaper and other media. Other promotional efforts include spots in popular cinema and frequent barista competitions. Industry promotions remain focused on soluble coffee products such as instant coffee powders and liquid bottled coffee.

Coffee shops are growing in urban areas. These include both local and foreign franchises. As shown in Figure 3, coffee retail stores such as Starbucks are growing rapidly. Retail shops such as Indomaret, Alfamaret and 7-11 have expanded their offerings to include ready-to-drink hot coffees. Street hawkers selling various instant brands coffee are popular, and serve instant coffee from bicycles throughout major metropolitan areas.

Based on the above factors, Post expects domestic consumption in MY 2015/16 to reach 3.09 million bags, GBE. This marks an increase of 40,000 bags, GBE, slightly below our original forecast of an increase of 50,000 bags GBE. Consumption of non-essential items is generally down in Indonesia due to the weakening Rupiah and economic slowdown. However, coffee consumption declines are likely

moderated as domestically produced coffee beverages are less vulnerable to foreign exchange fluctuations.

Figure 3. Number of Starbucks Retail Outlets, 2002-2015

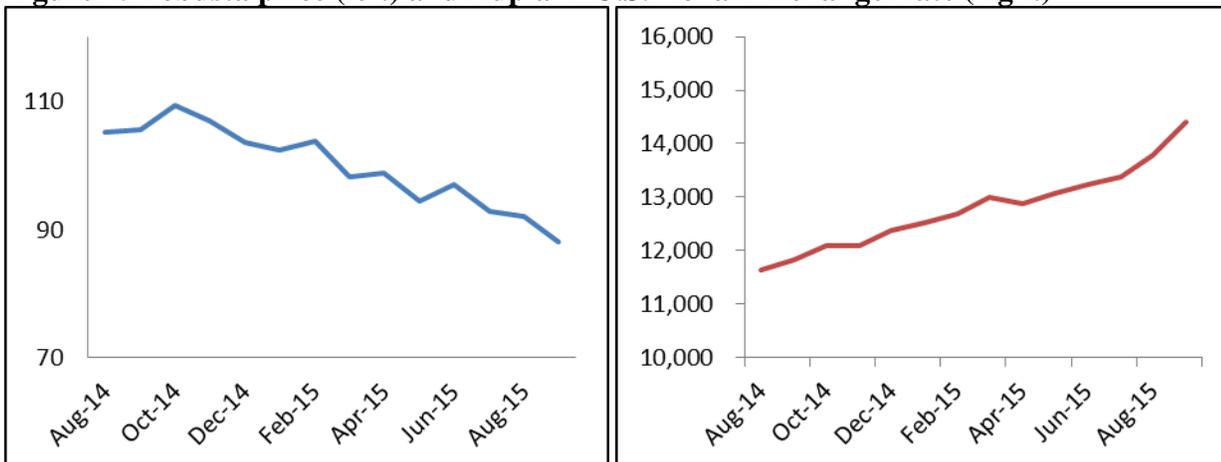


Source: Starbucks

Trade

Post expects MY 2015/16 coffee exports will increase to approximately 8.08 million bags GBE. Increased exports are the result of strong Robusta production, a weakened Rupiah (vis-à-vis the dollar) and declining Robusta prices. The Rupiah has depreciated more than 18 percent since August 2014, improving Indonesian export competitiveness. During the same period, Robusta prices fell 16 percent (see Figure 4).

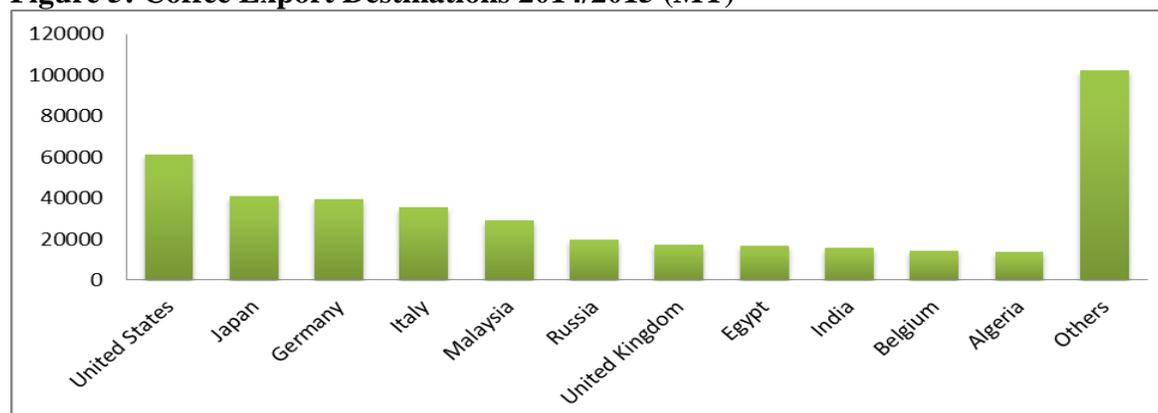
Figure 4: Robusta price (left) and Rupiah –U.S. Dollar Exchange Rate (right)



Source: Indexamundi, Bank of Indonesia

According to GTIS data, coffee exports peaked in September 2015, while the lowest levels occurred in April 2015. During MY 2014/15, the United States and Japan imported approximately 25 percent of Indonesia’s green bean exports (See Figure 5).

Figure 5: Coffee Export Destinations 2014/2015 (MT)



Indonesian coffee imports for the January-August 2015 period (both green bean and roasted) fell to approximately 40 percent of the level achieved during the previous year. Declining green bean imports are attributable to the industry's preference for local beans, a weak Rupiah and an abundance of high quality local coffee. On the contrary, imported soluble coffee imports almost doubled during the same period. Importers attribute higher soluble imports to forward buying in anticipation of a new import tariff imposed in August 2015. As per a Ministry of Finance (MoF) amendment to regulation No. 132/2015, the soluble coffee import tariff was increased to 20 percent from 5 percent (See GAIN Report ID1530). Post notes that soluble coffee imports also correspond with growing domestic coffee consumption. Most coffee imports originate in Vietnam and Brazil. Based on this reasoning, Post expects coffee imports to decline to 586 thousand bags GBE.

Table 1: Indonesian Coffee Imports (MT)

	2014/15			2015/2016		
	GB	Roasted	Soluble	GB	Roasted	Soluble
April	4,559	24	1,203	1,381	-	1,788
May	2,818	59	596	525	-	1,142
June	4,131	46	614	1,026	-	2,599
Jul	1,150	28	794	634	-	902
Aug	719	22	995	1,727	2	1,586
Sept	541	51	766			
Oct	278	47	758			
Nov	302	60	631			
Dec	232	30	749			
Jan	235	1	1,587			
Feb	407	0	645			
Mar	403	1	1,464			
Total April-Aug	13,377	179	4,202	5,293	2	8,017
Total April-Mar	15,775	369	10,802			

Source: GTIS

Stocks

Indonesian coffee stocks remain low, increasing to 74 thousand bags GBE, less than one percent of total production.

<i>Coffee, Green</i>	2013/2014		2014/2015		2015/2016	
<i>Market Begin Year</i>	Apr-13		Apr-14		Apr-15	
<i>Indonesia</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,236	1,236	1,238	1,238	0	1,240
Area Harvested	1,200	1,200	1,200	1,200	0	1,200
Bearing Trees	1,136	1,136	1,155	1,155	0	1,160
Non-Bearing Trees	34	34	17	17	0	15
Total Tree Population	1,170	1,170	1,172	1,172	0	1,175
Beginning Stocks	98	98	48	48	0	53
Arabica Production	1,650	1,650	1,450	1,450	0	1,305
Robusta Production	7,850	7,850	7,350	7,350	0	9,300
Other Production	0	0	0	0	0	0
Total Production	9,500	9,500	8,800	8,800	0	10,605
Bean Imports	310	310	350	400	0	200
Roast & Ground Imports	175	175	175	175	0	6
Soluble Imports	555	555	610	720	0	380
Total Imports	1,040	1,040	1,135	1,295	0	586
Total Supply	10,638	10,638	9,983	10,143	0	11,244
Bean Exports	6,000	6,000	5,100	5,100	0	5,500
Rst-Grnd Exp.	0	0	0	40	0	30
Soluble Exports	1,800	1,800	1,800	1,900	0	2,550
Total Exports	7,800	7,800	6,900	7,040	0	8,080
Rst,Ground Dom. Consum	2,075	2,075	2,275	2,275	0	2,300
Soluble Dom. Cons.	715	715	775	775	0	790
Domestic Use	2,790	2,790	3,050	3,050	0	3,090
Ending Stocks	48	48	33	53	0	74
Total Distribution	10,638	10,638	9,983	10,143	0	11,244
Exportable Production	6,710	6,710	5,750	5,750	0	7,515
TS=TD	0	0	0	0	0	0

