

Indonesia walking the import talk

□ By Peter McMeekin

INDONESIA is the world's most populous Muslim nation, the world's third-largest democracy and the fourth largest nation in the world by population. It is also the closest, and one of Australia's most important trading partners.

The most recent estimates put the island nation's population at around 265 million, and it is expected to grow by another 30 million by 2030. That is an increase of more than the entire Australian population over the next 11 years.

With a growing population comes an increasing demand for food. And like most developing countries, the Indonesian population is urbanising. Its people are moving to the cities at a rapid rate in search of better and more secure opportunities.

Rice has long been the diet staple, particularly in the rural areas, but with the migration to the city centres comes a change in diet. The city folk tend to eat more noodles and bakery products such as bread and pastries. And as people get wealthier, they tend to seek healthier food options such as whole grain bread as opposed to white bread. Per capita consumption of wheat has increased from 7 kg per head in 1985 to 22 kg in 2016 as a result.

Indonesia is totally reliant on imports to meet the demand for wheat-based food and as an ingredient for poultry and other livestock sectors. The countries wheat imports are forecast at around 11.5 million tonnes (mt) in the 2019–20 marketing year (July 2019 to June 2020). This compares to imports of less than 4 mt just 20 years ago.

Approximately 9.5 mt of those imports are expected to go into food, seed and industrial (FSI) use, and the balance of 2 mt will be consumed as animal feed. Around 70 per cent of wheat imported for human consumption goes into the noodle market, and the remaining 30 per cent goes into bakery products.

In 2018, there were 25 milling companies in Indonesia operating 27 major flour mills. Those mills had a total installed capacity of 11.5 mt per annum.

Indonesia has traditionally been Australia's biggest wheat customer, buying an average of 4.2 mt of high-quality milling wheat each year. That is approximately 25 per cent of average Australian wheat exports and represents shipments of around 350,000 tonnes per month.

Alarming trade trend continues

The latest Australia wheat export data (May) reveals some interesting numbers and continues an alarming trend regarding wheat exports to Indonesia over the past 12 months. Total Australia wheat exports for the month of May were 1.23 mt. The biggest customer was the Philippines, who accounted for 32 per cent, or 396,000 tonnes, followed by Vietnam with 113,000 tonnes and Japan at 99,000 tonnes.

Indonesia came in fourth, at a paltry 86,000 tonnes.

But one month of data doesn't tell the full story, nor provide a demand trend. Looking at the year-to-date export data (January to May), Indonesia has imported 378,000 tonnes of Australian wheat over the five months, an average of less than 80,000 tonnes per month.

The statistics for the Australian grain marketing year-to-date (October 2019 to May 2020) disclose a similar story with exports to Indonesia totalling 624,000 tonnes for the eight months.



That compares to just under 1.6 mt for the same period in the previous marketing season and is a long way behind the pace required to get close to the 4.2 mt longer-term annual average.

Those days are over!

Indonesia has traditionally paid a premium for the high-quality Australian wheat. But the message from the Indonesian consumer over the past 12 months was that those days were over, and Indonesia would buy on price from whichever origin could offer the quality required.

And they seem to be walking the talk. Indonesia purchased wheat from the Black Sea region in the second half of last year. This year they have purchased wheat from Argentina and Canada, and their most recent purchase was five cargoes for July and August shipment from the Black Sea region.

There seems to be a clear message from the Indonesian consumer. If you want our FSI business, you will need to be competitive with an increasing number of origins who can also offer suitable quality wheat.

In the past, Australia's primary competitors into the Indonesian wheat market were countries who had a similar cost base, such as the United States or Canada. Now, many of the competing origins, such as Russia, the Black Sea region and Argentina, have much lower costs of production.

Add to that, increasing production and exportable surpluses in Russia and the Black Sea region in recent years has tended to make them the weakest seller – and price setter – in an extremely competitive global wheat market.

Historically, the quality available from these origins has not been acceptable to the Indonesian consumer. But as exportable surpluses have increased, so has the quality of the wheat being produced. The Russian and Black Sea producer has recognised the need to improve quality to compete in the global wheat market.

This has made it increasingly difficult for Australia to sell wheat into traditional markets such as Indonesia.

The Indonesian wheat market is big, growing and on Australia's doorstep. In the absence of new markets, it is critical that Australian exporters find a way to reverse the recent trend and at least return Indonesia close to its position as the biggest consumer of Australian wheat.

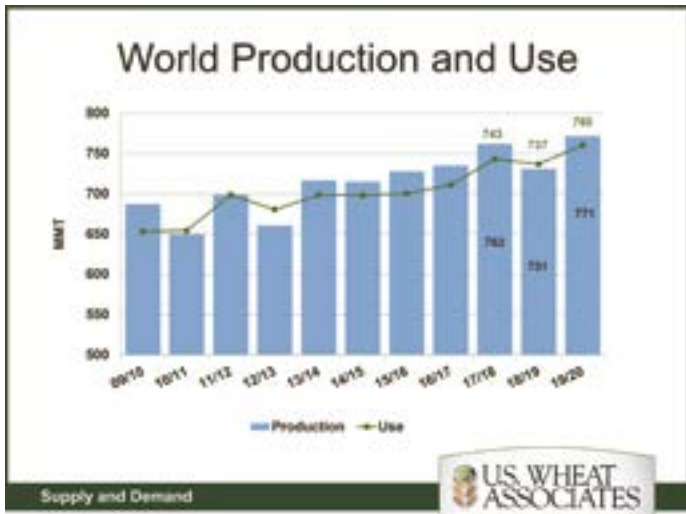
Call your local Grain Brokers Australia representative on 1300 946 544 to discuss your grain marketing needs. ■

Checking the global wheat balance sheet

Based on information supplied by US Wheat Associates market analysts, July 11

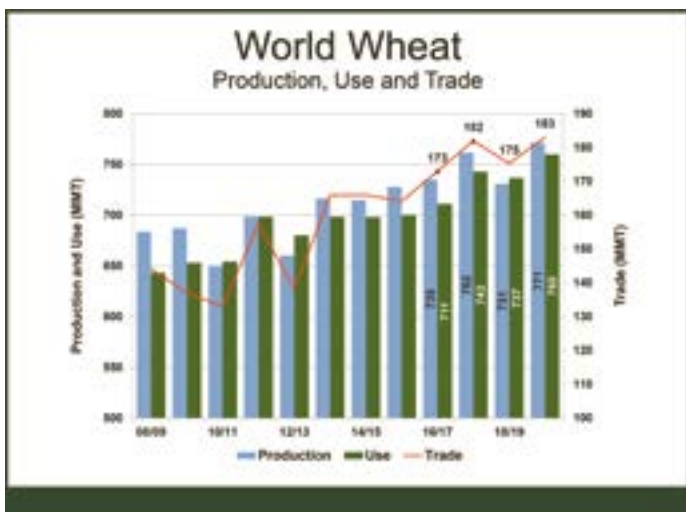
THE mid-June USDA estimate for global wheat production in 2019-20 was for a record 777 million tonnes as several major suppliers (including Australia) rebound from a below average production season. This was the first forecast the USDA had for the coming season. One month on – and although tempered slightly – the USDA forecasts a 10-year high of 771 mt of global wheat production for 2019–20.

Following is a graphical representation of some of the key global grain numbers from the July USDA–WASDE estimates.



In the 2019-20 season, global wheat production is predicted to jump to a 10-year high of 771 mt. This is on the back of a rebound in European Union wheat production to 151 mt, 9 per cent higher than last year.

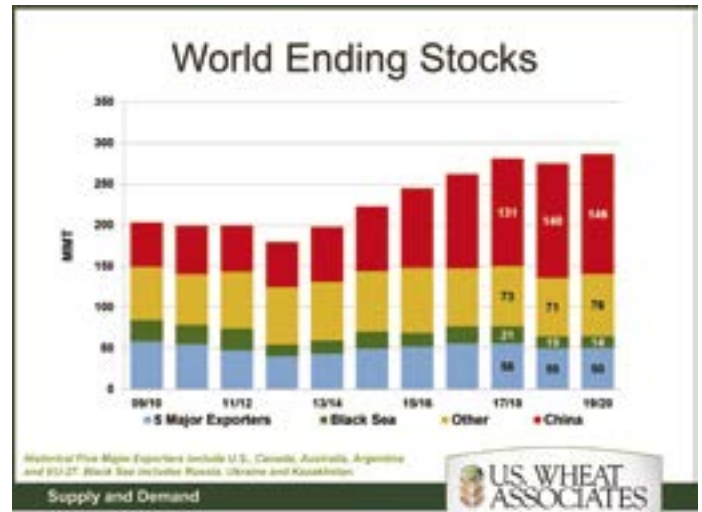
Black Sea (Russia, Ukraine and Kazakhstan) wheat production is expected to reach 117 mt while US wheat production will increase slightly on last season to an estimated at 52.3 mt.



Global wheat consumption (use) is forecast at 760 mt, the highest since 2009. China's domestic consumption is predicted to reach 128 mt (2 per cent more than last year) while EU consumption is expected to reach 128 mt, up 4 per cent. US domestic wheat consumption is forecast at around 32.2 mt – up 4 per cent from the 5-year average.

The USDA predicts world wheat trade to jump 44 per cent year-over-year to 183 mt. This is 4 per cent above the 5-year average of 176 mt.

Australian exports are expected to increase 28 per cent over last year to 12.5 mt in 2019-20, while Russian exports will fall 4 per cent from last year to 34.5 mt. US wheat exports will increase slightly to around 25.9 mt.



Global ending wheat stocks are projected at 286 mt, 4 per cent higher than last year and 11 per cent higher than the 5-year average. But the estimated Chinese ending stocks of 146 mt are up 30 per cent over the 5-year average and account for half of

