

Dots & Plots

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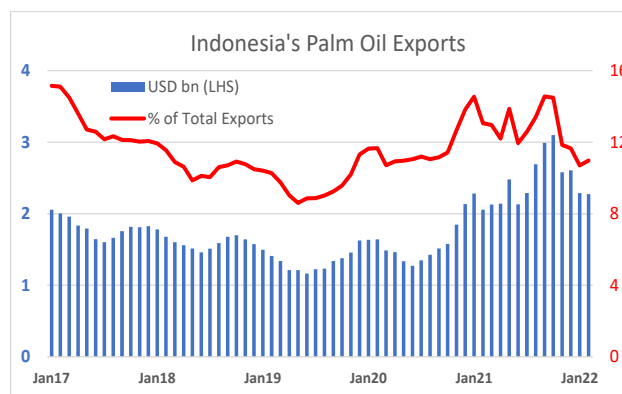
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Let It Go

Indonesia drops its palm oil exports ban

- Indonesia's government announced that it will allow palm oil exports once again, from May 23rd. The move ended a ban that was instituted on April 28th, after the failure of other measures to address the cooking oil crisis that has caused severe shortages and hefty price spikes across the country.
- When it initiated the restrictions, the government signalled that the ban would stay until the cooking oil price declines to IDR14000/lit – the maximum administered price that it had imposed unsuccessfully earlier this year.
- Going by President Jokowi's announcement yesterday, the national average of bulk cooking oil stands at IDR17200-17600/lit. While it has declined from the IDR19800 level before the ban, it remains some distance away from the initial target. Moreover, the ultimate retail prices stayed high, with domestic press noting how per-litre price stayed broadly unchanged at IDR24000.
- Ultimately, an increasing realization that the exports ban was starting to hurt palm oil producers without benefiting the end-consumers all that much had prompted the reversal. Already, hundreds of palm oil farmers rallied in Jakarta earlier this week in protest. Governors of Riau and Bengkulu – two big palm oil-producing provinces – had also asked for a review on the ban.
- Palm oil accounts for around 13% of Indonesia's export earnings as of 2021 and allowing the producers to sell abroad once again is a piece of good news, if we focus purely from the trade angle. For the 17 million Indonesians whose livelihoods depend on it, the trade resumption will be welcomed too.
- The effect on inflation may be more ambiguous, however. The fact that the ban 'experiment' did not move the needle downward much on price should mean that its removal should not necessarily result in a spike.
- The whole episode did show, however, that the sticky cooking oil prices may have more to do with structural issues such as biofuel policy and a lack of domestic refining capacity, rather than exports. After all, domestic needs constituted just 35% of total palm oil production to begin with, which should leave more than enough for the rest of the world.



Source: OCBC, Bloomberg, CEIC.

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