

INDONESIA JULY 2016

Currency Influence

How is a local tax amnesty in Indonesia impacting on your essential oil prices? Well it's quiet simple. By attracting local business and residents to return monies invested overseas at a reduced tax rate, the Indonesian government is hopeful that the increased tax revenues will stimulate further growth in the economy, which in turn will strengthen the local currency, the Indonesian Rupiah (IDR). This strength means that when converted into US Dollars it takes more dollars to buy the products, which results in your prices increasing.

This initiative has been spoken about since the turn of the year and has recently been implemented. It is because of this we've seen a sudden strengthening of the IDR, which is likely to continue throughout the course of 2016. Of course currency can be influenced by other global factors and of course by the performance of the US Dollar itself, but based on what we know locally we can expect further strengthening in the months to come.

IDR per 1 USD

21 Jul 2015 00:00 UTC - 20 Jul 2016 10:56 UTC

USD/IDR close:13121.94870 low:12833.09968 high:14733.50000



Courtesy of XE.com. You can see how over the past 9 months the IDR has appreciated by around 13% and is having a direct impact on Indonesian export prices. This trend is set to continue over the coming months largely due to the government's tax amnesty.

Interested to understand more? Here's what 'Indonesian Investments' had to explain:

Indonesia's tax revenue realization in the first half of 2016 was disappointing. According to the latest data, Southeast Asia's largest economy collected a total of IDR 518.4 trillion (approx. USD \$39.6 billion) worth of tax revenue (including customs and excise) in the first six months of 2016, down 3.3 percent (y/y) from tax revenue realization in the same period one year earlier, and only 33.7 percent of total targeted tax revenue (IDR 1,539.2 trillion) set in the revised 2016 State Budget. The disappointing performance is mainly due to weak tax income from the oil and gas sector.

For taxpayers and small to medium sized businesses that reveal assets overseas of up to Rp 10 billion will be charged a redemption fee of 0.5%, while those that reveal more than Rp 10 billion will be subject to a 2% charge. Taxpayers willing to repatriate their assets from abroad will be granted a 2% redemption rate for July - September 2016, 3% for the period from October to December 2016 and 5% for January 1, 2017 until March 31, 2017.

Finally, taxpayers who declare their assets abroad without repatriation will cost 4% for the period July-September 2016 6% for the period from October to December 2016 and 10% for the period January-March 2017.

When we put this into some perspective it is estimated that within months of the amnesty Indonesia could see an increase of up to IDR 1,000 trillion (approx. USD \$76 billion) in funds according to government estimates. It is believed that a whopping IDR 11,450 trillion (approx. USD \$867 billion) is invested/banked outside the country undeclared, which is nearly the same size as Indonesia's gross domestic product (GDP). The difference for normal taxpayers is significant. This new Bill allows individuals to bring money back into the country at 2% tax whereas a normal income tax rate in Indonesia would be as high as 25% (still not so bad some may say!).

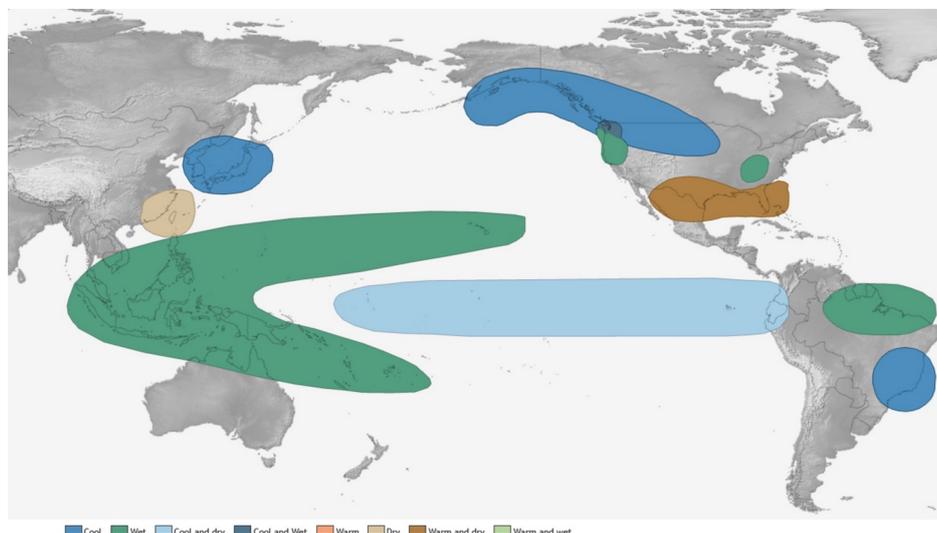
La Niña Effect

Last year we wrote about the negative effects of the largest ever recorded El Niño, which brought some severe droughts to the region. Sadly, this year we have the opposite as significantly higher rainfall during the dry-season is causing mass devastation. The dry-season usually lasts from July to early September but Indonesia has been experiencing the exact opposite.

This time last year the news reported the devastating forest and peat land fires which burned an area the same size of Macedonia (an area around 25,000 square kilometers) causing smoke to engulf large areas as far away as Singapore. This year the excessive rains are causing localised floods and landslides already resulting in many deaths.

We know these effects are not new. These are challenges the region has faced throughout its history but they are certainly becoming more extreme and frequent. We now understand the weather in more detail, which is why there is more information on the causes of extreme weather and a greater appreciation of the impact it has in a global commercial world.

Farming in remote land areas during these times cannot only be dangerous, but also will massively slow down raw material collections, potentially inflating prices due to shortages in supply. It is something that one way or another we face year on year and depending on the global market conditions, including the strength of market demand, their impact can go from unnoticeable to destructive.



Here is a typical weather pattern seen during a La Niña season. You can see the 'Wet' weather highlighted in green sat on Indonesia for a period that can last months at a time when it is typically dry



CAJEPUT OIL

We are generally seeing a return to good supplies, only recently slowed down by the local weather and religious holidays. After a long period of unsustainable supplies of quality material we have been pleased with the recent progress of supplies, which we hope will continue to improve throughout the year.

📈 Market prices USD 25.00 /kilo

CANANGA OIL

The situation is similar to that last reported and despite this being a typical harvest period it does not look like supplies will improve any time soon. Demand continues to be high for a product that you simply cannot buy with the market today being based on pure speculation. As such, today's prices are at an all time high and will rise based on who wants what and when. We do not expect to see fresh supplies soon and would recommend you cover any short-term needs quickly if you can.

📈 Market prices USD 95.00 /kilo

CITRONELLA OIL

As with other products the continued rains are negatively impacting harvesting and as such supplies have slowed. This at a time when Indonesian citronella oil has been experiencing fantastic growth across the world as once again Java material becomes a preferred choice for buyers everywhere. The weather coupled with the appreciating local currency has meant that prices have increased around 5% in the past couple of weeks.

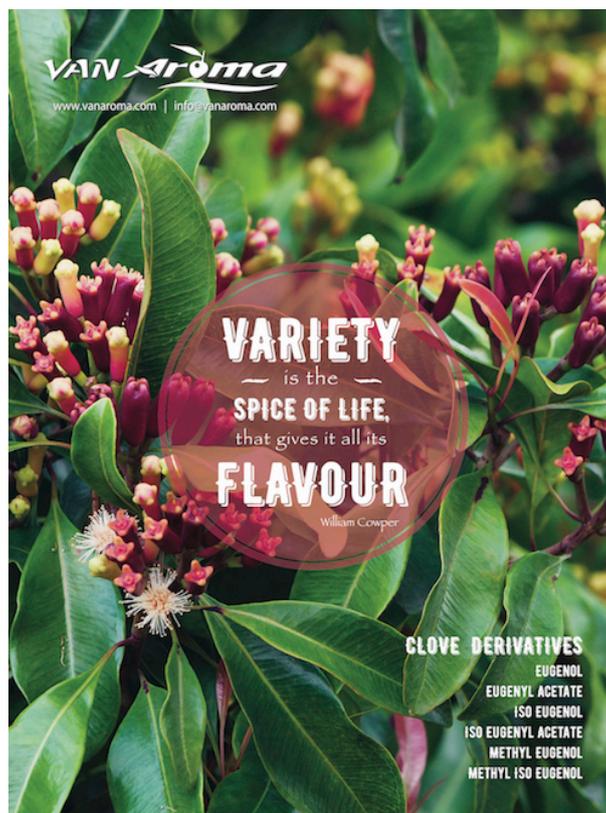
📈 Market prices USD 15.95 /kilo

CLOVE LEAF OIL

Due to the excessive rainfall during this dry-season caused by La Nina we are seeing a negative impact on supplies of raw material. It has become difficult in parts to collect the leaves and even once collected are being damaged whilst drying. As a result, prices are expected to move up slowly and steadily over the coming weeks and months. Eugenol prices have increased around 5% in the past couple of weeks and with most producers order books full there is a reluctance to accept a low priced order unlike at other times.

📈 Market prices Leaf USD 12.20 – 15.25/ kilo; Bud USD 25.00 /kilo; Stem USD 16.25 /kilo; Eugenol USD 16.00 /kilo

On a positive note Van Aroma are pleased to have reported good interest in their growing range of clove derivatives. Marking their 10th anniversary during 2016 this recent investment has allowed expansion into a number of new products including Iso Eugenol, Methyl Eugenol and Methyl Iso Eugenol. Read more [online](#).



GINGER OIL FRESH

There is a lot of interest in this product at the moment as the market continues to assess the viability of this quality as a long term option. It has been accepted in a number of new and interesting applications. Prices remain steady but supplies are not as consistent as they could be. Hopefully more controls coming from within the supply chain will improve this over the next few months.

 **Market prices USD 110.00 /kilo**

NUTMEG OIL

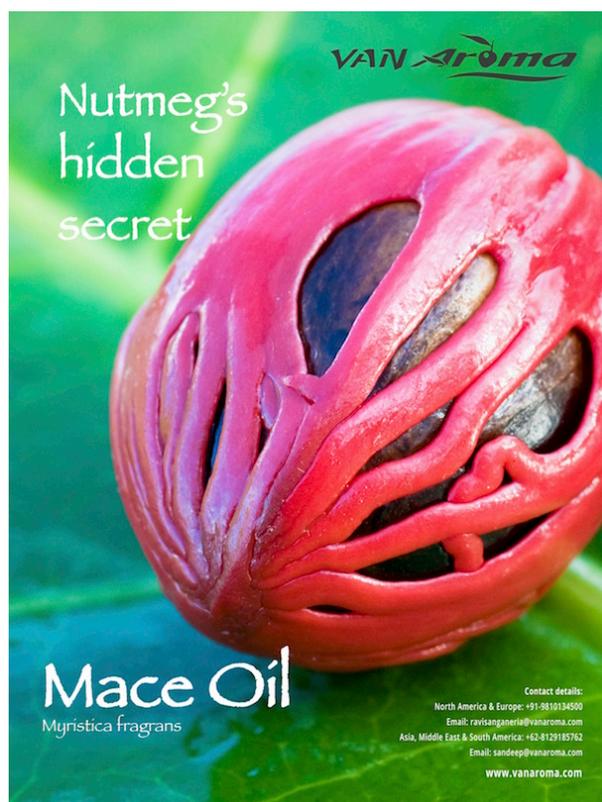
Collections have been slow for a few months and we are seeing overall supplies dwindle at a time when demand has certainly returned. Today's events are a temporary conclusion to the last 18 months events, which have seen this product yo-yo in supply and pricing somewhat unbelievable. Stocks around the world have started to be depleted and as many return to source for new contracts alarm bells have finally started to ring if they hadn't already.

Given the additional and unexpected rains in the main producing areas we have seen a period of even fewer collections, which is a trend you can expect to continue for the next 2-3 months. Farmers are unable to collect in such conditions and have chosen to leave the fruits on the trees to mature which will later be used for the spice market and not the oil market.

Over the past couple of weeks we've seen local prices increase almost daily so we are advising clients to carefully consider their next moves and speak to us regarding longer term supplies. We still feel that it would be prudent to cover foreseeable demands, something we've been recommending over the past six months when prices were half those of today.

Expect more on this developing situation soon.

 **Market prices USD 63.00 – 70.00 /kilo**



MACE OIL

There is certainly a knock on effect from the current situation impacting the supply and pricing of nutmeg oil but it is less damaging for mace as the markets are smaller and can withstand some short-term disruptions in supply. Of course local prices have risen and coupled with the appreciating currency small but hopefully manageable price increases have been seen.

 **Market prices USD 75.00 /kilo**

MASSOIA BARK OIL

Perhaps an ongoing story for now where this unregulated and difficult market continues to provide little grounds for stable supply and good business. Efforts are in place to improve this long term but it will take time to find the reassurances we all like to have when dealing with these premium natural ingredients. Today prices remain firm but stable.

 **Market prices USD 400.00 – 750.00 /kilo**



PATCHOULI OIL

The effects of additional rains are not as big an issue for patchouli as they are for many other locally produced products due to the fact that patchouli generally grows on hillside slopes so the waters drain away. Where it does become a problem is when farmers try to dry the leaves outdoors after collection. The rains can slow down the drying process and in such times we also start to see a negative impact on quality.

That said we have enjoyed a period of stability for this product and we would hope that the climatic conditions do not cause a longer lasting problem. With supply and demand seemingly well balanced for now the only impact on export pricing over the coming months is likely to be due to any additional appreciation of the Indonesian Rupiah.

Whilst this is the over riding story for Sulawesi material, supplies from Sumatra and Java are very low. We had hoped that things would improve last month but the rains have put a stop to this and it may be some time before supplies begin to improve.

 **Market prices USD 44-66 /kilo**

VETIVER

What can you say when there's nothing to speak about? Well that's the situation with vetiver at the moment. No supplies and nothing more we can say, as the situation is simply not improving.

Any small amounts of product that become available are priced extremely high and those who need oil having to pay today's premium. If we're honest we cannot see a short term improvement, especially when demand continues to increase as vetiver notes become ever more popular in the perfumery markets. Our only recommendation this time is to have your name on the list and hope for the best. Expect no significant changes in the short-term.

 **Market prices USD 370.00 /kilo (Rectified if available)**

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