



# Indonesia Investments

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## **Palm Oil Policy Flip-Flops**

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- House Advised to Ratify the Personal Data Protection Bill as Soon as Possible
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**APRIL 2022**

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**Van Der Schaar Investments B.V.**  
**CV Indonesia Investments**

# Indonesia Investments

Monthly Report – April 2022

## Palm Oil Policy Flip-Flops



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## Preface

The monthly report of Indonesia Investments is written and published by Van Der Schaar Investments B.V., located in Delft, the Netherlands. The report aims to inform the reader of the latest, most relevant, political, economic and social developments in Indonesia as well as those crucial international developments that impact on the economy of Indonesia or on its politics.

Our reports are intended for a diverse audience, including individual and corporate investors, financial market participants, diplomats, policymakers, decision-makers, academics, journalists, and analysts.



The website [www.indonesia-investments.com](http://www.indonesia-investments.com) is the key reference and access point for gaining knowledge about the markets, economy, business sectors, politics, and cultures of Indonesia. This online platform is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) that was established in 2009 but

stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century.

We offer two types of subscriptions (or individual purchases):

(1) **Weekly updates + monthly reports;** on average we send one or two analyses of relevant subjects per week (“weekly updates”) to make sure that our audience gets the latest and most relevant news quickly (and complete with an analysis). These updates also form the basis of the forthcoming monthly report (in which the topics are usually discussed in more depth as we have more time to make an analysis).

(2) **Monthly reports only;** usually between the 2<sup>nd</sup> and 5<sup>th</sup> of the month, we release our monthly report. As mentioned above, this report discusses the most relevant economic, political, and social developments that took place in Indonesia (or global developments that impact on Indonesia) in the preceding month.

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## 2) Price Overview Monthly Reports Only:

|             |               |           |         |
|-------------|---------------|-----------|---------|
| 1 edition   | IDR 150,000   | USD \$11  | EUR €11 |
| 3 editions  | IDR 428,000   | USD \$31  | EUR €26 |
| 6 editions  | IDR 810,000   | USD \$58  | EUR €50 |
| 12 editions | IDR 1,530,000 | USD \$110 | EUR €95 |

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## Introduction – April 2022 Report

While economic and political activity typically eases during the Ramadan month in the world's largest Muslim country (and activities come to a near standstill during the Eid al-Fitr or Idul Fitri celebrations that mark the end of the holy fasting month), the Indonesian government had to stay on high alert as the country faces a number of looming threats.

Around the world inflation remains high. In fact, quite some analysts warn about a prolonged period of stagflation as a direct consequence of huge quantities of money that have been pumped into the economies by central banks, the mismatch between rebounding demand and troubled supply/logistics networks in the aftermath of the COVID-19 crisis (while in China poor COVID-19-related governance is doing severe damage to the national economy, and thus to the global economy because China is the world's second-biggest economy), and obviously the Russo-Ukrainian war.



Interestingly enough, Indonesia is bound to contribute to further accelerating global inflation as it decided to fully ban exports of palm oil and cooking oils per 28 April 2022. And considering Indonesia is the biggest supplier of palm oil to the world, the sudden removal of supplies from Indonesia will have significant consequences for global palm oil prices. And since palm oil is the most widely consumed vegetable oil around the world (as it can be found in a wide range of products, such as food, fuel, and cosmetics), it will certainly cause overall price pressures if Indonesia's palm oil export ban is not revoked anytime soon.

For example, British multinational consumer goods company Unilever announced on 28 April 2022 (and perhaps not coincidentally on the same day Indonesia's palm oil export ban came into effect) that it [expects to raise prices further](#), increasing its forecast for cost inflation in the second half of the year to 2.7 billion euros (approx. USD \$2.8 billion) because of "the outbreak of war in Ukraine and the related increase in raw material inflation". But while Unilever seemingly only points its finger to the Russo-Ukrainian war, in reality the situation is much more complex. Certainly rising palm oil prices as a consequence of Indonesia's export ban will cause raw material costs to increase for the company. Meanwhile, switching to other vegetable oils will not sooth the pain as growing demand will also cause prices of other oils to rise.

Through the palm oil export ban Indonesia aims to safeguard enough cooking oil on the shelves of the nation's supermarkets. However, besides the international impact

in the form of rising inflation, the ban will also have significant negative effects on the Indonesian economy itself. We will discuss these effects in much more detail in this April 2022 edition. However, considering the Indonesian government should be well aware of the negative impact of this ban, we expect it to be revoked soon.

In fact, recently, we saw a similar scenario unfold with coal. In late-January 2022 Indonesia announced a month-long ban on thermal coal exports in a bid to safeguard enough supplies for domestic power plants (particularly state-owned Perusahaan Listrik Negara, or PLN) as the lucrative international coal prices had made exporters ignore the domestic market (because sales to domestic power plants are capped at very low prices). This coal export ban was quickly lifted after a few days (because it obviously has very negative effects on the country, such as missed foreign exchange earnings). And so, it makes us believe that the government simply wanted to flex its muscles to show what it is capable of in case the coal producers and exporters keep ignoring the domestic market in search of lucrative profits abroad. We assume that the Indonesian government is doing the same with palm oil, and therefore we would be surprised if the export ban is still in place by mid-May 2022.

Besides the threat of (imported) inflation (which undermines purchasing power and also threatens to aggravate poverty), another matter that can disrupt the Indonesian economy and society is a new wave of COVID-19 cases after the *mudik* period (the period when millions of city-dwellers return to their places of origin – often in the

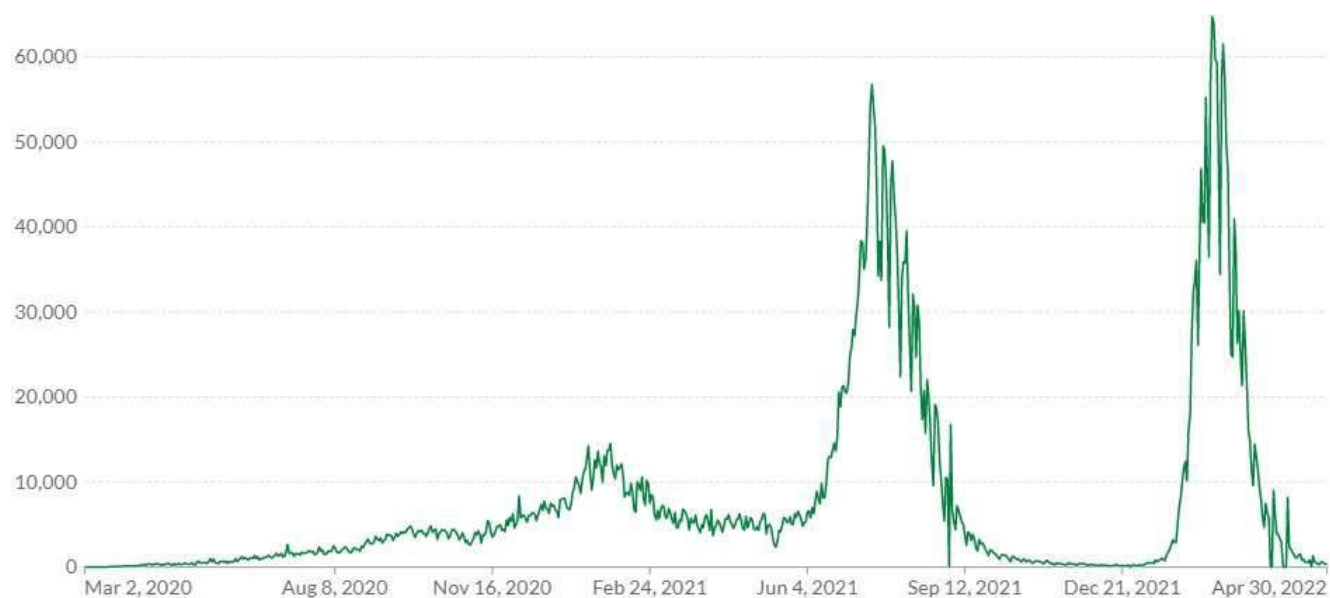
suburban or rural regions – to spend a few days with their families during Idul Fitri). While we do not expect to see a significant rise in COVID-19 cases in Indonesia 7-14 days after the *mudik* as herd immunity seems to be very strong thanks to the natural spread of the virus in Indonesian society, we do need to remain careful because our knowledge of the COVID-19 virus is still far from perfect. Therefore, it is important to monitor the bed occupancy rates (BORs) of Indonesian hospitals.

For now there are no signs at all that COVID-19 will cause another health threat in Indonesia (although people with fragile immune systems continue to be vulnerable to COVID-19). Currently, BORs in Indonesia are in fact ridiculously low (for example, the [average BOR of the province of West Java](#) is below 2 percent). So, in our opinion, the biggest threat today is not the virus itself but poor governance in response to the virus (what we are still witnessing in China, where the government's zero COVID-19 approach is doing significant damage to China's economy and society).

As we argued last month, if there is no significant COVID-19-related increase in the number of patients being treated in hospitals after this year's *mudik*, then it is time for the government to let go of all COVID-19-related policies, with the exception of annual booster shots for the elderly (and/or those with certain underlying medical conditions). The problem with such booster programs is, though, that we still do not detect a clear pattern in terms of the COVID-19 virus in Indonesia. So far, a clear peak was visible in July 2021 (the Delta peak) and February 2022 (the Omicron peak) but

the virus is yet to 'normalize' its pattern (although it is not a certainty that COVID-19 will ever develop a specific pattern, such as flu in the fall and winter in the West). A booster program for the elderly would only be useful if it can be organized shortly ahead of a new estimated wave because it has been proven that the existing COVID-19 vaccines only offer protection for a short period (in fact, protection is increasingly being cut short because existing vaccines were made to protect against the original Wuhan virus, while new variants differ markedly from the original virus).

### Confirmed COVID-19 Positive Test Results in Indonesia:



Source: Johns Hopkins University CSSE COVID-19 Data

Another challenge we want to highlight is the US Federal Reserve's monetary policy. In mid-March 2022 the Federal Reserve (Fed) approved its first interest rate hike in more than three years, bringing the rate to the range of 0.25 – 0.50 percent. At the

next Fed meeting (3–4 May 2022) the Fed raised its interest rate by 50 basis points to 0.75 – 1.00 percent and formally announced it will start rolling assets off the Fed's balance sheet, beginning the process of quantitative tightening.

The Fed is, in fact, well behind the curve with US inflation touching a 40-year high already. And so, it requires aggressive tightening to tame inflation, with a number of analysts expecting to see up to six interest rate hikes in 2022. Interestingly enough, US interest rates remain at very low levels and so the Fed can hike some time before it really starts to hurt. But the question is to what extent monetary tightening in the US (followed by tightening in the European Union) will lead to capital outflows from emerging markets like Indonesia.

For now, the central bank of Indonesia seems not too concerned, preferring to wait and see while leaving its interest rate environment unchanged (with the benchmark rate at 3.50 percent) as national inflation remains within its 2022 target range of 2.0 – 4.0 percent (year-on-year) for now. However, it might be that Indonesia's central bank will follow the Fed's example of 'being behind the curve', because we do detect some inflationary pressures, while the rupiah rate has also come under additional pressure due to the palm oil ban.

So, to close this introduction, we continue to live in quite uncertain times, with poor and unpredictable governance and political decisions/ideologies being at the heart



of most problems the world faces today: NATO/EU expansion into Eastern Europe meets violent resistance from Russia, various governments remaining unwilling to learn valuable lessons from over two years of COVID-19-related experience and data (with China in particular being a good example now), and Indonesia imposing a full palm oil export ban that most likely will do more harm overall (particularly from a global viewpoint) than good. Moreover, this ban comes at the worst time imaginable (with inflationary pressures already skyrocketing around the globe).

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7 May 2022



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# Coronavirus Tips: How to Protect Yourself & Others

Immunization programs are ongoing but in case you have fragile health or a medical condition it's important to remain careful to avoid becoming infected with COVID-19 or infect others who have fragile health.

You can protect yourself and help prevent spreading the virus to others if you:



- **Cover your nose and mouth** with a (disposable) tissue or flexed elbow **when you cough or sneeze**. Wear a face mask when going outside (this won't stop aerosols unfortunately but should prevent the larger droplets from spraying).

- **Strengthen your immune system**; people who are healthy (which are usually young people) may not even notice that they are infected with COVID-19. The trick here is that their immune system is stronger (generally). Therefore, now is the time to take some efforts to strengthen your immune system by eating healthy (fruits and vegetables each day), and get some sunshine in the morning for your vitamin D. Also do not forget to exercise! Taking enough time to sleep and avoiding stress are also crucial to improve the immune system. Lastly, it is highly recommended to quit bad habits, most notably: smoking!



- **Ventilation**; make sure that rooms inside houses, apartments, and buildings are properly ventilated as a COVID-19 infected person can spread aerosols so small that a facemask cannot prevent them from going into the air or from going into the lungs of someone who wears a facemask. Ventilation systems need to get a good supply of fresh air from outside and/or use a good filter. It is also advised to open windows or doors in closed spaces so there is a good supply of fresh air.

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