

Recent drop in live bird prices has intensified concerns on poultry sector. According to Ministry of Agriculture, current price of live bird has dropped to IDR 14,000/kg, or 30% lower compared to the reference price of IDR 20,000/kg—IDR 22,000/kg at the farm level. At the same time, cost of production for live birds has expanded due to higher corn prices in the market. As stated by Gabungan Perusahaan Makanan Ternak (GPMT), corn price had reached IDR 4,700—IDR 4,800, or 17.5% higher from the start of harvest in Feb-19.

Disparity in corn harvest timing. Typically, the timing of corn harvest in Indonesia is similar between areas. This maximizes the flow of corn supply during the period. However, the anticipated harvest occurred in Sumatera and Java, compared with Sulawesi and Sumbawa which starting in middle of March. While corn prices reached IDR 4,000 by the end of Feb-19, the flow of corn supply was inadequate for the demand from feed millers. This creates competition to absorb the limited corn supply, resulting in higher corn prices. Furthermore, as corn prices goes up, most of harvests in Sulawesi and Sumbawa are expected to start by the end of Mar-19, creating momentum for suppliers to match current surge in corn prices. All in all, we believe higher logistics costs will pressurize margins for feed millers as the corns from Sulawesi and Sumbawa will mostly go to Java, which contributed 73% of feed production according to GPMT.

Production cost surpassed live bird. As mentioned by the Ministry of Agriculture, the cost of production for a live bird is at IDR 19,500/kg at farmer level, while for the company the cost is estimated at IDR 15,500/kg. Hence, regulation to reduce the production of live bird by 10% (starting on 21 March 2019—8 April 2019) was issued in order to revive live bird prices.

Based on these events, we see short-term outlook for the sector to remain bleak. We would also like to point out that during the first quarter, price of live bird normally deteriorates due to lack of festive days to boost demand.

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