



Monthly Economic & Finance Briefing

Economic, Banking & Industry Research of BCA Group

Trade: Are we lucky, or are we good?

Executive Summary:

- **Indonesia registered a massive trade surplus of USD 4.7 Bn in August, driven by surging exports (+63.6% YoY / +20.9% MoM) and imports (+55.3% YoY / +10.3% MoM).**
- Despite the current surge of Delta in several other countries, **high commodity prices have helped maintain Indonesia's remarkably high export performance. Imports on the other hand, have continued to recover in line with the gradual relaxation of mobility restrictions.**
- **The strong performance of the trade balance should provide a robust buffer in the face of looming capital market risks,** such as the Fed's tapering as well as the maturing of substantial government and SOE debt.

- **Indonesia registered a massive trade surplus of USD 4.7 Bn in August, the highest in years.** The increase was driven by both surging exports (+63.6% YoY / +20.9% MoM) and imports (+55.3% YoY / +10.3% MoM), blowing past the more modest expectations of most analysts.
- The spectacularly robust performance of the trade balance this year begs some explanation, particularly in light of our more pessimistic projections earlier in the year. A combination of surging oil prices and domestic demand recovery was expected to provide steady fuel to ever increasing imports. At the same time, we thought that commodity exports would peak along with the global recovery in Q2, thereby taking the wind out of what was thus far an impressive recovery in exports. **While imports have staged a recovery, the expected decline in exports never really materialized for long.**
- Delta's current rampage across parts of the world however, raises an intriguing question. With the current wave disrupting supply chains and holding back economic activity in many parts of the world, it is little surprise that manufacturing PMI numbers for various countries remain quite mixed. It is curious that these less than favorable conditions are now playing host to one of the most spectacular surges in Indonesia's export performance.
- **The answer to this likely lies in the stellar performance of commodity prices over the past few months, which have remained high despite the spread of Delta (Chart 1).** It also helps that most of Indonesia's primary commodity exports – such as coal and CPO – are on the front end of this upwards swing. Heavy rains have curbed the supply of coal across much of Asia, while heat waves in China and restocking in India and China have simultaneously pushed up demand for the ubiquitous mineral. CPO prices too have remained high amidst tight supplies, although inventories have begun to increase.
- In all this, Indonesia has shown itself a wonderful beneficiary of the fairer winds of fortune. There are however, other supporting factors not solely attributable to luck. The government's recent drive promoting the development of nickel's downstream industries – with a particular view to building up a domestic electric battery industry – has yielded tangible results. **Increased ferronickel exports from these policies have added an estimated USD 6 Bn of foreign exchange every year, a non-negligible boost to the trade balance.**
- **As for imports, the remarkable recovery in August is somewhat in line with the gradual relaxation of mobility restrictions as caseloads decline.** Additionally, when adjusted to working days, the increase in imports is actually slightly more modest. The movement of these working days adjusted numbers is largely in line with our own business transactions index, which shows that although business activity remains relatively high despite restrictions, it remains slightly diminished relative to its Lebaran highs (**Chart 2**).
- With prices for certain commodities, such as coal and nickel, showing little signs of halting in the past few months, there is reason to believe that these large trade surpluses may continue to be a fixture for the rest of year. **In light of this, we have decided to revise this year's current account deficit down to 0.7%. With risks on the foreign capital side of things, such as concerns over the Fed's tapering as well as the maturing of substantial government and SOE debt, the continued strength of the trade balance should provide an ample counterweight in stabilizing the Rupiah's exchange rate.**

Chart 1. The prices of most of Indonesia's main commodity exports remain elevated

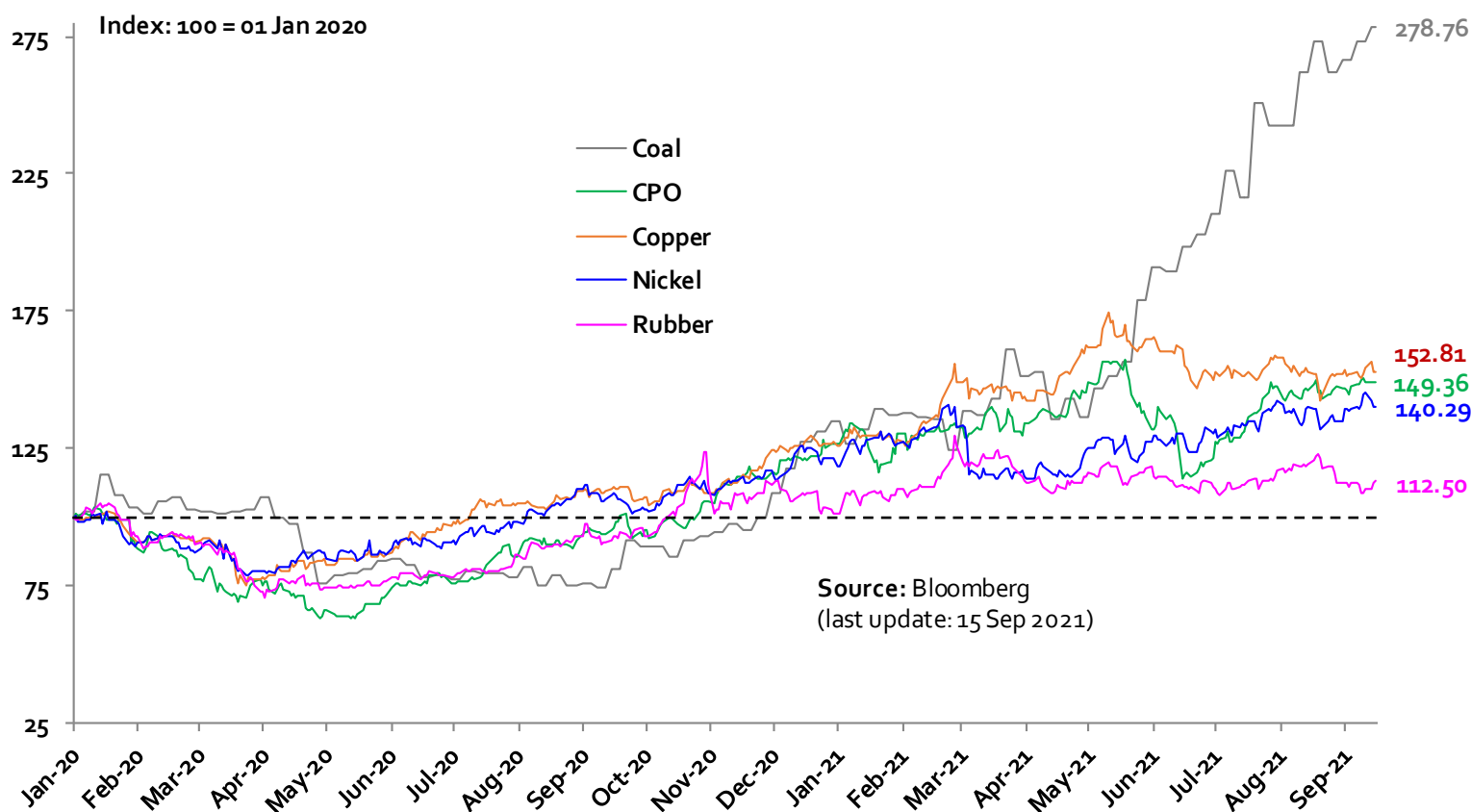
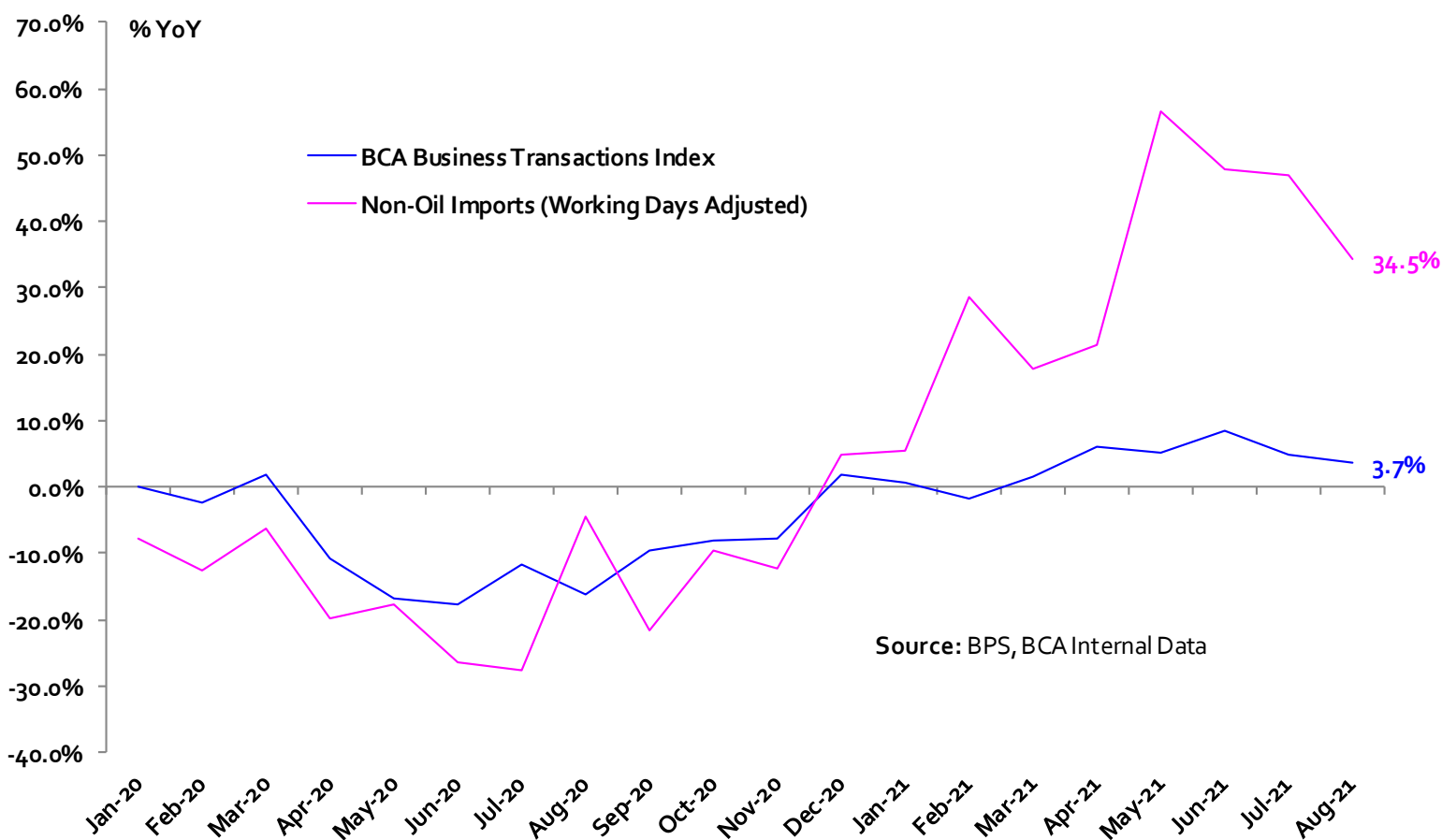


Chart 2. Moving in line with our own transactions index, non-oil imports appear to be holding up well, albeit slightly lower than its Lebaran peak



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Sep	-1 mth	Chg (%)
US	0.25	Mar-20	-5.05	Baltic Dry Index	4,221.0	3,566.0	18.4
UK	0.10	Mar-20	-3.10	S&P GSCI Index	533.9	524.7	1.7
EU	0.00	Mar-16	-3.00	Oil (Brent, \$/bbl)	73.6	70.6	4.3
Japan	-0.10	Jan-16	0.20	Coal (\$/MT)	177.8	157.4	13.0
China (lending)	4.35	Oct-15	3.55	Gas (\$/MMBtu)	5.35	3.90	37.2
Korea	0.75	Aug-21	-1.85	Gold (\$/oz.)	1,804.5	1,779.7	1.4
India	4.00	May-20	-1.30	Copper (\$/MT)	9,426.3	9,542.5	-1.2
Indonesia	3.50	Feb-21	1.91	Nickel (\$/MT)	19,638.5	19,637.0	0.0
Money Mkt Rates	14-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	1,103.1	1,082.3	1.9
SPN (1M)	3.50	3.11	38.5	Rubber (\$/kg)	1.62	1.72	-5.8
SUN (10Y)	6.13	6.34	-21.3	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	2.79	2.79	-0.1	Export (\$ bn)	21.42	17.71	20.9
JIBOR 1M (Rp)	3.56	3.56	-0.3	Import (\$ bn)	16.68	15.11	10.3
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	4.74	2.60	82.6
Lending (WC)	9.02	9.02	-0.49	Central bank reserves (\$ bn)	144.8	137.3	5.43
Deposit 1M	3.47	3.55	-8.28	Prompt Indicators	Aug	Jul	Jun
Savings	0.81	0.80	0.76	Consumer confidence index (CCI)	77.3	80.2	107.4
Currency/USD	14-Sep	-1 mth	Chg (%)	Car sales (%YoY)	123.5	163.6	476.1
UK Pound	0.724	0.721	-0.40	Motorcycle sales (%YoY)	-	28.9	155.1
Euro	0.847	0.848	0.05	Cement sales (%YoY)	-	1.9	36.9
Japanese Yen	109.7	109.6	-0.09	Capital Mkt	14-Sep	-1 mth	Chg (%)
Chinese RMB	6.439	6.477	0.60	JCI	6,129.1	6,139.5	-0.17
Indonesia Rupiah	14,248	14,388	0.98	DJIA	34,577.6	35,515.4	-2.64
Capital Mkt	14-Sep	-1 mth	Chg (%)	FTSE	7,034.1	7,218.7	-2.56
JCI	6,129.1	6,139.5	-0.17	Nikkei 225	30,670.1	27,977.2	9.63
DJIA	34,577.6	35,515.4	-2.64	Hang Seng	25,502.2	26,391.6	-3.37
FTSE	7,034.1	7,218.7	-2.56	Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)
Nikkei 225	30,670.1	27,977.2	9.63	Stock	2,017.2	1,936.9	80.26
Hang Seng	25,502.2	26,391.6	-3.37	Govt. Bond	980.4	965.8	14.66
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)	Corp. Bond	24.4	24.8	-0.40
Stock	2,017.2	1,936.9	80.26				
Govt. Bond	980.4	965.8	14.66				
Corp. Bond	24.4	24.8	-0.40				

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.6
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	27.2
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-0.7

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E. Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodjito
Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Economist / Analyst
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Industry Analyst
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Economist / Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Derrick Gozal
Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir
Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki
Research Assistant
ahmad_rizki@bca.co.id
+6221 2358 8000 Ext: 20378

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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