

Trade: Going from strength to strength

Executive Summary:

- **Indonesia registered a strong trade surplus of USD 5.73 Bn in October, propelled by a growth in exports (+53.35% YoY/ +6.89% MoM) and imports (+51.06% YoY/ +0.36% MoM).**
 - **The soaring commodities prices coupled with a continued rebound in production from Delta wave restrictions have helped maintain Indonesia's high export performance. At the same time, the relative weakness in imports is surprising given the rise in global oil prices.**
 - **However, imports could pick up in the coming months as retailers replenish their inventories in preparation for the holiday season at the end of the year.**
 - **Given Indonesia's status as a commodity producer, the nation's strong trade surplus would likely prevail in the next few months, leading us to believe that BI's exit from its current position is expected to occur gradually.**
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- **The trade surplus posted a new record high at USD 5.73 Bn in October**, as exports reached its all-time high (a staggering USD 22.0 Bn) while imports stayed rather flat on month-to-month basis (USD 16.3 Bn, 0.4% MoM).
 - This surplus was far wider than even the most optimistic forecasters had predicted (with the consensus coming at a "measly" USD 3.9 Bn), but the export figure was entirely explicable given the extraordinarily high peak that commodity prices attained during the month (**Chart 1**). Even accounting for its steep decline in the back half of the month, coal prices increased 27.9% MoM – while other export commodities such as CPO (11.9%) and gas (9.0%) also posted significant gains.
 - **Imports was actually the bigger surprise, especially given how strong domestic demand recovery has been since the government relaxed its quarantine measures (PPKM).** On working-days adjusted basis, imports of consumer goods actually saw a modest decline (-2.3% MoM), whereas capital goods – while increasing – continued to lag behind, in line with the "bifurcation" that we have observed for the past few months (**Chart 2**).
 - Interestingly enough, oil and gas imports have also fallen behind the pace that would be expected given the recent surge of global oil prices. While the spot Brent crude price rose 11.8% MoM in October, Indonesian oil & gas imports stayed flat. This fact, and the aforementioned weakness in consumer goods imports, increases **our suspicion that the relative weakness of imports was temporary, and it could rally in the upcoming months as the recovery continues.** In particular, retailers (as well as Pertamina) would have to replenish their inventories in anticipation of increased demand during the shopping and traveling season in December.
 - The question, then, is whether exports will continue its present hot streak to offset such potential increase in imports. Beijing's strong-handed response to the spiking coal price may appear to be a cause for concern, given how effective it has been (prices have declined 34.8% in November).
 - However, there is some reason to think that the case of China's coal policy is an exception rather than the rule, and is a function of China's semi-monopsony of global coal production. Prices of metals such as copper, while also declining, have remained elevated compared to September. Meanwhile, the energy crisis in US and Europe have reached the point where extraordinary solutions (release of strategic oil reserves, easing of Iranian sanctions) are being seriously considered.
 - **Given the world's recent emergence from Delta – and the surge of demand that it entails in Q4 – plus the potential disruptions that may come from the virus' resurgence in some European countries, it is entirely possible that the worst of the inflationary wave is still ahead of us.** The increase in PMI across Asia in October – after sharp declines in Q3 – is a sign that manufacturers are only starting to catch up with the upcoming demand.
 - **Ultimately, Indonesia's status as a commodity producer means that the streak of large trade surpluses could continue**, since the "bullwhip effect" amplifies the demand shock the further upstream one gets in the global supply chain. As such, Indonesia's balance of payments should remain stable amid recent capital outflows related to the Fed's tapering and the high US headline inflation. This means that a gradual exit by BI from its current policies (starting H2-2022) remains the likeliest scenario.

Chart 1. High commodity prices could translate to large trade surpluses for Indonesia for the next few months

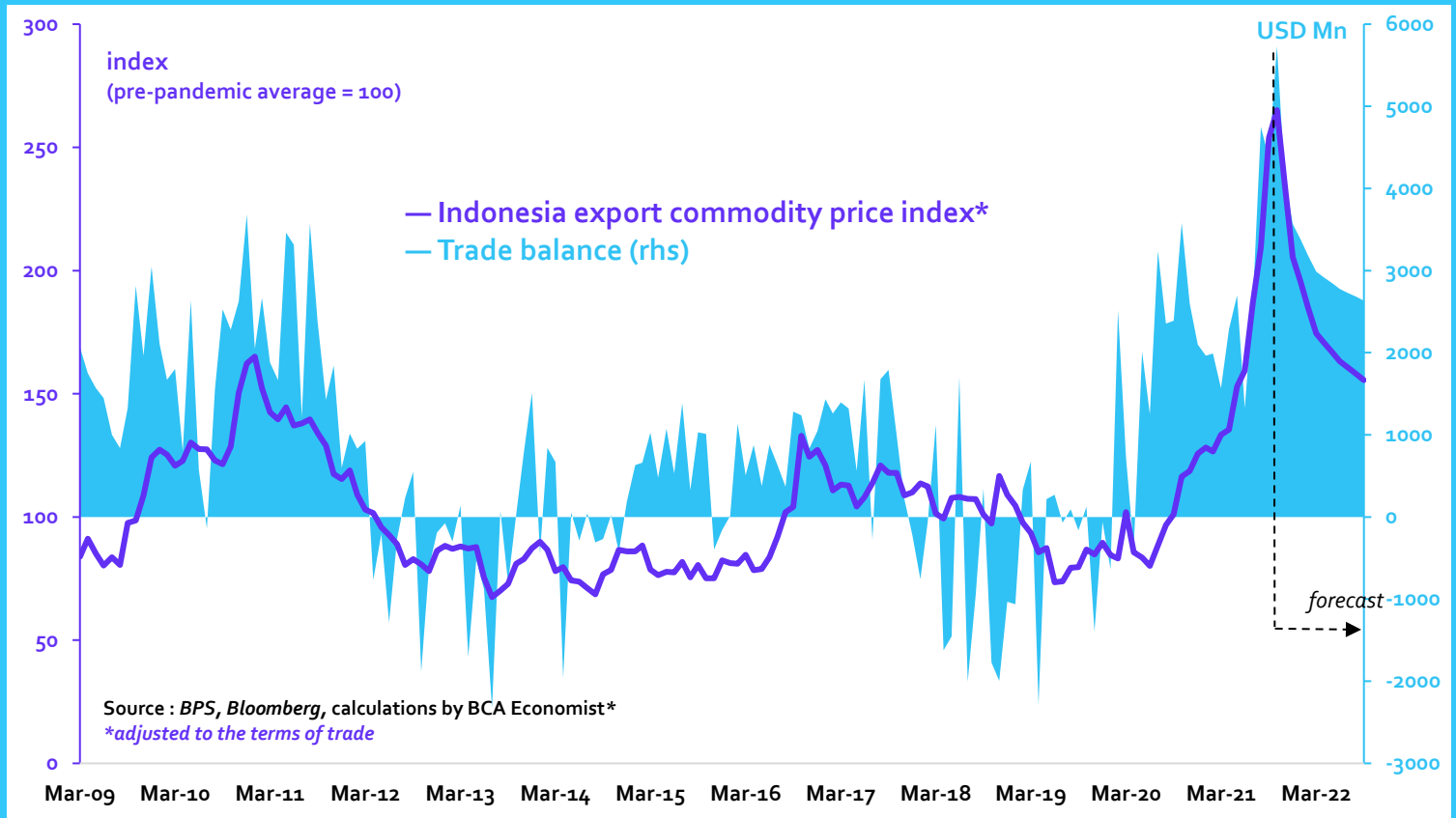
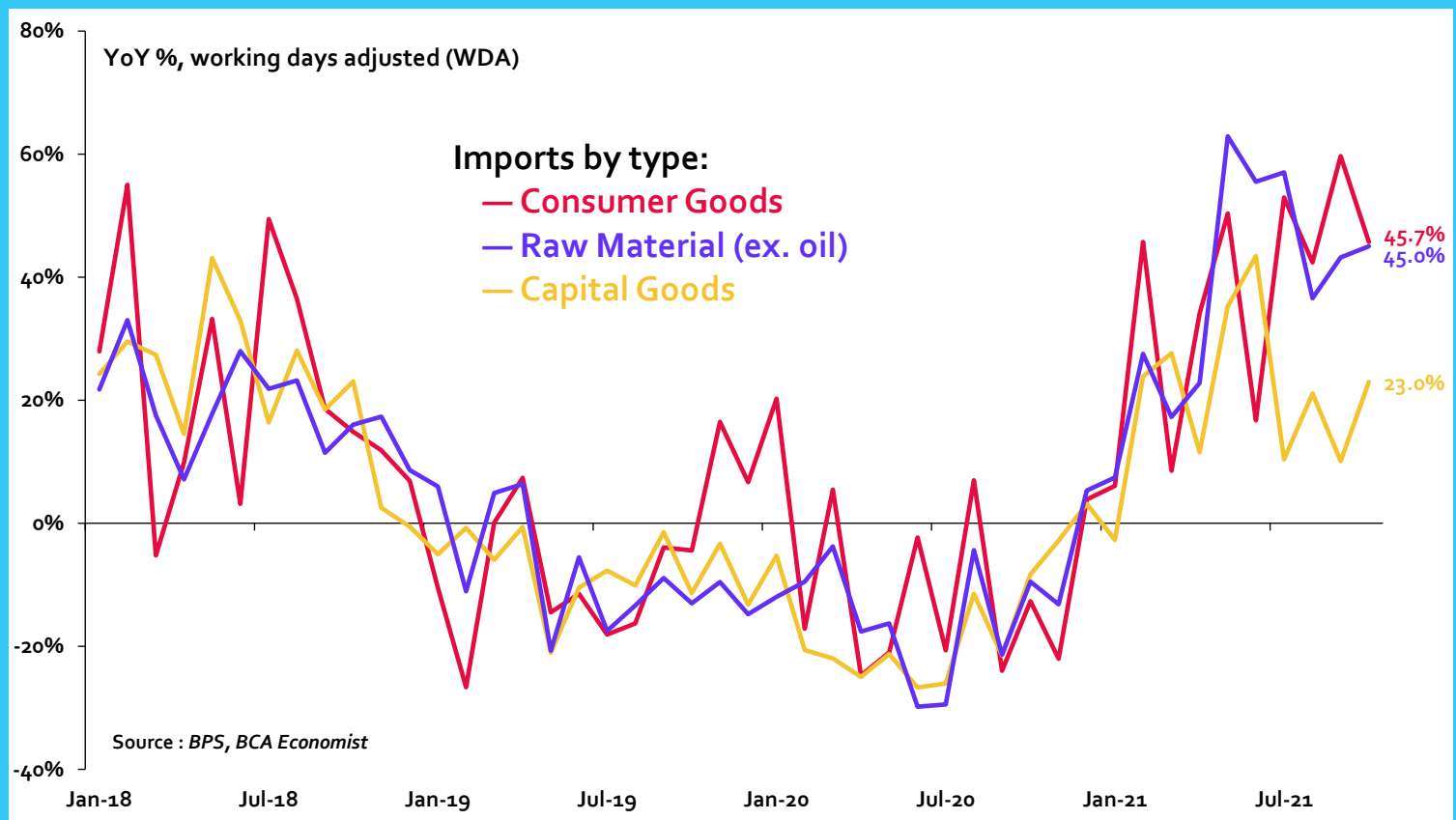


Chart 2. The divergence between consumer goods and capital goods imports mirror the strength of consumption recovery vs. business spending



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	12-Nov	-1 mth	Chg (%)
US	0.25	Mar-20	-5.95	Baltic Dry Index	2,807.0	5,378.0	-47.8
UK	0.10	Mar-20	-3.00	S&P GSCI Index	579.6	579.5	0.0
EU	0.00	Mar-16	-4.10	Oil (Brent, \$/bbl)	82.2	83.4	-1.5
Japan	-0.10	Jan-16	-0.30	Coal (\$/MT)	141.3	239.7	-41.1
China (lending)	4.35	Oct-15	2.85	Gas (\$/MMBtu)	4.87	5.34	-8.8
Korea	0.75	Aug-21	-2.45	Gold (\$/oz.)	1,864.9	1,760.2	5.9
India	4.00	May-20	-0.48	Copper (\$/MT)	9,841.0	9,520.0	3.4
Indonesia	3.50	Feb-21	1.84	Nickel (\$/MT)	20,134.0	18,994.0	6.0
Money Mkt Rates	12-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,285.1	1,218.1	5.5
SPN (1M)	2.25	2.70	-45.9	Rubber (\$/kg)	1.71	1.73	-1.2
SUN (10Y)	6.04	6.22	-18.4	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	2.79	2.79	0.4	Export (\$ bn)	22.03	20.60	6.9
JIBOR 1M (Rp)	3.55	3.56	-1.0	Import (\$ bn)	16.29	16.23	0.4
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	5.73	4.37	31.2
Lending (WC)	8.92	9.00	-7.37	Central bank reserves (\$ bn)	145.5	146.9	-0.96
Deposit 1M	3.31	3.39	-8.15	Prompt Indicators	Oct	Sep	Aug
Savings	0.76	0.75	1.02	Consumer confidence index (CCI)	113.4	95.5	77.3
Currency/USD	12-Nov	-1 mth	Chg (%)	Car sales (%YoY)	#N/A	73.2	123.5
UK Pound	0.745	0.736	-1.28	Motorcycle sales (%YoY)	#N/A	22.0	48.2
Euro	0.874	0.867	-0.74	Cement sales (%YoY)	#N/A	3.7	-1.0
Japanese Yen	113.9	113.6	-0.25	Manufacturing PMI	Oct	Sep	Chg (bps)
Chinese RMB	6.380	6.449	1.09	USA	60.8	61.1	-30
Indonesia Rupiah	14,219	14,218	-0.01	Eurozone	58.3	58.6	-30
Capital Mkt	12-Nov	-1 mth	Chg (%)	Japan	53.2	51.5	170
JCI	6,651.1	6,486.3	2.54	China	50.6	50.0	60
DJIA	36,100.3	34,378.3	5.01	Korea	50.2	52.4	-220
FTSE	7,347.9	7,130.2	3.05	Indonesia	57.2	52.2	500
Nikkei 225	29,610.0	28,230.6	4.89				
Hang Seng	25,328.0	24,962.6	1.46				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	2,248.9	2,146.6	102.38				
Govt. Bond	949.3	961.8	-12.51				
Corp. Bond	23.1	24.0	-0.91				

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	4.0
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	14,215
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	32.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-0.1

** Estimation of Rupiah's fundamental exchange rate

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