

Trade: Have we reached peak surplus?

Executive Summary:

- **Indonesia registered a trade surplus of USD 3.51 Bn in November, driven by a surge in imports (52.62% YoY / 18.62% MoM) and a more modest increase in exports (49.70% YoY / 3.69% MoM).**
- **Indonesia's imports will still likely pick up steam in the near term boosted by seasonal uptick in demand and continued economic recovery. Meanwhile, exports moving forward is unlikely to match the strong exports figures seen in September and October, which leads us to believe that the trade surplus peak is already behind us.**
- **Overall, we believe that Indonesia will likely still enjoy a positive trade balance though not as robust as months prior.**

- **Indonesia recorded a trade surplus of USD 3.51 Bn in November, lower than the previous month.** The decrease was driven by a surge in imports (52.62% YoY / 18.62% MoM) and a more modest increase in exports (49.70% YoY / 3.69% MoM).

- The surge in imports was supported by the post-Delta economic recovery as seen from several indicators. Although November's PMI figure of 53.9 was slightly lower compared to the month before, the fact that it was over 50 shows that **the manufacturing sector has been expanding for the third month in a row.** Furthermore, our internal data shows that consumer transactions have continued to rise past pre-pandemic levels (**Chart 1**). These tailwinds suggest that imports would still likely pick up steam in the near term.

- We are also seeing Indonesia's crude oil imports double (108.34% MoM) in November, despite a slight dip (-3.5% MoM) in the price of Brent crude oil. But this situation is not surprising considering that Indonesia's oil and gas imports remained rather flat in October, even when spot Brent crude price rose a staggering 11.8% MoM – **indicating that businesses (including Pertamina) have started replenishing their inventories in November in anticipation for seasonally high demand at the end of the year.**

- Exports, on the other hand, have maintained its upward trend -- driven largely by coal. Even though coal prices have declined by 24.5% MoM in November -- as the Chinese government takes action to increase domestic supply and cap prices – exports for coal have continued to grow by 5.39% MoM. However, exports for CPO, Indonesia's other go-to commodity, have already declined by 24.2% MoM. November's exports performance suggests that Indonesia's exports momentum moving forward is unlikely to match the

strong exports figures seen in September and October, which leads us to believe that the trade surplus peak is already behind us.

- A question that remains is whether this trajectory will continue. Although Indonesia has enjoyed a positive trade balance for 19 months now, **China's potential economic slowdown stands among several factors that could pose challenges.** The recent implosion of China's property sector is hurting economic growth – and it is not clear whether there are new growth drivers to pick up the slack. Slowing economic growth, weakening purchasing power, and declining manufacturing activities in China will go hand in hand with falling demand for Indonesia's main exports – particularly coal – due to China's unique position as a semi-monopsonist of global coal production. **In the short term however, China's recent move to bolster slowing economic growth -- by cutting the reserve requirement ratio -- means that we may not truly feel the impact of the country's slowdown until 2023.**

- In addition, the Omicron variant poses a threat to imports if it becomes the dominant strain in the coming months. Much remains unknown, including how quickly it spreads in more vaccinated areas and whether it results in milder symptoms than Delta, the variant that continues to ravage places like Europe. However, the current landscape is very different compared to the early stages of the pandemic. Therefore, **we expect that the impact of mobility restrictions, including lockdown or semi-lockdown, to "flatten" the infection curve may not be as severe as it once was.**

- There is also a downside risk with regards to the Fed's faster taper timeline and subsequent rate hikes – which

is becoming more likely as US inflation remains hot – the latest reading showed that inflation rose to 6.8% YoY in November, up from 6.2% YoY in the previous month, and the highest since June 1982. **The significant portfolio outflows observed over the past few weeks points to this heightened uncertainty gripping markets, and is the reason why Indonesia would need a robust trade surplus to cushion the blow from the Fed's actions over the next few months.**

- Ultimately, we expect commodities prices in the global market to ease next year, but they are likely to average higher than the levels seen in the last five years, as supply improves and demand growth eases. As such, we believe that Indonesia could still enjoy a positive trade balance though not as robust as months prior (Chart 2).

Chart 1. Consumer transactions have continued to rise past pre-pandemic levels

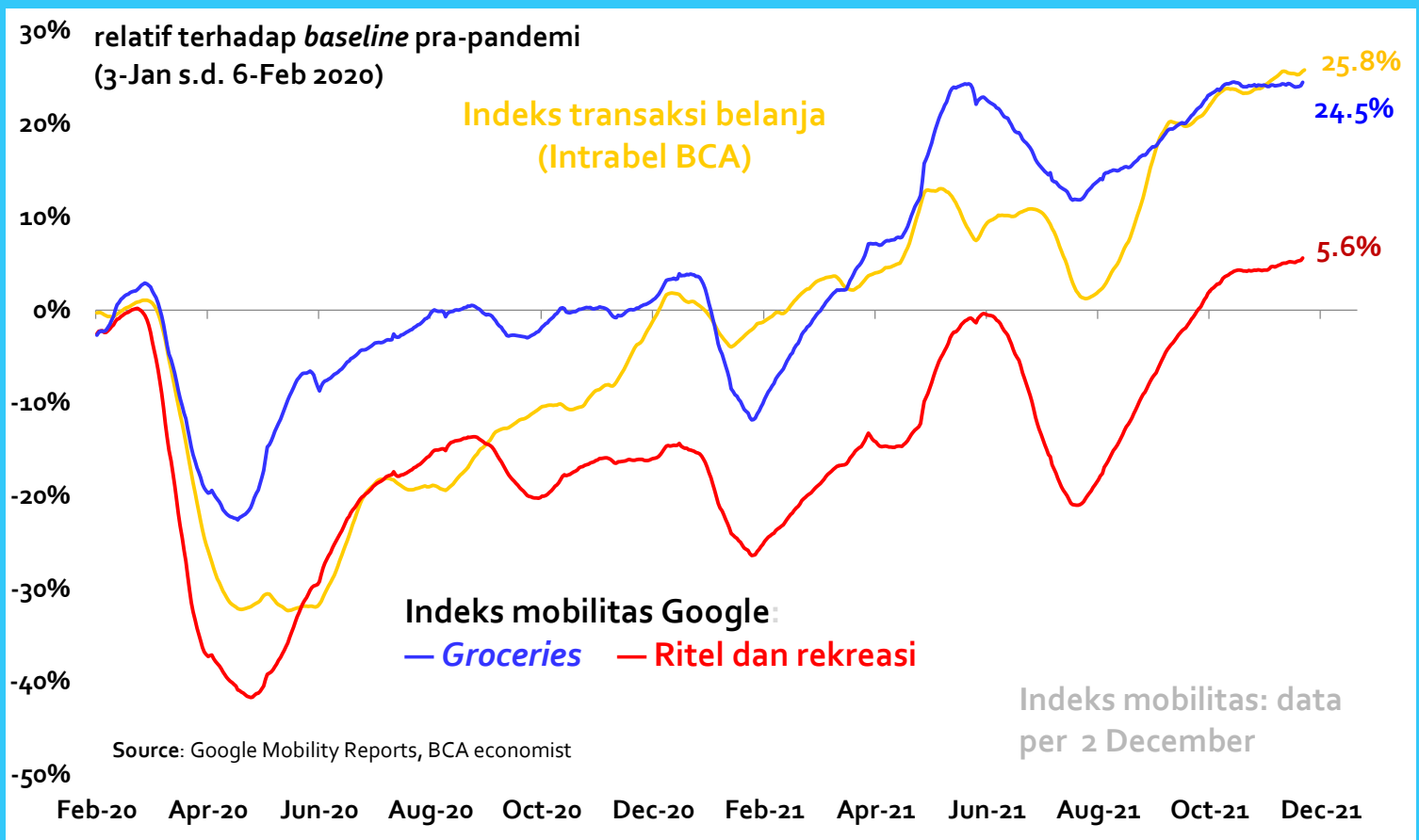
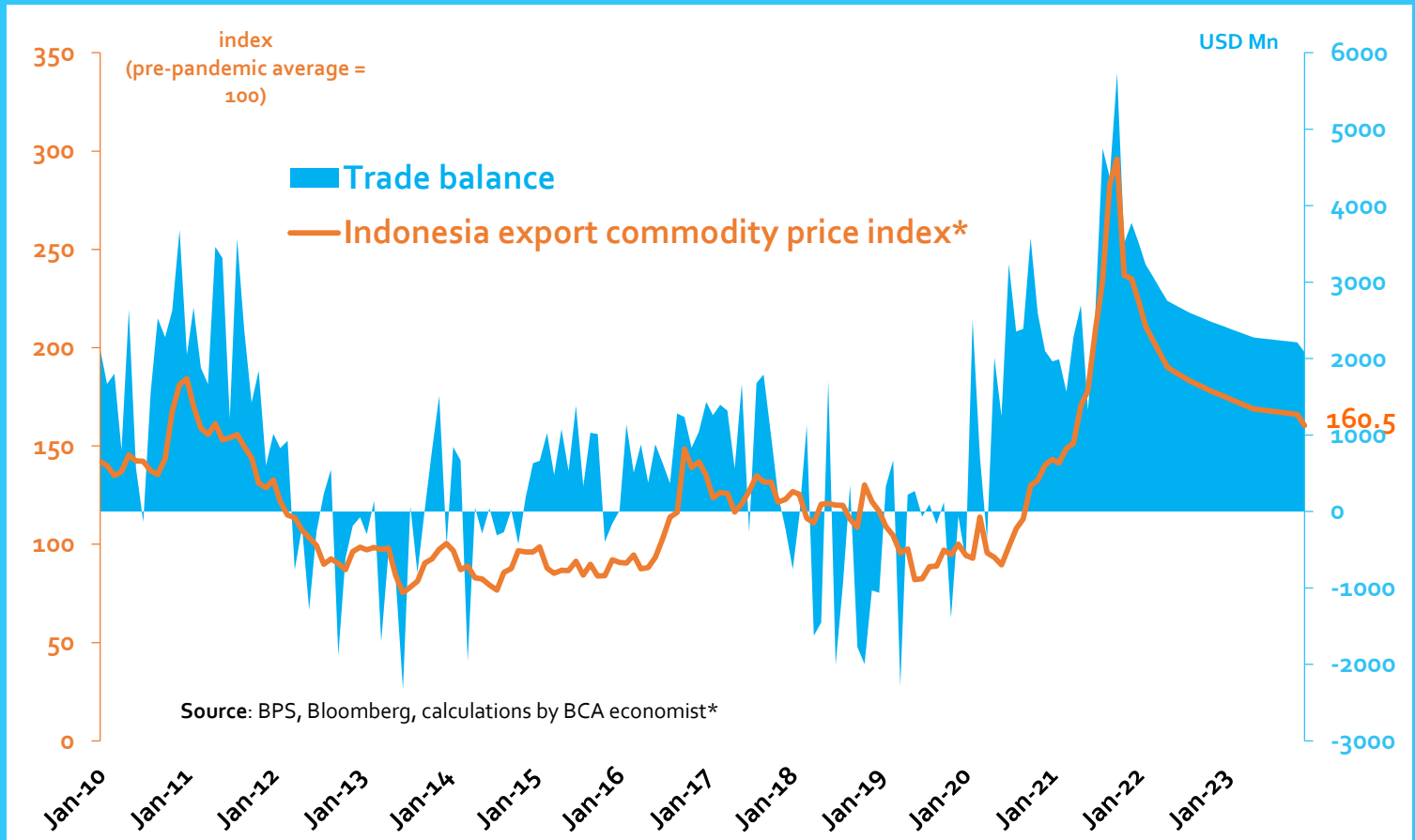


Chart 2. Commodities prices in the global market is expected to ease next year, but they are likely to average higher than the levels seen in the last five years



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	15-Dec	-1 mth	Chg (%)
US	0.25	Mar-20	-6.55	Baltic Dry Index	2,665.0	2,807.0	-5.1
UK	0.10	Mar-20	-5.00	S&P GSCI Index	536.3	579.6	-7.5
EU	0.00	Mar-16	-4.90	Oil (Brent, \$/bbl)	73.9	82.2	-10.1
Japan	-0.10	Jan-16	-0.20	Coal (\$/MT)	162.3	135.5	19.8
China (lending)	4.35	Oct-15	2.05	Gas (\$/MMBtu)	3.76	4.87	-22.8
Korea	1.00	Aug-21	-2.70	Gold (\$/oz.)	1,776.9	1,864.9	-4.7
India	4.00	May-20	-0.91	Copper (\$/MT)	9,214.5	9,841.0	-6.4
Indonesia	3.50	Feb-21	1.75	Nickel (\$/MT)	19,163.0	20,134.0	-4.8
Money Mkt Rates	15-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	1,149.4	1,289.6	-10.9
SPN (1M)	2.95	2.38	56.4	Rubber (\$/kg)	1.69	1.71	-1.2
SUN (10Y)	6.38	6.04	34.7	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	2.80	2.79	0.3	Export (\$ bn)	22.84	22.03	3.7
JIBOR 1M (Rp)	3.55	3.55	0.0	Import (\$ bn)	19.33	16.29	18.6
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	3.51	5.74	-38.7
Lending (WC)	8.85	8.92	-6.89	Central bank reserves (\$ bn)	145.9	145.5	0.30
Deposit 1M	3.24	3.31	-7.36	Prompt Indicators	Nov	Oct	Aug
Savings	0.73	0.76	-2.84	Consumer confidence index (CCI)	118.5	113.4	77.3
Currency /USD	15-Dec	-1 mth	Chg (%)	Car sales (%YoY)	62.4	54.1	123.5
UK Pound	0.754	0.745	-1.13	Motorcycle sales (%YoY)	95.6	39.9	48.2
Euro	0.886	0.874	-1.36	Cement sales (%YoY)	-	5.3	-1.0
Japanese Yen	114.0	113.9	-0.13	Capital Mkt	15-Dec	-1 mth	Chg (%)
Chinese RMB	6.368	6.380	0.19	JCI	6,626.3	6,651.1	-0.37
Indonesia Rupiah	14,334	14,219	-0.80	DJIA	35,927.4	36,100.3	-0.48
Capital Mkt	15-Dec	-1 mth	Chg (%)	FTSE	7,170.8	7,347.9	-2.41
JCI	6,626.3	6,651.1	-0.37	Nikkei 225	28,459.7	29,610.0	-3.88
DJIA	35,927.4	36,100.3	-0.48	Hang Seng	23,420.8	25,328.0	-7.53
FTSE	7,170.8	7,347.9	-2.41	Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)
Nikkei 225	28,459.7	29,610.0	-3.88	Stock	2,233.2	2,248.9	-15.79
Hang Seng	23,420.8	25,328.0	-7.53	Govt. Bond	918.5	949.3	-30.81
Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)	Corp. Bond	22.4	23.1	-0.69
Stock	2,233.2	2,248.9	-15.79				
Govt. Bond	918.5	949.3	-30.81				
Corp. Bond	22.4	23.1	-0.69				

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	1.9
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	36.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	0.6

** Estimation of Rupiah's fundamental exchange rate

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