

## Trade Balance:

# Bruised but not out

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### Executive Summary

- Indonesia's trade balance recorded a USD 2.9 Bn surplus in May 2022, narrowed sharply down compared to the prior month as temporary ban on CPO shipments hamstrung Indonesia's exports.
  - Indonesia's exports are largely fueled by surging prices while volume growth for key commodities such as coal and CPO are relatively muted. This condition could make Indonesia's exports more vulnerable to price volatility in the global market.
  - Risks of global economic slowdown and higher imports due to surging energy prices and higher domestic demand could put a ceiling on Indonesia's trade surplus in the coming months.
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- Indonesia's trade balance recorded a USD 2.9 Bn surplus in May 2022, narrowed sharply down compared to the last month's figure and lower than most analysts' more positive expectations of around USD 3.9 Bn. Imports rose by 30.7% YoY (-5.8% MoM) to USD 18.6 Bn, faster annual growth compared to the previous month amid strengthening domestic demand while exports narrowed down to its three-month low of USD 21.5 Bn (+27.0% YoY/-21.3% MoM).
  - The shrinkage in exports was largely expected after the government put a lid on CPO shipments at the beginning of May – with fewer working days further limiting exports performance. The export restriction policy, however, proved to be short-lived as it would always be difficult for the government to impose such a policy in a sector where the government has an insubstantial share of production capacity. Indeed, the ban on CPO exports last month has arguably created many dilemmas for the government, as the policy turns out to be ineffectual in suppressing prices in the domestic market while declining activities in the CPO sector disproportionately harm smallholder plantations.
  - Public outcry, especially from non-corporate farmers, force the government to disband its blanket CPO ban. The lifting of the export ban further coupled with a lower levy on exports, providing some incentives for CPO producers to substantially hike exports as a way to recover demand for crops yielded from smallholder plantations. Re-commencement of CPO exports, along with a lower levy, could push Indonesia's exports closer to MAR-APR 2022 level. However, limitation remains as DMO policy may continue to curb exports volume-wise (**Chart 1**). Increasingly challenging weather conditions and ageing plantations may also limit commodity exporters' ability to raise their production ceiling. Luckily, such a risk has hitherto

been offset by surging prices. Moreover, the fact that Indonesia's exports are largely fueled by higher prices (as volume is capped by DMO policies) may increase Indonesia's exposure to the volatility in the global commodity market, while also telling the limit to which exports could fuel Indonesia's economic growth in 2022.

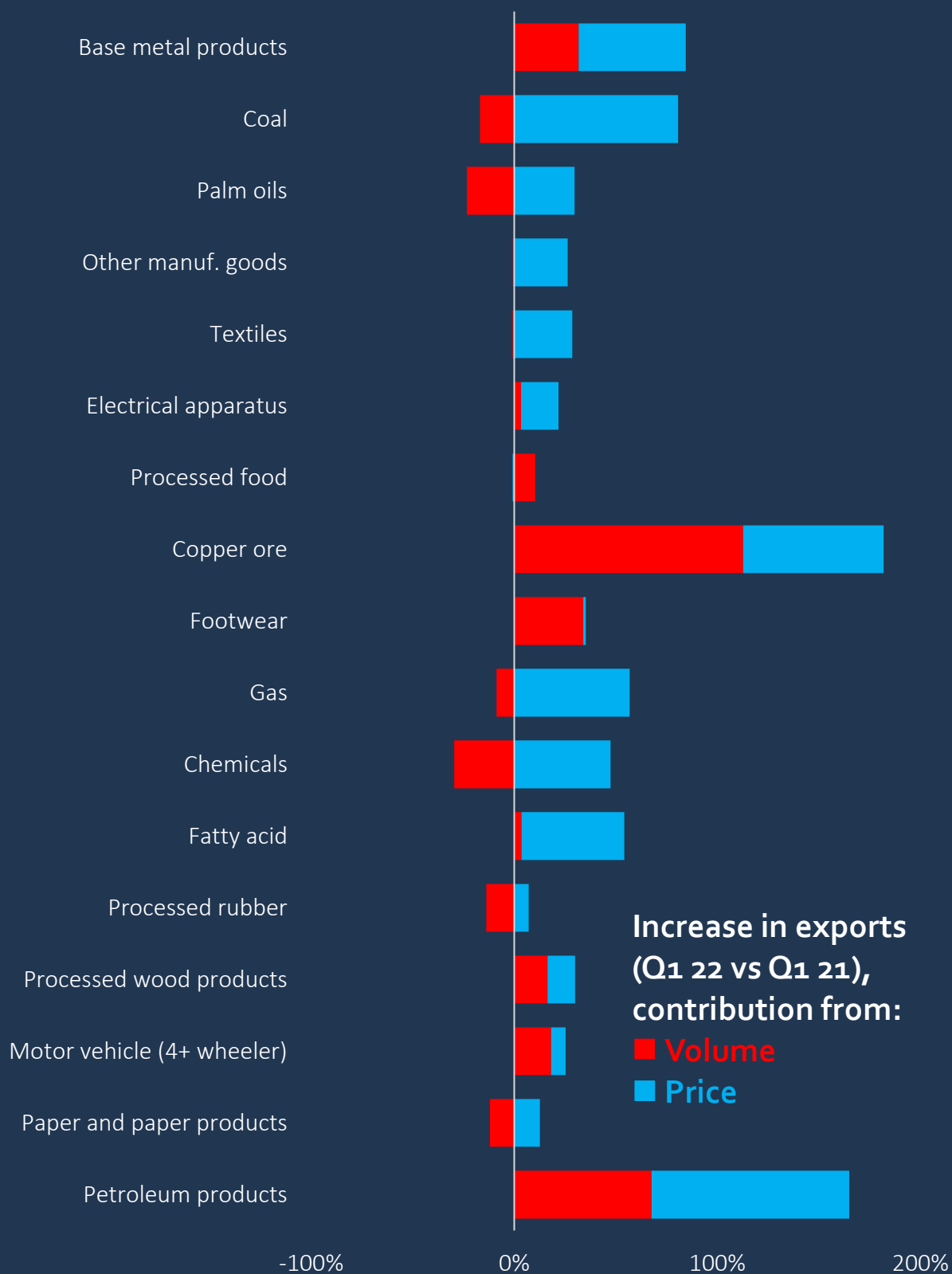
- While commodity exporters (Indonesia included) continue to rake in profits, the Indonesian economy may not be able to continue hiding behind its cushy trade buffer against the escalating domestic and global risks. First, stable domestic energy prices due to a higher subsidy budget yield no incentive for domestic consumers to curb their demand – leaving the government with higher oil and gas import bills (+25.3% YoY).

**“Re-commencement of CPO exports could increase Indonesia's exports in the upcoming month. However, limitation remains as DMO policy may continue to curb exports volume-wise”**

Increasing demand due to a spike in travelling activities during the summer could exacerbate imbalances in the already tight oil market (**Chart 2**) – exposing the government to the obdurately high oil prices. Moreover, low domestic energy prices may also increase domestic demand for imported goods, further increasing imports which could put a ceiling on Indonesia's presently hefty trade surplus.

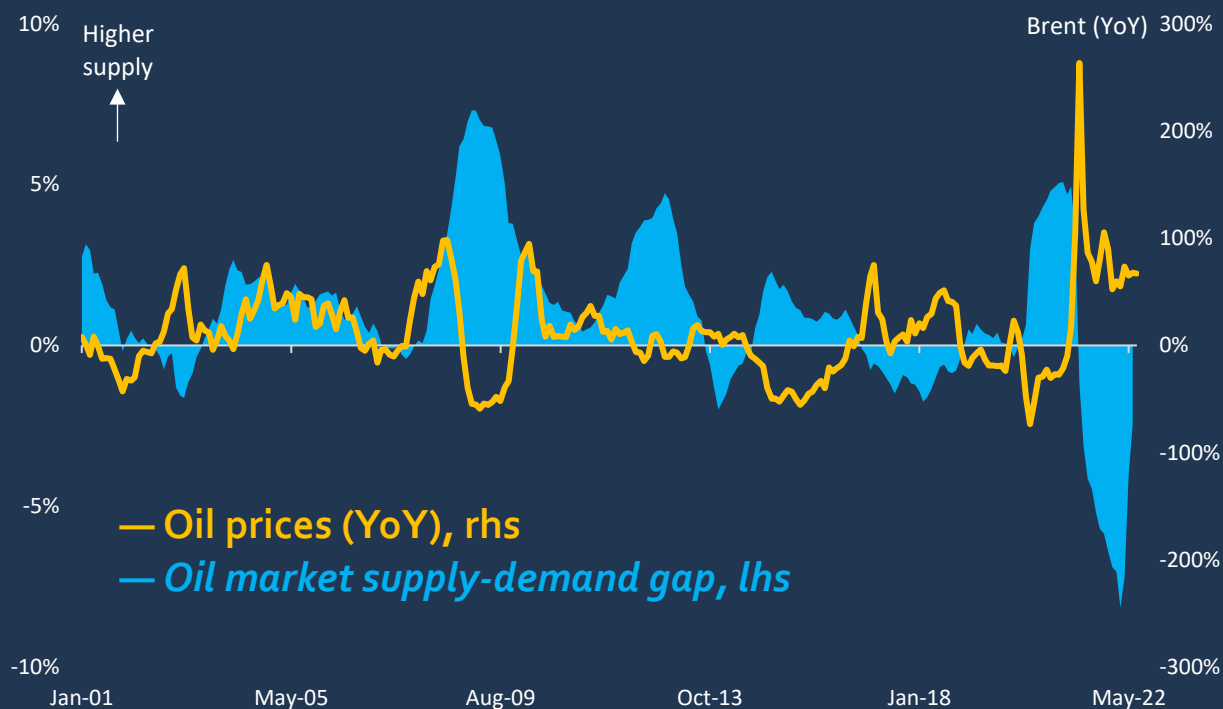
- Second, Indonesia's spell of outsized trade surpluses is also limited by the increasingly probable inflation-induced global economic slowdown. Higher inflation in the Western markets and the recent shocks in the wake of renewed COVID scare in China may drag consumer spending down (**Chart 3**) – lowering demand for commodities that limits Indonesia's export potential. Higher inflation, driven in part by the obdurately high commodity prices, may translate to accelerated policy tightening as central bankers may start to ponder the necessity to brake demand to stabilise the economy. Today's FOMC meeting will probably dictate the pace of global monetary policy tightening, as more commentators start to call for a 75 bps rate hike in the June 2022 meeting.
- Despite the still bountiful exports, the risk of rising imports coupled with the increasingly stronger US Dollars due to the Fed's widely anticipated faster-tightening schedule may further pummel the Rupiah's value, which would expose the government to higher import bills. Thus, the BI 7D-RR hike to the tune of 50-150 bps may soon be on the card on the H2-2022, as Bank Indonesia would need to obtain an additional defensive mechanism amid the risk of faster global monetary tightening.

**Chart 1. Indonesia's export performance is largely driven by surging prices while growth in volume is more sporadic**



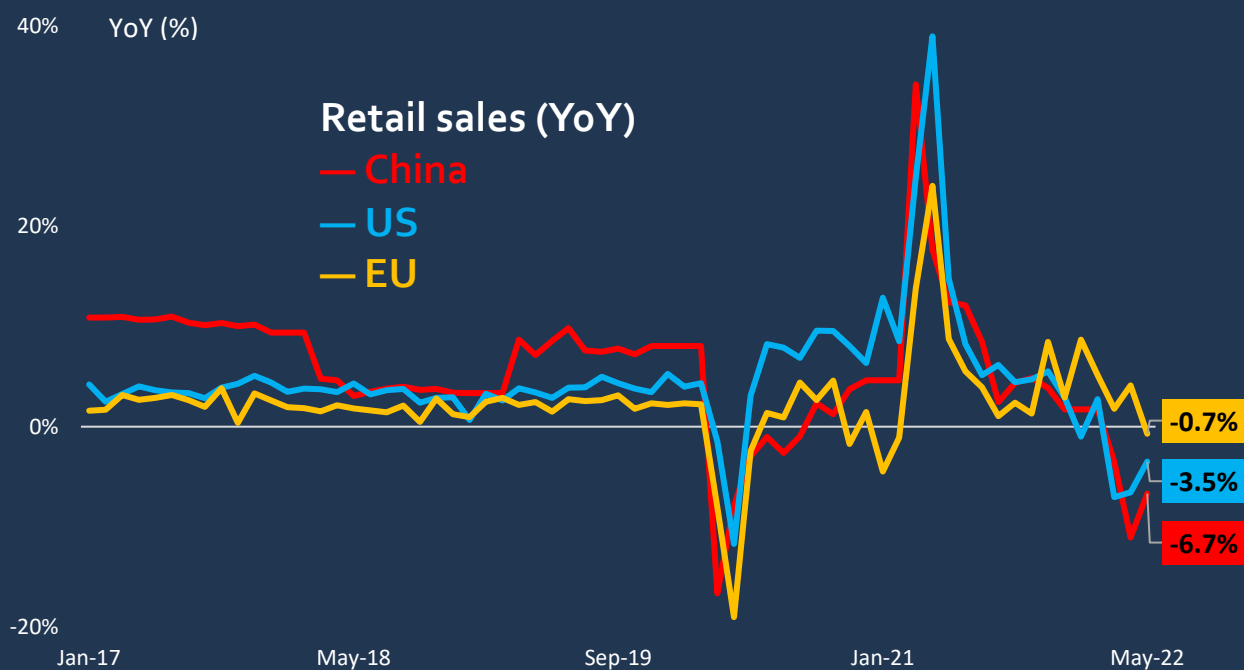
Source: BPS, BI, calculations by BCA Economists

**Chart 2. Higher demand during summer may exacerbates the supply-demand gap, which could drive oil prices higher up in the near-term**



Source: Bloomberg, calculations by BCA economists

**Chart 3. Lower consumer demand in key trading partners could limit exports in the coming periods**



Source: Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Jun	-1 mth	Chg (%)
US	1.00	May-22	-7.60	Baltic Dry Index	2,284.0	3,104.0	-26.4
UK	1.00	May-22	-8.00	S&P GSCI Index	781.2	759.7	2.8
EU	0.00	Mar-16	-8.10	Oil (Brent, \$/bbl)	121.2	111.6	8.6
Japan	-0.10	Jan-16	-2.60	Coal (\$/MT)	330.8	344.8	-4.1
China (lending)	4.35	Oct-15	2.25	Gas (\$/MMBtu)	7.59	7.78	-2.4
Korea	1.75	May-22	-3.65	Gold (\$/oz.)	1,808.5	1,811.8	-0.2
India	4.90	Jun-22	-2.14	Copper (\$/MT)	9,218.8	9,184.6	0.4
Indonesia	3.50	Feb-21	-0.05	Nickel (\$/MT)	25,158.0	27,171.5	-7.4
Money Mkt Rates	14-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	1,373.8	1,570.6	-12.5
				Rubber (\$/kg)	1.60	1.57	1.9
SPN (1M)	1.42	1.79	-37.4	External Sector	May	Apr	Chg (%)
SUN (10Y)	7.40	7.36	3.5				
INDONIA (O/N, Rp)	2.79	2.79	-0.5	Export (\$ bn)	21.51	27.32	-21.3
JIBOR 1M (Rp)	3.54	3.54	0.0	Import (\$ bn)	18.61	19.76	-5.8
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	2.90	7.56	
				Central bank reserves (\$ bn)*	135.6	135.7	-0.04
Lending (WC)	8.62	8.66	-3.55	Prompt Indicators	May	Apr	Mar
Deposit 1M	2.85	2.88	-3.49				
Savings	0.63	0.69	-6.27				
Currency/USD	14-Jun	-1 mth	Chg (%)	Consumer confidence index (CCI)	128.9	113.1	111.0
UK Pound	0.834	0.816	-2.16	Car sales (%YoY)	-9.8	5.0	16.1
Euro	0.960	0.960	0.04	Motorcycle sales (%YoY)	N/A	-7.1	-13.6
Japanese Yen	135.5	129.2	-4.61				
Chinese RMB	6.741	6.789	0.72	Cement sales (%YoY)	N/A	-10.0	23.2
Indonesia Rupiah	14,698	14,613	-0.58				
Capital Mkt	14-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
JCI	7,049.9	6,598.0	6.85				
DJIA	30,364.8	32,196.7	-5.69	USA	56.1	55.4	70
FTSE	7,187.5	7,418.2	-3.11	Eurozone	54.6	55.5	-90
Nikkei 225	26,629.9	26,427.7	0.77	Japan	53.3	53.5	-20
Hang Seng	21,068.0	19,898.8	5.88	China	48.1	46.0	210
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)	Korea	51.8	52.1	-30
				Indonesia	50.8	51.9	-110
Stock	2,503.9	2,599.7	-95.79				
Govt. Bond	795.7	827.9	-32.12				
Corp. Bond	18.1	18.5	-0.47				

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

\*Data from earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, **>50** indicates economic expansion, **<50** otherwise

## Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	4.8
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4615
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	4.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	48.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

\*\* Estimation of Rupiah's fundamental exchange rate

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