

Trade:

Improving prospects amid Europe's energy crunch

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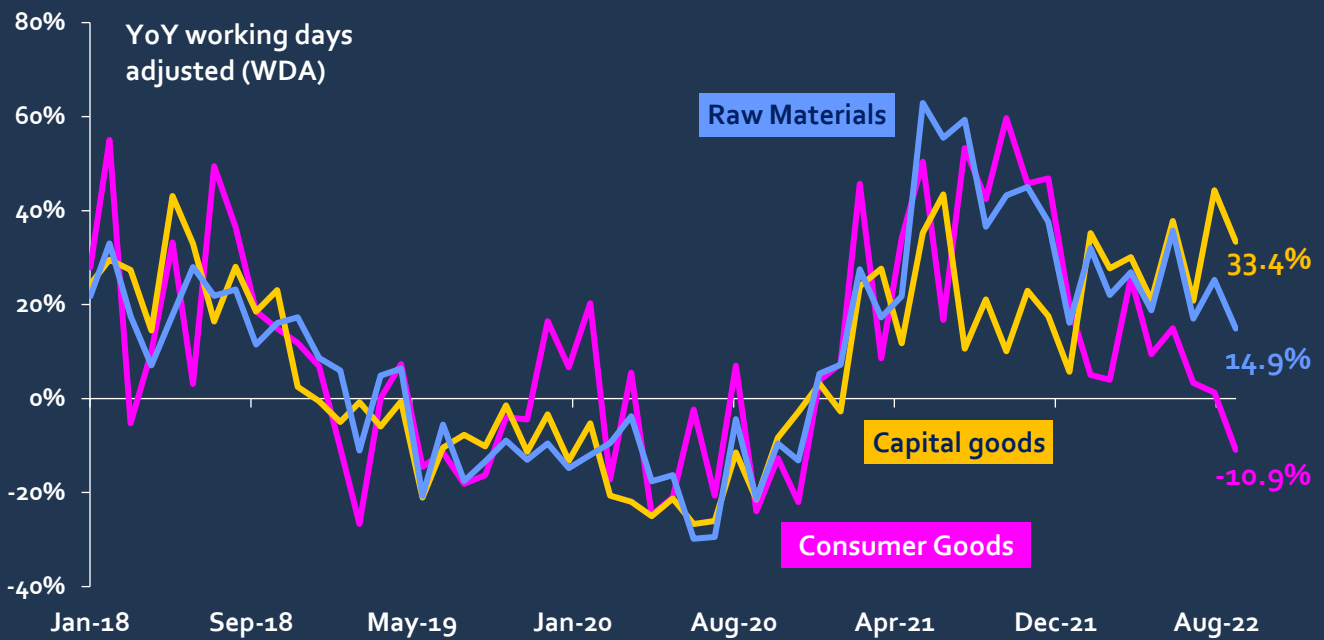
Executive Summary

- Indonesia's trade balance increased to USD 5.76 Bn in August 2022, as exports (9.17% MoM) grew at a faster pace than imports (3.77% MoM). The surge in exports was driven by a temporary cut in the CPO export levy starting from July 15, 2022.
 - With this policy extended to the end of October, we can expect the potential rise in CPO export volume to offset some of the impact of falling global CPO prices on Indonesia's trade balance in the near-term. At the same time, Europe's energy crisis amid the coming winter months has the potential to drive exports of Indonesian coal.
 - Despite the continually large (even increasing) trade surplus, the gap between slowing global growth and the relatively resilient demand at home might eventually moderate.
 - All in all, improving prospects of Indonesia's trade surplus would allow BI to raise interest rates at a more measured pace (by 75-125 bps until the end of the year) in response to the fuel hike-induced inflation.
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- Indonesia's trade surplus increased to USD 5.76 Bn in August 2022, as exports (9.17% MoM) grew faster than imports (3.77% MoM). This surplus is far greater than what most analysts had predicted (with the consensus coming in at USD 4 Bn), but the surge in exports was not entirely unexpected considering that the government had temporarily cut the export levy for CPO from up to USD 200 per ton to zero starting from July 15, 2022.
 - Indeed, CPO exports increased by over 25% MoM in August, even as CPO prices continued to fall. The reduction in CPO export levies was meant to clear large stockpiles of CPO created during the CPO export ban from April 28 to May 23. With this policy extended to the end of October, we can expect the potential rise in CPO export volume to offset some of the impact of falling global CPO prices on Indonesia's trade balance. But due to the temporary nature of this policy, CPO exports would likely moderate toward the end of the year as a result of the slowing global economy.
 - Perhaps a more dependable savior to Indonesia's trade surplus is the continued rise in coal prices after Russia stops gas flows to Germany through its Nord Stream 1 pipeline. The growing demand for coal could not come at a better time, especially since China – the largest importer of Indonesian coal – is under immense pressure from its zero-Covid policy, trouble in its mortgage industry, and record-breaking heatwaves disrupting power and production. And so despite the challenges of using lower-calorie Indonesian coal, Europe's urgent need for coal for the upcoming winter season could likely drive coal exports in the next few months.

- Indonesia's improved trade surplus figures was also a result of the broad-based slowdown in imports, but particularly for consumer goods (**Chart 1**). The continued bifurcation between the growth of consumer goods and capital goods imports is in line with our thesis that growth in the near-term will increasingly depend on investment. With the recent price adjustments of price-fixed fuels (Pertalite, Solar, and Pertamina) and the knock-on effects that rising fuel prices would have on core inflation, the more robust savings-investment gaps that businesses have compared to households would allow them to withstand rising prices and higher interest rates.
- Despite the continually large (even increasing) trade surplus, the gap between slowing global growth and the relatively resilient demand at home might eventually moderate it in the medium-term. Recent data, including Intrabel BCA (consumer spending index based on BCA big data), loan growth, consumer confidence, and retail sales all point to robust demand. The recent fuel price adjustment would eventually translate to lower consumption, but this would be buffered by the government's social assistance which will continue to December.
- All told, however, we are becoming a lot more bullish on the trade balance (**Chart 2**), which we project to reach roughly USD 45 Bn for the whole year – translating to a current account surplus of roughly 1.4% of the GDP. This should help Rupiah weather the storm of rising Dollar, and therefore allow BI to raise rates at a more measured pace (by 75-125 bps until the end of the year) in response to the fuel hike-induced inflation.

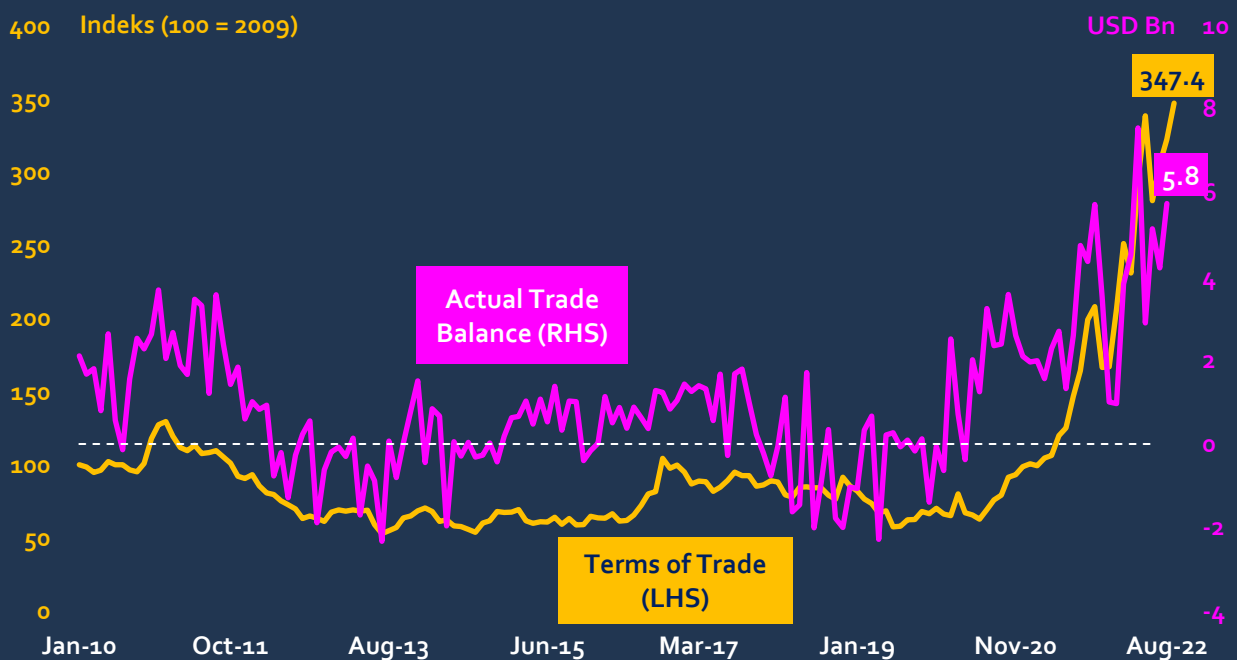
"We are becoming a lot more bullish on the trade balance, which we project to reach roughly USD 45 Bn for the whole year."

Chart 1. Imports slowed across the board, but particularly for consumer goods, amid households' diminishing leeway to withstand higher prices and interest rates



Source: BPS

Chart 2. The recent trade surplus figures have consistently exceeded most analysts' expectations, in line with rising terms of trade (ToT)



Source: BPS, BCA Economist calculations

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Sep	-1 mth	Chg (%)
US	2.50	Jul-22	-5.80	Baltic Dry Index	1,595.0	1,477.0	8.0
UK	1.75	Aug-22	-8.15	S&P GSCI Index	653.9	672.7	-2.8
EU	0.50	Jul-22	-8.60	Oil (Brent, \$/bbl)	94.1	98.2	-4.1
Japan	-0.10	Jan-16	-2.70	Coal (\$/MT)	424.1	373.6	13.5
China (lending)	4.35	Oct-15	1.85	Gas (\$/MMBtu)	8.37	8.74	-4.2
Korea	2.50	Aug-22	-3.20	Gold (\$/oz.)	1,697.3	1,802.4	-5.8
India	5.40	Aug-22	-1.60	Copper (\$/MT)	7,893.5	8,085.0	-2.4
Indonesia	3.75	Aug-22	-0.94	Nickel (\$/MT)	24,184.0	22,963.5	5.3
Money Mkt Rates	14-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	831.4	998.1	-16.7
SPN (1M)	1.97	1.91	6.5	Rubber (\$/kg)	1.32	1.50	-12.0
SUN (10Y)	7.11	6.96	14.3	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	3.35	2.80	54.4	Export (\$ bn)	27.91	25.57	9.1
JIBOR 1M (Rp)	4.25	3.77	47.3	Import (\$ bn)	22.15	21.35	3.8
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	5.76	4.23	
Lending (WC)	8.48	8.49	-1.13	Central bank reserves (\$ bn)*	132.2	132.2	0.02
Deposit 1M	2.79	2.84	-4.96	Prompt Indicators	Aug	Jul	Jun
Savings	0.64	0.62	1.17	Consumer confidence index (CCI)	124.7	123.2	128.2
Currency/USD	14-Sep	-1 mth	Chg (%)	Car sales (%YoY)	16.4	29.4	8.5
UK Pound	0.867	0.824	-4.93	Motorcycle sales (%YoY)	11.6	-13.3	-30.9
Euro	1.002	0.975	-2.71	Cement sales (%YoY)	#N/A	#N/A	-41.1
Japanese Yen	143.1	133.4	-6.75	Manufacturing PMI	Aug	Jul	Chg (bps)
Chinese RMB	6.962	6.743	-3.15	USA	52.8	52.8	0
Indonesia Rupiah	14,908	14,668	-1.61	Eurozone	49.6	49.8	-20
Capital Mkt	14-Sep	-1 mth	Chg (%)	Japan	51.5	52.1	-60
JCI	7,278.1	7,129.3	2.09	China	49.5	50.4	-90
DJIA	31,135.1	33,761.1	-7.78	Korea	47.6	49.8	-220
FTSE	7,277.3	7,500.9	-2.98	Indonesia	51.7	51.3	40
Nikkei 225	27,818.6	28,547.0	-2.55				
Hang Seng	18,847.1	20,175.6	-6.58				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	2,541.6	2,442.4	99.11				
Govt. Bond	759.5	751.2	8.27				
Corp. Bond	15.2	16.7	-1.50				

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



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Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	7.1
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.75
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,293
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
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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