

Trade:

Bracing for rough global headwinds

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Executive Summary

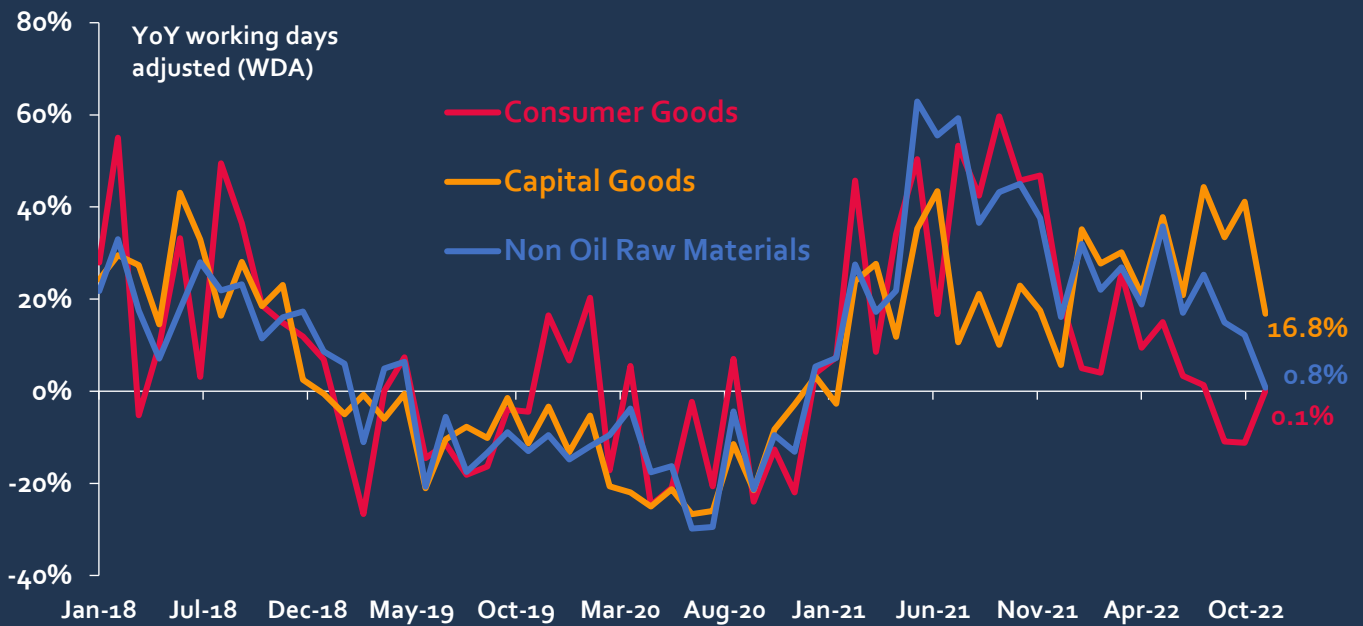
- Indonesia's trade balance increased to USD 5.67 Bn in October 2022, driven by slight increase in export and reduced imports due to slowdown in domestic demand.
- Exports were saved by extra demand from the Hindu festival of Diwali and frontloading of coal exports. Meanwhile there are worrying signs of growing domestic weakness due to weakening consumer optimism, related to Rupiah volatility and worsening local employment prospects
- This could have mixed effects on Indonesia's trade balance, as weaker exports are balanced by slowing import growth, resulting in potentially still-solid trade surplus into 2023.
- Since the surplus has not proven to be the perfect buffer for the Rupiah, we expect BI to continue hiking along with the Fed, delivering another 50 bps rate hike this month.

- Indonesia's trade balance increased to USD 5.67 Bn in October 2022, much higher than analyst estimates of USD 4.5 Bn as exports rose faster than expected (12.30% YoY, 0.13% MoM) while imports grew slower (17.44% YoY, -3.40% MoM). Both exports and imports bore the imprint of darkening economic prospects.
- The main suspect of the unexpected increase in Indonesian exports was elevated CPO exports (USD 3.47 bn, 14.38% MoM) partly caused by the celebrations of the Hindu festival of Diwali in India. Other less significant cause was the modest increase in coal exports (USD 5.34 Bn, 5.59% MoM), as the Northern Hemisphere anticipates the incoming winter months.
- Other than these two spotlights of optimism, the outlook for Indonesian exports seem bleak as demand decline in almost all destinations, including China, Japan and the US. The global malaise is also reflected price-wise as prices of most Indonesian staple exports namely nickel (-3.4% MoM), copper (-1.24% MoM), coal (-10.7% MoM) and natural gas (-21% MoM) all declined. The latter two, of course, are driven by the excess of gas supplies in Europe, which may well prove temporary as global energy markets remain relatively tight.
- Meanwhile the ongoing trend of declining imports of consumables and non-oil raw materials reflect a worrying slowdown in domestic demand. Recent public fears of the incoming global recession combined with Rupiah depreciation and expectations of weaker local employment conditions – highlighted by increasing layoffs in major tech companies and labor-intensive industries – may well play a role here. This is also in line with our big data that also shows softer consumption and business transactions growth in recent months.

- On the bright side, imports of capital goods remained positive – albeit slowing – in October as construction work resumes in delayed infrastructure projects. Recent strong FDI and DDI data confirms the robust investment appetite and further vindicates our belief that investment will be the main engine of growth ahead, with significant upsides from battery/EV-related industries and (potentially) manufacturing relocation from China.
- Going forward, the looming global recession is likely to further reduce demand and prices of Indonesia's manufactured and industrial-related exports, worsening its terms of trade despite some support from China's (partial) re-opening plans and elevated prices of coal and natural gas. However, the slowing imports may also provide a floor to our trade balance, which means the trade surplus is likely to continue into 2023.
- However, as we have often touched upon, the larger trade surplus does not necessarily provide a thick enough buffer for the Rupiah amid the Dollar's current strength. Foreign outflows, lower rate on FX deposits compared to abroad, as well as high FX credit demand has led to thinner domestic FX liquidity. With these factors in mind, we expect BI to respond to the Fed's hawkish move earlier this month by delivering 50 bps rate hike this week.

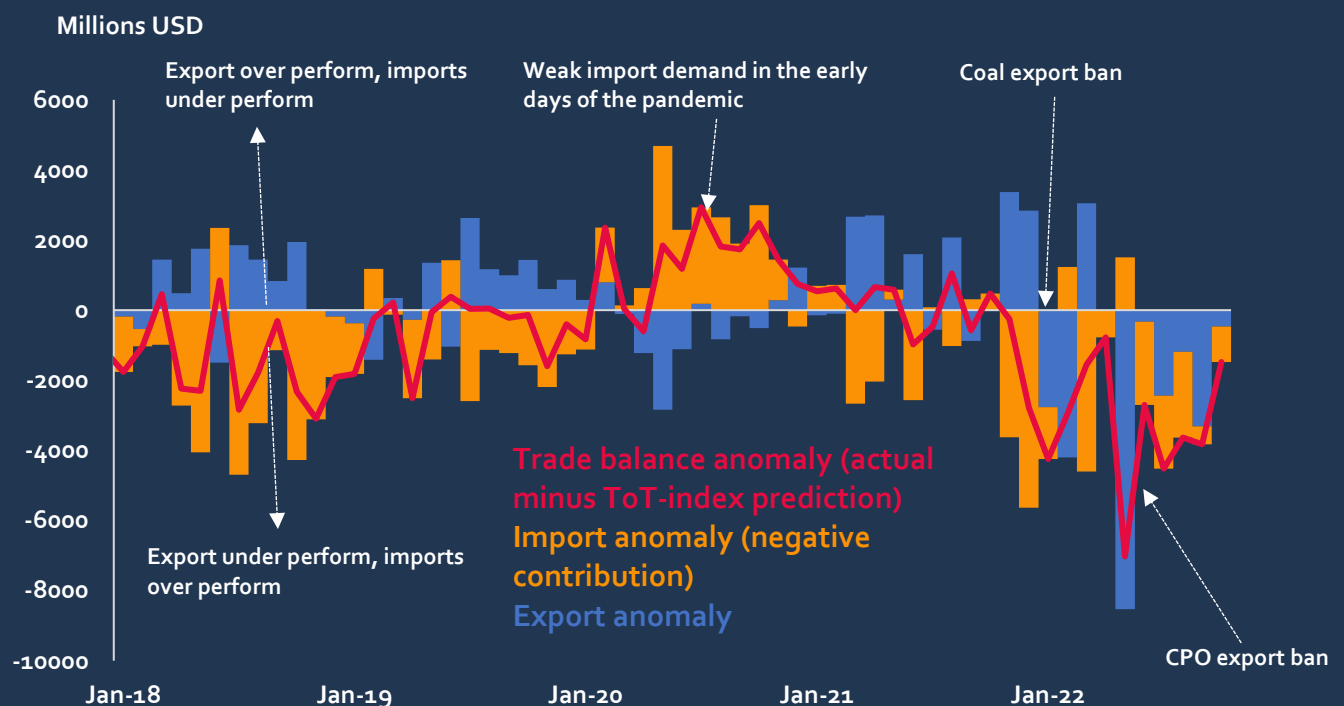
"The main suspect of the unexpected increase in Indonesian exports was elevated CPO exports partly caused by the celebrations of the Hindu festival of Diwali in India"

Chart 1. Declining imports of consumer goods and raw materials reflect a growing domestic economic slowdown



Source: BPS

Chart 2. The trade balance is gradually brought back in line with our ToT-based model, especially as imports begin to weaken



Source: BPS, BCA Economist calculations

Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Nov	-1 mth	Chg (%)
US	3.25	Oct-22	-4.45	Baltic Dry Index	1,325.0	1,838.0	-27.9
UK	2.25	Oct-22	-7.85	S&P GSCI Index	637.6	631.9	0.9
EU	2.00	Oct-22	-8.70	Oil (Brent, \$/bbl)	93.1	91.6	1.6
Japan	-0.10	Jan-16	-3.10	Coal (\$/MT)	295.4	371.8	-20.5
China (lending)	4.35	Oct-22	2.25	Gas (\$/MMBtu)	6.05	5.80	4.4
Korea	3.00	Oct-22	-2.70	Gold (\$/oz.)	1,771.4	1,644.5	7.7
India	5.90	Sep-22	-0.87	Copper (\$/MT)	8,356.0	7,652.8	9.2
Indonesia	4.75	Oct-22	-0.96	Nickel (\$/MT)	28,767.0	21,660.8	32.8
Money Mkt Rates	14-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	873.1	791.1	10.4
SPN (1M)	4.53	3.46	106.2	Rubber (\$/kg)	1.28	1.31	-2.3
SUN (10Y)	7.05	7.35	-30.1	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	4.29	3.81	48.1	Export (\$ bn)	24.81	24.78	0.1
JIBOR 1M (Rp)	5.45	4.94	51.3	Import (\$ bn)	19.14	19.81	-3.4
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	5.67	4.97	14.2
Lending (WC)	8.42	8.40	1.37	Central bank reserves (\$ bn)*	130.2	130.8	-0.45
Deposit 1M	2.83	2.84	-1.02	Prompt Indicators	Oct	Sep	Aug
Savings	0.64	0.62	1.50	Consumer confidence index (CCI)	120.3	117.2	124.7
Currency/USD	14-Nov	-1 mth	Chg (%)	Car sales (%YoY)	N/A	18.9	16.4
UK Pound	0.851	0.895	5.23	Motorcycle sales (%YoY)	20.9	10.7	11.6
Euro	0.968	1.029	6.22	Manufacturing PMI	Oct	Sep	Chg (bps)
Japanese Yen	139.9	148.7	6.28	USA	50.2	50.9	-70
Chinese RMB	7.069	7.193	1.75	Eurozone	46.4	48.4	-200
Indonesia Rupiah	15,518	15,423	-0.61	Japan	50.7	50.8	-10
Capital Mkt	14-Nov	-1 mth	Chg (%)	China	49.2	48.1	110
JCI	7,019.4	6,814.5	3.01	Korea	48.2	47.3	90
DJIA	33,536.7	29,634.8	13.17	Indonesia	51.8	53.7	-190
FTSE	7,385.2	6,858.8	7.67				
Nikkei 225	27,963.5	27,090.8	3.22				
Hang Seng	17,619.7	16,587.7	6.22				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	2,630.5	2,526.7	103.76				
Govt. Bond	713.2	730.3	-17.02				
Corp. Bond	15.4	15.5	-0.12				

Source: Bloomberg, BI, BPS

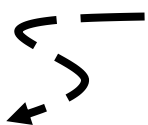
Notes:

^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	6.4
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
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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