

## Trade:

# Resilience in the midst of global cooling

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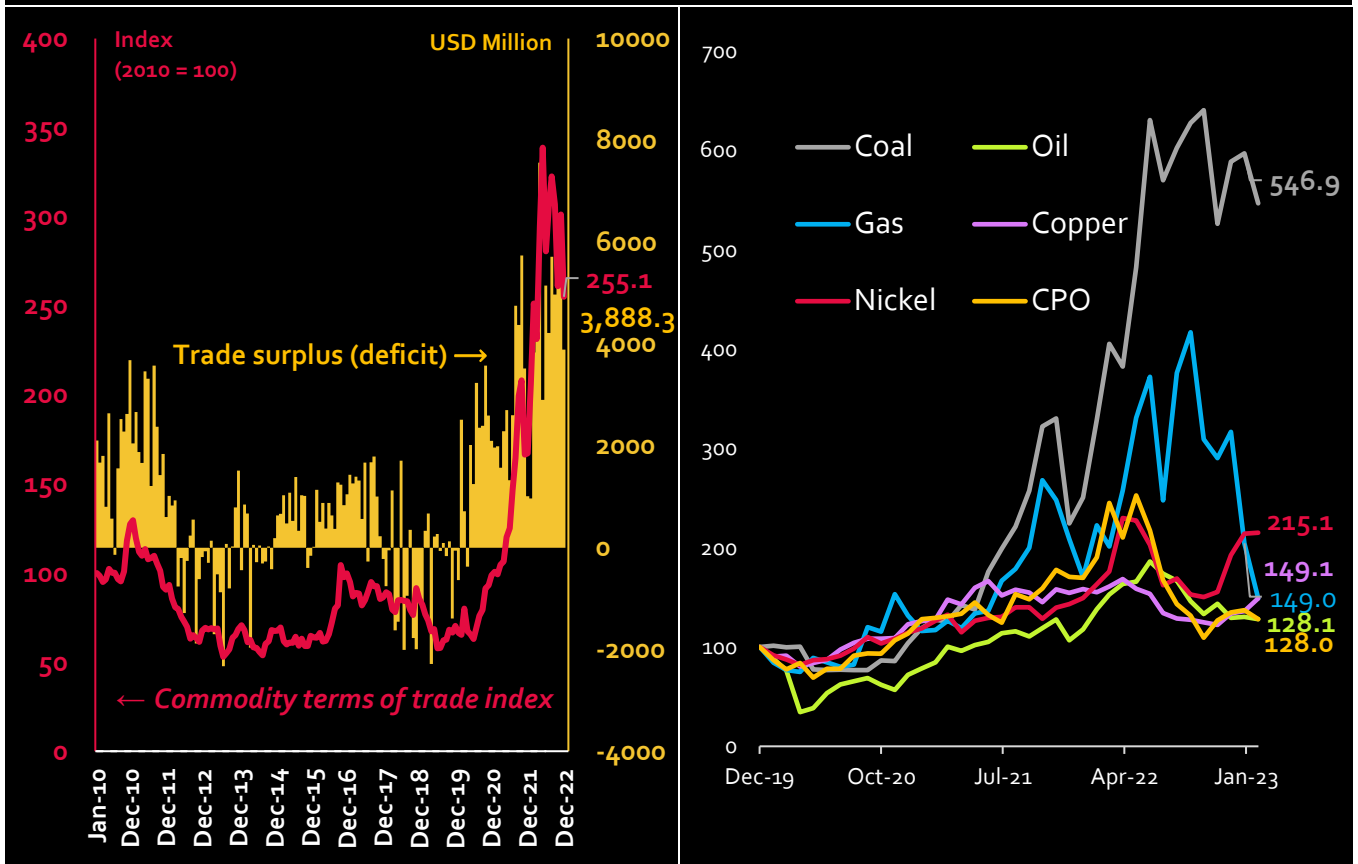
16 January 2023

### Executive Summary

- Indonesia recorded a trade balance of \$ 3.3 billion in December as both exports and imports slow amid weaker global growth prospects and worsening domestic demand. The weakness in global demand suppressed trade volumes, while prices are further depressed by supply-side factors.
  - Rapid global slowdown led markets to believe that the Fed would maintain its current policy rate or pivot. Either of these scenarios will be beneficial for the Rupiah as it increases the attractiveness of Indonesian bonds.
  - Other than the Fed, domestic food prices likely to remain a top concern as the upcoming Ramadan season entails increase in demand. Meanwhile BI is likely to stay to its conservative policy path after still healthier than expected consumer activities in the end of year holidays.
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- Indonesia scored a thinner yet still solid trade surplus of \$ 3.3 billion in December 2022 in the midst of slowing global demand. Exports continue to grow slower (6.6% YoY, -1.1% MoM) as coal bear the brunt of weakening volumes – due to China’s Covid-19 chaotic reopening – while warmer winter in Europe has reduced prices. Weaker growth in India and an increase in inventories also reduce overall CPO exports. Meanwhile, slowing demand in developed economies has reduced demand for Indonesia’s manufacturing exports. The one bright spot – indeed, a medium-term structural story – is the continued growth in exports of base metals, especially nickel derivatives.
  - Imports also continued its slump, diving deeper into negative territory (-6.6% YoY, 5.2% MoM) as signs of domestic slowdown is becoming clearer. Imports of consumer goods (-30.5% YoY) and non-oil raw materials (-4.7%) both declined, vindicating our previous argument of (at least temporarily) worsening consumer and business demand. Meanwhile the resumption of various delayed infrastructure and foreign investment projects drive up imports of capital goods (7.5% YoY). The government’s effort to speed up rice imports and avoid shortages in rice also translated to significant increase in cereal imports (109.4% YoY).

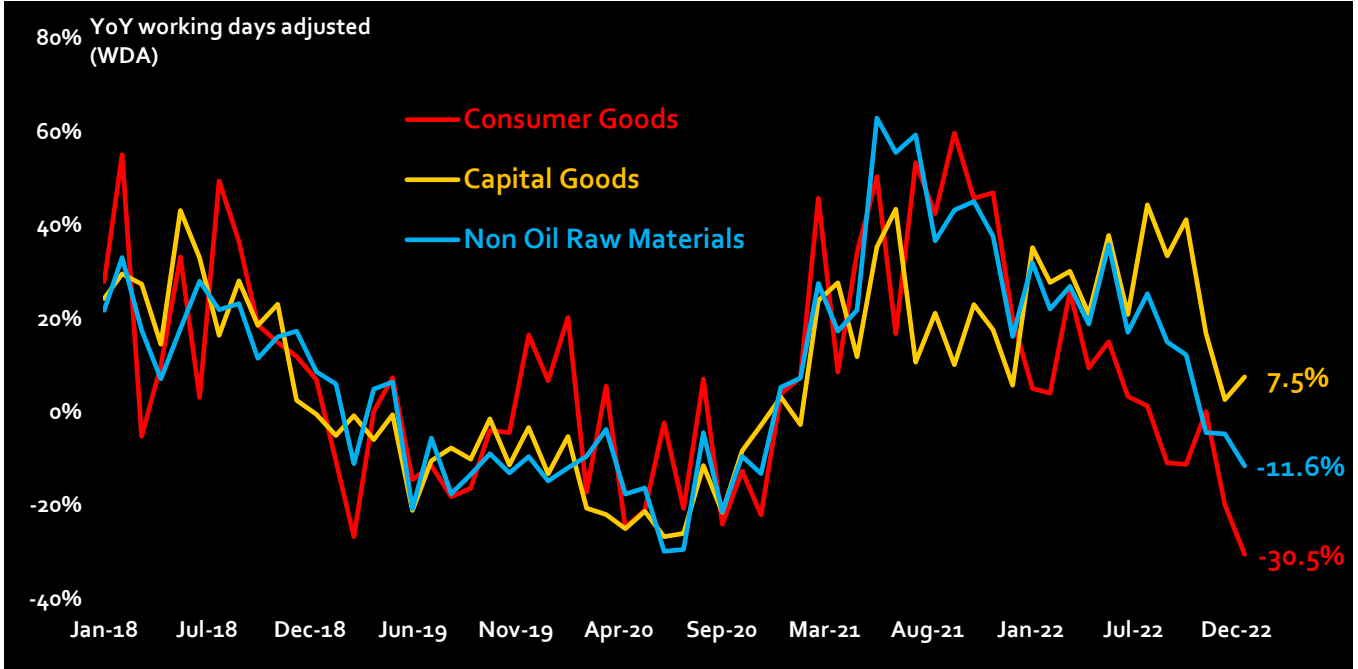
- The declining trade, whether Indonesia's and other countries, is of course reflective of the ongoing global economic slowdown. Indeed, trade is suffering both in terms of volume and in terms of price. The case for the former is straightforward: weakening demand, whether due to rising interest rates or (in China's case) short-term, virus-driven disruptions. This weakness is compounded by supply-side factors – excess inventories in China, G7-initiated price cap on Russian oil, uncharacteristically warm winter in Europe – to crush prices in the short-term.
- Indeed, this rapid “global cooling” has led markets to believe that the Fed would either keep its policy rate near current levels, or a pivot by the end of the year. This was signified by the notable rally in gold prices recently, which can be partly explained by market expectations of lower real interest rates and a weaker Dollar. However, the market's view continues to be at odds with the Fed's own (more hawkish) stated policy path, which aims to push policy rates higher for longer to squash inflationary expectations.
- The situation is thus very favorable for the Rupiah – and for the likelihood of a breather in BI's rate hike cycle – even though things remain unsettled for the medium-term. Declining US and Indonesian inflation improves attractiveness of Indonesian bonds, which compensates for the potentially thinner trade surplus this year. The latter, of course, could be augmented when new export proceed rules will kick in this year, increasing FX supply into the domestic FX market.
- Nevertheless, there are still some risks in the short-term, other than a reassertion of the Fed's stance in the upcoming FOMC. The one big issue, in our view, is the prices of foodstuffs and particularly rice. The dwindling stock, inclement weather, and high fertilizer costs all meant that the government has had to import in order to stabilize domestic prices – essentially trading trade surplus for lower inflation. Such maneuver could become more important in the coming months, especially with the Muslim fasting month (Ramadan) coming in March.
- Finally, while BI is approaching its inflection point (i.e. the end of its rate hike cycle), there may be less urgency of ending the hikes immediately at the next meeting. Like in the US, the weak data pertaining to global trade is balanced by better looks from consumer demand and domestic-oriented activities (both manufacturing and services), which has sprung into life during the year-end season as indicated by our transaction data.
- The safer route would be for BI to continue hiking by 25 bps this month, while awaiting confirmation regarding the Fed's stance in the weeks ahead. However, it would not surprise us if BI reads the latest developments as justification to end the rate hike cycle, and the Rupiah's recent ascent as being too rapid. **For what it is worth, we should note that BI – at least since 2002 – have always stuck to its terminal rate: it never cut rates nor hike them so soon after the initial rate hike cycle had ended.** This is testament to both BI's foresight and the fundamentally cautious nature of its policies.

**Panel 1. Global slowdown and Europe's warm winter drive down prices of staple export**



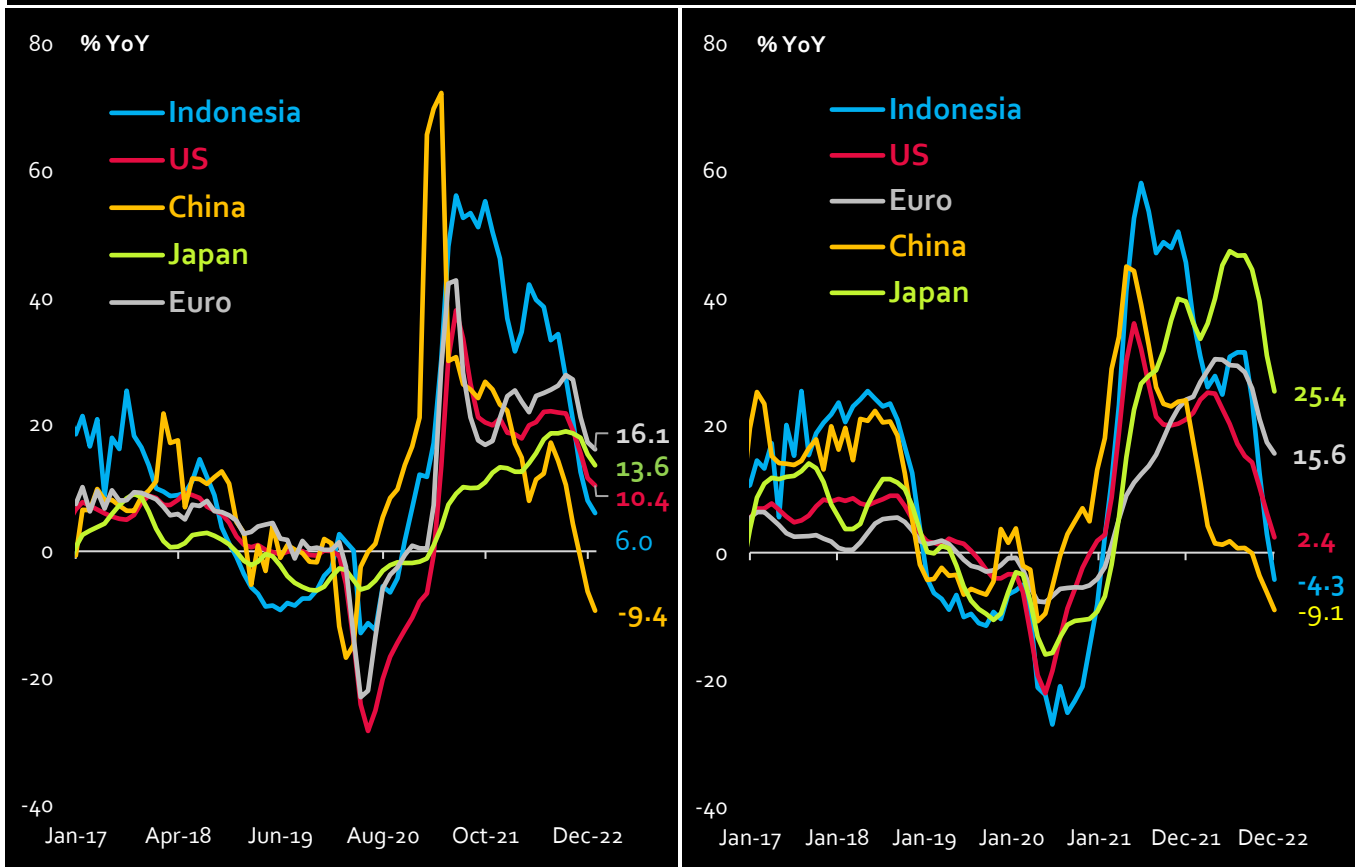
Source: BPS, Bloomberg, BCA Economist calculations

**Panel 2. Global disinflation, plus slowing domestic growth momentum, causes a decline in consumer goods and raw materials imports**



Source: BPS, BCA Economist

**Panel 3. Indonesia's trade slowdown is in line with the rest of the world**



Source: Bloomberg

**Panel 4. Manufacturing recession is well underway**

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Indonesia	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9
US	58.6	57.1	55.4	56.1	53	52.8	52.8	50.9	50.2	49	48.4
Euro	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8
China	50.2	49.5	47.4	49.6	50.2	49	49.4	50.1	49.2	48	47
Japan	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49	48.9
South Korea	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49	48.2
Thailand	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5
Vietnam	54.3	51.7	51.7	54.7	54	51.2	52.7	52.5	50.6	47.4	46.4
Malaysia	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8
India	54.9	54	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8
Philippines	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1
Australia	57	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2
Mexico	48	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3

Source: BI, Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	13-Jan	-1 mth	Chg (%)
US	4.50	Jan-23	-2.00	Baltic Dry Index	946.0	1,357.0	-30.3
UK	3.50	Jan-23	-7.20	S&P GSCI Index	605.8	596.4	1.6
EU	2.50	Jan-23	-6.70	Oil (Brent, \$/bbl)	85.3	80.7	5.7
Japan	-0.10	Jan-16	-3.90	Coal (\$/MT)	334.0	363.7	-8.2
China (lending)	4.35	Jan-23	2.55	Gas (\$/MMBtu)	3.50	7.17	-51.2
Korea	3.50	Jan-23	-1.50	Gold (\$/oz.)	1,920.2	1,810.8	6.0
India	6.25	Dec-22	0.53	Copper (\$/MT)	9,168.6	8,449.3	8.5
Indonesia	5.50	Dec-22	-0.01	Nickel (\$/MT)	26,599.0	28,007.0	-5.0
Money Mkt Rates	13-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	880.3	880.9	-0.1
SPN (1M)	3.80	4.23	-42.4	Rubber (\$/kg)	1.35	1.34	0.7
SUN (10Y)	6.67	6.93	-26.0	External Sector	Dec	Nov	Chg (%)
INDONIA (O/N, Rp)	5.00	4.84	16.1	Export (\$ bn)	23.83	24.12	-1.2
JIBOR 1M (Rp)	6.20	5.95	25.1	Import (\$ bn)	19.94	18.96	5.2
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	3.89	5.16	-24.6
Lending (WC)	8.42	8.42	-0.03	Central bank reserves (\$ bn)*	137.2	134.0	2.39
Deposit 1M	2.87	2.83	3.57	Prompt Indicators	Dec	Nov	Oct
Savings	0.65	0.64	0.98	Consumer confidence index (CCI)	119.9	119.1	120.3
Currency/USD	13-Jan	-1 mth	Chg (%)	Car sales (%YoY)	9.0	4.4	23.3
UK Pound	0.818	0.809	-1.12	Motorcycle sales (%YoY)	24.6	26.9	20.9
Euro	0.923	0.940	1.85	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	127.9	135.6	6.04	USA	48.4	49.0	-60
Chinese RMB	6.701	6.952	3.74	Eurozone	47.8	47.1	70
Indonesia Rupiah	15,150	15,657	3.35	Japan	48.9	49.0	-10
Capital Mkt	13-Jan	-1 mth	Chg (%)	China	49.0	49.4	-40
JCI	6,641.8	6,810.3	-2.47	Korea	48.2	49.0	-80
DJIA	34,302.6	34,108.6	0.57	Indonesia	50.9	50.3	60
FTSE	7,844.1	7,502.9	4.55				
Nikkei 225	26,119.5	27,954.9	-6.57				
Hang Seng	21,738.7	19,596.2	10.93				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	2,699.4	2,656.0	43.37				
Govt. Bond	762.2	736.9	25.26				
Corp. Bond	12.5	14.5	-2.05				

Source: Bloomberg, BI, BPS

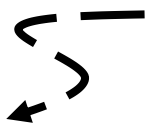
Notes:

^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

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3*	4.6
GDP per Capita (US\$)	3927	4175	3912	4350	4564*	4525
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,292
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

\*Estimated number

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

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