

Trade:

The end of the mega surplus streak?

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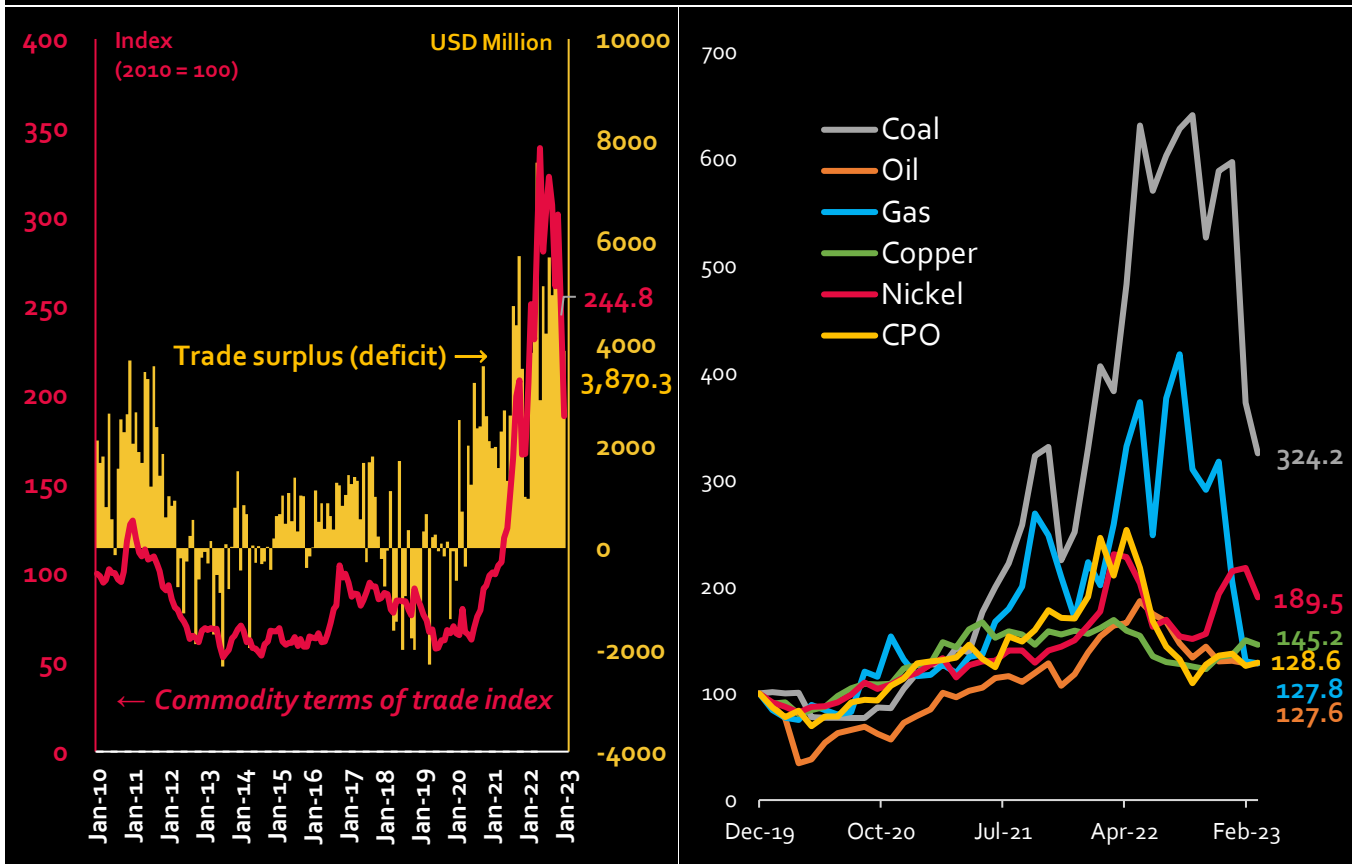
16 February 2023

Executive Summary

- Indonesia's trade balance recorded a USD 3.87 Bn surplus in January 2023, as exports (16.4% YoY, -6.4% MoM) grew at a faster pace than imports (1.3% YoY, -7.1% MoM).
 - Weaker demand from China and government restriction policies have triggered declines in the exports of coal, CPO, and other minerals such as copper, tin, and bauxite, which could narrow down Indonesia's trade surplus.
 - Indonesia may look forward to the return of China as a driver of commodity demand, while keeping in mind of the probability of CA deficit removing a key buffer for Rupiah stability that may keep BI rate "higher for longer".
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- Indonesia preserved its 33-months-trade surplus with a USD 3.87 Bn surplus in January 2023, as exports (16.4% YoY, -6.4% MoM) grew at a faster pace than imports (1.3% YoY, -7.1% MoM). The surplus was very much in line with our prediction (USD 3.82 Bn) and slightly above market expectations (USD 3.35 Bn), but it may well prove to be the last of mega-surpluses that Indonesia had enjoyed in the past two years.
 - Exports growth declined on the back of the plunging prices and weaker demand for commodities. This is true for coal, where high hopes for China's reopening has been upstaged by its large coal inventory and even more diversified sourcing (with Russia, Australia, and local output now competing with Indonesian coal). It is also true for CPO, where weak Chinese demand aggravates inventory levels in Malaysia, and prompts analysts to downgrade short-term price expectations.
 - Policies may also weigh down on near-term export prospects. Domestic market obligation (DMO) of up to 50% on CPO is a way to secure domestic supplies for the upcoming Muslim fasting month and Eid al-Fitr (Lebaran) festivities, as well as to boost the government's B35 program – increasing the ratio of CPO derivatives in diesel fuels to 35%. This could support CPO price at a time of flagging global demand, but at the expense of export volumes.
 - Meanwhile, the government's widening export restriction policy to include copper, tin, and bauxite is not yet implemented, but exports of ores, slag and ash (-36.4% MoM) as well as tin (-76.8% MoM) had fallen – possibly with Chinese demand also being a factor. When this policy is fully implemented, it should curtail exports further, although it is expected to be a short-term sacrifice to attain higher export values in the longer-run – similar to the success story with nickel thus far.

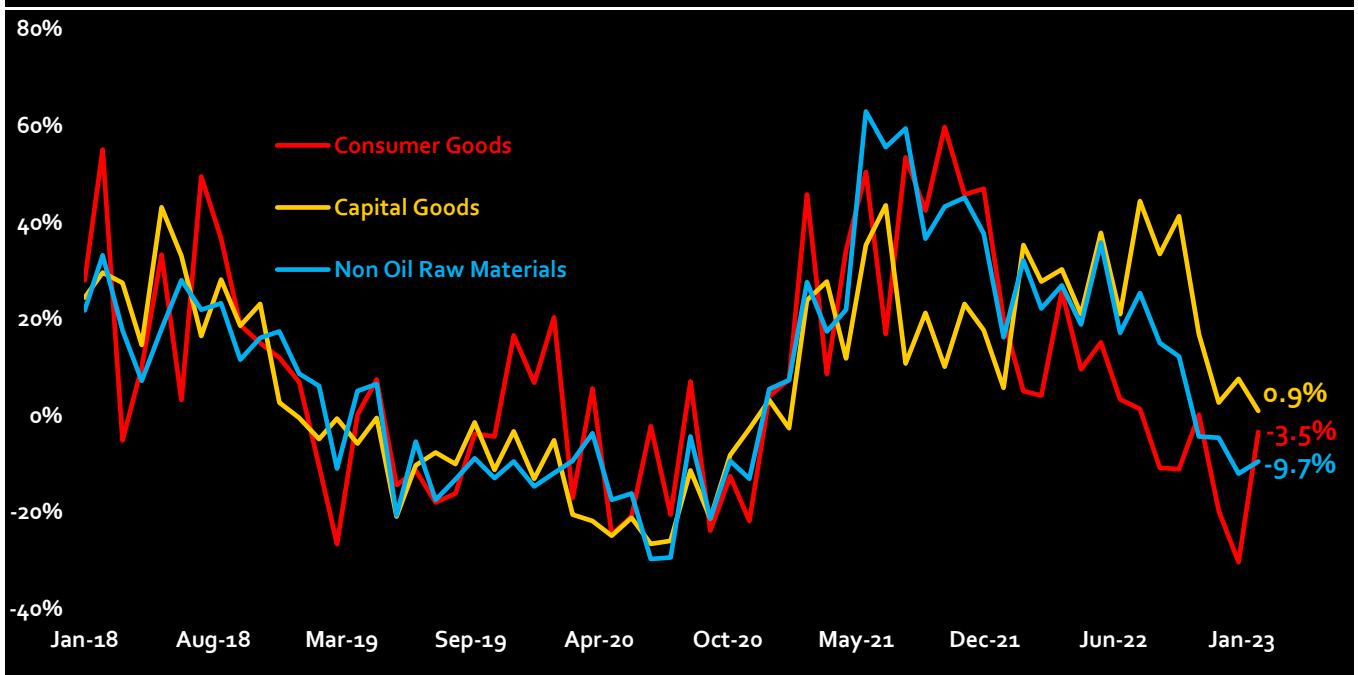
- While exports are on a downtrend, imports registered its first increase in three months, due mainly to consumer goods. This is clearly part of the anticipation ahead of the festive season, but may also partly be bolstered by the recent stability of the Rupiah. On the other side, imports of raw materials and capital goods continue to slow down despite still-positive manufacturing PMI, showing that industries may remain conservative given uncertain global outlook – particularly with respect to capital expenditure.
- Which brings us to the trade surplus: with coal prices now firmly in the 200's, it is very likely that the trade surplus – which has averaged USD 4.3 Bn per month since Aug-21 – would be pared down to USD 1.5 – 2.5 Bn range. If true, this would imply a current account deficit, at approximately 0.6% of the GDP.
- Of course, one thing that Indonesia can look forward to is the return of China as a driver of commodity demand. But even here, there is no guarantee of higher prices straight away, given China's own inventory buildup during the past year, plus the shakiness of its property sector, which could have wide impact anywhere from steel demand (for construction) and Chinese household consumption. The bull case for Indonesia's trade balance, then, arguably depends on the extent to which Beijing would undertake a massive fiscal stimulus.
- In conclusion, despite the recent capital inflow, things may not be as hunky dory as it may seem. A return to CA deficit, albeit narrowly, removes a key buffer that had supported the Rupiah at a time of great uncertainty last year. So even if BI finally ends its rate hike cycle, it is also the case that it would stay "higher for longer", unless the Fed blinks first if/when a deeper slowdown finally forces its hands.

Panel 1. Weaker global demand drives down prices of staple commodities



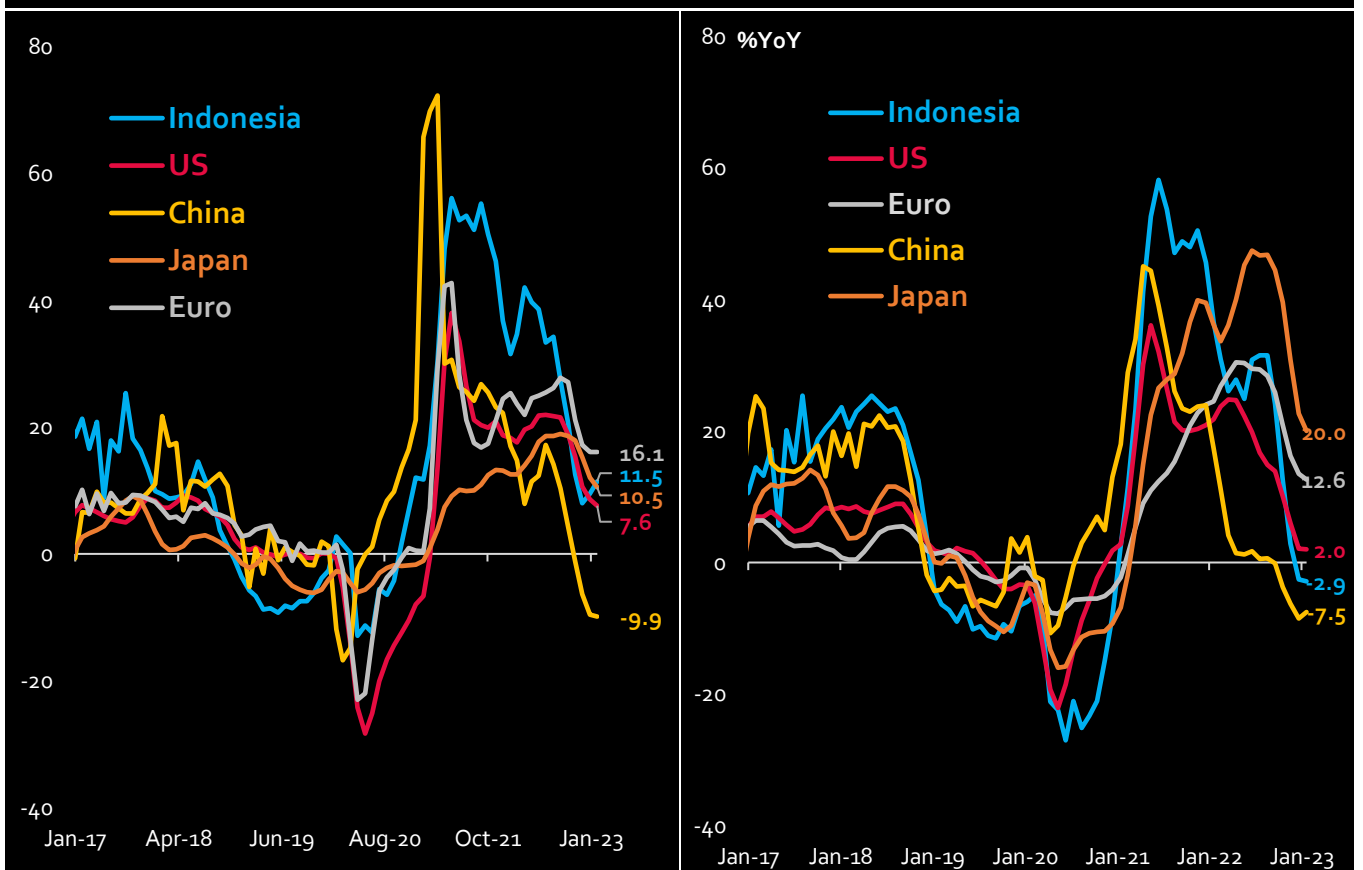
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports on a downtrend, but consumer goods imports are rising ahead of Lebaran



Source: BPS, BCA Economist

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



Source: Bloomberg

Panel 4. Manufacturing is getting better but global conditions remain mixed

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Indonesia	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3
Malaysia	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	47.4
Thailand	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	48.8
Philippines	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	50.1
Vietnam	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	48.9
India	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	48.5
Australia	57.0	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	54.5
China	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	47.4
South Korea	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	46.5
Japan	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	55.4
Euro	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	53.5
US	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2	49.0	48.4	50.0
Mexico	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9

Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Feb	-1 mth	Chg (%)
US	4.75	Feb-23	-1.65	Baltic Dry Index	563.0	946.0	-40.5
UK	4.00	Feb-23	-6.10	S&P GSCI Index	597.6	605.8	-1.4
EU	3.00	Feb-23	-5.50	Oil (Brent, \$/bbl)	85.6	85.3	0.4
Japan	-0.10	Jan-16	-4.10	Coal (\$/MT)	195.3	264.2	-26.1
China (lending)	4.35	Feb-23	2.25	Gas (\$/MMBtu)	2.42	3.50	-30.9
Korea	3.50	Jan-23	-1.70	Gold (\$/oz.)	1,854.3	1,920.2	-3.4
India	6.50	Feb-23	-0.02	Copper (\$/MT)	8,921.0	9,168.6	-2.7
Indonesia	5.75	Jan-23	0.47	Nickel (\$/MT)	26,227.0	26,599.0	-1.4
Money Mkt Rates	14-Feb	-1 mth	Chg (bps)	CPO (\$/MT)	896.7	884.7	1.4
				Rubber (\$/kg)	1.37	1.35	1.5
SPN (1M)	3.26	4.01	-75.2	External Sector	Jan	Dec	Chg (%)
SUN (10Y)	6.70	6.67	3.9	Export (\$ bn)	22.31	23.83	-6.36
INDONIA (O/N, Rp)	5.47	5.00	47.0	Import (\$ bn)	18.44	19.94	-7.51
JIBOR 1M (Rp)	6.37	6.20	16.7	Trade bal. (\$ bn)	3.87	3.89	-0.46
Bank Rates (Rp)	Oct	Sep	Chg (bps)	Central bank reserves (\$ bn)*	139.4	137.2	1.58
Lending (WC)	8.58	8.46	12.35	Prompt Indicators	Jan	Dec	Nov
Deposit 1M	3.36	2.97	38.77	Consumer confidence index (CCI)	123.0	119.9	119.1
Savings	0.67	0.66	1.10	Car sales (%YoY)	11.8	9.0	4.4
Currency/USD	14-Feb	-1 mth	Chg (%)	Motorcycle sales (%YoY)	37.0	24.6	26.9
UK Pound	0.821	0.818	-0.44	Manufacturing PMI	Jan	Dec	Chg (bps)
Euro	0.931	0.923	-0.85	USA	47.4	48.4	-100
Japanese Yen	133.2	127.9	-3.97	Eurozone	48.8	47.8	100
Chinese RMB	6.828	6.701	-1.86	Japan	48.9	48.9	0
Indonesia Rupiah	15,160	15,150	-0.07	China	49.2	49.0	20
Capital Mkt	14-Feb	-1 mth	Chg (%)	Korea	48.5	48.2	30
JCI	6,941.9	6,641.8	4.52	Indonesia	51.3	50.9	40
DJIA	34,089.3	34,302.6	-0.62				
FTSE	7,953.9	7,844.1	1.40				
Nikkei 225	27,602.8	26,119.5	5.68				
Hang Seng	21,113.8	21,738.7	-2.87				
Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)				
Stock	2,700.6	2,699.4	1.22				
Govt. Bond	811.9	762.2	49.70				
Corp. Bond	12.4	12.5	-0.02				

Source: Bloomberg, BI, BPS

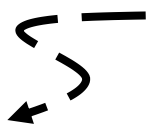
Notes:

^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	4.7
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
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	15,647
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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