

## Trade:

# A temporary reprieve

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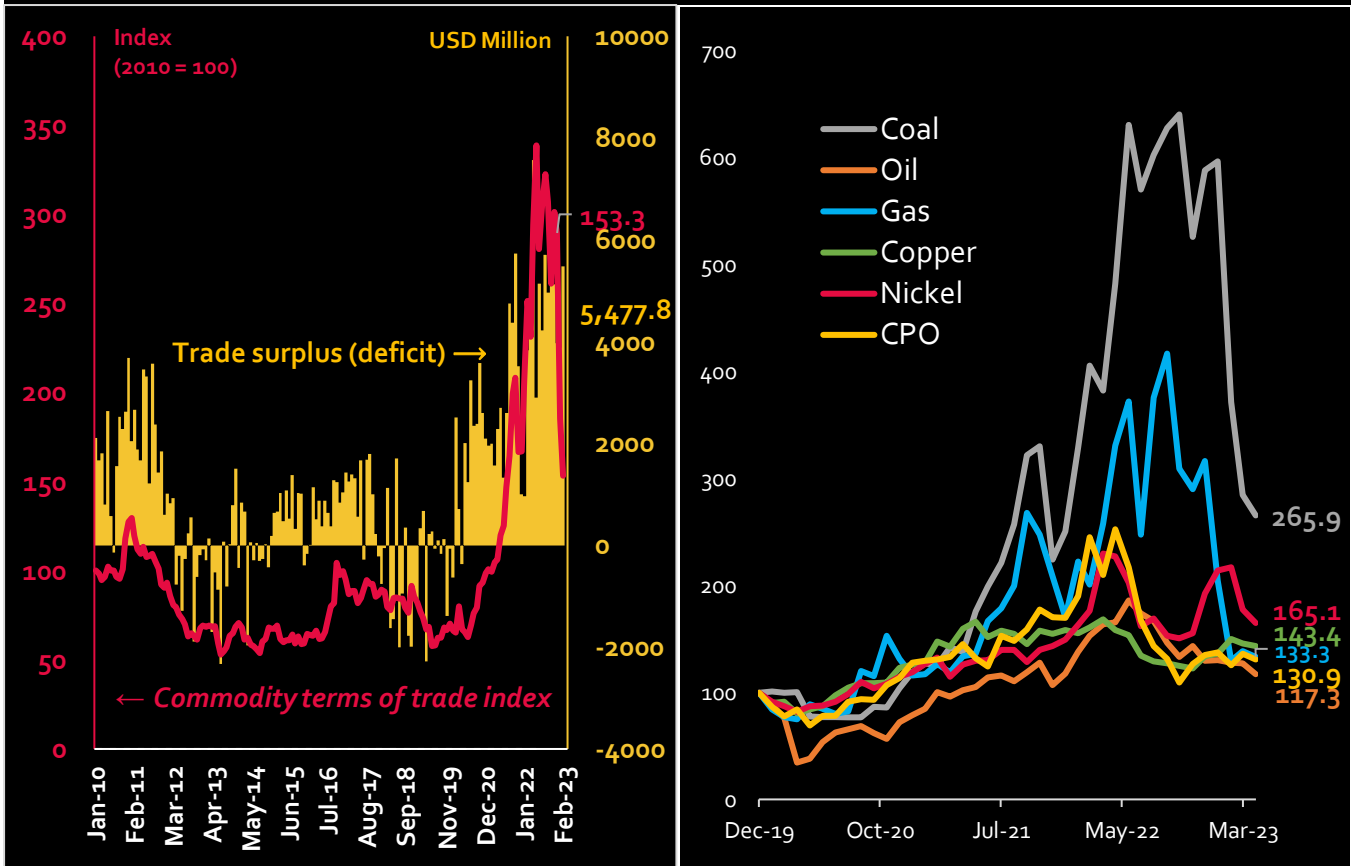
### Executive Summary

- Indonesia's trade balance recorded a USD 5.48 Bn surplus in February 2023, as imports declined at a faster rate (-4.32% YoY, -13.68% MoM) relative to exports growth (4.51% YoY, -4.15% MoM).
- A temporary increase in coal export from China may have slowed export decline, but there are indications that the decline may persist due to the slowdown signals from Indonesia's Third-Party Funds (TPF) growth and BCA Business Transaction Index for exporters.
- Indonesia may have to keep in mind of the probability of CA deficit due to the probability of trade balance surplus erosion, removing a key buffer of Rupiah stability that may keep BI stay "higher for longer", at least until the Fed reverses course.

- Indonesia recorded a 34-months-trade surplus with a USD 5.48 Bn surplus in February 2023, as imports declined at a faster rate (-4.32% YoY, -13.68% MoM) relative to exports growth (4.51% YoY, -4.15% MoM). The recorded surplus exceeded both our initial predictions and market expectations (USD 3.27 Bn), but it is worth asking whether this is something that can still be sustained for longer.
- The biggest reason for our missed prediction has to do with coal. Notably, coal exports saw a MoM decline of only 6.51%, versus a MoM price decline of about 28%. This might have to do with rising demand from China, although it's important to note that this is likely a one-off volume surge due to China's reopening. It is worth noting that this has not translated to a sustained increase in coal prices, which in fact continues to trend downward. Coal futures have also declined and converged with spot coal prices, which makes price recovery in the short-term look even less likely.
- As such, it is possible that our earlier prediction for exports was not completely wrong, but simply too premature. Recent internal data and from the banking industry as a whole is showing a slowdown in Indonesia's Third-Party Funds (TPF) growth – and as there is a strong correlation between TPF and exports, this could suggest that Indonesia's exports will also be slowing down in the near future. Furthermore, there are already clear signs of slowdown in our Business Transaction Index (Intrabiz BCA) particularly for exporters, indicating that a downturn is already underway. Thus, if China's increased demand for coal is just a one-off, exports is bound to decline in the upcoming months.

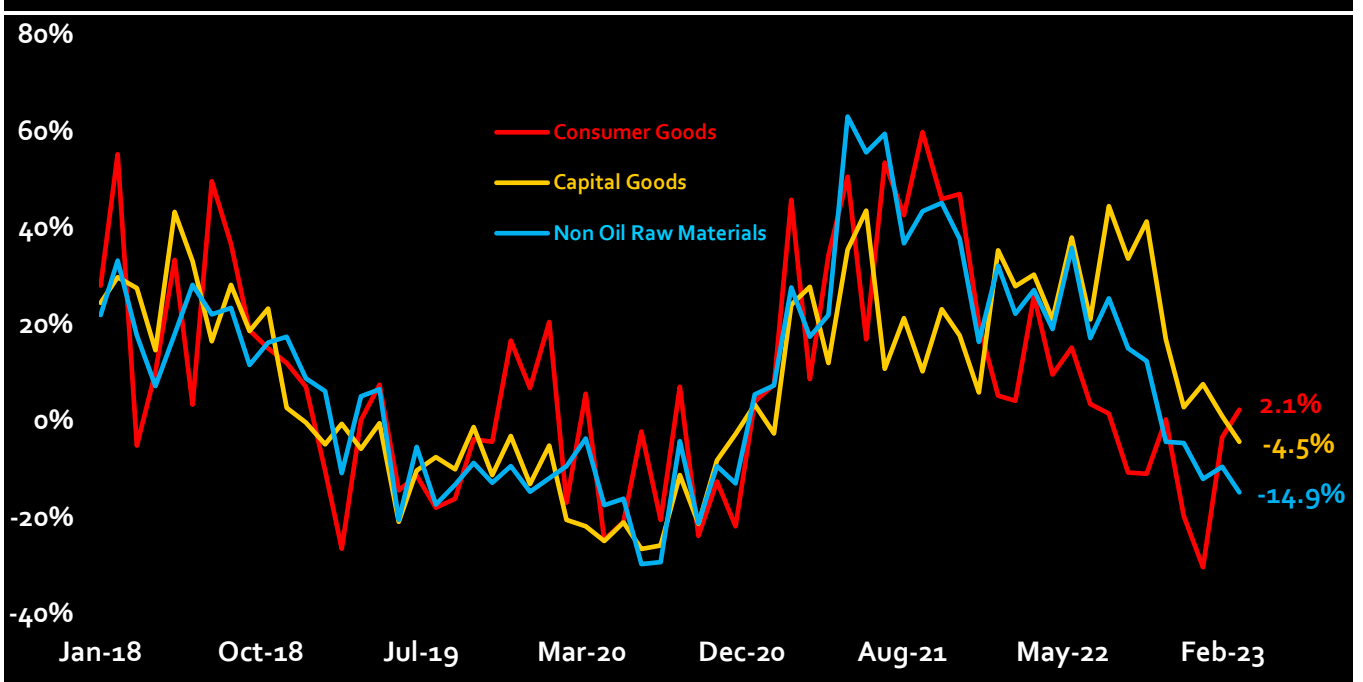
- In contrast to exports, we were closer to the mark for imports, as imports did decline albeit at a faster rate than expected. Now since a decline in imports is often a sign of weakening domestic demand, would this indicate slowing GDP growth this year? Too early to tell, but probably not. The decrease in raw materials imports was largely due to falling global oil prices, and this is actually a plus for Indonesia. In addition, the decline also occurred in cereal imports due to the Indonesian government's significant import of rice in January 2023 to stabilize rice prices for the festivities of Ramadan and Eid al-Fitr (Lebaran). Meanwhile, the imports of consumer goods and capital goods remained positive, indicating continued growth in demand for both investment and consumption – the latter, of course, also bolstered by the upcoming festivities.
- Given Indonesia's still-hefty trade balance (for now), it's likely that Bank Indonesia (BI) will keep its current high benchmark interest rate at 5.75% tomorrow. Recent events, namely the collapse of the Silicon Valley Bank (SVB), has made BI's job simpler as well, in a roundabout way. Prior to the SVB incident, the market had expected the Fed to remain hawkish and increase interest rates by approximately 50 basis points. But afterwards, the market's expectations have lowered towards a potential 25 basis point increase, or even the possibility of not raising interest rates at all or even pivoting in the near future. Add that to the fact that the Dollar has actually weakened since then, relieving the pressure on the Rupiah.
- To summarize, even though Indonesia's trade balance still recorded a massive surplus, this may very well change in the coming months, and the predicted erosion of the trade balance surplus is still highly probable. If true, then a current account (CA) deficit is also unavoidable, at approximately 1% of GDP. And as previously mentioned, the return to CA deficit may remove a key buffer that had supported the stability of Rupiah so far. This means that BI may continue to stay "higher for longer", unless the Fed reverses course – but this, as we see with the SVB debacle – may have to be triggered by a financial instability event, which could be quite risky indeed for the global economy.

**Panel 1. Trade surplus remains large amid the falling commodity prices**



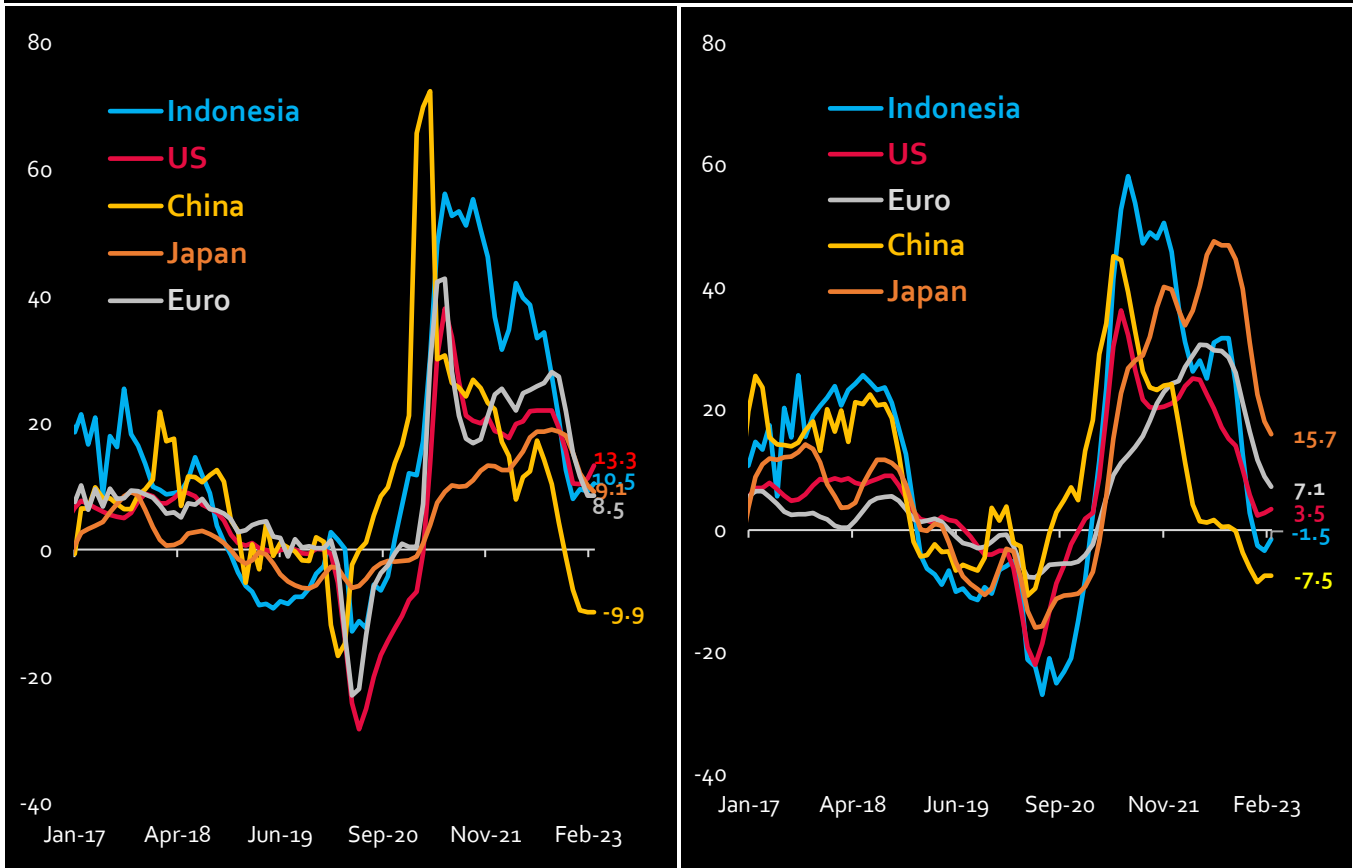
Source: BPS, Bloomberg, BCA Economist calculations

**Panel 2. Imports are declining at a faster rate than expected**



Source: BPS, BCA Economist

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



Source: Bloomberg

**Panel 4. Manufacturing slowdown to moderate as China reopens**

PMI	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Indonesia	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2
Malaysia	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4
Thailand	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8
Philippines	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7
Vietnam	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2
India	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3
Australia	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5
China	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6
South Korea	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5
Japan	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7
Euro	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5
US	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2	49.0	48.4	47.4	47.7
Mexico	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0

Source: BI, Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Mar	-1 mth	Chg (%)
US	4.75	Mar-23	-1.25	Baltic Dry Index	1,587.0	602.0	163.6
UK	4.00	Mar-23	-6.10	S&P GSCI Index	559.8	597.6	-6.3
EU	3.00	Mar-23	-5.50	Oil (Brent, \$/bbl)	77.5	86.4	-10.3
Japan	-0.10	Jan-16	-4.40	Coal (\$/MT)	180.0	206.0	-12.6
China (lending)	4.35	Mar-23	3.35	Gas (\$/MMBtu)	2.64	2.42	9.1
Korea	3.50	Feb-23	-1.30	Gold (\$/oz.)	1,904.0	1,865.6	2.1
India	6.50	Feb-23	0.06	Copper (\$/MT)	8,809.0	8,828.8	-0.2
Indonesia	5.75	Feb-23	0.28	Nickel (\$/MT)	22,830.8	27,575.5	-17.2
<b>Money Mkt Rates</b>	<b>14-Mar</b>	<b>-1 mth</b>	<b>Chg (bps)</b>	CPO (\$/MT)	932.9	896.1	4.1
SPN (1M)	3.05	4.35	-130.0	Rubber (\$/kg)	1.32	1.36	-2.9
SUN (10Y)	6.72	6.65	6.1	<b>External Sector</b>	<b>Feb</b>	<b>Jan</b>	<b>Chg (%)</b>
INDONIA (O/N, Rp)	5.58	5.40	17.5	Export (\$ bn)	21.40	22.31	-4.11
JIBOR 1M (Rp)	6.40	6.37	2.6	Import (\$ bn)	15.92	18.44	-13.68
<b>Bank Rates (Rp)</b>	<b>Nov</b>	<b>Oct</b>	<b>Chg (bps)</b>	Trade bal. (\$ bn)	5.48	3.87	41.53
Lending (WC)	8.60	8.58	1.67	Central bank reserves (\$ bn)*	140.3	139.4	0.64
Deposit 1M	3.69	3.36	32.89	<b>Prompt Indicators</b>	<b>Feb</b>	<b>Jan</b>	<b>Dec</b>
Savings	0.67	0.67	0.00	Consumer confidence index (CCI)	122.4	123.0	119.9
<b>Currency/USD</b>	<b>14-Mar</b>	<b>-1 mth</b>	<b>Chg (%)</b>	Car sales (%YoY)	7.4	11.9	9.0
UK Pound	0.823	0.829	0.80	Motorcycle sales (%YoY)	56.3	38.6	24.6
Euro	0.932	0.937	0.52	<b>Manufacturing PMI</b>	<b>Feb</b>	<b>Jan</b>	<b>Chg (bps)</b>
Japanese Yen	134.2	131.4	-2.13	USA	47.7	47.4	30
Chinese RMB	6.874	6.815	-0.86	Eurozone	48.5	48.8	-30
Indonesia Rupiah	15,385	15,134	-1.63	Japan	47.7	48.9	-120
<b>Capital Mkt</b>	<b>14-Mar</b>	<b>-1 mth</b>	<b>Chg (%)</b>	China	51.6	49.2	240
JCI	6,641.8	6,880.3	-3.47	Korea	48.5	48.5	0
DJIA	32,155.4	33,869.3	-5.06	Indonesia	51.2	51.3	-10
FTSE	7,637.1	7,882.5	-3.11				
Nikkei 225	27,222.0	27,671.0	-1.62				
Hang Seng	19,248.0	21,190.4	-9.17				
<b>Foreign portfolio ownership (Rp Tn)</b>	<b>Feb</b>	<b>Jan</b>	<b>Chg (Rp Tn)</b>				
Stock	2,730.0	2,700.6	29.43				
Govt. Bond	804.3	811.9	-7.57				
Corp. Bond	12.4	12.4	-0.06				

Source: Bloomberg, BI, BPS

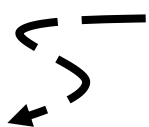
Notes:

^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	5.75
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	19.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.2

\*Estimated number

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

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