

Trade:

The calm before the storm?

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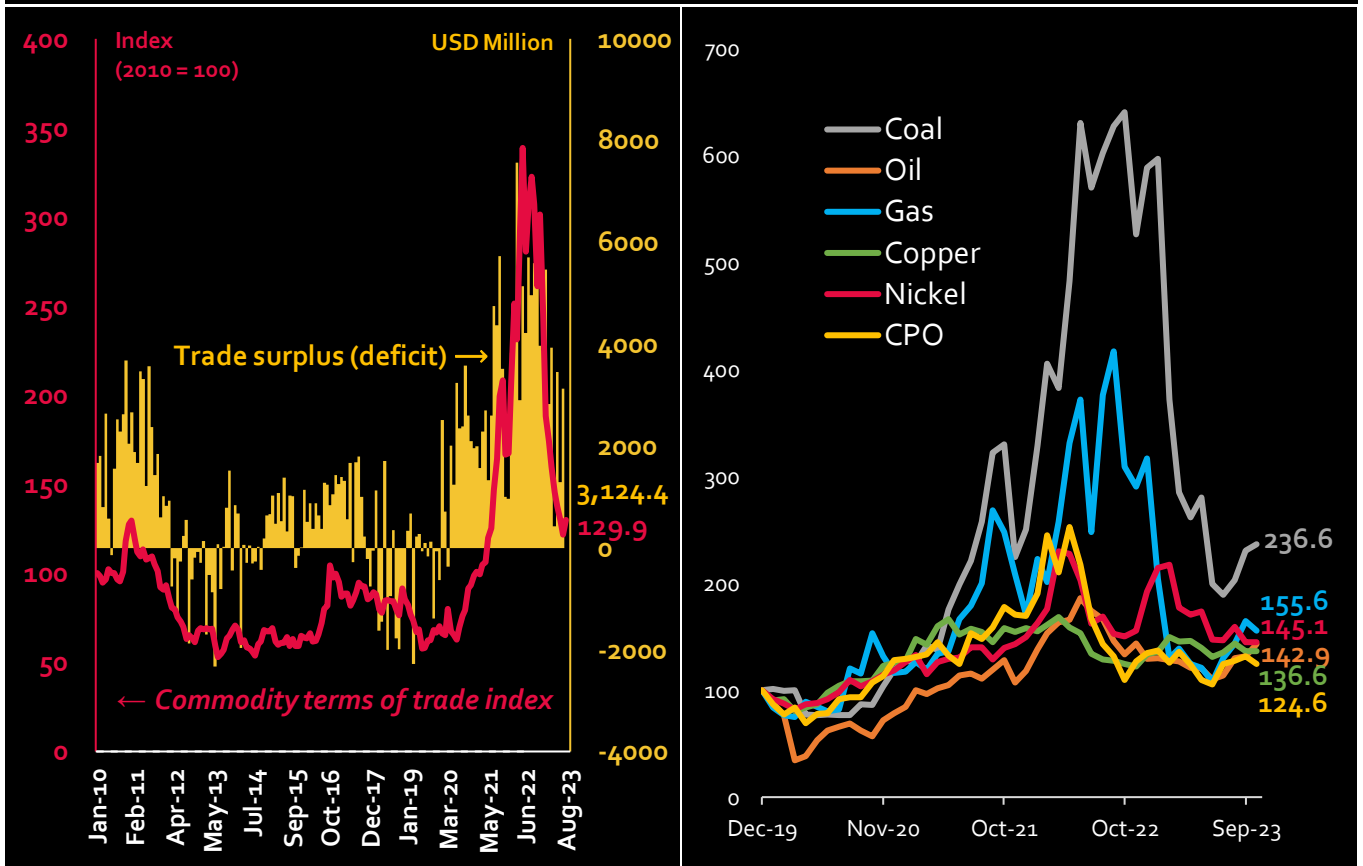
Executive Summary

- Indonesia's trade surplus unexpectedly rose to USD 3.12 billion in August 2023, double the consensus estimate, driven by falling imports (-3.53% MoM) and rising exports (5.47% MoM), although both declined YoY.
- August's larger surplus corrected July's narrow one, influenced by Pertamina's oil restocking, which may recur at higher prices in the future.
- Export volumes increased in commodities (e.g., CPO, metallic ores) and manufactured items (clothing, watercraft), reflecting global demand improvement signaled by strong August PMI figures.
- Import trends (lower capital goods, higher consumer goods) were distorted by military equipment imports and food reserves for inflation mitigation.
- Rising oil prices pose challenges for trade and growth. The Fed's stance and a stronger US Dollar may affect consumer demand. Indonesia faces growth concerns and a widening current account deficit, potentially requiring BI to maintain rates while using quantitative measures to stabilize the exchange rate.

- Indonesia's trade surplus saw an unexpected increase (USD 3.12 Bn) in August 2023, almost twice the consensus (USD 1.6 Bn), mainly driven by a decline in imports (-3.53% MoM) compared to increase in exports (5.47% MoM). However, both figures continued to decline on YoY basis.
- To some extent, the bigger surplus was a kind of "error-correction" from July's narrow one – the latter being pushed down by Pertamina's oil restocking. This decision to restock in July proved to be a wise one in hindsight, given the rising trend in oil prices – but keep in mind that Pertamina will have to make large imports again at some future date, possibly at still-elevated prices.
- A less fluky and more hopeful driver of the trade surplus was the increase in export volumes across a wide variety of goods: commodities like CPO and metallic ores, and manufactured items like clothing and watercraft. These concurs with the strong PMI numbers across the world in August, signaling some improvement in global demand.
- On the import side, we refrain from reading too much into the decline in capital goods imports and the increase for consumer goods, especially since the latter was driven by import of military equipment including tanks and fighter jets. The picture was further distorted by large import of cereals and livestock feed, which is part of the government's effort to mitigate El Nino-related food inflation by building up reserves.

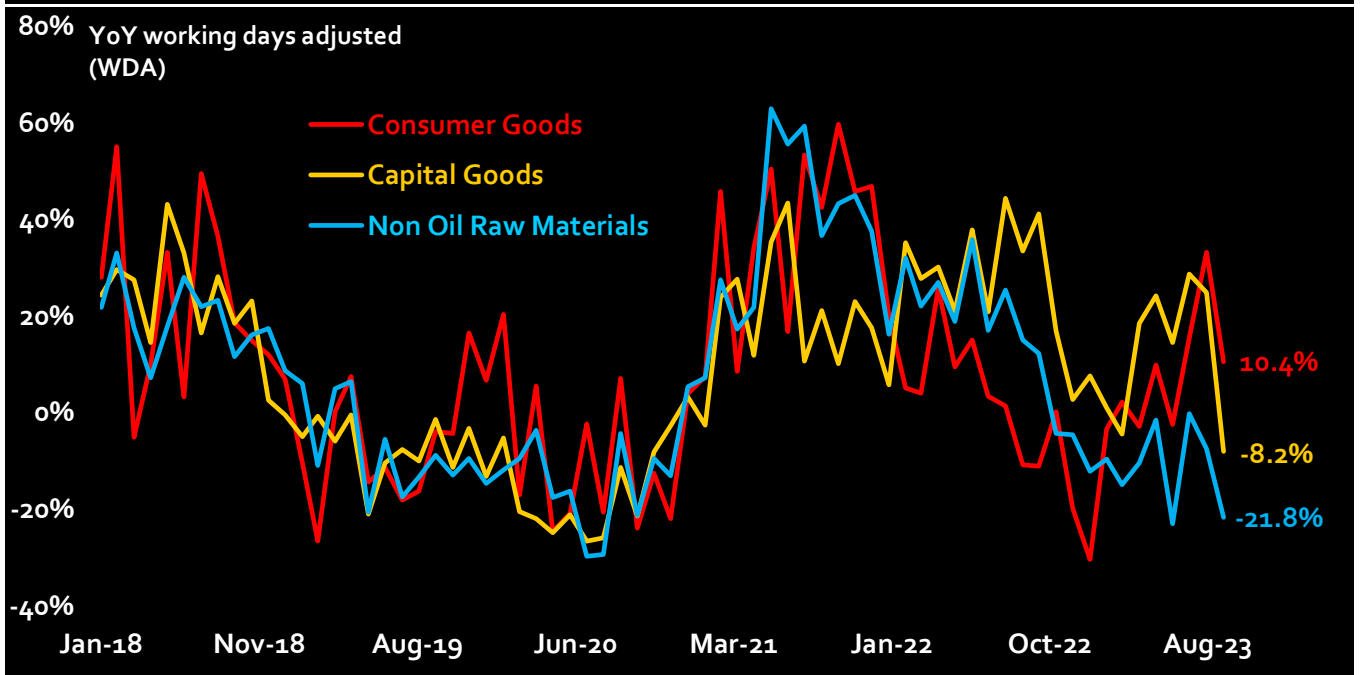
- That being said, there are good reasons to be cautious about trade and growth outlook in the near future. Rising oil prices can be a positive signal for other commodities to follow suit, but the evidence so far has been rather mixed – no surprise, since the rally was driven more by supply concerns (OPEC+ output cut) than genuine demand.
- The return of energy inflation could also make it more likely that the Fed maintains a tight(er) monetary stance for longer – even though the consensus is still for no hike next week. This could mean the continuation of the Dollar wrecking ball, which would compel other central banks to either hike rates or watch their currency slide (ECB being the latest case in point).
- Stronger Dollar and higher oil prices are also not a good combo for consumer demand. It may well be the case, then, that the seeming revival in global manufacturing activity in August would be short-lived, unless the Chinese authorities could extend and expand their stimulus.
- The overall situation thus remains a challenging one for Indonesia. Signs of slowing growth momentum are emerging again, as does widening current account deficit due to a less favorable terms of trade. Any effort to strengthen growth – perhaps through fiscal spending in the last few months of the year – could aggravate the CAD and thus lead to more pressure on the Rupiah. For these reasons, we believe that BI would keep its policy rate unchanged in subsequent months, while stepping up quantitative measures through SRBI and DHE measures to smooth out exchange rate fluctuations.

Panel 1. Indonesia's trade surplus widened driven by falling imports and exports



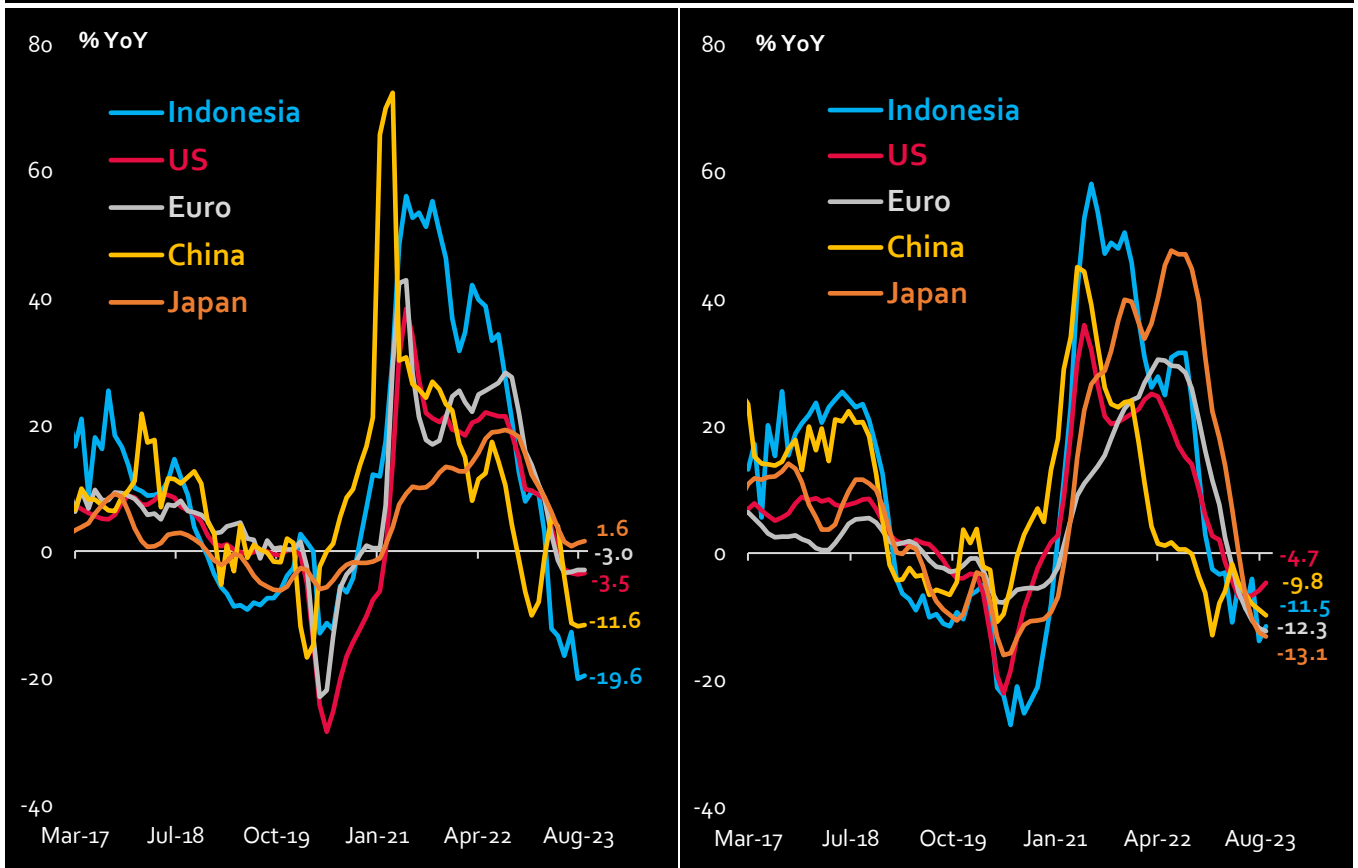
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports of consumer goods accelerate with a decrease in capital goods and raw materials, driven by import of military equipments such as tanks and fighter jets



Source: BPS, BCA Economist

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



Source: Bloomberg

Panel 4. Pace of expansion in Indonesia's manufacturing sector is starting to improve

PMI	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Indonesia	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9
Malaysia	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8
Thailand	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9
Philippines	51.2	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7
Vietnam	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5
India	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	58.7	57.7	58.6
Australia	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2	49.6	49.6
China	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7
South Korea	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9
Japan	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6
Euro	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.6	42.7	43.5
US	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6
Mexico	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2	51.2

Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Sep	-1 mth	Chg (%)
US	5.50	Sep-23	1.80	Baltic Dry Index	1,340.0	1,135.0	18.1
UK	5.25	Sep-23	-1.55	S&P GSCI Index	619.6	586.3	5.7
EU	4.50	Sep-23	-0.80	Oil (Brent, \$/bbl)	93.7	86.2	8.7
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	168.1	160.0	5.0
China (lending)	2.50	Sep-23	4.25	Gas (\$/MMBtu)	2.81	2.74	2.6
Korea	3.50	Aug-23	0.10	Gold (\$/oz.)	1,910.8	1,907.1	0.2
India	6.50	Aug-23	-0.33	Copper (\$/MT)	8,372.3	8,242.8	1.6
Indonesia	5.75	Aug-23	2.48	Nickel (\$/MT)	20,093.0	19,789.0	1.5
Money Mkt Rates	14-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	789.9	802.0	-1.5
				Rubber (\$/kg)	1.40	1.25	12.0
SPN (1M)	5.66	4.75	90.2	External Sector	Aug	Jul	Chg (%)
SUN (10Y)	6.63	6.37	26.1	Export (\$ bn)	22.00	20.88	5.38
INDONIA (O/N, Rp)	5.59	5.66	-7.4	Import (\$ bn)	18.88	19.57	-3.52
JIBOR 1M (Rp)	6.40	6.40	0.0	Trade bal. (\$ bn)	3.12	1.31	138.01
Bank Rates (Rp)	Jun	May	Chg (bps)	Central bank reserves (\$ bn)*	137.1	137.7	-0.42
Lending (WC)	8.93	8.93	0.00	Prompt Indicators	Aug	Jul	Jun
Deposit 1M	4.19	4.19	0.10	Consumer confidence index (CCI)	125.2	123.5	127.1
Savings	0.67	0.67	-0.20	Car sales (%YoY)	-8.3	-6.8	4.7
Currency/USD	14-Sep	-1 mth	Chg (%)	Motorcycle sales (%YoY)	1.8	45.6	66.6
UK Pound	0.806	0.788	-2.16	Manufacturing PMI	Aug	Jul	Chg (bps)
Euro	0.940	0.917	-2.41	USA	47.6	46.4	120
Japanese Yen	147.5	145.6	-1.30	Eurozone	43.5	42.7	80
Chinese RMB	7.279	7.257	-0.30	Japan	49.6	49.6	0
Indonesia Rupiah	15,355	15,315	-0.26	China	51.0	49.2	180
Capital Mkt	14-Sep	-1 mth	Chg (%)	Korea	48.9	49.4	-50
JCI	6,959.3	6,910.2	0.71	Indonesia	53.9	53.3	60
DJIA	34,907.1	35,307.6	-1.13				
FTSE	7,673.1	7,507.2	2.21				
Nikkei 225	33,168.1	32,059.9	3.46				
Hang Seng	18,047.9	18,773.6	-3.87				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	2,869.7	2,892.9	-23.21				
Govt. Bond	846.3	855.2	-8.89				
Corp. Bond	11.1	11.3	-0.20				

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	5.2
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
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	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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