

Trade:

A contrarian indicator

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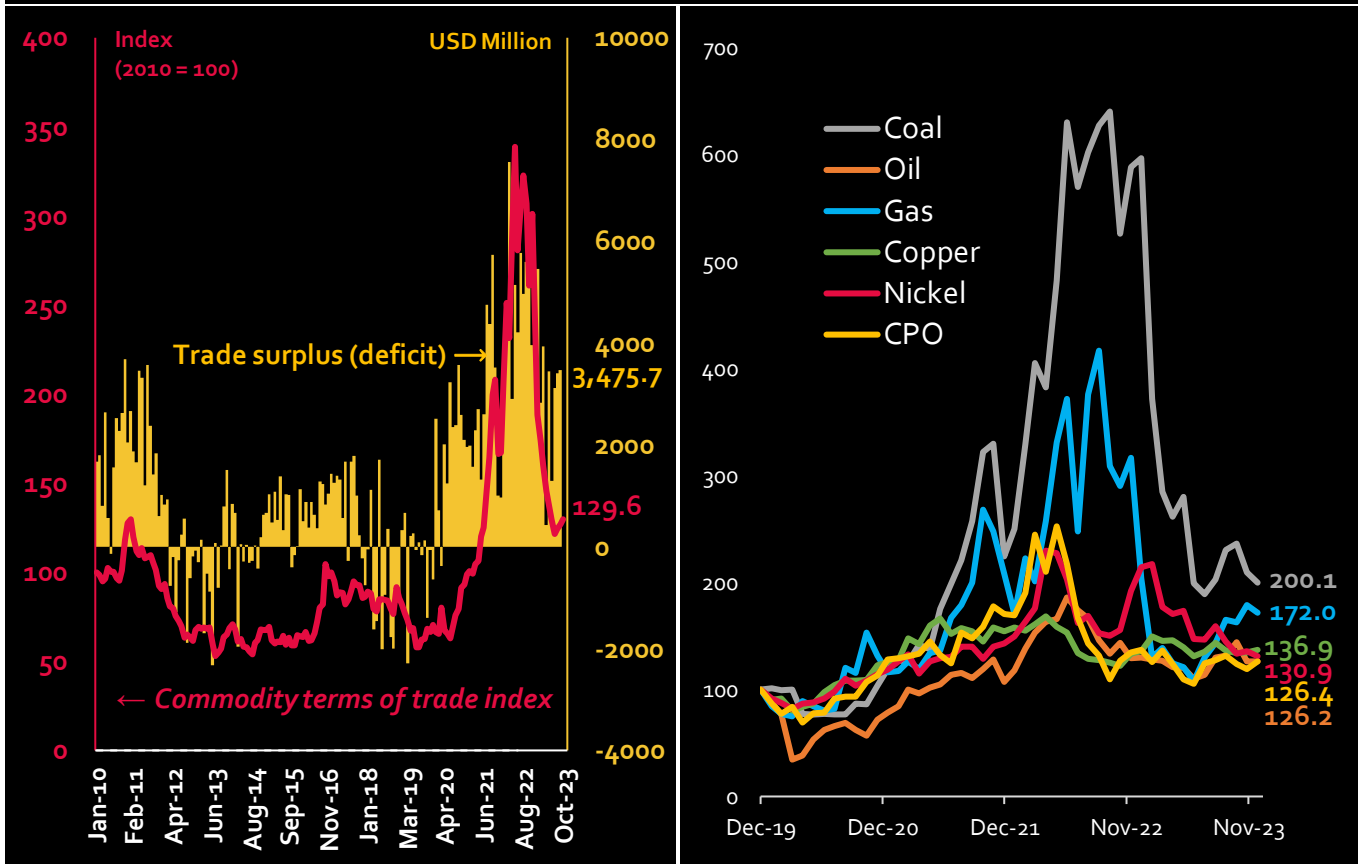
Executive Summary

- The trade surplus widened to USD 3.48 Bn, on the back of strong export performance driven by increased volumes to Asian markets, particularly China.
- Imports were up mostly on capital goods imports, as well as cereals and metallic ores which mostly reflect short-term expedience.
- With Q3 CA balance probably ending up around -0.5% of GDP, the still-large trade surplus in October provides a good indicator for CA in Q4, although the impact of government spending and oil restocking remains to be seen.
- The strengthening trade data seen for Indonesia and other (mostly Asian) countries seems to clash with the current market narratives of a global recession, weak oil demand, and possibly swift pivot by the Fed next year.

- The trade surplus enlarged slightly to USD 3.48 Bn in Oct-23, above consensus estimates of 3.0 Bn. Both exports and imports gained on a monthly basis (6.8% and 7.7%, respectively). Most remarkably, exports have climbed back above USD 22 Bn since Mar-23, when coal prices was only starting to decline.
- So have the prices of coal – or other hard commodities – recovered? By and large, the answer is no. Instead, the rebound seems largely to be a function of higher export volumes, in particular from fellow Asian countries. Notably, exports to China, India, Japan, and Thailand all rose by more than 10% MoM, while exports to the US and Europe declined.
- This higher demand runs contrary to the recent narratives in the market, which paint a picture of a global economy slouching towards recession. In the usual “bad news is good news” manner, this triggers a bull rush in the market amid expectations that the Fed could pivot sooner rather than later. This fear of weaker demand has also pushed oil prices sharply lower in recent weeks.
- The clearest rebuttal to this doom and gloom probably comes from Chinese data. While its manufacturing PMI fell in October, other data – electricity consumption, industrial production, non-residential fixed asset investment (FAI), even retail sales – actually came out relatively strongly. Indonesia’s export performance generally aligns with this picture of strength: coal exports with electricity consumption, steel with industrial production, and precious metals/ jewelry with retail sales.

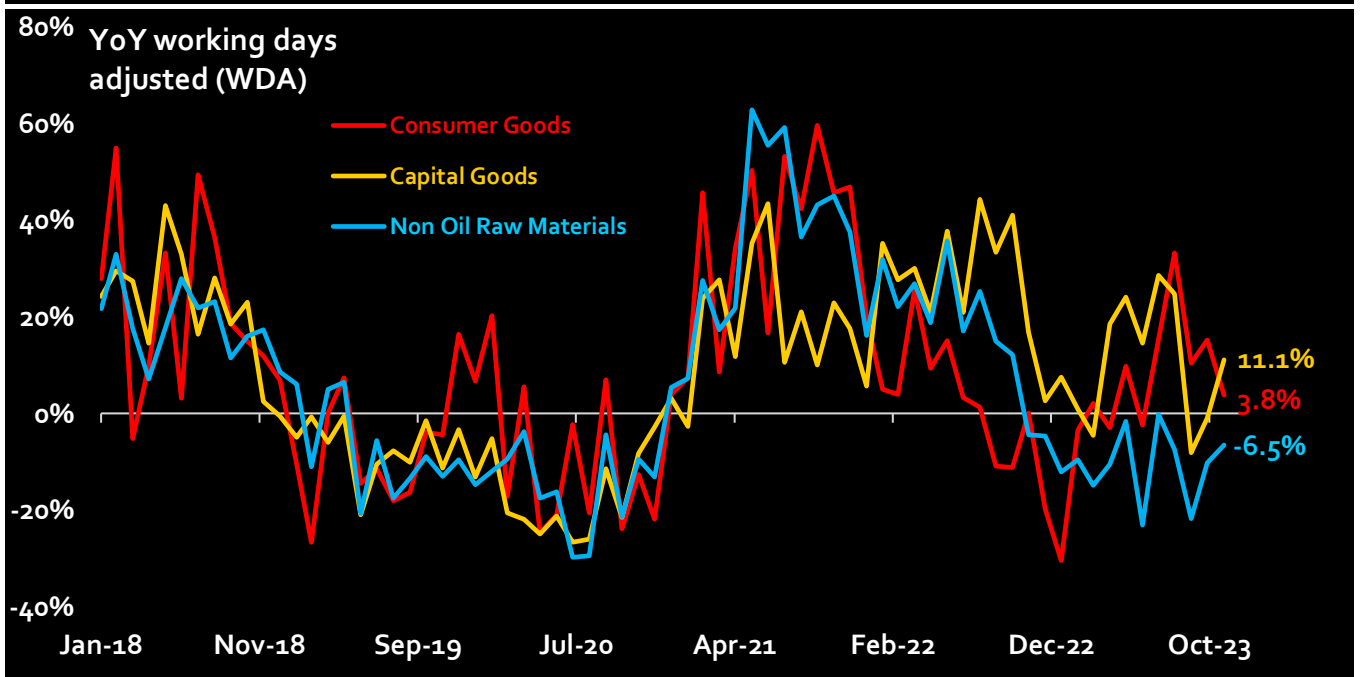
- On the import side, we see continued influx of cereals which reflects the government's effort to maintain stability of food prices, but otherwise the big story is a revival of capital goods imports. This is particularly true for machinery and mechanical appliances, which might be a sign that – in line with our recent reports – the continued FAI growth in Indonesia is not just about government projects such as the new capital city (IKN), but also about private sector investment in manufacturing and supporting sectors.
- Another interesting finding is in the import of ores, slags, and ash (HS Code 26), which rose 22.2% YoY. While the boom in smelter construction in recent years is aimed at making use of local nickel ores, there has been a shortage more recently as the government cracks down on illegal mining. To make up for this shortage, companies are resorting to imports especially from the Philippines. In a way, this seemingly negative development confirms Indonesia's success in moving up the value chain and "graduating" from a mere commodity exporter.
- Overall, these data are a good start for Q4-23, and a hint that the current account deficit (CAD) therein might not be as large as we feared previously. If true, this would be a welcome break for the Rupiah after two successive quarters of CAD at around -0.5% of the GDP (in Q2 and likely in Q3).
- Nonetheless, we cannot afford to be complacent, since Pertamina will still have to restock at some point in November or December, albeit at more favorable prices. We will also have to see the effect of accelerated government spending in Q4 on the demand for imported goods.
- Finally, the seeming contradiction between the robust trade data – with global export/import values stabilizing and even starting to recover (**Panel 3**) – and the current market "vibes" might be a sign that we should take the latter with a pinch of salt. The market is, after all, prone to overshooting and was looking for an excuse to break out from its prolonged slump, which it duly found in the recent weakness of US economic data.
- While we do agree that these weakness make further Fed hike much less likely, we caution against too-hasty expectations that the Fed will ease swiftly when confronted with slumping US growth in H1-24. After all, global oil production is still slowing much faster than oil demand, which may lead to a potential rebound in energy prices – and thus inflation – down the road. Crucially, the strong demand in Asia (compounded by Chinese stimulus) may just be the tonic that would maintain robust demand for oil and other commodities.

Panel 1. Indonesia's trade surplus enlarged slightly, despite still-subpar commodity prices



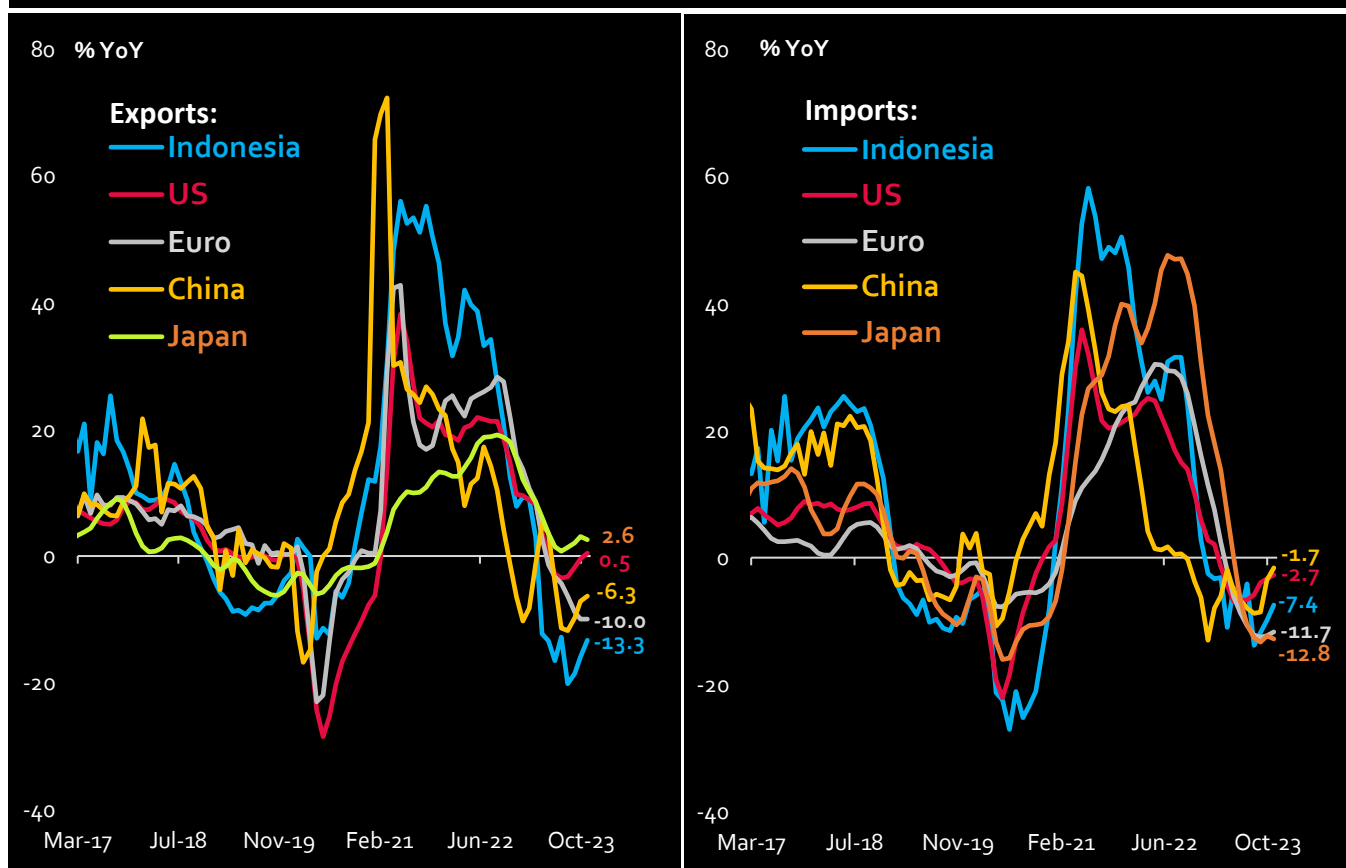
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports of capital goods are picking up steam once more, in a contrary motion to the past three months



Source: BPS, BCA Economist

Panel 3. After prolonged decline since mid-2022, global export/imports seem to be rising again



Source: Bloomberg

Panel 4. Indonesia's manufacturing activities have remained resilient despite declines seen for many other countries

| PMI | Oct-23 | Nov-23 | Dec-23 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Indonesia | 51.8 | 50.3 | 50.9 | 51.3 | 51.2 | 51.9 | 52.7 | 50.3 | 52.5 | 53.3 | 53.9 | 52.3 | 51.5 |
| Malaysia | 48.7 | 47.9 | 47.8 | 46.5 | 48.4 | 48.8 | 48.8 | 47.8 | 47.7 | 47.8 | 47.8 | 46.8 | 46.8 |
| Thailand | 51.6 | 51.1 | 52.5 | 54.5 | 54.8 | 53.1 | 60.4 | 58.2 | 53.2 | 50.7 | 48.9 | 47.8 | 47.5 |
| Philippines | 52.6 | 52.7 | 53.1 | 53.5 | 52.7 | 52.5 | 51.4 | 52.2 | 50.9 | 51.9 | 49.7 | 50.6 | 52.4 |
| Vietnam | 50.6 | 47.4 | 46.4 | 47.4 | 51.2 | 47.7 | 46.7 | 45.3 | 46.2 | 48.7 | 50.5 | 49.7 | 49.6 |
| India | 55.3 | 55.7 | 57.8 | 55.4 | 55.3 | 56.4 | 57.2 | 58.7 | 58.7 | 57.7 | 58.6 | 57.5 | 55.5 |
| Australia | 52.7 | 51.3 | 50.2 | 50.0 | 50.5 | 49.1 | 48.0 | 48.4 | 48.2 | 49.6 | 49.6 | 48.7 | 48.2 |
| China | 49.2 | 48.0 | 47.0 | 50.1 | 52.6 | 51.9 | 49.2 | 48.8 | 49.0 | 49.3 | 49.7 | 50.2 | 49.5 |
| South Korea | 48.2 | 49.0 | 48.2 | 48.5 | 48.5 | 47.6 | 48.1 | 48.4 | 47.8 | 49.4 | 48.9 | 49.9 | 49.8 |
| Japan | 50.7 | 49.0 | 48.9 | 48.9 | 47.7 | 49.2 | 49.5 | 50.6 | 49.8 | 49.6 | 49.6 | 48.5 | 48.7 |
| Euro Area | 46.4 | 47.1 | 47.8 | 48.8 | 48.5 | 47.3 | 45.8 | 44.8 | 43.6 | 42.7 | 43.5 | 43.4 | 43.1 |
| US | 50.0 | 49.0 | 48.4 | 47.4 | 47.7 | 46.3 | 47.1 | 46.9 | 46.0 | 46.4 | 47.6 | 49.0 | 46.7 |
| Mexico | 50.3 | 50.6 | 51.3 | 48.9 | 51.0 | 51.0 | 51.1 | 50.5 | 50.9 | 53.2 | 51.2 | 49.8 | 52.1 |

Source: BI, Bloomberg

Selected Macroeconomic Indicators

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities | 14-Nov | -1 mth | Chg (%) |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US | 5.50 | Nov-23 | 2.30 | Baltic Dry Index | 1,662.0 | 1,945.0 | -14.6 |
| UK | 5.25 | Nov-23 | -1.45 | S&P GSCI Index | 567.6 | 595.8 | -4.7 |
| EU | 4.50 | Nov-23 | 1.60 | Oil (Brent, \$/bbl) | 82.5 | 90.9 | -9.3 |
| Japan | -0.10 | Jan-16 | -3.10 | Coal (\$/MT) | 126.0 | 153.8 | -18.1 |
| China (lending) | 2.50 | Nov-23 | 4.55 | Gas (\$/MMBtu) | 2.69 | 3.11 | -13.5 |
| Korea | 3.50 | Oct-23 | -0.30 | Gold (\$/oz.) | 1,964.3 | 1,932.8 | 1.6 |
| India | 6.50 | Oct-23 | 1.63 | Copper (\$/MT) | 8,144.0 | 7,875.8 | 3.4 |
| Indonesia | 6.00 | Oct-23 | 3.44 | Nickel (\$/MT) | 17,251.0 | 18,284.3 | -5.7 |
| Money Mkt Rates | 14-Nov | -1 mth | Chg (bps) | CPO (\$/MT) | 791.5 | 769.8 | 2.8 |
| SPN (1M) | 5.80 | 6.01 | -20.2 | Rubber (\$/kg) | 1.47 | 1.47 | 0.0 |
| SUN (10Y) | 6.93 | 6.76 | 17.2 | External Sector | Oct | Sep | Chg (%) |
| INDONIA (O/N, Rp) | 5.83 | 5.51 | 32.0 | Export (\$ bn) | 22.15 | 20.76 | 6.69 |
| JIBOR 1M (Rp) | 6.66 | 6.40 | 25.5 | Import (\$ bn) | 18.67 | 17.34 | 7.68 |
| Bank Rates (Rp) | Aug | Jul | Chg (bps) | Trade bal. (\$ bn) | 3.48 | 3.42 | 1.69 |
| Lending (WC) | 8.96 | 8.95 | 0.65 | Central bank reserves (\$ bn)* | 133.1 | 134.9 | -1.30 |
| Deposit 1M | 4.29 | 4.24 | 5.00 | Prompt Indicators | Oct | Sep | Aug |
| Savings | 0.66 | 0.67 | -0.53 | Consumer confidence index (CCI) | 124.3 | 121.7 | 125.2 |
| Currency/USD | 14-Nov | -1 mth | Chg (%) | Car sales (%YoY) | -13.9 | -20.1 | -8.3 |
| UK Pound | 0.800 | 0.824 | 2.93 | Motorcycle sales (%YoY) | -4.0 | -0.9 | 1.8 |
| Euro | 0.919 | 0.951 | 3.51 | Manufacturing PMI | Oct | Sep | Chg (bps) |
| Japanese Yen | 150.4 | 149.6 | -0.53 | USA | 46.7 | 49.0 | -230 |
| Chinese RMB | 7.253 | 7.305 | 0.72 | Eurozone | 43.1 | 43.4 | -30 |
| Indonesia Rupiah | 15,695 | 15,683 | -0.08 | Japan | 48.7 | 48.5 | 20 |
| Capital Mkt | 14-Nov | -1 mth | Chg (%) | China | 49.5 | 50.6 | -110 |
| JCI | 6,862.1 | 6,926.8 | -0.93 | Korea | 49.8 | 49.9 | -10 |
| DJIA | 34,827.7 | 33,670.3 | 3.44 | Indonesia | 51.5 | 52.3 | -80 |
| FTSE | 7,440.5 | 7,599.6 | -2.09 | | | | |
| Nikkei 225 | 32,695.9 | 32,316.0 | 1.18 | | | | |
| Hang Seng | 17,396.9 | 17,813.5 | -2.34 | | | | |
| Foreign portfolio ownership (Rp Tn) | Oct | Sep | Chg (Rp Tn) | | | | |
| Stock | 2,895.1 | 2,833.3 | 61.89 | | | | |
| Govt. Bond | 810.4 | 823.0 | -12.62 | | | | |
| Corp. Bond | 11.3 | 10.8 | 0.52 | | | | |

Source: Bloomberg, BI, BPS

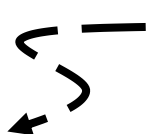
Notes:

^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 | 5.1 |
| 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 | 2.8 |
| 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 | 15,728 |
| Trade Balance (US\$ billion) | -8.5 | -3.2 | 21.7 | 35.3 | 54.5 | 34.9 |
| Current Account Balance (% GDP) | -3.0 | -2.7 | -0.4 | 0.3 | 1.0 | -0.4 |

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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