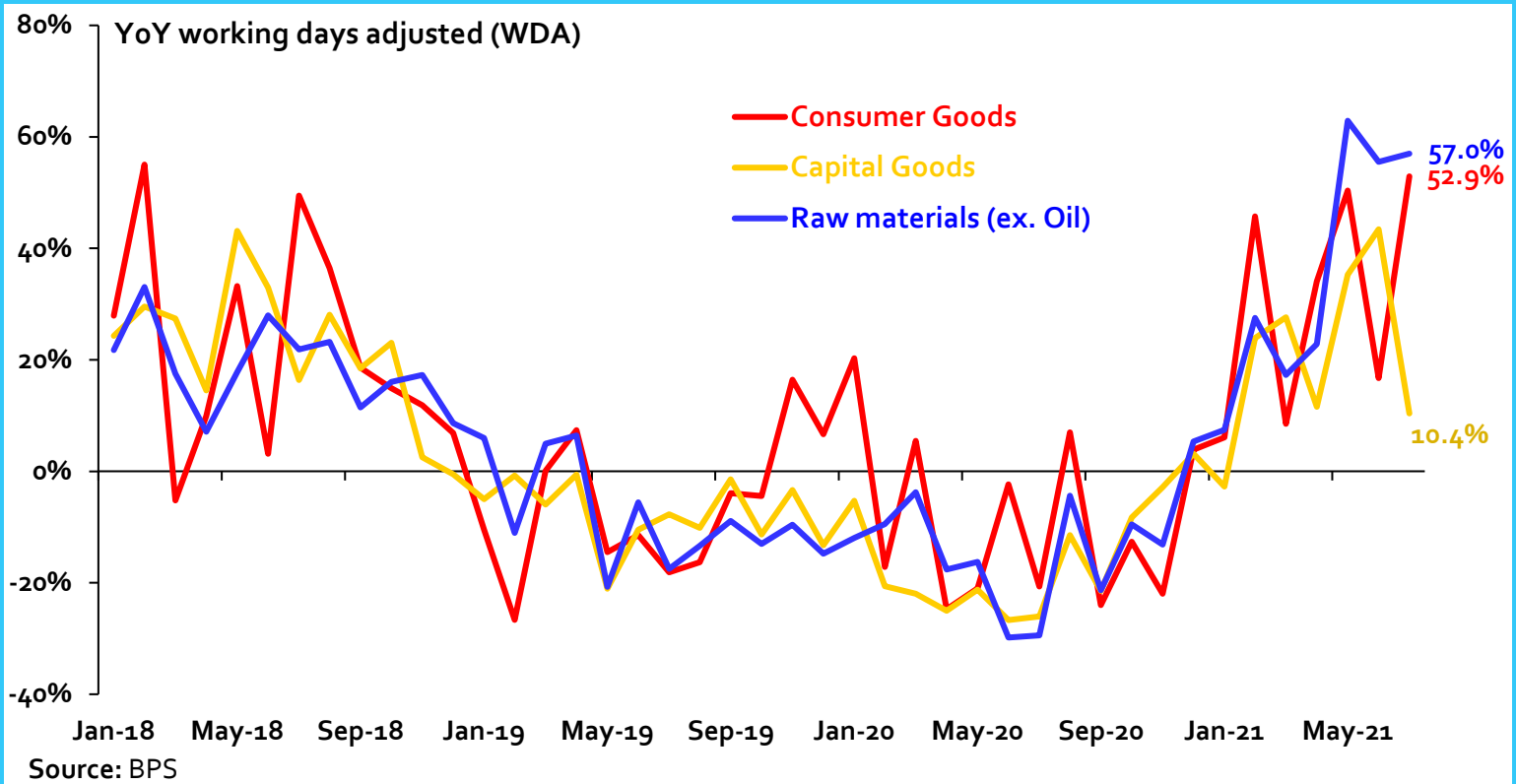


## Trade: Delta muddles the picture, again

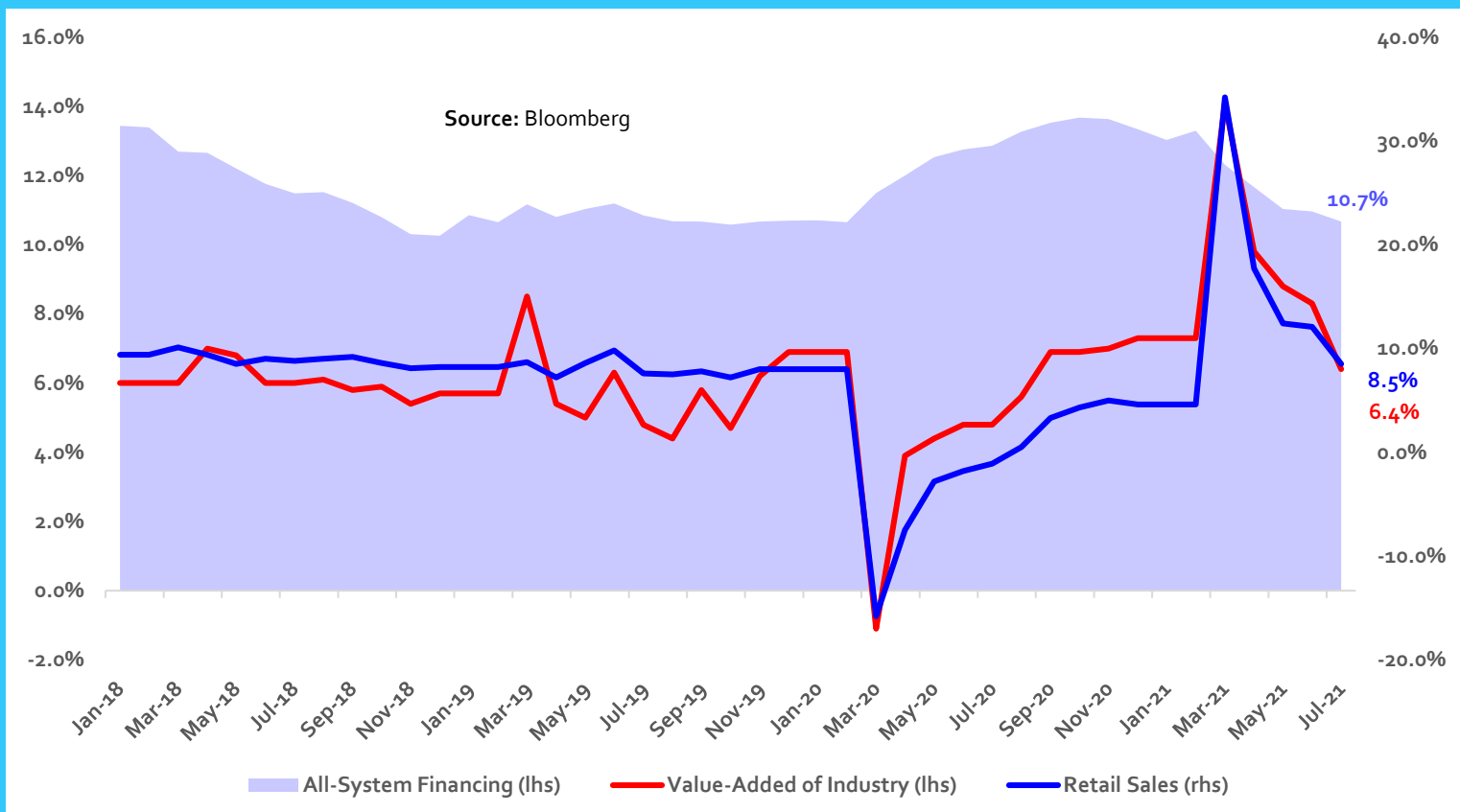
### Executive Summary:

- **Both export and import growth declined last month as Delta spread across Asia, bringing the trade surplus back up to USD 2.6 Bn.**
  - Although imports declined due to the imposition of restrictions, most non-oil imports remained remarkably resilient, **indicating that many parts of the domestic economy remain robust, despite mobility restrictions.**
  - **Exports fell sharply as Delta ravaged many of Indonesia's primary Asian trade partners, particularly China.**
  - Current caseloads suggest that Indonesia's outbreak may be closer to ending relative to its peers. **Should this dynamic continue, particularly if China persists with its zero-Covid strategy, we may see imports recovering faster than exports.**
- 
- The past few months were characterized by a certain pattern in Indonesia's trade balance. Exports consistently recorded glowing numbers on the back of strong external demand; while imports, although generally lagging behind exports, had begun to pick up steam as well, so much so that Indonesia's surplus narrowed significantly in June. The spread of the Delta variant however, has muddled this picture. **Export (+29.2% YoY) and import (+44.4% YoY) growth both declined from their highs in June, and the trade surplus swelled back up to USD 2.6 Bn.**
  - **The decline in imports was to be expected, due to the imposition of mobility restrictions around the beginning of July.** Despite this however, when adjusted to working days, non-oil imports appear to be surprisingly robust (**Chart 1**). Even raw material imports, which might have been expected to decline sharply in line with the subpar manufacturing PMI figures recorded last month, remained remarkably stable. Imports of capital goods did show a large decline, but even then it remains unclear whether this is merely a cyclical blip in what is generally a lumpy series of figures.
  - **In any case, these figures, combined with other indicators, seem to convey a consistent narrative: there has indeed been a general decline, but one that remains undergirded by remarkable resilience in many areas.**
  - The remarkably sharp drop in exports may come as a greater surprise than the inevitable post-restrictions decline in imports. Both of these declines however, can be traced to the same culprit: the Delta variant. **Indeed, the sharpest export declines observed last month were those bound to the countries hardest hit by Delta, such as Japan, the members of ASEAN, and most importantly, China.**
  - There have been other worrying signs from China as well. Economic indicators suggest that China's recovery had been beginning to lose steam even before Delta struck. This may partly be attributed to the fact that China had begun to taper its stimulus financing since the beginning of the year (**Chart 2**). In any case, although the current mobility restrictions in China may signal a resumption of stimulus financing, **this combination of Delta-driven lockdowns, as well as a slowing recovery, may be portents of a slower Chinese economy, at least in the short term.**
  - For now, Indonesia's export declines have been matched by a drop in imports as well, even if much of this decline was driven by oil imports. Additionally, commodity prices remain high, signaling that global fundamentals – likely still characterized by supply bottlenecks – are on Indonesia's side. **However, the potentially different exit velocities of various countries from the current wave may alter this picture.**
  - Referring solely to case counts for instance, Indonesia appears closer to the end of its current wave compared to most of its Asian peers. One should also take note that China's continued adherence to a zero-Covid strategy may point to even longer restrictions in the country. **Should these dynamics persist, we may see a reversal of the trend that has held for the past several months, with imports recovering faster than exports as Indonesia loosens mobility restrictions at a faster pace than its peers.** Whether and over what exact time frame this may actually occur however, ultimately depends on the specifics of Covid's spread, individual countries' tolerance for restrictions, and whether China decides to increase its stimulus.

**Chart 1. When adjusted to working days, non-oil imports, particular consumer goods and even raw materials, remained surprisingly robust**



**Chart 2. After a low base-driven surge in March, industrial and retail indicators in China recorded relatively swift declines, especially in July as restrictions were tightened. At the same time, much of the stimulus financing for the pandemic was already wound back by June.**



## Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	18-Aug	-1 mth	Chg (%)
US	0.25	Mar-20	-5.15	Baltic Dry Index	3,833.0	3,039.0	26.1
UK	0.10	Mar-20	-1.90	S&P GSCI Index	511.3	528.2	-3.2
EU	0.00	Mar-16	-2.20	Oil (Brent, \$/bbl)	68.2	73.6	-7.3
Japan	-0.10	Jan-16	0.40	Coal (\$/MT)	162.5	141.3	15.0
China (lending)	4.35	Oct-15	3.35	Gas (\$/MMBtu)	3.86	3.70	4.3
Korea	0.50	May-20	-2.10	Gold (\$/oz.)	1,787.8	1,812.1	-1.3
India	4.00	May-20	-1.59	Copper (\$/MT)	9,024.0	9,391.3	-3.9
Indonesia	3.50	Feb-21	1.98	Nickel (\$/MT)	18,890.0	19,057.5	-0.9
Money Mkt Rates	18-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	1,075.0	1,010.5	6.4
SPN (1M)	3.07	2.74	33.1	Rubber (\$/kg)	1.77	1.63	8.6
SUN (10Y)	6.30	6.35	-4.6	External Sector	Jul	Jun	Chg (%)
INDONIA (O/N, Rp)	2.79	2.80	-1.3	Export (\$ bn)	17.70	18.54	-4.5
JIBOR 1M (Rp)	3.56	3.55	0.6	Import (\$ bn)	15.11	17.22	-12.2
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	2.59	1.32	95.5
Lending (WC)	9.02	9.08	-6.37	Central bank reserves (\$ bn)	137.3	137.1	0.18
Deposit 1M	3.55	3.68	-12.21	Prompt Indicators	Jul	Jun	May
Savings	0.80	0.80	-0.04	Consumer confidence index (CCI)	80.2	107.4	104.4
Currency/USD	18-Aug	-1 mth	Chg (%)	Car sales (%YoY)	163.6	476.1	1,443.6
UK Pound	0.727	0.726	-0.08	Motorcycle sales (%YoY)	28.9	155.1	1,065.7
Euro	0.854	0.847	-0.80	Cement sales (%YoY)	#N/A	36.9	14.7
Japanese Yen	109.8	110.1	0.27	Manufacturing PMI	Jul	Jun	Chg (bps)
Chinese RMB	6.485	6.479	-0.08	USA	59.5	60.6	-110
Indonesia Rupiah	14,373	14,498	0.87	Eurozone	62.8	63.4	-60
Capital Mkt	18-Aug	-1 mth	Chg (%)	Japan	53.0	52.4	60
JCI	6,118.2	6,072.5	0.75	China	50.3	51.3	-100
DJIA	34,960.7	34,687.9	0.79	Korea	53.0	53.9	-90
FTSE	7,169.3	7,008.1	2.30	Indonesia	40.1	53.5	-1,340
Nikkei 225	27,585.9	28,003.1	-1.49				
Hang Seng	25,867.0	28,004.7	-7.63				
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)				
Stock	1,936.9	1,893.1	43.85				
Govt. Bond	965.8	977.3	-11.53				
Corp. Bond	24.8	26.6	-1.78				

Source: Bloomberg, BI, BPS

Notes:

\*Previous data

\*\*For change in currency: **Black** indicates appreciation against USD, **Red** indicates depreciation

\*\*\*For PMI, &gt; 50 indicates economic expansion, &lt; 50 indicates contraction

## Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.6
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	15.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.3

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

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