

Trade:

A temporary slump

Lazuardin Thariq H.
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

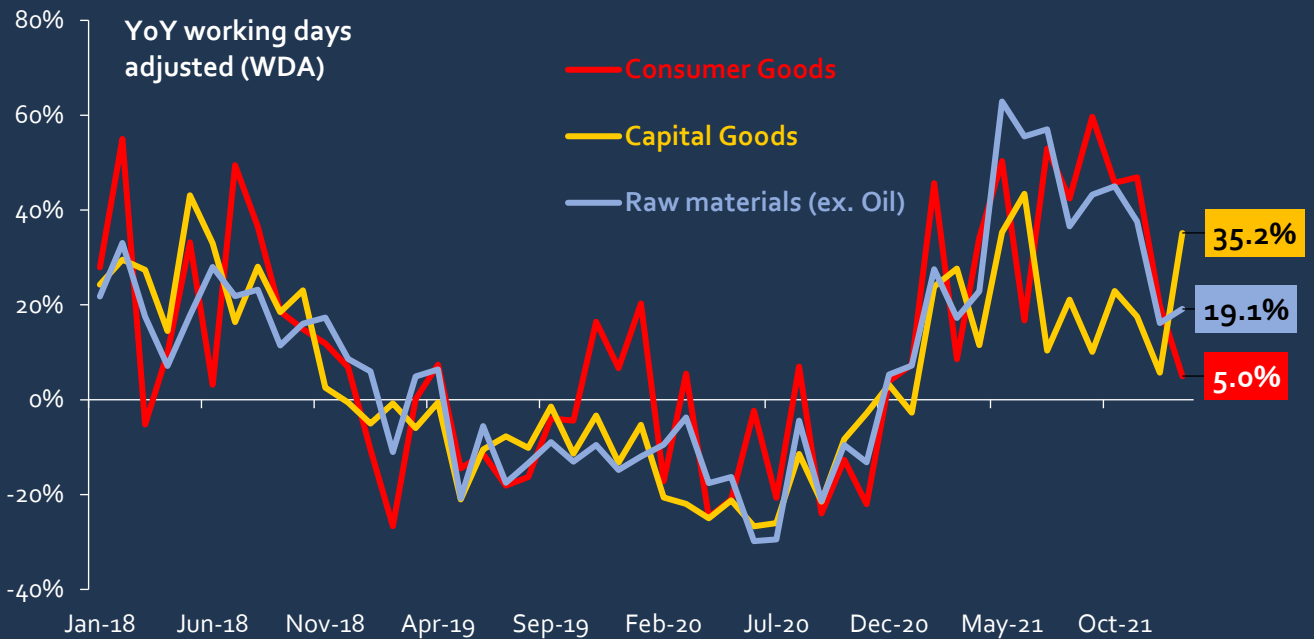
15 February 2022

Executive Summary

- Indonesia's trade balance stood at 0.93 Bn in January 2022, exceeding early estimates as imports grew less than expected. While Indonesia's coal export ban drastically reduced exports, the onset of Indonesia's Omicron outbreak also put a dent on imports.
 - The prospect of coal prices normalising threatens Indonesia's exports going forward, while increasing demand and the expanding domestic manufacturing sector would encourage imports.
 - While the trend seems to be pointing at a lower trade surplus, Indonesia's trade balance is expected to remain strong this year. This affords BI some space to gradually adjust its policy rate within a reasonable range even amidst capital market turbulence in the face of monetary tightening by the Fed.
-
- Indonesia's trade surplus declined yet again in January 2022, to USD 0.93 Bn, as imports (+36.8% YoY, -14.6% MoM) continued to outgrow exports (+25.3% YoY, -14.3% MoM) on a yearly basis. Still, the number came out much better than the USD 0.2 Bn expected by the market.
 - Indeed, a bigger hit was expected. The government's ban on coal exports, which lasted for two weeks in early January, led to a massive (-62% MoM) fall for that particular commodity. However, this number was cushioned by the strong numbers coming from ferronickel and other manufactured goods, while the increase in CPO prices helped to somewhat reduce whatever disruption was caused by the introduction of the new domestic market obligation (DMO) and domestic price obligation (DPO) schemes.
 - What also helped the trade balance was the fact that import growth came out much weaker than originally expected. Part of it is a product of the normalization of demand after the year-end burst in consumer activity, as well as weaker expectations on the part of importers with regards to demand amid the ongoing Omicron outbreak. Indeed, BCA's business transactions index began a rather steep descent in mid-January, indicating that both the seasonal and Omicron effects are disrupting demand to significant extents.
 - The question, then, is whether this narrower trade surplus is the new normal going forward or a mere blip caused by temporary goings-on (higher demand in December, coal export ban in January). We expect exports to regain its mojo, at least in the short-run, as global commodity prices rally once more amid the current Omicron- and geopolitics-related disruptions.

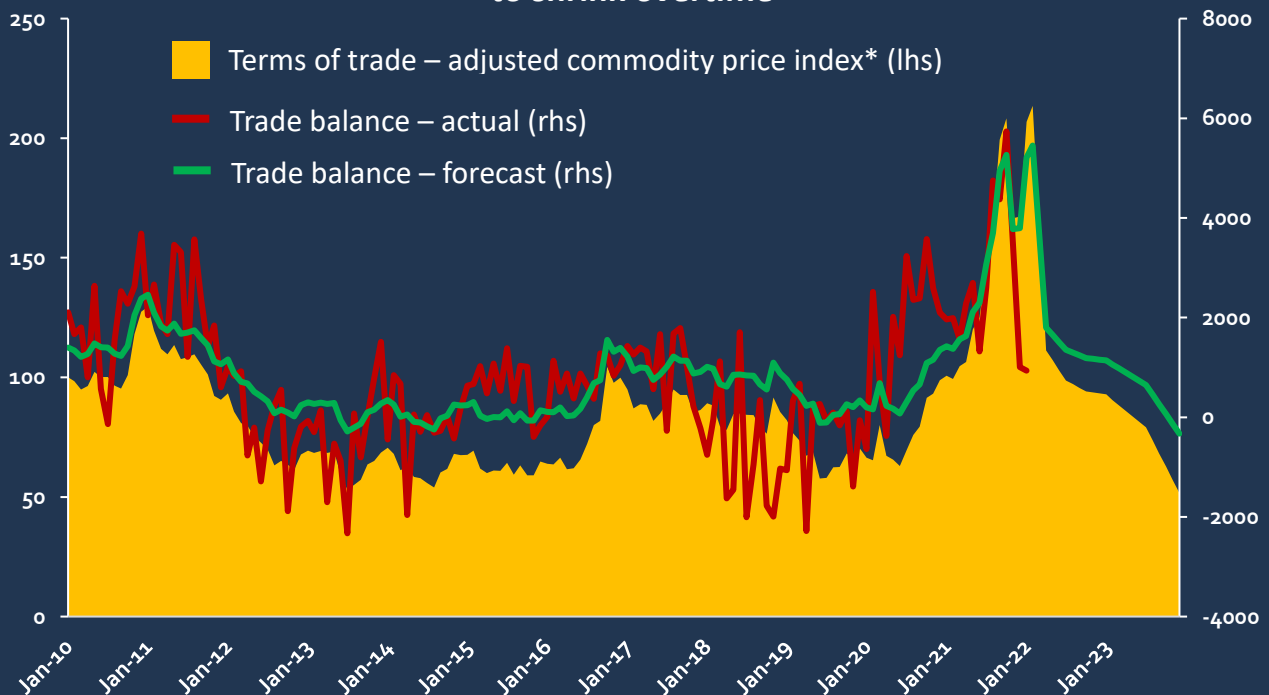
- The problems with this are two-fold. On the domestic side, the government is trying to curtail inflation through more stringent export- and price controls, especially for CPO and coal. In theory, the requisite 20% sales of CPO to the domestic market should not lead to a decline in exports, as nearly 40% of CPO production are typically consumed locally. However, the imposed (and widening) gap between domestic and global prices creates a strong incentive for producers not to comply with the regulations. In an extreme scenario – as had happened with coal – this might force the government to issue a blanket export ban as in January.
- Meanwhile on the global side, the market apparently does not buy that the current spike in commodity prices will be sustained for more than a few months. This lack of confidence seems to stem largely from concerns about China's economy, given a likely slowdown in industrial and construction activities. Rising inventories in the two largest consumers of Indonesian coal – China and India – also highlight the looming threat of coal markets' gradual shift away from chronic undersupply.
- In contrast, there may be less uncertainty concerning imports, given the continuing economic recovery. Indeed, while January's import data appears to be lacklustre, a closer look also reveals an upside. While consumer goods imports fell, capital goods imports actually recorded significant increases on an annual basis (**Chart 1**). This suggests that the current slide in consumer demand may merely be a temporary affair, and that the underlying consumer confidence remains relatively unscathed by Omicron. Additionally, the steady increase in oil prices may also eventually translate into higher imports, even as Pertamina continues to attempt to reduce the burden of oil imports by timing its purchases with lower prices.
- We are left then, in a situation where the trade surplus could very well rebound in the next couple of months, but then brought back down to earth – threatening the array of trade surpluses that have become such a hallmark of Indonesia's post-Covid recovery (**Chart 2**). Indeed, the fact that the Indonesian Rupiah has remained remarkably stable over the past few months despite constant capital outflows can be attributed largely to the stable buffer afforded by Indonesia's trade surplus and its contribution to BI's abundant FX reserves.
- We should note, however, that Indonesia remains in a better shape compared to most of its EM peers, and that its trade surplus – which we now revise towards USD 22.4 Bn – is still comparable to the figure for 2020, during which the Rupiah stayed quite stable following the initial global market turmoil. The difference is of course the backdrop of the Fed's policy, which is expected to tighten significantly (125 – 175 bps) in contrast to the "uber-easy" policy of 2020. This, then, is why we expect BI not to be immune from the rising rate trends, and that a BI7DRR hike of 50-100 bps is likely for the year.

Chart 1. Although consumer goods imports fell, capital goods imports actually increased



Source: BPS

Chart 2. Trade surplus is expected to remain solid this year, although it would continue to shrink overtime



Source: Bloomberg

Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities | 14-Feb | -1 mth | Chg (%) |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US | 0.25 | Mar-20 | -7.25 | Baltic Dry Index | 1,984.0 | 1,764.0 | 12.5 |
| UK | 0.25 | Dec-21 | -5.15 | S&P GSCI Index | 652.4 | 596.8 | 9.3 |
| EU | 0.00 | Mar-16 | -5.10 | Oil (Brent, \$/bbl) | 96.5 | 86.1 | 12.1 |
| Japan | -0.10 | Jan-16 | -0.90 | Coal (\$/MT) | 191.3 | 171.0 | 11.8 |
| China (lending) | 4.35 | Oct-15 | 2.85 | Gas (\$/MMBtu) | 4.05 | 4.36 | -7.1 |
| Korea | 1.25 | Jan-22 | -2.35 | Gold (\$/oz.) | 1,871.2 | 1,817.9 | 2.9 |
| India | 4.00 | May-20 | -2.01 | Copper (\$/MT) | 9,984.5 | 9,730.3 | 2.6 |
| Indonesia | 3.50 | Feb-21 | 1.32 | Nickel (\$/MT) | 23,530.0 | 22,570.5 | 4.3 |
| | | | | CPO (\$/MT) | 1,394.7 | 1,268.7 | 9.9 |
| | | | | Rubber (\$/kg) | 1.78 | 1.80 | -1.1 |
| Money Mkt Rates | 14-Feb | -1 mth | Chg (bps) | | | | |
| SPN (1M) | 4.63 | 3.60 | 103.7 | External Sector | Jan | Dec | Chg (%) |
| SUN (10Y) | 6.50 | 6.37 | 12.4 | Export (\$ bn) | 19.16 | 22.36 | -14.3 |
| INDONIA (O/N, Rp) | 2.78 | 2.79 | -0.7 | Import (\$ bn) | 18.23 | 21.35 | -14.6 |
| JIBOR 1M (Rp) | 3.55 | 3.55 | 0.0 | Trade bal. (\$ bn) | 0.93 | 1.01 | -7.4 |
| Bank Rates (Rp) | Nov | Oct | Chg (bps) | Central bank reserves (\$ bn)* | 141.3 | 144.9 | -2.49 |
| Lending (WC) | 8.76 | 8.78 | -2.61 | Prompt Indicators | Jan | Dec | Nov |
| Deposit 1M | 3.02 | 3.13 | -11.47 | Consumer confidence index (CCI) | 119.6 | 118.3 | 118.5 |
| Savings | 0.71 | 0.72 | -0.40 | Car sales (%YoY) | 58.9 | 68.1 | 62.4 |
| Currency/USD | 14-Feb | -1 mth | Chg (%) | Motorcycle sales (%YoY) | 12.5 | 67.4 | 95.6 |
| UK Pound | 0.739 | 0.731 | -1.07 | Cement sales (%YoY) | N/A | -0.9 | -2.6 |
| Euro | 0.884 | 0.876 | -0.91 | Manufacturing PMI | Jan | Dec | Chg (bps) |
| Japanese Yen | 115.5 | 114.2 | -1.17 | USA | 57.6 | 58.8 | -120 |
| Chinese RMB | 6.357 | 6.353 | -0.07 | Eurozone | 58.7 | 58.0 | 70 |
| Indonesia Rupiah | 14,328 | 14,297 | -0.22 | Japan | 55.4 | 54.3 | 110 |
| Capital Mkt | 14-Feb | -1 mth | Chg (%) | China | 49.1 | 50.9 | -180 |
| JCI | 6,734.5 | 6,693.4 | 0.61 | Korea | 52.8 | 51.9 | 90 |
| DJIA | 34,566.2 | 35,911.8 | -3.75 | Indonesia | 53.7 | 53.5 | 20 |
| FTSE | 7,531.6 | 7,543.0 | -0.15 | | | | |
| Nikkei 225 | 27,079.6 | 28,124.3 | -3.71 | | | | |
| Hang Seng | 24,556.6 | 24,383.3 | 0.71 | | | | |
| Foreign portfolio ownership (Rp Tn) | Jan | Dec | Chg (Rp Tn) | | | | |
| Stock | 2,314.3 | 2,286.1 | 28.23 | | | | |
| Govt. Bond | 887.3 | 891.3 | -4.06 | | | | |
| Corp. Bond | 23.0 | 22.9 | 0.09 | | | | |

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

Indonesia – Economic Indicators Projection

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E |
|--|--------|--------|--------|--------|--------|--------|
| Gross Domestic Product (% YoY) | 5.1 | 5.2 | 5.0 | -2.1 | 3.7 | 5.2 |
| GDP per Capita (US\$) | 3877 | 3927 | 4175 | 3912 | 4350 | 4640 |
| Consumer Price Index Inflation (% YoY) | 3.6 | 3.1 | 2.7 | 1.7 | 1.9 | 3.3 |
| BI 7 day Repo Rate (%) | 4.25 | 6.00 | 5.00 | 3.75 | 3.50 | 4.0 |
| USD/IDR Exchange Rate (end of year)** | 13,433 | 14,390 | 13,866 | 14,050 | 14,262 | 14,660 |
| Trade Balance (US\$ billion) | 11.8 | -8.5 | -3.2 | 21.7 | 35.3 | 22.4 |
| Current Account Balance (% GDP) | -1.6 | -3.0 | -2.7 | -0.4 | 0.6* | -0.5 |

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E. Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinoto

Industry Analyst

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia

Economist / Analyst

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas

Economist / Analyst

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Gabriella Yolivia

Economist / Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Derrick Gozal

Economist / Analyst

derrick_gozal@bca.co.id

+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir

Economist / Analyst

livia_thamsir@bca.co.id

+6221 2358 8000 Ext: 1069933

Keely Julia Hasim

Economist / Analyst

Keely_hasim@bca.co.id

+6221 2358 8000 Ext: -

Lazuardin Thariq Hamzah

Economist / Analyst

Lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: -

Ahmad Aprilian Rizki

Research Assistant

ahmad_rizki@bca.co.id

+6221 2358 8000 Ext: 20378

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redistributed to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: ahmad_rizki@bca.co.id