

Trade:

Coal remains dependable amid recession fears

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Executive Summary

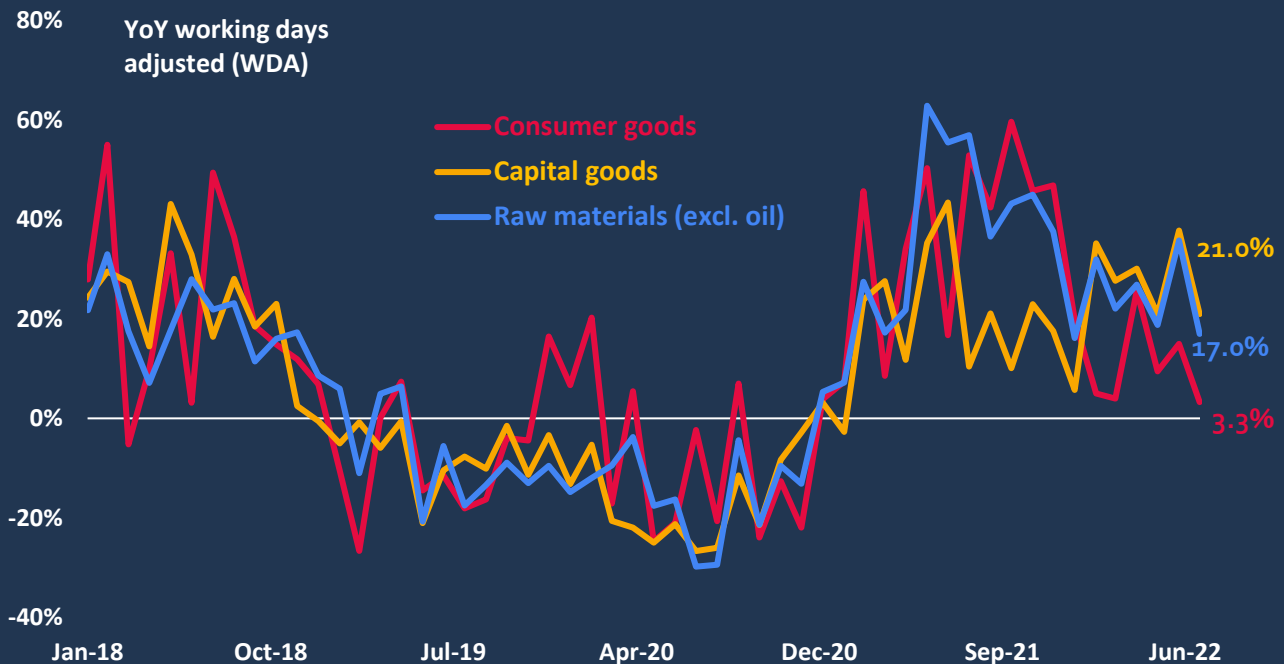
- Indonesia's trade surplus increased to USD 5.09 Bn in June 2022, as exports (21.30% MoM/ 40.68% YoY) grew at a faster pace than imports (12.87% MoM/21.98% YoY).
 - While recession fears have triggered declines in the prices of CPO, copper, and rubber (some of Indonesia's export mainstays), rising demand (and prices) for coal could partially offset the current commodity crash.
 - With all these in mind, we expect that BI would still need to raise interest rates by 75 – 175 bps in H2-22 to help increase domestic FX liquidity and maintain IDR stability.
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- Indonesia's trade surplus increased sharply to USD 5.09 Bn in June 2022, as exports (21.30% MoM/ 40.68% YoY) grew at a faster pace than imports (12.87% MoM/21.98% YoY). This surplus was far larger than what most analysts had anticipated (with the consensus coming in at USD 3.48 Bn), but the surge in exports was not entirely surprising to us given that the government had lifted its blanket CPO export ban at the end of May. Indeed, CPO exports jumped by over 300% MoM in June despite falling CPO prices.
 - The CPO boost masked an underlying trend whereby both exports and imports are slowing down (we should remember that the May numbers were artificially depressed by Lebaran holidays, and therefore MoM growth rates of 21% and 13% in nominal terms are relative disappointments). The slowdown in imports is particularly marked, as imports had already grown 14.2% more expensive (per May) on account of global inflation.
 - The slowdown in imports appear to be broad-based, but imports for consumer goods have been affected much more than capital goods and raw materials (**Chart 1**). The bifurcation between the growth of consumer goods and capital goods imports indicates a potential inflection point in our growth story. Where growth in the last three quarters (Q4-21 to Q2-22) has been driven largely by consumer spending, in the near-term it will increasingly rely on business spending.
 - This shift is entirely explicable if we look at the sectoral balances (savings-investment gap) of the two sectors. Businesses are still very much in the positive zone, whereas households seem to have already turned negative (**Chart 2**) as consumption recovered. This lack of savings suggests that consumers have little wiggle room left to withstand rising prices, and fiscal

stimuli (energy subsidies and social spending) may not be able to spur consumption but simply hold it in place.

- Indonesia's slowing exports and imports, of course, are symptoms of a broader slowdown in the global economy. Fears of recession has already triggered sharp declines in the prices of CPO, copper, and rubber, which are among our export mainstays. The one thing that works in Indonesia's favor, however, is the rising prices of coal, especially vis-à-vis gas. While China – the largest buyer of Indonesian coal – is facing a potential slowdown due to zero-Covid and, lately, trouble from its mortgage industry, this could be offset by Europe's growing appetite for coal as Russia stops its gas flows. As such, the impact of the commodity crash is negative, but far from disastrous – perhaps going from an average trade surplus of USD 4.1 Bn in H1-22 to about 2.5 – 3.0 Bn in H2-22.
- Unfortunately, this trade surplus has not proven sufficient to prevent IDR depreciation. Part of the reason, as we delineated in our last report of FX reserves, is that a significant amount of our export receipts may be retained abroad instead of repatriated back home. Furthermore, one factor that dissuades exporters from placing their funds in local banks is the low interest on domestic FX deposits, in contrast to many foreign banks which are offering higher rates in line with recent Fed hikes.
- US CPI data, coming surprisingly hot at 9.1% YoY, would only lead to more pressure as the market clamors for 75 or even 100 bps hike in the upcoming FOMC meeting. Central banks in multiple countries, including Canada, Singapore, and the Philippines have recently decided not to fight the Fed and tighten their policies accordingly. The stage is thus set for a momentous board of governor meeting for Bank Indonesia (BI), on July 20th-21st.
- BI has already begun its gradual tightening of IDR liquidity by raising the reserve requirement rate (RRR) on IDR liquidity, up to 9% in September. The potential moves now are two-fold. First, BI could raise the 7-Day Repo Rate (BI7DRR) by 25-50 bps, sending a signal that it stands committed to IDR stability while still supporting growth. Second, the LPS (deposit insurance) should raise its benchmark rate – i.e. the maximum interest rate that is still covered – on FX deposits according to global trends, in order to conserve FX liquidity at home.
- All in all, we maintain our view that Indonesia is well-placed to withstand the global storm, thanks to its size, its trade/current account buffers, and also its relative self-sufficiency with regards to food and fuel. This means that BI does not have to tighten policies as aggressively as other central banks; a total of 75 – 175 bps in H2-22 should suffice to strike a balance between growth and stability.

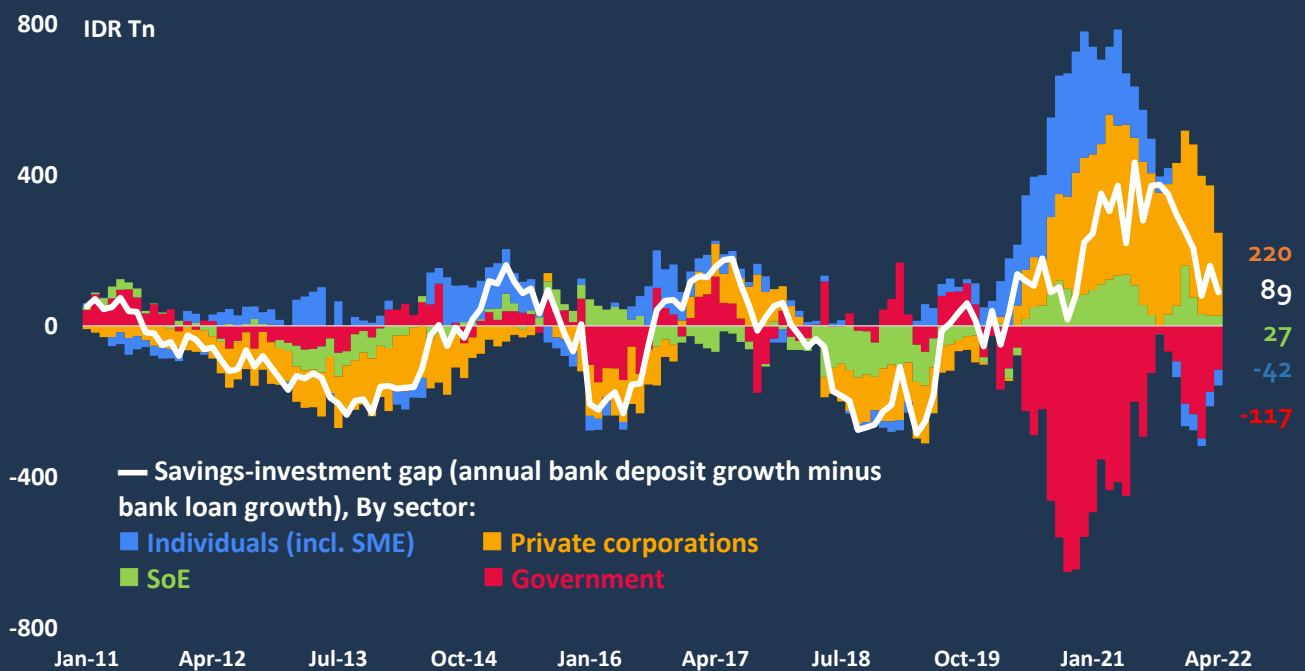
“Rising coal prices have been driven by Europe's growing demand for coal as Russia stops its gas flows.”

Chart 1. The divergence between imports of consumer goods and capital goods indicates the growing importance of business spending in our growth story



Source: BPS

Chart 2. Individuals' lack of savings suggests that consumers have little wiggle room left to withstand rising prices



Source: BI, calculations by BCA Economist

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Jul	-1 mth	Chg (%)
US	1.75	Jun-22	-7.35	Baltic Dry Index	2,010.0	2,260.0	-11.1
UK	1.25	Jun-22	-7.85	S&P GSCI Index	648.1	794.1	-18.4
EU	0.00	Mar-16	-8.60	Oil (Brent, \$/bbl)	99.1	122.3	-18.9
Japan	-0.10	Jan-16	-2.60	Coal (\$/MT)	399.3	311.4	28.2
China (lending)	4.35	Oct-15	1.85	Gas (\$/MMBtu)	6.86	8.96	-23.4
Korea	2.25	Jul-22	-3.75	Gold (\$/oz.)	1,709.9	1,819.3	-6.0
India	4.90	Jun-22	-2.11	Copper (\$/MT)	7,160.0	9,285.5	-22.9
Indonesia	3.50	Feb-21	-0.85	Nickel (\$/MT)	19,346.5	25,838.0	-25.1
Money Mkt Rates	14-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	888.5	1,382.5	-35.7
				Rubber (\$/kg)	1.54	1.61	-4.3
SPN (1M)	3.66	1.00	266.2	External Sector	Jun	May	Chg (%)
SUN (10Y)	7.34	7.34	0.3	Export (\$ bn)	26.09	21.51	21.3
INDONIA (O/N, Rp)	2.79	2.79	-0.5	Import (\$ bn)	21.00	18.61	12.9
JIBOR 1M (Rp)	3.54	3.54	-0.2	Trade bal. (\$ bn)	5.09	2.90	
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Central bank reserves (\$ bn)*	136.4	135.6	0.63
Lending (WC)	8.59	8.62	-2.97	Prompt Indicators	Jun	May	Apr
Deposit 1M	2.85	2.85	0.57	Consumer confidence index (CCI)	128.2	128.9	113.1
Savings	0.63	0.63	-0.23	UK Pound	0.846	0.824	-2.55
Currency/USD	14-Jul	-1 mth	Chg (%)	Euro	0.998	0.961	-3.76
				Japanese Yen	139.0	134.4	-3.27
				Chinese RMB	6.756	6.755	-0.02
				Indonesia Rupiah	14,993	14,681	-2.08
Capital Mkt	14-Jul	-1 mth	Chg (%)	Cement sales (%YoY)	#N/A	7.6	-10.0
JCI	6,690.1	6,995.4	-4.37	Manufacturing PMI	Jun	May	Chg (bps)
DJIA	30,630.2	30,516.7	0.37	USA	53.0	56.1	-310
FTSE	7,039.8	7,205.8	-2.30	Eurozone	52.1	54.6	-250
Nikkei 225	26,643.4	26,987.4	-1.27	Japan	52.7	53.3	-60
Hang Seng	20,751.2	21,067.6	-1.50	China	51.7	48.1	360
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)	Korea	51.3	51.8	-50
Stock	2,388.2	2,503.9	-115.73	Indonesia	50.2	50.8	-60
Govt. Bond	780.2	795.7	-15.51				
Corp. Bond	17.9	18.1	-0.16				

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	4.8
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4615
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	4.7
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.50
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,070
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	39.2
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.9

** Estimation of Rupiah's fundamental exchange rate

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