

Trade:

Exports soar, but limits remain

Keely Julia Hasim
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

15 March 2022

Executive Summary

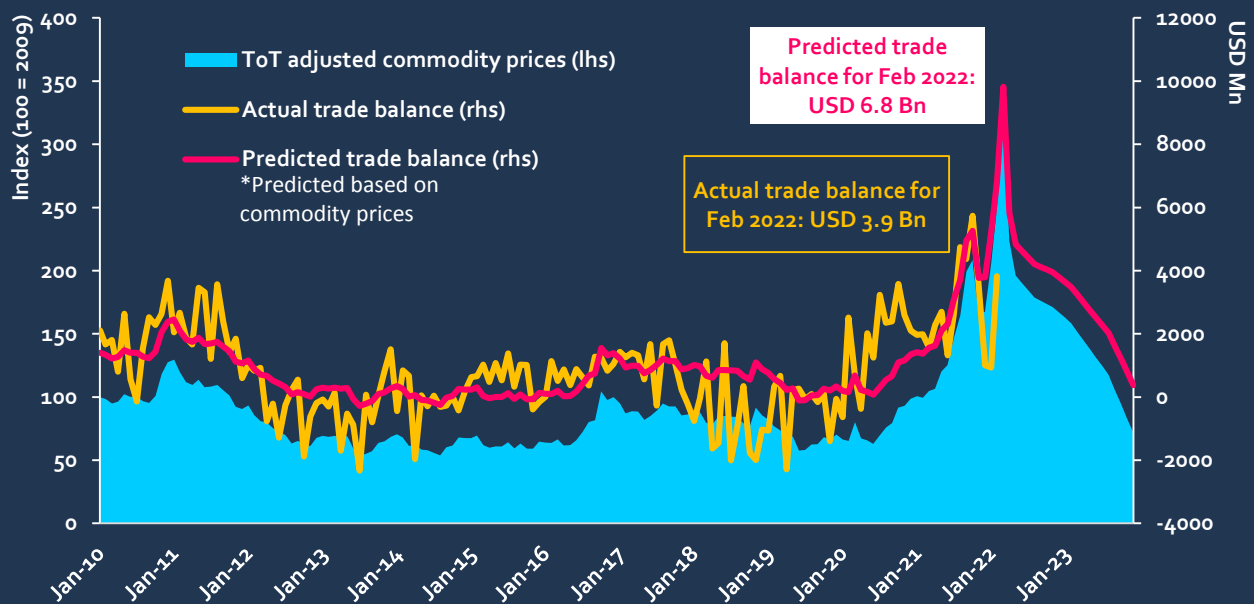
- Indonesia's trade balance increased sharply to USD 3.82 Bn in February 2022, as exports (6.73% MoM/ 34.14% YoY) grew at a faster pace than imports (-8.64% MoM/ 25.43% YoY).
 - The surge in exports was driven by the government coal export ban lift as well as rising prices of Indonesia's top exports amid the Russo-Ukrainian conflict. Meanwhile, continued economic recovery and increasing oil prices would further boost Indonesian imports.
 - However, a potential economic slowdown in the US and China remains a threat to Indonesia's export performance. But even so, we still expect the rising commodities prices to offset this risk. As a result, the trade surplus would still provide a healthy buffer to provide room for BI to raise rates gradually.
-
- Indonesia's trade balance increased sharply to USD 3.82 Bn in February 2022, as exports (6.73% MoM/ 34.14% YoY) grew at a faster pace than imports (-8.64% MoM/ 25.43% YoY).
 - The surge in exports was widely expected after the government lifted its blanket coal export ban at the start of February. But even though coal exports have experienced a 141.45% MoM increase, last month's trade surplus was still below our expectations (Chart 1), likely from domestic market obligation (DMO) regulations which affects coal as well as Indonesia's other major export commodity: CPO. Nonetheless, the surge in commodity prices, especially after Russia's invasion of Ukraine, should still provide a significant boost to Indonesia's export figures in the next few months.
 - What also helped the trade balance was the fact that import growth came out weaker than originally expected. Although capital goods recorded significant gains on an annual basis in January, import growth for both consumer and capital goods fell amid mobility restrictions to control February's Omicron outbreak (Chart 2). But the recent rebound in BCA's business transactions index as well as the loosening mobility restrictions indicate that the slide in import demand last month is likely a temporary affair. Additionally, rising oil prices may translate into higher imports as Pertamina would need to replenish its inventories eventually – even when it tries to lower the burden of its oil imports by timing its purchases.

- A question that remains then is whether Indonesia's exports will be able to offset the expected increase in imports. Although surging commodity prices as a result of the Russo-Ukrainian conflict would help lift Indonesia's exports, a potential slowdown in the US (and especially Europe) as a result of rising energy and food prices has complicated the picture. Although the Fed would have a harder time of controlling supply-side inflation, persistently high inflation observed in the US would still force the Fed to tighten monetary policy, providing further impetus to US economic slowdown. The main problem with a cooling West is that demand for Chinese manufacturing goods would likely decline, and would thus effectively reduce Chinese demand for Indonesia's raw materials exports.

"The surge in exports was driven by the government coal export ban lift as well as rising prices of Indonesia's top exports amid the Russo-Ukrainian conflict. Meanwhile, continued economic recovery and increasing oil prices would further boost Indonesian imports."

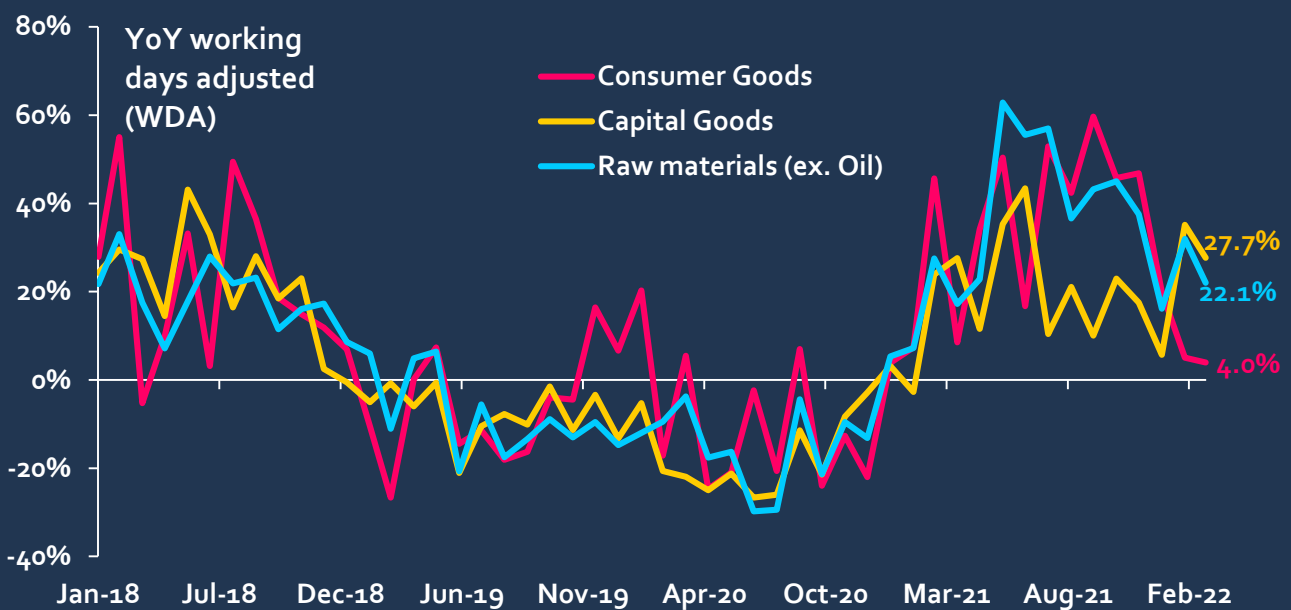
- Furthermore, there is also a threat of a potential slowdown in the Chinese economy itself. Although China's retail sales managed to beat market expectations by rising to 6.7% YoY in January-February, recent lockdowns in Shenzhen and Shanghai amid the worst Covid-19 outbreak since the onset of the pandemic in 2020 may drag consumer spending down in the near-term. Additionally, the political significance of 2022 might incentivize leaders to stick to the status quo, which likely means that China's zero-Covid policy is not going anywhere anytime soon. It should be noted, however, that China's growth target, at 5.5%, is moderately optimistic given the circumstances, and as such we would expect further policy support to attain it.
- Potential economic slowdown in the global economy then, will continue to pose a threat to Indonesia's export growth in the coming months. Fortunately, these threats will be offset on a nominal basis by the increase in commodity prices – however the impact on the overall trade balance may not be as large as expected. While on the basis of price alone we would expect a trade surplus somewhere north of USD 50 Bn (or a current account surplus north of 1.5% of the GDP), the impact of the DMO as well as the rebound of investment activities (especially infrastructure projects) could mean substantially narrower surplus – around USD 35.7 Bn for trade and 0.5% of the GDP for the current account. This provides a healthy enough buffer for the Rupiah and for BI to only raise rates gradually, but – as we mentioned in our last report – Rupiah is no longer the key factor that would determine rate hike schedules. Instead, inflation and the government policies that has kept it under control (DMO, price fixing, subsidies) will be the more crucial points in the coming months.

Chart 1. February's trade surplus was still below our expectations, likely from domestic market obligation regulations which affects coal and CPO



Source: BPS, BCA Economist

Chart 2. Growth in imports for both consumer and capital goods fell amid mobility restrictions to control February's Omicron outbreak



Source: BPS

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Mar	-1 mth	Chg (%)
US	0.25	Mar-20	-7.65	Baltic Dry Index	2,727.0	1,977.0	37.9
UK	0.50	Feb-22	-5.00	S&P GSCI Index	716.1	643.1	11.4
EU	0.00	Mar-16	-5.80	Oil (Brent, \$/bbl)	106.9	94.4	13.2
Japan	-0.10	Jan-16	-0.60	Coal (\$/MT)	310.1	166.2	86.6
China (lending)	4.35	Oct-15	3.45	Gas (\$/MMBtu)	2.71	3.92	-30.9
Korea	1.25	Jan-22	-2.45	Gold (\$/oz.)	1,950.9	1,858.8	5.0
India	4.00	May-20	-2.07	Copper (\$/MT)	9,894.5	9,894.3	0.0
Indonesia	3.50	Feb-21	1.44	Nickel (\$/MT)	48,211.0	23,373.0	106.3
Money Mkt Rates	14-Mar	-1 mth	Chg (bps)	CPO (\$/MT)	1,644.5	1,385.1	18.7
				Rubber (\$/kg)	1.70	1.76	-3.4
SPN (1M)	2.21	3.63	-141.4	External Sector	Feb	Jan	Chg (%)
SUN (10Y)	6.70	6.51	19.4	Export (\$ bn)	20.46	19.17	6.7
INDONIA (O/N, Rp)	2.78	2.79	-0.4	Import (\$ bn)	16.64	18.21	-8.6
JIBOR 1M (Rp)	3.55	3.55	0.0	Trade bal. (\$ bn)	3.83	0.96	297.4
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Central bank reserves (\$ bn)*	141.4	141.3	0.04
Lending (WC)	8.63	8.76	-13.02	Prompt Indicators	Feb	Jan	Dec
Deposit 1M	2.92	3.02	-9.83	Consumer confidence index (CCI)	113.1	119.6	118.3
Savings	0.69	0.71	-2.65	Car sales (%YoY)	65.1	58.9	68.1
Currency/USD	14-Mar	-1 mth	Chg (%)	Motorcycle sales (%YoY)	-2.6	12.5	67.4
UK Pound	0.769	0.737	-4.14	Cement sales (%YoY)	#N/A	7.8	-0.9
Euro	0.914	0.881	-3.61				
Japanese Yen	118.2	115.4	-2.34				
Chinese RMB	6.366	6.355	-0.17				
Indonesia Rupiah	14,333	14,353	0.14				
Capital Mkt	14-Mar	-1 mth	Chg (%)	Manufacturing PMI	Feb	Jan	Chg (bps)
JCI	6,952.2	6,815.6	2.00	USA	58.6	57.6	100
DJIA	32,945.2	34,738.1	-5.16	Eurozone	58.2	58.7	-50
FTSE	7,193.5	7,661.0	-6.10	Japan	52.7	55.4	-270
Nikkei 225	25,307.9	27,696.1	-8.62	China	50.4	49.1	130
Hang Seng	19,531.7	24,906.7	-21.58	Korea	53.8	52.8	100
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)	Indonesia	51.2	53.7	-250
Stock	2,045.8	2,314.3	-268.45				
Govt. Bond	896.6	887.3	9.35				
Corp. Bond	20.3	23.0	-2.67				

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	3.7
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	35.7
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.5

** 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

Senior Industry Analyst

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Derrick Gozal

Economist / Analyst

derrick_gozal@bca.co.id

+6221 2358 8000 Ext: 1066122

Livia Angelica Thamsir

Economist / Analyst

livia_thamsir@bca.co.id

+6221 2358 8000 Ext: 1069933

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: -

Keely Julia Hasim

Economist / Analyst

keely_hasim@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 redist ted 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