Trade:

Heading towards global uncertainty

Suryaputra Wijaksana
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

- Indonesia's trade balance declined to USD 4.99 Bn in September 2022, a notch higher than analyst expectations driven by fall in exports and imports due to worsening global economic prospects
- Exports decline due to slump in CPO prices and slowdown in global demand. Meanwhile slowdown in imports (especially consumer goods and raw materials) is a vindication of our hypothesis of maxed out domestic consumption.
- Indonesia should comfortably obtain a current account surplus of 0.5% -1 .2% of GDP this year. However there are some clouds of uncertainty as higher oil prices and lower coal prices threaten the country's terms of trade.
- The surplus provides buffer for the Rupiah. However the Fed's increasingly aggressive monetary policy is likely to boost USD, prompting BI to deliver a 50 bps rate hike in this month's policy meeting.

- Indonesia's trade balance declined to USD 4.99 Bn in September 2022, as exports fell at a slightly faster rate (20.28% YoY, -10,99% MoM) relative to imports (22.01% YoY, -10.58% MoM). Both the export and import numbers bear a distinct signal of economic slowdown in the months to come.

- CPO (-31.9% MoM) was the biggest culprit of the export decline – in a heel turn from its heroic role in propping up exports in August. This was partly caused by a decline in prices (-16.9% MoM), but may also be the natural result of the government policy to clear up CPO stockpile by reducing export levies – as inventory normalizes, we would expect exports to decline.

- However, exports did not just slow down to India or China (the traditional destination of CPO exports), but to virtually every major trading partners – a clear sign of declining global demand. The exception, interestingly, is Germany, which switches towards coal as gas supply remains restricted.

- Meanwhile, the slowdown in imports is a continued vindication of our hypothesis a few months ago that domestic consumption is likely maxed out, and should slow down beyond Q3-22. Imports of consumer goods and capital goods (on a working days adjusted basis) are on diverging trajectories (Chart 1), and the latter's positive trend means that investment – both private but especially public infrastructure spending – will be the main growth driver entering 2023.

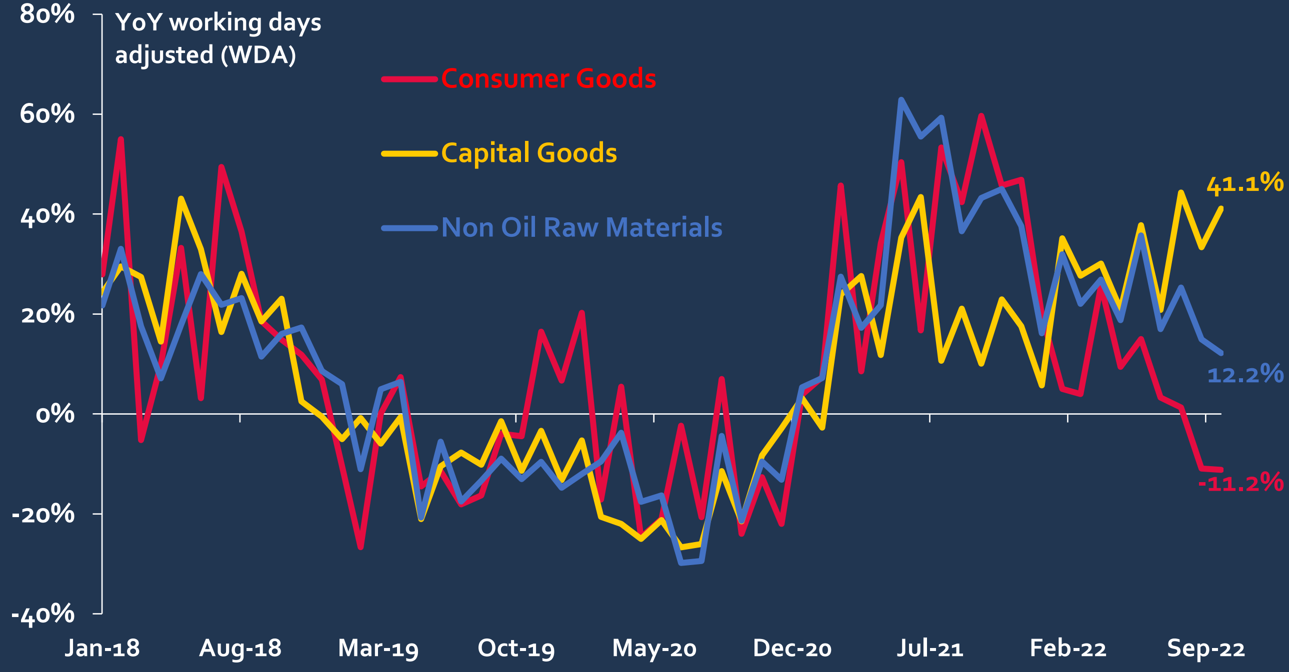
"While the decline in trade activity is bad omen for growth outlook, Indonesia's trade balance has remained strong thanks to a positive terms of trade"

- While the decline in trade activity is bad omen for growth outlook, Indonesia's trade balance has remained strong thanks to a positive terms of trade (Chart 2). And with a trade surplus of nearly USD 40 Bn surplus YTD, Indonesia should comfortably attain a current account surplus of 0.5 – 1.2% of the GDP for the year.

- However, there are clouds on the horizon, as our commodity terms of trade index picks up a marked deterioration in October. The main culprit here is the Russia- and Saudi-initiated OPEC+ output cut, which has caused the prices of oil – which Indonesia imports – to balloon. This is matched by some decline in coal prices following the Nordstream shock in Europe during the previous months. This is likely to result in slimmer surpluses during Q4-22.

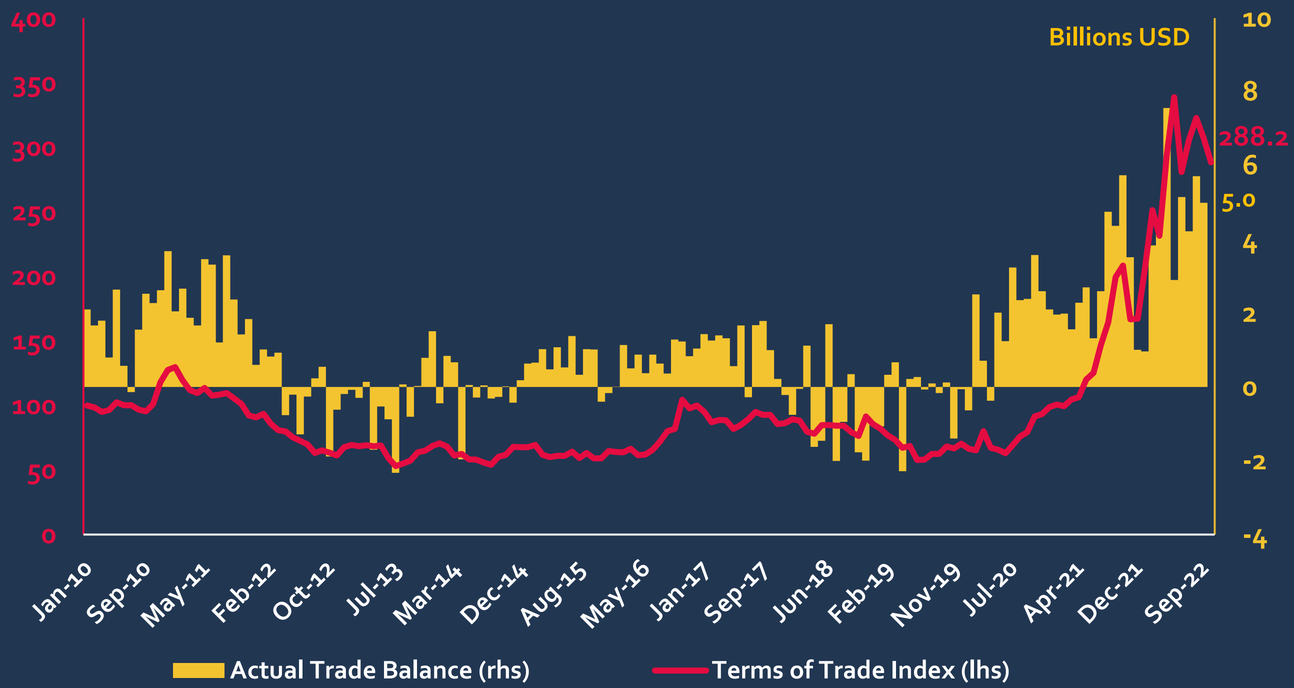
- Still, the trade surplus continue to provide a strong buffer for the Rupiah, which has been battered by the strength of the USD. Unfortunately, the latter remains very much in play in the short-term as the still-high US inflation (and rising core inflation) combined with the OPEC+ output cut leaves the Fed with little choice but to remain on an aggressive tightening path. As such, we expect BI to also hike rates in the coming months – likely by 50 bps in October – in order to maintain expectations and smooth out Rupiah's bumpy ride.

Chart 1. Slowing imports of consumer & raw materials may indicate domestic consumption is maxed out



Source: BPS

Chart 2. **Indonesia's increasingly large trade balance is in line with terms of trade as commodity prices remain elevated**



Source: BPS, BCA Economist calculations

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	3.25	Sep-22	-4.95
UK	2.25	Sep-22	-7.65
EU	1.25	Sep-22	-8.75
Japan	-0.10	Jan-16	-3.10
China (lending)	4.35	Oct-15	1.55
Korea	3.00	Sep-22	-2.60
India	5.90	Sep-22	-1.51
Indonesia	4.25	Sep-22	-1.70

Money Mkt Rates	14-Oct	-1 mth	Chg (bps)
SPN (1M)	1.91	2.18	-26.8
SUN (10Y)	7.35	7.09	26.0
INDONIA (O/N, Rp)	3.81	3.35	46.5
JIBOR 1M (Rp)	4.94	4.20	73.3

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.40	8.48	-7.13
Deposit 1M	2.84	2.79	4.96
Savings	0.62	0.64	-1.17

Currency/USD	14-Oct	-1 mth	Chg (%)
UK Pound	0.895	0.870	-2.79
Euro	1.029	1.003	-2.49
Japanese Yen	148.7	144.6	-2.75
Chinese RMB	7.193	6.931	-3.64
Indonesia Rupiah	15,423	14,852	-3.70

Capital Mkt	14-Oct	-1 mth	Chg (%)
JCI	6,814.5	7,318.0	-6.88
DJIA	29,634.8	31,105.0	-4.73
FTSE	6,858.8	7,385.9	-7.14
Nikkei 225	27,090.8	28,614.6	-5.33
Hang Seng	16,587.7	19,326.9	-14.17

Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)
Stock	2,526.7	2,541.6	-14.84
Govt. Bond	730.3	759.5	-29.26
Corp. Bond	15.5	15.2	0.24

Trade & Commodities	14-Oct	-1 mth	Chg (%)
Baltic Dry Index	1,838.0	1,408.0	30.5
S&P GSCI Index	631.9	652.6	-3.2
Oil (Brent, $/brl)	91.6	93.2	-1.7
Coal ($/MT)	397.0	413.5	-4.0
Gas ($/MMBtu)	6.25	8.37	-25.3
Gold ($/oz.)	1,644.5	1,702.2	-3.4
Copper ($/MT)	7,652.8	7,994.3	-4.3
Nickel ($/MT)	21,660.8	24,257.0	-10.7
CPO ($/MT)	788.3	835.0	-5.6
Rubber ($/kg)	1.31	1.34	-2.2

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	24.80	27.86	-11.0
Import ($ bn)	19.81	22.15	-10.6
Trade bal. ($ bn)	4.99	5.71	-12.6
Central bank reserves ($ bn)*	130.8	132.2	-1.06

Prompt Indicators	Sep	Aug	Jun
Consumer confidence index (CCI)	117.2	124.7	128.2
Car sales (%YoY)	18.9	16.4	8.5
Motorcycle sales (%YoY)	10.7	11.6	-30.9
Cement sales (%YoY)	#N/A	#N/A	-41.1

Manufacturing PMI	Sep	Aug	Chg (bps)
USA	50.9	52.8	-190
Eurozone	48.4	49.6	-120
Japan	50.8	51.5	-70
China	48.1	49.5	-140
Korea	47.3	47.6	-30
Indonesia	53.7	51.7	200

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

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	7.1
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.25
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,293
Trade Balance (US$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.0

** 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

Suryaputra Wijaksana
Economist / Analyst
suryaputra_wijaksana@bca.co.id
+6221 2358 8000 Ext: 1065752

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

Firman Yosep Tember
Research Assistant
firman_tember@bca.co.id
+6221 2358 8000 Ext: 20378

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