

Trade:

Not as bad as it looks

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15 May 2023

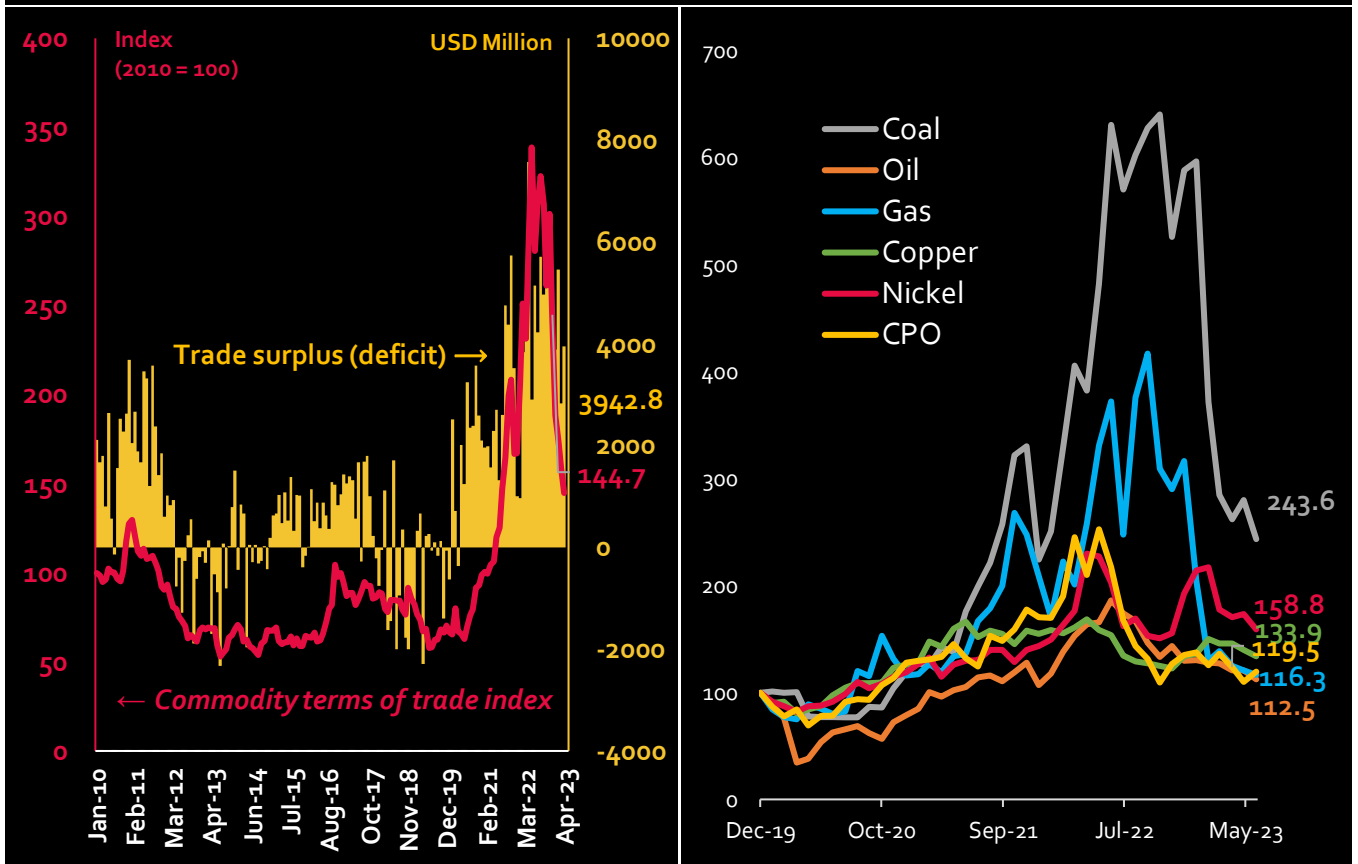
Executive Summary

- Indonesia recorded a trade balance of USD 3.94 Bn, as imports (-22.3% YoY, -25.5% MoM) and exports (-29.4% YoY, -17.6% MoM) both have a sharp decline due to fewer working days.
 - Exports continue to suffer from lower commodity prices compared to last year, underwhelming China's recovery, and weak global demand.
 - On the other hand, there are signs of recovery in imports, both for consumer goods and capital goods. An increase in capital goods imports from Europe may also be a sign of a shift in fixed-asset investment (FAI) towards machinery, which is positive for future exports.
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- Indonesia's trade balance increased in April 2023 to USD 3.94 Bn as imports declined (-22.3% YoY, -25.5% MoM) faster than exports (-29.4% YoY, -17.6% MoM). The sharp decline in exports and imports are in line with our expectations given fewer working days in April due to Lebaran (Eid al-Fitr) holidays.
 - The decline in exports was also a continuation of the high base effect from the Russo-Ukraine war, as most commodities, including CPO, coal, and nickel, are at lower prices than last year. There is also an issue with China's cooling manufacturing activity and shrinking imports in April, despite only a few months after reopening. Oversupply in China's industries may turn out to be worse than expected given its provincial governments' limited ability to stimulate the economy, and – if it continues – might decisively shift the global economy towards a deflationary recession over the next year.
 - The situation in the West certainly did not help, with both the US and Europe deep into a manufacturing contraction and tighter credit limiting the upside for demand going forward. All these bleak outlook could hurt Indonesia's exports, although the Dollar's relative weakness – especially given Fed pivot expectations – may limit the extent of commodity prices' declines.
 - On the imports side, while the top line numbers seem bad, they look considerably better when adjusted by working days. Imports of both consumer and capital goods showed positive growth – good signs for consumption and investment – and comports with our contention last month that imports are bottoming out earlier than exports. Some effects of the festive season may explain the strong imports, but solid consumer confidence and retail sales figure tends to support the more sanguine interpretation. Imports of raw materials, meanwhile, still

showed negative growth partly due to lower commodity prices, but also because of the slowing activity of manufacturing during holiday season.

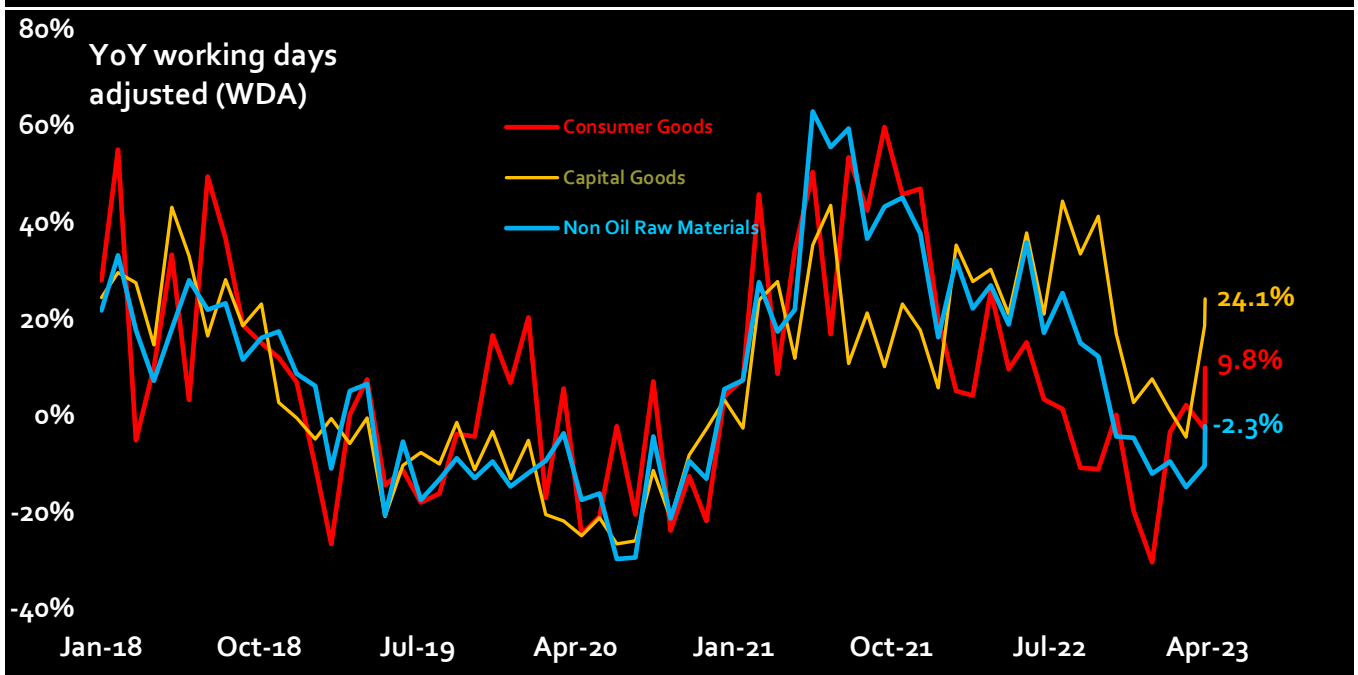
- Despite our hypothesis of China's "dumping", Indonesia's imports from China have actually been declining YTD, with price discounts only part of the story. What is more interesting, however, is the increased imports from the West, especially the EU. Compared to Jan-Apr last year, imports from the EU increased by 19.9% YoY, mainly due to machinery imports from Germany. This is another good sign regarding fixed-asset investment (FAI), and agrees with our observation that recent FAI has shifted towards machinery rather than buildings.
- All in all, the story underneath the data is probably not as gloomy as the top line data made it look. While the global outlook is a concern, Indonesia will probably prove to be one of the least affected countries by the current situation. There is probably still going to be tradeoff between the solid growth and a declining trade surplus (as import growth starts to outpace exports), but the solid FDI and portfolio inflows should keep the risk to Rupiah to a minimum. As we have noted, BI may begin to consider easing rather than tightening policies given the strong Rupiah and pressures on manufacturing exports, but the likelihood of a cut is still very slim unless the Fed starts to telegraph a more dovish outlook.

Panel 1. Trade surplus rises despite weakening commodity prices



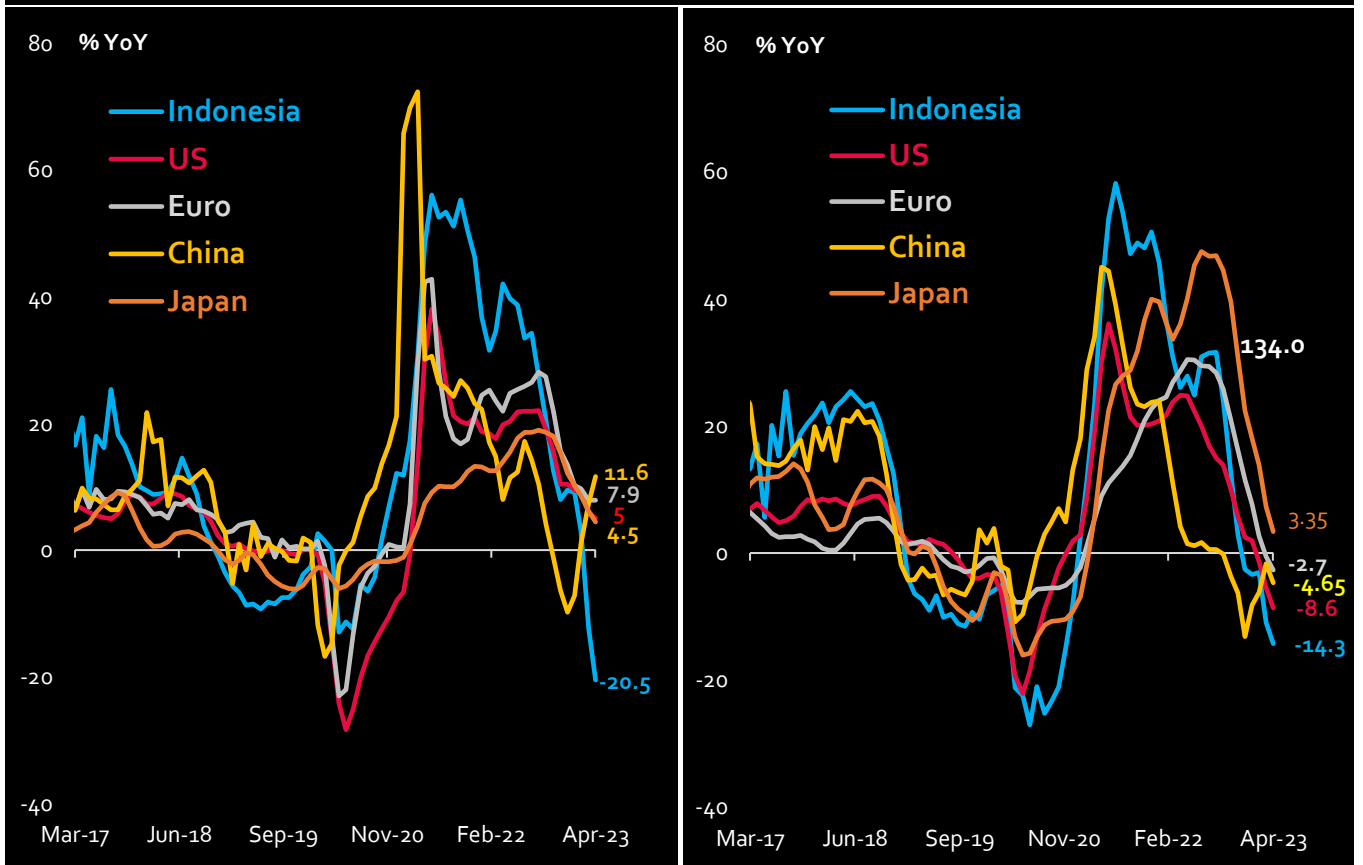
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports growth may starts its upward trend



Source: BPS, BCA Economist

Panel 3. Indonesia's trade slowdown is in line with the rest of the world



Source: Bloomberg

Panel 4. Indonesian PMI remains resilient despite challenging global conditions

PMI	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23	Feb-23	Mar-23	Apr-23
Indonesia	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7
Malaysia	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8
Thailand	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4
Philippines	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4
Vietnam	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7
India	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2
Australia	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0
China	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2
South Korea	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1
Japan	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5
Euro	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8
US	55.9	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1
Mexico	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1

Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	12-May	-1 mth	Chg (%)
US	5.25	May-23	0.35	Baltic Dry Index	1,558.0	1,507.0	3.4
UK	4.50	May-23	-5.60	S&P GSCI Index	538.9	592.0	-9.0
EU	3.75	May-23	-3.25	Oil (Brent, \$/bbl)	74.2	85.6	-13.4
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	163.0	204.5	-20.3
China (lending)	4.35	May-23	4.25	Gas (\$/MMBtu)	1.98	2.19	-9.6
Korea	3.50	Apr-23	-0.20	Gold (\$/oz.)	2,010.8	2,003.6	0.4
India	6.50	Apr-23	1.80	Copper (\$/MT)	8,222.8	8,851.5	-7.1
Indonesia	5.75	Apr-23	1.42	Nickel (\$/MT)	22,110.0	23,264.0	-5.0
Money Mkt Rates	12-May	-1 mth	Chg (bps)	CPO (\$/MT)	850.9	973.6	-12.6
SPN (1M)	3.49	4.03	-54.4	Rubber (\$/kg)	1.35	1.32	2.3
SUN (10Y)	6.38	6.64	-25.3	External Sector	Apr	Mar	Chg (%)
INDONIA (O/N, Rp)	5.60	5.62	-2.9	Export (\$ bn)	19.29	23.50	-17.90
JIBOR 1M (Rp)	6.40	6.40	0.0	Import (\$ bn)	15.35	20.59	-25.45
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	3.94	2.91	35.62
Lending (WC)	8.89	8.75	13.80	Central bank reserves (\$ bn)*	144.2	145.2	-0.68
Deposit 1M	4.18	4.00	17.94	Prompt Indicators	Apr	Mar	Dec
Savings	0.67	0.67	0.25	Consumer confidence index (CCI)	126.1	123.3	119.9
Currency/USD	12-May	-1 mth	Chg (%)	Car sales (%YoY)	-28.8	2.7	9.0
UK Pound	0.803	0.805	0.27	Motorcycle sales (%YoY)	-19.4	40.5	24.6
Euro	0.922	0.916	-0.58	Manufacturing PMI	Apr	Mar	Chg (bps)
Japanese Yen	135.7	133.7	-1.49	USA	47.1	46.3	80
Chinese RMB	6.959	6.886	-1.05	Eurozone	45.8	47.3	-150
Indonesia Rupiah	14,750	14,883	0.90	Japan	49.5	49.2	30
Capital Mkt	12-May	-1 mth	Chg (%)	China	49.5	50.0	-50
JCI	6,707.8	6,811.3	-1.52	Korea	48.1	47.6	50
DJIA	33,300.6	33,684.8	-1.14	Indonesia	52.7	51.9	80
FTSE	7,754.6	7,785.7	-0.40				
Nikkei 225	29,388.3	27,923.4	5.25				
Hang Seng	19,627.2	20,485.2	-4.19				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	2,789.1	2,726.8	62.33				
Govt. Bond	818.5	818.5	0.00				
Corp. Bond	11.8	12.0	-0.20				

Source: Bloomberg, BI, BPS

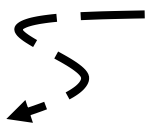
Notes:

^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

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.0
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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