

Trade:

Back to narrow surplus

Keely Julia Hasim
Economist / Analyst

Barra Kukuh Mamia
Senior Economist

15 Aug 2023

Executive Summary

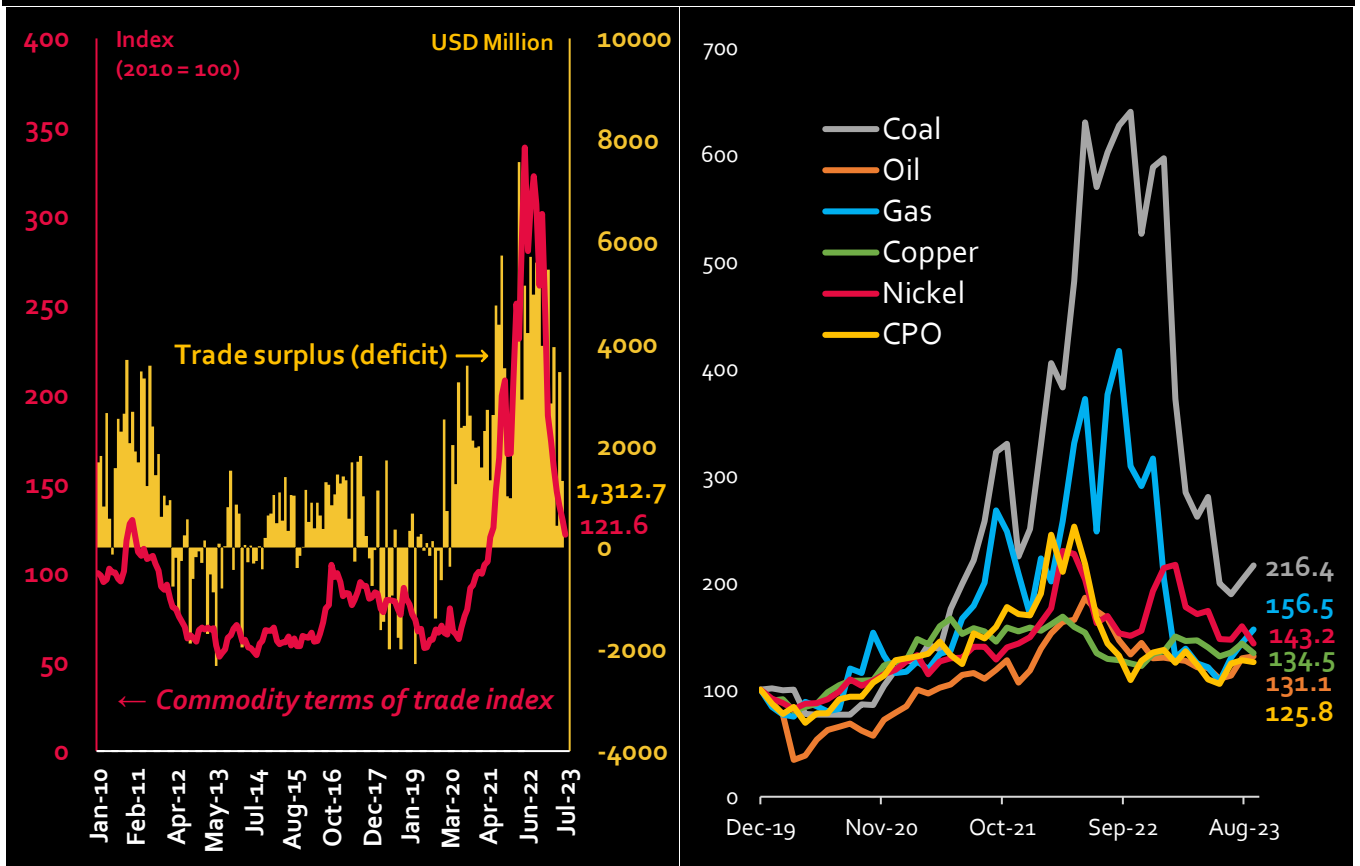
- Indonesia's trade balance fell to USD 1.31 Bn in Jul-23, as imports rose (14.1% MoM) much faster pace exports (1.36% MoM).
- The narrower surplus is caused by higher oil/gas imports as Pertamina restocked, while the acceleration of non-oil/gas imports is a good sign for domestic demand and investment.
- The modest recovery in commodity prices during July failed to lift exports as global demand remains weak, but rather a reflection of geopolitical and climate fears as well as temporary weakening of USD.
- The continued vulnerability of the Rupiah to global market volatility means that BI would likely not cut rates before year-end.

- Indonesia's trade balance fell to USD 1.31 Bn in Jul-23, as imports rose (14.1% MoM) at a much faster pace than exports (1.36% MoM), although both are still declining in YoY terms. While the narrower balance was a surprise to the market at large, it was not entirely surprising to us especially on the import side.
- The big (3.45 Bn) surplus in June was somewhat a fluke, caused partly by a decline in oil import volumes that was bound to reverse as Pertamina restocks – as they did in July. Indeed, fully 42% of the trade surplus decline (910 Mn) was down to higher oil/gas imports. For this reason, we maintain our view that the trade balance is likely to average between 2-3 Bn per month for the foreseeable future.
- The rising oil imports might have come at an inopportune time, as military escalation in Ukraine and the announced production cut by OPEC+ triggered an increase in oil price in July. Other commodities also staged modest recoveries, including coal (3.5% MoM) and CPO (10.4% MoM). Unfortunately, these price gains did not translate into a substantial boost for our exports, which actually dipped by 6.9% MoM and 0.9% MoM, respectively.
- In a way, this reflects how the commodity rally was not a product of stronger demand, but merely the result of geopolitical and climate-related fears. It might have also been linked to the weakened USD (Dollar index) in July, which coincided with expectations that July's Fed hike could be the last. Since then, however, the USD has staged a rebound – which thus limits the scope for a further commodity rally.
- In a lot of ways, the Dollar's strength was really about the weakness of the other currencies: (1) Major European central banks, including the ECB and BOE, are nearing the end of their rate-hike cycle due to recession and a deceleration in inflation; (2) A wide array of Chinese data has signaled mounting pressure on the economy, recently prompting China's central

bank (PBOC) to implement further rate cuts to stimulate growth; (3) Uncertainty regarding Japan's yield curve control policy has effectively prevented the Yen from gaining traction. Despite many misgivings, then, the USD remains 'the cleanest shirt in a dirty laundry basket' – and thus the go-to currency amid global economic uncertainty.

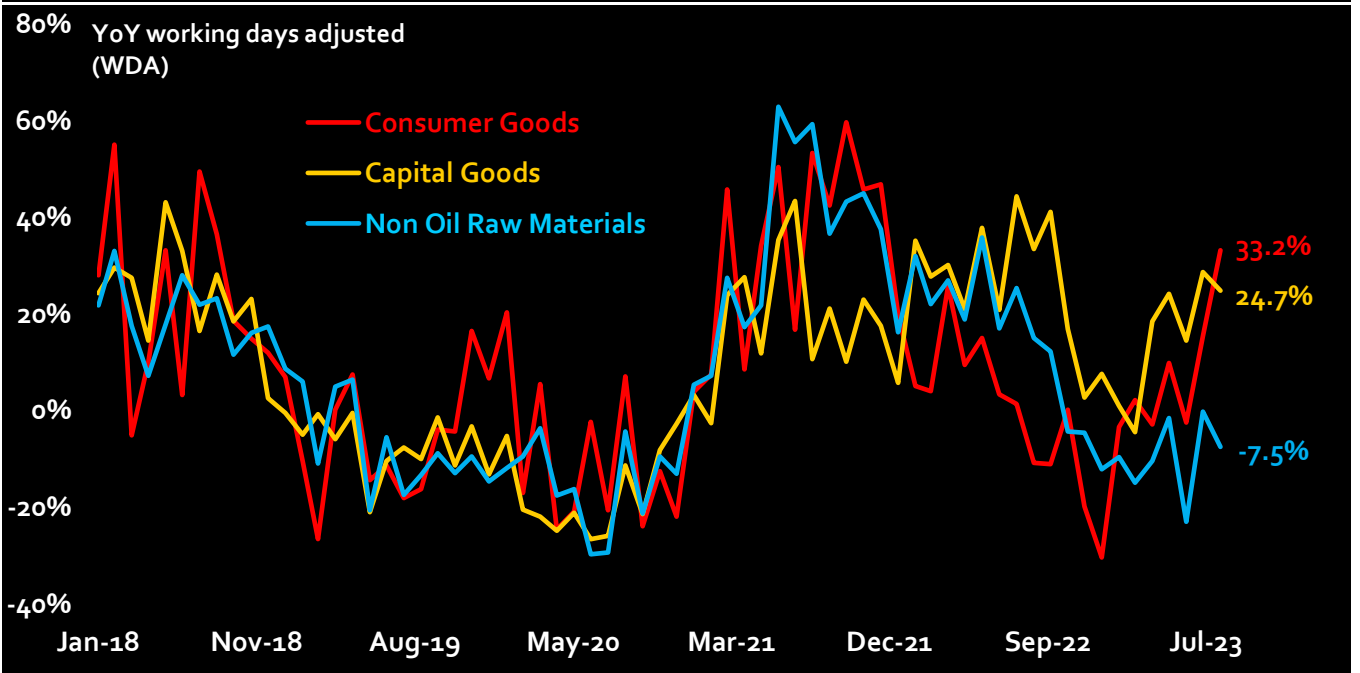
- The narrowing trade surplus is not entirely negative for Indonesia, however. Imports of capital goods continues to accelerate, indicating positive prospects for investment. Notably, we observe a significant uptick of imports from the EU (27.8% MoM / 85% YoY), which is likely linked to the increased imports of machinery used in manufacturing.
- Imports of consumer goods have also picked up pace, even as the disinflationary distortion caused by China's inventory dumping would have dampened the increase in nominal import values. There are reasons to suspect that this import growth will slow in the coming months, as the availability of cheap imported Chinese goods become less abundant. Still, the fact that Indonesian imports have held up well amid a declining global trend is a good sign for domestic demand.
- Overall, then, the July trade data remain congruent with our overall macro picture. Domestic growth prospects remain robust, but the Rupiah is still at the mercy of a fickle global market – meaning that BI is unlikely to cut rates before year-end. The narrowing trade surplus is likely insufficient to avoid the current account from falling into a deficit, although it should remain a narrow one for now (0.4 – 0.7% of GDP for Q2-23).

Panel 1. Indonesia's trade surplus narrowed amid a modest recovery in commodity prices



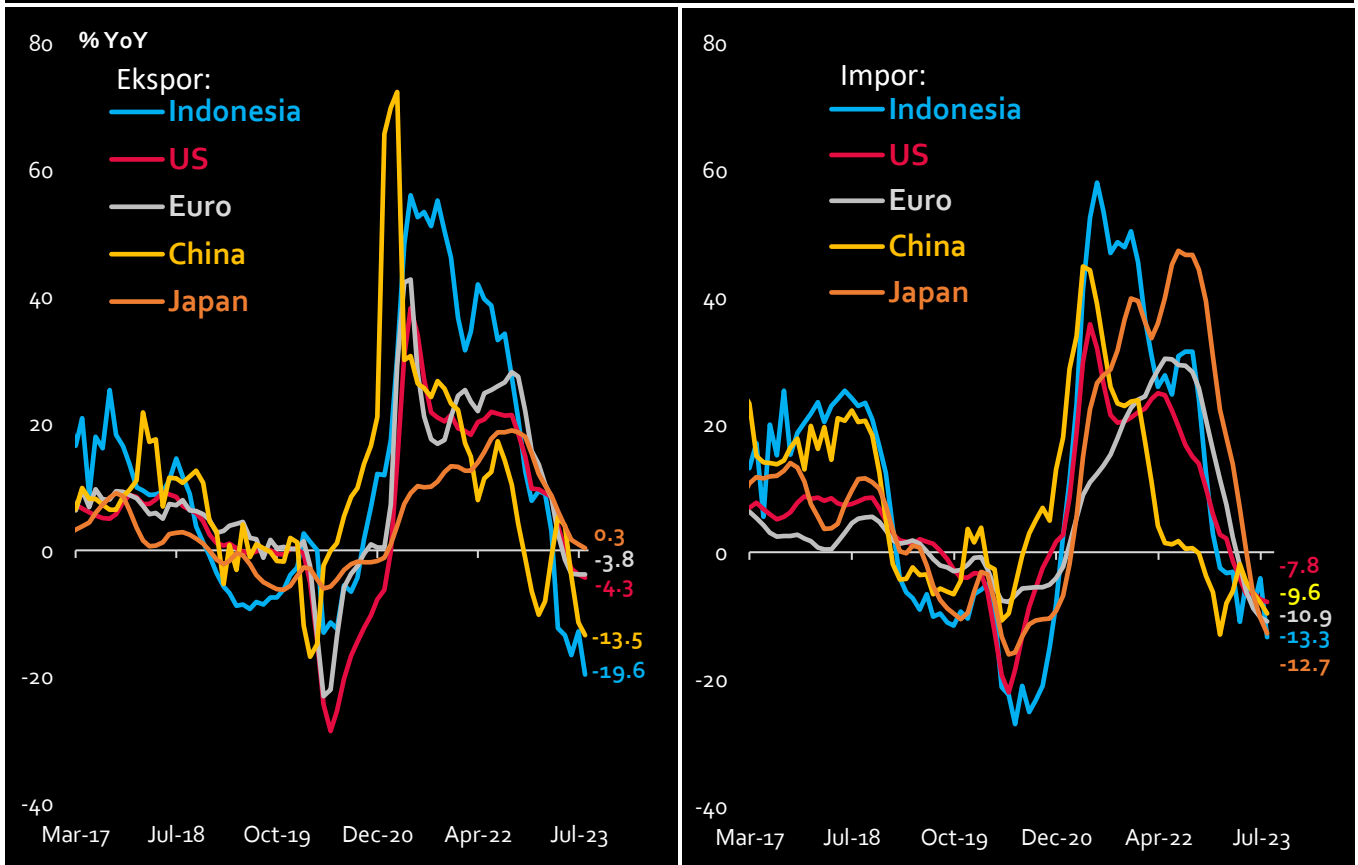
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports of consumer goods and capital goods continue to accelerate, indicating positive prospects for investment and the resilience of the domestic economy



Source: BPS, BCA Economist

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



Source: Bloomberg

Panel 4. Pace of expansion in Indonesia's manufacturing sector is starting to improve

PMI	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Indonesia	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3
Malaysia	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8
Thailand	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2	50.7
Philippines	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4	52.2	50.9	51.9
Vietnam	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7
India	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	58.7	57.7
Australia	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2	49.6
China	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3
South Korea	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8	49.4
Japan	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6
Euro	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.6	42.7
US	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4
Mexico	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2

Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Aug	-1 mth	Chg (%)
US	5.50	Aug-23	2.30	Baltic Dry Index	1,135.0	1,090.0	4.1
UK	5.25	Aug-23	-2.65	S&P GSCI Index	586.3	562.5	4.2
EU	4.25	Aug-23	-1.05	Oil (Brent, \$/bbl)	86.2	79.9	7.9
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	153.5	133.7	14.8
China (lending)	4.35	Aug-23	4.65	Gas (\$/MMBtu)	2.74	2.50	9.5
Korea	3.50	Jul-23	1.20	Gold (\$/oz.)	1,907.1	1,955.2	-2.5
India	6.50	Aug-23	-0.94	Copper (\$/MT)	8,242.8	8,661.8	-4.8
Indonesia	5.75	Jul-23	2.67	Nickel (\$/MT)	19,789.0	21,400.5	-7.5
Money Mkt Rates	14-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	801.2	848.5	-5.6
				Rubber (\$/kg)	1.25	1.32	-5.3
SPN (1M)	3.61	4.72	-110.4	External Sector	Jul	Jun	Chg (%)
SUN (10Y)	6.37	6.16	20.8	Export (\$ bn)	20.88	20.61	1.34
INDONIA (O/N, Rp)	5.66	5.63	3.1	Import (\$ bn)	19.57	17.15	14.10
JIBOR 1M (Rp)	6.40	6.40	0.5	Trade bal. (\$ bn)	1.31	3.45	-62.00
Bank Rates (Rp)	May	Apr	Chg (bps)	Central bank reserves (\$ bn)*	137.7	137.5	0.12
Lending (WC)	8.93	8.92	0.35	Prompt Indicators	Jul	Jun	May
Deposit 1M	4.19	4.18	1.37	Consumer confidence index (CCI)	123.5	127.1	128.3
Savings	0.67	0.67	0.00	Car sales (%YoY)	-6.8	4.7	65.2
Currency/USD	14-Aug	-1 mth	Chg (%)	Motorcycle sales (%YoY)	45.6	66.6	113.4
UK Pound	0.788	0.764	-3.13	Manufacturing PMI	Jul	Jun	Chg (bps)
Euro	0.917	0.891	-2.87	USA	46.4	46.0	40
Japanese Yen	145.6	138.8	-4.64	Eurozone	42.7	43.4	-70
Chinese RMB	7.257	7.142	-1.59	Japan	49.6	49.8	-20
Indonesia Rupiah	15,315	14,958	-2.33	China	49.2	50.5	-130
Capital Mkt	14-Aug	-1 mth	Chg (%)	Korea	49.4	47.8	160
JCI	6,910.2	6,869.6	0.59	Indonesia	53.3	52.5	80
DJIA	35,307.6	34,509.0	2.31				
FTSE	7,507.2	7,434.6	0.98				
Nikkei 225	32,059.9	32,391.3	-1.02				
Hang Seng	18,773.6	19,413.8	-3.30				
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)				
Stock	2,892.9	2,755.0	137.88				
Govt. Bond	846.9	846.9	0.00				
Corp. Bond	11.3	11.3	-0.03				

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



Scan for the link to our report depository or click:

https://s.id/BCA_REI

Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.2
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
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	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** 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

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Agus Salim Hardjodinoto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thieris Nora Kusuma

Economist / Analyst

thieris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

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: 20378 or fax to: (62-21) 2358 8343 or email: firman_tember@bca.co.id