

October Outlook: Modest Improvement Expected

Forecast for October 2019

Exports	USD 15.1 bn
Imports	USD 15.4 bn
Trade Balance	(USD 0.3 bn)

Forecast for 2019

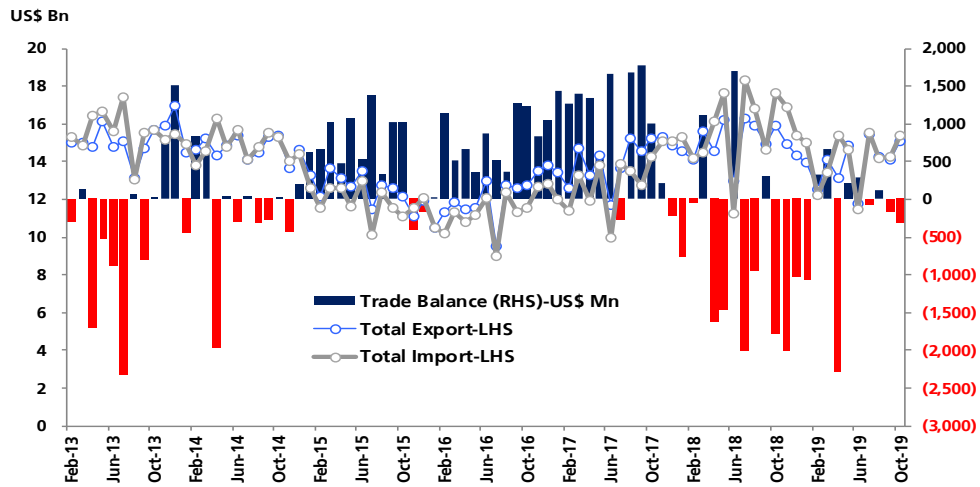
Exports	USD 166.7 bn
Imports	USD 171.8 bn
Trade Balance	USD (5.04) bn

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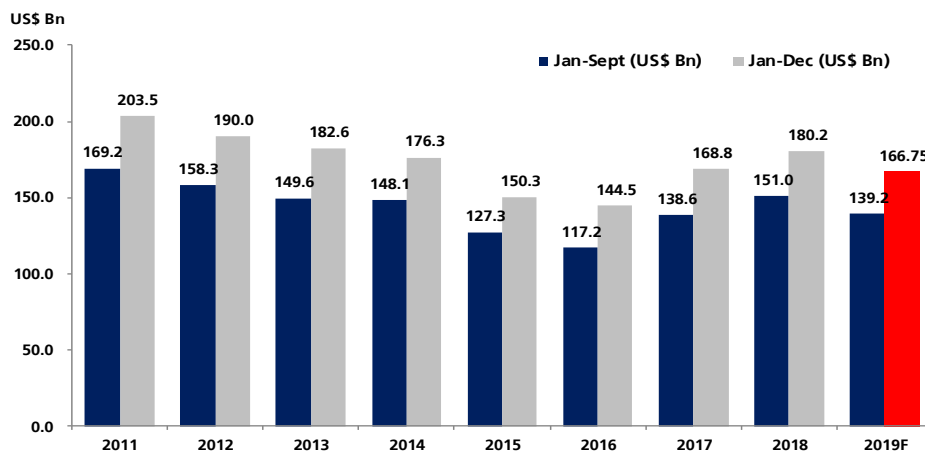
- **Moderate economic prospects and higher prices will sustain October's exports.** The LEI for Indonesia's major partners recorded a monthly gain in August. After posting a 0.5% mom fall in July, the composite LEI rose 0.3% mom in August. For Indonesia's major trading partners, the LEI for China rose by 2.2% mom and for the U.S. it rose by 1.8% mom. By contrast, the LEI for Japan dipped by 1.9% mom. Given these mixed developments, a significant improvement in economic performance over the near term looks unlikely. At the same time, the manufacturing PMI of several of Indonesia's trading partners (except for the U.S.) remained below the level of 50. The new orders received, exports demand, output production, and employment all contracted. Uncertain progress on trade deals and rising tariffs hampered the manufacturing expansion. On a positive note, however, the average prices of Indonesia's major commodity exports improved further. They rose 1.8% mom in September, following a 2.5% mom decline in the previous month. As such, Indonesia's exports may see a gain, helped by the better prices. In regard to consumer prices, the composite price index of Indonesia's trading partners rebounded. This indicator depicts upward pressure (changing from -1.1% mom to +0.6% mom). Moreover, approaching the year-end holidays and festivities, volume shipments should be maintained on a monthly basis.
- **Soft domestic demand, higher global oil prices, and a stable rupiah should lead to higher monthly imports.** On the consumer side, cost pressures remained soft. October's consumer prices rose 0.02% mom, or slightly higher in comparison to September's deflation of 0.27% mom. The stable monthly inflation was driven by lower prices in the foodstuffs and transportation components. At the same time, prices in the other CPI components tended to ease. On the manufacturing side, Indonesia's PMI fell to 47.7 in October from 49.1 in September, owing to declining new orders, production and export sales. The contraction in manufacturing activity prompted firms to scale back on their purchasing activity, leading to softer imports. In October, the average rupiah/USD exchange rate weakened 0.10% mom (+2.7% ytd), after appreciating 0.9% mom in the previous month. Meanwhile, average prices in the global oil basket rose by 0.3% in September, following a 7.4% fall in August. Inline with the exports pattern, Indonesia's imports volume in October should increase ahead of seasonal events.
- Against this backdrop, we expect Indonesia's exports to reach USD 15.0 bn in October 2019, with imports reaching USD 15.4 bn. This will translate into a trade deficit of USD 0.32 bn in October 2019.

Graph 1. Indonesia's Exports and Imports



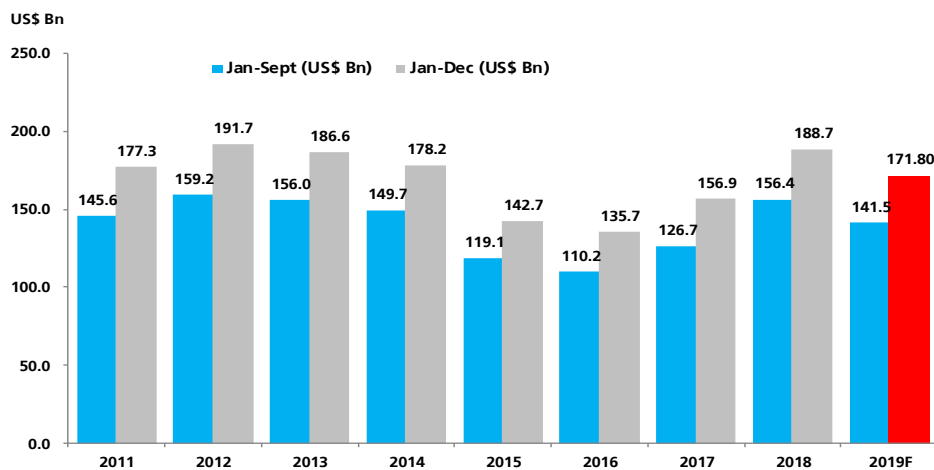
Source: BPS, Danareksa Research Institute

Graph 2. Exports Performance



Source: BPS, Danareksa Research Institute

Graph 3. Imports Performance



Source: BPS, Danareksa Research Institute

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