

TRADE OUTLOOK

Weak but Expected to Improve

- ❑ Exports declined 2.5 percent on a monthly basis in February. Imports were also down: they dipped 0.9 percent MoM. On a YoY basis, however, imports were actually 3.0 percent higher although exports were down 4.5 percent. As a result, the February trade deficit widened to US\$ 327.4 mn.
- ❑ Indonesia's non oil and gas exports to China, Japan, and the US reached US\$ 1.80 bn, US\$ 1.37 bn, and US\$ 1.16 bn, respectively, in February 2013. These three countries accounted for 34.9 percent of Indonesia's total non oil and gas exports. On the imports side, Indonesia's major trading partners were still China and Japan, accounting for 19.5 percent and 13.4 percent of Indonesia's non oil and gas imports, respectively.
- ❑ We expect Indonesia's exports to reach US\$ 16.3 bn in March 2013, or higher than February 2013's US\$ 14.9 bn. As for imports, we expect them to rise to US\$ 16.2 bn from US\$ 15.3 bn in February. As a result, Indonesia's trade surplus is expected to widen to US\$ 158.6 mn in March 2013.

Forecast for March 2013

Exports	US\$ 16.3 bn
Imports	US\$ 16.2 bn
Trade Surplus	US\$ 158.6 mn

Forecast for 2013

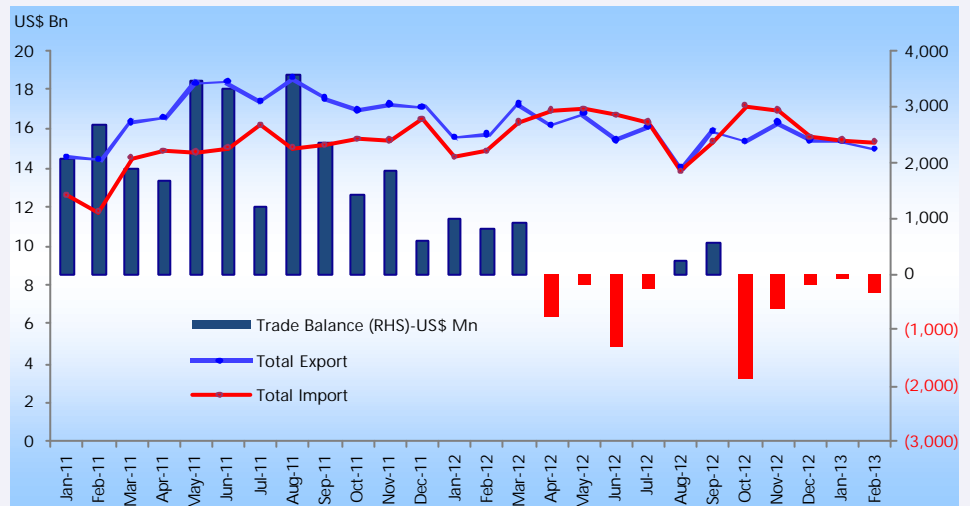
Exports	US\$ 214 bn
Imports	US\$ 211 bn
Trade Balance	US\$ 3.1 bn

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MoM Slowing Exports

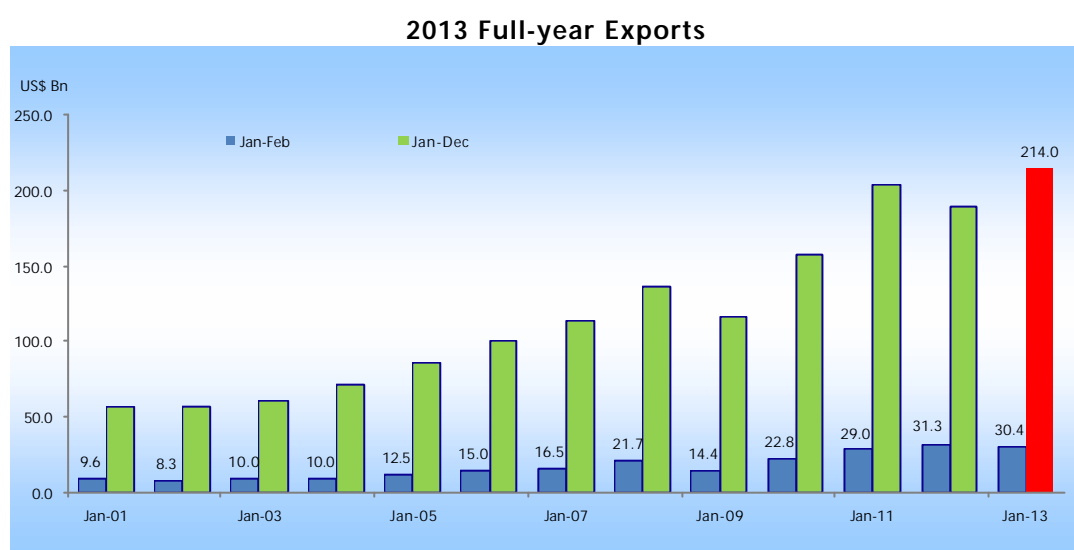


Source: BPS

February Exports: Down 2.5 percent MoM

Indonesia's oil and gas exports declined 4.3 percent MoM while the country's non oil and gas exports dropped 2.1 percent. All in all, February exports were down 2.5 percent MoM to US\$ 14.9 bn. Among the non oil and gas products, the exports of mineral fuels and oil (HS 27) and animal and vegetable fats (HS 15) posted the largest declines.

Indonesia's non oil and gas exports to China still grew in February (they reached US\$ 1.8 bn). By contrast, Indonesia's non oil and gas exports to Japan and the US fell to US\$ 1.4 bn and US\$ 1.2 bn, respectively. Consequently, China's share of Indonesia's non oil and gas exports increased to 13.1 percent, or higher than Japan's 11 percent share and the US's 9.7 percent share.



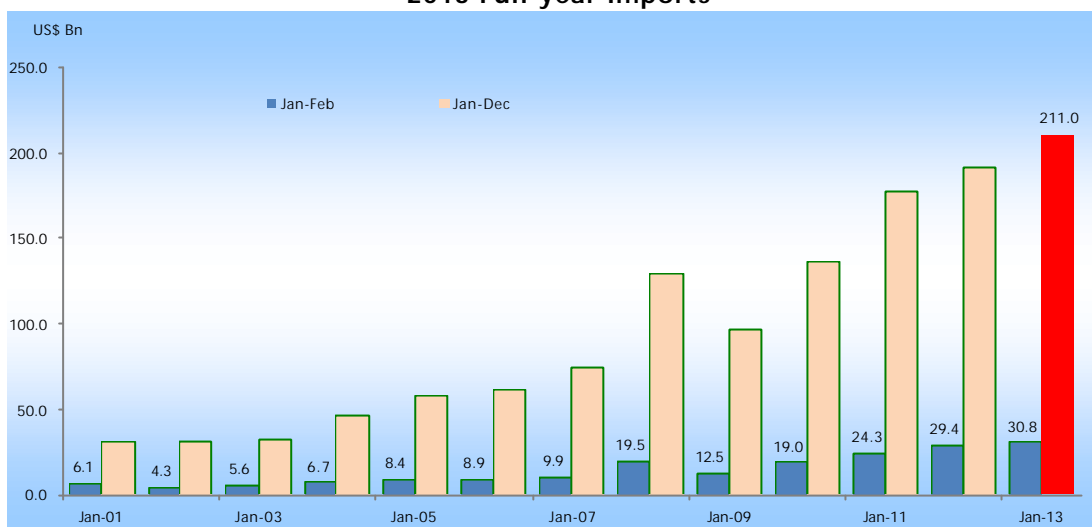
Source: BPS, Danareksa Research Institute

February Imports: Down 0.9 percent MoM

February imports reached US\$ 15.3 bn, or 0.9 percent lower than in the previous month, but 3.0 percent higher in YoY terms. Non oil and gas imports grew 1.6 percent MoM, owing in part to increasing imports of mechanical machinery and equipment (HS 84) and motor vehicle and parts (HS 87).

Year to date, Indonesia's non oil and gas imports from China (amounting to US\$ 2.1 bn) are 19.6 percent of the country's total non oil and gas imports. After China, Japan was the second largest exporter to Indonesia (accounting for 13.4 percent of Indonesia's total non oil and gas imports) with Thailand in third place (7.8 percent).

2013 Full-year Imports

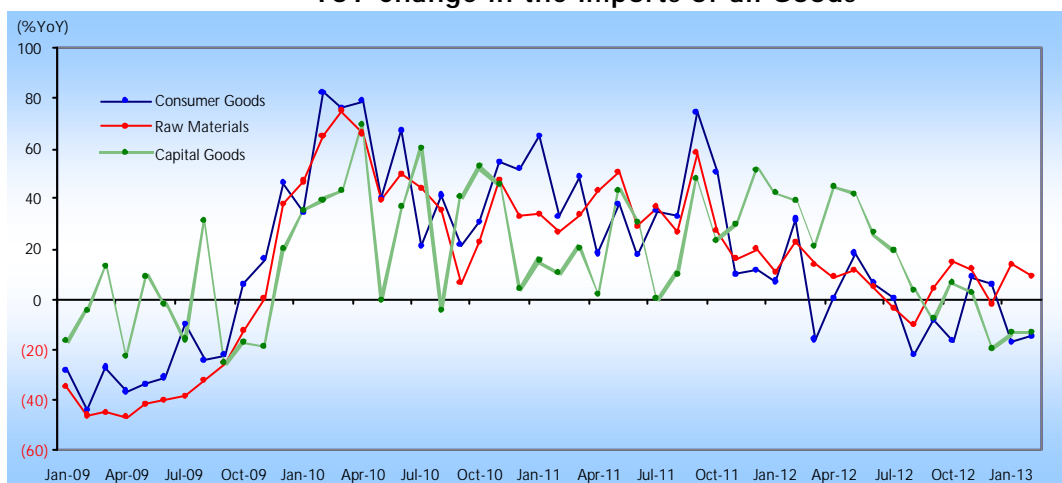


Source: BPS, Danareksa Research Institute

In February, imports of consumer goods grew 11.6 percent MoM, while imports of raw materials fell 1.7 percent MoM and imports of capital goods dropped 1.6 percent MoM. Cumulatively in the first two months of the year, imports of raw materials - which accounted for the bulk of total imports (76.6 percent) - posted brisk growth of 11.7 percent YoY.

In the January-February 2013 period, Indonesia's total exports were down 2.9 percent YoY, while imports still grew but by a slower 4.6 percent. As a result, Indonesia recorded a trade deficit of US\$ 402.1 mn.

YoY Change in the Imports of all Goods



Source: BPS

Trade Outlook: Slow Recovery

In the first two months of 2013, exports remained weak. Imports growth, meanwhile, slowed. Compared to the previous year, Indonesia's exports were down 2.9 percent while imports were up 4.6 percent. Looking at some economic indicators, it appears that the economies of several of Indonesia's major trading partners are recovering at only a gradual pace. Some countries are pursuing easing monetary policies in an effort to promote growth. All in all, we still expect Indonesia's exports and imports to expand over the near term.

Indonesia's major trading partner, China, saw its economic recovery unexpectedly stumble in the first three months of 2013. Growth dipped to 7.7 percent from 7.9 percent in the final quarter of last year. At the same time, China's Coincident Economic Index (CEI), which measures current economic development, declined 0.2 percent to 236.1 in March, following a 2.9 percent increase in February and a 0.3 percent decline in January. Meanwhile, the Leading Economic Index (LEI) for China was flat in March. The index stands at 258.3 after a 1.2 percent increase in February and a 1.7 percent increase in January. The LEI indicates only a slightly faster pace of expansion going forward.

However, after strong demand during the Lunar New Year holidays, China's inflation rate returned to normal. In March, China's annual consumer inflation eased to 2.1 percent from 3.2 percent in February, providing policymakers with enough room to keep monetary conditions easy.

China's manufacturing activities slightly eased in April, according to a reading of 50.5 in the flash HSBC manufacturing purchasing managers index (PMI), from 51.6 in March. Given these latest indicators on China's economy, we believe Chinese demand for Indonesian products should be stable in the near future.

The latest economic indicators in Japan, meanwhile, including the CEI and LEI, showed increasing trends. The CEI rose 0.2 percent to 96.7 in February, after posting a 0.3 percent advance in the previous month. In February, the LEI increased 1.0 percent to 93.8, after gaining 0.8 percent in January and climbing 0.2 percent in December 2012.

The economic optimism has been boosted by the actions of the Japanese monetary authority. To achieve the price stability target of 2 percent YoY over a time horizon of about two years, the Bank of Japan (BoJ) is taking bold quantitative easing measures. In this regard, the BoJ decided to conduct the outright purchase of Japanese government bonds of approximately 7.5 trillion yen per month.

Consumer sentiment and businessman optimism are also improving in Japan. The Japanese CCI rose to 44.8 from 44.2 in February, while the Tankan survey posted a gain for the first time in three months, with the headline index for big manufacturers' sentiment coming in at minus 8, compared to minus 12 in the previous quarter. Against such a backdrop, we expect Indonesia's exports to Japan to remain strong.

In the US, the LEI declined 0.1 percent in March to 94.7, following a 0.5 percent increase in February, and a 0.5 percent increase in January. The CEI also declined 0.1 percent in March. It dropped to 105.2 after posting a 0.5 percent increase in February, and a 1.1 percent decline in January. These declines reflect weaker sentiment toward the US economic outlook. The Conference Board's Consumer Confidence Index fell from 68 to 59.7 in March. Consumer assessments over the labor market outlook were less upbeat.

Meanwhile, the US PMI slipped 2.9 percent to 51.3 percent in March, or down from 54.2 percent in February, indicating a slower rate of expansion in manufacturing for the fourth consecutive month. All in all, we believe that Indonesia's exports to the US will remain stable in the near term.

The latest Indonesian CEI and LEI readings suggest steady economic expansion. The CEI rose 2.2 percent YoY to 122.4 and the LEI rose 5.6 percent YoY to 133.8, indicating the Indonesian economy will grow at a faster pace than before.

All in all, we expect Indonesia's exports to reach US\$ 16.3 bn in March 2013, or higher than February 2013's US\$ 14.9 bn. As for imports, we expect them to rise to US\$ 16.2 bn from US\$ 15.3 bn in February. As a result, Indonesia's trade surplus is expected to widen to US\$ 158.6 mn in March 2013.

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