

April 2014

TRADE OUTLOOK

February Review: Returning Surplus

- Thanks to exports growth of 0.7 percent MoM and a 7.6 percent decline in imports, Indonesia recorded a trade surplus of US\$ 785.3 mn in February 2014. Oil and gas exports rose 6.3 percent MoM, while non oil and gas exports dipped 0.5 percent MoM. Exports volume was actually down 12 percent MoM, although, by contrast, the average aggregate prices climbed 14.4 percent MoM.
- Exports of two main exported products, mineral fuels (HS 27) and animal and vegetable fats (HS 15), increased in February 2014. Exports of these two types of commodity grew 2.4 percent and 26.1 percent MoM.
- By exports destination, Indonesia's non oil and gas exports to the country's three major trading partners declined. Indonesia's non oil and gas exports to China fell by 12.9 percent MoM, followed by a 3.8 percent MoM decline to Japan and 0.6 percent fall to the US. By contrast, Indonesia's non oil and gas exports to India climbed 25.9 percent MoM.
- Compared to January 2014, Indonesia's imports were 7.6 percent MoM lower at US\$ 13.8 bn, mostly stemming from a 9.1 percent MoM decline in non oil and gas imports. Imports volume was 8.5 percent lower, and average aggregate prices were up 0.9 percent.
- Two main import products in February were mechanical machinery and equipment (HS 84) and electrical machinery and equipment (HS 85). Imports of these products declined by 8.9 percent and 16.1 percent MoM, respectively.
- Year to date, most of Indonesia's non oil and gas imports have come from China, Japan, and Singapore. In February, however, the non oil and gas imports from China declined 19.7 percent MoM. Imports from Japan and Singapore were also down (by 5.1 percent and 7.4 percent, respectively).
- Imports of raw materials - which were 76.1 percent of February's total imports - posted a decline of 6.7 percent MoM. Imports of capital goods (17.3 percent of February's total imports) also fell (down 11 percent), as did imports of consumer goods (6.6 percent of February's total imports) which were down by 8.7 percent.

Forecast for March 2014

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|---------------|---------------|
| Exports | US\$ 15.5 bn |
| Imports | US\$ 14.7 bn |
| Trade Surplus | US\$ 714.2 mn |

Forecast for 2014

| | |
|---------------|---------------|
| Exports | US\$ 196.4 bn |
| Imports | US\$ 192.3 bn |
| Trade balance | US\$ 4.1 bn |

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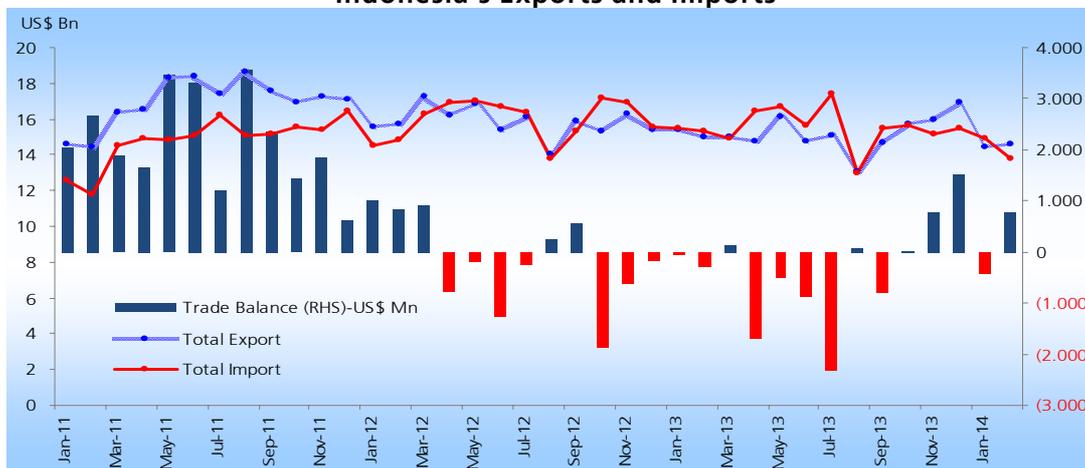
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- ❑ After posting a trade deficit of US\$ 443.9 mn in January, Indonesia recorded a US\$ 785.3 mn surplus in February. The higher surplus from non oil and gas trading (US\$ 1.6 bn) more than offset the US\$ 797.4 mn oil and gas trading deficit.

Indonesia's Exports and Imports



Source: BPS

2014F Full Year Exports

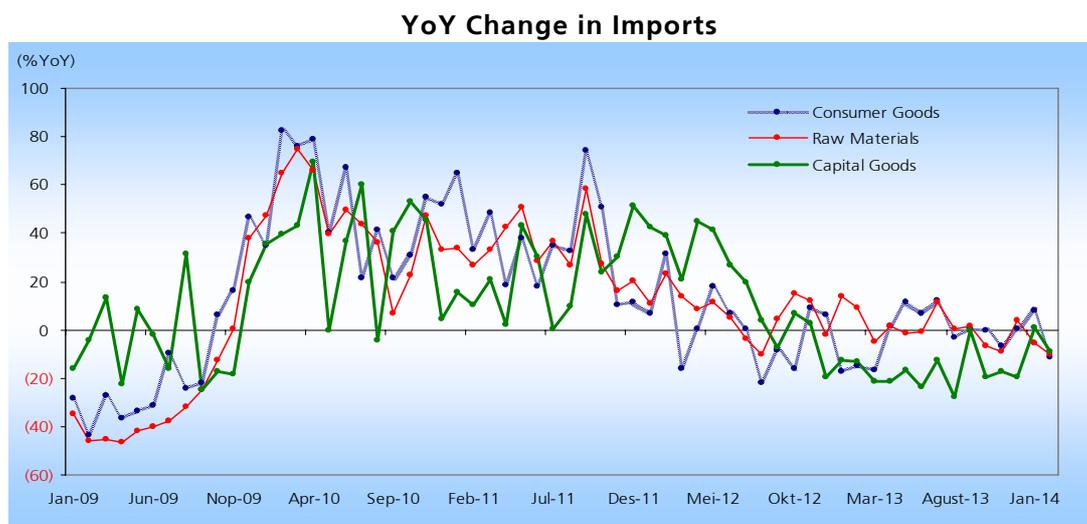


Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute



March Outlook: Steady Performance

Significantly lower non oil and gas imports (down 9.1 percent MoM) helped create a US\$ 785.3 mn trade surplus in February since exports still managed to post a small 0.7 percent increase. Looking ahead, several developments in the economies of some of Indonesia's main trading partners suggest that Indonesia's non oil and gas trade performance should improve over the near term:

China

- The National Bureau of Statistics reported that China's economy expanded 7.4 percent in the first quarter of 2014, or slower than the 7.7 percent growth pace in the last quarter of 2013. The number is still inline with the latest CEI and LEI indicators, however.
- The Coincident Economic Index - which tracks current economic performance - increased 1.1 percent in March to 255.6, after being unchanged in February and dropping 1.3 percent in January. China's Leading Economic Index (LEI) strengthened 1.2 percent in March. This index now stands at 285.7, following a 0.9 percent increase in February and a 0.3 percent increase in January.
- In March, the retail sales growth accelerated to 12.2 percent YoY, up from 11.8 percent in February. Growing sales and strong demand encouraged retailers to raise prices. The CPI went up to 2.4 percent YoY from 2.0 percent in February, reflecting higher prices of foods.
- The industrial production index, which gauges changes in manufacturing output, rebounded in March. Production at factories, mines and utilities grew 8.8 percent compared to 8.6 percent in January-February.
- The National Bureau of Statistics (NBS) reported that the official purchasing managers index (PMI) edged up to 50.3 in March from 50.2 in February. China's manufacturing growth was stable, as new orders and exports demand remained firm. A PMI reading above 50 indicates expansion while a reading below 50 signals contraction.
- From the latest developments, we still expect Indonesia's exports to China to grow moderately over the near term.

Japan

- The Japanese CEI dipped 0.1 percent in February to 96.9, after edging up 0.2 percent in January, and 0.1 percent in December 2013. Meanwhile, the LEI was unchanged, after falling 0.3 percent in January, and 0.2 percent in December 2013.
- A month before the sales tax hike, March consumer confidence deteriorated significantly to 37.5 from 38.3 in February. Households were increasingly concerned that prices would rise in the near term, pushing up living costs and depressing real income. In February, prices rose by 1.5 percent YoY, up only slightly from 1.4 percent in the previous month.
- Japanese manufacturing activity expanded at a slower pace in March, following the released Markit/JMMA Japan Manufacturing Purchasing Managers Index (PMI) indicator, which fell to a seasonally adjusted 53.9 in March from 55.5 in February. Activity slowed due to heavy snowfall in some areas that curbed production. Nonetheless, new export orders still posted an increase thanks to stronger demand from China and the Philippines. A weakening index above the 50 threshold indicates a slight slowdown in factory activity and expansion.
- After surging 13.4 percent in January, Japan's core machinery orders fell 8.8 percent MoM in February, but still rose 10.8 percent on an annual basis. This suggests that corporate spending on capital goods should remain strong over the next 6-9 months.
- Against this backdrop, Indonesia's exports to Japan are expected to remain stable going forward.

The U.S.

- The US Coincident Economic Index climbed 0.2 percent in March to 108.3, after posting a 0.4 percent increase in February, and a 0.1 percent decline in January. The US Leading Economic Index also increased. It rose 0.8 percent in March to 100.9, following a 0.5 percent increase in February, and a 0.2 percent increase in January. This augers well for stronger economic performance going forward.
- The US Consumer Confidence Index (CCI) increased to 82.3 in March, up from 78.3 in February. Household optimism improved on the back of a better jobs outlook and stronger signs of continued economic growth. Inflationary pressure, meanwhile, increased to an annual rate of 1.5 percent from 1.1 percent.
- Economic activity in the manufacturing sector grew faster in March, as reflected in strengthening of the US PMI to 53.7 from 53.2 in February. Rising new orders and exports led to higher industrial production.
- Given these findings, Indonesia's exports to the US are expected to be steady in the future.

Indonesia

- The inflation rate slowed to 0.08 percent MoM in March, after reaching 0.26 percent in February. On an annual basis, headline inflation reached 7.32 percent, or down from 7.75 percent. Falling foodstuff prices dampened inflationary pressures.
- The stable inflation rate in March and improving trade balance allowed BI to keep its BI rate unchanged at the latest BI meeting. BI also maintained the Lending Facility rate and Deposit Facility rate at 7.50 percent and 5.75 percent, respectively.
- Positive sentiment on the domestic economy continued to aid the rupiah's recovery. The rupiah was on average 4.3 percent stronger relative to the US dollar in March 2014 compared to its level the previous month.
- The commodity price index - which consists of data on Indonesia's major commodity exports - was 2.4 percent MoM weaker in March, after posting a decline of 1.8 percent MoM in February. At the same time, the average global oil price was down 2.2 percent.
- Against this backdrop, we expect imports to grow at a moderate pace over the near term.

All in all, we expect Indonesia's exports to reach US\$ 15.5 bn in March 2014, with imports reaching US\$ 14.7 bn. As a result, we expect a trade surplus of US\$ 714.2 mn in March 2014.

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