

April 2015

TRADE OUTLOOK

February Review: Weak Trade Performance

- ❑ Indonesia's exports tumbled in February 2015. The oil and gas exports fell 8.8 percent MoM to US\$ 1.9 bn, while the non oil and gas exports dropped 7.8 percent MoM to US\$ 10.4 bn. As a result, total exports sank 8.0 percent MoM to US\$ 12.2 bn. Average aggregate prices edged up 0.6 percent MoM although the exports volume contracted 8.5 percent MoM.
- ❑ On a MoM comparison, exports of two major product types posted declines. The first type, Mineral fuels (HS 27), posted a 9.8 percent decline in exports, whilst exports of the second type, animal and vegetable fats (HS 15), recorded a 6.5 percent decline in exports. In the first two months of 2015, the manufacturing sector accounted for the bulk of exports (68.4 percent), followed by oil and gas exports (15.5 percent), mining exports (12.8 percent), and agriculture exports (3.3 percent).
- ❑ Indonesia's non oil and gas exports to three major destination countries were all lower. Shipments to China dropped 13.1 percent MoM, followed by the U.S. (-5.7 percent) and Japan (-1.8 percent).
- ❑ Indonesia's imports also showed a sharp decline. On the back of an 18.7 percent MoM decline in oil and gas imports and a 6.3 percent fall in non oil and gas imports, total imports dropped 8.4 percent MoM to US\$ 11.6 bn. Whilst the volume of imports was actually higher (+1.2 percent), average aggregate prices were down by 9.5 percent.
- ❑ By product type, imports of mechanical machinery and equipment (HS 84) were 10.3 percent lower, while imports of electrical machinery and equipment (HS 85) fell by 6.2 percent. Shipments of non oil and gas products from China were down by 6.7 percent. However, imports from Japan and Thailand were 7.2 percent and 12.4 percent higher, respectively.
- ❑ By classification of use, imports of consumption goods actually rose by 4.6 percent while imports of raw materials and capital goods fell 8.8 percent and 11.1 percent, respectively.
- ❑ Overall, Indonesia recorded a trade surplus of US\$ 738.3 mn in February following a surplus of US\$ 743.5 mn in the previous month.

Forecast for March 2015

Exports	US\$ 12.8 bn
Imports	US\$ 12.3 bn
Trade Surplus	US\$ 556,5 mn

Forecast for 2015

Exports	US\$ 182.8 bn
Imports	US\$ 180.3 bn
Trade balance	US\$ 2.5 bn

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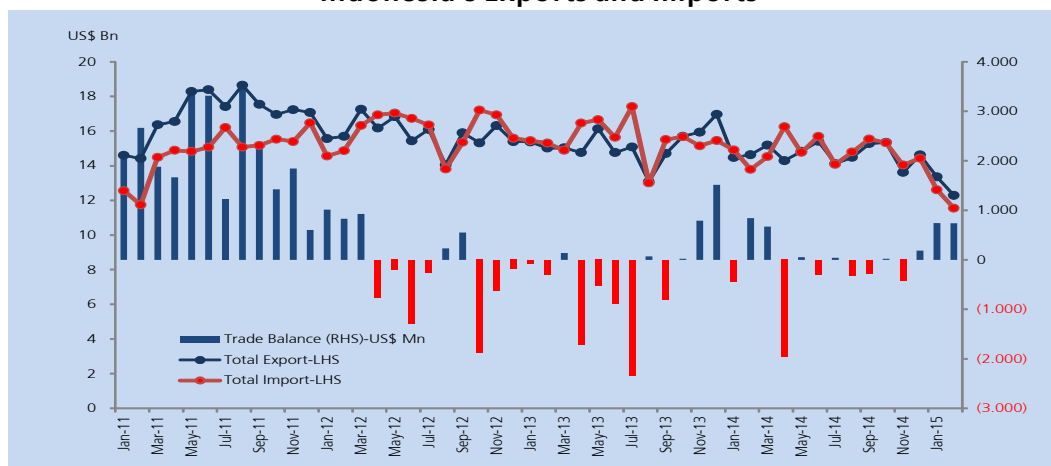
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Indonesia's Exports and Imports



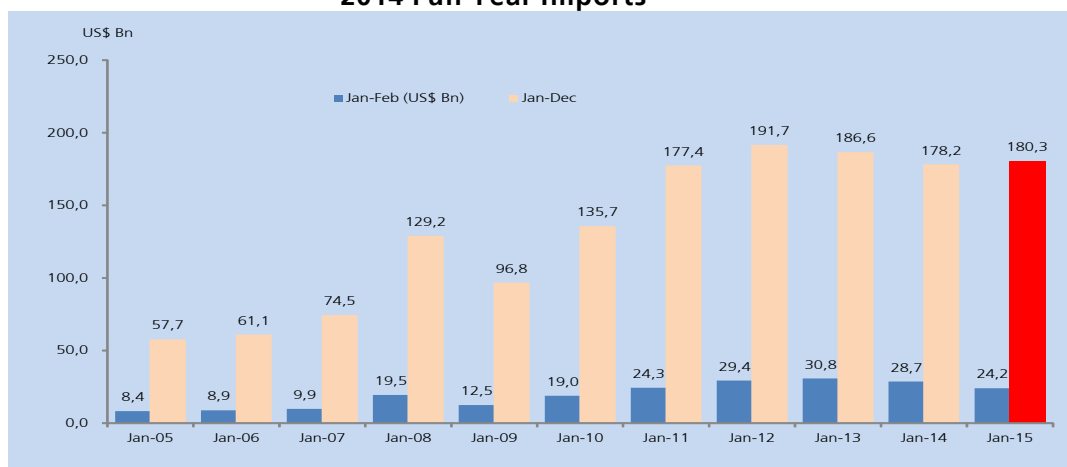
Source: BPS

2014 Full Year Exports

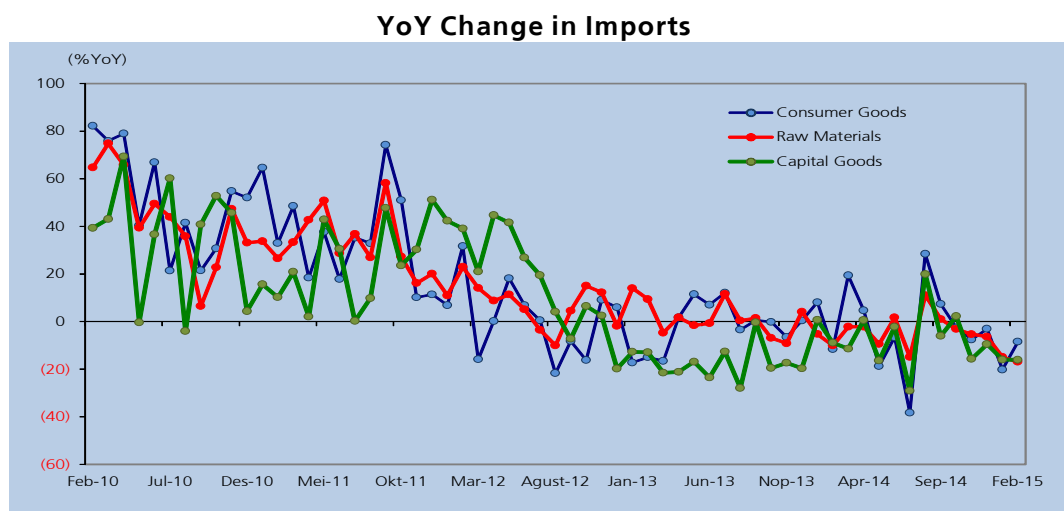


Source: BPS, Danareksa Research Institute

2014 Full Year Imports



Source: BPS, Danareksa Research Institute



March Outlook: Stable

In February 2015, the higher contraction in imports (-8.4 percent MoM) than in exports (-8.0 percent MoM) kept the trade account in surplus (US\$ 738.3 mn). Year-to-date, the cumulative trade surplus has reached US\$ 1.48 bn, or above the US\$ 399.5 mn trade surplus recorded in the corresponding period last year. The latest developments suggest a mixed economic outlook for Indonesia's major trading partners. But overall, persistent slowing demand indicates that Indonesia's exports will only grow at a moderate pace going forward. Combined with the weak imports demand, trade performance should remain stable in March 2015.

China

- The Coincident Economic Index (CEI), which gauges current economic conditions, dropped 0.7 percent in February to 266.8, following a 0.4 percent decline in January and a 1.3 percent increase in December. China's Leading Economic Index (LEI), however, climbed 1.5 percent in February to 317.6, after posting a 0.5 percent increase in January and a 0.9 percent increase in December.
- On monthly comparison, China's consumer prices fell 0.5 percent in March, largely contrasted the 1.2 percent increase in February. The falling reflected a sharp drop in prices for food as well as for recreation, and education components. On annual basis, the general prices rose 1.4 percent, remain below the government's target of 3 percent in 2015.
- The gauge of China's manufacturing sector indicates that industrial sector growth rebounded in March. The official purchasing managers index (PMI) increased slightly from 49.9 in February to 50.1 in March. A PMI reading above 50 indicates expansion in the manufacturing sector while a reading below 50 signals contraction. The slight increase in China's PMI indicates that industrial expansion in China is still taking place rather slowly.
- After reducing benchmark interest rates by 25 basis points to 5.35 percent and lowering the benchmark saving rate by 25 basis points to 2.5 percent, the People's Bank of China (PBOC) took steps to strengthen conditions in the housing sector by slashing the required down payment needed to buy a home in the country from 60-70 percent to 40 percent.
- In view of the latest developments, we still expect Indonesia's exports to China to grow moderately over the near term.

Japan

- The CEI for Japan 0.2 percent lower and now stands at 98.5 in February. Based on revised data, the CEI climbed 0.5 percent in January after had posted 0.4 percent higher in December. Meanwhile, the LEI rose 0.2 percent to 103.9, following unchanged in January and a 0.1 percent increase in December. Both indicators point towards a continuing pickup in Japanese economic activity in the near term.
- Japan's Consumer Confidence Index rose 1.6 points in February 2015 to 40.7. Furthermore, hopes of a rosier economic outlook have increased the willingness of consumers to purchase durable goods.
- After dropping 2 percent YoY in January, the retail sales index weakened again in February. In this month, the aggregate sales of retail goods and services slumped 1.8 percent. At the same time, slowing consumer demand coupled with declining oil prices eased pressure on consumer prices. After posting a 2.2 percent increase in January, February's core inflation grew at a slower rate of 2 percent over the same month in the previous year.
- Japanese manufacturing weakened further in March. The final Markit/JMMA Japanese Manufacturing Purchasing Managers Index (PMI) stood at a seasonally adjusted 50.4 in March, or down from 51.6 in February. New orders fell slightly, while production grew at only a moderate pace.
- After contracted 1.7 percent MoM in January, Japan's core machinery orders fell further by 0.4 percent in February 2015. As a key gauge of capital expenditure, fell for a second straight month is a sign of easing business investment 6-9 months ahead.
- Against this backdrop, Indonesia's exports to Japan are expected to remain stable going forward.

The U.S.

- The Conference Board Leading Economic Index (LEI) for the U.S. rose by 0.2 percent in February to 121.4, following a 0.2 percent increase in January and a 0.4 percent increase in December. Furthermore, the Coincident Economic Index (CEI) for the U.S. strengthened 0.2 percent in February to 111.9, following a 0.2 percent increase in January, and a 0.3 percent increase in December. This data indicates that U.S. economic expansion remains on track.
- The Conference Board Consumer Confidence Index surprisingly increased in March. The index now stands at 101.3, or higher than February's level of 98.8, shored up by the stronger optimism of US households toward the labor market and income prospects in the short term.
- At the latest FOMC meeting, the Fed said that it would be appropriate to raise the target range for the federal funds rate when it has seen further improvements in the labor market and when it was reasonably confident that inflation would move back to its 2 percent target over the medium term.
- On a monthly basis, the US inflation rate picked up in February. The CPI increased by 0.2 percent after dropping 0.7 percent in January, ending three straight months of declines in the index. Amidst declines in energy prices, the prices of food, shelter and medical care rebounded.

- The US PMI reached 51.5 in March, or 1.4 percentage points lower than February's reading of 52.9. As the PMI remains above 50, U.S. manufacturing is continuing to expand, albeit at a slower pace. Current new orders, production, and unemployment conditions showed a slower rate of change.
- Given these findings, Indonesia's exports to the US are expected to be stable in the future.

Indonesia

- Danareksa's CEI contracted 0.73 percent MoM to 122.5 in February 2015. At the same time, the LEI posted an increase of 0.20 percent MoM to 133.2. Both indicators suggest that Indonesia's current expansion is likely to continue at a moderate pace over the near future.
- The prices of goods and services rose again in March, following deflation in two consecutive months. The headline inflation rate reached 0.17 percent MoM, or translating into YoY inflation of 6.38 percent. Declining prices in the foodstuffs component helped rein in inflation.
- At its latest meeting, Bank Indonesia maintained its benchmark BI rate at 7.50 percent, with the Deposit Facility rate and the Lending Facility rate unchanged at 5.50 percent and 8.00 percent, respectively. The benign inflation outlook coupled with the improving current account should give BI more room to lower the benchmark rate in the near-term.
- After weakening 1.52 percent in February 2015, the rupiah depreciated further by 2.34 percent in March.
- The commodity price index – which is a measure of the prices of Indonesia's major commodity exports – contracted by 1.98 percent in March after gaining 2.8 percent MoM in February. In March, average global oil prices weakened 10.2 percent MoM.
- Against this backdrop, we expect Indonesia's imports to grow at a moderate pace over the near term.

All in all, we expect Indonesia's exports to reach US\$ 12.8 bn in March 2015, with imports reaching US\$ 12.3 bn. As a result, we foresee a trade surplus of US\$ 556.5 mn in March 2015.

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