

April 2016

TRADE OUTLOOK

March Outlook: Strengthening

- ❑ In February 2016, Indonesia recorded a trade surplus of US\$ 1.14 bn, owing to increasing monthly exports and falling imports. Exports reached US\$ 11.3 bn (+7.80% mom, -7.18% yoy), while imports reached US\$ 10.2 bn (-2.91% mom, -11.71% yoy). Non oil and gas trading posted a surplus of US\$ 1.14 bn, while oil and gas trade recorded a US\$ 0.8 mn deficit.
- ❑ Compared to the previous month, strong exports were sustained by higher average prices (+10.8% mom), mostly of non oil and gas exports (+12.3% mom). The volume shipments of total exports were still down by 2.7 percent mom, however, with the largest drop recorded by non oil and gas exports (-3.3% mom). By commodity, the top three export products were mineral fuel (HS 27), jewelry (HS 71) and footwear (HS 64). Together they accounted for 21.8 percent of the value of non oil and gas exports. By destination country, the value of non oil and gas exports to China (+6.6% mom) and Japan (+5.3% mom) rose, while they fell to the U.S (-6.8% mom).
- ❑ On the imports side, the lower total value owed to lower average prices of both oil and gas imports (-10.3% mom) and non oil and gas imports (-18.3% mom). By contrast, the shipments of imports rose by 14.2 percent mom. For the non oil and gas imports, the imports of mechanical machine/tools (HS 84) and iron/steel (HS 72) dropped by 10.4% and 7.7% mom respectively, while the imports of electrical machine/tools (HS 85) rose by 5.6% mom. By country of origin, imports of non oil and gas products from China fell (-3.3% mom). By contrast, imports from Japan (+13.2% mom) and Thailand (+24.1% mom) posted increases. Imports from China recorded the biggest share of Indonesia's non oil and gas imports (26.6%).
- ❑ All imports by classification of use posted declines. The imports of consumption goods, raw materials and capital goods declined by 13.6 percent, 1.8 percent and 0.5 percent, respectively.
- ❑ The latest economic data suggests that the economies of Indonesia's major trading partners –China and Japan - remained soft, while the U.S. grew at a moderate pace. Global demand is predicted to remain weak. On a more positive note, the average prices of Indonesia's major commodity exports strengthened (+4.5% mom) with global oil prices rebounding (+11.9% mom). As such, Indonesia's exports are likely to strengthen further going forward.
- ❑ In the US, CEI and LEI growth indicate that the expansion of the U.S. economy remains slow. In the industrial sector, the latest composite PMI (PMI=51.3) rose above the threshold level in March 2016, indicating a gradual improvement in manufacturing activity. The latest data points toward early stabilization of new exports orders, and a rise in employment. On the consumer side, strong labor market conditions and better households confidence fueled domestic demand. Retail sales growth accelerated further and inflation picked up. Moreover, in regard to the sluggish global economic growth and the risks associated with the US economy, the Fed signaled caution and the possibility of gradual increases in the Fed Funds Rate going forward.

Forecast for March 2016

Exports	US\$ 12.2 bn
Imports	US\$ 11.1 bn
Trade Surplus	US\$ 1.1 bn

Forecast for 2016

Exports	US\$ 148.5 bn
Imports	US\$ 147.2 bn
Trade balance	US\$ 1.3 bn

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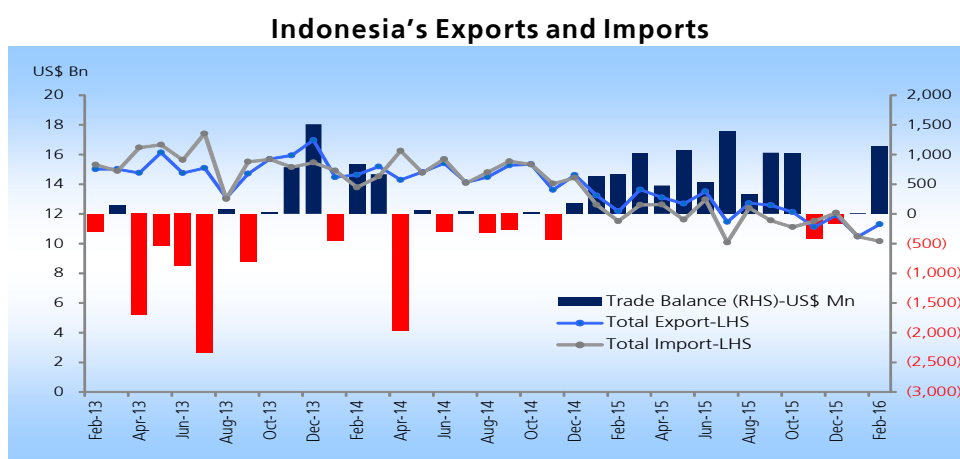
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- ❑ The latest economic data suggests that China’s economy is gradually recovering on the back of improvements in the industrial sector and investment. The CEI and LEI have recovered in the last several months, indicating potential economic expansion in the 6-12 months ahead. On the manufacturing side, the sharp increase in the March PMI reflects broad improvements in China’s industrial sector. The current PMI is above the 50 threshold (PMI=50.2), supported by rising new export orders, and better employment conditions. In the first two months of 2016, fixed asset investment grew 10.2 percent. On the domestic demand front, robust household consumption was reflected in stable retail sales growth, and higher inflation.

- ❑ The Japanese economy isn’t showing a significant improvement. The CEI growth is flat, while the LEI is showing declining growth, suggesting a soft patch in the Japanese economy. Japan’s PMI dipped to 49.1 in March from 50.1 in the previous month, suggesting a contraction in manufacturing. New orders and production both deteriorated. On the domestic demand front, retail sales contracted and consumer prices stayed at low levels. Food prices rose further while transportation costs dropped at a slower pace.

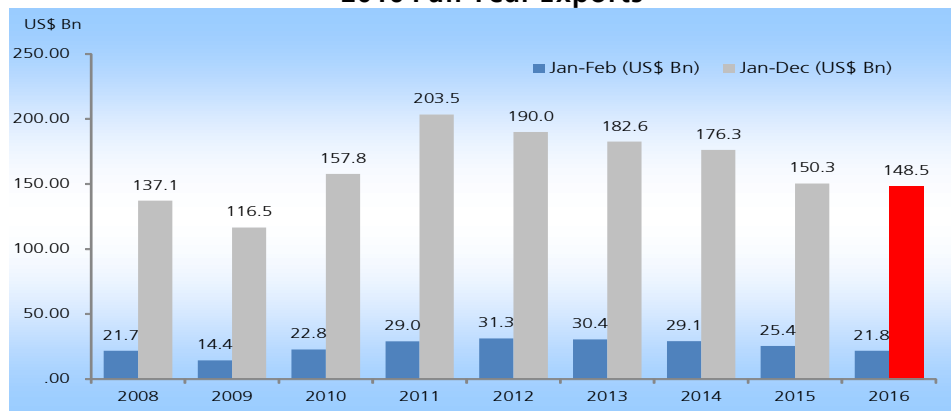
- ❑ In Indonesia, the latest CEI and LEI suggest that economic activity improved further. Stable inflation helped boost consumer sentiment toward economic conditions and provided Bank Indonesia more room to cut the BI rate. In its latest meeting, Bank Indonesia continued to lower its benchmark rate to 6.75 percent, with the Lending Facility and the Deposit Facility rate cut to 7.25 percent and 4.75 percent, respectively. The rupiah has recovered. The average USD/IDR rate strengthened further by 2.6 percent mom in March. Looking ahead, further interest rate cuts would bolster domestic demand growth, which, in turn, would lead to higher imports.

- ❑ In view of the latest developments, we expect Indonesia’s exports to reach US\$ 12.2 bn in March 2016, with imports reaching US\$ 11.1 bn. This will translate into a trade surplus of US\$ 1.1 bn in March 2016.



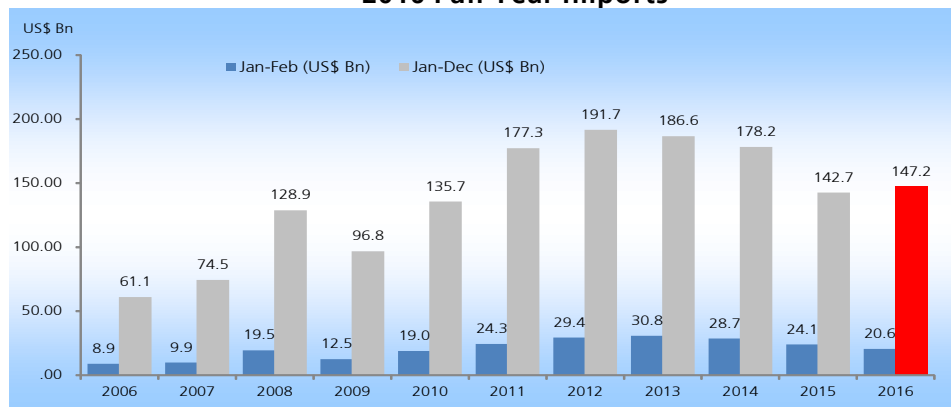
Source: BPS

2016 Full Year Exports



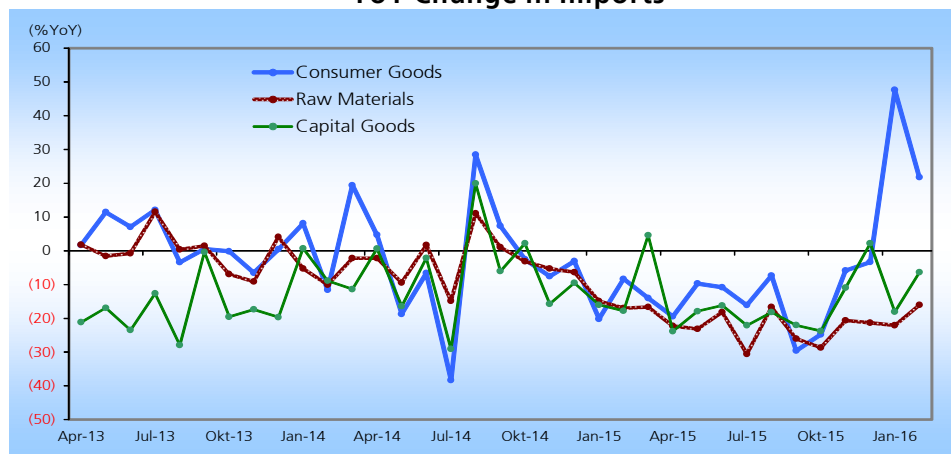
Source: BPS, Danareksa Research Institute

2016 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

TABLE 1. SELECTED ECONOMIC INDICATORS

No	Country	Selected Economic Indicators	Period	Actual	Previous	Description
1	China	Coincident economic index (CEI)	Dec	93.23	93.10	Both indicators still indicate a moderate growth in China's economy over the near term
		Leading economic index (LEI)	Dec	98.12	98.12	
		Retail sales MoM	Feb	0.81	0.83	Retail sales remain grew at slower pace amidst the Chinese New Year holidays. Weaker sales of automobiles and household appliances were behind the deceleration.
		Retail sales YoY	Feb	10.20	11.10	Prices in the food prices surged 7.3 percent over the Lunar New Year holiday while non-food cost rose at a slower 1.0 percent
		Inflation rate- MoM	Feb	1.60	0.50	
		Inflation rate- YoY	Feb	2.30	1.80	
		Benchmark lending (deposit) rate - %	Mar	4.35(1.50)	4.35(1.50)	The benchmark deposit and lending rates have lowered in October 2015. Rates were lowered for the sixth straight time since Nov 2014 in order to prevent further slowdown of the Chinese economy.
Official purchasing managers' index (PMI)	Mar	50.20	49.00	The current PMI above the threshold level of 50. China's manufacturing sector activity is expanding, owing to rising new exports orders and production.		
2	Japan	Coincident economic index (CEI)	Jan	113.50	111.00	Both indicators suggest a slow improvement in Japan's economy over the near term.
		Leading economic index (LEI)	Jan	101.80	101.30	
		Consumer confidence index (CCI)	Mar	41.60	39.70	Consumers were more optimistic toward their income growth and current employment condition
		Retail sales MoM	Feb	(2.30)	(0.40)	Retail activities in Japan has been consistently weakening in the last few months. The sales of fuel, general merchandise, apparel and motor vehicles were falling
		Retail sales YoY	Feb	0.50	(0.20)	The price of food component rose 2.7 percent yoy, accelerating from a 1.7 percent growth in January. While prices of transportation and communication fell 2.1 percent after a 2.4 percent decline in the previous month.
		Inflation rate- MoM	Feb	0.10	(0.40)	
		Inflation rate- YoY	Feb	0.30	0.00	
		Benchmark rate (%)	Mar	0.10	0.10	The BOJ will increase the monetary base at an annual pace of about 80 trillion yen through the purchase of Japanese government bonds and other assets (exchange-traded funds, Japanese real estate investment trusts, and corporate bonds). In the latest move, BOJ adopted negative interest rates. This policy results in an interest rate of -0.1 percent in one of three tiers of current accounts held by financial funds at the central bank.
		Markit Purchasing Managers' Index (PMI)	Mar	49.10	50.10	Industrial activity at Japanese manufacturers was contracting, driven by declining output and new orders
		Core machinery orders-MoM	Jan	15.00	4.20	The value of machinery orders received by manufacturers went up by 8.4 percent yoy, following a 3.6 percent fall in a month earlier. Corporate capital spending over the next 6-9 months is expected to remain stable going forward.
3	U.S.	Coincident economic index (CEI)	Feb	113.30	113.20	Solid U.S. economic recovery and economic expansion will continue at moderate pace
		Leading economic index (LEI)	Feb	123.20	123.10	
		Consumer confidence index (CCI)	Mar	96.20	94.00	Consumers were more optimistic about the short-term outlook than in the previous month. Consumers' outlook for the labor market was also more favorable.
		Retail sales MoM	Feb	(0.10)	(0.40)	The biggest decline was reported for sales at gasoline stations, followed by miscellaneous store retailers, furniture and home furniture, and motor vehicle sales and part dealers.
		Retail sales YoY	Feb	3.10	3.00	The price of food component accelerated to 0.9 percent from 0.8 percent in the previous two months, while energy cost shrank 12.5 percent following a 6.5 percent decline in the previous month.
		Inflation rate- MoM	Feb	(0.20)	0.00	
		Inflation rate- YoY	Feb	1.00	1.40	
		Benchmark rate-FFR (%)	Mar	0.25 - 0.50	0.25 - 0.50	The Federal Reserve left the target range for its federal funds rate unchanged at 0.25 percent to 0.5 percent during its FOMC meeting held in January 2016, following December's hike
ISM Manufacturing (PMI)-index	Mar	51.80	49.50	Economic activity in the US manufacturing sector rebounded in March. New orders, production, and exports were strengthening		
4	Indonesia	Danareksa's coincident econ. index (CEI)	Feb	124.73	124.71	The Indonesian economy will recover going forward
		Danareksa's leading econ. index (LEI)	Feb	133.34	133.11	
		Danareksa's cons confidence index (CCI)	Mar	101.30	98.40	Consumer confidence stable at high level, pushed up by easing concerns on price pressure
		Inflation rate- MoM	Mar	0.19	(0.09)	March's inflation owed to rising prices in the foodstuffs component (+0.69% MoM), clothing component (+0.55% MoM), and prepared food component (+0.36% MoM)
		Inflation rate- YoY	Mar	4.45	4.42	Easing inflationary pressures over the near term give BI more room to lower rates
		Benchmark rate-BI rate (%)	Mar	6.75	7.00	
		Forex (average USD/IDR)	Mar	13,162.74	13,510.29	
		Indonesia commodity price index-MoM	Mar	4.53	3.90	Rupiah appreciated further. After rose 2.62 % MoM in February, the rupiah strengthened 2.65% MoM in March 2016
Average global oil price-MoM	Mar	11.88	2.88	Global prices of Indonesia's major export commodities strengthened in March 2016		
				Global oil prices surged		

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