August 2017

TRADE OUTLOOK

July Outlook: Set to Rebound

- Indonesia's exports and imports declined in June 2017. Both figures were yearly lows. For exports, they dropped 18.8 percent mom (-10.2% yoy) to US$ 11.6 bn. Imports declined even more: they fell by 27.3 percent mom (-17.2% yoy) to US$ 10.0 bn. This resulted in a trade surplus of US$ 1.6 bn. Cumulatively, Indonesia's trade surplus reached US$ 7.6 bn in the first half of 2017, or double last year's trade surplus of US$ 3.6 bn.

- The weaker exports owed to both lower volume shipments (-10.9% mom) and lower average prices (-8.9% mom). A closer look at the data reveals that lower exports of Indonesia's top non oil and gas commodities - such as animal or vegetables fats, oils (HS 15), mineral fuel (HS 27) and rubber and rubber products (HS 40) - dragged down the non oil and gas exports (-20.7% mom). By destination country, the value of non oil and gas exports to China, the U.S. and Japan all posted declines (down by 10.2% mom, 22.0% mom, and 18.1% mom, respectively).

- The lower imports mostly stemmed from lower imports volume (-26.2% mom) rather than lower average prices (-1.5% mom). The main non oil and gas imports - namely mechanical machinery/tools (HS 84), electrical machinery/tools (HS 85) and plastics (HS 39) – posted significant declines. By country of origin, the imports of non oil and gas products from China, Japan, and Thailand fell by 37.1% mom, 19.3% mom, and 26.8% mom, respectively.

- By type of use, the imports of raw materials, capital goods and consumption goods posted declines of 29.3 percent, 25.8 percent and 12.8 percent, respectively.

- The latest data indicates that the economies of Indonesia's main trading partners are generally improving. The U.S. is posting firm economic expansion, while China's growth momentum is gaining traction. Meanwhile, the Japanese economy is continuing to recover. Moreover, the average prices of Indonesia's major commodity exports jumped (+8.1% mom), while global oil prices also gained ground (+9.6% mom).

- The U.S. economy continued to expand in the second quarter. The Q2 2017 GDP grew at a faster rate (+2.1% yoy) than in either Q1 2017 (+2.0% yoy) or Q2 2016 (+1.2% yoy). For the expenditures components, growth in personal consumption-PCE eased (+2.6% yoy), while growth in gross private domestic investment (+2.9% yoy), exports (+3.4% yoy), imports (+4.2% yoy) and government expenditure (+0.2% yoy) accelerated. While the manufacturing sector still expanded, July's ISM manufacturing index dipped to 56.3 from 57.8 in the previous month since new orders, production and employment grew at a slower pace. On the consumer side, the consumer confidence index strengthened further to 121.1 in July from 118.9. Household assessments of current economic conditions remain robust, and their outlook on the economy improved. Nonetheless, consumer spending still weakened. It declined further by 0.2 percent mom (+2.8% yoy) in June, constrained by lower retail and gasoline sales.

Forecast for July 2017

Exports	US$ 12.4 bn
Imports	US$ 11.0 bn
Trade Surplus	US$ 1.4 bn

Forecast for 2017

Exports	US$ 161.4 bn
Imports	US$ 152.9 bn
Trade balance	US$ 8.5 bn

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- China's economy is performing well. It grew by 6.9 percent yoy in Q2 2017, or the same pace as in the previous quarter, and above the government's target of 6.5 percent. On the manufacturing side, the PMI indicator remained above the 50-point level, pointing toward brisker manufacturing activity. The official Purchasing Managers Index (PMI) dipped to 51.4 in July from 51.7 in June. Output, new orders, and new export orders were up. On the consumer side, consumer purchases surged. June's retail sales rose 0.93 percent mom (+11% yoy), reflecting increasing sales of automobiles, building materials, and furniture. In the same period, monthly deflation reached 0.2 percent mom, although it still accelerated on an annual basis (+1.5% yoy).

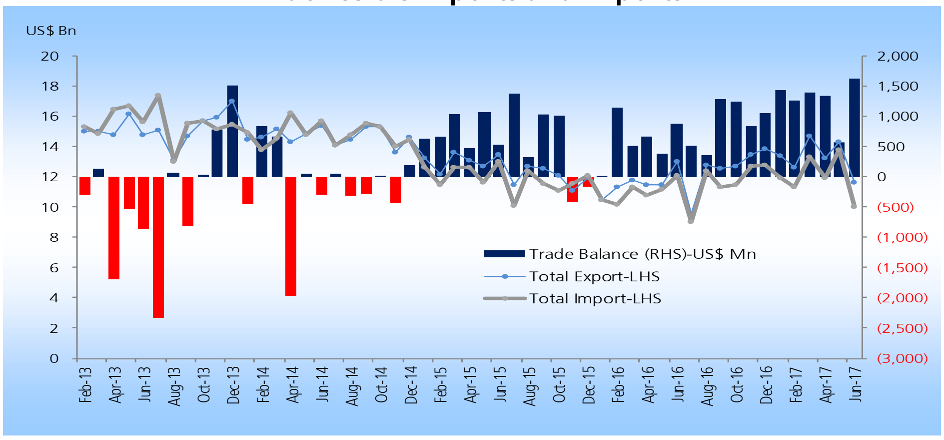
- Japan's economic recovery is maintaining its momentum. The CEI and LEI rose 5.2 percent yoy and 4.9 percent yoy, respectively, suggesting robust economic expansion in the near term. On the manufacturing side, weaker growth in output and new orders dragged down the July Nikkei Manufacturing Purchasing Managers Index (PMI) to 52.2 from 52.4 in June. The PMI remains above the threshold level of 50, indicating manufacturing is still expanding. On the consumer side, sales of retail goods and services rose by 0.2 percent mom (+2.1% yoy). Consumer prices were unchanged in the same period (+0.0% mom, +0.4% yoy). Prices of foodstuffs were stable but the cost of housing and transportation declined.

- At its July meeting, the FOMC held the target for the FFR at a range 1.00%-1.25%. The Fed also stated that it would start reducing its USD 4.5 trillion asset portfolio soon. Labor market conditions strengthened further and inflation has stabilized at around 2 percent. Despite the increase in the FFR, other major central banks have left monetary policy unchanged. For instance, the People's Bank of China (PBOC) maintained its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent. In June, the PBOC held the short-term interest rates of 7-day, 14-day and 28-day reverse repurchase agreements (repo rates) at 2.45 percent, 2.6 percent and 2.75 percent, respectively. In Japan, the Bank of Japan (BOJ) maintained its accommodative monetary policy stance as widely expected. The central bank left interest rates negative at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. The BOJ also kept its 10-year government bonds yield target at around zero percent.

- Indonesia's economic momentum remains firm. In Q2 2017, Indonesia's GDP expanded by 5.01 percent yoy, or steady compared to the previous quarter (+5.01% yoy), yet slower than Q2 2016's growth (+5.18% yoy). Compared to Q1 2017, household consumption growth was stable (+4.95% yoy), while investment accelerated (+5.35% yoy). Growth in exports and imports eased to 3.36 percent yoy and 0.55 percent yoy, respectively. However, government expenditures contracted (-1.93% yoy). On price developments, headline inflation edged up 0.22 percent mom in July (+3.88% yoy). Inflation in several components cooled, such as foodstuffs (+0.21% mom), housing (+0.06% mom), clothing (+0.06% mom), and medical care (+0.15% mom), while the transportation component dropped by 0.08 percent mom. On the monetary side, BI maintained the BI 7-day Reverse Repo rate at 4.75 percent with the Lending Facility rate and Deposit rate kept at 5.50 percent and 4.00 percent, respectively. At the same time, the rupiah weakened (-0.25% mom) after appreciating by 0.09 percent mom in June.

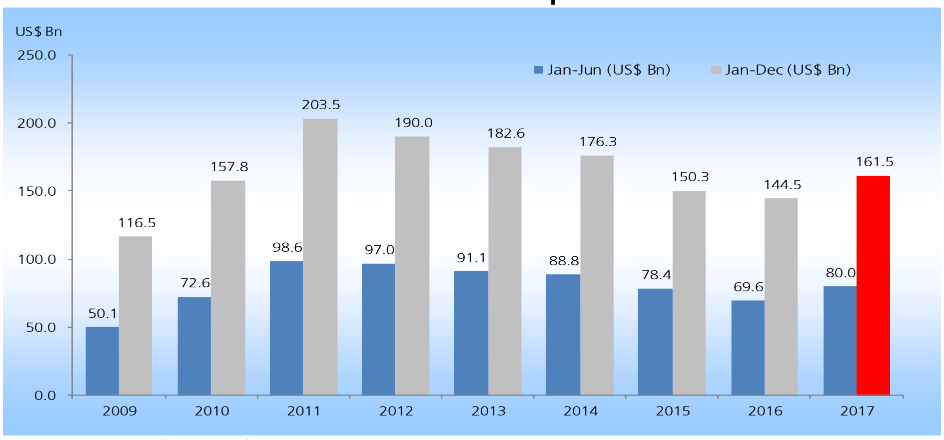
- In view of the latest developments, we expect Indonesia's exports to reach US$ 12.4 bn in July 2017, with imports reaching US$ 11.0 bn. This will translate into a trade surplus of US$ 1.4 bn in July 2017.

Indonesia's Exports and Imports



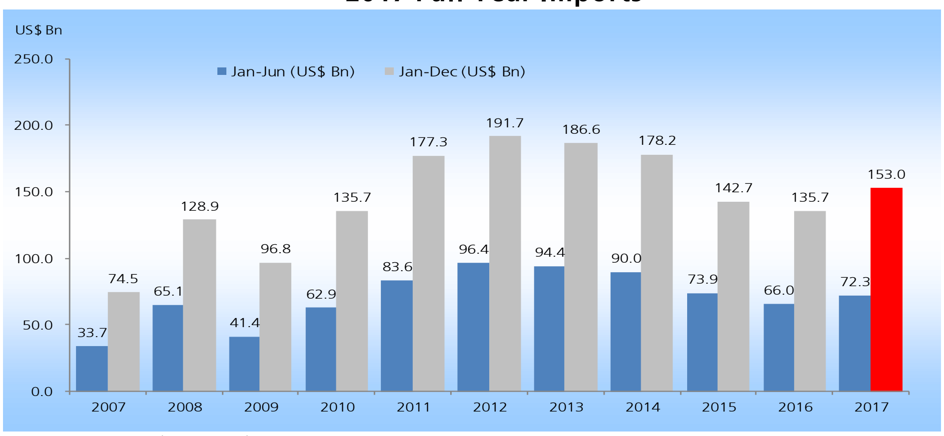
Source: BPS

2017 Full Year Exports



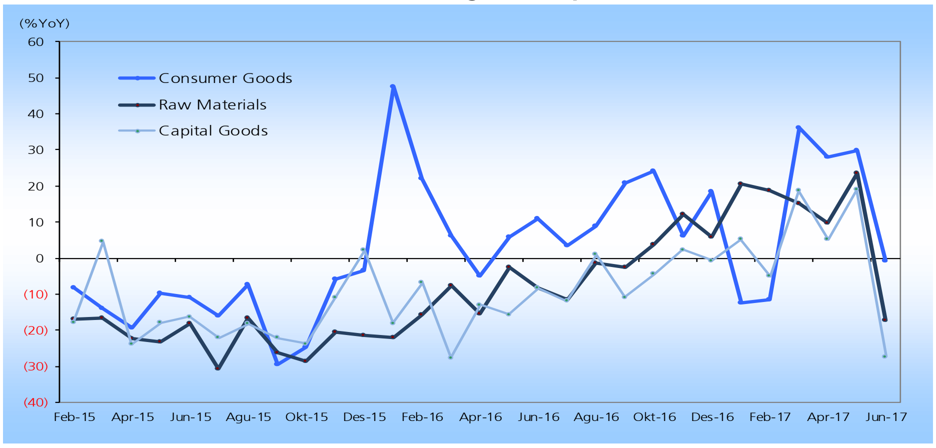
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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