

**August 2018**

## TRADE OUTLOOK

**July Outlook: Back to Normal**

- ❑ Indonesia's foreign trade was lower in June 2018, affected by fewer working days due to the lengthy Idul Fitri holidays. Both exports and imports contracted on a monthly basis, yet still rose on a yearly comparison. Exports reached US\$ 12.9 bn (-19.8% mom, +11.5% yoy) while imports totalled US\$ 11.3 bn (-36.3% mom, +12.7% yoy). As a result, Indonesia recorded a sizeable trade surplus of US\$ 1.74 bn, stemming from a US\$ 2.14 bn non oil and gas surplus. The oil and gas account still posted a deficit of US\$ 0.39 bn. Year-to-date, Indonesia's foreign trade posted a US\$ 1.02 bn deficit. This compares to a surplus of US\$ 7.66 bn in the same period last year.
- ❑ Oil and gas exports (+4.7% mom) reached US\$ 1.7 bn, while non oil and gas exports (-22.6% mom) amounted to US\$ 11.3 bn. The decline in exports reflects both lower exports volume (-4.3% mom, +24.1% yoy) and lower average prices (-16.2% mom, -10.2% yoy). By product type, the exports of Indonesia's top non oil and gas products were mixed. The exports of mineral fuel (HS 27) increased, whereas the exports of machinery and electrical appliances (HS 85), vehicles and parts (HS 87) and rubber (HS 40) declined. By destination country, the value of non oil and gas exports to China, Japan and the U.S dropped by 1.9%, 11.9%, and 27.9% mom, respectively.
- ❑ Oil and gas imports (-26.1% mom) and non oil and gas imports (-38.2% mom) dropped to US\$ 2.1 bn and US\$ 9.1 bn, respectively. Although the volume shipments of imports contracted (-37.8% mom, -7.5% yoy), the average prices were still higher on a monthly comparison (+2.4% mom, +21.8% yoy). By product type, Indonesia's main non oil and gas imports declined. Imports of machinery and mechanical appliances (HS 84), machinery and electrical appliances (HS 85) and iron and steel (HS 72) were lower. By country of origin, the imports of non oil and gas products from China, Japan and Thailand slumped by 50.3% mom, 35.6% mom, and 31.7% mom, respectively.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods fell by 35.2% mom, 37.8% mom, and 41.8% mom in June 2018. In the first half of 2018, raw materials accounted for 74.7 percent of the non oil and gas imports, followed by capital goods (16.1%) and consumption goods (9.2%).
- ❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. has posted outstanding economic performance, while economic activity in Japan and China is stabilizing. Notably, in July 2018, the average prices of Indonesia's major commodity exports contracted by 1.4% mom (having fallen in June by 3.2% mom). Meanwhile, global oil prices retreated by 6.3% mom.
- ❑ The U.S. economy expanded by 2.8 percent yoy in Q2 2018, or faster than in both Q2 2017 (+2.1% yoy) and Q4 2017 (+2.5% yoy). Compared to Q2 2017, growth in the following components accelerated: personal consumption-PCE (+2.7% yoy), gross private domestic investment (+4.6% yoy), exports (+5.7% yoy), and government expenditure (+1.2% yoy). Meanwhile, the growth in imports eased (+4.4% yoy). On the manufacturing side, expansion eased in July 2018. The July ISM Manufacturing Index fell from 60.2 to 58.1, given slower growth in new orders, new exports orders,

**Forecast for July 2018**

Exports	US\$ 14.6 bn
Imports	US\$ 15.2 bn
Trade Deficit	US\$ (0.6 bn)

**Forecast for 2018**

Exports	US\$ 189.8 bn
Imports	US\$ 180.5 bn
Trade balance	US\$ 9.3 bn

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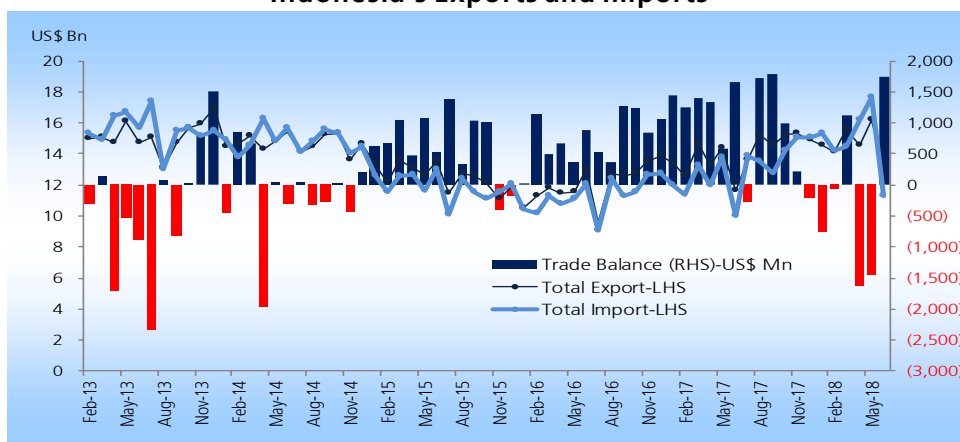
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and production. On the consumer side, U.S. household optimism moderated. The consumer confidence index rose from 127.1 to 127.4 in July 2018. Consumer expectations toward labour market conditions eased, while assessments of current conditions improved. Consumer spending rose further in June. Following a 1.3% mom increase (+6.5% yoy) in May, retail sales edged up 0.5% mom (+6.6% yoy) in June, driven by strong demand for motor vehicles & parts, fuel, and building materials.

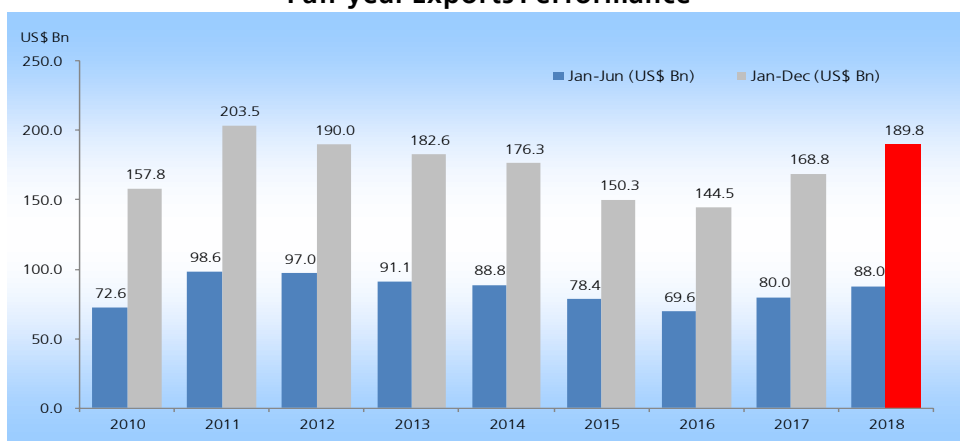
- China's economy lost some steam in the second quarter this year. In Q2 2018, China's economy posted growth of 6.7 percent yoy, matching market expectations. It slowed compared to Q1 2018, and the growth was the weakest since the third quarter of 2016. On the manufacturing side, the official NBS Manufacturing PMI in China dipped to 51.2 in July from 51.5 in June 2018, or the lowest level since February 2018. The current PMI indicates stable manufacturing activity since new orders and production output rose at a slower pace. On the consumer side, household spending rebounded. In June 2018, monthly retail sales grew by 0.73% mom (+9.0% yoy) faster than the 0.31% mom growth (+8.5% yoy) in May. Sales growth accelerated for garments, personal care products, jewelry, home appliances, and furniture. In regard to price developments, monthly deflation in June 2018 slowed to -0.1% mom (+1.9% yoy), after falling 0.2% mom (+1.8% yoy) in the previous month. On an annual basis, consumer prices remained steady, since prices in the food component and non food prices continued to increase.
- The Japanese economy remain robust, since the CEI and LEI rose further by 1.0% and 2.2%, respectively, in May 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) reached 52.3 in July, lower than June's 53. This was the lowest reading since August 2017, driven by slowing output growth and falling export orders. On the consumer side, consumer spending strengthened on a monthly basis. In June, retail sales went up 1.5% mom (+1.8% yoy) following a 1.7% mom decrease (+0.6% yoy), in the previous month. June retail sales showed the strongest growth in the last 6 months. Sales of food and beverages, fuel, machinery, and general merchandise were higher. As for price developments, Japan's inflation rate in June reached 0.1% mom (+0.7% yoy), stable compared to May. Headline inflation was unchanged, given slowing increases in prices in the food component, while prices in the transportation component accelerated. By contrast, prices in the housing component declined.
- Inline with market expectations, the Fed maintained the target rate for the FFR at 1.75%-2.00% in its July meeting. The Fed stated that economic activity and the labour market continued to strengthen. Two more FFR hikes are on the table this year. Following the Fed's move, the People's Bank of China (PBOC) left its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent. The 7-day reverse repo rate was also left unchanged at 2.55%, the 14-day tenor at 2.70%, and the 28-day tenor at 2.85%. In Japan, the Bank of Japan's (BOJ) made no policy change. The key short term interest rate was maintained at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. In regard to its long term interest rate policy, the purchase of Japanese Government Bonds will continue in order to keep the 10-year JGB yield at around zero percent (an annual pace of 80 trn Yen).
- Indonesia's economic performance is improving. In Q2 2018, Indonesia's GDP grew by 5.27% yoy, faster than the growth in Q1 2018 (+5.06%) and Q2 2017(+5.01%). On the expenditure side, growth in the following components accelerated compared to Q2 2017: household consumption (+5.14% yoy), government expenditure (+5.26% yoy), exports (+7.70% yoy), and investment (+5.87% yoy). In terms of price developments, monthly inflation cooled from 0.59% mom (+3.12% yoy) in June 2018 to 0.28% mom (+3.18% yoy). In more detail, price changes in the food component accelerated to 0.67% mom, while price changes in the non food component eased to 0.02% mom. July's inflation rate reflects the normalization of prices following Idul Fitri and the start of the new school year. Prices in the transportation component fell by 0.65% mom, while education prices rose 0.83% mom. On the monetary side, Indonesia's benchmark 7-day Reverse Repo rate stayed at 5.25 percent with the Lending Facility rate and the Deposit rate kept at 6.00 percent and 4.50 percent, respectively. BI stated that the unchanged interest rate was intended to ensure rupiah stability and help restore market confidence. Global financial uncertainty remains high due to escalating trade tensions. Indonesia's economic growth is predicted to remain firm, while the inflation rate should stay in the targeted corridor and the current account deficit become more manageable. Meanwhile, the rupiah weakened further. In July 2018, the rupiah depreciated by 2.4% mom, or more than in the previous month (-0.07% mom). Year-to-date, the monthly average rupiah depreciation stands at 6.2 percent.
- In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.6 bn in July 2018, with imports reaching US\$ 15.2 bn. This will translate into a trade deficit of US\$ 594.3 mn in July 2018.

### Indonesia's Exports and Imports



Source: BPS

### Full-year Exports Performance



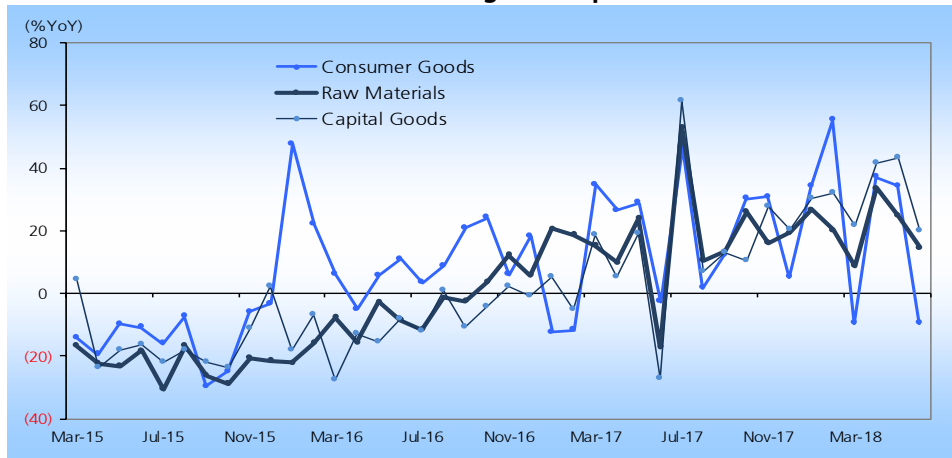
Source: BPS, Danareksa Research Institute

### Full-year Imports Performance



Source: BPS, Danareksa Research Institute

### YoY Change in Imports



Source: Bloomberg, CEIC

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