MONTHLY REPORT

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∂Ri DANAREKSA RESEARCH INSTITUTE

December 2014

TRADE OUTLOOK

October Review: Small Gain

- Compared to September's, October exports had slow growing of 0.5 percent to US$ 15.3 bn, stemmed from contracting oil and gas exports (-5.8 percent MoM) and flat growth of non oil and gas exports (+1.8 percent MoM). Exports volume weakened 4,8 percent MoM, while it rose by 5.5 percent in term of average aggregate prices.

- The exports of two major products showed mixed result in October. Exports of animal and vegetable fats (HS 15) was increasing by 29.7 percenr, while the mineral fuels exports (HS 27) had 11.6 percent lower. The exports of other non oil and gas products, such as electrical machinery and mechanical machinery, remain boosted.

- Shipments of Indonesia's non oil and gas export products to China and the U.S. slumped by 7.2 percent and 3.7 percent. Meanwhile the non oil and gas exports to Japan still posted 5.1 percent higher.

- In contrast of exports, the October's imports dropped 1.4 percent MoM, which contributed by falling oil and gas imports (-2.0 percent MoM), and non oil and gas imports (-1.2 percent MoM). October's imports volume was slightly up 0.12 percent although the average aggregate prices contracted 1.5 percent MoM.

- By product type, imports of mechanical machinery and equipment (HS 84) and electrical machinery and equipment (HS 85) dipped 3.7 percent and 3.8 percent, respectively. Shipments of non oil and gas products from China declined by 8.2 percent, while imports from Japan and Singapore rose by 2.5 percent and 23.5 percent, respectively.

- By classification, only the imports of capital goods posted an increase (+4.4 percent). Imports of raw materials were down (-1.6 percent), followed by imports of consumption goods (-12.4 percent). In the January-October period, imports of raw materials accounted for 76.4 percent of Indonesia's total imports.

- As a results, Indonesia recorded small trade surplus of US$ 23.2 mn, from US$ 270.3 mn deficit in September. In cumulative of 10 months, Indonesia's trade deficit reached US$ 1.64 bn– or lower than the deficit of US$ 6.4 bn recorded in the corresponding period of last year.

Forecast for November 2014

Exports	US$ 15.4 bn
Imports	US$ 15.2 bn
Trade Surplus	US$ 227.1 mn

Forecast for 2014

Exports	US$ 196.4 bn
Imports	US$ 192.3 bn
Trade balance	US$ 4.1 bn

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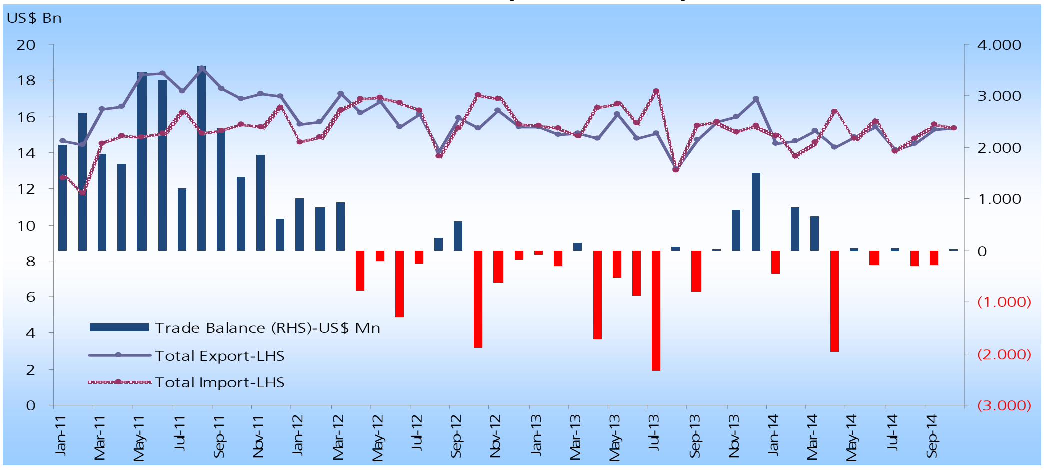
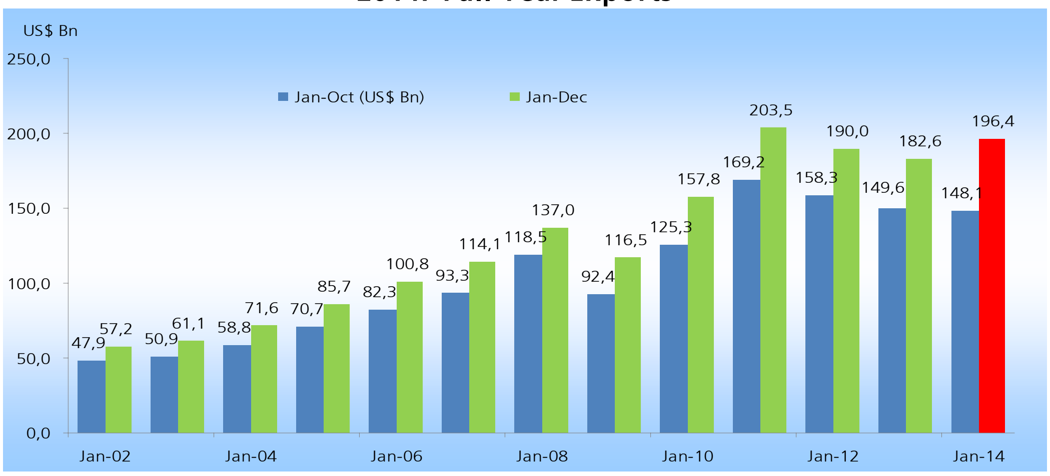
Indonesia's Exports and Imports



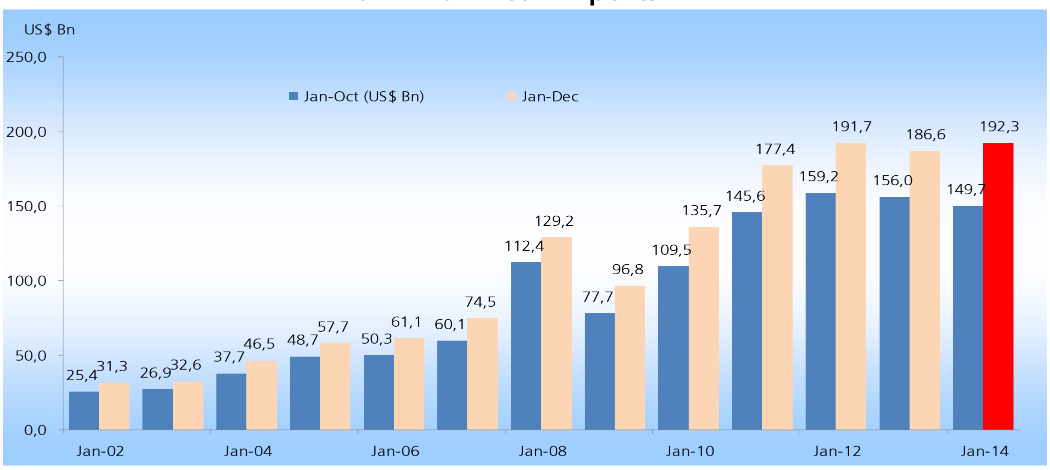
Source: BPS

2014F Full Year Exports



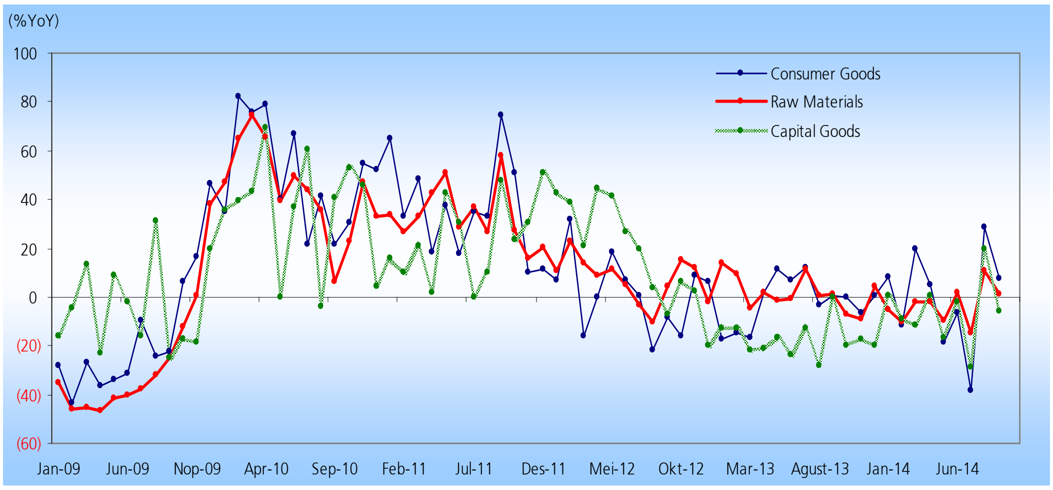
Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: BPS

November Outlook: Improving

Falling growth of imports and small gain in exports, created a surplus of US$ 23.2 mn in October. The non oil and gas trade recorded a surplus of US$ 1.13 bn, little higher than the oil and gas trading deficit of US$ 1.10 bn. Based on the newest data, the economic conditions of Indonesia's trading partners were recovering at a slower pace, suggesting that Indonesia's exports performance won't improve significantly any time soon. As such, we only expect a steady improvement in Indonesia's trade performance in November.

China

- The Coincident Economic Index (CEI), which measures current economic activity, was unchanged in October at 266.1, after posted 0.4 percent increase in September and a 0.1 percent increase in August. China's Leading Economic Index (LEI), meanwhile, increased 0.9 percent in October to 305.7, following a 1.0 percent increase in September and a 0.7 percent increase in August.

- In the latest working paper, People's Bank of China (PBOC) projects that the China's GDP growth is expected to slow modestly 7.1 percent in 2015 from 2014 GDP forecast of 7.4 percent, while the employment and inflation rate will remain stable.

- The growth in China's retail sales begun to rebound. In November, the YoY growth in retail sales slightly up to 11.7 percent, higher than 11.5 percent growth in October. However, the November inflation pressure continue to ease to 1.4 percent, from 1.6 percent in the previous month.

- Major gauge of China's manufacturing sector also slowed. The official purchasing managers index (PMI) declined to 50.3 in November from 50.8 in October. A PMI reading above 50 indicates expansion in the manufacturing sector while a reading below 50 signals contraction. Falling PMI was underscoring weaker new order and production output in China industrial sector.

- The signs of further slowing also captured in industrial output growth. China industrial production grew 7.2 percent in November, eased from 7.7 percent in October.

- In view of the latest developments, we still expect Indonesia's exports to China to grow moderately over the near term.

Japan

- Japan's CEI rose by 0.1 percent to 95.6 in October, after rising 0.4 percent in the previous month. Meanwhile, the LEI rose 0.4 percent to 99.1, after edging up 0.8 percent in September.

- Households confidence slumped in Nopember. After posted 38.9 level in October, the consumer sentiment index fell to 37.7 level in November. Japanese consumers' assessment towards the current economic condition, jobs condition were lower and reduced their willingness to buy durable goods. A reading below 50 shows that pessimists outnumber optimists.

- Retail sales growth were slowing in October. The sales of retail goods and services grew 1.4 percent, slowed from September's growth of 2.3 percent. The sales tax hike effects remain seen as the consumer spending remain low and not recovered yet.

- Core consumer inflation slowed to 2.9 percent in October from 3.0 percent in the previous month. After adjusting for the impact of the sales tax hike, core consumer prices slowed to 0.9 percent from 1.0 percent rise in September. This is below the 2 percent target the Bank of Japan (BOJ) aims to achieve by April 2015.

- From the supply side, Japanese manufacturing activity expanded at steady pace. The final Markit/JMMA Japanese Manufacturing Purchasing Managers Index (PMI) reached at a seasonally adjusted 52 in November from 52.4 in October. New orders and new export orders both rose but at a slower rate.

- Japan's core machinery orders, a leading indicator of capital spending, fell in October. Core machinery orders down 6.4 percent on month, or 4.9 percent lower YoY. Given its volatility behaviour and limited conclusion of one month data, the weakening movement should be temporary.

- 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. increased 0.6 percent in November to 105.5, following a 0.6 percent increase in October, and a 0.8 percent increase in September. Furthermore, the Coincident Economic Index (CEI) for the U.S. edged up 0.4 percent in November to 110.7, following a 0.2 percent increase in October, and a 0.3 percent increase in September. This data indicates that U.S. economic expansion should be firm going forward.

- In the latest meeting, The Fed maintained the federal funds rate at 0 to 0.25 percent target range for a considerable time, following the end of its asset purchase program in October. The Fed also closely monitor the latest job market condition, the inflation rate movement, and stated that it's unlikely to move before the end of April 2015.

- After had rebounded in October, The Conference Board Consumer Confidence Index, decreased in November. It fell to 88.7 from 94.1 in October. The consumers' assessment toward prospect of economic and business condition edged down.

- The US inflation rate reached 1.3 percent YoY in November, or eased from 1.7 percent YoY in the previous month, as declines in energy prices.

- The US manufacturing sector continued to expand. November PMI registered 58.7, slightly lower from October reading of 59. Higher exports demand and new orders indicating strong expansion.

- Given these findings, Indonesia's exports to the US are expected to be steady in the future.

Indonesia

- Based on Danareksa's calculations, Indonesia's CEI slightly lower 0.03 percent MoM to 123.7 in October 2014, while the LEI increased another 0.32 percent MoM to 138.6. Both indicators suggest that Indonesia's economy remains in expansionary mode.

- In November, the government finally hiked the subsidized fuel prices to create a more sustainable state budget. This policy created significant inflation pressure. The MoM inflation rate reached 1.50 percent, after posting 0.47 percent increase in the previous month. On a yearly basis, the YoY inflation rate jumped from 4.83 percent to 6.23 percent.

- Bank Indonesia maintained its benchmark BI rate at 7.75 percent, whilst the Lending Facility rate stood at 8.00 percent and its Deposit Facility rate to 5.75 percent. In near term, the current account deficit remains the main concern for the central bank and will affect its policy.

- Rupiah remain under pressure. Negative sentiment drove the rupiah to weaken by 0.22 percent in November, after depreciating 1.98 percent in October on an average basis relative to the US dollar.

- The commodity price index – which is a measure of the prices of Indonesia's major commodity exports – continue to fall 1.60 percent MoM in November after contracted 1.1 percent MoM in October. Also in October, average global oil prices dropped 17.9 percent MoM.

- Against this backdrop, we expect Indonesia's imports to grow by a moderate pace over the near term.

All in all, we expect Indonesia's exports to reach US$ 15.4 bn in November 2014, with imports reaching US$ 15.2 bn. As a result, we foresee a trade surplus of US$ 227.1 mn in November 2014.

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