

December 2017

TRADE OUTLOOK

November Outlook: Robust

- ❑ Exports and imports showed solid growth in October. In this month, exports rose to US\$ 15.1 bn (+3.6% mom, +18.4% yoy). Imports, meanwhile, climbed to US\$ 14.2 bn (+11.0% mom, +23.3% yoy). Given that the growth in imports outpaced the growth in exports, the trade balance in October narrowed to US\$ 0.89 bn, from US\$ 1.78 bn in the prior month. Year-to-date, Indonesia's trade surplus now stands at US\$ 11.8 bn.
- ❑ The value of non oil and gas exports rose 4.2% mom to US\$ 13.7 bn, whereas oil and gas exports declined by 1.8% mom to US\$ 1.4 bn. On a monthly basis, the increase in exports was driven by higher volume (+3.9% mom, +5.9% yoy) rather than average prices (-0.3% mom, +11.8% yoy). By product type, the exports of Indonesia's top non oil and gas product types were mixed. Exports of mineral fuel (HS 27) and vehicles and parts (HS 87) surged, whereas exports of electrical machinery/tools (HS 85) and jewelry (HS 71) declined. By destination country, the value of non oil and gas exports to the U.S. and Japan posted declines (down by 4.7% mom and 1.4% mom, respectively), whereas exports to China rose by 23.6% mom.
- ❑ The value of both oil and gas imports (+13.9% mom, +42.7% yoy) and non oil and gas imports (+10.5% mom, +20.3% yoy) increased. Volume shipments of imports rose (+12.3% mom, +18.0% yoy) even though average prices were lower (-1.2% mom, +4.5% yoy). By product type, Indonesia's main non oil and gas imports - such as machinery and mechanical appliances (HS 84), plastic products (HS 39), iron and steel (HS 72), and vehicles and parts (HS 87) posted increases. By country of origin, the imports of non oil and gas products from China and Japan rose by 8.4% mom and 21.2% mom, respectively. Meanwhile, imports from Thailand contracted by 1.2% mom.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods rose by 12.1% mom, 5.6% mom and 11.7% mom, respectively.
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to perform strongly. Economic expansion is accelerating in the U.S., China's economy is stabilizing, and Japan's economy is growing moderately. Notably, the average prices of Indonesia's major commodity exports fell further (-3.7% mom in November), while global oil prices rose but at a slower pace (+3.9% mom).
- ❑ The U.S. economy expanded by 2.3 percent yoy in Q3 2017, or faster than in both Q2 2017 (+2.2% yoy) and Q3 2016 (+1.5% yoy). Among expenditures, growth in personal consumption-PCE (+2.6% yoy), exports (+2.2% yoy), and imports (+3.1% yoy) eased, while growth in gross private domestic investment (+4.6% yoy) surged. At the same time, government expenditure growth contracted (-0.1% yoy). Economic activity in the manufacturing sector continued to expand with the ISM manufacturing index standing at 58.2 in November. New orders received, production and employment continued to grow at a slower pace than in the previous month. On the consumer side, November's consumer confidence index rose further from 126.2 to 129.5 - a 17-year high. Consumer assessments of current conditions improved, fuelled by optimism on the job market. Consumers also foresee a more

Forecast for Nov 2017

Exports	US\$ 14.9 bn
Imports	US\$ 14.6 bn
Trade Surplus	US\$ 0.3 bn

Forecast for 2017

Exports	US\$ 169.2 bn
Imports	US\$ 156.2 bn
Trade balance	US\$ 12.9 bn

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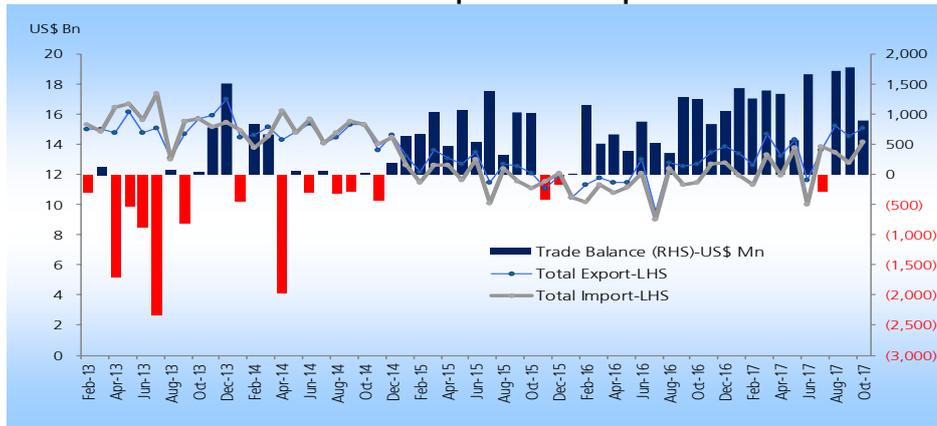
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positive short term US economic outlook. Consumer spending also increased at a pace which surpassed market expectations. In October, retail sales rose 0.2 percent mom (+4.6% yoy), pushed up by solid sales of motor vehicles, furniture, and electronic appliances.

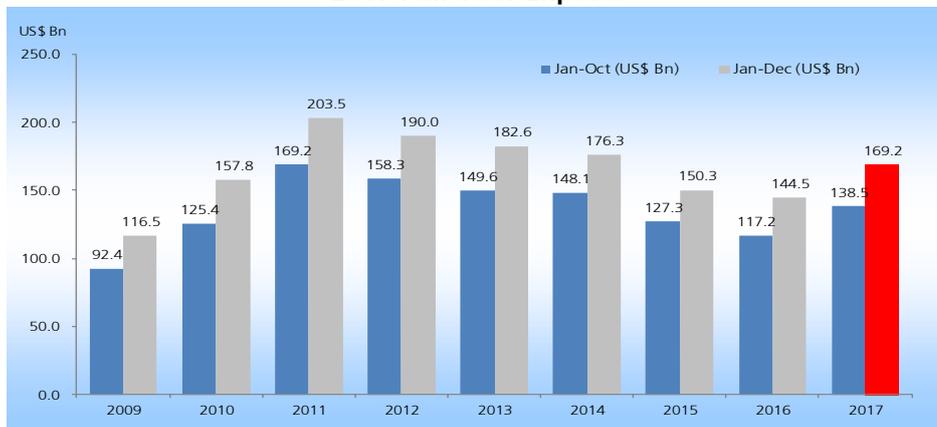
- ❑ China's economic growth is steady. In Q3 2017, the economy advanced 6.8% yoy, following 6.9% growth in the previous quarter. The softer economic performance is still inline with the government's target of around 6.5%. On the manufacturing side, the official Purchasing Managers Index (PMI) rebounded to 51.8 in November from 51.6 in the prior month, supported by the faster pace of output, new orders, and exports demand growth. The PMI indicator stayed above the 50-point level, signalling brisker manufacturing activity in China. On the consumer side, the sales growth of retail goods and services was the weakest in 8 months. Monthly retail sales cooled in October (+0.74% mom, +10.0% yoy), reflecting easing growth in the sales of automobiles, fuel, building materials, and furniture products. Meanwhile, the growth in monthly consumer prices slowed to 0.1% mom, but posted a 9-month high of 1.9% yoy in October 2017.
- ❑ The Japanese economy expanded by 2.5 percent on an annualized basis in Q3 2017, slower than 2.6 percent growth in the previous quarter. The advance was supported by rising exports and business investment, while private consumption and government expenditure contracted. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) increased in November to 53.6 from 52.8 in October, posting the strongest improvement since March 2014. Rising exports demand pushed up production at its fastest pace in 45 months. The improving PMI (which is above the threshold level of 50), signalled accelerating activity in Japan's manufacturing sector. On the consumer side, retail sales declined in October (+0.0% mom, -0.2% yoy), following September's monthly increase of 0.8 percent mom (+2.3% yoy). The sales of food and beverages, and machinery & equipment contracted. In the same period, consumer prices were flat (+0.0% mom, +0.2% yoy). Prices of food and housing declined, while transportation costs were unchanged. On an annual basis, the October inflation rate was the lowest since March 2017.
- ❑ In November's meeting, the Fed held its FFR target at 1.00%-1.25%. The Fed expects the economy to expand at a moderate pace, labor market conditions to strengthen and inflation to stabilize at around 2 percent over the medium term. This suggests a rate hike may be on the cards for December. Elsewhere, other major central banks still maintained their accommodative policy. The People's Bank of China (PBOC) maintained its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent. China's 7-days reverse repo was unchanged at 2.45 percent in November. In Japan, meanwhile, the Bank of Japan (BOJ) left its monetary policy steady as expected. The BOJ left its key short term interest rates at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. In regard to long term interest rate policy, the bank will also purchase Japanese Government Bonds (JGB) to maintain the 10-year JGB yield at around zero percent.
- ❑ Indonesia's CEI (+1.6%) and LEI (+1.9%) continue to strengthen, indicating a brisker pace of economic activity. In regard to price developments, consumer prices were slightly up in November. Monthly inflation rose by 0.20 percent (+3.30% yoy), inline with the median consensus of 0.29% mom. Prices in all components increased. More specifically, on an annual basis, prices in the foodstuffs component dropped by 0.49% yoy. On the monetary side, BI maintained the BI 7-day Reverse Repo rate at 4.25 percent with the Lending Facility rate and the Deposit rate at 5.00 percent and 3.50 percent, respectively. BI kept rates low in consideration of several factors including the need to stimulate the lacklustre domestic economy, the stable inflationary pressures, higher exports and the more manageable current account deficit. At the same time, the rupiah was stable (+0.08% mom) in November after weakening 1.6 percent in October.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.9 bn in November 2017, with imports reaching US\$ 14.6 bn. This will translate into a trade surplus of US\$ 327.5 mn in November 2017.

Indonesia's Exports and Imports



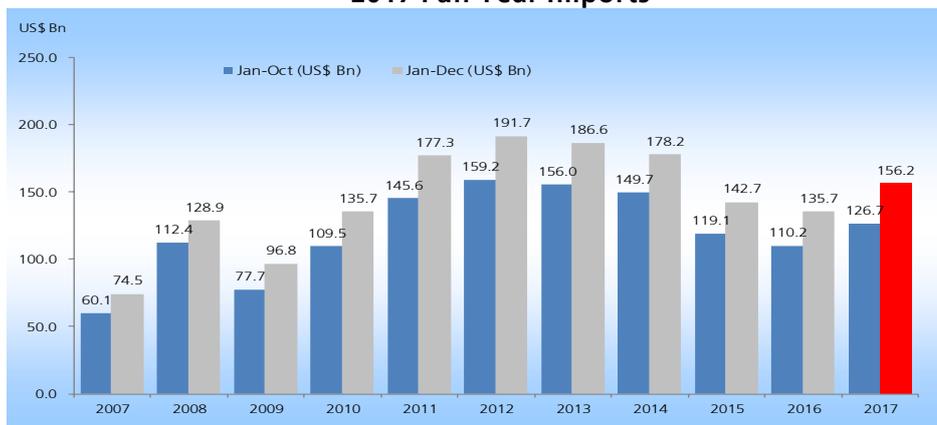
Source: BPS

2017 Full Year Exports



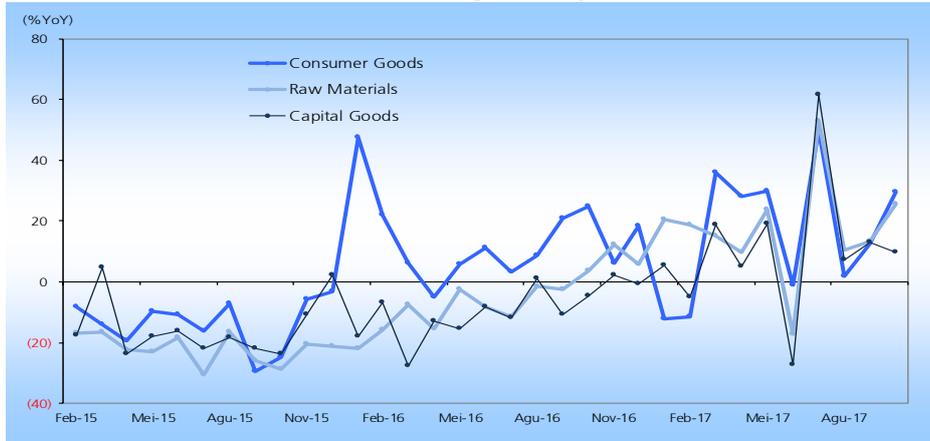
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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