

February 2018

TRADE OUTLOOK

January Outlook: Steadily Improving

- ❑ In December 2017, both exports and imports contracted. Exports reached US\$ 14.8 bn (-3.5% mom, +7.0% yoy) while imports stood at US\$ 15.1 bn (-0.3% mom, +17.8% yoy). As a result, December's trade balance posted a deficit of US\$ 270 mn following a US\$ 215.3 mn surplus in the previous month. For the full year of 2017, exports climbed 16.8% yoy to US\$ 168.7 bn while imports rose 15.7% yoy to US\$ 156.9 bn. As such, 2017's trade surplus widened to US\$ 11.8 bn, from US\$ 8.8 bn in 2016.
- ❑ Oil and gas exports rose by 17.9% mom to US\$ 1.5 bn in December 2017, while non oil and gas exports contracted by 5.4% mom to US\$ 13.3 bn. While average prices were lower (-4.4% mom, +0.7% yoy), exports volume actually rose on a monthly comparison (+0.9% mom, +6.2% yoy). By product type, the exports value of Indonesia's top non oil and gas product types was mixed. Exports of animal or vegetable fat products (HS 15) and electrical machinery/tools (HS 85) declined, whereas exports of mineral fuel (HS 27) rose. These commodities accounted for at least 34.8 percent of non oil and gas exports in 2017. By destination country, the value of non oil and gas exports to China and the U.S. weakened (falling by 1.2% mom and 5.5% mom, respectively), whereas exports to Japan rose by 10.9% mom.
- ❑ Oil and gas imports jumped 15.9% mom to US\$ 2.5 bn in December 2017, while non oil and gas imports fell 3.1% mom to US\$ 12.5 bn. The average prices of imports rose (+1.3% mom, +6.8% yoy) even though volume shipments were lower on a monthly comparison (-1.6% mom, +10.3% yoy). By product type, Indonesia's main non oil and gas imports - such as machinery and mechanical appliances (HS 84), plastics (HS 39), and vehicles and parts (HS 87) declined. By country of origin, the imports of non oil and gas products from China, Japan, and Thailand fell by 1.6% mom, 12.6% mom, and 7.1% mom, respectively.
- ❑ By type of use, the imports of capital goods and consumption goods in December 2017 rose by 2.0% mom and 2.4% mom, respectively. Meanwhile, imports of raw materials fell by 1.2% mom. In FY17, raw materials accounted for 74.9 percent of non oil and gas imports, followed by capital goods (15.9%) and consumption goods (9.0%).
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to expand as expected. Economic activity continues to strengthen in the U.S. and Japan, while China's economy is stabilizing. Notably, in January 2018, the average prices of Indonesia's major commodity exports and global oil prices increased further by 0.85% mom and 4.6% mom, respectively.
- ❑ The U.S. economy expanded by 2.5 percent yoy in the last quarter of 2017, or faster than in both Q3 2017 (+2.3% yoy) and Q4 2016 (+1.8% yoy). All expenditure components increased. Compared to Q4 2016, growth in the following components accelerated: personal consumption-PCE (+2.8% yoy), exports (+4.9% yoy), imports (+4.6% yoy), gross private domestic investment (+3.3% yoy), and government expenditure (+0.7% yoy). In FY 2017, the U.S. economy expanded by 2.3%, exceeding its growth pace in 2016 (+1.5%). On the manufacturing side, expansion slowed in January 2018. The ISM Manufacturing Index slipped from 59.3 to 59.1, following lower new orders received and weaker production. On the consumer side, however, the optimism of households improved. The consumer confidence index

Forecast for Jan 2018

Exports	US\$ 14.1 bn
Imports	US\$ 13.9 bn
Trade Surplus	US\$ 0.1 bn

Forecast for 2018

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

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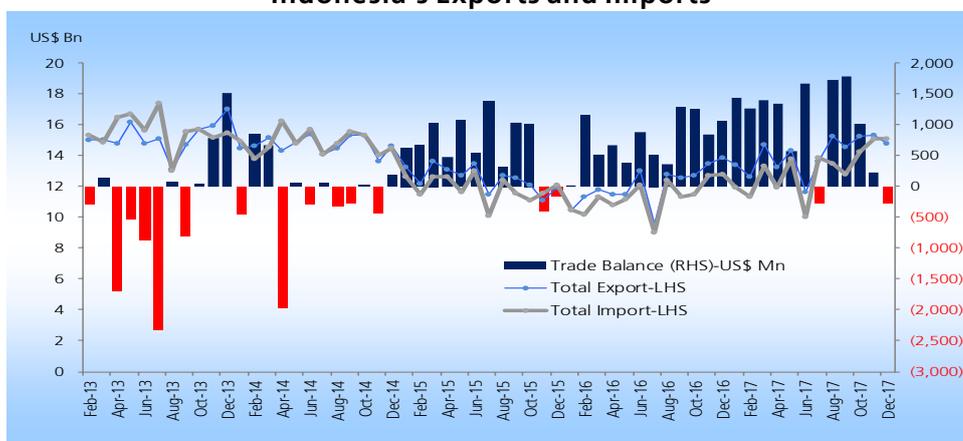
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rose from 123.1 to 125.4 in January 2018, driven by better income prospects over the coming periods. This was also reflected in strong consumer spending. In the year-end holiday, retail sales increased by 0.4% mom (+5.4% yoy), following a 0.9% mom increase (+6.0% yoy) in the previous month, pushed up by solid sales of building materials, motor vehicles, and furniture.

- China's economic growth is steady. In Q4 2017, China's GDP grew 6.8%, the same as in the previous quarter. In FY17, the economy grew by 6.9%, above the government target of 6.5%. In the beginning of the year, the official NBS Manufacturing PMI in China fell to 51.3 from 51.6 in December 2017, or the lowest level since May 2017. New orders and production output rose at a softer pace. On the consumer side, the monthly retail sales rose by 0.7% mom (+9.4% yoy) in December. Sales of motor vehicles, telecom products, and jewelry rose at a slower pace. Meanwhile, in the same period, China's consumer prices rose by 0.3% mom (+1.8% yoy), after no change in the previous month (+0.0% mom, +1.7% yoy). Food prices still declined, and the cost of non food items increased further.
- The Japanese economy continues to gather strong momentum going forward, since the latest CEI and LEI rose by 3.1% and 5.3% yoy, respectively. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) increased for the third straight month to 54.8 in January 2018. Japan's manufacturing sector expanded at the strongest pace, since new orders, output, and employment grew further. On the consumer side, monthly retail sales rose 0.9% in December. On an annual basis the growth reached 3.6%, the highest growth rate since April 2015, surpassing the market expectations of 2.1% yoy. The sales of motor vehicles, food and beverages, and apparels rose strongly. In the same period, December's annual consumer prices rose further (+0.2% mom, +1.0% yoy). The headline inflation jumped to the highest level since March 2015, driven by increasing prices in the food component.
- Regarding monetary policy, the Fed left its FFR target at 1.25%-1.50%. The Fed still expects economic activity to expand briskly. Household spending, business investment, and employment all grew. Annual inflation is predicted to reach and stabilize at around 2 percent over the medium term. In the market, there are growing expectations that further FFR hikes are on the table. Meanwhile, other major central banks have also 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, whereas China's 7-day reverse repo was hiked by 5 bps to 2.50 percent in December 2017. In Japan, meanwhile, the Bank of Japan (BOJ) left its monetary policy steady as expected. In January 2018, 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 purchase of Japanese Government Bonds will continue in order to keep the 10-year JGB yield at around zero percent.
- In Q4 2017, Indonesia's GDP grew by 5.19% yoy. In FY17, the economy grew by 5.07%, faster than the growth in 2016 (+5.03%) and 2015 (+4.88%). On the expenditure side, growth in the following components accelerated in Q4 2017: household consumption (+4.97% yoy), government expenditure (+3.81% yoy), and investment (+7.27% yoy). By comparison, exports growth (+8.5% yoy) eased. In regard to price developments, monthly inflation reached 0.62 percent (+3.25% yoy). Prices in all components increased, except the transportation component (-0.28% mom). More specifically, prices in the foodstuffs component rose the most (+2.34% mom), followed by the clothing component (+0.50% mom), and the prepared food component (+0.43% mom). 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 has kept rates low in consideration of several factors including the need to stimulate the lacklustre domestic economy, the stable inflation rate outlook, strong exports and the more manageable current account deficit. Meanwhile, after depreciating by 0.28% in December, the rupiah gained ground in January 2018 (+1.29% mom).
- In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.1 bn in January 2018, with imports reaching US\$ 13.9 bn. This will translate into a trade surplus of US\$ 143.4 mn in January 2018.

Indonesia's Exports and Imports



Source: BPS

Full-year Exports Performance



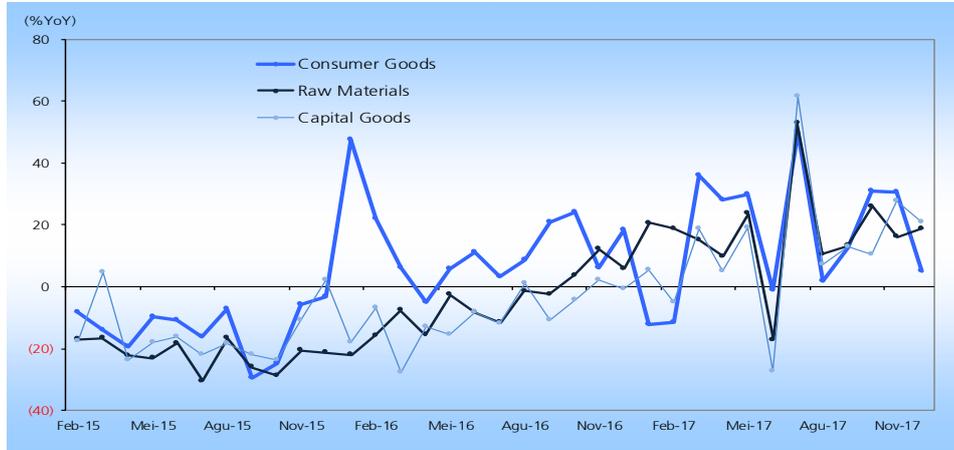
Source: BPS, Danareksa Research Institute

Full-year Imports Performance



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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