

TRADE OUTLOOK

January Outlook: Set To Pick Up

❑ In December 2018, Indonesia posted a trade deficit of USD 1.1 bn as imports (USD 15.3 bn) exceeded exports (USD 14.2 bn). Exports contracted on both a monthly and annual basis (-4.9% mom, -4.7% yoy). Imports fell 9.6% mom but still grew on a yearly comparison (+1.2% yoy). As a result, Indonesia's foreign trade recorded a trade deficit for the third consecutive month. For the full year of 2018, exports and imports reached USD 180.0 bn and USD 188.6 bn, respectively, giving rise to a USD 8.6 bn deficit. This compares to a surplus of USD 11.8 bn in 2017.

❑ Oil and gas exports soared to USD 1.7 bn (+27.3% mom) in December 2018, while non oil and gas exports declined to USD 12.4 bn (-8.2% mom). The lower exports value reflects lower average prices (-6.9% mom, -10.5% yoy) as trade volume actually increased (+2.2% mom, +6.6% yoy). By product type, the performance of Indonesia's top non oil and gas export products worsened on a monthly basis. This included mineral fuel (HS 27), animal or vegetables fats, oils, waxes (HS 15) and vehicles and parts (HS 87). These three commodities accounted for 32.3% of 2018's non oil and gas exports. By destination country, the value of non oil and gas exports to China and Japan was down by 17.9% and 14.6% mom, respectively, while exports to the U.S. rose by 1.9% mom. For FY18, these three countries accounted for 35.9% of Indonesia's non oil and gas exports.

❑ Oil and gas imports (-31.4% mom) and non oil and gas imports (-5.1% mom) fell to USD 1.9 bn and USD 13.3 bn. The lower imports reflect both lower volumes (-6.4% mom, +1.4% yoy) and lower average prices (-3.4% mom, -0.2% yoy). By product type, the performance of Indonesia's main non oil and gas imports were mixed. Imports of iron and steel products (HS 72) increased, while imports of plastics and plastics products (HS 39) and vehicles and parts (HS 87) were lower on a monthly basis. By country of origin, the imports of non oil and gas products from China rose by 5.8% mom, while imports from Japan and Thailand contracted by 13.3% mom and 13.3% mom, respectively.

❑ By type of use, the imports of raw materials fell by 13.5% mom, while imports of capital goods and consumption goods rose by 3.4% mom and 1.8% mom in December 2018. For FY18, raw materials accounted for 75.0 percent of the total non oil and gas imports, followed by capital goods (15.9%) and consumption goods (9.1%).

❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. economy remains strong, however. The ISM index recovered to 56.6 in January 2019. This indicates robust manufacturing expansion since new orders received, production, and export orders grew at a faster pace. On the consumer side, the U.S. consumer confidence index (120.2 in January) declined from the previous month. Household assessments toward current economic conditions remained favorable, although they were less optimistic on the short term economic outlook and business climate.

Forecast for January 2019

Exports	US\$ 14.1 bn
Imports	US\$ 15.2 bn
Trade Deficit	US\$ 1.1 bn

Forecast for 2019

Exports	US\$ 205.7 bn
Imports	US\$ 216.3 bn
Trade balance	US\$ (10.6) bn

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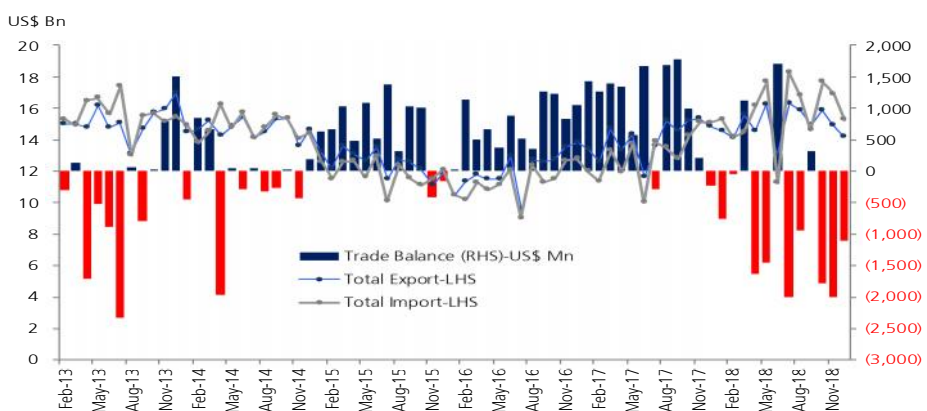
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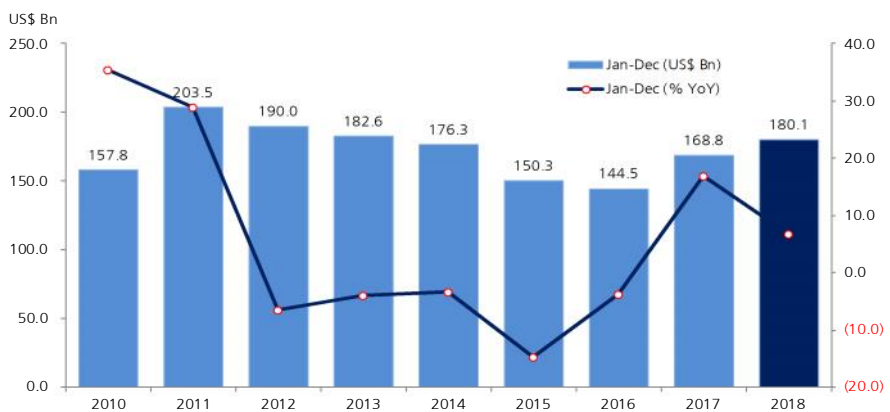
- ❑ The latest indicators suggest that China's economy is slowing. In Q4 2018, GDP expanded 6.4% yoy, after posting 6.5% growth in the previous quarter. In FY18, China's economy grew 6.6%, the weakest pace since 1990, although slightly better than the government target of 6.5%. On the manufacturing side, the official PMI stands at 49.5 in January, below the threshold level of 50, indicating contracting manufacturing activity. New orders and exports fell, while production output grew more slowly. On the consumer side, household consumption is still stable, however. In December 2018, retail sales growth was slightly higher (+0.55% mom, +8.2% yoy) and consumer prices cooled on a yearly basis (+0.0% mom, +1.9% yoy).
- ❑ Japan's economy is stabilizing. The recent PMI fell to 50.0 in January, stemming from contracting new orders received and production. The index indicates that expansion of manufacturing activity remains intact. On the consumer side, retail sales softened in December (+0.9% mom, +1.3% yoy). In the same period, Japan's consumer prices declined (-0.2% mom, +0.3% yoy), due to falling prices in the food, housing and transportation components.
- ❑ In its January 2019 meeting, the Fed held the FFR rate unchanged at 2.25% - 2.50%. The policy taken was supported by stronger U.S. economic activity, and a strengthening job market. The Fed also signalled a halt to interest rate hikes in the near term, due to recent global economic and financial developments. Meanwhile, the People's Bank of China (PBOC) and the Bank of Japan (BOJ) remain committed to their current monetary policies, as widely expected. China's benchmark lending rate and deposit rate were left unchanged at 4.35 percent and 1.50 percent, respectively. 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 BOJ at its January meeting decided to maintain the short-term policy rate applied to current account balances held by financial institutions at the bank at minus 0.1%. In regard to its long term interest rate policy, the purchase of Japanese Government Bonds (at an annual pace of 80 trn yen) will continue in order to keep the 10-year JGB yield at around zero percent.
- ❑ In 2018, the Indonesian economy expanded by 5.17% yoy, faster than the growth in 2017 (+5.07% yoy). On the expenditure side, domestic demand grew at solid pace, since growth in household consumption (+5.05% yoy), government expenditure (+4.80% yoy) and investment (+6.67% yoy) accelerated. Exports growth, however, slowed to 6.48% yoy. In terms of price developments, consumer prices eased. In January 2019, the monthly inflation rate reached 0.32% mom or 2.82% on an annual basis. Stable consumer prices were driven by easing foodstuff prices and falling transportation costs. On the monetary side, BI's Board of Governors decided to keep its benchmark 7-day Reverse Repo rate unchanged at 6.00% in January 2019. In addition, the deposit facility rate and the lending facility rate were held at 5.25% and 6.75%, respectively. BI's monetary policy stance illustrates its desire to maintain investor confidence in the domestic financial markets, and attain a manageable CAD. Indonesia's economic growth is predicted to remain firm, while the inflation rate should remain stable at a low level. Inline with that, the rupiah appreciated further. In January 2019, the rupiah rose by 2.4% mom, following a 1.1% mom gain in the previous month. The rupiah has gained traction since November 2018. In the same period, the average prices of Indonesia's major commodity exports rose by 0.77% mom, after increasing 3.95% mom in December 2018. Global oil prices jumped 10.3 % mom.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.1 bn in January 2019, with imports reaching US\$ 15.2 bn. This will translate into a January 2019 trade deficit of US\$ 1.09 bn.

GRAPH 1. INDONESIA'S EXPORTS AND IMPORTS



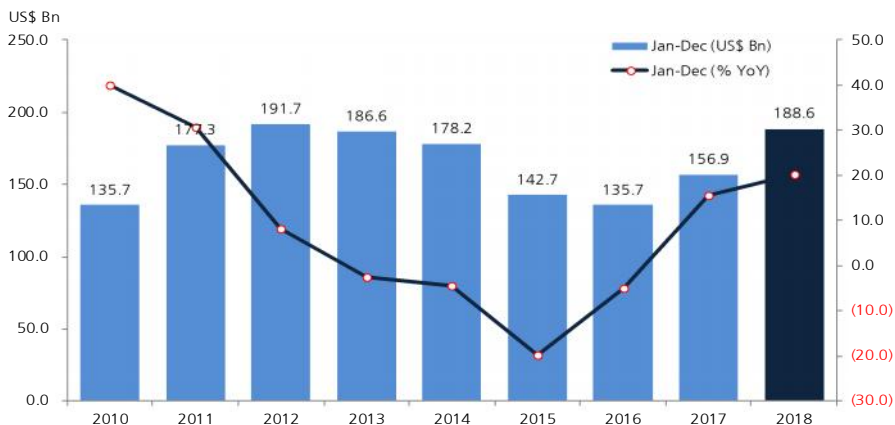
Source: BPS

GRAPH 2. 2018 FULL YEAR EXPORTS



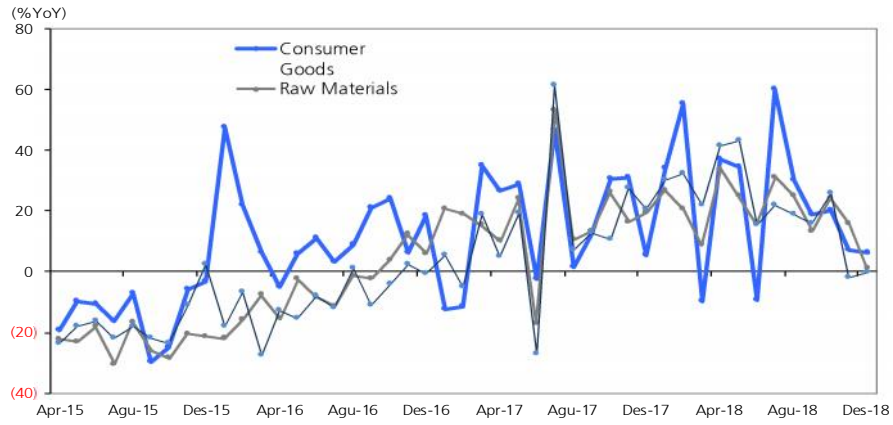
Source: BPS, Danareksa Research Institute

GRAPH 3. 2018 FULL YEAR IMPORTS



Source: BPS, Danareksa Research Institute

GRAPH 4. YoY CHANGE IN IMPORTS



Source: Bloomberg, CEIC

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