

January 2018

TRADE OUTLOOK

December Outlook: Little Improvement

- ❑ Exports and imports increased further in November 2017. Exports rose to US\$ 15.3 bn (+0.3% mom, +13.2% yoy). Imports, meanwhile, jumped to US\$ 15.1 bn (+6.4% mom, +19.6% yoy). As a result, the trade surplus shrank to US\$ 127.2 mn in November from US\$ 1.0 bn in the previous month. In the year up to November, Indonesia's trade surplus reached US\$ 12.0 bn.
- ❑ Oil and gas exports contracted by 14.2% mom to US\$ 1.3 bn, while non oil and gas exports edged up by 1.8% mom to US\$ 14 bn. While average prices were higher (+7.2% mom, +10.9% yoy), exports volume actually declined on a monthly comparison (-6.5% mom, +2.0% 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) rose, whereas exports of mineral fuel (HS 27), electrical machinery/tools (HS 85) and rubber products (HS 40) declined. By destination country, the value of non oil and gas exports to the U.S. and Japan was higher (up by 8.5% mom and 2.6% mom, respectively), whereas exports to China weakened by 5.0% mom.
- ❑ The value of both oil and gas imports (+1.2% mom, +29.6% yoy) and non oil and gas imports (+7.4% mom, +18.1% yoy) increased. The average prices of imports rose (+6.9% mom, +4.6% yoy) even though volume shipments were lower on a monthly comparison (-0.4% mom, +14.3% yoy). By product type, Indonesia's main non oil and gas imports - such as machinery and mechanical appliances (HS 84), electrical machinery/tools (HS 85), and vehicles and parts (HS 87) posted increases. By country of origin, the imports of non oil and gas products from China, Japan, and Thailand rose by 19.3% mom, 2.9% mom, and 7.1% mom, respectively.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods rose by 3.3% mom, 20.6% mom and 8.2% mom, respectively.
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to expand as expected. Economic activity remains strong in the U.S., China's economy is stabilizing, and Japan's economy is growing moderately. Notably, in December 2017, the average prices of Indonesia's major commodity exports fell slightly (-0.02% mom), while global oil prices increased at a faster pace (+5.5% 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 (+3.2% yoy) eased, while growth in gross private domestic investment (+4.5% yoy) surged. At the same time, government expenditure growth was flat (+0.0% yoy). Manufacturing expansion continued with the ISM manufacturing index rising to 59.7 in December from 58.2 in the previous month. The growth of new orders received, production and employment accelerated. On the consumer side, the consumer confidence index fell to 122.2 in December from November's level of 128.6 - a 17-year high. Consumers were less optimistic in the business outlook and job prospects over the coming months. Consumer spending increased further in November and beat market expectations. In the holiday shopping season, retail sales rose 0.8 percent mom (+5.8% yoy), pushed up by solid sales of furniture, electronic appliances, and building materials.

Forecast for Dec 2017

Exports	US\$ 15.4 bn
Imports	US\$ 14.9 bn
Trade Surplus	US\$ 0.5 bn

Forecast for 2017

Exports	US\$ 169.3 bn
Imports	US\$ 156.8 bn
Trade balance	US\$ 12.5 bn

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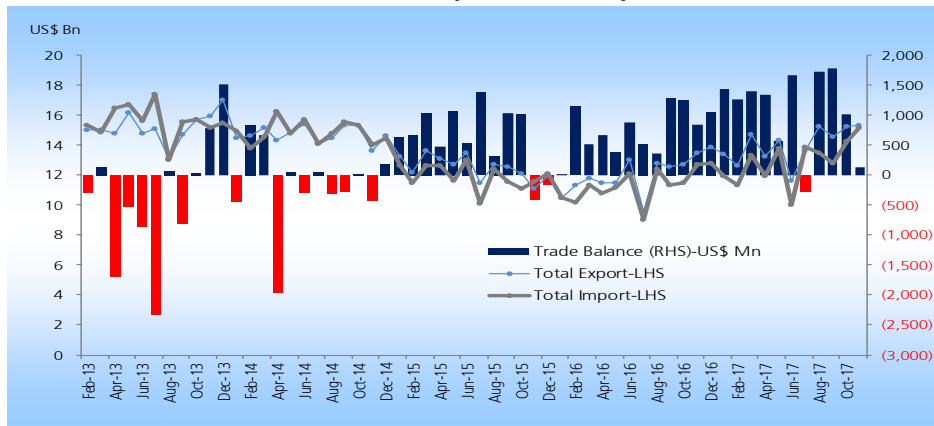
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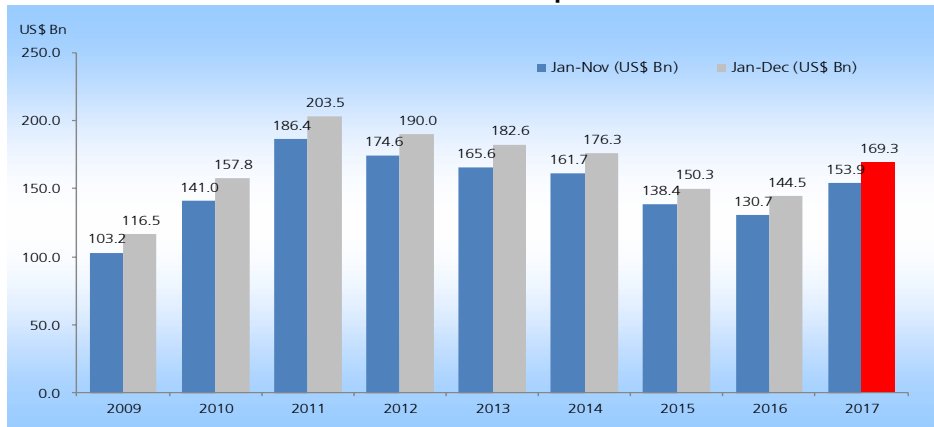
- ❑ China's economic growth is steady. The latest CEI and LEI rose by 1.8% and 0.9% yoy, respectively, indicating that China's economic growth is inline with the government's target of around 6.5%. On the manufacturing side, the official Purchasing Managers Index (PMI) dropped from 51.8 in November to 51.6 in December, given that output and new orders grew at a slower pace. In 2017 China's PMI indicator remained stable above the 50-point level, signalling brisker manufacturing activity in China. On the consumer side, the sales growth of retail goods and services rebounded. Monthly retail sales rose in November (+0.83% mom, +10.2% yoy), reflecting strong growth in the sales of fuel, telecoms, garments, and furniture products. Meanwhile, monthly consumer prices were unchanged at 0.0% mom while they slowed on an annual basis to 1.7% yoy in November 2017.
- ❑ The Japanese economy continues to gain traction. The latest CEI and LEI climbed by 3.1% and 5.4% yoy, respectively, suggesting that the economy is gathering strong momentum going forward. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) increased in December to 54.2 from 53.6 in November, posting a new 46-month high. New orders and exports demand increased at a faster pace. 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 increased in November (+1.9% mom, +2.2% yoy) above market expectations of a 1.2% mom gain. The sales of fuel, motor vehicles, and apparels rose strongly. In the same period, consumer prices increased (+0.7% mom, +0.6% yoy). On an annual basis, November inflation was higher than market estimates of 0.5 percent.
- ❑ In December's meeting, the Fed raised the FFR target by 25 bps to 1.25%-1.50%. The Fed expects economic activity to expand briskly, the labor market to strengthen further and inflation to stabilize at around 2 percent over the medium term. The Fed projects higher GDP growth at 2.5% and PCE inflation at 1.9% in 2018. The minutes of the December FOMC reveal that the Fed predicts that tax reform will boost economic growth, although the magnitude of the effects remains uncertain. Meanwhile, in response to the Fed's decision to tighten monetary policy, other major central banks have 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-days reverse repo was hiked by 5 bps to 2.50 percent in December. In Japan, meanwhile, the Bank of Japan (BOJ) left its monetary policy steady as expected. In December 2017, 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 (JGB) will continue in order to keep the 10-year JGB yield at around zero percent.
- ❑ Indonesia's CEI (+0.1%) and LEI (+0.9%) strengthened further, indicating a brisker pace of economic activity. In regard to price developments, consumer prices rose in December, driven by seasonal factors, the beginning of the planting season and the year-end holiday season. Monthly inflation reached 0.71 percent (+3.61% yoy). Prices in all components increased. More specifically, prices in the foodstuffs component rose the most (+2.26% mom), followed by the transportation component (+0.75% mom), and the prepared food component (+0.30% 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 inflationary pressures, higher exports and the more manageable current account deficit. Meanwhile, after appreciating slightly by 0.08% in November, the rupiah weakened in December 2017 (-0.28% mom).
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 15.4 bn in December 2017, with imports reaching US\$ 14.9 bn. This will translate into a trade surplus of US\$ 463.6 mn in December 2017.

Indonesia's Exports and Imports



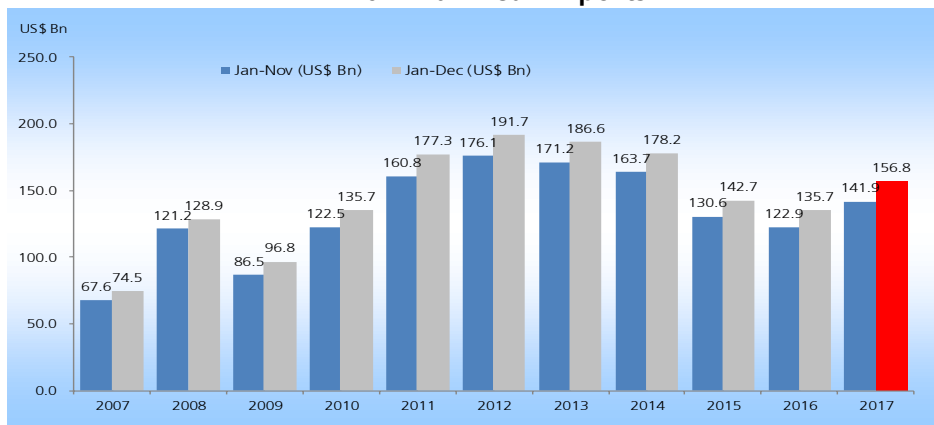
Source: BPS

2017 Full Year Exports



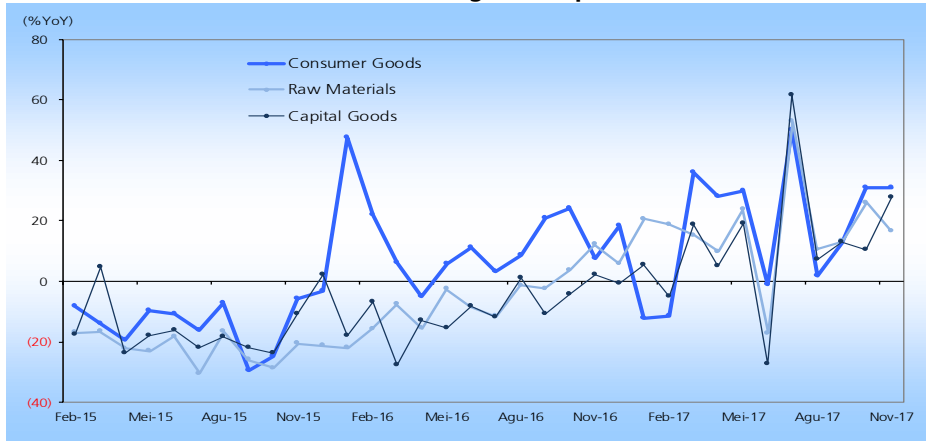
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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