

May Review: Recording a Slight Surplus

- ❑ After recording a huge deficit in April, Indonesia's foreign trade moved back into surplus in May. Total exports rose 3.7 percent to US\$ 14.8 bn, driven higher by 6.9 percent higher non oil and gas sales. The higher exports value was contributed by 4.1 percent higher volume since, at the same time, average aggregate prices dipped 0.4 percent.
- ❑ Brisker non oil and gas exports stemmed from a rebound in exports of two major products. In May, the exports of animal and vegetable fats (HS 15) surged 72.9 percent while exports of mineral fuels (HS 27) edged up 0.9 percent MoM.
- ❑ Compared to the previous month, May's non oil and gas exports to Indonesia's major trading partners showed mixed performance. Shipments to China and Japan strengthened by 13.8 percent and 0.1 percent, respectively, although, by contrast, non oil and gas exports to the U.S. dropped 6.3 percent MoM.
- ❑ May's imports fell 9.2 percent MoM to US\$ 14.7 bn, dragged down by 12 percent lower non oil and gas imports. Imports volume was down 6.4 percent while average aggregate prices were 3.0 percent lower. By product type, the imports of mechanical machinery and equipment (HS 84) dropped 12.7 percent while imports of electrical machinery and equipment (HS 85) declined 14.8 percent.
- ❑ Non oil and gas imports from Indonesia's major trading partners were lower. Indonesia's non oil and gas imports from Japan fell the most (-24.1 percent), followed by non oil and gas imports from China (-12.1 percent) and then Singapore (-14.0 percent).
- ❑ By classification, imports of all types of goods declined. Imports of capital goods dropped the most (-11.2 percent), followed by imports of raw materials (-8.9 percent) and imports of consumer goods (-7.6 percent). In the period January-May 2014, imports of raw materials still constituted the bulk of Indonesia's imports (76.6 percent).

Forecast for June 2014

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|---------------|---------------|
| Exports | US\$ 14.0 bn |
| Imports | US\$ 14.3 bn |
| Trade Deficit | US\$ 285.4 mn |

Forecast for 2014

| | |
|---------------|---------------|
| Exports | US\$ 196.4 bn |
| Imports | US\$ 192.3 bn |
| Trade balance | US\$ 4.1 bn |

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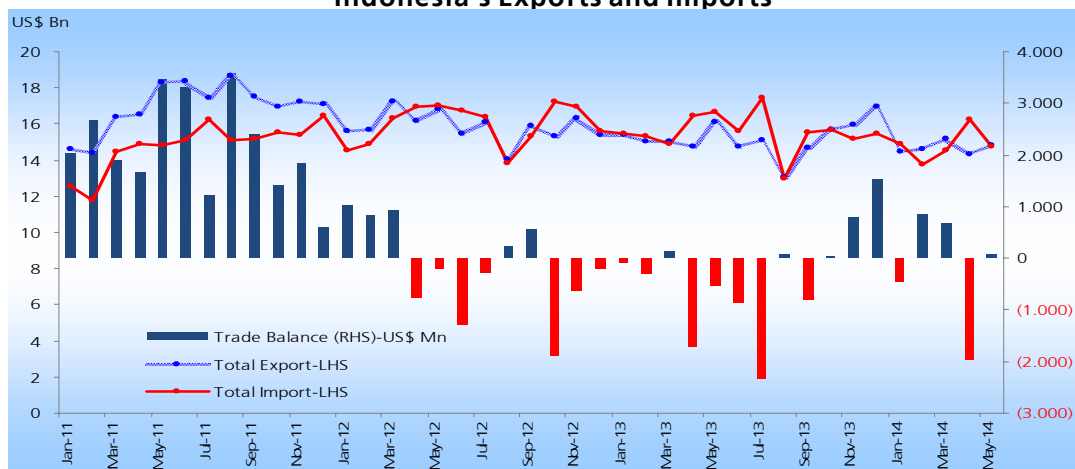
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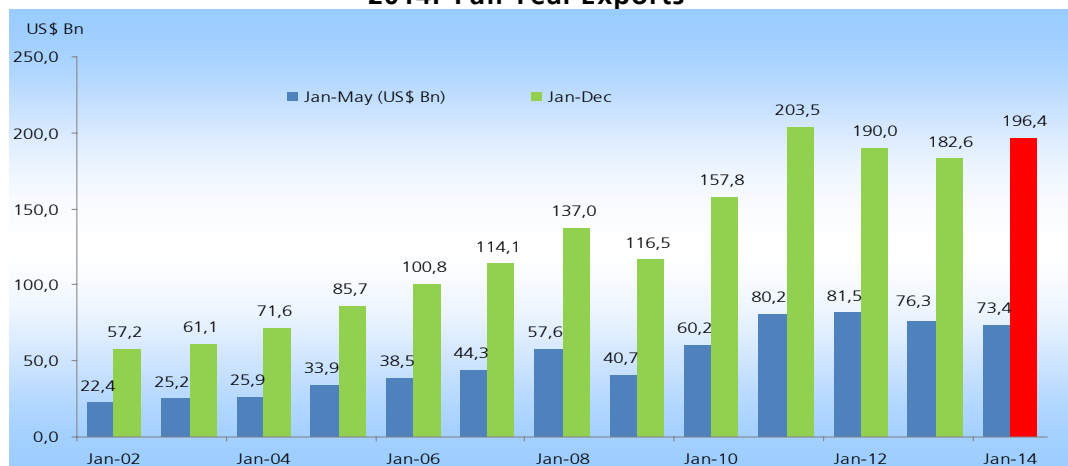
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Indonesia's Exports and Imports



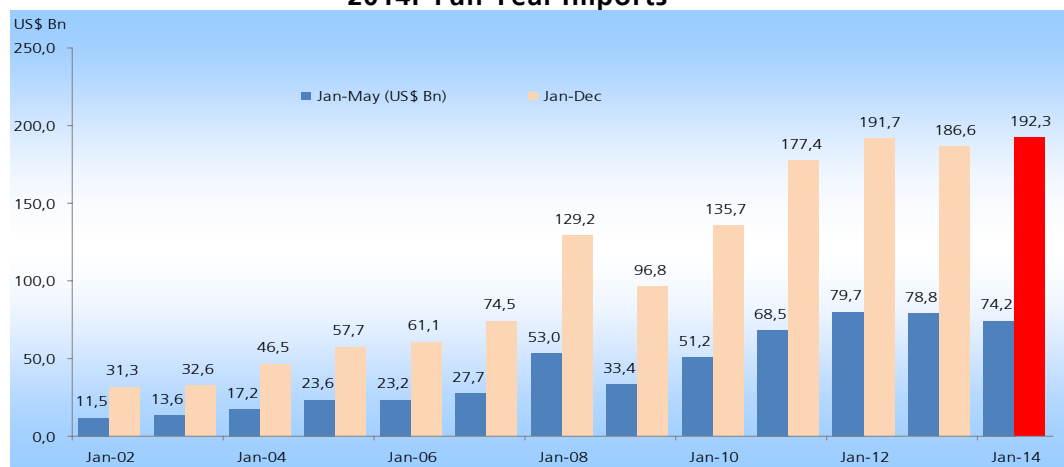
Source: BPS

2014F Full Year Exports



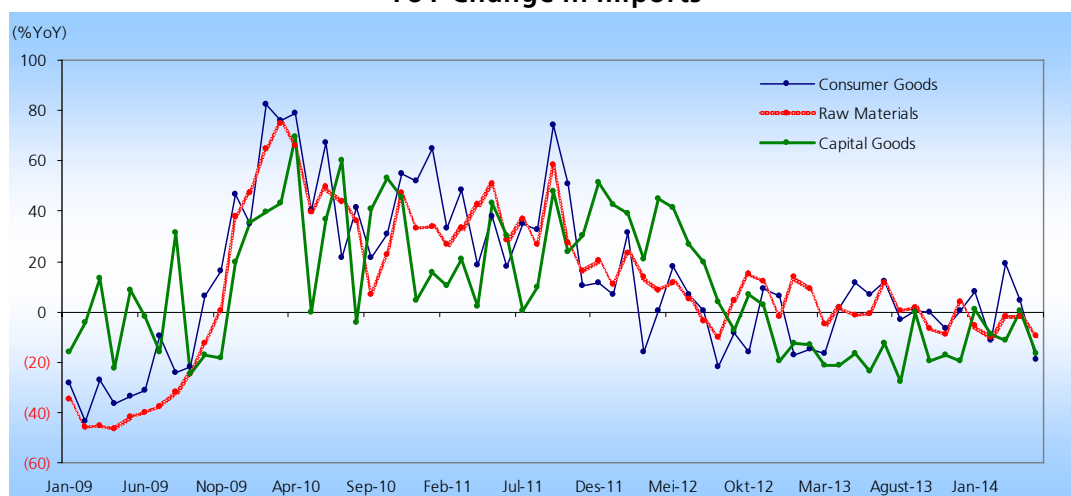
Source: BPS, Danareksa Research Institute

2014F Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: BPS

June Outlook: To Remain Stable

Given the impact of the “front loading” of imports in April, imports declined in May. As a result, the US\$ 1.96 bn deficit in April was turned into a small surplus of US\$ 69.9 mn in May. However, ahead of the fasting month and Idul Fitri holidays, the demand for several types of goods is typically stronger. On the exports side, improving conditions in the economies of Indonesia’s major trading partners bodes well for the prospects of Indonesia’s non oil and gas exports in the near term.

China

- The latest GDP numbers show that China’s economy is growing at a moderate pace. According to the National Bureau of Statistics, China’s second-quarter GDP growth increased slightly to 7.5 percent YoY from 7.4 percent in the first quarter. Government stimulus including further expansion of the rail network, in addition to increased spending on public housing construction projects, helped maintain growth in the first half.
- China’s retail sales in June were firm, up 12.4 percent YoY after rising 12.5 percent in May. As demand for goods slowed, price pressures eased. In June, headline inflation declined to 2.3 percent from 2.5 percent in May.
- China’s official purchasing managers index (PMI) showed a further improvement in the industrial sector. In June, the PMI rose to 51 from 50.8 in May. The Higher PMI, driven by stronger output and new orders, suggests that China’s manufacturing is expanding. A PMI reading above 50 indicates expansion in the manufacturing sector while a reading below 50 signals contraction.
- The expanding industrial sector also depicts rising domestic supply and production. In June, industrial production expanded by 9.2 percent YoY, or a faster rate than the previous month’s 8.8 percent.
- In view of the latest developments, we still expect Indonesia’s exports to China to grow moderately over the near term.

Japan

- After its sharp decline in April, Japan's CEI improved in May. Currently it stands at 96.2, or 0.4 percent higher than April's reading of 95.8. However, the LEI fell again; its fifth decline in six months. The LEI, which gauges the prospects of the economy over the next 6-12 months, dipped 0.7 percent in May to 98.9 from 99.6 in April.
- The latest government release shows firmer confidence among Japanese households: June's consumer confidence index rose to 41.1 from 39.3 in May. The improving optimism was fuelled by an improving job market and wages.
- In May, Japan's retail sales still contracted by 0.4 percent after sinking 4.4 percent in April. The earlier hike in the sales tax discouraged some consumer purchases, however this resulted in heightened inflationary pressures. The inflation rate increased to 3.7 percent yoy in May - its fastest pace since 1982 and up from 3.4 percent in April.
- On the supply side, the latest PMI data indicates that the manufacturing sector is expanding. The Markit/JMMA Japanese Manufacturing Purchasing Managers Index (PMI) indicator jumped to 51.1 in June, or up from 49.9 in May. Japan's manufacturing sector entered an expansionary phase sustained by surging new orders and output. By contrast, in May, Japan's core machinery orders, a leading indicator of capital spending, dropped 19.5 percent from April, or contracting 14.3 percent yoy. However, this corporate investment spending tends to be volatile in nature, and is expected to head higher in the third quarter.
- 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. rose by 0.3 percent in June to 102.2, following a 0.7 percent increase in May, and a 0.3 percent increase in April. Furthermore, the Coincident Economic Index (CEI) for the U.S. edged up 0.2 percent in June to 109.2, following a 0.3 percent increase in May, and a 0.2 percent increase in April. These developments point toward an expanding economy.
- The US Consumer Confidence Index (CCI) improved in May. The CCI rose to 83.0 from 81.7 in the previous month. As US households' assessments of current economic conditions are more favorable, US consumers also expect their incomes to grow in near future.
- After increasing by 2 percent YoY in April 2014, the May's headline inflation rate reached 2.1 percent, driven by rising food and energy prices.
- The ISM U.S. Manufacturing Purchasing Managers Index was flat at 55.3 in June compared to 55.4 in May. Higher new orders and stable production continue to fuel brisker US manufacturing activity.
- The U.S. economy is expected to continue growing at a moderate pace. The Fed maintained the target range for the federal funds rate at 0 to 0.25 percent and, in addition to this, has continued to rely on large-scale asset purchases in its accommodative monetary policy.
- 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 edged down by 0.01 percent MoM to 123.6 in May 2014, while the LEI strengthened by 0.57 percent MoM to 135.2. Both indicators confirm that Indonesia's economy remains in expansionary mode.
- In June, the MoM inflation rate reached 0.43 percent, up from 0.16 percent a month before. However, the yoy inflation rate eased to 6.70 in June from 7.32 percent in May. All of the CPI components rose, with the foodstuffs component up the most.
- Bank Indonesia kept its monetary policy unchanged. In its latest meeting, BI kept its benchmark rate at 7.5 percent, and maintained the Lending Facility rate and Deposit Facility rate at 7.50 percent and 5.75 percent, respectively. Given the prospect of heightened inflationary pressures and the need to rein in the current account deficit, we believe that the BI rate will be kept unchanged in the near term.
- The rupiah came under some pressure. In June, it was 3.01 percent MoM weaker on average relative to the US dollar, after depreciating 0.91 percent in the previous month.
- The commodity price index – which is a measure of the prices of Indonesia's major commodity exports - was 1.9 percent MoM lower in June, after posting a decline of 3.3 percent MoM in May. However, the average global oil price in June rose 0.84 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\$ 14.0 bn in June 2014, with imports reaching US\$ 14.3 bn. As a result, we foresee a trade deficit of US\$ 285.4 mn in June 2014.

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