

July 2018

TRADE OUTLOOK

June Outlook: Softening on Seasonality

- ❑ Exports and imports both rose in May 2018. Exports reached US\$ 16.1 bn (+10.9% mom, +12.4% yoy) while imports totalled US\$ 17.6 bn (+9.2% mom, +28.2% yoy). As a result, Indonesia posted a sizeable trade deficit in May of US\$ 1.52 bn, owing to an oil and gas deficit of US\$ 1.24 bn and a non oil and gas deficit of US\$ 0.28 bn. Year-to-date, Indonesia's foreign trade posted a US\$ 2.83 bn deficit. This compares to a surplus in the same period last year of US\$ 6.0 bn.
- ❑ Oil and gas exports (+28.8% mom) reached US\$ 1.6 bn, while non oil and gas exports (+9.3% mom) amounted to US\$ 14.5 bn. The increase in exports reflects higher exports volume (+7.5% mom, +16.0% yoy) and higher average prices (+3.2% mom, -3.1% yoy). By product type, the exports of Indonesia's top non oil and gas products were mixed. The exports of animal and vegetable fats, oil & waxes (HS 15) and rubber (HS 40) slumped, whereas the exports of machinery and electrical appliances (HS 85) increased. By destination country, the value of non oil and gas exports to China, Japan and the U.S strengthened by 15.4%, 0.5%, and 10.0% mom, respectively.
- ❑ Oil and gas imports (+21.0% mom) and non oil and gas imports (+7.2% mom) increased to US\$ 2.8 bn and US\$ 14.8 bn, respectively. Although the average prices of imports contracted (-1.4% mom, +17.2% yoy), volume shipments were higher on a monthly comparison (+10.7% mom, +9.3% yoy). By product type, the performance of Indonesia's main non oil and gas imports was also mixed. Imports of machinery and mechanical appliances (HS 84) and machinery and electrical appliances (HS 85) were higher, while imports of iron and steel (HS 72) were lower. By country of origin, the imports of non oil and gas products from China and Thailand rose by 18.6% mom and 25.6% mom, respectively, while imports from Japan were 1.3% mom lower.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods rose further by 6.6% mom, 9.0% mom, and 14.9% mom in May 2018. In the period of January-May 2018, raw materials accounted for 74.5 percent of the non oil and gas imports, followed by capital goods (16.3%) and consumption goods (9.0%).
- ❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. has posted stellar economic performance, while economic activity in Japan and China is stabilizing. Notably, in June 2018, the average prices of Indonesia's major commodity exports contracted by 3.2% mom (having increased in May by +1.7% mom). Meanwhile, global oil prices continued to strengthen by 6.6% mom.
- ❑ The U.S. economy expanded by 2.8 percent yoy in Q1 2018, or faster than in both Q1 2017 (+2.0% yoy) and Q4 2017 (+2.6% yoy). Compared to Q1 2017, growth in the following components accelerated: gross private domestic investment (+5.8% yoy), exports (+4.0% yoy), imports (+4.4% yoy), and government expenditure (+1.2% yoy). Meanwhile, the growth in personal consumption-PCE eased (+2.6% yoy). On the manufacturing side, expansion continued in June 2018. The June ISM Manufacturing Index rose from 58.7 to 62.2 given stronger growth in new exports orders and production. On the consumer side, U.S. household optimism moderated.

Forecast for June 2018

Exports	US\$ 13.5 bn
Imports	US\$ 13.0 bn
Trade Surplus	US\$ 0.5 bn

Forecast for 2018

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

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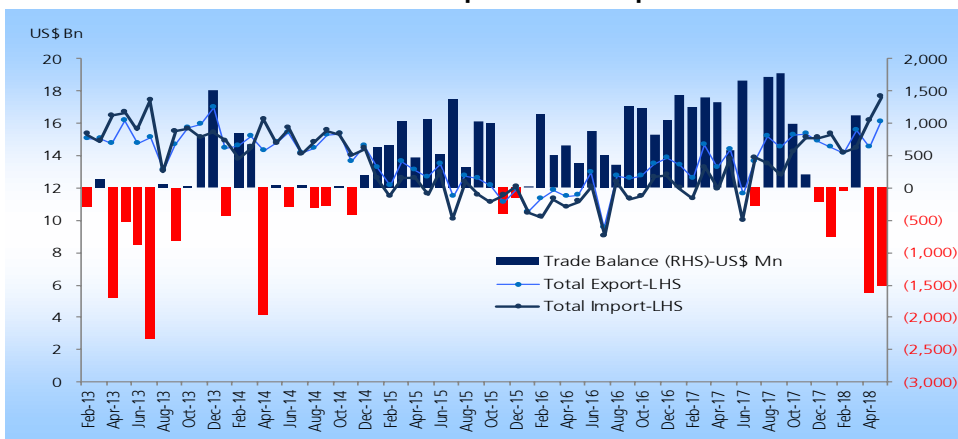
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The consumer confidence index fell from 128.8 to 126.4 in June 2018. Consumer expectations toward both business and labour market conditions eased, while assessments of current conditions were unchanged. Consumer spending rose further in May. Following a 0.4% mom increase (+4.8% yoy) in April, retail sales climbed 0.8% mom (+5.9% yoy) in May, supported by higher sales of fuel and motor vehicle & parts.

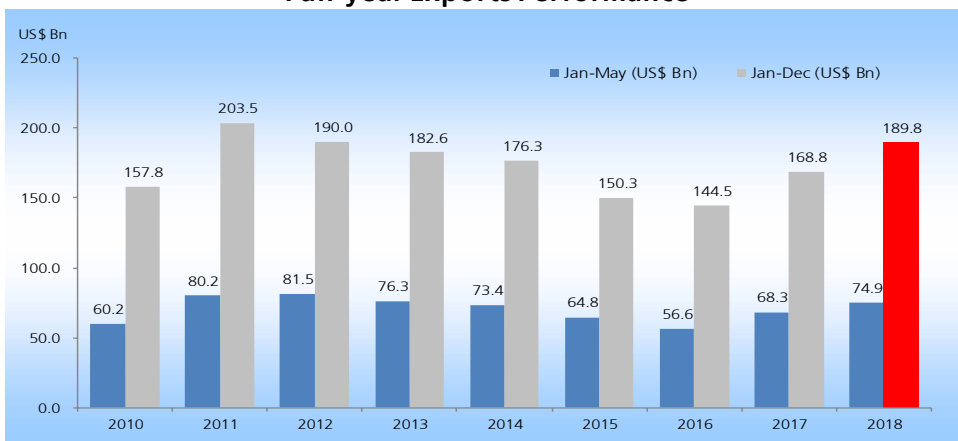
- ❑ China's economic outlook is improving, mainly driven by resilient domestic demand. On the manufacturing side, however, the official NBS Manufacturing PMI in China dipped to 51.5 in June 2018 from 51.9 in the previous month. The current PMI indicates stable manufacturing activity since new orders and production output rose at a softer pace. On the consumer side, household spending grew at a slower pace. In May 2018, monthly retail sales grew by 0.29% mom (+8.5% yoy), less than April's 0.66% mom growth (+9.4% yoy). Sales of garments, personal care products, and building materials rose at a slower pace. In regard to price developments, monthly deflation reached -0.2% (+1.8% yoy) mom in May 2018, following -0.2% mom deflation (+1.8% yoy) in the previous month. On an annual basis, consumer prices remained steady, since prices in the food component eased and non food prices only edged up.
- ❑ The Japanese economy continues to improve. The CEI and LEI rose further by 0.4% and 2.2%, respectively, in May 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) stood at 53.0 in June 2018, up slightly from May's level of 52.8. Production and employment rose at a faster rate. On the consumer side, consumer spending weakened on a monthly basis. In May, retail sales dropped 1.7% mom (+0.6% yoy), after increasing in the previous month (+1.3% mom, +1.5% yoy). Sales of general merchandise, apparel and motor vehicles were lower. As for price developments, Japan's inflation rate in May went up 0.1% mom (+0.7% yoy). Headline inflation rose at a higher pace, given increasing prices in the food and transportation component, while prices in the housing component declined.
- ❑ Inline with market expectations, the Fed hiked the target rate for the FFR by 25 bps to 1.75%-2.00% in its June meeting. The Fed stated that economic activity grew at a solid rate and that the labour market continued to strengthen. Two more FFR hikes are on the table this year. In addition, the Fed also upgraded its US GDP growth and PCE inflation forecasts. Furthermore, the unemployment rate is expected to be lower in 2018 and 2019. Following the Fed's move, the People's Bank of China (PBOC) unexpectedly maintained its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent. 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 Bank of Japan's (BOJ) loose monetary policy remains in effect. The key short term interest rate was maintained at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. In regard to its 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 (an annual pace of 80 trn Yen).
- ❑ Indonesia's CEI (+0.9%) and LEI (+0.9%) increased. This suggests that economic activity continues to gain some traction. In regard to consumer prices, monthly headline inflation accelerated to 0.59% mom (+3.12% yoy) in June 2018, from 0.21% mom (+3.23% yoy) in the previous month. Prices in most components grew at a faster pace due to Ramadan and Idul Fitri. More specifically, prices in the food component and the non food component rose by 0.66% mom and 0.57% mom, respectively. On the monetary side, BI raised its benchmark 7-day Reverse Repo rate by 50 bps in the June meeting, following two separate hikes in May 2018. The rate now stands at 5.25 percent with the Lending Facility rate and the Deposit rate at 6.00 percent and 4.50 percent, respectively. The central bank stated that its policy is pre-emptive, front-loading, and ahead of the curve, and that it is intended to ensure rupiah stability given the prospect of more FFR hikes in the future, whilst also keeping inflation in the targeted corridor and the current account deficit more manageable. Meanwhile, the rupiah continued to weaken further. In June 2018, the rupiah depreciated by 0.07% mom yet less than in the previous month (-1.6% mom). Year-to-date, the monthly average rupiah depreciation stands at 3.6 percent.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 13.5 bn in June 2018, with imports reaching US\$ 13.0 bn. This will translate into a trade surplus of US\$ 559 mn in June 2018.

Indonesia's Exports and Imports



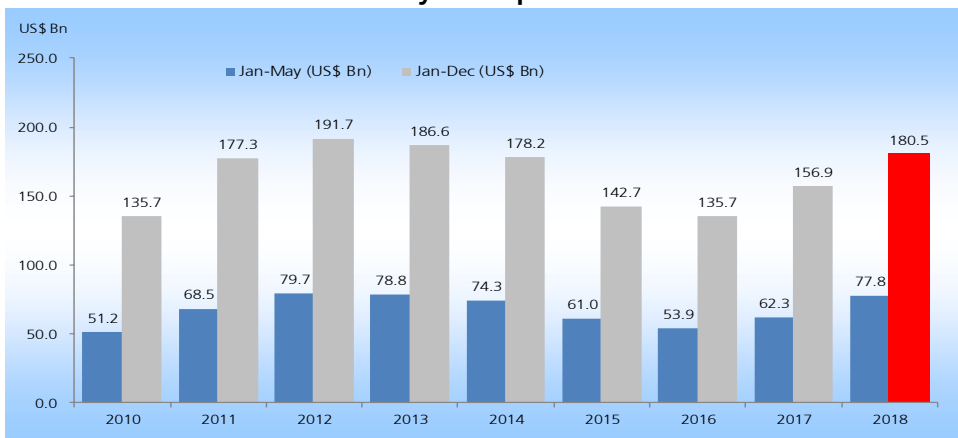
Source: BPS

Full-year Exports Performance



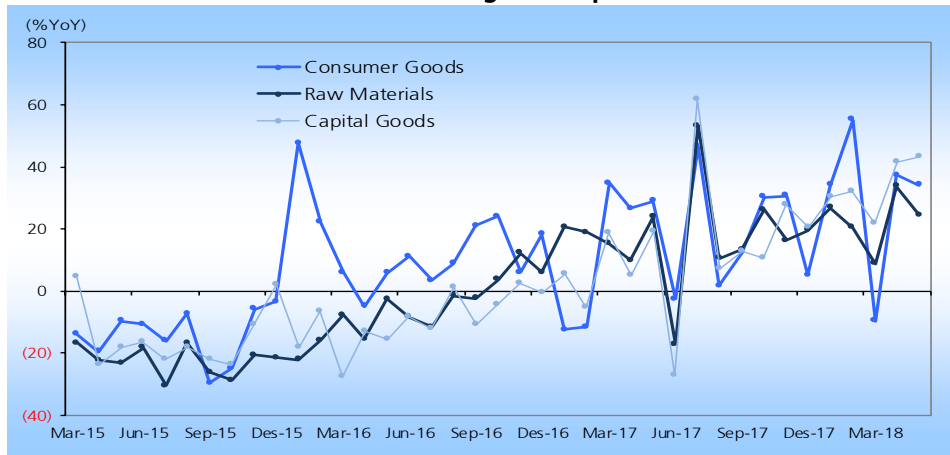
Source: BPS, Danareksa Research Institute

Full-year Imports Performance



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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