

June 2018

## TRADE OUTLOOK

**May Outlook: Fairly Stable**

- ❑ After exports rose by 10.3% mom in March, they dropped by 7.2% mom in April (+8.9% yoy) to US\$ 14.4 bn. Imports, by comparison, rose further by 11.3% mom (+34.7% yoy) to US\$ 16.1 bn. As a result, Indonesia posted a sizeable trade deficit in April of US\$ 1.62 bn, owing to an oil and gas deficit of US\$ 1.13 bn and a non oil and gas deficit of US\$ 0.49 bn. The deficit was surprisingly far worse than the median estimate of a US\$ 733 mn surplus. Year-to-date, Indonesia's foreign trade posted a US\$ 1.31 bn deficit. This compares to a surplus in the same period last year of US\$ 5.4 bn.
- ❑ Oil and gas exports (-11.3% mom) and non oil and gas exports (-6.8% mom) reached US\$ 1.2 bn and US\$ 13.2 bn, respectively. The decline in exports reflects lower exports volume (-10.1% mom, +6.3% yoy) and higher average prices (+3.2% mom, +2.5% yoy). By product type, the exports of Indonesia's top non oil and gas products were mixed. The exports of mineral fuel (HS 27) and animal and vegetable fats, oil & waxes (HS 15) slumped, whereas the exports of vehicles and parts (HS 87) increased. By destination country, the value of non oil and gas exports to China, Japan and the U.S dropped by 22.8%, 2.6%, and 9.9% mom, respectively.
- ❑ Oil and gas imports (+3.6% mom) and non oil and gas imports (+12.7% mom) increased to US\$ 2.3 bn and US\$ 13.8 bn, respectively. Although the average prices of imports contracted (-2.1% mom, +13.5% yoy), volume shipments were higher on a monthly comparison (+13.7% mom, +18.7% yoy). By product type, Indonesia's main non oil and gas imports were also mixed. Imports of machinery and electrical appliances (HS 85) and iron and steel (HS 72) were higher, while imports of machinery and mechanical appliances (HS 84) were lower. By country of origin, the imports of non oil and gas products from China and Japan rose by 29.7% mom and 2.5% mom, respectively, while imports from Thailand were 5.5% mom lower.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods rebounded by 10.7% mom, 6.6% mom, and 25.8% mom in April 2018. In the period of January-April 2018, raw materials accounted for 74.6 percent of the non oil and gas imports, followed by capital goods (16.3%) and consumption goods (9.0%).
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to perform well as expected. Economic activity continues to strengthen in the U.S. and Japan, while China's economy is stabilizing. Notably, in May 2018, the average prices of Indonesia's major commodity exports rose by 0.37% mom (from -1.60% mom in April). Meanwhile, global oil prices continued to strengthen by 1.8% 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 (+4.2% yoy), imports (+4.3% yoy), and government expenditure (+1.1% yoy). Meanwhile, the growth in personal consumption-PCE eased (+2.6% yoy). On the manufacturing side, the expansion continued in May 2018. The May ISM Manufacturing Index rose from 57.3 to 58.7, given stronger growth of new orders, production and employment. On the consumer side, U.S. household

**Forecast for May 2018**

Exports	US\$ 15.6 bn
Imports	US\$ 15.2 bn
Trade Surplus	US\$ 0.4 bn

**Forecast for 2018**

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

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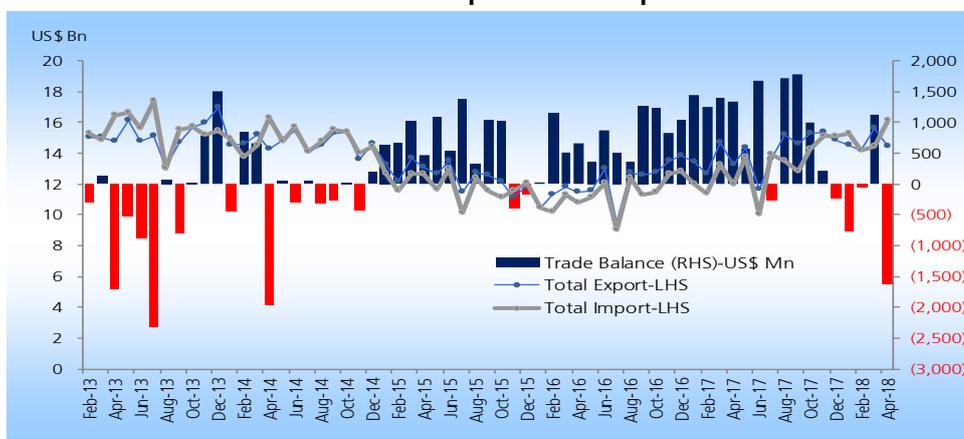
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optimism improved further. The consumer confidence index increased from 125.6 to 128.0 in May 2018. Consumer expectations toward both business and labour market conditions were quite strong, and should continue to support solid household spending in the near term. Consumer spending rose further in April. Following a 0.6% mom increase (+4.9% yoy) in March, retail sales edged up by 0.2% mom (+4.7% yoy) in April, supported by higher sales of fuel, food & beverages, building materials, and apparel.

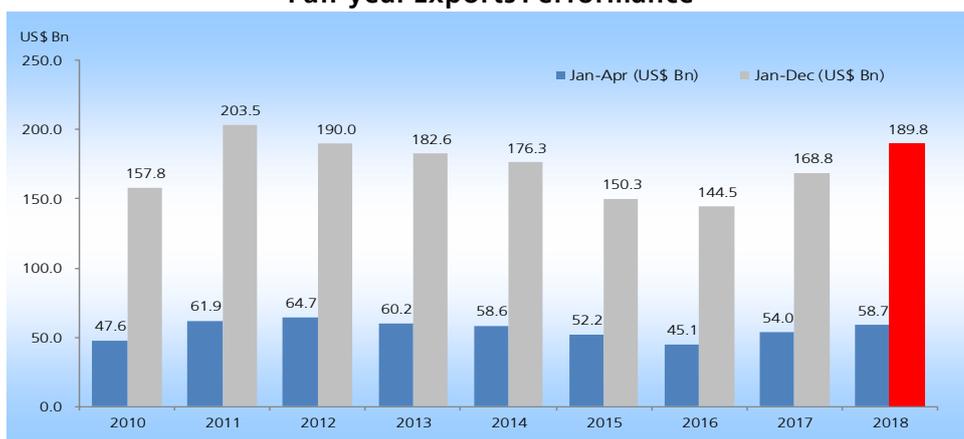
- China's economic outlook is improving. In Q1 2018, China's economy posted stronger-than-expected growth of 6.8 percent yoy, unchanged from the previous quarter. The expansion was mainly driven by the solid pace of consumption and exports. On the manufacturing side, the official NBS Manufacturing PMI in China increased to 51.9 in May 2018 from April's level 51.4, the highest reading since September 2017. The stable PMI indicates that manufacturing activity expanded at a faster pace, supported by faster growth of new orders, new export orders, and production. On the consumer side, monthly retail sales grew by 0.66% mom (+9.4% yoy) in April, or less than March's 0.73% mom growth (+10.1% yoy). Sales of garments, personal care products, home appliances and furniture rose at a slower pace. In regard to price developments, consumer prices continue to slow on both a monthly and annual basis in April (-0.2% mom, +1.8% yoy) from March (-1.1% mom, +2.1% yoy). The cost of foodstuffs slowed, while the cost of non food items was unchanged.
- The Japanese economy continues to improve. The CEI rose further by 1.4%, whereas the LEI fell by 0.9% yoy, in March 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) fell slightly to 52.8 in May 2018, or below April's final reading of 53.8. Production, new orders received, and employment rose at a softer pace. On the consumer side, consumer spending rebounded however. In April, retail sales grew faster on both a monthly and annual basis (+1.4% mom, +1.6% yoy) compared to the previous month (-0.6% mom, +1.0% yoy). Sales of fuel and motor vehicles edged up at a faster rate. In addition, April's annual consumer prices eased further (-0.4% mom, +0.6% yoy). Headline inflation rose at a softer pace, given easing prices in the food and transportation component.
- The Fed maintained the FFR target at 1.50%-1.75% during its May meeting, or inline with market expectations. The FOMC release reveals that U.S. economic activity strengthened, supported by a firm job market as well as a moderate pace of consumer spending and business fixed investment. The Fed also stated that inflation and core inflation have moved close to 2 percent, signalling that further FFR hikes are on the table this year. In line with that, the policies of other major central banks is also unchanged. The People's Bank of China (PBOC) kept its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent, whereas China's 7-day reverse repo reached 2.55 percent. In its latest policy, the PBOC lowered the reserve ratio for large Chinese banks by 100 bps to 16% from 17%, and 14% from 15% for smaller banks. The policy is intended to improve liquidity conditions and help banks to reduce their funding costs. In Japan, the Bank of Japan (BOJ) maintained its key short term interest rate 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 (an annual pace of 80 trn Yen).
- Indonesia's CEI (+1.3%) and LEI (+0.8%) were higher. This suggests that economic activity continues to gain some traction. In regard to consumer prices, monthly headline inflation accelerated to 0.21% mom (+3.23% yoy) in May, from 0.10% mom (+3.41% yoy) in the previous month. Prices in most components grew at a faster pace due to Ramadan. More specifically, prices in the food component and the non food component rose by 0.25% mom and 0.19% mom, respectively. On the monetary side, BI raised its benchmark 7-day Reverse Repo rate on two occasions in May 2018. The rate now stands at 4.75 percent with the Lending Facility rate and the Deposit rate at 5.50 percent and 4.00 percent, respectively. The central bank stated that its policy is pre-emptive, front-loading, and ahead of the curve, and intended to ensure rupiah stability given the prospect of more FFR hikes in the future, whilst also keeping inflation in the targeted corridor. Meanwhile, the rupiah continued to weaken further. In May 2018, the rupiah fell by 1.6% mom, following its decline in the previous month (-0.4% mom). Year-to-date, the monthly average rupiah depreciation has reached 3.6 percent.
- In view of the latest developments, we expect Indonesia's exports to reach US\$ 15.6 bn in May 2018, with imports reaching US\$ 15.2 bn. This will translate into a trade surplus of US\$ 434.4 mn in May 2018.

### Indonesia's Exports and Imports



Source: BPS

### Full-year Exports Performance



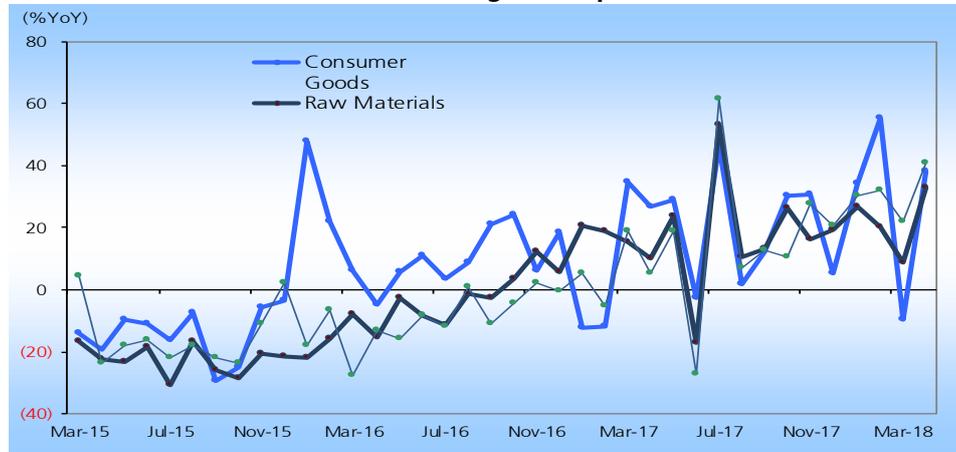
Source: BPS, Danareksa Research Institute

### Full-year Imports Performance



Source: BPS, Danareksa Research Institute

### YoY Change in Imports



Source: Bloomberg, CEIC

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