

# TRADE OUTLOOK

## February Outlook: Remain Sluggish

❑ In January 2019, both Indonesia's exports (USD 13.8 bn) and imports (USD 15.0 bn) continue to fall. Exports (-3.2% mom, -4.7% yoy) and imports (-2.2% mom, -1.8% yoy) contracted on both a monthly and annual basis. As a result, Indonesia's trade deficit widened from USD 1.03 bn to USD 1.16 bn, or experience deficit for the fourth consecutive month.

❑ Oil and gas exports dropped by 29.3% mom to USD 1.2 bn, while non oil and gas slightly increased by 0.4% mom to USD 12.6 bn. The lower exports value reflects lower average prices (-6.7% mom, -16.1% yoy) as trade volume actually increased (+3.7% mom, +13.6% yoy). By product type, the performance of Indonesia's top non oil and gas export products were mixed on a monthly basis. The exports of mineral fuel (HS 27) and electrical machinery & equipments (HS 85) were fell, while exports of vehicle and parts (HS 87) rose. These three commodities accounted for 25.5% of January's non oil and gas exports. By destination country, the value of non oil and gas exports to China, U.S. and Japan was up by 2.1%, 2.0% and 3.2% mom, respectively. In January, these three countries accounted for 35.0% of Indonesia's non oil and gas exports.

❑ Oil and gas imports (-16.6% mom) fell to USD 1.7 bn and non oil and gas imports (-0.0% mom) stable at USD 13.3 bn. The lower imports reflect lower volumes (-5.2% mom, +5.5% yoy) since the average prices rebounded (+3.2% mom, -6.9% yoy). By product type, the performance of Indonesia's main non oil and gas imports were also mixed. Imports of machinery/mechanical appliances (HS 84) lowered, while imports of iron and steel products (HS 72) and plastics and plastics products (HS 39) were higher on a monthly basis. By country of origin, the imports of non oil and gas products from China and Thailand contracted by 6.7% mom and 3.5% mom, respectively. While imports from Japan rose by 2.7% mom.

❑ By type of use, the imports of raw materials rose by 2.1% mom, while imports of capital goods and consumption goods slumped by 12.1% mom and 16.7% mom. In January 2019, raw materials accounted for 76.2 percent of the total non oil and gas imports, followed by capital goods (15.7%) and consumption goods (8.1%).

❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. economy expanded by 3.1 percent yoy in the last quarter of 2018, or faster than in both Q3 2018 (+3.0% yoy) and Q4 2017 (+2.5% yoy). All expenditure components increased. Compared to Q4 2017, growth in the following components accelerated: personal consumption-PCE (+2.7% yoy), gross private domestic investment (+7.0% yoy), and government expenditure (+1.8% yoy). While the growth of exports (+2.3% yoy), and imports (+3.5% yoy) were slowing. In FY 2018, the U.S. economy expanded by 2.9%, exceeding its growth pace in 2017 (+2.2%). On the manufacturing side, the ISM index fell to 54.2 in February 2019 (vs 56.6 in January), since the new orders, production, and employment expand at slower rate. On the consumer side, the U.S. consumer confidence index increased (131.4 in February), following decline in the previous month. Household assessments toward current business climate and labor market remained favorable.

### Forecast for February 2019

Exports	US\$ 13.5 bn
Imports	US\$ 14.5 bn
Trade Deficit	US\$ 0.9 bn

### Forecast for 2019

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

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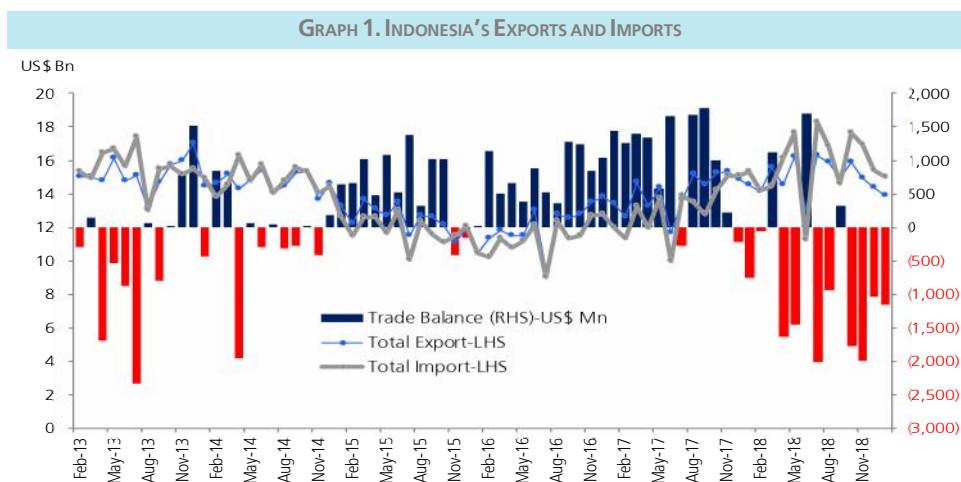
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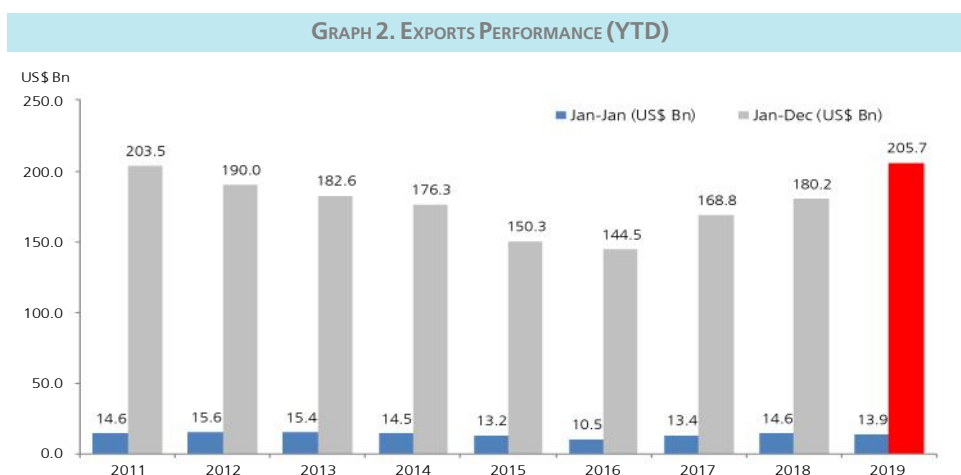
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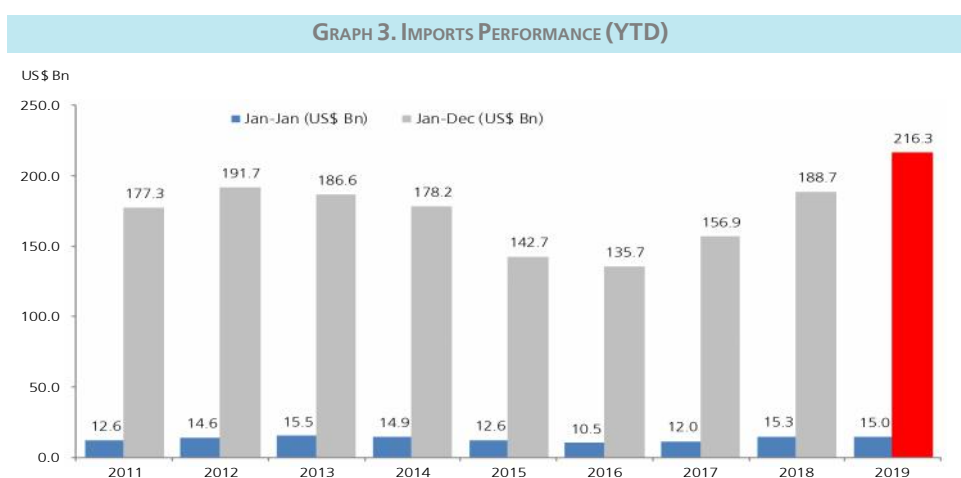
- ❑ The latest indicators suggest that China's economy is slowing. The government have targeted the economy to grow by 6.0-6.5 percent in 2019, slowed than actual FY18 growth of 6.6%. On the manufacturing side, the official PMI stands at 49.2 in February, lower than January's level of 49.5, and below the threshold level of 50, indicating contracting manufacturing activity. Exports sales, output production, and employment fell. On the consumer side, household consumption is still gain traction, however. In the same period, retail sales growth was slightly higher (+0.55% mom, +8.2% yoy) and consumer prices rose on a monthly basis (+0.5% mom, +1.7% yoy).
- ❑ Japan's economy is stabilizing. The recent Nikkei PMI fell further to 48.5 in February 2019, below threshold level of 50 and January's level of 50.0. The index indicates first contraction in two years, as the new orders and output dropped at faster pace. On the consumer side, retail sales also weakened in January (-2.3% mom, +0.6% yoy). In the same period, Japan's consumer prices cooled on a yearly basis (+0.3% mom, +0.2% yoy), due to falling prices in the food, transportation and communication components.
- ❑ In January 2019 meeting, the Fed held the FFR rate unchanged at 2.25% - 2.50%. Minutes of FOMC showed that The Fed concerns about several downside risks, including sharper-than expected global economic slowdown, and tightening of financial market conditions. This signalled a halt to FFR hikes in the near term. 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 February 2019, the consumer prices fell 0.08% mom or 2.57% on an annual basis. Monthly deflation were driven by falling prices of food component and stable non food component. On the monetary side, BI's Board of Governors maintained its benchmark 7-day Reverse Repo rate unchanged at 6.00% in February 2019. In addition, the deposit facility rate and the lending facility rate were stayed at 5.25% and 6.75%, respectively. BI's monetary policy stance is intended 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 continue to appreciated. In February 2019, the rupiah rose by 0.9% mom, following a 2.4% mom gain in the previous month. Rising trend of rupiah begun since November 2018. In the same period, the average prices of Indonesia's major commodity exports 0.84% mom lower, after increasing 0.77% mom in January 2018. Global oil prices strengthened further 12.0 % mom.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 13.5 bn in February 2019, with imports reaching US\$ 14.5 bn. This will translate into a February 2019 trade deficit of US\$ 0.9 bn.



Source: BPS

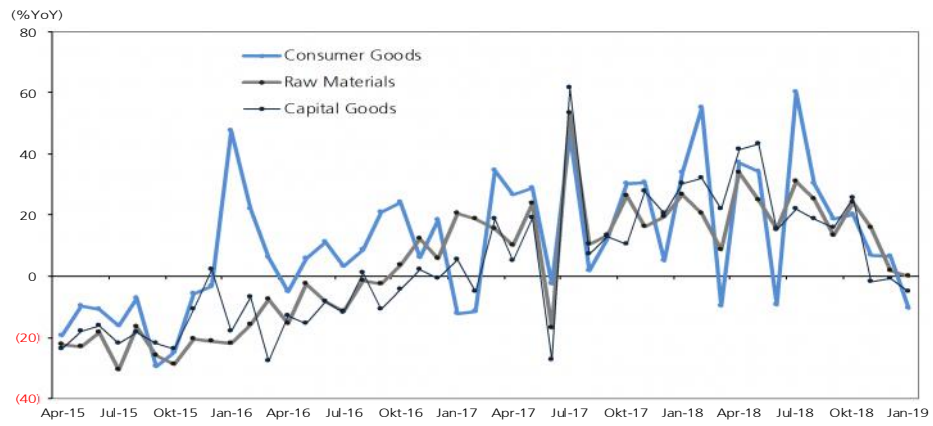


Source: BPS, Danareksa Research Institute



Source: BPS, Danareksa Research Institute

GRAPH 4. YoY CHANGE IN IMPORTS



Source: Bloomberg, CEIC

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