

**May 2016**

## TRADE OUTLOOK

**April Outlook: Sluggish trade**

- ❑ March's trade surplus narrowed to US\$ 497 mn from US\$ 1.1 bn in February 2016, reflecting both slowing exports growth and faster imports growth. Exports reached US\$ 11.7 bn (+4.3% mom, -13.5% yoy), exceeding imports of US\$ 11.3 bn (+11.0% mom, -10.4% yoy). Non oil and gas trade remained in surplus (US\$ 797.7 mn), offsetting the US\$ 300.7 mn oil and gas trade deficit. Year-to-date, Indonesia has posted a US\$ 1.6 bn trade surplus, albeit lower than last year's surplus of US\$ 2.3 bn.
- ❑ Exports volume rose 11.1% mom while average prices, by contrast, fell 6.2% mom. Looking at the top non oil and gas products, the exports of animal or vegetables fats (HS 15) and jewelry (HS 71) fell, while exports of mineral fuel (HS 27) still grew. By destination country, the value of non oil and gas exports to China (+6.9% mom) and the U.S. (+9.2% mom) rose, while they fell to Japan (-3.8% mom).
- ❑ For imports, higher imports value owed to increasing volume shipments (+11.1% mom). Average prices were flat (-0.1% mom). For the non oil and gas imports, imports of mechanical machines/tools (HS 84), electrical machines/tools (HS 85), and plastic (HS 39) rose by 5.9%, 7.6%, and 16%, respectively. By country of origin, imports of non oil and gas products from China were down by 6.2% mom. By contrast, imports from Japan (+5.5% mom) and Thailand (+7.8% mom) posted increases. Imports from China and Japan accounted for the largest share of Indonesia's non oil and gas imports at 25.4% and 10.7%, respectively.
- ❑ By classification of use, imports of capital goods and consumption goods declined by 5.5 percent and 2.8 percent, respectively. By contrast, imports of raw materials climbed 16.9 percent mom.
- ❑ The latest economic data reveals that the economy of one of Indonesia's largest trading partners - the U.S. - grew at a moderate pace, while the performance of the economies of China and Japan were less impressive. Global demand is predicted to remain soft. On a more positive view, the average prices of Indonesia's major commodity exports strengthened (+2.5% mom) with global oil prices rebounding (+21.1% mom). As such, Indonesia's exports value is likely to head higher going forward.
- ❑ The U.S. economy reportedly grew by 2.0% yoy in Q1 2016, slower than in Q1 2015 (+2.9% yoy) but the same as in Q4 2015. In more detail, growth weakened in personal consumption expenditures - PCE (+2.7% yoy), exports (+0.3% yoy), and imports (+1.2% yoy). Meanwhile, fixed investment contracted (-0.1% yoy) and government expenditures expanded (+1.4% yoy). The U.S. CEI and LEI indicate improving conditions. For manufacturing, the latest composite PMI (PMI=50.8) declined in April, indicating softer industrial activity. On the consumer side, the strong labor market and income conditions kept households confidence buoyant. Given the only moderate pace of economic recovery, the Fed decided to maintain the target range for the federal funds rate at 0.25 – 0.50 percent.
- ❑ The latest economic data suggests that China's economy is gradually recovering on the back of improvements in investment and domestic demand. The CEI and LEI have rebounded in the last several months, indicating potential economic expansion in

**Forecast for April 2016**

Exports	US\$ 11.5 bn
Imports	US\$ 11.9 bn
Trade Deficit	US\$ 0.4 bn

**Forecast for 2016**

Exports	US\$ 148.5 bn
Imports	US\$ 147.2 bn
Trade balance	US\$ 1.3 bn

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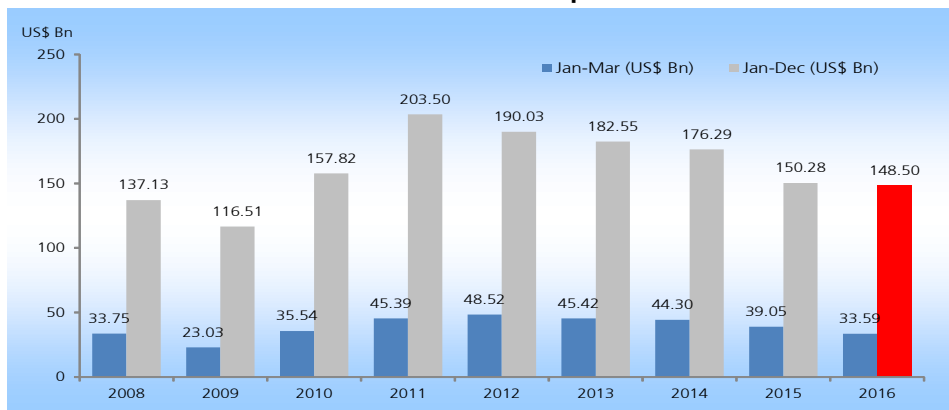
the 6-12 months ahead. On the manufacturing side, the official PMI fell slightly to 50.1, yet remaining above the threshold level, as production and new orders decreased in April. On the domestic demand front, robust household consumption was reflected in strong retail sales growth. In March, retail sales edged up 0.85 percent mom (+10.5% yoy).

- ❑ The Japanese economy isn't showing a significant improvement. The CEI growth is flat, while the LEI growth contracted, suggesting a slowing recovery in the Japanese economy. A strengthening yen continues to weigh on exports and industrial activity. Japan's PMI dipped to 48.2 in April from 49.1 in the previous month, suggesting a contraction in manufacturing. New export orders and production both declined. In regard to flat economic performance and weaker manufacturing activity, the Bank of Japan's decision to not expand its monetary stimulus came as a surprise. On the domestic demand front, March's retail sales were still weak (+1.4% mom, -1.1% yoy) and consumer prices remained subdued (+0.1% mom, -0.1% yoy). Food prices eased while transportation and housing costs declined further.
- ❑ In Indonesia, the latest CEI and LEI suggest that economic activity improved further. In Q1 2016, Indonesia's GDP grew by 4.92 percent yoy, faster than in Q1 2015 (+ 4.73% yoy) sustained by firm domestic demand and investment. On the expenditures side, households consumption (+4.94% yoy), gross fixed capital formation (+5.57% yoy), and government consumption (+2.93% yoy) expanded, while exports contracted (-3.88% yoy). Of the top 5 sectors, manufacturing sector growth reached 4.59% yoy, the agriculture, forestry and fisheries sector +1.85% yoy, the wholesales and retail trade sector +4.04% yoy, and the construction sector (+7.87% yoy. The mining & quarrying sector, however, still contracted (-0.66% yoy). On the monetary side, Bank Indonesia left its benchmark rate unchanged at 6.75 percent, with the Lending Facility and the Deposit Facility rate stayed at 7.25 percent and 4.75 percent, respectively. Stable inflation, lower interest rates, and brighter economic prospects boosted the average USD/IDR rate (+0.15% mom). Meanwhile, stronger consumer and business sentiment suggest brisker economic activities, which, in turn, would lead to higher imports.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 11.5 bn in April 2016, with imports reaching US\$ 11.9 bn. This will translate into a trade deficit of US\$ 436.8 mn in April 2016.



Source: BPS

### 2016 Full Year Exports



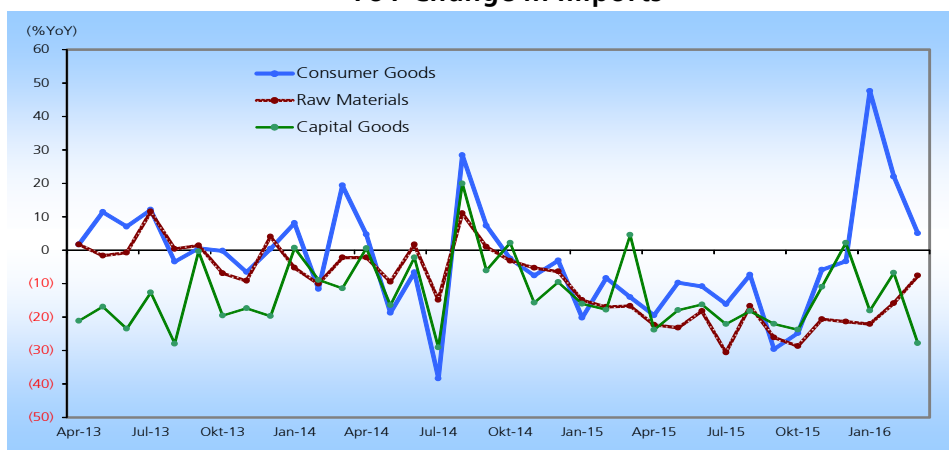
Source: BPS, Danareksa Research Institute

### 2016 Full Year Imports



Source: BPS, Danareksa Research Institute

### YoY Change in Imports



Source: Bloomberg, CEIC

TABLE 1. SELECTED ECONOMIC INDICATORS

No	Country	Selected Economic Indicators	Period	Actual	Previous	Description
1	China	Coincident economic index (CEI)	Feb	93.80	93.23	Both indicators still indicate a moderate growth in China's economy over the near term
		Leading economic index (LEI)	Feb	99.00	98.12	
		Retail sales MoM	Mar	0.85	0.81	Stronger sales of automobiles and food and beverages were behind the acceleration.
		Retail sales YoY	Mar	10.50	10.20	Prices in the food increased by 7.4 percent while non-food cost rose at a slower 1.1 percent
		Inflation rate- MoM	Apr	(0.20)	(0.40)	
		Inflation rate- YoY	Apr	2.30	2.30	
		Benchmark lending (deposit) rate - %	Apr	4.35(1.50)	4.35(1.50)	The benchmark deposit and lending rates have lowered in October 2015. Rates were lowered for the sixth straight time since Nov 2014 in order to prevent further slowdown of the Chinese economy.
Official purchasing managers' index (PMI)	Apr	50.10	50.20	The current PMI above the threshold level of 50. China's manufacturing sector activity is expanding at slower rate, stemmed from decreasing production and new orders in April.		
2	Japan	Coincident economic index (CEI)	Feb	110.70	112.30	Both indicators suggest a slow improvement in Japan's economy over the near term.
		Leading economic index (LEI)	Feb	96.80	101.20	
		Consumer confidence index (CCI)	Apr	40.80	41.60	Consumers were less optimistic toward overall livelihood and current employment condition
		Retail sales MoM	Mar	1.40	(2.30)	Retail activities in Japan has been consistently weakening in the last few months. The sales at department store and supermarket were falling
		Retail sales YoY	Mar	(1.10)	0.50	The price of food eased while cost of housing and transport declined further
		Inflation rate- MoM	Mar	0.10	0.10	
		Inflation rate- YoY	Mar	(0.10)	0.30	
		Benchmark rate (%)	Apr	0.10	0.10	The BOJ will increase the monetary base at an annual pace of about 80 trillion yen through the purchase of Japanese government bonds and other assets (exchange-traded funds, Japanese real estate investment trusts, and corporate bonds). BOJ adopted negative interest rates. This policy results in an interest rate of -0.1 percent in one of three tiers of current accounts held by financial funds at the central bank.
		Markit Purchasing Managers' Index (PMI)	Apr	48.20	49.10	Industrial activity at Japanese manufacturers was contracting, driven by declining output and new exports order
		Core machinery orders-MoM	Feb	(9.20)	15.00	The value of machinery orders received by manufacturers dropped by 0.7 percent yoy, following a 8.4 percent hike in a month earlier. Corporate capital spending over the next 6-9 months is expected to remain stable going forward.
3	U.S.	Coincident economic index (CEI)	Mar	113.30	113.30	Solid U.S. economic recovery and economic expansion will continue at moderate pace
		Leading economic index (LEI)	Mar	123.40	123.20	
		Consumer confidence index (CCI)	Apr	94.20	96.10	Consumers were less optimistic about the short-term outlook, mostly the labor outlook
		Retail sales MoM	Mar	(0.30)	0.00	
		Retail sales YoY	Mar	1.70	3.70	The biggest decline was reported for motor vehicle sales and part dealers (-2.1 percent), followed by clothing (-0.9 percent), sales at food services and drinking places (-0.8 percent) and nonstore retailers
		Inflation rate- MoM	Mar	0.10	(0.20)	
		Inflation rate- YoY	Mar	0.90	1.00	
		Benchmark rate-FFR (%)	Apr	0.25 - 0.50	0.25 - 0.50	Cost of shelter, medical care and food slowed while energy prices slightly declined
ISM Manufacturing (PMI)-index	Apr	50.80	51.80	The Federal Reserve left the target range for its federal funds rate unchanged at 0.25 percent to 0.5 percent in April 2016, following December's hike		
4	Indonesia	Danareksa's coincident econ. index (CEI)	Mar	125.17	124.73	The Indonesian economy will recover going forward
		Danareksa's leading econ. index (LEI)	Mar	133.53	133.34	
		Danareksa's cons confidence index (CCI)	Apr	99.20	101.30	Consumer confidence stable at high level, pushed up by easing concerns on price pressure
		Inflation rate- MoM	Apr	(0.45)	0.19	April's deflation owed to falling prices in the foodstuffs component (-0.94% MoM), housing component (-0.13% MoM), and transportation component (-1.6% MoM)
		Inflation rate- YoY	Apr	3.60	4.45	Easing inflationary pressures over the near term give BI more room to lower rates
		Benchmark rate-BI rate (%)	Apr	6.75	6.75	
		Forex (average USD/IDR)	Apr	13,174.38	13,194.65	
		Indonesia commodity price index-MoM	Apr	2.49	4.73	Rupiah appreciated further. After rose 2.39 % MoM in March, the rupiah strengthened 0.15% MoM in April 2016
		Average global oil price-MoM	Apr	21.08	11.88	Global prices of Indonesia's major export commodities strengthened in April 2016
		Gross Domestic Product-YoY	Q1 2016	4.92	5.04	Global oil prices surged
				Indonesia's GDP grew by 4.92 percent yoy, faster than in Q1 2015 (+ 4.73% yoy) sustained by firm domestic demand and investment. Households consumption (+4.94% yoy), gross fixed capital formation (+5.57% yoy), and government consumption (+2.93% yoy) expanded, while exports contracted (-3.88% yoy)		

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