

May 2018

TRADE OUTLOOK

April Outlook: Softer Trade Activity

- ❑ After exports declined in two straight months, they surged in March to US\$ 15.6 bn (+10.2% mom, +6.1% yoy). Imports also increased: they rose by 2.1% mom (+9.1% yoy) to US\$ 14.5 bn. As a result, Indonesia posted a sizeable trade surplus in March of US\$ 1.09 bn, owing to a strong non oil and gas surplus. Year-to-date, the trade surplus has reached US\$ 282.8 mn, yet far below the surplus in the same period last year of US\$ 4.1 bn.
- ❑ Non oil and gas exports jumped by 11.8% mom to US\$ 14.2 bn in March 2018, while oil and gas exports dropped by 3.8% mom to US\$ 1.3 bn. The monthly increase in exports stemmed from higher exports volume (+12.7% mom, +8.1% yoy), while average prices contracted (-2.1% mom, -1.8% 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 ores slag (HS 26) climbed, whereas the exports of animal and vegetable fats, oil & waxes (HS 15) declined. By destination country, the value of non oil and gas exports to China, Japan and the U.S rose by 14.3%, 12.9%, and 23.6% mom, respectively.
- ❑ Oil and gas imports rose to US\$ 2.3 bn (+1.2% mom), while non oil and gas imports climbed to US\$ 12.2 bn (+2.3% mom). The average prices of imports rose (+8.0% mom, +12.8% yoy) even though volume shipments were lower on a monthly comparison (-5.5% mom, -3.3% yoy). By product type, Indonesia's main non oil and gas imports were mixed. Imports of machinery and mechanical appliances (HS 84) and iron and steel (HS 72) were higher, while imports of machinery and electrical appliances (HS 85) weakened. By country of origin, the imports of non oil and gas products from Japan and Thailand rose by 17.8% mom and 5.3% mom, respectively, while imports from China were 17.8% mom lower.
- ❑ By type of use, the imports of raw materials and capital goods rebounded by 2.6% mom and 8.9% mom in March 2018. By comparison, imports of consumption goods declined by 12.8% mom. In Q1 2018, raw materials accounted for 74.7 percent of non oil and gas imports, followed by capital goods (16.3%) and consumption goods (8.9%).
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to expand as expected. Economic activity continues to strengthen in the U.S. and Japan, while China's economy is stabilizing. Notably, in April 2018, the average prices of Indonesia's major commodity exports increased slightly by 0.23% mom, whereas global oil prices surged 7.2% mom.
- ❑ According to the latest data, the U.S. economy expanded by 2.9 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 (+4.3% yoy), imports (+4.2% yoy), and government expenditure (+1.2% yoy). Meanwhile, the growth in personal consumption-PCE slowed (+2.6% yoy). On the manufacturing side, expansion slowed in April 2018. The April ISM Manufacturing Index fell from 59.3 to 57.3, given softer growth of new orders, production and employment. On the consumer side, U.S. household optimism improved. The consumer confidence index increased

Forecast for April 2018

Exports	US\$ 14.9 bn
Imports	US\$ 14.1 bn
Trade Surplus	US\$ 0.8 bn

Forecast for 2018

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

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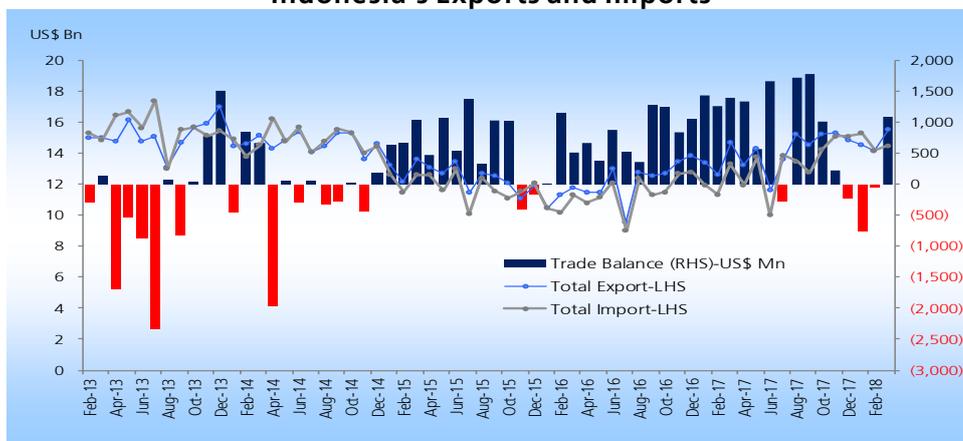
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from 127.0 to 128.7 in April 2018. Consumer expectations on both business and labour market conditions were quite positive. Consumer spending also recovered in March. Following a decline for 3 consecutive months, retail sales rose by 0.6% mom (+4.5% yoy), given higher sales of motor vehicles, furniture, and electronics.

- ❑ China's economic outlook is expected to remain steady. In Q1 2018, China's GDP expanded by 6.8 percent yoy, the same growth as in 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 fell slightly to 51.4 in April 2018 from 51.5 in the prior month. The stable PMI indicates that manufacturing activity expanded at a faster pace. On the consumer side, monthly retail sales grew by 0.73% mom (+10.1% yoy) in March, accelerating from February (+0.71% mom, +9.7% yoy). Sales of building materials, furniture, home appliances and personal care rose at a faster pace. In regard to price developments, consumer prices cooled on both a monthly and annual basis in March (-1.1% mom, +2.1% yoy) from February (+1.2% mom, +2.9% yoy). The cost of both food and non food items increased at a slower pace.
- ❑ The Japanese economy continues to improve, since the CEI and LEI rose further by 1.1% and 1.2% yoy, respectively, in February 2018. On the manufacturing side, the Nikkei Manufacturing Purchasing Managers Index (PMI) rose to 53.8 in April, or above March's final reading of 53.1. Production output and new orders received rose at a faster pace. On the consumer side, consumer spending slumped however. In March, retail sales grew more slowly on both a monthly and annual basis (-0.7% mom, +1.0% yoy) compared to the previous month (+0.4% mom, +1.6% yoy). The sales of food and beverages, fuel, and machinery & equipment edged up at a slower rate. In addition, March's annual consumer prices eased (-0.4% mom, +1.1% yoy). Headline inflation was at its lowest level since December 2017, given easing prices in the food component.
- ❑ The Fed held 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 moderate pace of consumer spending and business fixed investment. The Fed also stated that the 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, other major central banks' policy is also unchanged. The People's Bank of China (PBOC) maintained 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 move, 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 (+1.2%) and LEI (+0.2%) were higher, indicating a brisker pace of economic activity. In regard to consumer prices, monthly headline inflation slowed to 0.10% mom (+3.41% yoy) in April, from 0.20% mom (+3.40% yoy) in the previous month. Prices in most components grew at a slower pace. More specifically, prices in the food component fell by 0.04% mom, while prices in the non food component cooled by 0.17% mom. On the monetary side, BI left the BI 7-day Reverse Repo rate on hold at 4.25 percent with the Lending Facility rate and the Deposit rate at 5.00 percent and 3.50 percent, respectively. BI has kept rates low in consideration of several internal factors including the need to bolster economic growth and keep macroeconomic indicators stable (stable inflation, solid exports, and a more manageable CAD). Externally, the considerations include the fact that the world's major economies are improving, the possibility of more aggressive hikes in the FFR than previously expected, the increasing risk of weaker global trade due to the implementation of inward-oriented trade policy, and heightened geopolitical risks. Meanwhile, the rupiah continued to weaken further. In April 2018, the rupiah fell by 0.4% mom, following its decline in the previous month (-1.1% mom). Year-to-date, the monthly average rupiah's depreciation has reached 1.9 percent.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.9 bn in April 2018, with imports reaching US\$ 14.1 bn. This will translate into a trade surplus of US\$ 835.6 mn in April 2018.

Indonesia's Exports and Imports



Source: BPS

Full-year Exports Performance



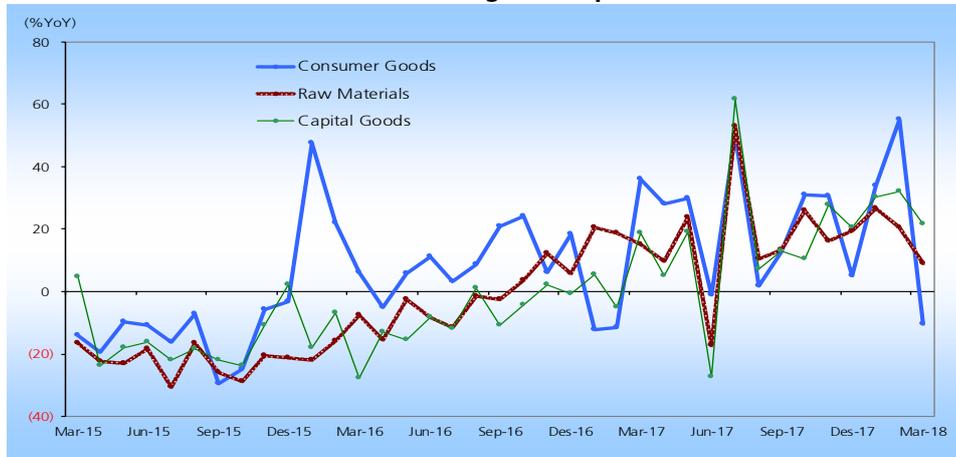
Source: BPS, Danareksa Research Institute

Full-year Imports Performance



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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