

November 2017

TRADE OUTLOOK

October Outlook: to Edge Higher

- ❑ In September 2017, exports fell 4.5 percent mom (+15.7% yoy) to US\$ 14.5 bn. Imports also declined. They were down by 5.4 percent mom (+13.1% yoy) to US\$ 12.8 bn. As a result, Indonesia's trade surplus widened to US\$ 1.76 bn, the largest monthly trade surplus so far this year. Year-to-date, Indonesia's trade surplus now stands at US\$ 10.8 bn.
- ❑ On a monthly basis, the decline in exports was driven by lower average prices (-5.5% mom, +5.7% yoy) since exports were up on a volume basis (+1.0% mom, +9.3% yoy). The value of oil and gas exports (+12.7% mom, +35.6% yoy) increased, while non oil and gas exports (-6.1% mom, +13.8% yoy) declined. A look at the data in more detail reveals that the exports of Indonesia's top non oil and gas commodities were mixed. Exports of animal or vegetables fats, oils (HS 15) and electrical machinery/tools (HS 85) declined, whereas exports of mineral fuel (HS 27) rose further. By destination country, the value of non oil and gas exports to China and the U.S. posted declines (down by 2.8% mom and 9.6% mom, respectively), whereas exports to Japan rose by 3.5% mom.
- ❑ The value of both oil and gas imports (-3.8% mom, +9.5% yoy) and non oil and gas imports (-5.7% mom, +13.8% yoy) declined. Volume shipments of imports declined (-8.6% mom, +2.0% yoy) even though average prices were higher (+3.5% mom, +10.9% yoy). In particular, Indonesia's main non oil and gas imports-such as machinery and mechanical appliances (HS 84), vehicles and parts (HS 87), and organic chemicals (HS 29) posted declines. By country of origin, the imports of non oil and gas products from China, Japan and Thailand contracted by 4.3% mom, 11.7% mom and 4.8% mom, respectively.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods declined by 4.9% mom, 7.1% mom and 5.9% mom, respectively.
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are continuing to perform strongly. Economic expansion is accelerating in the U.S., while economic growth is stabilizing in China and Japan. Notably, the increases in the average prices of Indonesia's major commodity exports declined slightly (-0.33% mom in October), while global oil prices rose strongly (+6.6% mom).
- ❑ The U.S. economy expanded by 2.3 percent yoy in Q3 2017, or faster than in both Q2 2017 (+2.2% yoy) and Q3 2016 (+1.5% yoy). For the expenditures components, growth in personal consumption-PCE eased (+2.6% yoy), while growth in gross private domestic investment (+4.2% yoy), exports (+2.3% yoy), and imports (+3.2% yoy) accelerated. By contrast, government expenditure growth contracted (-0.2% yoy). Economic activity in the manufacturing sector continued to expand with the ISM manufacturing index standing at 58.7 in October. On the consumer side, October's consumer confidence index jumped from 120.6 to 125.9, touching its highest level since December 2000. Consumer assessments of current conditions were more positive, fuelled by a strong job market. And looking ahead, consumers remain upbeat in regard to the short term economic outlook. Consumer spending also increased the most since March 2015. In September, retail sales climbed 1.6 percent mom (+4.4% yoy), driven by recovery in motor vehicle sales.

Forecast for Oct 2017

Exports	US\$ 14.9 bn
Imports	US\$ 13.6 bn
Trade Surplus	US\$ 1.3 bn

Forecast for 2017

Exports	US\$ 161.4 bn
Imports	US\$ 149.7 bn
Trade balance	US\$ 11.7 bn

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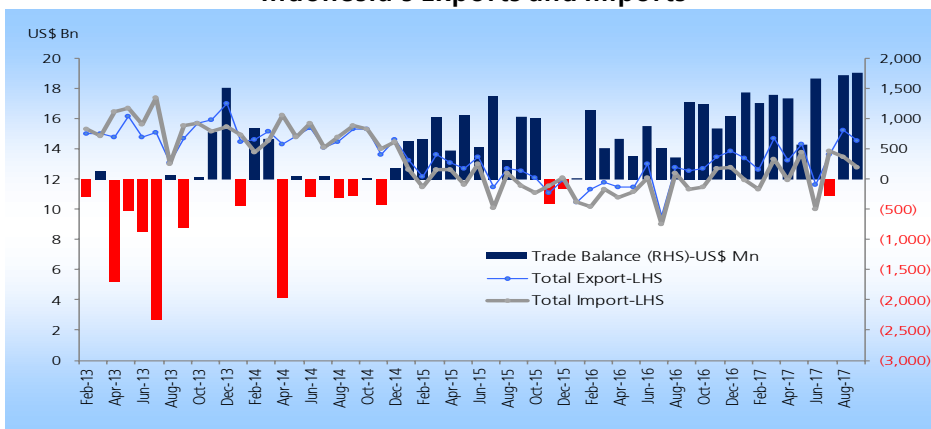
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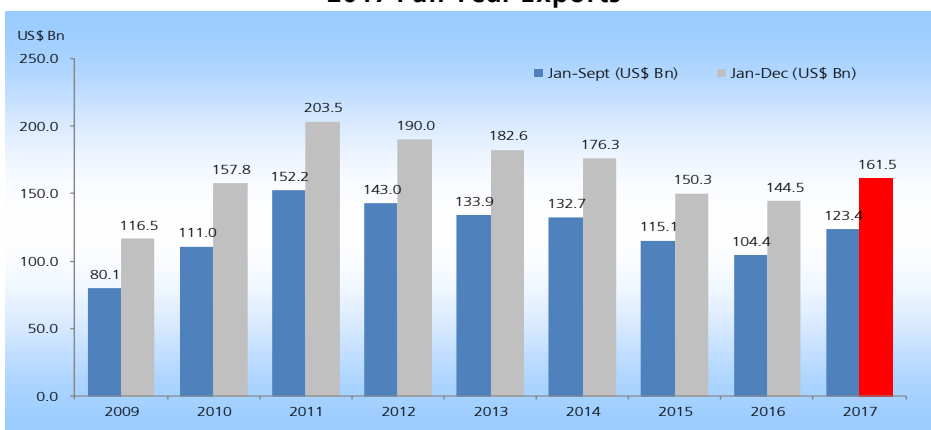
- ❑ China's economy appears to be healthy. China's CEI and LEI increased by 1.9 percent and 1.3 percent yoy, respectively. On the manufacturing side, the official Purchasing Managers Index (PMI) fell to 51.6 in October from 52.4 in September on the back of the slower pace of output, new orders, and exports demand growth. However, the PMI indicator stayed above the 50-point level, pointing toward brisker manufacturing activity. On the consumer side, consumer purchases went up. Monthly retail sales rose in September (+0.90% mom, +10.3% yoy), reflecting stronger sales of fuel, building materials, furniture, and personal care products. Monthly inflation accelerated in September but eased on an annual basis (+0.5% mom, +1.6% yoy), following monthly inflation of 0.4 percent mom in the previous month.
- ❑ Japan's LEI and CEI soared by 6.8 percent and 5.5 percent, respectively, indicating that the economy continues to grow at a faster pace going forward. On the manufacturing side, slowing growth in output, new orders, and new export orders dragged down the Nikkei Manufacturing Purchasing Managers Index (PMI) to 52.8 in October from 52.9 in September. However, the PMI remains above the threshold level of 50, indicating that manufacturing is still accelerating. On the consumer side, sales of retail goods and services rebounded by 0.8 percent mom (+2.2% yoy) in September, following August's monthly decrease of 1.6 percent (+1.8% yoy). The sales of apparel, food and beverages, and fuel increased at a faster pace. In the same period, the inflation rate was flat (+0.0% mom, +0.7% yoy) – steady as in the prior month. Prices of food rose at a faster pace, while the cost of housing declined.
- ❑ In November's meeting, the Fed held its FFR target at 1.00%-1.25%. The Fed expects the economy to expand at a moderate pace, labor market conditions to strengthen and inflation to stabilize at around 2 percent over the medium term. This suggests a rate hike may be on the cards for December. Elsewhere, other major central banks still maintained their accommodative policy. The People's Bank of China (PBOC) maintained its benchmark lending rate at 4.35 percent and its deposit rate at 1.50 percent. In October, the short-term interest rates for 7-day, 14-day and 28-day repo rates stayed at 2.45 percent, 2.6 percent and 2.75 percent, respectively. In Japan, meanwhile, the Bank of Japan (BOJ) left its monetary policy steady. The BOJ left interest rates negative at minus 0.1 percent on the Policy-Rate Balances in current accounts held by financial institutions at the bank. The bank also kept its 10-year government bonds yield target at around zero percent.
- ❑ The Indonesian economy expanded by 5.06 percent yoy in Q3 2017, or faster than in both Q2 2017 (+5.01% yoy) and Q3 2016 (+5.01% yoy). For the expenditures components, growth in household consumption slowed (+4.93% yoy), while growth in gross fixed capital formation (+7.11% yoy), exports (+17.27% yoy), government consumption (+3.46% yoy), and imports (+15.09% yoy) accelerated. In regard to price developments, pressure on consumer prices was steady. Monthly inflation rose by just 0.01 percent (+3.58% yoy) in October 2017, or less than in the previous month (+0.13% mom, +3.72% yoy). Prices in the foodstuffs and transportation components fell by 0.45% mom and 0.13% mom, respectively, while inflation in the other components eased. On the monetary side, BI maintained the BI 7-day Reverse Repo rate at 4.25 percent with the Lending Facility rate and the Deposit rate at 5.00 percent and 3.50 percent, respectively. BI kept rates low in consideration of the need to stimulate the lacklustre domestic economy, the stable inflationary pressures, higher exports and the more manageable current account deficit. At the same time, the rupiah weakened (-1.62% mom) in October after appreciating 0.23 percent in September.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.9 bn in October 2017, with imports reaching US\$ 13.6 bn. This will translate into a trade surplus of US\$ 1.3 bn in October 2017.

Indonesia's Exports and Imports



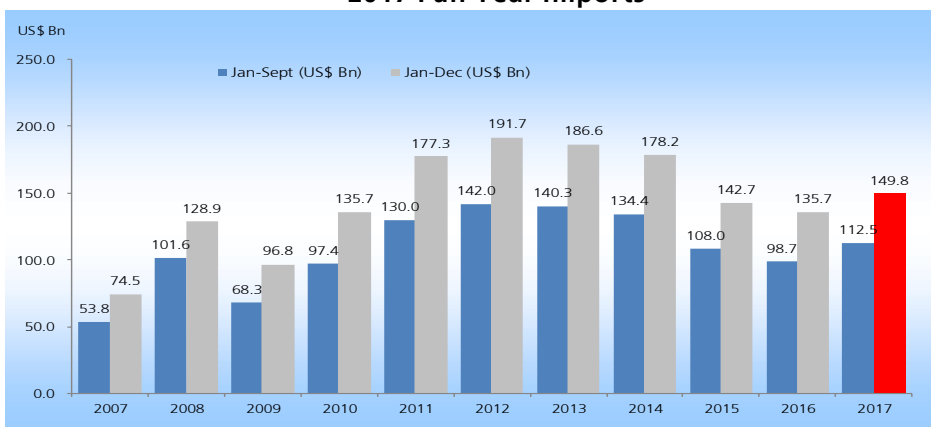
Source: BPS

2017 Full Year Exports



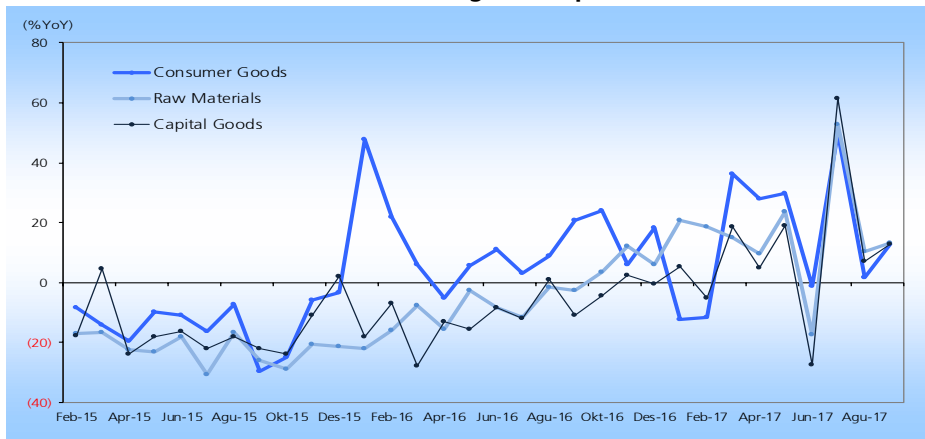
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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