

**November 2018**

## TRADE OUTLOOK

**October Outlook: To Pick Up**

- ❑ In September 2018, Indonesia posted a trade surplus of USD227.1 mn as exports (USD 14.8 bn) exceeded imports (USD 14.6 bn). Although both contracted on a monthly basis, they still grew on a yearly comparison. Exports fell by 6.6% mom (+1.8% yoy) while imports declined more sharply by 13.2% mom (+14.2% yoy). The September surplus is the third surplus in 2018, thanks to an increasing non oil gas surplus and falling oil and gas deficit trade. Year-to-date, the trade deficit has narrowed to USD 3.78 bn. This compares to a surplus of US\$ 10.8 bn in the same period last year.
- ❑ Both oil and gas exports (-15.8% mom) and non oil and gas exports (-5.7% mom) slumped to USD 1.2 bn and USD 13.6 bn, respectively. The lower exports value reflects lower average prices (-8.8% mom, -1.4% yoy) as trade volume actually increased (+2.4% mom, +3.1% yoy). By product type, the performance of Indonesia's top non oil and gas export products worsened. This included machinery and electrical appliances (HS 85), machinery and mechanical appliances (HS 84), and jewelry (HS 71). By destination country, the value of non oil and gas exports to China, Japan, and the U.S dropped by 8.7%, 10.1% mom, and 6.9% mom, respectively.
- ❑ Oil and gas imports (-25.2% mom) and non oil and gas imports (-10.5% mom) fell to USD 2.3 bn and USD 12.3 bn. The lower imports reflect lower volumes (-17.6% mom, -1.5% yoy) as average prices still rose (+5.3% mom, +15.9% yoy). By product type, Indonesia's main non oil and gas imports declined. Imports of machinery and mechanical appliances (HS 84), machinery and electrical appliances (HS 85), and iron and steel products (HS 73) were lower on a monthly basis. By country of origin, the imports of non oil and gas products from China, Japan and Thailand contracted by 6.4% mom, 13.7% mom, and 2.9% mom, respectively.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods fell by 13.5% mom, 10.4% mom, and 14.9% mom in September 2018. In the first 9 months of 2018, raw materials accounted for 75.0 percent of the non oil and gas imports, followed by capital goods (15.8%) and consumption goods (9.2%).
- ❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. economy remains strong, however. The ISM index (at 57.7 in October) indicates robust manufacturing expansion even though new orders, production and new export orders grew at a slower pace. Consumer assessments on current business conditions and employment growth remain positive, as reflected in the rising U.S. consumer confidence index (137.9 in October). Inline with that, consumer spending also strengthened further, as seen in September's higher retail sales (+0.1% mom, +4.7% yoy).
- ❑ The latest indicators suggest that China's economy is softening. On the manufacturing side, the official PMI fell further to 50.2, or the lowest level in 2018. New orders grew slowly, while export sales and employment contracted. On the consumer side, household consumption is still stable, however. In September 2018, retail sales growth accelerated (+0.8% mom, +9.2% yoy) and consumer prices were unchanged on yearly basis (+0.7% mom, +2.5% yoy).

**Forecast for October 2018**

Exports	US\$ 15.4 bn
Imports	US\$ 15.0 bn
Trade Surplus	US\$ 0.4 bn

**Forecast for 2018**

Exports	US\$ 180.3 bn
Imports	US\$ 184.2 bn
Trade balance	US\$ (3.8) bn

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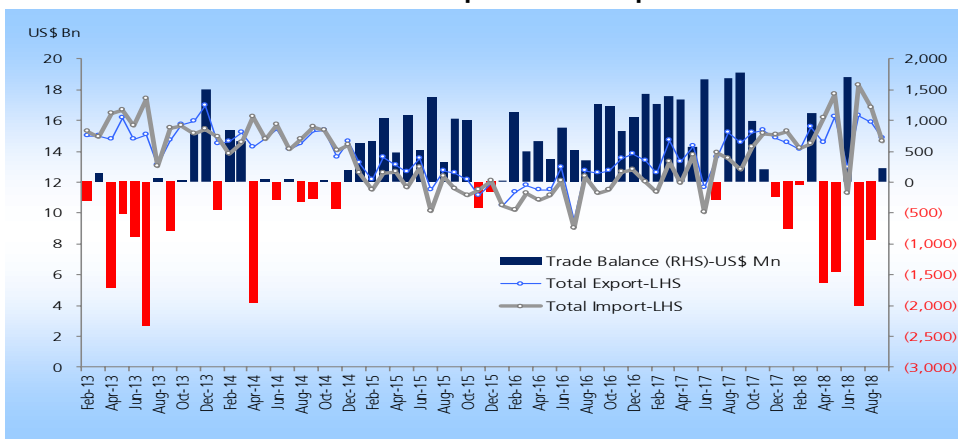
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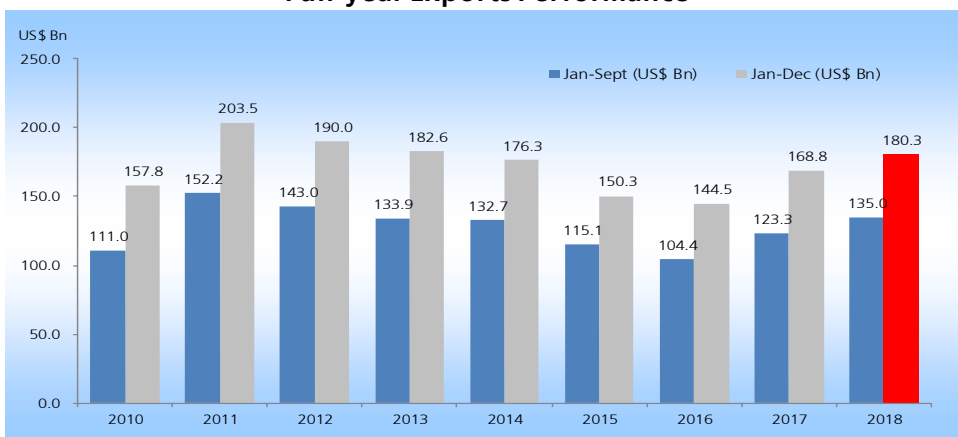
- ❑ Japan's economy is stabilizing. The recent PMI rose (52.9 in October), stemming from accelerating new orders received, production and higher employment. The index indicates that expansion of manufacturing activity remains intact. On the consumer side, retail sales dipped in September (-0.2% mom, +2.1% yoy). In the same period, Japan's inflation rate was flat (+0.0% mom, +1.2% yoy), driven by lower prices in the food components.
  
- ❑ In the November 2018 meeting, the Fed held the FFR rate unchanged at 2% - 2.25%. The policy taken was supported by stronger U.S. economic activity, low unemployment and inflation near its 2 percent target. The Fed also signals that a FFR hike in the December meeting is likely. 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 October meeting decided that the short-term policy rate applied to current account balances held by financial institutions at the Bank was steady 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 Q3 2018, the Indonesian economy expanded by 5.17% yoy, slower than the growth in Q2 2018 (+5.27% yoy), yet still faster than Q3 2017's growth (+5.06% yoy). On the expenditures side, growth in household consumption (+5.01% yoy) and government expenditure (+6.28% yoy) accelerated, while investment (+6.96% yoy), exports (+7.2% yoy) and imports (+14.06% yoy) eased. In terms of price developments, consumer prices started to rise. The inflation rate in October 2018 reached 0.28% mom (+3.16% yoy). This compares to deflation of 0.18% mom (+2.88% yoy) in the previous month. Higher inflationary pressures were driven by increasing prices in the foodstuffs component (+0.15% mom), prepared foods (+0.27% mom), housing (+0.42% mom) and transportation components (+0.26% mom). Increasing prices of non subsidized fuel (Pertamax and Dex series) put additional pressure on general prices. On the monetary side, BI's Board of Governors decided to keep its benchmark 7-day Reverse Repo rate unchanged at 5.75% in October 2018. In addition, the deposit facility rate and the lending facility rate were held at 5.00% and 6.50%, respectively. BI's monetary policy tightening illustrates its desire to maintain investor confidence in the domestic financial markets, create rupiah stability and lower the CAD. Indonesia's economic growth is predicted to remain firm, while the inflation rate should remain stable at a low level. Meanwhile, the rupiah continued to depreciate. In October 2018, the rupiah depreciated by 2.00% mom, following 2.05% mom depreciation in the previous month. Year-to-date, the average rupiah rate has depreciated by 10.7 percent. In the same period, the average prices of Indonesia's major commodity exports fell by 0.73% mom, after increasing 0.72% mom in September 2018. Global oil prices dropped 9.4 % mom.
  
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 15.4 bn in October 2018, with imports reaching US\$15.0 bn. This will translate into a trade surplus of US\$ 406.2 mn in October 2018.

### Indonesia's Exports and Imports



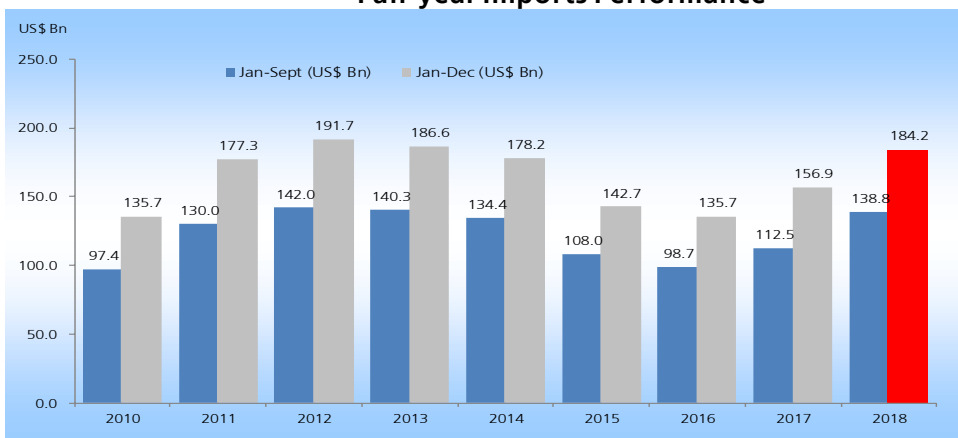
Source: BPS

### Full-year Exports Performance



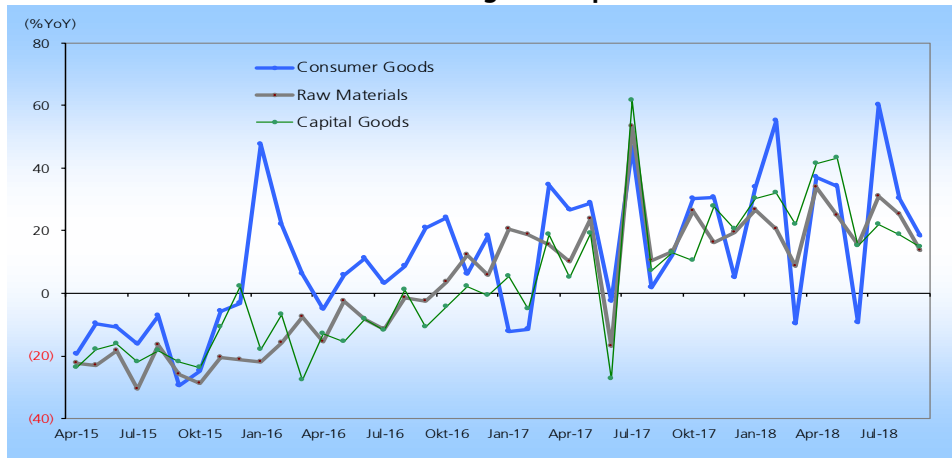
Source: BPS, Danareksa Research Institute

### Full-year Imports Performance



Source: BPS, Danareksa Research Institute

### YoY Change in Imports



Source: Bloomberg, CEIC

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