

October 2017

TRADE OUTLOOK

October Outlook: Moderating Trade

- ❑ Indonesia posted its largest trade surplus for the year in August, supported by sharply higher exports. In August, exports jumped 11.7 percent mom (+19.3% yoy) to US\$ 15.2 bn, while imports dropped by 2.9 percent mom (+8.9% yoy) to US\$ 13.5 bn. As a result, Indonesia recorded a large trade surplus of US\$ 1.7 bn in August after posting a trade deficit of US\$ 274.4 mn in July. This figure surpassed market expectations of a US\$ 548 mn trade surplus. Cumulatively, Indonesia's trade surplus reached US\$ 9.1 bn in the January-August period.
- ❑ The value of oil and gas exports (+9.6% mom, +12.1% yoy) and non oil and gas exports (+11.9% mom, +20.0% yoy) both increased. This surge in exports was mostly driven by higher volume shipments (+5.3% mom, +4.0% yoy) and higher average prices (+6.1% mom, +14.7% yoy). In more detail, the exports of Indonesia's top non oil and gas commodities - such as animal or vegetables fats, oils (HS 15), mineral fuel (HS 27) and electrical machinery/tools (HS 85) rose further. By destination country, the value of non oil and gas exports to China and the U.S. posted increases (up by 21.6% mom and 15.9% mom, respectively), whereas exports to Japan dropped by 5.6% mom.
- ❑ The value of oil and gas imports rose further (+10.2% mom, +9.1% yoy), while non oil and gas imports declined (-4.8% mom, +8.8% yoy). Average prices for imports were lower (-7.4% mom, +7.9% yoy) even though imports volume still rose (+4.9% mom, +0.9% yoy). In particular, the country's main non oil and gas imports - namely electrical machinery/tools (HS 85) and organic chemicals (HS 29) - posted increases, whereas imports of vehicles and parts (HS 87) declined. By country of origin, the imports of non oil and gas products from China rose slightly (+0.5% mom), while imports from Japan and Thailand fell by 10.2% mom and 12.1% mom, respectively.
- ❑ By type of use, the imports of raw materials and capital goods declined 3.5 percent and 5.9 percent, respectively. However, the imports of consumption goods jumped 9.4 percent.
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are strengthening further. Economic expansion is accelerating in the U.S., while economic growth momentum is gaining traction in China and Japan. Notably, the increases in the average prices of Indonesia's major commodity exports decelerated (+3.9% mom in September vs +4.5% mom in August), while global oil prices recovered (+10.4% mom).
- ❑ The U.S. economy expanded at a faster pace in Q2 2017 by 2.2 percent yoy, or faster than in either Q1 2017 (+2.0% yoy) or Q2 2016 (+1.2% yoy). For the expenditures components, growth in personal consumption-PCE eased (+2.7% yoy), while growth in gross private domestic investment (+3.3% yoy), exports (+3.2% yoy), and imports (+4.1% yoy) accelerated. By contrast, government expenditure growth was flat (+0.0% yoy). Manufacturing activity was brisker (August's ISM manufacturing index rose to 60.8 from 58.8) owing to an increase in new orders, higher employment and greater production output. August's ISM is at its highest level since May 2004. On the consumer side, September's consumer confidence index dipped to 119.8 from 120.4. Sentiment was dented by the Harvey and Irma hurricanes. Looking ahead, however, consumers remain upbeat in regard to the short term economic outlook. Consumer spending weakened. In August, retail sales shrank 0.2 percent mom (+3.2% yoy), driven by lower motor vehicle sales.

Forecast for Sept 2017

Exports	US\$ 14.8 bn
Imports	US\$ 13.9 bn
Trade Surplus	US\$ 0.9 bn

Forecast for 2017

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

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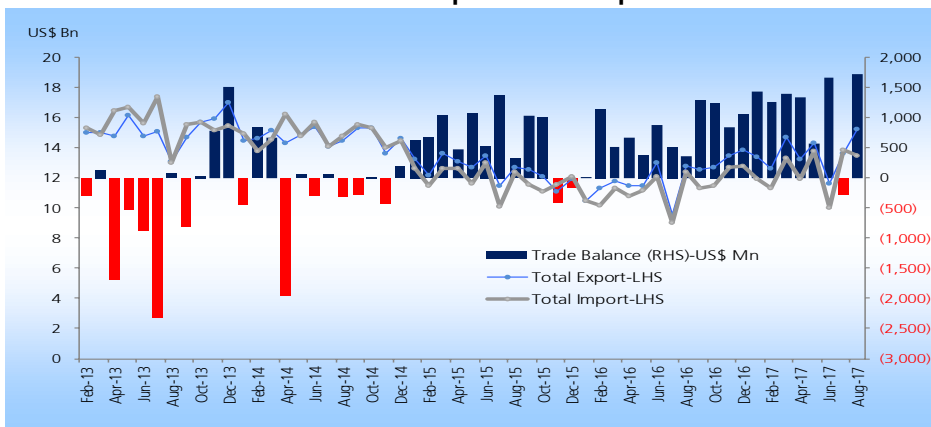
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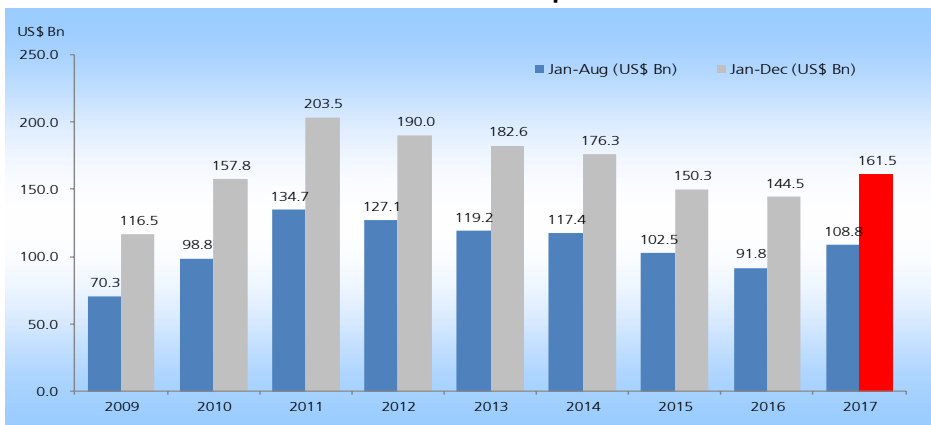
- China's economy is steady. China's CEI and LEI increased by 2.2 percent and 1.9 percent yoy, respectively. On the manufacturing side, the PMI indicator remains above the 50-point level, pointing toward brisker manufacturing activity. The official Purchasing Managers Index (PMI) rose to 52.4 in September from 51.7 in August, boosted by a faster pace of output, new orders, and exports demand growth. On the consumer side, consumer purchases slowed. Monthly retail sales rose in August but eased on an annual basis (+0.76% mom, +10.1% yoy). This was reflected in weaker sales of fuel, automobiles, and building materials. Headline inflation accelerated to a 7-month high (+0.4% mom, +1.8% yoy) in August, following monthly inflation of 0.1 percent mom in the previous month.
- Japan's economy grew at a slower pace than previously estimated. In annual terms, Q2 2017 GDP rose 1.4 percent, or slowing from 1.5 percent in the previous quarter, fuelled by strong domestic demand. On the manufacturing side, a faster pace of growth in output, new orders, and new export orders lifted the Nikkei Manufacturing Purchasing Managers Index (PMI) in September to 52.9 from 52.2 in August. The PMI remains above the threshold level of 50, indicating manufacturing is still expanding. On the consumer side, sales of retail goods and services contracted by 1.7 percent mom (+1.7% yoy) in August, following July's monthly gain of 1.1 percent (+1.8% yoy). The sales of textiles, clothing, and fuel increased at a slower pace. In the same month, the inflation rate increased (+0.2% mom, +0.7% yoy) – its highest level since March 2015. Prices of food rose at a faster pace, while the cost of housing and transportation declined further.
- In September's meeting, the Fed held its FFR target at 1.00%-1.25% with room for another hike this year. The Fed expects the economy to expand at a moderate pace, labor market conditions to strengthen further and inflation to stabilize at around 2 percent. In addition, the central bank announced it would begin reducing its US\$4.5 trillion balance sheet in October. Meanwhile, other major central banks still maintained accommodative policy. For instance, 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 September, the short-term interest rates for 7-day, 14-day and 28-day reverse repurchase agreements (repo rates) were unchanged at 2.45 percent, 2.6 percent and 2.75 percent, respectively. In Japan, the Bank of Japan (BOJ) kept its monetary policy steady (as expected by the market). 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.
- In Indonesia, the current economic conditions gauge-CEI and the forward looking-LEI grew by 1.0% and 2.8%, respectively, on an annual basis, suggesting that Indonesia's economic momentum remains firm. In regard to price developments, pressure on consumer prices began to rise. Monthly inflation rose by 0.13 percent (+3.72% yoy) in September 2017. Prices in the education and prepared foods components jumped 1.03% and 0.34%, respectively, while prices in the foodstuffs component dropped 0.53 percent. On the monetary side, BI surprisingly lowered the BI 7-day Reverse Repo rate by 25 bps to 4.25 percent with the Lending Facility rate and Deposit rate lowered to 5.00 percent and 3.50 percent, respectively. This looser monetary policy was taken in order to stimulate the lacklustre domestic economy in view of the stable inflationary pressures and the more manageable current account deficit. At the same time, the rupiah appreciated (+0.23% mom) in September after trading flat in August.
- In view of the latest developments, we expect Indonesia's exports to reach US\$ 14.8 bn in September 2017, with imports reaching US\$ 13.9 bn. This will translate into a trade surplus of US\$ 866.4 mn in September 2017.

Indonesia's Exports and Imports



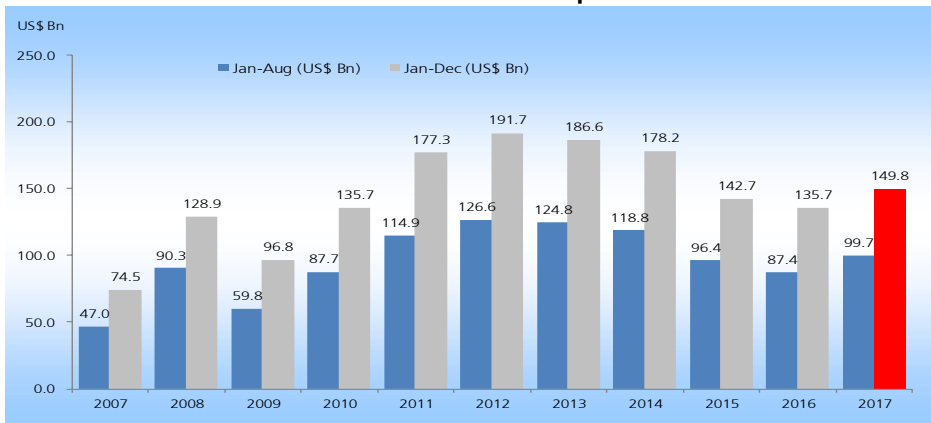
Source: BPS

2017 Full Year Exports



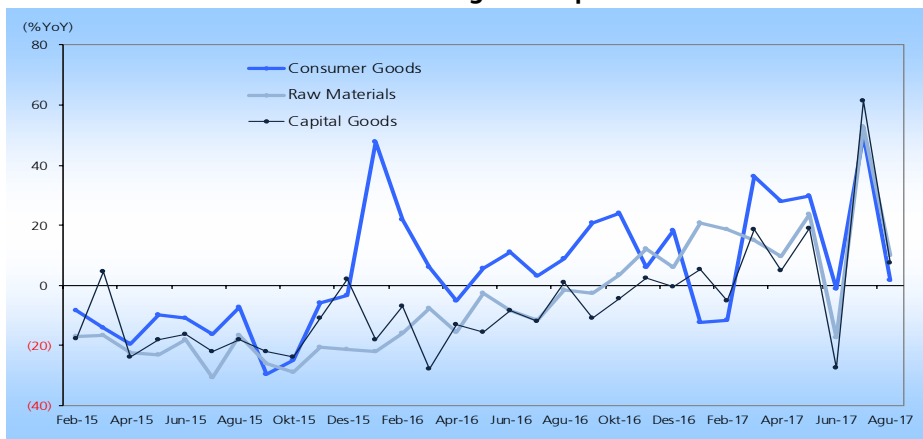
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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