

**October 2018**

## TRADE OUTLOOK

**September Outlook: Little Change**

- ❑ Both exports and imports contracted on a monthly basis in August 2018. Exports reached US\$ 15.8 bn (-2.9% mom, +4.1% yoy) with imports amounting to US\$ 16.8 bn (-8.0% mom, +24.6% yoy). This translates into a trade deficit of US\$ 1.02 bn. While the non oil and gas account actually showed a US\$ 0.6 bn surplus, the oil and gas account posted a huge US\$ 1.7 bn oil and gas deficit. Year-to-date, the trade deficit is US\$ 4.09 bn. This compares to a surplus of US\$ 9.07 bn in the same period last year.
- ❑ Oil and gas exports (-3.3% mom) reached US\$ 1.3 bn, while non oil and gas exports (-2.9% mom) amounted to US\$ 14.4 bn. The lower exports value stemmed from lower volume (-11.8% mom, +0.9% yoy) as average prices actually increased (+10.1% mom, +3.1% yoy). By product type, the performance of Indonesia's top non oil and gas export products were mixed. Exports of mineral fuel (HS 27) fell, while exports of animal or vegetables fats, oil (HS 15) and machinery and electrical appliances (HS 85) inclined. These three products constitute 32.8% of Indonesia's non oil and gas exports. By destination country, the value of non oil and gas exports to China and Japan dropped by 3.8% and 6.8% mom, respectively, although to the U.S they rose by 2.4% mom.
- ❑ Oil and gas imports (+14.5% mom) soared to US\$ 3.0 bn, while non oil and gas imports (-11.8% mom) fell to US\$ 13.8 bn. The lower imports reflect lower average prices (-8.1% mom, +14.5% yoy) as volume shipments still rose (+0.1% mom, +8.9% yoy). By product type, Indonesia's main non oil and gas imports decreased. Imports of machinery and mechanical appliances (HS 84), iron and steel (HS 72), plastics (HS 39), and vehicle and parts (HS 87) 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 7.4% mom, 15.9% mom, and 5.9% mom, respectively.
- ❑ By type of use, the imports of raw materials, capital goods, and consumption goods fell by 7.6% mom, 8.9% mom, and 9.2% mom in August 2018. In the first 8 months of 2018, raw materials accounted for 75.1 percent of the non oil and gas imports, followed by capital goods (15.7%) and consumption goods (9.2%).
- ❑ Recent data indicates signs of moderating economic growth in Indonesia's main trading partners. The U.S. economy is strong. The ISM index (at 59.8 in September) reveals brisk activities in the manufacturing sector, sustained by rising new export orders. The improving economic and job market conditions have bolstered household optimism, as reflected in the rising consumer confidence index (138.4 in September). Consumer spending has also picked up, as seen in August's higher retail sales (+0.1% mom, +6.6% yoy).
- ❑ The latest indicators suggest steady performance in China's economy. On the manufacturing side, the official PMI fell further to 50.8. Output growth eased, while new export orders contracted. On the consumer side, household consumption still picked up, however. In August 2018, retail sales rebounded (+0.6% mom, +9.0% yoy) and inflation picked up (+0.7% mom, +2.3% yoy).

**Forecast for September 2018**

Exports	US\$ 15.6 bn
Imports	US\$ 15.8 bn
Trade Deficit	US\$ (0.2 bn)

**Forecast for 2018**

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

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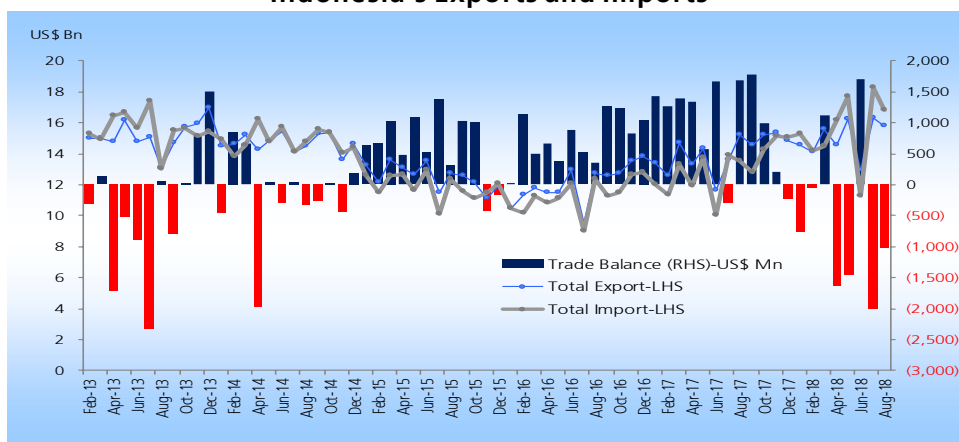
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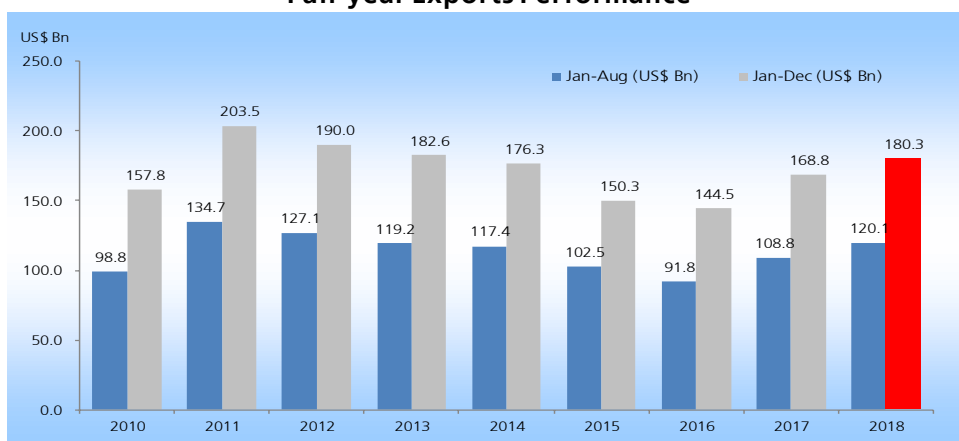
- ❑ Japan's economy is stabilizing. The recent PMI is unchanged (52.5 in September), stemming from accelerating new orders received and higher job creation. The index indicates that expansion of manufacturing activity remains intact. On the consumer side, retail sales climbed in August (+0.9% mom, +2.7% yoy). In the same period, Japan's inflation rate accelerated to its highest level since February (+0.5% mom, +1.3% yoy), driven by rising prices in the food and transportation components.
- ❑ Since the U.S. has posted outstanding economic performance, supported by low unemployment and inflation of only 2 percent, the U.S. central bank raised the FFR target (as expected) by 25 bps at the FOMC meeting in September 2018 to 2% - 2.25%. The Fed expects one more rate hike in 2018, three increases in 2019, and 1 increase in 2020. Forecasts for several economic indicators were also revised up. The GDP growth forecast is 3.1% (2018), 2.5% (2019), and 2% (2020). PCE inflation is projected to reach 2.1% (2018), 2.0% (2019), and 2.1% (2020). The unemployment rate is expected to reach 3.7% (2018), 3.5% (2019 and 2020). Meanwhile, the People's Bank of China (PBOC) and the Bank of Japan (BOJ) remain committed toward their current monetary policies. 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 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.
- ❑ Indonesia's CEI (+1.8%) and LEI (+1.6%) strengthened further, indicating a brisker pace of economic activity. In terms of price developments, monthly deflation reached 0.18% mom (+2.88% yoy) in September 2018, following deflation of 0.05% mom (+3.20% yoy) in the previous month. Lower inflationary pressures were driven by lower prices in the foodstuffs component (-1.62% mom) and transportation component (-0.05% mom). In particular, prices in the volatile component fell (-1.83% mom) and they were unchanged in the administered component (+0.0% mom). On the monetary side, BI's Board of Governors decided to raise its benchmark 7-day Reverse Repo rate further in September 2018 by 25 bps to 5.75%. In addition, the deposit facility rate and the lending facility rate rose to 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 keep the CAD within a safe level. Indonesia's economic growth is predicted to remain firm, while the inflation rate should remain stable at a low level.
- ❑ Meanwhile, the rupiah weakened further. In September 2018, the rupiah depreciated by 2.0% mom, following 1.2% mom depreciation in the previous month. Year-to-date, the monthly average rupiah rate has depreciated by 8.9 percent. In the same period, the average prices of Indonesia's major commodity exports fell by 0.6% mom, after increasing 0.6% mom in August. Global oil prices jumped 6.2% mom.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 15.6 bn in September 2018, with imports reaching US\$ 15.8 bn. This will translate into a trade deficit of US\$ 216.8 mn in September 2018.

### Indonesia's Exports and Imports



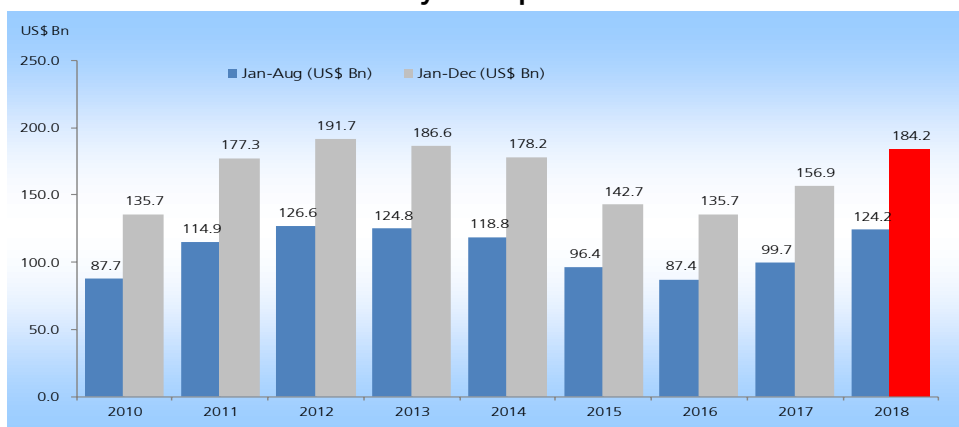
Source: BPS

### Full-year Exports Performance



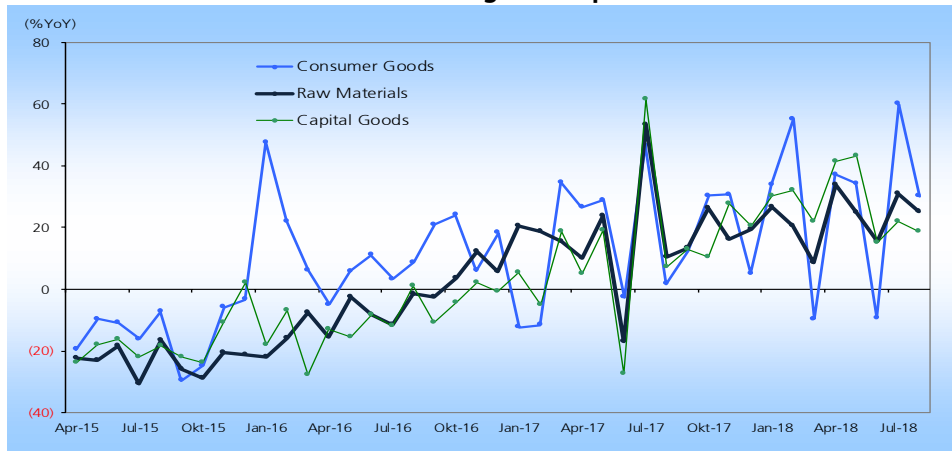
Source: BPS, Danareksa Research Institute

### Full-year Imports Performance



Source: BPS, Danareksa Research Institute

### YoY Change in Imports



Source: Bloomberg, CEIC

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