

September 2017

TRADE OUTLOOK

August Outlook: Steady

- ❑ Indonesia recorded much brisker trade in July on both a monthly and annual basis. This was thanks to higher volume shipments and rising prices. In regard to exports, they rose 16.8 percent mom (+42.9% yoy) to US\$ 13.6 bn. Imports also rose strongly: up by 39% mom (+54.0% yoy) to US\$ 13.9 bn. This resulted in a trade deficit of US\$ 271.2 mn, the first deficit in 2017. Note that the median consensus was for a surplus of US\$ 1.12 bn. Cumulatively, Indonesia's trade surplus reached US\$ 7.4 bn in the January-July period.
- ❑ Rising volume shipments (+12.7% mom, +15.7% yoy) and higher average prices (+3.6% mom, +22% yoy) were behind the large increase in exports value. More specifically, 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 rubber and rubber products (HS 40) drove the increase in non oil and gas exports (+19.8% mom). By destination country, the value of non oil and gas exports to China, the U.S. and Japan all posted increases (up by 18.5% mom, 16.7% mom, and 32.7% mom, respectively).
- ❑ The higher imports were due to higher imports volume (+20.3% mom, +31.3% yoy) and higher average prices (+15.5% mom, +17.3% yoy). The country's main non oil and gas imports - namely mechanical machinery/tools (HS 84), electrical machinery/tools (HS 85) and plastics (HS 39) – posted significant increases. By country of origin, the imports of non oil and gas products from China, Japan, and Thailand surged by 46.2% mom, 60.7% mom, and 40.6% mom, respectively.
- ❑ By type of use, the imports of raw materials and capital goods jumped 40.8 percent and 62.6 percent, respectively. By contrast, imports of consumption goods fell by 3.1 percent.
- ❑ The latest data indicates that the economies of Indonesia's main trading partners are generally expanding. The U.S. economic expansion is accelerating, while China's growth momentum is gaining traction. Meanwhile, the Japanese economy continues its strong pickup. Notably, the average prices of Indonesia's major commodity exports increased (+4.6% mom), while global oil prices lost ground (-2.8% mom).
- ❑ The U.S. economy expanded at a faster pace in the second quarter. In Q2 2017, the economy grew 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 (+3.3% yoy), and imports (+4.1% yoy) accelerated. By contrast, government expenditure growth was static (-0.1% yoy). Manufacturing activity also continues to grow (August's ISM manufacturing index rose to 58.8 from 56.3). Employment and production output expanded. On the consumer side, the consumer confidence index improved further to 122.9 in August from 120. Household appraisals of current economic conditions were more positive and consumers believed the economic outlook was stable. Moreover, consumer spending regained its momentum. In July, retail sales climbed 0.6 percent mom (+4.2% yoy), bolstered by strong sales at miscellaneous store retailers and motor vehicle sales.

Forecast for Aug 2017

Exports	US\$ 13.4 bn
Imports	US\$ 12.7 bn
Trade Surplus	US\$ 0.7 bn

Forecast for 2017

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

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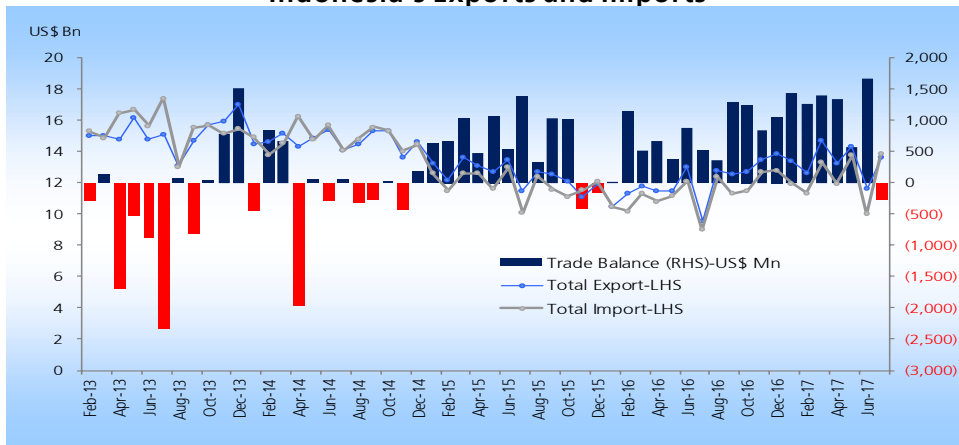
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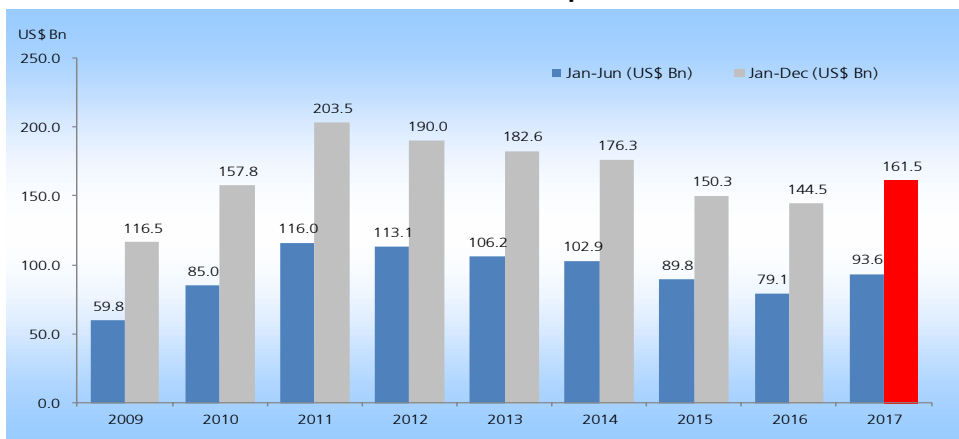
- ❑ China's economy is stabilizing. The latest China CEI and LEI strengthened further by 2.5 percent and 2.3 percent yoy, respectively. On the manufacturing side, the PMI indicator remained above the 50-point level, pointing toward brisker manufacturing activity. The official Purchasing Managers Index (PMI) rose to 51.7 in August from 51.4 in July, sustained by a faster pace of output and new orders growth. On the consumer side, consumer purchases slowed. After posting higher monthly sales in June (+0.93% mom, +11% yoy), retail sales grew at a slower pace in July (+0.73% mom, +10.4% yoy). This reflected weaker sales of automobiles, food, and clothing. In the same period, the headline inflation picked up (+0.1% mom, +1.4% yoy), following monthly deflation of 0.2 percent mom in the previous month.
- ❑ Japan's economy expanded further in the second quarter this year. In annual terms, Q2 2017 GDP rose 2.0 percent, accelerating from 1.5 percent in the previous quarter, fuelled by strong domestic demand. On the manufacturing side, a slight improvement in output, new orders, and employment pushed up the Nikkei Manufacturing Purchasing Managers Index (PMI) in August to 52.2 from 52.1 in July. The PMI remains above the threshold level of 50, indicating manufacturing is still expanding. On the consumer side, July's sales of retail goods and services increased by 1.1 percent mom (+1.9% yoy), compared to a 0.2 percent mom gain (+2.1% yoy) in June. The sales of clothing, motor vehicles, and fuel increased at a slower pace. In the same month, the inflation rate was flat (+0.0% mom, +0.4% yoy) - steady for four months. Prices of food and transportation rose at a slower pace, while the cost of housing declined further.
- ❑ The Minutes of July's FOMC meeting stated that based on the current assessment of U.S. economic conditions as well as the outlook, it was appropriate to signal that implementation of reducing the Federal Reserve's securities holdings would begin relatively soon. 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. The FFR target remains in the range of 1.00%-1.25%. Meanwhile, other major central banks also left their monetary policy unchanged. 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 August, the PBOC held the short-term interest rates for 7-day, 14-day and 28-day reverse repurchase agreements (repo rates) at 2.45 percent, 2.6 percent and 2.75 percent, respectively. In Japan, the Bank of Japan (BOJ) maintained its accommodative monetary policy stance. The central bank 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 BOJ also kept its 10-year government bonds yield target at around zero percent.
- ❑ On an annual basis, the current economic conditions gauge-CEI and the forward looking-LEI grew by 0.5% and 2.3%, respectively, suggesting that Indonesia's economic momentum remains firm. On price developments, pressure on prices tended to cool. Monthly consumer prices fell by 0.07 percent (+3.82% yoy) in August 2017. Prices in the foodstuffs and transportation components were down by 0.67% and 0.60%, respectively, while prices in the education component surged 0.89 percent. On the monetary side, BI cut the BI 7-day Reverse Repo rate by 25 bps to 4.50 percent with the Lending Facility rate and Deposit rate lowered to 5.25 percent and 3.75 percent, respectively. At the same time, the rupiah appreciated slightly (+0.01% mom) after falling by 0.25 percent mom in July.
- ❑ In view of the latest developments, we expect Indonesia's exports to reach US\$ 13.4 bn in August 2017, with imports reaching US\$ 12.7 bn. This will translate into a trade surplus of US\$ 684.8 mn in August 2017.

Indonesia's Exports and Imports



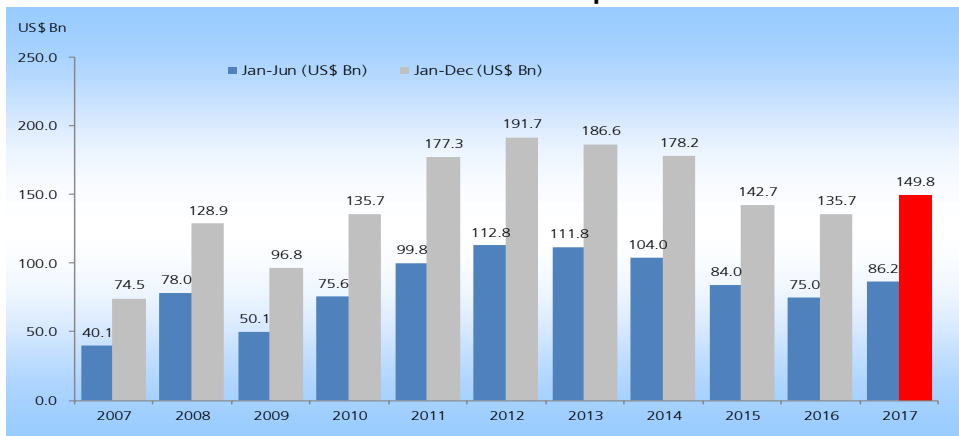
Source: BPS

2017 Full Year Exports



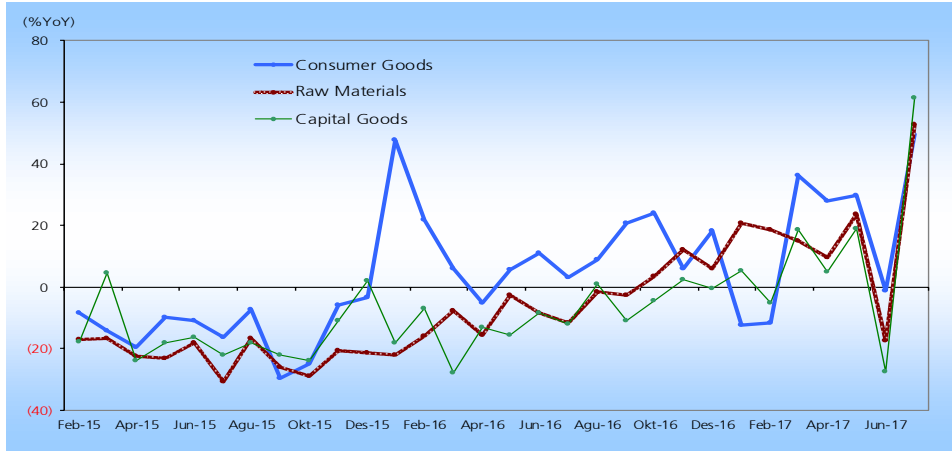
Source: BPS, Danareksa Research Institute

2017 Full Year Imports



Source: BPS, Danareksa Research Institute

YoY Change in Imports



Source: Bloomberg, CEIC

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