

## Trade:

# Tightening squeeze

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### Executive Summary

- Trade surplus narrowed to USD 0.47 Bn in July 2024, with exports declining at a faster rate than imports (-12.0% vs -2.7%% MoM, working days adjusted)
- Exports increased for precious metals and copper, while exports for major commodities such as coal, CPO, and metals dropped.
- Consumption goods and raw material imports saw a decline, but offset by increase in capital goods and coal imports.
- Global manufacturing slowdown remains a headwind for commodities, limiting the upside for Indonesian trade balance and increasing dependence on public-sector investment for growth in H2-24.

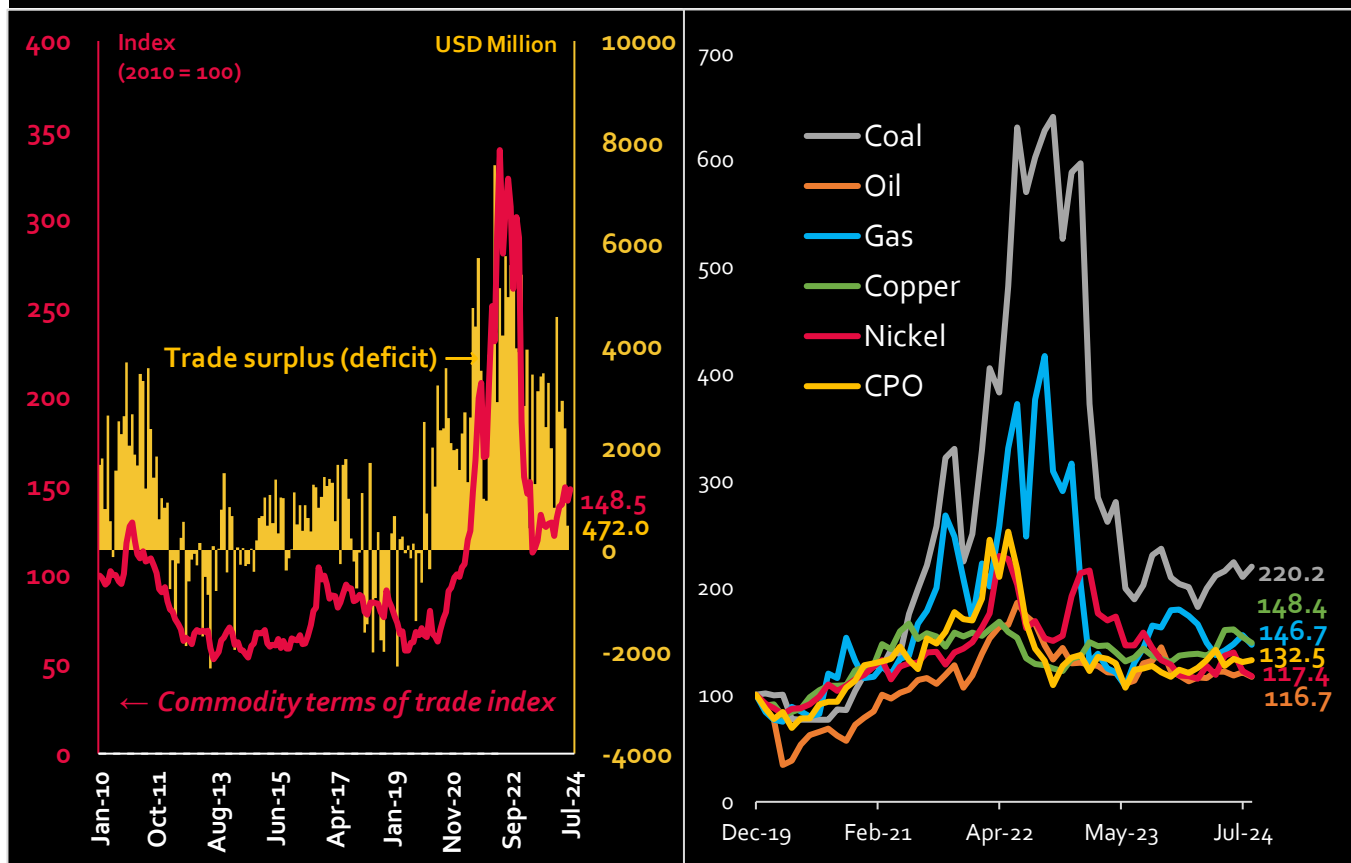
- Indonesia's trade surplus contracted sharply in July, falling to USD 0.47 Bn from 2.39 Bn in June, substantially below the last three years' average of over USD 3 Bn. While both exports and imports showed apparent increases, these were largely attributed to the higher number of working days in July. When adjusted for working days, the figures reveal a different story, with apparent decrease both in annual terms (exports: -7.4%, imports -3.4%) and in monthly terms (-12.0% and -2.7%, respectively).
- The most notable increases in exports were in precious metals and copper. Precious metals benefitted from a recent "gold rush" driven by expectations on Fed rate cut, while the latter's surge can be attributed to the relaxation of export restrictions on copper ores.
- However, this positive trend was offset by declines in major export commodities such as coal, CPO, and nickel derivatives (HS 72), as demand remains sluggish. CPO exports, in particular, plummeted by 39.22% MoM, showing that the previous month's rebound was a mere blip.
- The weak export numbers were largely as we anticipated, so the surprisingly narrow surplus was largely due to higher-than-expected import growth. There was an unexpected surge in mineral fuel imports, particularly coal from Australia. This aligns with recent development, whereby Indonesian companies are acquiring Australian coal assets in order to supply higher-grade (metallurgical) coal to fuel Indonesia's growing smelting industry.
- Still, imports of consumption goods and raw materials actually declined when adjusted for working days (-4.0% MoM and -3.1% MoM, respectively), which signal weak demand from consumption and manufacturing. On the other hand, capital goods managed to increase in

monthly terms (+0.3%, working day adjusted), despite signs of softening investment from recent data.

- It is interesting to note that the composition of this year's capital goods imports are a bit different from last year's, when a bona fide investment boom (especially in smelters) was in full swing. Where machinery imports from Germany surged last year, this year actually saw a decline in German machinery (-18.0% YoY), while those from Singapore rose (+53.7%).
- With most signs pointing to a slowdown in domestic consumption, then, could we rely on investment to drive growth? It is certainly plausible, although the picture for the private sector is certainly more mixed. We can, however, be more sanguine about public-sector investment, given the current hot pursuit of legacy projects, such as the PSN (Proyek Strategis Nasional) and the new capital city (IKN). This probably implies relatively modest decline in imports going forward.
- On the export side, however, the situation is less rosy. Global manufacturing slowdown, as shown from recent PMI readings for China, Japan, and the US, is an obvious headwind for commodities – even coal, which had recovered of late. The latest data from China, which shows weak fixed-asset investment and even weaker loan growth in July, only adds to this gloom.
- Nonetheless, we are not yet ready to declare July's narrow trade surplus as the new normal – it certainly looks like more of an exception rather than the rule, which would probably be around USD 1.5 – 3.0 Bn. And of course, the concerns over weak economic readings in both the US and China only fans the hope for a Fed rate cut and Chinese government stimulus, sooner rather than later. The question, of course, is whether these actions would be swift and effective enough to uphold global aggregate demand. More likely, these measures would take time to affect manufacturing and commodities, leaving our trade balance in a less secure position in the short-term.

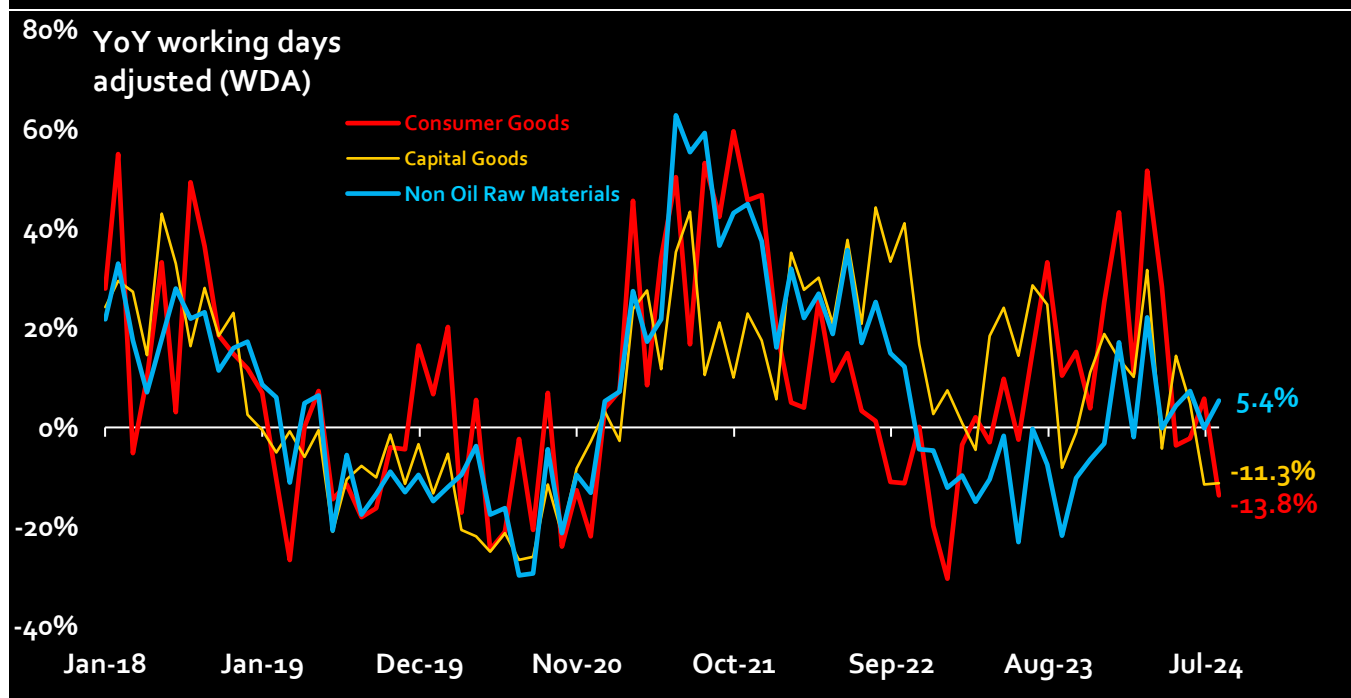
*"Consumption goods and raw materials imports decline, which signal weak demand from consumption and manufacturing"*

**Panel 1. Indonesia's trade surplus narrowed, industrial metal prices are lowering down**



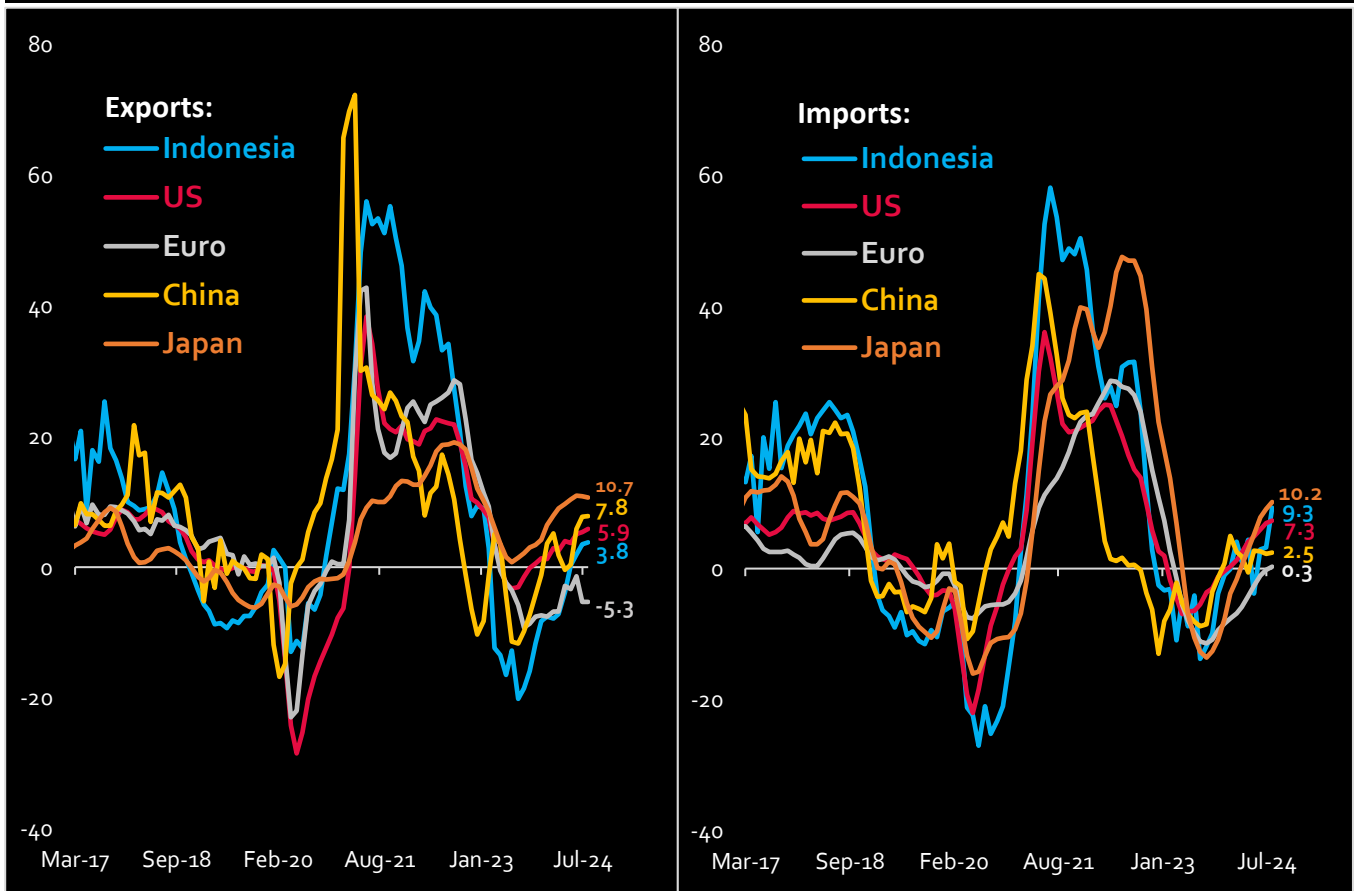
Source: BPS, Bloomberg, BCA Economist calculations

**Panel 2. Consumer goods dropped significantly, indicating a weakening in demand**



Source: BPS, BCA Economist

**Panel 3. Imports from China are slowing down compared to other countries**



Source: Bloomberg

**Panel 4. Indonesia's manufacturing activities are contracting, but peers like India and Vietnam are accelerating**

PMI Manufaktur	2023												2024							
	PMI	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Indonesia		51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3
Malaysia		46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8	47.9	47.9	49.0	49.5	48.4	49.0	50.2	49.9	49.7
Thailand		54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5	47.6	45.1	46.7	45.3	49.1	48.6	50.3	51.7	52.8
Philippines		53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6	52.4	52.7	51.5	50.9	51.0	50.9	52.2	51.9	51.3	51.2
Vietnam		47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6	47.3	48.9	50.3	50.4	49.9	50.3	50.3	54.7	54.7
India		55.4	55.3	56.4	57.2	58.7	58.7	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1
Australia		50.0	50.5	49.1	48.0	48.4	48.2	49.6	49.6	48.7	48.2	47.7	47.6	50.1	47.8	47.3	49.6	49.7	47.2	47.5
China		50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4
South Korea		48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8	50.0	49.9	51.2	50.7	49.8	49.4	51.6	52.0	51.4
Japan		48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9	48.0	47.2	48.2	49.6	50.4	50.0	49.1
Euro Area		48.8	48.5	47.3	45.8	44.8	43.6	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8
US		47.4	47.7	46.3	47.1	46.6	46.0	46.4	47.6	49.0	46.7	46.7	47.4	49.1	47.8	50.3	49.2	48.7	48.5	46.8
Mexico		48.9	51.0	51.0	51.1	50.5	50.9	53.2	51.2	49.8	52.1	52.5	52.0	50.2	52.3	52.2	51.0	51.2	51.1	49.6

Source: BI, Bloomberg

## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Aug	-1 mth	Chg (%)
US	5.50	Jul-23	2.60	Baltic Dry Index	1,728.0	1,997.0	-13.5
UK	5.00	Aug-23	2.80	S&P GSCI Index	541.9	572.4	-5.3
EU	4.25	Jul-23	1.65	Oil (Brent, \$/bbl)	79.8	85.0	-6.2
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	151.0	137.8	9.6
China (lending)	2.30	Aug-23	3.85	Gas (\$/MMBtu)	2.18	2.17	0.5
Korea	3.50	Jan-23	0.90	Gold (\$/oz.)	2,447.9	2,411.4	1.5
India	6.50	Feb-23	2.96	Copper (\$/MT)	8,863.8	9,726.9	-8.9
Indonesia	6.25	Apr-24	4.12	Nickel (\$/MT)	16,018.7	16,577.9	-3.4
Money Mkt Rates	14-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	872.4	859.2	1.5
SPN (3M)	6.47	6.56	-8.2	Rubber (\$/kg)	1.75	1.66	5.4
SUN (10Y)	6.74	6.93	-18.8	External Sector	Jul	Jun	Chg (%)
INDONIA (O/N, Rp)	6.21	6.28	-6.1	Export (\$ bn)	22.21	20.85	6.55
JIBOR 1M (Rp)	6.90	6.90	-0.1	Import (\$ bn)	21.74	18.45	17.82
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	0.47	2.39	-80.29
Lending (WC)	8.86	8.85	1.37	Central bank reserves (\$ bn)*	145.4	140.2	3.74
Deposit 1M	4.68	4.65	2.54	Prompt Indicators	Jun	May	Apr
Savings	0.67	0.68	-1.07	Consumer confidence index (CCI)	123.3	125.2	127.7
Currency/USD	14-Aug	-1 mth	Chg (%)	Car sales (%YoY)	-11.8	-13.2	-17.4
UK Pound	0.779	0.770	-1.22	Motorcycle sales (%YoY)	3.5	-4.5	18.3
Euro	0.908	0.917	0.96	Manufacturing PMI	Jul	Jun	Chg (bps)
Japanese Yen	147.3	157.8	7.13	USA	49.6	51.6	-200
Chinese RMB	7.141	7.250	1.53	Eurozone	45.8	45.8	0
Indonesia Rupiah	15,678	16,138	2.93	Japan	49.1	50.0	-90
Capital Mkt	14-Aug	-1 mth	Chg (%)	China	49.8	51.8	-200
JCI	7,436.0	7,327.6	1.48	Korea	51.4	52.0	-60
DJIA	40,008.4	40,000.9	0.02	Indonesia	49.3	50.7	-140
FTSE	8,281.1	8,252.9	0.34				
Nikkei 225	36,442.4	41,190.7	-11.53				
Hang Seng	17,113.4	18,293.4	-6.45				
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)				
Stock	3,322.0	3,273.1	48.98				
Govt. Bond	813.1	808.1	4.97				
Corp. Bond	7.6	8.2	-0.60				

Source: Bloomberg, BI, BPS

Notes:

\*Data from earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, >50 indicates economic expansion, <50 otherwise



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## Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

\* Estimation of Rupiah's fundamental exchange rate

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