

Trade:

Recoil after the slump

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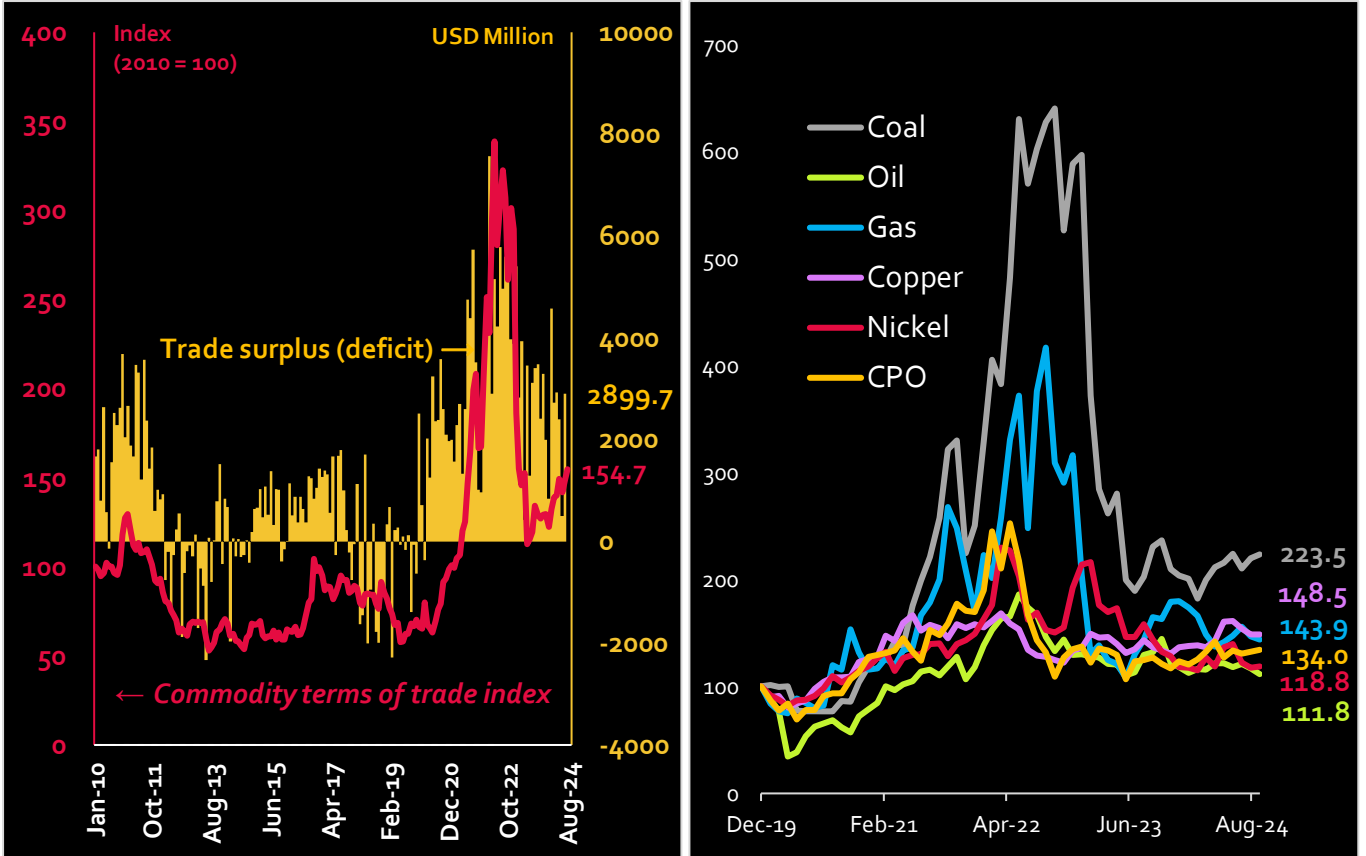
Executive Summary

- Trade surplus rose to USD 2.89 billion in August, but may remain relatively narrow as export growth lagged behind imports (7.13% vs. 9.46% YoY).
- Exports were driven by a rebound in CPO exports, higher metal ore shipments, and increased exports of electrical equipment (HS85) and machinery (HS84).
- Consumer goods remain weak vis-à-vis raw materials (ex-oil) and capital goods, but an uptick in cereal imports may signal government support for demand ahead of the Regional Elections.
- Resolving the current slowdown is not a simple matter of cutting interest rates, but may require a combination of fiscal expansion, SRBI unwinding, and a controlled depreciation of Rupiah.

- Indonesia's trade surplus rose sharply in August to USD 2.89 Bn, from USD 0.47 Bn in July. This improvement was expected, given the prior one-off decline in CPO exports. Still, the fact that annual export growth is still lower than imports (7.13% vs. 9.46% YoY) strengthens our view that the trade surplus will remain slimmer relative to previous years.
- Aside from CPO, which rebounded nicely (+24.5% MoM), exports were also boosted by metal ores (HS 26), with copper ores/concentrates continuing to rise after the lifting of export restrictions. Nonetheless, both raw materials may face some challenge going forward, with India recently raising tariff on CPO and related products by 20% on one hand, and continuing metal glut in China on the other hand.
- There is, however, one piece of unambiguous good news, namely the increase in exports of electrical equipment (HS 85) and machinery (HS 84) by 25.7% and 12.5% MoM, respectively. Much of these were driven by demand from the US, which could be a sign that Indonesia is finally starting to benefit from the "relocation sweepstakes". As we have written in previous reports, Indonesia seems to be a relative laggard in this contest compared to countries like Vietnam and Malaysia, which has enjoyed a mini-renaissance in electronics exports recently.
- On the import side, consumer goods continue its steep decline, now at -14.8% YoY (working days-adjusted). This partly reflects weakening demand, especially from those in the border-lines between poverty and middle class (the so-called "aspiring middle class"). Nonetheless, it would not surprise us if part of this decline was simply due to imports moving towards illicit "back-channels", as a result of recent changes in policies aimed at curbing the influx of cheap Chinese goods.

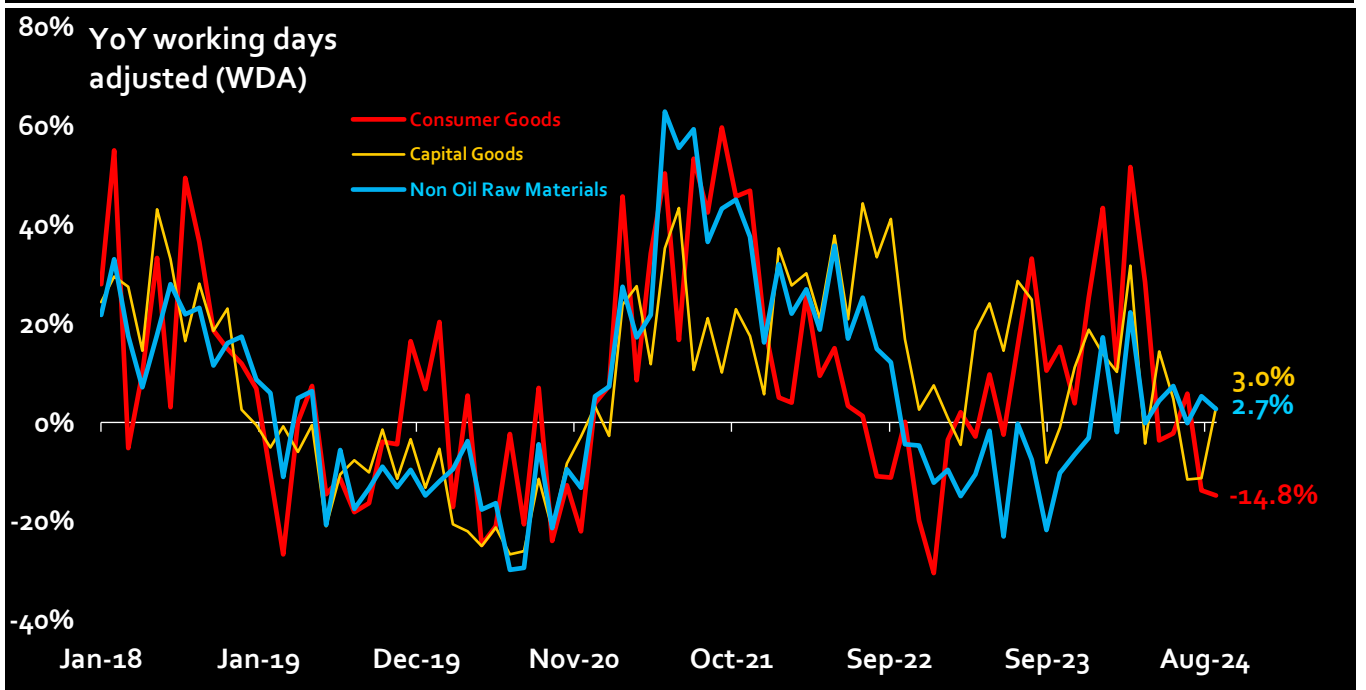
- Imports of capital goods and raw materials (ex-oil), on the other hand, remains subpar but not in negative territories. As such, fixed-asset investment (FAI) and manufacturing appear to be more reliable sources of growth – albeit unevenly distributed. Recent oil price decline, meanwhile, should also help our trade surplus and CA balance despite an overall worsening trend.
- Cereals (HS 10), meanwhile, present an intriguing data point. Although food deflation has persisted for the past five months, the short-term rise (+19.0% MoM) in cereal imports may point to the government's worry regarding domestic food supplies, especially ahead of the upcoming Regional Elections. We should also note that while last year's El Niño has shifted into a mild La Niña conditions, several rice-growing regions in Java are still struggling with drought, leading potentially to subpar harvest season in September-October.
- The news cycle, of course, has been dominated by speculations of faster Fed rate cuts, which has led some to advocate BI to start cutting rates in September, ahead of the FOMC (versus the Q4 start it hinted in previous meetings). But even if this materializes, such a rate cut at this juncture might not much move the needle except in the capital and FX markets. As we have often stated, factors that hamper liquidity or purchasing power recently (SRBI issuance, layoffs in labor-intensive industries) are often tangential to the BI Rate. Meanwhile, the strong loan growth vis-à-vis deposits means that, in some respects, monetary conditions have not been overly tight and that rate cuts may not provide as much "push".
- Going forward, then, the way out of the current slowdown is not a simple matter of cutting interest rates. Instead, it would likely involve a combination of fiscal expansion from the new administration, unwinding of SRBI, and a controlled weakening of the Rupiah to restore our competitiveness versus China and peer economies.

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



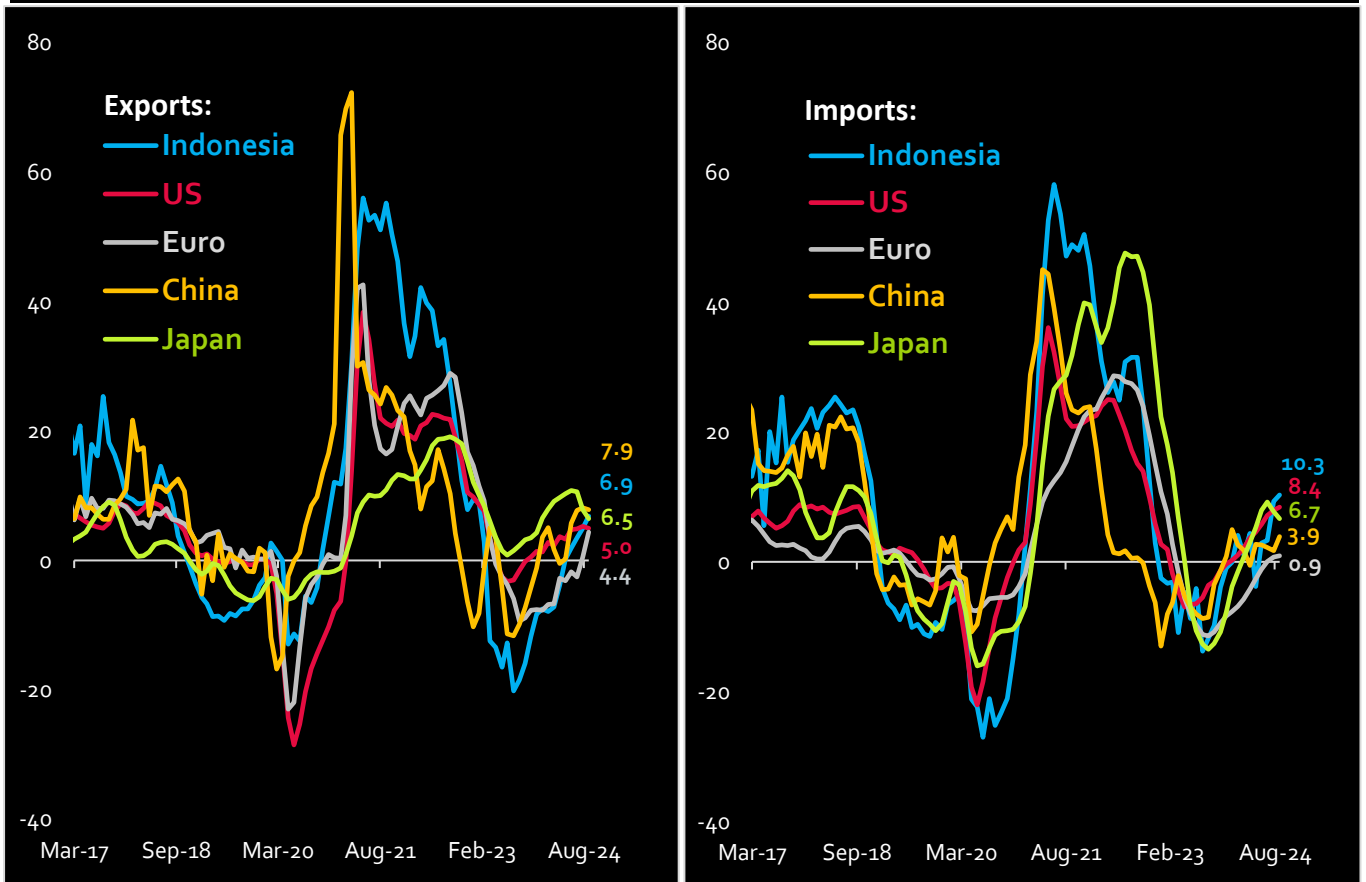
Source: BPS, Bloomberg, BCA Economist calculations

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 expanding

| PMI Manufaktur PMI | 2023 | | | | | 2024 | | | | | | | |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 |
| Indonesia | 53.9 | 52.3 | 51.5 | 51.7 | 52.2 | 52.9 | 52.7 | 54.2 | 52.9 | 52.1 | 50.7 | 49.3 | 48.9 |
| Malaysia | 47.8 | 46.8 | 46.8 | 47.9 | 47.9 | 49.0 | 49.5 | 48.4 | 49.0 | 50.2 | 49.9 | 49.7 | 49.7 |
| Thailand | 48.9 | 47.8 | 47.5 | 47.6 | 45.1 | 46.7 | 45.3 | 49.1 | 48.6 | 50.3 | 51.7 | 52.8 | 52 |
| Philippines | 49.7 | 50.6 | 52.4 | 52.7 | 51.5 | 50.9 | 51.0 | 50.9 | 52.2 | 51.9 | 51.3 | 51.2 | 51.2 |
| Vietnam | 50.5 | 49.7 | 49.6 | 47.3 | 48.9 | 50.3 | 50.4 | 49.9 | 50.3 | 50.3 | 54.7 | 54.7 | 52.4 |
| India | 58.6 | 57.5 | 55.5 | 56.0 | 54.9 | 56.5 | 56.9 | 59.1 | 58.8 | 57.5 | 58.3 | 58.1 | 57.5 |
| Australia | 49.6 | 48.7 | 48.2 | 47.7 | 47.6 | 50.1 | 47.8 | 47.3 | 49.6 | 49.7 | 47.2 | 47.5 | 48.5 |
| China | 49.7 | 50.2 | 49.5 | 49.4 | 49.0 | 49.2 | 49.1 | 50.8 | 50.4 | 49.5 | 49.5 | 49.4 | 49.1 |
| South Korea | 48.9 | 49.9 | 49.8 | 50.0 | 49.9 | 51.2 | 50.7 | 49.8 | 49.4 | 51.6 | 52.0 | 51.4 | 51.9 |
| Japan | 49.6 | 48.5 | 48.7 | 48.3 | 47.9 | 48.0 | 47.2 | 48.2 | 49.6 | 50.4 | 50.0 | 49.1 | 49.8 |
| Euro Area | 43.5 | 43.4 | 43.1 | 44.2 | 44.4 | 46.6 | 46.5 | 46.1 | 45.7 | 47.3 | 45.8 | 45.8 | 45.8 |
| US | 47.6 | 49.0 | 46.7 | 46.7 | 47.4 | 49.1 | 47.8 | 50.3 | 49.2 | 48.7 | 48.5 | 46.8 | 47.2 |
| Mexico | 51.2 | 49.8 | 52.1 | 52.5 | 52.0 | 50.2 | 52.3 | 52.2 | 51.0 | 51.2 | 51.1 | 49.6 | 48.5 |

Source: BI, Bloomberg

Selected Macroeconomic Indicators

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities | 17-Sep | -1 mth | Chg (%) |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US | 5.50 | Jul-23 | 3.00 | Baltic Dry Index | 1,901.0 | 1,691.0 | 12.4 |
| UK | 5.00 | Aug-23 | 2.80 | S&P GSCI Index | 527.6 | 540.1 | -2.3 |
| EU | 3.65 | Jul-23 | 1.45 | Oil (Brent, \$/bbl) | 73.7 | 79.7 | -7.5 |
| Japan | -0.10 | Jan-16 | -2.90 | Coal (\$/MT) | 136.4 | 150.5 | -9.4 |
| China (lending) | 2.30 | Aug-23 | 3.75 | Gas (\$/MMBtu) | 2.34 | 2.07 | 13.3 |
| Korea | 3.50 | Jan-23 | 1.50 | Gold (\$/oz.) | 2,569.5 | 2,508.0 | 2.5 |
| India | 6.50 | Feb-23 | 2.85 | Copper (\$/MT) | 9,237.6 | 9,006.3 | 2.6 |
| Indonesia | 6.25 | Jul-24 | 4.13 | Nickel (\$/MT) | 15,935.6 | 16,130.2 | -1.2 |
| Money Mkt Rates | 17-Sep | -1 mth | Chg (bps) | CPO (\$/MT) | 913.6 | 877.5 | 4.1 |
| SPN (3M) | 6.41 | 6.45 | -3.8 | Rubber (\$/kg) | 1.89 | 1.76 | 7.4 |
| SUN (10Y) | 6.55 | 6.71 | -15.2 | External Sector | Aug | Jul | Chg (%) |
| INDONIA (O/N, Rp) | 6.44 | 6.15 | 29.0 | Export (\$ bn) | 23.56 | 22.24 | 5.97 |
| JIBOR 1M (Rp) | 6.90 | 6.90 | 0.4 | Import (\$ bn) | 20.67 | 21.74 | -4.93 |
| Bank Rates (Rp) | Jun | May | Chg (bps) | Trade bal. (\$ bn) | 2.90 | 0.50 | 478.90 |
| Lending (WC) | 8.82 | 8.86 | -3.79 | Central bank reserves (\$ bn)* | 150.2 | 145.4 | 3.32 |
| Deposit 1M | 4.70 | 4.68 | 2.60 | Prompt Indicators | Aug | Jul | Jun |
| Savings | 0.67 | 0.67 | 0.02 | Consumer confidence index (CCI) | 124.4 | 123.4 | 123.3 |
| Currency/USD | 17-Sep | -1 mth | Chg (%) | Car sales (%YoY) | -14.2 | -7.8 | -9.7 |
| UK Pound | 0.760 | 0.773 | 1.68 | Motorcycle sales (%YoY) | 7.4 | 24.1 | 3.5 |
| Euro | 0.900 | 0.907 | 0.79 | Manufacturing PMI | Aug | Jul | Chg (bps) |
| Japanese Yen | 142.4 | 147.6 | 3.67 | USA | 47.9 | 49.6 | -170 |
| Chinese RMB | 7.097 | 7.159 | 0.87 | Eurozone | 45.8 | 45.8 | 0 |
| Indonesia Rupiah | 15,335 | 15,690 | 2.31 | Japan | 49.8 | 49.1 | 70 |
| Capital Mkt | 17-Sep | -1 mth | Chg (%) | China | 50.4 | 49.8 | 60 |
| JCI | 7,831.8 | 7,432.1 | 5.38 | Korea | 51.9 | 51.4 | 50 |
| DJIA | 41,606.2 | 40,659.8 | 2.33 | Indonesia | 48.9 | 49.3 | -40 |
| FTSE | 8,309.9 | 8,311.4 | -0.02 | | | | |
| Nikkei 225 | 36,203.2 | 38,062.7 | -4.89 | | | | |
| Hang Seng | 17,660.0 | 17,430.2 | 1.32 | | | | |
| | | | | | | | |
| Foreign portfolio ownership (Rp Tn) | Aug | Jul | Chg (Rp Tn) | | | | |
| Stock | 3,322.0 | 3,322.0 | 0.00 | | | | |
| Govt. Bond | 852.3 | 813.1 | 39.24 | | | | |
| Corp. Bond | 7.0 | 7.6 | -0.62 | | | | |

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 | 5.75 |
| USD/IDR Exchange Rate (end of 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 |

* Estimated Number

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