Trade:
A sign of things to come?

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Barra Kukuh Mamia
Senior Economist

Executive Summary

- Indonesia's trade surplus narrowed to USD 2.02 Bn, resulting from decreasing exports by 8.06% YoY (-8.34% MoM) and slightly rising imports by 0.36% YoY (-3.13% MoM).
- The decline in exports was mainly caused by falling shipments of coal and mineral ores amid oversupply in China, albeit slightly offset by the impact of "downstreaming" as before.
- Imports declined after their seasonal peak at the end of last year, but may rise again given a potential recovery in consumption momentum, still-robust FAI, and the need for further rice imports.
- The trade and current account balances may see a modest decline in 2024, as Indonesia's terms of trade worsens further while robust growth (relative to global) translates to stronger imports.

- Indonesia faced a thinner trade surplus of USD 2.02 Bn in Jan-23, influenced by a slowing trend in global trade volume. Both exports and imports fell on a monthly basis (-8.34% and -3.13%, respectively), although in YoY terms there is a clear bifurcation – with imports rising 0.36% while exports are at -8.06%. This is a reflection both of Indonesia's worsening terms of trade, as well as its continued robust growth vis-à-vis global trend, which has thinned out our previously hefty trade surplus.

- One of the major drivers of our slowing exports was coal, whose sharp decline (-19.68% MoM) was mostly driven by falling volumes instead of prices. This stood in contrast to the situation in much of last year when the fall in coal prices was offset by growing volumetric demand from China. As we discussed in our Global Outlook on commodities, China's rising imports of coal in 2023 largely served to build up its inventories rather than going towards actual usage. Naturally, China may no longer be seeking to ramp up its inventories, and Indonesia may thus be facing weaker volumes on top of low prices.

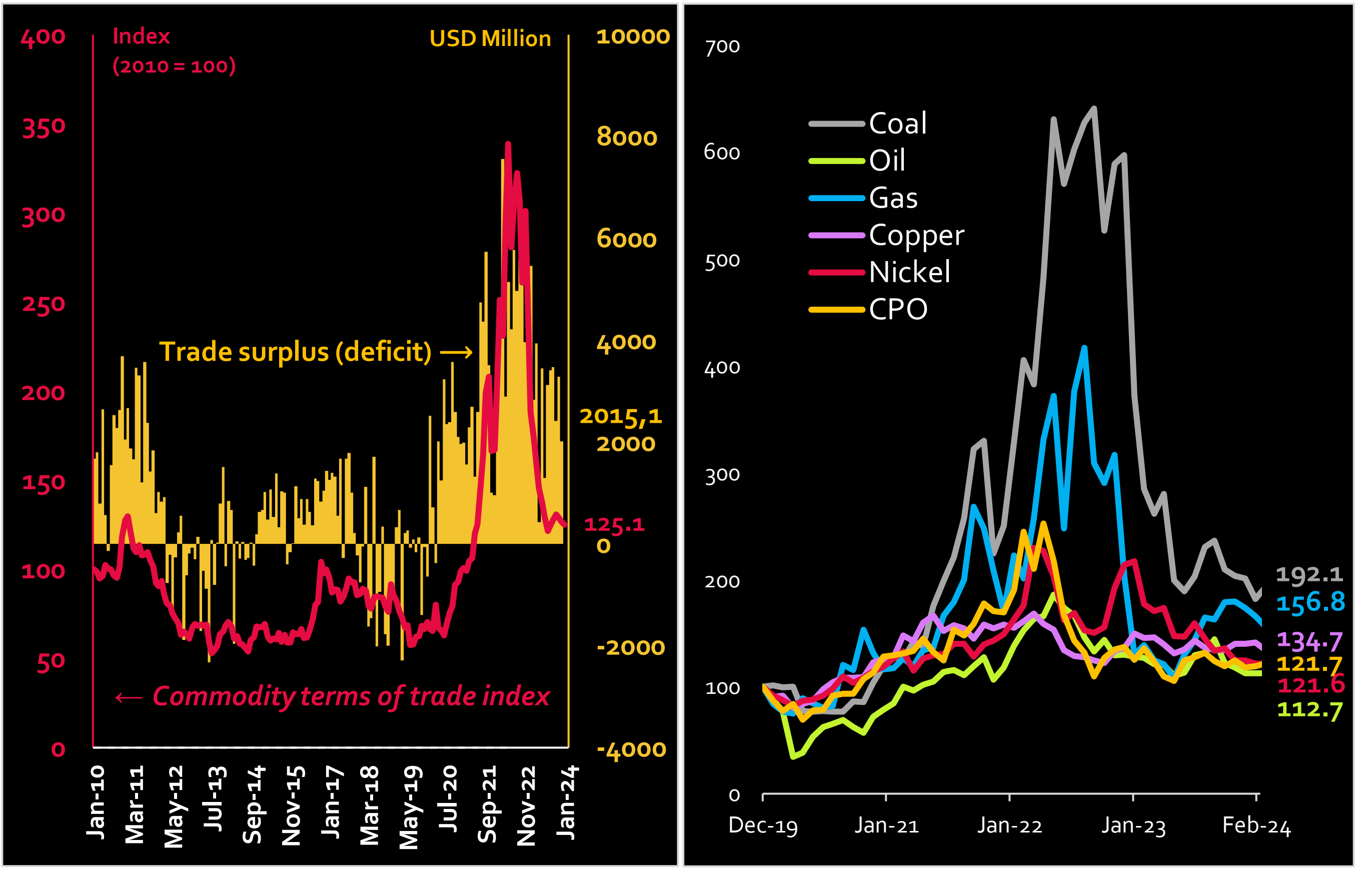
- A similar dynamic may also play out with nickel, especially as Chinese steel production declines amid weak demand for construction. Fortunately, the large supply overhang has been offset by the success of the "downstreaming" program – as can be seen by continued growth in iron and steel (HS 72) exports, despite a sharp decline for mineral ores (HS 26). In other words, Indonesia is able to capture a larger slice (i.e. the value-added) of the pie, even though the pie itself seems to be shrinking.

- While the export decline bore the hallmark of long-run developments in China, imports are subject to more short-term exigencies. After seasonally-strong imports of consumer goods in

Nov-Dec, we saw a normalization in January, and the same is also true (albeit to lesser extents) about raw materials and capital goods imports. To read this as a sign of slowing growth, however, might be premature, and we may well see import growth recovering in the following months.

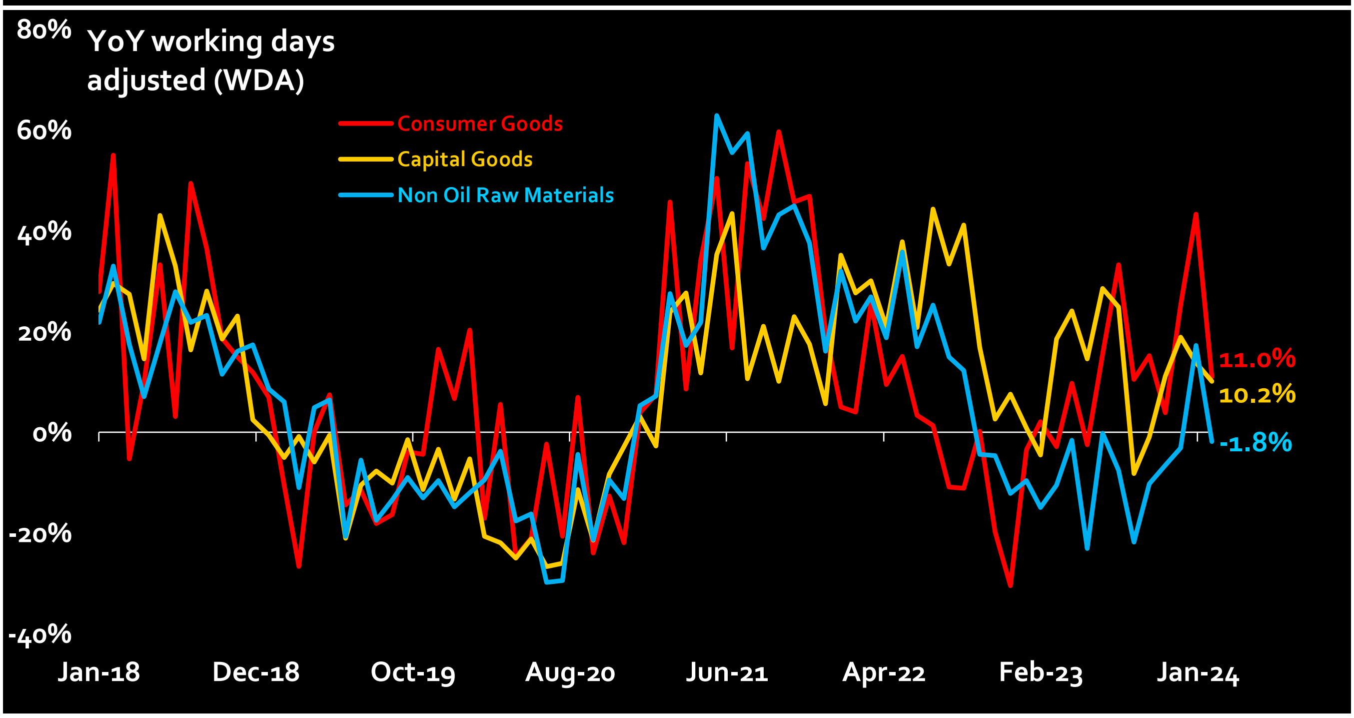
- In the case of consumer goods, for instance, we could expect an increase in Feb-Mar, as the peak of Election-related spending runs into the start of the Muslim fasting month (Ramadan). Typically, importers would start restocking prior to Ramadan, and this – coupled with the increased money circulation and velocity close to the Elections – should generate strong incentives for that. Meanwhile, the demand for capital goods may continue to hold up due to the outgoing Jokowi administration ramping up its strategic projects (PSN).
- The other factor, as ever, is rice imports. January's rice imports fell -16,73% MoM, which might reflect normalization after last year's large-scale import drive to stabilize prices. In recent weeks, however, the scarcity problems are starting to manifest again, and this is compounded by a potential delay in the rice harvest period from Mar-Apr to Apr-Jun. It is quite likely that the government would authorize another round of imports to deal with the situation, particularly to avoid a spike in food inflation that typically comes with Ramadan.
- All in all, then, circumstances could conspire to worsen Indonesia's trade balance before it gets better. Aside from the oversupply in China, we are also seeing elevated oil prices and strengthening USD, as traders are reassessing the chances of an early Fed rate cut. All these are weighing on Indonesia's terms of trade (stronger USD correlates with weaker commodity prices in general), but without the benefit from stronger portfolio inflows. The current euphoria after the Elections has allowed Indonesia's stock exchange and the Rupiah to defy these fundamentals, but it remains to be seen for how long.
- As such, we expect a further narrowing of Indonesia's terms of trade this year, which would turn our current account decidedly towards a (slight) deficit. Indonesia's growth momentum, then, would probably come at the cost of continued liquidity pressure, which could manifest in the IDR/USD exchange rate. As such, we expect BI to follow a prudent course by cutting rates only in the latter half of the year, and following a clear sign of a Fed pivot.

Panel 1. Declining prices in mineral fuels has narrowed Indonesia's trade surplus



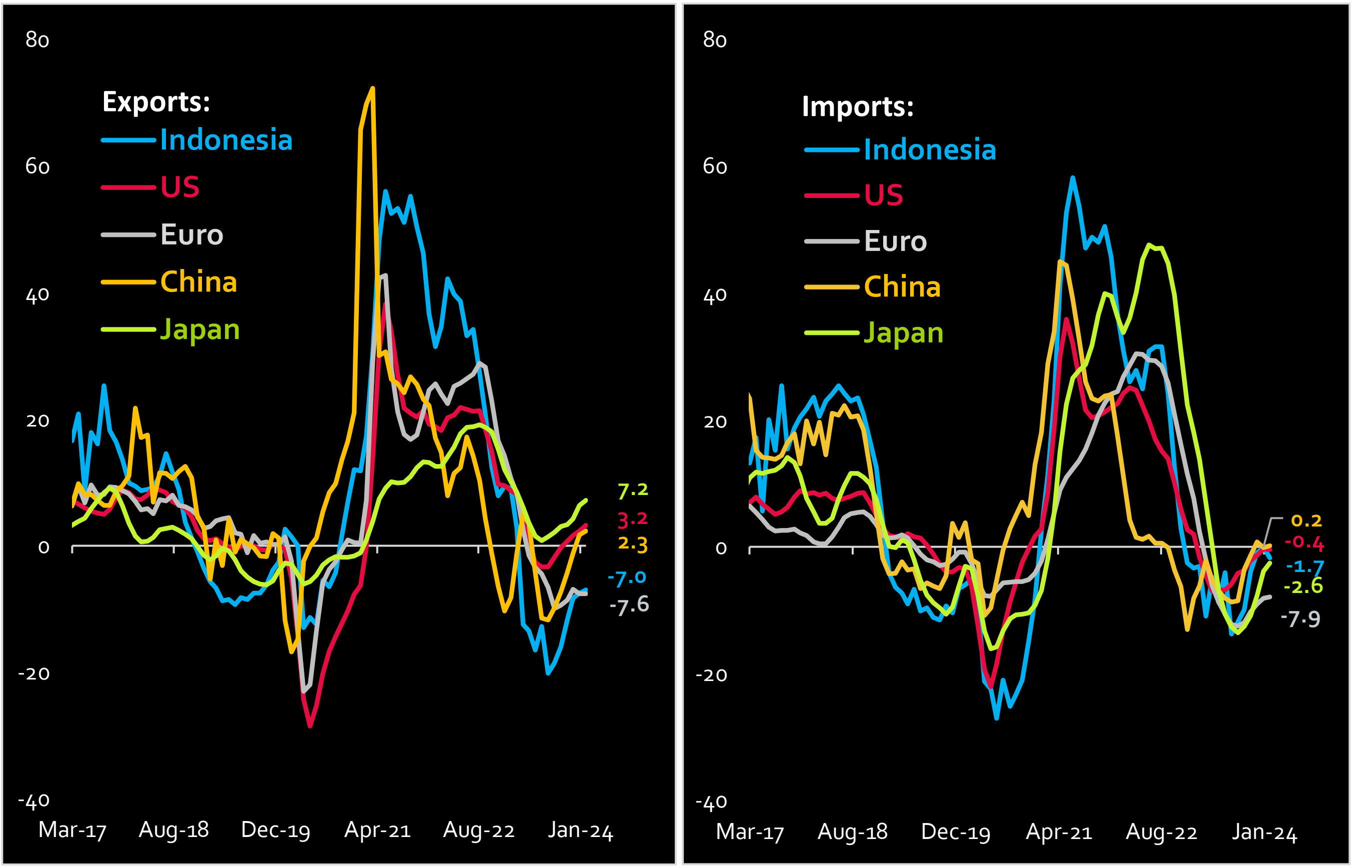
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports of consumer goods dive deeply after year-end peak



Source: BPS, BCA Economist

Panel 3. The global trade momentum seems to recover, but not at similar pace as before



Source: Bloomberg

Panel 4. Indonesia's manufacturing performance remains one of the strongest, even as most other countries begin to see a recovery from last year's decline

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
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
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
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
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
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
India	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5
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
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
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
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
Euro Area	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4	46.6
US	47.4	47.7	46.5	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1
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

Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Dec-23	2.40
UK	5.25	Dec-23	1.25
EU	4.50	Dec-23	1.70
Japan	-0.10	Jan-16	-2.70
China (lending)	2.50	Dec-23	5.15
Korea	3.50	Nov-23	0.70
India	6.50	Dec-23	1.40
Indonesia	6.00	Nov-23	3.43

Money Mkt Rates	13-Feb	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.63	6.65	-2.2
INDONIA (O/N, Rp)	5.92	5.75	17.0
JIBOR 1M (Rp)	6.63	6.64	-0.9

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.91	9.05	-13.89
Deposit 1M	4.52	4.43	8.25
Savings	0.67	0.67	0.34

Currency/USD	13-Feb	-1 mth	Chg (%)
UK Pound	0.794	0.784	-1.26
Euro	0.934	0.913	-2.21
Japanese Yen	150.8	144.9	-3.93
Chinese RMB	7.194	7.168	-0.36
Indonesia Rupiah	15,595	15,550	-0.29

Capital Mkt	13-Feb	-1 mth	Chg (%)
JCI	7,209.7	7,241.1	-0.43
DJIA	38,272.8	37,593.0	1.81
FTSE	7,512.3	7,624.9	-1.48
Nikkei 225	37,964.0	35,577.1	6.71
Hang Seng	15,746.6	16,244.6	-3.07

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,115.8	3,226.3	-110.54
Govt. Bond	841.9	842.1	-0.17
Corp. Bond	10.4	10.6	-0.19

Trade & Commodities	13-Feb	-1 mth	Chg (%)
Baltic Dry Index	1,585.0	1,460.0	8.6
S&P GSCI Index	559.3	538.3	3.9
Oil (Brent, $/brl)	82.8	78.3	5.7
Coal ($/MT)	124.5	125.2	-0.6
Gas ($/MMBtu)	1.61	13.20	-87.8
Gold ($/oz.)	1,993.2	2,049.1	-2.7
Copper ($/MT)	8,155.5	8,241.2	-1.0
Nickel ($/MT)	16,005.0	16,092.5	-0.5
CPO ($/MT)	821.9	821.1	0.1
Rubber ($/kg)	1.51	1.51	0.0

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	20.52	22.41	-8.43
Import ($ bn)	18.51	19.11	-3.13
Trade bal. ($ bn)	2.02	3.31	-39.07
Central bank reserves ($ bn)*	145.1	146.4	-0.88

Prompt Indicators	Dec	Nov	Oct
Consumer confidence index (CCI)	123.8	123.6	124.3
Car sales (%YoY)	-19.1	-7.5	-13.8
Motorcycle sales (%YoY)	-11.6	-2.8	-4.0

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	50.7	47.9	280
Eurozone	46.6	44.4	220
Japan	48.0	47.9	10
China	50.8	50.8	0
Korea	51.2	49.9	130
Indonesia	52.9	52.2	70

Source: Bloomberg, BI, BPS
Notes:
^Data for January 2022
*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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	16.037
Trade Balance (US$ 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

*Actual Number

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Aldi Rizaldi
Research Assistant
aldi_yanto@bca.co.id
+6221 2358 8000 Ext: 1020451

Fikri Adam Zaqi
Research Assistant
Fikri_zaqi@bca.co.id
+6221 2358 8000 Ext: -

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343