

## The orange scare took the trade scene

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### Summary

- The UST and other emerging markets continue to experience selloffs as President-elect Trump starts to assemble his administration and the Fed shifts to a data-driven policy approach, foregoing forward guidance.
- Efforts to reduce the US trade deficit with China may provide limited benefit to Indonesia due to the minimal overlap between Indonesian and Chinese exports to the US.
- Indonesia's reliance on imported food and agricultural products could be leveraged to secure a more favourable bilateral trade agreement with the US, which would be essential for safeguarding Indonesia's export potential amid the risk of a smaller global import market.

- The global economy continued to develop in a way that did not favour the Indonesian financial market throughout the past week, driven by two main developments that seem to have unsettled investors. The first one on the list is the Chinese fiscal frenzy, as the Chinese authority has finally unveiled its CNY 10 Tn fiscal stimulus package, with CNY 6 trillion specifically allocated to address the debt issues of local governments and their LGFVs. China's Minister of Finance has signalled that further fiscal measures are likely, boosting confidence in the Chinese economy but siphoning liquidity from other Asian markets, including Indonesia.
- The second development stems from the wide-ranging speculations following Donald

Trump's and the GOP's electoral success. As we discussed, expectations around a second Trump presidency have contributed to a tightening of US financial conditions, driven by the upward trend in long-term rates that restrict USD liquidity and, thus, elevate its value, as reflected in the 1.07% WoW increase in the DXY index. Meanwhile, news of the apparent closeness between President-elect Trump and one of his prominent supporters, Elon Musk, has sparked another rally in US technology stocks (notably the EV manufacturer), which, in light of the tightening USD liquidity, highlights the ongoing risk of capital outflows that continue to challenge Indonesia and other financial markets.

## Rubbing the orange man’s back

- While President-elect Trump has so far limited his post-election speeches to border security and gender issues (the latter holding sentimental value for Musk), it goes without saying that trade policy is on the tip of his tongue. The audition for who will lead US trade policy under the second Trump presidency is still underway, but rumours of trade hawks such as Robert Lighthizer returning as the US trade representative have already sent tremors through the FX market. In contrast to President Biden’s approach of employing nationalistic trade policies to curb China’s advancements in EV, 5G, and other frontier technologies, former Ambassador Lighthizer’s obsession with bilateral trade balances (see [link](#)) may put more names on the list of US trade targets (see **Chart 1**).
- Despite being subject to the potential 10% universal tariff on imports, **Indonesia’s lower rank on the US trade deficit list may allow Indonesian exporters to look for opportunities while staying under the radar.** Indeed, the next US trade representative, whether it is Lighthizer or others, will likely focus on larger trade imbalances, targeting countries like Germany and Vietnam. The primary target, of course, remains China, which drives the largest trade imbalance with the US, given its dominance in consumer electronics exports.
- Some analysts have pinpointed the second Trump presidency as a potential catalyst for

*“US importers may not replace China-made goods with Indonesia-made ones, given the different product space between the two economies”*

relocation-driven foreign investments, following the traditional argument that the Chinese argument will try to move where the shadow of US tariffs do not reach – thus potentially boosting the host country’s investments, manufacturing capacity, and export potentials.

- Alas, Indonesian exporters may not capture much of the market share potentially vacated by Chinese exporters due to the Trump administration’s trade against bilateral imbalances (see **Chart 2**). Indonesia’s export profiles do not significantly overlap with China’s, as indicated by the revealed comparative advantage (RCA) of the products exported by each country. Using the latest RCA data and targeting the US import market where Chinese exporters hold at least 50% market share, opportunities for Indonesian exporters that potentially arise from Trump’s trade policy will be limited to low-value manufactured goods, such as spark plugs (which American customers spend USD 1.93 Bn on imports so far in 2024) and rubber boots (USD 3.98 Bn of imports up to July-2024).
- **The expulsion of Chinese exporters from American supply chains (due to the proposed punitive 60% tariff) will not clear the pathway for Indonesia to step up and assume the vacated role, but Indonesia’s place in the US import market seems to be largely secure.** Textile products and

footwear account for 26.3% of total Indonesian exports to the US in 2024 (amounting to USD 5.04 Bn), a sector which is unlikely to be targeted by the upcoming US administration. There are also little signs that the Trump administration will seek to bolster domestic productions for sea products – opening the market for fish and crustacean imports to the US (which accounts for 7.08% of total Indonesian exports to the US in 2024 YTD). Interestingly, Indonesia also exported USD 456.2 Mn worth of solar panels so far in 2024, a trade which may invite US authorities’ attention given the potentially significant Chinese companies’ footprint behind the Indonesian exporters.

- Import tariffs, of course, will translate negatively to global trade, either creating an additional burden for customers or creating a deadweight loss for exporters as the import market narrows. **However, looking through the perspective of competitive balance and product positioning, the direct impact of Trump’s trade policy may not impact Indonesian exporters much relative to other exporters.** With that being said, the upcoming Trump administration’s apparent lack of environmental scruples may complicate Indonesia’s effort to diversify the export market of its downstream sectors. Deregulation packages may revive several mineral mining projects in the US, such as a nickel-cobalt mine project in Minnesota, thus allowing the US to source its own demand. This policy contrasts with the Biden

*“Striking some forms of bilateral trade deals with the US will help to secure a future for the export-driven part of Indonesia’s growth model”*

administration's stringent rules on US-based mining companies while supporting companies investing in mining assets abroad.

- This does not mean that the door is closed for Indonesian exporters to improve their position vis-à-vis other exporters in the US import market. **Political analysts have speculated that the proposed 10-20% tariff on all imports (and 60% for goods imported from China) will serve as bait for other countries to try and strike a bilateral trade agreement,** something that Indonesia is lacking compared to other ASEAN manufacturing powerhouse such as Vietnam. Given the increasingly bipolar setting of the global economy, the US (and China) may increasingly prefer to strike a deal bilaterally to flex their muscle upon their collection of weaker bilateral partners, although such a setting may also allow middle powers (such as Indonesia) to strike separate deals with the two hegemon.
- **Curiously, Indonesia’s weakening agriculture sector could unexpectedly serve as a bargaining chip to secure a bilateral trade agreement with the US (see Chart 3).** Indeed, China employed a similar strategy to secure the Phase One trade deal with the Trump administration in 2020, pledging to import more American food and agricultural products. Certain agricultural products, such as soybeans, are unlikely to disrupt existing supply chains, as Indonesia already imports soybeans and other tropical crops from

countries across the Pacific; however, it should be noted that commitments to import some other crops may overlap with the government’s food plantation projects.

- **As such, it is interesting what kind of deals or commitments President Prabowo will secure in the ongoing US leg of his first overseas tour.** While the president has secured some important agreements on the China leg of the tour, it is unclear that

President Prabowo will secure milestone agreements on his first visit to the US, given there is as yet a lack of credible rumours. Still, early talks toward a US-Indonesia trade agreement will be crucial to improve Indonesia’s export potential vis-à-vis neighbouring ASEAN economies, with failure to secure any trade deals with the world’s biggest consumer economy may spell doom to the export-led part of the new government’s economic growth strategy.

**Chart 1**

**There are bigger fish to hunt**

President Trump’s trade crusade may not specifically target Indonesia, given Indonesia’s slim trade surplus against the US

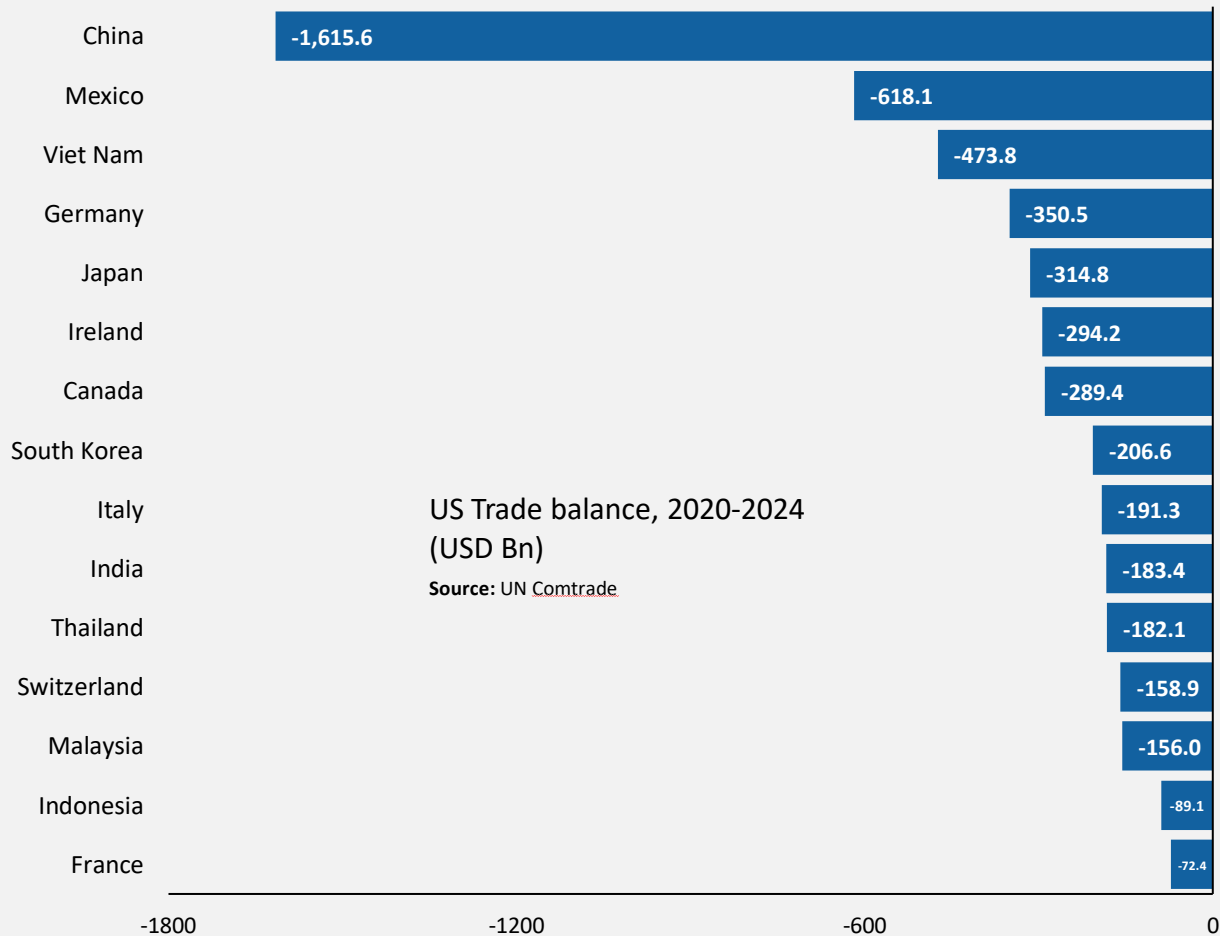


Chart 2

**Not a substitute to China**

The expected punitive US import tariffs for China may not benefit Indonesia, given Indonesia shares limited product space with China

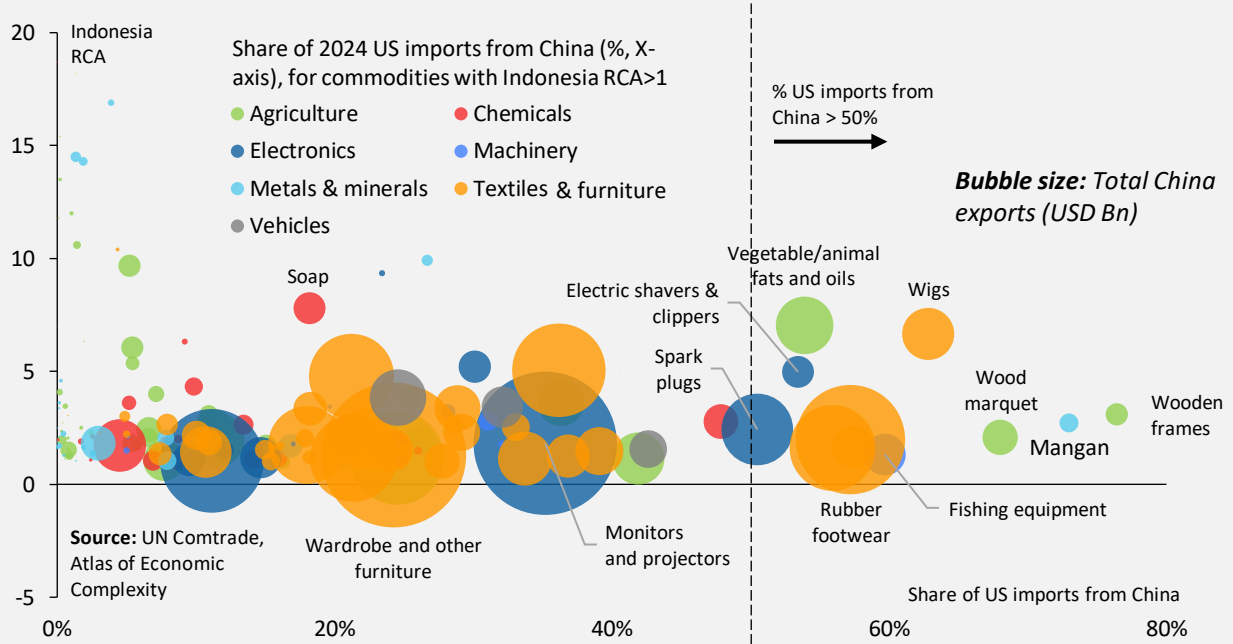
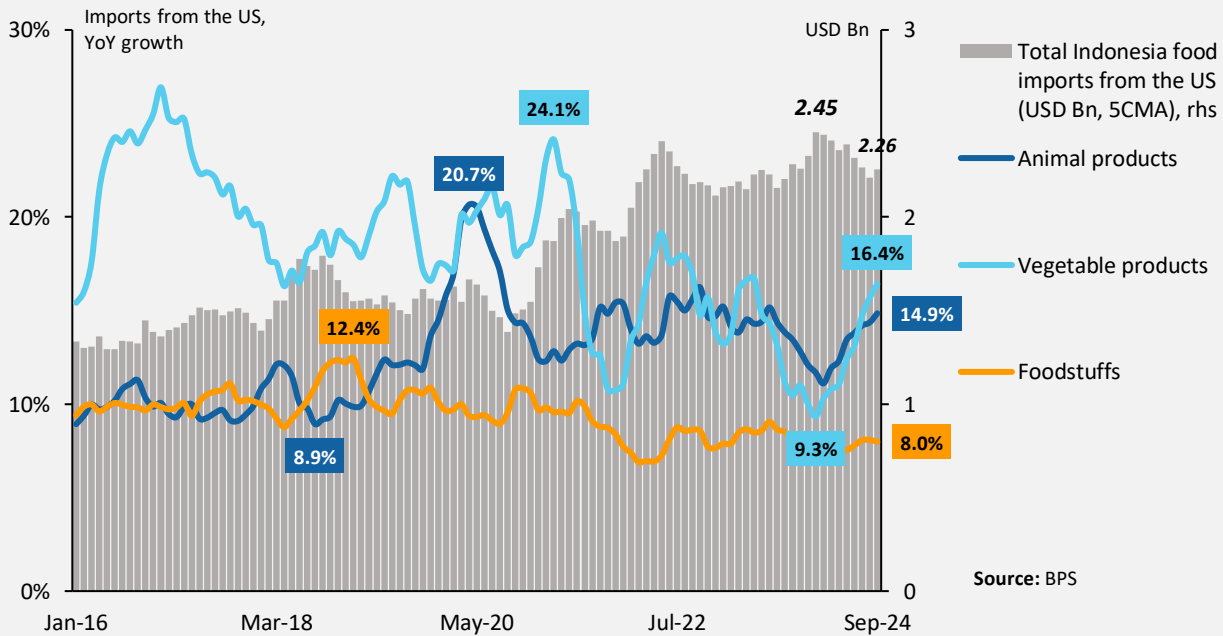


Chart 3

**Dangling the carrot**

Indonesia may use food imports as the carrot to strike a trade deal with the US, but this strategy run in contrast with the new government’s effort to boost local food production



Economic Calendar				
		Actual	Previous	Forecast*
01 November 2024				
ID	S&P Global Manufacturing PMI	49.2	49.2	-
<b>ID</b>	<b>Inflation Rate YoY, %</b>	<b>1.71</b>	<b>1.84</b>	<b>1.7</b>
ID	Tourist Arrivals YoY, %	19.53	18.3	19.0
US	Non Farm Payrolls, K	12	223	180
US	S&P Global Manufacturing PMI	48.5	47.3	-
05 November 2024				
<b>ID</b>	<b>GDP Growth Rate YoY, %</b>	<b>4.95</b>	<b>5.05</b>	<b>5</b>
US	Balance of Trade, USD Bn	-84.4	-70.8	-82.0
07 November 2024				
<b>ID</b>	<b>Foreign Exchange Reserves, USD Bn</b>	<b>151.2</b>	<b>149.9</b>	-
CN	Balance of Trade, USD Bn	95.27	81.71	70
08 November 2024				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>	<b>4.75</b>	<b>5</b>	<b>4.75</b>
ID	Motorbike Sales YoY, %	5.4	3.7	-
09 November 2024				
CN	Inflation Rate YoY, %	0.3	0.4	0.5
11 November 2024				
ID	Consumer Confidence	121.1	123.5	123.2
ID	Car Sales YoY, %	-3.9	-9.1	-
12 November 2024				
ID	Retail Sales YoY, %	4.8	5.8	2.5
13 November 2024				
US	Inflation Rate YoY, %		2.4	2.6
15 November 2024				
<b>ID</b>	<b>Balance of Trade, USD Bn</b>		<b>3.26</b>	<b>3.3</b>
CN	Retail Sales YoY, %		3.2	4.0
19 November 2024				
EA	Inflation Rate YoY, %		1.7	2.0
20 November 2024				
ID	Loan Growth YoY, %		10.85	-
<b>ID</b>	<b>Interest Rate Decision, %</b>		<b>6.0</b>	-
22 November 2024				
ID	M2 Money Supply YoY, %		7.2	-
27 November 2024				
US	PCE Price Index YoY, %		2.1	-

\*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

### Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	11-Nov	-1 mth	Chg (%)
US	4.75	Nov-24	2.35	Baltic Dry Index	1,558.0	1,809.0	-13.9
UK	4.75	Nov-24	3.05	S&P GSCI Index	530.4	559.6	-5.2
EU	3.40	Oct-24	1.40	Oil (Brent, \$/brl)	71.8	79.0	-9.1
Japan	0.25	Jul-24	-2.60	Coal (\$/MT)	145.4	153.2	-5.1
China (lending)	2.00	Sep-24	4.05	Gas (\$/MMBtu)	1.22	2.31	-47.2
Korea	3.25	Oct-24	1.95	Gold (\$/oz.)	2,618.8	2,656.6	-1.4
India	6.50	Feb-23	1.01	Copper (\$/MT)	9,187.5	9,650.5	-4.8
Indonesia	6.00	Sep-24	4.29	Nickel (\$/MT)	15,852.7	17,615.1	-10.0
Money Mkt Rates	11-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,169.5	1,027.3	13.8
				Rubber (\$/kg)	1.98	1.99	-0.5
Bank Rates (Rp)	Aug	Jul	Chg (bps)	External Sector	Sep	Aug	Chg (%)
SPN (1Y)	6.64	6.57	6.7	Export (\$ bn)	22.08	23.44	-5.80
SUN (10Y)	6.72	6.67	5.2	Import (\$ bn)	18.82	20.67	-8.91
INDONIA (O/N, Rp)	6.17	6.21	-3.3	Trade bal. (\$ bn)	3.26	2.78	17.37
JIBOR 1M (Rp)	6.63	6.64	-1.1	Central bank reserves (\$ bn)*	149.9	150.2	-0.21
Currency/USD	11-Nov	-1 mth	Chg (%)	Prompt Indicators	Oct	Sep	Aug
UK Pound	0.777	0.765	-1.52	Consumer confidence index (CCI)	121.1	123.5	124.4
Euro	0.939	0.914	-2.58	Car sales (%YoY)	-3.9	-9.1	-14.2
Japanese Yen	153.7	149.1	-2.99	Motorcycle sales (%YoY)	5.4	3.7	7.4
Chinese RMB	7.215	7.067	-2.05	Manufacturing PMI	Oct	Sep	Chg (bps)
Indonesia Rupiah	15,680	15,580	-0.64	USA	48.5	47.3	120
Capital Mkt	11-Nov	-1 mth	Chg (%)	Eurozone	46.0	45.0	100
JCI	7,266.5	7,520.6	-3.38	Japan	49.2	49.7	-50
DJIA	44,293.1	42,863.9	3.33	China	50.3	49.3	100
FTSE	8,125.2	8,253.7	-1.56	Korea	48.3	48.3	0
Nikkei 225	39,533.3	39,605.8	-0.18	Indonesia	49.2	49.2	0
Hang Seng	20,426.9	21,252.0	-3.88				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	3,573.9	3,558.2	15.66				
Govt. Bond	885.6	870.6	14.98				
Corp. Bond	6.9	6.9	-0.07				

Source: Bloomberg, BI, BPS

Notes:

\*Data from an earlier period

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

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

## 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	1.9
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	15,650
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

\*\* Estimation of the Rupiah's fundamental exchange rate

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