

Trade:

Between the present boom and the future gloom?

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Executive Summary

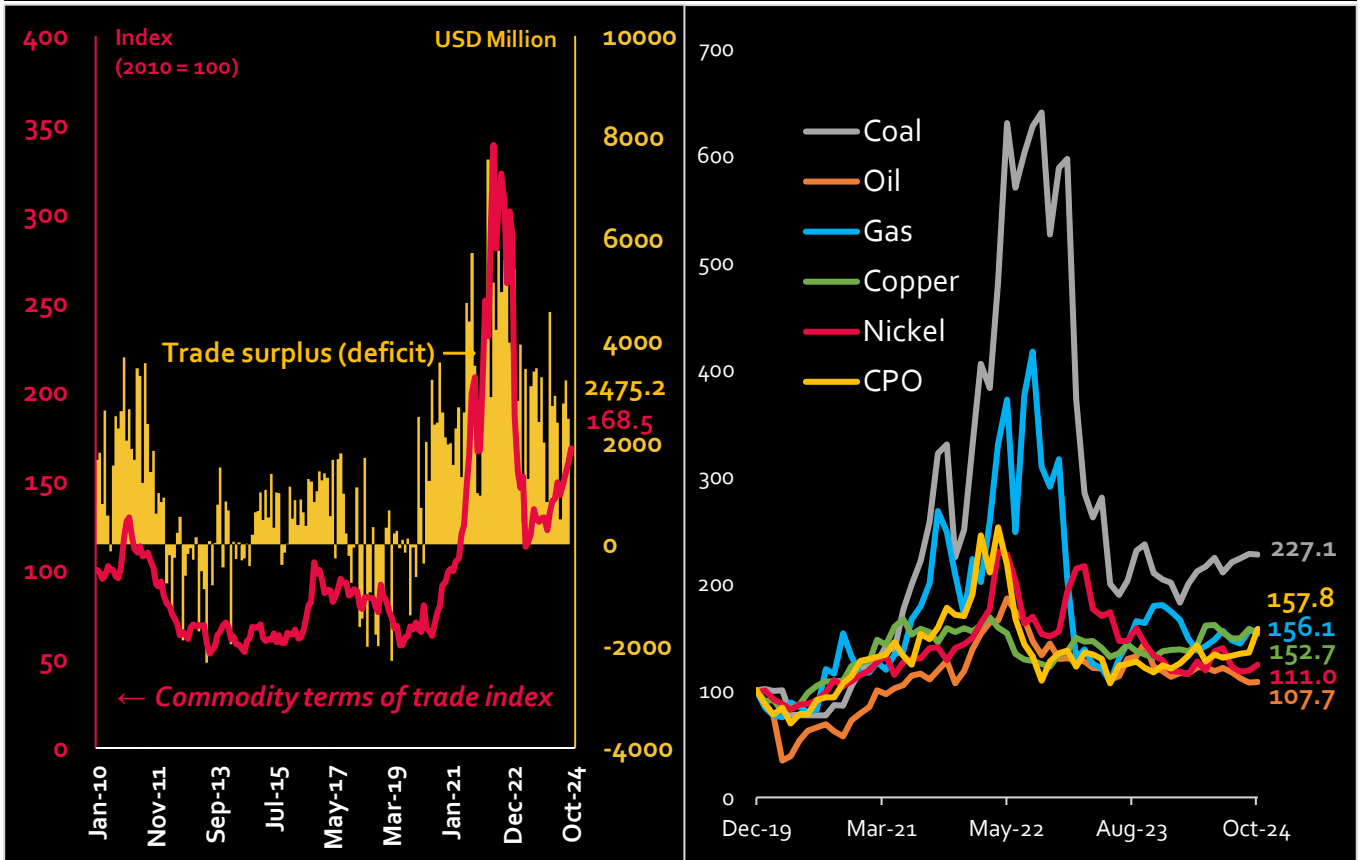
- Trade surplus narrowed to USD 2.48 Bn, due to rising imports of capital goods and rice. But exports also grew strongly thanks mainly to CPO (both price and volume).
- High CPO prices should help replenish liquidity in producing areas like Sumatra, aligning with our thesis that growth may have bottomed out in Q3-24.
- Despite positive terms of trade, the arrival of Trump may darken the outlook for Indonesia's trade balance, due to disruptions from tariff and re-routing of Chinese products.
- However, stronger USD may be the most salient threat in the short-term, given it tends to be inversely correlated to commodity prices.

- Indonesia's trade surplus narrowed to USD 2.48 Bn in October, down from USD 3.23 Bn in September. Both imports and exports saw significant growth, but exports lagged behind imports (exports +10.25% YoY, imports +17.49% YoY)—a frequent occurrence since the end of the commodity boom.
- CPO stole the spotlight in October's export performance, delivering a double combo as export volumes soared +57.4% MoM while prices climbed +8.9% MoM. The surge in exports was driven by increased demand from India, largely fueled by their festive season (Dussehra, Diwali, and more). There is even more to celebrate going forward, as the price rally gains further momentum this month, for a total of +38% YTD.
- The agriculture sector scored another point as cocoa prices start climbing again this month, with year-to-date exports hitting USD 2.01 Bn—more than double the USD 0.98 Bn recorded in January-October last year. This latest round of price surge may put some farmers—who were thinking about switching from cacao to oil palms—into a rather happy dilemma.
- The agricultural bonanza is delivering a strong boost to the economy, especially in Sumatra. Our observations on liquidity and loan growth in these provinces showed a large drop-off after CPO price fell in 2022, and the malaise continued until Q3 this year when CPO prices surged again. This should eventually translate to stronger consumption and overall growth, given the typical 1-2 quarter lag we observe between commodity booms and corporate CAPEX and recruitment cycle.
- For the moment, then, imports continued to bear the hallmark of a largely government-driven demand cycle. Rice imports have jumped 41.57% YoY, likely a strategic move to prevent

price fluctuations ahead of the Regional Elections (Pilkada). On top of that, capital goods imports are growing even faster than consumption goods at 16.41% YoY, likely related to public projects and (government-aligned) investments in capital-intensive industries.

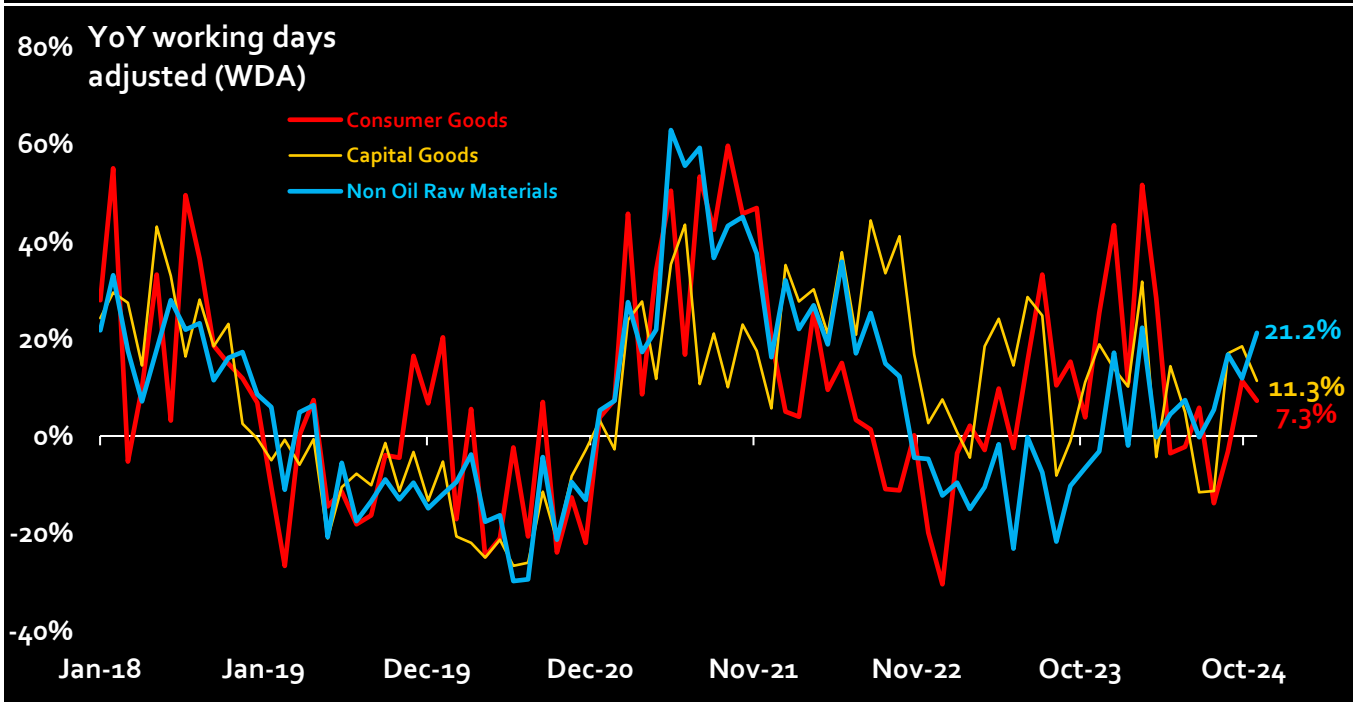
- Looking forward, Indonesian trade balance should—in theory, at least—head towards brighter days, with the terms of trade tilting in our favor. For now, however, the gains from CPO has not been matched by coal and metals, especially the latter whose prices have been declining more recently.
- Moreover, there are signs from our big data that coal/metal exporters have not enjoyed as big of a revenue boost, as they had to cut volumes in order to maintain prices. The reason for this, it seems, is continued weakness in Chinese demand, despite hopes of a stimulus-driven boost. Thus far, that CNY 10 Tn stimulus has not delivered much boost to China's consumption and manufacturing, although there is a sense that Beijing is holding saving up its biggest ammo in anticipation of trade shocks from incoming US president Donald Trump.
- Trump's return to the White House may deliver further pressure on our trade balance, as the 60% tariff on China (and 10-20% across the board) may greatly disrupt global trade. In particular, it might lead to weaker demand for commodities from China, while imports of Chinese-made goods surge as products intended for the US market are diverted into other countries, including Indonesia.
- The most damaging effect in the short-term, however, may have more to do with the USD. While Trump himself prefers a weak Dollar, in practice the policies during his first term—particularly the tariffs and the corporate tax cut—led to a stronger USD. This, in turn, could cripple commodity prices, which tend to move inversely to the Dollar. While this relationship has reversed in the past two years (so USD and commodities move in lockstep), things seem to be returning to norm in the runup to Trump's triumph in the US Election.
- Is there a silver lining? There may well be, if Indonesia plays its cards right. With Trump's ascension, many of the world's largest economies (US, China, India, Russia) are now largely ruled by strongmen with realist, transactional frames of mind—while the old multilateral rules of trade are largely kaput. This gives more room for President Prabowo to negotiate better trade and investment deals in bilateral settings, perhaps even turning some of Indonesia's weakness (our dependence on imported food and fodder) into strength (e.g. gaining larger market access to the US).
- Of course, a strong USD still presents a problem for BI, which seems wedded to the idea that the Rupiah should be stronger than it is recently. For now, BI has plenty of ammo, with USD 151.2 Bn in reserves—which also reflects robust private FX liquidity, since some of these reserves come from banks via FX swaps. In our view, however, BI should not attempt to fight the USD trend too much, but rather maintain Rupiah's parity with our main trading partners in China and ASEAN to maintain a healthy balance between exports and imports.

Panel 1. Indonesia's trade surplus narrows in annual terms, despite improvements in coal and (especially recently) CPO prices



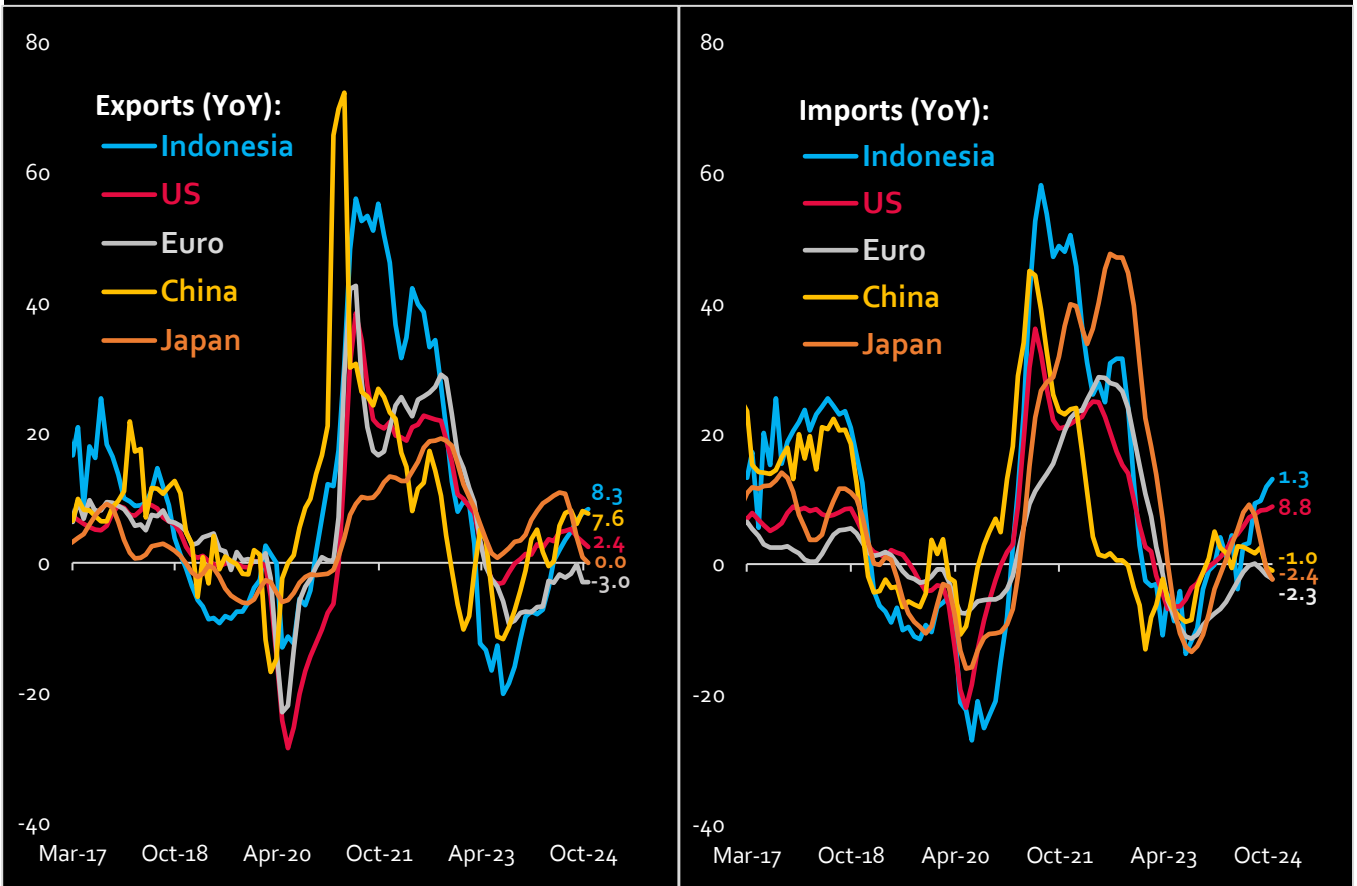
Source: BPS, Bloomberg, BCA Economist calculations

Panel 2. Imports have moved higher in recent months, indicating improved growth outlook for Q4-24 and potentially early 2025



Source: BPS, BCA Economist

Panel 3. Indonesian exports and imports have been better than most other countries'



Source: Bloomberg

Panel 4. Indonesian manufacturing continue to contract, although there may be some positive signs from the recent rebound in Chinese activities

PMI Manufaktur PMI	2023					2024							
	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Indonesia	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	49.2
Malaysia	46.8	47.9	47.9	49.0	49.5	48.4	49.0	50.2	49.9	49.7	49.7	49.5	49.5
Thailand	47.5	47.6	45.1	46.7	45.3	49.1	48.6	50.3	51.7	52.8	52.0	50.4	50.0
Philippines	52.4	52.7	51.5	50.9	51.0	50.9	52.2	51.9	51.3	51.2	51.2	53.7	52.9
Vietnam	49.6	47.3	48.9	50.3	50.4	49.9	50.3	50.3	54.7	54.7	52.4	47.3	51.2
India	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5
Australia	48.2	47.7	47.6	50.1	47.8	47.3	49.6	49.7	47.2	47.5	48.5	46.7	47.3
China	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1
South Korea	49.8	50.0	49.9	51.2	50.7	49.8	49.4	51.6	52.0	51.4	51.9	48.3	48.3
Japan	48.7	48.3	47.9	48.0	47.2	48.2	49.6	50.4	50.0	49.1	49.8	49.7	49.2
Euro Area	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45.0	46.0
US	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5
Mexico	52.1	52.5	52.0	50.2	52.3	52.2	51.0	51.2	51.1	49.6	48.5	47.3	48.4

Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	15-Nov	-1 mth	Chg (%)
US	4.75	Nov-24	2.15	Baltic Dry Index	1,785.0	1,766.0	1.1
UK	4.75	Nov-24	3.05	S&P GSCI Index	527.2	536.8	-1.8
EU	3.40	Oct-24	1.40	Oil (Brent, \$/brl)	71.0	74.3	-4.3
Japan	0.25	Jul-24	-2.60	Coal (\$/MT)	143.4	150.6	-4.7
China (lending)	2.00	Sep-24	4.05	Gas (\$/MMBtu)	1.65	2.37	-30.4
Korea	3.25	Oct-24	1.95	Gold (\$/oz.)	2,563.3	2,662.6	-3.7
India	6.50	Feb-23	0.29	Copper (\$/MT)	8,881.9	9,386.7	-5.4
Indonesia	6.00	Sep-24	4.29	Nickel (\$/MT)	15,292.0	17,162.9	-10.9
Money Mkt Rates	15-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,139.0	1,010.4	12.7
				Rubber (\$/kg)	1.92	2.03	-5.4
Bank Rates (Rp)	Aug	Jul	Chg (bps)	External Sector	Oct	Sep	Chg (%)
SPN (1Y)	6.64	6.57	6.7	Export (\$ bn)	24.41	22.06	10.69
SUN (10Y)	6.90	6.68	22.4	Import (\$ bn)	21.94	18.82	16.54
INDONIA (O/N, Rp)	6.07	6.16	-9.0	Trade bal. (\$ bn)	2.48	3.23	-23.39
JIBOR 1M (Rp)	6.63	6.64	-1.1	Central bank reserves (\$ bn)*	151.2	149.9	0.87
Currency/USD	15-Nov	-1 mth	Chg (%)	Prompt Indicators	Oct	Sep	Aug
Lending (WC)	8.78	8.81	-2.51	Consumer confidence index (CCI)	121.1	123.5	124.4
Deposit 1M	4.79	4.78	1.00	Car sales (%YoY)	-3.9	-9.1	-14.2
Savings	0.65	0.65	-0.09	Motorcycle sales (%YoY)	5.4	3.7	7.4
Capital Mkt	15-Nov	-1 mth	Chg (%)	Manufacturing PMI	Oct	Sep	Chg (bps)
UK Pound	0.793	0.765	-3.49	USA	48.5	47.3	120
Euro	0.949	0.918	-3.24	Eurozone	46.0	45.0	100
Japanese Yen	154.3	149.2	-3.31	Japan	49.2	49.7	-50
Chinese RMB	7.229	7.120	-1.52	China	50.3	49.3	100
Indonesia Rupiah	15,855	15,580	-1.73	Korea	48.3	48.3	0
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)	Indonesia	49.2	49.2	0
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 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	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 year)**	13,866	14,050	14,262	15,568	15,397	15,947
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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