Economics

DBS Flash

Pressure eases on Indonesia's trade balance

DBS Group Research April 18, 2019

Masyita Crystallin
Economist

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

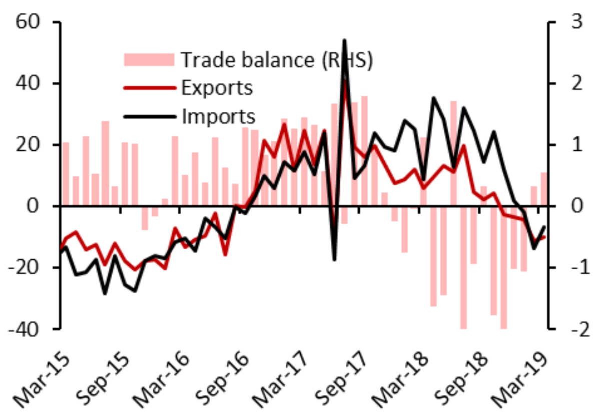
- *March trade balance recorded a surplus, marking two consecutive months of surplus.*
- *Improvement of trade balance was due to imports falling faster than exports.*
- *Tight monetary policy and several governments measures to tame imports (higher consumer goods imports taxes and B20 requirements), along with lower oil price, have contributed to lower imports.*
- *Weak export performance, in line with peers in the region, was mainly global trade demand slowdown and flat major commodities' price (CPO, coal and rubber).*
- ***Implication for our forecast:** Risks to our growth, policy rate, and rupiah forecasts are even. We are keeping an eye on Bank Indonesia, as an improved trade balance amid muted inflation could nudge it toward contemplating rate cuts in the second half of this year.*
- ***Implication for investors**: We remain favourably predisposed toward Indonesian rates, FX, and equities.*

March and February trade balances recorded surplus of USD540mn and USD330mn, respectively. Improvements are seen in both fronts. Non-O&G recorded a surplus of almost USD1.2bn in Mar19 vs a deficit of USD1.6bn in 4Q18. O&G also improved to -USD1.3bn in 1Q19 from -USD3.2bn in 4Q18.

We think trade balance could improve in 2019 compare to 2018 for three reasons:

- The impact of Rupiah depreciation will finally pass through to prices and will lower imports demand further.
- We expect oil price to average between USD65-70/bbl (Brent) this year vs USD 72 in 2018. This should translate into a lower oil import bill.
- China's likely economic stabilisation could provide support for trade demand in the region, including Indonesia.

Trade balance
USD bn; % YoY

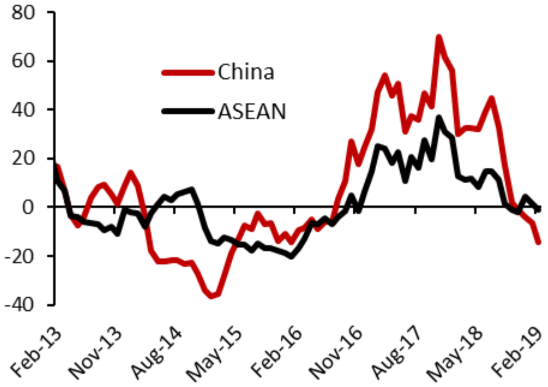


Exports deceleration could last this year

Weak exports performance was in line with regional peers as exports deceleration was mainly due to slower global trade demand coupled with tighter liquidity which impact trade via weaker purchasing power. In addition, Indonesia's major commodities' price such as CPO, coal and rubber are expected to remain flat this year.

In terms of major exports destination, major destination, China, Japan and ASEAN which accounted for 34% of Indonesia's exports eased significantly. On this regard, China's economic rebound or at least a softer landing could support intra-Asia trade this year and supports Indonesia's exports.

Exports to China and ASEAN
%, YoY 3mma



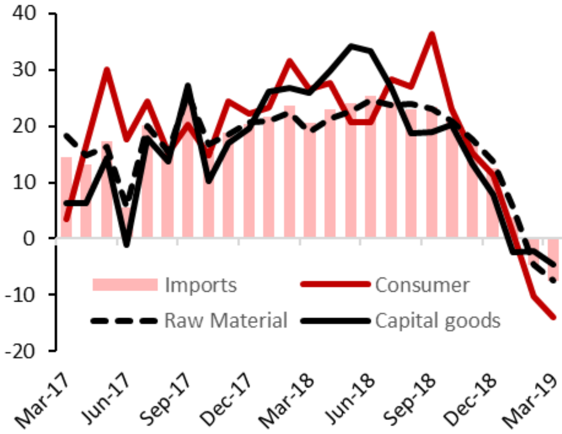
Dissecting imports slowdown

Fortunately, imports have slowed down more deeply than exports, improving Indonesia's overall trade balance. Combination of lower oil price and weaker Rupiah compare to 2017 level had contributed to imports contraction. Moreover, as imports content of exports product is still quite significant, slower exports also contribute to imports contraction. Domestically, softer investment growth which seemed to have peaked in 3Q18 might had lower capital goods imports.

Besides external and domestic factors, other important determinant come from the policy space. Tightening monetary policy stance and several measures to curb imports have also contributed to improvement in the trade balance. These measures include higher import tax (PPH 22) on near 1,000 consumption goods, the requirement to use biodiesel blended fuel (B20) and plan to postpone capital goods imports of several infrastructure projects.

Imports contraction was broad-based (consumer, raw material and capital). Consumption goods imports fell by 13.9%YoY (3mma), while capital imports were down 4.5%YoY. The biggest proportion come from raw material which account for 75% of total imports, decelerated by 7.4%YoY.

Import by categories
%, yoy, 3mma



Implication for rates

In the last policy meeting, Bank Indonesia (BI) reiterated its focus on keeping Rupiah around its fundamental level, making sure inflation is within BI target ranges, reducing current account deficit and maintaining attractiveness of domestic financial assets. As the Fed changed gear toward supporting growth more and inflation and Rupiah are within BI's comfortable level, the only factors that need to be watched further is development in trade balance and current account.

For now, we still think that BI is likely to stand pat this year, as global uncertainties remain present on both trade and capital flows front. More trade balance data points are needed to conclude otherwise.

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Masyita Crystallin, Ph.D.
Economist – Indonesia & Philippines
+62 21 2988 4003 masyita@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit Strategist
+65 6878-2072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist – Eurozone, India & Thailand
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Duncan Tan
FX & Rates Strategist - ASEAN
+65 6878-2140 duncantan@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).