

Indonesia Trade Update

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Trade Surplus Comes Back in May-19

Indonesia recorded a surplus by US\$207 million on its trade balance in May-19. This record improved from a large deficit by US\$2.29 billion in Apr-19. In May-19, Indonesian exports record was more aggressive than imports record. We suspected that stronger exports in May-19 is a seasonal factor that increasing loading activities in the ports before long holiday period during Moslem Festivities. On the other side, less aggressive in Indonesian imports reflected current government's successful efforts to manage flow of imported goods, especially for aircraft fuel, diesel fuel, and material for infrastructure. Nevertheless, this record isn't impressive enough given that both exports and imports dropped on annual basis. It can be a reflection of sluggish international trade activities in the period of weakening global economic growth during the trade war saga. We thought that it's difficult to expect stronger global demand for Indonesian products during current global economic conditions. Moreover, Indonesia's mainstay commodities products, such as palm oil, coal, other agriculture and mining products are on down trends recently. Shipping activities for palm oil products to the European Countries are also getting obstacle due to the black campaign.

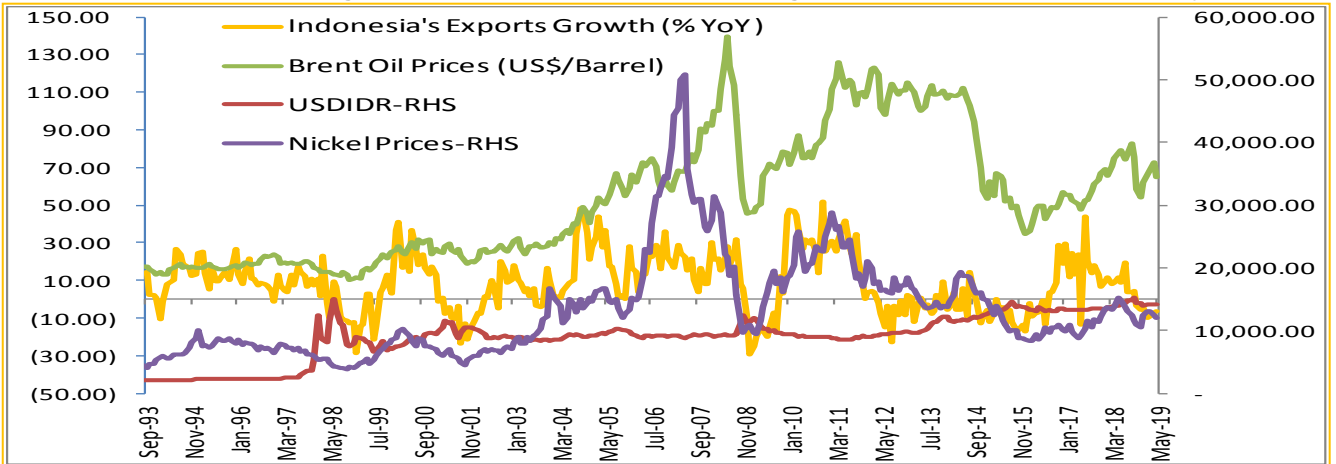
In May-19, total exports reached US\$14.74 billion. It increased by 12.42% MoM, compared the previous month record at US\$13.11 billion. Total oil & gas exports and total non oil & gas exports increased significantly by 50.18% MoM and 10.16% MoM to US\$1.11 billion and US\$13.63 billion, respectively, in May-19. It seemed that exporters were doing front loading activities before entering long holiday season in the early two weeks of Jun-19. On annual basis, Indonesian exports dropped by 8.99% YoY in May-19. It reflected current fundamental condition in international trading activities during weakening global economic demand in the trade war saga. Global economic demand tended to weaken after seeing recent economic growth trends in the major countries, such as China and Eurozone. Purchasing Manufacturing Index (PMI) as the proxy for manufacturing activities in major trading countries, such as China, Japan, the United States, Singapore, and Malaysia, indicated to enter contraction mode in May-19. Moreover, the prices of palm continued to stay below MYR2,000/ton in May-19. The prices of coal and nickel also continued to be lower in May-19.

On the other side, Indonesian imports fell by 17.71% YoY (5.62% MoM) in May-19. We suspected that a drop in imports are due to the government's measures to manage imports' flow, such as rescheduling imports goods for infrastructure needs and reducing oil imports by direct purchasing on refined oil from the contractor on partnership contract, for improving domestic current account deficit. The peak period of imports' activities for fulfilling domestic demand, especially for manufacturing, infrastructure material, and consumption, is expected to be reached in Apr-19. It's important to manage domestic imports' flow in the conditions of stronger consumption demand and friendly currency.

Going forward, we believe that a modest trend in Indonesia's international trading activities to repeat again in Jun-19. Aside due to seasonal factor, it's still driven by fundamental factors, mainly due to weakening global economic performance during the trade war saga. The tension of the trade war intensifies in Jun-19. It can be seen by China's retaliation to hike tariffs for imported goods from the United States since 1 Jun-19. The similar action is also applied by India to the United States. This factor has encouraged the World Bank to revise down its economic growth forecast for this year. Furthermore, it's important for the government to keep managing imports' flow for improving the trade balance position in the period of sluggish exports growth.

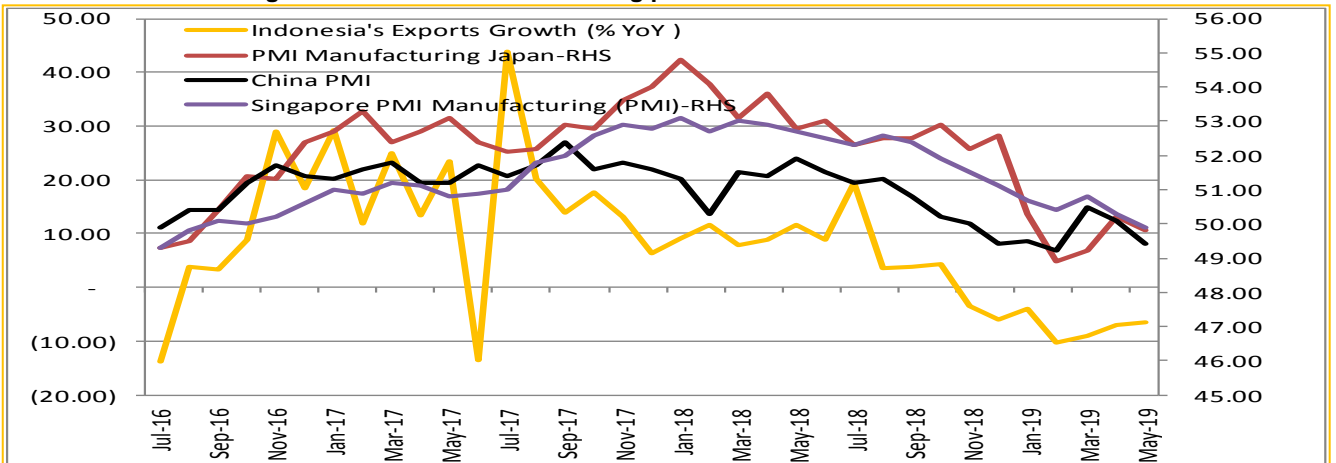
According to those aforementioned conditions, we expect domestic current account to stay on the deficit position around 2.50% - 3.00% of GDP in 2Q19. **This condition will keep restraining sustainability on local currency's strong appreciation amidst recent massive money portfolio inflow, especially in the local bond market, after seeing more dovish tones from both the Federal Reserve and Bank Indonesia.** Bank Indonesia is expected to begin for cutting its policy rate by 50bps in 2H19. In 3Q19, BI is expected to be more confident for cutting its policy rate by 25 bps after getting a clear signal on the trade war saga from G20 meeting result, seeing moderate inflation result in Jun-19, and receiving domestic trade result for the periods in May-19 and Jun-19. In 3Q19, the domestic political condition is expected to be more conducive after the dispute on the Presidential Election is also solved. By cutting its policy rate in 3Q19, BI will give direct two monetary stimulus to domestic financial markets, in the forms of injecting liquidity (due to impact of slashing RRR by bank's RRR to 6%) and lowering funding cost by slashing the policy rate. **Hence, it gives more opportunity for domestic bond market to sustain its positive trends although it's quite prone to profit taking actions due to high volatility condition during various external pressures.**

Exhibit 1: Indonesian exports growth is on down trend mode following the development in the commodity prices



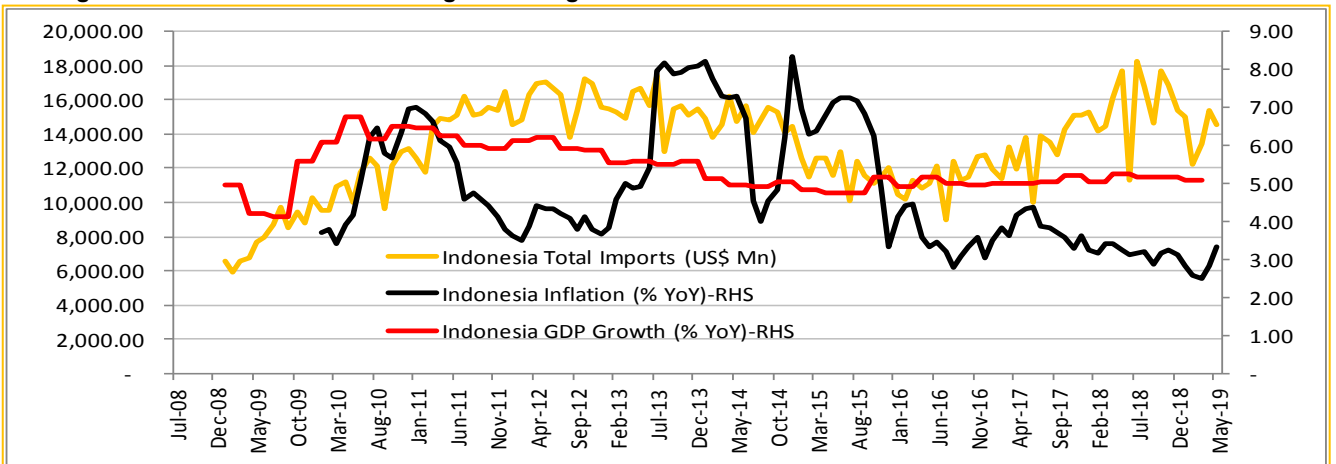
Source: Bloomberg

Exhibit 2: Manufacturing activities in Indonesia's trading partners are on down trends



Source: Bloomberg

Exhibit 3: High value of imports is the consequence of Indonesia's stronger dependence to domestic activities as the global economic condition isn't good enough



Source: Bloomberg

Macro Economic Indicators

INDICATORS	2014	2015	2016	2017	2018	2019F	2020F
Inflation (% YoY)	8.36	3.35	3.02	3.61	3.13	3.70	3.35
Inflation (% avg)	6.42	6.38	3.53	3.81	3.20	3.25	3.58
Core Inflation (% YoY)	4.93	3.95	3.07	2.95	3.07	3.10	3.04
Core Inflation (% avg)	4.53	4.89	3.35	3.15	2.81	3.08	3.00
Exchange Rate Eop (Rp/US\$)	12440	13795	13436	13548	14481	14600	14800
Exchange Rate Avg (Rp/US\$)	11885	13458	13330	13397	14267	14301	14720
Current Account (% GDP)	-3.09	-2.03	-1.82	-1.60	-2.98	-2.70	-2.40
Fiscal Balance (% GDP)	-2.20	-2.80	-2.46	-2.46	-1.76	-1.90	-1.80
Interest Rate							
BI 7-Day (Reverse) Repo Rate (% p.a)	5.86	6.25	4.75	4.25	6.00	5.50	5.50
Time Deposit 3 month (% p.a)	8.95	7.99	6.69	6.11	6.84	6.50	6.50
Lending rate working capital (% p.a)	12.81	12.46	11.36	10.68	10.34	10.28	10.28
Credit							
Growth (% YoY)							
Property Credit	17.29	11.86	14.98	13.05	16.33	14.54	14.16
Consumer credit	11.51	9.09	8.76	11.04	10.35	11.14	11.04
Working Capital Credit	10.83	9.04	6.93	8.48	13.03	11.39	10.97
Investment Credit	13.16	14.69	8.65	4.82	10.94	8.11	9.84
Total Credit	11.58	10.44	7.87	8.24	11.75	10.51	10.72
Deposit	12.29	7.26	9.60	9.36	6.45	8.64	9.37
NPL Commercial Banks (%)	2.16	2.49	2.93	2.59	2.37	2.52	2.42
Car Sales (1000 Units)	1208	1013	1062	1080	1151	1184	1223
Car Sales Growth (%)	-1.78	-16.12	4.79	1.70	6.62	2.85	3.29
Motorcycle Sales (1000 Units)	7867	6480	5931	5886	6383	6680	7079
Motorcycle Sales Growth (%)	1.59	-17.63	-8.47	-0.76	8.44	4.65	5.98
Unemployment Rate (%)	5.94	6.18	5.61	5.50	5.34	5.10	5.00
International Reserve (US\$ bn)	111.9	105.9	116.4	130.2	120.7	129.4	134.2
GDP Growth (%)	5.01	4.88	5.03	5.07	5.17	5.14	5.30

Note : the red numbers are forecast

Source : Maybank Indonesia Economic Research

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