

Trade: Living on the fast lane

Executive Summary:

- The large trade surplus (USD 2.19 Bn) and export numbers (USD 18.48 Bn) in April is the result of an ongoing commodity boom.
- Like the post-GFC boom, the current boom is the product of US and China policies, but the timeline appears to be accelerated.
- The recent pullback of commodity prices suggests an ever-present fear of tapering in the global market, although we think that significant tightening in US policy would probably only happen in 2022.
- Strong imports, particularly of consumer goods, hint at strong domestic demand recovery, although it is not fully clear if the momentum would be carried as strongly into H2-21.
- While the CA deficit will likely widen, a severe macro adjustment (and hasty exit from the current fiscal/monetary policies a la 2013-15) need not necessarily befall Indonesia.

- Indonesia recorded a hefty trade surplus of USD 2.19 Bn for April, far larger than the consensus figure of USD 1.2 Bn. More remarkable than this miss, however, was the total trade value in either direction, which managed to sustain the already-strong momentum from March. Exports in particular had never reached such dizzying heights since 2011 (**Chart 1**).
- And just like in 2011, this export performance has been buoyed largely by a commodity boom. While it is true that Indonesian manufacturers have staged quite a turnaround from the dark early days of the pandemic – exports of machinery and electrical parts, for example, has grown at double-digit rates YTD – the recovery there has been dwarfed by that in the commodity sector.
- The drivers of the current commodity boom also look similar from the one we saw 10-11 years ago: manufacturing and construction booms in China and loose monetary as well as fiscal policies in the US in the aftermath of a major crisis. This web of ingredients took some time to unravel, giving commodity exporters like Indonesia considerable time to adjust.
- US fiscal policy went down first in 2011, following Republican victory in midterm elections and the ensuing debt ceiling showdown. Then the crack widened as the Fed announced its exit (tapering) from QE in mid-2013. But the big blow to commodities only happened in 2014, when the Chinese economic slowdown became apparent – as the then-new Xi administration cracked down on systemic risks in the country's opaque financial system.
- **The current boom seems like a re-run, but at a much faster pace.** China's growth rate returned to pre-Covid levels by Q4-20, and since then the authorities have spent time trying to cool down the economy, in order to stem the rise of Yuan and (lately) commodity prices. Meanwhile, fears of rampant inflation have re-ignited speculations about tapering, despite the Fed's own dovish assessments that the inflationary pressures are only temporary.
- All these explain the recent "tug of war" in commodity prices, whereby strong increases in March and April are followed by a pullback in May (**Chart 3**). We do think that tapering fears are somewhat premature at this point, and that one final leg of the stool (US fiscal policy) will remain at least until the 2022 midterms. But it is quite probable that the trade numbers in March and April represented the high watermark of the current recovery (or something close to that), and that the huge trade surplus would be gradually eroded.
- One indication is the stubbornly strong import numbers, despite a slowdown in oil/gas imports in April. **While part of it (i.e. raw materials) could be driven by export demands, the robust consumer goods imports suggest a strong domestic demand recovery (Chart 2).** It is not completely certain if this recovery would continue at its current pace beyond Q2 – or even beyond the Ramadan/Lebaran season – given the possibility of a resurgence in Covid-19 cases, but this is one further data point in support of our prediction that the CA deficit would widen significantly.

- The accelerated timeline of global policies, coupled with the widening of the CA deficit and the uncertainties regarding Covid cases and vaccination, is a risky mix that could – in the worst scenario – force a sharp adjustment on Indonesia, similar to what happened in 2013-15. At this point, however, we still think that our baseline scenario of a (mostly) orderly “off-ramp” from

the current situation is the likelier one. This is thanks to a combination of domestic factors, such as prudent macro management and the relative decline in foreign ownership of Indonesian bonds, as well as external factors such as the IMF’s planned allocation of SDRs for emerging markets.

Chart 1. Exports in March-April reached levels unseen since 2011

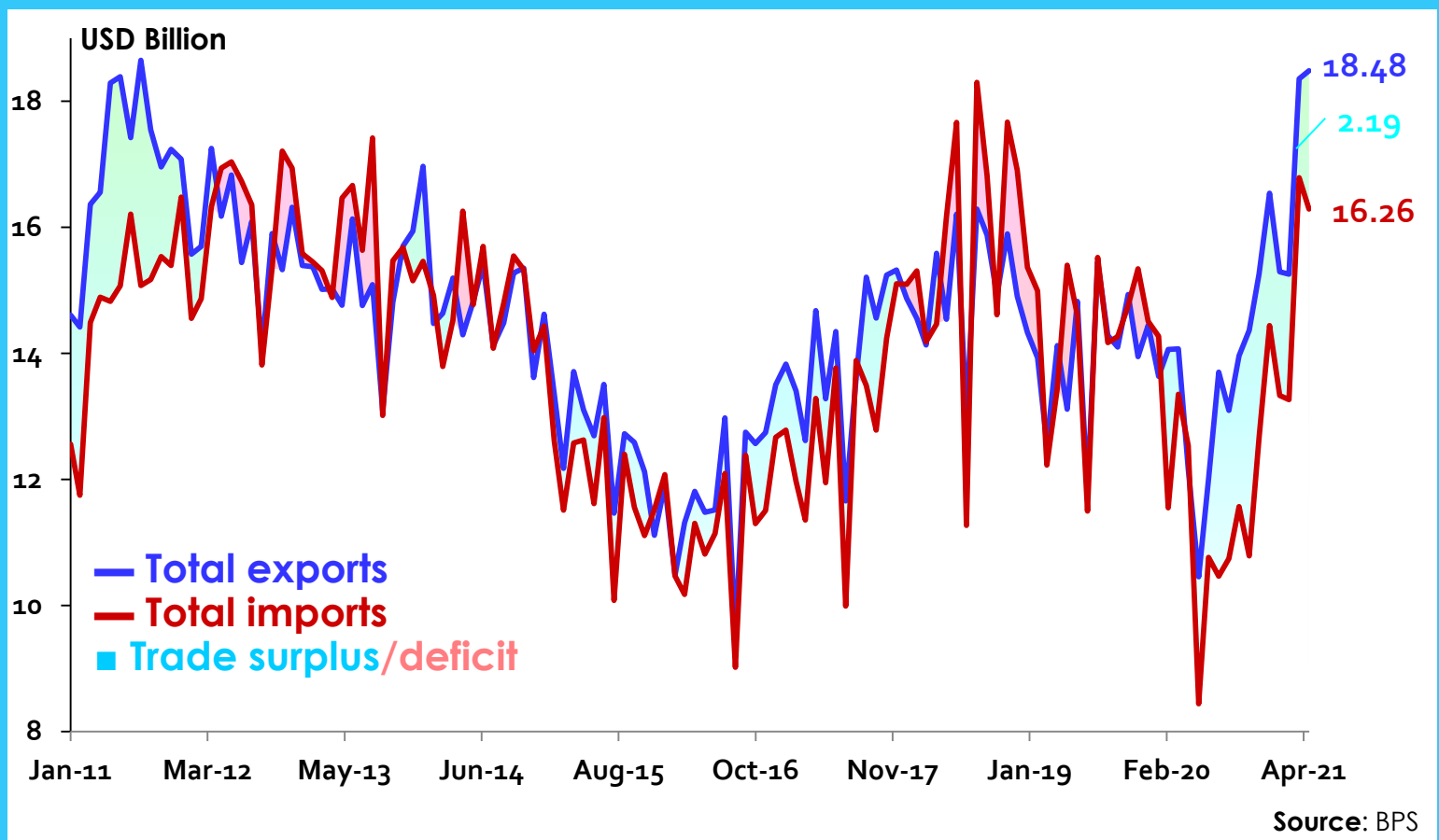


Chart 2. Import growth suggests robust demand recovery all-around

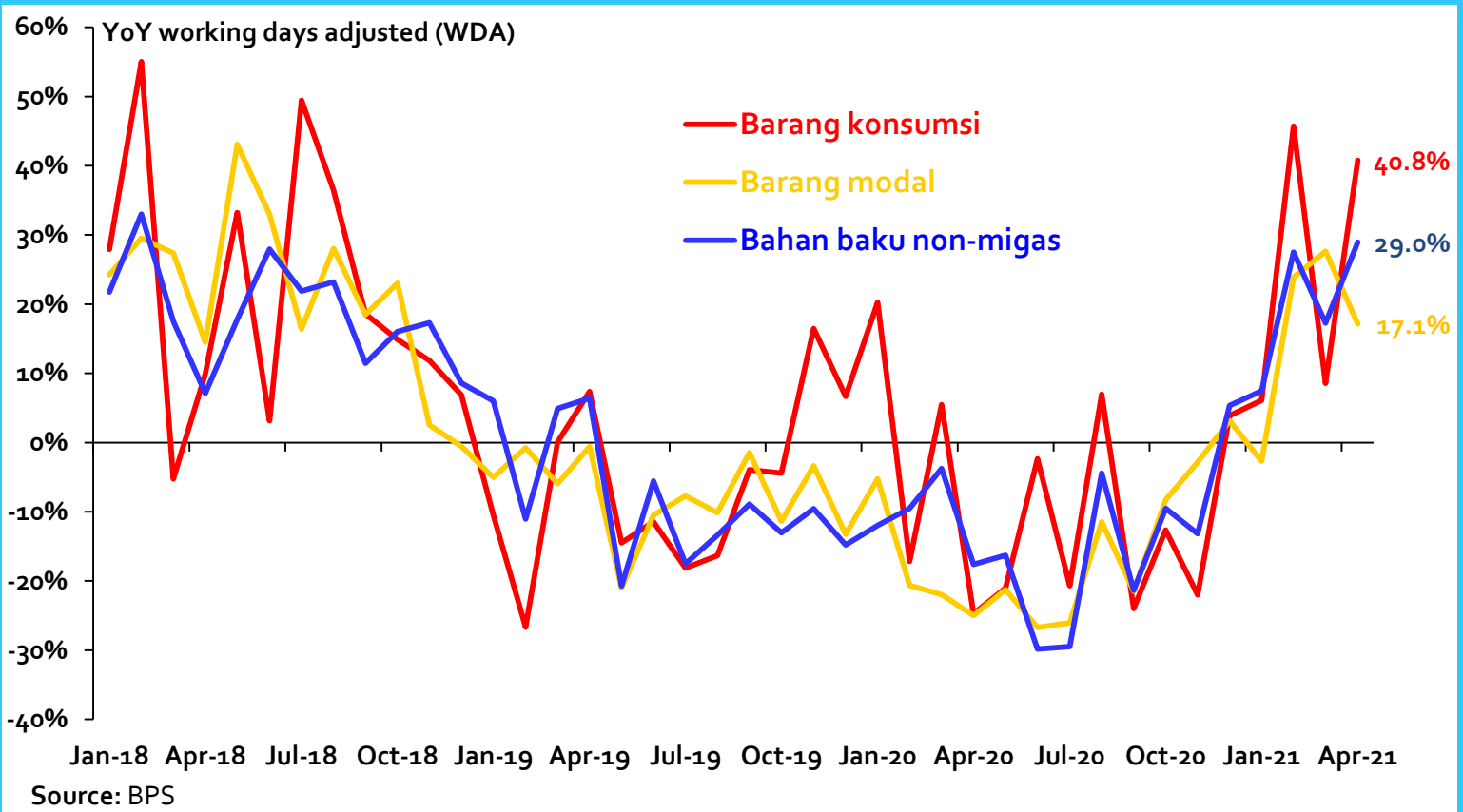
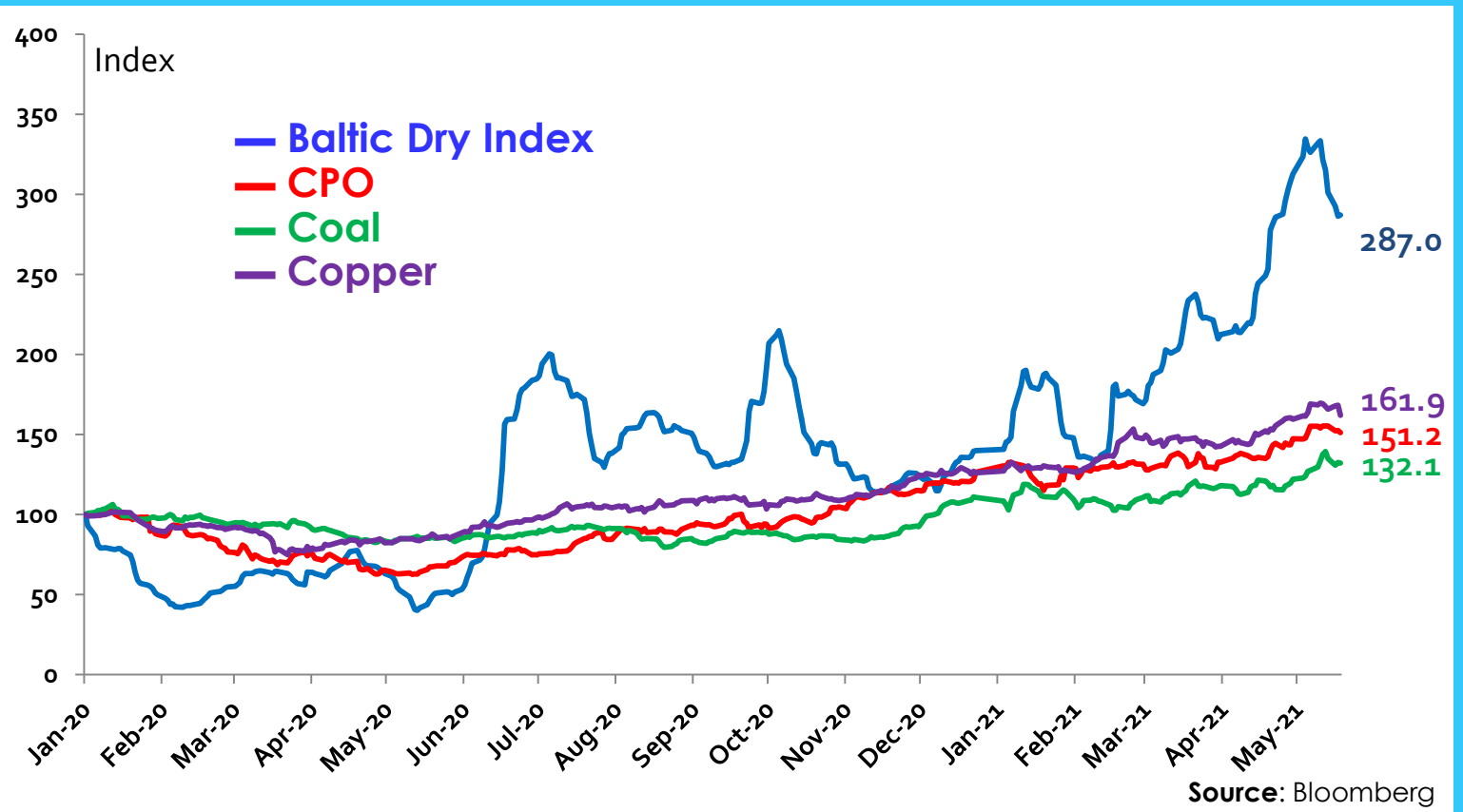


Chart 3. After a strong surge in March-April, commodity prices and global trade indicators began to decline in May



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	19-May	-1 mth	Chg (%)
US	0.25	Mar-20	-3.95	Baltic Dry Index	2,801.0	2,385.0	17.4
UK	0.10	Mar-20	-1.40	S&P GSCI Index	507.4	488.7	3.8
EU	0.00	Mar-16	-1.60	Oil (Brent, \$/brl)	66.7	66.8	-0.2
Japan	-0.10	Jan-16	0.10	Coal (\$/MT)	97.3	89.5	8.7
China (lending)	4.35	Oct-15	3.45	Gas (\$/MMBtu)	2.88	2.61	10.3
Korea	0.50	May-20	-1.80	Gold (\$/oz.)	1,869.6	1,776.5	5.2
India	4.00	May-20	-0.29	Copper (\$/MT)	9,980.0	9,227.0	8.2
Indonesia	3.50	Feb-21	2.08	Nickel (\$/MT)	17,289.0	16,318.8	5.9
Money Mkt Rates	19-May	-1 mth	Chg (bps)	CPO (\$/MT)	1,130.0	1,015.0	11.3
				Rubber (\$/kg)	1.61	1.60	0.6
Bank Rates (Rp)	Feb	Jan	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1M)	2.46	2.95	-49.3	Export (\$ bn)	18.48	18.35	0.7
SUN (10Y)	6.46	6.47	-1.3	Import (\$ bn)	16.29	16.79	-3.0
INDONIA (O/N, Rp)	2.79	2.80	-0.5	Trade bal. (\$ bn)	2.19	1.57	40.0
JIBOR 1M (Rp)	3.56	3.56	0.3	Central bank reserves (\$ bn)	138.8	137.1	1.24
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Prompt Indicators	Apr	Mar	Feb
Lending (WC)	9.23	9.27	-4.29	Consumer confidence index (CCI)	101.5	93.4	85.8
Deposit 1M	3.88	4.05	-16.69	Car sales (%YoY)	902.9	10.5	-38.2
Savings	0.83	0.84	-0.97	Motorcycle sales (%YoY)	N/A	-7.2	-30.8
Currency /USD	19-May	-1 mth	Chg (%)	Cement sales (%YoY)	8.3	10.9	0.7
UK Pound	0.708	0.723	2.05	Capital Mkt	19-May	-1 mth	Chg (%)
Euro	0.821	0.835	1.60	JCI	5,760.6	6,086.3	-5.35
Japanese Yen	109.2	108.8	-0.38	DJIA	33,896.0	34,200.7	-0.89
Chinese RMB	6.435	6.521	1.33	FTSE	6,950.2	7,019.5	-0.99
Indonesia Rupiah	14,290	14,565	1.92	Nikkei 225	28,044.5	29,683.4	-5.52
Capital Mkt	19-May	-1 mth	Chg (%)	Hang Seng	28,593.8	28,969.7	-1.30
JCI	5,760.6	6,086.3	-5.35	Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)
DJIA	33,896.0	34,200.7	-0.89	Stock	1,892.9	1,878.6	14.30
FTSE	6,950.2	7,019.5	-0.99	Govt. Bond	964.6	951.4	13.20
Nikkei 225	28,044.5	29,683.4	-5.52	Corp. Bond	28.5	28.9	-0.37
Hang Seng	28,593.8	28,969.7	-1.30	Manufacturing PMI	Apr	Mar	Chg (bps)
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)	USA	60.7	64.7	-400
Stock	1,892.9	1,878.6	14.30	Eurozone	62.9	62.5	40
Govt. Bond	964.6	951.4	13.20	Japan	53.6	52.7	90
Corp. Bond	28.5	28.9	-0.37	China	51.9	50.6	130
				Korea	54.6	55.3	-70
				Indonesia	54.6	53.2	140

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.5
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** 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

Industry Analyst

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia

Economist / Analyst

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas

Industry Analyst

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Gabriella Yolivia

Economist / Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Derrick Gozal

Economist / Analyst

derrick_gozal@bca.co.id

+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir

Economist / Analyst

livia_thamsir@bca.co.id

+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki

Research Assistant

ahmad_rizki@bca.co.id

+6221 2358 8000 Ext: 20378

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group - DKP

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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