

Indonesia Economics

Trade Surplus Spikes in August, BI to Hold For Rest of 2023

Trade Surplus Surges on Higher Exports, But 3Q Current Account Could Remain in Deficit

Export values continued to slide in August as prices of top commodities like coal and palm oil remained lower than a year ago. The contraction in exports deepened to -21.2% on a year ago basis (vs. -18.1% in Jul) due to the higher base, driven by both non-oil & gas (-21.2% vs. -18.8% in Jul) and oil & gas (-20.7% vs. -4.7% in Jul). However, exports rose +5.5% month-on-month to the highest since March, as prices stabilise for most major commodities.

Export volumes remain resilient, falling only -0.1% from a year ago in July compared to -18% in nominal terms.

Import values (-14.8% vs. -8.3% in Jul) fell at a quicker pace, led by non-oil & gas (-12.1% vs. -2.7% in Jul). The trade surplus more than doubled to US\$3.1bn in August (vs. US\$1.3bn in July), but remains weaker than most months in the first half.

The current account could remain in deficit in 3Q, as the trade surplus remains modest. Jul-Aug trade surplus stands at US\$4.7bn, not much higher than the US\$4.4bn in Apr-May.

Palm Oil and Coal Export Volumes Supported By China and India Demand

Palm oil exports were the main reason for the weak headline, falling -34.5% YoY (vs. -23.6% in Jul), although shipments rose to the highest since Oct 2022. Palm oil demand remains supported by a widening discount to soyoil and sunoil, as prices of rival oils have risen due to production concerns in the US and disruptions to Black Sea supplies. India and China have been ramping up palm oil imports as prices fall due to bumper supplies in Indonesia and Malaysia.

Coal imports fell -43.9% YoY, extending their -42.8% decline in July. Volumes likely remained resilient. China's imports from Indonesia rose in August to 18.8mn tons, the highest since May, according to data provider Kpler estimates¹. China has boosted imports of coal this year, given robust power demand and constrained domestic output of coal and hydropower (an alternative power source).

Shipments of ores, slag & ash (+39.8% vs. -59.1% in Jul) and knitted apparel (+19% vs. -18.9% in Jul) reversed multi-month declines, with ore exports in particular jumping to their highest since April 2022.

Nickel exports fell -18.4% YoY while declining -13.6% from a month ago. This was despite export prices rising to a 2-month high in late August, pushed up by higher nickel ore prices. Nickel ore prices have surged in recent weeks after the government's halt in new mining quotas led nickel miners to stock up ore inventories².

Non-oil & gas shipments to all major markets fell in August. Exports to China (-12.8% vs. -2.2% in Jul) saw a deeper YoY decline but rose nearly +10% month-on-month to hit a 5-month high.

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¹ Reuters, "China's thermal coal imports rise amid domestic price, output woes", 29 Aug 2023.

² Mining.com, "Indonesia's nickel prices surge amid probe into mining approvals", 23 Aug 2023.

Imports Weighed Down by Falling Capital Goods and Raw Material Shipments

Capital goods and raw material imports contracted in August, while growth in consumer goods eased. Consumer goods imports saw lower growth of +15.5% (vs. +26.9% in Jul), due primarily to a higher base.

Raw material imports (-20.4% vs. -16.7% in Jul) fell at a deeper pace than previous month. Capital goods imports fell -4% from a year ago (vs. +18.9% in Jul), a turnaround from three straight months of growth. Electrical machinery & equipment imports (-12.6% vs. -0.6% in Jul) declined for the third consecutive month. Machinery & mechanical appliances eased -0.5%, reversing the preceding month's growth of +11.3%.

Retail Sales Growth Eased to 3-Month Low, Consumer Confidence Ticked Up But Remains Soft

Real retail sales growth (+1.3%) eased to a 3-month low in August, with July's print revised down significantly to +1.6% (from +6.3%). The consumer confidence index (125.2 vs. 123.5 in Jul) ticked up, but remained weaker than during the second quarter.

On a month-on-month basis, retail sales inched up +0.5%, following a -8.8% plunge in the previous month which Bank Indonesia attributed to the end of June school holidays.

Easing retail sales was led by cultural & recreation (-9.7% vs. -2.4% YoY in Jul) and food, drinks & tobacco (+3.8% vs. +4.8% in Jul). Sales of fuels (-1.9%), household appliances (-4.1%) and stationery & communication (-17.7%) fell from a year ago.

Maintain 2023 GDP at +5%, BI to Hold Next Week

We maintain our GDP growth forecast at +5% in 2023 and +5.2% in 2024. We expect the export contraction to narrow from September, as commodity prices stabilize and base effects turn more favourable. Slowing retail sales suggest that domestic demand could be losing steam, but there will likely be a demand boost from pre-election spending in the fourth quarter.

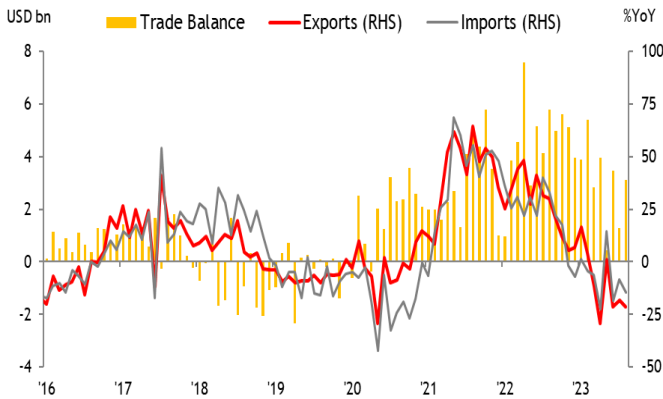
We expect BI to keep its policy rate unchanged at its peak of 5.75% in the upcoming September meeting, as currency pressure limits its leeway to reduce rates. US bond yields have surged amid a resilient US economy and hawkish Fed bets. Markets have pared expectations of Fed rate cuts to 75-100bps, with the first cut in 2Q 2024. Amid this "higher for longer" US rates environment, we expect BI to hold its policy rate at 5.75% for the rest of the year and cut only in 2024, after the Fed eases rates.

Table 1: External Trade by Category

	Unit	Apr-23	May-23	Jun-23	Jul-23	Aug-23	8M23	2Q23	1Q23	2022
Exports	%YoY	-29.4	0.9	-21.2	-18.1	-21.2	-11.8	-17.8	1.4	26.1
Oil & Gas	%YoY	-12.2	-12.5	-18.8	-4.7	-20.7	-3.2	-14.6	21.6	30.7
Non-Oil & Gas	%YoY	-30.4	1.9	-21.3	-18.8	-21.2	-12.3	-18.1	0.4	25.8
Imports	%YoY	-22.3	14.3	-18.3	-8.3	-14.8	-7.8	-9.4	-3.3	21.0
Oil & Gas	%YoY	-22.5	-6.5	-39.5	-29.7	-28.1	-18.8	-23.3	-3.4	58.3
Non-Oil & Gas	%YoY	-22.3	18.9	-13.9	-2.7	-12.1	-5.5	-6.3	-3.2	15.5
Trade Balance	USD mn	3,936	427	3,451	1,292	3,124	24,342	7,815	12,111	54,532
Import by Category										
Consumer Goods	%YoY	-17.7	36.5	-6.6	26.9	15.5	7.7	2.9	2.7	-1.7
Raw Materials	%YoY	-25.3	4.4	-23.8	-16.7	-20.4	-13.1	-15.4	-6.6	23.0
Capital Goods	%YoY	-6.9	60.3	4.1	18.9	-4.0	11.9	17.7	10.5	27.0

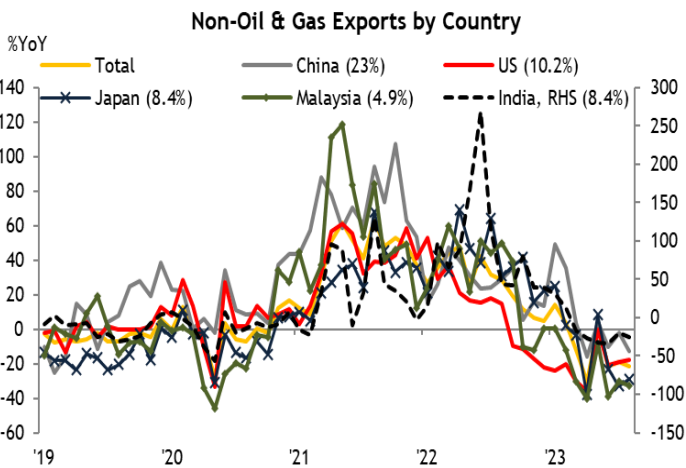
Source: CEIC

Fig 1: Exports (-21.2%) and Imports (-14.8%) Contracted for 3rd Straight Month, Trade Surplus Spikes to \$3.1bn



Source: CEIC

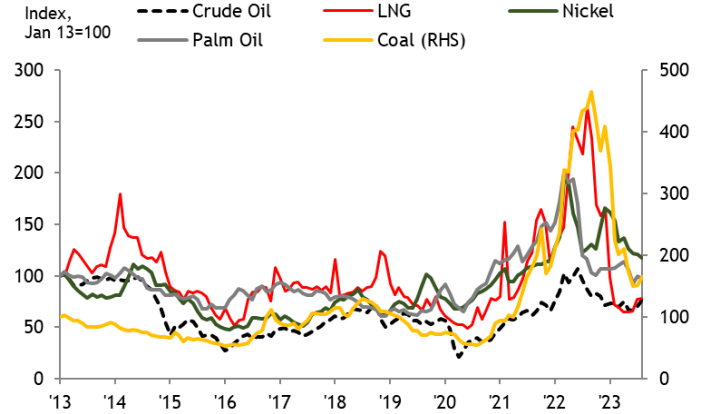
Fig 3: Shipments to Major Markets Stayed in Contraction in Aug; Exports to China (-12.8%) Rose to 5-Month High



Note: Exports by country only available for non-oil & gas; breakdown of total exports released with a lag.

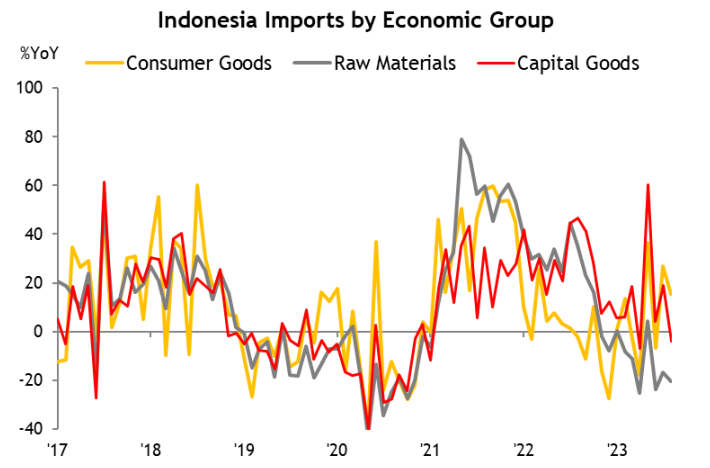
Source: CEIC

Fig 2: Global Commodity Prices Bottoming Out in Aug



Source: CEIC

Fig 4: Capital Goods and Raw Material Imports Contracted in Aug, While Consumer Goods Grew At Slower Pace



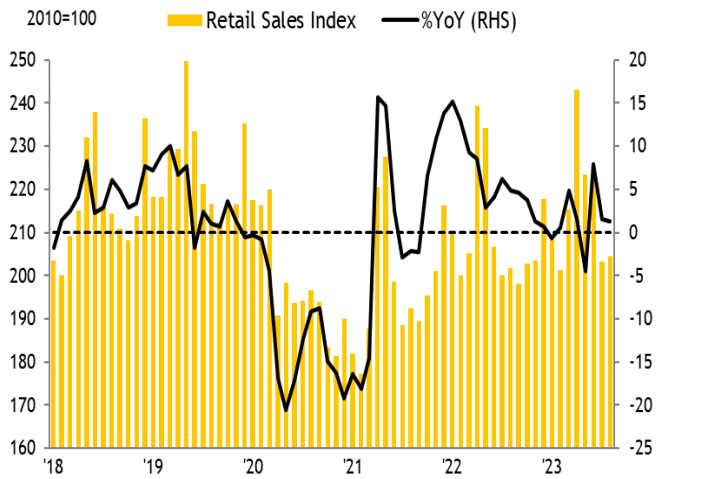
Source: CEIC

Table 2: Exports by Categories (%YoY)

	% of total exports (2022)	May-23	Jun-23	Jul-23	Aug-23	8M23	2Q23	1Q23	2022
Animal or Vegetable Oils (Palm Oil)	12.1	126.4	-18.8	-23.6	-34.5	-17.6	-11.2	-11.1	7.2
Mineral Fuels Excluding Oil & Gas Products (Coal)	18.8	-21.2	-34.5	-42.8	-43.9	-13.7	-26.7	44.2	69.8
Ores, Slag, and Ash	3.5	-12.36	-48.3	-59.1	39.8	-26.7	-31.4	-32.3	62.2
Article of Apparel & Cloth Accessory, Knitted or Crocheted	1.6	-6.1	-20.7	-18.9	19.0	-21.9	-28.8	-30.8	7.6
Nickel and Articles Thereof	2.0	17.0	-33.6	12.6	-18.4	26.3	4.8	101.6	365.4
Copper and Articles Thereof	1.0	-48.6	-41.5	-35.0	-25.4	-32.0	-40.9	-24.9	-8.4
Tin and Articles Thereof	0.8	8.3	-21.7	57.4	-35.3	-35.3	-29.6	-60.9	-2.2
Articles of Iron and Steel	0.6	16.1	4.6	77.9	-14.2	-10.6	-16.2	-28.3	9.7
Ships, Boat, and Floating Structures	0.4	20.1	-91.0	102.4	-83.8	-38.1	-32.6	59.9	766.8
Man-Made Filaments	0.3	31.6	-14.1	30.3	-5.6	-2.7	-4.8	-9.9	9.6

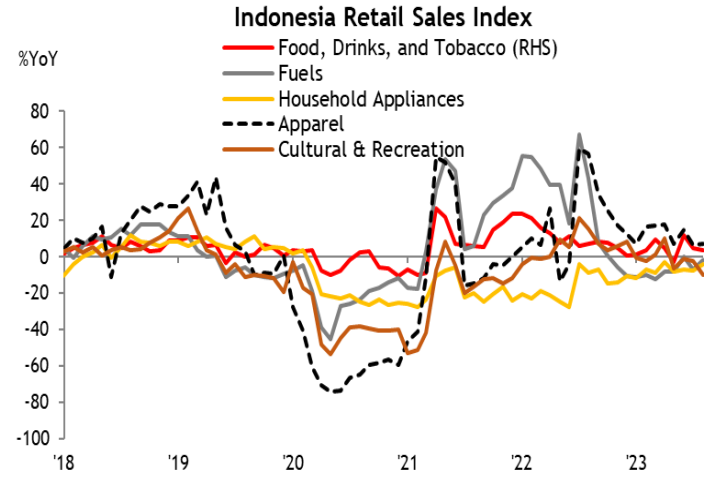
Source: CEIC

Fig 5: Aug Retail Sales Growth Eased to 3-Month Low of +1.3% (vs. Downward-Revised +1.6% in Jul)



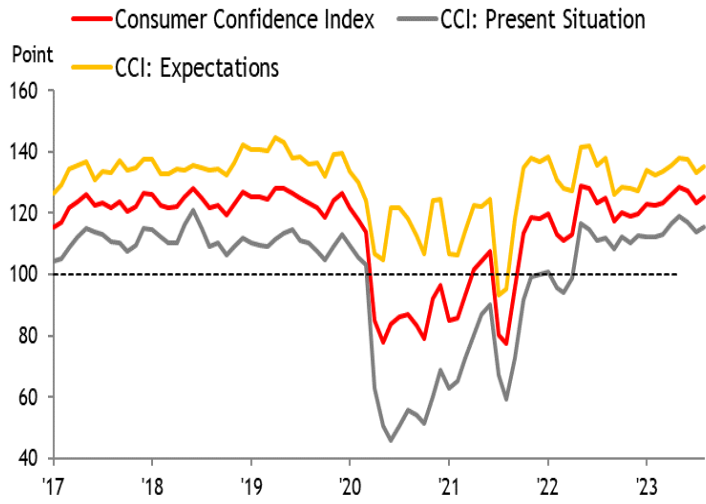
Source: CEIC

Fig 6: YoY Retail Sales Growth Weighed Down by Lower Recreation Sales While Most Other Clusters Also Softened



Source: CEIC

Fig 7: Consumer Confidence Index (125.2) Ticked Up But Remained Weaker Than 2Q



Source: CEIC

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