Indonesia Outlook

OCBC Bank

Trade deficit widens but BI likely to hold

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Highlights

- **Trade deficit widens to US$2.1bn in November from US$1.8bn in the prior month.**
- **Trade data results overall though were mixed as exports saw a decline while imports growth slowed.**
- **Bank Indonesia (BI) would probably hold for December and instead focus on addressing the liquidity situation.**

Indonesia's trade deficit widened for the month of November to US$2.1bn (Oct 2018: US$1.8bn). Even as import growth slowed to 11.7% yoy (Oct 2018: 23.7% yoy), the exports data showed a decline of 3.3% yoy (Oct 2018: 3.6% yoy). The trade deficit in effect is the widest it has been since July 2013 when it was at US$2.3bn. This was also the first time since July 2017 that there is a decline in exports percentage wise.

The exports decline was mainly driven by a decline in non-oil and gas exports which saw a reduction of about 4.1% yoy. The decline in the non-oil and gas exports itself was driven by quite a large decline in the manufacturing exports at 6.5% yoy amid escalating trade tensions between the US and China. Meanwhile, the oil and gas exports growth accelerated to expand at 7.1% yoy (Oct 2018: 3.8% yoy), particularly driven by growth in gas exports even as crude oil exports continued to decline. Going forward, Indonesian exports may continue to face significant risks as commodity prices struggle and US-China trade tensions show limited progress.

On the imports side, things looked much better as the slow-down in growth was driven by either declines or slower expansion for all the categories. In particular, the capital goods imports saw a decline at 2.1% yoy possibly attributable to the government's measures to limit imports in this area. The government had earlier postponed electricity and oil and gas related projects. Consumer goods imports growth also slowed to 6.8% yoy (Oct 2018: 20.1% yoy). However, raw material imports continued to remain elevated at 15.6% yoy even as the B20 measures have been in place since the start of September.

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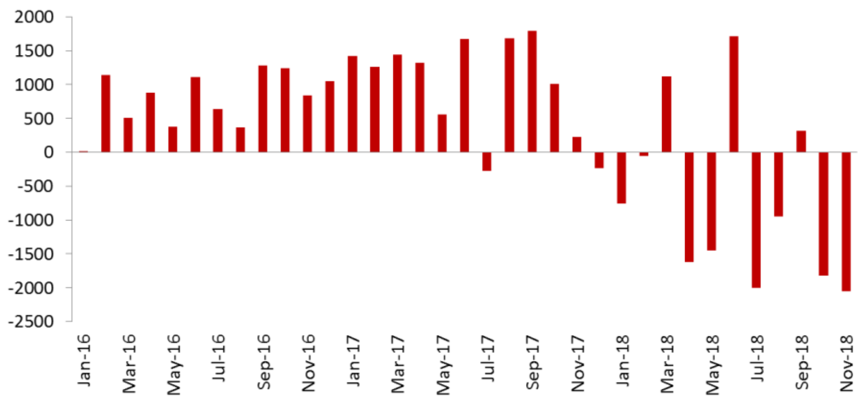
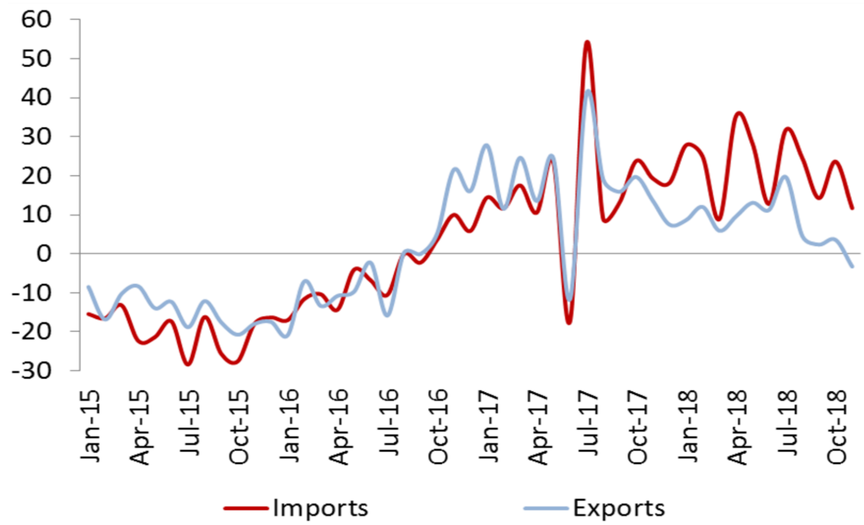
Despite the wider trade deficit, we believe that BI may choose to hold for December. The IDR did immediately decline against the USD following the release of the trade data but subsequently has stabilized amid Bloomberg reports of intervention in the FX spot and local NDF markets. At the moment, we believe the central bank would take a break first to focus on maintaining adequate liquidity in the lending market as the loan to deposit ratio for both commercial and state banks hit around 94% in September. This contrasts to the start of the year where the loan to deposit ration hovered around 90% for both commercial and state banks. BI would also probably have some breathing space given that the Fed rhetoric has becoming increasingly dovish and there is a strong possibility for a reaffirmation of a more cautious stance from the Fed after the December FOMC. This should provide emerging-market currencies with some relief and possibly help provide some support for the IDR. The trade data results were also a little mixed as there were improvements on the imports side whilst the exports side lagged. At this point, we are looking at the possibility of two rate hikes in 2019.

Chart 1: Trade balance, US$bn



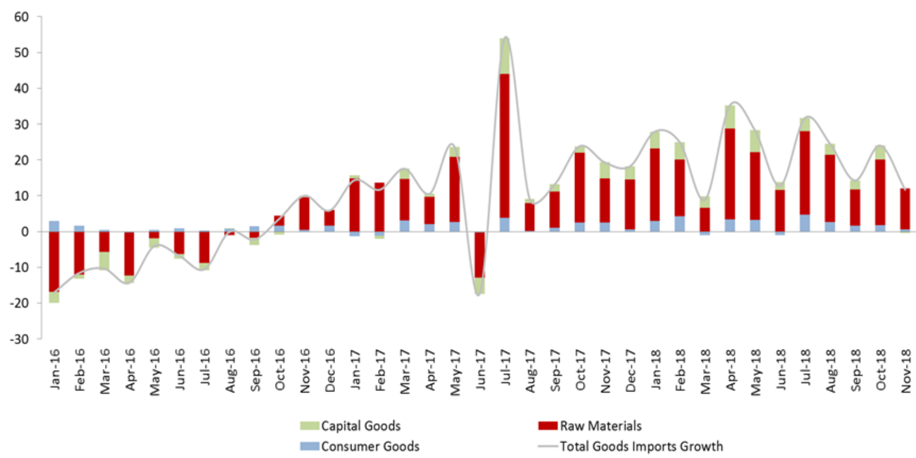
Source: Bloomberg, CEIC and OCBC

Chart 2: Growth of imports and exports, % yoy



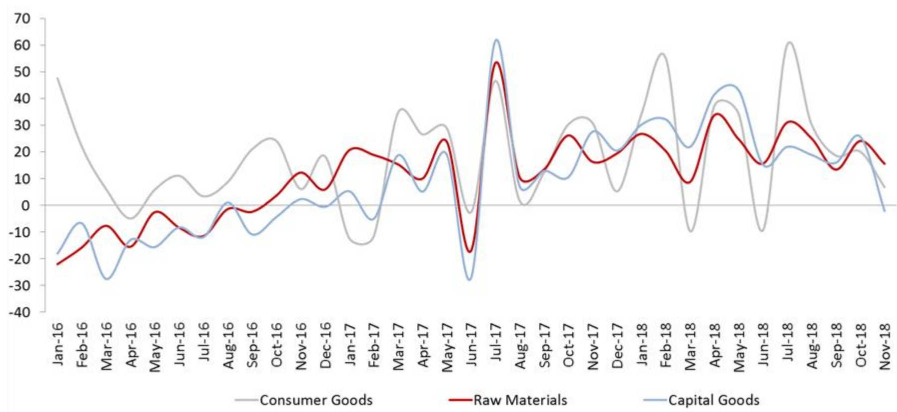
Source: Bloomberg, CEIC and OCBC

Chart 3: Contributors to import growth, % yoy



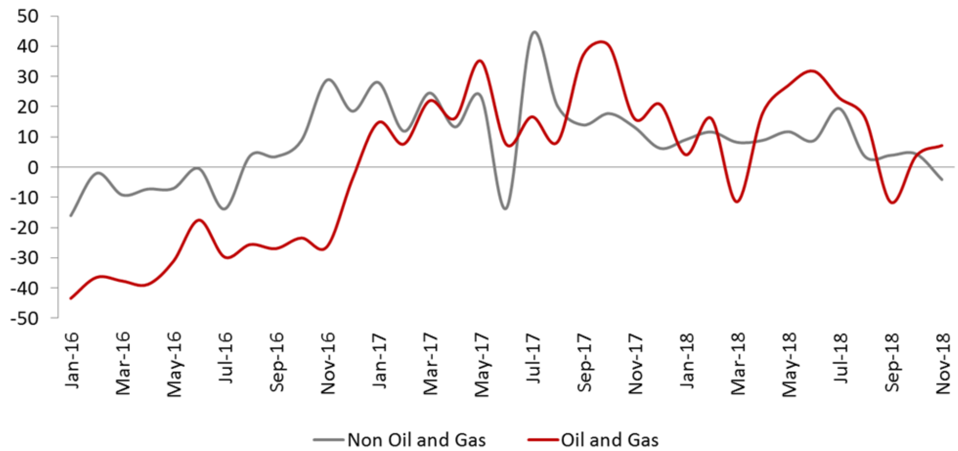
Source: Bloomberg, CEIC and OCBC

Chart 4: Growth in components of imports, % yoy



Source: Bloomberg, CEIC and OCBC

Chart 5: Growth of export components, % yoy



Source: Bloomberg, CEIC and OCBC