

**Mixed picture for trade at year end**

Wednesday, January 16, 2019

**Highlights**

- Indonesia's trade deficit narrowed to US\$1.1bn in December as exports declined by a larger 4.6% yoy and import growth slowed down to 1.2% yoy.
- For the entire year of 2018, the country reported a trade deficit at US\$8.6bn for the first time since 2014 as import growth accelerated to 20.2% yoy whilst exports growth slowed to 6.7% yoy.
- Going forward, exports risks being weighed down by global uncertainty whilst more time is needed to ascertain the full effect of government import control measures.
- However, we believe that the central bank will probably keep the rates on hold following their January policy meeting although they may still hike twice overall in 2019.

Treasury Research  
Tel: 6530-8384

**Indonesia continued to run a trade deficit in December 2018, albeit slightly narrower at US\$1.1bn (Nov 2018: US\$2.1).** This was driven by a significant slowdown in import growth to 1.2% yoy (Nov 2018: 11.8% yoy). Exports fell for a second consecutive month by a sharper 4.6% yoy (Nov 2018: -2.8% yoy). For the entire year of 2018, Indonesia reported a trade deficit at US\$8.6bn, the first since 2014. Imports grew by 20.2% yoy in 2018, the fastest since 2011 when it expanded at 30.8% yoy, whereas exports growth more than halved to 6.7% yoy, down from 16.3% yoy in 2017. According to the Head of the Department of Statistics, this marks the largest annual trade deficit on record. This comes as there was broad expansion in all import categories of capital goods, consumer goods and raw materials of about 20%.

**The exports decline for December was heavily driven by a worsening fall in non-oil and gas exports of about 7.0% yoy (Nov 2018: -3.6% yoy).** The major driver of the decline was due to an elevated fall in the mining & others category exports of about 20.0% yoy. One explanation for this could possibly be the slowdown in China which in turn led to a reduced requirement for raw materials. Manufacturing exports also saw a second consecutive month of declines at 3.2% yoy. This decline coincided with a worsening of Chinese trade data in November and December, which strongly hints of the significance of the China slowdown factor. Manufacturing exports is by far the largest component of non-oil and gas exports, constituting 81% of the category for December 2018. Oil and gas exports grew strongly at 16.7% yoy, as a strong expansion of gas exports offset the declining crude oil exports. Going forward, there is a continued risk that exports maybe weighed down by global uncertainty such as the US – China trade tensions or struggling commodity prices.

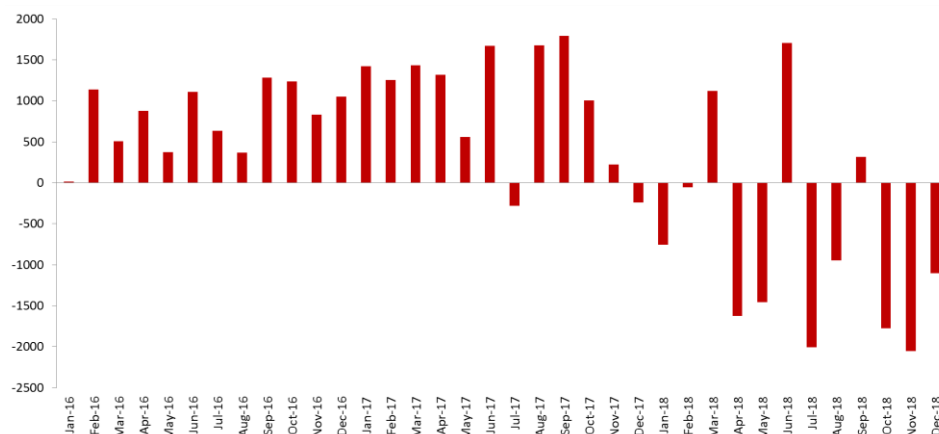
Alan Lau  
Tel: 6530-5949  
[AlanLau@ocbc.com](mailto:AlanLau@ocbc.com)

**Regarding imports, there were some signs of improvement as growth slowed to 1.2% yoy.** In particular, capital goods imports continued to decline by about 0.3% yoy

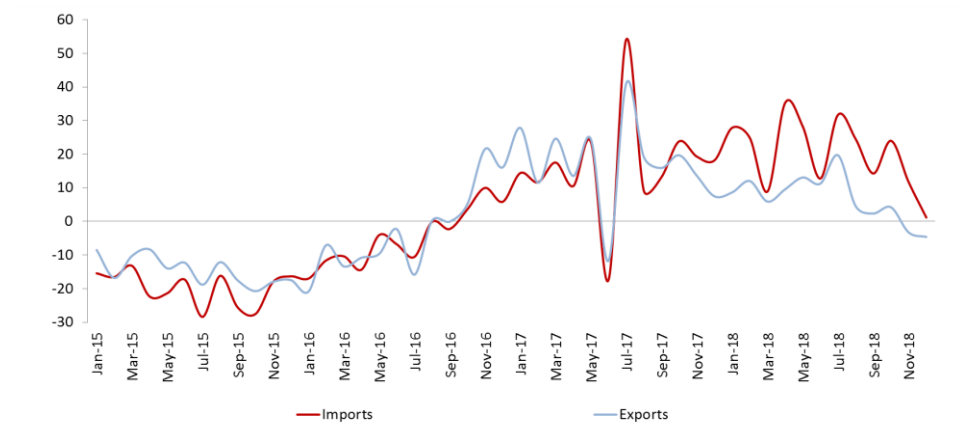
(Nov 2018: -1.92% yoy) amid government measures to limit imports in this area. As previously noted, the government had postponed electricity and oil and gas related projects. Furthermore, the government has said that capital expenditure utilization had only hit 90% for 2018. For 2019, growth in infrastructure spending is also expected to remain flattish. However, the biggest driver of the slowdown in imports growth in December was the raw materials category where imports had only expanded by 0.9% yoy (Nov 2018: 15.7% yoy). Given the volatile nature of monthly trade data, not a lot can be immediately read from this drastic slowdown as it could simply be due to one-off factors. However, the government has been pushing ahead with its implementation of the B20 measure. Consumer goods imports growth remained roughly the same at 6.2% yoy (Nov 2018: 6.9% yoy) although December has never historically been a strong month for imports for this category. As a whole, there appears to be some signs that the level of imports are gradually being reined in although more time is needed to fully ascertain the effectiveness of all government measures.

**Even though the 2018 trade data showed the highest annual trade deficit on record, we believe that Bank Indonesia (BI) would probably keep rates on hold following their January policy meeting** as the IDR has continued to hover at levels close to 14,000 since 7 January, supported by a dovish Fed tone and returning investor interest in IDR government bonds.

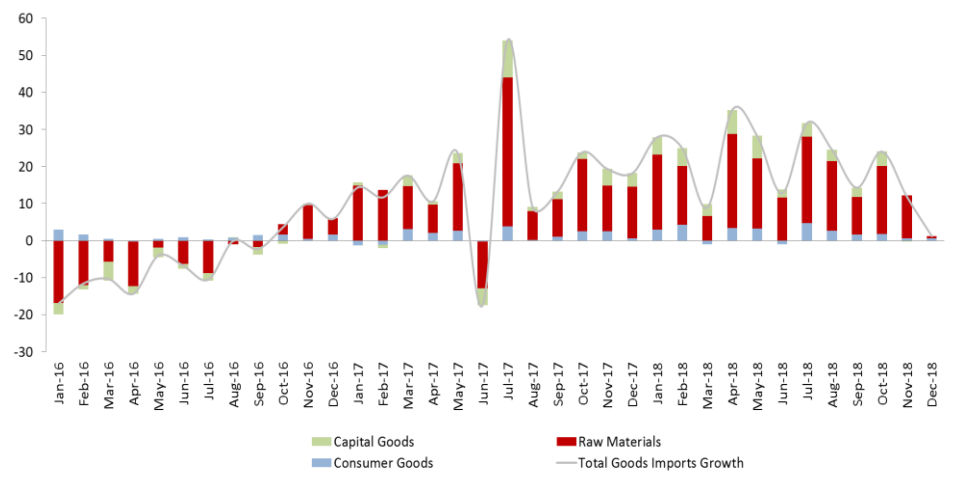
**Chart 1: Trade balance, US\$bn**



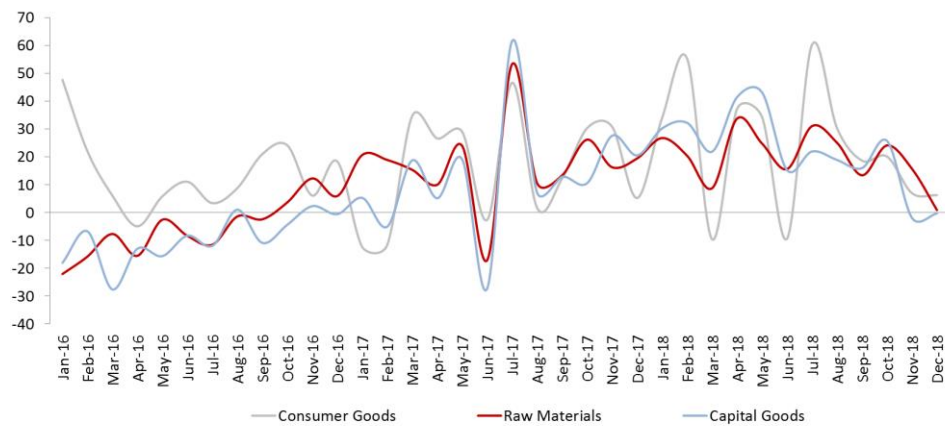
Source: Bloomberg, CEIC and OCBC

**Chart 2: Growth of imports and exports, % yoy**

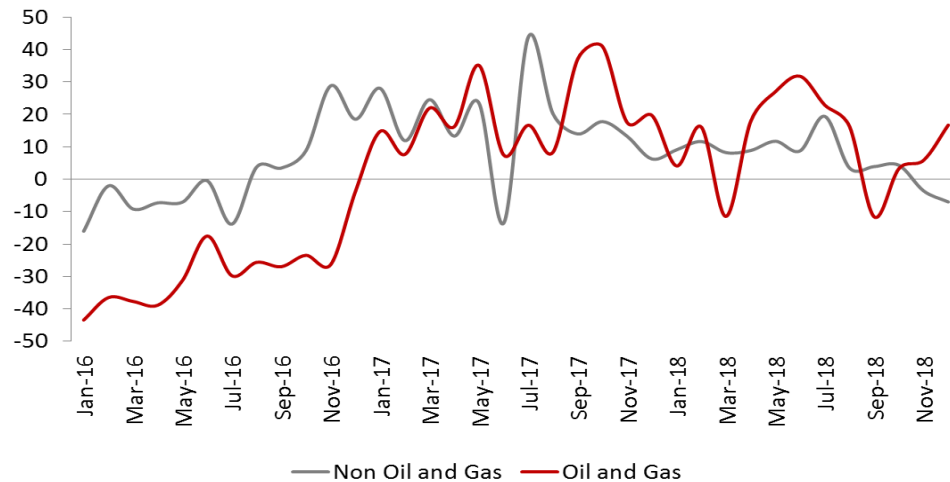
Source: Bloomberg, CEIC and OCBC

**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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W