OCBC Bank

Trade surplus strengthens easing opportunity

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Highlights

- **Indonesia reported a trade surplus of US$0.2bn for May after having seen a deficit of US$2.3bn in the prior month.**
- **The turnaround was driven by a substantial fall in imports at 17.71% yoy as oil and gas imports in particular fell by 26.89% yoy given the government's efforts to reduce reliance on foreign imports of oil and gas.**
- **However, the oil and gas deficit was still rather elevated at US$0.98bn in May, even though it did narrow from –US$1.5bn in April.**
- **The decline in exports decelerated to 8.99% yoy although the category remains vulnerable amid risks of heightened trade tensions and a weaker global economy.**
- **Overall, we see that this May trade surplus helps to further strengthen the opportunity for Bank Indonesia (BI) to cut the benchmark rate soon in 3Q 2019 possibly by 25bps.**

The country reported a trade surplus of US$0.2bn for May after having seen a deficit of US$2.3bn. The turnaround was mainly driven by a substantial drop in imports of 17.71% yoy, compared to a decline of 4.72% yoy in April. Meanwhile, the fall in exports decelerated to 8.99% yoy from a decrease of 9.54% yoy in April. The oil and gas deficit though still stood at US$0.98bn, which was lower than April at –US$1.5bn but it was still much higher compared to levels seen between January - March 2019 (see chart 1).

The fall in imports was mainly a result of a substantial decrease in raw materials imports (see chart 2). Oil and gas imports in particular declined at 26.89% yoy as the country has attempted to reduce its reliance on foreign imports of these products over the last year or so through prioritizing domestic usage of locally produced crude oil and implementing a biodiesel mandate. Non-oil and gas imports at the same time fell substantially by 15.94% yoy.

Meanwhile, the deceleration in the exports decline was due to a positive increase in agricultural exports at 2.99% yoy and slower decrease for manufacturing exports at 0.63% yoy. The mining and others exports saw a reduction of 14.26% yoy as oil and exports declined by 31.77% yoy. Regardless, exports remain vulnerable amid the risks of increasing trade tensions and a global economic slowdown.

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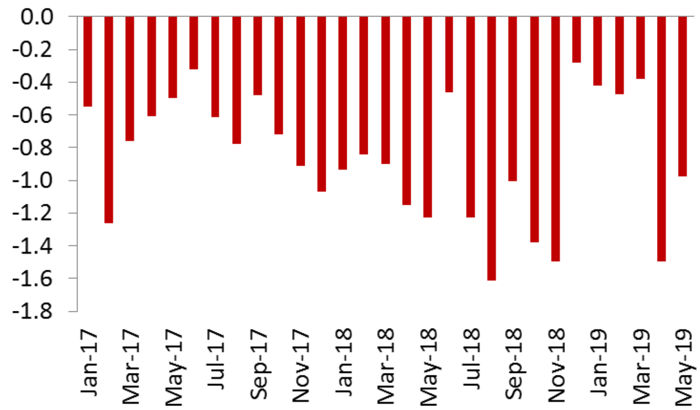
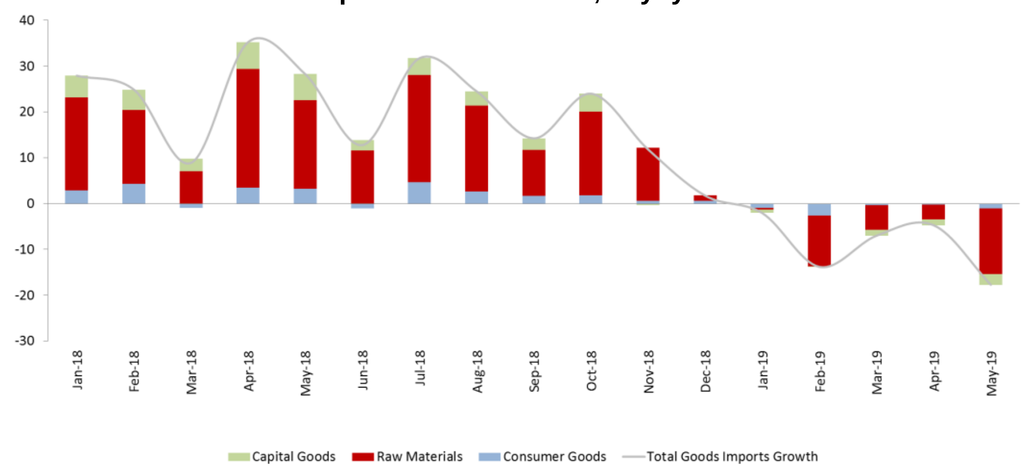
Given the volatile nature of the monthly trade and the weaker global economic situation, we remain wary that the coming months can consistently see a trade surplus and we still expect the current account deficit to come out in the range of 2.5% - 3.0% of GDP for 2019. **However, in our view, we see that this May trade surplus does help to further strengthen the opportunity for Bank Indonesia (BI) to cut the benchmark rate soon in 3Q 2019 possibly by 25bps.**

Chart 1: Oil and Gas Deficit, Rp bn



Source: CEIC, Bloomberg and OCBC

Chart 2: Contributors to Import Growth/Decline, % yoy



Source: CEIC, Bloomberg and OCBC

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