

16 March 2018

Indonesia

February Exports Pick Up While Imports Soften Slightly

Exports picked up to a growth of 11.8% YoY in February, following an increase of 8.6% in January. This was led by stronger non-oil & gas exports. Moving forward, we envisage the export of goods and services to grow by a healthy 10% in 2018, despite moderating from last year's stellar pace, due to a high base effect.

We expect the current account deficit (CAD) to widen in 1Q18. In February, the trade account recorded another month of deficit of USD0.1bn, from a deficit of USD0.8bn in January. This indicates that Indonesia's CAD in the balance of payments could widen in 1Q18.

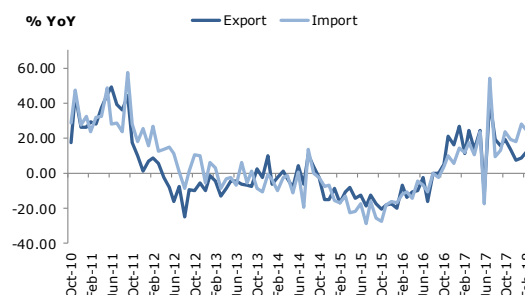
Exports picked up in February, mainly on account of stronger non-oil & gas exports. The latter was mainly driven by faster increases in mineral fuels (mainly coal), ores, iron & steel, and paper along with a rebound in tin and nickel. In addition, oil & gas exports also picked up.

Demand for exports strengthened across both the advanced countries and emerging markets. This was mainly on the back of:

- A pick-up in exports to China, Japan, South Korea, and Taiwan;
- A smaller decline in exports to India;
- A rebound in exports to the EU – albeit partly offset by weaker shipments to the US, Australia and ASEAN.

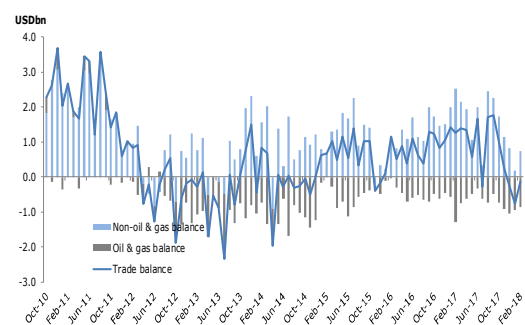
Imports, however, softened slightly during the month. Import growth softened to 25.2% YoY (+27.9% in January), on account of a slowdown in non-oil & gas imports. The number, however, has remained robust – signalling stronger domestic economic activities in 1Q18.

Exports and imports (USD, % YoY)



Source: National Statistical Agency (BPS)

Trade balance



Source: BPS

Trade indicators

% YoY	2015	2016	2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018
Exports	-14.6	-3.5	16.2	15.7	19.6	13.5	7.5	8.6	11.8
Imports	-19.9	-4.9	15.6	13.1	23.8	19.2	18.1	27.9	25.2
Trade balance (USDbn)	7.7	9.5	11.9	1.8	1.0	0.2	-0.2	-0.8	-0.1
Exports by country									
ASEAN	-5.8	4.8	16.3	14.6	19.2	22.2	0.8	18.2	15.6
China	-19.4	14.0	45.4	40.7	36.5	22.5	16.7	23.9	52.0
US	-3.5	2.5	10.9	6.9	7.0	12.5	-2.3	8.2	-5.0
EU	-12.3	-2.5	14.2	7.6	18.0	2.0	-6.9	-0.7	9.6

Source: Statistics Indonesia

Economist
Rizki Fajar
+6221 2970 7065
rizki.fajar@rhbgroupp.com



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Trade Continues To Grow

Export growth, however, is expected to moderate in 2018

Indonesia's merchandise exports picked up to **11.8% YoY in February** from +8.6% in January (Dec: +7.5%). This was mainly due to the improvement in non-oil & gas exports, which strengthened to 11.3% YoY, from +9.1% in January.

Growth in oil & gas exports, likewise, surged to 16.1% YoY from +1.1% in January, mainly on account of a pick-up in the volume of gas exports – along with rising price increases in oil product exports during the month.

As a whole, we still expect the country's exports to grow by a healthy +10% in 2018, albeit moderating from last year's stellar pace (+16.2% in 2017 and -3.5% in 2016) – due to the high base effect. This would likely be mitigated by a pick-up in primary commodity prices, and an improvement in world merchandise trade volumes, driven by a pick-up in global demand.

Figure 1: External trade

	2Q17	3Q17	4Q17	Dec 2017	Jan 2018	Feb 2018	Dec 2017	Jan 2018	Feb 2018	Dec 2017	Jan 2018	Feb 2018
				(% YoY)			(% MoM)			USDm MoM chg		
Exports	7.9	24.1	13.2	7.5	8.6	11.8	-2.9	-2.2	-3.1	-446.9	-319.9	-456.6
Crude oil	-12.0	-7.5	26.0	14.4	-16.6	9.4	13.5	-37.5	40.6	60.5	-190.6	128.7
Oil products	97.2	96.6	51.9	10.3	-45.5	14.1	1.5	5.0	-15.7	1.8	6.0	-20.0
Gas	35.0	34.7	21.4	26.5	20.8	21.8	23.5	-0.2	-4.7	167.6	-1.7	-41.4
Non-oil & gas	6.9	24.3	12.0	6.2	9.1	11.3	-4.8	-1.0	-4.0	-676.8	-133.6	-523.9
Imports	4.9	22.9	20.3	18.1	27.9	25.2	-0.1	1.4	-7.2	-11.5	216.0	-1096.6
Crude oil	-23.3	-1.8	30.5	39.1	95.6	31.7	53.7	-29.3	62.6	283.3	-237.2	359.1
Oil products	21.7	15.3	43.1	50.0	9.0	-25.5	5.3	-2.1	-21.3	74.0	-30.2	-306.4
Gas	32.7	67.5	64.2	103.1	14.6	-20.6	0.5	-12.9	-20.7	1.5	-36.6	-51.3
Non-oil & gas	4.8	24.7	17.1	13.1	28.7	34.6	-2.9	4.1	-8.4	-370.3	520.0	-1098.0
Import usage	4.9	22.9	20.3	18.1	27.9	25.2	-0.1	1.4	-7.2	-11.5	216.0	-1096.6
Consumer goods	17.5	17.6	21.3	5.0	34.0	55.3	2.3	-0.7	1.4	31.4	-9.6	18.5
Raw materials	4.9	23.3	20.3	19.3	26.7	20.7	-0.8	4.0	-7.7	-87.2	438.0	-887.3
Capital goods	-2.6	23.9	19.8	20.5	30.2	32.2	1.7	-7.9	-9.2	44.4	-212.4	-227.8

Source: BPS, RHB

Figure 2: Trade balance

	4Q16	1Q17	2Q17	3Q17	4Q17	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018
(USDm)											
Trade balance	3,115.8	4,088.2	3,576.4	3,224.5	896.6	1,779.9	1001.3	215.3	-220.1	-756.0	-116.0
Crude oil	-462.6	-249.6	-288.8	-627.9	-655.7	-19.8	-356.6	-80.1	-302.9	-256.3	-486.7
Oil products	-2,606	-3,743.7	-2,671.4	-2,810.9	-3707.9	-924.9	-1,042.6	-1274.2	-1346.4	-1234.1	-1023.8
Gas	1,506.5	1,396.1	1,526.8	1,595.4	1619.4	449.3	593.1	429.9	596.0	630.9	637.9
Non-oil and gas	4,677.9	6,685.4	5,009.8	5,067.9	3621.2	2,274.4	1,727.4	1139.7	833.2	182.6	753.7

Source: BPS, RHB

The pick-up in non-oil & gas shipments in February was mainly due to a rebound in tin and nickel demand, along with faster increases in mineral fuels (mainly coal), ores, iron & steel, and paper.

These were, however, partly offset by a decline in electrical machinery exports, as well as a slowdown in footwear, apparel, and ship/boat exports. The table below covers 37% of the products under the non-oil & gas exports segment for February.

The volume of non-oil & gas product exports, meanwhile, picked up to a growth of 24% YoY in February, from +10.9% in January.

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Figure 3: Non-oil & gas exports

	Dec 2017	Jan 2018	Feb 2018	Dec 2017	Jan 2018	Feb 2018	Dec 2017	Jan 2018	Feb 2018
	(% YoY)			(% MoM)			(USDm MoM)		
Non-oil and gas exports	6.2	9.1	11.3	-4.8	-1.0	-4.0	-676.8	-133.6	-523.9
Mineral fuels	15.9	19.8	38.1	2.0	2.5	-3.9	38.9	48.3	-79.0
Electrical machinery/appliances	-3.4	12.3	-2.1	-14.8	13.5	-12.0	-5.0	-109.8	85.8
Footwear	-0.7	13.4	2.7	-12.7	9.9	-18.2	-61.2	41.7	-84.3
Ores, Slag, and Ash	71.5	20.5	14864.5	125.8	-49.1	9.5	420.5	-370.8	36.7
Articles of Apparel and Clothing	-1.8	19.8	10.6	4.8	11.7	-12.9	17.0	43.0	-53.2
Accessories, Not Knitted or Crocheted									
Iron and steel	134.5	103.1	121.4	38.1	-23.7	-19.2	144.3	-123.9	-76.5
Paper & paperboard	3.6	16.5	23.6	-18.0	10.7	3.0	0.6	-67.1	32.6
Tin and Articles Thereof	1.1	-72.3	110.2	-9.2	-71.6	405.0	-14.4	-102.2	163.8
Nickel and articles	30.7	-10.0	41.2	97.4	-49.5	48.1	45.4	-45.5	22.3
Ships, Boat, and floating structures	-28.2	3009.6	534.5	23.5	124.2	91.5	2.1	13.7	22.7

Source: BPS, RHB

By destination, the pick-up in the export of non-oil & gas products was led by an improvement in shipments to both the advanced countries and emerging markets. This was reflected in the pick-up in exports to China, Japan, South Korea, and Taiwan, a smaller decline in exports to India and a rebound in exports to the EU – but partly offset by weaker shipments to the US, Australia and ASEAN.

MoM, exports declined by 3.1% in February, after dropping by 2.2% in January. This was due to a larger decline in the export of non-oil & gas products. A rebound in oil & gas exports, however, provided some mitigation.

Figure 4: Non-oil and gas exports by destination

	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	2017	Jan-Feb 2018
	(% YoY)							Proportion	
China	43.8	40.7	36.5	22.5	16.7	23.9	52.0	13.9	15.4
Japan	8.1	18.7	13.1	2.5	18.5	19.5	34.1	9.6	10.2
United States	18.4	7.0	7.0	12.5	-2.3	8.2	-5.0	11.2	10.9
India	32.4	16.3	27.0	20.2	29.3	-16.5	-8.5	9.1	7.8
ASEAN	21.9	14.7	17.1	22.9	0.8	18.2	15.6	21.5	21.7
Singapore	17.4	22.4	11.7	21.0	-1.2	36.4	13.5	5.8	6.3
Malaysia	18.9	10.3	17.5	22.5	-7.8	3.6	8.9	4.6	4.7
Thailand	18.7	13.3	11.8	18.7	7.8	26.6	8.2	3.6	3.7
South Korea	20.7	12.4	46.0	15.7	-0.7	6.6	10.9	4.1	4.0
Australia	-6.6	-45.0	-5.9	-24.5	-3.4	24.2	5.7	1.3	1.3
Taiwan	26.9	7.4	26.3	36.9	10.2	4.7	21.9	1.9	1.7
EU	15.4	7.8	18.0	2.0	-6.9	-0.7	9.6	10.7	10.7
Germany	11.4	-5.2	-2.8	6.2	-11.7	3.2	3.9	1.7	1.7
Netherlands	24.2	24.4	24.3	0.3	-9.7	-7.4	0.1	2.6	2.4
Italy	14.1	27.9	39.5	10.1	32.8	-23.0	29.1	1.3	1.2

Source: BPS, RHB

Imports, however, remained robust despite softening slightly to a growth of 25.2% YoY in February from +27.9% in January (+18.1% in Dec 2017). This was due to a decline in oil & gas imports by 8.6% YoY, from +17.4% in January. The non-oil and gas imports, however, continued to strengthen, signalling stronger domestic economic activities.

Based on usage, the imports of consumer and capital goods strengthened to growth rates of 55.3% and 32.2% respectively in February, from +34% (consumer) and 30.2% (capital) in January. Meanwhile, the imports of raw materials weakened to +20.7% from +26.7% in January.

As imports declined sharper than that of exports in the trade account on a MoM basis, Indonesia recorded a smaller deficit of USD0.1bn in February, from deficit of USD0.8bn in January. The two consecutive of merchandise trade deficits suggest that the CAD in the balance of payments for 1Q could widen.

We are of the view that the CAD would widen slightly to 2% of GDP in 2018, from 1.7% in 2017. This would partly be due to rising imports, stemming from projected higher economic activities.

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Figure 5: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	4.9	5.0	5.1	5.3	6.4	3.5	3.8	3.6	6.25	4.75	4.25	4.25	13856	13540	13588	13700
Malaysia	5.0	4.2	5.9	5.2	2.1	2.1	3.7	3.0	3.25	3.00	3.00	3.50	4.29	4.49	4.06	3.95
Philippines	5.9	6.8	6.7	6.5	1.4	1.8	3.2	3.3	4.00	3.00	3.00	3.25	46.86	49.62	49.83	49.79
Singapore	2.0	2.4	3.6	3.0	-0.5	-0.5	0.6	1.6	-	-	-	-	1.42	1.45	1.34	1.32
Thailand	2.8	3.2	3.9	4.2	-1.2	0.2	0.7	1.2	1.50	1.50	1.50	1.50	36.02	35.85	32.57	32.10
Vietnam*	6.7	6.2	6.8	6.3	0.6	2.7	3.5	3.4	6.50	6.50	6.00	6.00	22485	22770	22709	22700
China**	6.9	6.7	6.9	6.4	1.4	2.0	1.5	2.3	4.35	4.35	4.35	4.35	6.49	6.95	6.51	6.70

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	-14.6	-3.9	16.2	10.0	-19.9	-4.9	15.6	11.0	4.6	5.0	5.1	5.3	6.2	5.6	5.5	5.4
Malaysia	1.8	1.1	18.9	6.5	0.4	1.9	19.9	6.2	4.5	3.8	5.2	4.5	3.2	3.5	3.4	3.3
Philippines	-5.3	-2.4	9.5	8.0	8.7	18.3	10.2	9.0	-4.4	6.4	6.2	6.2	6.3	5.5	5.7	5.6
Singapore	-7.3	-4.4	8.5	6.7	-12.1	-4.2	10.6	10.9	-5.1	3.7	10.1	7.6	2.0	2.2	2.1	2.0
Thailand	-5.8	0.5	9.9	7.0	-10.7	-3.9	14.7	8.6	0.3	1.6	1.6	2.9	0.9	0.9	1.0	0.9
Vietnam	7.7	9.2	21.4	9.5	10.7	5.6	21.4	8.7	9.8	6.9	10.0	8.1	3.4	3.3	3.5	3.6
China	-2.8	1.8	6.8	5.2	-14.1	3.8	7.3	5.6	6.1	6.1	6.5	5.5	4.1	4.1	4.1	4.1

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017	2018F	2015	2016	2017F	2018F
Indonesia	-2.5	-2.5	-2.6	-2.7	-2.0	-1.8	-1.6	-1.8	106	116	130	147	311	319	335	348
Malaysia	-3.2	-3.1	-3.0	-2.8	3.0	2.4	3.0	2.7	95	95	102	114	194	201	213	222
Philippines	-0.9	-2.4	-2.7	-2.8	2.6	0.2	0.3	0.6	81	81	82	90	77	75	73	71
Singapore	-1.0	1.3	0.5	0.8	19.7	19.0	18.8	17.8	248	247	280	265	-	-	-	-
Thailand	-2.4	-2.6	-1.8	-2.9	8.0	11.4	9.6	8.4	157	172	203	208	147	152	155	159
Vietnam	-5.3	-5.0	-5.3	-5.2	1.4	2.7	1.9	2.1	28	43	40	45	72	76	79	83
China	-3.4	-3.5	-3.6	-3.3	2.8	1.8	1.3	1.1	3330	3010	3140	3000	1416	1400	1450	1400

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F	2015	2016	2017	2018F
Indonesia	8.0	9.6	11.0	11.9	10.1	7.8	10.0	12.8	94.2	92.7	91.9	94.3	9.0	10.0	11.0	12.4
Malaysia	1.8	1.5	5.7	4.6	7.9	5.3	4.1	5.2	88.7	89.8	90.5	90.9	2.6	3.0	4.7	5.0
Philippines	8.0	14.3	11.9	11.8	12.7	16.1	18.1	18.0	69.0	70.7	74.1	74.1	9.4	12.8	11.9	10.0
Singapore	0.2	2.7	3.2	5.4	0.0	0.5	8.0	5.8	108.5	107.9	104.5	104.9	4.1	8.1	4.1	6.2
Thailand	4.2	3.8	4.1	5.3	5.5	3.6	4.1	5.1	93.5	93.3	93.1	92.9	4.4	4.2	5.2	5.3
Vietnam	13.6	15.0	10.0	11.2	17.2	18.0	15.0	13.5	78.1	79.6	81.0	83.0	13.6	16.0	17.0	18.0
China	12.4	11.0	10.7	9.6	14.3	13.5	12.0	10.3	69.2	70.8	71.7	72.2	13.3	11.3	11.0	10.6

Note: As at 14 Mar 2018

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799