

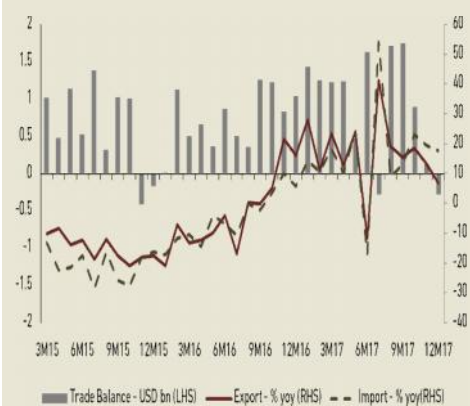
External trade review

Rebalancing the trade balance

Exports and imports

	Nov 2017	Dec 2017	Est.	Cons.
Exports (USDbn)	15.3	14.8	-	-
Imports (USDbn)	15.2	15.1	-	-
Exports (% YoY)	13.2	6.9	14.6	
Imports (% YoY)	19.6	17.8	17.9	
Trade balance (USDmn)	127	-270	1247	

Accumulated trade balance



Source : Statistics Office (BPS)

OG and Non OG import



Source : Bloomberg

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Export growth started to weaken

BPS reported that Indonesia's exports were down 3.45% MoM (6.93% YoY) in December, below our expectation and Bloomberg consensus (see table on the left). Oil and gas sector increased by 17.96% MoM (20.78% YoY) while non oil and gas sector experienced downtrend again as it declined -5.41% MoM but was still up in annual basis at 5.56% YoY because of higher oil price. Indonesia ends 2017 with USD 168.73 bn export or grew by 16.22% from previous year.

Moderate commodities price growth bring export growth down

We see that more moderate commodities price growth made the exports growth decline as BPS reveals that aggregate price only grew 0.71% YoY and even decrease on monthly basis at -4.39% MoM. Indeed, Indonesia's three main commodities showed mixed performance in December. As exhibit 2 below showed, average oil price in December increased by 16.6% YoY and coal price grew 14.75% YoY. On the other side, CPO price experienced downturn as its average price declined by -24.41% YoY. Actually, there is no need to worry as the export volume growth still increased by 6.17% YoY in December, just slightly above 2017 full year volume growth at 6.09% YoY which showed that exports performance in real term (which is used for GDP growth calculation) was still stable. It is just the CPO price which experienced significant downtrend due to abundant supply which dragged the growth down.

Sustain double digit import growth in 4Q17 implied solid foundation of recovery

November imports data still had a strong annual growth at 17.83% YoY even though slightly decreased by 0.29% MoM. Oil and gas sector lead the growth with 15.89% MoM (50.1% YoY) while non oil gas sector recorded 12.87% YoY growth but weakened in monthly basis at -3.05% MoM. Oil price still became the main reason behind higher imports as its average price in December was up 16.6% YoY. However, imports volume data also showed promising trend as it recorded double digit growth for three months straight in 4Q17 (see exhibit 3). Moreover, the import growth in December was mainly driven by capital goods (20.90% YoY) and also raw and intermediary goods (18.88% YoY). We believe this is a good indication of better domestic demand as companies start to increase their demand of imported goods. If this trend continues in 2018, it will support our thesis of better growth of imports which are driven by better domestic demand. Indonesia ends 2017 with USD 156.89 bn imports or increased by 15.66% from 2016.

Second trade deficit in 2017

Higher growth of imports brought trade balance to have its second deficit in 2017 at -USD 0.27 bn. However, full year 2017 trade balance ends with surplus at USD 11.84 bn thanks to high surplus in previous months.

2018: lower trade surplus, higher CAD

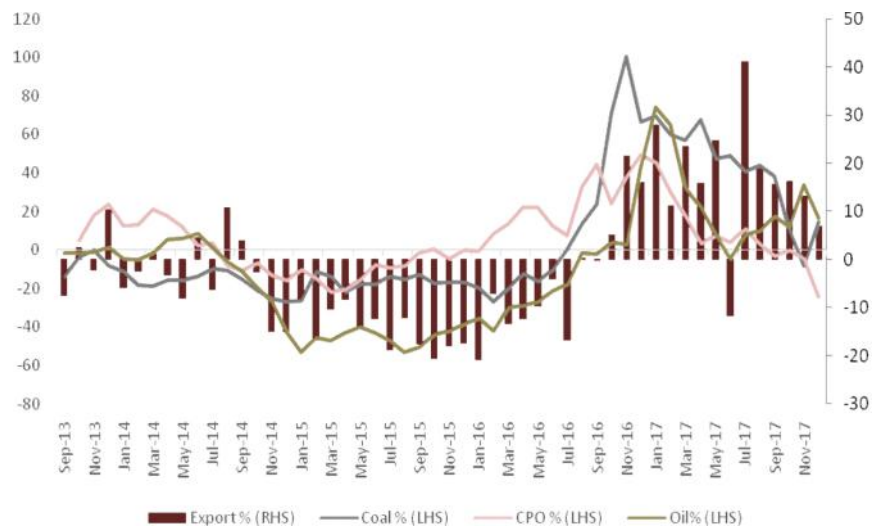
We see that December data showed that trade activities has started to move towards our thesis where we expect that trade surplus may lower in 2018. This will even reach deficits in some months due to lower real exports growth at 5.6% YoY due to lower export demand from China and higher real import growth at 6.1% YoY. Lower trade surplus and higher interest payment due to global bonds issuance in previous years will force Indonesia's CAD widen to 1.9% in 2018 of GDP from our CAD estimation in 2017 at 1.5% of GDP.

Exhibit 1: Indonesia Export Value, Aggregate Price and Volume Growth in Dec-17

Components	Value Growth (YoY)	Price Growth (YoY)	Volume Growth (YoY)
Total Export	6.93%	6.17%	0.71%
Oil and Gas	5.56%	16.12%	4.01%
Non Oil and Gas	20.78%	-0.76%	6.36%
Total Import	17.83%	6.80%	10.32%
Oil and Gas	50.10%	25.59%	19.51%
Non Oil and Gas	12.87%	4.61%	6.31%

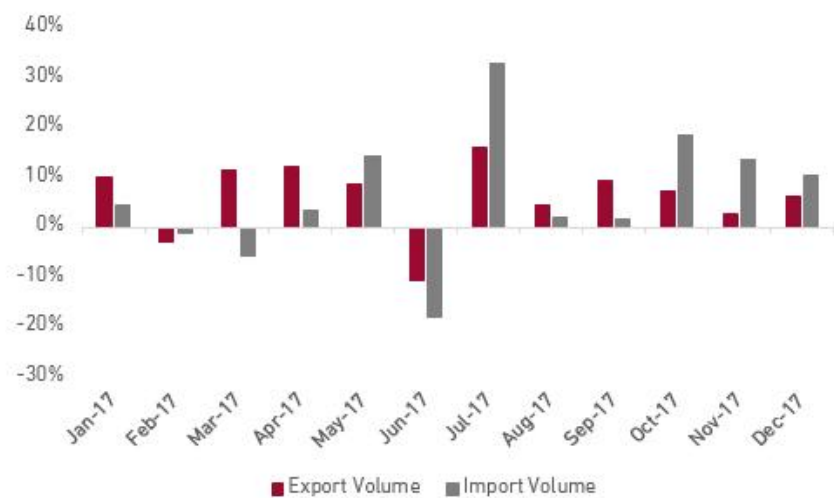
Source: BPS

Exhibit 2: Export and Several Commodities Price (Monthly Average) Growth



Source: BPS, Bloomberg

Exhibit 3: Indonesia Export and Import Volume Growth in 2017



Source: BPS

Exhibit 4: Key macroeconomic indicators

Year-end 31-Dec	14A	15A	16A	17E	18F
Nominal GDP (Rp tn)	10,543	11,541	12,407	13,626	14,878
Nominal GDP (USD bn)	888	861	974	1,010	1,102
GDP/capita (USD) - Nominal	3,530	3,377	3,605	3,911	4,158
Real GDP (%YoY)	5.0	4.8	5.0	5.1	5.3
Private Consumption (%YoY)	5.1	5.0	5.0	4.9	5.1
Government consumption (%YoY)	2.0	5.4	-0.1	1.7	2.2
Gross Fixed Capital Formation (%YoY)	4.1	5.1	4.5	5.8	6.3
Exports (%YoY)	1.0	-2.0	-1.7	8.3	5.6
Imports (%YoY)	2.2	-5.8	-2.3	5.7	6.1
Inflation rate (%YoY) - year end	8.4	3.4	3.0	3.6	3.5
Core inflation rate (%YoY) - year end	5.5	4.0	3.1	3.0	3.3
BI Rate	7.75	7.50			
BI 7 Days Reverse Repo Rate - year end			4.75	4.25	4.25
Rupiah / US Dollar - average	11,878	13,398	13,473	13,380	13,500
Rupiah / US Dollar - year end	12,440	13,788	13,346	13,555	13,600
Current account as % of GDP	-2.9	-2.1	-1.8	-1.5	-1.9
Fiscal balance as % of GDP	-2.4	-2.8	-2.5	-2.5	-2.3

Source: BI, BPS, MoF, Ciptadana estimates

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