

Trade Surplus Improved, But Not Enough to Stabilize Rupiah Yet

Indonesia's Sep '23 trade surplus showed improvement at USD3.42 bn (Cons: USD2.13 bn, KBVS: USD2.34 bn, Prev: USD3.12 bn). This development is particularly positive amid the ongoing pressure on the Rupiah which depreciate since late Jul '23. However, it's important to note that trade surplus improvement was primarily driven by a substantial drop in monthly imports, which contracted by 8.15% mom (-12.45% yoy), largely overshadowed the decrease in exports of 5.63% mom (-16.17% yoy). Imports reduction were observed across all categories, including Raw Materials (-4.86% mom), Capital Goods (-12.27% mom), and Consumer Goods (-22.10% mom).

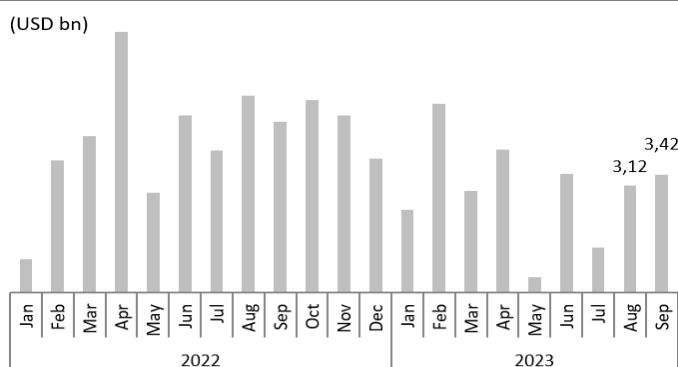
Moreover, the most significant decrease in imports was observed in HS23 (Food Residues and Wastes) at -39.02% mom, which predominantly used as animal feed ingredients, especially for poultry industry. The decline in HS10 (Cereals) at -25.69% mom was driven by a decrease in wheat grain imports, a raw material for making flour, including instant noodles. This suggests a decline in domestic industry demand despite also impacted by the implementation of Ministry of Trade Regulation No. 25 of 2022 on Shortlisted Import Policies and Regulations since 21 May '22. Additionally, imports of HS85 (Electrical Machinery and Equipment) which down 17.95% mom is likely due to a shift in import patterns within Indonesia.

Meanwhile, the decline in export values was primarily influenced by HS61 (Clothing and Accessories) at -48.45% mom, HS26 (Ores, Slag, and Ash) at -23.80% mom, and HS64 (Footwear) at -23.07% mom. On the commodity front, despite an 8.71% mom increase in the Newcastle coal average price in Sep '23, the value of coal exports still decline by 2.19% mom amid lower export volume. Moreover, Palm Oil commodity exports dropped by 23.35% mom despite CPO price only down 2.42% mom. It is believed to be driven by lower demand from India (-19.0% mom) in Sep '23 due to purchasing restrictions by refining companies amid increased inventories.

Overall, the improved trade surplus in Sep '23 is expected to help mitigate concerns on Rupiah depreciation, especially with capital outflows that reaching USD1.39 bn in the same month. However, it's worth noting that the trade surplus of USD7.86 bn for 3Q23 is still significantly lower compared to 3Q22 of USD14.90 bn. Furthermore, considering historical developments in the Service, Primary Income, and Secondary Income balances during the same period, we anticipate the possibility of a current account deficit in 3Q23 at around USD2.51 bn. This would put additional pressure on Indonesia's balance of payments, coupled with a financial transaction deficit due to capital outflows of USD2.63 bn during 3Q23. Therefore, from a fundamental standpoint, the risk of Rupiah depreciation in the coming months appears inevitable, especially if trade and financial account balances do not improve. Thus, monetary interventions on the Rupiah are needed, particularly through SRBI auctions, DNDF, FX Swaps, and Foreign Exchange Term Deposits.

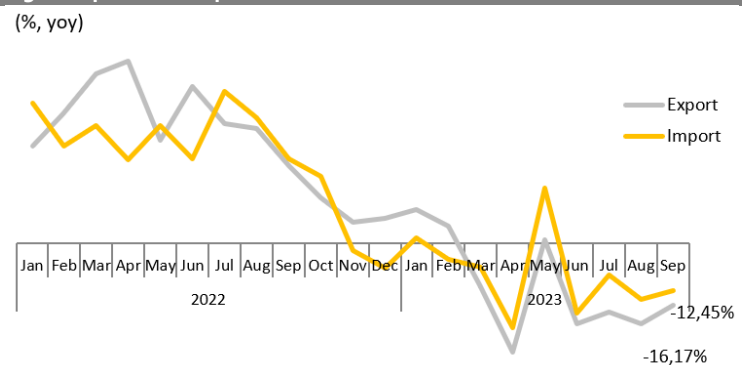
Despite recent development, we ruled out the possibility of BI7DRR hike, given the pro-growth objectives that are also part of BI's policy, in addition to maintaining inflationary perception from the cost-of-fund angle. To address the Rupiah depreciation, we see that the global bonds issuance should be the last resort to boost domestic USD liquidity amid IDR147.22 tn surplus in the APBN (0.70% of GDP) until Aug '23. Instead, a Debt Switch strategy by the government towards longer tenors' debt from those with a one-year or shorter maturity will have a better impact on reducing Rupiah volatility. With the development of trade surplus and capital inflows in 4Q23, driven by the improved competitiveness of Indonesian traded goods and higher portfolio assets attractiveness through monetary interventions, Rupiah is expected to stabilize between of IDR15,184 - IDR15,504 per USD by the end of 2023.

Fig 1. Trade Balance



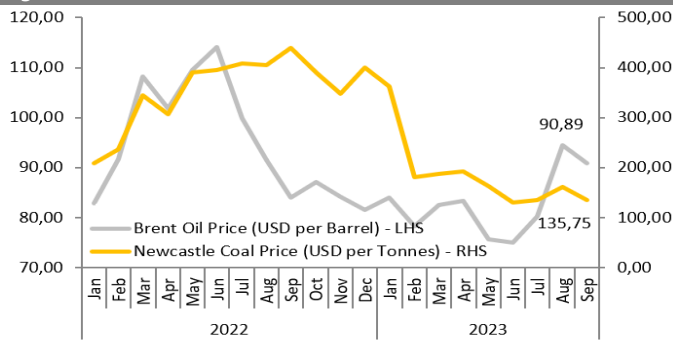
Sources: BPS, KBVS Research - treated (2023)

Fig 2. Export and Import Growth



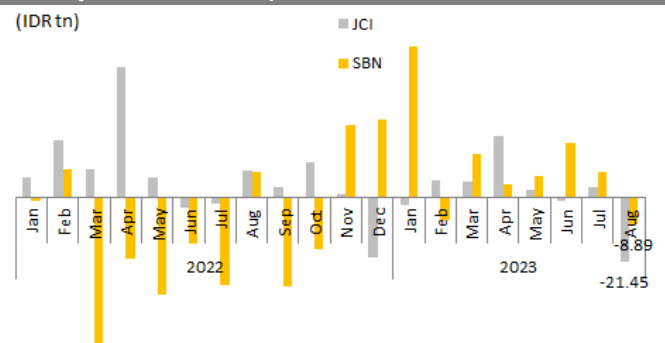
Sources: BPS, KBVS Research - treated (2023)

Fig 3. Oil and Coal Price



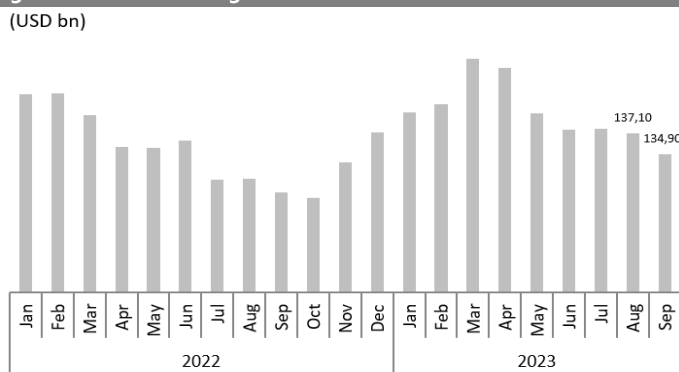
Sources: Bloomberg, KBVS Research – treated (2023)

Fig 4. Monthly Non Resident Capital Flows (IDR tn)



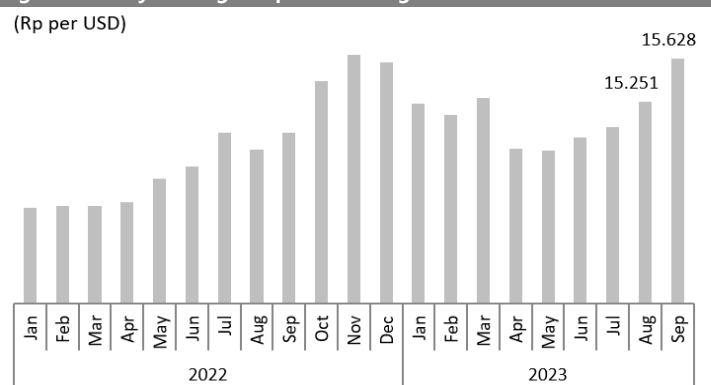
Sources: Bloomberg, KBVS Research – treated (2023)

Fig 5. Indonesia's Foreign Reserves (USD bn)



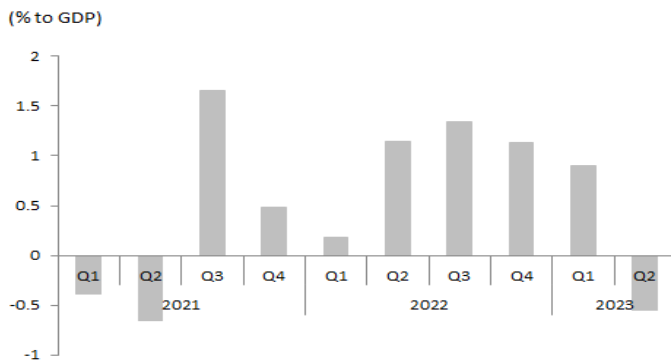
Sources: Bank Indonesia, KBVS Research – treated (2023)

Fig 6. Monthly Average Rupiah Exchange Rate (Rp per USD)



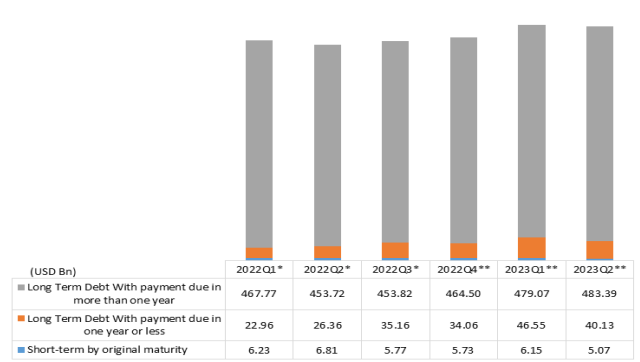
Sources: Bank Indonesia, KBVS Research – treated (2023)

Fig 7. Indonesia's Current Account (% to GDP)



Sources: PS, KBVS Research – treated (2023)

Fig 8. Gross General Government Debt Position (USD Bn)



Sources: PS, KBVS Research – treated (2023)

Table 1. Indonesia's Trade Balance

| Indicators | Value (USD bn) | | Growth (%) | | Indicators | Value (USD bn) | | Growth (%) | |
|--|----------------|--------------|--------------|---------------|---------------------------|----------------|--------------|---------------|---------------|
| | Latest | M-1 | MoM | YoY | | Latest | M-1 | MoM | YoY |
| Total Export | 20.76 | 22.00 | -5.64 | -16.17 | Total Import | 17.34 | 18.88 | -8.15 | -12.45 |
| Oil & Gas | 1.41 | 1.32 | 6.44 | 11.61 | Oil & Gas | 3.33 | 2.66 | 25.11 | -2.85 |
| - Crude Oil | 0.21 | 0.07 | 192.86 | 26.31 | - Crude Oil | 1.28 | 0.66 | 94.39 | 14.48 |
| - Processed Oil | 0.50 | 0.51 | -2.55 | 67.44 | - Processing Oil | 1.82 | 1.72 | 5.81 | -9.47 |
| - Gas | 0.70 | 0.73 | -3.84 | -12.15 | - Gas | 0.22 | 0.28 | -20.00 | -23.59 |
| Non-Oil & Gas | 19.36 | 20.68 | -6.41 | -17.66 | Non Oil & Gas | 14.01 | 16.22 | -13.60 | -14.46 |
| - Agriculture, Forestry, and Fisheries | 0.40 | 0.39 | 3.33 | -14.85 | - Consumption Goods | 1.67 | 2.14 | -22.09 | 4.74 |
| - Manufacturing | 15.41 | 16.33 | -5.63 | -9.01 | - Raw/Auxiliary Materials | 12.69 | 13.34 | -4.86 | -14.83 |
| - Mining & Others | 3.54 | 3.96 | -10.66 | -41.93 | - Capital Goods | 2.89 | 3.40 | -12.26 | -10.01 |
| Trade Balance | 3.42 | 3.12 | 9.59 | -31.05 | | | | | |

Sources: BPS, KBVS Research – treated (2023)

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