Indonesia: Commodity boost powers exports to new high

Exports surge anew, keeping the trade balance in a hefty surplus

Source: Stenly Lam

28 Consecutive months trade balance in surplus

Trade balance hits $5.8bn

Indonesia's export sector bested market expectations, rising 30.2%YoY compared to a median forecast of 19.9%. Increased demand for energy products helped exports to rise 61% while outbound shipments of non-oil and gas rose 28.7%.

Imports also posted double digit gains, increasing by 32.8%, only slightly higher than expected. Energy imports expanded 80.6% (fuel for road vehicles) while non-oil and gas imports rose 26.1% as economic activity continues to improve. The overall trade balance touched $5.8bn, much better than market expectations and the second highest level on record.

Trade surplus since May 2020

in $ bn

Trade balance
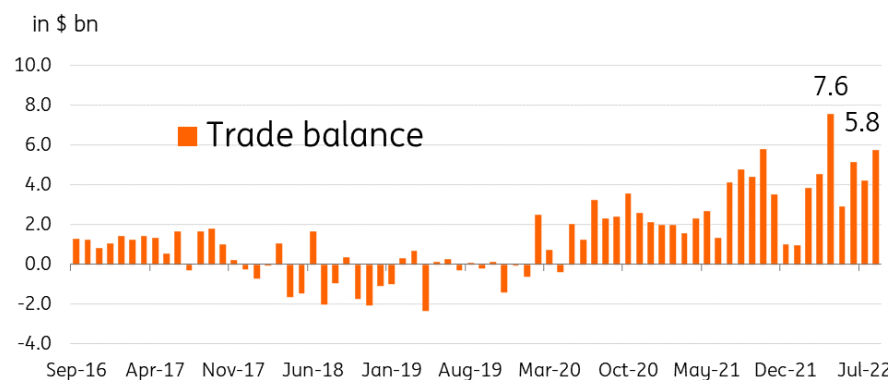
Source: Badan Pusat Statistik

Stable IDR to limit BI's rate hike prospects? Not so fast

Heightened demand for Indonesia's commodity exports has supported the economy's recovery in many ways this year. Surging exports have in turn helped drive manufacturing activity, with PMI manufacturing indices staying in expansion for all of 2022. Meanwhile, 28 straight months of trade surpluses have shored up the IDR and the currency has been relatively stable compared to regional peers. The currency has also faced less depreciation than in previous episodes of intense financial market volatility, such as 2018 or early 2020.

A stable IDR has eased pressure on Bank Indonesia (BI) hike rates aggressively this year with the central bank, hiking by only 25bp so far. Today's trade data limits somewhat expectations that BI Governor Warjiyo will carry out a 50bp rate hike next Thursday. However, given Warjiyo's surprise rate hike last August, we cannot put it past BI to front load tightening (50bp rate hike) in anticipation of a sharp uptick in inflation after the fuel price hike.

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