Indonesia: Imports in freefall as trade surplus swells to $3.6 bn

Indonesia's exports and imports contracted again in October but the freefall in imports is becoming worrisome

Exports down 3.3% while imports fall 26.9%

Indonesian imports contracted less than expected but imports posted a far more severe downturn of 26.9% (median forecast 18.9%), according to the latest trade data. Still tepid global demand caused by the ongoing pandemic kept exports weak while sluggish domestic economic activity led to the steeper drop off in imports. The movement in trade for October resulted in a sharp uptick in the trade surplus, which swelled to $3.6 bn, bringing the year-to-date surplus to a substantial $17.1 bn.
Trade surplus supportive of IDR in near term

The recent signing of a sweeping trade deal over the weekend will likely boost optimism of a pickup in regional and global trade, albeit still weighed down to some extent by the pandemic. Thus we can expect a slight pickup in export activity from Indonesia especially if the ‘omnibus law’ is successful in attracting foreign investors to set up businesses to bolster this sector. Meanwhile, import demand may remain soft until economic activity moves back into high gear which should translate into additional months of trade surpluses in the near term.

The multi-year high trade surplus will be supportive of the rupiah’s recent appreciation spell and help provide stability to the currency in the near term. With the trade numbers out of the way, investors will turn their attention to the upcoming Bank Indonesia (BI) policy meeting on Thursday. The trade surplus would be beneficial for the external position of Indonesia, helping IDR stabilise further, but the successive weakness in imports of heavy machinery and capital goods may take its toll on the country's productive capacity down the line.

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