Indonesia: May trade deficit is the second worst in four years

The deficit of -$1.52bn is the second worst in four years and is expected to further deteriorate to -2.5% of GDP in the second quarter. We expect all of this to keep the rupiah on the defensive but another hike this Thursday should provide some relief

Source: Shutterstock

-$1.5bn

May trade balance

Second worst since April 2014

Worse than expected

Indonesia's strong import growth in the past two months has resulted in it's two largest trade deficits since April 2014.

May imports remained strong posting an annual increase of 28.2% year on year, higher than market expectations but slower than April's pace of 35.2%. Exports improved in May posting a 12.5% growth in May after April's 9.6% increase from a year ago.

> *We now expect the second quarter current account deficit to be around -$6.5bn or -2.46% of GDP, worse than the first quarter deficit of -$5.5bn or -2.15% of GDP*

However, exports remain relatively weak when compared to the strong growth of 25% in May and 14% in April. Strong oil imports resulted in a large net oil deficit that mainly accounted for the worsening of the trade balance. Net oil balance was a larger deficit of -$1.2bn in May, worse than April's deficit of -$1.1bn. Despite the export improvement, May trade deficit amounted to -$1.5bn from April deficit of -$1.6. The April-May trade balance worsened to a total deficit of -$3.2bn, from a year-ago surplus of $1.9bn.

This reversal does not bode well for the second quarter current account.

We now expect the second quarter current account deficit to be around -$6.5bn or -2.46% of GDP, worse than the first quarter deficit of -$5.5bn or -2.15% of GDP.

The weak trade and current account position would likely keep IDR on the defensive. Relief from recent IDR weakness would likely come from another policy rate hike at this Thursday's Bank Indonesia policy rate meeting.