

Indonesia: Palm oil export ban shrinks trade surplus

The palm oil ban saps export momentum, pushes trade surplus down to \$2.9 bn.



Source: Stenly Lam

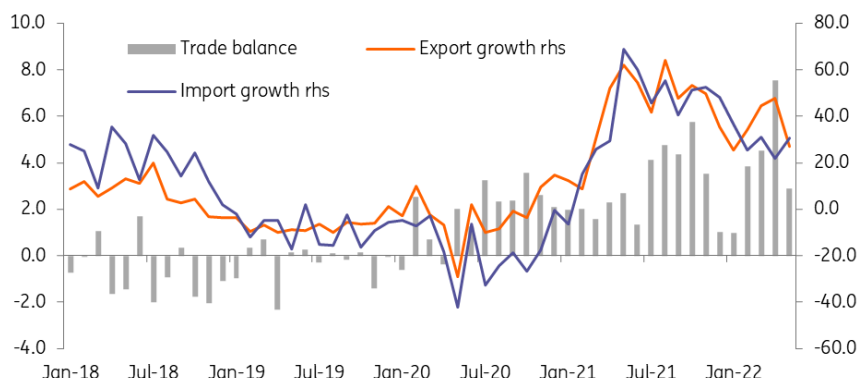
\$2.9 bn May trade surplus

Lower than expected

Trade surplus shrinks to \$2.9 bn

Indonesia's May trade report showed exports and imports maintained recent trends, both registering double digit growth. Indonesia's exports received a decent boost from elevated commodity prices, although the recent ban on palm oil exports capped the gains. Meanwhile, imports rose 30.7% on higher global prices for foodstuffs and some energy products, coupled with resurgent domestic demand. The trade surplus, which recently hit a record high², dropped significantly from \$7.5 bn to \$2.9 bn. Recently, Indonesian authorities have attempted to restart palm oil exports while still ensuring stable domestic supply of palm oil and its derivatives. Palm oil exports were banned in a bid to curb rising food inflation, particularly to cap the rise in cooking-oil prices. For as long as the ban, partial or otherwise, remains in place we will likely see Indonesia's trade surplus remain at the \$3 bn level.

Indonesia's trade surplus shrinks considerably after palm oil export ban



Source: Badan Pusat Statistik

Shrinking trade surplus could mean a weaker IDR

Bloated trade surpluses helped limit Indonesia's current account deficit early in 2022, which in turn provided support for IDR. The recent palm oil ban knocked the trade surplus down to \$2.9bn, effectively removing a key support for the currency. A shrinking trade surplus is just one more reason for IDR weakness of late and we can expect the currency to face depreciation pressure for as long as the palm oil export ban remains in place. Accelerating inflation and a weaker currency could finally catch the attention of Bank Indonesia (BI), who recently signalled that it prefers to retain its accommodative stance. We expect BI to finally join the rate hike club next week, with a pedestrian 25 bps increase for the 7-day reverse repurchase rate.