Indonesia: Trade surplus narrows further

Indonesia’s July trade report showed both exports and imports in contraction

Jakarta, the capital of Indonesia

$1.3bn

July trade balance

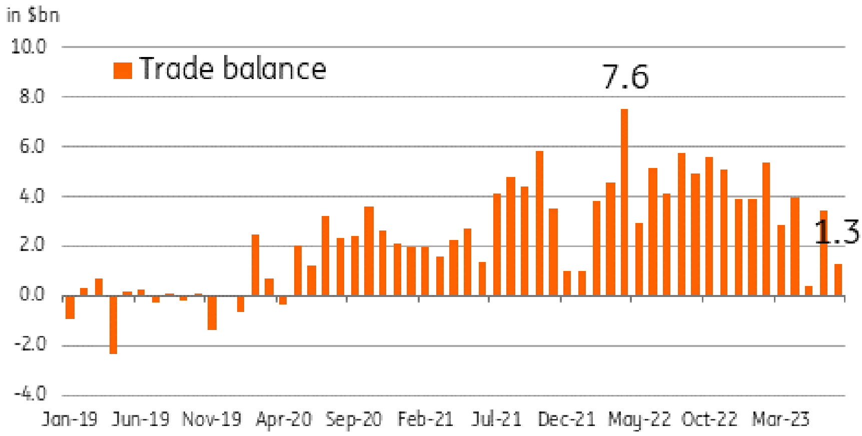
Lower than expected

Trade surplus down to $1.3bn

Indonesia’s July trade report showed both exports and imports down for another month. The market consensus expected a 19.2% year-on-year fall in exports and a 15.3% YoY decline in imports with the trade surplus projected to slip to $2.6bn. Exports fell almost in line with expectations, down by 18% YoY but imports declined at a less pronounced pace of 8.3% YoY. This resulted in the trade surplus narrowing further to $1.3bn, down from the $3.5bn projection and also lower than the June level.

The decline in exports was likely driven by the 46.1% decline in coal exports and the 19.3% YoY drop in palm oil. Imports saw a less pronounced decline for both oil & gas (-29.7% YoY) and non-oil, which was down 2.7% YoY compared to last month’s drop of 13.9% YoY.

Trade surplus continues to narrow



Source: Badan Pusat Statistik

Narrowing trade surplus means less support for currency

The continued narrowing of the trade surplus for Indonesia points to a fading key support for the rupiah, which enjoyed a boost in 2022 when the trade surplus hit a record high of $7.5bn. This development could be telling for the IDR, which has been under pressure of late and down roughly 1.5% for the month of August. Indonesia recently asked exporters to retain a portion of export receipts onshore to help improve dollar liquidity, a potential counter to the narrowing trade surplus.

Meanwhile, Bank Indonesia (BI) has held off on adjusting rates after a long pause. However, with interest rate differentials extremely tight (25bp) we could see a potential rate hike from BI if the Federal Reserve does indeed hike again given BI's thrust to ensure FX stability.

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