



Monthly Economic Review May/June 2015

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- **Inflation:** Inflation was up to 0.50% in May (vs. 0.35% in April) or the highest level this year on a monthly basis, mainly due to rising food commodities with core inflation also accelerated to 0.23%. Prices of food, tobacco, and electricity were increasing ahead of the fasting month of Ramadhan. This has put annual inflation at a higher level of 7.15% (vs. 6.79% in the previous month). Year-to-date inflation was also up to 0.42% (vs. a deflation of 0.08% a month earlier) with core inflation of 1.73% compared to 1.53% in April. Meanwhile, annual core inflation was stable at 5.04%.
- **Trade Balance:** Indonesian trade balance was down to USD 450 million (vs. USD 1.13 billion) in April amidst prolonged low commodity prices. Total export declined to USD 13.1 billion (vs. USD 13.6 billion in March) which was mainly due to a sharp fall on oil & gas export to USD 1.5 billion versus USD 2.0 billion in the same period. In contrast, total import was relatively manageable at about USD 12.6 billion. Looking at yearly profile, total export was down by 8.5% amidst slowdown in the global economy whilst total import declined significantly by 22.3% amidst the weaker Rupiah.
- **Foreign Reserve:** Indonesia foreign reserve continued to decline to USD 110.9 billion at end of April (vs. USD 111.6 billion previous month). The declining reserve was inseparable from the central bank's policy to stabilize the Rupiah. Nevertheless, the reserve could cover 6.9 months of imports or 6.7 months of imports and servicing of Government external debt repayment, well above the international standards of reserves adequacy at 3 months of imports.
- **Jakarta Composite Index (JCI):** JCI was closed at a higher level of 5,216.38 at end of May compared to previous month closing of 5,086.43. The central bank's decision to maintain its current interest rate as expected by investors as well as S&P's action to upgrade Indonesia's sovereign outlook could be factors to offset prolonged concern on the slowdown in domestic and global economy. In June, JCI remains fluctuating and closed weaker at 5,095.82 as of 4 June.
- **BI Rate:** The central bank is slated to hold board of governor's meeting on June 18, 2015. After deciding to maintain its benchmark interest rate, deposit facility and lending facility rates at 7.50%, 5.50% and 8.0% respectively in the previous meeting, BI might again retain the rates at current level despite the higher inflationary pressures. In addition, US' GDP contraction in the first quarter of this year is expected to lengthen the timing of The Fed Rate's cut which will support such retention.

- **Rupiah:** The Rupiah continued to depreciate at end of May and closed at 13,224 against the greenback (vs. 12,962/USD a month earlier). Prolonged concern on slowdown in domestic economy as indicated by declining automotive sales coupled with weakening buying power amidst increasing inflation would put the Rupiah under pressures. Another negative factor for the weakening Rupiah is the declining export. Nevertheless, the central bank's intervention is expected to manage the Rupiah depreciation. As of 4 June, the Rupiah still weakened to 13,281/USD.
- **Government Bond Yield (10Y):** The government bond market was marked with selling actions during May. Weakening domestic economic indicators coupled with prolonged weaker Rupiah had put the 10-year government bond under pressure. The yield of 10Y government bond benchmark climbed to 8.15% compared to 7.73% at end of April. Further, the yield accelerated to 8.27% as of 4 June.
- **Car and Motorcycle Sales:** Automotive sales were on downtrend amidst slowdown in economic activities coupled with consumers' weakening buying power due to high inflationary pressures. Car sales in April year dropped by 23.1% mom and 16.3% yoy to 81,600 units and 363,945 units, respectively. In tandem with weaker four wheel sales, motorcycle sales dipped 27.9% mom to 524,775 units and 21.5% yoy to 2,129,818 units in the same period.
- **Commodities**
 - **Oil:** Western Texas Intermediate (WTI) price continued to strengthen with closing price of USD 60.30/barrel at end of May (vs. USD 58.97/barrel a month earlier). The main catalyst behind this accelerating price was declining oil supply especially from US and prolonged concern on Middle East conflict. It was reported that oil supply was down by about two million barrel per week on average in the US market. As of 4 June, however, oil price declined slightly to USD 59.59/barrel.
 - **Coal:** Coal price weakened to 56.35/ton at end of May (vs. USD 59.20/ton in April). This declining price was mainly backed by an expectation of prolonged subdued demand in the global market due to slowdown in global economy especially from China with GDP growth decelerated to 7.0% in 1Q15. Coal was transacted at a slightly higher price of USD 56.60/ton as of 4 June.
 - **CPO:** Crude palm oil price continued to strengthen to USD 606.35/ton at end of May compared to USD 589.08/ton in the previous month. The market expectation on increasing demand ahead of fasting month of Ramadhan and Idul Fitri festive acted as the main catalyst. As of 4 June, CPO price continued its uptrend and transacted at USD 626.67/ton.
 - **Gold:** Gold price was closed at lower level of USD 1,189.80/ounce at end May (vs. USD 1,197.80/ounce a month earlier). The market concern on Greece's debt resolution had put this commodity under pressure. Nevertheless, the stronger Euro currency following the release of US' GDP contraction of 0.7% in 1Q15 was expected to support the price of gold in the global market. On 4 June, this commodity price continued the downtrend to USD 1,182.00/ounce.

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