ICRA Indonesia

Monthly Economic Review

July/August 2015

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- **Inflation**: Monthly inflation accelerated to 0.93% in July (vs. 0.54% in June) amidst Idul Fitri festive with core inflation also increased to 0.34% (vs. 0.26% a month earlier). This has put annual inflation at 7.26%. Year-to-date inflation was also up to 1.90% (vs. 0.96% a month earlier) with core inflation of 2.34% compared to 1.99% in June. Meanwhile, annual core inflation was at 4.86*%.*

- **Trade Balance**: Indonesian trade balance continued its positive trend in June as it recorded USD 477 million of trade surplus despite lower than USD 950 million in May. The lower surplus is mainly backed by a higher growth of import ahead of Idul Fitri festive by 11.6% to USD 12.9 billion (vs. a sharper decline in imports to USD 11.6 billion a month earlier). Meanwhile, total export climbed with a decelerating rate of 5.6% to USD 13.4 billion amidst subdued demand in global market.

- **GDP growth in 2Q15**: Looking at quarterly performance, Indonesia economy in 2Q15 slowed to 3.78% compared to previous quarter of 4.72%. This level was comparable with yearly economic growth slowing to 4.67% in second quarter of this year (vs. 5.03% in 2Q14). Cumulatively, during the first half of this year the economy grew by 4.67% versus 5.17% in 1H14. Indonesia GDP which reached about Rp2,866.9 trillion (current price) and Rp2,239.3 trillion (constant price) was mainly driven by education service sector from production side which grew by 12.16% and consumption spending component from expenditures side which expanded by 4.97%.

- **Foreign Reserve**: Indonesia's official reserve assets continued to weaken to USD 108.0 billion at end of June compared to USD 110.8 billion at end of May. Current lower reserve assets were mainly due to increase in foreign exchange demand for government foreign debt payments and the use of foreign exchange to stabilize Rupiah. Nevertheless, it can adequately cover 7.0 months of imports or 6.8 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 dropped to 4,802.53 at end of July (vs. 4,910.66 at end of June). In spite of the Fed's decision to maintain its rate at current level at end of last month and Greece's emergency loan from European Union, prolonged concern on the slowdown in domestic and global economy was heavily weighing the index down. As of August 4th, JCI closed at even lower level of 4,781.09.

  BI Rate: The central bank is scheduled to hold board of governors' meeting on August 18, 2015. It is expected that BI will retain the rates at current level backed by the Fed's policy to maintain its interest rate in spite of higher inflationary pressures in the domestic market. The slowdown in domestic economy would also be one of BI's concerns.

- **Rupiah**: The Rupiah continued to weaken to 13,481/USD (vs. 13,339/USD in the previous month) against the green back in line with the weakening of major global currencies. Concerns over the slowdown in domestic economy as indicated by weakening buying power and the decline in exports still acted as a catalyst for the Rupiah depreciation, in addition to uncertainties regarding the Fed's rates. As of August 4th, the Rupiah slightly recover to 13,472/USD.

- **Government Bond Yield (10Y)**: Amidst the weaker Rupiah and concern over slowdown in domestic and global economies, the government bond market was still under pressure in July. The yield of 10Y government bond benchmark climbed to 8.62% compared to 8.34% at end of June. Further as of August 4, the yield hovers at about 8.66%.

- **Car and Motorcycle Sales**: Slowdown in economic activities coupled with weakening purchasing power were the main factors behind the sharp yearly decrease of domestic automotive sales. Car and motorcycle sales in June 2015 dropped by 25.7% and 23.5% yoy to 82,139 units and 574,714 units, respectively. Nevertheless, the sales were up by 3.5% and 29.3% on mom basis, ahead of Idul Fitri festive. Year to date car and motorcycle sales in June 2015 slipped by 18.2% to 525,458 units and 24.5% to 3,174,162 units, respectively.

- **Commodities**

  - **Oil**: Western Texas Intermediate (WTI) price was still under pressure as it weakened to USD 47.12/barrel at end of July compared to USD 58.90/barrel at end of June. Declining demand pull during the month amidst the stronger greenback dragged the price down. As of August 4th, oil price dropped further to USD 45.89/barrel.

  - **Coal:** Coal price moved in tandem with global WTI price as it was closed at USD 58.85/ton at end of July (vs. USD 59.25/ton a month before). China's zero manufacturing growth in July was also another factor affecting the price of this commodity. Coal price dipped further to USD 58.60/ton as of August 4th.

  - **CPO:** A stronger USD coupled with subdued global demand has weakened CPO price to USD 554.68/ton versus USD 591.91/ton at end of June. Subdued demand as evidenced by China's current zero manufacturing growth will remain to put this commodity under pressure. This was reflected on August 4th where CPO was transacted at USD 533.17/ton.

  - **Gold:** The stronger USD against major global currencies and Greece's debt resolution provided by European Union acted as the main catalyst for the weaker gold price. It slipped to USD 1,095.10/ounce at end of July compared to USD 1,169.90/ounce of previous month closing price. On August 4th, this commodity price further weakened to USD 1,090.7/ounce.

- **Other News**

  - **OJK's new policies**
    Indonesia Financial Services Authority (OJK) issued a set of policies that aim to create a stimulus for the growth of the national economy. The Authority issued and adjusted a number of regulations on banking, capital market and non-bank financial industry. A total of 35 regulations were released consisting of 12 policies in the banking sector, 15 in the capital markets sector, 4 in non bank financial industry and another 4 policies in the field of education and consumer protection. Some of this policies are temporary in nature (for two years) and will subject to the development of future economic conditions.These policies are designated to maintain growth in bank credit, spur capital market growth and support the development of non bank financial industry in order to boost economic growth.

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