



Monthly Economic Review March/April 2015

Contacts:

Kreshna D. Armand

AVP Analyst

kreshna.armand@icraindonesia.com

Pradnya Desai

Manager-Rating Analyst

desai.pradnya@icraindonesia.com

Setyo Wijayanto

Manager-Rating Analyst

setyo.wijayanto@icraindonesia.com

+62 21 576 1516

www.icraindonesia.com

- **Inflation:** March broke this year's streak of monthly deflationary period after recording a month-on-month (mom) inflation of 0.17%. Year-to-date (YTD) still recorded a deflation figure of 0.44%, while year-on-year (yoy) inflation stood at 6.38%, marginally increased from February's of 6.29%. This also applies to annual core inflation figure which tipped a bit higher to 5.04% from earlier month of 4.96%. Monthly core inflation moved to 0.29%, down from 0.34% in previous month. Overall, inflation showed a benign movement during the first quarter of 2015. March's inflation was contributed by increase in processed foods as well as health and transportation. Meanwhile, the increase of fuel prices at the end of March could see April's inflation to pick up.
- **Trade Balance:** Trade balance reported a surplus for third consecutive months, amounting to USD 738.3 million in February 2015. It was quoted that this is the first time both oil & gas and non oil & gas balance are in surplus. Indonesia's monthly imports in February declined by 16.2% yoy to USD \$11.6 billion. Oil & gas imports plunged by 50.3% yoy to USD 1.7 billion due to low global oil prices, while non-oil & gas imports fell 4.9% yoy to USD 9.8 billion on account of weak Rupiah. This heavily curbed import figure is more than enough to compensate the drop in exports of 16.0% yoy.
- **Foreign Reserve:** Bank Indonesia (BI) reported lower foreign reserve of USD 111.6 billion at the end March compared to USD 114.2 billion end of February. The drop was due to foreign debt payments by the government and to maintain Rupiah in check with fundamentals. Coupled with decreasing imports, this reserve can adequately cover 6.9 months of imports (compared to 6.8 months in February despite having USD 3.9 billion higher in reserve) or 6.6 months of imports and servicing of government's external debt repayment, favorably as against international adequacy standard of 3 months of imports.
- **Jakarta Composite Index (JCI):** JCI was closed at a higher level of 5,518.67 at the end of March compared to 5,450.29 at end of February. This defied the expectation of technical correction after reaching a record level in the end of February. The stronger JCI was still supported by capital inflow following the loosening of most central banks' monetary policies, including the indication of postponement of Fed's interest rate increase due to weaker than expected jobs and manufacturing data. On April 7, JCI again broke the all-time high record to 5,523.29. Continuous record breaking streak has provided expectation over near-term market correction. On April 13, the index retraced to 5,447.41 as a result of profit taking move.

- **BI Rate:** BI maintained its benchmark interest rate, deposit facility and lending facility rate at 7.50%, 5.50% and 8.0%, respectively for the second straight month on April 14, 2015, keeping in mind that inflation was still in line with expectation of 4±1%. As US revised down its macroeconomic projection, the Fed interest rate increase is likely to be imposed later than expected before, giving a breathing room for BI rate to at least stay at the present level for the moment and in near-term. .
- **Rupiah:** Rupiah was weakening during the month of March and closed at 13,084 against US Dollar (vs. 12,932 in the previous month closing). The central bank has intervened in the market as to stabilize the currency and keep it in line with its fundamental value. On the other hand, one of the Fed's members indicated that there would be slim probability to see any immediate interest rate increase since US economic indicators have shown mixed turnouts. As of April 13, Rupiah slightly rebounded to 12,945/USD.
- **Government Bond Yield (10Y):** Underperformed Rupiah has affected domestic bond yield as government bond market was also in a weakening trend. The 10-year government bond yield climbed to 7.43% on March 31 versus 6.96% on February 27 as Rupiah continues to lose its value towards USD. In comparison, overall yield of US Treasury has also seen an increase of 25 basis points. The 10Y government bond yield changed only slightly to 7.30% as of April 13.
- **Car and Motorcycle Sales:** Car sales experienced a 10% mom recovery in March to 99,636 units compared to February's 88,738 units. However during the first quarter (Q1) of 2015, total car sales dropped 14% to 282,569 units as against Q1 2014 of 338,500 units. In the meantime, motorcycle sales were lower in March, at 562,185 units versus 570,524 units in February. Overall during the first quarter of 2015, motorcycle sales booked markedly lower by 19.1% to 1,605,043 units than 1,984,076 units in last year's Q1. Weakening buying power in domestic market and upswing in fuel prices contributed to slow Q1 car and motorcycle sales.
- **Commodities**
 - **Oil:** Western Texas Intermediate (WTI) price was still in mild fluctuation and closed at USD 47.73/barrel, compared to USD 49.76/barrel on February 27 as market anticipated the possibility of embargo removal on Iran. However, the prolonged uncertainty over the negotiation of the issue has lifted the price since. As of April 13, WTI was closed higher at USD 52.4/barrel.
 - **Coal:** China, being the biggest coal importer, was the major driver behind the commodity's price movement. A weak showing of its Purchasing Managers Index (PMI) and slowing property sales give a concern over the country's future economic growth. This was also compounded by its plan to curb climate impact. Hence, ahead of official Q1 GDP growth announcement, coal price dropped to USD 57,20/ton as of March 31 compared to USD 71.45/ton on February 27. As of April 10, coal price slid even lower to USD 53.80/ton.
 - **CPO:** Crude palm oil price also showed a negative turnout and slipped to USD 584.28/ton as on March 31 compared to USD 637.13/ton as on February 27. The Indonesian and Malaysian governments' plan to put levies and tax on CPO has made firms to rush to export ahead of the regulation imposition starting in April. Indication of weak progress on China's economic recovery also put a burden on the price. As of April 13, CPO price was still in a downtrend and closed at USD 574.42/ton.
 - **Gold:** Gold price continued its downtrend and weakened to USD 1,186.40/ounce versus USD 1,213.1/ounce a month earlier. Over the course of March, USD kept its strength over a basket of other currencies following heightened speculation of the Fed rate to increase. Gold price was then recovered to USD 1,199.50/ounce as of April 13 after Fed's indication to postpone interest rate increase.

- **Other News**

- **Planned measures to curb current account deficit:** The government has set a plan to help curb the acute current account deficit. The plan includes temporary anti-dumping import duties on selected products, tax breaks to companies that export over 30% of their production, value added tax (VAT) exemption for shipyards and tax allowance for companies that reinvest their profits in Indonesia instead of transferring them to the home country.
- **Palm oil export levy:** Indonesian government has decided an export levy of USD 50/metric ton to be imposed on CPO shipments, and an export levy of USD 35/metric ton on processed palm oil products starting from April 2015. The levies will be used to fund biodiesel subsidies, replanting, research, and develop human resources in the industry. Meanwhile, Malaysia has also reintroduced 4.5 percent CPO export tax in April.
- **Floating subsidized fuel price:** As the country embraced new policy of fuel price setting, the Energy and Mineral Resources Ministry has announced per-liter price of Premium gasoline and diesel for Java, Madura and Bali to increase to Rp 7,400 and Rp 6,900 effective 28 March 2015, respectively, from previously Rp 6,900 and Rp 6,400. This time, the weakened Rupiah against USD much contributed to this adjustment. For outside Java, Madura and Bali, the prices increased to Rp 7,300 and Rp 6,900 from Rp 6,800 and Rp 6,400. Meanwhile, subsidized kerosene is kept at Rp 2,500.

© Copyright, 2015, ICRA Indonesia. All Rights Reserved.

All information contained herein has been obtained by ICRA Indonesia from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Indonesia in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Indonesia shall not be liable for any losses incurred by users from any use of this publication or its contents.