Indonesia January trade balance tips into deficit as export ban bites
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Indonesia's trade balance tipped into deficit in January as a mineral ore ban hit exports, rekindling concerns over its large current-account deficit just when it has started to narrow.

The trade shortfall, after three consecutive months of surpluses, could renew pressure on the rupiah but analysts do not see it yet as a threat to the central bank's goal of keeping the current account deficit below 3% this year.

Indonesia's ability to withstand the battering in emerging markets earlier this year also suggests the central bank can keep interest rates unchanged at its policy meeting next Thursday. Moderating inflation and a narrowing in the current-account deficit favour no change, most economists say.

But one economist said Bank Indonesia may have to tighten monetary policy, which has been its primary tool in narrowing the current-account shortfall, by cooling economic growth in Southeast Asia's largest economy and, with it, imports.

Indonesia is still vulnerable to capital outflows because of investor anxiety over the deficit, but so far, the rupiah is Asia's best performer this year when it was its worst last year.

"The market has been well aware of this issue for a number of months, so it should not be a surprise... We continue to expect the policy rate to remain on hold," said economist Daniel Wilson at ANZ.

The government acknowledged the introduction of a ban on shipments of mineral ore from January 12 was partly to blame for the drop in exports.

"The reversion to a trade deficit could weigh on the rupiah and markets. The ore export ban has undone the improvements to the current-account deficit from tighter monetary policy and weaker rupiah," said Hak Bin Chua, an economist at BofA Merrill Lynch Global Research.

The country produced a deficit after posting a US$1.52 billion (RM4.98 billion) surplus the previous month, its largest in two years. A Reuters poll of analysts had projected a surplus of US$400 million for January.

Exports in January fell a worse-than-expected 5.79% from a year earlier, as miners rushed their shipments last year in anticipation of higher export taxes after a mineral export ban came into effect on January 12.

Data from Bank Indonesia showed a jump in exports of nickel and bauxite between July and December.

According to the statistics bureau, shipments of ores led the decline as it fell sharply by 70.1% on a monthly basis in January and was down 34.8% from a year ago.

Exports of palm oil also fell 26% on an annual basis due to higher demand, as the government required more biofuel use in the domestic market.

Imports also fell, which helped to limit the extent of the trade deficit, but demand for refined oil continued to be relatively high. Overall in January, imports fell 3.46% compared with a 0.79% drop the previous month.

The rupiah pared earlier gains after the unexpected trade deficit. By 4.15pm, it was trading at 11,570 to the US dollar, compared with the previous close of 11,604.

On the bright side, Indonesia reported that February annual inflation eased on declining food prices to 7.75% from 8.22% in January. And core inflation only ticked up slightly, lifted by prices of gold and processed food.

Economists polled had expected January exports to grow 2.8% from a year earlier and imports to fall 1.2%.

Struggling with surging imports to meet domestic demand and weak structural reform, the current-account deficit in the G20 economy hit a record 4.4% of GDP in the second quarter last year but has since narrowed sharply.

"All in all, it is too bad that the raw minerals export ban shot Indonesia in the foot right when it starts to make its way out of the woods – making the path forward that much more wobbly – but at least the economy is now heading in the right direction," said Wellian Wiranto, economist at OCBC.

In the near term, the pressure will be on the first quarter where the trade balance is expected to be in deficit because of the ore export ban and lower coal prices.

"In total, the current-account deficit could be around US$6-7 billion in Q1. But the full year will improve to below 3% of GDP," said Rangga Cipta, economist at Samuel Sekuritas.

Bank Indonesia at last month's policy meeting said it would maintain tight monetary policy and remain watchful over inflationary risks.

The central bank has raised its policy rate by 175 basis points since last June to keep the economy from overheating and raise market confidence after a sharp sell-off in the rupiah. – Reuters, March 3, 2014.

Source: http://www.themalaysianinsider.com/business/article/indonesia-january-trade-balance-tips-into-deficit-as-export-ban-bites