Economics

Indonesia's Trade Balance Rebounds in July, But Structural Pressures Persist

Analyst(s)

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Highlights

- **Monthly trade balance rebound masks worsening long-term trend.** While Jul 26 posted a modest trade surplus (US$0.12b) after Jun 26's deficit, the trade balance has been on a clear downward trajectory since 3Q25. The underlying driver is surging imports (+27% yoy) across capital goods, oil & gas, and intermediate goods, reflecting strong domestic demand, higher oil prices and expansionary fiscal policy.
- **Export growth moderates as global demand falter.** Exports grew only 6.05% yoy, supported by coal and manufactured goods to ASEAN and China. However, staple commodities (CPO, nickel, coal) are under pressure from weakening Chinese and global demand. Critically, while commodity export prices have risen, their increase remains short of the surge in oil prices, weighing on the overall trade balance.
- **Rupiah faces headwinds from widening deficit and hawkish Fed risks.** The deepening current account deficit, exacerbated by oil prices staying above commodity export prices, will pressure the rupiah despite seasonal support. While capital inflows currently stabilise the currency, hawkish Fed signals could force Bank Indonesia (BI) to hike SRBI issuance and increase the BI Rate.

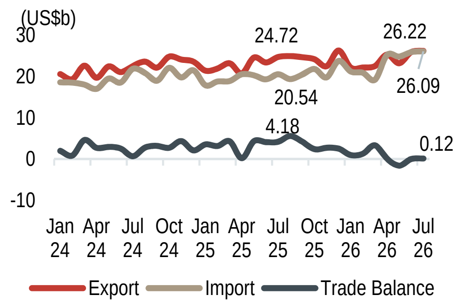
Analysis

- Indonesia's trade balance recorded a surplus of US$0.12b in Jul 26, reversing the previous month's deficit of US$0.45b. This outcome is in line with both market expectations and our own forecast. The improvement was driven by export growth (+2.98% mom) outpacing import growth (+0.72% mom).
- The higher export growth was driven by non-oil exports, particularly iron and steel, electrical equipment, chemicals, and other manufactured goods shipped to ASEAN countries and Europe. Meanwhile, Indonesia's staple exports - CPO, nickel, and coal - experienced slight declines due to falling commodity prices and weak demand from China.
- The stagnation in imports reflects relatively stable domestic conditions, coupled with a slight slowdown in fiscal policy and lower global oil prices on a monthly basis. By component, imports of capital goods contracted, while imports of consumption and intermediary goods expanded slightly, supported by still-expansionary manufacturing activities.
- Despite the slight monthly improvement, the trade balance remains on a long-term downward trend that has been in place since 3Q25. This structural weakening is driven by rapid import growth (+27.02% yoy), fuelled by robust domestic demand, expansionary fiscal policy, and higher import prices, as evidenced by the steep increases across capital goods imports (+17.38% yoy), oil and gas imports (+49.91% yoy), and intermediate goods (+32.33% yoy).
- Meanwhile, exports recorded only moderate positive growth (+6.05% yoy). Export growth was buoyed by higher coal exports yoy, in addition to increased exports of manufactured goods to ASEAN countries and China. The relatively low annual export growth is partly attributable to a high-base effect, as exports in Jul 25 stood at a relatively high US$24.7b.

Outlook

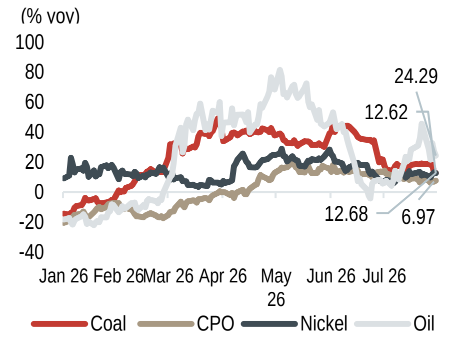
- The slight improvement in Indonesia's trade balance in Jul 26 signals a relative stabilisation in the global environment, with the slight decline in oil prices followed by lower commodity prices due to slowing global growth

Indonesia Trade Balance



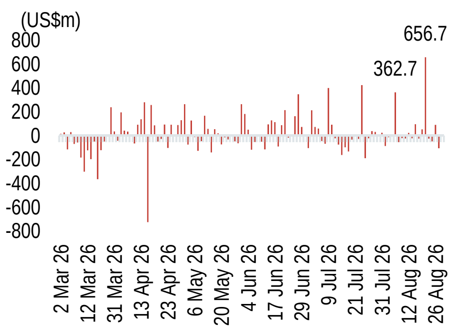
Source: BPS

Change of Indonesia Commodity Prices



Source: Bloomberg, UOB Kay Hian

Foreign Inflow Into Indonesia Bond Market



Source: Bloomberg

prospects, which counterweigh further supply constraints. The ongoing US-Iran conflict in the Strait of Hormuz appears to be heading towards a limbo standoff scenario, where both sides maintain the blockade to preserve their respective bargaining power.

- Stabilising oil prices, which remain relatively higher than export commodity prices, have contributed to a worsening of Indonesia's overall trade balance and a deeper current account deficit for 2026. This is likely to weigh on the rupiah in the final months of the year, partly counteracting its seasonal strengthening trend. Consequently, the rupiah is expected to remain stable between Rp17,800-18,000 per US dollar.
- On the financial account side, the rupiah's stability is supported by increasing capital inflows into bonds and SRBI instruments, driven by relatively improving risk perception and a weaker US Dollar Index. However, this support is increasingly threatened by a hawkish rhetoric from the Federal Reserve. Should the Fed adopt a more aggressive stance, BI may respond by raising SRBI yields or increasing SRBI auctions. We believe that a 25bps Fed rate hike would be followed by two 25bps rate hikes from BI, delivering an increasingly hawkish BI monetary policy.