

27 February 2023

### Macroeconomics Indicator

	2021	2022e	2023F
GDP growth (%YoY)	3.69	5.31	5.43
Inflation (%YoY)	1.87	5.51	4.45
BI rate (% Year-end)	3.50	5.50	6.50
Rp/US\$ (Average)	14,316	14,855	15,541
CA deficit (% of GDP)	+0.30	+1.0	-0.6
Fiscal deficit (% of GDP)	5.44	2.38	2.67

## Estimating the trade impact of coal price drop

- Our sensitivity model suggests for every US\$1 price drop in the ICI coal price, the trade balance will be reduced by -US\$21.3mn.
- We calculate the breakeven point to the trade balance occurs at the coal price of US\$91.8/metric ton, with oil price assumption at US\$75/barrel.
- We see the coal price drop will impact to the net-export in the GDP to contract by c.-0.4% in FY23 (vs. net exports growth at 25.4% in FY22).

### ICI price as the most suitable coal price reference

We use Indonesia Coal Index (ICI) price as the coal price reference in our simulation as we see the index as the most reliable coal price reference (see our coal sector report [here](#)). The ICI price movement differs quite significantly with Newcastle, especially in FY22. The coal price in ICI averaged at US\$157/metric ton in FY22, while Newcastle averaged at US\$356/metric ton in FY22.

### Coal floor price at c.US\$91.8/metric ton for breakeven trade balance

Using ICI average as a reference (see fig 1), the coal price dropped by -6.6% YTD (+37.6% in FY22). We believe the price drop depicts better global coal supply from Australia-Indonesia and at the same time high inventory levels in India-China. Our coal analyst expects coal price correction of -12% yoy in FY23 (vs. IMF's assumption of c.-6.1% in FY23, from +158% in FY22) mainly caused by supply recovery (see our report [here](#)). If materializes, the coal price decline may erode the trade surplus to roughly around c.US\$12bn in FY23 from an all-time high at US\$90bn in FY22 (surplus of US\$35bn in FY21). Our simulation suggests the floor price of coal (using ICI average) to be at c.US\$91.8/metric ton for the trade balance to be at breakeven (assuming ICP price at US\$75/barrel, all else equal). Thus, should the ICI-average coal price dropped below US\$91.8/metric ton, the trade balance will be reversed into a deficit. Latest ICI average data was at US\$141/metric ton in Jan23.

### Macro indicators likely trend down in FY23

Our sensitivity test to macro indicator suggests the following: for every US\$1/metric ton drop in coal price the (1) trade balance will be reduced by US\$21.3mn, (2) the fiscal deficit will be wider by Rp0.37tr, (3) the current account balance will be lower by US\$5.8mn, (4) the tax revenue will drop by Rp1.4tr and (5) lower non-tax revenue by Rp0.38tr. Aside from the adverse impact, we believe the government already taken the precautionary measures, of which by having lower fiscal deficit in the FY23 state budget at 2.8% of GDP (from deficit of 3.9% of GDP in FY22 state budget).

### Net-exports shall be replaced by domestic demand

We expect the decline of coal and other commodity prices (IMF all commodity prices gauge suggests c.-0.8% yoy in FY23 vs. +41% yoy in FY22) to impact the net-export in the GDP to be at c.-0.4% yoy in FY23 from +25.4% yoy in FY22. However, we believe overall GDP may grew higher at c.+5.4% in FY23 (+5.3% in FY22), from pick-up in domestic demand at c.5.6% yoy (+4.6% yoy in FY22). The source of growth will be coming from private consumption at c.+6.5% yoy (+4.9% yoy in FY22), as many growths engine will be ignited. (See our report [here](#) and [here](#)).

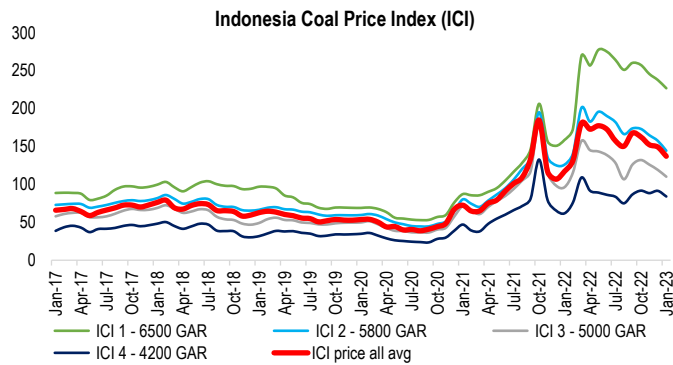
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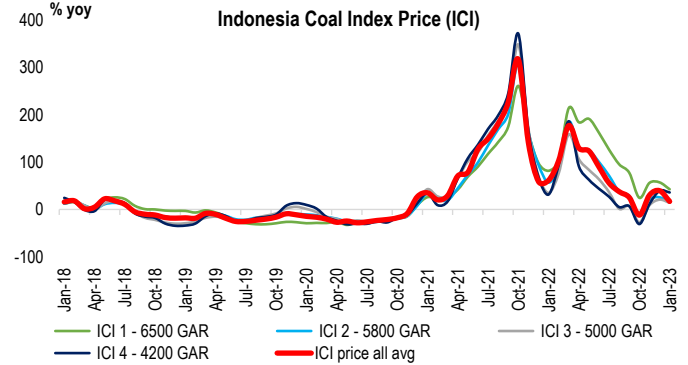
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Fig. 1: ICI price categories



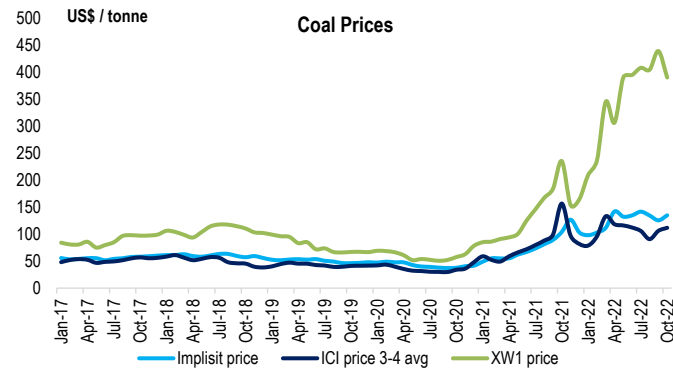
Source: various, Indo Premier

Fig. 2: Recent ICI price steep decline in FY23



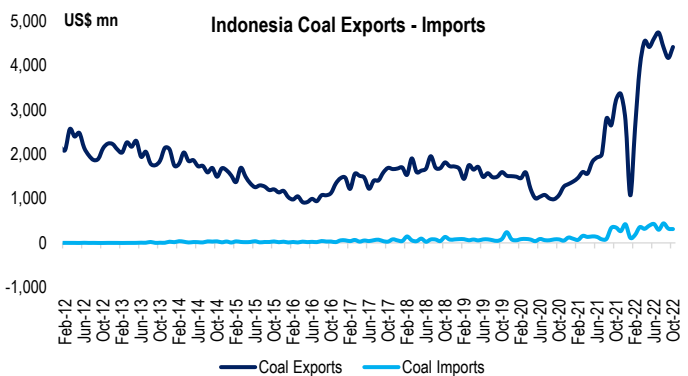
Source: various, Indo Premier

Fig. 3: price reference differentiation between ICI vs Bloomberg XW1



Source: Bloomberg, various, Indo Premier

Fig. 4: Indonesia coal exports and imports



Source: CEIC, BPS, Indo Premier

Fig. 5: Floor coal price to have a breakeven trade balance

Oil price assumption	All ICI average	ICI 3-4 average	XW1
oil price at US\$75/barrel	91.8	69.5	110.1
oil price at US\$100/barrel	118.8	84.5	166.8
latest data Jan23	141.4	97.0	362.3

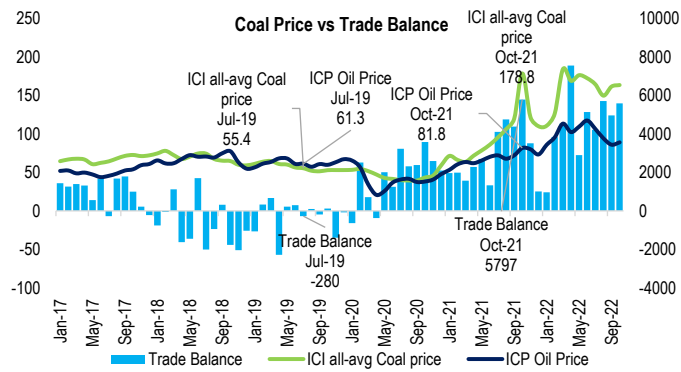
Sources: Simulation, Indo Premier

Fig. 6: coal price sensitivity analysis

	Trade Balance	Fiscal Balance	Current account balance	Tax Revenue	Non-Tax Revenue
decrease of All ICI avg by US\$1	-US\$21.3mn	-Rp0.37tr	-US\$5.8mn	-Rp1.4tr	-Rp0.38tr
decrease of ICI 3-4 avg by US\$1	-US\$28.6mn	-Rp0.52tr	-US\$8.3mn	-Rp1.9tr	-Rp0.51tr
decrease of XW1 by US\$1	-US\$12.0mn	-Rp0.16tr	-US\$1.8mn	-Rp0.7tr	-Rp0.20tr

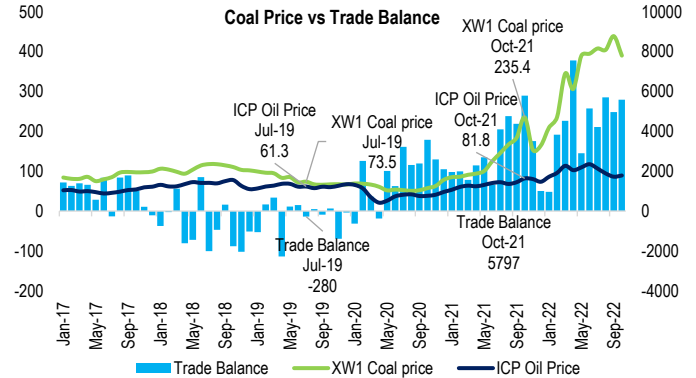
Sources: simulation, Indo Premier

**Fig. 7: ICI all avg coal price vs trade balance. More accurate**



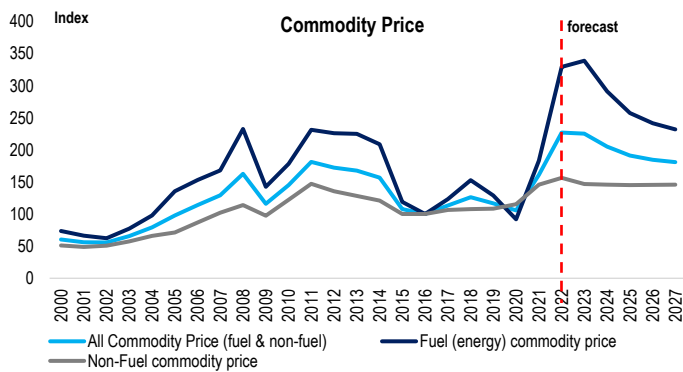
Source: various, CEIC, BPS, Indo Premier

**Fig. 8: XW1 coal price vs trade balance. A bit stretched**



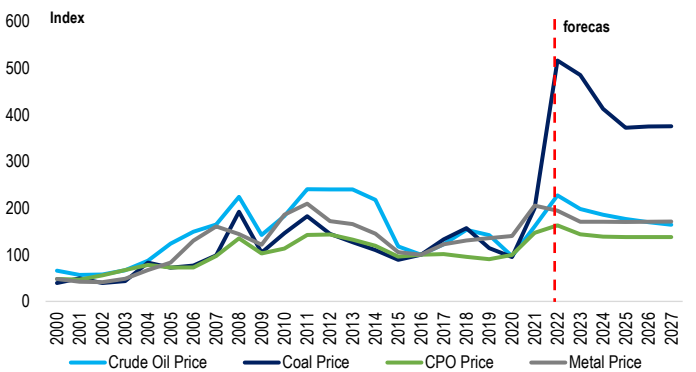
Source: various, CEIC, BPS, Indo Premier

**Fig. 9: Commodity price expected to decline going forward**



Source: IMF, Indo Premier

**Fig. 10: likewise coal and other commodity**



Source: IMF, Indo Premier

**Fig. 11: Top 10 Indonesia's export commodities**

Export goods	2015	2016	2017	2018	2019	2020	2021	2022
Mineral Fuels (Coal)	16,032	14,961	21,072	24,610	22,223	17,255	32,385	54,976
Electrical and Electronics	8,562	8,148	8,467	8,854	8,345	9,234	11,738	14,707
Vegetable/Animal Fats and Oil (CPO)	18,659	18,232	22,965	20,346	17,542	20,721	32,342	35,204
Rubber and articles	5,914	5,663	7,743	6,381	6,022	5,619	7,077	6,971
Oil (crude & product)	8,211	6,068	6,877	6,698	3,508	2,859	4,793	6,200
Mineral Ores, Slag and Ashes	3,378	3,568	3,770	5,255	3,126	3,235	6,350	10,300
Machinery and Mechanical	5,215	5,451	5,874	5,866	5,379	5,206	6,290	2,451
Iron & Steel	0	0	0	0	7,411	10,847	20,792	23,156
Others	84,395	83,095	92,016	102,146	93,616	88,269	109,833	369,616
<b>Total Export</b>	<b>150,366</b>	<b>145,186</b>	<b>168,784</b>	<b>180,156</b>	<b>167,172</b>	<b>163,246</b>	<b>231,601</b>	<b>523,581</b>

Source: BPS, CEIC, Indo Premier

## **ANALYSTS CERTIFICATION**

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