

**October 2007**

TRADE OUTLOOK

**Bright Prospects Remain**

- Exports in August 2007 dropped to US\$ 9.61 bn, down by 2.11% from US\$ 9.81 bn in July 2007. Imports, in contrast, rose to US\$ 6.85 bn, or up by 9.38% from US\$ 6.26 bn in July. As a result, the trade balance in August narrowed to US\$ 2.76 bn from US\$ 3.55 bn in July.
- On a yearly basis, exports climbed by 7.80% y-o-y in August 2007. Imports also rose: up by a hefty 20.07% y-o-y. Cumulatively, in the first eight months of 2007, exports grew by 13.35% while imports grew by 16.87% from their levels in the corresponding period of 2006. As a result, the trade balance widened to US\$26.53 bn from US\$24.65 bn in the first eight months of 2006.
- Although exports did indeed decline in August 2007, the figure is still relatively high by historical standards. This suggests global demand is still strong. Meanwhile, the increase in imports in August 2007 indicates that domestic economic activity remains strong.
- Looking ahead, we believe that demand for Indonesian products will remain firm in the near term given that several economic indicators in Indonesia's main trading partners are likely to remain positive. Thus, exports are expected to increase in September 2007. At the same time, domestic demand is expected to remain firm. As such, we expect imports to be higher in September than in August 2007.
- All in all, we expect exports to reach US\$ 10.56 bn in September 2007, or up from US\$ 9.61 bn in August 2007. Meanwhile, imports are expected to increase to US\$ 7.09 bn in September 2007 from US\$ 6.85 bn in August 2007. Consequently, Indonesia's trade balance is expected to widen to US\$ 3.47 bn in September 2007 from US\$ 2.76 bn in August.

**Forecast for September 2007**

Exports	US\$10.56bn
Imports	US\$7.09bn
Trade Balance	US\$3.47 bn

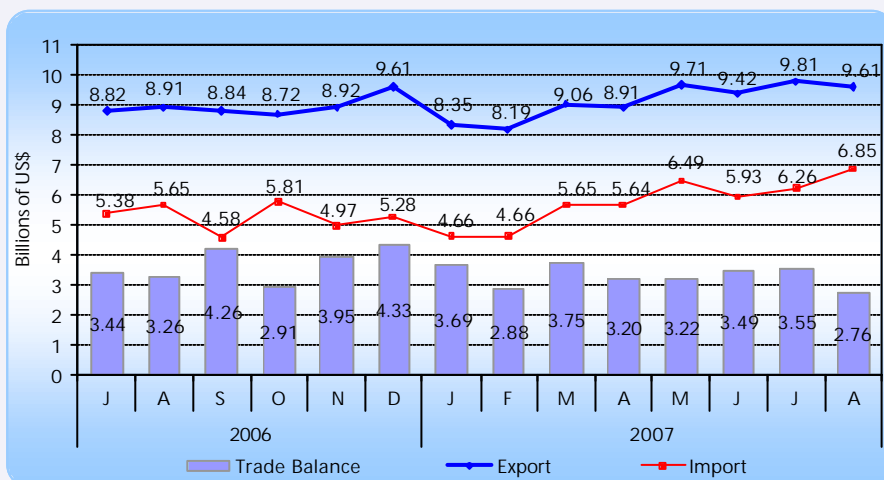
**Forecast for 2007**

Exports	US\$117.7 bn
Imports	US\$ 70.9 bn
Trade Balance	US\$ 46.7 bn

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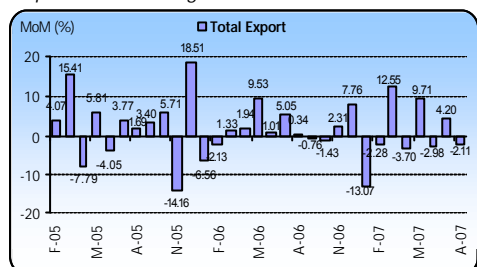
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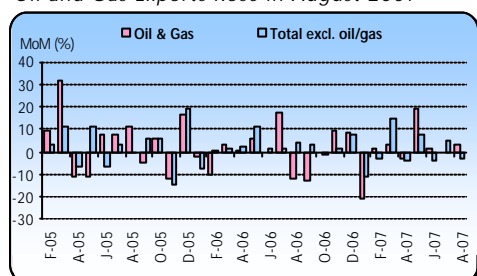
### August 2007: Exports Fell by 2.11% m-o-m and Imports Rose by 9.38% m-o-m

Exports Fell in August 2007



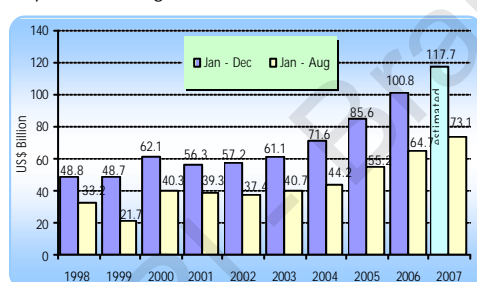
In August 2007, exports declined to US\$ 9.61 bn, down by 2.11% from US\$ 9.81 bn in July. The m-o-m fall in August exports stemmed from lower non-oil and gas exports (down by 3.30% to US\$ 7.75 bn). Meanwhile, the oil and gas exports actually rose by 3.24% to US\$ 1.85 bn in August.

Oil and Gas Exports Rose in August 2007



The increase in oil and gas exports was attributable to higher exports of crude oil (up by 14.58% m-o-m to US\$ 0.756 bn) and higher exports of natural gas (up by 1.39% m-o-m to US\$ 0.878 bn). Meanwhile, exports of oil products fell by 18.46% m-o-m to US\$ 0.221 bn. The increase in exports of crude oil in August was attributable to higher exports volume of crude oil (up by 21.02%) since the prices of Indonesian crude oil in the international market actually dropped slightly in that month (US\$72.59/barrel in August vis-à-vis US\$75.50/barrel in July). At the same time, the drop in exports of oil products stemmed from lower exports volume (down by 15.60%).

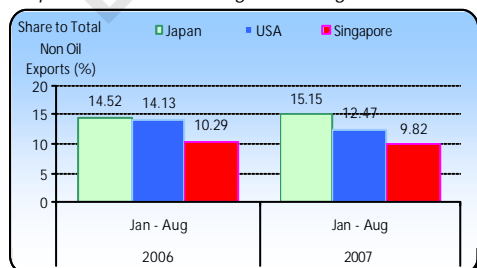
First Eight Months' Exports and Full-year Exports: Strong Performance in 2007



Meanwhile, the drop in non-oil and gas exports stemmed from lower exports of mineral fuels, mineral oils and products of their distillation (HS 27); animal or vegetable fats and oils (HS 15); ores, slag and ash (HS 26); paper, paperboard, articles of paper pulp (HS 48); and rubber and articles thereof (HS 40).

However, exports have shown good performance so far this year. Indeed, in the first eight months of 2007, exports reached US\$ 73.35 bn, or up by 13.35% compared to the figure in the same period of 2006. Strong global demand has pushed up Indonesian exports in 2007 (see the attached graph for the comparison with previous years).

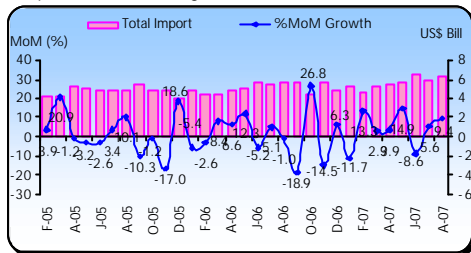
Japan is Indonesia's Largest Trading Partner



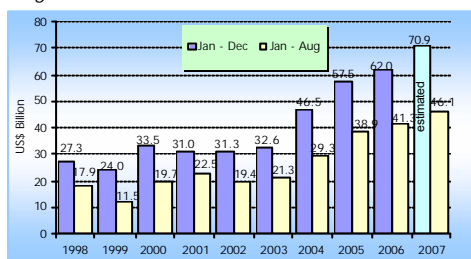
In the first eight months of 2007, Japan was Indonesia's largest trading partner in non-oil and gas products (15.15% of Indonesia's goods were exported to this country), followed by the US (12.47%) and Singapore (9.82%). As such, economic conditions in Japan, the USA, and Singapore are very important in shaping the path of Indonesia's exports performance in the near future. Meanwhile, Indonesia's exports to China reached 7.15% of Indonesia's total non-oil and gas exports, indicating that China has become an important trading partner for Indonesia as well.

Imports reached US\$6.85 bn in August 2007, or up by 9.38% from US\$6.26 bn in July 2007. The increase in August 2007 imports stemmed from higher oil and gas imports (up by 6.66% to US\$ 1.78 bn) and higher non-oil and gas imports (up by 10.37% to US\$ 5.07 bn). The increase in oil and gas imports was mainly due to higher imports of crude oil (up by 31.02% m-o-m). In contrast, the imports of oil products fell by 10.89% m-o-m in August 2007.

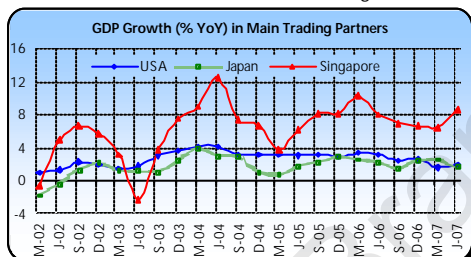
Imports Rose in August 2007



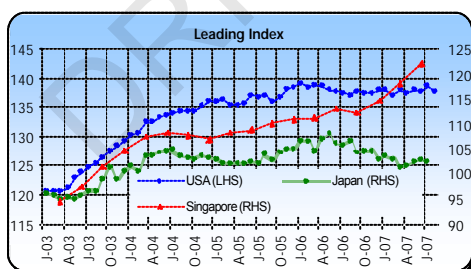
First Eight Months Imports and Full-year Imports Higher in 2007



Firm Growth in Indonesia's Main Trading Partners



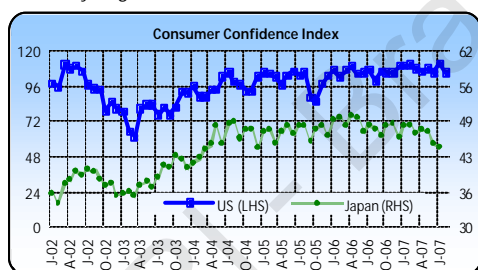
The Leading Indices Stayed at Relatively High Levels



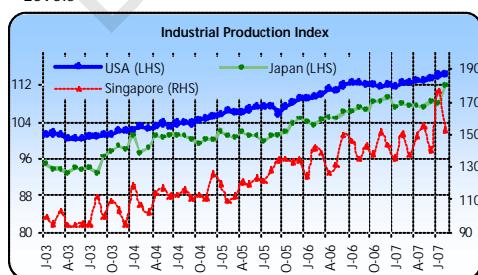
## Export and Import Performance (billions of US\$)

	2006				2007								YTD (Jan - Aug)		
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	2006	2007
<b>Export</b>															
Total Export	8.84	8.72	8.92	9.61	8.35	8.19	9.06	8.91	9.71	9.42	9.81	9.61	<b>10.56</b>	64.71	73.35
Oil & Gas	1.60	1.60	1.75	1.90	1.49	1.47	1.57	1.54	1.78	1.81	1.80	1.85	<b>2.11</b>	14.37	13.44
Total excl. oil/gas	7.24	7.12	7.17	7.72	6.87	6.73	7.49	7.38	7.93	7.61	8.02	7.75	<b>8.45</b>	50.34	59.91
<b>Import</b>															
Total Import	4.58	5.81	4.97	5.28	4.66	4.66	5.65	5.64	6.49	5.93	6.26	6.85	<b>7.09</b>	40.06	46.82
Oil & Gas	1.72	1.39	1.37	1.39	1.08	1.10	1.70	1.63	1.89	1.63	1.67	1.78	<b>2.55</b>	12.60	12.82
Total excl. oil/gas	2.86	4.42	3.60	3.89	3.58	3.56	3.95	4.02	4.60	4.31	4.60	5.07	<b>4.53</b>	27.46	33.99
<b>Balance</b>															
Total incl. oil/gas	4.26	2.91	3.95	4.33	3.69	2.88	3.75	3.20	3.22	3.49	3.55	2.76	<b>3.47</b>	24.65	26.53
Oil & Gas	-0.12	0.21	0.38	0.50	0.41	0.09	0.04	-0.13	-0.11	0.18	0.13	0.08	<b>-0.45</b>	1.77	0.61
Total excl. oil/gas	4.38	2.70	3.57	3.82	3.28	2.79	3.71	3.33	3.33	3.31	3.42	2.68	<b>3.92</b>	22.88	25.92
Y on Y Growth (percent)															
<b>Export</b>															
Total Export	17.57	9.63	30.65	18.81	10.52	10.35	22.57	15.79	15.98	11.40	10.50	7.80	<b>19.35</b>	17.27	13.35
Oil & Gas	-6.90	-12.21	9.69	1.87	-18.47	-8.27	-8.36	-11.76	-0.46	1.24	-14.40	0.13	<b>31.56</b>	17.24	-6.45
Total excl. oil/gas	24.83	16.11	37.05	23.87	19.75	15.64	31.56	23.63	20.46	14.11	18.20	9.81	<b>16.65</b>	17.29	19.00
<b>Import</b>															
Total Import	-6.88	19.46	23.04	10.34	2.98	19.81	13.73	10.76	27.28	3.62	15.42	20.07	<b>25.51</b>	2.88	16.87
Oil & Gas	-4.71	-9.63	11.62	6.20	-12.54	13.13	4.13	-5.53	10.25	-25.67	-9.78	3.64	<b>35.29</b>	9.43	1.80
Total excl. oil/gas	-8.14	32.89	28.01	11.89	8.79	22.45	17.88	19.02	35.92	21.72	28.42	27.13	<b>20.60</b>	0.13	23.79
M on M Growth (percent)															
<b>Export</b>															
Total Export	-0.76	-1.43	2.31	7.76	-13.07	-2.28	12.55	-3.70	9.71	-2.98	4.20	-2.11	<b>9.88</b>		
Oil & Gas	-13.57	-0.22	9.57	8.28	-21.50	0.95	2.97	-3.45	19.29	1.34	-0.46	3.24	<b>13.56</b>		
Total excl. oil/gas	2.61	-1.70	0.68	7.64	-11.00	-2.98	14.71	-3.75	7.77	-3.96	5.30	-3.30	<b>9.00</b>		
<b>Import</b>															
Total Import	-18.86	26.80	-14.49	6.34	-11.74	13.31	2.88	3.86	14.92	-8.57	5.55	9.38	<b>3.49</b>		
Oil & Gas	-8.80	-19.42	-1.47	1.82	-22.56	31.38	6.12	7.76	16.70	-14.00	2.47	6.66	<b>43.77</b>		
Total excl. oil/gas	-23.91	54.62	-18.57	8.06	-7.88	7.87	1.69	2.37	14.20	-6.33	6.71	10.37	<b>-10.62</b>		

## The Consumer Confidence Indices Remain at Relatively High Levels



## The Industrial Production Indices Remain at High Levels

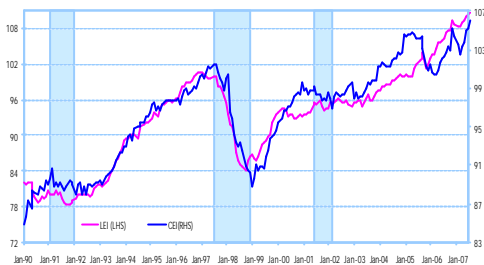


Companies in Indonesia's main trading partners have also pushed up production activities. And the trend is very likely to continue in the near term, as suggested by the Industrial Production Index (IP) in those countries. The IP in the US rose slightly to 114.4 in August from 114.2 in the previous month. At the same time, the IP in Japan rose to 111.8 in August from 108.1 in July. Meanwhile, the IP in Singapore stayed at a relatively high level of 152.9 in August, though it dipped slightly from 177.1 in July. In addition, the IP of those countries are still showing an upward trend. As such, we believe that the industrial output in Indonesia's main trading partners in the coming months will remain high.

Against this backdrop, we believe that demand for Indonesian products from the US, Japan and Singapore will remain high in the near term given that several economic indicators in those countries are likely to remain firm. Hence, Indonesian exports will show good performance in the coming months. As such, we expect exports to be higher in September 2007 than in August.

Meanwhile, domestic demand is expected to remain firm. Danareksa's Leading Economic Index (LEI) increased again to 110.75 in July 2007 from 110.48 in the previous month. This suggests that the economic

*Danareksa's Leading Economic Index Points to Brisker Economic Activity*



prospects of the Indonesian economy remain bright in the near term. In addition, the downward trend in interest rates (currently the 1-month SBI rate stands at 8.25%) and benign inflation are likely to give an additional boost to the economy. As such, we expect imports to be higher in September than in August 2007.

All in all, we expect exports to reach US\$ 10.56 bn in September 2007, up from US\$ 9.61 bn in August 2007. Meanwhile, imports are expected to increase to US\$ 7.09 bn in September 2007 from US\$ 6.85 bn in August 2007. Consequently, Indonesia's trade balance is expected to widen to US\$ 3.47 bn in September 2007 from US\$ 2.76 bn in the previous month.

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