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FX & Interest Rate

Trade surplus widened in October. Indonesia’s trade surplus widened to USD 5.7 bn in Oct-22, from USD 5.0 bn in previous month. Cumulatively, USD 46 bn worth of trade surplus was built throughout 10M22 (+48.4% compared to the same period of last year). Export moderated on the back of global economic slowdown and lower commodity prices, growing by 12.3% yoy in Oct-22 to USD 25 bn, from 20.2% yoy in Sep-22. Meanwhile, import growth decelerated to 17.4% yoy in Oct-22 to USD 19 bn, compared to a month prior at 22.0% yoy. Although import recovery currently seems weak amid seasonal pattern in the fourth quarter, but it is expected to pick-up starting 2Q23 onwards. Thus, we expect trade surplus to narrow and even reverse to deficit by mid next year.

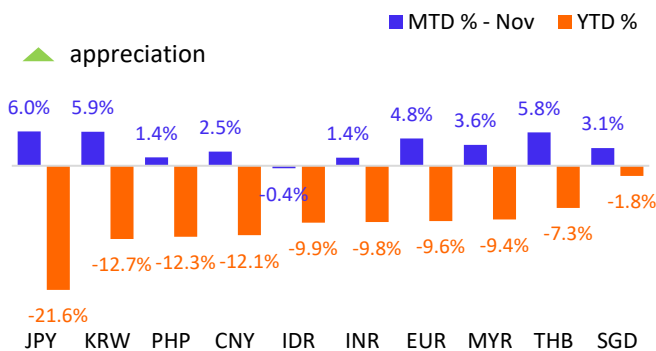
treasury.economist@danamon.co.id

Strong fundamental of IDR was offset by sentiment factors. Bank Indonesia reported USD 4.4 bn worth of current account surplus in 3Q22, or equivalent to USD 9.0 bn within 9M22. A sustainable current account surplus reflected IDR’s strong fundamental. However, pressure from portfolio outflows intensified along with The Fed’s monetary tightening. The financial account booked USD 9.2 bn outflows from domestic market throughout 9M22. Entering 4Q22, inflows to domestic market remained on the sideline. Inflows to equity market was recorded at USD 573 mn between 1-Oct to 18-Nov, while outflows from the bond market was at USD 539 mn during the same period (net inflows of USD 34 mn).

Currency gain amid softening US inflation. Fed’s hawkish policy has put pressure on Emerging Market (EM) currencies throughout 2022. As of 18-Nov, IDR had depreciated by 9.9% YTD, relatively milder than peers (i.e. JPY, KRW, PHP, CNY). Yet since September’s FOMC meeting, pressure to EM currencies and especially IDR had intensified. Then some relief came after the release of US CPI data, which posted at 7.7% yoy or slightly lower than market’s expectation of 7.9% yoy, while increasing the chance of softer FFR hikes. Following the news, most peer currencies strengthened except for IDR, which depreciated by 0.4% MTD.

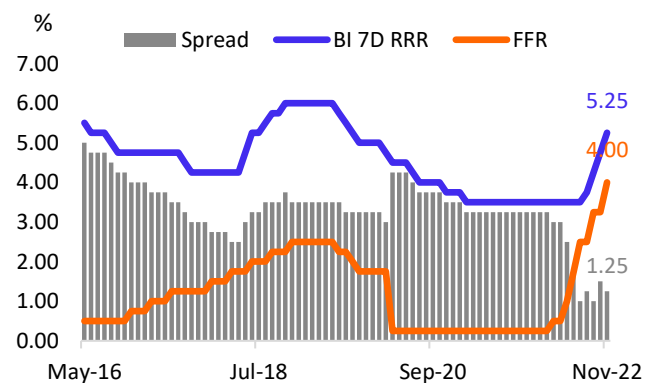
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Chart 1. Currency Comparison – Peer Countries



Source: Bloomberg as of 18-Nov-2022, Danamon

Chart 2. Interest Rate Differential



Source: The Fed, Bank Indonesia, Danamon

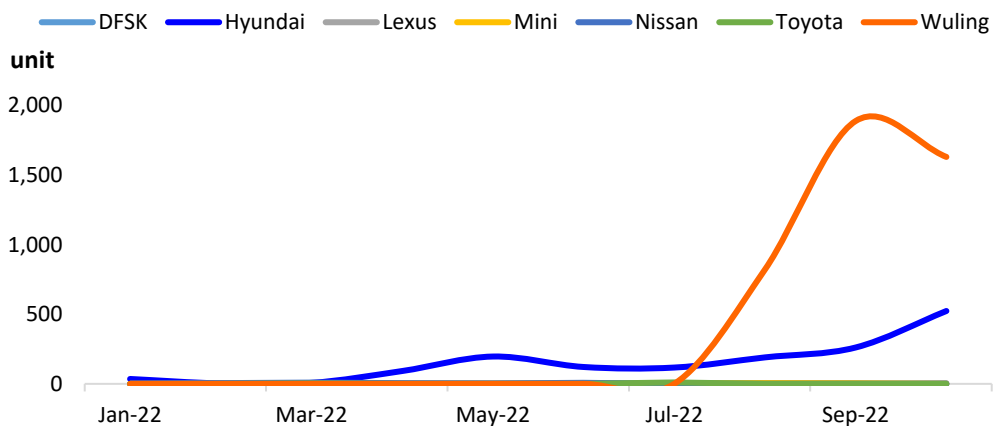
75 is the new 50. BI delivered 50 bps hikes for three months in a row, resulting into 175 bps of cumulative rate hikes this year. However, the differential between BI 7D RRR and FFR narrowed in Nov-22 to 125 bps from 150 bps in a month prior. This led into IDR depreciation while peer currencies strengthened. In order to defend IDR, BI needs to pick up the pace of frontloading measure. We have seen that 50 bps hike does not really affect market confidence. Considering Fed’s policy stance and US inflation trajectory, we expect FFR to increase by 50 bps in Dec-22. Looking at our peers, Bangko Sentral Ng Pilipinas hiked its key benchmark rate by 75 bps this month. It helped PHP to appreciate by 1.4% MTD. However, during the investor call on the same day of November MPC meeting, BI’s governor signaled that 75 bps is not an option, as the recovery in household consumption remains clouded by uncertainties.

Automotive Industry

EV giants in Indonesia. The automotive industry in Indonesia is declining for October, reflected in the fall of all vehicle sales and production by 6.8% yoy and 6.0% yoy, respectively. However, electric vehicle (EV) sales kept increasing, reaching its highest in 2022 at 2,157 units, growing 0.14% from Sep-22. Along with the government’s incentives, the EV trend would continue to rise, sending a good signal for investors to enter the market. The Indonesian EV market is now dominated by Wuling with its Air EV series, selling 1,629 units and taking 75.5% of total EV sales in Oct-22, followed by Hyundai with its IONIQ series, selling 523 units in Oct-22. Only been released in Aug-22, Wuling’s Air EV has sold 4,337 units just within three months, accounting for 73.5% of total EV sales from January until October.

The significant price difference between Wuling’s Air EV and Hyundai’s IONIQ series drove people toward affordability, which is Wuling’s Air EV with a price range of IDR 238-311 million. Should more players decide to enter the Indonesian EV market, they must consider this matter. If more producers sell affordable EV prices, the sales increase would be much faster. Besides that, the infrastructure is still under development, and the public’s questions about EV’s maintenance costs also contribute to why people prefer to buy Wuling’s Air EV or even go back to conventional cars. Other than that, the domestic production for Hyundai’s IONIQ series is slower than its sales (48.0% of October’s sales); buyers must wait for their new cars to arrive. Hence, making Wuling’s Air EV more attractive.

Chart 3. EV Sales by Brand



Source: Gaikindo

Indonesia's Selected Economic Indicators

	2019	2020	2021	2022E	2023E
National Accounts					
Real GDP (% y-o-y)	5.0	-2.1	3.7	5.1	5.3
Domestic demand ex. inventory (% y-o-y)	3.6	-3.1	2.8	5.0	5.2
Real Consumption: Private (% y-o-y)	5.0	-2.7	2.0	5.0	6.1
Real Gross Fixed Capital Formation (% y-o-y)	4.4	-4.9	3.8	4.5	3.5
GDP (USD bn) — nominal	1,119	1,059	1,186	1,212	1,296
GDP per capita (USD) — nominal	4,193	3,917	4,350	4,422	4,593
Open Unemployment Rate (%)	5.3	7.1	6.0	5.7	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-6.8	-3.0	42.5	30.7	4.3
Imports (% y-o-y, BoP Basis)	-8.9	-18.1	39.9	31.1	13.2
Trade balance (USD bn, BoP Basis)	3.5	28.2	43.8	56.0	36.9
Current account (% of GDP)	-2.7	-0.4	0.3	-0.5	-1.0
Central government debt (% of GDP)	30.5	38.1	41.0	37.8	35.8
International Reserves –IRFCL (USD bn)	129.2	135.9	144.9	130.2	135.7
Reserve Cover (Months of imports & ext. debt)	7.3	9.8	7.8	5.8	6.2
Currency/USD (Year-end)	13,901	14,050	14,253	14,820	14,890
Currency/USD (Average)	14,146	14,529	14,296	14,738	14,927
Other					
BI 7-Day Reverse Repo rate (% year end)	5.00	3.75	3.50	5.25	6.25
Consumer prices (% year end)	2.72	1.68	1.87	6.49	5.73
Fiscal balance (% of GDP; FY)	-2.20	-6.09	-4.65	-3.92	-2.71
S&P's Rating – FCY	BBB	BBB	BBB	BBB	BBB

Source: CEIC, E = Danamon Estimates

Treasury Economist Team



Wisnu Wardana
Chief Economist
+62 21 8064-5000 ext. 8873
wisnu.wardana@danamon.co.id



Irman Faiz
Economist
+62 21 8064-5000 ext. 8875
irman.faiz@danamon.co.id



Amanda A. Joesoef
Industry Analyst
+62 21 8064-5000 ext. 8842
amanda.joesoef@danamon.co.id



A member of  **MUFG**, a global financial group

PT Bank Danamon Indonesia, Tbk.

Menara Bank Danamon
Jl. H.R. Rasuna Said Kav. C-10, Kuningan
Jakarta 12940
Indonesia

Email: treasury.economist@danamon.co.id

Fax: +62 21 80645263

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