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Indonesia Market Color

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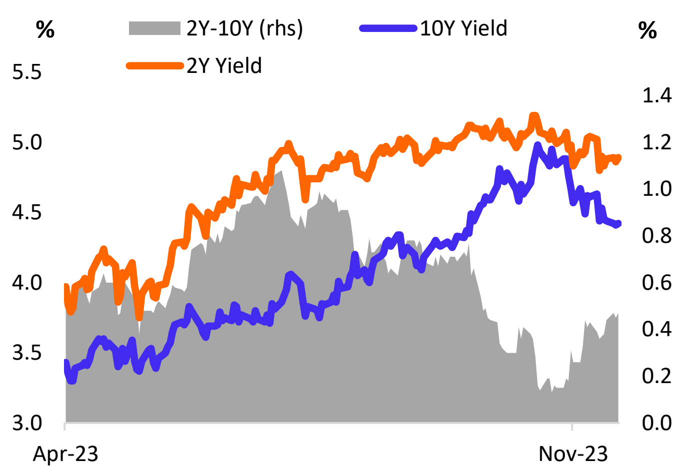
FX and Interest Rate

A Weak Dollar Era? Latest indicators for the US reveal a slowdown, sparking anticipation that FFR is at peak. Inflation eased from 3.7% yoy to 3.2% yoy, while unemployment rate was recorded at 3.9%, both well in-line with the Fed's targets for the year. Bond market stabilized as a result, with the 10Y UST yield declining to 4.2% compared to its peak of 5.0% in October. However, the yield spread between 2Y and 10Y widened, which indicates a growing concern over US recession in the short-run. To respond, the Fed has consistently advocated for a cautious approach on policy rate, unless inflation risk materialized. Hence, DXY index softened from 107 to 103 last month.

A Breeze in the Bond Market. With the decline of UST yields, Indonesia's bond market booked an inflow of USD 0.9 bn in November. The INDOGB 10Y yield demonstrated a noteworthy reduction from 7.2% in October to 6.6%. At the brink of the Fed's cessation for rate hike, IDR bonds were favored by foreign investors. This was supported by Indonesia's manageable inflation rate of 2.9% yoy in November. Core inflation also exhibited persistent stability, standing at 1.9% yoy. As long as the Fed maintains a neutral stance, we anticipate further inflow to domestic bond market, yet equity should remained subdued due to concerns over global slowdown next year.

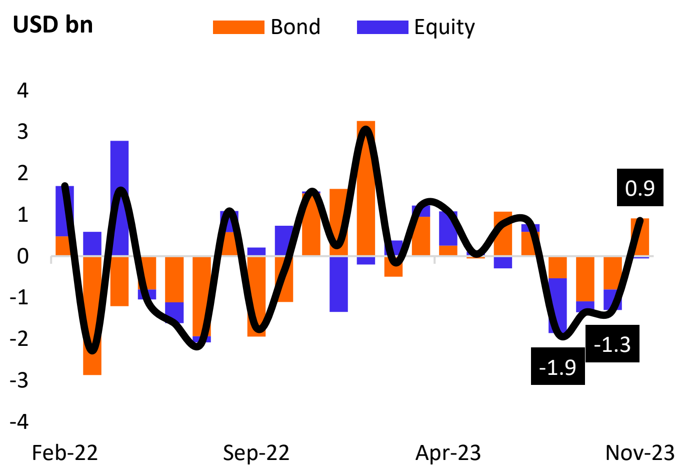
BI is cruising into 2024. Monetary policymakers are anticipating a stable economic landscape, marked by manageable inflation and reduced pressure on IDR. Bank Indonesia (BI) is poised to maintain its current policy rate until a discernible shift in the Fed Fund Rate occurs. The focus in upcoming year will be on preserving IDR stability, given inflation expectation kept within BI's targeted range of 1.5% to 3.5%.

Chart 1. UST 2Y vs 10Y Yield



Source: Bloomberg

Chart 2. Portfolio Flows



Source: Bloomberg, Danamon

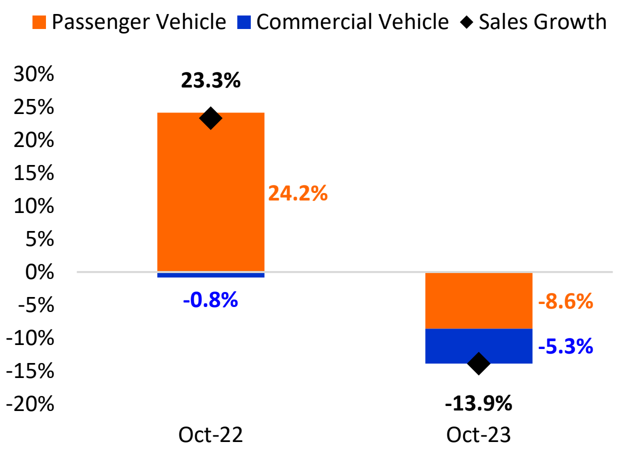
Examining the trajectory of US macroeconomic indicators, it is projected that the Fed could potentially lower interest rates when summer ends. Consequently, we anticipate BI to uphold its policy rate until that juncture. The retention of the 50 bps spread between BI 7D RRR and FFR becomes imperative, particularly with the reversal from current account surplus to deficit (*please see our report* *https://bit.ly/MarketColorNovember2023*). Our confidence in a narrower-than-historical current account deficit of 1.0% GDP in 2024 stems from the gradual decline in commodity prices and the sluggish recovery of imports. Should BI adhere to such scenario, we project that the IDR will average around IDR 14,901/USD throughout 2024.

Automotive Industry

The declining trend in 4W (four-wheeler) sales persists. October 2023 witnessed a drop in vehicles sold to 80,270 units, marking a substantial 13.9% yoy decrease from the same period in 2022. This decline is primarily attributed to the current economic slowdown in major markets like the United States and China, which have dampened sales growth. Moreover, factors such as a growth deceleration and the upcoming 2024 election have influenced consumer behavior, causing a reluctance to make purchases in tertiary goods, including new cars. The passenger vehicle segment specifically experienced an 11.2% yoy decline in Oct-23, contributing 8.4% to the overall negative growth, which poses a considerable challenge for the automotive industry. To meet its annual target of selling 1.05 million units this year, an 8.8% yoy sales growth during November and December 2023 is imperative.

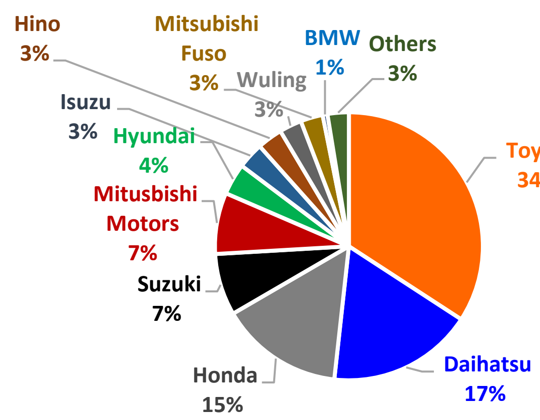
Japanese automakers remain at the top. Despite the overall decrease in sales, Japanese automakers have maintained their dominance, with their collective market share rising to 91.5% (73,441 units) in October 2023, compared to 90.1% (84,727 units) in the same period last year. This increase in market share was notably bolstered by Honda, which recorded a remarkable 19.8% yoy growth in Oct-23, distinguishing itself from other brands experiencing setbacks. This trend underscores consumers' continued preference for Japanese automakers, solidifying these brands' stronghold in the market. Furthermore, ongoing collaborations, technological advancements, and a strategic focus on eco-friendly vehicles align seamlessly with Indonesia's evolving automotive industry plans and government initiatives, providing further impetus for these brands to maintain their position as industry leaders.

Chart 3. PV & CV Contribution to 4W Sales



Source: GAIKINDO

Chart 4. 4W Sales by Brand



Source: GAIKINDO

Indonesia's Selected Economic Indicators

	2021	2022	2023E	2024E
National Accounts				
Real GDP (% y-o-y)	3.7	5.3	5.2	4.9
Domestic demand ex. inventory (% y-o-y)	2.8	3.8	5.1	5.0
Real Consumption: Private (% y-o-y)	2.0	4.9	5.1	5.0
Real Gross Fixed Capital Formation (% y-o-y)	3.8	3.9	4.5	4.2
GDP (USD bn) — nominal	1,186	1,391	1,472	1,553
GDP per capita (USD) — nominal	4,350	4,783	5,256	5,475
Open Unemployment Rate (%)	6.0	5.9	5.3	5.0
External Sector				
Exports (% y-o-y, BoP Basis)	42.5	25.6	8.5	-3.6%
Imports (% y-o-y, BoP Basis)	39.9	21.6	17.2	-1.6%
Trade balance (USD bn, BoP Basis)	43.8	62.7	47.9	40.9
Current account (% of GDP)	0.3	1.0	-0.4	-1.0
Central government debt (% of GDP)	41.0	39.6	37.3	36.8
International Reserves –IRFCL (USD bn)	144.9	137.2	139.1	142.5
Reserve Cover (Months of imports & ext. debt)	7.8	5.9	5.9	6.4
Currency/USD (Year-end)	14,253	15,573	15,240	15,120
Currency/USD (Average)	14,296	14,855	15,280	14,901
Other				
BI 7-Day Reverse Repo rate (% year end)	3.50	5.50	6.00	5.50
Consumer prices (% year end)	1.87	5.51	2.70	2.89
Fiscal balance (% of GDP; FY)	-4.65	-2.38	-2.18	-2.00
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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