Indonesia Market Color

3 April 2023

Danamon

A member of MUFG, a global financial group

treasury.economist@danamon.co.id

Please see the important disclaimer and information on the back of this report.

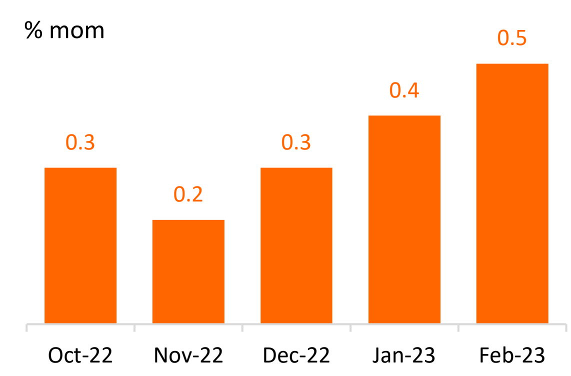
FX & Interest Rate

Slow and steady. The latest inflation data coming out of the US appeared moderating. US CPI posted at 6.0% yoy in Feb-23, down from 6.4% yoy in Jan-23. Meanwhile, the Fed's preferred inflation gauge, PCE inflation, went down to 5.0% yoy in Feb-23, from 5.3% yoy in the previous month. The normalization of global food and energy prices were the main drivers of the slowdown. Excluding food and energy, inflation remained obstinate. US CPI breakdown exhibited a slight decline on core inflation to 5.5% yoy in Feb-23, from 5.6% yoy in a month prior. On a monthly basis, core inflation even accelerated to 0.5% mom, from 0.3% mom at the end of last year. Meanwhile, PCE core inflation recorded at 4.6% yoy in Feb-23, down from 4.7% yoy in Jan-23. Thus, disinflationary trend would take longer than expected.

Fed's dubiety. Stubborn core inflation had initially convinced US monetary policy makers to reaccelerate its pace of policy tightening, until the collapse of several US banks in March. The recent collapse of US banks is likely to tighten credit condition which eventually lead into weaker demand. However, Fed members believe that it is too soon to determine the extent of these effects and to tell how monetary policy should respond. Median expectation of Fed members on an appropriate policy rate was unchanged in the latest FOMC. The Fed is currently reassessing impact of its tightening measures to the overall economy, closely looking into financial condition.

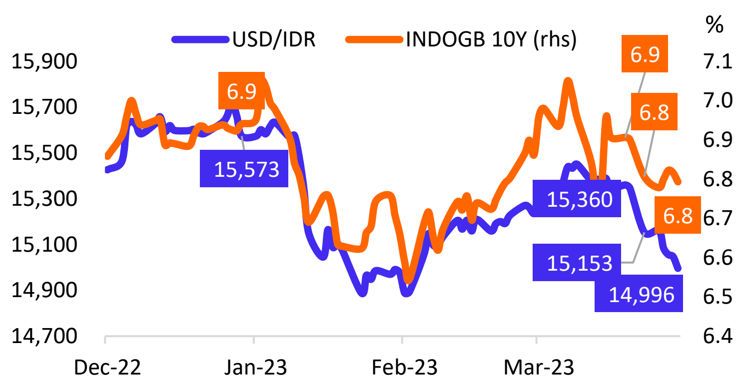
IDR has begun to reveal its fundamental. As Fed is expected to stay calm for the time being, IDR has appreciated by 3.7% ytd. During the first quarter of 2023, bond and equity markets booked USD 4.0 bn (USD 3.6 bn to bond) worth of net inflows. Thus, it drove INDOGB 10Y yield lower to 6.8% from 6.9% per Dec-22. Strengthening IDR is in-line with its fundamental. Robust domestic growth recovery, manageable inflation, and healthy fiscal balance would help sustain IDR appreciation further.

Chart 1. US Core CPI



Source: US Bureau of Labor Statistics

Chart 2. USD/IDR & INDOGB 10Y Yield



Source: Bloomberg as of 31-Mar-23

Not to mention, the revision of government regulation no.1 2019 (an onshoring of export receipt) would be a positive catalyst for IDR movement, expected to be released this quarter. Based on our calculation, potential additional FX liquidity is up to USD 15 bn. Throughout 1Q23, USD/IDR was moving around IDR 15,239/USD on average. We expect IDR to be moving around IDR 14,981/USD on average in this quarter.

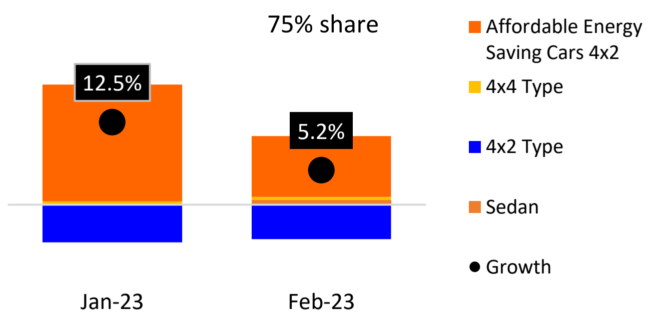
Manageable inflationary pressure. Indonesia's headline CPI eased to 5.0% yoy in Mar-23 (0.2% mom), from 5.5% yoy in Feb-23 (0.2% mom), driven by staple foods and water bill. Meanwhile, core inflation softened to 2.9% yoy in March, from 3.1% in a month before. Since Ramadhan has only started in the last week of March, we believe that we have not seen the full impact of festivities just yet. Core inflation could rebound in April, as the PMI is still in expansion mode at 51.9. However, inflation might not exceed BI's expectation of 3.6%, considering the slow pace of adjustment in output price by manufacturers. Therefore, we believe that BI will keep its policy rate 5.75% for the time being.

Automotive Industry

A shift in demand. The Indonesian automotive industry continues to grow in Feb-23 as 4W sales flew 7.4% yoy driven by commercial vehicles, especially double cabin, which is in line with favorable commodity prices. On the other hand, passenger vehicles experienced slower growth due to lower affordable energy-saving car sales. Even though sales growth is dominated by commercial vehicles, global conditions are still overshadowed by numerous uncertainties along with the normalization of commodity prices. Hence, the passenger vehicles are expected to take over for the rest of the year. Strong demand and solid purchasing power will also support passenger vehicles sales as motor vehicle financing from banks still grew by 15% yoy in Jan-23 amid high demand for new vehicles loans and public funds in banks, especially deposits of more than IDR 5 billion are pretty high.

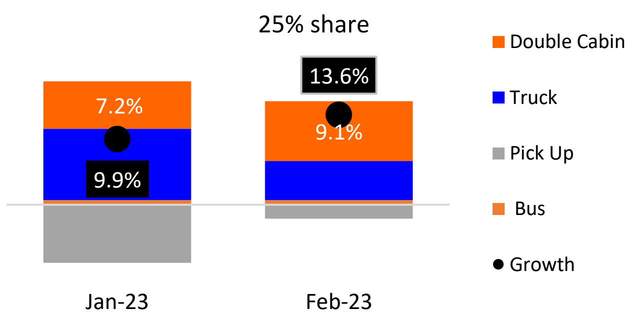
Ample incentives and opportunities. To encourage industrial growth, the government provides fiscal incentives in various forms of tax breaks and subsidies for consumers: preparing for EV subsidies, levying the transfer title fee and progressive tax in several regions. As for industry players, the government provides tax holidays and duty-free for incompletely knocked-down electric vehicles. Producers seized this opportunity as many brand-holding agents compete to bring new brands and release new models for conventional and electric vehicles; thus, expanding consumers' choices and leading to tighter competition. These prospects, along with the fact that car sales have already achieved 19% of this year's target just within 2 months, will further strengthen the role of the automotive industry.

Chart 3. 4W Sales Growth - Passenger Vehicles



Source: Gaikindo

Chart 4. 4W Sales Growth - Commercial Vehicles



Source: Gaikindo

Indonesia's Selected Economic Indicators

	2020	2021	2022	2023E	
				Forecast	Tracking
National Accounts					
Real GDP (% y-o-y)	-2.1	3.7	5.3	5.3	5.3
Domestic demand ex. inventory (% y-o-y)	-3.1	2.8	3.8	5.2	5.2
Real Consumption: Private (% y-o-y)	-2.7	2.0	4.9	6.1	6.1
Real Gross Fixed Capital Formation (% y-o-y)	-4.9	3.8	3.9	3.5	3.5
GDP (USD bn) — nominal	1,059	1,186	1,391	1,475	1,475
GDP per capita (USD) — nominal	3,917	4,350	4,783	5,267	5,267
Open Unemployment Rate (%)	7.1	6.0	5.9	5.5	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-3.0	42.5	25.6	4.3	8.5
Imports (% y-o-y, BoP Basis)	-18.1	39.9	21.6	13.2	17.2
Trade balance (USD bn, BoP Basis)	28.2	43.8	62.7	36.9	47.9
Current account (% of GDP)	-0.4	0.3	1.0	-1.0	-0.4
Central government debt (% of GDP)	38.1	41.0	39.6	35.8	37.3
International Reserves –IRFCL (USD bn)	135.9	144.9	137.2	140.7	143.8
Reserve Cover (Months of imports & ext. debt)	9.8	7.8	5.9	6.5	6.8
Currency/USD (Year-end)	14,050	14,253	15,573	14,890	14,984
Currency/USD (Average)	14,529	14,296	14,855	14,927	15,150
Other					
BI 7-Day Reverse Repo rate (% year end)	3.75	3.50	5.50	6.25	6.00
Consumer prices (% year end)	1.68	1.87	5.51	5.73	4.50
Fiscal balance (% of GDP; FY)	-6.09	-4.65	-2.38	-2.71	-2.18
S&P's Rating – FCY	BBB	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

Forecast: initial projection used in bank-wide budget plan, Tracking: latest projection based on recent developments

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

Danamon

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