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FX & Interest Rate

The end of Fed’s hiking cycle? Latest FOMC meeting decided to raise Fed Fund Rate (FFR) by 25 bps to 5.25%. Markets expect this will be the end of Fed’s hiking cycle before deciding to cut FFR somewhere in the beginning of 2024. US headline inflation moderated to 5.0% yoy in Mar-23, down from 6.0% yoy in the previous month. Such substantial decline drove market expectation that monetary policy transmission has kicked in. However, real economic indicators appeared stronger than expected in 1Q23. Having robust job gains and resilient banking system, risk for inflation tilts to the upside. Looking into the components, core inflation slightly increased to 5.6% yoy in Mar-23, from 5.5% yoy in Feb-23, on the back of shelter costs. Within the press release, the Fed emphasized that they remain highly attentive to inflation risks. We concur on both terminal rate as well as upside risk to inflation.

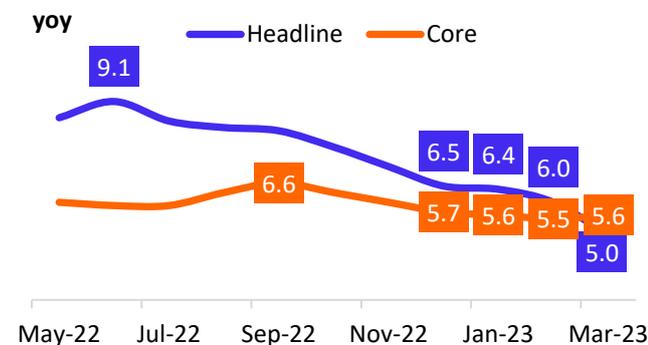
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Receding concern over domestic inflation. Indonesia’s headline inflation was reported at 4.3% yoy in Apr-23, moderating from 5.0% yoy in a month prior. Compared to the usual festivities period, inflation was mainly driven by transportation, gold & jewelries, and cigarettes, instead of staple foods. Despite stronger mobility this year, food prices eased. Volatile food inflation was recorded at 3.7% yoy, lower than previous month of 5.8% yoy. Successful harvest season in April helped cushioned any rise in horticultural products. Meanwhile, core inflation appeared stable around 2.8% yoy.

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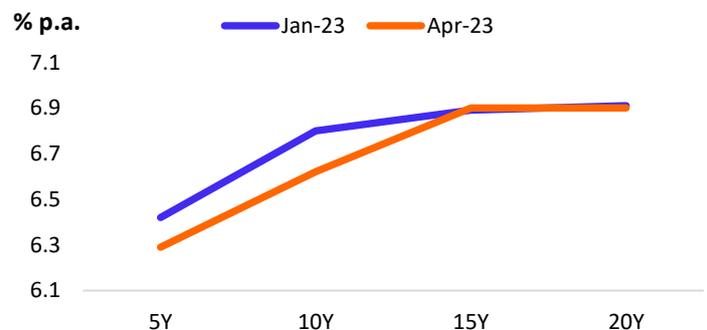
USD/IDR: moving around its fundamental. Rapid moderation of inflation coupled with a pause of FFR helped USD/IDR to appreciate by 4.6% ytd, cementing a title as the best performing currency among peers. IDR appreciation was mainly backed by inflows to domestic portfolio assets, especially towards bond.

Chart 1. US Inflation



Source: US Bureau of Labor Statistics

Chart 2. INDOGB Yield Curve



Source: Bloomberg

As of 28-Apr-23, foreign investors bought USD 4.0 bn worth of bonds. While trade surplus sustained in 1Q23, booking larger at USD 12 bn compared to the USD 9 bn in the same period of last year. As both financial and trade channels support IDR resilience, we expect USD/IDR to move around IDR 14,837/USD on average this quarter. (Please see our last report on IDR fundamental: [Indonesia Market Color March 2023](#)).

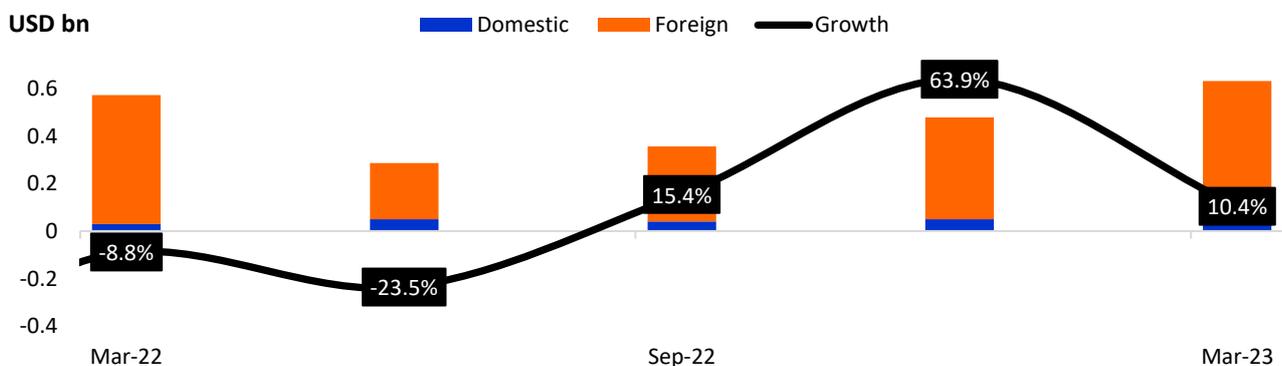
INDOGB: Bull Flattening. Flows to bond market this year has driven 10Y yield lower to 6.5%, from 6.9% at the end of 2022. We have seen a bull steepening INDOGB yield curve since the beginning of this year. As a result of BI’s pause and less-hawkish Fed, short to medium tenor yields declined by 13-18 bps from January to April. However, we expect the yield curve would move towards a bull flattening shape. This would be driven by supply dynamics. Short to medium tenor bonds would be affected by BI’s effort to sell its holding of government bonds, protracting their operation twist. On the other hand, the Ministry of Finance has a good chance to cut its bond issuance target on the back of excess cash from last year and better than expected tax collection. Such supply dynamic would cushion the decline among short to medium tenors, while longer tenors would be driven lower. All in all, we estimate 10Y yield would stand at 6.6% at the end of this year.

Automotive Industry

Prosper in the first quarter. For the first quarter of 2023, 4W sales grew by 7.0% compared to the same period last year, successfully selling 282,125 units. Even though the tax incentive scheme had ended in 2022, sales have been increasing on the back of strong demand and solid purchasing power. It is also reflected in the rise of 1Q23 GDP from motor vehicles sales and reparations by 6.9% yoy. The domestic market is still dominated by Japanese brands, namely Toyota (30.4%), Daihatsu (19.3%), and Honda (16.7%). On trade, Indonesia has recorded a 39.9% increase in completely built-up (CBU) exports compared to 1Q22. Many brands (e.g. Mitsubishi Motors, Hyundai, Honda, and Wuling) even recorded triple digit growth for the first quarter of 2023. However, Daihatsu and Toyota are still the biggest exporters (35.6% and 24.8% share).

Continuous enthusiasm. The enthusiasm from consumers due to excellent performance from Indonesian automotive industry is also reflected in the increasing investment realization throughout the quarter. Investment realization for motor vehicles and other transport equipment grew by 10.4% yoy, totaling about USD 0.6 bn, which was mainly contributed by foreign investment (84.2%). Furthermore, the increase in consumption is expected to sustain. Consumer expectation on the economy for the next six months improved in 1Q23, compared to the previous quarter, except for those within the middle-class bracket. Hence, these positive sentiments had encouraged GAIKINDO to revise up their 4W sales target from 975,000 to 1,050,000 for 2023.

Chart 3. Investment on Motor Vehicles & Other Transport Equipment Industry



Source: Indonesia Investment Coordinating Board (BKPM)

Indonesia's Selected Economic Indicators

	2020	2021	2022	2023E
National Accounts				
Real GDP (% y-o-y)	-2.1	3.7	5.3	5.3
Domestic demand ex. inventory (% y-o-y)	-3.1	2.8	3.8	5.2
Real Consumption: Private (% y-o-y)	-2.7	2.0	4.9	6.1
Real Gross Fixed Capital Formation (% y-o-y)	-4.9	3.8	3.9	3.5
GDP (USD bn) — nominal	1,059	1,186	1,391	1,475
GDP per capita (USD) — nominal	3,917	4,350	4,783	5,267
Open Unemployment Rate (%)	7.1	6.0	5.9	5.5
External Sector				
Exports (% y-o-y, BoP Basis)	-3.0	42.5	25.6	8.5
Imports (% y-o-y, BoP Basis)	-18.1	39.9	21.6	17.2
Trade balance (USD bn, BoP Basis)	28.2	43.8	62.7	47.9
Current account (% of GDP)	-0.4	0.3	1.0	-0.4
Central government debt (% of GDP)	38.1	41.0	39.6	37.3
International Reserves –IRFCL (USD bn)	135.9	144.9	137.2	143.8
Reserve Cover (Months of imports & ext. debt)	9.8	7.8	5.9	6.8
Currency/USD (Year-end)	14,050	14,253	15,573	14,890
Currency/USD (Average)	14,529	14,296	14,855	14,983
Other				
BI 7-Day Reverse Repo rate (% year end)	3.75	3.50	5.50	5.75
Consumer prices (% year end)	1.68	1.87	5.51	3.82
Fiscal balance (% of GDP; FY)	-6.09	-4.65	-2.38	-2.18
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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