



A member of MUFG, a global financial group

[treasury.economist@danamon.co.id](mailto:treasury.economist@danamon.co.id)

## FX & Interest Rate

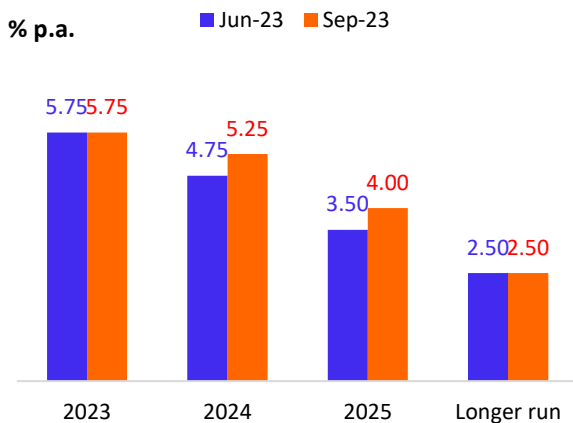
**September dotplot: higher for longer.** During the last FOMC meeting held in September, policymakers reaffirmed their unwavering commitment for a 'Higher for Longer' state of interest rate. Notably, the outlook of FFR for 2024 now stands at 5.25% or 50 bps higher compared to projections made previously. As for the remainder of this year, members have spared 1 more 25 bps hike and consensus has lean towards November. There have been positive developments in the US' key economic indicators, where the disinflation of consumer prices were met with stronger-than-expected GDP growth, providing hopes of a soft-landing. However, risk stems from recent increase in oil price on the back of a decision made by OPEC+ to extend production cuts. Historically, rising oil prices have led to Federal Funds Rate (FFR) hikes due to energy price spikes. Thus, if oil prices surge above USD 100 per barrel, US inflation could accelerate once again.

**Weakening IDR: 2018 déjà vu?** A Hawkish Fed had caused further weakening of emerging market currencies, including IDR. IDR has depreciated from approximately IDR 15,375/USD before Sep-23 FOMC meeting to above IDR 15,500/USD in early Oct-23. This persistent depreciation shares similarities with the events of 2018, primarily driven by three key factors: 1) Hawkish Fed, 2) widening current account deficit, and 3) political situation due to election-matters. However, it's worth noting that the depreciation rate is currently less severe than that in 2018. IDR has depreciated by approximately 6.0% in 2023, whereas during the same period in 2018, it depreciated by around 8.0%. The primary reason being that current account balance is performing better than 5 years ago.

**BI ramping up.** Looking forward, the IDR could follow a path similar than that of 2018, given our view of a widening current account deficit.

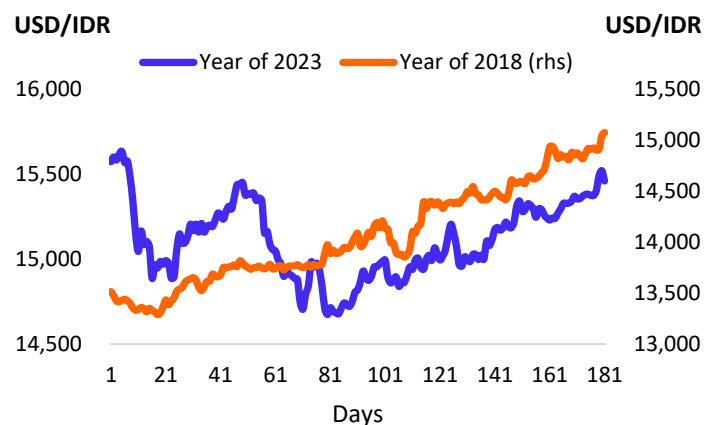
Please see the important disclaimer and information on the back of this report.

Chart 1. Fed's September 2023 Dotplot



Source: The Federal Reserve System

Chart 2. USD/IDR movement 2023 vs 2018



Source: Bloomberg

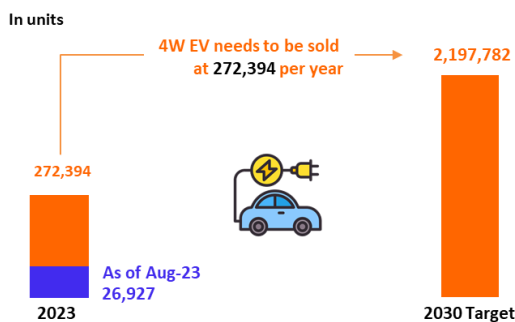
To address these challenges, BI has introduced several regulations, namely on placements of export proceeds and Sekuritas Rupiah Bank Indonesia (SRBI). Under the backdrop of global headwinds, foreign inflows into SRBI remain subdued, while placements in BI's Term Deposits (TD) have gradually increased. From a yield differential perspective, short-term bond yield differentials have narrowed as UST yields rose faster than Indonesia's government bonds. FX reserves have depleted from USD 145 bn in Mar-23 to USD 137 bn in Aug-23. Governor Perry has mentioned that BI will soon launch an FX-denominated money market instrument. If pressure on IDR escalates despite these measures, we believe that BI could utilize another monetary tightening to prevent zero or even negative rate differentials and help IDR withstand external volatility.

### Automotive Industry

**Electric vehicle adoption has been on a steady rise in recent years.** During 8M23, sales of 4W EVs witnessed an astonishing 400.1% yoy surge compared to the same period in the previous year. Furthermore, there was a positive growth of 21.7% mom in 4W EV sales in Aug-23, following two consecutive months of negative growth. As we look ahead to Indonesia's government-set EV adoption target for 2030, it is clear that the country still faces a long ride ahead. To meet these targets, the annual sales of 4W EVs and 2W EVs need to be reach 272,394 and 1,679,647 units, respectively.

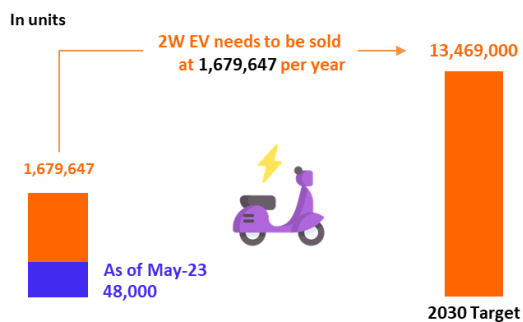
**Numerous efforts have been made.** From the downstream industry, the government has initiated tax incentives and subsidies to bolster demand. Simultaneously, efforts are being made to address infrastructure constraints with the construction of 842 SPKLU and 1,401 SPBKL, though these facilities are currently concentrated in Java and Sumatera. Despite government's multifaceted policies to promote mass adoption in 2W EVs and 4W EVs, the rate remains relatively low in both categories, primarily due to the limited 2W EV subsidy coverage and consumer preference for 4W hybrid. In the upstream and midstream sectors, Indonesia has attracted a substantial USD 20 bn in supply chain investments. Regrettably, the EV supply chain remains partially integrated, with several battery factories and manufacturing plants still under construction. This situation hinders Indonesia's aspiration to become a prominent and self-reliant manufacturing hub for EVs.

Chart 3. 4W EV Sales



Source: GAIKINDO

Chart 4. 2W EV Sales



Source: Various sources

## Indonesia's Selected Economic Indicators

	2021	2022	2023E	2024E
<b>National Accounts</b>				
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
<b>External Sector</b>				
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	14,839	15,120
Currency/USD (Average)	14,296	14,855	15,150	14,901
<b>Other</b>				
BI 7-Day Reverse Repo rate (% year end)	3.50	5.50	6.00	5.25
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

## 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](mailto:treasury.economist@danamon.co.id)

Fax: +62 21 80645263

#### ANALYST CERTIFICATION

We hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views in this report.

#### DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bank Danamon Indonesia, Tbk. and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bank Danamon Indonesia, Tbk. its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Bank Danamon Indonesia, Tbk. its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not to be taken as any recommendation made by P.T. Bank Danamon Indonesia, Tbk. or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.