Indonesia Market Color

Danamon
A member of MUFG, a global financial group

treasury.economist@danamon.co.id

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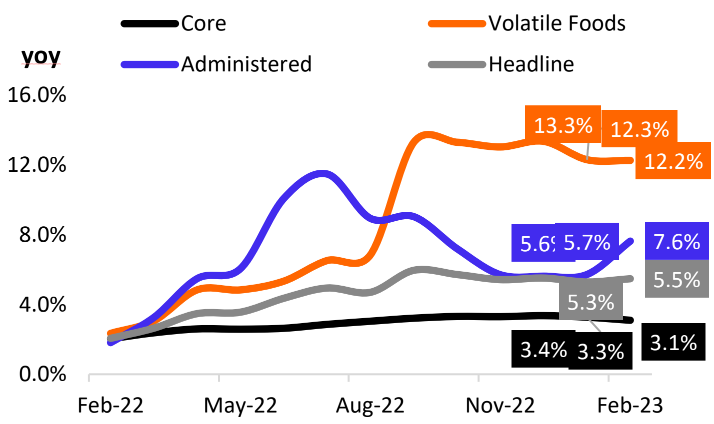
FX & Interest Rate

BI opted to pause its hiking cycle. As inflation moderated and IDR strengthened in Feb-23, BI left its policy rate at 5.75%. The Governor of Bank Indonesia, Perry Warjiyo, who has been nominated for second term, emphasized that current level of policy rate is adequate and that there is no need for further hike. Central bankers have mainly focused on the development of core inflation when adjusting its policy rate. Core inflation eased in Feb-23 to 3.1% yoy, from 3.3% yoy in a month prior. Meanwhile, IDR appreciated by 2.8% ytd and was entitled as top performing currency among Asian countries.

Momentary hiatus? Heading towards the end of 1Q23, the dynamics of global and domestic economy pose upside risks to BI's decision to pause. Despite core inflation appearing lower than expectation, leading indicators keep on showing some pressure ahead. According to the latest PMI report, firms raised their selling prices, though the pace of increase was relatively mild compared to its long-term average. This was the main reason behind benign core inflation. Overall, PMI remained expansive at 51.2 in Feb-23, mainly driven by domestic new orders. It reflects the on-going recovery in domestic demand. Thus, there is a good chance for manufacturers to accelerate the rate of output price increase, especially leading up to the annual festive season.

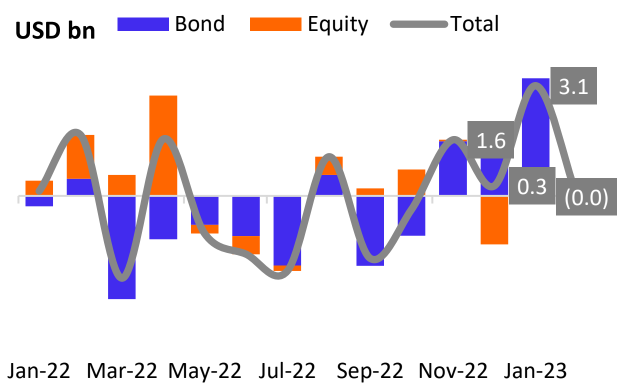
US inflation reinstated Fed's hawkishness. US CPI and PCE were reported at 6.4% yoy and 5.4% yoy in Jan-23, respectively. Food and energy prices remained elevated, pushing against a disinflationary trend in the US. As the Fed's preferrable indicator, PCE had increased from 5.3% yoy in Dec-22. Looking at the core PCE (excluding energy and food), inflation also rose to 4.7% yoy in Jan-23 from 4.4% in Dec-22. The actual data was well above market's consensus of 4.2% yoy. Stickier than expected inflation in Jan-23 challenged dovish Fed pricing across markets.

Chart 1. Inflation



Source: Indonesian Bureau of Statistics

Chart 2. Portfolio Flows



Source: Bloomberg as of 28-Feb-2023

Pressure to IDR intensified. Markets had previously priced-in the Fed's 5.0% terminal rate but were overturned by the latest inflation data. Expectation on higher terminal rate has altered the direction of capital flows from EMs, gradually back to DMs. Indonesia booked net outflows of USD22mn in Feb-23 from domestic portfolio assets, resulting in IDR depreciation by 1.7% to IDR 15,250/USD. Markets are currently waiting for upcoming FOMC to watch the Fed's new dotplot. Should terminal rate move higher, pressure to IDR will likely intensify. Having all these figures, we are looking at two main risks for BI to resume hiking cycle, 1) core inflation above BI's estimation of 3.6% 2) pressure to IDR amid higher terminal rate of FFR. Should the risks materialize, BI has 50 bps room left to utilize from current level.

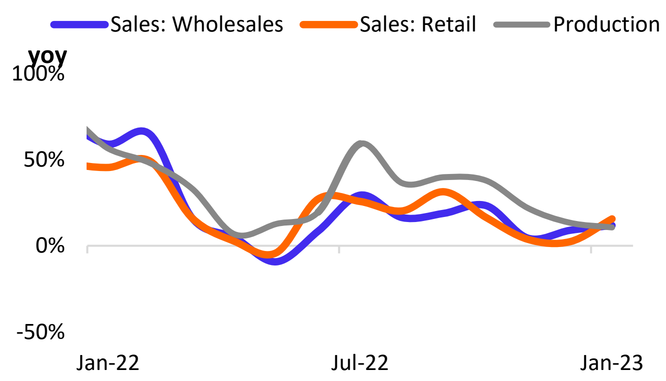
Automotive Industry

Automotive industry is off to a great start. All car wholesale, retail sales, and production grew by 11.8% yoy, 15.6% yoy, and 10.7% yoy, respectively, where type over affordable energy saving cars (e.g., Toyota Agya, Honda Brio, and Daihatsu Ayla) has intensified. For Jan-23, car wholesales reached 94,087 units, already achieving 9.6% of this year's sales target at 975,000 units. Toyota remains as the biggest player in the industry with sales contribution of 30.8% in Jan-23. However, the electric vehicles (EV) trend is declining for Jan-23. The EV sales were down by 87.5% yoy as consumers wait for the EV subsidy to take place. Buyers may need to wait longer as the government is focusing on EV subsidy for 2W vehicles.

Big potential in trade. Exports of completely built-up (CBU) cars made in Indonesia achieved 38,523 units in Jan-23. The number grew by 54.0% compared to the same period in 2022 of 25,024 units. Higher growth was also seen in completely knocked down (CKD) cars at 61.3% yoy, amounting for 2,086 units. Southeast Asia and Middle East countries are the top export destinations where both regions are expected to have sound growth in their economies this year. In supporting such demand, Indonesia needs to ensure its automotive production. Even though Indonesia recorded an outstanding growth last year, Indonesia still needs to compete with neighboring countries, especially Thailand where the country produced 28.1% more units compared to Indonesia.

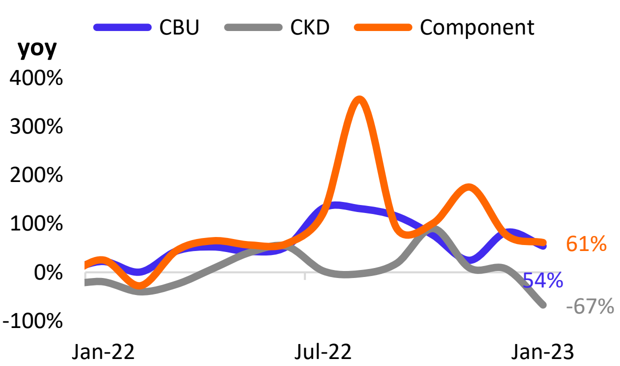
The positive sentiment towards Indonesian automotive market needs to be sustained. Indonesia's recovered automotive market encourages investment growth in this strategic sector. Recorded investment realization to motor vehicles and other transport equipment reached USD 1.7 bn, a 5.1% increase compared to last year of USD 1.6 bn.

Chart 3. Automotive Domestic Performance



Source: Gaikindo

Chart 4. Automotive Export Performance



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

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