



FX & Interest Rate

Benign core inflation. Inflation eased to 5.3% yoy in Jan-23, from 5.5% yoy at the close of last year. Such disinflation was mostly driven by administered components (i.e. transportation fee and gasoline), which deflated by 0.55% mom, a seasonal correction from higher base. Meanwhile, core inflation decelerated to 3.3% yoy, from 3.4% yoy one month prior. The slowdown in core component was mainly driven by lower prices of ICT and financial services, as well as apparels, footweares, and household equipment. Core inflation appeared benign, signaling that producers are still holding onto their tight margin. Seasonal factors remained as key drivers of disinflation, potentially peaking during festive season (Mar-May), even after considering base effect from last year.

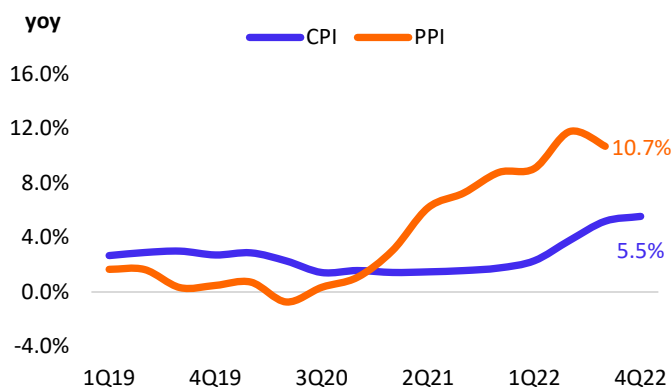
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Sufficient to pause. BI raised its policy rate by 25 bps to 5.75% in Jan-23 but simultaneously appeared dovish by signaling a pause from hiking further. Top official of BI has, on many occasions, stated that the current level of policy rate is sufficient. Monetary policy makers are bullish on economic growth, expecting FY22 result close to their upper range of 4.5%-5.3% yoy, whilst FY23 will be somewhere in the middle. Inflation expectation has also softened significantly compared to last year and we believe BI would be data dependent from now on, leaving policy rate at 5.75% in the absence of substantial upside risks from neither the Rupiah nor core inflation.

Return of foreign appetite. The bond market booked persistent inflows in the past 3 months, amounting to USD 1.5 bn in Nov-22 and USD 1.6 bn in Dec-22. The Fed's dovish stance has increased foreign investors' appetite to riskier assets. In Jan-23, larger flows entered the domestic market, booking at USD 2.8 bn after the release of US disinflation data and raising hope of smaller FFR hike in February. The recent dynamics of foreign flows explained the appreciation of IDR throughout the month. IDR appreciated by 3.7% ytd to IDR 14,990/USD.

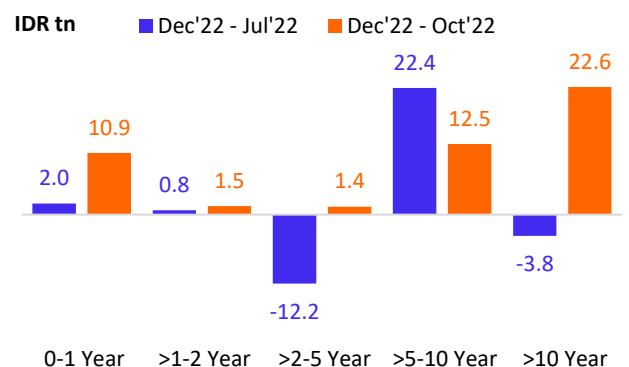
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Chart 1. Consumer vs Producer Price Index



Source: Indonesian Bureau of Statistics

Chart 2. Foreign Flows to Bond by Tenor



Source: Ministry of Finance

In and out of the belly. Since BI's rate hike cycle began, the mid tenor bonds had been most affected, with 2Y yield increasing by 40 bps throughout 2H22. 10Y yield went down by 30 bps within the same period amid ample liquidity and BI's operation twist (selling short tenor and purchasing long tenor). As we approach the end of hiking cycle, foreign flows returned to the short-end and long-end. We expect inflows to short-medium tenors to recover, provided that BI's operation twist would not be as aggressive.

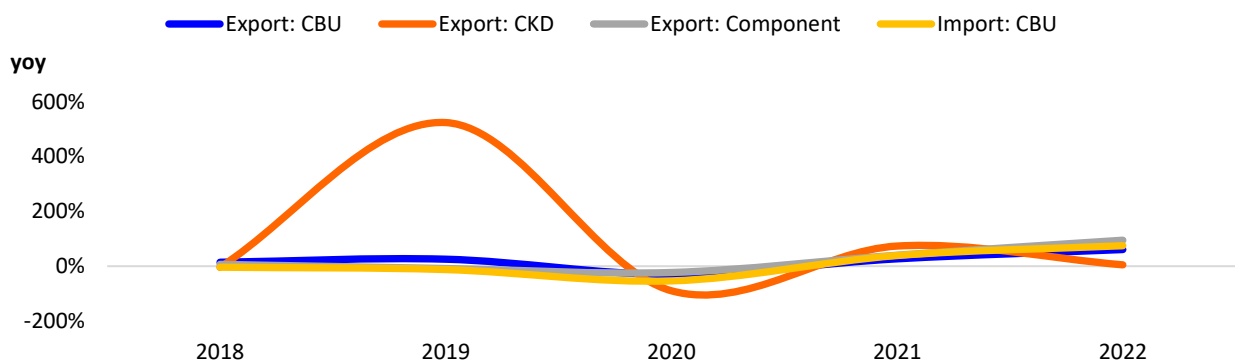
Automotive Industry

2022 was a good year for Indonesia's automotive industry. Sales of 2W and 4W grew by 3.2% yoy to 5,221,470 units and 18.1% yoy to 1,048,000 units from 2021, respectively. For cars itself, total sales even exceeded pre-pandemic level at 1,030,126 units in 2019. This was contributed by various reasons, which are the implementation of PPnBM-DTP incentive, increasing purchasing power reflected in the rise of current income index, and increasing needs for private vehicles as PPKM has been revoked and workplace activities has returned to normal.

On foreign trade, exports grew positive in 2022. Indonesia has exported 473,602 units for CBU (Completely Build-Up), increased significantly by 60.7% yoy from 2021. This number has exceeded the pre-pandemic level of 332,023 units in 2019. However, the condition is not the same with exported CKD (Completely Knocked Down). Even though it rose by 5.0% yoy from 2021, it has yet to outdo the growth in pre-pandemic times which was at a staggering 523.5% yoy in 2019. Moreover, the most astonishing growth is from the export of components, growing by 94.7% yoy from 2021 at 166,839,841 pieces.

Mixed target for automotive industry in 2023. The Indonesian Motorcycle Industry Association (AISI) is optimistic towards this year's motorcycle sales, targeting 5.6 mn units. On the other hand, Gaikindo projects domestic car sales to reach 975,000. Gaikindo's lower target compared to last year's performance might be coincided with the expiration of PPnBM-DTP in Oct-22 and the looming global recession fears in 2023. As for the exports side, Gaikindo expects higher exports in 2023.

Chart 3. 4W Trade Performance



Source: Gaikindo

Indonesia's Selected Economic Indicators

	2019	2020	2021	2022E	2023E
National Accounts					
Real GDP (% y-o-y)	5.0	-2.1	3.7	5.1	5.3
Domestic demand ex. inventory (% y-o-y)	3.6	-3.1	2.8	5.0	5.2
Real Consumption: Private (% y-o-y)	5.0	-2.7	2.0	5.0	6.1
Real Gross Fixed Capital Formation (% y-o-y)	4.4	-4.9	3.8	4.5	3.5
GDP (USD bn) — nominal	1,119	1,059	1,186	1,212	1,296
GDP per capita (USD) — nominal	4,193	3,917	4,350	4,422	4,593
Open Unemployment Rate (%)*	5.3	7.1	6.0	5.9	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-6.8	-3.0	42.5	30.7	4.3
Imports (% y-o-y, BoP Basis)	-8.9	-18.1	39.9	31.1	13.2
Trade balance (USD bn, BoP Basis)	3.5	28.2	43.8	56.0	36.9
Current account (% of GDP)	-2.7	-0.4	0.3	-0.5	-1.0
Central government debt (% of GDP)	30.5	38.1	41.0	39.6	35.8
International Reserves –IRFCL (USD bn)	129.2	135.9	144.9	137.2	140.7
Reserve Cover (Months of imports & ext. debt)	7.3	9.8	7.8	5.9	6.5
Currency/USD (Year-end)*	13,901	14,050	14,253	15,573	14,984
Currency/USD (Average)*	14,146	14,529	14,296	14,855	15,150
Other					
BI 7-Day Reverse Repo rate (% year end)*	5.00	3.75	3.50	5.50	6.25
Consumer prices (% year end)*	2.72	1.68	1.87	5.51	4.50
Fiscal balance (% of GDP; FY)	-2.20	-6.09	-4.65	-2.38	-2.71
S&P's Rating – FCY	BBB	BBB	BBB	BBB	BBB

Source: CEIC, E = Danamon Estimates, *FY22 actual data

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