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FX & Interest Rate

Clear divergence in policy rates globally. As of June 2024, several developed countries globally have pursued accommodative monetary policies by lowering their interest rates. The European Central Bank (ECB) and Canada have both decreased their benchmark rates, while Japan has notably increased its benchmark rate by 20 bps. In contrast, policy rates in emerging and developing countries have leaned towards hawkishness. Singapore raised its SORA by 18.3 bps, Indonesia increased rates by 25 bps throughout 2024, Taiwan raised rates by 12.5 bps, and Türkiye implemented a significant hike of 750 bps. These central banks opted for hawkish measures to stabilize currency exchange rates and manage inflation, despite potential risks to economic growth.

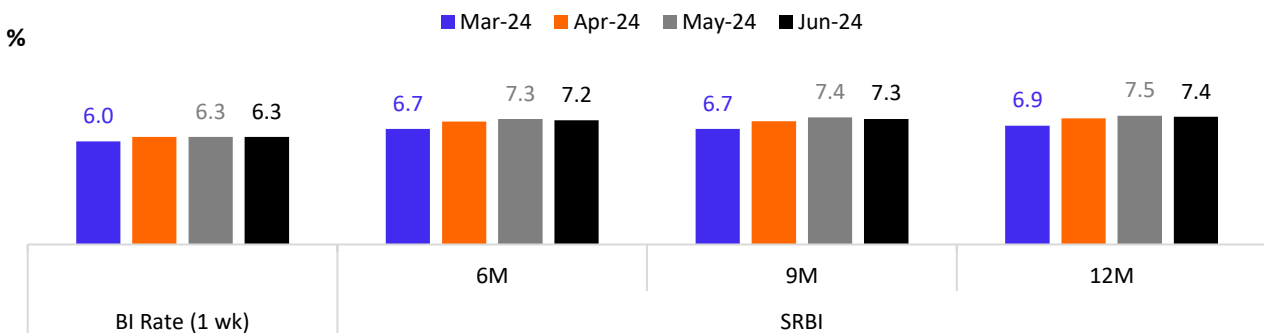
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US inflation back on track. US inflation has regained momentum, prompting the Federal Reserve (Fed) to revise its outlook for rate cuts in 2024. Persistent challenges in achieving inflation targets, such as the Fed's Core PCE inflation estimated at 2.8% by year-end 2024, led to cautious adjustments. However, there is optimism among markets and investors following a decrease in US Core PCE inflation from 2.8% to 2.6% in May 2024, released on June 28, 2024. This development has fueled speculation about a potential rate cut by the Fed in September 2024, potentially signaling room for a reduction in the Federal Funds Rate by more than once.

Meanwhile, the Rupiah struggled to strengthen below the 16,400 level amidst a robust performance of the DXY index, which strengthened by 4.7% ytd, indicating global economic slowdown concerns. In 2024, foreign investors demonstrated mixed activity in Indonesia's financial markets, with significant outflows in the SBN and stock markets, but substantial inflows totaling IDR 123.21 trillion in SRBI. This trend suggests renewed foreign investor interest in Indonesian financial instruments as of late June 2024.

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

Chart 1. SRBI rates



Source: Bank Indonesia as of 28 June 2024

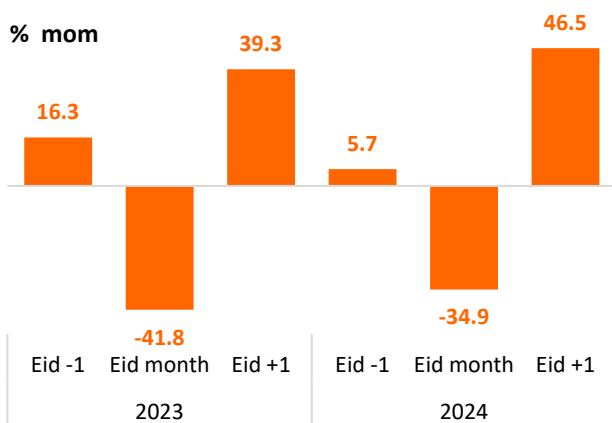
Alongside efforts to uphold domestic macroeconomic stability, Bank Indonesia has bolstered the Rupiah by ensuring foreign exchange liquidity through global bond issuances and ongoing SRBI activities. Notably, SRBI yields have risen, with interest rates for 6, 9, and 12-month tenors as of June 28, 2024, attractive at 7.32%, 7.42%, and 7.52%, respectively.

Automotive Industry

Industry’s performance showed a slight improvement in May-24. For the first time in 2024, export booked a positive growth of 5.1% yoy as geopolitical tensions subside, and global trade improved. Furthermore, May-24 saw an increase in domestic sales by 46.5% mom. Historical trends indicate that such rebounds are typical after Eid festivities, as consumers resume normal spending patterns following the holiday period. Despite the positive monthly growth, 4W sales still showed a negative growth of 13.3%, as consumers remained cautious about purchasing new durable goods such as vehicles amid uncertainties.

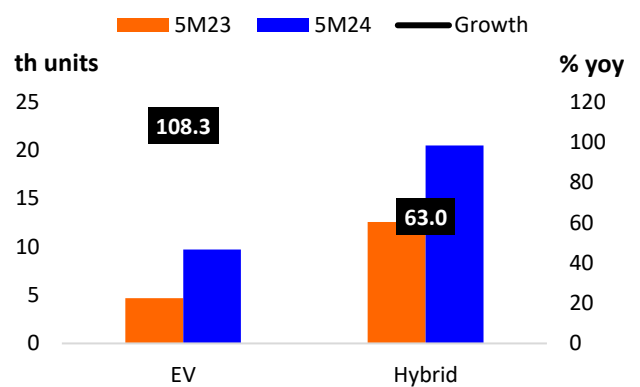
EVs and Hybrids. Data for the first five months of 2024 (5M24) reveal a clear preference for hybrid cars among consumers. Over 20 thousand units of hybrid cars were sold, marking a 63.0% yoy growth. In comparison, hybrid cars currently hold a 6.1% market share, while electric vehicles capture only 2.9%. This preference can be attributed to considerations of initial cost and maintenance. Hybrid cars generally offer a more affordable and familiar transition for consumers, combining both internal combustion and electric powertrains, thus providing the convenience of longer range and flexibility in fuel options. However, EVs are experiencing a significant pickup, with sales growing 108.3% yoy to 9,279 units for 5M24. This suggests that while hybrids remain dominant due to their practical advantages, EVs are expected to increase their market share as charging infrastructure improves and consumer awareness grows. Moreover, the positive growth in both hybrid and EV sales signals a broader consumer preference for environmentally friendly vehicles. Government incentives for EV purchases and investments in expanding the charging network are also expected to drive this trend. Given this trajectory, it is likely that EVs will continue to gain prominence in Indonesia’s automotive landscape, driven by technological advancements, supportive policies, and a shift in preference towards sustainable transportation solutions.

Chart 3. 4W Sales Monthly Growth



Source: GAIKINDO

Chart 4. EVs and Hybrids Sales



Source: GAIKINDO

Indonesia's Selected Economic Indicators

	2021	2022	2023	2024E
National Accounts				
Real GDP (% y-o-y)	3.7	5.3	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	2.8	3.8	4.6	5.0
Real Consumption: Private (% y-o-y)	2.0	4.9	4.9	5.0
Real Gross Fixed Capital Formation (% y-o-y)	3.8	3.9	4.4	4.2
GDP (USD bn) — nominal	1,186	1,391	1,371	1,553
GDP per capita (USD) — nominal	4,350	4,783	4,920	5,475
Open Unemployment Rate (%)	6.0	5.9	5.3	5.0
External Sector				
Exports (% y-o-y, BoP Basis)	42.5	25.6	-11.3	-2.8%
Imports (% y-o-y, BoP Basis)	39.9	21.6	-7.3	-1.6%
Trade balance (USD bn, BoP Basis)	43.8	62.7	46.4	41.2
Current account (% of GDP)	0.3	1.0	-0.1	-0.8
Central government debt (% of GDP)	41.0	39.6	38.9	36.8
International Reserves –IRFCL (USD bn)	144.9	137.2	146.4	141.0
Reserve Cover (Months of imports & ext. debt)	7.8	5.9	6.5	6.2
Currency/USD (Year-end)	14,253	15,573	15,399	15,880
Currency/USD (Average)	14,296	14,855	15,244	15,970
Other				
BI 7-Day Reverse Repo rate (% year end)	3.50	5.50	6.00	6.25
Consumer prices (% year end)	1.87	5.51	2.61	2.89
Fiscal balance (% of GDP; FY)	-4.65	-2.38	-1.65	-2.2
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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