



A member of MUFG, a global financial group

## FX & Interest Rate

**Stubborn US inflation.** On May 31, 2024, the Fed’s preferred inflation indicator, the Personal Consumption Expenditure (PCE) index, was released, showing a year-over-year (yoy) increase of 2.7%, with the core component rising by 2.8% yoy. The core PCE inflation has stubbornly lingered around 2.8% for the past four months. Consumer goods and services are the two major culprits of this persistent inflation. According to the projection materials announced at the Mar-24 FOMC meeting, the Fed has targeted a core PCE inflation rate of 2.6% for this year, meaning that the actual inflation remains well above the Fed’s target. Consequently, we expect to see a smaller rate cut signal (1x25 bps) in the Fed’s dot plot at the upcoming June FOMC meeting, compared to the March meeting (3x25 bps).

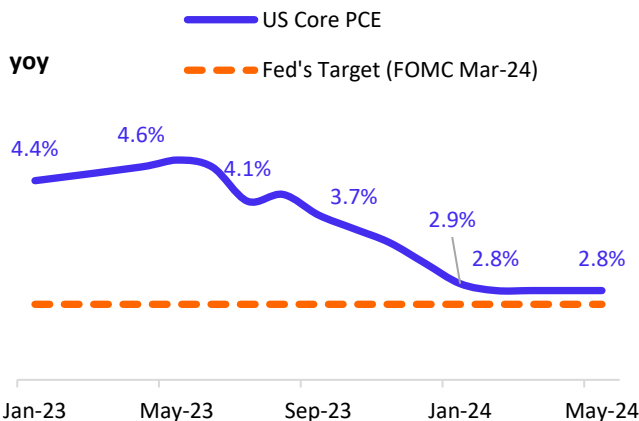
[treasury.economist@danamon.co.id](mailto:treasury.economist@danamon.co.id)

**Indonesia’s inflation normalized post-Eid festivities.** Domestic inflation moderated to 2.8% yoy in May-24, with a month-on-month (MoM) deflation of 0.03%. The decrease from 3.0% yoy in Apr-24 was primarily driven by the normalization of food prices and transportation costs following the Eid festivities, coupled with an ample food supply amid the easing impact of El Nino. Consequently, volatile food inflation eased to 8.1% yoy in May-24, down from 9.6% in the previous month. Meanwhile, the administered prices category slightly declined to 1.52% yoy. In the core component, consumer prices continued to inch up to 1.9% yoy, driven by rising gold prices amidst high global uncertainties.

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

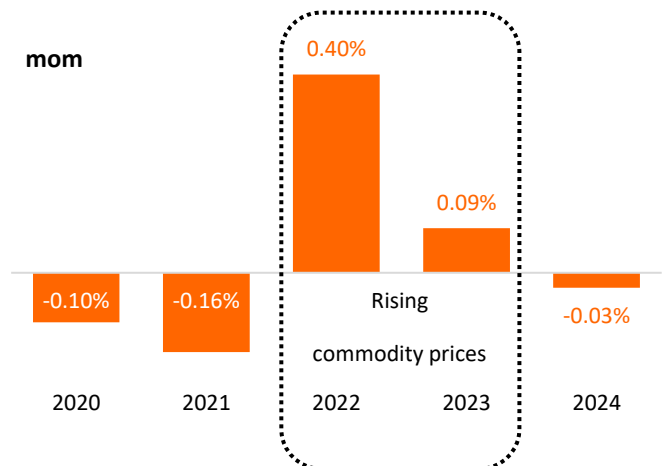
**Risks are tilting more towards the upside.** Historically, a double-digit monthly deflation follows demand-pull inflation during Ramadan and Eid, as prices normalize with seasonal demand. However, in 2022-23, the rise in commodity prices and global supply chain disruptions due to the Russia-Ukraine war altered this pattern, with prices inflating on a MoM basis even after Eid.

Chart 1. US Core PCE Inflation



Source: Bloomberg

Chart 2. Indonesia’s CPI Inflation Post-Eid Festivities



Source: Indonesia’s Statistics Office

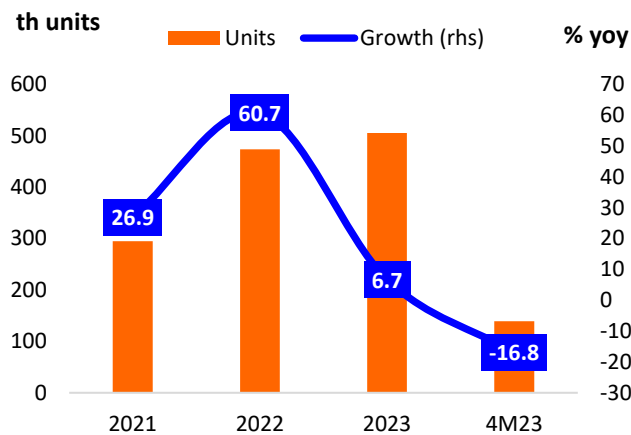
The May-24 inflation figure appeared hotter than its historical pattern for the post-Eid period. This hotter monthly inflation was mainly driven by a milder-than-usual drop in transportation costs and agricultural products. At the same time, Global S&P reported a slowdown in the expansion of manufacturing activities to 52.1 in May-24, down from 52.9 previously. This slowest expansion in the past six months was mainly due to rising input costs attributed to Rupiah depreciation and lower confidence in future new orders of manufactured products. Given all these figures, domestic inflation risks are tilting more towards the upside. However, we expect inflation to remain manageable, closing the year at 2.9%, as demand seems to weaken along with export revenues. Therefore, we anticipate Bank Indonesia will hold the policy rate at 6.25% in this month's meeting, as pressure on the IDR remains due to uncertainties surrounding the Fed's policy direction, while also preventing an upside risk to inflation.

**Automotive Industry**

**Indonesia's automotive industry is also facing challenges in the realm of trade.** The export sector witnessed a drop in shipments of vehicles and components. Recent data from Indonesia Statistics Office (BPS) revealed a concerning trend, with export values declining by 4.7% yoy cumulatively for the first four months of 2024 compared to the same period in 2023. Additionally, GAIKINDO reported a 16.8% yoy decrease in completely built-up (CBU) exports during the same period. In Apr-24, monthly CBU exports plummeted to 30,257 units, marking the lowest figure since May-22.

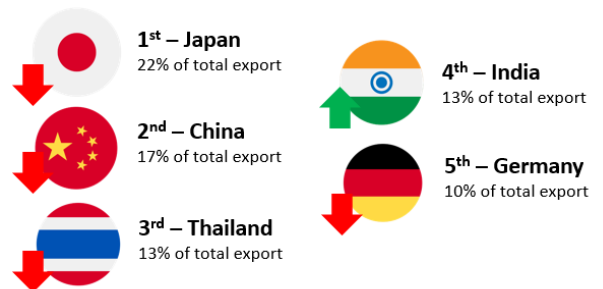
**The industry grapples with disruptions in the supply chain and a sharp decline in global demand.** Most of Indonesia's major trading partners for vehicles and components are going through growth slowdown. Economies such as Japan, China, Thailand, and Germany are grappling with muted economic growth rates. As these countries are experiencing slowdown, the demand for vehicles and components from Indonesia diminishes, leading to a decline in export volumes. This interconnectedness portrays the vulnerability of Indonesia's automotive industry to external economic shocks. Hence, it is important to proactively address the challenges posed and to explore diversification strategies for so Indonesia can position itself for renewed export growth and long-term sustainability in the automotive industry.

*Chart 3. Indonesia's CBU Exports*



Source: GAIKINDO

*Chart 4. Indonesia's Major Trading Partners*



Source: Indonesia's Statistics Office

## Indonesia's Selected Economic Indicators

	2021	2022	2023	2024E
<b>National Accounts</b>				
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
<b>External Sector</b>				
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
<b>Other</b>				
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

## 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 therefrom 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.