Indonesia Market Color

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Danamon

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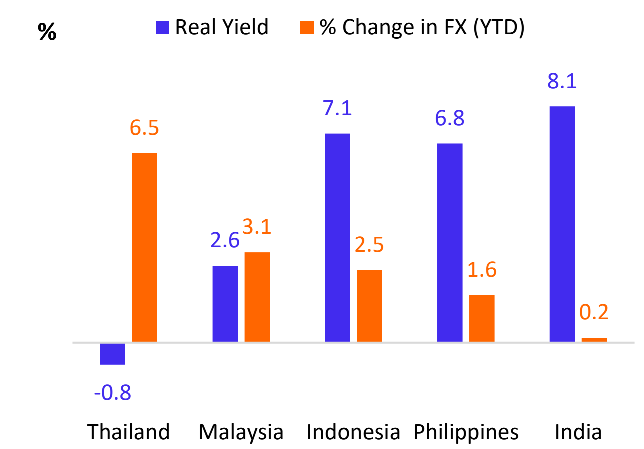
FX & Interest Rate

The 75 bps FFR cut in 2H24 remains intact. In the Mar-24 FOMC meeting, Fed members still see a 75 bps cut in 2H24, as reflected through the dot plot. The narrative was supported by Feb-24 core PCE inflation data, which moderated from 2.9% yoy in Jan-24 to 2.8% yoy. This was primarily due to the slowdown in the cost of services outside housing and energy prices. Despite its gradual pace of moderation, the trajectory of core PCE inflation is still on track with the Fed's key assumptions for 2024. Fed members revised up their forecast for 2024 core PCE inflation to 2.6% yoy in the latest meeting, from 2.4% yoy in the Dec-23 meeting. This signals that the Fed will favor a 75 bps cut in 2H24 as long as core PCE inflation continue going down to 2.6% by year-end.

Competitive real yield. Compared to peers, Indonesia still offers a competitive real yield for the bonds market, higher than that of the Philippines, Malaysia, and Thailand. Therefore, IDR depreciation YTD has been milder compared to peer currencies. The attractive real yield of INDOGB would help IDR to appreciate if a Fed policy rate cut becomes more certain. However, we revise our IDR outlook from an average of IDR 14,901/USD throughout 2024 initially to a more depreciative movement of IDR 15,390/USD. This takes into account the slow pace of FFR cuts in 2025 and 2026 based on the latest dot plot and actual movements of IDR in 1Q24.

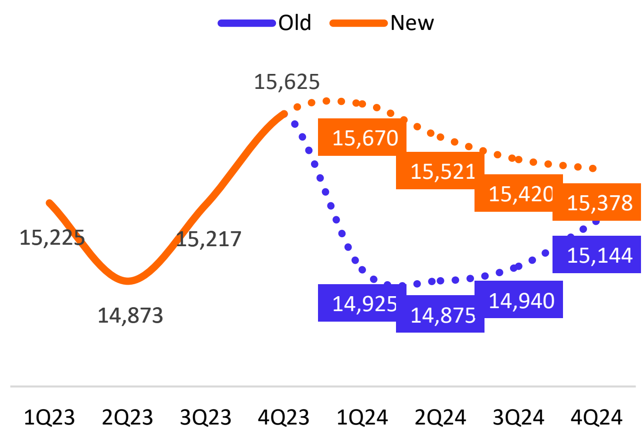
Temporary uptick on domestic inflation. Inflation jumped to 3.1% yoy in Mar-24 from 2.8% the month prior, as food prices surged during Ramadan. Volatile food inflation, the main driver of inflation in Mar-24, accelerated to 10.3% yoy, driven by the rise in poultry products and rice prices. The increase in volatile food prices was anticipated due to the rise in demand during Ramadan and the upcoming Eid festivities. In Mar-24, the core component of inflation also inched up to 1.8% yoy.

Chart 1. Real Yield Comparison



Source: Bloomberg, Danamon

Chart 2. USD/IDR Outlook (Average)



Source: Bloomberg, Danamon

This marks the first uptick in core inflation after months of deceleration since December 2022. Approaching Eid, demand picked up, as reflected in Indonesia's PMI, which posted at 54.2 in March 2024, the highest level in the last 29 months. We view the surge in headline inflation as temporary, attributable to the seasonal demand pickup during Ramadan and Eid. Price pressures might slow down in April, coinciding with the upcoming harvest season.

BI's next move: a liquidity-focused approach. As the room for BI to play with the policy rate is limited at this moment, we believe a liquidity-focused approach is an adequate step for BI's next move (please see our report at https://bit.ly/MarketColorFebruary24). In the latest monetary policy meeting, BI announced that they aim to optimize the existing macroprudential liquidity incentives (KLM) by expanding sectoral coverage. The expansion is expected to provide an additional IDR 123 tn in liquidity to the banking system, resulting in an effective 5% RRR after discount. This policy decision will be released before the end of 1H24 to ensure ample liquidity and support growth momentum within the country.

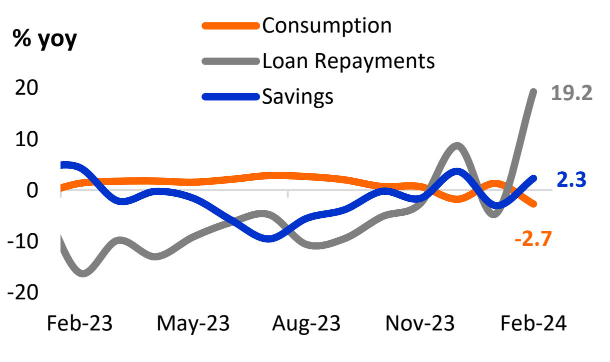
Automotive Industry

Indonesia experienced another significant decline in 4W sales in Feb-24, dropping by 18.8% compared to the previous year. Seen as a crucial indicator of consumer sentiment, the fall in 4W sales reflects a broader drop in consumer confidence. This trend is particularly concerning as it suggests hesitancy among consumers, especially the middle class who may be grappling with stagnant incomes and rising living expenses, to make significant purchases such as durable goods.

A survey conducted by Bank Indonesia provides insights into the factors driving this decline. It revealed a notable shift in consumer behavior, with individuals prioritizing savings (+ 2.3% yoy) and loan repayments (+ 19.2% yoy) over discretionary spending (- 2.7% yoy) on new purchases in Feb-24. This prudent financial approach reflects the uncertainty prevailing in the economic and political landscape and underscores the need for cautious spending habits among Indonesian consumers.

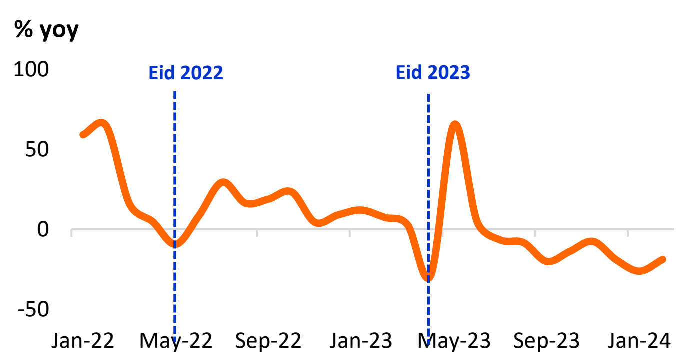
Furthermore, the upcoming Eid festivities compound these concerns. Historically, consumer spending during this period shifts towards holiday preparations, diverting attention and funds away from major purchases like vehicles. While the anticipated dip in 4W sales is part of the natural economic cycle, it serves as a reminder of the need for businesses and policymakers to adapt to seasonal fluctuations. Looking ahead, the temporary declines are expected to be followed by rebounds as economic activity regains momentum after the holiday season, providing opportunities for recovery and growth.

Chart 3. Household Expense Allocation Growth



Source: Bank Indonesia

Chart 4. 4W Sales Growth



Source: GAIKINDO

Indonesia’s Selected Economic Indicators

	2021	2022	2023	2024E
National Accounts				
Real GDP (% y-o-y)	3.7	5.3	5.0	4.9
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	-3.6%
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	40.9
Current account (% of GDP)	0.3	1.0	-0.1	-1.0
Central government debt (% of GDP)	41.0	39.6	38.9	36.8
International Reserves –IRFCL (USD bn)*	144.9	137.2	146.4	142.5
Reserve Cover (Months of imports & ext. debt)*	7.8	5.9	6.5	6.4
Currency/USD (Year-end)*	14,253	15,573	15,399	15,270
Currency/USD (Average)*	14,296	14,855	15,244	15,390
Other				
BI 7-Day Reverse Repo rate (% year end)*	3.50	5.50	6.00	5.50
Consumer prices (% year end)*	1.87	5.51	2.61	2.89
Fiscal balance (% of GDP; FY)*	-4.65	-2.38	-1.65	-2.00
S&P's Rating – FCY*	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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