



A member of MUFG, a global financial group

## FX & Interest Rate

**Stronger signal for Fed's pivot.** During the Dec-23FOMC meeting, Fed members conveyed a pronounced shift in the Fed's policy for 2024. The median estimate for the ideal policy rate in 2024 was 50 bps lower than the September meeting, indicating a heightened expectation of further cuts this year. The dot plot illustrates that a majority of members anticipate the policy rate to decrease to 4.75% by the end of 2024, down from 5.50% at the close of the previous year. This adjustment is attributed to favorable developments in macroeconomic indicators, notably the trajectory of U.S. inflation. Consequently, the yield on U.S. Treasury 10-year bonds declined to approximately 4.1% by the close of 2023, compared to its peak earlier in the year at nearly 5.0%.

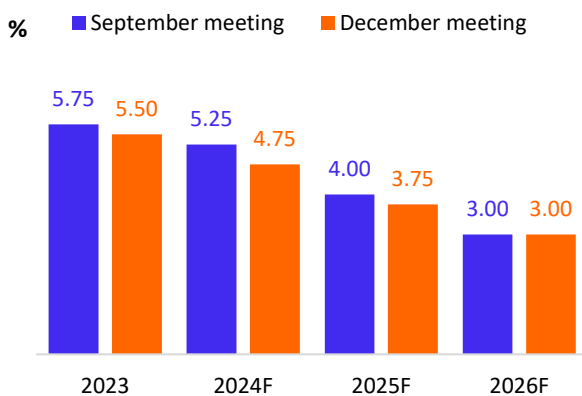
[treasury.economist@danamon.co.id](mailto:treasury.economist@danamon.co.id)

**New year, new risk.** Approaching the year-end of 2023, the geopolitical landscape remained shrouded in uncertainty. In the days leading up to the new year, tensions escalated due to a maritime attack by Houthi militants in the Red Sea and Suez Canal. This incident prompted a significant rerouting of hundreds of container ships, resulting in an increased cost of shipping. Approximately 14% of global shipping, especially trade between Asian and European countries, is impacted by this disruption. Drawing insights from the supply chain challenges experienced in 2021, we acknowledge that a backlog in the global supply chain has the potential to drive inflation higher. However, we anticipate a comparatively smaller impact this time, given the availability of alternative routes should the risk materialize.

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

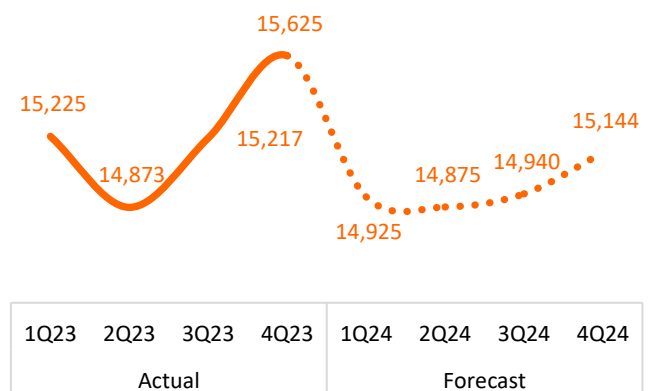
**Easing domestic inflation.** In Dec-23, inflation exhibited a decline to 2.6% yoy (Danamon Estimate: 2.7%), a notable drop from the previous month's 2.9% and a substantial decrease from the 5.5% recorded in Dec-22. Factors contributing to this downturn include abundant domestic supply, a milder El Niño season, and reduced global crude oil prices.

Chart 1. FFR Dotplot 2023



Source: The Federal Reserve System

Chart 2. USD/IDR Quarterly Average Outlook 2024



Source: Bloomberg, Danamon

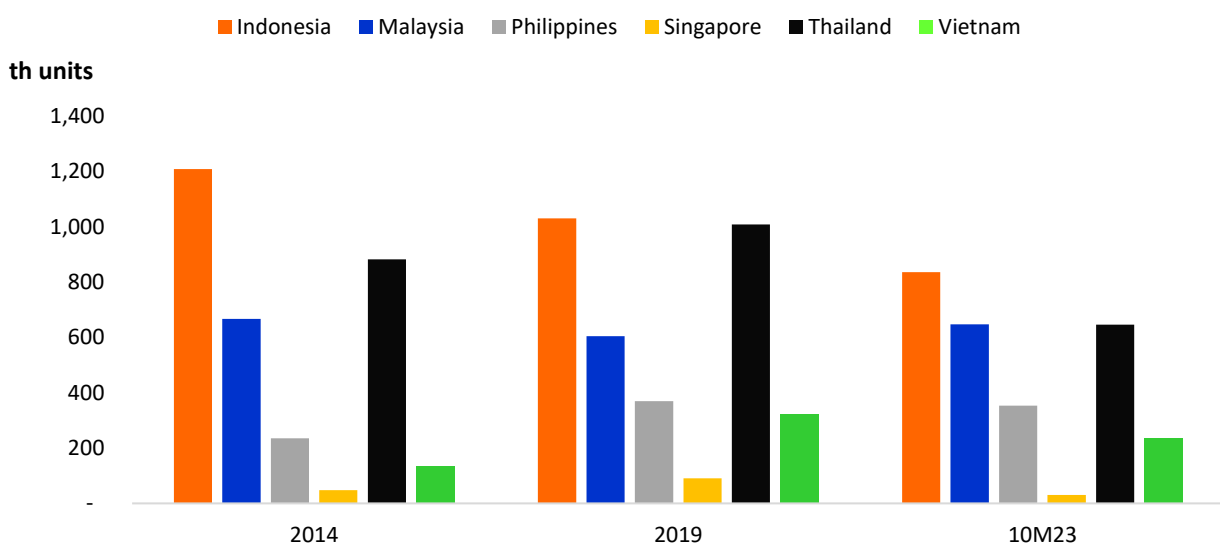
Looking forward, we anticipate that inflation will remain at manageable levels in 2024, concluding the year at 2.9% yoy. However, it's essential to recognize potential upside risks to this forecast, particularly in light of recent geopolitical tensions in the Red Sea.

**BI Rate: Reactive or Proactive?** In the Dec-23 meeting, BI steadfastly held its policy rate at 6.0%, emphasizing its commitment to ensuring the stability of IDR. Despite a sustained decline in inflation, BI remains unwavering in prioritizing IDR stability. The IDR appreciated by 1.1% to IDR 15,399/USD by the close of 2023, compared to IDR 15,573/USD in the preceding year. The pressure on the IDR has gradually abated following the Federal Reserve's signal of a pivot this year. However, the current IDR level has yet to align with its fundamentals, given the uncertain magnitude of FFR cut this year. Thus, to safeguard IDR stability, BI is expected to maintain the current policy rate until the commencement of a confirmed FFR cut (please see our report <https://bit.ly/MarketColorDecember2023>).

**Automotive Industry**

**Indonesia's 4W (four-wheel) vehicle sales have experienced a decline, although the country still maintains its leading position within the ASEAN market.** Up to Nov-23, both car sales and production lagged the figures from the same period in 2022. GAIKINDO reported a 2.4% yoy drop in car sales during the 11-month period of 2023, tallying up to 920,518 units sold. However, these numbers remain below the pre-pandemic levels witnessed in 2019. To meet its annual target, a total of 129,482 units needs to be sold in Dec-23. Several factors, including increased prices, rising interest rates, geopolitical uncertainties, and the approaching election, have contributed to this decline. Despite this downturn, Indonesia continues to hold the top position in the automotive market among ASEAN nations. According to the ASEAN Automotive Federation (AAF), as of Oct-23, Indonesia had sold 836,048 cars, surpassing its closest rival, Thailand, which sold 645,833 units. With the upcoming election year, consumer preferences might shift away from secondary purchases like new cars. However, historical data from previous election years revealed that Indonesia still led the ASEAN market by selling 1,030,126 units in 2019 and 1,208,019 units in 2014. It is anticipated that Indonesia will maintain its market dominance during the presidential election in 2024.

*Chart 3. ASEAN's 4W Sales by Country*



Source: ASEAN Automotive Federation (AAF)

## Indonesia's Selected Economic Indicators

	2021	2022	2023E	2024E
<b>National Accounts</b>				
Real GDP (% y-o-y)	3.7	5.3	5.2	4.9
Domestic demand ex. inventory (% y-o-y)	2.8	3.8	5.1	5.0
Real Consumption: Private (% y-o-y)	2.0	4.9	5.1	5.0
Real Gross Fixed Capital Formation (% y-o-y)	3.8	3.9	4.5	4.2
GDP (USD bn) — nominal	1,186	1,391	1,472	1,553
GDP per capita (USD) — nominal	4,350	4,783	5,256	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	8.5	-3.6%
Imports (% y-o-y, BoP Basis)	39.9	21.6	17.2	-1.6%
Trade balance (USD bn, BoP Basis)	43.8	62.7	47.9	40.9
Current account (% of GDP)	0.3	1.0	-0.4	-1.0
Central government debt (% of GDP)	41.0	39.6	37.3	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	15,120
Currency/USD (Average)*	14,296	14,855	15,244	14,901
<b>Other</b>				
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, \*actual 2023

## 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.