



A member of MUFG, a global financial group

## FX & Interest Rate

**Market expectations have shifted backward.** After the releases of US inflation and labor market data, markets are currently pushing back their expectation on Fed Fund Rate (FFR) cut from 1Q24, to the end of 2Q24. The recent data releases were mostly above market expectations. In Jan-24, US CPI reached 3.1% yoy, surpassing the expected sub-3.0% yoy mark, while non-farm payrolls soared by 353 thousand, well above the anticipated 188 thousand. Despite a less-hawkish Fed message in the Feb-24 meeting, recent data convinced markets that the initial rate cut would be delayed.

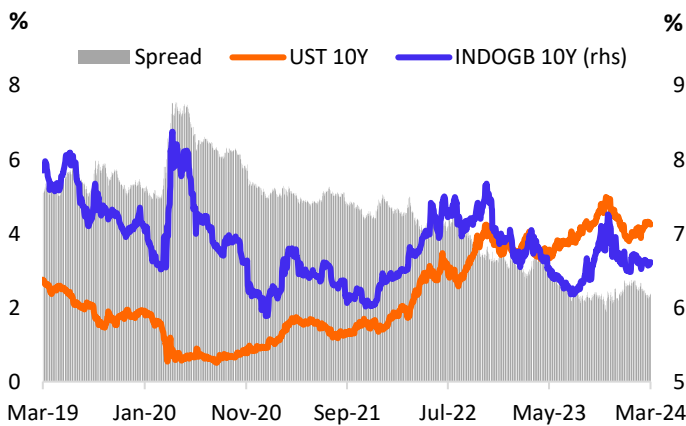
**An upward trend of US Treasury (UST) yield.** The expectation of higher for longer FFR, coupled with the continuation of the Fed’s balance sheet reduction have pushed US treasury yield higher than the 2023 year-end level. UST 10Y yield inched up to 4.25% at the end of Feb-24, from 3.87% at the end of 2023. The 37 bps increase in UST 10Y yield has blown headwinds to IDR bond market. Indonesian Government Bond (INDOGB) 10Y yield has inched up by smaller magnitude of 12 bps within the same period, as Bank Indonesia added its ownership on INDOGB by around IDR 39 tn year to date. As the result, the spread between UST and INDOGB 10Y yield has narrowed, hindering inflows to domestic bond market at this moment.

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

**Current account reversal.** Indonesia’s current account has reversed from a surplus of USD 13 bn in 2022, to a deficit of USD 2 bn in 2023. The reversal was primarily attributed to narrower trade surplus throughout 2023, as export contracted along with lower commodity prices amidst global economic moderation. The deficit was equivalent to 0.1% GDP, lower than Indonesia’s historical deficit of approximately 2.0%-2.5% GDP. Meanwhile, statistics office reported that Feb-24 inflation data remained manageable at 2.8% yoy, though accelerated from 2.6% in the previous month.

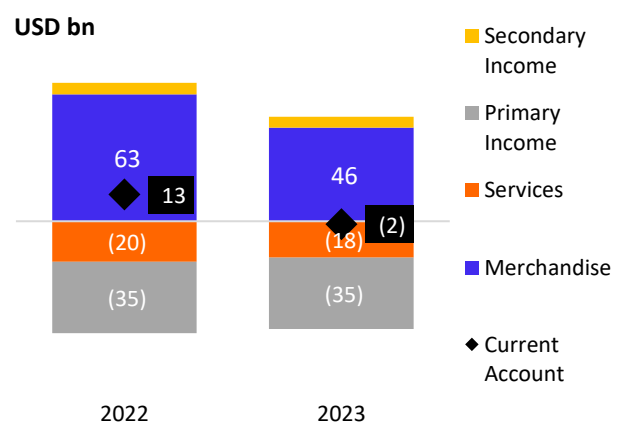
Please see the important disclaimer and information on the back of this report.

Chart 1. Bond Yields



Source: Bank Indonesia

Chart 2. Indonesia’s Current Account



Source: Bloomberg

Benign current account deficit, coupled with manageable inflation signal that IDR fundamentals remain relatively strong. However, the uncertainty of Fed’s policy pivot remains the biggest risk for IDR appreciation. Thus, BI might opt to maintain policy rate until Fed altered its policy rate direction (please see our report <https://bit.ly/MarketColorFebruary24>).

**Inflation to remain manageable.** Inflation accelerated to 2.8% yoy in Feb-24, driven by rising food prices ahead of Ramadan. The upswing in volatile food prices was propelled by surges in chili, poultry, and rice costs. The approaching Ramadan led to heightened demand for chili, while increased animal feed expenses drove up poultry product prices. According to the Indonesia Manufacturing PMI issued by Global S&P, manufacturers raised output prices in Feb-24, but the levels remained low compared to historical averages, indicating stability in core inflation. Looking ahead, the sustained moderation in input costs, driven by declining global commodity prices, is expected to keep core inflation benign throughout the year. Consequently, we project headline inflation to stabilize at 2.9% yoy for 2024.

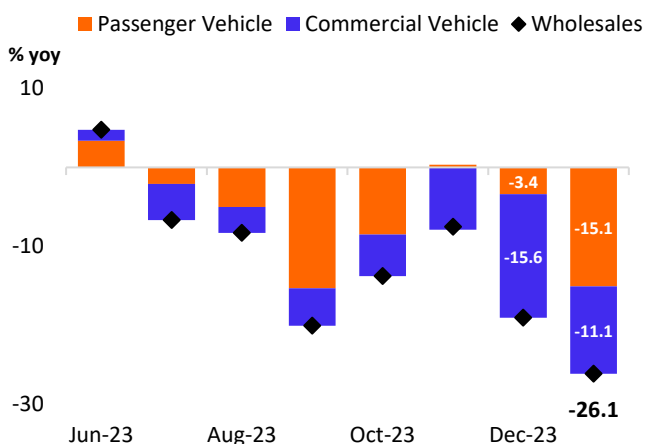
**Automotive Industry**

**The automotive industry continues to face challenges.** Year-on-year, domestic 4W sales have seen a decline for seven consecutive months, with the steepest drop occurring in Jan-24, plummeting by 26.1% yoy. The decline was largely driven by a decrease in passenger vehicles, accounting for 15.1% of the overall deteriorating growth, particularly in the 4x2 type and affordable energy-saving cars. The increasing retail sales of vehicles spare parts indicate a shift in consumer preferences towards maintaining existing vehicles rather than purchasing new ones.

**Despite the prevailing challenges, GAIKINDO remains cautiously optimistic.** The organization believes that total sales for the year could exceed one million units, especially with the rising popularity of electric vehicles. However, consumer sentiment may differ. Chart 4 illustrates the strong correlation between 4W sales and the current income index. Therefore, the decrease in current income presents a significant hurdle in achieving the sales target, as the public anticipates lower income in the first half of 2024.

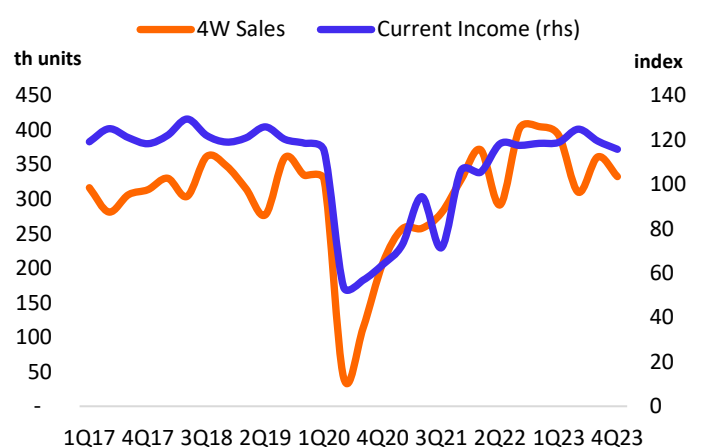
**Overall, the outlook for durable goods remains challenging for 1H24.** Nonetheless, there is a potential for change after the election results, along with the certainty provided by the cabinet and policies implemented. Hence, it could instill confidence in consumers and potentially stimulate demand in the latter part of the year.

Chart 3. 4W Sales Growth by Type



Source: GAIKINDO

Chart 4. 4W Sales vs Current Income Index



Source: Bank Indonesia, GAIKINDO

## Indonesia's Selected Economic Indicators

	2021	2022	2023	2024E
<b>National Accounts</b>				
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	1,460
GDP per capita (USD) — nominal	4,350	4,783	4,920	5,225
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	-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	15,120
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

## 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.