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FX & Interest Rate

Bank Indonesia (BI) has initiated an easing cycle, signaling its readiness for further rate cuts by reducing SRBI issuance, lowering SRBI rates, fully utilizing reserve requirement incentives, and strengthening the Indonesian Rupiah (IDR). Current economic conditions reflect five consecutive months of deflation, three months of the Purchasing Managers' Index (PMI) below 50, and household consumption growth under 5%. This ongoing deflation is linked to a decline in purchasing power among the urban middle class. In September 2024, the Consumer Price Index (CPI) showed a monthly deflation rate of -0.12% and an annual rate of 1.84%, largely driven by significant price drops in volatile food items like red chili and cayenne peppers. Further deflation is expected, particularly with lower non-subsidized fuel prices effective October 1, 2024.

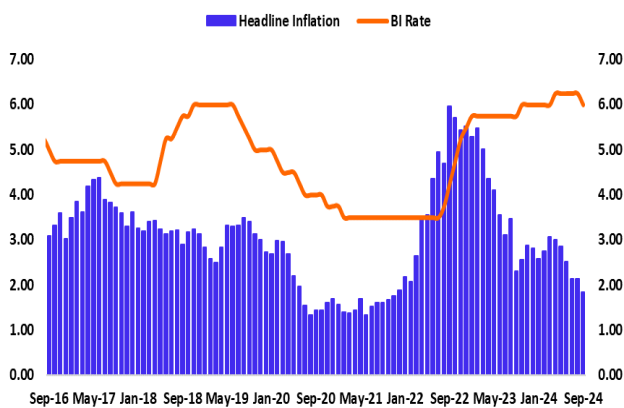
This environment provides BI with an opportunity to lower interest rates in line with global trends. Additionally, substantial inflows into domestic instruments have been observed, with net inflows of USD4.9 bn in August 2024, followed by USD1.8 bn in early September, which has strengthened the Rupiah. Despite a downward trend in Indonesian government bond yields, the spread between U.S. and domestic bonds remains around ± 300 bps, suggesting that a rate cut could further lower yields.

However, as we enter early October, challenges arise for the Rupiah amidst rising tensions involving Israel, Iran, Lebanon, and the U.S., which could lead to capital outflows and pressure on Indonesia's financial instruments. Nevertheless, we remain cautious yet optimistic about Indonesia's long-term domestic conditions, especially as the country prepares for the new presidential inauguration this October.

treasury.economist@danamon.co.id

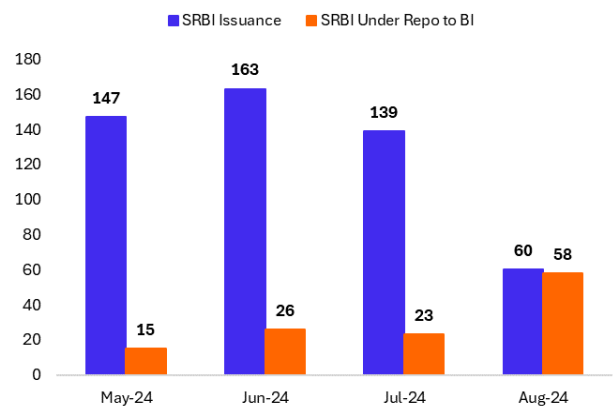
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Chart 1. Amidst Low Inflation in Indonesia, Bank Indonesia Has Opportunity to Cut Rates



Source: Bloomberg

Chart 2. Bank Indonesia Significantly Reduces SRBI Issuance



Source: Bank Indonesia

Automotive Industry

The latest data from Gaikindo indicates that national wholesale car sales reached 76,304 units in August 2024, reflecting a 2.8% MoM increase from July. Retail sales also rose by 1.6%, from 75,608 units to 76,808 units, driven by the launch of new models and auto exhibitions. However, August 2024 sales were still 14.19% lower than in August 2023, showing a decline of 12,624 units. From January to August 2024, wholesale sales fell by 17.1% YoY to 560,619 units, while retail sales decreased by 12.1% to 584,857 units. Gaikindo attributes this trend primarily to consumer purchasing power, yet there remains optimism for recovery and growth in Indonesia's automotive sector.

In the multifinance sector, growth and stability are evident due to ongoing activities, though caution is warranted regarding debt and problematic assets. Furthermore, the rise in vehicle spare parts sales signifies a consumer shift toward maintenance rather than purchasing new vehicles, indicating a nuanced perspective on market behavior. Overall, both sectors highlight the resilience of the Indonesian economy amid challenges.

Chart 3. Trends in 4W Sales in Indonesia

Brand	Aug-23	Jan-24	Aug-24
TOYOTA+LEXUS	30,385	21,111	26,183
DAIHATSU	17,481	14,363	13,829
ISUZU	2,800	2,350	2,002
UD TRUCKS	136	148	181
PEUGEOT	14	12	-
MITSUBISHI	9,827	8,996	8,530
HONDA	11,778	8,413	7,556
SUZUKI	6,872	6,138	5,265
HYUNDAI	3,337	3,003	1,823
WULING	1,095	2,177	1,866
CHERY	443	299	798
BYD	-	-	2,940
OTHERS	4,760	2,748	5,331

Source: Astra, GAIKINDO

Chart 4. Trends in Top Financing Objects by Value

Financing Objects	Jul-23	Jan-24	Jul-24
New Four-Wheeled Motor Vehicles	139.1	149.3	151.7
Used Four-Wheeled Motor Vehicles	71.5	80.4	87.0
New Two-Wheeled Motor Vehicles	73.7	78.8	84.8
Transport Vehicles	57.4	59.2	58.5
Heavy Equipment	39.5	42.5	43.0
Used Two-Wheeled Motor Vehicles	21.2	21.4	22.0

Source: Indonesia Financial Services Authority

Indonesia's Selected Economic Indicators

	2022	2023	2024E	2025E
National Accounts				
Real GDP (% y-o-y)	5.3	5.0	5.05	5.11
Domestic demand ex. inventory (% y-o-y)	3.8	4.6	4.90	4.95
Real Consumption: Private (% y-o-y)	4.9	4.9	4.82	4.98
Real Gross Fixed Capital Formation (% y-o-y)	3.9	4.4	4.20	4.40
GDP (USD bn) — nominal	1,319	1,371	1,445	1,503
GDP per capita (USD) — nominal	4,783	4,920	5,067	5,219
Open Unemployment Rate (%)	5.9	5.3	5.0	5.0
External Sector				
Exports (% y-o-y, BoP Basis)	25.6	-11.3	-6.80%	4.17%
Imports (% y-o-y, BoP Basis)	21.6	-7.3	-2.11%	2.41%
Trade balance (USD bn, BoP Basis)	62.7	46.4	33.1	38.0
Current account (% of GDP)	1.0	-0.1	-0.8	-0.9
Central government debt (% of GDP)	39.6	38.9	39.13	39.05
International Reserves –IRFCL (USD bn)	137.2	146.4	142.0	142.0
Reserve Cover (Months of imports & ext. debt)	5.9	6.5	6.3	6.3
Currency/USD (Year-end)	15,573	15,399	15,000	14,755
Currency/USD (Average)	14,855	15,244	15,661	14,865
Other				
BI 7-Day Reverse Repo rate (% year end)	5.50	6.00	5.75	5.00
Consumer prices (% year end)	5.51	2.61	2.19	2.51
Fiscal balance (% of GDP; FY)	-2.38	-1.65	-2.70	-2.57
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

Treasury Economist



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

Fax: +62 21 80645263

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