# Here the cloud passed, there the clouds remain

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**Summary**

- The decreasing short-term political uncertainty encourages portfolio inflows from the shorter end to the longer and riskier end of the Indonesian financial market.
- The post-election rally in asset valuations appears to be short-lived given limited improvements in the domestic macroeconomic condition.
- Limited improvement in households' consumption and liquidity conditions justified the government's decision to realise its social spending. However, higher yields may make it more costly for the government to continue expanding its fiscal commitments.

- Data released last week confirms that the UK economy is in a technical recession, making it the first major economy to succumb to such a fate following the pandemic along with Japan. Across the Atlantic, however, good times do not appear to be ending soon. The US headline inflation number fell back to 3.1% YoY in January 2024, showing that inflationary pressures have not returned to the US economy despite warnings from policy hawks. The US economy also continues to produce robust labour market and growth numbers, encouraging some analysts to upgrade their 2024 target for the US stock market, assuming continued expansion in corporate revenues despite the ongoing rise in the benchmark yield on the US Treasury market.
- The Indonesian financial market also benefits from the feel-good factor that still characterises the global economy. Despite the shortened trading week due to the election, the domestic SBN market recorded around USD 88.17 Mn in foreign capital inflows, snapping the trend of foreign capital outflows in the previous three weeks. Foreign investors also recorded USD 358.45 Mn of net buys in the domestic stock market, the highest weekly inflow in the market so far in 2024.

### Three questions remain following the election

- What is behind this surge in portfolio inflows is not exclusively global. Previously, we observed that investors in the Indonesian financial market are sitting on the sideline, keeping some distance from riskier assets due to the looming short-term risk amidst the impending election. This state of affairs appears to be ending at present. **The significant electoral margin, as indicated by quick counts, eliminates short-term political uncertainty surrounding the Indonesian economy, encouraging investors to start dipping their toes into the riskier parts of the Indonesian financial market**. It is unsurprising, then, that the surge in inflows to the stock and SBN market is followed by a sudden drop in the demand for SRBI despite the two-week hiatus of its auction ***(see Chart 1).***

- Indeed, the Indonesian stock market was up significantly on the first trading day following the election. The momentum behind this jump in the JCI index, however, does not appear to take long before it petered out. After all, the post-election bounce in the JCI index appears to be concentrated on big banks and other large-cap stocks which are familiar stomping grounds for foreign fund managers, while other segments of the stock market are left behind. The JCI index also started to decline from its 7,362.53 peak since the market opened last Friday, showing that the post-election movement in the JCI index resembles more of a bounce rather than a rally.

- As to why the post-election rally has been short-lived is not too surprising. Apart from the global (and domestic) interest rate outlook**, a solid macroeconomic backdrop remains crucial to attract investors to come in and spark a more prolonged rally.** Three questions are particularly relevant to gauge the current state and the outlook of the Indonesian economy.

- **The first question concerns the outlook for commodity prices**. The slowing global demand for commodities (on top of the normalising commodity supply chain) has led to a continued decline in commodity prices, yanking corporate Indonesia's revenue down. Unlike in the US, where the still-robust GDP outlook brings the expectation of higher corporate earnings, the lack of improvement in the outlook for Indonesia's corporate earnings may discourage investors from significantly adding Indonesian stocks to their portfolio, limiting the prospect of a prolonged rally given the limited earnings growth outlook.

***"Lower commodity prices suppress the outlook for corporate and household revenue, resulting in the decline in their liquidity conditions"***

- The short-term outlook for the demand for Indonesian stocks, however, remains quite attractive relative to bonds. Despite the limited growth in its earnings outlook, the projected earnings yield on Indonesian stocks is currently better than that of SBN ***(see Chart 2)***, a condition that may translate positively for the demand for stocks relative to the Indonesian government bonds. While it is still too early to tell, we may start to see a reversal from the portfolio inflow trend observed over the past year, when inflows to the bond market are more significant than inflows to the stock market.

- What keeps the lid on the Indonesian government bond yield deserves further discussion. As we previously noted, the low yield on SBN is more of a product of lower issuance rather than heightened demand for

Indonesian debts (see the previous report). The ample liquidity condition in the public sector, thanks to supernormal revenue and lower expenses in the previous fiscal year, has allowed the government to expand its fiscal commitments in recent times without returning to the SBN market, leading to a kind of savings-financed fiscal expansions that insofar keep SBN yields stable.

- **The government's savings-financed fiscal expansion is particularly crucial in answering the second question on Indonesia's economic growth potential.** The outlook on Indonesia's household consumption growth is looking uncertain at the moment, with the official retail sales data pointing northwards but other indicators such as consumer goods imports and our big data pointing the other way.

- The problem of slowing household consumption growth is interconnected with the first problem of declining commodity prices. As revenues decline, more households need to draw from their savings to finance their consumption, leading to a decline in their liquidity conditions ***(see Chart 3)***. This situation explains the government's decision to supplement households' disposable income through transfer payments, ensuring a continuous expansion in their consumption basket.

- Given the anaemic external demand, any path toward above-normal economic growth may require the government to continue investing its resources into supporting aggregate demand growth in the domestic private sector. As illustrated in Chart 3, **transfer payments from the government seem to have halted the decline in the private sector's liquidity condition in December 2023**, albeit only marginally, as revenues remain on a downward trend. The government, as it seems, is well justified in continuing its fiscal expansions.

- Moreover, the recent spike in the interbank rate indicates that the government's transfer payments programme has been successful in accelerating money velocity and transactions ***(see Chart 4)***, which may eventually trickle up to household savings. **The third question, however, is for how long this fiscal expansion would continue to last.** For instance, the accelerated money velocity may also serve as a warning signal for inflation, invoking the classic economic scenario of too much money chasing too few goods.

***"The limited improvement in the private sector's liquidity condition justifies the government's fiscal expansions"***

- This condition, of course, is not tenable in the short-term, given that inflationary pressures and expectations are already on an upward trend as the Indonesian economy is heading towards the high spending season of Ramadan and Eid festivities. Hence, the government may need to explore another form of intervention, such as supply-side interventions that would stabilise prices and enable households to expand their consumption without significantly increasing the demand for cash liquidity. This approach is essential as it may alleviate the strain on the interbank market, especially considering the already heightened demand for cash during the festivities.

- Even then, **whether the government could afford to prolong its fiscal commitments without putting too much burden on its financial condition remains uncertain.** The ongoing savings-financed fiscal expansions model has a time limit, especially considering the more limited projection of 2024 fiscal revenue (relative to 2023). The government, then, may eventually need to return to debt-fuelled fiscal expansion to realise their programmes.

- The upcoming transition to the new government may also put another layer of uncertainty regarding public sector financing and SBN yields. While Indonesian bureaucracy will ensure that the changes in government financing will not happen suddenly, it is quite clear that the upcoming administration favours higher spending than conservative ones. While the upcoming administration is not shying away from explaining the urgency to increase Indonesia's tax ratio, we are yet to receive more information on how the upcoming administration would realise this goal, leading to the speculation that spending programmes are likely to be realised (at least initially) through debt-financed fiscal expansions. While the upcoming administration have stated their support for a more-lax regulation on deficit restrictions, it may be best to confine the discussions on its effect to SBN yields to a later date, once more information on government financing and other developments on the SBN market (such as a potential upgrade to SBN's credit rating) becomes available.

- Moving back to the short-term, **while the upside risk in SBN yields at the moment is likely to stem from developments in the UST market, the prospect for higher SBN supplies may translate to higher yields for SBN** – making it more costly for the current administration (and the next one) to fulfil their high fiscal commitments. The higher discount rate that may also deter investors from the stock market; Of course, unless Bank Indonesia starts to react in H2 2024 as the central bank previously signalled.

***"The upside risk in global and domestic bond yields may make it more costly for the government to continue its fiscal expansions"***

Chart 1

**Moving in from the sideline**

The demand for SRBI starts to decline following the election as investors trek deeper into the longer and riskier parts of the Indonesian market

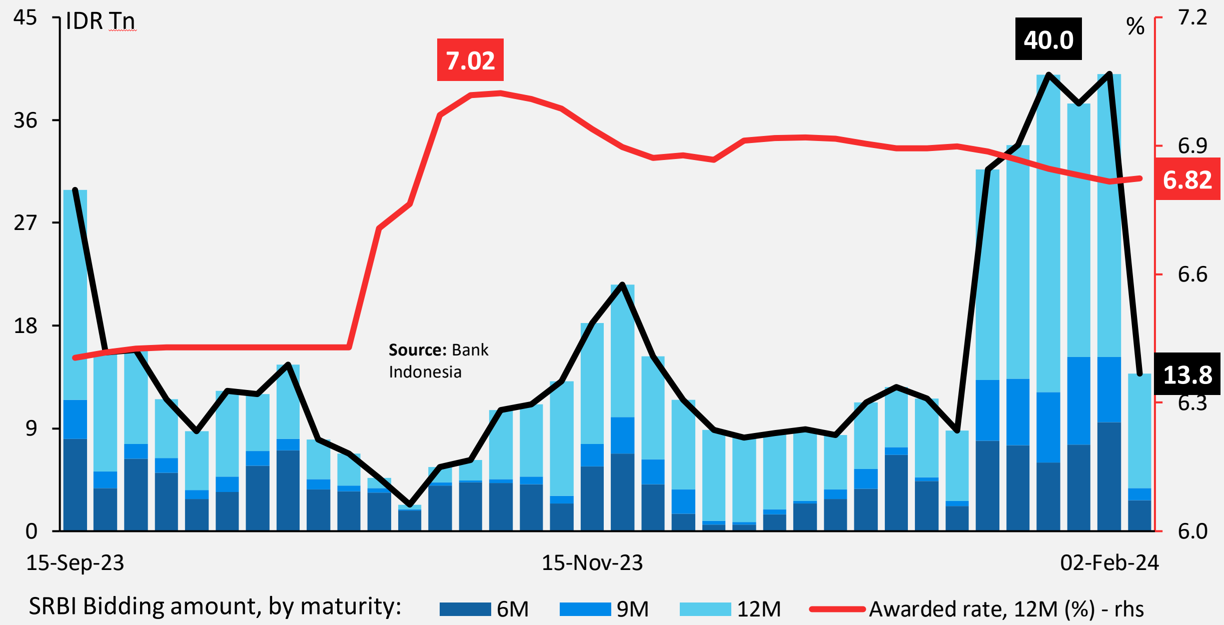



Chart 2

**Lower prices, higher demand?**

Relatively cheap stocks valuation (relative to bonds) may drive investors' demand for stocks while the appetite for bonds diminished

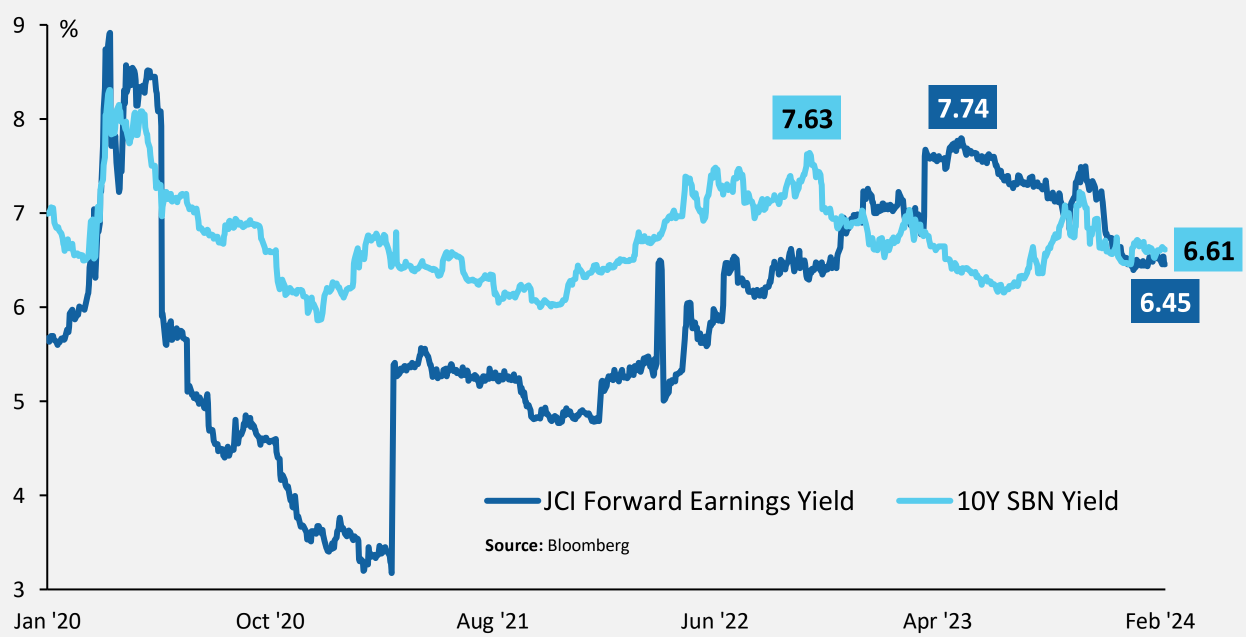


Chart 3

**Keeping the foot on the pedal**

Liquidity conditions in the private sector starts to improving in December 2023, but the still-limited improvement may necessitate further fiscal interventions

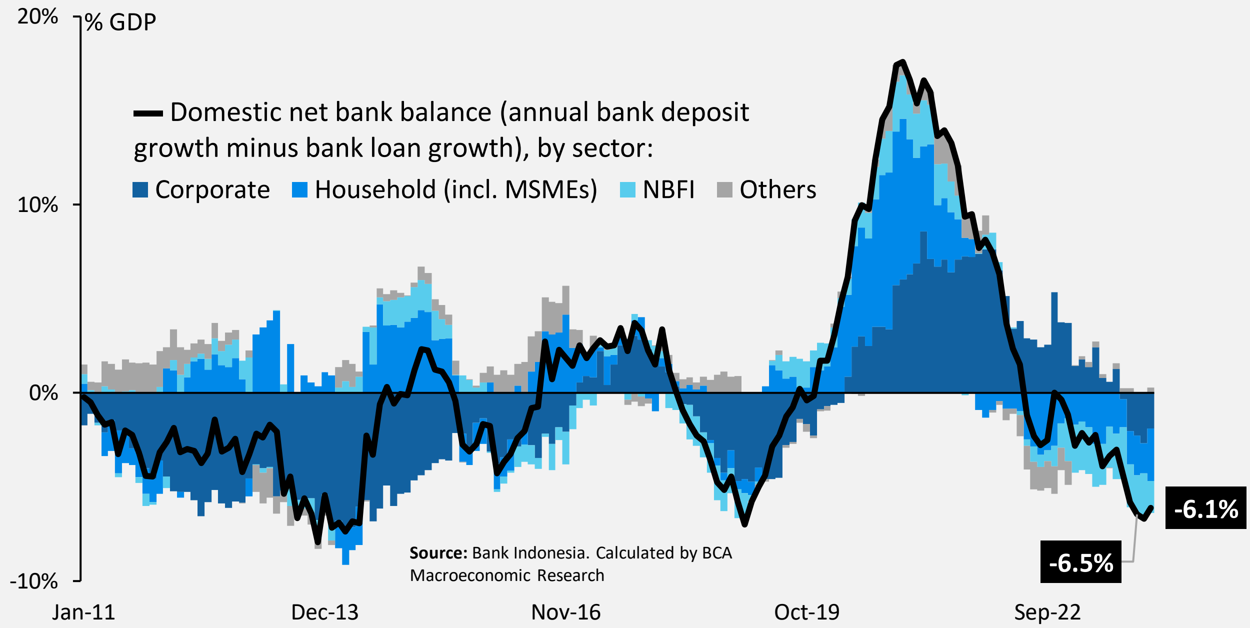
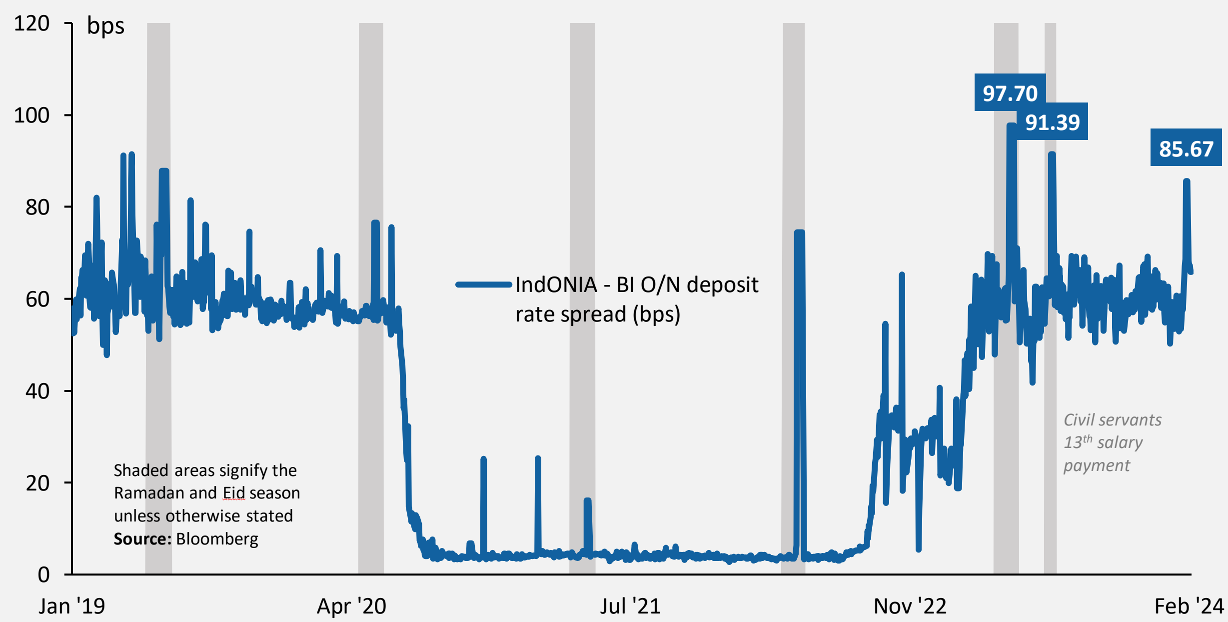



Chart 4

**Higher velocity**

The widening Interbank-deposit rate spread illustrates the government's success in using transfer payments in boosting money velocity and transactions



## Economic Calendar

| | | Actual | Previous | Forecast* |
|---|---|---|---|---|
| 1 February 2024 | | | | |
| ID | S&P Global Manufacturing PMI | 52.9 | 52.2 | 52.1 |
| CN | Caixin Manufacturing PMI | 50.8 | 50.8 | 50.8 |
| **ID** | **Inflation rate YoY,** % | **2.57** | **2. 61** | **2.42** |
| **US** | **Fed Interest Rate Decision,** % | **5.50** | **5.50** | **5.50** |
| US | ISM Manufacturing PMI | 49.1 | 47.4 | 47.6 |
| 2 February 2024 | | | | |
| US | Non-Farm Payrolls ('000) | 353 | 333 | 175 |
| 5 February 2024 | | | | |
| **ID** | **GDP Growth Rate YoY** | **5.04** | **4.94** | **4.96** |
| 7 February 2024 | | | | |
| **ID** | **Foreign Exchange Reserves (USD Bn)** | **145.1** | **146.4** | **-** |
| US | Balance of Trade (USD Bn) | -62.2 | -63.2 | -63 |
| 8 February 2024 | | | | |
| CN | Inflation Rate YoY, % | -0.8 | -0.3 | -0.4 |
| 9 February 2024 | | | | |
| ID | Motorbike Sales YoY, % | -3.7 | -11.6 | - |
| 13 February 2024 | | | | |
| US | Inflation Rate YoY, % | 3.1 | 3.4 | 3.1 |
| ID | Consumer Confident | 125.0 | 123.8 | 123.9 |
| ID | Car Sales YoY, % | -26.1 | -19.1 | - |
| 14 February 2024 | | | | |
| ID | 2024 Presidential and General Election | | | |
| 15 February 2024 | | | | |
| EU | Balance of Trade (EUR Bn) | 16.8 | 20.3 | 15.4 |
| **ID** | **Balance of Trade (USD Bn)** | **2.01** | **3.28** | **3.10** |
| 16 February 2024 | | | | |
| ID | Retail Sales YoY, % | 0.2 | 2.1 | 2.6 |
| 21 February 2024 | | | | |
| **ID** | **BI Rate Announcement,** % | **-** | **6.00** | **6.00** |
| ID | Loan Growth YoY, % | - | 10.38 | - |
| 22 February 2024 | | | | |
| **ID** | **Balance of Payment** | **-** | **-** | **-** |

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

## Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) |
|---|---|---|---|
| US | 5.50 | Dec-23 | 2.40 |
| UK | 5.25 | Dec-23 | 1.25 |
| EU | 4.50 | Dec-23 | 1.70 |
| Japan | -0.10 | Jan-16 | -2.70 |
| China (lending) | 2.50 | Dec-23 | 5.15 |
| Korea | 3.50 | Nov-23 | 0.70 |
| India | 6.50 | Dec-23 | 1.40 |
| Indonesia | 6.00 | Nov-23 | 3.43 |
| **Money Mkt Rates** | **16-Feb** | **-1 mth** | **Chg (bps)** |
| SPN (1M) | 5.88 | 5.80 | 7.6 |
| SUN (10Y) | 6.61 | 6.66 | -4.6 |
| INDONIA (O/N, Rp) | 5.86 | 5.81 | 4.7 |
| JIBOR 1M (Rp) | 6.64 | 6.64 | -0.7 |
| **Bank Rates (Rp)** | **Nov** | **Oct** | **Chg (bps)** |
| Lending (WC) | 8.91 | 9.05 | -13.89 |
| Deposit 1M | 4.52 | 4.43 | 8.25 |
| Savings | 0.67 | 0.67 | 0.34 |
| **Currency/USD** | **16-Feb** | **-1 mth** | **Chg (%)** |
| UK Pound | 0.794 | 0.791 | -0.28 |
| Euro | 0.928 | 0.920 | -0.90 |
| Japanese Yen | 150.2 | 147.2 | -2.01 |
| Chinese RMB | 7.194 | 7.188 | -0.08 |
| Indonesia Rupiah | 15,620 | 15,591 | -0.19 |
| **Capital Mkt** | **16-Feb** | **-1 mth** | **Chg (%)** |
| JCI | 7,335.5 | 7,242.8 | 1.28 |
| DJIA | 38,628.0 | 37,361.1 | 3.39 |
| FTSE | 7,711.7 | 7,558.3 | 2.03 |
| Nikkei 225 | 38,487.2 | 35,619.2 | 8.05 |
| Hang Seng | 16,340.0 | 15,865.9 | 2.99 |
| **Foreign portfolio ownership (Rp Tn)** | **Jan** | **Dec** | **Chg (Rp Tn)** |
| Stock | 3,115.8 | 3,226.3 | -110.54 |
| Govt. Bond | 841.9 | 842.1 | -0.17 |
| Corp. Bond | 10.4 | 10.6 | -0.19 |

| Trade & Commodities | 16-Feb | -1 mth | Chg (%) |
|---|---|---|---|
| Baltic Dry Index | 1,610.0 | 1,324.0 | 21.6 |
| S&P GSCI Index | 559.0 | 537.0 | 4.1 |
| Oil (Brent, $/brl) | 83.5 | 78.3 | 6.6 |
| Coal ($/MT) | 122.8 | 126.3 | -2.8 |
| Gas ($/MMBtu) | 1.55 | 3.25 | -52.3 |
| Gold ($/oz.) | 2,013.6 | 2,028.4 | -0.7 |
| Copper ($/MT) | 8,409.2 | 8,268.0 | 1.7 |
| Nickel ($/MT) | 16,112.8 | 15,901.0 | 1.3 |
| CPO ($/MT) | 811.7 | 826.3 | -1.8 |
| Rubber ($/kg) | 1.53 | 1.53 | 0.0 |
| **External Sector** | **Dec** | **Nov** | **Chg (%)** |
| Export ($ bn) | 22.41 | 22.00 | 1.89 |
| Import ($ bn) | 19.11 | 19.59 | -2.45 |
| Trade bal. ($ bn) | 3.31 | 2.41 | 37.13 |
| Central bank reserves ($ bn)* | 146.4 | 138.1 | 6.00 |
| **Prompt Indicators** | **Dec** | **Nov** | **Oct** |
| Consumer confidence index (CCI) | 123.8 | 123.6 | 124.3 |
| Car sales (%YoY) | -19.1 | -7.5 | -13.8 |
| Motorcycle sales (%YoY) | -11.6 | -2.8 | -4.0 |
| **Manufacturing PMI** | **Jan** | **Dec** | **Chg (bps)** |
| USA | 50.7 | 47.9 | 280 |
| Eurozone | 46.6 | 44.4 | 220 |
| Japan | 48.0 | 47.9 | 10 |
| China | 50.8 | 50.8 | 0 |
| Korea | 51.2 | 49.9 | 130 |
| Indonesia | 52.9 | 52.2 | 70 |

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
**For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

## Indonesia – Economic Indicators Projection

| | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|---|---|---|---|---|---|---|
| Gross Domestic Product (% YoY) | 5.0 | -2.1 | 3.7 | 5.3 | 5.0 | 5.0 |
| GDP per Capita (US$) | 4175 | 3912 | 4350 | 4784 | 4920 | 5149 |
| Consumer Price Index Inflation (% YoY) | 2.7 | 1.7 | 1.9 | 5.5 | 2.6 | 3.2 |
| BI 7-day Repo Rate (%) | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 5.50 |
| USD/IDR Exchange Rate (end of the year)** | 13,866 | 14,050 | 14,262 | 15,568 | 15,397 | 16.037 |
| Trade Balance (US$ billion) | -3.2 | 21.7 | 35.3 | 54.5 | 37.0 | 32.6 |
| Current Account Balance (% GDP) | -2.7 | -0.4 | 0.3 | 1.0 | 0.1* | -0.5 |

*Actual number

** Estimation of the Rupiah's fundamental exchange rate

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