

A long night before the dawn

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Summary

- Persistent outflows from the domestic stock market cannot be solely explained by adverse regional effects, as the Indonesian stock market performed worse compared to other Asian markets.
- Despite the improving corporate revenue outlook in Q2 2024, the prospect of higher SBN issuance may draw domestic liquidity from the stock market to the SBN market.
- BI's decision to absorb liquidity through the SRBI market may further dry up the liquidity available to the stock market, as foreign investors seem to be more attracted to the shorter end of the Indonesian debt market.

- The global financial market is still in a bit of a mix in the past week. The Fed rate cut expectation appeared to be on the rise again early in the week, but the strong US labour market data seems to close the door on a 25-50 bps rate cuts scenario again. There is an argument that the strong US non-farm payrolls data (272 thousand in May 2024, 185 thousand forecasts) may be skewed upwards by strong and seasonal hirings in the education and government sector, although the 4.1% YoY increase in the US average hourly earnings seems to rebut any notion that the time is nigh for the Fed to start musing about a rate cut.
- Conditions in other major economies hardly provide any certainty for the global financial market. In Europe, for example, the ECB has

opted to lower its interest rate by 25 bps in its May meeting, despite Eurostat's upward revision to its inflation forecast. The recent European Parliament election may also lead to the speculation that the EU may shift to more inward-looking, centre-right policies (protectionist trade deals, tighter immigration rules); which could deal another blow to the global trade and economic mobility.

- Meanwhile, Indonesia's financial market was under pressure, but getting a tad better to close the week. The Rupiah moved up from its -5.77% YTD nadir in the past week, settling on 16,195 as the market closed on Friday. The benchmark SBN yield also moved slightly lower in the same period, even as foreign investors recorded USD 43.14 Mn in net sales during the period.

Sneezing when others cough

- For those focused squarely on the Indonesian stock market, the domestic financial market over the past few weeks may seem bleak. Aggregated stock purchases by foreign investors have fallen by USD 1.02 Bn since early May 2024, seemingly wiping out the foreign capital inflows to the stock market that peaked in late March 2024.
- The seemingly superior alpha in the Indian and Chinese stock markets is often cited as the source behind Indonesian stock investors' ongoing malaise. Indeed, the recent Indian parliamentary election confirms the continuation of the BJP-led government's pro-business policies (albeit with a slimmer mandate), which should translate to higher growth in India's corporate sector. Meanwhile, the bottoming Chinese market also offers a bargain for alpha-seeking investors in Asia's biggest economies. However, **this argument cannot explain the full picture, given the Indonesian stock market's lackadaisical performance compared to other Asian counterparts so far in 2024 (see Chart 1).**
- The Indonesian stock market, of course, should not seek a recourse from the Thailand stock market's seemingly worse performance in 2024. Thailand is experiencing another bout of political uncertainty at the moment, which is a primer for security analysts looking for an opportunity in an emerging market, while Indonesia is coming out of the February election with a largely serene political situation (relative to the condition following the 2019 election).
- The weak external demand for Indonesian stocks seems even starker given the recent rally in commodity prices. As we discussed in [an earlier report](#), the trend in Indonesia's corporate revenue growth correlates strongly with those of commodity prices, meaning that **the Q2-2024 rally in the global commodity market should have a positive impact on corporate revenue prospects (see Chart 2).**
- It should be noted, however, that **the Rupiah's equally worrying performance in 2024 (-5.77% YTD vs. -1.41% ASEAN-5 average) seems to already outweigh the positive impact from the improving outlook on corporate revenue**, which could neutralise the potential return on Indonesian stocks in USD terms. **Recent news on China's irregular inventory levels has also led to the speculation that the recent rally in the global commodity market will not last any longer**, further diminishing foreign investors' interest in commodity-driven markets such as Indonesia.

“The weakening Rupiah seems to compound the outflows risk due to more attractive opportunities in other Asian markets”

Liquidity rules them all

- Other than these fundamental factors, market analysts have also cited the uncertain policy outlook in Indonesia (especially concerning the stock market itself) that compounds their scepticism about the attractiveness of the market. However, the Indonesian financial market, especially **the sovereign bond market, has shown that it can remain stable amidst persistent exposure to capital outflows, thanks to inflows from of domestic investors.** Our discussion, then, should move to whether domestic investors could also revive the domestic stock market from its desolation.
- Domestic investors' ability to bid up prices in the domestic financial market is largely a function of their liquidity condition. Luckily, **the domestic money supply (M2) growth is trending upwards throughout Q1 2024, thanks to the accelerated government spending that trickles mainly to the household and corporate sector (see Chart 3).** Given the stable consumption growth in the household sector, it is not surprising that most of this liquidity transmissions from the public sector ultimately reach the corporate sector's coffers, as the liquidity trickles up again to the corporate sector by each consumption conducted by individuals in the household sector.
- The question, then, is whether the corporate sector sees the promise of higher revenue in the domestic stock market as an attractive

“Unbalanced liquidity distribution and crowding out effect due to higher SBN issuance put the domestic stock market on a disadvantage”

offer. This question, of course, is irrelevant for the corporate sector, given **more restrictive mandates on corporate treasurers that often limit them to the fixed-income market or bank products.** Demand for securities from the domestic corporate sector, then, is unlikely to spill beyond the debt market or banks, leaving the burden to revive the domestic stock market to the household sector.

- Alas, **the household sector also does not seem to look at the domestic stock market as an attractive option (see Chart 4),** at least compared to other asset classes such as sovereign bonds. Indeed, the government is expected to issue more bonds in the upcoming months, considering its declining cash coffers due to the accelerated spending realisation and negative growth in fiscal revenues (see Chart 5). The government is expected to raise around IDR 160 Tn through retail bonds in 2024, up from IDR 147.4 Tn in the previous year. The potentially higher retail bonds supply, along with its higher coupon (up to 6.60% for the most recent issuance), may limit retail investors' demand for more speculative assets such as stocks, denying the Indonesian stock market from its primary demand driver during the depth of the Pandemic recession.
- **The potential crowding-out effect from the stock market to the SBN market is exacerbated by Bank Indonesia's effort to**

strike a balance between a pro-growth and pro-stability policy posture. SRBI's introduction to the Indonesian financial market has drawn foreign investors' (and banks') interest away from the SBN market, leaving a lurch for other investors such as the domestic non-bank sector to enter the bond market.

- The Indonesian stock market, then, may have lost both of its domestic demand drivers (retail investors and non-bank financial institutions) to the SBN market, while foreign investors are increasingly

piling on the higher-yielding and shorter-duration SRBI. Plateauing global commodity prices, along with the risk of further weakening in the domestic macroeconomic fundamentals in H2 2024, may again reduce the outlook for corporate revenue, limiting the allure of dividend play in the Indonesian stock market. An entrenched sideways movement may thus seem most likely for the Indonesian stock market – unless a meaningful shift in the monetary condition presents itself for the waiting market.

Chart 1

Weaknesses also come from within

The Indonesian market's lacklustre performance may reveal a domestic weakness rather than adverse regional effects due to inflows to the Chinese or Indian market.

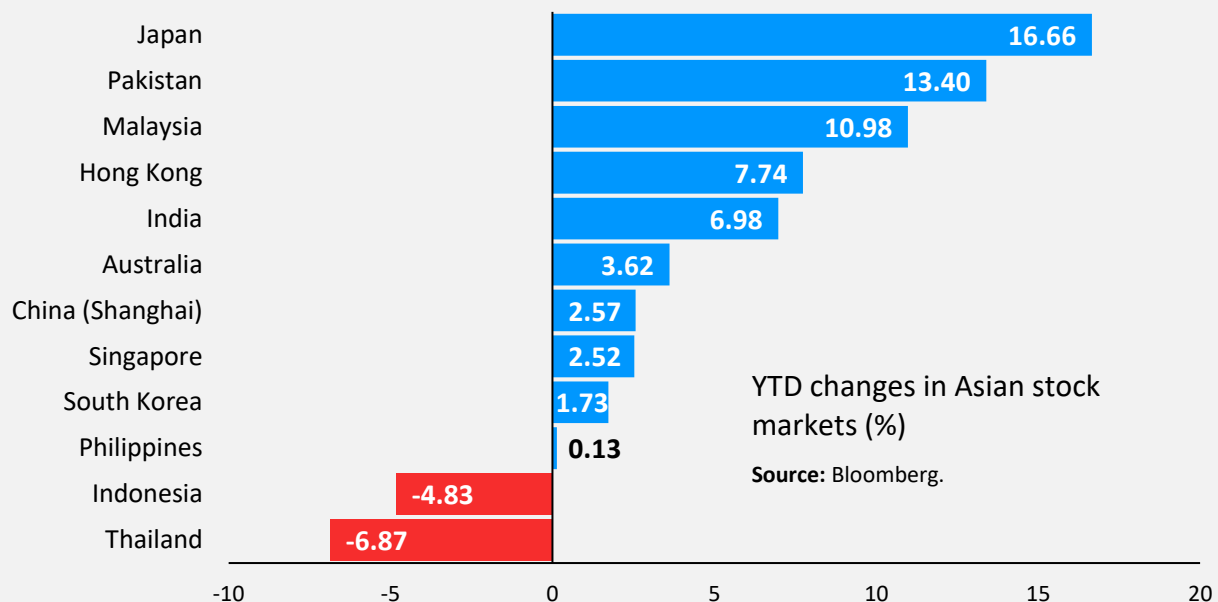


Chart 2

A dollar short

The improving outlook on corporate revenue growth in Q2 2024 may not be enough to return the Indonesian stock market upward.



Chart 3

Untappable coffers

The distribution of liquidity within the Indonesian economy did not run in favour of the stock market as investments by the corporate sector tends to be limited to fixed-income securities.

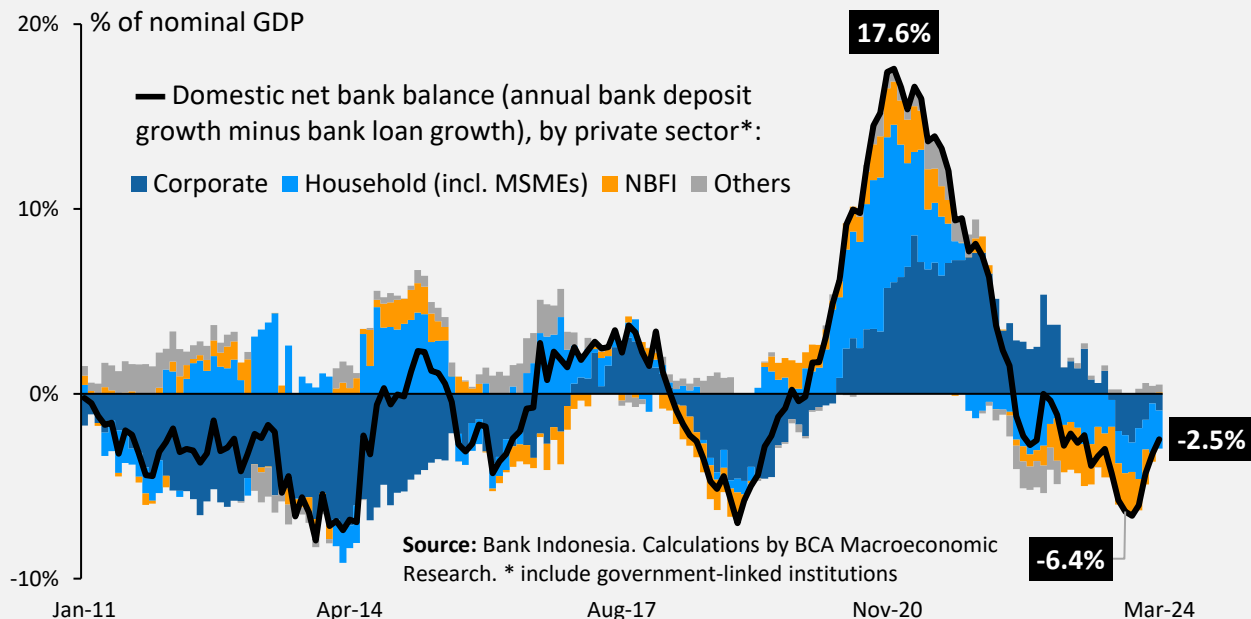


Chart 4

More risks, less return

The Indonesian stock market is yielding less return relative to other less speculative assets, further weakening investors' demand for Indonesian stocks

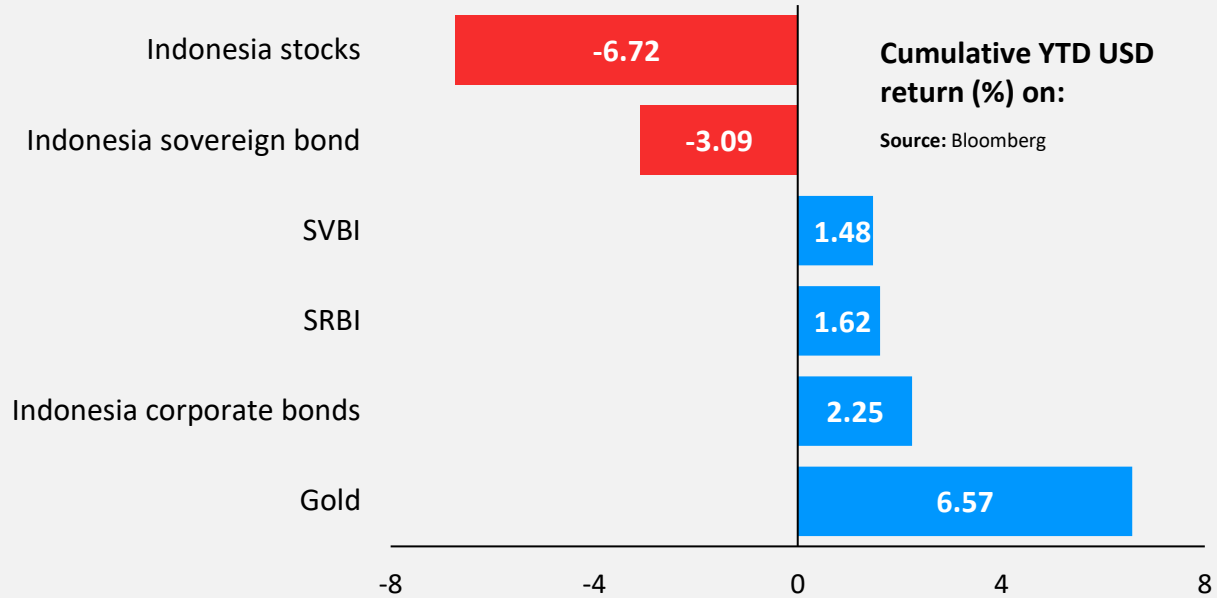
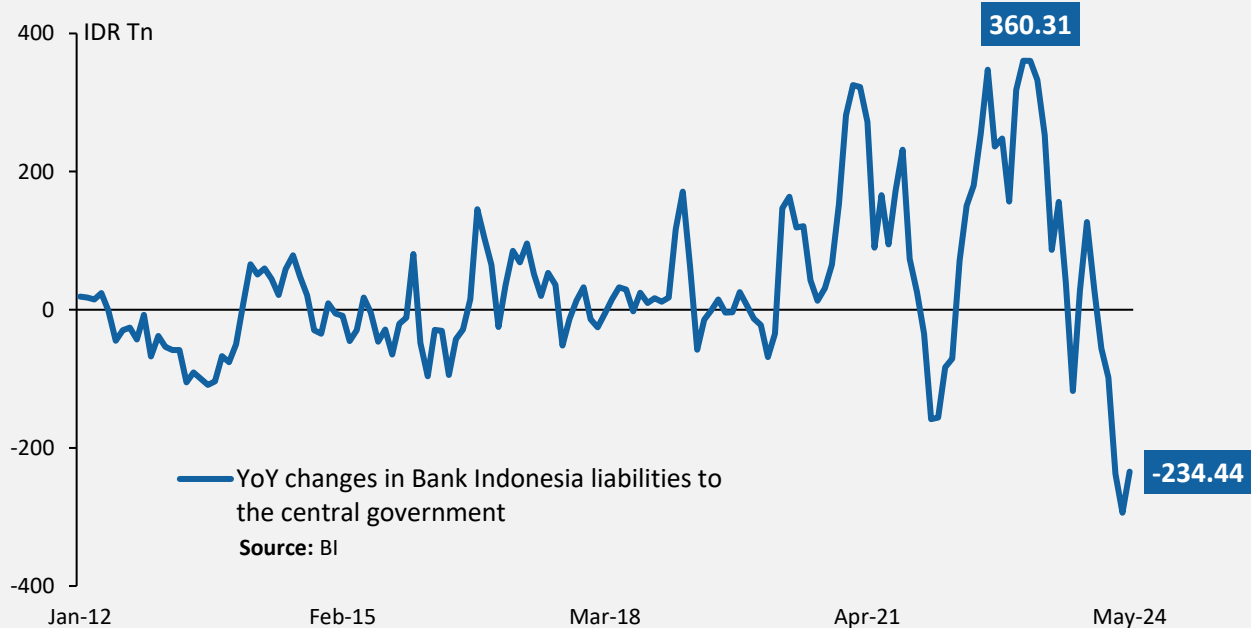


Chart 5

More debts for fewer buyers

Its declining cash reserves may compel the government to open the lid on SBN issuance, leaving individual investors and non-bank financial institutions to absorb the new debt.



Economic Calendar				
		Actual	Previous	Forecast*
3 June 2024				
ID	Inflation rate YoY, %	2.84	3.00	2.94
ID	S&P Global Manufacturing PMI	52.1	52.9	52.2
CN	Caixin Manufacturing PMI	51.7	51.4	50.5
US	ISM Manufacturing PMI	48.1	49.2	50
4 June 2024				
US	JOLTs Job Openings (Mn)	8.05	8.35	8.40
7 June 2024				
ID	Foreign Exchange Reserves (USD Bn)	139	136.2	135
CN	Balance of Trade (USD Bn)	82.6	72.3	72
US	Non-Farm Payroll, (Th)	272	165	151
10 June 2024				
ID	Consumer Confidence	125.2	127.7	128
11 June 2024				
ID	Retail Sales YoY, %	-2.7	9.3	11
ID	Car Sales YoY, %	-13.3	-17.5	-
12 June 2024				
CN	Inflation rate YoY, %		0.3	0.2
US	Inflation rate YoY, %		3.4	3.4
13 June 2024				
US	Fed Interest Rate Decision, %		5.5	5.5
14 June 2024				
EU	Balance of Trade, (Bn)		24.1	16.0
17 June 2024				
CN	Retail Sales YoY, %		2.3	-
CN	Unemployment Rate, %		5	-
18 June 2024				
EU	Inflation rate YoY, %		2.4	2.6
US	Retail Sales YoY, %		3	-
19 June 2024				
ID	Balance of Trade, (Bn)		3.56	-
US	Motorbike Sales YoY, %		18.3	-
20 June 2024				
ID	BI Rate Decision		6.25%	-

*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 (%)	Trade & Commodities	10-Jun	-1 mth	Chg (%)
US	5.50	Jul-23	2.10	Baltic Dry Index	1,883.0	2,129.0	-11.6
UK	5.25	Aug-23	2.95	S&P GSCI Index	571.7	577.2	-0.9
EU	4.25	Jul-23	1.65	Oil (Brent, \$/brl)	81.6	82.8	-1.4
Japan	-0.10	Jan-16	-2.60	Coal (\$/MT)	133.7	144.0	-7.2
China (lending)	2.50	Aug-23	4.05	Gas (\$/MMBtu)	2.62	2.14	22.4
Korea	3.50	Jan-23	0.80	Gold (\$/oz.)	2,310.9	2,360.5	-2.1
India	6.50	Feb-23	1.67	Copper (\$/MT)	9,765.9	9,897.5	-1.3
Indonesia	6.25	Apr-24	3.41	Nickel (\$/MT)	17,645.9	18,780.3	-6.0
				CPO (\$/MT)	836.8	813.5	2.9
				Rubber (\$/kg)	1.82	1.61	13.0
Money Mkt Rates	10-Jun	-1 mth	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	19.62	22.54	-12.97
SUN (10Y)	6.95	6.95	0.7	Import (\$ bn)	16.07	17.96	-10.55
INDONIA (O/N, Rp)	6.05	6.40	-34.5	Trade bal. (\$ bn)	3.55	4.58	-22.46
JIBOR 1M (Rp)	6.90	6.90	0.0	Central bank reserves (\$ bn)*	136.2	140.4	-2.97
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Prompt Indicators	Apr	Mar	Feb
Lending (WC)	8.83	8.84	-1.69	Consumer confidence index (CCI)	127.7	123.8	123.1
Deposit 1M	4.62	4.62	-0.76	Car sales (%YoY)	-17.5	-26.2	-18.8
Savings	0.68	0.67	0.26	Motorcycle sales (%YoY)	18.3	-7.8	-2.9
Currency/USD	10-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
UK Pound	0.785	0.798	1.64	USA	51.3	50.0	130
Euro	0.929	0.928	-0.06	Eurozone	47.3	45.7	160
Japanese Yen	157.0	155.8	-0.80	Japan	50.4	49.6	80
Chinese RMB	7.248	7.227	-0.29	China	51.7	51.4	30
Indonesia Rupiah	16,280	16,045	-1.44	Korea	51.6	49.4	220
				Indonesia	52.1	52.9	-80
Capital Mkt	10-Jun	-1 mth	Chg (%)				
JCI	6,921.5	7,088.8	-2.36				
DJIA	38,868.0	39,512.8	-1.63				
FTSE	8,228.5	8,433.8	-2.43				
Nikkei 225	39,038.2	38,229.1	2.12				
Hang Seng	18,367.0	18,963.7	-3.15				
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)				
Stock	3,115.0	3,294.9	-179.85				
Govt. Bond	807.0	789.9	17.11				
Corp. Bond	8.2	8.4	-0.20				

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	2023	2024E
Produk Domestik Bruto (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
PDB per Kapita (US\$)	4175	3912	4350	4784	4920	5149
Inflasi Indeks Harga Konsumen (% 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	6.50
Nilai Tukar USD/IDR (akhir tahun)*	13,866	14,050	14,262	15,568	15,397	16,119
Neraca Perdagangan (US\$ miliar)	-3.2	21.7	35.3	54.5	37.0	32.6
Neraca Tahun Berjalan (% PDB)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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