

Not that many doves in Asia

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kukuh Mamia
barra_mamia@bca.co.id



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Summary

- The market keeps doubling down on their FFR cut expectations as the cooling demand condition starts to lower corporate earnings estimates in the US.
- Similar to during the rate hike cycle, investors in Asia may see less aggressive rate cut action, given the relative robustness of Asian economies.
- Rather than its solid growth momentum, the Rupiah's susceptibility to external shocks may continue to limit BI's path towards a lower policy rate.

- Not much has changed in the domestic financial market in the past week. Foreign inflows to the domestic stock, SBN, and SRBI market amounted to a meagre USD 0.12 Bn, echoing our argument on investors' dilemma and difficulties in entering the Indonesian financial market. In contrast, numerous data releases and announcements in recent days seem to have brought the fervour back to the global financial market. Last week, the 2.8% SAAR US GDP growth figure for Q2-2024 came as a surprise to many in the market, although this growth expectation was quickly tempered by the downgrade of earnings estimates by some major US corporations.
- Numerous data releases and policy announcements in the next couple of days may also hold the potential for surprises. Apart from the upcoming Treasury Refunding Announcement (QRA) scheduled for next Tuesday, the market is also anticipating policy

announcements from three of the G6 central banks: first by the Bank of Japan, followed by simultaneous announcements from the Bank of England and the Federal Reserve.

- The anticipation of the BoJ's upcoming policy action seems to have drawn a sizable impact on the market of late. Indeed, the 1.54% week-over-week decline in the S&P 500 (-4.62% WoW for the "magnificent-7" stocks) is attributed to the unwinding of the Yen carries trade, reflecting investors' expectation of further policy normalisation by the BoJ.
- The BoJ's policy signal should be understood through specific lenses, particularly the central banks' effort to unwind its years of experimentation with ultra-easy monetary policy posture. Unlike the popular view on the BoJ, market expectations of the future path of benchmark interest rates are largely similar across the two Anglophonic central banks. Many in the market are expecting the BoE to

cut the bank rate by 25 bps to 5.00% following the end of the political calendar in the UK, while the FFR futures market reveals investors' expectation for the Fed to cut its benchmark

rate in 2024 deeper than 25 bps signalled in the June-2024 edition of the FOMC's summary of economic projections.

Dozing amid the race for rate cuts

- While Western and other central banks may start (or have already started) cutting their policy rates in 2024, **many analysts expect that this rate-cutting trend may not see as many followers in the Asian economies (see Table 1)**. The most straightforward argument, and probably the most convincing, is that Asian central banks have not increased their policy rate during the inflationary episodes of 2022-2023 to the same extent as European or Latin American central banks, thus reducing the urgency to normalise the policy rate to a more acceptable level.

- Adding to the contrast between Asian central bankers and their European and Latin American counterparts, **the less visible slowdown in Asia's economic growth momentum (excl. China)**

may also reduce their urgency to bring down policy rates to more accommodative levels. For instance, Western countries' widely reported efforts to de-Chinified their supply chain have created a strong economic windfall for some Asian countries, such as India and Vietnam which benefit the most from manufacturing relocation out of China (see *Chart 2*).

- Meanwhile, **the electrification of the global economy (the rise of microchips) has also put a wind on the back of economies such as**

South Korea, the Philippines, and Malaysia, with analysts refusing to rule out the possibility of Bank Negara Malaysia to increase its policy rate thanks to the country's strong export-driven GDP growth momentum and potential inflationary pressures due to the planned moderation of its fuel subsidy policy. Hence, just as shallower inflationary floods do not require Asian central banks to climb significantly higher, still-robust growth momentum in some Asian countries may not force them to climb down.

“Asian economies may see less rate-cutting action due to due to (1) still-robust growth momentum, or (2) their currencies' increasing susceptibility to external shocks”

- However, **expectations of limited rate cuts do not exclusively stem from a lack of urgency in shifting to such a policy.** Despite the high probability of a September 2024 FFR cut indicated by the FFR futures market, past experiences have shown that this

market tends to aggravate the swing in market expectations, while statements by FOMC officials do not seem to have changed much in recent weeks (see *Chart 1*). **Beating the Fed in the race to cut the policy rate remains a risky endeavour, particularly for economies that are especially susceptible to external shocks – a category in which the Indonesian economy, unfortunately, finds itself (see Chart 3).**

- It is clear to see that Indonesia's real sector is not in its strongest shape of late. The domestic demand condition has been increasingly fiscal-

dependent, while the higher saving rate (due to higher deposit rate amidst banks' lagging deposit growth and more SBN offered to retail investors) seems to have hit the demand for big-ticket and rate-sensitive items. Indeed, the current condition in the real sector has presented an argument for Bank Indonesia to start cutting its policy rate.

- Alas, the Rupiah's susceptibility to external shocks limits the central bank's policy options. It will be hard to count on the global commodity market to improve Indonesia's export performance, given the limited commodity price rally in H1 2024. Indonesia has also been carved out of the global microchip supply chain that benefits some of its Asian neighbours, leading to its reliance on semi-manufactured nickel products to support its current account balance (in which case, lower utilisation of stainless-steel plants in China is clearly bad news for Indonesia's NPI/matte producers). **The Rupiah exchange rate that seems to be stuck between 16,100-16,300/USD (despite softening global rate expectations) corroborates our argument that the fundamental protecting the Rupiah have been weakening lately, presenting a quandary for Indonesia's rate-setters to tweak the policy rate.**

- Hence, while we have downplayed the possibility of another BI rate hike in 2024, our expectation for BI to cut its policy rate in 2024 remains tied to those of the Fed. Even if the Fed does cut its policy rate as the market expected, the expectedly limited rate actions in other Asian countries mean that it is not impossible for BI to refrain from cutting its policy rate in 2024 (at least to a larger degree), especially if the Rupiah's fundamental fails to improve and the currency's exchange rate remains under pressure. **We thus decided to change our BI-rate expectation to 6.00-6.25%, reflecting our outlook on the Rupiah which may continue to experience its fair share of bad weather in upcoming months.**

“ASEAN economies are reaping the benefit of industrial relocation and the global semiconductor boom while Indonesian exporters read news of slowing stainless steel production in China with trepidation”

Table 1

Asia’s 2024 snooze fest

Significant rate-cut actions are not expected in Asia, either due to its generally robust growth prospect, its susceptibility to external shocks, or its less aggressive rate-tightening campaign.

Source: Bloomberg	2024f				2023 vs 2024f	
	GDP	CPI	CA balance	Fiscal balance	Exchange rate	Policy rate
Indonesia	5	2.9	-0.7	-2.8	-4.9%	0
Malaysia	4.5	2.5	2.5	-4.4	-1.5%	0
Thailand	2.6	0.8	2	-3.6	-5.2%	-10
Philippines	5.8	3.5	-2.4	-5.4	-4.4%	-35
India	6.8	4.7	-1.2	-5.1	0.0%	-30
South Africa	1	4.9	-1.9	-5	0.9%	-50
Poland	2.9	3.7	-0.7	-5.3	-1.3%	0
Hungary	2.3	4	0.7	-5	-6.6%	-455
Czech	1.3	2.4	0.8	-2.5	-4.9%	-290
Peru	2.5	2.6	-0.8	-2.5	-1.3%	-180
Mexico	2	4.5	-0.8	-5.1	-7.8%	-125
Brazil	2.1	4.1	-1.6	-7.2	-10.1%	-150
Chile	2.7	3.8	-3.3	-2.2	-7.4%	-335
Colombia	1.5	6.6	-3.1	-5.3	-6.6%	-425

Chart 2

Expectations beget more expectations

The market is doubling down on their rate cut expectations despite no significant changes in statements delivered by FOMC officials.

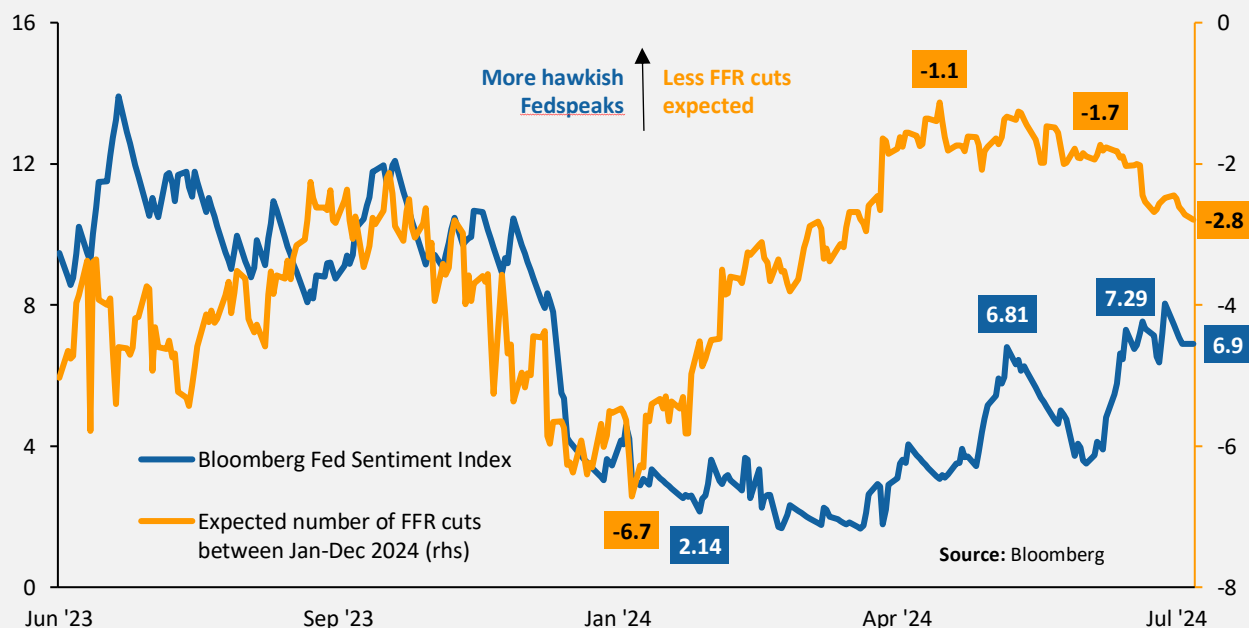


Chart 2

Electrified by electronics

The global demand for semiconductors and manufacturing relocation helps some economies to maintain their exports revenue despite the slowing global trade

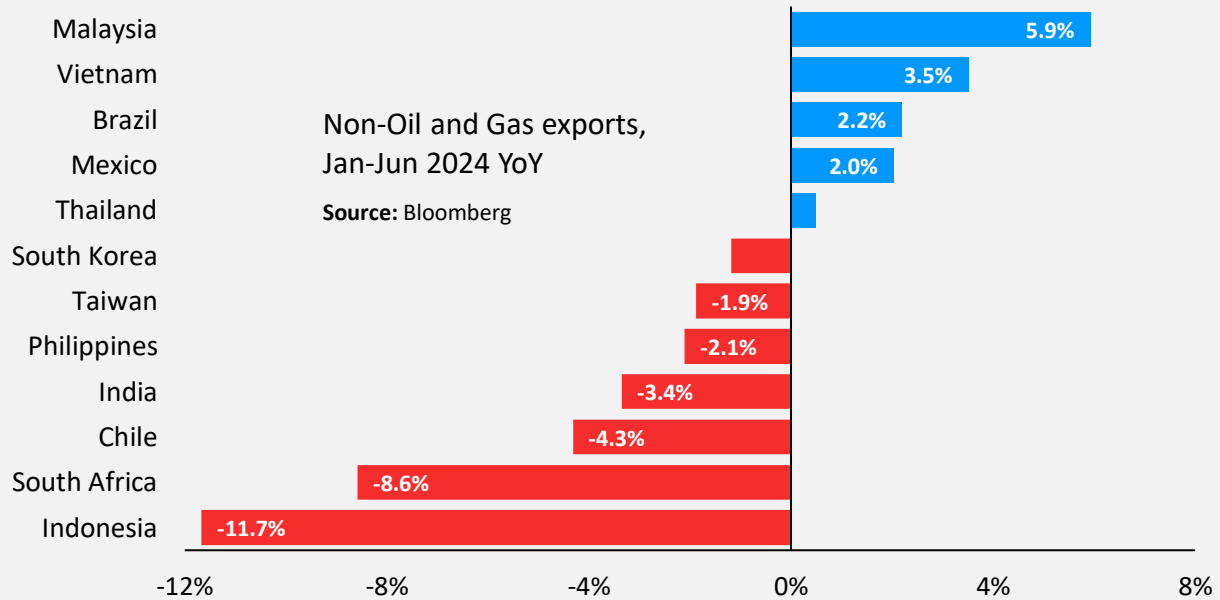
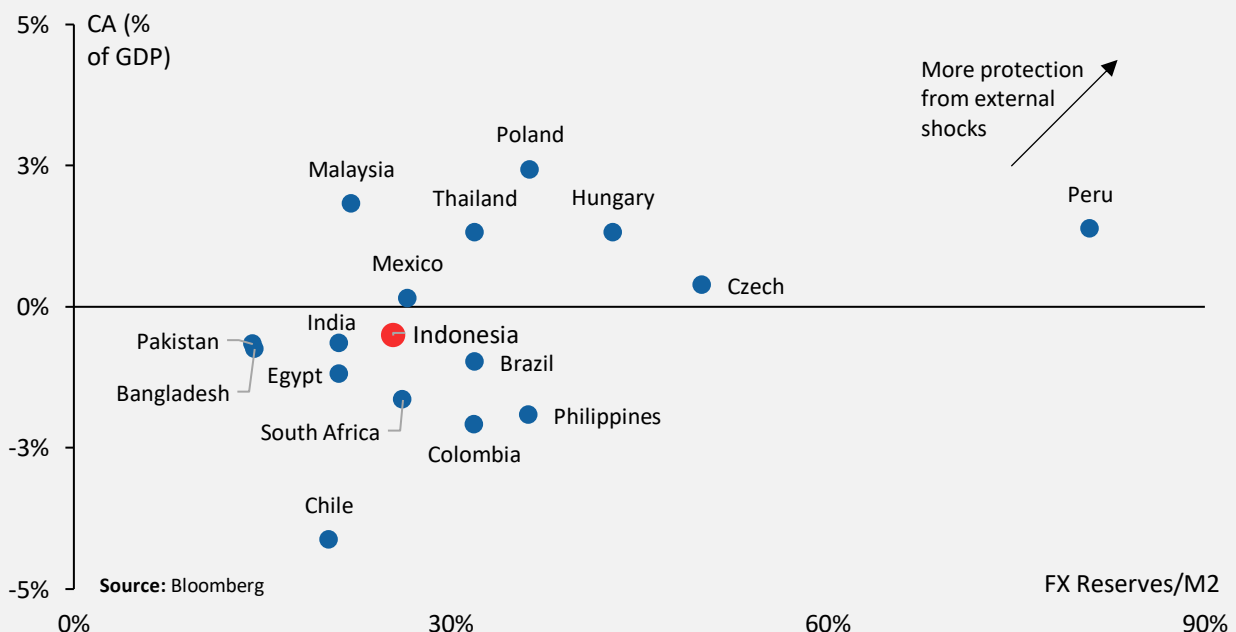


Chart 3

FX precariat

Indonesia's limited FX coffers and CA deficits may make it more susceptible to external shocks, potentially narrowing BI's path towards a rate-cut scenario.



Economic Calendar				
		Actual	Previous	Forecast*
05 July 2024				
ID	Foreign Exchange Reserves, (Bn)	140	139	148
US	Unemployment Rate, %	4.1	4	4
US	Non-Farm Payrolls, (Th)	206	218	160
07 July 2024				
CN	Foreign Exchange Reserves, (Tn)	3.222	3.232	3.25
08 July 2024				
ID	Consumer Confidence	123.3	125.2	125.5
09 July 2024				
ID	Retail Sales YoY, %	2.1	-2.7	-0.5
10 July 2024				
CN	Inflation Rate YoY, %	0.2	0.3	0.3
ID	Motorbike Sales, %	3.5	-4.5	-
11 July 2024				
US	Inflation Rate YoY, %	3	3.3	3.1
12 July 2024				
CN	Balance Of Trade, (Bn)	99.05	82.62	85
ID	Car Sales YoY, %	-11.8	-13.3	-
15 July 2024				
ID	Balance Of Trade, (Bn)	2.39	2.93	2.49
CN	Retail Sales YoY, %	2	3.7	3.2
16 July 2024				
EA	Balance Of Trade, (Bn)	13.9	15	-
17 July 2024				
ID	Interest Rate Decision, %	6.25	6.25	6.25
29 July 2024				
ID	Foreign direct investment, % YoY	16.6	15.5	-
30 July 2024				
US	Treasury Quarterly Refunding Announcement	-	-	-
31 July 2024				
JP	BoJ Interest rate decision, %	-	0.1	0.1
1 August 2024				
ID	CPI Inflation, % YoY	-	2.51	2.17
US	FOMC meeting, %	-	5.5	5.5
UK	BoE meeting, %		5.25	5.00

*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	26-Jul	-1 mth	Chg (%)
US	5.50	Jul-23	2.50	Baltic Dry Index	1,808.0	1,926.0	-6.1
UK	5.25	Aug-23	3.25	S&P GSCI Index	549.3	577.4	-4.9
EU	4.25	Jul-23	1.75	Oil (Brent, \$/brl)	81.1	85.0	-4.6
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	139.3	136.3	2.2
China (lending)	2.30	Aug-23	4.15	Gas (\$/MMBtu)	1.99	2.61	-23.8
Korea	3.50	Jan-23	1.10	Gold (\$/oz.)	2,387.2	2,319.6	2.9
India	6.50	Feb-23	1.42	Copper (\$/MT)	8,995.5	9,422.6	-4.5
Indonesia	6.25	Apr-24	3.74	Nickel (\$/MT)	15,539.6	16,895.7	-8.0
				CPO (\$/MT)	865.4	831.4	4.1
				Rubber (\$/kg)	1.65	1.70	-2.9
Money Mkt Rates	26-Jul	-1 mth	Chg (bps)	External Sector	Jun	May	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	20.84	22.33	-6.66
SUN (10Y)	6.97	7.08	-11.0	Import (\$ bn)	18.45	19.40	-4.89
INDONIA (O/N, Rp)	6.25	6.13	12.5	Trade bal. (\$ bn)	2.39	2.93	-18.37
JIBOR 1M (Rp)	6.90	6.90	0.0	Central bank reserves (\$ bn)*	140.2	139.0	0.87
Bank Rates (Rp)	May	Apr	Chg (bps)	Prompt Indicators	Jun	May	Apr
Lending (WC)	8.86	8.85	1.37	Consumer confidence index (CCI)	123.3	125.2	127.7
Deposit 1M	4.68	4.65	2.54	Car sales (%YoY)	-11.8	-13.2	-17.4
Savings	0.67	0.68	-1.07	Motorcycle sales (%YoY)	3.5	-4.5	18.3
Currency/USD	26-Jul	-1 mth	Chg (%)	Manufacturing PMI	Jun	May	Chg (bps)
UK Pound	0.777	0.788	1.43	USA	51.6	51.3	30
Euro	0.921	0.933	1.33	Eurozone	45.8	47.3	-150
Japanese Yen	153.8	159.7	3.86	Japan	50.0	50.4	-40
Chinese RMB	7.251	7.263	0.17	China	51.8	51.7	10
Indonesia Rupiah	16,290	16,375	0.52	Korea	52.0	51.6	40
				Indonesia	50.7	52.1	-140
Capital Mkt	26-Jul	-1 mth	Chg (%)				
JCI	7,288.2	6,882.7	5.89				
DJIA	40,589.3	39,112.2	3.78				
FTSE	8,285.7	8,247.8	0.46				
Nikkei 225	37,667.4	39,173.2	-3.84				
Hang Seng	17,021.3	18,072.9	-5.82				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	3,273.1	3,115.0	158.05				
Govt. Bond	805.6	807.0	-1.38				
Corp. Bond	8.2	8.2	-0.06				

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
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	6.00
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16,172
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

*Estimation of the Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E. Sumual

Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Victor George Petrus Matindas

Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Keely Julia Hasim

Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Agus Salim Hardjodinoto

Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Nicholas Husni

Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Barra Kukuh Mamia

Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Thieris Nora Kusuma

Economist / Analyst
thieris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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