Not much to gain for the new kid on the bloc

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Summary

- Activities in the Indonesian financial market remains relatively subdued, as the market questions the Fed's rate cut outlook and the Indonesian real sector lacks the catalysts to drive the market forward.
- The new government's decision to initiate the process of joining BRICS may be driven more by political considerations, as the bloc does not seem to provide significant trade opportunities for Indonesia due to the largely homogeneous export products shared with existing members.
- Indonesia does not seem to be under the urgency to follow BRICS' de-dollarisation agenda, given the ample USD liquidity within the financial system relative to other foreign currencies.

- The market has cornered the Fed to begin its rate-cutting campaign by lowering the FFR by 50 bps at the September 2024 FOMC meeting. Less than six weeks later, many in the market are openly questioning whether it was a mistake for the central bank to take that step in the first place. The lower-than-expected initial jobless claims indicate that the US labour market remains on a solid footing, while estimates suggest that the US economy is on track to record higher GDP growth in Q3 2024. **Weak auctions for 2-year and 5-year US Treasury notes highlight the market's rejection of the Fed's rate-cut thesis**, reinforcing our view that rate cuts will be implemented gradually and tactically in both the US and other economies (absent any black swan effects).
- Meanwhile, **conditions in the Indonesian financial market have remained largely unchanged since the start of the month.** The Rupiah has weakened past the 15,700/USD level, which we expect could prompt a reaction from Bank Indonesia, given the central bank's high assessment of the currency's fundamental value. Foreign investors also continue to reduce their presence in the domestic stock market, although the SBN market is still reporting some foreign inflows as investors pivot out of the SRBI market.
- **The ongoing lull in the financial market, despite the concurrent earnings season, seems to mirror conditions in the real sector.** Analysts are struggling to identify catalysts to drive the market forward, as the economy appears to be stabilising while the newly formed cabinet members are still in the early days of their tenure. However, this does not mean that the new government will undergo a lengthy orientation period before introducing

any significant initiatives, with the new foreign minister already signalling a substantial shift in Indonesia's foreign policy agenda by travelling to the BRICS conference held in Kazan, Russia last week and announcing Indonesia's readiness to join the bloc.

Is BRICS membership more politics than economics?

- The statement from the Ministry of Foreign Affairs stating Indonesia's interest in joining BRICS may come as a surprise for many. For one, Indonesia has been accepted as an accession member of the OECD since last May, aiming to become a member state by 2027. Indonesia's decision to pursue BRICS membership could position the country as a member of both the OECD and BRICS – a unique status not yet achieved by any other nation, despite similar diplomatic efforts by Thailand.
- While the initiative to join BRICS and continuing efforts to join the OECD are consistent with Indonesia's non-block foreign policy guideline, **the economic advantages of BRICS membership may be less clear from the country's perspective.** There may be arguments in favour of BRICS as a potential export market, given that the bloc now accounts for around 35.6% of global GDP and approximately 20% of global trade. However, this argument may not be too relevant for Indonesia, considering **that the country largely shares the same product space as other core BRICS country ex. China *(see Chart 1)***.
- Ergo, following the Ricardian logic, Indonesia may be better positioned to leverage its comparative advantages in the extractive sector with OECD member states rather than with BRICS. Unlike the OECD – whose members include global manufacturing hubs such as the US, EU-5, Japan, and South Korea – BRICS is dominated by China as its manufacturing hegemon, with India as a distant second. **The limited supply chain synergy between Indonesia and core BRICS members–China and India being exceptions–explains the limited trade between Indonesia and the bloc *(see Chart 2)***, with trade surpluses from India (largely driven by CPO and coal exports) helping to offset the trade deficit with China (which is primarily due to machinery and electronics imports).

> ***"Indonesia may not gain much trade potential from BRICS membership as the existing member states largely share the same product space"***

- Announcing Indonesia's intent to join BRICS during a politically sensitive period—especially in the US—may also create additional uncertainties regarding Indonesia's export potential in the coming months. Core BRICS members, particularly Russia, have a clear agenda to advance de-dollarisation efforts, even going so far as to introduce a ceremonial BRICS currency during the recent summit in Kazan. Aligning with such an agenda may risk straining relations with the US ahead of the upcoming US presidential election, as former President Trump, currently favourite to win, has signalled his intent to impose punitive tariffs on imports from countries caught supporting the de-dollarisation agenda.

Indonesia, then, may risk further limiting its access to the US market, especially compared to countries like Vietnam, which benefits from a bilateral trade agreement with the US and is not currently in the process of joining BRICS as a member state.

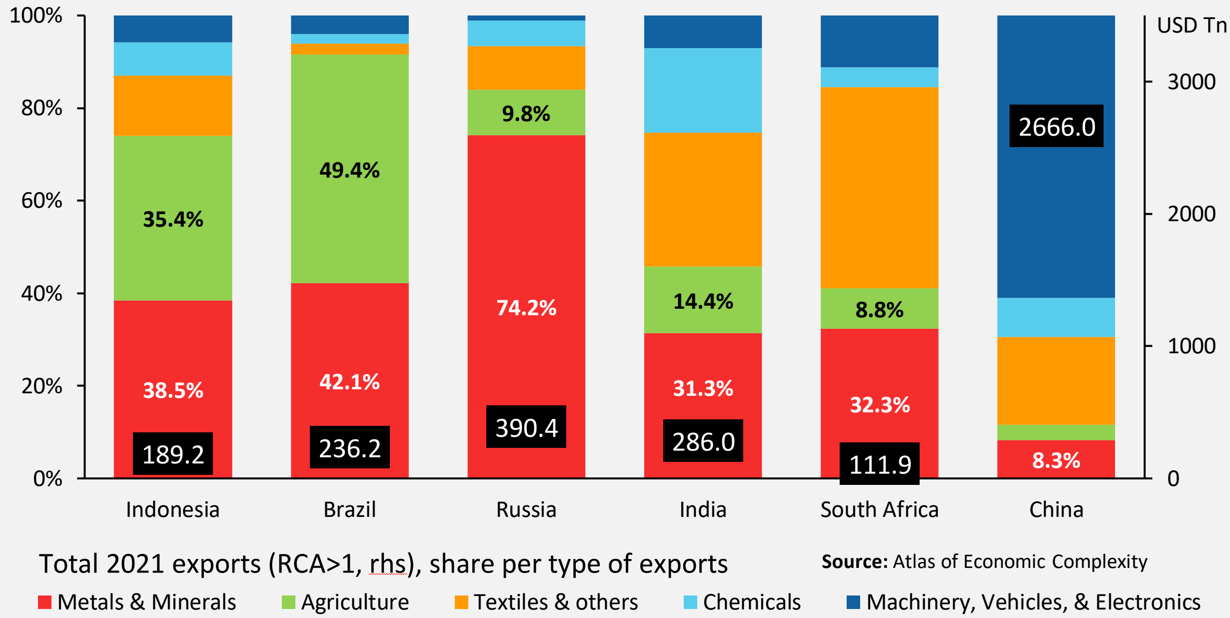
- Moreover, despite the apparent pressure on the Rupiah, it is important to note that **Indonesia does not have any practical urgency to participate in the de-dollarisation effort to justify seeking BRICS membership**. Indonesia's commodity-led trade surplus should lead to a USD surplus within the economy, given that the commodity market remains largely a dollar-based market.
- Meanwhile, China's efforts to internationalise the CNY have created a persistent CNY deficit within the Indonesian financial system, as an increasing number of Chinese exporters are now asking for payment in CNY while Indonesia's CNY-denominated export revenue insofar fails to pick up ***(see Chart 3)***. **This persistent CNY deficit may already necessitate continuous Chinese investments (or other forms of financial flows) into Indonesia**, while investments from other BRICS members may remain limited even after Indonesia completes the ascension process, given their respective current account positions.
- One **clearly positive aspect that Indonesia may gain from BRICS membership, perhaps, is the bloc's expertise in applying financial innovations such as CBDC**, with PBoC-backed project mBridge being one of the examples. The blockchain-based platform has been enabled to undertake real-value transactions beyond the scope of its pilot program since May 2024, offering direct cross-border payment and other foreign exchange transaction services between participating central banks without reliance on existing infrastructures such as SWIFT which requires banks to maintain sizable reserves for settlement—a role which to-date has been played by the USD.
- If successful, then, **mBridge could eliminate the need for central banks to hold foreign exchange reserves altogether, and thereby bypass the USD.** However, the project's future appears uncertain, as the Bank for International Settlements (BIS) is considering shutting it down following a Bloomberg report on President Putin's plan to use the platform as a potential tool to evade financial sanctions imposed on Russia.

"Unlike some of the BRICS founding members, Indonesia does not seem to face a pressing need to advance the de-dollarisation agenda"

Chart 1

Competing against friends

Indonesia shares the same product space as the other core BRICS members, leaving China as the only viable export market

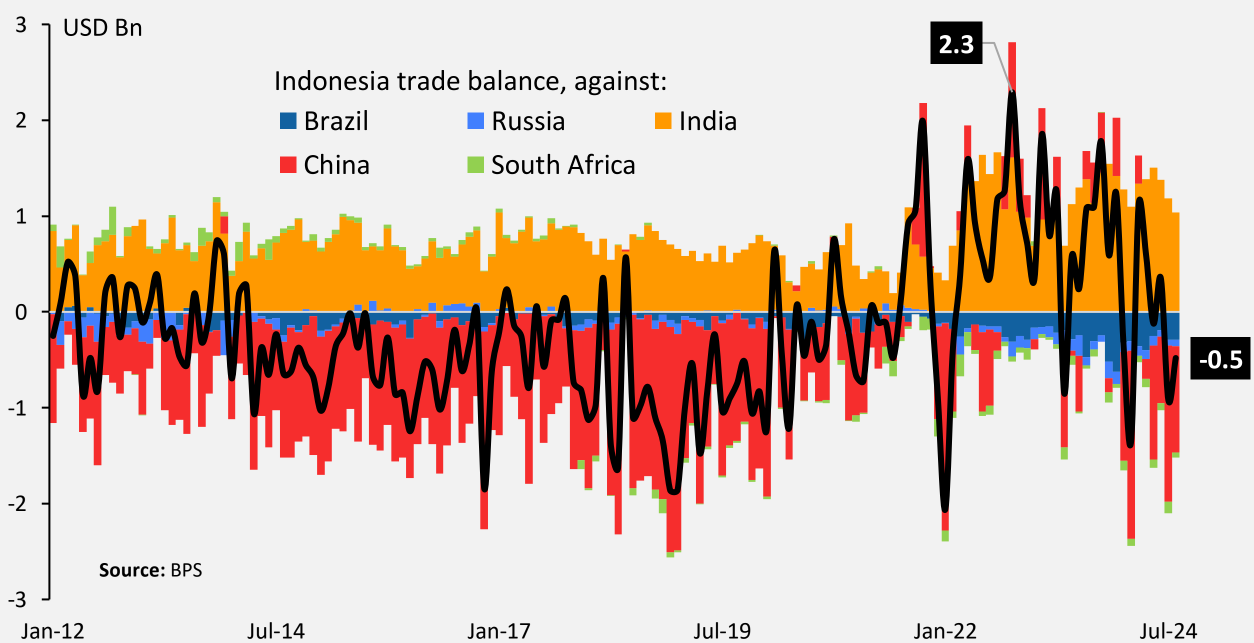


Source: Atlas of Economic Complexity

Chart 2

Life goes on without the other

Indonesia maintains a literal trade balance with core BRICS members, as supply chain compatibility is limited to China and India

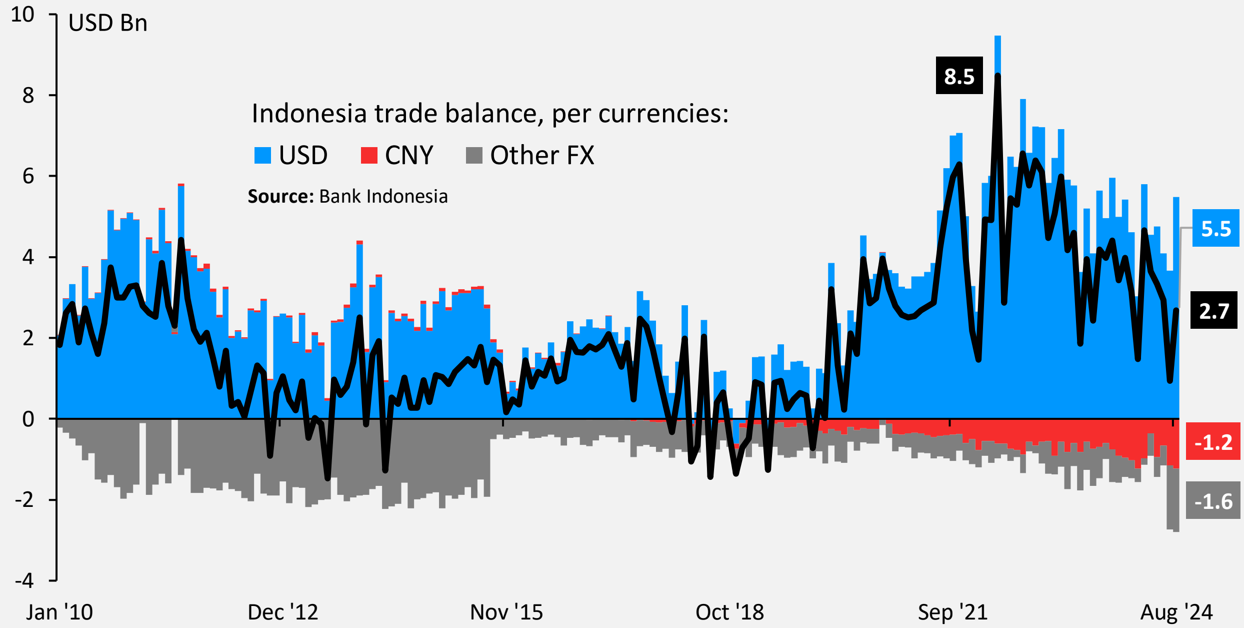


Source: BPS

Chart 3

The USD is all we have

Indonesia is under no pressure to follow the de-dollarisation bandwagon, as commodity trade leaves the country Dollar-rich while merchandise trade leaves the country CNY-poor



Economic Calendar

		Actual	Previous	Forecast*
01 October 2024				
ID	**CPI Inflation YoY, %**	**1.84**	**2.12**	**2.1**
ID	S&P Global Manufacturing PMI	49.2	48.9	49.5
US	S&P Global Manufacturing PMI	47.3	47.9	47
04 October 2024				
US	Non Farm Payrolls, K	254	159	130
07 October 2024				
ID	**Foreign Exchange Reserves, USD Bn**	**149.9**	**150.2**	**149.0**
08 October 2024				
ID	Motorbike Sales YoY, %	3.7	7.4	-
ID	Consumer Confidence	123.5	124.4	124.5
US	Balance of Trade, USD Bn	-70.4	-78.9	-72
09 October 2024				
ID	Car Sales YoY, %	-9.1	-14.2	-
ID	Retail Sales YoY, %	5.8	4.5	3.2
10 October 2024				
US	Inflation Rate YoY, %	2.4	2.5	2.3
13 October 2024				
CN	Inflation Rate YoY, %	0.4	0.6	0.6
14 October 2024				
CN	Balance of Trade, USD Bn	81.71	91.02	82
15 October 2024				
ID	**Balance of Trade, USD Bn**	**3.26**	**2.78**	**3.1**
ID	**Foreign Direct Investment YoY, %**	**18.55**	**16.6**	**-**
16 October 2024				
ID	Loan Growth YoY, %	10.85	11.4	11.5
ID	**Interest Rate Decision, %**	**6.0**	**6.0**	**5.75**
18 October 2024				
CN	Retail Sales YoY, %	3.2	2.1	2.1
22 October 2024				
ID	M2 Money Supply YoY, %	7.2	7.3	-
31 October 2024				
US	PCE Price Index YoY, %		2.2	2.4

*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	5.00	Sep-24	2.60
UK	5.00	Aug-24	3.30
EU	3.40	Oct-24	1.70
Japan	0.25	Jul-24	-2.60
China (lending)	2.00	Sep-24	3.95
Korea	3.25	Oct-24	1.65
India	6.50	Feb-23	1.01
Indonesia	6.00	Sep-24	4.16

Money Mkt Rates	28-Oct	-1 mth	Chg (bps)
SPN (1Y)	6.66	6.47	19.7
SUN (10Y)	6.80	6.45	35.8
INDONIA (O/N, Rp)	6.15	6.13	2.2
JIBOR 1M (Rp)	6.63	6.65	-1.9

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.78	8.81	-2.51
Deposit 1M	4.79	4.78	1.00
Savings	0.65	0.65	-0.09

Currency/USD	28-Oct	-1 mth	Chg (%)
UK Pound	0.771	0.748	-3.01
Euro	0.925	0.896	-3.14
Japanese Yen	153.3	142.2	-7.23
Chinese RMB	7.129	7.011	-1.66
Indonesia Rupiah	15,725	15,125	-3.82

Capital Mkt	28-Oct	-1 mth	Chg (%)
JCI	7,634.6	7,696.9	-0.81
DJIA	42,387.6	42,313.0	0.18
FTSE	8,285.6	8,320.8	-0.42
Nikkei 225	38,605.5	39,829.6	-3.07
Hang Seng	20,599.4	20,632.3	-0.16

Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)
Stock	3,558.2	3,684.6	-126.37
Govt. Bond	870.6	852.3	18.28
Corp. Bond	6.9	7.0	-0.02

Trade & Commodities	28-Oct	-1 mth	Chg (%)
Baltic Dry Index	1,382.0	2,110.0	-34.5
S&P GSCI Index	527.5	532.9	-1.0
Oil (Brent, $/brl)	71.4	72.0	-0.8
Coal ($/MT)	146.5	147.6	-0.7
Gas ($/MMBtu)	2.03	2.66	-23.6
Gold ($/oz.)	2,742.5	2,658.2	3.2
Copper ($/MT)	9,397.0	9,846.5	-4.6
Nickel ($/MT)	15,751.2	16,755.1	-6.0
CPO ($/MT)	1,075.9	1,018.8	5.6
Rubber ($/kg)	1.99	2.05	-2.9

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	22.08	23.44	-5.80
Import ($ bn)	18.82	20.67	-8.91
Trade bal. ($ bn)	3.26	2.78	17.37
Central bank reserves ($ bn)*	149.9	150.2	-0.21

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	123.5	124.4	123.4
Car sales (%YoY)	-9.1	-14.2	-7.8
Motorcycle sales (%YoY)	3.7	7.4	24.1

Manufacturing PMI	Sep	Aug	Chg (bps)
USA	47.3	47.9	-60
Eurozone	45.0	45.8	-80
Japan	49.7	49.8	-10
China	49.3	50.4	-110
Korea	48.3	51.9	-360
Indonesia	49.2	48.9	30

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** otherwis

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	15,650
Trade Balance (US$ 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

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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