Neutral for some, scary for most

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Summary

- Higher US import tariffs may have little impact on consumers, as exchange rate shifts and competitive pricing among exporters could offset tariff-related price increases.
- The muted impact of tariffs on retail prices might encourage the US government to take a tougher stance on import tariffs, rather than merely using it as a negotiation tool.
- The positive link between higher tariffs and a stronger USD suggests limited benefits for US manufacturing but significant harm to exporting countries and Asian currencies.

- The Indonesian financial market has continued to face significant global pressures over the past week. The domestic stock market has seen an outflow of foreign capital amounting to USD 167.9 million, extending the net sell-off trend to five consecutive weeks. The sovereign bond market has similarly struggled, with foreign ownership of SBN declining by USD 168.1 million over the same period, while Bank Indonesia's data indicates weak demand for SRBI from foreign investors. These developments have pushed the Rupiah to a three-month low of 15,925/USD, prompting BI to halt its rate-cutting campaign once again.
- BI's recent decision highlights the persistent challenge in the global financial market. Financing conditions in the US remain tight, with the 10Y UST yield hovering around its H2-2024 high of 4.4%. As we discussed earlier, the less-activist version of activist treasury issuance (ATI), combined with speculations tied to the upcoming Trump presidency explains the higher-for-longer rate expectation. Fortunately, President-elect Trump's pragmatic pick for the Treasury Secretary seat seems to have provided a measure of reassurance against the threat of more radical policy changes, saving the market from its increasingly wild speculations.

Cleaning the plate while US households are having their cake and eating it too

- President-elect Trump's nomination of Scott Bessent as Treasury Secretary has cooled down the US Dollar's rally. While expected to extend the tax cuts provision beyond 2025, the Treasury Secretary nominee has also been reported to favour the policy to reduce the US deficit to 3% of GDP by 2028 – citing fiscal discipline, rather than increased revenue, as a sine qua non to achieving a more balanced budget. Additionally, Bessent interprets the policy on import tariffs as a "maximalist" approach to compel trade partners to the negotiating table, contrasting with the more hawkish positions taken by other figures in President-elect Trump's circle.

- Looking through the perspective of American households, however, it may not matter much whether the new administration adopts a hawkish (additional 10-20% across-the-board import tariffs) or dovish interpretation of Trump's trade policies. While analysts worry that importers will pass additional tariffs onto consumers, **the depreciatory impact of import tariffs on exporting countries' currency (such as the CNY) could offset this effect by lowering imported inflation for American importers *(see Chart 1)***. Hence, despite higher import tariffs, American importers may be able to maintain their margins without significantly raising prices, effectively neutralising the tariffs' overall impact on retail prices.

- There are other factors besides the exchange rate that may support US consumers' import demand despite the higher import tariffs. First, **the dual pressures of supply chain decoupling and even higher tariffs have intensified competition among Chinese producers striving to retain a foothold in the shrinking US import market,** which seems to have translated to a classic race-to-the-bottom dynamic among exporters ***(see Chart 2)***. This price-based competition is especially noticeable for less-differentiated items, such as housewares and consumer electronics which account for 21.7% of total US imports from China in 2024.

- **Second, Chinese manufacturers still have no viable option but to continue exporting to the US market, albeit at significant discounts.** Indeed, China's CNY 10 Tn fiscal stimulus is directed primarily to stabilise the condition in China's municipal bonds (and LGFVs) market, while more robust provisions to support household consumption remain unseen. Thankfully, the declining PPI inflation allows Chinese manufacturers to continue competing on prices in the US (and other) export markets ***(see Chart 3)***, a net benefit on American customers' books.

- These exchange rate effects and the race-to-the-bottom dynamic among exporters may thus protect American consumers from the spectre of higher core goods inflation due to the pass-through effect of higher import tariffs. This means that the expected inflationary effect from the Trump administration's policy agenda may primarily come from the service channel (mass deportations of illegal migrants), given the still-tight condition in the US labour market. Another interesting point to note is that US workers' seemingly improving confidence (as the labour market remains tight) may further fuel the demand condition ***(see Chart 4)***, which should translate to higher demand for imported goods.

"The potentially limited pass-through effect on core goods inflation means that the US government may adopt a hard-line approach on import tariffs"

- **Hence, a hawkish interpretation of the agenda to increase the import tariff may be more appealing to the incoming US administration.** Indeed, the additional 10-20% across-the-board import tariff is projected (by multiple third-party estimates) to generate around USD 143-233 Bn in fiscal revenue, which will help to cover some of the foregone revenue due to the expected extension of President Trump's signature Tax Cuts and Jobs Act (signed in 2017, to be expired in 2025 if not extended). The US government, then, may have its import tariff cake and eat it too, leaving exporting countries to clean the plate thereafter.

- The Trump-Vance ticket, however, has been running on a platform to bring manufacturing jobs back to the US, rather than simply removing China from the US supply chain. The positive correlation between import tariffs and the USD's value may complicate this effort, as the USD's status as a reserve currency drives demand during periods of uncertainty (such as the current). A hawkish interpretation of the import tariff agenda could, therefore, lead to a mutually assured decline in the US and China's manufacturing sectors, leaving a small subset of countries, such as Mexico and Vietnam, to reap the benefits.
- Unfortunately, this statement holds especially true for the Indonesian economy. Like other exporters, Indonesian exporters may bear the impact of the additional US import tariffs through a depreciated IDR, which has lost more value than the CNY during the 2018-2020 US-China trade war. Meanwhile, much like the concern surrounding the EU, **Indonesia also lacks a robust domestic manufacturing sector to shield itself from the influx of Chinese goods previously destined for the US market**, as the Indonesian manufacturing sector remains an afterthought in the ongoing industrial relocation game.
- This situation undoubtedly poses a significant challenge for the Indonesian economy going forward. The anticipated higher-for-longer UST yields and USD exchange rates, driven by the widening fiscal deficit and import tariffs, underscore the financial difficulties facing Indonesia (and other economies). Meanwhile, Chinese manufacturers' efforts to enlist global markets to replace lost US demand highlight the increasingly competitive landscape, further straining Indonesia's manufacturing sector, which hitherto struggled to keep pace. Indeed, the necessary conditions for a sustained commodity price rally – such as a substantial recovery in China's domestic demand – have not yet materialised, leaving Indonesia struggling to emerge from the ongoing slowdown while the coast is not yet all clear for BI to swing their focus from currency stabilisation to growth promotion.

"Despite its arguably neutral impact on consumer, higher import tariffs are undoubtedly detrimental for the global manufacturing sector and Asian currencies"

Chart 1

Subdued by exchange rates

The CNY and other Asian currencies were significantly depreciated during the 2018-2020 US-China trade war, lowering prices of imported goods for American traders and consumers

Chart 2

Racing to the bottom

Chinese manufacturers lower their prices to compete and maintain their toehold in the shrinking US import market

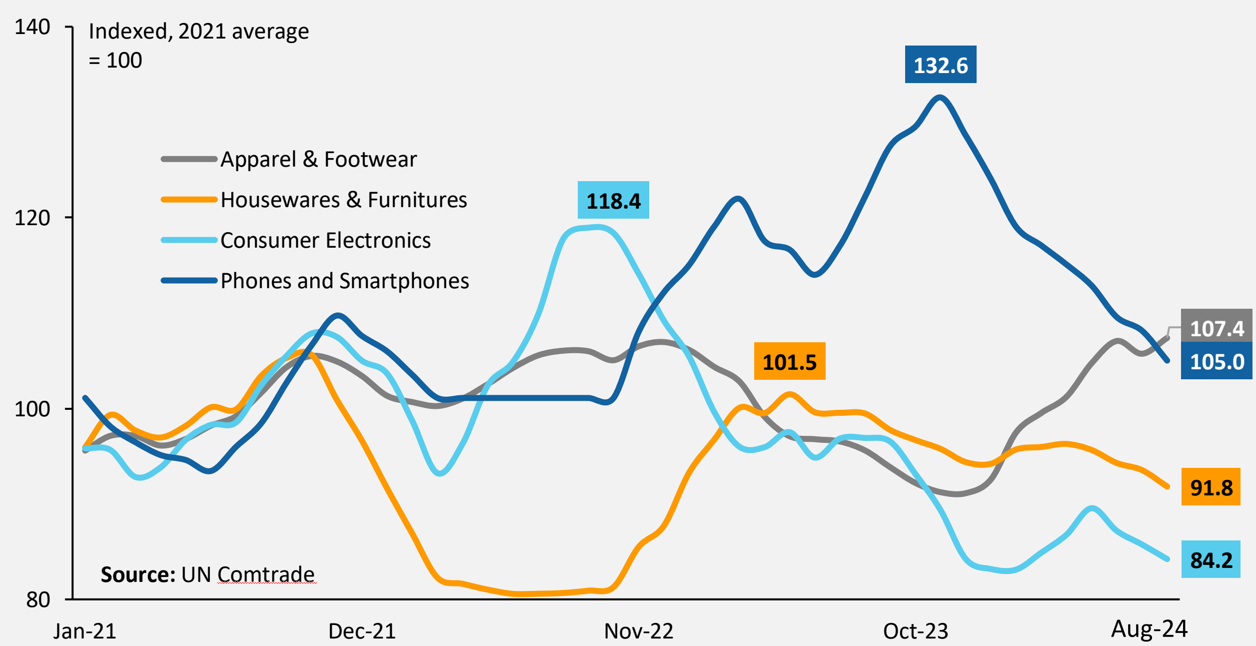
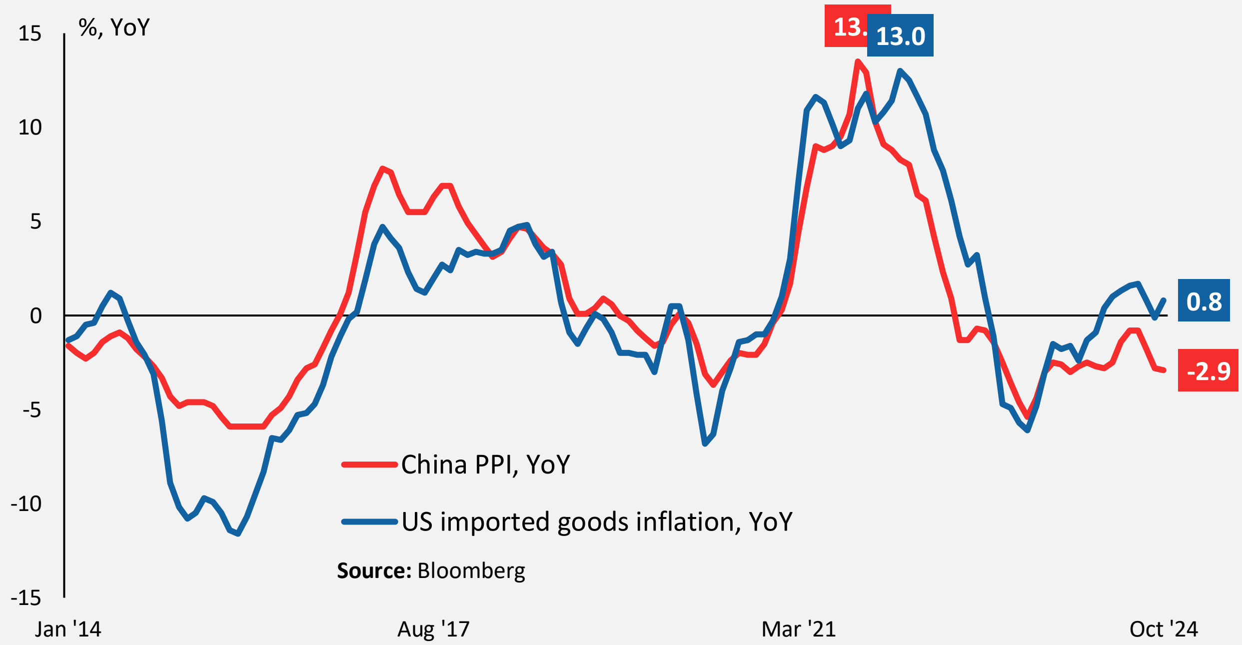


Chart 3

Cheaper imports

The stronger USD may encourage US consumers to continue looking for imported goods, while the declining factory price may also allow Chinese producers to sell at a discount

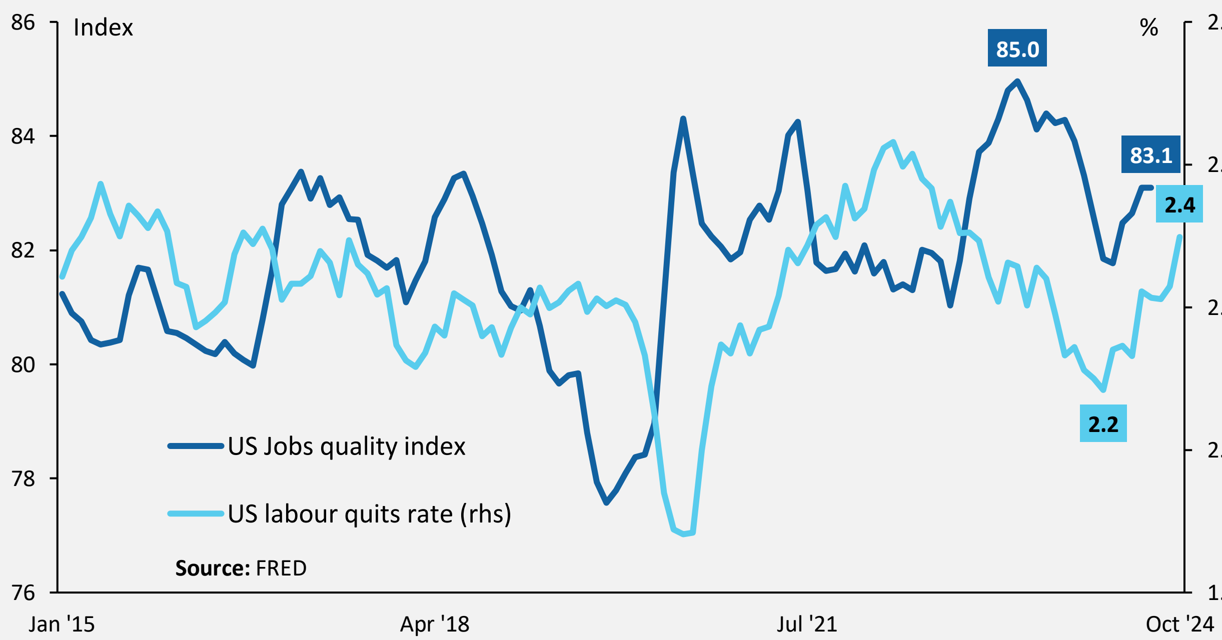


Source: Bloomberg

Chart 4

Lots of greener grass

US workers are getting more comfortable at switching their jobs given the increasing availability of higher quality jobs, reflecting US consumers' higher degree of confidence



Source: FRED

Economic Calendar

		Actual	Previous	Forecast*
01 November 2024				
ID	S&P Global Manufacturing PMI	49.2	49.2	49.6
ID	**Inflation Rate YoY, %**	**1.71**	**1.84**	**1.7**
ID	Tourist Arrivals YoY, %	19.53	18.3	19.0
US	Non Farm Payrolls, th	12	223	180
US	S&P Global Manufacturing PMI	48.5	47.3	-
05 November 2024				
ID	**GDP Growth Rate YoY, %**	**4.95**	**5.05**	**5**
US	Balance of Trade, USD Bn	-84.4	-70.8	-82.0
07 November 2024				
ID	**Foreign Exchange Reserves, USD Bn**	**151.2**	**149.9**	**-**
CN	Balance of Trade, USD Bn	95.27	81.71	70
08 November 2024				
US	**Fed Interest Rate Decision, %**	**4.75**	**5**	**4.75**
ID	Motorbike Sales YoY, %	5.4	3.7	-
09 November 2024				
CN	Inflation Rate YoY, %	0.3	0.4	0.5
11 November 2024				
ID	Consumer Confidence	121.1	123.5	123.2
ID	Car Sales YoY, %	-3.9	-9.1	-
12 November 2024				
ID	Retail Sales YoY, %	4.8	5.8	2.5
13 November 2024				
US	Inflation Rate YoY, %	2.6	2.4	2.6
15 November 2024				
ID	**Balance of Trade, USD Bn**	2.47	**3.23**	**3.3**
CN	Retail Sales YoY, %	4.8	3.2	4.0
19 November 2024				
EU	Inflation Rate YoY, %	2.0	1.7	2.0
20 November 2024				
ID	Loan Growth YoY, %	10.92	10.85	10.8
ID	**Interest Rate Decision, %**	**6.0**	**6.0**	**6.0**
22 November 2024				
ID	M2 Money Supply YoY, %	6.7	7.2	-
27 November 2024				
US	PCE Price Index YoY, %		2.1	-

*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	4.75	Nov-24	2.15
UK	4.75	Nov-24	2.45
EU	3.40	Oct-24	1.40
Japan	0.25	Jul-24	-2.40
China (lending)	2.00	Sep-24	4.05
Korea	3.25	Oct-24	1.95
India	6.50	Feb-23	0.29
Indonesia	6.00	Sep-24	4.29
Money Mkt Rates	**22-Nov**	**-1 mth**	**Chg (bps)**
SPN (1Y)	6.64	6.57	7.6
SUN (10Y)	6.90	6.66	23.4
INDONIA (O/N, Rp)	6.13	6.25	-11.7
JIBOR 1M (Rp)	6.62	6.63	-1.0
Bank Rates (Rp)	**Sep**	**Aug**	**Chg (bps)**
Lending (WC)	8.87	8.78	8.91
Deposit 1M	4.81	4.79	2.01
Savings	0.67	0.65	1.33
Currency/USD	**22-Nov**	**-1 mth**	**Chg (%)**
UK Pound	0.798	0.770	-3.50
Euro	0.960	0.926	-3.53
Japanese Yen	154.8	151.1	-2.39
Chinese RMB	7.248	7.124	-1.71
Indonesia Rupiah	15,875	15,560	-1.98
Capital Mkt	**22-Nov**	**-1 mth**	**Chg (%)**
JCI	7,195.6	7,789.0	-7.62
DJIA	44,296.5	42,924.9	3.20
FTSE	8,262.1	8,306.5	-0.54
Nikkei 225	38,283.9	38,412.0	-0.33
Hang Seng	19,230.0	20,499.0	-6.19
Foreign portfolio ownership (Rp Tn)	**Oct**	**Sep**	**Chg (Rp Tn)**
Stock	3,573.9	3,558.2	15.66
Govt. Bond	885.6	870.6	14.98
Corp. Bond	6.9	6.9	-0.07

Trade & Commodities	22-Nov	-1 mth	Chg (%)
Baltic Dry Index	1,537.0	1,480.0	3.9
S&P GSCI Index	547.2	545.4	0.3
Oil (Brent, $/brl)	75.2	76.0	-1.1
Coal ($/MT)	148.4	150.5	-1.4
Gas ($/MMBtu)	2.41	1.83	31.6
Gold ($/oz.)	2,716.2	2,749.0	-1.2
Copper ($/MT)	8,848.0	9,437.8	-6.2
Nickel ($/MT)	15,737.1	16,054.3	-2.0
CPO ($/MT)	1,091.1	1,024.2	6.5
Rubber ($/kg)	1.88	2.00	-6.0
External Sector	**Oct**	**Sep**	**Chg (%)**
Export ($ bn)	24.41	22.06	10.69
Import ($ bn)	21.94	18.82	16.54
Trade bal. ($ bn)	2.48	3.23	-23.39
Central bank reserves ($ bn)*	151.2	149.9	0.87
Prompt Indicators	**Oct**	**Sep**	**Aug**
Consumer confidence index (CCI)	121.1	123.5	124.4
Car sales (%YoY)	-3.9	-9.1	-14.2
Motorcycle sales (%YoY)	5.4	3.7	7.4
Manufacturing PMI	**Oct**	**Sep**	**Chg (bps)**
USA	48.5	47.3	120
Eurozone	46.0	45.0	100
Japan	49.2	49.7	-50
China	50.3	49.3	100
Korea	48.3	48.3	0
Indonesia	49.2	49.2	0

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.75
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	15,947
Trade Balance (US$ billion)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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