Samuel's Economic Data Tracker

GDP- Balance of Payment-Foreign Trade-Foreign Reserves-Interest Rate-Inflation-Government Budget

SAMUEL SEKURITAS INDONESIA

Macro Analysis

26 July 2023

Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	June	July
7 Day Reverse Repo Rate	5.75%	5.75%
Deposit Facility Rate	5.00%	5.00%
Lending Facility Rate	6.50%	6.50%
2023 GDP Growth Forecast	4.5-5.3%	4.5-5.3%
2023 Current Account Ratio Forecast	0.4-(-0.4)%	0.4-(-0.4)%
2023 Inflation Target	3±1%	3±1%
2023 Credit Growth Forecast	10-12%	9-11%
Money Supply and Banking Sector Indicators	**May**	**June**
Currency Growth	4.5%	8.7%
Narrow Money (M1) Growth	3.4%	N.A.
Broad Money (M2) Growth	6.1%	N.A.
Third Party's Deposit Growth	6.6%	5.8%
Bank Loan Growth	9.4%	7.8%
Electronic Money Transaction Growth	17.9%	14.8%
Digital Banking Transaction Growth	31.8%	11.6%
ATM, Debit and Credit Card Transaction Growth	8.3%	3.0%

Source: Bank Indonesia, SSI Research

BI Might Consider Starting its 7DRRR Cut in October

Bank Indonesia decided to keep its benchmark interest rate at 5.75% (6 months in a row). The decision was made to maintain the stability of the Rupiah exchange rate amid global market turmoil. BI also announced its projection for the Fed's interest rate in 2H23 (2X25 bps hike in July and September to 5.75%). In our opinion, this announcement is a signal that BI is preparing to start cutting its 7DRRR in 4Q23 due to four factors, namely:

a) the low probability of the Fed announcing a second 25 bps hike in September (based on US core PCE inflation projections),
b) huge possibility for the deceleration of domestic inflation to lower than 3% yoy in October,
c) the high probability of a decline in banking credit growth in the coming months, and
d) the cut will help correct anomalies in the domestic bond market, which negatively impacted the foreign inflow-driven bullish rally.

Bank Indonesia kept its benchmark interest rate at 5.75%, in line with consensus (Jun: 5.75%; Cons Jul: & SSI: 5.75%) for 6 months in a row. The decision was taken to maintain the stability of the Rupiah exchange rate, which had depreciated to IDR 15,195 per USD on July 10 due to the Fed's plan to raise its terminal rate by 2X25 bps to 5.75% in 2H23. Although global market players expect the Fed rate hike this month (1X25 bps to 5.5%) to be the last one, BI Governor Perry Warjiyo anticipates a second hike in September (BI prediksi the Fed naikkan suku bunga dua kali lagi hingga akhir tahun), sooner than market projections (November).

We believe that the assumption was made because BI is considering to start its 7DRRR cut in October, just as we predicted (Expect BI rate cuts in September or October**).** There are four factors forming the basis of our argument. The first one is the potential deceleration of domestic inflation as the impact of fuel price hikes in September continues to fade away. According to our estimates in the June inflation report (inflation slowdown in Jun supports rate cuts, though Rupiah depreciation might deter BI), Indonesia's inflation might decline to 2.4% yoy in September, and BI has anticipated the possibility by setting a rather low inflation target range for 2024 (2.5±1%).

The second one is to prevent a slowdown in banking credit growth. BI realizes that the high interest rate policy hurts banking credit growth, which fell to 7.8% yoy in June (May: 9.4% yoy). This decline also had a negative impact on the FY23 credit growth projection, which fell to 9-11% (Prev: 10-12%). To prevent further decline, BI chose macroprudential policy instruments, such as incentives for downstream credit distribution, housing, tourism, and MSMEs (micro, small and medium enterprises). However, this policy only functions as a 'band-aid', and it cannot replace benchmark interest rate cuts.

Lionel Priyadi
Macro Strategist
lionel.priyadi@samuel.co.id
+6221 2854 8854

The third is the fact that ‘operation twist’ policy, which is done to maintain the stability of the Rupiah exchange rate, is not as effective as before. The policy distorted the foreign inflow-driven bullish rally in the domestic bond market (see Chart 1). The bullish steepening pattern that appeared on the bond market has turned to flattening (see Chart 2). The pattern change occurred because the 2Y and 3Y yields suddenly went up (see chart 3), while long tenor yields (10Y and 15Y) remained in a sideways position (see Chart 4). The distortion can only be overcome by BI rate cuts.

The fourth is the high probability of US core PCE inflation falling lower than the Fed's June forecast (3.9%). We believe that the plan for the second Fed rate hike depends on the assumption of whether the US core PCE inflation rate falls below the projected mark (3.9%) or not. To explore this possibility, we have prepared three scenarios, consisting of a baseline scenario (core PCE inflation of 0.2% mom through the end of the year, based on the core CPI inflation in June of 0.16% mom), bullish (0.1% mom) and bearish (0.3% mom). If we use our baseline estimate, US core PCE inflation might decline to the projected limit of 3.9% yoy in August and continue decelerating to 3.7% yoy in September. Meanwhile, if we use our bearish estimate, US core PCE inflation might stay above 4% through the end of this year (see Chart 5). Based on these projections, we estimate that the probability of US core PCE inflation falling lower than the Fed's 3.9% projection is 80%. Thus, the probability of a second Fed rate hike in September or thereafter is only 20%.

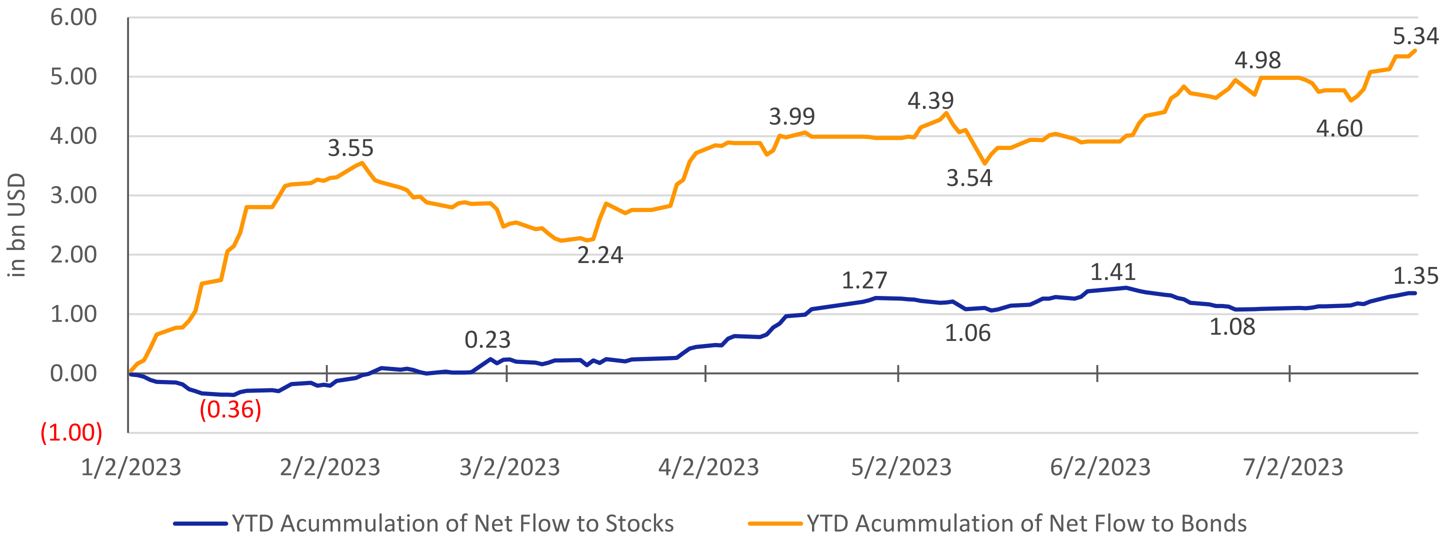
Based on the four arguments we presented, we believe there’s a huge possibility that BI will start cutting its 7DRRR in October by 2X25 bps to 5.25% in 4Q23. We also estimate that BI will continue to cut its 7DRRR in 1H24 by 4X25 bps to 4.25% (see Table 1).

Table 1. SSI Macroeconomic Forecast Table

Indicators (% yoy)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	(1.0)	3.7	1.8	4.0	(0.9)	3.4	1.7	0.6	(0.8)	3.5	1.4	0.8			
Real GDP	5.0	5.4	5.7	5.0	5.0	4.6	4.5	4.7	4.8	5.0	4.7	5.0	5.3	4.7	4.9
Unemployment rate (% nsa)	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	2.6	4.4	6.0	5.5	5.0	3.5	2.4	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	0.2	1.1	1.3	1.3	0.9	(1.3)	(0.9)	(1.1)	(0.7)	(1.9)	(1.3)	(1.6)	1.0	(0.6)	(1.4)
12M rolling sum	0.4	0.9	0.8	1.0	1.2	0.5	(0.1)	(0.6)	(1.1)	(1.2)	(1.3)	(1.4)			
Fiscal balance (% to GDP)	0.1	0.5	0.3	(2.4)	0.6	0.7	(1.3)	(2.5)	(0.7)	(1.3)	(1.9)	(2.6)	(2.4)	(2.5)	(2.6)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	4.25	5.50	5.75	5.75	5.75	5.25	4.75	4.25	4.25	4.25	5.50	5.25	4.25
10-year government bond yield (%)	6.74	7.22	7.37	6.94	6.79	6.26	6.20	6.00	5.80	5.50	5.70	5.60	6.94	6.00	5.60
Exchange rate (USD/IDR)	14,369	14,898	15,228	15,568	14,995	14,993	14,700	14,900	15,000	14,900	14,800	14,700	15,568	14,900	14,700

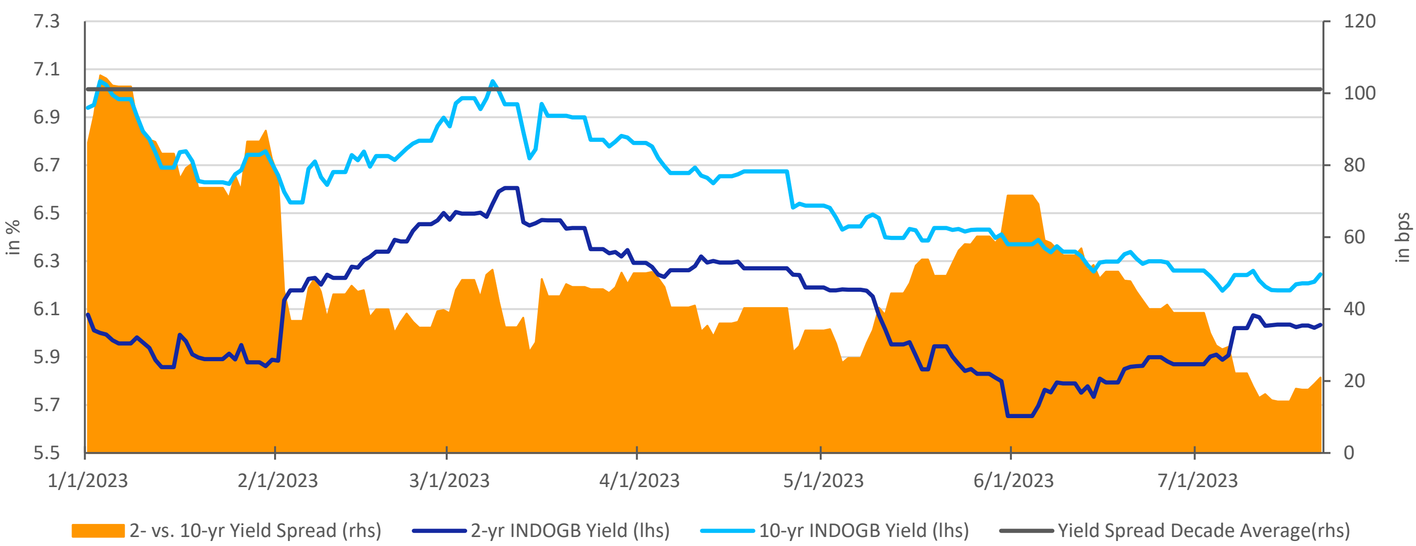
Source: SSI Research.

Chart 1. Foreign Capital Inflow to Indonesia Capital Market



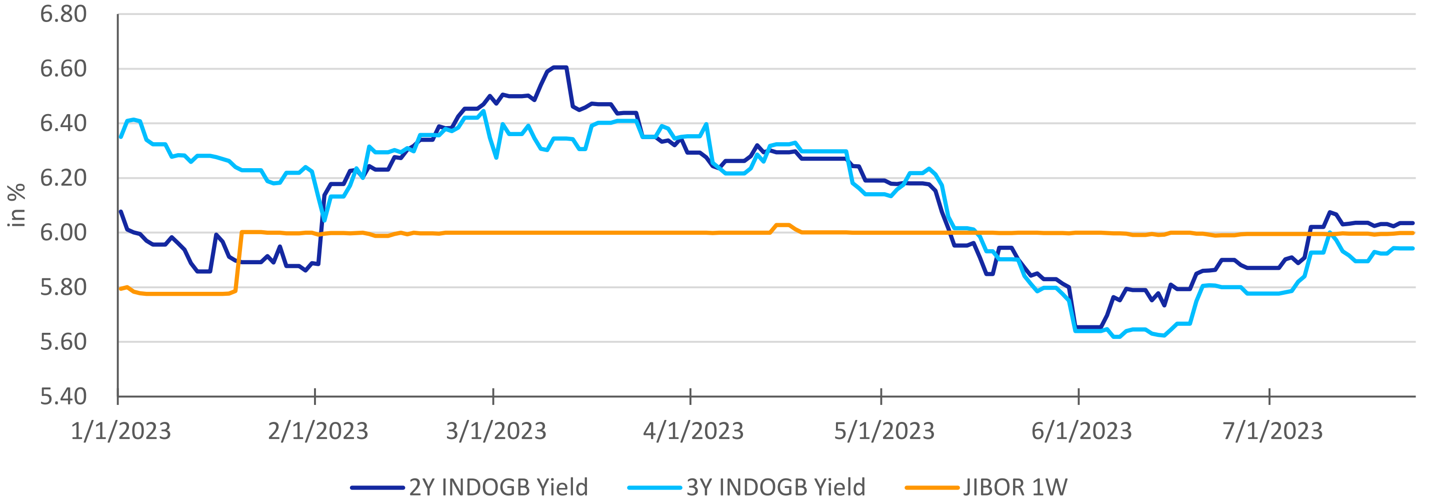
Source: Bank Indonesia, IDX, Bloomberg, SSI Research

Chart 2. Samuel's Main INDOGB Yield Indicator



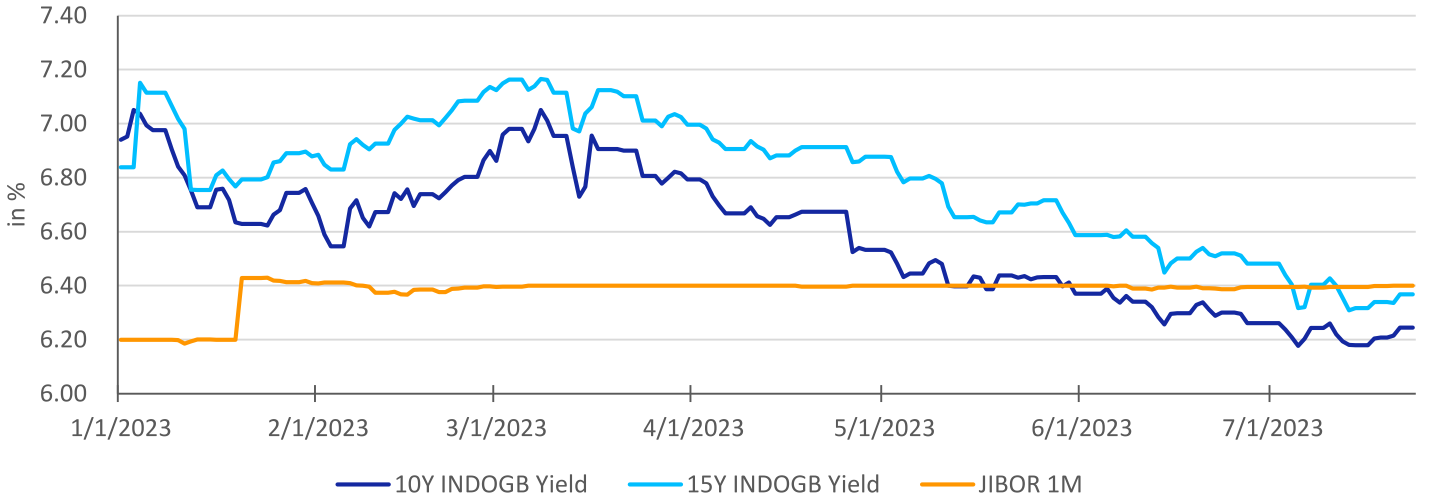
Source: IDX, MOF, Bloomberg, SSI Research

Chart 3. Samuel's Short-term SBN Yield Indicator



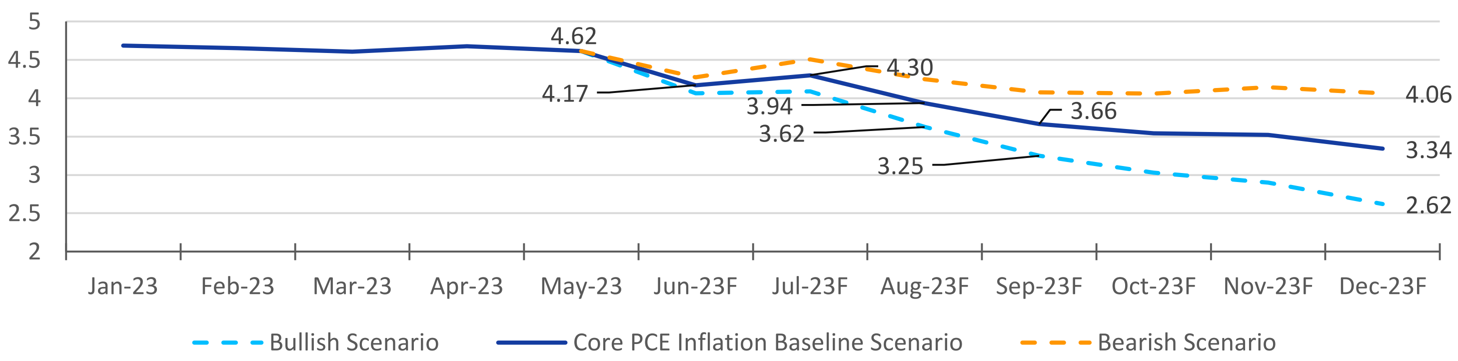
Source: Bank Indonesia, IDX, Bloomberg, SSI Research.

Chart 4. Samuel's Long-term SBN Yield Indicator



Source: Bank Indonesia, IDX, Bloomberg, SSI Research

Chart 5. Samuel's Projection on US PCE Inflation



Source: BOE, Bloomberg, SSI Research

Research Team			
Prasetya Gunadi	Head of Equity Research, Strategy, Banking, Digital Banks	prasetya.gunadi@samuel.co.id	+6221 2854 8320
Lionel Priyadi	Macro Equity Strategist	lionel.priyadi@samuel.co.id	+6221 2854 8854
Muhamad Alfatih, CSA, CTA, CFTe	Senior Technical Analyst	m.alfatih@samuel.co.id	+6221 2854 8129
William Mamudi, CFTe, CMT, CCT	Senior Technical Analyst	william.mamudi@samuel.co.id	+6221 2854 8382
Yosua Zisokhi	Cement , Cigarette, Paper, Plantation,Telco Infra, Chemicals	yosua.zisokhi@samuel.co.id	+6221 2854 8387
M. Farras Farhan	Media, Poultry, Oil & Gas, Technology	farras.farhan@samuel.co.id	+6221 2854 8346
Pebe Peresia	Automotive, Consumer Staples, Retail	pebe.peresia@samuel.co.id	+6221 2854 8339
Juan Oktavianus Harahap	Coal, Metal Mining	juan.oktavianus@samuel.co.id	+6221 2854 8846
Jonathan Guyadi	Banking, Healthcare, Telco	jonathan.guyadi@samuel.co.id	+6221 2854 8321
Adolf Richardo	Editor	adolf.richardo@samuel.co.id	+6221 2864 8397
Ashalia Fitri Yuliana	Research Associate	ashalia.fitri@samuel.co.id	+6221 2854 8389
Daniel Aditya Widjaja	Research Associate	daniel.aditya@samuel.co.id	+6221 2854 8322
Laurencia Hiemas	Research Associate	laurencia.hiemas@samuel.co.id	+6221 2854 8392
Brandon Boedhiman	Research Associate	brandon.boedhiman@samuel.co.id	+6221 2854 8392

Equity Institutional Team			
Benny Bambang Soebagjo	Head of Institutional Equity Sales	benny.soebagjo@samuel.co.id	+6221 2854 8312
Ronny Ardianto	Institutional Equity Sales	ronny.ardianto@samuel.co.id	+6221 2854 8399
Anthony Yunus	Institutional Equity Sales	anthony.yunus@samuel.co.id	+6221 2854 8314
Widya Meidrianto	Institutional Equity Sales	widya.meidrianto@samuel.co.id	+6221 2854 8317
Fachruly Fiater	Institutional Sales Trader	fachruly.fiater@samuel.co.id	+6221 2854 8325
Lucia Irawati	Institutional Sales Trader	lucia.irawati@samuel.co.id	+6221 2854 8173
Alexander Tayus	Institutional Equity Dealer	alexander.tayus@samuel.co.id	+6221 2854 8319
Leonardo Christian	Institutional Equity Dealer	leonardo.christian@samuel.co.id	+6221 2854 8147

Equity Retail Team			
Joseph Soegandhi	Head of Equity	joseph.soegandhi@samuel.co.id	+6221 2854 8872
Damargumilang	Head of Equity Retail	damargumilang@samuel.co.id	+6221 2854 8309
Clarice Wijana	Head of Equity Sales Support	clarice.wijana@samuel.co.id	+6221 2854 8395
Gitta Wahyu Retnani	Equity Sales & Trainer	gitta.wahyu@samuel.co.id	+6221 2854 8365
Vincentius Darren	Equity Sales	darren@samuel.co.id	+6221 2854 8348
Michael Alexander	Equity Sales	michael.alexander@samuel.co.id	+6221 2854 8369
Sylviawati	Equity Sales	sylviawati@samuel.co.id	+6221 2854 8112
Wandha Ahmad	Equity Sales	wandha.ahmad@samuel.co.id	+6221 2854 8316
Handa Sandiawan	Equity Sales	handa.sandiawan@samuel.co.id	+6221 2854 8302
Denzel Obaja	Equity Sales	denzel.obaja@samuel.co.id	+6221 2854 8342
Wahyudi Budiyono	Dealer	wahyudi.budiyono@samuel.co.id	+6221 2854 8152

Fixed Income Sales Team			
R. Virine Tresna Sundari	Head of Fixed Income	virine.sundari@samuel.co.id	+6221 2854 8170
Rudianto Nugroho	Fixed Income Sales	rudianto.nugroho@samuel.co.id	+6221 2854 8306
Sany Rizal Keliobas	Fixed Income Sales	sany.rizal@samuel.co.id	+6221 2854 8337
Safitri	Fixed Income Sales	safitri@samuel.co.id	+6221 2854 8376
Khairanni	Fixed Income Sales	khairanni@samuel.co.id	+6221 28548104
Saldy Achmad Yanuar	Fixed Income Sales	saldy.achmad@samuel.co.id	+6221 28548384
Nadya Attahira	Fixed Income Sales	nadya.attahira@samuel.co.id	+6221 2854 8305