



Macro Strategy and Fixed Income Outlook 2024

Global Dovish Pivot Euphoria

Lionel Priyadi

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Global Macro: The Fed & ECB's Dovish Pivot

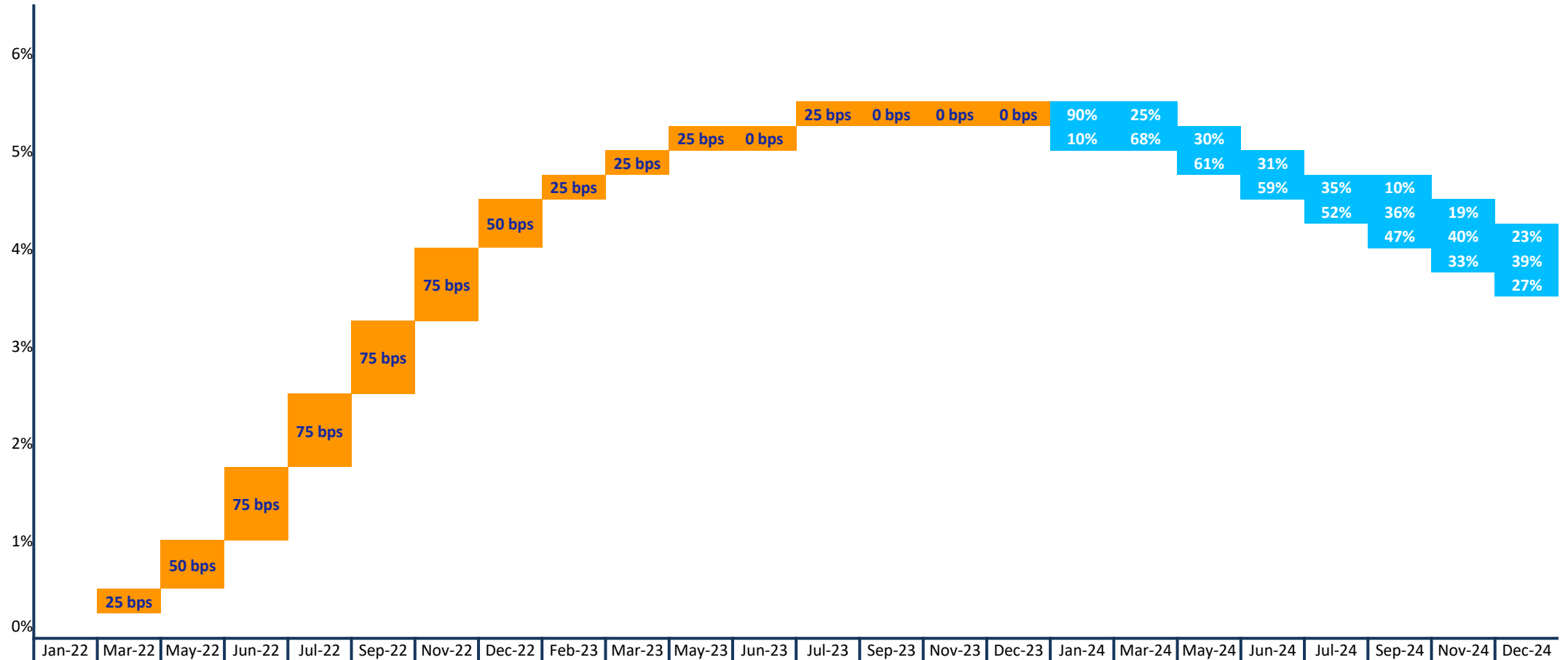
What's Our View?

In our opinion, market players' strong expectations of a dovish pivot in 1Q24 is nothing but a mere speculation, and it might lead to major volatility

- Expectations of a Fed dovish pivot in 1Q24 remain relatively intact, even though US labor market unexpectedly strengthened in November and disinflation momentum somewhat slowed down due to persistent expansion in the services sector.
- The dovish pivot euphoria, that originated from the United States (The Fed), has spread to the Eurozone (ECB) due to the increasing probability of global recession, especially in Europe.
- The strong dovish pivot euphoria might encourage Japan (BoJ) to end its negative interest rate policy in January or February, before the start of the Fed's dovish pivot.
- However, there is a possibility that the dovish pivot might not occur in 1Q24, especially if monthly core PCE inflation remains relatively strong in 2024 (averaging at 0.2% mom or higher). This might lead to trigger major volatility in global financial markets

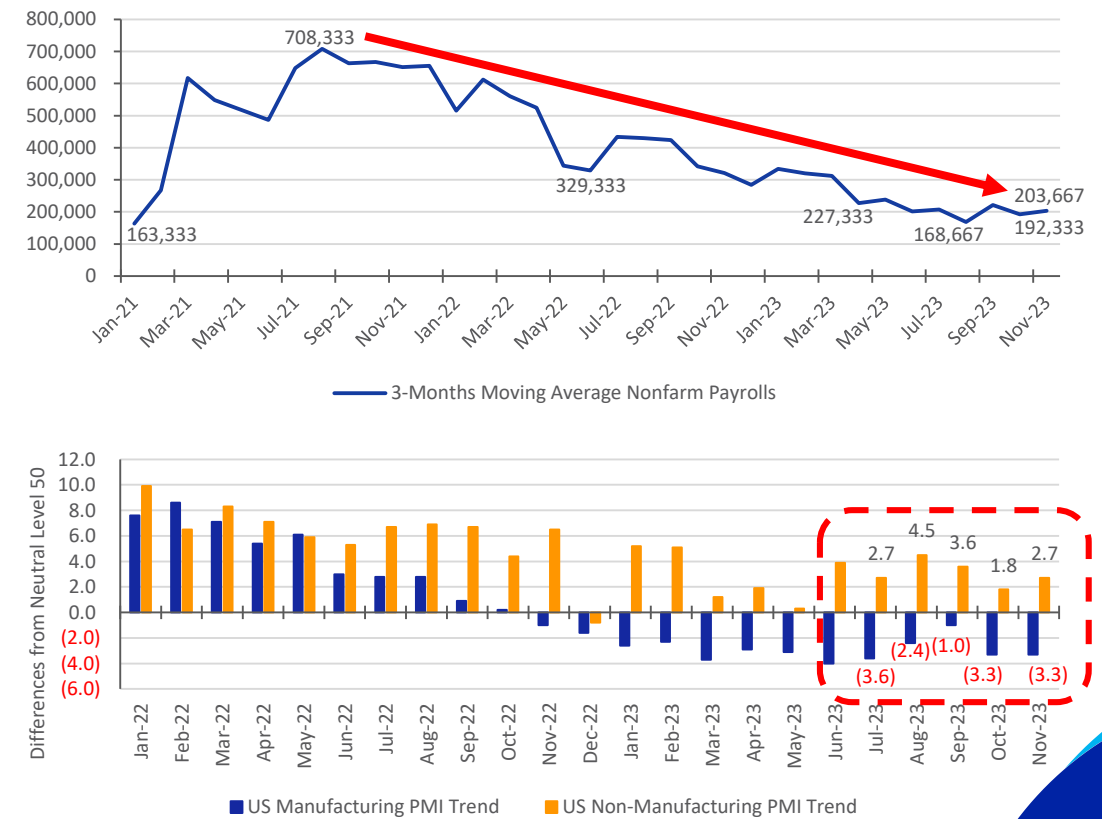
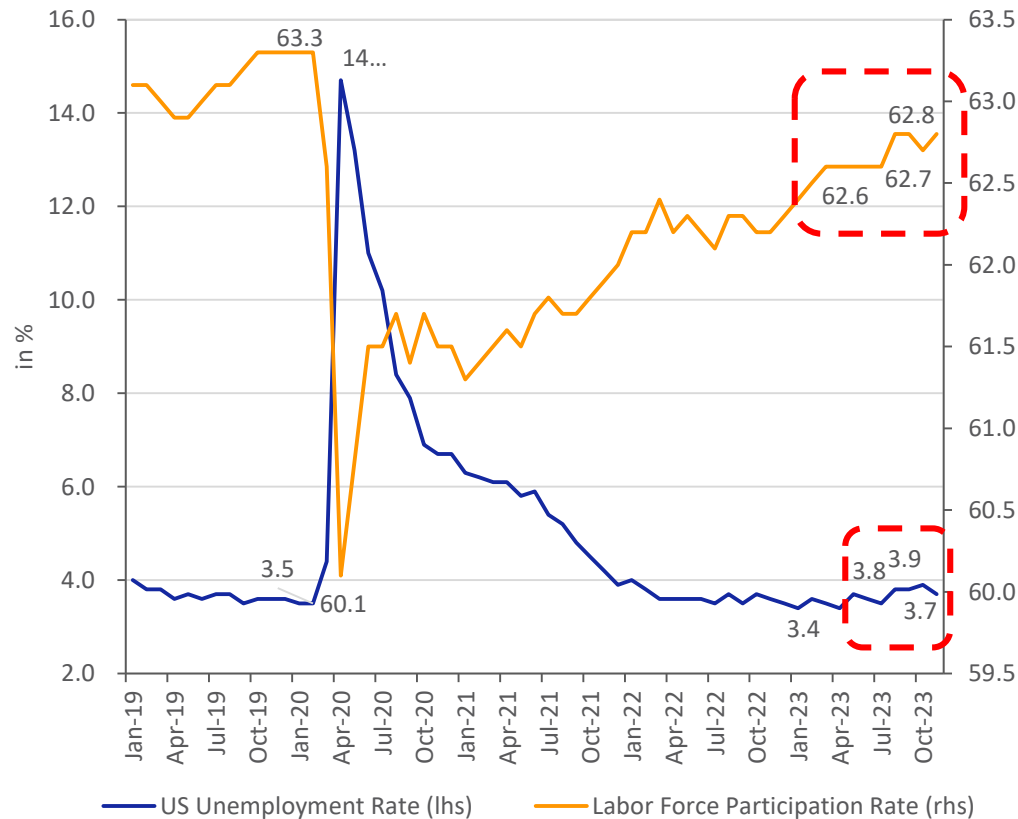
Market players expect the Fed to start its dovish pivot in 1Q24

With projected rate cut(s) of 150 bps to 3.75-4%



Source: CME Group, Federal Research, SSI Research

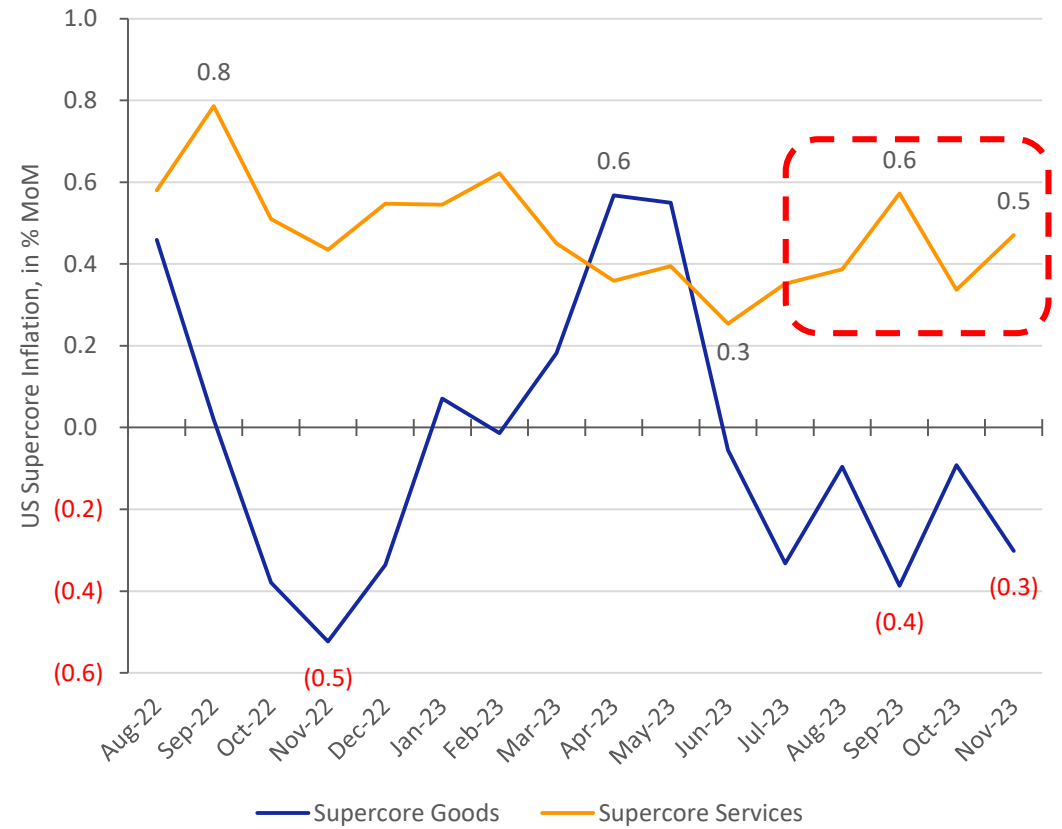
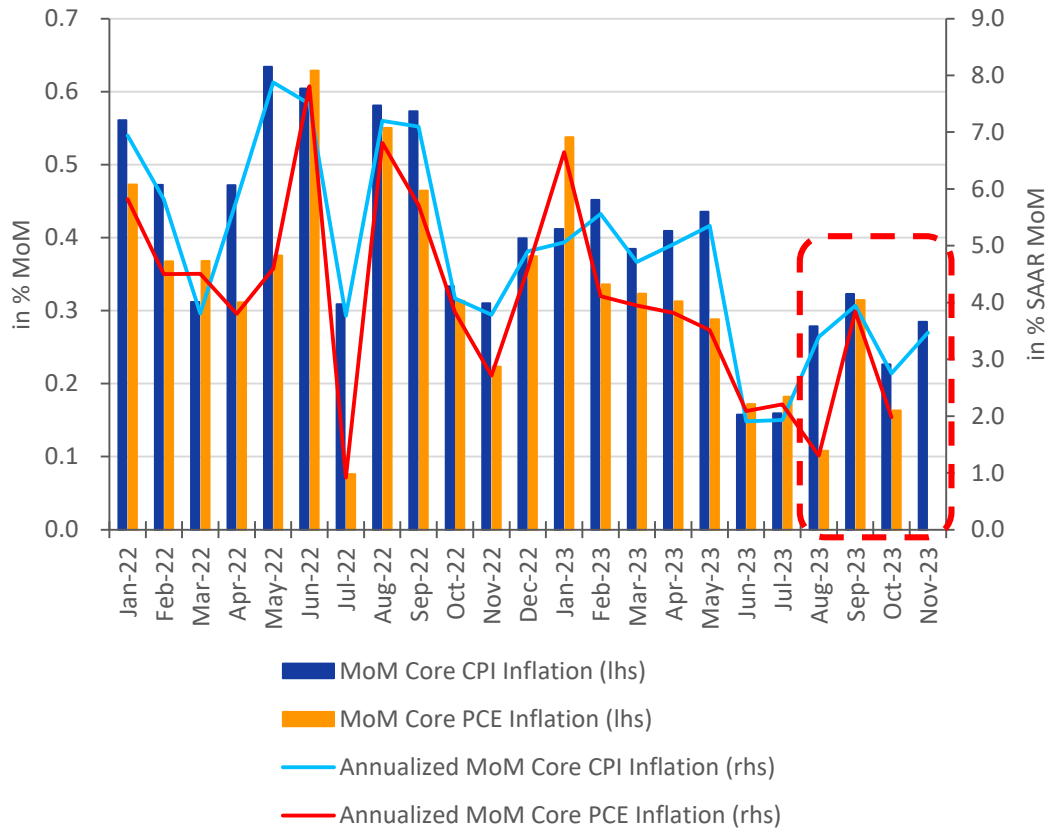
The Fed's dovish pivot expectations remain intact, even though US labor market tightening is somewhat hampered by services sector expansion, which is also a strong signal of a soft landing in 1H24



Source: BLS, ISM, Bloomberg, SSI Research

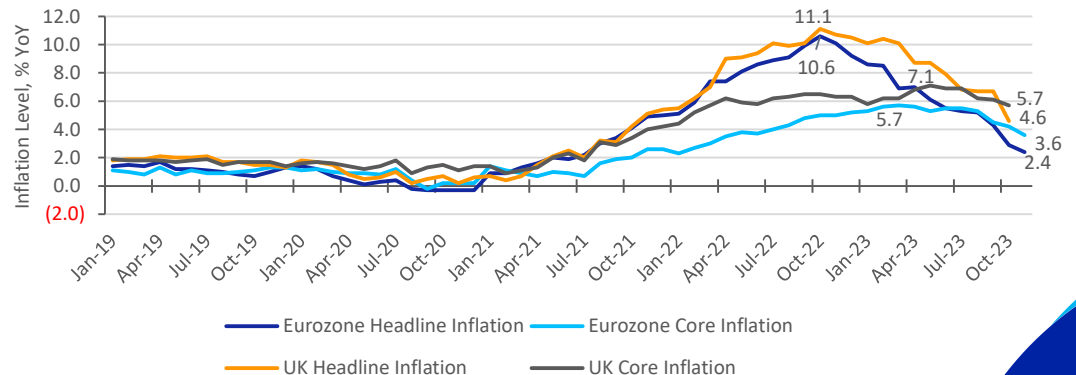
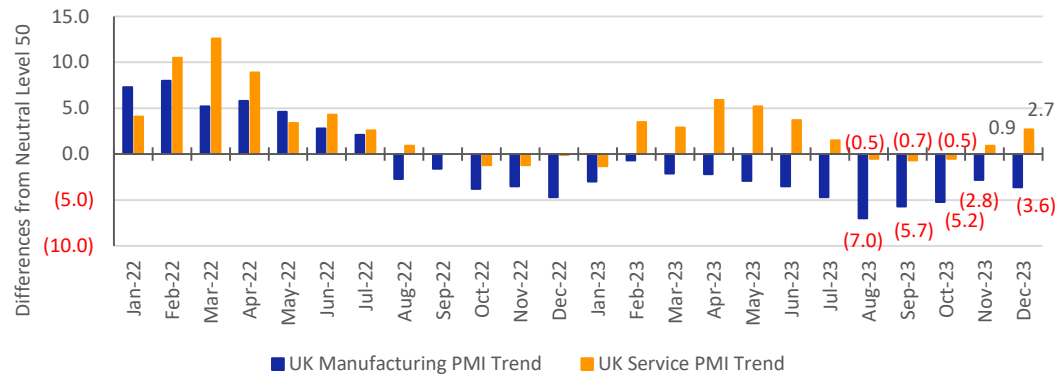
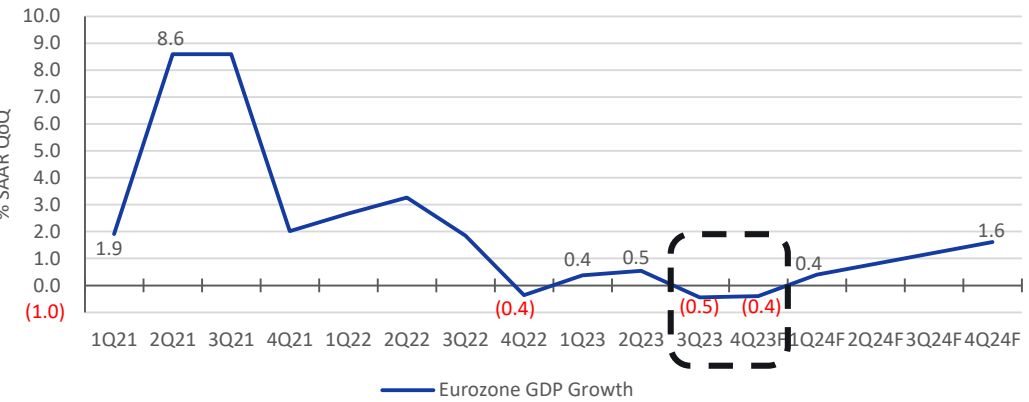
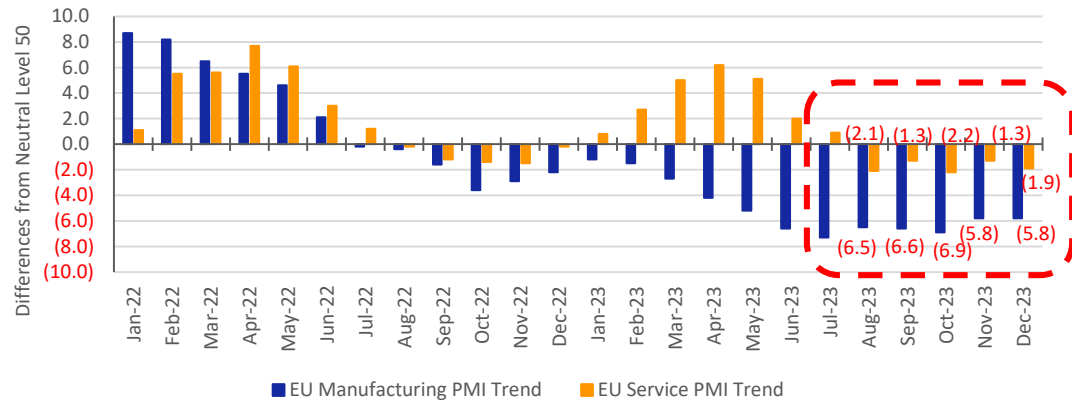
The US services sector expansion also weakened the disinflation momentum in November, with the spike in supercore services inflation

However, market players' optimism for a Fed dovish pivot in 1Q24 remains relatively strong



Source: BEA, BLS, Bloomberg, SSI Research

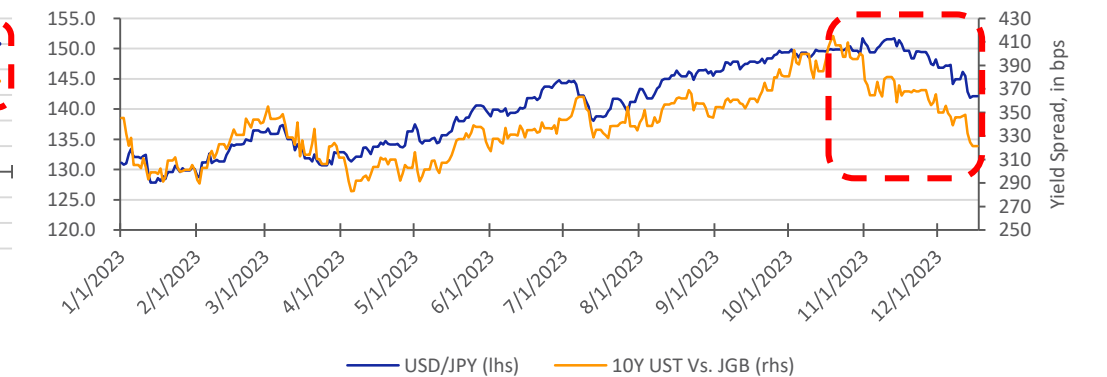
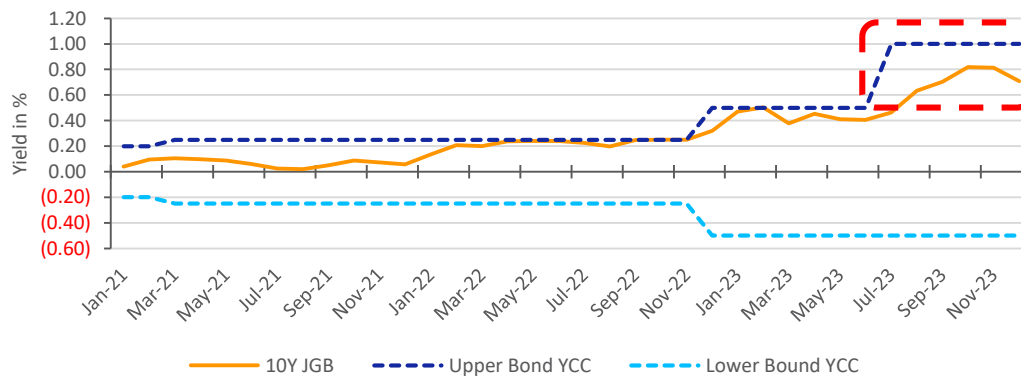
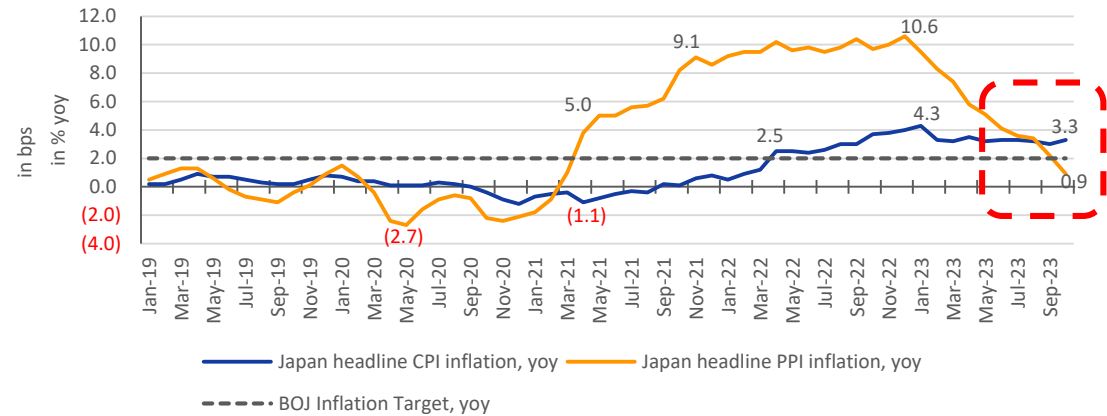
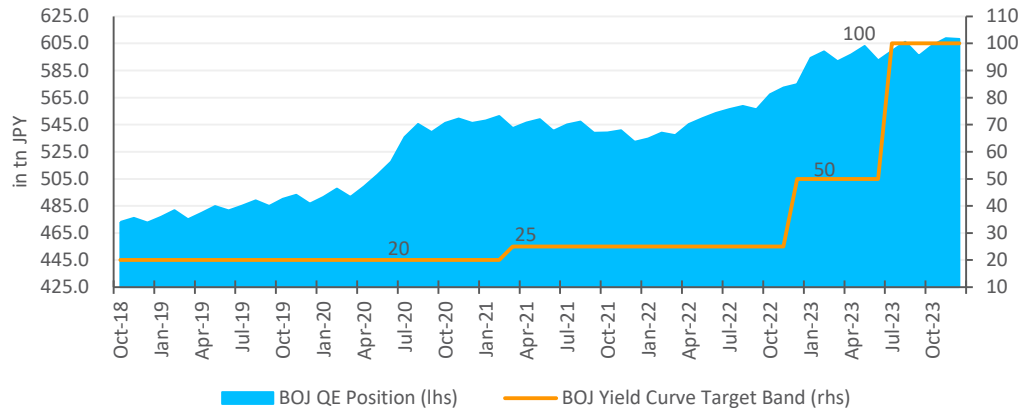
The dovish pivot hope has spread over to Europe (due to strong recession signals in 2H23), although the ECB has denied the possibility of discussing a rate cut in the near future



Source: Eurostat, S&P, ONS, Bloomberg, SSI Research

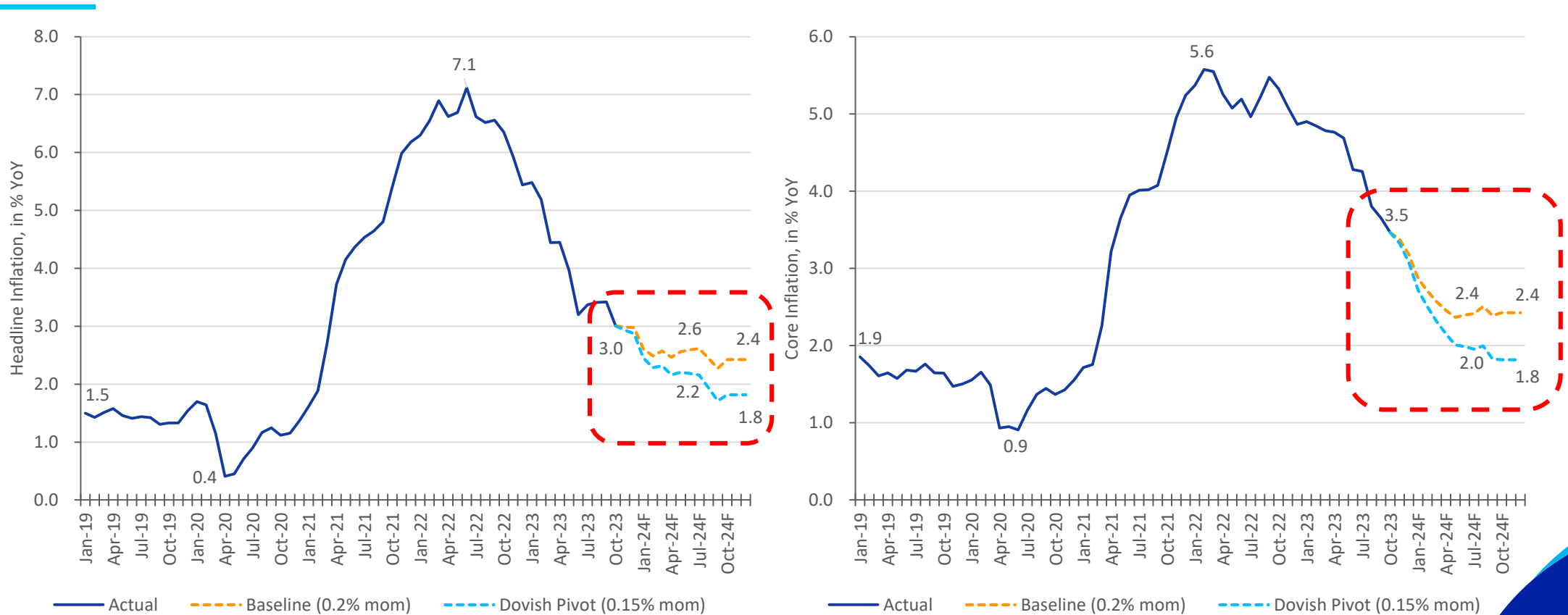
The global dovish pivot euphoria might encourage the BoJ to end its negative interest rate policy as Japanese inflation continues to normalize

The BoJ has to end its negative interest rate policy to push the 10Y JGB yield towards the upper limit of YCC (1%), to help reduce the appreciation pressure on JPY caused by the capital inflow into the UST and JGB markets.



Source: BOJ, MIC, Bloomberg, SSI Research

The dovish pivot euphoria is nothing but speculation at the moment, because the scenario requires the US inflation rate to normalize, with an average monthly PCE inflation rate (headline & core) $\leq 0.15\%$ mom



Source: BEA, Bloomberg, SSI Research

Indonesia's Macro: Overheating & Current Account Deficit

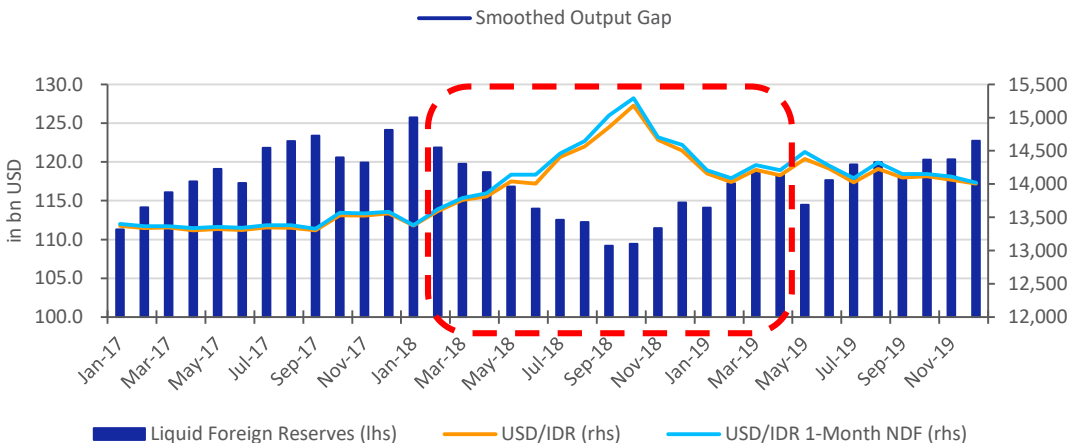
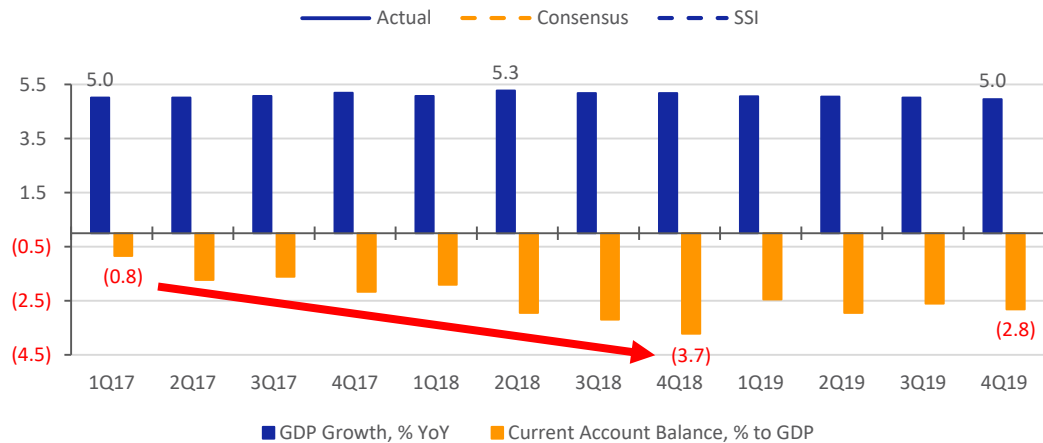
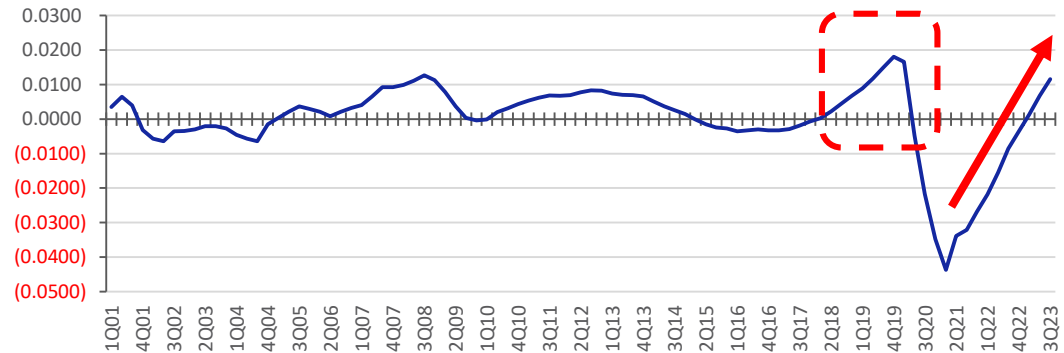
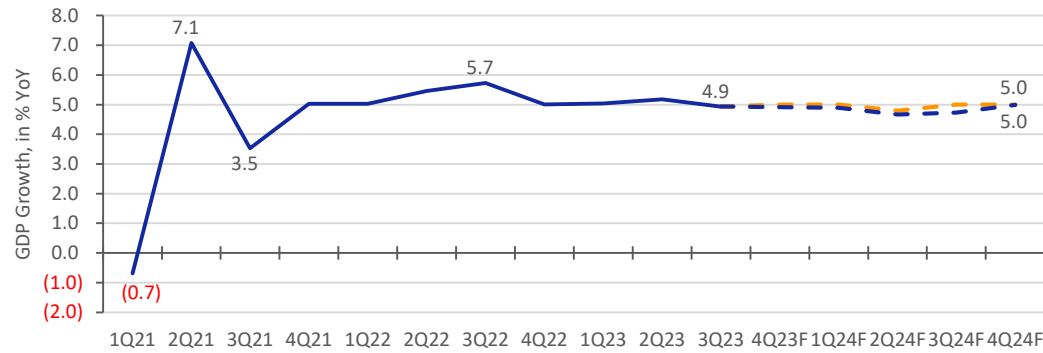
What's Our View?

We expect BI's rate cuts to be lower than The Fed's (75 Vs. 150 bps), and it will only start in 3Q24 to maintain external balance and Rupiah stability

- Indonesia faces the possibility of economic overheating in 2024, which might cause Indonesia's current account deficit to widen to -0.9% of GDP (baseline scenario).
- If the government tries to boost economic growth with monetary and fiscal stimulus, Indonesia's current account deficit might widen to up to -1.5% of GDP (bearish scenario), with economic growth stagnating at around 5%, just like what happened during the last overheating (2018-2019).
- In addition, Indonesia's inflation gap with the United States might narrow down 2H24.
- Therefore, Bank Indonesia is expected to prioritize macro stability by making lower rate cuts than the Fed.

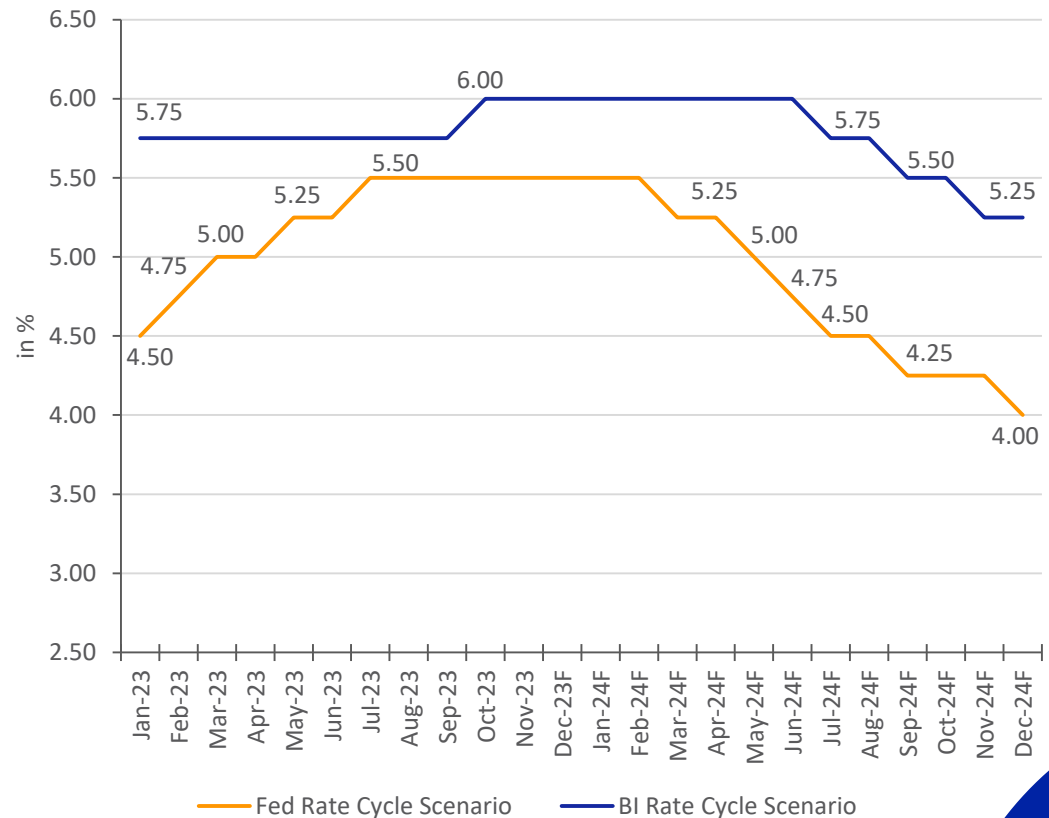
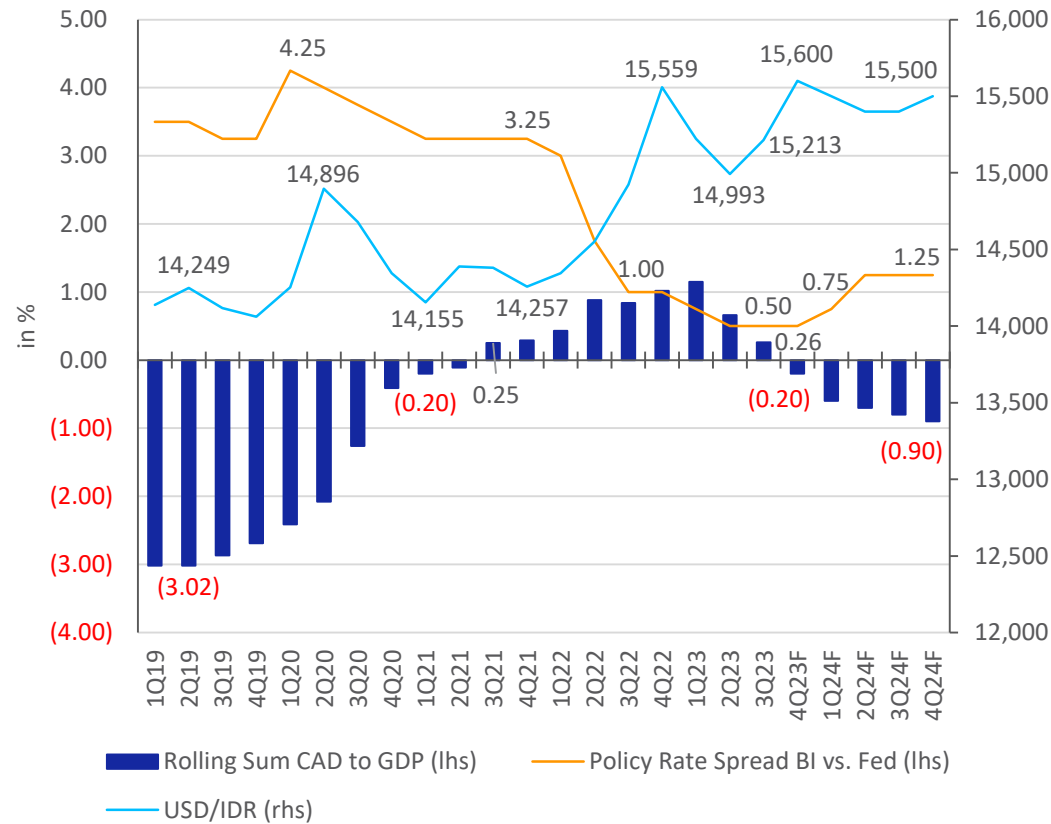
Indonesia faces the possibility of economic overheating in 2024

The 2018-2019 economic overheating led to exchange rate fluctuations in the form of Rupiah overshooting, which lasted from March 2018 to March 2019, which forced BI to spent up to USD 16.3bn of its foreign exchange reserves



Source: BPS, BI, Bloomberg, SSI Research

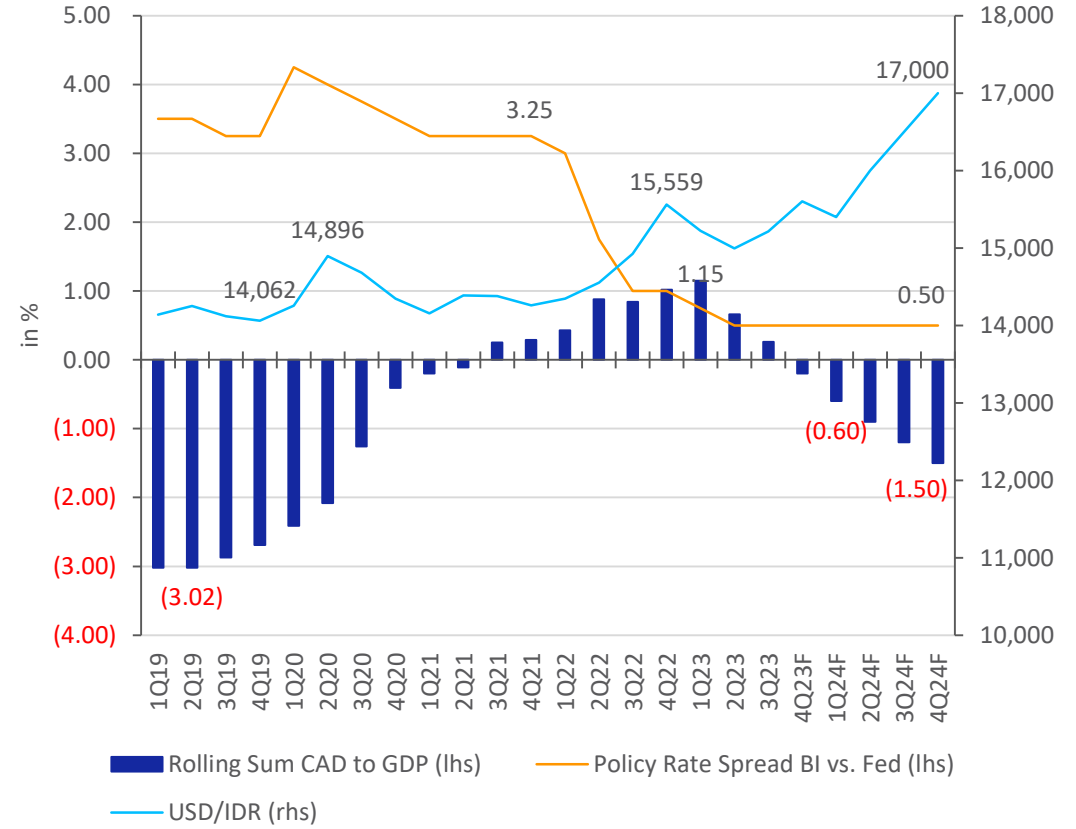
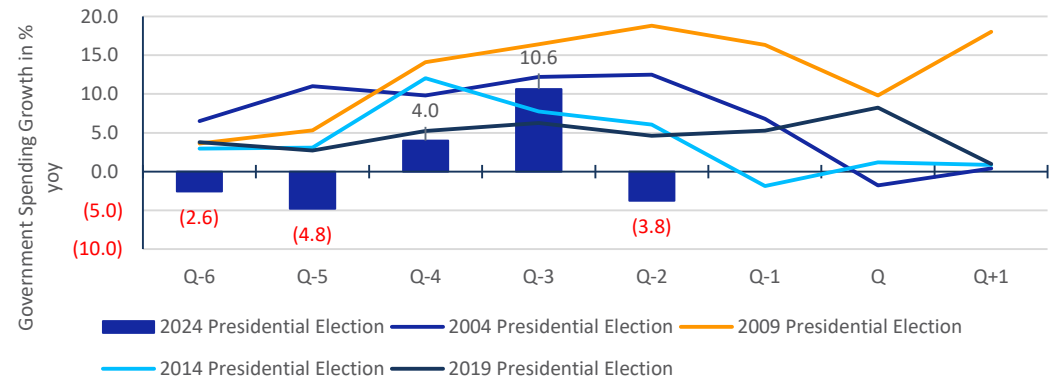
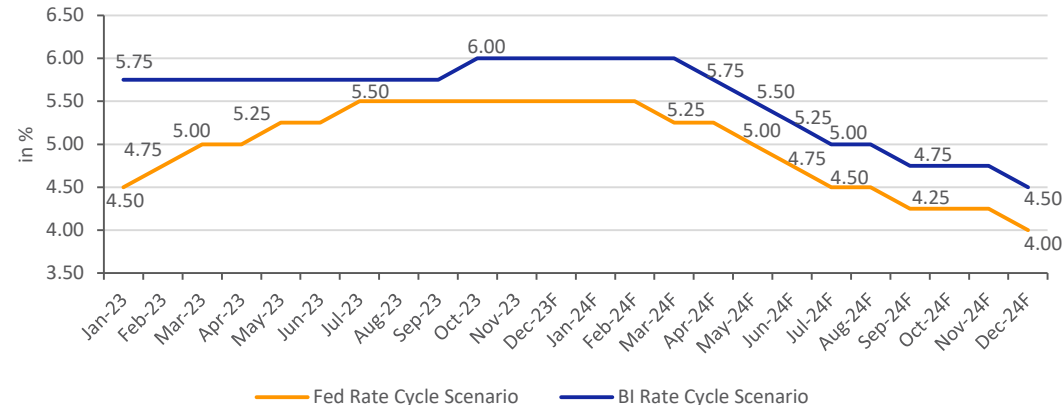
To anticipate the possibility of current account deficit widening, BI needs to delay its rate cuts until 3Q24 with lower cut size than the Fed's (75 bps, Fed: 150 bps)



Source: BI, CME Group, Federal Reserve, Bloomberg, SSI Research

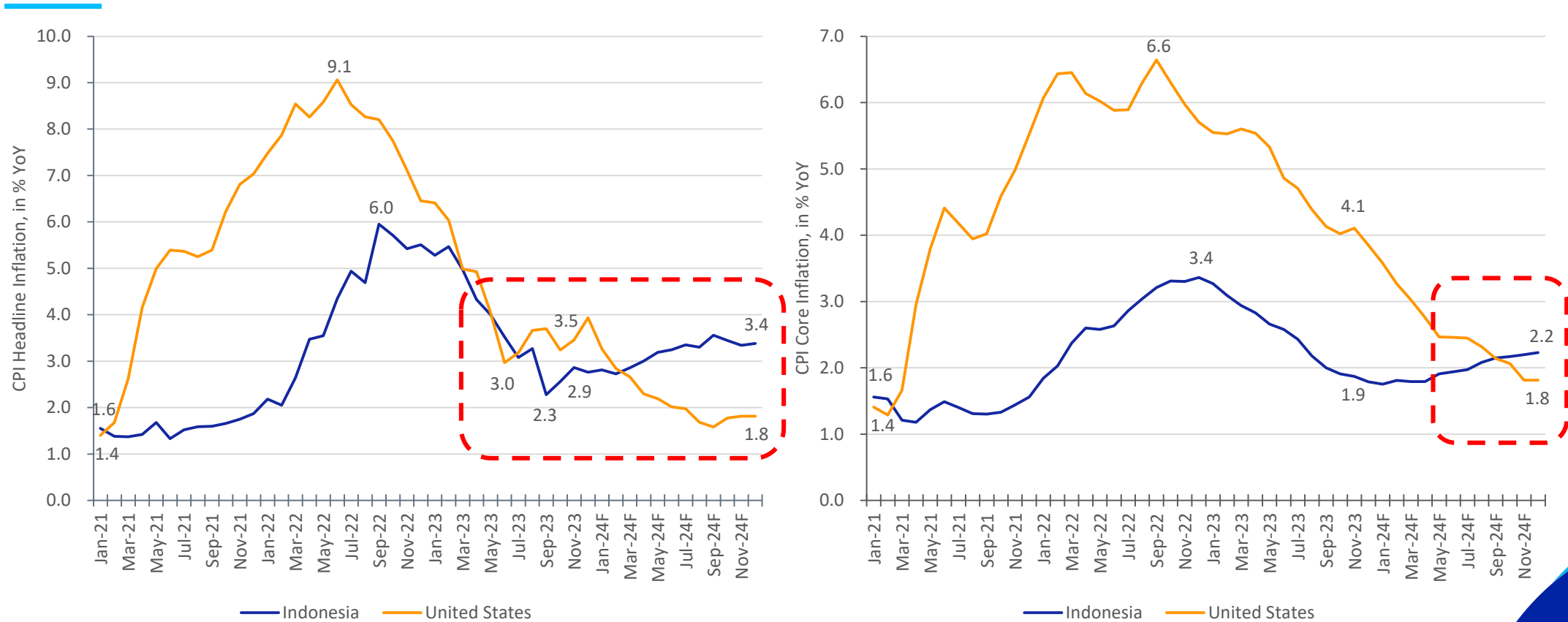
Rupiah might experience overshooting if BI cuts its policy rate aggressively and the government insists on providing fiscal stimulus

In our bearish scenario, Rupiah might overshoot to IDR 17,000/USD, followed by current account deficit widening to up to -1.5% of GDP



Source: BI, CME Group, Federal Reserve, MOF, Bloomberg, SSI Research

BI and the government need to consider the possibility of the Fed's dovish pivot, because the hypothesis implies a faster US inflation normalization than the baseline scenario



Source: MOF, Bloomberg, SSI Research

SSI Forecast Table

Indicators (% yoy)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	(0.9)	3.7	1.8	0.4	(0.9)	3.9	1.6	0.3	(0.9)	3.6	1.7	0.6			
Real GDP	5.0	5.5	5.7	5.0	5.0	5.2	4.9	4.9	4.9	4.7	4.7	5.0	5.3	5.0	4.8
Unemployment rate (% nsa)	5.8	5.8	5.9	5.9	5.5	5.5	5.3	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	2.3	2.8	2.9	3.3	3.6	3.4	5.5	2.8	3.4
Current account balance (% to GDP)	0.2	1.2	1.4	1.1	0.9	(0.6)	(0.3)	(0.6)	(0.8)	(0.9)	(0.8)	(1.0)	1.0	(0.2)	(0.9)
12M rolling sum	0.4	0.9	0.8	1.0	1.2	0.7	0.3	(0.2)	(0.6)	(0.7)	(0.8)	(0.9)			
Fiscal balance (% to GDP)	0.1	0.5	0.3	(2.4)	0.6	0.7	0.3	(2.0)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.0)	(2.3)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	4.25	5.50	5.75	5.75	5.75	6.00	6.00	6.00	5.50	5.25	5.50	6.00	5.25
10-year government bond yield (%)	6.74	7.22	7.37	6.94	6.79	6.26	6.91	6.80	6.70	6.70	6.20	6.00	6.94	6.80	6.00
Exchange rate (USD/IDR)	14,369	14,898	15,228	15,568	14,995	14,993	15,455	15,600	15,500	15,400	15,400	15,500	15,568	15,600	15,500

Source: BI, BPS, MOF, Bloomberg, SSI Research

Fixed Income Projection

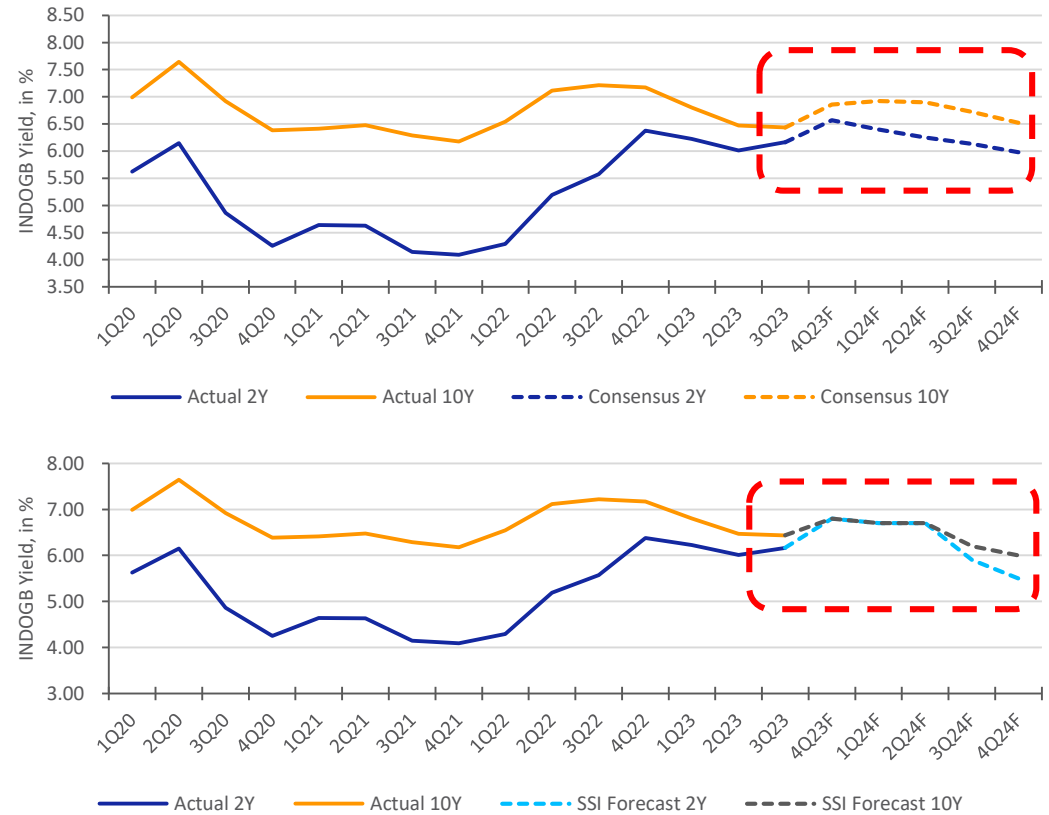
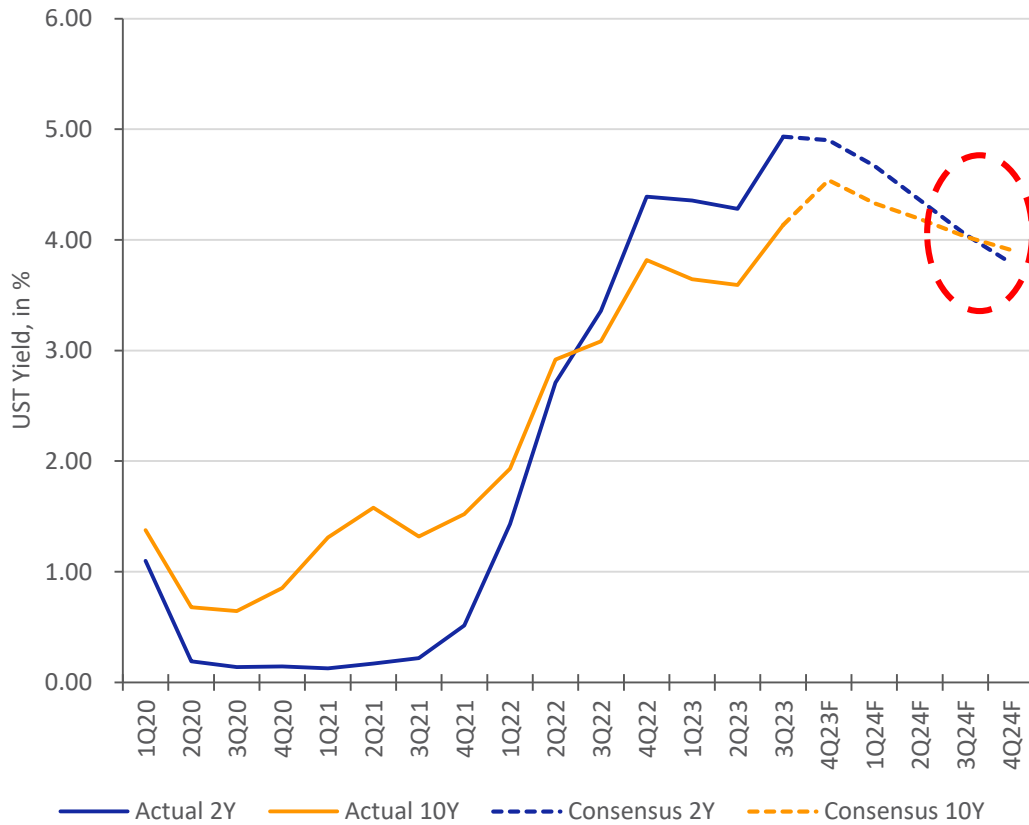
What's Our View?

We project the INDOGB yield curve to normalize from its current flattened position with a bull steepener pattern starting 3Q24

- Consensus projects the UST yield curve to normalize from its inverted position with a bull steepener pattern in 4Q24.
- SBN market players do not anticipate the current flattened yield curve
- We expect the Ministry of Finance to hold SBN auctions with a total issuance value of IDR 1,227.9tn in 2024, with the total value of bonds maturing in 2024 of IDR 561.4tn.
- We project approximately IDR 175.5tn worth of corporate bonds and sukuk to be offered through auctions in 2024 (maturing corporate bonds and sukuk in 2024: IDR 135.5tn).

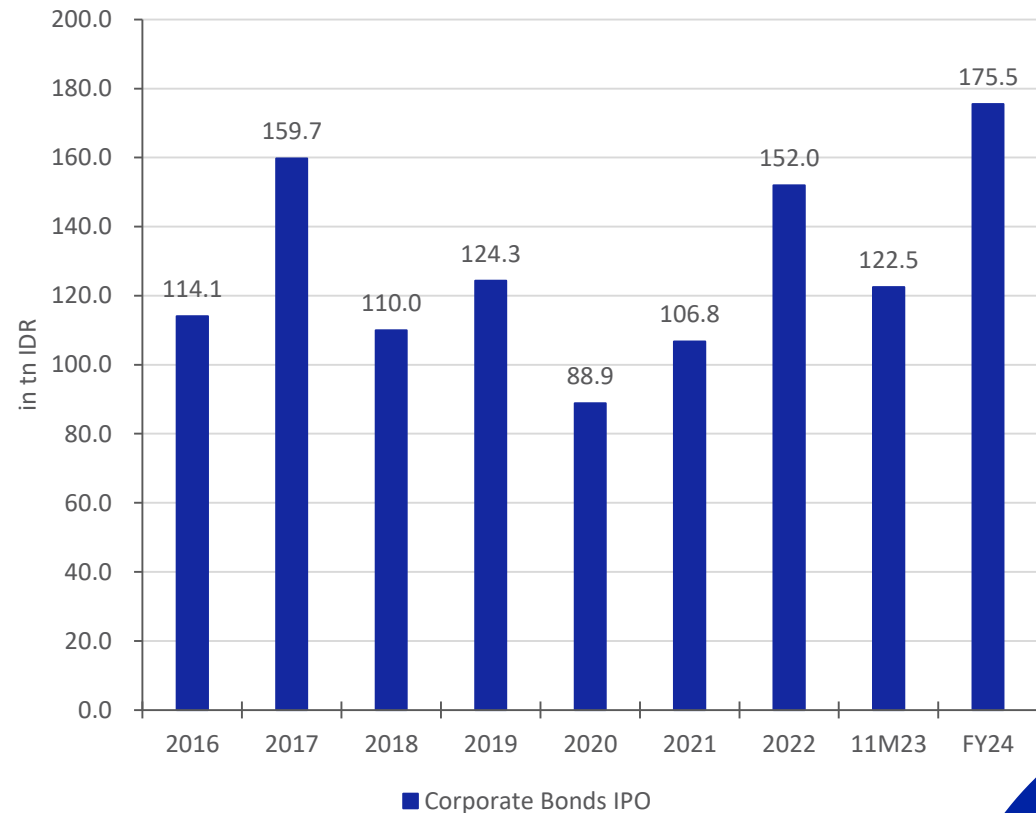
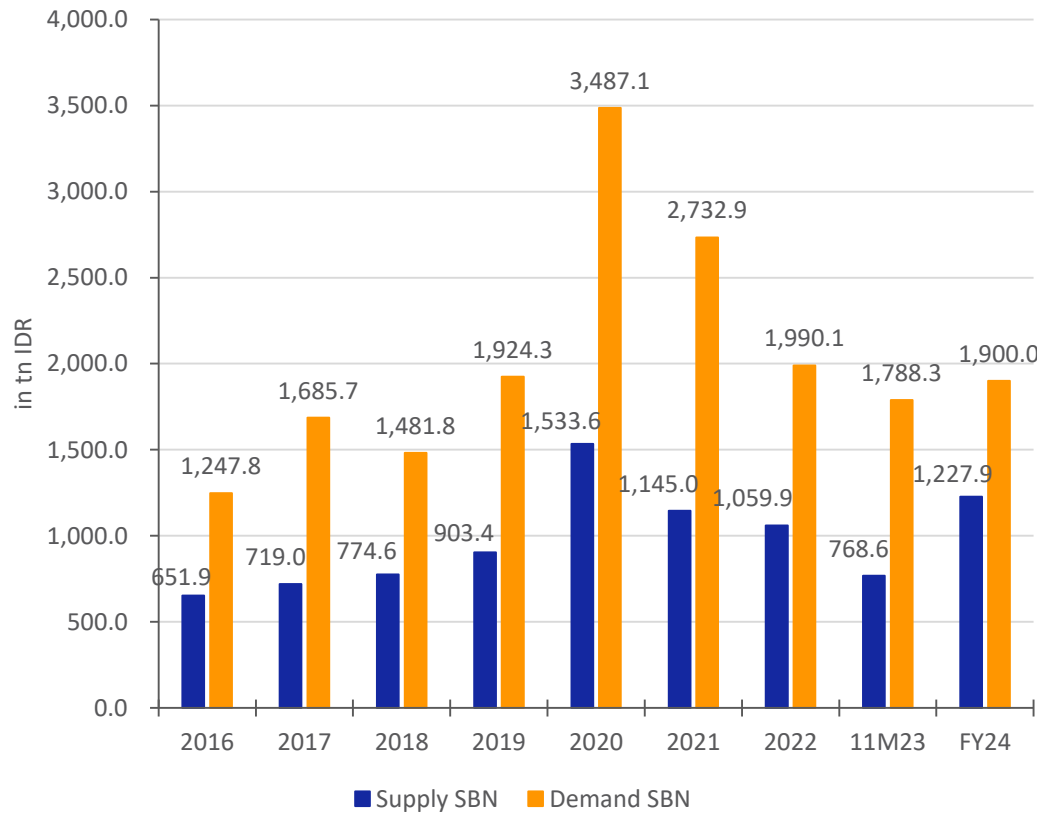
UST and SBN yield curve normalization with bull steepener pattern

Consensus does not anticipate the current flattened yield curve in the INDOGB market



Source: DJPPR, IDX, Bloomberg, SSI Research

The SBN and corporate bond auction market will benefit from the value of bonds maturing in 2024



Source: DJPPR, IDX, Bloomberg, SSI Research



Thank You

Your Lifelong **Investment Partner**

Lionel Priyadi

PT Samuel Sekuritas Indonesia

Menara Imperium, 21st Floor, Jl. HR. Rasuna Said Kav. 1

Jakarta 12980, Indonesia

Tel. +62 21 2854 8100 | www.samuel.co.id

 [samuelsekuritasindonesia](https://www.instagram.com/samuelsekuritasindonesia)

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