

Indonesia economic update

Economic reality check and measure the peak of the yield curve.

May 2022



Measuring the peak of the yield curve

Is the bond yields has reached its peak ? When the difference in bond yields becomes negative, this is an indication of the possibility of an economic slowdown in the future. In the next 1 year period, it is possible that the economy will experience a slowdown. This causes the 10-year bond yield to be below the 2-year yield. The adjustment to slower growth expectations in the next 1 year is likely to be a factor that will hamper the aggressiveness of the Fed's interest rate hikes. Here the possibility of rising bond yields has reached its peak. We expect that the US monetary policy tone will be less hawkish in the third quarter due to the challenges regarding the outlook of lower growth rate in the future, despite in the short term the economic remains at the expansion path. This was reflected in the flattening of the US yield curve as shown in the spread between 10 yr and 2 yr.

Bond yield and inflation. Expectations of rising inflation have pushed up bond yields. However, the difference in bond yields over inflation which is still quite wide, which is more attractive compared to other countries, will be a factor that will help the Indonesian bond market from excessive foreign selling pressure. Keeping inflation in the range of 3% + 1% is on the government's agenda to keep inflation from disrupting people's purchasing power amid the external challenges. The windfall profit from commodity price and higher government revenue from this sector is expected would be the shock absorber for the inflation by left the administered price unchanged.

US Economic is going strong and estimated to withstand the geopolitics risk in Russia - Ukraine. This is expected would support the Indonesia economic in term of trade-channeling. The strong growth in US is captured by the employment data that keep increase which create the higher consumer spending that nudge the inflation higher. Despite the uncertainty regarding the higher commodity price, the economy is added larger-than-expected 678,000 jobs in February, and job growth for the prior two months was revised higher by a total of 92,000 jobs. Job gains were extraordinarily broad-based in February, with more than three-quarters of the 256 industries surveyed adding jobs during the month.

The volatility in the equity market was increasing amid the hawkish tone of the US Fed Fund rate. However, Indonesia equity market remains outperform. The Indonesian stock index still recorded the best performance compared to other stock indices. Some of the factors that supported the increase in the index were: 1) Strengthening energy prices that supported the performance of mining and energy stocks in Indonesia, 2) Strong US economic growth that supported Indonesia's trade balance, 3) Higher mobility of people in line with high vaccination rates that supported expectations domestic consumption 4) Expectations of higher corporate profits, 5) Better banking asset recovery. The decline in Loans at risk thus underpinned the performance of the banking sector.

Helmi Therik, FRM

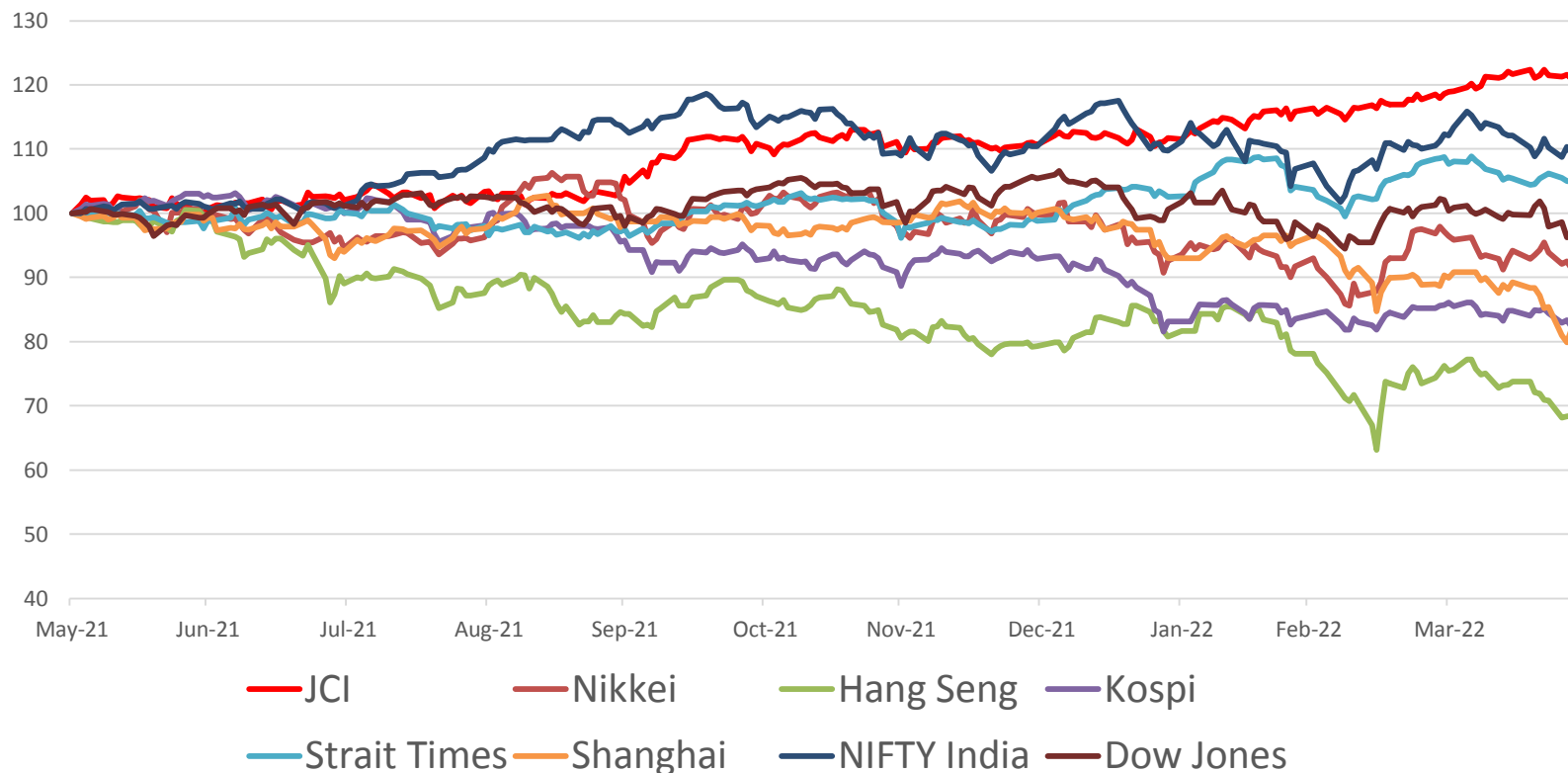
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Indonesia equity market remains outperform

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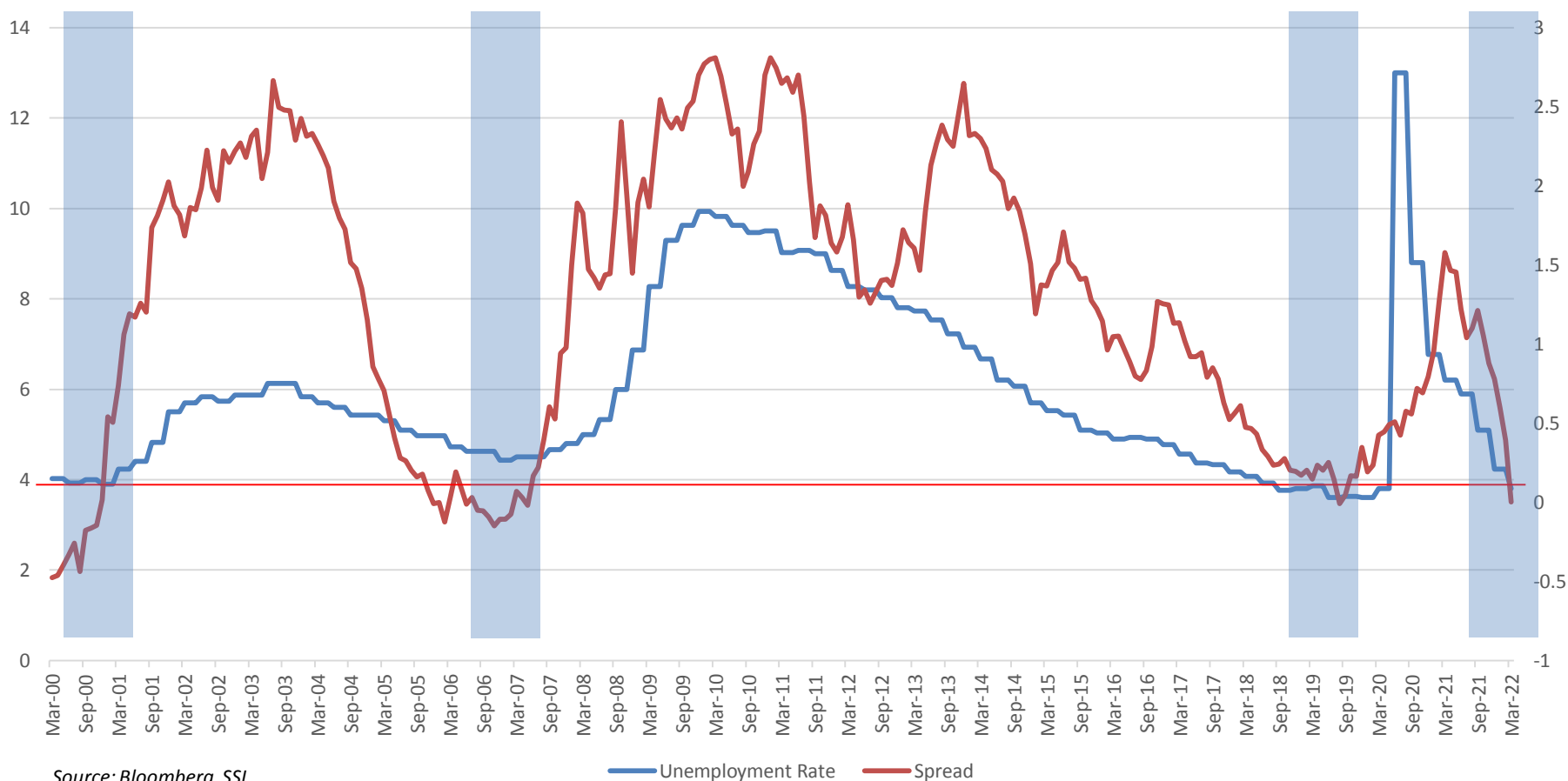
Indonesia equity market index relative performance (Jan2019=100)



Is the bond yields has reached its peak ?

When the difference in bond yields becomes negative, this is an indication of the possibility of an economic slowdown in the future. In the next 1 year period, it is possible that the economy will experience a slowdown. This causes the 10-year bond yield to be below the 2-year yield. The adjustment to slower growth expectations in the next 1 year is likely to be a factor that will hamper the aggressiveness of the Fed's interest rate hikes. Here the possibility of rising bond yields has reached its peak

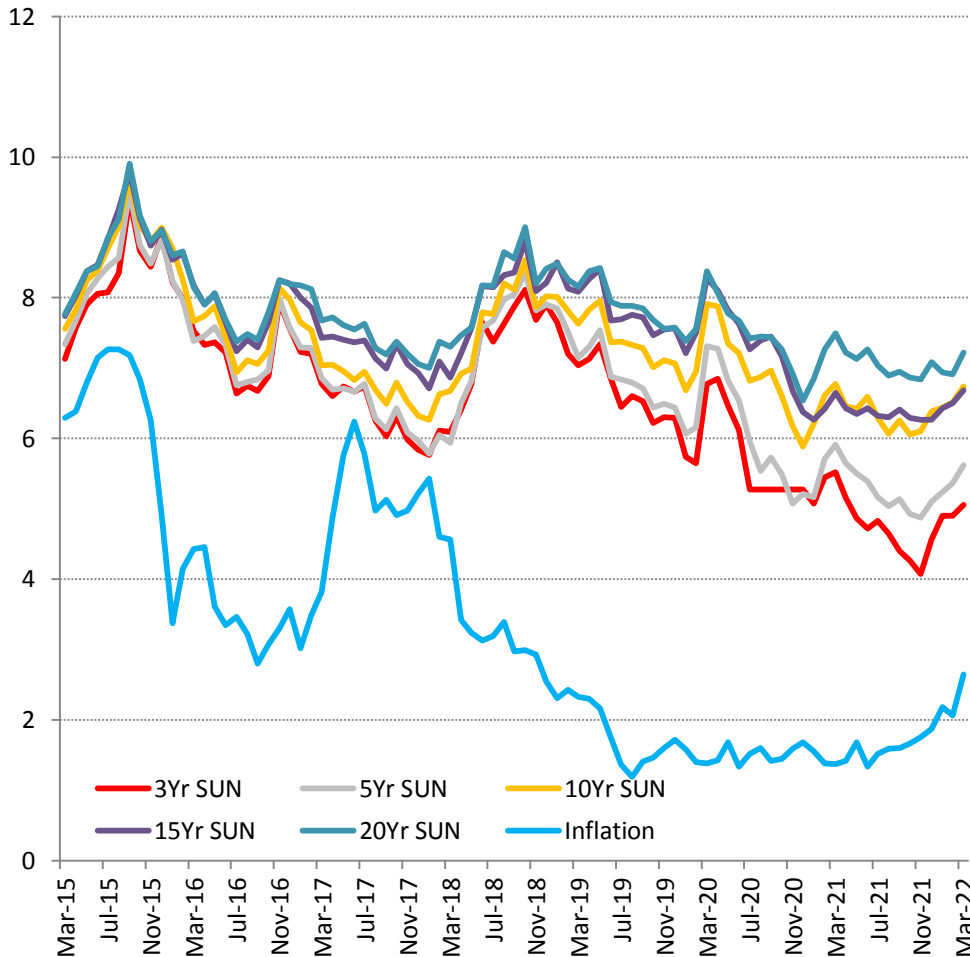
Inverted yield curve as the early indicator of crisis



Source: Bloomberg, SSI

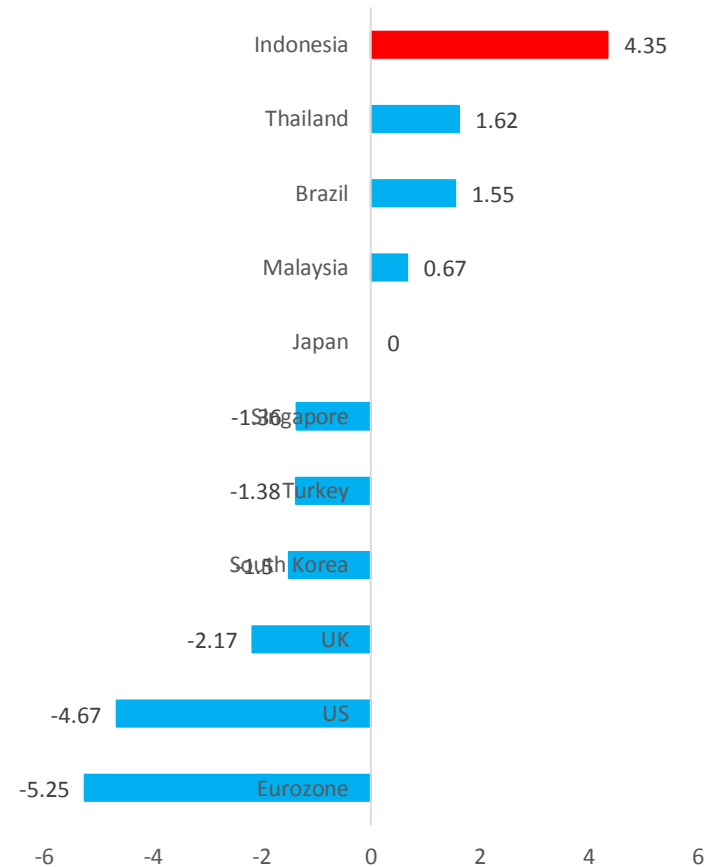
Bond yield and inflation

Expectations of rising inflation have pushed up bond yields. However, the difference in bond yields over inflation which is still quite wide, which is more attractive compared to other countries, will be a factor that will help the Indonesian bond market from excessive foreign selling pressure. Keeping inflation in the range of 3% + 1% is on the government's agenda to keep inflation from disrupting people's purchasing power



Source: Bloomberg, SSI

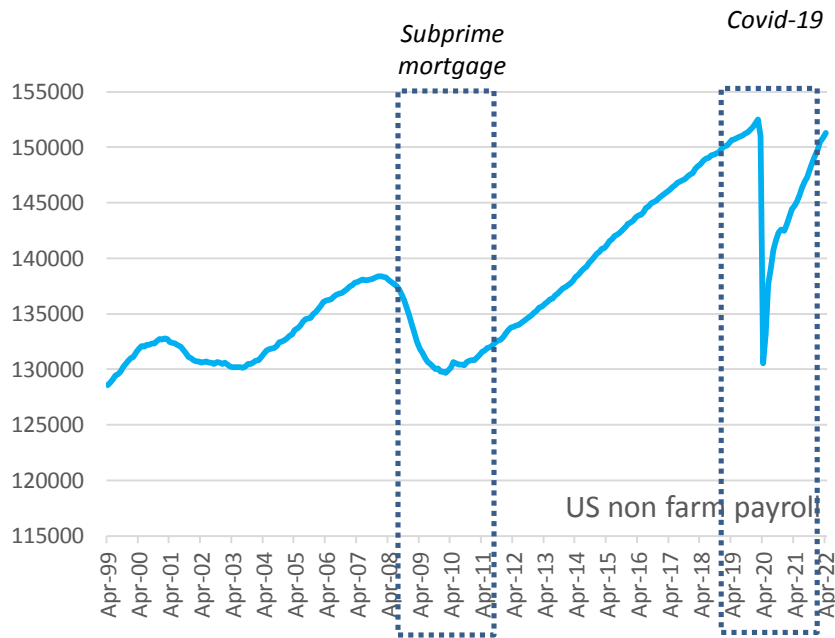
Real 10 Year Yield Based on Headline CPI



US Economic is going strong and estimated to withstand the geopolitics risk in Russia-Ukrina. This is expected would support the Indonesia economic in term of trade-channeling

The strong growth in US is captured by the employment data that keep increase which create the higher consumer spending that nudge the inflation higher. Despite the uncertainty regarding the higher commodity price, the economy is added larger-than-expected 678,000 jobs in February, and job growth for the prior two months was revised higher by a total of 92,000 jobs. Job gains were extraordinarily broad-based in February, with more than three-quarters of the 256 industries surveyed adding jobs during the month.

US non farm Payroll



Source: Bloomberg, SSI

US GDP Projection

Central tendency



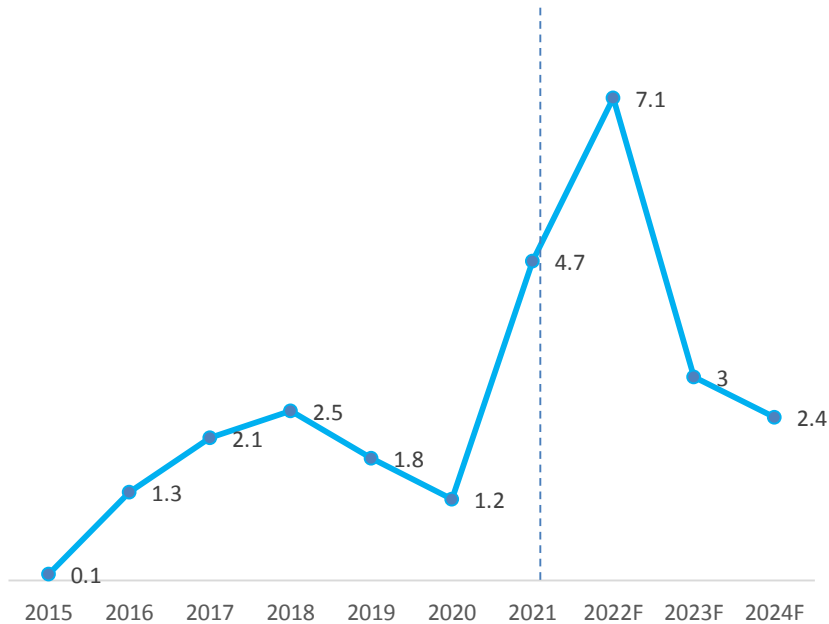
The inflation is estimated to fluctuate at around 2% in 2023, while the interest rate for the long term would be around 2-2.5%

Inflation is estimated to hover at the higher range and the US will post the negative interest this year. The dot plot that was released showed that the median forecaster thought that 175 bps of rate hikes.

The more aggressive interest rate will create another risk regarding the stagflation. The inverted yield curve recently signaling that the market is gradually concern about this issue.

US Inflation forecast

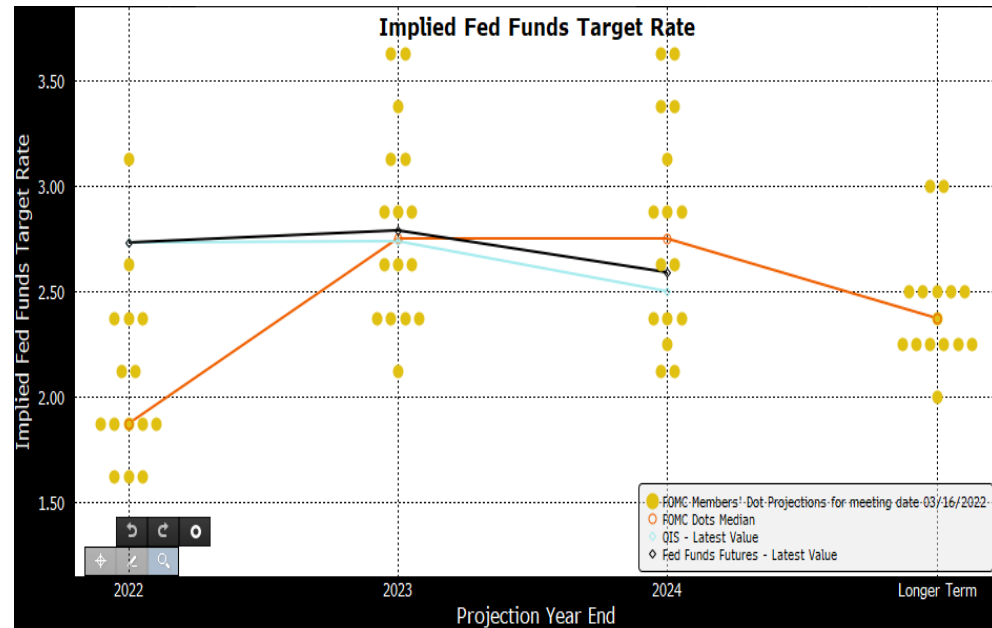
(median projection)



Source: Bloomberg

FOMC Dot Plot

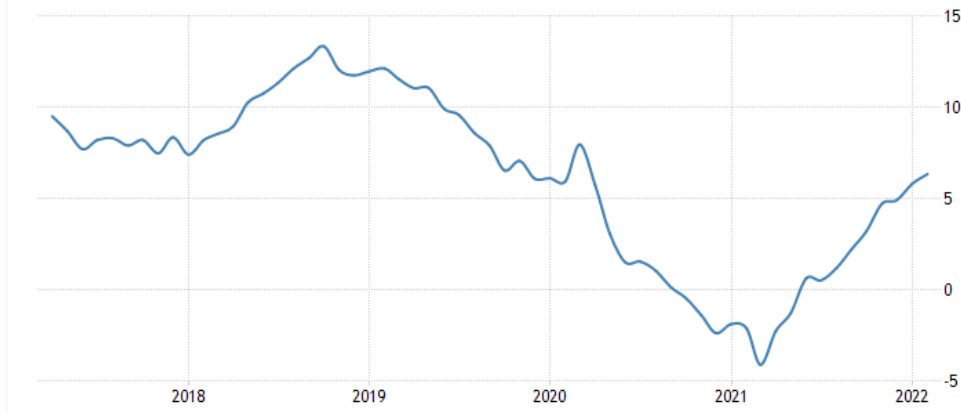
(median projection)



Source: Bloomberg

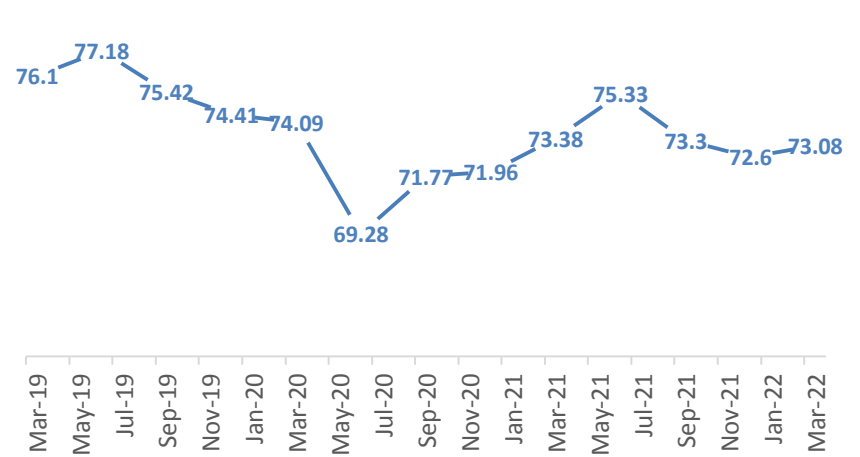
Indonesia economic data, remain positive

Loan increase by 6.3% in March

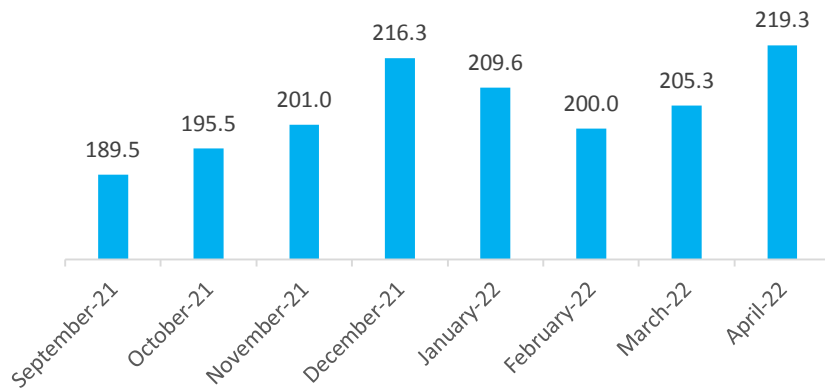


Capacity utilization rate slightly improved to 73.08 from 72.6

(There was a report of shipping constrain)

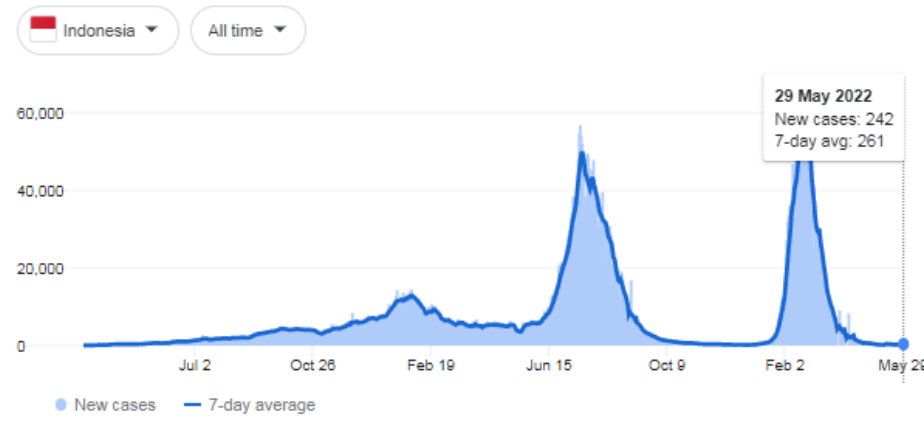


Retail sales in Indonesia grows along with the higher people mobility



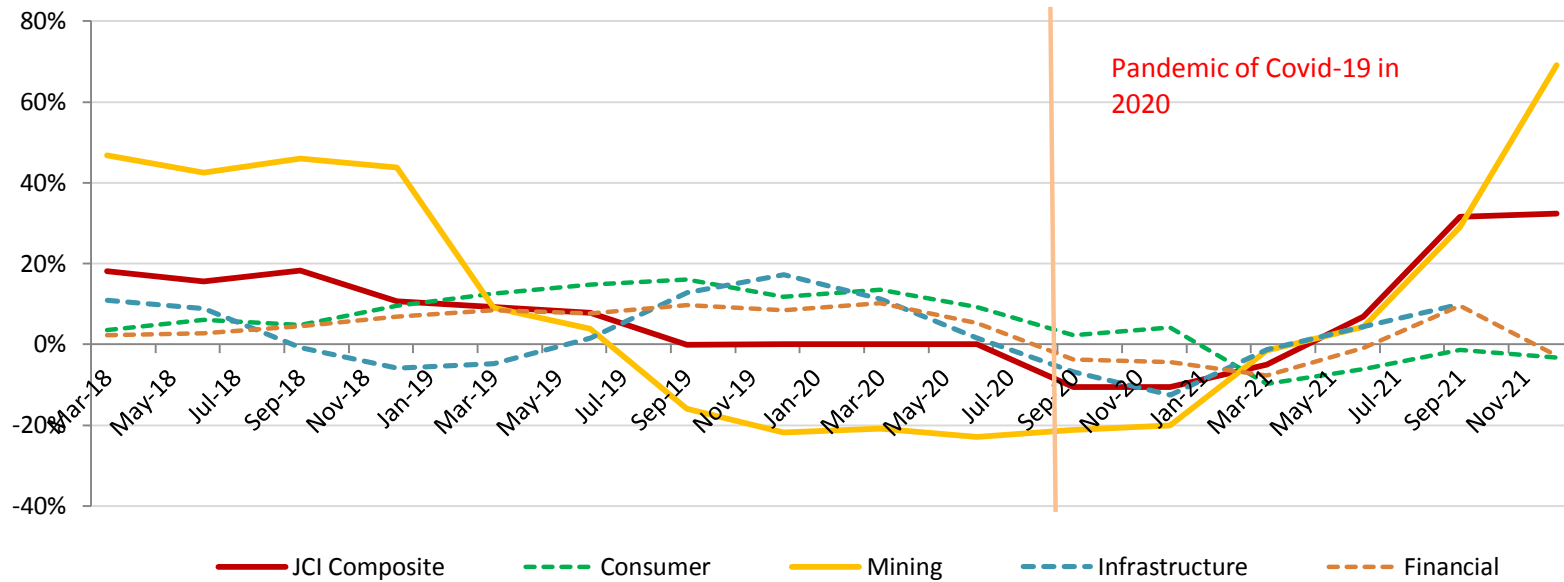
Source: Bloomberg, SSI

Covid containment in Indonesia increase the possibility for higher economic activity



Source: Google

Indonesia EBITDA (QoQ)- Corporate earning momentum is estimated to continue



Source: Bloomberg, SSI

Indonesia GDP is estimated at around 5% to 5.5% this year

Economic Activity (%)	2020:1	2020:2	2020:3	2020:4	2021:1	2021:2	2021:3	2021:4	2022:1	2022:2	2022:3	2022:4
Real GDP	3.0%	-5.3%	-3.5%	-2.2%	-0.7%	7.1%	3.5%	5.1%	5.0%	4.8%	5.2%	5.5%
Consumption	2.8%	-5.5%	-4.0%	-3.6%	-2.2%	6.0%	1.0%	3.6%	5.0%	6.8%	9.0%	7.2%
Investment	1.7%	-8.6%	-6.5%	-6.2%	-0.2%	7.5%	3.7%	4.5%	6.2%	12.7%	10.0%	6.2%
Export	0.4%	-12.0%	-11.7%	-7.2%	7.2%	31.7%	28.1%	30.0%	6.2%	3.9%	0.3%	-1.2%
Import	-3.6%	-18.3%	-23.0%	-13.5%	3.2%	29.1%	27.2%	25.9%	17.0%	15.2%	23.4%	10.3%
Government spending	3.8%	-6.9%	9.8%	1.8%	2.6%	8.0%	0.7%	5.3%	2.5%	1.9%	1.7%	1.4%
External Balance												
Curr.Acc. To GDP(%)	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	0.2%	0.2%	-0.2%	-0.2%	-0.2%	-0.2%

Source: SSI economic model



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