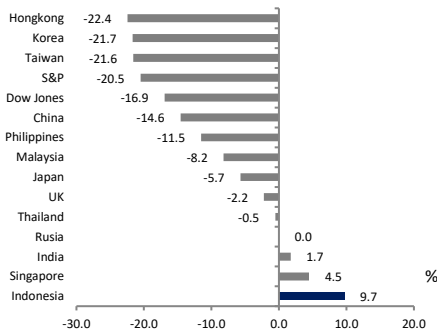


Friday, 23 September 2022

## Strategy

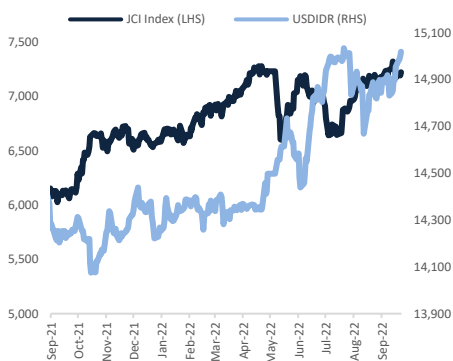
### Front Loading In Play

#### YTD share performance (%)



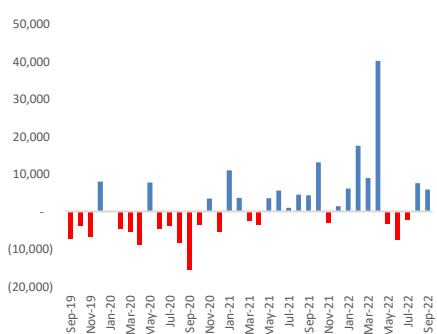
Source: Bloomberg

#### JCI vs USD



Source: Bloomberg

#### Net foreign flow (IDRbn)



Source: Bloomberg



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There was another surprise at the latest BI meeting, with a 50bps hike in the 7DRRR to 4.25%. We believe such a move signals a frontloading stance to rein in expected inflation - as opposed to a prelude to further aggressive rate hikes - especially given the cost-push nature of the inflation. BI expects the overall impact to increase inflation by 1.8 - 1.9%, with headline inflation above 6% by year-end before normalising in 2H23. Rate hikes, Triple Intervention and Operation Twist are the policy mix to contain the risk of a weakening currency. Based on our 3 main risk assessments, Commodities fall within the Low-risk spectrum, while Banking, Consumer Staples and Tower & Telcos are placed in the Low-Medium Risk Spectrum.

**Signs of Front Loading.** In a similar pre-emptive and forward looking narrative, Bank Indonesia's Board of Governors raised the 7DRRR by 50 bps to 4.25%, a move that, once again, exceeded the market expectation of only a 25bps hike. Such a move signals a frontloading stance to rein in expected inflation, we believe, and is not an indication of further aggressive rate hikes, especially given the cost-push nature of the inflation. We currently maintain our expectation of total rate hikes this year of 100 bps to 4.5% by year-end and expect two rate hikes next year.

**Inflation to peak above the 6% level.** Larger rate hikes have been deemed necessary especially with the first round of fuel price hikes to impact September's inflation while the second-round effect will last 3 months and will impact core inflation and expectations ahead. BI expects the overall impact to increase inflation by 1.8 – 1.9%. Furthermore, BI's recent price survey shows that inflation may reach 5.89% in September, considerably higher than Aug's 4.7%. BI expects the surge in inflation will peak in September, and the inflation increase will trend down after that, with headline inflation to reach above 6% and core inflation projected to peak at 4.6% in Dec-22. Inflation is expected to normalize back at BI's target range of 3.0%+-1% in 2H23.

**Upward-biased Growth Expectations maintained.** Domestic macro conditions remain robust and external sector performance is projected to remain solid especially through CPO, Coal, Iron & Steel, and also the opening up of foreign tourism access. Overall, BI's projection on Indonesia's GDP is biased to the upper-bound of 4.5-5.3% despite rising inflation and interest rates. The financial intermediary function remains solid, both in terms of liquidity and capital adequacy (CAR July'22: 24.86%) despite a slowing trend in third party fund growth in August. BI will continue its preceding action on controlling inflation by hiking interest rates in the Money Market, Triple-Intervention in the forex market, and also via Operation Twist: selling short term & purchasing long-term SBN in the secondary market to create more attractive yields.

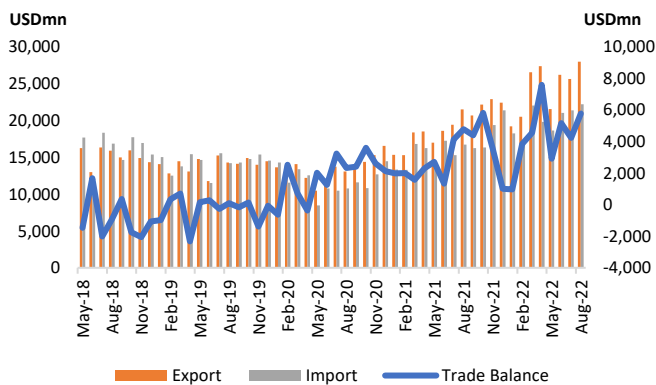
**Inhibitor Tools to Tame Currency Risk.** The recent strength in the Dollar Index as a result of triple large hikes in the Fed Funds Rate has raised concerns on the IDR, which recently surpassed the 15k level. As such, the 50bps rate hike will also alleviate pressure on the risk of a weakening currency. Combined with BI's Triple Intervention Policy, Operation Twist and robust trade surplus data, IDR volatility is expected to stay contained. Based on our assessment of 3 key risks (Fuel Price Hikes, Rising Rates and Currency Volatility), the sectors which carry Low risk are Commodities (Coal, Metal Mining and Plantations), while Banking, Consumer Staples and Tower & Telcos fall into the Low-Medium Risk Spectrum.

**Exhibit 1. Sectoral Risk Matrix**

Sector	Fuel prices	Interest Rate	Currency Volatility	Total risk
Automotive	Medium	Medium	Medium	Medium
Banking	Low	Medium	Low-medium	Low-medium
Cement	Low-medium	Low-medium	Low	Low-medium
Cigarette	Medium-High	Low	Low	Medium
Coal Mining	Low	Low	Low	Low
Construction	Low	Medium-High	Low	Medium
Consumer	Low	Low	Low-medium	Low
Industrial Estate	Low	Low-medium	Low-medium	Low-medium
Logistics	Medium-High	Low-medium	Low-medium	Medium-High
Media	Low-medium	Low-medium	Low-medium	Low-medium
Metal Mining	Low	Low	Low	Low
Petrochemical	Low	Medium	Low	Low-medium
Pharmaceutical	Low	Low-medium	Medium-High	Medium
Plantation	Low	Low	Low	Low
Poultry	Medium-High	Medium	Medium-High	Medium-High
Property	Low	Medium	Low-medium	Low-medium
Retail	Low-medium	Medium	Medium	Medium
Tech	Medium-High	Low-medium	Low-medium	Medium
Telecommunication	Low-medium	Low-medium	Medium	Low-medium
Tower	Low	Low-medium	Low-medium	Low-medium
Trade	Low-medium	Low-medium	Low-medium	Low-medium

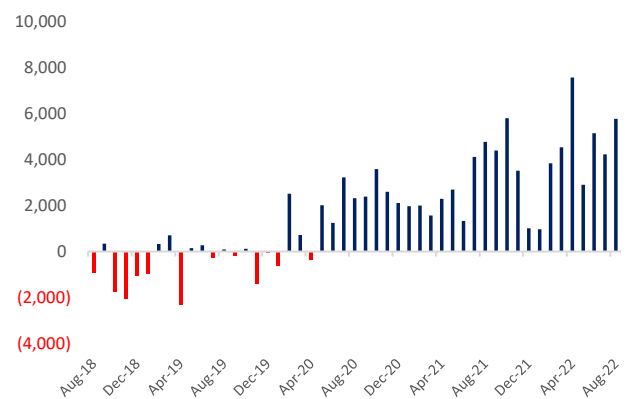
Source: BRI-DS

**Exhibit 2. Exports-imports and Trade Balance**



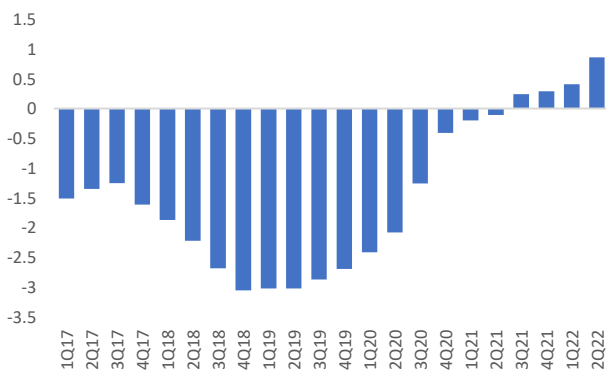
Source: Central Bureau of Statistics (BPS)

**Exhibit 3. Non-oil and gas trade balance**



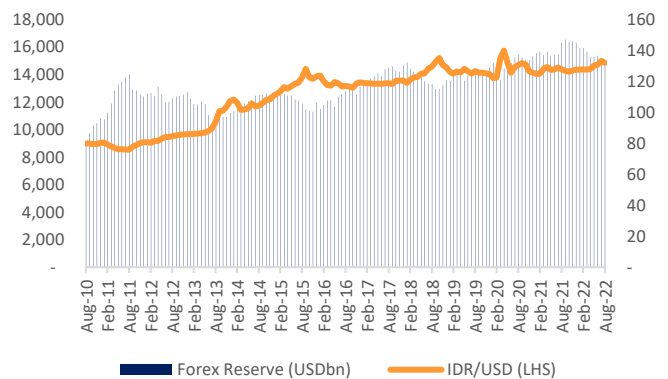
Source: Central Bureau of Statistics (BPS)

**Exhibit 4. CAD trends (as% of GDP)**



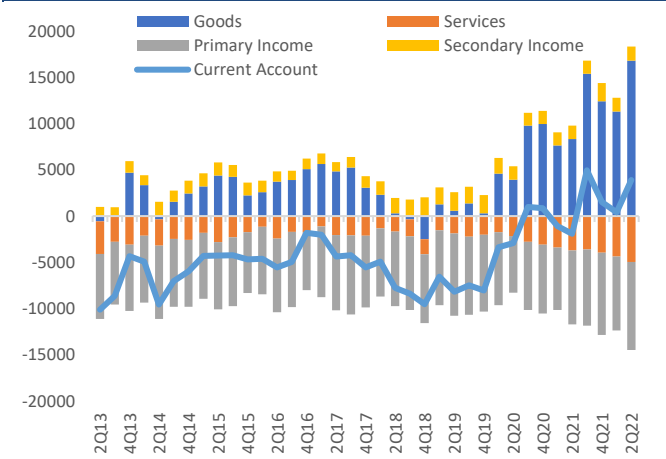
Source: Bloomberg, BRI Danareksa Sekuritas

**Exhibit 5. Surge in Foreign exchange reserves**



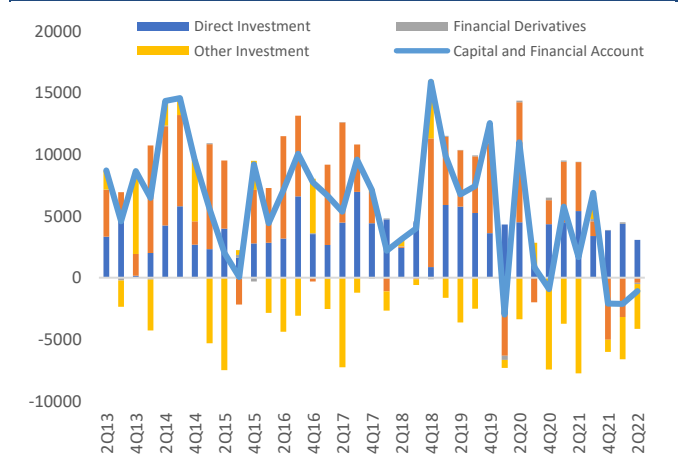
Source: Bank Indonesia, Bloomberg, BRI Danareksa Sekuritas

**Exhibit 6. Current Account Balance (USDmn)**



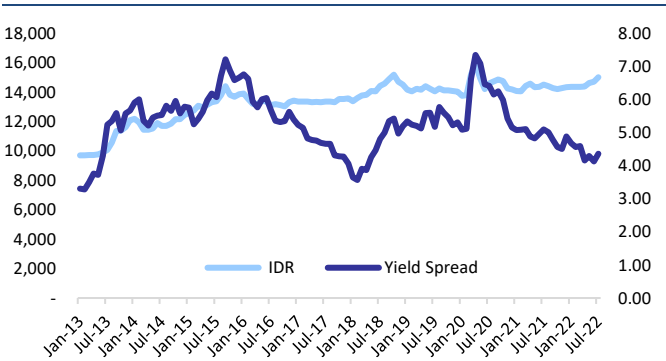
Source: Bank Indonesia

**Exhibit 7. Capital and Financial Account Balance (USDmn)**



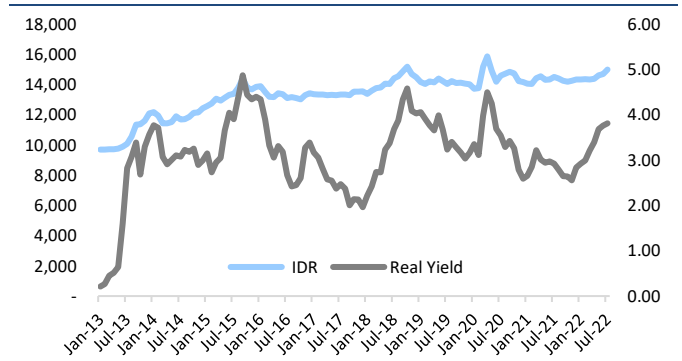
Source: Bank Indonesia

**Exhibit 8. IDR vs Yield Spread (Indo 10yrs bond vs UST)**



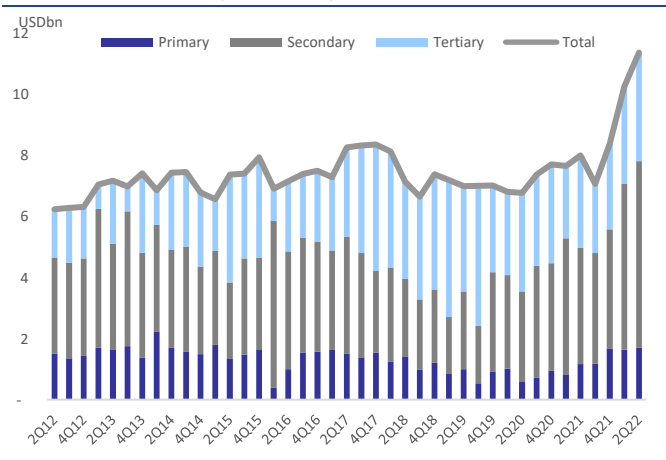
Source: Bank Indonesia

**Exhibit 9. IDR vs Real Yield (Indo 10yrs bond vs Expected Inflation)**



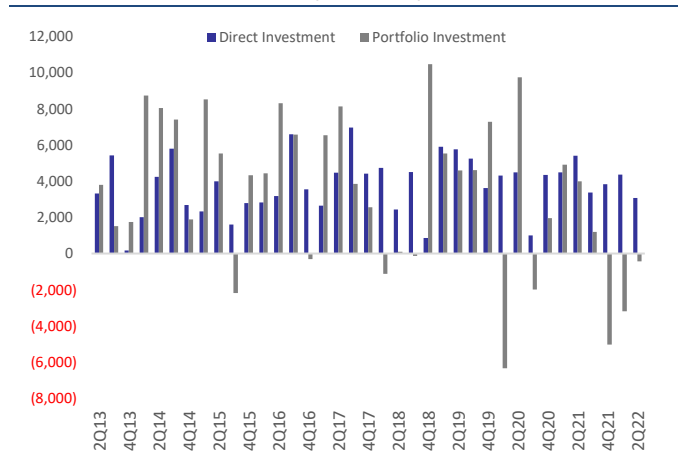
Source: Bank Indonesia

**Exhibit 10. FDI Trend (in USD bn.)**



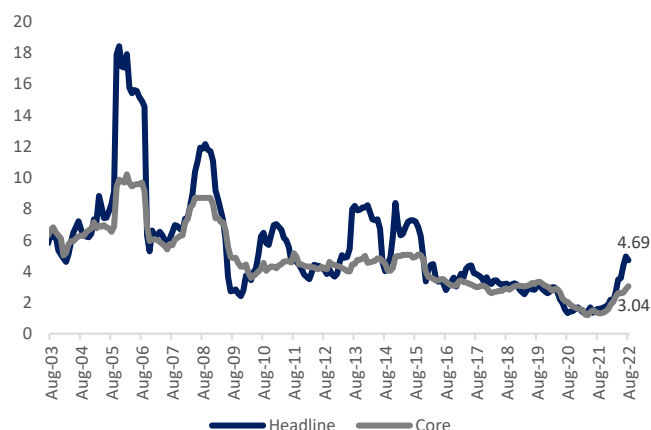
Source: BKPM

**Exhibit 11. Investment Profile (in IDR bn.)**



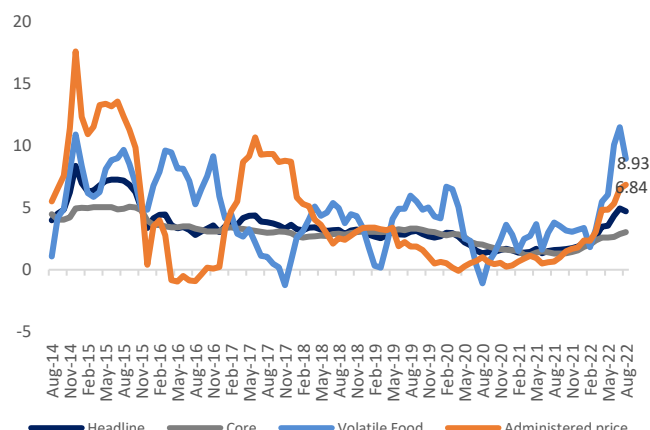
Source: Bank Indonesia

**Exhibit 12. Indonesia's Inflation Trend**



Source: Bank Indonesia

**Exhibit 13. Led by Volatile Food Items**



Source: Bank Indonesia

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