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Indonesia
Market Commentary

March 2019

Macroeconomics

February 2019 fiscal budget came healthy. As of 2M-19, total revenue increased by 8.2% yoy, driven by tax revenue that grew 10.0% yoy, while non-tax revenue only grew 1.3% yoy as commodity prices weakened. The strength in tax revenue was due to excise tax that grew by 769% yoy as most cigarette companies did not frontload their excise ribbon purchase in December 2018 following muted cigarette excise hike in 2019. Total spending increased by 9.1% yoy driven mainly by social spending, energy subsidy and material spending while capital expenditure contracted yoy. With such mix, budget deficit stood at 0.34% to GDP, similar 2M-18.

BI decided to maintain the 7DRRR flat at 6.0% as expected, given ongoing focus on strengthening stability, controlling the current account deficit (CAD) and maintain the attractiveness of domestic financial assets. The Central Bank sets accommodative policies to stimulate domestic demand through: 1) monetary operation to increase liquidity; 2) rising Macro-prudential Intermediation Ratio (MIR) to bolster bank financing; 3) financial market deepening policy; 4) strengthening the payment system policy through standardization of QR code to support the growing digital economy.

March 2019 inflation was under control at 0.11% mom. This brought the yearly inflation to 2.48% yoy (from 2.57% YoY previously). The biggest contributor of inflation came from red onion, garlic and air transportation. In regards to air transportation, the National Statistic Agency (BPS) said that it is not normal to see inflation coming from it especially during non-peak season like March, but they said it should normalize again in following months. All in all, core inflation was recorded at 3.03% yoy in March 2019, down from 3.06% yoy recorded earlier.

February 2019 trade surplus of USD 330mn came as a surprise, driven mainly from non-oil and gas trade balance, with total imports contracted by 14.0% yoy (the steepest decline in 19 months), thanks to a huge drop from China imports on the back of Chinese Lunar New Year holiday. As for exports, it continued to decline to 11.3% yoy as both aggregate price and volume continue to weaken on the back of slowing global demand. Economists in the market came with mix response, with one side argued that the surplus should not be sustainable as it was driven by import weakness from China's holiday, but this was argued that the end-cycle of Gross Fixed Capital Formation imports having near completion of PLN's 60,000 GW project may balance such concern.

Equity

JCI recovered from the weak February to book 0.4% gain in March 2019. The index started weak as foreign appetite towards Indonesia softened with weakening Rupiah (closed at IDR 14,241/USD, -1.2% MoM) on creeping up oil price and delayed US-China trade deal to April 2019. Some series of disappointing results did not help either. Despite there were no apparent window-dressing performance, the market bounced back nearing end of month as February trade surplus and continued strength in Indonesia's 10-year bond yield boost confidence towards the equity market.

The equity market saw flows of foreign money coming back in March as the more dovish Fed increased equity investors' confidence globally. During March, foreign investors posted a net inflow of IDR 1.7tn (USD 117mn).

By sector, finance was the best performer with 3.2% gains in March. BRI and BNI saw some bargain hunting positioning ahead of Indonesia election as well as peaking global interest rate environment. For Bank Mandiri, the strength came from market that expected the purchase price of Bank Permata will be lower than previously expected. Bank Danamon was resurrected after being hammered in February after it wented ex-rights on 28 February for cash offer of IDR 9,590 per share. Top 5 drivers for the index was BRI (+7.0%), Bank Mandiri (+4.6%), Sinar Mas Multi Artha (+29.1%), BNI (+6.8%) and Bank Danamon(+9.1%)

Agricultural sector was the worst performer with 3.9% loss recorded in March on the back of escalating tension between Indonesia and the European Union (EU) in regards to the draft law calling for reducing contribution of biofuels that is produced from palm oil. Such weakness came despite 4.5% mom increase in CPO in March to MYR 2,001/mt. Indonesia's Coordinating Ministry for Economic Affairs are said to be prepared to sue the EU to the World Trade Organization (WTO) on the basis of product discrimination. Top 5 drivers for the index: Astra Agro (-9.5%), London Sumatra (-14.8%), Salim Ivomas (-7.6%), Eagle High Plantation (-4.8%) and Sawit Sumbermas (-2.3%).

Amidst growing concerns towards global economic slowdown, investors' focus has shifted to emerging market economy including Indonesia. Foreign moneys are awaiting result from the Presidential Election which will be held on April 17th 2019.

We expect interest sensitive names will be the main beneficiary should the election result in favour to market expectation. Else, we are looking at a slight pull back up until clear direction in the economic policy post the inauguration.

Going forward, growth in domestic economy remains one important figure to watch, pencilling impact from the global economic slowdown and the US-China trade war.

Fixed Income

The bond market continued to rally in March, with 10-year benchmark yield (FR78) declining from 7.78% to 7.59% with some volatility during the month. In the beginning of March, bond market had some correction due to global factors, namely China and Eurozone slowdown, as well as Brexit uncertainty. However, sentiments then turned positive after markets expected more accommodative policy from the Fed after US employment data release. The Fed maintained its reference rate at 2.25-2.5% and it is expected to stay until the end of the year. Despite improvement in sentiments, Rupiah moved sideways and actually depreciated by 1.2% against USD during the month.

Bank Indonesia also decided to keep the 7-day reverse repo rate at 6%, with focus on controlling CAD and maintaining domestic financial asset attractiveness. At the same time, the central bank aimed to improve liquidity using regular repo and FX Swap facility, and also increased Macro-prudential Intermediation Ratio (MIR) from 80-92% to 84-94% to bolster bank financing to the corporate sector.

The government continued its front-loading strategy in bond issuance. By the end of the month, it has issued IDR 330.1tn or around 40% of 2019 target. Foreign demand remained robust, totaling 28.1% of total bids in the latest auction (vs. average of 22.8% YTD). Its ownership in IDR bonds increased by 2.6% mom to IDR967 trillion. It represented 38.3% of total bonds outstanding, compared to 37.9% in February.

While global factors will remain significant, markets will also watch closely the upcoming general election in April, especially on how it may affect policy stability in the long term.