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iFlow

MACRO MORNING BRIEFING

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Indonesia Election & BI Policy Update

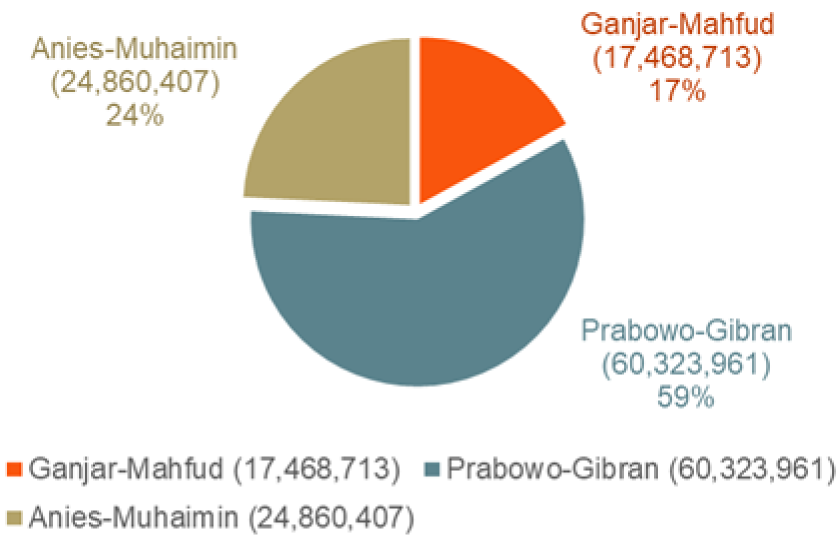
The unofficial results of Indonesia's presidential election suggest a strong likelihood of a decisive win for Prabowo-Gibran. As of Feb. 21, the vote count had Prabowo-Gibran (Gerinda Party) with a simple majority of 58.76%, against Anies-Muhaimin (Independent) with 24.22%, and Ganjar-Mahfud (PDI-P Party) with 17.02%. The official result will be announced in a few weeks, no later than March 20. Beyond that, the elected president and vice president will be sworn in on Oct. 20 and subsequently form a new cabinet.

The also unofficial vote count for the House of Representatives shows no outright majority. PDI-P, Golkar and Gerinda are the top three parties, accounting for 16.94%, 15.09% and 13.43% of seats, respectively. As it stands, this suggests a likelihood of another grand coalition-style government, as under Jokowi since 2019.

While the bulk of election-related uncertainty is out of the way with no run-off election expected, the composition of the new cabinet under Prabowo will be closely monitored. As far as financial markets are concerned, whether Sri Mulyani, who has been Minister of Finance since July 2016, will continue to serve for the third term will be of high interest. Another portfolio of interest is the Ministry of Investment, which was established in 2021 to boost domestic and foreign direct investment. Downstream projects across priority sectors, including minerals, forestry and commodities, ranging from nickel to palm oil, has been a huge success and contributed positively to Indonesia's fiscal conditions. Indeed, the fast-paced normalisation of the budget deficit has been one of the key supportive factors behind the stability of the rupiah, and therefore foreign investors' confidence.

We'll watch how the election plays out amid anticipation of continuity of the current administration, including developing the new capital (Nusantara), courting foreign investment, and strengthening trade/investment ties with China. FDI was up 13.7% in 2023 (IDR 744trn, $47.3bn), with Singapore, China and Hong Kong the biggest sources.

Exhibit #1: Unofficial Indonesia President Vote (as of Feb. 21)



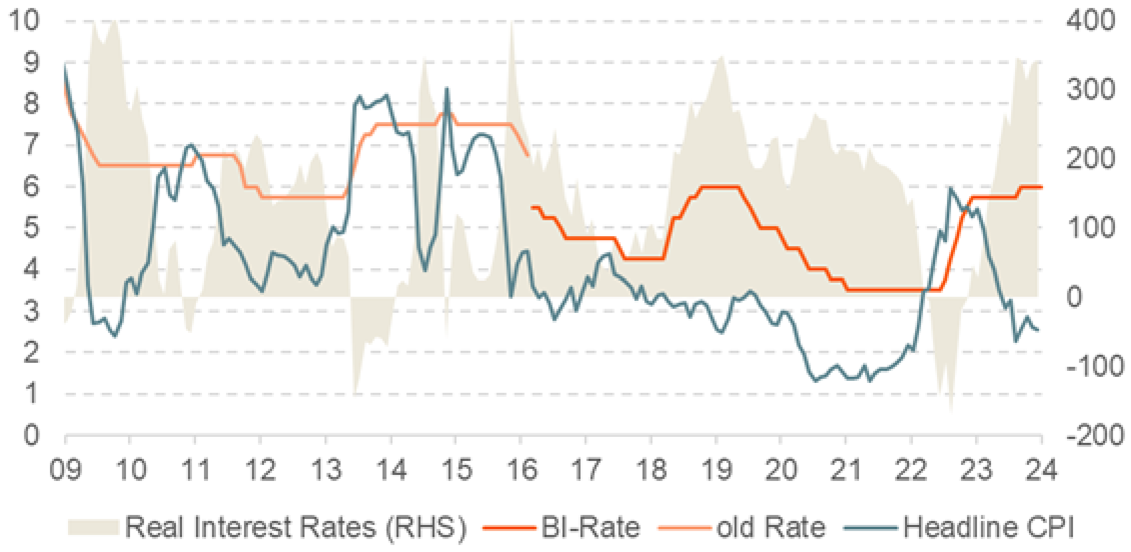
Source: BNY Mellon Markets, Bloomberg L.P.

Bank Indonesia on Wednesday kept its main policy rate at 6.0% – but with a dovish tilt. After indicating in January that it would be patient in easing monetary policy, BI this time stepped up dovish rhetoric that points to policy easing in the second half of this year. This is the most direct easing signal from APAC central banks. It breaks ranks with open-ended rhetoric such as “ready to adjust policy setting as needed” (BSP), “maintain a restrictive policy stance” (BoK), “interest rate remains consistent with sustaining growth” (BoT), and “monetary policy stance remains supportive of the economy and is consistent” (BNM).

BI maintained its key metrics for 2024: GDP growth at 4.7-5.5%, headline CPI in a 1.5%-3.5% range, and the current account deficit at -0.1% /-0.9%. BI vowed to continue its triple intervention strategy, which is to maintain rupiah stability through foreign exchange market intervention with a focus on spot and Domestic Non-Deliverable Forward (DNDF) transactions, as well as government securities (SBN) in the secondary market.

We see merit in a policy reversal this year with real interest rates near historical highs (BI-rate at 6% vs. January headline CPI at 2.57%), but would be mindful of any adverse impact on the rupiah. Of the APAC asset markets and currencies we cover, Indonesia's are one of our most favoured. Resilient capital-flow dynamics into and after the election is testament to global investors' confidence. Over the past week, iFlow data shows accelerated demand for Indonesia equities, the most within the iFlow universe. Indonesia fixed income flows were mixed: selling of government bonds, buying of corporate bonds.

Exhibit #2: Indonesia Real Rates Historically High

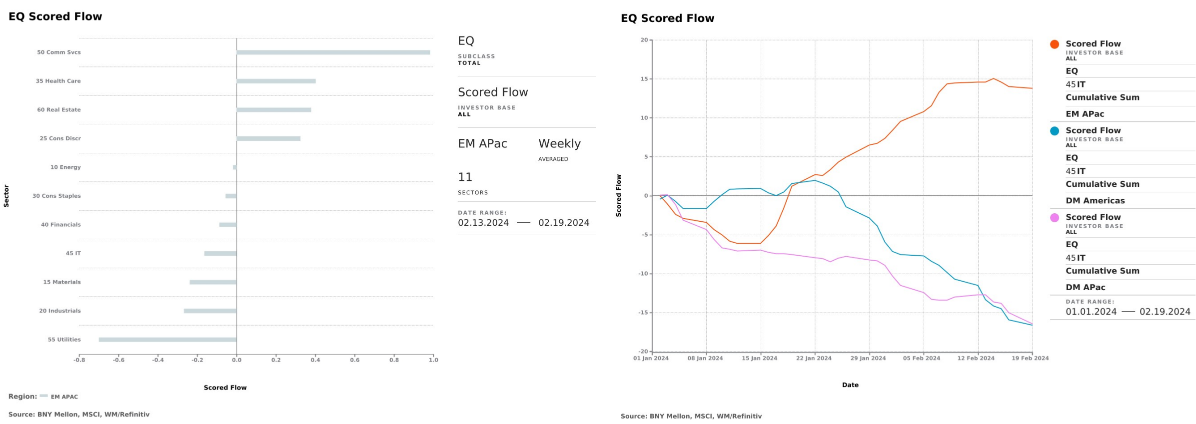


Source: BNY Mellon Markets, Bloomberg L.P.

APAC FX flows were relatively subdued over the past week due to the Lunar New Year holiday. As was the case for most currencies we track, APAC FX flows were biased to selling amid notable demand for the US dollar (weekly average scored flows 0.35). CNY outflows eased in thin trading, IDR had net outflows after six weeks of inflows, and MYR sustained outflow pressure as USDMYR approaches all-time highs. On an aggregate basis, regional FX scored holdings and profitability are evenly dispersed: APAC currencies the most underheld and profitable, CEE currencies the most overheld and unprofitable, and LatAm currencies the only group overheld and profitable.

APAC equity flows were resilient – moderate inflows amid broad selling pressure in G10 equities. By sector, Information Technology was the most preferred (weekly average scored flows 0.98). Utilities suffered the most outflows (weekly average scored flows -0.70). Net flows into EM APAC IT haven't looked back since turning positive in mid-January. DM Americas IT and DM APAC IT, meanwhile, have seen persistent selling pressure.

Exhibit #3: iFlow Shows Good Demand For EM APAC IT



Source: BNY Mellon Markets, Bloomberg L.P.

Please direct questions or comments to: iFlow@BNYMellon.com

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