

iFlow

MORNING BRIEFING

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SENIOR MARKET STRATEGIST FOR APAC



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Indonesia GDP Review, Election Preview

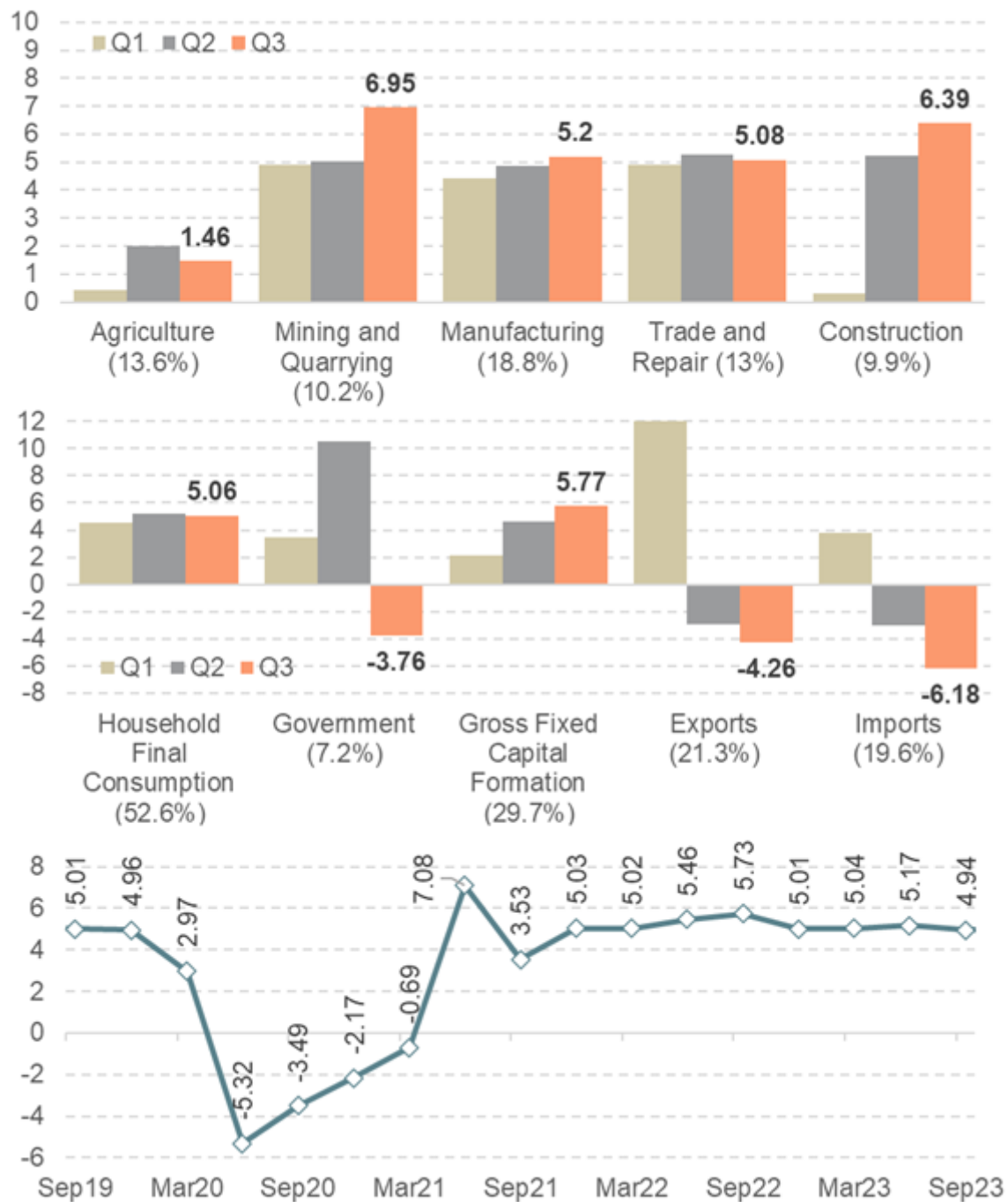
Indonesia's GDP growth in Q3 slowed to 1.6% q/q and 4.94% y/y from 3.86% q/q and 5.17% y/y in Q2. By value, manufacturing still contributes the most to GDP, 5.2% (Q2: 4.88%); next is agriculture, forestry, and fishing at 1.46% (Q2: 2.02%), then wholesale and retail trade at 5.08% (Q2: 5.08%). Growth in construction and mining rose to 6.39% y/y (Q2: 5.23%) and 6.95% y/y (Q2: 5.01%), respectively. Transportation and storage remains the fastest-growing sector, at 14.74% y/y. Manufacturing (18.75%), agriculture (13.57%), wholesale trade (12.96%) and mining (10.18%) comprise more than 55% of Indonesia's GDP.

By expenditures, there was a broad decline across all categories, except for improvement in investment, or Gross Fixed Capital Formation (GFCF), at 5.77% y/y (Q2: 4.63%). Household consumption (HFCE) grew 5.06% y/y (Q2: 5.22%) and was responsible for the lion's share of GDP, or 52.62%. Exports and imports of goods and services slowed to -4.26% y/y (Q2: -2.97% y/y) and -6.18% (Q2: -3.06% y/y), respectively.

Overall, Indonesia's fundamentals remain solid. The country is projected to have the third-fastest growth in APAC, after India and the Philippines, with 2023 GDP expected at 5.04%. The 5.24% expected in 2024 is just above the 5.0% projected by the IMF in October.

We remain of the view that favorable budget conditions will continue to be supportive of the rupiah and local fixed income. Relatively stable pricing is another factor often cited as contributing to the attractiveness of Indonesian government bonds. The 10y INDOGB – US Treasury spread has been confined to the lower end of a 220-240bp range despite the 10y US Treasury yield running from below 4% in July to 5% in October.

Indonesia Q3 GDP And Breakdown



Source: BNY Mellon Markets, Bloomberg L.P.

Markets' near-term focus for Indonesia is shifting to the presidential election to be held on Feb. 14, 2024. Around 205 million of the country's 270 million population is eligible to vote, and roughly a third of eligible voters will be under the age of 30. A candidate needs a simple majority or more than 50% of votes to win. In the event of no majority in the first round, a run-off election will be held in June between the two candidates with the most votes. The winner will take the office of the presidency in October 2024.

Unlike the presidential elections in 2014 and 2019, there will be three candidates in 2024. Registered are Prabowo Subianto (Gerinda Party), current minister of defense; Ganjar Pranowo (PDI-P, incumbent ruling party), governor of central Java (2013-2023); and Anies Basweden, an independent. Recent polls suggest no clear preference, with Prabowo and

Ganjar averaging 33-34% since October and Anies trailing with around 22% support. Political observers say this points to a high likelihood of a second round in June.

We give below some key pledges of each candidate gleaned from public sources.

Prabowo Subianto (Gerinda Party) is said to plan to continue President Jokowi's development program to build the new capital Nusantara; to continue the downstream industry policy, which focuses on processing raw materials and expands into the marine sector; to increase the state revenue-to-GDP ratio to 23%; to fully eradicate extreme poverty within two years; and to establish a task force to look at restricting foreign workers.

Ganjar Pranowo (PDI-P) has pledged to continue President Jokowi's administration program, targeting 7% annual economic growth and creating 17mn jobs. Ganjar also targets a 30% share of renewable sources in the energy mix by 2029; seeks to expand social welfare to cover 15mn families (10mn now); and wants to strengthen the national anti-corruption agency and modernize military hardware.

Anies Baswedan (independent) looks to bolster economic growth to 5.5-6.5% between 2025 and 2029, create 15mn jobs, and raise the tax-to-GDP ratio from 10.4% in 2022 to 13-16% by 2029. Anies also seeks incentives for renewable energy, limits on new construction of and retiring existing coal-fired power plants, stronger free trade agreements, and the creation of two million new affordable housing units.

Election-related uncertainty is something markets normally have to deal with. An analysis done by Bank Indonesia sees chance for a rise in household consumption during the election period, as was the case in 2014 and 2019.

Indonesia Presidential Elections, Feb. 14, 2024

Presidential Candidate

Prabowo Subianto (72) **Ganjar Pranowo (55)** **Anies Baswedan (54)**

Gerinda Party

PDI-P

Independent

Minister of Defence
(incumbent)

Governor of Central
Java (2013-2023)

Governor of Jakarta
(2017-2022)

Vice President

Gibran Rakabuming

Mayor of Surakarta,
Central Java

Mafhud MD (66)

Coordinating Minister
for Political, Legal, and
Security Affairs of
Indonesia

Muhaimin Iskandar (57)

Deputy Speaker of the
House of
Representatives

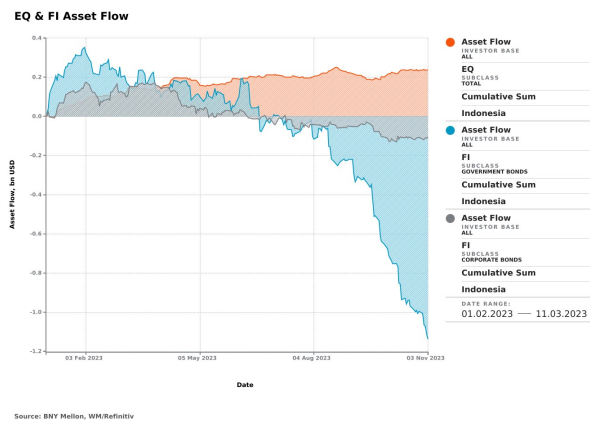
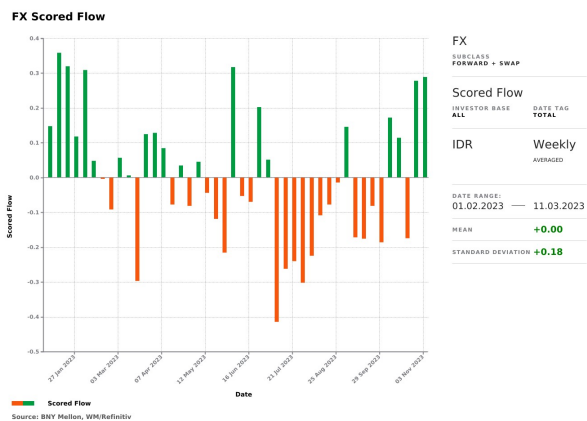
		Prabowo	Anies	Ganjar
Charta Politika	26 - 31 Oct	35.3%	24.3%	36.9%
19 - 25 October	Candidate Registration Period			
Indikator	16 - 20 Oct	37.0%	22.3%	34.8%
Ipsos Public Affairs	17 - 19 Oct	31.3%	28.9%	32.0%
Lembaga Survei Indonesia	16 - 18 Oct	35.8%	19.7%	30.9%
Indikator	2 - 10 Oct	37.0%	21.9%	34.5%
Ipsos Public Affairs	1 - 10 Oct	30.1%	20.0%	29.8%
Lembaga Survei Indonesia	2 - 8 Oct	37.0%	22.7%	35.2%
Alvara Research Center	1 - 6 Oct	30.1%	19.4%	36.5%
Polling Institute	1 - 3 Oct	36.5%	18.7%	31.2%

Source: BNY Mellon Markets, Bloomberg L.P.

https://en.wikipedia.org/wiki/2024_Indonesian_general_election

iFlow shows mixed and light APAC FX flows over the past week. The trends of inflows into CNY and KRW and outflows from INR, TWD and MYR continued. Looking specifically at IDR, iFlow shows renewed demand over the past two weeks and scored holdings shifting higher into overhyped territory. While not yet borne out in iFlow Hedge between rupiah and Indonesian government bonds flows, we suspect some of the IDR demand might be motivated by unwinding of hedges on the back of the recent, accelerated selling in the fixed income complex. Local equities, meanwhile, have seen persistent demand. Among APAC currencies overall, IDR and SGD are the two that are both overhyped and unprofitable.

iFlow On Indonesia FX, Equities And Bonds



Source: BNY Mellon Markets, Bloomberg L.P.

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



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