BNY MELLON
iFlow
MACRO MORNING BRIEFING

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Indonesia Growth Profile Steady And Promising

Indonesia on Monday reported GDP growth of 5.11% y/y in the first quarter of this year. Growth in the manufacturing sector held steady at 4.1% y/y, the same pace as in Q4 2023, and construction grew 7.6% y/y, down just a tick from 7.7% in Q4. Growth in Wholesale & Retail trade accelerated to 4.6% y/y from 4.1% y/y in Q4. Likewise, in Mining & Quarrying: 9.3% y/y vs. 7.5% in Q4. Unexpected contraction in Agriculture, Forestry and Fishing (-3.5% y/y) may have owed to a delayed harvest because of adverse weather.

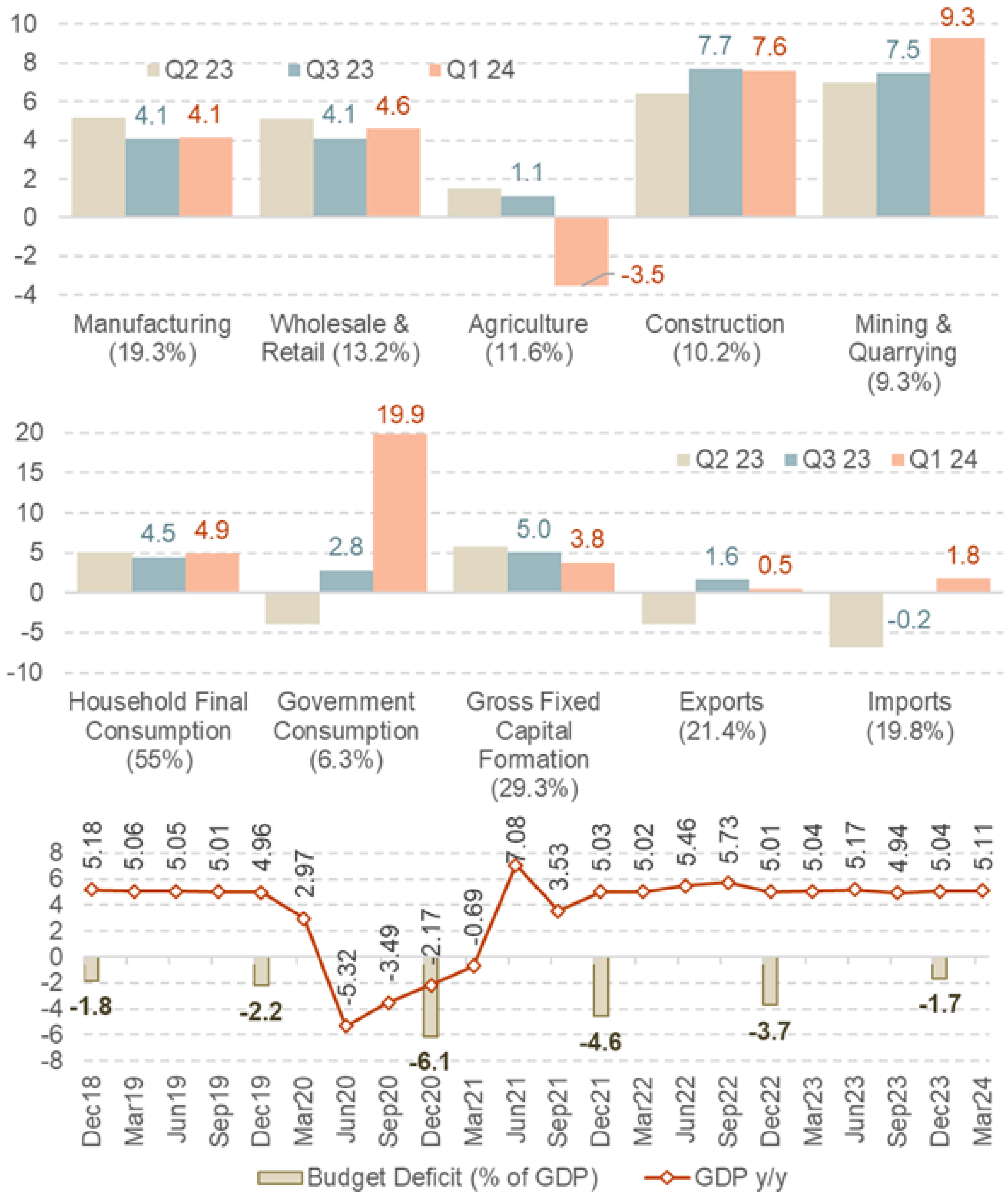
Manufacturing (19.3%), Wholesale & Retail trade (13.2%), Agriculture (11.6%), Construction (10.2%) and Mining (9.3%) comprise the top five industries and contribute to more than half of Indonesia's GDP. Worth highlighting also is steady and fast growth in the Information and Communication sector, the sixth largest contributor to GDP (in constant 2010 prices). The sector grew 8.39% y/y in Q1 and has averaged quarterly growth of 8.2% since 2018 – more than double the average quarterly GDP growth of 3.8% over the same period. It is also one of the sectors that did not experience COVID-related contraction in 2020.

By expenditures, the highlight was consumption growth. Final Consumption Expenditure in Q1 surged to 6.63% y/y, the fastest growth since Q2 2012 (6.97% y/y). This was contributed to by a 20% jump in government spending, with higher election- and welfare-related outlays. Household spending, which makes up over 55% of total GDP, grew at 4.9% y/y, up from 4.5% in Q4. Investment growth (Gross Fixed Capital Formation) eased to 3.8% y/y from 5.0% y/y in the previous quarter. Exports growth flattened out to 0.5% y/y after 1.6% y/y in Q4, while imports grew 1.8% y/y after three quarters of contraction since Q2 2023.

Overall, the stability of Indonesia's growth, when compared with the more-volatile growth in other ASEAN economies, is commendable, in our view. We think the steady and promising growth profile, a solid budget performance – surplus of +0.1% of GDP as of March –

and policy effectiveness in terms of controlling inflation and maintaining rupiah stability, plus high real interest rates, underscore the attractiveness of Indonesia assets.

Exhibit #1: Indonesia GDP, Sector & Budget Numbers



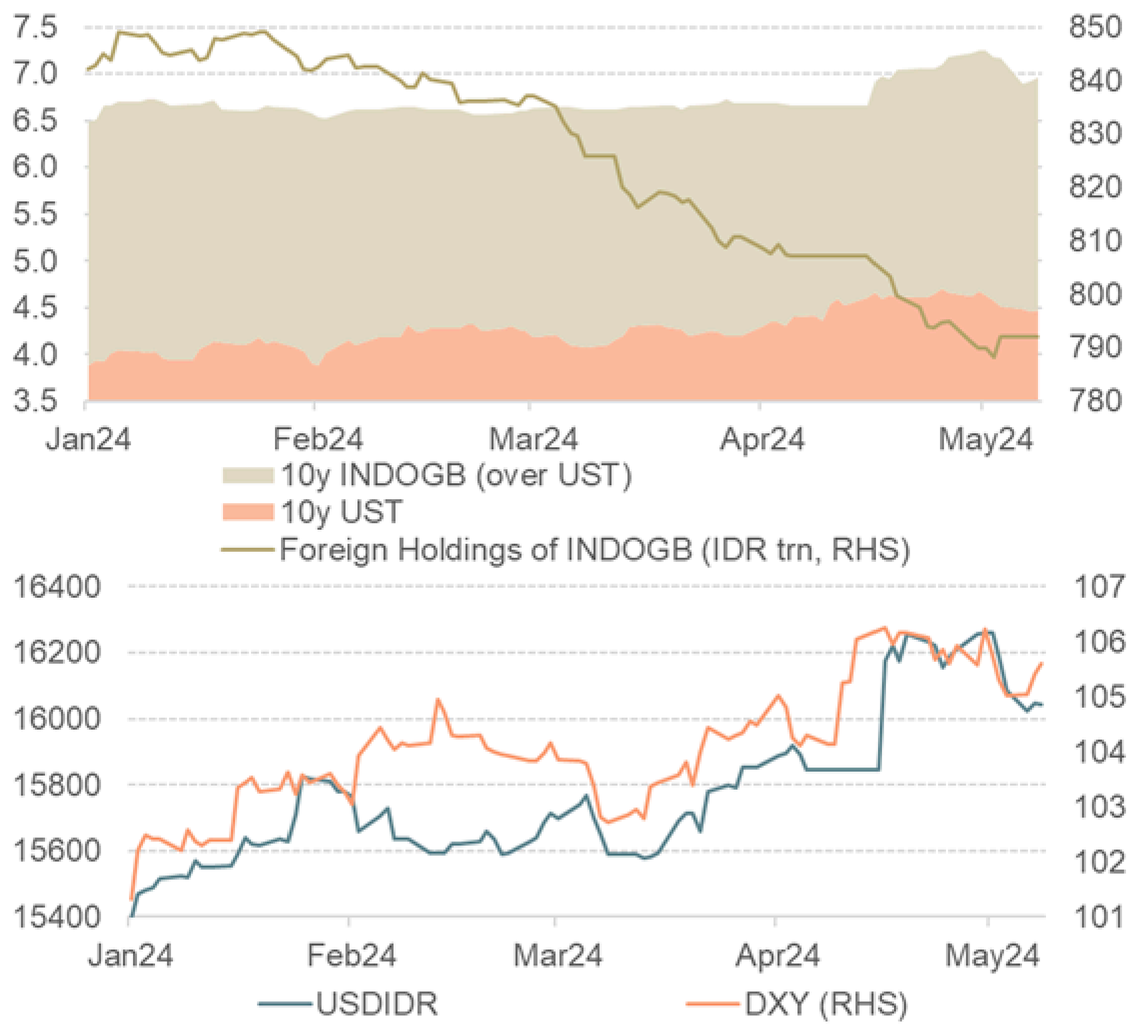
Source: BNY Mellon Markets, Bloomberg L.P. () indicates % contribution to GDP

Market attention in coming months will be on the make-up of the new cabinet under President-elect Prabowo Subianto and Vice President-elect Gibran Rakabuming Raka; they will be inaugurated in October. We will be monitoring who gets what cabinet posts ourselves but think most important is continuity of growth-focused policies. One concern to be addressed is the potential fiscal impact of the planned, aggressive fiscal policies.

Indonesia assets stabilised over the past week. USDIDR hit highs around 16260 before drifting off to just above 16000, below where it was (16220) prior to Bank Indonesia's surprise 25bp rate hike on April 24. The 10y sovereign bond (INDOGB) yield fell to 6.96% after hitting highs of 7.25% the former also below where it was (7.06%) prior to the aforementioned rate hike. We think the primary drivers of the firmer rupiah and lower 10y yield were the corrective move (lower) in the US Dollar Index and lower US Treasury yields.

To this point, the relatively wider INDOGB-UST 10y yield spread hasn't appeared to incentivize investors to re-engage. However, our latest iFlow data (discussed below) shows some signs of buying interest – a flow dynamic we think worth monitoring.

Exhibit #2: INDOGB & USDIDR Trends So Far in 2024



Source: BNY Mellon Markets, Bloomberg L.P.

USD outflows per iFlow over the past few weeks to benefitted FX globally. This continued last week, with the G10, EMEA, LatAm and APAC aggregates all posting inflows. APAC FX remains underheld, but its weekly average scored holdings have improved from -0.75 in April to -0.48 as of Monday this week, the least underheld since November 2023. SGD was the only APAC currency with outflows (-0.24 weekly average scored flows). THB enjoyed the most demand: weekly average flows of 1.28, the largest weekly inflow since March 2023.

In terms of assets, investor flows towards China have yet to improve – further selling in equities and sovereign bonds. Indeed, EM APAC equities were the most sold over the past week, led by outflows from Taiwan. Indonesia sovereigns enjoyed the most bond inflows – the best weekly bond inflows for the year. The rest were under selling pressure.

Exhibit #3: APAC FX Inflows; Strong Demand For Indonesia Sovereigns

Source: BNY Mellon Markets, Bloomberg L.P.

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