

Economic Update

Highlight :

- The biggest factor causing the decrease in economic growth is the export where Indonesia's largest export destination countries also have an economic slowdown, namely China, India and Europe.
- The B20 program that was implemented has been able to reduce the import which effected on improving the current account balance so the slowing down of Indonesia's economic growth's not depressed too deep.
- CPI inflation in November 2019 was recorded at 0.14% (mtm), increase from the previous month's level of 0.02% (mtm), November 2019 CPI inflation on an annual basis was recorded at 3.00% (yoy), lower than the monthly inflation rate previously 3.13% (yoy)
- The balance of payments in the third quarter had a better performance than the second quarter. The third quarter balance of payments deficit was US \$ 46 million, far lower than the deficit in the previous quarter of US \$ 2.0 billion due to an increased capital and financial transaction surplus.

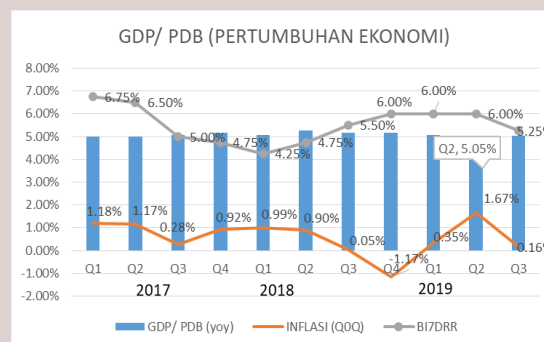
Economic Growth

Indonesia's economic growth has been released. Indonesia's economy in the third quarter of 2019 against the third quarter of 2018 grew 5.02%. Slower compared to the previous quarter which was 5.05%.

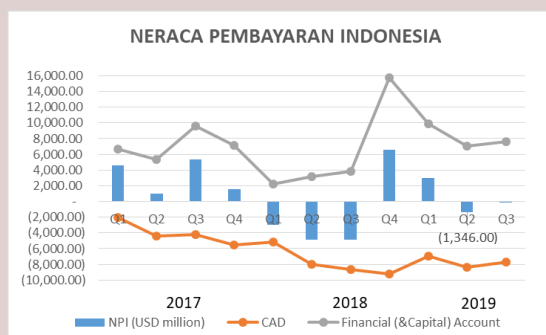
The biggest factor causing the decrease in economic

growth came from the export where Indonesia's largest export destination countries also have an economic slowdown, namely China, India and Europe but the B20 program that was implemented was able to reduce the import which affected the improvement of the current account balance so that the slowdown in Indonesia's economic growth not depressed too deep.

The consumption side, inflation in the Consumer Price Index (CPI) in November 2019 remained low at 0.14% (mtm) supported by slowing core inflation, include rice and side prices and stable administered prices inflation influenced by rising commodity inflation cigarettes in the midst of continuing deflation in air transportation. Annual inflation was recorded at 3.00% (yoy), down from October's 3.13%. Bank Indonesia remains consistent in maintaining price stability and strengthening policy coordination with the Government, both at the central and regional levels, to ensure that inflation is controlled. Inflation in the end of 2019 is predicted below the midpoint of the target range of 3.5 ± 1% and maintained within the target range of 3.0 ± 1% by 2020.



Balance of Payment



Beside the inflation that remained controlled and stable, the balance of payments in the third quarter decreased the deficit compared to the second quarter. **The third quarter balance of payments deficit was US \$ 46 million, lower than the**

deficit in the previous quarter of US \$ 2.0 billion due to an increased capital and financial transaction surplus.

It shows that investor confidence in the outlook for the domestic economy is still high. The increase in capital and financial account surpluses was mainly supported by improved portfolio investment performance, in line with the increase in foreign capital inflows on domestic financial assets. The increase in the surplus was also caused by a decrease in other investment deficits

Tabel 1. Economic Indicator

Indikator	October	November
Inflasi Inti (yoy)	3.13%	3.00%
Inflasi (mtm)	0.02%	0.14%
Neraca perdagangan (USD Million)	0.16	*

*unpublished

Tabel 2. Economic Indicator

Indikator	Q2	Q3
GDP	5.05%	5.02%
NPI (USD Million)	(1,346)	(0.46)
CAD	(8,400)	(7,700)

Tabel 3. Comodity

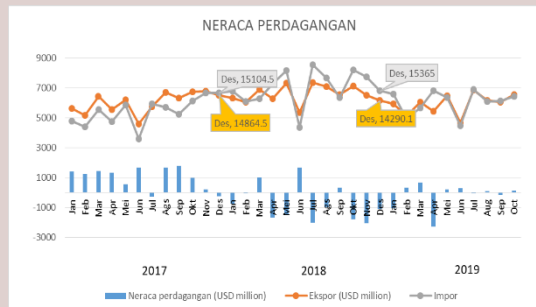
Komoditas	October	November
Brent Oil (USD/Barrels)	60.23	62.43
WTI (USD/Barrels)	54.18	55.17
CPO (MYR/Metrictons)	2,444.00	2,620.00
Batu bara (USD/Metrictons)	66.90	67.85
Emas (USD/troy oz)	1,514.80	1,465.60

which was influenced by higher net withdrawals of private sector foreign loans and lower government net foreign debt payments.

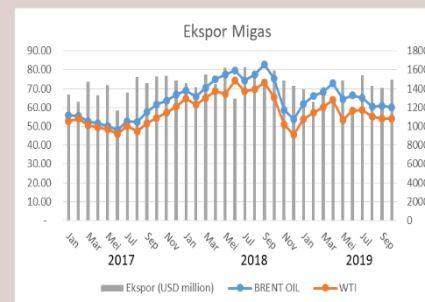
Indonesia's Trade Balance

The trade balance recorded a surplus of US \$ 0.16 billion in October, after a deficit of US \$ 0.16 billion.

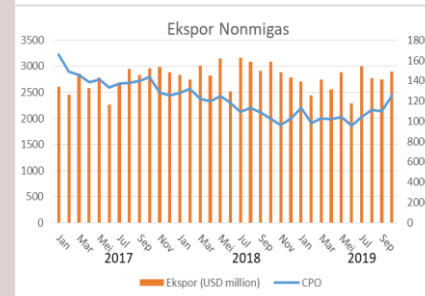
The surplus was supported by an increase in the non-oil and gas trade balance surplus in line with the improved performance of non-oil and gas exports. The export value was recorded at US \$ 14.93 billion.



Oil and gas exports rose 11.58%, while non-oil and gas grew 5.58%. While the value of imports reached US \$ 14.77 billion. Where the increase in October imports was mainly driven by the group of raw materials and consumption which rose respectively 6.17% and 2.12% to US \$ 10.89 billion and US \$ 1.44 billion. While imports of capital goods dropped 5.87% to US \$ 2.44 billion. Although the October trade balance recorded a surplus, the January-October trade balance was still a deficit of US \$ 1.79 billion.

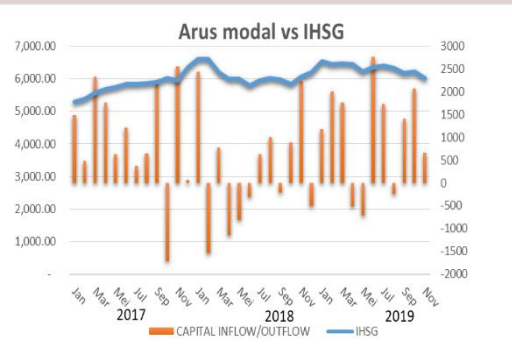


From Indonesia, exports are still dominated by oil and gas where the value of exports has risen in line with rising oil commodity prices.



Capital Inflow/ Outflow

JCI (Jakarta Composite Index) was weakened during November 2019, where JCI was recorded down to 6,011.83 in November and became the weakest in 2019.



There are 2 reasons why foreign investors withdraw their capital. First, short-term investors begin to calculate whether they make a profit or not while investing in Indonesia. Second, there is a global sentiment that influences. The global sentiments that influence is

the trade agreement between the US and China that is still hanging. Actually not only Indonesia is affected by US and China trade agreements but also has

Tabel 4. Currencies

Currencies	October	November	% Change
USD/IDR	14,043	14,108	-0.46%
USD/HKD	7.8370	7.8288	0.10%
USD/SGD	1.3600	1.3677	-0.57%
USD/MYR	4.1780	4.1778	0.00%
USD/CNY	7.0390	7.0325	0.09%
USD/JPY	108.03	109.49	-1.35%
AUD/USD	1.4505	1.4786	-1.94%
EUR/USD	0.8966	0.9076	-1.23%
GBP/USD	0.7726	0.7736	-0.13%

Tabel 5. Interest Rate

Indikator	October	November
BI 7DRR	5.00%	5.00%
Fed Funds Rate	2.00%	2.00%

an impact on the world economy in 2019 which continues to slow down. World economic growth is expected to fall from 3.6% in 2018 to only 3.0% in 2019.

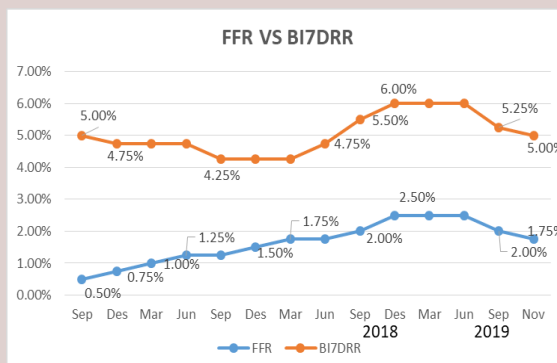
Exchange Rate Movement

The spot exchange rate weakened 0.02% compared to yesterday's trading closing position. In the past month, the rupiah exchange rate also weakened 0.37% from the end of October which was still at Rp 14,043 per US dollar. The Rupiah exchange rate at the end of November was recorded at Rp 14,108 per US dollar.



Even though it has weakened in the past month, the rupiah has continued to strengthen this year. In year to date, the rupiah still strengthened 2.05%. Rupiah currency due to negative sentiment from the external where the uncertainty of the trade war between the US and China still continues. Moreover, US President Donald Trump on Wednesday (27/11) signed the Hong Kong Human Rights and Democracy Law. This made the trade agreement talks between the two countries which were almost complete even more complicated. If the trade war rages again, the investor will hunting the safe heaven currency and cause the Rupiah to decrease.

Interest Rate Movement



Governor of the Federal Reserve (The Fed) Jerome Powell said on Monday (25/11) local time that the current monetary policy is right to continue to drive the labor market and help the inflation rate to the central bank's target. The statement from Powell confirms the view of the central bank of the United States (US), which tends to hold back for the next few months after cutting the benchmark interest rate or Fed Fund Rates (FFR) three times this year. As is well known, last month, the Fed has reduced the benchmark interest rate (Fed Funds Rate / FFR) for the third time this year to be in the range of 1.5% -1.75%.

In line with the Fed, the Bank Indonesia Board of Governors' Meeting (RDG) on 20-21 November 2019 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 5.00%, the Deposit Facility interest rate at 4.25%, and the interest rate Lending Facility interest of 5.75%. Bank Indonesia also decided to reduce the Rupiah Statutory Reserves (GWM) for Conventional Commercial Banks and Sharia Commercial Banks / Sharia Business Units by 50 bps to 5.5% and 4.0%, respectively, with the Statutory Reserves

respectively fixed of 3.0%, and took effect on January 2, 2020. This policy was adopted to increase the availability of banking liquidity in increasing financing and supporting economic growth. The monetary operations strategy will also be strengthened to maintain adequate liquidity and support the accommodative transmission of the policy mix.

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	2019f	2020f
National Account						
GDP	4,83%	4,94%	5,18%	5,18%	5,05%	4,90%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,95%	2,75%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	2,00%	1,50%
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	4,75%
USD/IDR	13.792	13.461	13.554	14.394	14.350	14.270

Our View

Indonesia's GDP or economic growth is projected to remain stagnant at 5.05% until the end of 2019 and show a decline in 2020 due to external factors there is no certainty of US-China trade peace. The action President Trump signed a law supporting the demonstrations in Hong Kong and threatened China with sanctions against human rights on Wednesday (27/11) further diminishing hopes of a "phase one" trade agreement announced last October 2019. . The trade war affected business confidence in Indonesia so that investment flow to emerging market countries declined.

Annual inflation is predicted to continue to fall in 2019 and 2020 but is still in line with the government's target of 3.0% ± 1 in 2020. Government efforts to stabilize prices so as not to experience price spikes and providing incentives to regions that are able to maintain inflation can reduce the number inflation is therefore neither too high nor too low and is still within the government's target.

The Fed Funds Rate cut has been carried out 3 times, the last in October 2019 suggesting that there will be no further decline until the end of 2019. Seeing that US economic growth in the third quarter is better than expectations. The committee's decision came the same day the government reported GDP growth of 3Q2019 of 1.9%, better than market predictions. Earnings for jobs have slowed in recent months but well above 109,000. Meanwhile the unemployment rate is currently at its lowest level for 50 years, which is only 3.5%. There may be room for a rate cut even if it is thin in 2020.

In line with the Fed, the BI7DRR has been cut 4 times throughout 2019 and maintained at 5.00% in the November RDG. It is predicted that there will still be an opportunity for interest rate cuts to continue until 2020. Internally, the still high imports compared to exports which triggered a trade balance deficit slowed the rise in GDP and a trade war between the US-China that never stopped causing a slowdown in the global economy. So that BI stimulates GDP by reducing the benchmark interest rate.

The exchange rate of the Rupiah against the US Dollar is estimated to have the potential to strengthen at the end of 2019 and 2020 although it is still around Rp. 14,200-14,400. Where to watch out for by Indonesia is the stability of the Chinese economy because Indonesia's Current Account has recorded a deficit for 8 years with the majority of contributing imports are from China. So that the strengthening/ weakening of the Indonesian currency is more vulnerable to movements of CNY for currencies throughout Asia.