Macroeconomics

May 2019 inflation was 0.68%, slightly above consensus expectation of 0.53%, bringing the yearly inflation to 3.32% YoY (from 2.83% YoY in the previous month). The higher-than-expected number came following Lebaran festivities, with Foodstuff (i.e. Red Chilli, Chicken, Garlic and Fish) prices picked up, coupled by increase in the transportation prices. The seasonality factor also pushed up core inflation to 3.12% YoY, from +3.05% in the previous month.

Indonesia's 1Q-19 GDP decelerated to 5.07% YoY from 5.18% YoY in 4Q-18, slightly below the consensus of 5.20% YoY. The main culprit was slowing Gross Fixed Capital Formation (GFCF/Investments) and Private Consumption. GFCF growth came at 5.03% YoY, down from 6.01% YoY in previous quarter, owing to several things, including slowdown in government infrastructure projects and end of capex cycle within the mining sector. On the flip side, government expenditure, net exports and non-profit institutions improved as Presidential election-related activity took parts. Indonesia saw another FDI contraction in 1Q-19, the 4th consecutive quarterly contraction, which declined by 11.5% YoY (USD terms) driven by both primary (-32.4% YoY) and secondary sector (-39.4% YoY) decline.

Indonesia posted 1Q-19 balance of payment (BoP) came at a surplus of USD2.4bn on the back of improving current account deficit (CAD) which in the quarter narrowed to USD 7.0bn (2.6% of GDP) from USD 9.2bn in 4Q-18 (3.6% of GDP) as well as the surplus of USD 10.1bn within the financial account side. This positive news flow however did not last long as Apr19 trade deficit was recorded at USD 2.5bn, much higher than expected, mainly due to oil imports from stock up activity for Lebaran holiday, coupled with weaker than expected exports growth on weakening CPO prices.

Bank Indonesia (BI) maintained their benchmark rate at 6.0%, on its continuing focus in maintaining external stability amidst global uncertainties. Interestingly, however, BI was signalling more dovish tone as they are considering a more accommodative monetary policy given low inflation and the need to push domestic economic growth.

Fiscal revenue in Apr-19 slightly grew by 0.5% YoY. This came following tax revenue which only grew by 4.6% YoY, while non-tax revenue contracted by 14.6% YoY. The slow in tax revenue growth was in line with the slower GDP growth and import activities, while non-tax revenue weakness was caused by the weak in commodity prices and shift in SOE dividend distribution to May (as opposed to April) this year. Meanwhile, total expenditure increased 8.4% YoY with social spending jumped by 75.7% YoY. With such mix, budget deficit was recorded at 0.63% to GDP as of Apr19 (vs 0.37% in Apr-18).

Indonesia's sovereign rating in May-19 received a surprise upgrade by the S&P to BBB/stable from BBB-/stable. The Country has now won investment grade rating from all the top rating agencies for the first time in two decades. The rationale behind the upgrade was Indonesia's ability to grow faster than global peers at similar level of income, which showed effective policy making conducted by the Government in promoting sustainable public finances and balanced economic growth. Additionally, S&P also noted the country's relatively low debt and a moderate fiscal performance to support the stability.

Equity

The equity market saw a sizeable performance drop in May by 3.8% during May, with a recorded net outflow of IDR 6.9tn or USD 516mn, marking the worst monthly performance in 14 months. This was driven by both domestic and external issue. Trade tension between the US and China continued dominating the headlines, coupled by MSCI adjustment which impacted Indonesia as the country's weighting...
being downgraded following China A-Shares inclusions to the index. The latter resulted into USD 152mn net passive outflow from the Indonesian equity. The market was further dragged by number of domestic issues, including trade deficit data which recorded at USD 2.5bn in April, significantly higher than consensus expectation of USD 0.5bn, escalating concern in regards to country’s current account deficit (CAD) outlook. In the meantime, political situation was seen less favourable following demonstrations post the announcement of Presidential election result, which dented overall investors’ confidence in the market. All these wiped out the positive returns in the index for the year. Towards month end however the index bounced back thanks to some bargain hunting across big names and a surprise sovereign rating upgrade from S&P on the last day of the month, which also triggered more buying activities.

There was no winner in May with sectors were all in the negative territory. Mining however came as the biggest loser, down by 7.3% during the month. Concern in regards to future commodity prices worsened as the progress discussion between the US and China in regards to trade deal turned sour, escalating global growth outlook concerns. Top 5 drivers for this sector were PTBA (-22.7%), INCO (-11.5%), ZINC (-19.7%), ANTM (-16.2%) and ITMG (-8.8%).

US Equities weakened in May, which the worst May performance since 2010, on the back of trade concern with China, Mexico and Europe. Asian equities dropped as US-Trade trade tension escalated as China officials called for substantial changes to the negotiating text that both countries had been using as a blueprint for the trade discussion, making Trump decided the 25% tariff on US$200bn worth of Chinese goods to become effective. In Europe, equity market also came weak as trade issue continued to linger pricing in impact to the global economic outlook. In the UK, equities also dropped. Theresa May to step down in June, as she continues to push for 4th Brexit deal.

The big thematic issue remains global economic outlook pricing in the impact from trade war between the US and China, which has been seeing prolonging discussion, and not to mention the uprising issue between the US and EU as well as Mexico. The impact of the trade war to the Indonesian economy is inevitable, in particular to our export which is commodity dependent, notably coal and crude palm oil (CPO), of which the prices are impacted from the global slowdown. The Indonesian government economic policies are key in navigating growth. We do see room from peaking global interest rate environment, which can be an opportunity to the country’s growth.

### Fixed Income

The bond market remained volatile in May, with 10-year benchmark yield (FR78) increasing further from 7.8% to 8.1%, before returning to 7.9% by the end of the month. Negative sentiments came from global developments, especially the worsening US-China trade dispute. The US raised tariffs on US$200 billion worth of Chinese imports from 10% to 25%, while China announced retaliatory tariffs on US goods. Tensions also escalated after the US put Chinese telecommunications group Huawei on a trade blacklist. Domestically, post-election protests also created some concerns, although the situation recovered relatively quickly as Eid holiday were approaching. Rupiah weakened to 14,525 during the month, before returning to 14,269 by month-end.

In the midst of market volatility, Bank Indonesia decided to keep the 7-day reverse repo rate at 6%. The central bank mentioned that it would keep monitoring global financial market condition and external stability of Indonesia’s economy in considering the room for an accommodative monetary policy given low inflation and the need to push domestic economic growth. It indicates cautious approach, and in no rush to cut rates in the short term.

By the end of the month, sentiments improved after S&P raised its long-term sovereign credit rating on Indonesia to BBB from BBB-, with Stable Outlook. The rating upgrade reflects Indonesia’s strong economic growth prospects and supportive policy dynamics, which is expected to remain following the re-election of President Joko Widodo. The ratings also continue to be supported by the government’s relatively low debt and its moderate fiscal performance. These factors balance weaknesses associated with Indonesia’s lower-middle-income economy and modest CAR.

By the end of the month, the government has issued IDR 474 trillion of bonds or around 57% of full year target. Foreign ownership in IDR bonds decreased by 1.1% to IDR950 trillion. It represented 37.9% of total bond outstanding, compared to 38.4% in April.
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