Monthly Economic & Market Outlook

February 2020

Surabaya, March 5, 2020

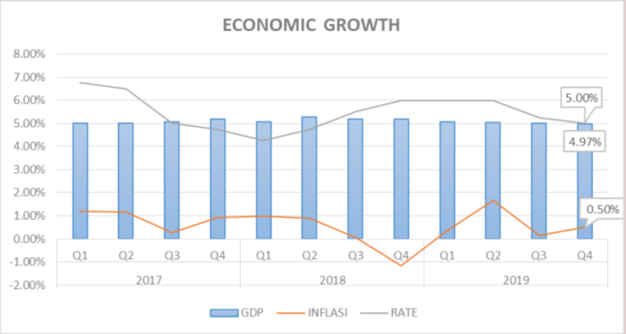
bankjatim
yang terbaik untuk anda

Economic Update

February's Highlight :

- **Consumer Price Index (CPI) inflation in February 2020 was recorded at 0.28% (mtm), lower than the previous month of 0.39% (mtm).**
- **The balance of payments in the fourth quarter recorded a surplus of 4.3 billion US dollars, improved compared to the previous quarter which experienced a deficit of 46 million US dollars.**
- **January, the Rupiah became the best performing currency in the world, strengthening 2.29% against the US dollar. The opposite performance occurred in February, the rupiah dropped especially last week. In February the rupiah sank 5.05%.**
- **The central bank of the United States of America (US) The Federal Reserves suddenly cut its benchmark interest rate at an Incidental meeting on 3/3/2020. No half-hearted, the Federal Funds Rate immediately cut 50 basis points (bps) to 1-1.25%.**
- **Bank Indonesia Board of Governors' Meeting (RDG) on 19-20 February 2020 decided to reduce the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.75%, the Deposit Facility interest rate by 25 bps to 4.00%, and Lending Facility interest rate of 25 bps to 5.50%.**

Gross Domestic Product



Indonesia's Economic Growth in the fourth quarter of 2019 was recorded at 4.97%. This figure is weak compared to economic growth in the third quarter of 2019 of 5.02%. Also lower than the economic growth in the fourth quarter of 2018 of 5.17%. **Overall 2019, Indonesia's economy grows 5.02%.**

Consumer Price Index (CPI) inflation in February 2020 remained low and under control. **CPI inflation in February 2020 was recorded at 0.28% (mtm), lower than the previous month of 0.39% (mtm).** This development was influenced by the low core inflation group, the administered prices group which again recorded deflation of 0.11% (mtm), the development of deflation was influenced by the decline in air freight rates and Special Fuels, while the prices of filter clove cigarettes, white cigarettes, and Domestic fuel (BBRT) increased.

While volatile food inflation was recorded at 1.27% (mtm), slowing compared to January 2020 inflation of 1.93% (mtm). However, this volatile food inflation is higher than the average of the last five years which recorded a deflation of 0.76% mtm, partly caused by food supply disruptions due to unfavorable weather conditions. With this development, annual CPI inflation remained low at 2.98% (yoy), although it increased slightly compared to January 2020 inflation of 2.68% (yoy). Going forward, Bank Indonesia will continue to consistently maintain price stability and strengthen policy coordination with the Government, both at central and regional levels, to ensure that inflation in 2020 remains low and stable in its target of 3.0% ± 1%.

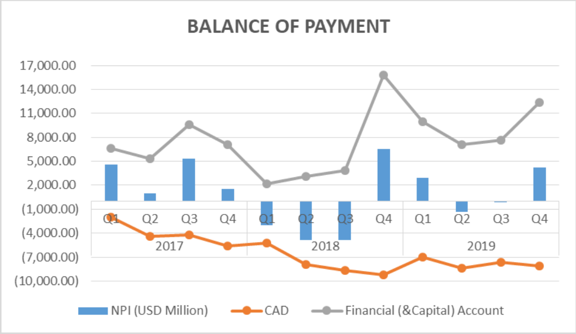
Tabel 1. Indikator Ekonomi		
Indikator	Januari	Februari
Inflasi (yoy)	2.68%	2.98%
Inflasi (mtm)	0.39%	0.28%
Neraca perdagangan (USD Million)	-0.86	*
Cadangan Devisa (USD Million)	131.7	*

*Keterangan : *belum rilis*

Tabel 2. Indikator Ekonomi		
Indikator	Q3	Q4
GDP	5.02%	4.97%
NPI (USD Million)	(0.46)	4.3
CAD	(7,700)	(8,122)

Tabel 3. Komoditas		
Komoditas	Januari	Februari
Brent Oil (USD/Barrels)	58.16	50.52
WTI (USD/Barrels)	51.56	44.76
CPO (MYR/Metrictons)	2,604.00	2,357.00
Batu bara (USD/Metrictons)	68.50	67.40
Emas (USD/troy oz)	1,513.80	1,645.01

Indonesia's Balance of Payment



In line with inflation that remained controlled and stable, the balance of payments in the fourth quarter recorded a surplus thereby supporting Indonesia's external resilience. **The balance of payments in the fourth quarter of 2019 recorded a surplus of 4.3 billion US dollars, improved compared to the previous quarter which experienced a deficit of 46 million US dollars.** The surplus in the BOP was mainly supported by an increase in the capital and financial account surplus and the current account deficit which remained under control. The capital and financial transaction surplus in the fourth quarter of 2019 increased reflecting optimism for the outlook for the domestic economy. The capital and financial account surplus in the fourth quarter of 2019 was recorded at 12.4 billion US dollars, higher than the surplus in the previous quarter of 7.4 billion US dollars. The large surplus was mainly driven by high inflows of portfolio investment originating from global government and corporate bond issuances.

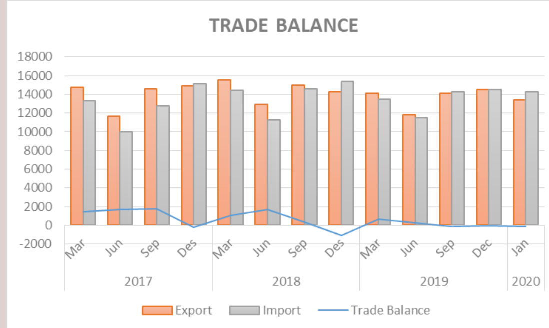
With this development, **Indonesia's foreign exchange reserves for the end of December 2019 amounted to US $ 129.2 billion. This figure increased by US $ 2.5 billion compared to the previous month which was recorded at US $ 126.7 billion. And increased again in January to 131.7 billion US dollars.** The foreign exchange reserves are equivalent to 7.8 months of imports or 7.5 months of imports and payments of government foreign debt, and are above the international adequacy standard of around 3 months of imports. Bank Indonesia assesses that foreign exchange reserves are able to support the resilience of the external sector and maintain macroeconomic and financial system stability. The increase in foreign exchange reserves in January 2020 was mainly driven by the issuance of government global bonds, oil and gas foreign exchange receipts, and other foreign exchange receipts.

Looking ahead, the performance of the balance of payments is predicted to remain good so that it can sustain external sector resilience. The outlook for the balance of payments is supported by the current account deficit in 2020 which is forecasted to remain under control in the range of 2.5% -3.0% of GDP.

Tabel 4. Currencies			
Currencies	Januari	Februari	% Change
USD/IDR	13,655	14,318	-4.86%
USD/HKD	7.7643	7.7935	-0.38%
USD/SGD	1.3648	1.3932	-2.08%
USD/MYR	4.0980	4.2150	-2.86%
USD/CNY	6.9109	6.9920	-1.17%
USD/JPY	108.35	107.89	0.42%
AUD/USD	1.4943	1.5349	-2.72%
EUR/USD	0.9015	0.9069	-0.60%
GBP/USD	0.7572	0.7798	-2.99%

Tabel 5. Suku Bunga Acuan			
Indikator	Januari	Februari	Maret
BI 7DRR	5.00%	4.75%	4.75%
Fed Funds Rate	1.75%	1.75%	1.25%

Indonesia's Trade Balance

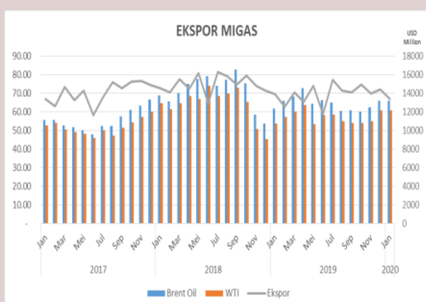


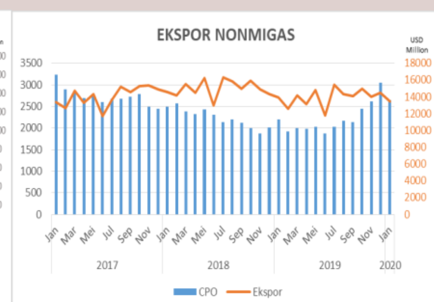
The trade balance in January recorded a deficit of 0.86 billion US dollars, an increase compared to the deficit in the previous month of 0.06 billion US dollars. This development was mainly affected by the decline in the non-oil and gas trade balance surplus due to an increase in imports of consumer goods and capital goods for productive activities. The non-oil and gas trade balance in January 2020 recorded a surplus of 0.32 billion US dollars, down compared to the surplus in the previous month of 0.94 billion US dollars. One side of this development was the increase in non-oil and gas imports, namely imports of consumer goods and capital goods such as vehicles and parts thereof.

Non-oil and gas export performance is also not yet strong, mainly due to declining exports of animal / vegetable fats and oils and ore, crust and metal ash commodities, while exports of precious metals, jewelery / gems and iron and steel have increased in line with global demand strong.

Meanwhile, the oil and gas trade balance deficit increased due to the decline in oil and gas exports, although oil and gas imports have also been lower than the previous month.

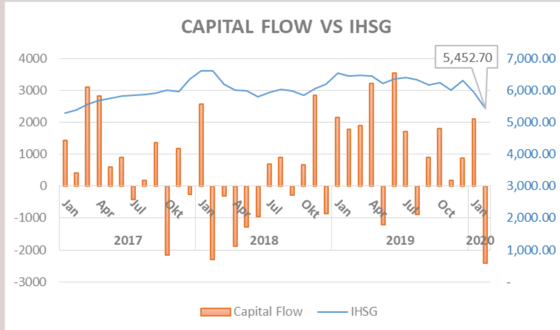
Oil and gas exports in Indonesia where the value of exports has risen in line with rising oil commodity prices.





For non-oil exports in Indonesia, the dominant is CPO

Capital Flow

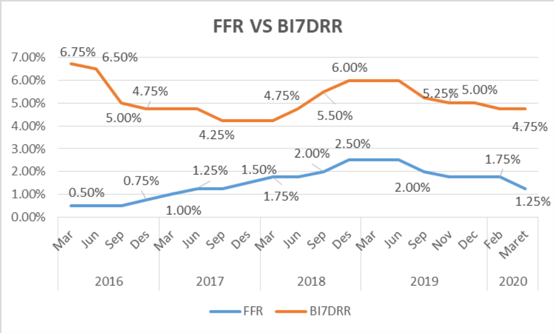


February has passed, the domestic stock market must again be willing to experience a fairly disappointing performance in the second month of this year. **The Composite Stock Price Index (JCI), which is the benchmark for the country's stock market, fell 8.2 percent during February 2020, worse than the previous month which also fell 5.71 percent. As a result, in year to date (YtD), CSPI has dropped 13.44 percent.** The spread of the corona virus (COVID-19) outside China is a major factor that has suppressed the JCI's performance in February 2020. The significant increase in the number of new cases outside China and the spread of infections to more than 50 countries pose a serious threat to the global economy. The existence of these risks makes investors choose risk averse mode and switch to safe haven assets. Selling pressure that occurred in the global stock market also spread to the Asian stock exchanges.

Exchange Rate

The same thing happened to the Rupiah exchange rate, the Rupiah moved like a roller coaster against the United States dollar (US) in the first 2 months of 2020. **In January, the rupiah became the best performing currency in the world after having strengthened 2.29% against the US dollar.** Garuda currency also touched the strongest level of 2 years at Rp 13,565 / US $ on January 24 last. The opposite performance occurred in February, the rupiah dropped especially last week. In February the rupiah sank 5.05%. As a result, the rupiah entered the red zone on a year-to-date basis (ytd). The reason is none other than the fear of the spread of the corona virus outbreak outside of China which has worsened market sentiment and the rupiah finally collapsed in February. The worsening sentiment of market participants due to the surge in cases of the corona virus outside China, even now has entered Indonesia. The rupiah is at its weakest level in the past 9 months.

Interest Rate



Surprisingly, the Federal Reserve / The Fed's central bank suddenly cut its benchmark interest rate at an Incidental meeting held on 3/3/2020. No half-hearted, the Federal Funds Rate immediately cut 50 basis points (bps) to 1-1.25%. The last time the Fed cut its benchmark interest rate by more than 25 bps in a single meeting was in 2008, when Uncle Sam's country was hit by an economic crisis. The considerations submitted in writing by the Fed explain that US economic fundamentals remain strong. However, the corona virus creates risks for economic activity. With this risk and the goal of achieving maximum employment creation and maintaining price stability. The Federal Open Market Committee decided to reduce the Federal Funds Rate by 0.5 percentage points to 1-1.25%. The official meeting of the new Fed should be held on March 17-18, 2020. **Previously, Bank Indonesia (BI) had already lowered interest rates at the Bank Indonesia Board of Governors' Meeting (RDG) on 19-20 February 2020. BI decided to reduce the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.75% , the Deposit Facility interest rate is 25 bps to 4.00%, and the Lending Facility interest rate is 25 bps to 5.50%.** The BI Policy was taken amid monetary policies that remained accommodative and consistent with controlled inflation forecasts within the target range, safe external stability, and as a pre-emptive measure to maintain the momentum of domestic economic growth amidst the prospects of global economic recovery in connection with the Covid -19. The monetary operations strategy continues to aim at maintaining adequate liquidity and supporting the transmission of an accommodative policy mix.

Corona/ Covid-19 News

Global

Hong Kong faces more severe pressure than China and Japan due to the corona virus. **Hong Kong's Markit purchasing managers' index (PMI) fell 33.1 in February from the previous month's 46.8.** This is the sharpest decline since 1998 when the survey began. Hong Kong's lowest PMI record was 38.1 when another corona virus epidemic, severe acute respiratory syndrome (SARS) in 2003. The industrial production index fell to 22.5 last month from the previous 46.7. While new orders fell to 22.7 from 43. Demand from China reached its lowest level last month. There are also reports of increases in the number of order cancellations.

Something similar happened in Japan, Japan's service sector activity in February dropped at the fastest pace in the last six years. The spread of the corona virus is pressing the sector and threatening Japan to recession. **The Japan Services Purchasing Managers' Index (PMI) slipped to 46.8 in February from the previous month's position of 51.** This February figure was the lowest level since April 2014 when Japan raised sales tax. The recession issue has come back to haunt Japan, business expectations fell with the lowest growth rate since July 2016. This indicates that the Japanese economy will remain depressed for some time to come.

Central banks are increasingly busy cutting interest rates. Most recently, **the Hong Kong Monetary Authority (HKMA) cut its overnight interest rate by 50 basis points to 1.5% on Wednesday (4/3).** The move of the Hong Kong monetary authority is in line with the Federal Reserve's interest rate cut by 50 basis points to 1% -1.25% on Tuesday (3/3) night.

On Tuesday (3/3) afternoon, **the Reserve Bank of Australia also cut its benchmark interest rate by 25 basis points to 0.50%. This is the lowest interest rate record in Australia**. The step was taken because China is Australia's main trading partner so the decline in manufacturing activity in China will greatly affect Australian economic activity.

Next from Kuala Lumpur, the Malaysian central bank cut its key interest rate to its lowest level in 10 years on Tuesday (3/3) to reduce the effects of the corona virus on exports and tourism. **On Tuesday (3/3) Bank Negara Malaysia cut its overnight policy rate by 25 basis points to 2.5%. This is the second benchmark interest rate cut this year.** The central bank's monetary policy committee said the corona virus outbreak will weigh on the Malaysian economy, especially in the first quarter, and add further pressure on full-year economic growth as the Southeast Asian nation continues to wrestle with weakness in commodity-related sectors.

Indonesia

In order to strengthen coordination and various policy steps taken previously, Bank Indonesia adopted five further policies to maintain monetary and financial market stability, including mitigating COVID-19 risk **:**

1. Increase the intensity of the triple intervention so that the Rupiah exchange rate moves in accordance with its fundamentals and follows the market mechanism. For this reason, Bank Indonesia will optimize its intervention strategy in the DNDF market, the spot market and the SBN market to minimize the risk of increased Rupiah exchange rate volatility.
2. Reducing the Statutory Reserves Requirement (GWM) of Foreign Exchange Conventional Commercial Banks, from 8% to 4%, effective from March 16, 2020. The reduction in the Foreign Currency Reserve Requirement will increase foreign exchange liquidity in the banking sector by around US $ 3.2 billion and simultaneously reduce pressure on the forex market.
3. Reducing the Rupiah GWM by 50bps aimed at banks conducting export-import financing activities, which in their implementation will coordinate with the Government. This policy is expected to facilitate export-import activities through lower costs. The policy will be implemented from 1 April 2020 to be valid for 9 months and after that it can be re-evaluated.
4. Expanding the types of underlying transactions for foreign investors so that they can provide alternatives to hedge Rupiah ownership.
5. Reaffirming that global investors can use global and domestic custodian banks in conducting investment activities in Indonesia.

Otoritas Jasa Keuangan helped prepare stimulus policies to maintain national economic growth as a countercyclical policy in anticipation of down-side risk from the spread of the Corona virus. Some stimulus steps that have been prepared are as follows :

1. Relaxation of credit asset quality assessment arrangements with a ceiling of up to Rp 10 billion, based only on one pillar, namely the accuracy of principal and / or interest payments, on loans that have been channeled to debtors in sectors affected by the corona virus spread (in line with the sector provided incentives by the Government)
2. Relaxation of loan restructuring arrangements distributed to debtors in sectors affected by the spread of the corona virus (in line with sectors given incentives by the Government).
3. Relaxation of this arrangement will take effect up to 1 (one) year after it is stipulated, but can be extended if necessary.

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	*2019*	***2020f***
National Account						
GDP	4,88%	5,03%	5,07%	5,17%	5,02%	*4,90%*
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	*2,90%*
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	*0,75%*
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	*4,50%*
USD/IDR	13.792	13.461	13.554	14.394	13.866	*14.270*

Our View

The achievement of GDP or Indonesia's economic growth in the fourth quarter of 2019 missed BI's prediction. BI predicts that Indonesia's economic growth will reach 5.30% in 2019, but the realization of Indonesia's economic growth in 2019 is only 5.02%. The projection of the Indonesian economy in the first quarter is also projected to decline due to global conditions affected by the spread of the new Corona Virus outbreak or COVID-19 below 5% or around 4.9%. The Indonesian economy is affected by Corona Virus from tourism, trade and investment.

Annual inflation in 2019 which is below 3.00% is the lowest since 2009 which was recorded at 2.78%. It is predicted that inflation in 2020 will slightly increase compared to the achievement of 2019. These factors come from the demand and supply side, as well as the policy impetus side. The demand side is related to religious holidays both Lebaran and Christmas, and the new year. Then from the supply side it is related to shifting the harvest period. If we look at the policy impetus, the driver of inflation is mainly due to the increase in a number of tariffs. As for the increase in tariffs referred to are tolls, electricity, BPJS fees, and also cigarette excise that will help hoist the inflation rate. March is predicted to have the potential to increase inflation due to the supply of food commodities namely garlic is lacking because imports from China cannot enter Indonesia due to the impact of the Corona Virus.

The Fed Funds Rate was trimmed 3 times in July, September and finally in October 2019. The Fed still maintains interest rates until a surprisingly Incidental meeting on Tuesday (3/3/2020)) The Fed decided to reduce interest rates up to 50 bps to 1-1.25%. It is predicted that there is still room for further interest rate cuts as an anticipative measure if there are still risks to economic activity in supporting maximum employment and price stability targets, one of which is caused by Corona Virus.

BI7DRR has also experienced cuts, but more than the Fed. BI7DRR has been cut 4 times during 2019 and trimmed back in February 2020. It is predicted that there is still room for further interest rate cuts by Bank Indonesia to consider the impact of Corona Virus which has a negative impact on the economy so that monetary policy steps from Bank Indonesia must be taken.

The Rupiah exchange rate against the US Dollar experienced a sharp weakening after strengthening throughout January and is predicted to continue to weaken. The cause is none other than the Corona Virus which affects the economy in China where the stability of the disrupted Chinese economy will greatly affect Indonesia because Indonesia's Current Account has recorded a deficit for 8 years with the majority of contributors to imports coming from China. So that the strengthening / weakening of the Indonesian currency is more vulnerable to the movement of CNY for currencies throughout Asia.