

## Good Morning Asia - 25 March 2021

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Indonesia was counting on a quick bounceback in 2021 but any recovery may take a bit longer

# ASEAN Morning Bytes

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## EM Space: Investors wait for fresh leads

- **General Asia:** Asian markets are likely to move sideways on Thursday with sentiment subdued in reaction to the weakness of the technology sector overnight. Comments from FOMC officials were mixed although Powell continued to highlight slack in the labor force, highlighting his emphasis on chasing full employment. US data fell below market expectations with durable goods orders slipping into contraction with investors looking to Thursday's initial jobless claims data for more direction.
- **Singapore:** The authorities yesterday announced further relaxation of Covid-19 safety measures as they have now expanded the country's vaccination drive to cover the younger population in age groups 45-59 years. Starting from 5 April up to 75% of staff will be allowed to return to the office, up from 50% currently, without the need for any split-time arrangements. The limit for attendees of large-scale activities like wedding receptions is set to rise to 250 from 100 and those at live performances to be tripled to 750 from 24 April subject to pre-event testing. All this should put the economy on a faster recovery mode from the next quarter, giving some upside risk to our 14% YoY GDP growth forecast for 2Q21.
- **Thailand:** The Bank of Thailand left policy on hold yesterday but cut its growth outlook for 2021 to 3.0% from 3.2% citing a persistently weak tourism sector. The February trade figures out today should reinforce this downside growth risk, especially with continued

sluggish exports and firmer imports narrowing the trade surplus. Our forecasts are a 1.6% YoY export growth and 18.5% surge in imports in the last month, resulting in a trade surplus of \$1.45 billion. This implies the cumulative surplus in the first two months is \$1.5 billion below the level a year ago. Such an economic backdrop and sustained political uncertainty should keep THB as one of Asia's underperforming currencies this year.

- **Philippines:** Bangko Sentral ng Pilipinas (BSP) holds a policy meeting today with the central bank widely expected to keep rates unchanged despite the recent spike in inflation. Governor Diokno believes that the current inflation episode is caused by transitory supply side factors that will eventually fade by the second half of the year. Diokno also shared that the BSP was crafting an “exit strategy” from its massive liquidity infusion efforts but that it was “too early” to talk about implementing the strategy in 2021 with the economy still in recession. We expect BSP to pause today and likely be on hold for most of the year. Thus short-end yields will likely be anchored but continued above-target inflation could keep long-end yields elevated.

## What to look out for: Fed speakers and Covid-19 developments

- Hong Kong trade balance (25 March)
- Philippines BSP policy meeting (25 March)
- US initial jobless claims, 4Q GDP. Core PCE (25 March)
- Fed's Williams, Daly, Evans and Clarida give speeches (25 March)
- Singapore industrial production (26 March)
- US University of Michigan consumer sentiment, personal spending (26 March)
- Fed's Bostic, Evans and Daly give speeches (26 March)

# Indonesia: Recovery delayed but not derailed

Indonesia was counting on a quick bounceback in 2021 but any recovery may take a bit longer

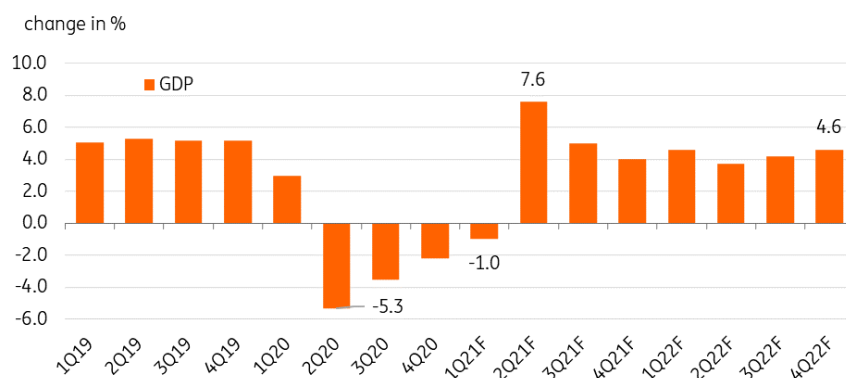


Source: Shutterstock

## Climbing out from recession

Indonesia's economy contracted 2.1% in 2020, with the domestic market hit hard by Covid-19 related partial lockdown measures and weaker global demand for its export base. The authorities began the year hopeful for a 4.5 % to 5.5% GDP expansion delivered by improving consumer confidence and supported by another hefty dose of fiscal spending. However, a string of natural calamities (flooding, earthquakes and volcanic eruptions) and a sharp pickup in Covid-19 daily infections early in the year forced the authorities to trim their expectations for growth to 4.3% to 5.3% while also upsizing the fiscal stimulus budget to IDR553 tr from the original IDR372 tr. Due to these early setbacks and despite base effects, we continue to forecast a contraction in 1Q GDP with the strong bounce back in growth contingent on clamping down on Covid-19 spread and the much-touted vaccination programme.

## Indonesia actual GDP growth and forecast

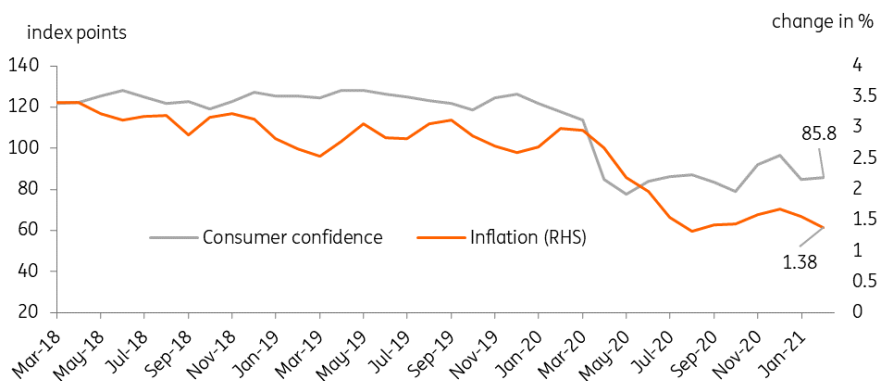


Source: Badan Pusat Statistik and ING estimates

## Economic momentum remains soft

With the economy in contraction for 3 quarters and counting, consumer confidence has only barely improved from the depths of the pandemic. Due to relatively high levels of daily infections, partial lockdown measures have been reinstated in both Bali and Java for 4 weeks, weighing further on already weak sentiment and economic activity. As a result, inflation has remained below Bank Indonesia's (BI) target range of 2-4% which allowed the central bank to lower borrowing costs to 3.5% in February. However, despite several rate cuts, bank lending has fallen sharply, yet another sign that the economy is still struggling.

## Weak consumer confidence manifests in soft demand side pressures on inflation



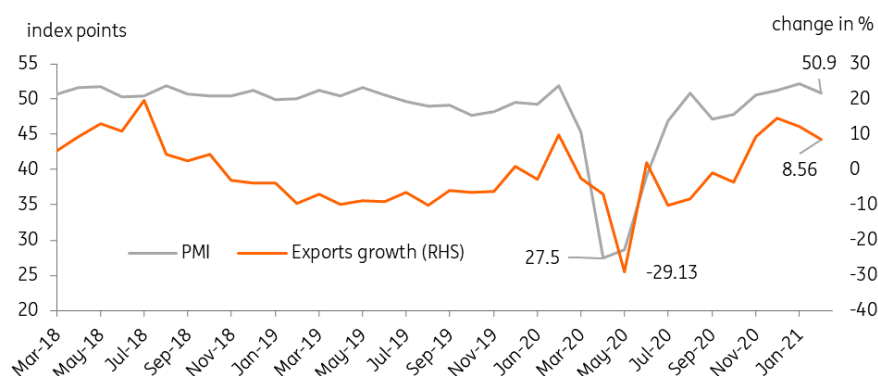
Source: Badan Pusat Statistik and Bank Indonesia

## Hopeful signs

Despite the setbacks faced early in the year and a likely contraction in GDP in 1Q, we do note some promising signs that the economy may be finally turning the corner. Manufacturing activity has picked up in the past few months, tied in some part to gains enjoyed by the export sector. Outbound shipments of raw materials to China have helped carry the export sector to growth since November 2020 and if global growth is not derailed by third waves of the pandemic and picks up in the coming months, exports will likely continue this trend. Likewise, imports fell for 19 months in a

row before finally returning to growth in February 2021. One key driver for this turnaround was the more than 17% gain in capital imports, with firms and the government bringing in heavy machinery and electrical equipment. Should imports of capital machinery sustain this influx we may see investment outlays improve in 2021 to help bolster overall GDP.

## Indonesia's manufacturing sector improves as exports rebound



Source: Badan Pusat Statistik

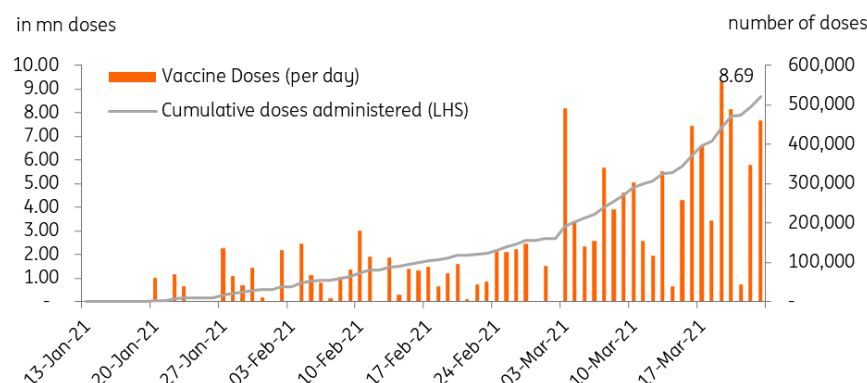
## Jabbing their way to confidence

Indonesia has the highest number of Covid-19 infections in the region and new daily infections spiked at the start of 2021. Indonesia has refrained from enacting heavy-handed full lockdown measures throughout the pandemic, instead opting for partial lockdown restrictions in a bid to keep the economy open. Government officials are now betting on a relatively aggressive vaccination programme that targets inoculating roughly 180 million people over the next 15 months.

The vaccination drive kicked off on 14 January with President Jokowi vaccinated on live television in a bid to increase awareness and confidence in the process. As of 23 March, roughly 8.7 million vaccine doses have been dispensed, with the authorities hoping to quicken the pace of inoculation to build back consumer confidence and open the economy further. Consumer confidence has improved from the lows experienced in 2020 but remains well below pre-pandemic averages. A sustained vaccination effort and falling Covid-19 daily infections should help eventually bolster sentiment and in turn revitalize household spending, which comprises the bulk of economic activity in Indonesia.



## Indonesia banking on vaccine rollouts to bolster confidence and the economy



Source: Johns Hopkins Institute

### Recovery delayed but not derailed

The authorities started 2021 hopeful for a quick economic recovery, banking on its vaccination programme and another round of fiscal spending to jump-start growth. A series of setbacks have forced government officials to pare their expectations, trimming official growth targets and doubling down on the size of the fiscal package.

Meanwhile, recent global developments have shifted the financial market sands with global bond yields rising sharply, a move which threatens IDR stability and limits the ability of Bank Indonesia to cut policy rates further. A short month after cutting policy rates in February, BI may have run out of space to ease further with Indonesian bond yields tracking the rise seen in global market. Yields for the 10-year Indonesian bonds have generally underperformed the region, surging by as much as 92 bps with the bond sell-off leaving IDR susceptible as foreign investors head for the exits. IDR has weakened 2.7% since 18 February, which may have forced BI Governor Warjiyo to pause at his last meeting. Warjiyo remains confident financial flows will stabilize once sentiment improves and expects IDR to appreciate “in-line with fundamentals”.

Despite these setbacks, we believe that the economic bounceback will still happen but with a delay of several months. Early signs have been encouraging, with Covid-19 daily infections trending lower while the government implements its vaccination efforts. On the economic front, manufacturing activity has picked up thanks in large part to a pickup in exports while imports finally reverted to gains. If BI can stave off pressures on the currency and maintain financial stability while the vaccination rollout continues, we will review our current 3.9% GDP forecast for the year.

	2020	1Q21F	2Q21F	3Q21F	4Q21F	1Q22F	2Q22F	3Q22F	4Q22F
Real GDP (% YoY)	-2.1	-1.0	7.6	5.0	4.0	4.6	3.7	4.2	4.6
CPI (% YoY)	2.0	1.7	2.5	2.6	2.9	3.1	3.3	3.4	3.3
BI policy rate (% eop)	3.75	3.50	3.50	3.50	3.50	3.75	3.75	4.00	4.00
3M T-bill rate (% eop)	4.06	3.86	3.80	3.82	3.90	4.00	4.03	4.3	4.41
10Y govt. bond yield (% eop)	5.87	6.68	6.59	6.32	6.43	6.37	6.43	6.5	6.60
IDR per USD (eop)	14050	14413	14515	14372	14210	14398	14500	14427	14355

Sources: Bank Indonesia, Badan Pusat Statistik, ING forecast  
Source: Badan Pusat Statistik, Bank Indonesia and ING estimates

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