Is China coming out to save the Indonesian economy?

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Summary

- China's economic reopening appears to be both pro-growth and disinflationary thus far, as lower goods prices allow consumers to continue to buy.
- The Chinese economy may not be enough to drive up global economic growth in 2023, considering that China's still-weak consumer confidence would limit the prospect of manufactured goods exports to China.
- The Indonesian economy may get closer to the government's optimistic growth target if China's economic reopening sends commodity prices hiking again and outlook the prospect for China's property sector starts to improve. However, cheaper imported goods from China would limit the prospects of Indonesia's manufacturing sector.

- Last week, the Indonesian financial market saw capital outflows to the tune of USD 313.2 million, causing a slight decline in stock and bond valuations. However, this trend is not unique to Indonesia. Investors continue to make the switch towards the "higher-for-longer" camp, reducing demand for assets as expectations for discount rates increase. This expectation, unlike the previous "fed-pivot" sentiment, may carry more currency. Despite the bleak outlook last winter, the global economy has rebounded quickly, as evidenced by consistently higher-than-expected retail sales figures (US: 6.4% YoY in Jan-23, consensus 4.5% YoY).
- It is important to note that the retail sales data is not inflation-adjusted, and the continued strength in sales figures may be attributed to higher prices; suggesting that consumption levels may be stagnating despite increased credit card use. However, we should not dismiss the positive retail sales growth as a sign of weakening confidence amid a global economic downturn. A more optimistic interpretation of the data suggests that consumer purchasing power may have rebounded due to the ongoing trend of rising wages and an improving inflation outlook, particularly for goods and energy components.

- The post-pandemic global goods disinflation, of course, cannot be separated from the China factor ***(see Chart 1)***. As described in our 2023 global macroeconomic outlook, **discontinuation of the zero-COVID policy has so far proven to have a disinflationary impact on the global economy**. However, many have voiced their scepticism about China's role to drive up global economic growth in 2023. The first point of concern is China's trading activities itself. Cheaper goods from China may allow consumers in the US and globally to record a positive aggregate demand growth. But anaemic domestic demand (hence, still-restricted export opportunities to China) may keep out global producers to take a bite of China's enlarging economic pie.
- The very nature of post-pandemic economic reopening points to another concern that China may be incapable to share its growth with its global peers. As happened before, **post-pandemic economic reopening tends to favour the service sector, especially client-facing ones such as restaurants and other hospitality, which often has minimal linkage to the global economy**. Luckily, the PBOC has so far shown that the central bank is not afraid to use its arsenal to provide more boost to the domestic demand condition (***see Chart 2***). Some may see that the PBOC's recent record single-day intervention has more to do with stabilisation policy amidst deteriorating Chinese interbank liquidity conditions amid waves of maturing NCDs (***see Chart 3***). But the central bank's dovish posture, which has been ongoing since August 2021 when the Evergrande crisis started, is consistent with the effort to bring liquidity into the market, complementing the Chinese government's supply-side interventionist policy to restore confidence in the property sector.
- Many have also expected that China's economic reopening would send commodity prices back upwards, which may bolster growth in countries like Indonesia but detract from it for others. However, it appears that this concern remains academic for now. It appears that the impact of China's economic reopening is more apparent in oil prices, with prices of other energy commodities such as coal and gas continuing to trend downward despite waning COVID cases in China.

"China's economic reopening is a positive development for commodity exporters but the domestic manufacturing sector may be trapped between a rock and a hard place"

- This development may tell two stories. It may tell a success story behind China's effort to diversify its energy mix, limiting the country's dependency on a handful of commodities. The other, grimmer story is that those in the energy market may have marked China's growth in 2023 to be disappointing, as price action is more dictated by supply-side surprise from Australia than by the anticipation of spiking demand from China itself. **The prospect of growth in demand for China's energy commodities in 2023 may still be significant, especially if domestic and global consumers**

continue to buy, allowing Chinese manufacturers to restart their productive activities at full scale. This hopeful scenario, however, may be too much to ask if Chinese consumers remain unwilling to buy.

- Despite these scepticisms, however, improving economic activities in China is still good news for the Indonesian economy. One hopeful scenario is that the improving domestic outlooks in China would reverberate into the now-beleaguered property sector. Indonesia's iron and steel exports to China are one of the most obvious success stories from the government's mineral down-streaming policy, with exports to China topping at USD 1.82 bn (with an annualised growth of around 69.8% YoY) in May 2022 despite the ongoing property crisis and looming pandemic uncertainties (while China's steel production declined by -2.9% YoY in the same period). China's increasing reliance on imported steel may be the product of the policy to transform China's industrial capacity to capture more high-tech, higher value-added sectors. But **recovering property outlook in China would put Indonesian steel manufacturers on the centre stage for growth.**
- These China-driven impulses, however, come with some caveats. First, it appears that the impact of China's economic reopening is more apparent in oil prices, narrowing Indonesia's trade surplus. **The resumption of China's productive activities may also trap Indonesia's manufacturing sector between a rock and a hard place.** Indeed, heightened demand from China would increase the cost of raw materials faced by domestic manufacturers, reducing the margin. Higher exporting activities in China may also increase the competition faced by Indonesian manufacturers in markets at home and abroad (***see Chart 4***), especially if the CNY's value continues to weaken relative to the IDR.
- **All things considered; China's economic re-opening may prove to have a mixed impact on Indonesia's economic growth**. Our domestic economy, then, may continue to rely on its internal impulses to get closer to the government's rather optimistic growth target. However, with industrial capacity utilisation still below the pre-pandemic average, and the presidential election looming on the horizon, the prospects for investment from the private sector may be rather limited.
- Here, we see the rationale behind Bank Indonesia's policy decision announced last week. BI's decision to stop hiking rates, while also continuing on its accommodative macroprudential policies, is clearly geared to provide more boosts to the domestic aggregate demand. **Some weakening to the IDR, which might result from the narrowing real yield spread with the US, may also be rather productive considering its effect on the attractiveness of Indonesian products.** Thus, we remain bullish on the prospect of the Indonesian economy in 2023, although a slower growth (to the tune of 4.7 – 4.8% YoY, 5.32% YoY in 2022) compared to the last year may be too hard to avoid.

FFR Futures, curves on:

Chart 1

Wholesale discount

Cheaper goods from China help US consumers to maintain their consumption level as goods prices march lower

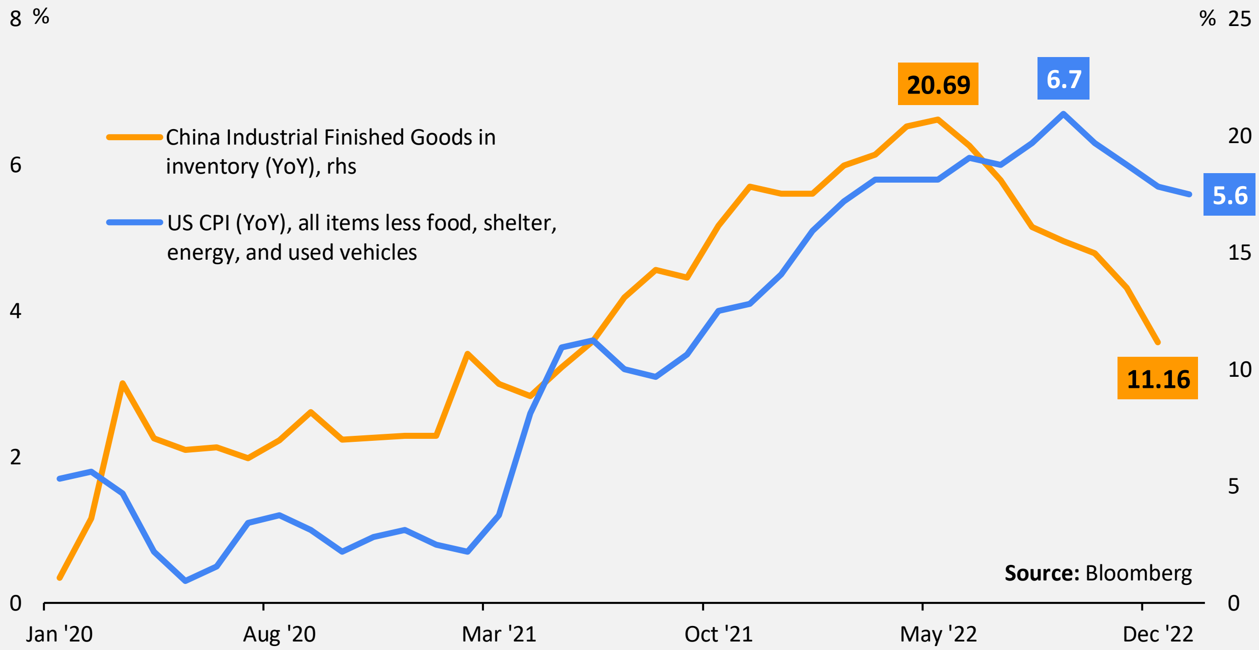


Chart 2

Against the tide

PBOC's dovish posture is consistent with the effort to boost the economy following the implosion in the property sector…

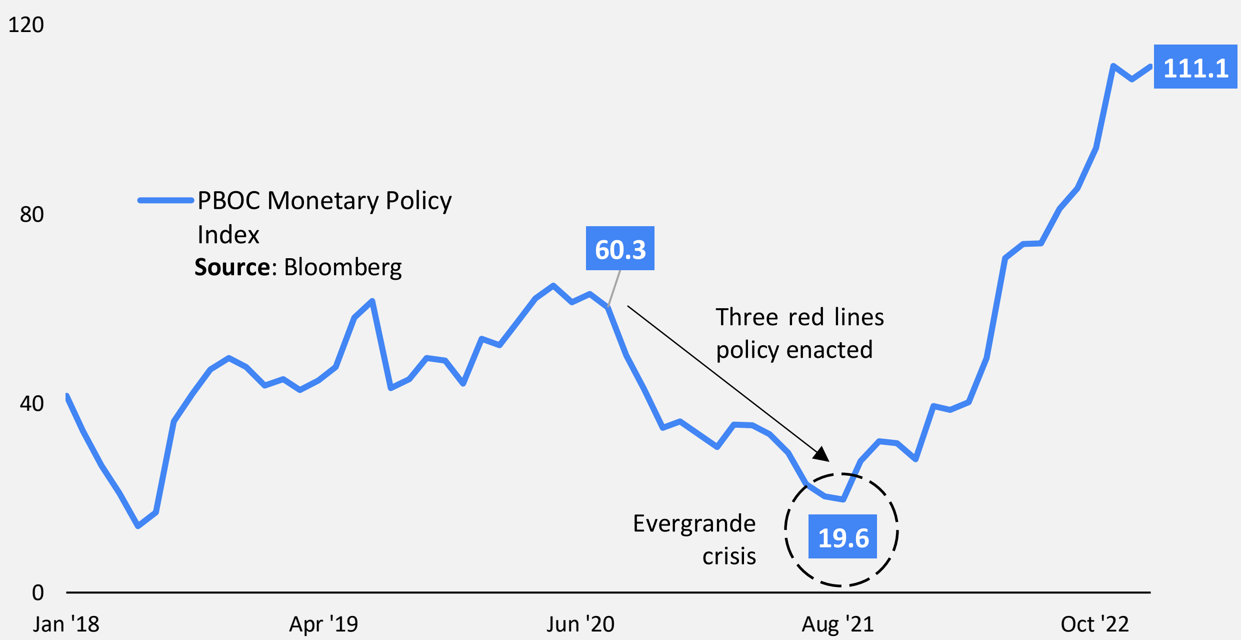


Chart 3

Short-term necessity

…although the recent record-breaking intervention may be driven by declining liquidity in the interbank market

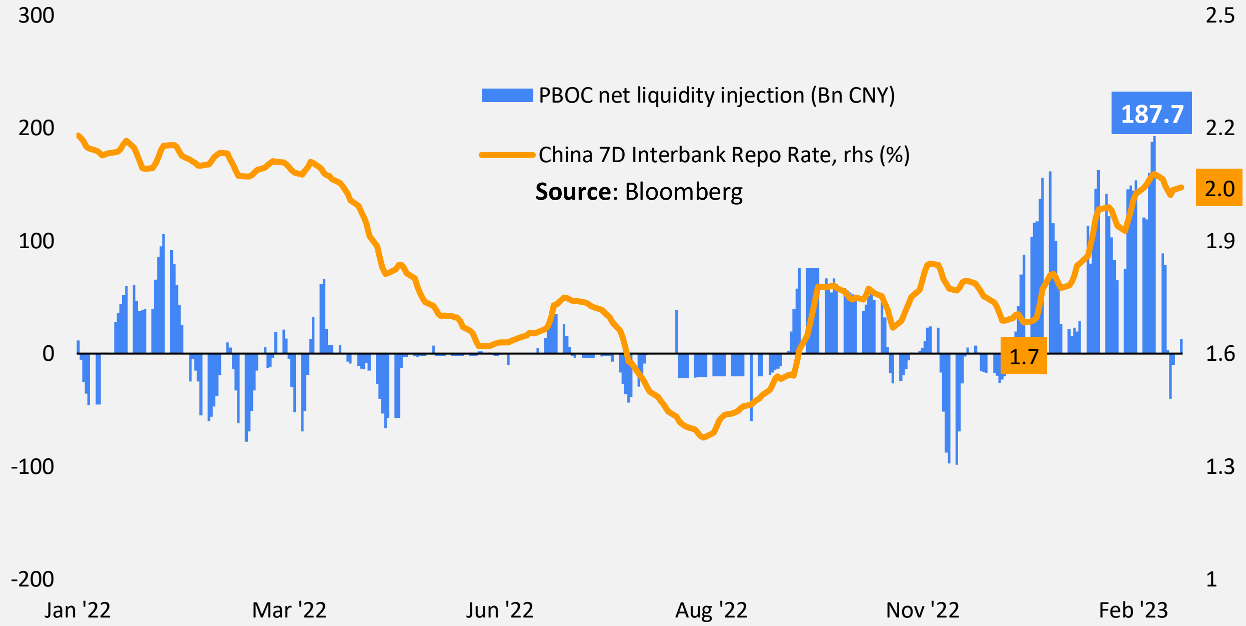
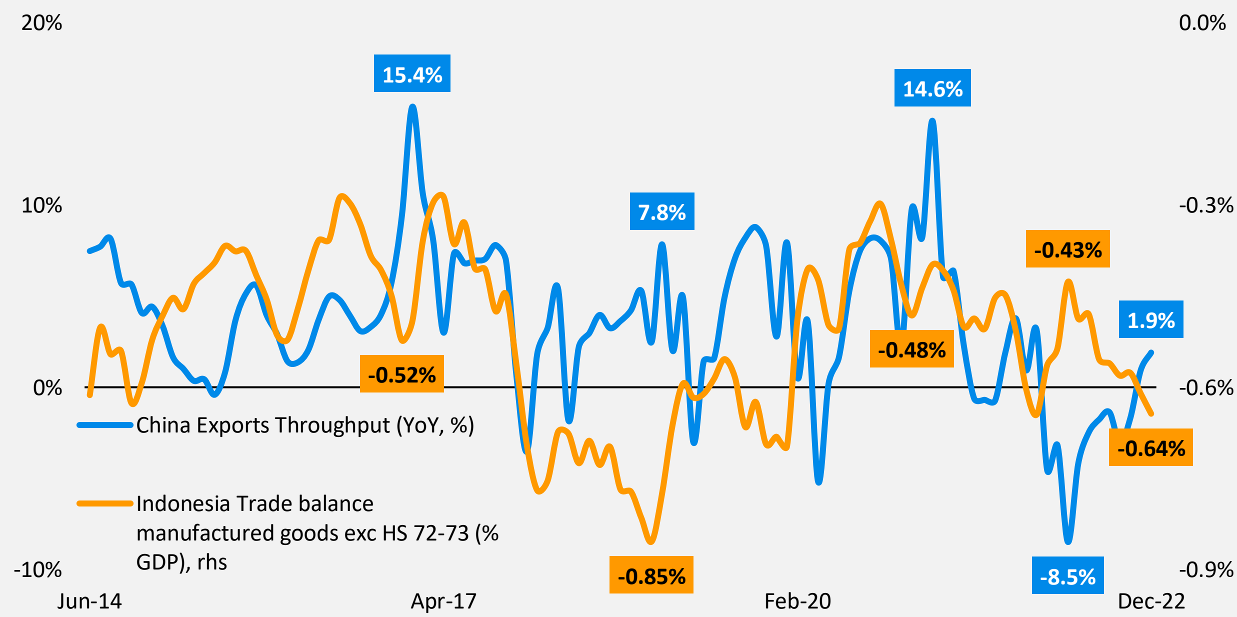


Chart 4

Turning up the heat

Chinese manufacturers' cost-advantage means that higher export activities in China often coincides with a widening manufactured goods trade deficit in Indonesia



Source: BPS, Bloomberg

Economic Calendar

		Actual	Previous	Forecast*
1 February 2023				
ID	Manufacturing PMI	**51.3**	50.9	50.8
ID	**CPI Inflation YoY**	**5.28%**	5.51%	5.43%
2 February 2023				
US	**Fed rate decision**	**4.75%**	4.50%	4.75%
EU	ECB deposit rate decision	**2.50%**	2.00%	2.50%
3 February 2023				
US	Non-farm payrolls (thousands)	**517**	260	185
US	Unemployment rate	**3.4%**	3.5%	3.6%
6 February 2023				
ID	**GDP Growth Q4 2022 (YoY)**	**5.01%**	**5.72%**	**4.8%**
7 February 2023				
ID	**Foreign exchange reserve (USD Bn)**	**139.4**	**137.2**	**138.0**
US	Balance of trade (USD Bn)	-67.4	-61.5	-68.8
8 February 2023				
ID	Consumer confidence index	123.0	119.9	120
9 February 2023				
ID	Retail sales (YoY)	0.7%	1.3%	3.0%
US	Initial jobless claims	196K	183K	189.0K
10 February 2023				
CN	Inflation rate YoY	2.1	1.8	2
14 February 2023				
US	CPI Inflation YoY	6.4%	6.5%	6.3%
15 February				
ID	**Balance of trade (USD Bn)**	**3.87**	**3.89**	**3.1**
US	Retail sales YoY	6.4%	6%	4.5%
16 February				
CN	House price index YoY	-1.5%	-1.5%	-1.3
US	PPI YoY	6%	6.2%	6.0%
ID	**BI 7DRR decision**	5.75%	5.75%	6.00%
20 February				
ID	**Current account Q4 2022 (USD Bn)**	**4.3**	**4.4**	**3.5**
23 February				
EU	Inflation rate YoY	-	9.2	8.5
ID	Property price index Q4 2022 (YoY)	-	1.94%	

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.75	Feb-23	-1.65
UK	4.00	Feb-23	-6.10
EU	3.00	Feb-23	-5.50
Japan	-0.10	Jan-16	-4.10
China (lending)	4.35	Feb-23	2.25
Korea	3.50	Jan-23	-1.70
India	6.50	Feb-23	-0.02
Indonesia	5.75	Feb-23	0.47

Money Mkt Rates	17-Feb	-1 mth	Chg (bps)
SPN (1M)	2.62	3.96	-133.6
SUN (10Y)	6.72	6.74	-2.1
INDONIA (O/N, Rp)	5.45	5.02	43.4
JIBOR 1M (Rp)	6.39	6.20	18.6

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.60	8.58	1.67
Deposit 1M	3.69	3.36	32.89
Savings	0.67	0.67	0.00

Currency/USD	17-Feb	-1 mth	Chg (%)
UK Pound	0.831	0.814	-2.03
Euro	0.935	0.927	-0.86
Japanese Yen	134.2	128.1	-4.49
Chinese RMB	6.869	6.772	-1.41
Indonesia Rupiah	15,203	15,165	-0.25

Capital Mkt	17-Feb	-1 mth	Chg (%)
JCI	6,895.7	6,767.3	1.90
DJIA	33,826.7	33,910.9	-0.25
FTSE	8,004.4	7,851.0	1.95
Nikkei 225	27,513.1	26,138.7	5.26
Hang Seng	20,719.8	21,577.6	-3.98

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	2,700.6	2,699.4	1.22
Govt. Bond	811.9	762.2	49.70
Corp. Bond	12.4	12.5	-0.02

Trade & Commodities	17-Feb	-1 mth	Chg (%)
Baltic Dry Index	538.0	921.0	-41.6
S&P GSCI Index	581.5	609.1	-4.5
Oil (Brent, $/brl)	83.0	85.9	-3.4
Coal ($/MT)	187.8	264.6	-29.0
Gas ($/MMBtu)	2.28	3.43	-33.5
Gold ($/oz.)	1,842.4	1,908.7	-3.5
Copper ($/MT)	8,950.3	9,283.0	-3.6
Nickel ($/MT)	25,571.0	26,485.0	-3.5
CPO ($/MT)	909.0	884.5	2.8
Rubber ($/kg)	1.37	1.38	-0.7

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	22.31	23.83	-6.36
Import ($ bn)	18.44	19.86	-7.15
Trade bal. ($ bn)	3.87	3.97	-2.39
Central bank reserves ($ bn)*	139.4	137.2	1.58

Prompt Indicators	Jan	Dec	Nov
Consumer confidence index (CCI)	123.0	119.9	119.1
Car sales (%YoY)	11.8	9.0	4.4
Motorcycle sales (%YoY)	38.6	24.6	26.9

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	47.4	48.4	-100
Eurozone	48.8	47.8	100
Japan	48.9	48.9	0
China	49.2	49.0	20
Korea	48.5	48.2	30
Indonesia	51.3	50.9	40

Source: Bloomberg, BI, BPS
Notes:
^Data for January 2022
*Data from an earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	4.7
GDP per Capita (US$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	15,647
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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