

No glitter amidst the gold rush

17 April 2023

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kuku Mamia
barra_mamia@bca.co.id

Summary

- Despite the increase in oil prices, price movements in the commodity market remain consistent with a recession outlook. China's limited growth potential further highlights the bearish signal in the commodity market.
- The recent surge in gold prices may signal a delayed return of positive real rates, which could be due to stubborn inflation or looming recession risks that could prompt the Fed to cut its policy rate.
- Slowing aggregate demand growth and an overvalued Rupiah may allow BI to start cutting rates, although such a scenario remains unlikely given the Fed's "no-cut" outlook in 2023.

- Indonesia completed the first nickel IPO last week, the biggest out of three scheduled this year which marked another milestone for companies in the still-nascent sector. The IPO is well-received by investors, as evident from the stock's robust performance and the ~USD 471.8 Mn in capital inflows recorded last week (foreign investors, however, recorded net sell-offs in the stocks early trading days). Sell-offs by foreign capitals aside, strong interest in Indonesia's nickel stocks should come as no surprise, given investors' growing appetite for companies in the EV-related supply chain.
- However, the excitement on Indonesia's first nickel IPO is not matched by the commodity itself, which finds itself losing 19.6% of its value in 2023. The increase in production capacity in Indonesia, which may continue to expand thanks to the financing from the IPO, is yet to be matched by an increase in

demand. Indeed, **despite the long-term promise of demand from EV battery manufacturers, nickel producers need to grapple with the short-term reality of anaemic demand from stainless steel producers.** Alas, steel demand is not particularly great either. For one, China is yet to recover from the 2020 property sector crisis, while the remote working revolution and high-interest rates deflate the demand for new property elsewhere. Nickel, then, may continue to trade in the oversupply territory, limiting the potential increase in nickel prices at least in the short term.

- The picture is not quite as bleak for other industrial commodities (**see Chart 1**). Copper, for instance, is still gaining 7.6% YTD. However, **much of the spike in industrial commodity prices appears to be driven by the momentum generated from China's eco-nomic reopening, a momentum which**

may soon falter. China's growth strategy, we should recall, is still export-driven. Thus, slowing demand from American or European customers would put a brake on China's growth potential, as indicated by China's slowing manufacturing expansion in the last couple of months. China's lowball growth target, at 5% YoY, speaks at length about commodity markets' limited upside potential in 2023.

- **The bearish signal is especially loud in the energy market**, where surging oil prices, as always, are big news. But the recent increase in oil prices was caused more by the prospect of a decrease in supply than by a surge in demand. The supply-driven uptick in oil prices may also strengthen the signal of an upcoming recession (or even stagflation). Indeed, low energy prices are essential to kick-start a manufacturing expansion, either by lowering input prices or through the income effect by freeing up a bigger portion of consumers' disposable income.
- Commodity prices from industrial commodities to energies may be moving southward. Precious metals, however, present an anomaly. **Still, higher demand for gold is not a sign of a glittering economic outlook either.** Spiking demand for gold is often associated with the prospect of an incoming inflationary period, given gold's unique role as an inflation hedge (which now seems to be rivalled by crypto assets). We should recall, however, that the recent

"The recent spike in gold prices may signal the expectation for a prolonged period of negative real interest rate"

increase in gold demand occurred when the post-pandemic inflationary period was already past its heyday. What the recent spike may signal, then, is the expectation for prolonged financial repression (**see Chart 2**).

- Keeping the economy in the financial repression territory has its allure. For one, it would help the US (and global) economy to pay its mounting pandemic-era debt. Such a policy, however, is not consistent with the Fed's inflation-fighting guideline. Indeed, the Fed's year-long tightening campaign has brought the real rate closer to positive territory. A hypothetically extended streak of the negative real rate, then, may come either as a misfortune or a compromise.
 - Financial repression should continue as a misfortune if inflation proves to be stubborn. The US headline CPI figure for Mar-23 did drop quite significantly, thanks to the negative contribution from the energy component (**see Chart 3**). **However, taking into account the increasing gasoline prices in the last 4 weeks, the headline CPI figure may move northward again in the coming month.** The still-tight labour market (albeit slowly loosening) may also continue to fuel the wage-price spiral, as evident from the slight bump in the Mar-23 core CPI number.
- The Fed's fight against inflation may still be far from over, but the increasingly-apparent spectre of a recession may force the central bank to seek a compromise, which the market anticipated the central bank will do

(see Chart 4). After all, post-pandemic inflation is mostly a supply-side issue, which monetary policy cannot perfectly address.

- Finally, we shall try to look at the Fed's policy signal through Bank Indonesia's lenses. As we noted in previous reports, the risk of falling consumer demand could be one of the driving factors that prompted BI to set its policy rate at 5.75%, despite the waves of depreciation pressure that were still present at that moment. Now, the Fed's softening policy signal has caused the Rupiah to appreciate to the point where it might be cast as overvalued, while the slight bump in consumption over the Ramadan period highlights the anaemic aggregate demand growth. **The domestic macroeconomic situation, then, may already provide an avenue for BI to start cutting rates.**
- We should consider, however, that BI's primary job is to maintain the Rupiah's stability. The call for the Fed to cut its policy

rate may have become louder. Still, given the risk of rising energy prices, it remains unclear how the Fed would declare even a psychological victory over inflation, which is the *sine qua non* for the central bank to cut rates. **BI, then, should not be complacent by cutting its policy rate before the Fed,** especially given the dwindling demand for commodities and the inflation imprint that is still some way above the central bank's target. BI, then, may choose to keep its policy rate at the present level, while continuing to look at data and the Fed's policy signal to make the switch towards a dovish monetary policy campaign.

"Domestic macroeconomic condition may allow BI to contemplate cutting rates, but it may not be wise to do so before the Fed"

Chart 1

No glitter

Many in the market now expect the terminal rate to be closer to the Fed's outlook as the OPEC+ oil cuts bring back the spectre of energy inflation.

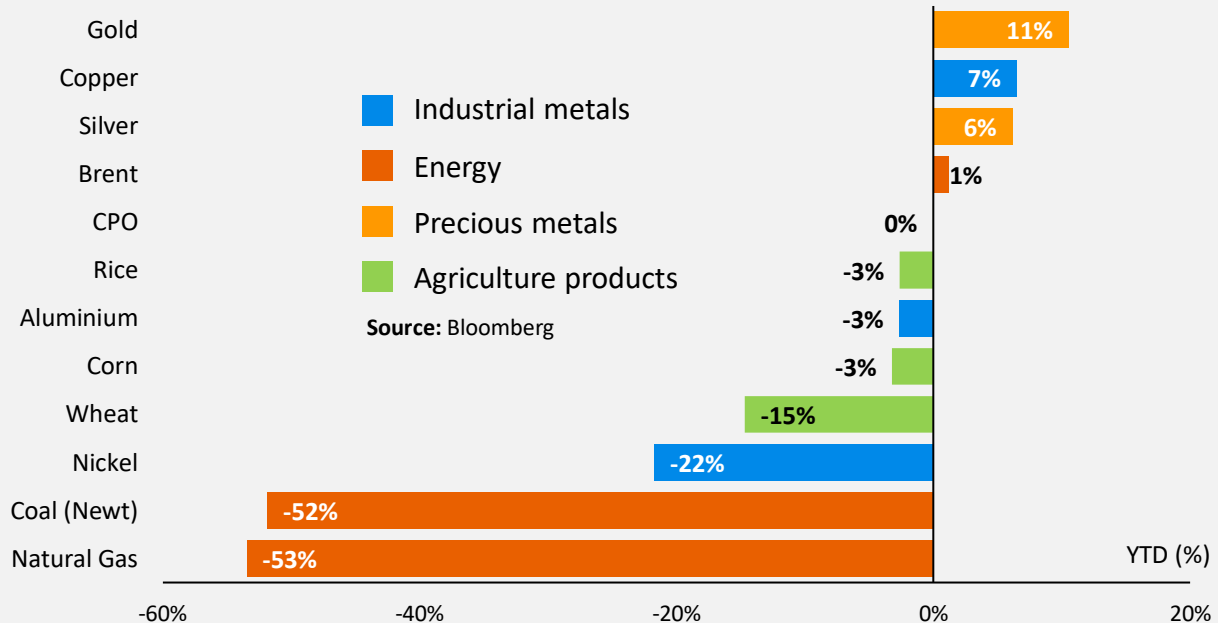


Chart 2

Interest in gold

Demand for gold often spikes when investors expect the real interest rate to stay in the negative territory.

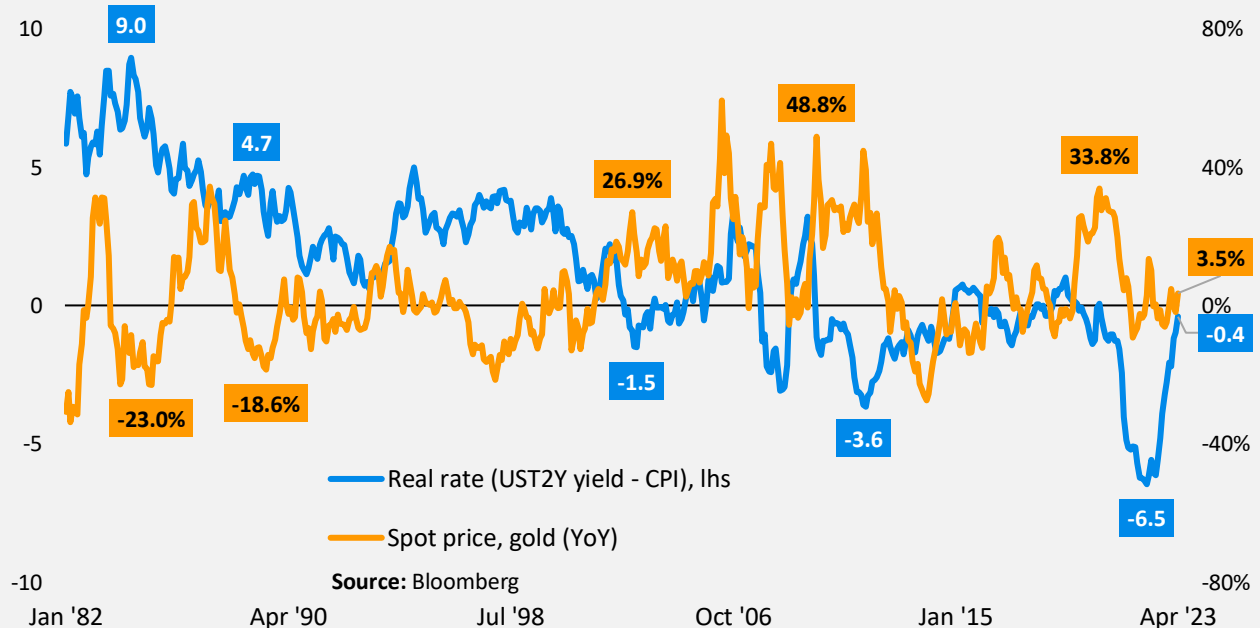


Chart 3

Thunder may strike twice

Negative contributions from the energy component explains the recent drop in US CPI numbers but the uptick in gasoline prices in the last four weeks may send inflation back northwards

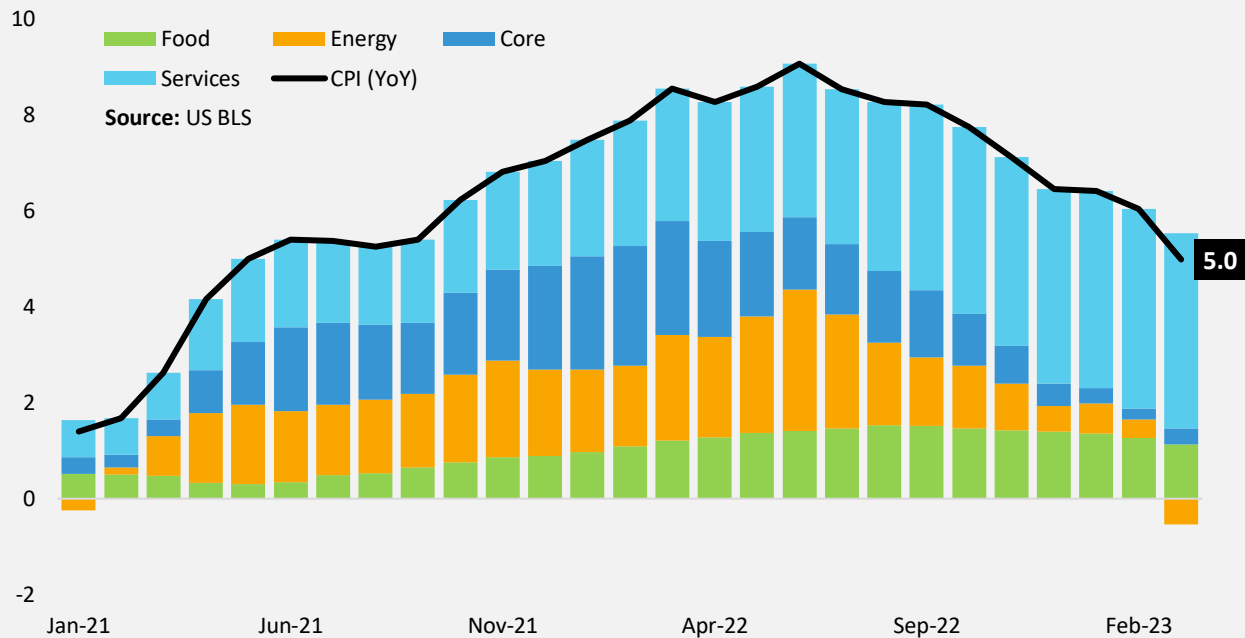
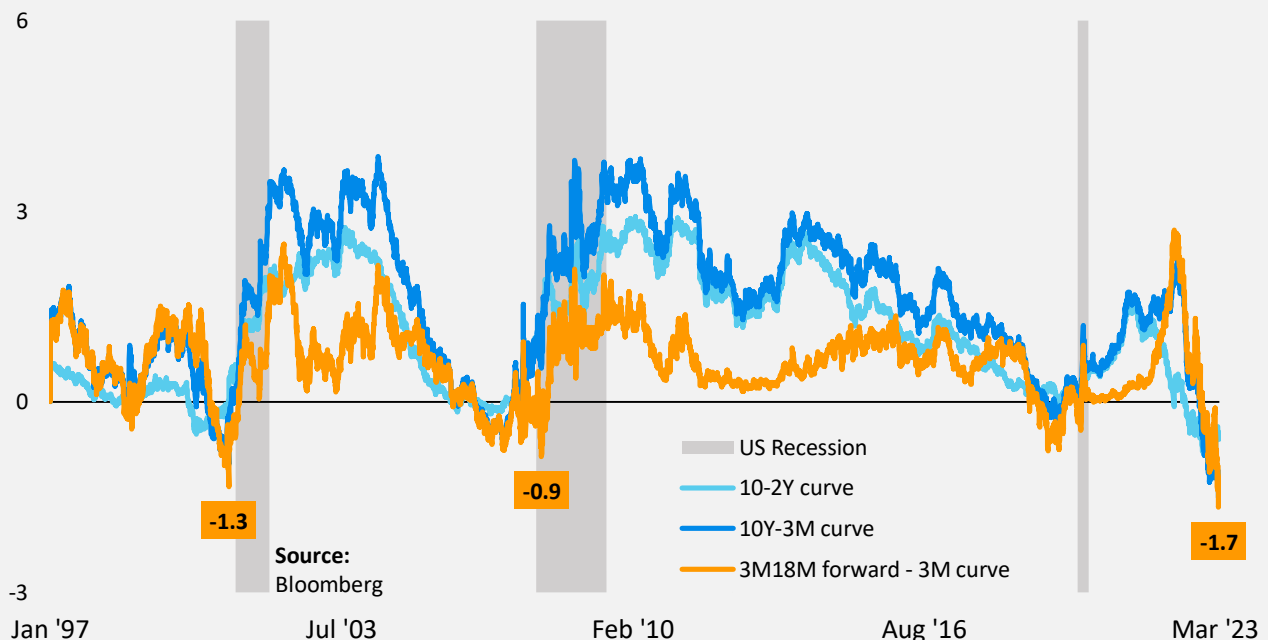


Chart 4

Bargaining, then acceptance

FOMC members acknowledge the possibility of a mild US recession in 2023 following a record-breaking inversion in the Fed's favourite yield curve (yellow line)



Economic Calendar				
		Actual	Previous	Forecast*
3 April 2023				
ID	S&P Global Manufacturing PMI	51.9	51.2	50
ID	Inflation Rate (YoY)	4.97%	5.47%	5.3%
US	ISM Manufacturing PMI	46.3	47.7	49
5 April 2023				
US	Balance of Trade (USD Bn)	-70.5	-68.7	-69.0
US	ISM Non-Manufacturing PMI	51.2	55.1	54
7 April 2023				
ID	Foreign Exchange Reserves (USD Bn)	145.2	140.3	141.0
11 April 2023				
CN	Inflation rate YoY	0.7%	1%	2.0%
12 April 2023				
US	Inflation rate YoY	5%	6%	5.8%
13 April 2023				
US	FOMC Minutes			
US	PPI YoY	2.7%	4.6%	4.2%
CN	Balance of Trade (USD Dn)	88.19	116.88	52.0
ID	Car Sales YoY	2.6%	7.4%	-
17 April				
ID	Balance of trade (USD Bn)	2.91	5.46	3.99
18 April				
CN	GDP Growth Rate YoY	-	2.9%	3.2%
EA	Balance of Trade (EUR Bn)	-	-	-11.9
28 April				
ID	M2 Money Supply YoY	-	7.9%	-
EA	GDP Growth Rate YoY Flash	-	-1.8%	1.0%

*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report



Scan for the link to our report depository or click:

<https://s.id/1fMOq>

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Apr	-1 mth	Chg (%)
US	5.00	Apr-23	0.00	Baltic Dry Index	1,435.0	1,587.0	-9.6
UK	4.25	Apr-23	-6.15	S&P GSCI Index	594.9	559.8	6.3
EU	3.50	Apr-23	-3.40	Oil (Brent, \$/bbl)	86.3	77.5	11.4
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	191.5	199.5	-4.0
China (lending)	4.35	Apr-23	3.65	Gas (\$/MMBtu)	1.87	2.64	-29.2
Korea	3.50	Apr-23	-0.70	Gold (\$/oz.)	2,004.2	1,904.0	5.3
India	6.50	Apr-23	0.84	Copper (\$/MT)	9,030.3	8,809.0	2.5
Indonesia	5.75	Mar-23	0.78	Nickel (\$/MT)	24,025.0	22,830.8	5.2
Money Mkt Rates	14-Apr	-1 mth	Chg (bps)				
SPN (1M)	4.21	4.47	-25.6	CPO (\$/MT)	945.2	932.9	1.3
SUN (10Y)	6.63	6.72	-8.7	Rubber (\$/kg)	1.33	1.32	0.8
INDONIA (O/N, Rp)	5.55	5.58	-2.4	External Sector	Mar	Feb	Chg (%)
JIBOR 1M (Rp)	6.40	6.40	0.0	Export (\$ bn)	23.50	21.40	9.81
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Import (\$ bn)	20.59	15.92	29.33
Lending (WC)	8.89	8.75	13.80	Trade bal. (\$ bn)	2.91	5.48	-46.93
Deposit 1M	4.18	4.00	17.94	Central bank reserves (\$ bn)*	145.2	140.3	3.48
Savings	0.67	0.67	0.25	Prompt Indicators	Mar	Feb	Dec
Currency/USD	14-Apr	-1 mth	Chg (%)	Consumer confidence index (CCI)	123.3	122.4	119.9
UK Pound	0.806	0.823	2.10	Car sales (%YoY)	2.6	7.4	9.0
Euro	0.910	0.932	2.41	Motorcycle sales (%YoY)	40.5	56.3	24.6
Japanese Yen	133.8	134.2	0.32	Manufacturing PMI	Mar	Feb	Chg (bps)
Chinese RMB	6.869	6.874	0.06	USA	46.3	47.7	-140
Indonesia Rupiah	14,700	15,385	4.66	Eurozone	47.3	48.5	-120
Capital Mkt	14-Apr	-1 mth	Chg (%)	Japan	49.2	47.7	150
JCI	6,818.6	6,641.8	2.66	China	50.0	51.6	-160
DJIA	33,886.5	32,155.4	5.38	Korea	47.6	48.5	-90
FTSE	7,871.9	7,637.1	3.07	Indonesia	51.9	51.2	70
Nikkei 225	28,493.5	27,222.0	4.67				
Hang Seng	20,438.8	19,248.0	6.19				
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)				
Stock	2,726.8	2,730.0	-3.23				
Govt. Bond	818.5	804.3	14.21				
Corp. Bond	12.0	12.4	-0.40				

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	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

Agus Salim Hardjodjodito

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: arief_darmawan@bca.co.id