

Looking around for the fabled “bazooka-style” Chinese stimulus

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Summary

- China’s monetary policy option appears to be limited as a stable CNY would be crucial to keep property developers solvent amidst the increase in maturing FX bonds in the upcoming months.
- The prospect for sizable fiscal interventions also appears to be limited, as the Chinese government may favour more productive fiscal programmes rather than handouts for customers.
- The “strong Dollar – weak Yuan” narrative that hitherto hamstrung Asian markets may persist for some time given the US economy’s limited exposure to China’s economic slowdown.
- Despite the unfavourable global condition, the Indonesian market remains relatively dynamic thanks to strong macroeconomic fundamentals and improved risk perceptions on Indonesia’s IOUs.

- Two main themes continue to drive the global market in recent weeks. The first one is the 2.4% appreciation in the USD (DXY) value throughout the last month, a product of increasing “Soft Landing” optimism in the US relative to other countries. The other major theme, of course, is the deteriorating confidence regarding the state of China’s economy.
- The risk of structural deflation in China may be overstated, given the rebound in CPI number to 0.1% YoY from -0.3% YoY in the previous month. But the rebound in inflation number is more reflected by the increase in producer prices amidst higher oil prices rather than rejuvenated domestic demand. Foreign investors also continue to flee the

Chinese market, forcing the People’s Bank of China (PBoC) to defend the currency at 7.20-7.35 USD/CNY reference rate (as of 11 September 2023) compared to 6.7-6.8 USD/CNY at the start of the year.

- As we discussed in earlier reports, the current global situation is not particularly favourable for Chinese investors, but also for Indonesian ones. Worsening sentiment on China and other Asian markets pushed the Rupiah well beyond the 15,000 USD/IDR psychological border, while foreign investors also continue to limit their exposure to the Indonesian stock market (*see Chart 1*). The ongoing weakness in China’s economy could exert persistent pressure on Indonesia and other Asian financial markets. Widespread

concerns over this situation are evident in statements like that of US Treasury Secretary Yellen regarding China's "policy space",

prompting calls for more significant interventions to energise the hitherto ailing Chinese economy.

Not enough space for a "bazooka"

- Recalling the "bad news is good news" paradox of Western financial markets, weakening conditions in the real sector often marks a pre-rally period for the market as investors expect an increase in liquidity conditions amid the government's fiscal and monetary intervention. However, the fact that investors continue to flee from China point to two clear problems: (1) The government's unwillingness to spend big fiscally, and (2) the PBoC's reluctance to substantially loosen the monetary condition.
- Indeed, the Chinese government appears to prefer a piecemeal solution to spur the economy rather than a US-style "bazooka" approach directed towards consumers. The rationale behind the Chinese government's piecemeal approach is not particularly off; as also happened in the US in 2020-2021, transfer payments toward consumers may translate to higher savings rather than consumption given the low consumer confidence. The Chinese government, as we know, has suspended the release of the official consumer confidence index since May 2023. However, the popularity of internet jibes such as the "Let it rot" (*bai lan*) indicates the low level of confidence among

"The Chinese government's reluctance to launch sizable interventions explain the continuous capital outflows from the Chinese market"

China's consumers (especially among the younger demography).

- The Chinese government, then, may deem it more productive to tackle the root cause behind China's atrophied economy: the shaky foundation of China's property sector (**see Chart 2**). Measures ranging from lower DP requirements for first and second-time buyers and lower rates on existing mortgages have been made to boost the demand for properties, which is important for cash-strapped property developers as capital to complete an ongoing project is often funded by funds generated from sales of newer projects.
- However, these piecemeal interventions are primarily aimed at making residential properties more affordable for customers, at a time when affordability is not as significant as an issue compared to the public confidence crisis currently faced by property developers. Arguments could be made for the Chinese government to throw more capital into distressed property developers to complete its backlog of projects. However, such a costly fiscal intervention is not exactly a palatable option given the Chinese government's focus on pursuing a more equitable growth model (compared to a highly unequal and speculative property-

driven model) and the high level of investments needed to support the “Made-in-China 2025” industrial policy.

- So Chinese government’s hands are not exactly tied, but it prefers other kind of interventions than the one that the market is clamouring for, which is big fiscal transfers to consumers. But what about monetary policies? The PBoC, we should recall, has cut the rate on multiple key policy rates such as the reserve requirement ratio (RRR, reduced to 10.75% from 11% for big banks) to the 1-year medium-term lending facility (to 2.50% from 2.65%) in a bid to boost the liquidity condition within the banking sector. Alas, to the surprise of many in the market, the central bank has stopped short of reducing its benchmark lending rates. The PBoC lowered the 1-year loan prime rate (LPR) only by 10bps to 3.45%, which was against the market’s expectation of a 15bps cut while leaving the five-year LPR that often dictates the mortgage rate at 4.20%.
- PBoC’s inclination to set the USD/CNY reference rate above market expectations in the past couple of weeks further dashed the hope that the central bank would eventually bring out the “bazooka” to stimulate the domestic aggregate demand. Many would assume that Chinese authorities would actually be okay with a weaker Yuan, which after all can help boost exports. Alas, the present economic reality in China shows that

“A weaker CNY may defeat the government’s first objective to restore confidence in the property sector”

domestic and exchange rate stability may go hand-in-hand. A weaker CNY may amplify the currency mismatch problem faced by FX-indebted Chinese property developers (*see Chart 3*), which could defeat the government’s first objective to restore confidence in the property sector.

- Avoiding the doom loop of weakening CNY and fleeing investors due to heightened concerns over property developers’ solvency is particularly important in the short-to-medium term, considering the increase in the nominal amount of Chinese property developers’ maturing bonds in the next couple of months (*see Chart 4*). PBoC is scheduled to cut the FX RRR from 6% to 4%

by the end of this week, a move which would reduce the rate on onshore FX deposits which may limit the incentive to convert CNY into USD. However, the PBoC may not be able to rely solely on such limited interventions to

maintain the stability of the CNY, suggesting that significant monetary policy easing and interest rate reductions, as demanded by investors, are still unlikely in China.

- The lack of policy space to energise the Chinese economy out of the ongoing stagnation has raised some question marks regarding China’s long-term growth outlook, which may put the country behind in its ongoing competition with the US. One empirical evidence¹ also shows that the economic slowdown in China is not

¹ Zhai, Fan and Morgan, Peter J., Impact of the People's Republic of China's Growth Slowdown on Emerging Asia: A General Equilibrium Analysis (March 25, 2016). ADBI Working Paper 560

particularly bad news for the US economy (*see Chart 5*), given the low market share of American producers in the Chinese market. This suggests, then, that the ongoing “strong Dollar – weak Yuan” narrative may persist for some time, placing the Yuan, Rupiah, and other Asian currencies at a disadvantage.

- In relative terms, however, Indonesia may remain the best of the lot. Indeed, the Indonesian bond market remains dynamic in Q3 2023. Last week, it recorded USD 270.81 Mn in capital inflows, indicating that Indonesian IOUs remain attractive to foreign investors, thanks to improved risk perceptions and stable macroeconomic fundamentals that continue to characterise the Indonesian economy. Indeed, empirical

evidence captured in Chart 5 also suggest that the Indonesian economy is relatively insulated from the potential slowdown in China's economic activity, despite some adverse impacts on exports as commodity demand from China declines. While the global economy may continue to present challenges for Indonesia, it can still too some extent afford to have their cakes and eat it too in the coming periods.

“The Indonesian economy is relatively insulated from the potential slowdown in China’s economic activity”

Chart 1

Back to square one

The Indonesian stock market recorded net foreign capital outflows in 2023 as foreign investors further shed their holdings by USD 63.3 Mn last week following the USD 1.3 Bn fire sale last month.

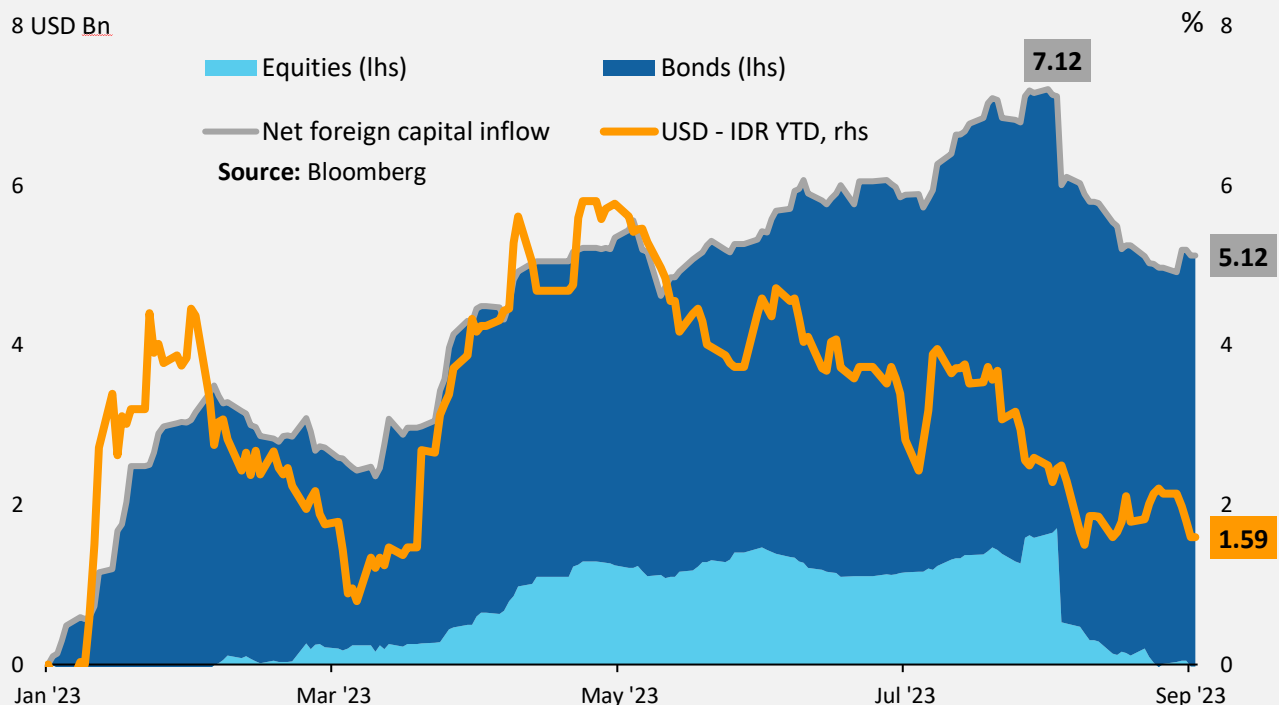


Chart 2

Shaky foundations

Property sales in China starts to plummet again in Q3 2023 despite promising starts early in the year.

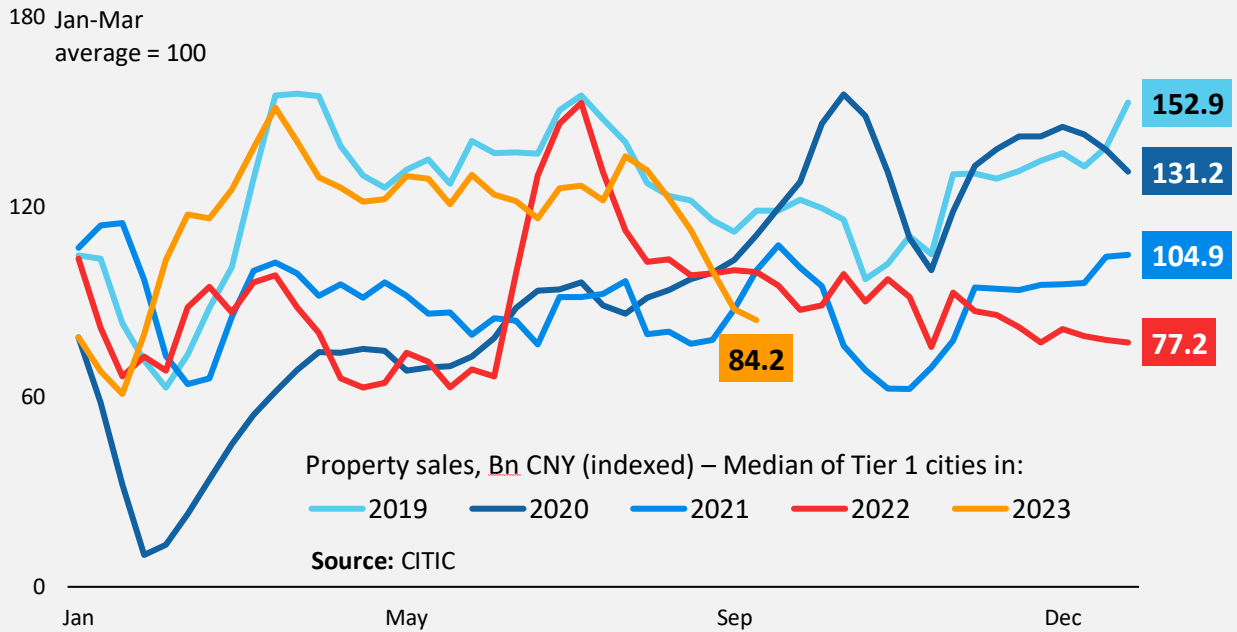


Chart 3

Unaffordable trade-offs

“Bazooka” monetary stimulus does not appear as an option for the Chinese economy as a weaker CNY would put more burden to the already-tattered property sector.

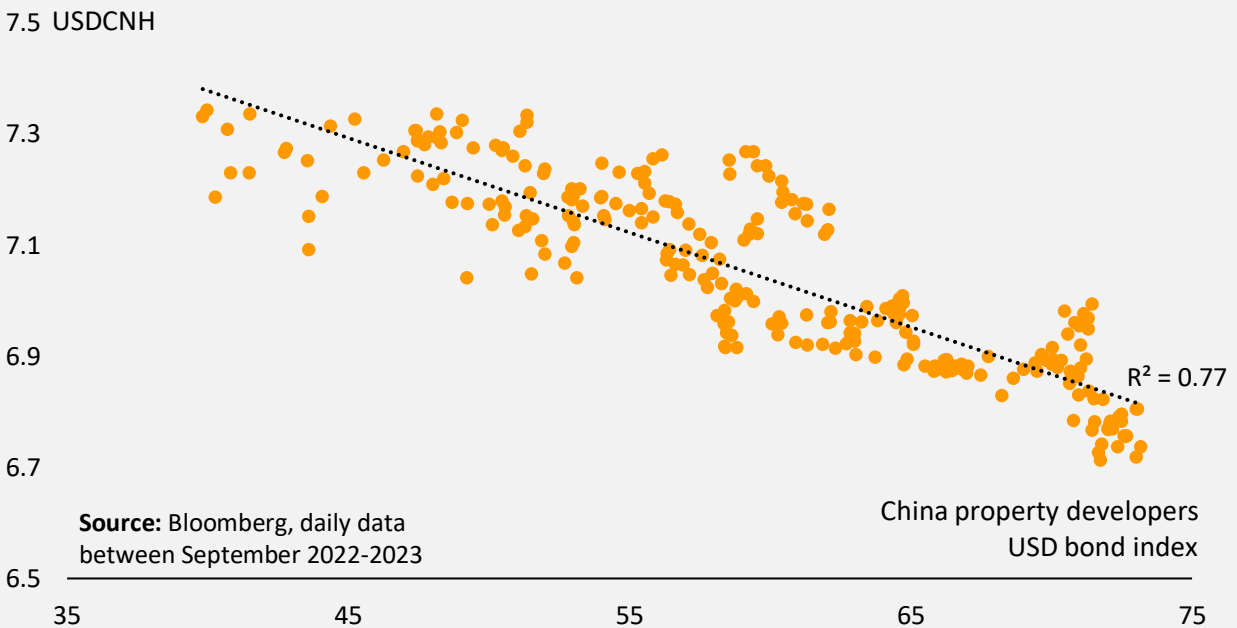


Chart 4

Getting harder before it gets easier

Exchange rate stability would be crucial as Chinese property developers would be hit by increasing matured bonds in the next three quarters.

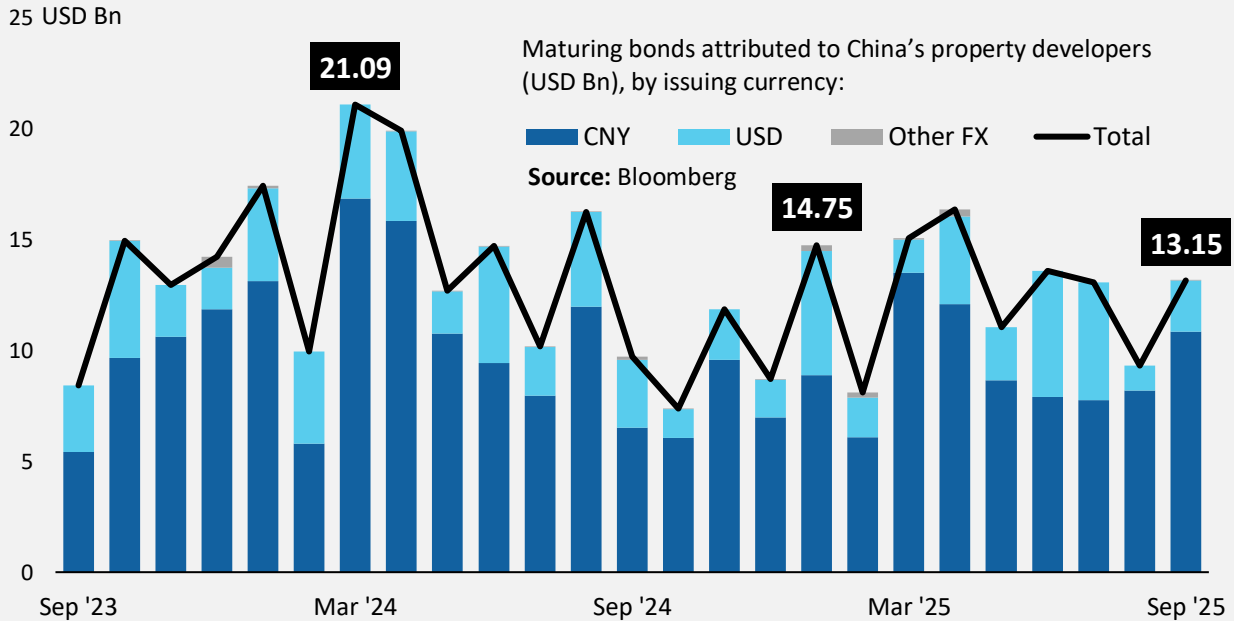
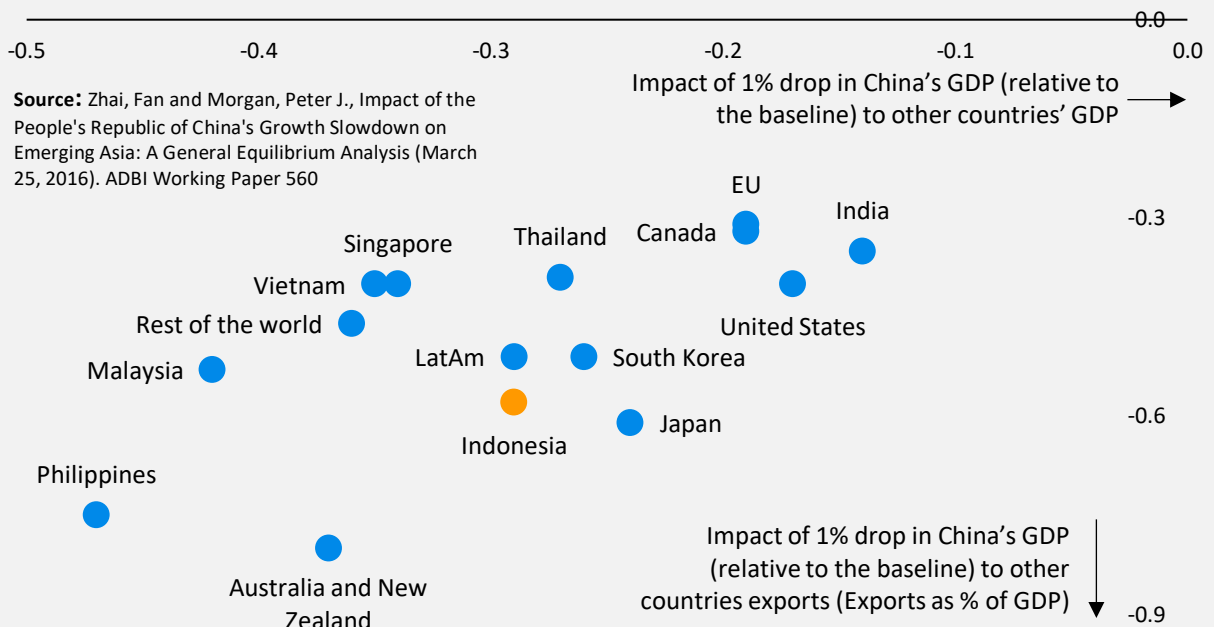


Chart 5

Shielded in the middle

Indonesia's real economy is relatively shielded from China's economic slowdown, but the prolonged "strong Dollar-weak Yuan" narrative may continue to put pressure on the Rupiah.



Economic Calendar				
		Actual	Previous	Forecast*
1 September 2023				
ID	S&P Manufacturing PMI	53.9	53.3	53
ID	Inflation Rate YoY	3.27%	3.08%	3.0%
CN	Caixin Manufacturing PMI	51	49.2	49.3
US	S&P Manufacturing PMI	47.9	49	47
US	Non-Farm Payroll ('000)	187	157	180
6 September 2023				
US	Balance of Trade (USD Bn)	-65.0	-65.5	-68.1
7 September 2023				
CN	Balance of Trade (USD Bn)	68.4	80.6	81
ID	Foreign Exchange Reserves (USD Bn)	137.1	137.7	134.0
CN	Foreign Exchange Reserves (USD Tn)	3.16	3.20	3.20
8 September 2023				
ID	Consumer Confidence	125.2	123.5	121
9 September 2023				
CN	Inflation rate YoY	0.1%	-0.3%	-0.4%
11 September 2023				
ID	Motorbike Sales YoY	1.8%	45.6%	-
ID	Car Sales YoY	-	-6.8%	-
ID	Retail Sales YoY	1.6%	7.9%	-
13 September 2023				
US	Inflation rate YoY	-	3.2%	3.4%
14 September 2023				
EA	ECB Interest Rate Decision	-	4.25%	4.25%
15 September 2023				
ID	Balance of Trade (USD Bn)	-	1.31	1.1
CN	Retail Sales YoY	-	2.5%	2.2%
EA	Balance of Trade (Eur Bn)	-	23	20
21 September 2023				
US	Fed Interest Rate Decision	-	5.5%	5.5%
ID	Interest Rate Decision	-	5.75%	5.75%
22 September 2023				
ID	M2 Money Supply YoY	-	6.4%	-

*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 (%)	Trade & Commodities	8-Sep	-1 mth	Chg (%)
US	5.50	Sep-23	2.30	Baltic Dry Index	1,186.0	1,142.0	3.9
UK	5.25	Sep-23	-1.55	S&P GSCI Index	607.0	590.5	2.8
EU	4.25	Sep-23	-1.05	Oil (Brent, \$/bbl)	90.7	86.2	5.2
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	163.9	151.9	7.9
China (lending)	2.50	Aug-23	4.25	Gas (\$/MMBtu)	2.45	2.77	-11.6
Korea	3.50	Aug-23	0.10	Gold (\$/oz.)	1,919.1	1,925.2	-0.3
India	6.50	Aug-23	-0.94	Copper (\$/MT)	8,229.0	8,303.0	-0.9
Indonesia	5.75	Aug-23	2.48	Nickel (\$/MT)	19,820.0	20,593.0	-3.8
Money Mkt Rates	8-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	802.6	806.9	-0.5
SPN (1M)	5.67	4.66	101.4	Rubber (\$/kg)	1.42	1.26	12.7
SUN (10Y)	6.54	6.32	21.6	External Sector	Jul	Jun	Chg (%)
INDONIA (O/N, Rp)	5.50	5.66	-15.0	Export (\$ bn)	20.88	20.60	1.36
JIBOR 1M (Rp)	6.40	6.40	0.0	Import (\$ bn)	19.57	17.15	14.10
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	1.31	3.45	-61.96
Lending (WC)	8.93	8.93	0.00	Central bank reserves (\$ bn)*	137.7	137.5	0.10
Deposit 1M	4.19	4.19	0.10	Prompt Indicators	Aug	Jul	Jun
Savings	0.67	0.67	-0.20	Consumer confidence index (CCI)	125.2	123.5	127.1
Currency/USD	8-Sep	-1 mth	Chg (%)	Car sales (%YoY)	-8.3	-6.8	4.7
UK Pound	0.802	0.784	-2.20	Motorcycle sales (%YoY)	1.8	45.6	66.6
Euro	0.935	0.913	-2.34	Manufacturing PMI	Aug	Jul	Chg (bps)
Japanese Yen	147.8	143.4	-3.01	USA	47.6	46.4	120
Chinese RMB	7.344	7.219	-1.71	Eurozone	43.5	42.7	80
Indonesia Rupiah	15,325	15,218	-0.70	Japan	49.6	49.6	0
Capital Mkt	8-Sep	-1 mth	Chg (%)	China	51.0	49.2	180
JCI	6,924.8	6,868.8	0.81	Korea	48.9	49.4	-50
DJIA	34,576.6	35,314.5	-2.09	Indonesia	53.9	53.3	60
FTSE	7,478.2	7,527.4	-0.65				
Nikkei 225	32,606.8	32,377.3	0.71				
Hang Seng	18,202.1	19,184.2	-5.12				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	2,869.7	2,892.9	-23.21				
Govt. Bond	846.3	855.2	-8.89				
Corp. Bond	11.1	11.3	-0.20				

Source: Bloomberg, BI, BPS

Notes:

Car and motorcycle sales data to be released on the third week of January 2022

^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



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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.2
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
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	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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