When businesses buy bonds

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Summary

- The domestic corporate sector has been increasing its purchases of debt securities and stocks, helping to maintain liquidity in the domestic financial market despite persistent foreign selloffs.
- Higher portfolio investments by the corporate sector may indicate a less optimistic business outlook, as the rising ownership of marketable securities coincides with a decline in CAPEX spending.
- This portfolio-buying trend could signal to the public sector that the private sector still holds ample liquidity, potentially encouraging the government to seek further private sector participation in supporting its growth initiatives.

- Weak retail sales and PMI data may have forced the USD (DXY) to trend downward over the past week. Alas, this does not mean the global financial market is finally moving in Indonesia's favour. The benchmark 10Y UST yield has risen above the 4.50% mark again, dragging the 10Y SBN yield with it. Our observations of foreign inflows data indicate a total of USD 171.1 Mn in foreign selloffs in the domestic stock and bond markets, while Bank Indonesia also reported a more significant USD 286.6 Mn foreign outflow in the SRBI market last week.
- Despite this, the Indonesian financial market opens the week with a good start. The declining DXY has allowed the Rupiah to strengthen, with the currency now standing at 16,215/USD (a 1.34% appreciation from its 2025 nadir of 16,435/USD). The domestic stock market also jumped 192.4 points to 6830.82 as trading opened, lifted by USD 66.3 Mn in foreign inflows to the stock market on Monday.
- Foreign investors' improving sentiment on Indonesia's growth potential seems to explain the domestic stock market's strong opening this week. The Indonesian economy reported a higher-than-expected trade surplus in January 2025, although the driver might be temporary.
- It would be premature, however, to claim that the Indonesian financial market is already out of the woods. If anything, the relatively stable UST-SBN nominal yield spread may indicate that foreign investors have yet to price in idiosyncratic risks in the Indonesian economy ***(see Chart 1)***, meaning that the Indonesian financial market will continue to be influenced by the ebb-and-flow of investors' sentiment on global liquidity.

Stocks and bonds may hurt my CAPEX

- Hidden beneath this increasingly mercurial and seemingly pattern-less trend of foreign sentiment and capital inflows, however, is the still-strong demand for Rupiah assets from domestic investors. As we have often argued, one factor explaining the declining liquidity within the banking system is individual investors' growing demand for higher-yielding assets such as SBN, given the concentrated decline in the demand for term deposits.
- Individual investors are not alone in migrating their funds from bank products to higher-yielding debt securities. **Corporate treasurers also appear to be more active in the Indonesian financial market**, as corporations (plus other domestic investors) are second only to individual investors in expanding their SBN ownership portfolios ***(see Chart 2)***.
- However, unlike individual investors, corporate investors do not seem to stop at debt securities to expand their asset portfolios. Corporate investors have been adding more liquidity into the domestic stock market since October 2024 ***(see Chart 3)***, a period when the Indonesian stock market was hit by a wave of foreign capital outflows (which remains the case at the moment). While some might link this trend to emerging reports of public companies contemplating stock buybacks, it is crucial to distinguish between the increase in stock ownership by domestic corporations and buybacks. After all, considering the context of Indonesia's corporate ownership model, stock buybacks may not be as common in Indonesia as in other economies such as the US.

"While rising real interest rates make bonds an attractive option, uncertainty over domestic demand conditions may also encourage companies to invest in paper assets rather than expand."

- While corporate investors' increased demand for stocks is often explained by agency theory in the US and other advanced economies[1], the theory should hold less relevance in Indonesia, where truly publicly-owned companies are just a drop in the bucket. This leads us to an alternative, somewhat bleaker view of the situation.
- But first, it is important to put some context to the discussion. Our study on the Indonesian corporate sector shows that corporate investments tend to lag a positive shock in revenue for at least two quarters, as companies may try to invest to prolong the positive shock in their revenue (such as expanding their mining capacity following a spike in commodity prices) rather than to anticipate them. **The Indonesian corporate sector, of course, still benefits from ample cash reserves, thanks to the commodity supercycle in 2022-2023** (despite relative decline since then, commodity prices remain relatively elevated as of now).
- If that is the case, we should have observed a lengthy period of CAPEX expansion, as companies will use their ample cash reserves to expand their productive capacities. However, this is not the case at the moment ***(see Chart 4)***. One argument is that the currently above-normal returns in investing in debt securities may alter how corporate treasurers arrive at their investment decisions. This argument, of course, did not explain the higher demand for stocks,

[1] See https://www.sciencedirect.com/topics/social-sciences/agency-theory

whose returns continued to plummet since H2 2024.

- The likelier argument, then, is that **corporate treasurers' higher level of activity in the stock and financial market signals their unwillingness to utilise their cash reserves on more productive endeavours, such as expanding their productive capacities.** There is not much in the economy that may spark businesses' confidence and encourage them to spend more on CAPEX, which leaves no option for corporate treasurers but to park their excess cash reserves on securities or other yield-bearing assets (but not term deposits given the widening spread).
- For instance, our internal big data (BCA consumer transaction index/Intrabel) shows that consumer spending is likely to remain weak in Q1-2025, while the limited upside potential for commodity prices erases the urgency to increase production (a possible production cut has even been reported for the nickel sector). **The government, of course, have also been ambitious with its growth initiatives, forcing the private corporate sector to save its cash reserves and, instead, invest in portfolio assets.**
- **The Indonesian economy, then, may be increasingly driven by the public sector, while the domestic private sector plays a supporting role as a liquidity provider.** Indeed, there have been reports that some of the government's growth initiatives have been financed in some way or another by the corporate sector (such as the food estate project), while some donations or CSR has also been directed to support the implementation of the government's programme.
- The government's recent cost-cutting exercise may alleviate the need for liquidity that has hitherto been fulfilled by the domestic corporate sector. However, **given the still-ambitious growth target and the seemingly ample liquidity available in the corporate sector (as indicated by the corporate stocks- and bond-buying), it could still be the case that the government may be tempted to tap further into this excess private savings.** This more contrived version of public-private partnerships may keep the Indonesian economy on the path toward the 5% growth target–depending on how effectively the public sector could incentivise businesses to chip in enough liquidity to support government initiatives.

"Still-ample liquidity in the domestic corporate sector could encourage the government to seek greater private participation for its growth programs"

Chart 1

Keeping it safe with a fiscal straitjacket

SBN-UST yield spread is declining despite unfavourable news on the economy as the government remains committed to fiscal rule

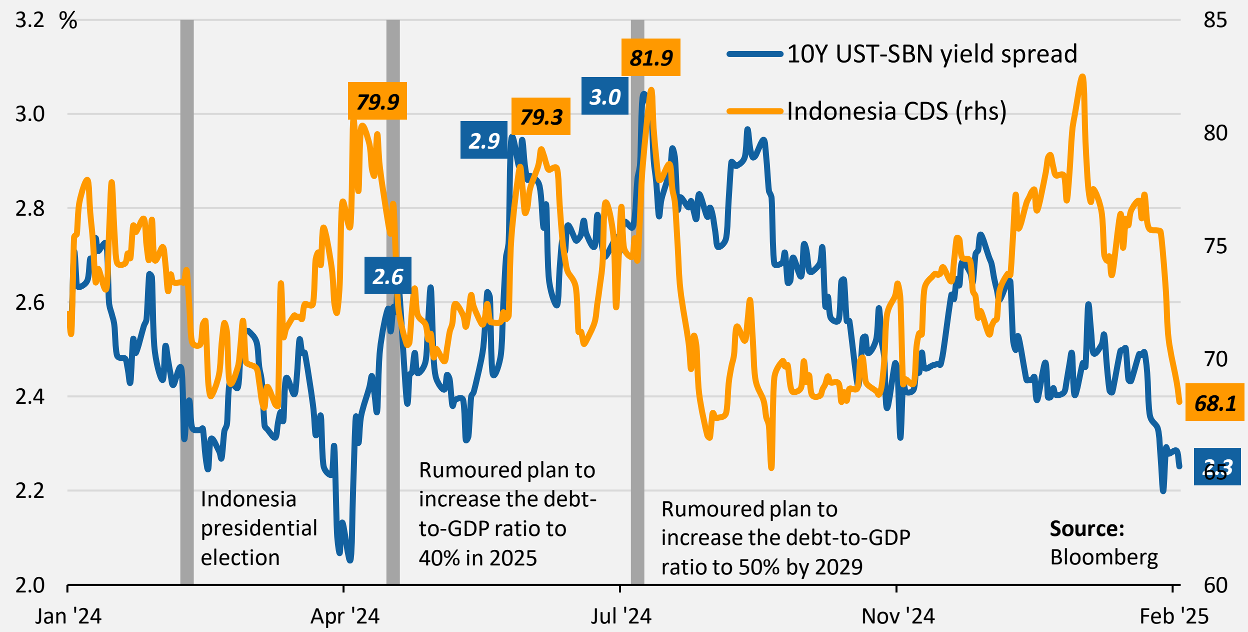


Chart 2

Supporting actor

Corporate investors have been helping individual investors to absorb more liquidity since 2024, keeping the benchmark SBN yield stable

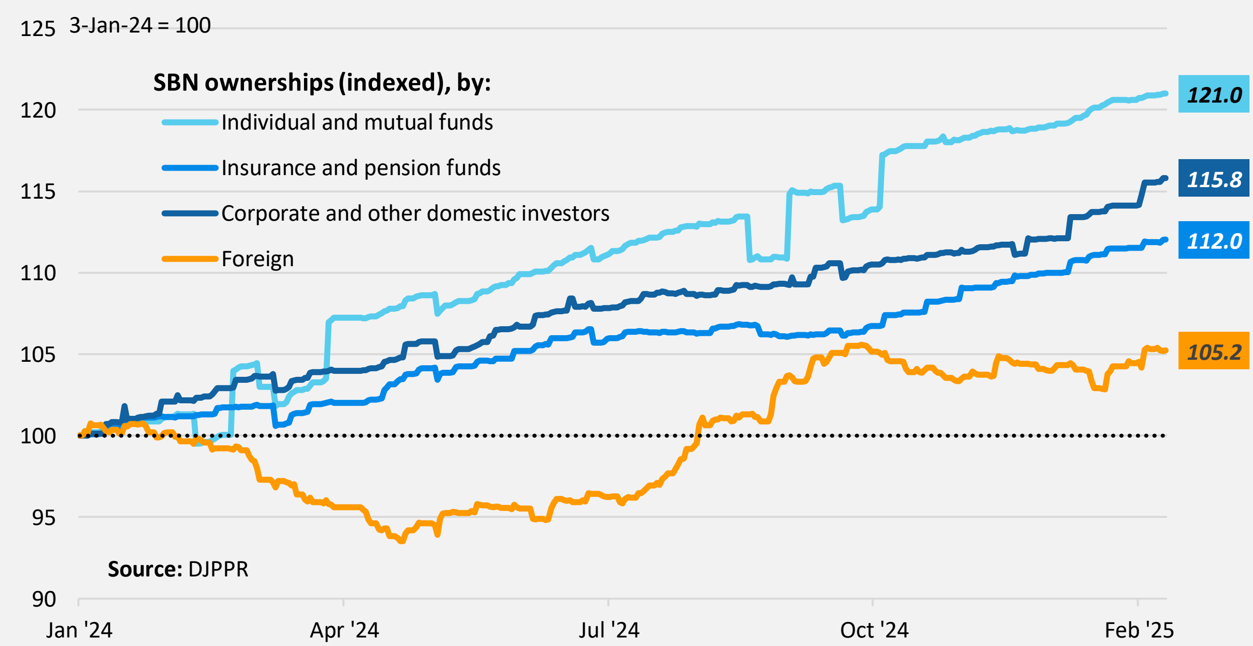


Chart 3

Going in when others are retreating

Domestic corporate investors are adding more liquidity into the stock market amidst the sell-off in Q4 2024 – Q1 2025

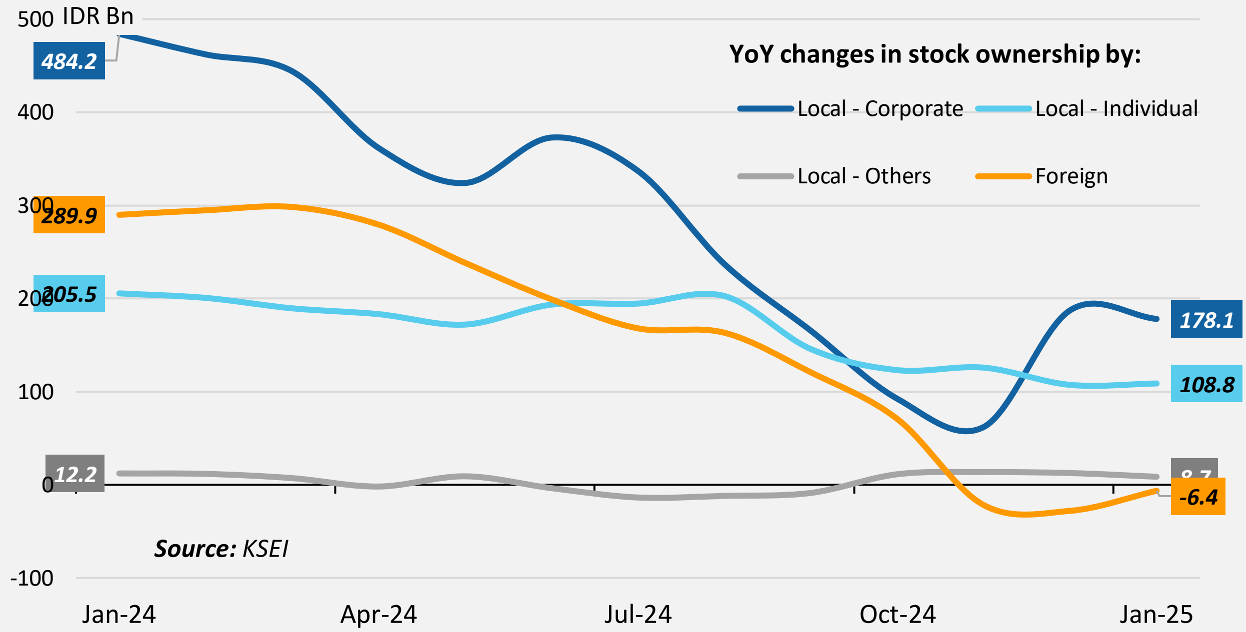
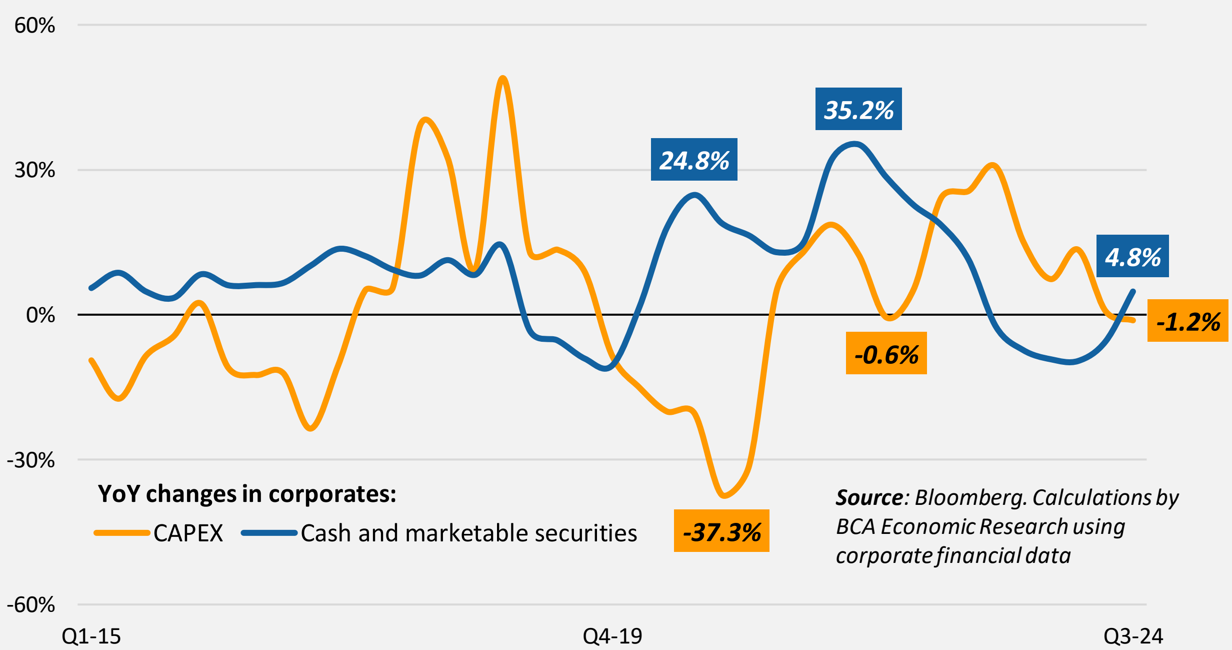


Chart 4

More bonds, less cements

Corporate treasurers' activity in the market seems to have coincided with the decline in businesses' interest to allocate more CAPEX spending



Economic Calendar

		Actual	Previous	Forecast*
03 February 2025				
ID	S&P Global Manufacturing PMI	51.9	51.2	51.6
ID	**Inflation Rate YoY, %**	**0.76**	**1.57**	**1.7**
ID	Tourist Arrivals YoY, %	8.72	17.27	18.0
US	S&P Global Manufacturing PMI	51.2	49.4	50.1
05 February 2025				
ID	**GDP Growth Rate YoY, %**	**5.02**	**4.95**	**5.2**
US	Balance of Trade, USD Bn	-98.4	-78.2	-93.0
06 February 2025				
EA	Retail Sales YoY, %	1.9	1.6	1.7
07 February 2025				
ID	**Foreign Exchange Reserves, USD Bn**	**156.1**	**155.7**	**-**
US	Non-Farm Payrolls, th	143	307	205
09 February 2025				
CN	Inflation Rate YoY, %	0.5	0.1	0.2
ID	Motorbike Sales YoY, %	-6.0	-5.5	-
11 February 2025				
ID	Consumer Confidence	127.2	127.7	128
ID	Car Sales YoY, %	-11.3	-6.4	-
12 February 2025				
ID	Retail Sales YoY, %	1.8	0.9	3.7
US	Inflation Rate YoY, %	3	2.9	2.9
14 February 2025				
US	Retail Sales YoY, %	4.2	4.4	3.7
17 February 2025				
ID	**Balance of Trade, USD Bn**	**3.45**	**2.24**	**2.2**
EU	Balance of Trade, (Bn)	15.5	16	33
19 February 2025				
ID	**Interest Rate Decision, %**	**5.75**	**5.75**	**5.75**
ID	Loan Growth YoY, %	10.27	10.39	10.5
20 February 2025				
ID	M2 Money Supply YoY, %		4.4	-
28 February 2025				
US	PCE Price Index YoY, %		2.6	-

*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	4.50	Dec-24	1.50
UK	4.50	Feb-25	2.00
EU	2.90	Jan-25	0.40
Japan	0.50	Jan-25	-3.70
China (lending)	2.00	Sep-24	3.85
Korea	3.00	Nov-24	0.80
India	6.25	Feb-25	1.94
Indonesia	5.75	Jan-25	4.99

Money Mkt Rates	18-Feb	-1 mth	Chg (bps)
SPN (1Y)	6.12	6.85	-73.0
SUN (10Y)	6.75	7.12	-36.6
INDONIA (O/N, Rp)	5.70	5.75	-5.4
JIBOR 1M (Rp)	6.38	6.39	-0.6

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.68	8.72	-3.69
Deposit 1M	4.78	4.78	-0.49
Savings	0.67	0.66	0.37

Currency/USD	18-Feb	-1 mth	Chg (%)
UK Pound	0.793	0.822	3.65
Euro	0.957	0.973	1.68
Japanese Yen	152.1	156.3	2.79
Chinese RMB	7.275	7.325	0.68
Indonesia Rupiah	16,275	16,365	0.55

Capital Mkt	18-Feb	-1 mth	Chg (%)
JCI	6,873.6	7,154.7	-3.93
DJIA	44,556.3	43,487.8	2.46
FTSE	8,766.7	8,505.2	3.07
Nikkei 225	39,270.4	38,451.5	2.13
Hang Seng	22,976.8	19,584.1	17.32

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,531.1	3,521.3	9.76
Govt. Bond	881.3	876.6	4.65
Corp. Bond	6.0	5.9	0.10

Trade & Commodities	18-Feb	-1 mth	Chg (%)
Baltic Dry Index	841.0	987.0	-14.8
S&P GSCI Index	576.0	578.0	-0.3
Oil (Brent, $/brl)	75.8	80.8	-6.1
Coal ($/MT)	109.1	122.7	-11.1
Gas ($/MMBtu)	6.40	9.33	-31.4
Gold ($/oz.)	2,936.0	2,703.3	8.6
Copper ($/MT)	9,401.2	9,081.9	3.5
Nickel ($/MT)	15,130.1	15,885.6	-4.8
CPO ($/MT)	1,066.7	1,016.3	5.0
Rubber ($/kg)	2.06	1.96	5.1

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	21.45	23.46	-8.56
Import ($ bn)	18.00	21.22	-15.18
Trade bal. ($ bn)	3.45	2.24	54.17
Central bank reserves ($ bn)*	156.1	155.7	0.23

Prompt Indicators	Jan	Dec	Oct
Consumer confidence index (CCI)	127.2	127.7	121.1
Car sales (%YoY)	-11.3	-6.4	-3.7
Motorcycle sales (%YoY)	-6.0	-5.5	5.4

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	51.2	49.4	180
Eurozone	46.6	45.1	150
Japan	48.7	49.6	-90
China	50.1	50.5	-40
Korea	50.3	49.0	130
Indonesia	51.9	51.2	70

Source: Bloomberg, BI, BPS

Notes:

*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

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7*	-0.9

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (*) for 2024 are our projections; other numbers for 2024 are final*

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