Not so grand a dragon

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Summary

- China continues to wrestle with chronically low domestic aggregate demand growth, thanks to the cratering consumer confidence amidst the still-going property sector crisis.
- The Chinese government's more surgical approach to addressing the property sector crisis does not appear to be highly effective at present, given conflicting objectives in some of its numerous piecemeal interventions.
- The absence of significant improvements in the property sector condition and domestic aggregate demand growth means that China is likely to persist in exporting deflation to the global economy.

- The Indonesian financial market was cut short by a couple of public holidays last week, limiting foreign capital flows to USD -8.51 Mn between 5-7 February 2024. This meagre capital outflow should not distort the view on ongoing stability in the domestic financial market. Indeed, the Rupiah regained some of its value in the last week, having appreciated by 70 points (-1.55% YTD) by the end of the last week after the currency tumbled to 2.16% YTD in the prior week.
- The relative stability that the Indonesian financial market currently finds itself in is comforting, especially given the backdrop of the election in the next couple of days. Rather than domestic factors, however, the absence of shock in global macroeconomic data releases last week seems to explain the current state of tranquillity. For instance, the most recent US labour market data (initial jobless claims, 218 thousand in the fourth week of January 2024) is in line with analysts' consensus. The biggest shock, perhaps, comes from across the Pacific, as China's headline CPI fell to -0.8% YoY in January 2024, its fourth consecutive month in the deflation territory.

Surgical, yet inconsistent

- The -0.8% YoY headline CPI number (compared to analysts' consensus of -0.5% YoY) seems to be the product of China's double-edged problem of too much industrial production capacities and too little domestic demand (which is covered more extensively in the China segment of our global macro panorama series), leading to the continued worsening of Chinese corporates' balance sheet that contributes to rendering foreign investors' perception of the "un-investable" state of China's stock market ***(see Chart 1).***

- The recent Lunar New Year celebration indicates that the second problem of "too little" domestic demand is not driven by the decline in households' real purchasing power, given that a record number of Chinese households still have the means to travel and celebrate the New Year. **The prospect for China's domestic consumption thus appears to be trapped in a doom loop**, as low consumer confidence brings down demand and prices, which, in turn, leads to lower confidence, demand, and prices.

- While the sudden drop in the official China consumer confidence index coincided with the onset of the February 2022 Shanghai lockdown, **the stem of the trouble continued to be the still-going malaise in China's property sector.** Little good news has come out from the Chinese property sector in the past four years, with the Evergrande group, once the symbol of China's beaming property sector, ordered to liquidate by a Hong Kong court in late January 2024.

"Analysts remain unsure whether Chinese banks could afford to increase their exposure to troubled property developers"

- Despite their less grand stature, multiple Chinese property developers also continue to find themselves in the same boat as the Evergrande group. Hit by varying degrees of declining contracted sales, some property developers have been reported to be selling or attempting to sell their commercial properties and foreign property portfolios to raise funds for their problematic construction projects, adding more strain to China's property sector and the global commercial real estate (CRE) sector.

- Multiple efforts by property developers to improve their liquidity condition seem to have shown some success in slowing the decline in construction activities. Alas, the pick-up in construction activities is not followed by a corresponding trend in new housing sales ***(see Chart 2)***. Such a condition offered a glimpse into the extent of the supply overhang and liquidity problems facing Chinese property developers, as **developers would need to continue spending resources to complete their stalled projects, but by doing so would contribute to the supply overhang problem** and thus further depressing both property prices and their balance sheet condition.

- Chinese property deve-lopers, then, appear to still need to seek financing externally for some periods to come, as the continuous decline in property prices may not generate enough cash flow to complete now-stalled construction projects. Alas, **the Chinese government's strategy for delivering liquidity to cash-strapped property developers does not appear to excite the market.** For instance, the recent "white list" programme highlights the Chinese government's effort to doctor the property sector back to health through a series of surgical operations, rather than a fiscal-funded bazooka-style industry-wide capital injections favoured by many foreign Chinese watchers.

- Concerns over the effectiveness of the "whitelist" funding programme come from several factors. Firstly, the whitelist may be designed to identify bad apples (cash-strapped projects able to be restarted) in the basket of rotten ones (already insolvent projects).

However, the project-by-project consideration in creating the list is incongruent with the effort to stabilise bigger property conglomerates' liquidity condition, a policy that may excite foreign investors more. There is also a concern about whether the USD 52 Bn funding requirement for the programme would be met, as the government would continue to rely on local commercial banks to meet the funding needs.

- Indeed, **the primary concern lies in whether Chinese banks could afford to increase their exposure to troubled property developers amidst the deteriorating confidence in the sector** following Ever-grande's liquidation. The People's Bank of China (PBoC) set three new "measurable" targets for local banks back in November 2023, aimed to ensure that each bank's real estate loan growth did not lag behind the industry average and loans to other sectors.

"Despite its surgical approach, the objective of Chinese government's piecemeal interventions often run in contrast with each other"

- Chinese bankers have been reported to be in a meeting with several property developers since the implementation of the three targets. Alas, a recent tweak in the rule on bank asset classification (also by the PBoC) may run in contrast with the three measurable targets set to boost the property sector. Chinese banks were previously allowed to classify their liabilities at their discretion, creating an inconsistency in how Chinese banks classify the quality of their loans. Under the new rule, Chinese banks would be required to classify all outstanding liabilities at a single corporate borrower as impaired if more than 10% of the borrower's liabilities became non-performing. While this new rule would improve the clarity and consistency in how Chinese banks assess the quality of their loan portfolios, such regulation may increase banks' wariness in extending credit to the beleaguered property sector, potentially cutting the lifeline for many of China's "zombified" property developers.

- It is not surprising, then, that the PBoC decided to cut banks' reserves require ratio by another 50 bps starting on Monday last week, bringing the total of the RRR cuts to 350 bps since the start of the pandemic. The PBoC also signals further policy loosening, as banks continue to balk at the prospect of lending to the property sector.

- While easier CNY financing conditions may encourage Chinese banks to work with the property sector, the threat this policy poses to CNY stability may push property developers closer to the maw of insolvency ***(see Chart 3)***. **A weak CNY would make it more challenging for property developers to meet their FX-denominated obligations, further harming their reputation with global lenders.** This reputational challenge is particularly concerning in the short term, given that FX bond maturities that will peak in mid-2025 may require property developers to submit restructuring plans to their global creditors ***(see Chart 4)***.

- A feeble CNY and further hit on global financiers' sentiment on the Chinese economy may reverberate into countries within China's sphere, including Indonesia. Chinese stocks constitute more than 30% of the benchmark MSCI emerging Asia index, which could lead to a negative spillover effect on other Asian financial markets should China take more hit in its market's investment worthiness – that is unless other emerging Asian stocks start to carry more weight in the benchmark indicator.

- On the real economy front, **the PBoC's efforts to maintain loan growth to the real estate sector in line with other credit growth may backfire and thus restrict funding to other sectors, most consequentially the manufacturing sector.** This condition could potentially halt the ongoing expansion trend in manufacturing, consequently affecting the demand for commodities imported from Indonesia and other producers. China, it seems, may continue to export deflation rather than growth to the global economy, suggesting that the Indonesian economy may continue to have to look internally for a source of growth.

"The PBoC is signalling further policy loosening as it looks to boost growth, but such a policy may lead to a solvency problem for property developers"

Chart 1

Irreplaceable turns uninvestable

China continues to suffer from one of the longest streaks of foreign capital outflows as geopolitical risks and internal economic struggle drove investors away from the market.

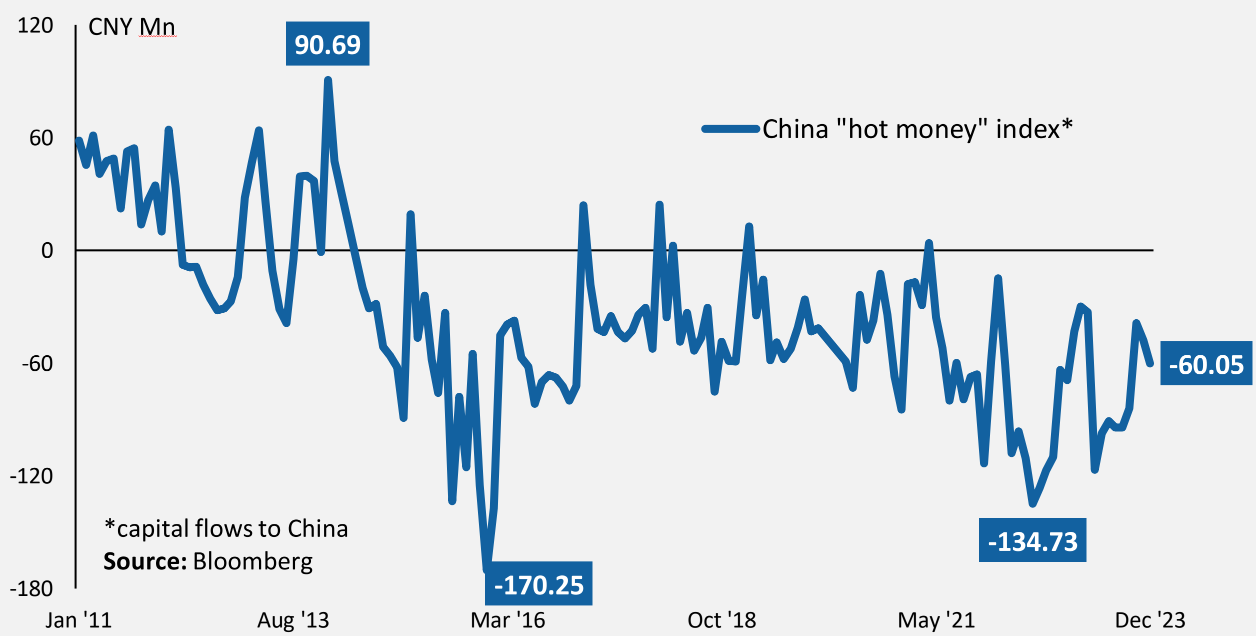


Chart 2

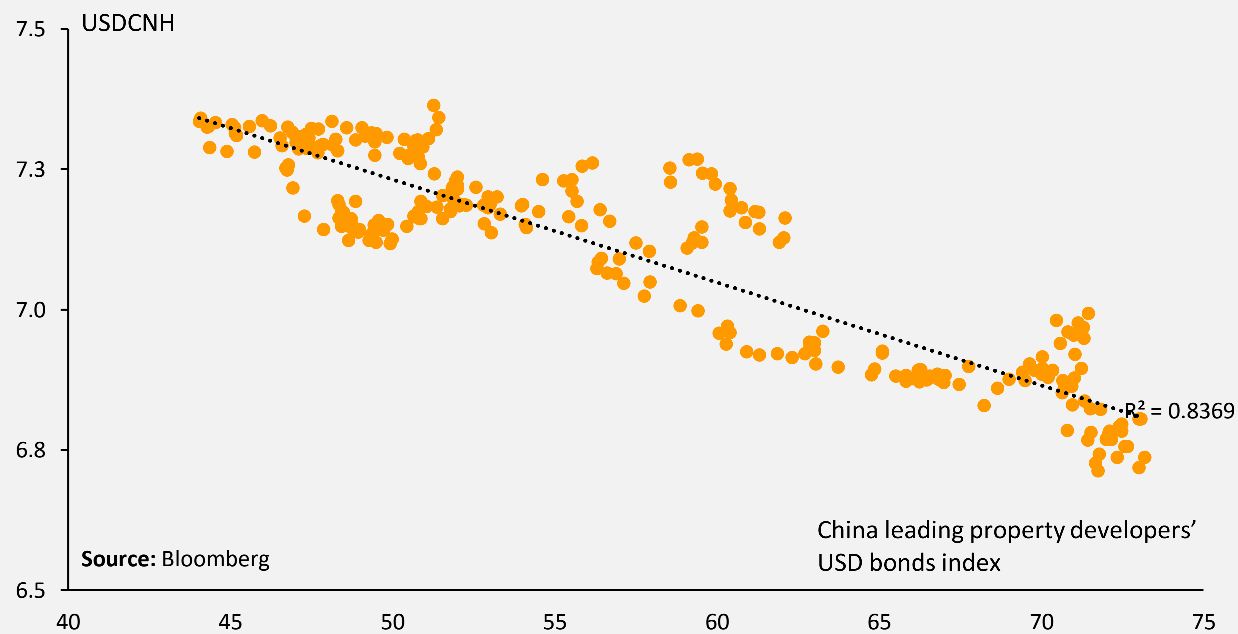
Hanging on the supply overhang

Chinese developers seem to be succeeding in halting the decline in construction activities, but the plummeting sales may continue to pose a downward pressure on property prices.

Chart 3

Monetary policy complications

Looser CNY policies may help to improve property developers' CNY liquidity issue but worsen their FX solvency problem.

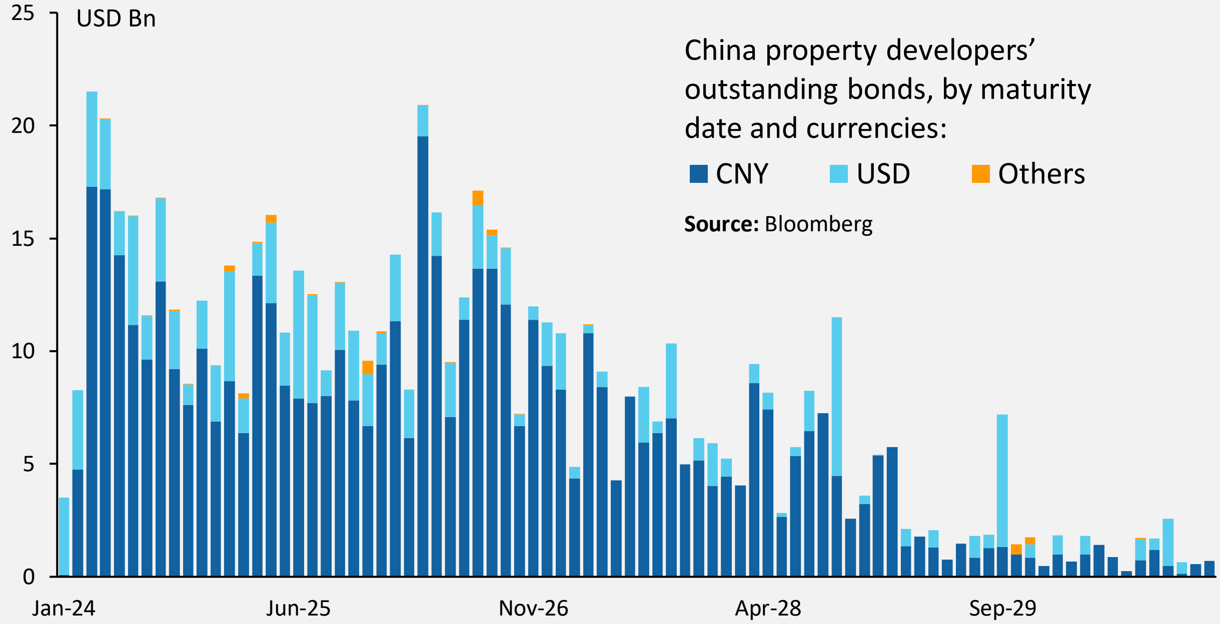


Source: Bloomberg

Chart 4

The clock is ticking on restructuring

Chinese property developers would need to offer concrete restructuring plans to their debtors given the maturing global bonds that would peak in June 2025.



Source: Bloomberg

Economic Calendar

		Actual	Previous	Forecast*
1 February 2024				
ID	S&P Global Manufacturing PMI	52.9	52.2	52.1
CN	Caixin Manufacturing PMI	50.8	50.8	50.8
ID	**Inflation rate YoY**, %	**2.57**	**2. 61**	**2.42**
US	**Fed Interest Rate Decision**, %	**5.5**	**5.25-5.50**	**5.25-5.50**
US	ISM Manufacturing PMI	49.1	47.4	47.6
2 February 2024				
US	Non-Farm Payrolls ('000)	353	333	175
5 February 2024				
ID	**GDP Growth Rate YoY**	**5.04**	**4.94**	**4.96**
7 February 2024				
ID	**Foreign Exchange Reserves (USD Bn)**	**145.1**	**146.4**	**-**
US	Balance of Trade (USD Bn)	-	-63.2	-63
8 February 2024				
CN	Inflation Rate YoY, %	-0.8	-0.3	-
9 February 2024				
ID	Motorbike Sales YoY, %	-3.7	-11.6	-
13 February 2024				
US	Inflation Rate YoY, %	-	3.4	-
ID	Consumer Confident	-	123.8	123.9
ID	Car Sales YoY, %	-	-19.1	-
14 February 2024				
ID	2024 Presidential and General Election			
15 February 2024				
EU	Balance of Trade (EUR Bn)	-	20.3	15.4
ID	**Balance of Trade (USD Bn)**	**-**	**3.3**	**-**
16 February 2024				
ID	Retail Sales YoY, %	-	2.1	2.6
21 February 2024				
ID	**BI Rate Announcement**, %	**-**	**6.00**	**-**
ID	Loan Growth YoY, %	**-**	10.38	-
22 February 2024				
ID	**Balance of Payment**	**-**	**-**	**-**

*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	5.50	Dec-23	2.10
UK	5.25	Dec-23	1.25
EU	4.50	Dec-23	1.70
Japan	-0.10	Jan-16	-2.70
China (lending)	2.50	Dec-23	5.15
Korea	3.50	Nov-23	0.70
India	6.50	Dec-23	0.81
Indonesia	6.00	Nov-23	3.43

Money Mkt Rates	12-Feb	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.64	6.65	-1.0
INDONIA (O/N, Rp)	6.11	5.75	35.4
JIBOR 1M (Rp)	6.63	6.64	-0.9

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.91	9.05	-13.89
Deposit 1M	4.52	4.43	8.25
Savings	0.67	0.67	0.34

Currency/USD	12-Feb	-1 mth	Chg (%)
UK Pound	0.792	0.784	-1.04
Euro	0.928	0.913	-1.62
Japanese Yen	149.1	144.9	-2.80
Chinese RMB	7.194	7.168	-0.36
Indonesia Rupiah	15,595	15,550	-0.29

Capital Mkt	12-Feb	-1 mth	Chg (%)
JCI	7,297.7	7,241.1	0.78
DJIA	38,671.7	37,593.0	2.87
FTSE	7,562.0	7,624.9	-0.83
Nikkei 225	36,897.4	35,577.1	3.71
Hang Seng	15,746.6	16,244.6	-3.07

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,115.8	3,226.3	-110.54
Govt. Bond	841.9	842.1	-0.17
Corp. Bond	10.4	10.6	-0.19

Trade & Commodities	12-Feb	-1 mth	Chg (%)
Baltic Dry Index	1,545.0	1,460.0	5.8
S&P GSCI Index	559.0	538.3	3.8
Oil (Brent, $/brl)	81.5	78.3	4.1
Coal ($/MT)	124.0	125.8	-1.4
Gas ($/MMBtu)	1.73	13.20	-86.9
Gold ($/oz.)	2,020.9	2,049.1	-1.4
Copper ($/MT)	8,065.0	8,241.2	-2.1
Nickel ($/MT)	15,667.5	16,092.5	-2.6
CPO ($/MT)	827.3	821.1	0.8
Rubber ($/kg)	1.50	1.51	-0.7

External Sector	Dec	Nov	Chg (%)
Export ($ bn)	22.41	22.00	1.89
Import ($ bn)	19.11	19.59	-2.45
Trade bal. ($ bn)	3.31	2.41	37.13
Central bank reserves ($ bn)*	146.4	138.1	6.00

Prompt Indicators	Dec	Nov	Oct
Consumer confidence index (CCI)	123.8	123.6	124.3
Car sales (%YoY)	-19.1	-7.5	-13.8
Motorcycle sales (%YoY)	-11.6	-2.8	-4.0

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	50.7	47.9	280
Eurozone	46.6	44.4	220
Japan	48.0	47.9	10
China	50.8	50.8	0
Korea	51.2	49.9	130
Indonesia	52.9	52.2	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	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	16.037
Trade Balance (US$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1*	-0.5

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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