

Still no gem in Ni

4 March 2024

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kukul Mamia
barra_mamia@bca.co.id



Scan for
the link to
our report
depository

Summary

- The global nickel prices appear to be bottoming up in 2024, but the increase in nickel prices may be more of a product of declining global output rather than increasing demand.
- The Indonesian economy should not count too much on the recovering global energy prices to re-energise its trade surplus, given the lingering inventory problem in China that suppresses nickel prices in the Chinese market.
- The potentially limited impact of the recovering global nickel prices on Indonesia's trade revenues and CA means that BI would need to rely on market interventions to stabilise the Rupiah.

- We saw some changes in Indonesian economic and market trends in the past week. First, Indonesia's headline CPI number accelerates to 2.75% YoY in February 2024, potentially ending the disinflation trend since February 2023 as food prices and robust loan growth portend more persistent inflationary pressures (see our report on [the February 2024 CPI number](#)). Second, foreign investors appear to be returning to the domestic bond market while the stock market suffered from foreign capital outflows, the first of such an occurrence since early December 2023.
- The USD 412.66 Mn foreign capital inflows to the SBN market reflect global investors' alertness to changes in the Indonesian government's fiscal posture, as the returning foreign inflows coincided with the news that the proposed free lunch programme in 2025 would 'only' push the fiscal deficit to around

2.8% of GDP. However, the hitherto moderating FFR cuts expectations still control the rhythm in the other part of Indonesia's financial market, as indicated by the USD 139.05 Mn foreign outflows from the stock market and the 105 points (now 113 points) decline in the Rupiah's exchange rate over the past week.

- The FFR cuts expectation pendulum may swing again to the dovish side in the coming weeks, thanks to the abysmal 47.8 ISM manufacturing PMI number in February 2024. However, such a condition may not translate positively to the demand condition in riskier markets, given that the US financing conditions have yet to budge in the past few weeks. It is more likely, then, that the market's effort to follow the Fed's data-driven guideline will add volatility in asset prices, a condition that would not absolve the Rupiah from depreciation pressures.

Facing the omnipresent inventory problem

- Apart from the moderating rate cuts expectation, some domestic factors are also likely to compound the depreciation pressure facing the Rupiah. One of the most palpable factors is the limited outlook for improvements in Indonesia's current account balance, a product of the economy's still-strong appetite for expansions amidst the slowing trade revenue.
- Increased export volumes did manage to maintain Indonesia's sizable surplus despite the deteriorating terms of trade, especially in Q4 2023. However, as shown in the Q4 2023 CA number, this volume-driven surplus had a smaller impact on Indonesia's external income, thanks to the higher transportation cost that results from the higher export volumes.
- Unfortunately, developments in the past two months may present a double whammy for Indonesia's ability to extract FX revenues. Not only that shipping costs increased significantly following the disruption in the Red Sea, but the most recent trade data also shows that Indonesia's export volume is already on a downward trend. Adding to the concern is that the decline in export volume happened in mainstay export commodities such as coal and CPO, leaving nickel and its derivatives (FeNi, Matte, NPI) as an anomaly given its still-positive export value and volume growth (*see Chart 1*).
- It is easy to make a connection between the still going (albeit slowing) growth in value and volume of Indonesia's nickel product exports in

2023 and the globally concerted effort for energy and fleet electrification. The centrality of EV production and the renewable energy industry in the ongoing global energy revolution continue to drive up the demand for nickel, as indicated by the 6.39% YTD gain in nickel prices, while other industrial commodities such as copper (-1.21% YTD) continue to disappoint. Despite concerns about the declining interest in green projects and investments, nickel (and other non-ferrous minerals) prices may continue to be elevated in the forthcoming periods, given the threat of continued proliferation of resource

“Despite the recovering global nickel prices, the increasing shipping costs and lower exports volume may keep Indonesia's CA on a deficit”

nationalism policies and the global slowdown in investments in metal-producing mines (*see Chart 2*).

- However, given the different Ni properties and the monopsonistic feature of Indonesia's nickel market, it is important to make some distinctions between the global and the domestic nickel market. Indeed, around 88.79% of Indonesia's NPI, FeNi, and Ni Matter exports found their way to China, exposing the Indonesian nickel sector to the ebb-and-flow in Chinese industrial activities. The more significant expansion in China's EV and renewable energy-producing capacities (and other, more traditional drivers for nickel demand, such as stainless-steel productions) may improve the prospects for the domestic nickel sector. Alas, Ni prices in the Chinese market seem to be lagging the global benchmark (*see Chart 3*).

- As with other goods and commodities driven by the Chinese market, the anaemic prices for Ni and derivative products bound to the Chinese market are a product of the sizable surplus in China's manufactured goods inventory (*see Chart 4*). Despite the significant investments made by the country in Indonesia's nickel sector, the threat of a structural decline in China's potential GDP growth, coupled with the availability of cheap financing to jolt the economy back to life, creates an impetus for an economy-wide expansion of China's manufacturing capacity. This expansion encompasses both the upstream metal products manufacturing sector and the downstream ferrous mineral mining sector, potentially reducing the demand for nickel and its derivative products.
- China's nickel market may still offer some manoeuvring room for nickel exporters in the short term. For instance, the downward trend in China's refined ferrous metals inventory, despite the continuous growth in its output since mid-2022, portends a higher demand for nickel derivatives (especially FeNi and NPI).
- The decline in ferrous metal inventory seems to be driven by the expected recovery in crude steel consumption, as the increasing demand for steel from the renewable energy and infrastructure sector is expected to fill the gap left by the continued tumult in the real estate development sector. However, the decline in China's primary steel production shows that

the higher demand for ferrous metal is happening amidst the consolidating steel industry. Indonesian exporters would also not be able to benefit from the higher demand for Ni ores from China's domestic ferrous metals industry, considering the ban on Ni ores export due to the mineral down-streaming programme.

- Hence, while the rebounding nickel prices will help to maintain investment momentum in the domestic nickel sector, the higher global nickel prices at the moment may not be able to arrest Indonesia's CA balance from sliding to further deficits. Continuous expansions in the domestic nickel sector may even contribute to deepening the CA deficit, given the potentially higher goods/services imports that often follow an industrial expansion project. Bank Indonesia, then, may need to take its market intervention policy off the shelf to protect the Rupiah from the mounting depreciation pressures, especially considering the risk of resuming foreign capital outflows due to the narrowing real-rate spread between the IDR-denominated and safe haven assets.

“High nickel inventories seem to suppress nickel prices in the Chinese market, putting Indonesia's nickel-producing sector on a disadvantage”

Chart 1

Resilient on both fronts

Unlike other mainstay export commodities, Ni products did not suffer from negative export volume and value growth numbers in 2023.

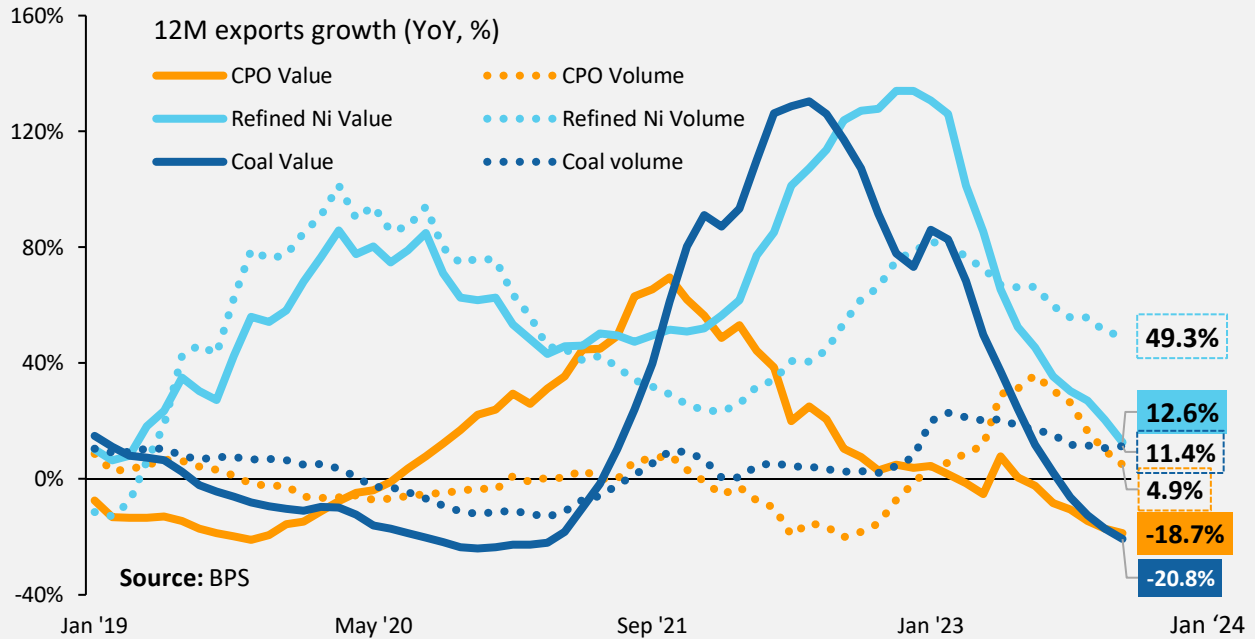


Chart 2

Minding investments in mines

Slowing investments in the global mineral-producing sector may elevate mineral prices in the upcoming period.

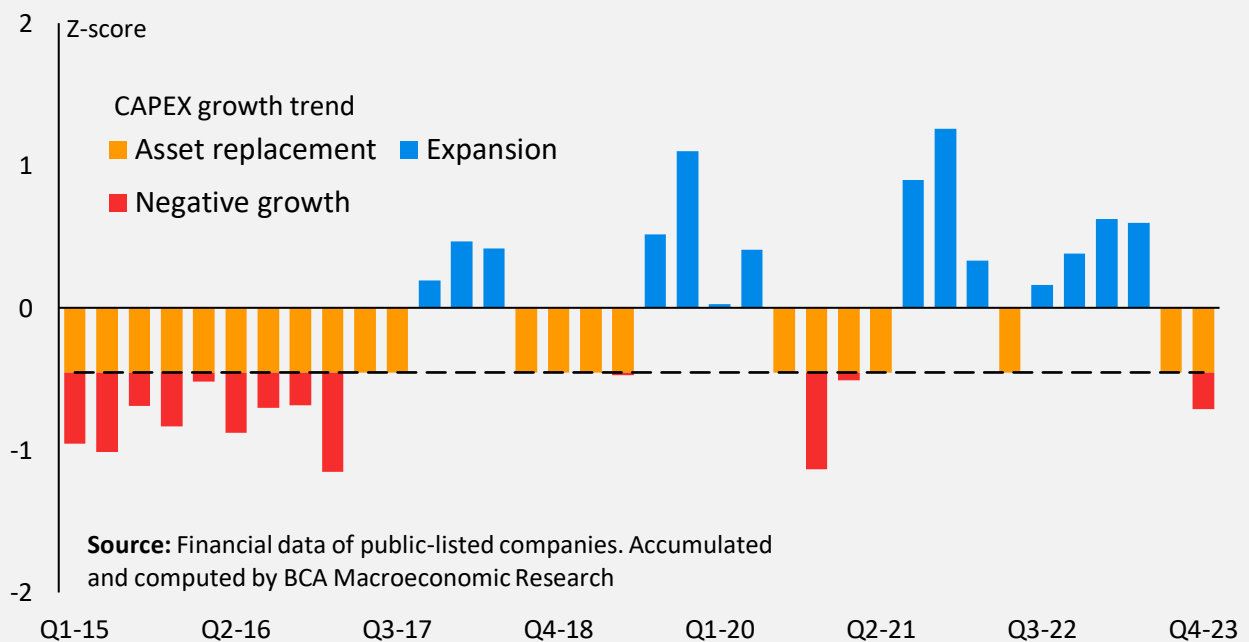


Chart 3

No bounce, but still creeping up

Prices of Ni ores and derivative products in China appear to be bottoming up in February 2024, although the increase is less significant compared to prices in the benchmark LME.

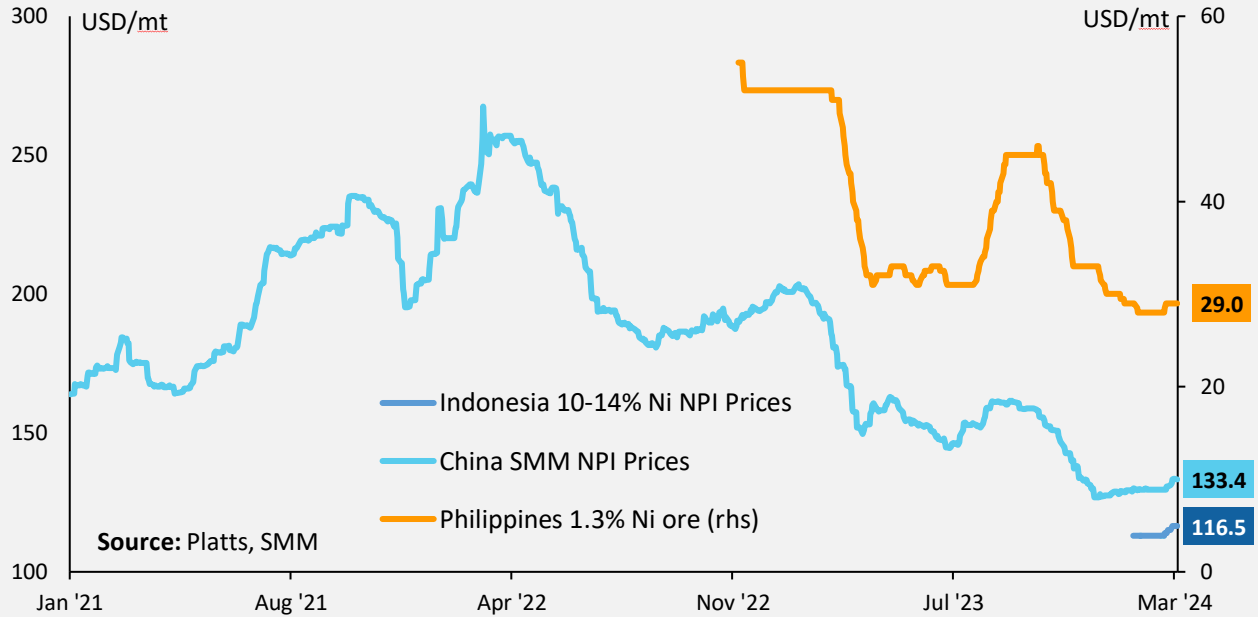
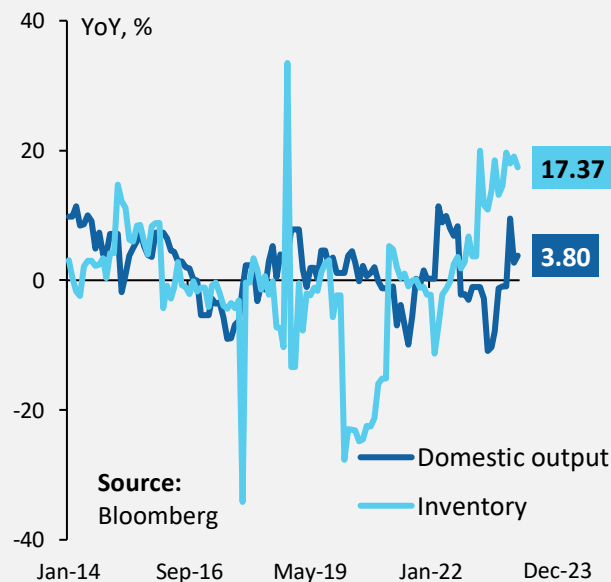


Chart 4

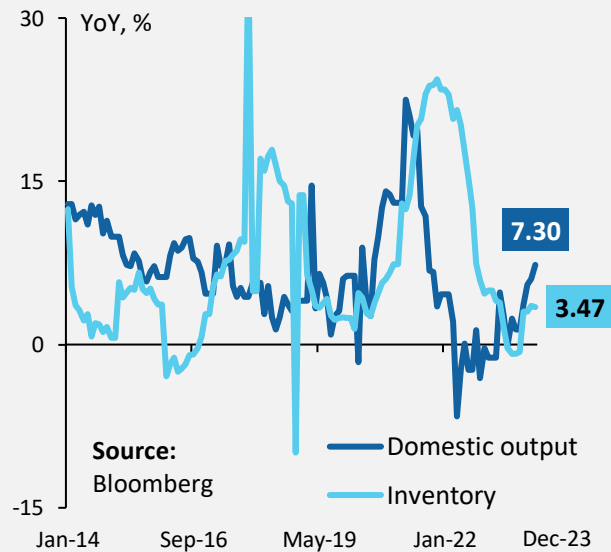
Different stream, same water

Indonesian nickel exporters may continue to face lower prices in the Chinese market, considering the surplus inventory in China's upstream and downstream nickel sectors.

China domestic ferrous metal mining sector



China domestic metal products manufacturing sector



Economic Calendar				
		Actual	Previous	Forecast*
1 March 2024				
ID	Inflation rate YoY, %	2.75	2.57	2.50
ID	S&P Global Manufacturing PMI	52.7	52.9	52.8
CN	Caixin Manufacturing PMI	50.9	50.8	50.9
US	ISM Manufacturing PMI	47.8	49.1	49.5
6 March 2024				
US	JOLTs Job Openings (Mn)		9.026	-
7 March 2024				
ID	Foreign Exchange Reserves (USD Bn)		145.1	-
CN	Balance of Trade (USD Bn)		75.3	-
US	Balance of Trade (USD Bn)		-62.2	-
8 Maret 2024				
US	Non Farm Payroll, (Th)		353	195
US	Unemployment Rate, %		3.7	3.7
9 Maret 2024				
CN	Inflation Rate YoY, %		-0.8	0.3
11 Maret 2024				
ID	Car Sales YoY, %		-26.1	-
12 Maret 2024				
US	Inflation Rate YoY, %		3.4	3.1
ID	Motorbike Sales YoY, %		-19.1	-
13 Maret 2024				
ID	Consumer Confidence		125.0	126
14 Maret 2024				
ID	Retail Sales YoY, %		0.2	-
15 Maret 2024				
ID	Balance of Trade (USD Bn)		2.0	-
20 Maret 2024				
ID	BI Rate Announcement, %		6.0	6.0
ID	Loan Growth YoY, %		11.8	-
21 Maret 2024				
US	Fed Interest Rate Decision, %		5.5	5.5

*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	1-Mar	-1 mth	Chg (%)
US	5.50	Dec-23	2.40	Baltic Dry Index	2,203.0	1,397.0	57.7
UK	5.25	Dec-23	1.25	S&P GSCI Index	564.7	561.2	0.6
EU	4.50	Dec-23	1.90	Oil (Brent, \$/brl)	83.6	82.9	0.8
Japan	-0.10	Jan-16	-2.30	Coal (\$/MT)	136.0	120.3	13.1
China (lending)	2.50	Dec-23	5.15	Gas (\$/MMBtu)	1.47	2.26	-35.0
Korea	3.50	Nov-23	0.70	Gold (\$/oz.)	2,082.9	2,037.0	2.3
India	6.50	Dec-23	1.40	Copper (\$/MT)	8,416.0	8,511.8	-1.1
Indonesia	6.00	Nov-23	3.25	Nickel (\$/MT)	17,441.5	16,248.0	7.3
				CPO (\$/MT)	845.7	810.6	4.3
				Rubber (\$/kg)	1.60	1.51	6.0
Money Mkt Rates	1-Mar	-1 mth	Chg (bps)	External Sector	Jan	Dec	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	20.52	22.39	-8.34
SUN (10Y)	6.61	6.60	1.2	Import (\$ bn)	18.51	19.11	-3.13
INDONIA (O/N, Rp)	5.84	5.79	5.5	Trade bal. (\$ bn)	2.02	3.29	-38.67
JIBOR 1M (Rp)	6.64	6.63	0.4	Central bank reserves (\$ bn)*	145.1	146.4	-0.88
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Jan	Dec	Nov
Lending (WC)	8.86	8.91	-4.93	Consumer confidence index (CCI)	125.0	123.8	123.6
Deposit 1M	4.76	4.52	24.61	Car sales (%YoY)	-26.1	-19.1	-7.5
Savings	0.69	0.67	1.94	Motorcycle sales (%YoY)	-3.7	-11.6	-2.8
Currency/USD	1-Mar	-1 mth	Chg (%)	Manufacturing PMI	Jan	Dec	Chg (bps)
UK Pound	0.790	0.787	-0.35	USA	50.7	47.9	280
Euro	0.923	0.922	-0.07	Eurozone	46.6	44.4	220
Japanese Yen	150.1	147.6	-1.67	Japan	48.0	47.9	10
Chinese RMB	7.197	7.178	-0.26	China	50.8	50.8	0
Indonesia Rupiah	15,700	15,780	0.51	Korea	51.2	49.9	130
				Indonesia	52.9	52.2	70
Capital Mkt	1-Mar	-1 mth	Chg (%)				
JCI	7,311.9	7,192.2	1.66				
DJIA	39,087.4	38,467.3	1.61				
FTSE	7,682.5	7,666.3	0.21				
Nikkei 225	39,910.8	36,065.9	10.66				
Hang Seng	16,589.4	15,703.5	5.64				
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)				
Stock	3,236.2	2,700.6	535.61				
Govt. Bond	841.9	811.9	30.00				
Corp. Bond	9.5	12.4	-2.94				

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

*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

Aldi Rizaldi

Research Assistant

aldi_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

Agus Salim Hardjodiono

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

Fikri Adam Zaqi

Research Assistant

Fikri_zaqi@bca.co.id

+6221 2358 8000 Ext:

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: aldi_yanto@bca.co.id