economic

WEEKLY REVIEW SERIES

3Q21 GDP Review : Below Our Expectation

Exhibit 1 Indonesia Macro Data Forecast

Macro Indicators	2020	2021F
Real GDP (%YoY)	-2.07	3.76
Average Inflation (%YoY)	2.04	1.87
BI-7 DRR (%)	3.75	3.5
Budget Deficit (%GDP)	6.09	5.73
USD/IDR	14,500	14,325
Current Account (%GDP)	-0.40	-1.03
10 Year Indo GB (%)	5.89	6.25
JCI	5,979	6,800

Source : BI, MoF, BPS, MNCS Estimate

Exhibit 2 Global & Domestic Key Rates

Rates (%)	Dec-20	Nov-21*
BI-7 DRR	3.75	3.50
Lending Facility	4.50	4.25
Deposit Facility	3.00	2.75
10 Year Indo GB	5.89	6.05
FFR	0.25	0.25
ECB Rate	0.00	0.00
BoE Rate	0.10	0.10
BoJ Rate	-0.10	-0.10

Source : Bloomberg, BI as of Nov 8, 2021

Indonesia 3Q21 GDP Review

Indonesia's economy expanded 3.51% YoY in 3Q21. The domestic real GDP growth decelerated from the previous quarter at +7.07% YoY. The output growth was also below our estimate and consensus forecast at +3.59% YoY/+3.88% YoY. The slowing pace of output expansion was attributable to tighter social restriction amid second wave outbreak of Covid-19 during 3Q21.

The implementation of PPKM Darurat has hit hard transportation and service sectors while at the same time boosting healthcare and ICT industries.

From expenditure sides, the aggregate demand equation improved and boosted by international trade that recorded a significant expansion on annual basis. Noted that global supply and demand imbalance has boosted commodity price to soar. As commodity exporting country, Indonesia benefitted from a recent rally of commodity prices from energy to food staples. Exports jumped outpacing imports triggering a trade balance surplus.

Remained Favorable Macro & Financial Conditions in 3Q21

Despite the slowing growth of GDP, we noted that several macro indicators remained favorable. Here we highlighted some of domestic macro and financial condition during 3Q21 :

- Indonesia trade balance surplus increased from USD6.31bn to USD13.24bn in 3Q21 due to higher exports outpacing imports amid commodity boom.
- Inflation remained stable and benign below central bank's target of 2-4% amid higher and a more persistent inflationary pressure globally during 3Q21.
- Manufacturing activities (Markit Manufacturing PMI > 50) and consumer sentiment (Consumer Confidence Index nearing 100) bounced back in Sep-21 following loosening of social restriction.
- Banks credit grew positively during the entire 3Q21 as demand and supply of credit picked up. Banks credit expanded from 0.5% YoY in Jul-21 to 2.21% YoY in Sep-21.
- Domestic financial markets improved as JCI rose by 4.68% driven by foreign flows; 10-year Indo GB yield dipped >30 bps driven by banks increase in holding of tradable government bond and IDR value appreciated 1.37% against USD supported by ample FX reserves and narrowing CAD.

Looking Ahead : Light at the End of the Tunnel

We expect Indonesia's GDP to expand more than 5% YoY in 4Q21 on the back of positive catalyst including : 1) higher mobility due to improving pandemic situation; 2) acceleration of government spending in the last quarter; 3) continued banks credit expansion as well as 4) surging commodity price that boost exports.

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Sectoral : Quarterly Basis

According to Statistics Indonesia, majority of the sectors recorded an expansion. However, the drop in mobility also affected transportation and services sectors. In 3Q21, a tighter mobility restriction further resulted in a contraction of 1.37% QoQ towards the growth of transportation industry. Public administration sector, however, plunged 16.70% QoQ. Hospitality sector's growth slipped 5.73% QoQ . The same downfall also happened in the education (-4.65% QoQ), business services (-2.42% QoQ) and financial services sector (-1.24% QoQ).

The incline of Covid-19 cases within the third quarter further boosted the growth of health and social work sector of 16.10% QoQ, the highest amongst all. Following the health sector, the construction grew 5.13% QoQ, attributable to arising in realization of government's expenditure on infrastructure and import of construction materials.

A jump of 4.20% QoQ also happened within the mining sector, primarily driven by a higher production capacity in copper, gold and coal. During the same period, manufacturing, agriculture and trade sectors which contributed >50% output still recorded an expansion yet with lower pace of total output growth (<3% QoQ).

Sectoral : Annual Basis

On an annual basis, 11/17 sectors grew. Those are among others including : healthcare (+14.06% YoY); mining (+7.78% YoY); ICT (+5.51% YoY); Trade (+5;16% YoY); water supply (+4.56% YoY); financial services (+4.29% YoY); electricity and gas supply (+3.85% YoY); construction (+3.84% YoY); manufacturing (+3.68% YoY); real estate (+3.42% YoY) and agriculture (+1.31% YoY).
Meanwhile sectors that experienced a declines were : F&B accommodation (-0.13% YoY); other services (-0.13% YoY); business services (-0.59% YoY); transportation (-0.72% YoY); education (-4.42% YoY) and government administration (-9.96% YoY). Please see Exhibit 3 to see the details.

Exhibit 3 Indonesia GDP Growth by Sectors

Source : Statistics Indonesia, MNCS

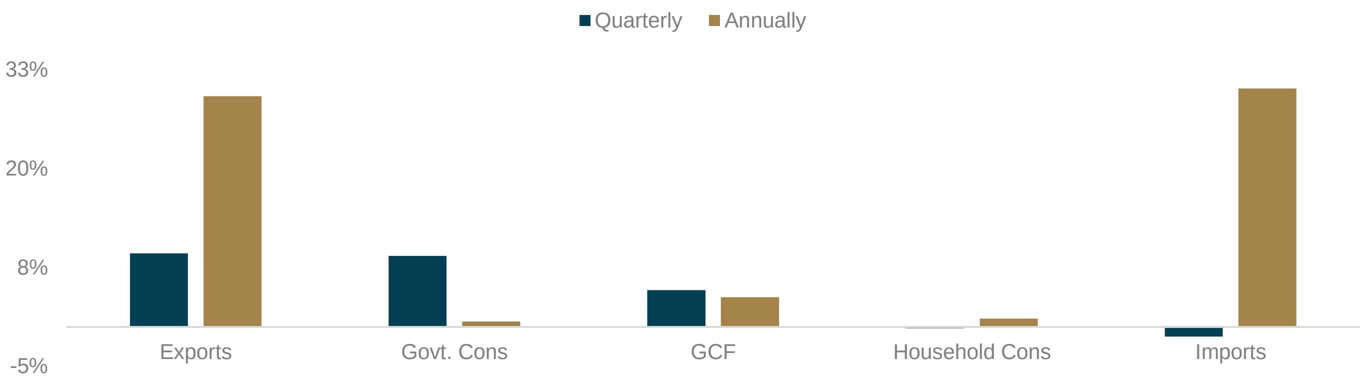
Expenditures : Quarterly Basis

From the expenditures side, household consumption and imports slipped -0.18% QoQ and -1.24% QoQ respectively and primarily driven by slower economic activities. Meanwhile from the investment, government expenditures and exports side posted and expansion. Those beforementioned sectors positive growth was on the back of : 1) higher FDI realization; 2) higher government spending and budget realization and 3) increasing global demand particularly from Indonesia's trading partners.

Expenditures : Anual Basis

On the annual basis, all expenditure sides expanded. The international trade grew significantly with exports jumped 29.16% YoY and imports soared 30.11% YoY. Meanwhile for household and government consumption only grew below 2% YoY. The Gross Fixed Capital Formation (GCF) recorded an expansion of 3.74% YoY. Please see Exhibit 4 to see the details.

Exhibit 4 Indonesia GDP Growth by Expenditures



Source : Statistics Indonesia, MNCS

Remained Favorable Macro & Financial Condition in 3Q21

Despite the slowing growth of GDP, we noted that several macro indicators remained favorable. Indonesia has benefitted from the commodity boom amid global supply disruption and V-shaped of economic recovery.

Indonesia's exports jumped significantly (+13.18% QoQ/+50.90% YoY) outpacing imports (+1.09% QoQ/+46.98% YoY). As a consequence, Indonesia's trade balance booked a surplus of USD13.24bn, higher than previous quarter figure of USD6.31bn (Exhibit 5).

However, soaring commodity prices from energy to foods was not necessarily translated into higher inflationary pressure. Indonesia's CPI experienced an uptrend yet remained below central bank's target (Exhibit 6).

Another positive notes were the expansion of manufacturing activities in Sep-21 along with loosening social restriction (Exhibit 7). We also witnessed that consumer confidence bounced back although remained below 100 points (Exhibit 8).

Banking loans disbursement also flipped out to a positive territory during 3Q21. In July-21, the value of loans in Indonesia grew only 0.50% YoY. As of the end of Sep-21, loan growth was reported at 2.21% YoY (Exhibit 9).

Domestic financial market saw an appreciation during 3Q21. JCI rose by 4.68% in 3Q21. Rising domestic share prices was in line with the foreign inflows to stocks equivalent to IDR9.72tn (Exhibit 10).

Meanwhile the 10-year Indo GB yield declined by more than 30 bps during the same period. Despite a net outflows tradable Indo GB market in the previous quarter, banks ample liquidity was parked in central bank and was allocated to buy government bond. We observed that banks holding position in government bond has increased more than IDR110tn in 3Q21 offsetting foreign outflows.

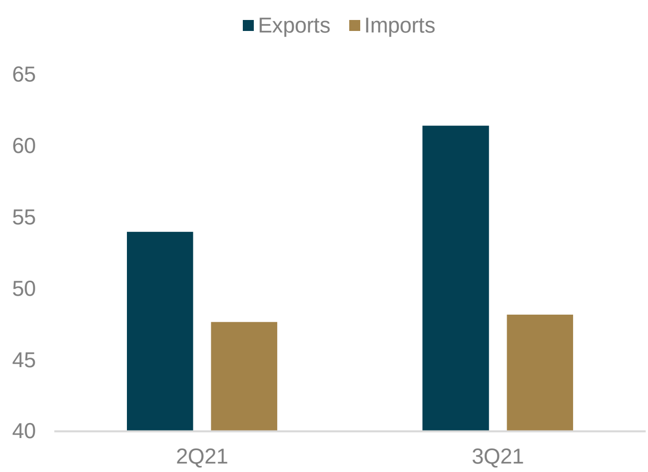
Continued trade balance surplus, rising FX reserves position and lowering CAD also support rupiah's fundamental. The local currency was appreciated 1.31% in 3Q21 and traded below IDR 14,300/USD at that time.

Looking Ahead : Light at the End of the Tunnel

Rising stock and government bond prices continued in the first month of 4Q21. This was also followed by IDR appreciation against USD. The impact of tapering announcement by the Fed was insignificant to domestic capital market. No negative reaction was observed. This indicated that market already priced in the Fed normalization policy favoring Indonesia's financial market.

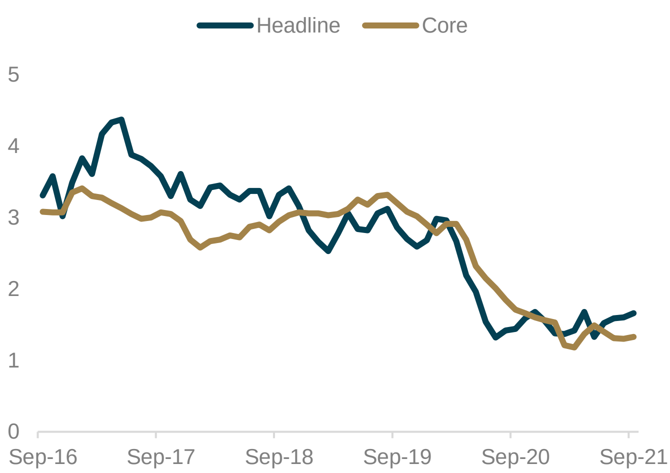
We expect Indonesia's GDP to expand more than 5% YoY in 4Q21 on the back of positive catalyst including : 1) higher mobility due to improving pandemic situation; 2) acceleration of government spending in the last quarter; 3) continued banks credit expansion as well as 4) surging commodity price that boost exports.

Exhibit 5 Indonesia International Trade (USD Bn)



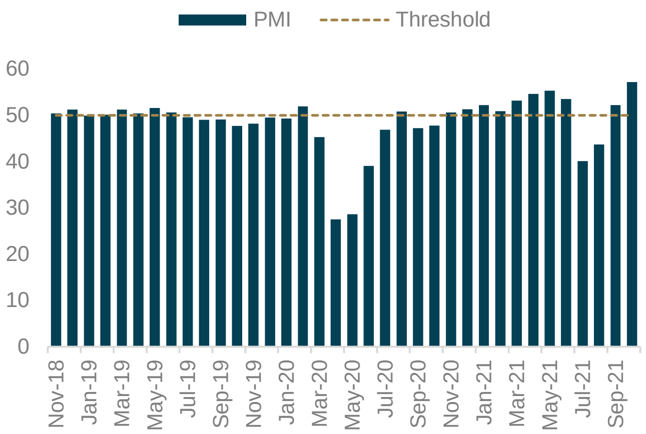
Source : Statistics Indonesia, MNCS

Exhibit 6 Indonesia Inflation (%YoY)



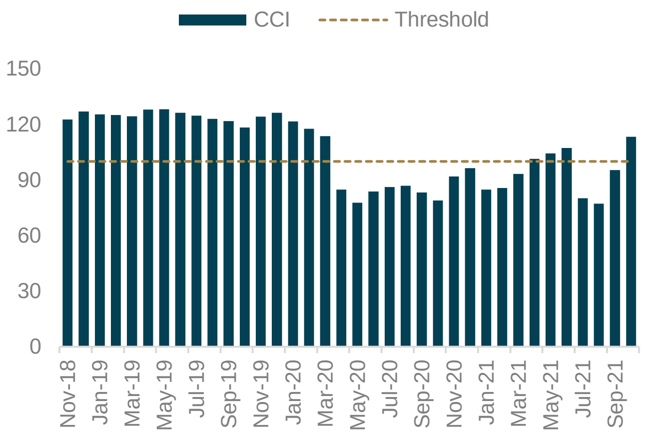
Source : Statistics Indonesia, MNCS

Exhibit 7 Indonesia Manufacturing PMI



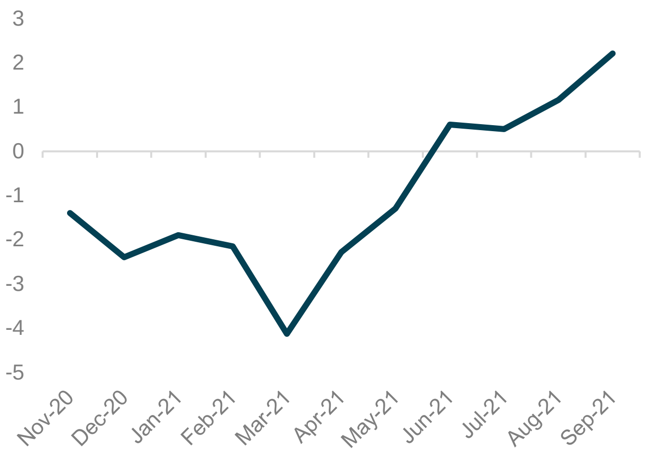
Source : IHS Markit, MNCS

Exhibit 8 Indonesia Consumer Confidence



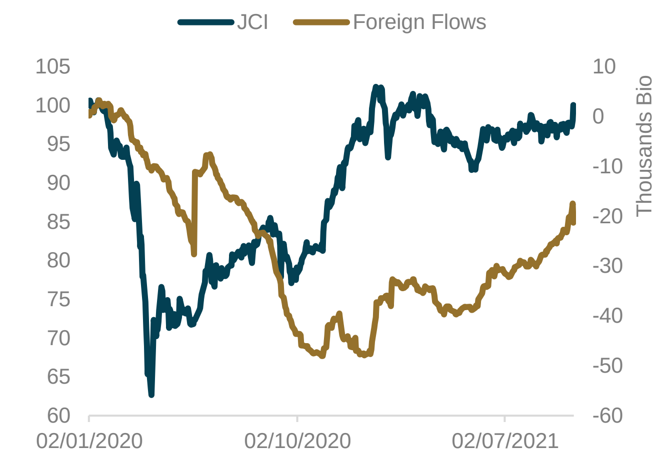
Source : Bank Indonesia, MNCS

Exhibit 9 Indonesia Loan Growth (%YoY)



Source : Trading Economics, MNCS

Exhibit 10 Domestic Financial Market Condition



Source : Bloomberg, CEIC, MNCS

MNC Research Industry Ratings Guidance
OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months
NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months
UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance
BUY : Share price may exceed 10% over the next 12 months
HOLD : Share price may fall within the range of +/- 10% of the next 12 months
SELL : Share price may fall by more than 10% over the next 12 months
Not Rated : Stock is not within regular research coverage

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