

economic

WEEKLY REVIEW SERIES

A Brief View on
How Omicron Variant Complicates Policymaking

**OMICRON
VARIANT**

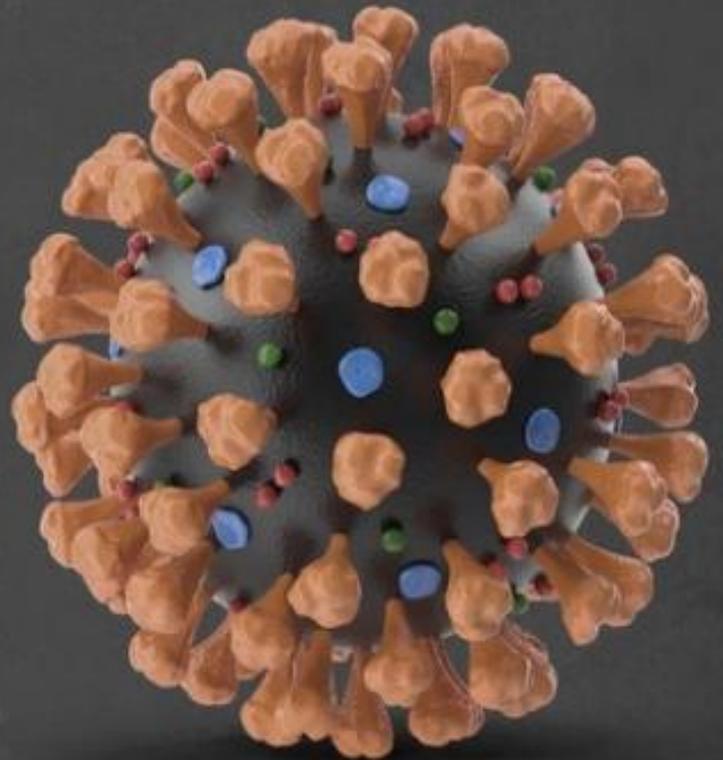


Exhibit 1. Indonesia Macro Data Forecast

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	6.15
JCI	5,979	6,800

Source : BI, MoF, BPS, MNCS Estimate

Exhibit 2. Global & Domestic Key Rates

Rates (%)	Dec-20	Dec-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	6.24
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 Dec 3, 2021

The Emergence of Omicron Variant

- WHO considered Omicron as a variant of concern (voc). However, a little is known about this new variant in terms of its transmissibility and nature of its infection.
- It is rapidly spreading and now found in more than 30 countries with high vaccination rate.
- Tightening measures are taken by some nations including nationwide lockdown for unvaccinated people and international travel restriction.
- Despite the drop in Covid-19 daily cases reported in Indonesia, the local government followed a tightening measures by upgrading PPKM level of Jakarta from level 1 to level 2 up until Dec 13, 2021.
- Ahead of Christmas and New Years Eve's Holiday, government of Indonesia plans to introduce PPKM level 3 from Dec 24 to Jan 2.

How it Complicates Policy Measures & Its Impact

- The emergence of Omicron variant may hinder global growth in FY21E and FY22F.
- Markets have reacted negatively and investors appetite shifted towards a safe haven asset such as UST bond.
- Prices of stock, cryptocurrencies and commodities like oil tumbled last week along with the jump in VIX index (>30) gauging a fear in the markets.
- The rapidly spreading variant also triggered foreign outflows worth of IDR12.5tn from domestic financial markets.
- As a consequence, JCI dropped more than 1%; rupiah depreciated 0.5% against USD and 10-year Indo GB yield spiked more than 10 bps.
- Should the circumstance worsen, it will complicate how policymakers would respond particularly the Fed that face high inflation and improving job markets given the lack of understanding on the variant nature.
- We carefully assess how it may impact Indonesia, the worst case scenario is, if the infection rate rise significantly and government aggressively tighten public activity restriction measures.
- This would trigger foreign outflows which resulted in domestic financial asset price correction and lower economic growth, but the impact differ across sectors.
- Service sector like hotel and tourism as well as transportation will be the most severely impacted and this will prolong the sector recovery.
- Meanwhile sectors that can benefit from the pandemic curb measures will be healthcare, e-commerce, logistic and telco.
- All in all, the spread of Omicron variant pose another threat to economic recovery and increasing the risk of uncertainty and volatility.

Exhibit 3. Covid-19 Variant of Concern (VOC)

Variant Type	Lineage	Earliest Documented Samples
Alpha	B.1.1.7	UK, Sep-20
Beta	B.1.351	South Africa, May-20
Gamma	P.1	Brazil, Nov-20
Delta	B.1.617.2	India, Oct-20
Omicron	B.1.1.529	South Africa, Nov-21

Source : WHO, MNCS

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The Emergence of Omicron Variant

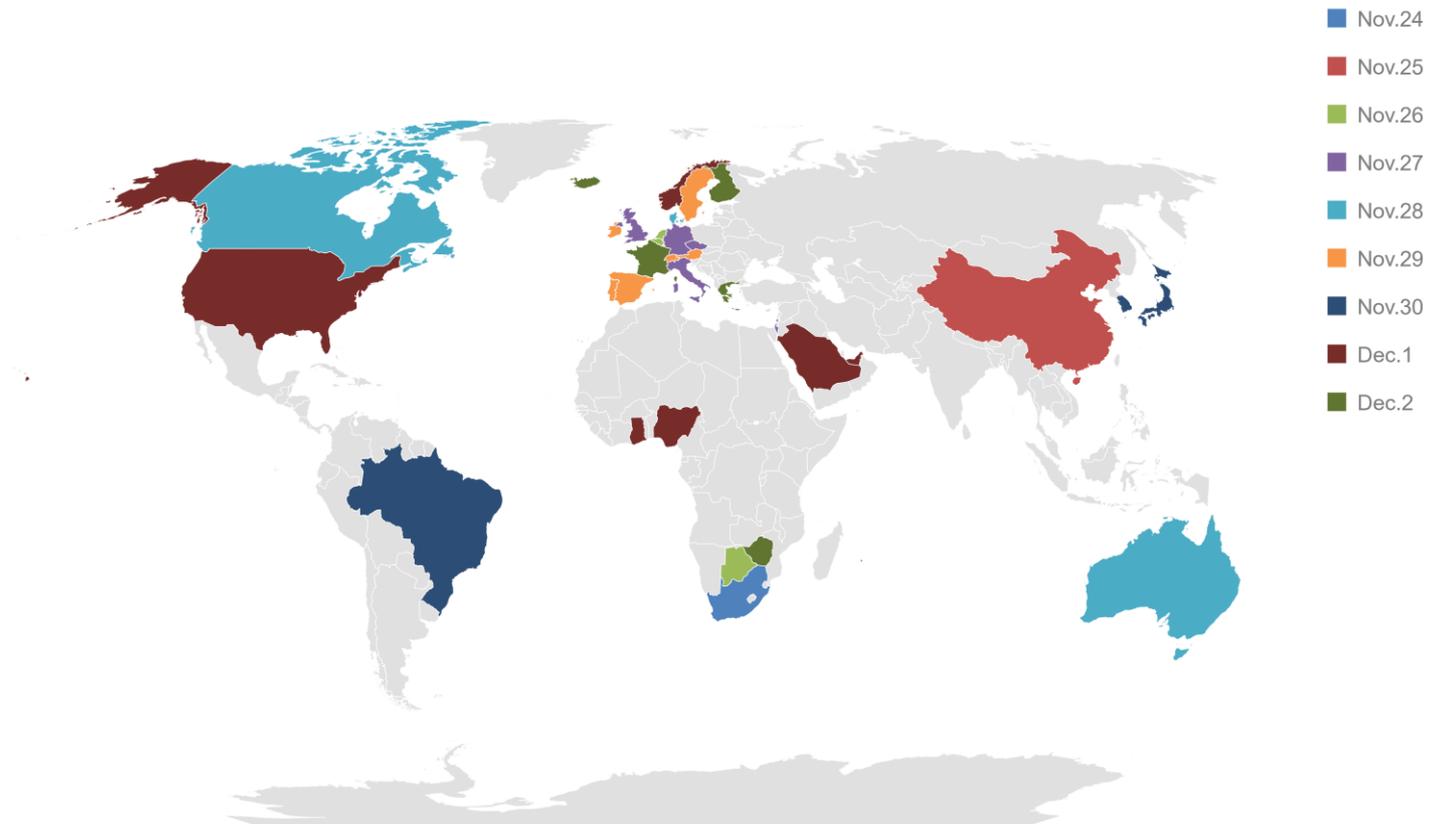
On November 23, scientists in South Africa reported a new Covid-19 variant and later dubbed as Omicron (B.1.1.529) by WHO. Only less than in a month, this variant has spread across more than 30 countries (Exhibit 4) where vaccination rates are considerably high (Exhibit 5).

WHO has not declared yet that this new variant is far more severe and can reduce vaccine efficacy. However, the organization has designated the Omicron as the fifth variant of concern after Alpha, Beta, Gamma and Delta (Exhibit 3).

A little is known about this variant and scientists are studying whether this mutant is more transmissible and infectious compared to the Delta. Despite the lack of understanding on new variant's nature, scientists still believe that vaccination remains an effective way to reduce symptom severity.

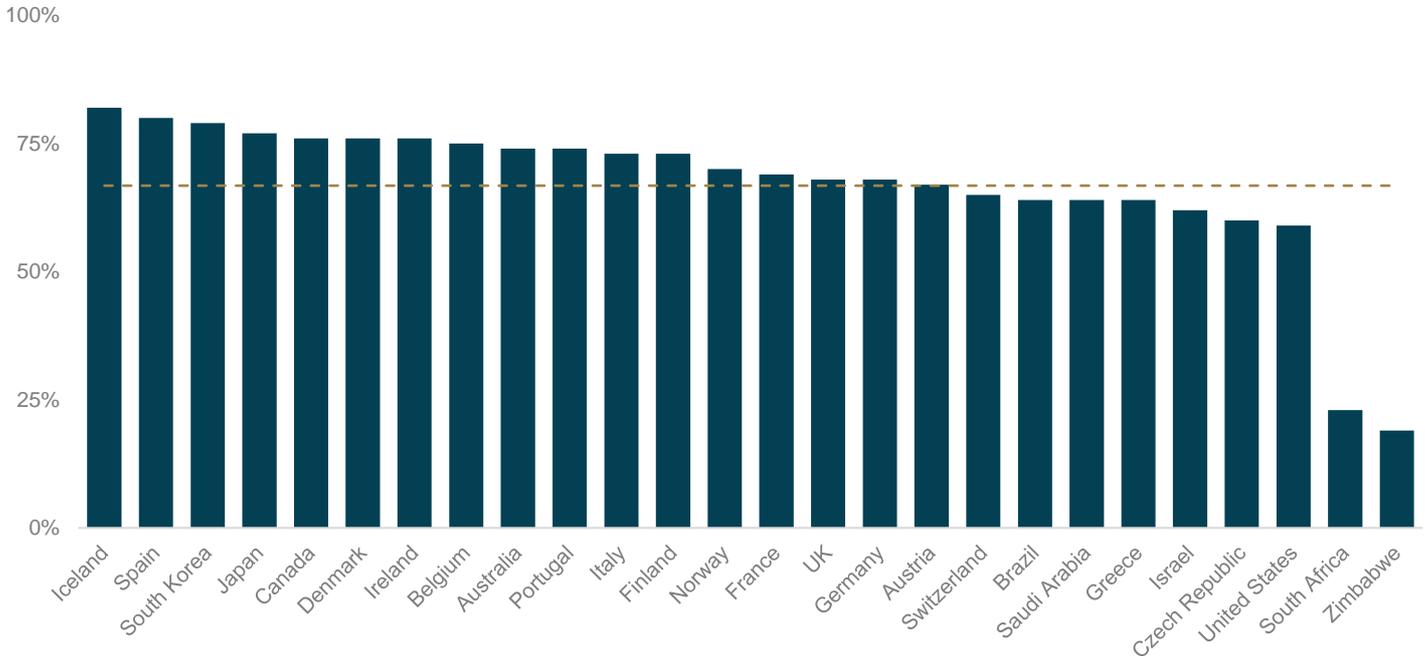
In response to the spread of Omicron and the possibility of another Covid-19 wave, some nations such as Austria imposed a nationwide lockdown for unvaccinated people. EU Commission President, Von der Leyen also said that states need to consider mandatory Covid-19 jabs. Furthermore, in order reduce the risk of Omicron imported cases, some nations begin to restrict international travel.

Exhibit 4. The new Covid-19 variant named Omicron has been found in more than 30 countries



Note : the legend indicated when the first case of Omicron infection was reported
Source : Various sources, MNCS

Exhibit 5. The Omicron variant was found in countries where vaccination rates are considerably high



Note : the figure above indicated the proportion of people fully vaccinated to total population as of Dec 2, 2021
 Source : Our World in Data, MNCS

Tightening international travel regulation is also implemented in Indonesia. The local government requires international travelers to be quarantined for 10 days from previously only 3 days following the emergence of Omicron. Despite the downtrend in Covid-19 daily cases reported, Indonesian government also takes a serious step in anticipation of rising risk by extending PPKM Leveling from Nov 30 – Dec 13. PPKM in Jakarta is also upgraded from level 1 to level 2 under Minister of Internal Affairs Instruction Number 63 2021. Ahead of Christmas and New Years Holiday, government also plans to implement PPKM Level III from Dec 24, 2021 to Jan 2, 2022. Here we highlighted a notable Indonesia’s government regulation in response to the rising risk of Covid-19 infection particularly for Jakarta (Exhibit 6).

Exhibit 6. PPKM level 2 regulation

Sector	Regulation
Education	F2F studying activities with limited capacity (max 50%)
Non-Essential Sectors	Work from Office with limited capacity (max 50%) for vaccinated employee
Traditional Market Selling Non-Essential Needs	Operating at max 75% capacity and should be closed at 06:00 PM
Barbershop, Laundry, Workshop and etc.	Permitted to open until 09:00 PM
Restaurant	Operating at max 50% capacity; allowing dine in for 60 minutes and should be closed at 09:00 PM
Shopping Mall	Operating at max 50% capacity and should be closed at 09:00 PM
Movie & Theatre	Operating at max 70% capacity
Religious Events	Max capacity of 75% or 75 people with tight protocols
Park & Recreations	Permitted to open with max 25% capacity
Arts, Sports, Gym & Wedding Reception	Allowed with max 50% capacity

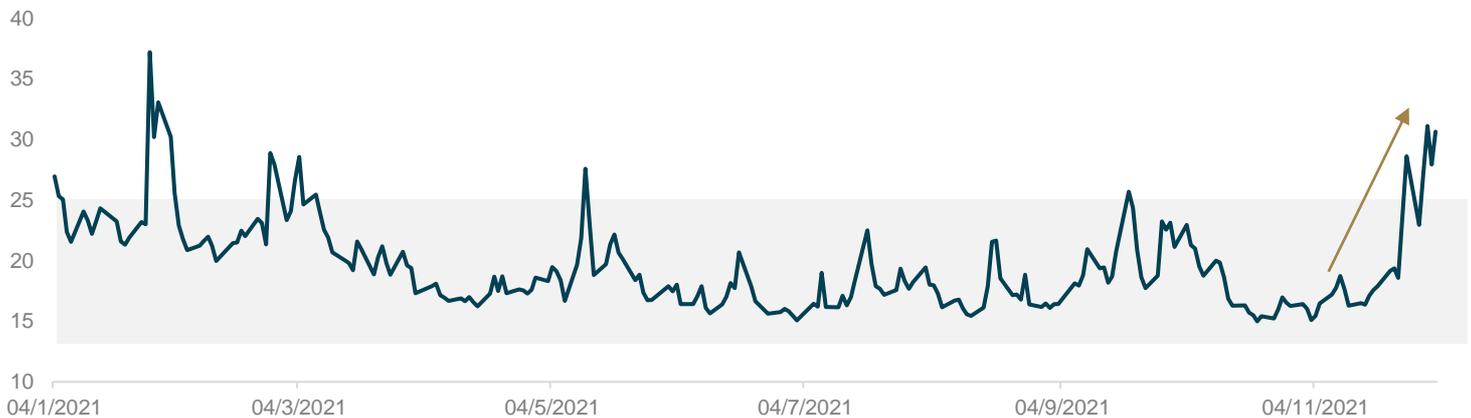
Source : Various sources, MNCS

The Impact & How it Complicates Policymaking

The emergence of Omicron variant is posing another downside risk for economic recovery. On a recent statement, IMF's chief Kristalina Georgieva has said that there may be a downgrade on the global growth projection from Oct-21 forecast. As a note, the Fund foresaw the world output is expected to grow 5.7% in FY21E and 4.9% in FY22F.

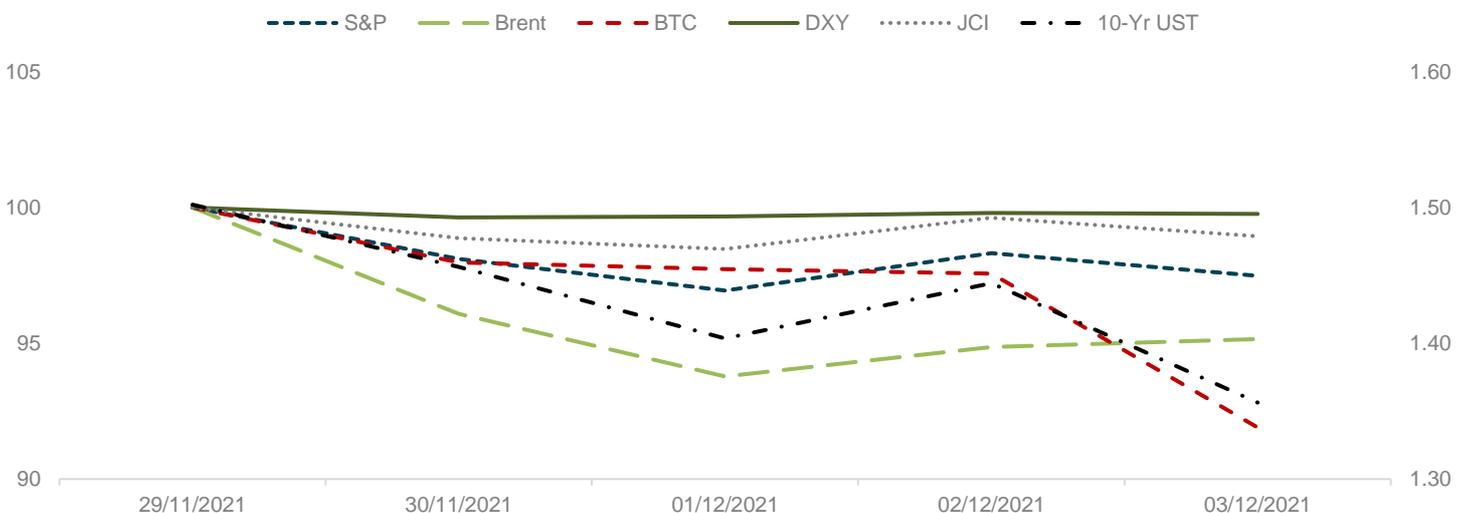
Market has reacted negatively given the spread of new Covid-19 variant. Fear index (VIX) spiked to 30.7 on Friday (12/03/21). Previously VIX index hit 31.21 and considered as the highest level since Feb-21 (Exhibit 7). Investor's risk appetite dropped and dumping all the risky assets across the board from stocks, commodities like oil to cryptocurrencies. A shifting to a save haven asset is seen as U.S. treasury yield declined more than 10 bps to 1.35% on the last trading day of previous week (Exhibit 8).

Exhibit 7. Fear index (VIX) reaching to the highest level since Feb-21



Source : Bloomberg, MNCS

Exhibit 8. The Omicron variant was found in countries where vaccination rates are considerably high



Source : Bloomberg, MNCS

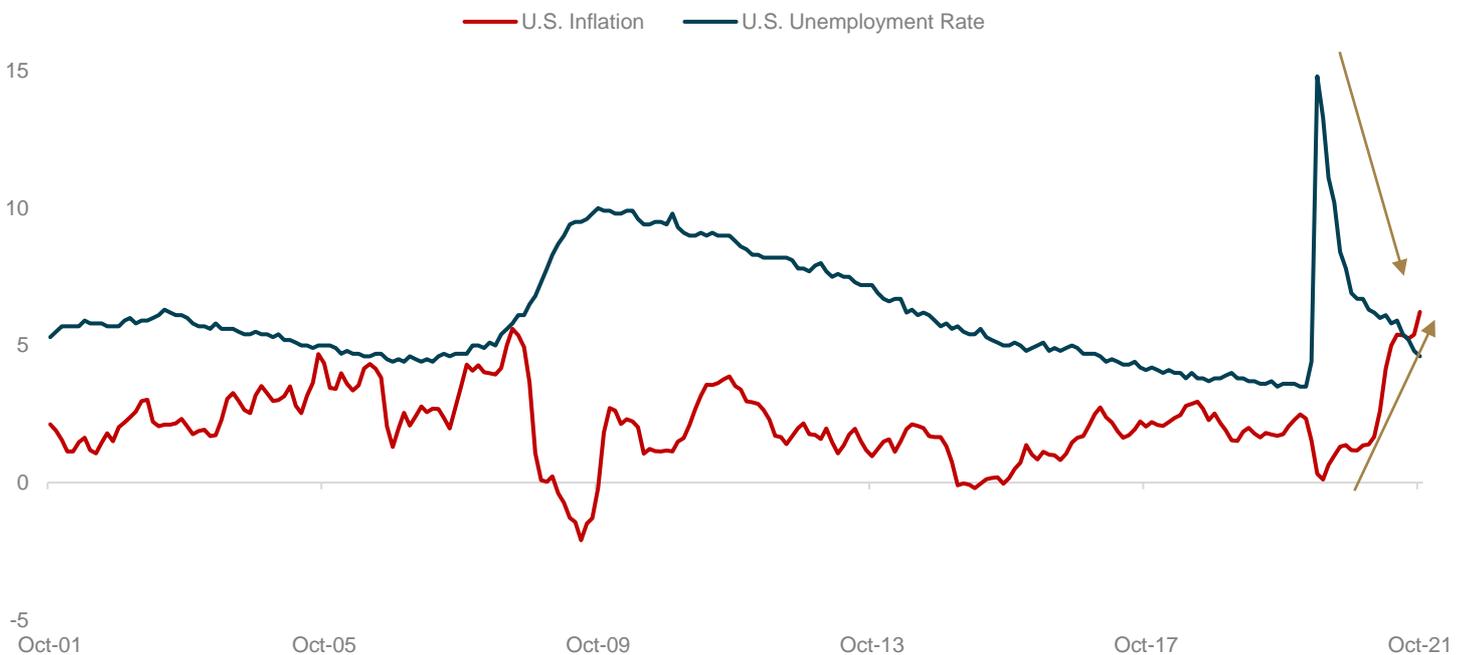
The external pressures also affect domestic asset price. JCI dropped more than 1% in a 5-day trading, rupiah's value depreciated by 0.5% against USD while the benchmark of 10-year Indo GB yield rose more than 10 bps at the same time along with foreign outflows of IDR12.5tn last week.

Indeed, Covid-19 remains the biggest threat to global economic recovery. Besides that, Omicron variant also nerved policymakers to formulate the effective policy to manage this situation, given too little is known about its nature.

Inflation outlook is also lingered by uncertainty, so does it also affect how monetary policy should respond, particularly in U.S. which experienced a hot inflation and improving jobs market condition. U.S. CPI rose by 6.2% YoY in Nov-21 and considered as the highest increase in the last 3 decades. Meanwhile U.S. unemployment rate has fallen to 4.2% in Nov-21, the lowest since Mar-20 (Exhibit 9). With this development, the Fed may quicken tapering process and raising benchmark policy rate afterwards.

Yet, should the Omicron variant going out of control and global massive lockdown is introduced, it will also affect the Fed monetary policy, in our view. As a consequence, inflation and market volatility is likely, so does with policy uncertainty. We see the new variant of concern as a serious threat that complicate anything.

Exhibit 9. The U.S. CPI vs unemployment rates

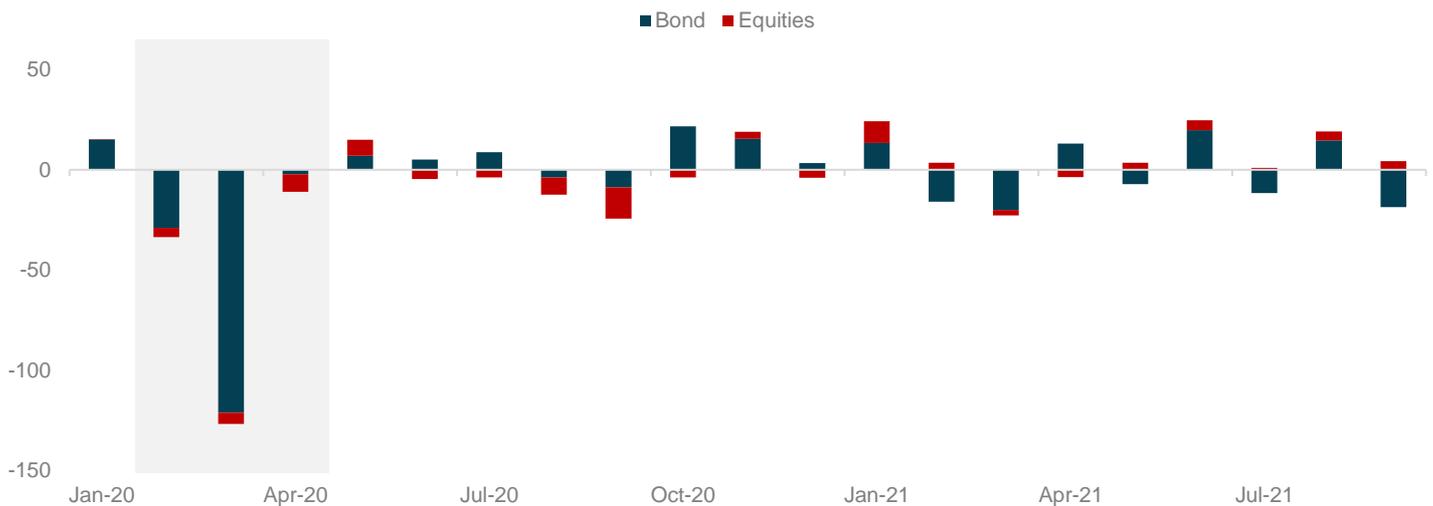


Note : all figures in percent (%)
Source : Bloomberg, MNCS

We carefully assess how it may impact Indonesia, under the worst case scenario, the infection rate rise significantly and government aggressively tighten public activity restriction measures. For the short term, it may trigger capital outflows causing domestic financial asset price to drop. We see that a massive outflows occurred during market turmoil in February and March last year (Exhibit 10). Global financial market collapsed at that time due to the rapid spread of Covid-19 and massive lockdown imposed by countries across the world.

The unprecedented shock that was not anticipated before has triggered such devastating impact on asset prices across the board during March last year. However, should this scenario occur, the magnitude of outflows and asset price correction will depend on several factors such as macro and policy development. The key downside risk remained on global macro agenda including fiscal consolidation and monetary policy normalization which means government will have a more limited room to soften the blow given rising inflation and debt ballooning. That is why we believe the new threat has made decision making process becoming even tougher.

Exhibit 10. Foreign flows to Indonesia’s government bond and equity market during Covid-19 (IDR Tn)



Source : CEIC, DJPPR, MNCS

Another round of social restriction will severely impacting service sectors that already hit hard by the outbreak. Even with the improving pandemic condition, hotel occupancy rate remained below pre-pandemic level, airlines and train passenger also still 50% below pre-pandemic level. However the impact will be different on sectors that are insensitive to public mobility such e-commerce and digital related sectors that will accelerate further. It is also worth noted that healthcare sector will be positively affected too in case of rising Covid-19 infection. However, given largest part of Indonesia’s economy is still driven by manufacture, trade and agriculture that are sensitive to mobility therefore any tightening would also impact the domestic’s output. Under our baseline scenario assuming no restriction is introduced, Indonesia’s GDP is expected to grow 5.03% YoY. The spread of Omicron variant is the downside risk that can drag down the growth prospect.

Exhibit 11. How Covid-19 has different impact across sectors

Sectors	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Manufacture	2.1	-6.2	-4.3	-3.1	-1.4	6.6	3.7
Trade	1.6	-7.6	-5.0	-3.6	-1.2	9.4	5.2
Agriculture	0.0	2.2	2.2	2.6	3.0	0.4	1.3
Construction	2.9	-5.4	-4.5	-5.7	-0.8	4.4	3.8
Mining & Quarrying	0.4	-2.7	-4.3	-1.2	-2.0	5.2	7.8
Transportation & Warehousing	1.3	-30.8	-16.7	-13.4	-13.1	25.1	-0.7
Financial Service & Insurance	10.7	1.0	-1.0	2.4	-3.0	8.4	4.3
Information & Communication	9.8	10.9	10.6	10.9	8.7	6.9	5.5
Govt Administration	3.2	-3.2	1.9	-1.6	-2.9	9.5	-10.0
Education Service	5.9	1.2	2.4	1.4	-1.6	5.7	-4.4
Real Estate	3.8	2.3	2.0	1.3	0.9	2.8	3.4
F&B Accommodation	2.0	-22.0	-11.9	-8.9	-7.3	21.6	-0.1
Other Services	7.1	-12.6	-5.6	-4.8	-5.2	12.0	-0.3
Business Services	5.4	-12.1	-7.6	-7.0	-6.1	9.9	-0.6
Healthcare & Social Service	10.4	3.7	15.3	16.5	3.6	11.6	14.1
Electricity & Gas Supply	3.9	-5.5	-2.4	-5.0	1.7	9.1	3.9
Water Supply	4.6	4.6	6.0	5.0	5.5	5.8	4.6

Note : the figure above indicated the year on year growth (%YoY)

Source : Statistics Indonesia, 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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