



Monthly Economic Review February/March 2015

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- **Inflation:** Due to lower subsidized oil prices following a drop in global oil prices, inflation eased more than expected in February. Annual inflation in February eased to 6.29% from 6.96% in January thanks to the sufficient supply and smooth distribution of food. February recorded a second consecutive deflation mom in 2015 at -0.36% (vs. -0.24% in January) with core inflation stood at 0.34% from 0.61% in the previous month. Henceforth, annual core inflation was down to 4.96% from 4.99% a month before.
- **Trade Balance:** Trade balance reported a surplus of USD 709.4 million in January 2015 driven by lower oil imports. Import dipped by 12.8% mom to USD 12,591.5 million reflecting a weaker domestic consumption while non-oil and gas import down by 5.2% to USD 10,476.0 million. Looking at the yearly basis, total import in January 2015 was also down by 15.6% attributed to weakening non-oil and gas import by 7.8%. Total import and non-oil and gas import recorded at USD 14,916.2 million and USD 11,365.6 in January last year. Meanwhile, total export stood at USD 13,300.9 million in January 2015 or lower compared to USD 14,621.3 million one month earlier. It was also weaker than last year's profile of USD 14,472.3 million mainly due to declining non-oil and gas export.
- **Foreign Reserve:** Bank Indonesia (BI) reported a higher foreign reserve of USD 114.2 billion at end of January compared to USD 111.9 billion in the previous month mainly due to government's global bonds, foreign currency deposits of banks, and proceeds of oil and gas export. It can adequately cover 6.8 months of imports or 6.6 months of imports and servicing of government's external debt repayment, well above the international standards of 3 months of imports.
- **Jakarta Composite Index (JCI):** JCI was closed at a higher level of 5,450.29 at end of February compared to 5,289.40 on January 30. It also reached its highest level ever at 5,464.22 during last month with its lowest level standing at 5,441.14. The stronger JCI was backed by capital inflow following the implementation of European Bank's stimuli program which was also followed by other central banks' monetary policy. Furthermore, The Fed's flexibility for its interest rate policy was also viewed positively by investors. As of March 3, JCI continued to strengthen to 5,474.62.

- **BI Rate:** BI cut its benchmark interest rate and deposit facility rate by 25bps to 7.50% and 5.50%, respectively, and retained the lending facility rate at 8.0% on February 17, 2015 amidst declining inflationary pressures. This action was a bit unexpected by the market although it was then quite easily accepted. The next central bank board of governor's meeting is scheduled on 17 March 2015. Current lower inflationary pressure may provide a room for BI to do another cut in the next meeting.
- **Rupiah:** Rupiah was weakening during the month of February and closed at 12,932 against the greenback (vs. 12,672 in the previous month closing). The central bank seemed not actively intervene the Rupiah in the market as it was expected to drive up export. Moreover, the domination of US Dollar was also sustained by one of The Fed's member stating that the Fed Fund rate was likely to increase between June and September this year on the back of improving US economic indicators. As of March 3, Rupiah further depreciated to 12,962/USD.
- **Government Bond Yield (10Y):** In tandem with the stronger JCI, the government bond market was also in a rally trend. The 10-year government bond yield lowered to 6.96% on February 27 versus 7.21% on January 30 backed by capital inflow along the domestic financial market. The higher price of government bonds also reflected investors' confidence towards the Indonesian economic fundamentals in line with the lower inflationary pressures. The 10Y government bond yield was relatively unchanged at 7.00% as of 3 March 2015.
- **Car and Motorcycle Sales:** Car sales in January 2015 dropped by 9.1% yoy to 94,194 units (vs. 103,609 units January 2014) on the back of weakening buying power in the domestic market. However, it grew by about 19.5% against December 2014 position of 78,902 units. In the meantime, motorcycle sales was even worse, down by 13.2% yoy and 9.6% mom to 502,783 units in January 2015 compared to 579,361 units (January 2014) and 556,380 units (December 2014).
- **Commodities**
 - **Oil:** Western Texas Intermediate (WTI) price strengthened to USD 49.76/barrel on February 27 compared to January's closing at USD 45.59/barrel amidst an expectation of oil production cut in the US market. Furthermore, production handicap in Libya and Iraq affected the global supply in favor of this commodity. As of March 3, WTI was closed higher at USD 49.9/barrel.
 - **Coal:** Coal price also moved in tandem with the WTI price and up to USD 71.45/ton as of February 27 compared to USD 60.93/ton on January 30. The recovery was mainly triggered by market expectation on improving China's economy with its current PMI manufacturing accelerated to 50.7 points in the last week of February (vs. 50.1 points in the previous week). This factor suggested that there was an expansion in the second largest economy in the world. As of March 3, coal price however weakened to USD 70.55/ton.
 - **CPO:** Crude palm oil price also showed an uptrend as it strengthened to USD 637.13/ton as on February 27 (vs. USD 591.16/ton as on January 30). This was mainly due to an anticipation of weaker CPO output from Indonesia. The government of Indonesia plans to lower the price ceiling for CPO export that can potentially decrease CPO supply in the global market. Furthermore, a positive signal on China's economic recovery is also expected to support the CPO price. As of March 3, CPO price was still in an uptrend and closed at USD 654.52/ton.
 - **Gold:** In contrast to other commodities, gold price was in a downtrend and weakened to USD 1,213.1/ounce at end of February versus USD 1,279.2/ounce a month earlier. Overall, the gold price movement was also influenced by the prolonged stronger USD following the improved US economic data that heightened the speculation of the Fed rate to increase. Gold price was still under pressure and decreased to USD 1,207.50/ounce as of March 3.

- **Other News**

- **Sale of sukuk retail bonds:** Indonesia eyes to raise Rp 20 trillion (USD 1.6 billion) from the sale of sukuk (Islamic bonds) to Indonesian citizens between 23 February and 6 March 2015. These three-year Sharia-compliant retail bonds (SR-007 retail sukuk) offer a 8.25% coupon rate. The minimum order for these bonds set at Rp 5 million and the maximum is Rp 5 billion. The proceeds of the debt sales will be used to finance state-budget deficit. Several projects to be financed using proceeds from this sukuk include the revitalization of roads, development of a double-track railway in Java, and the revitalization of hajj boarding houses. The underlying assets for the sukuk are projects in the 2015 state-budget.
- **Adjustment of subsidized fuel price:** The Energy and Mineral Resources Ministry announced that the per-liter price of Premium gasoline for Java, Madura and Bali will increase to Rp 6,900 from Rp 6,700 effective 1 March 2015. This is a part of regular adjustments based on fluctuating crude oil prices globally. For outside Java, Madura and Bali, the price will increase to Rp 6,800 from Rp 6,600. Meanwhile, subsidized kerosene and diesel prices will be kept at Rp 2,500 and Rp 6,400 per liter respectively.
- **Foreign tourist arrivals:** The number of foreign tourists dipped by 3.99% yoy to 723,000 in January 2015 from 753,100 in the same month last year as this year the Chinese Lunar New Year took place in February (vs. 2014 in January). Foreign travelers from Singapore had the biggest market share of total foreign tourists accounting for 14.73%, followed by Australians (12.72%), Malaysians (12.59%), Chinese (12.49%) and South Koreans (5.32%). The cumulative number of foreign tourist arrivals last year rose by 7.19% to 9.4 million from 8.8 million in 2013. The government expects to attract around 10 million foreign visitors this year.

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