

Indonesia delivered highest GDP figure in 5 years. Indonesia has just posted its FY18 GDP figure which came at IDR 14.84tn or grew by 5.17% YoY. The growth was the highest since 2013 and in-line with consensus' forecast. 4Q18 GDP grew by 5.18% and was slightly higher than that of in 3Q18. Household consumption successfully maintained above 5% growth level which we believe was also contributed by intensive social spending allocated by the government. Amid political year of regional election, investment grew at 6.67% and mostly came from private sector. On the trade side, we see pressure from import which increased by 12.04% while export was up by 6.48%. Taking a look at economic growth globally, we see that the slowing global growth has emerged. As seen, China recorded 6.6% economic growth, the lowest pace in 28 years, while US is expected to post 2.4% GDP growth in 2019 from having forecasted to reach 3% GDP growth in 2018. Considering the deceleration of global economic growth and lingering uncertainties from trade war, we think that domestic investment and household consumption will continue to be the major growth contributor of Indonesia's economy. The government expects to see 5.2% GDP growth.

Rising worries on US-China trade deal. Lately, news are telling that Trump would not meet Chinese President Xi Jinping this month. The most recent negotiations last week in Washington were finished without a deal, in which U.S negotiators tell that a lot more work needed to be done. To remember, the deadline to avert higher U.S tariffs on Chinese goods from 10% to 25% is on March 1. However, Trump added that he may meet Xi later. Negotiators are still on their works, while Trump's economy adviser Larry Kudlow remained confident that the two President would meet at the middle. Responding to the news last week, global market gain worries on trade with pessimism kicking in on whether both nation could reach a deal before the deadline.

This week, negotiators from U.S will discuss on intellectual property issue with China in Beijing, which could lead to a deal in spite of rising tariffs on Chinese goods. On the other hand, we see global market are struggling to find another force to extend the January rally, as we see the deal on trade between U.S and China should be the next driving force on global market.

Indonesia's 2018 current account deficit ballooned to four year high as it reached 2.98% of GDP in 2018. The CAD amounted to USD31.1bn despite the capital and financial account providing a surplus of USD25.2bn, with a huge chunk of USD15.7bn recorded in the fourth quarter. Rupiah's rout last year caused foreign investor to flee the country. For one, JCI's foreign outflow was recorded at a stunning IDR52.6tn in 2018. This CAD level was the widest since 2014, with 4Q18 deficit of 3.57% or \$9.1bn vs \$8.8bn in the previous quarter and a survey of \$8.6bn. However, the government has been taking steps to reduce imports such as delaying some high-import infrastructure projects and implementing the B20 regulation. The rupiah has also strengthened as the DNDF was implemented and BI increased interest rates six times, thus reducing currency fluctuations. Furthermore, the Fed has turned more dovish in their tone recently and the possibility of less than initially expected fed rate hike seems to be in the horizon. Consequently, Bank Indonesia expects the deficit to narrow in 2019 to ~2.5% as foreign investors start to trickle back in the country's bonds and stocks. Although, exports are at risk of being subdued due to the threat from slowing global growth and overhang in the US-China trade war issue lingers.

A little lower but still fine. Bank Indonesia recorded its consumer confidence index (CCI) at 125.5 in January 2019, down slightly from 127.0 in the previous month. Despite the decline, January's figures were still good

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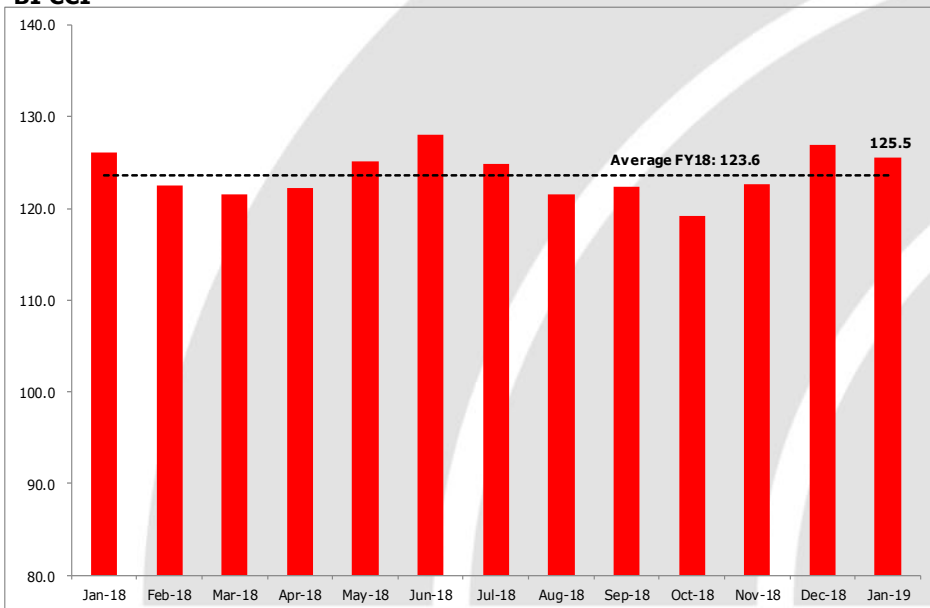
considering it was still above the 2018 average of 123.6. This CCI level was driven by maintained optimism on both current and also upcoming 6-months economic conditions. Furthermore, the strong Rupiah since the early year might have been another support towards consumer confidence as well. More on BI's note, the average propensity to consume ratio slightly declined to 66.8%, compared to 67.2% in December 2018. Overall, we expect purchasing power to remain stable in 1H19, supported by the continuous government social spending which has been disbursed since the early year and also the election year.

Indonesia Quarterly GDP Growth (%YoY)



Source: BPS, Sinarmas Investment Research

BI CCI



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