

US 1Q19's GDP beats consensus. The country recorded an unexpectedly strong 1Q19 gross domestic product (GDP) growth of 3.2%, settled far above the consensus of 2.3% growth. It was also the first time since 2015 that first-quarter GDP topped 3%. Smaller trade deficit because of a flurry of tit-for-tat retaliatory tariff battle across the world and a record accumulation of unsold goods since 2015 had largely driven the economic acceleration during the 1Q19. In details, exports rose by 3.7% in the first quarter, while imports decreased by 3.7%, resulted in net trade and build in inventories which drove more than half the growth of the GDP.

On the other hand, consumer spending, which accounts about than two-third of the economy growth, rose slightly-above-forecast at 1.2%. Overall, despite the good readings, market views that the improvement in net exports is not going to last and stronger consumer spending is needed for the economy to remain in an expansion mode. We view that the strong GDP should be observed further to determine whether it is only momentary or will sustain in the upcoming quarters.

7-DRRR remained unchanged in April meeting. BI decided to hold 7-DRRR at 6% level along with Deposit Facility and Lending Facility rate at 5.25% and 6.75% respectively. In its press release, BI represented by the governor Perry Warjiyo restated the institution's focus to enhance economic stability, specifically maintaining inflation and CAD level, as well as to preserve economic growth momentum ahead. Despite the board in the recent meetings has indicated a possibility of future rate cut, we are of the view that BI will be more patient this time, looking further on the developments of Fed's action, global growth, and trade war. We also note that the recent USD breakout against some EM currencies may pressure USDIDR movement in the short term. To add, the fact of potential rising demand for USDIDR in Indonesia as 2Q coincides with Lebaran, corporates' dividend payment period and the maturity of number of government's foreign debts may as well pose greater risks towards USDIDR volatility. Incorporating all the factors, we believe that BI will take some time to eventually lower 7-DRRR this year, though the chance is wide open.

Upgraded ratings. The Japan Credit Rating Agency, Ltd (JCR) revised outlook on Indonesia's rating from "Stable" to "Positive", symbolized solid economic growth bolstered by domestic consumption, restrained level of budget deficit and public debt, and resilience to external shocks. JCR also retains Indonesia's sovereign foreign currency long-term issuer rating of BBB and BBB+ for local currency long-term issuer. Furthermore, JCR also believes the outlook change reflects possibility of enhanced economic growth through continued reform initiatives with the likely re-election of President Joko Widodo. All in all, we believe the improvement in outlook rating from JCR will gives positive tailwind to foreign flow.

Research Team

+62 21 392 5550 ext. 611

research@sinarmassekuritas.co.id



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