

The Odds Ratio of The Fed Rate Is Crucial

11 January 2024

Economist / Fikri C Permana

Last Week's Economic Update

ECONOMIC CALENDAR

(3 TO 9 JAN 2024)

Wednesday, Jan 3, 2024			
US Atlanta Fed GDP Now (Q4)	2.00%	2.30%	2.30%
GE Unemployment Change (Dec)	5K	20K	22K
GE Unemployment Rate (Dec)	5.90%	5.90%	5.90%
US ISM Manufacturing Employment	48.10	46.50	45.80
US ISM Manufacturing PMI (Dec)	47.40	47.10	46.70
US ISM Manufacturing Prices (Dec)	45.20	48.30	49.90
US JOLTs Job Openings (Nov)	8.790M	8.850M	8.852M
Thursday, Jan 4, 2024			
US FOMC Meeting Minutes			
US API Weekly Crude Oil Stock	-7.418M	-2.967M	1.873M
CN Caixin Services PMI (Dec)	52.90	51.60	51.50
GE HCOB Services PMI (Dec)	49.30	48.40	49.60
EU HCOB Composite PMI (Dec)	47.60	47.00	47.60
EU HCOB Services PMI (Dec)	48.80	48.10	48.70
GB S&P Global/CIPS Composite PMI (Dec)	52.10	51.70	50.70
GB S&P Global/CIPS Services PMI (Dec)	53.40	52.70	50.90
GE CPI (MoM) (Dec)	0.10%	0.10%	-0.40%
GE CPI (YoY) (Dec)	3.70%	3.70%	3.20%
US ADP Nonfarm Employment Change (Dec)	164K	115K	101K
US Continuing Jobless Claims	1,855K	1,883K	1,886K
US Initial Jobless Claims	202K	216K	220K
US S&P Global Composite PMI (Dec)	50.90	51.00	50.70
US S&P Global Services OMI (Dec)	51.40	51.30	50.80
US Crude Oil Inventories	-5.503M	-3.200M	-7.114M
US Cushing Crude Oil Inventories	0.706M		1.508M

Friday, Jan 5, 2024			
US Fed's Balance Sheet	7,681B		7,713B
JP Au Jibun Bank Japan Services PMI (Dec)	51.50	52.00	50.80
GB Halifax House Price Index (YoY) (Dec)	1.70%		-0.80%
GB Halifax House Price Index (MoM) (Dec)	1.10%	0.10%	0.60%
GE Retail Sales (MoM) (Nov)	-2.50%	-0.10%	1.10%
GB S&P Global/CIPS Construction PMI (Dec)	46.80	46.00	45.50
EU Core CPI (YoY)	3.40%	3.50%	3.60%
EU CPI (MoM) (Dec)	0.20%		-0.60%
EU CPI (YoY) (Dec)	2.90%	3.00%	2.40%
US Average Hourly Earnings (MoM) (Dec)	0.40%	0.30%	0.40%
US Average Hourly Earnings (YoY) (Dec)	4.10%	3.90%	4.00%
US Nonfarm Payrolls (Dec)	216K	170K	173K
US Participation Rate (Dec)	62.50%	62.80%	62.80%
US Private Nonfarm Payrolls (Dec)	164K	130K	136K
US U6 Unemployment Rate (Dec)	7.10%		7.00%
US Unemployment Rate (Dec)	3.70%	3.80%	3.70%
US Factory Orders (MoM) (Nov)	2.60%	2.10%	-3.40%
US ISM Non-Manufacturing Employment (Dec)	43.30	51.00	50.70
US ISM Non-Manufacturing PMI (Dec)	50.60	52.60	52.70
US ISM Non-Manufacturing Prices (Dec)	57.40	57.30	58.30

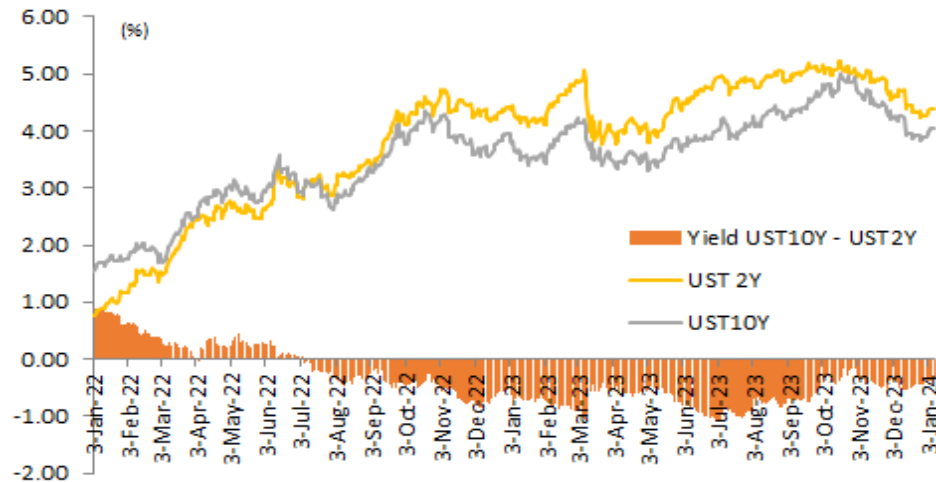
Event	Actual	Forecast	Previous
Monday, Jan 8, 2024			
ID Motorbike Sales (YoY)	-11.60%		-2.80%
ID FX Reserves (USD) (Dec)	146.40B		138.10B
GE Factory Orders (MoM) (Nov)	30.00%	1.00%	-3.80%
GE Trade Balance (Nov)	20.40B	17.90B	17.70B
GB Mortgage Rate (GBP)	7.96%		8.03%
US NY Fed 1-Year Consumer Inflation Expectation	3.00%		3.40%
Tuesday, Jan 9, 2024			
US FOMC Member Bostic Speaks			
US Consumer Credit (Nov)	23.75B	9.00B	5.78B
JP Household Spending (MoM) (Nov)	-1.00%	0.20%	-0.10%
JP Household Spending (YoY) (Nov)	-2.90%	-2.30%	-2.50%
JP Tokyo Core CPI (YoY) (Dec)	2.10%	2.10%	2.30%
GB BRC Retail Sales Monitor (YoY) (Dec)	1.90%	2.30%	2.60%
ID Consumer Confidence	123.80		123.60
GE Industrial Production (MoM) (Nov)	-0.70%	0.20%	-0.30%
EU Unemployment Rate (Nov)	6.40%	6.50%	6.50%
US Exports	253.70B		258.60B
US Imports	316.90B		323.00B
US Trade Balance (Nov)	-63.20B	-65.00B	-64.50B
US Atlanta Fed GDP Now (Q4)	2.20%	2.50%	2.50%

Sources : Investing and KBVS Research-treated (2024)

- The latest US labor data, particularly ADP Non-Farm Employment Change, Weekly Initial Jobless Claims, Non-Farm Payrolls, Participation Rate, and Unemployment Rate, have fueled expectations of sustained high inflation. This has diminished the likelihood of a Fed Rate decrease on 20 Mar '24, while propelling a reversal in the direction (technical rebound) of UST yields to above 4.0% in the second week of 2024.
- Simultaneously, US Manufacturing PMI for Dec '23 outperformed its peers, supported by a lower-than-expected trade deficit for the same month compared to the preceding one, thereby maintaining the DXY above the 102 level for this week.
- Meanwhile, Indonesian data continues to exhibit positive signs. As of 29 Dec '23, FX reserves saw an increase of USD8.3 bn compared to the previous month. Additionally, consumer confidence remains in an expansive phase continuing into Jan '23.

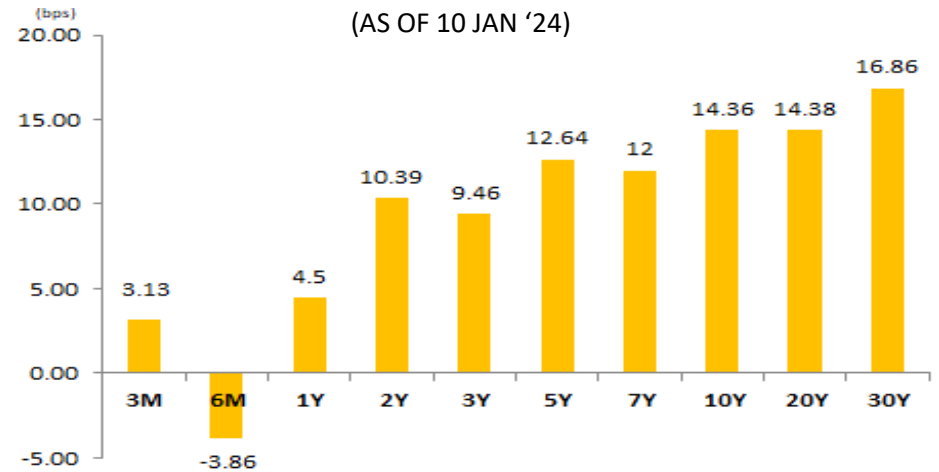
The Movement of UST Yields

YIELD UST2Y VS UST10Y



Sources : Bloomberg and KBVS Research-treated (2023)

DEVELOPMENT OF YIELD UST SINCE 1 JAN



Sources : Bloomberg and KBVS Research-treated (2023)

FED PROBABILITIES

(AS OF 10 JAN '24)

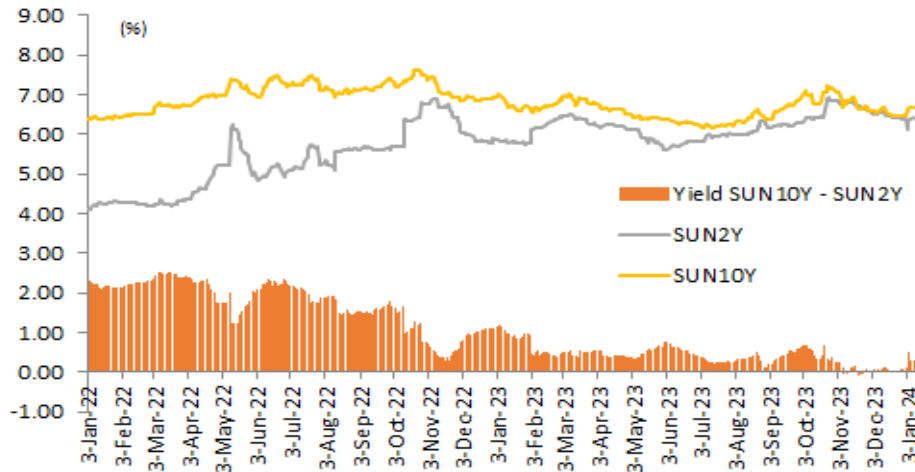
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.7%	95.3%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%	62.7%	34.3%
1-May-24	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	52.7%	39.1%	5.8%
12-Jun-24	0.0%	0.0%	0.0%	0.0%	2.4%	50.7%	39.6%	7.1%	0.2%
31-Jul-24	0.0%	0.0%	0.0%	2.1%	44.3%	41.1%	11.4%	1.1%	0.0%
18-Sep-24	0.0%	0.0%	1.8%	39.2%	41.5%	15.0%	2.4%	0.2%	0.0%
7-Nov-24	0.0%	1.1%	25.2%	40.6%	24.9%	7.1%	1.0%	0.1%	0.0%
18-Dec-24	0.9%	19.5%	37.0%	28.6%	11.3%	2.4%	0.3%	0.0%	0.0%

Source : CME Group (2023)

- The decreased odds ratio of a 25 bps reduction in the Fed Rate on 20 Mar '24, has propelled a technical rebound in UST yields. The UST2Y yield has seen an increase of +10.39 bps *ytd* (as of 10 Jan '24), while the UST10Y yield has risen by +14.36 bps (*ytd*).
- The surge in longer-term yields, on one hand, is perceived as a consequence of the US Manufacturing PMI data lingering in the contraction zone and the lowered expectations for economic growth. On the other hand, it signifies a form of normalization in the UST yield curve, a trend that has been ongoing since the second week of Dec '23.

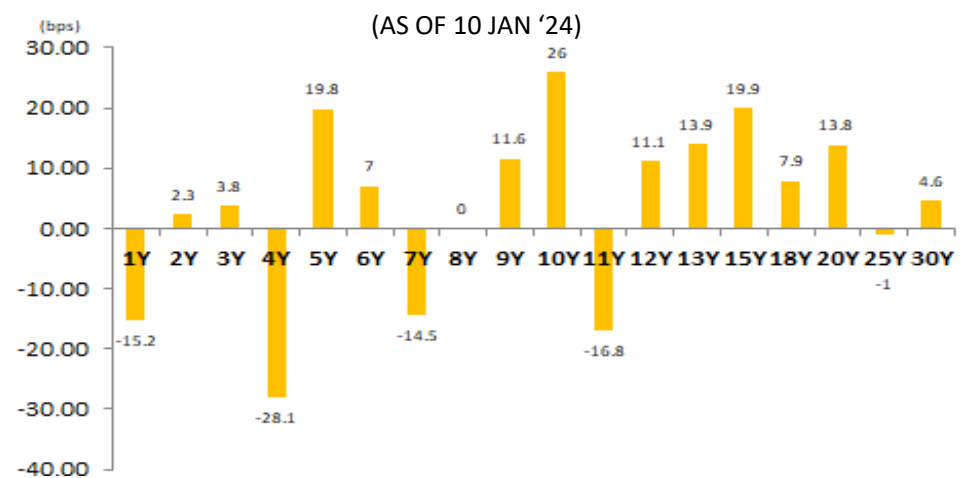
The Movement SUN Yields

YIELD SUN2Y VS SUN10Y



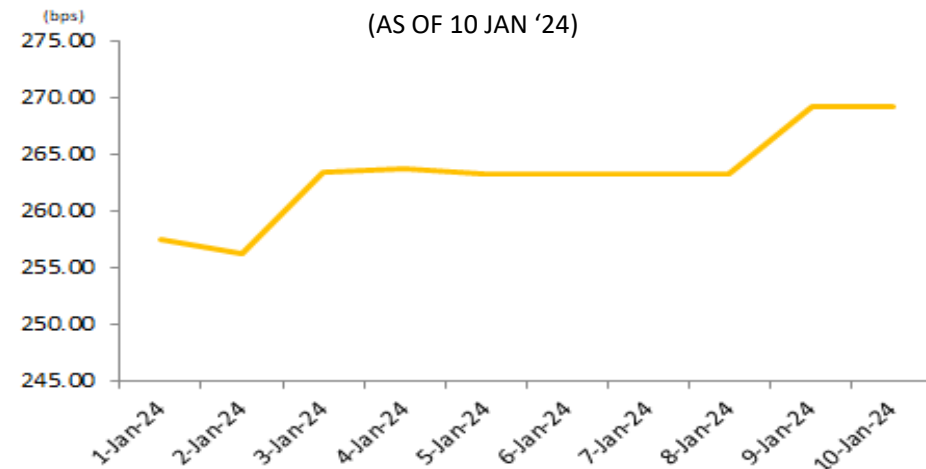
Sources : Bloomberg and KBVS Research-treated (2023)

DEVELOPMENT OF YIELD SUN SINCE 1 JAN



Sources : Bloomberg and KBVS Research-treated (2023)

YIELD SPREAD SUN10Y-UST10Y SINCE 1 JAN

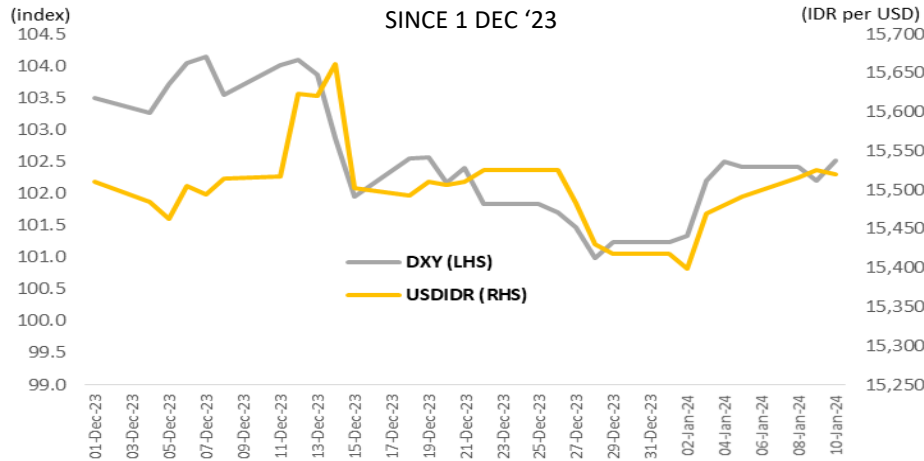


Source : Bloomberg and KBVS Research-treated (2023)

- The restrained expectations of a Fed rate decrease have also impacted the likelihood of reductions in other central bank interest rates, including Indonesia.
- Consequently, the SUN2Y yield up by +2.3 bps and the SUN10Y yield up by +26.0 bps. As a result, it has contributed to an increase in the yield spread between SUN10Y-UST10Y from 260.97 bps at the end of Dec '23 to 269.27 bps as of 10 Jan '24.
- Simultaneously, despite these movements, the FX reserves data in Dec '23 exhibited significant increase of USD8.3 bn. This development, in our view, indicates an improvement in the trade surplus and an increasing effectiveness of the instruments issued by BI (SRBI, SVBI and DHE).

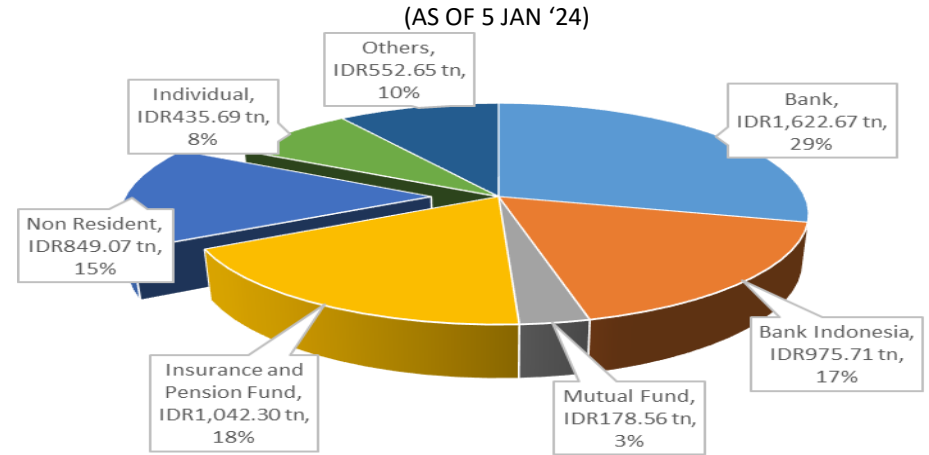
Capital Flow in Indonesia's Portfolio

DEVELOPMENT OF DXY and USDIDR



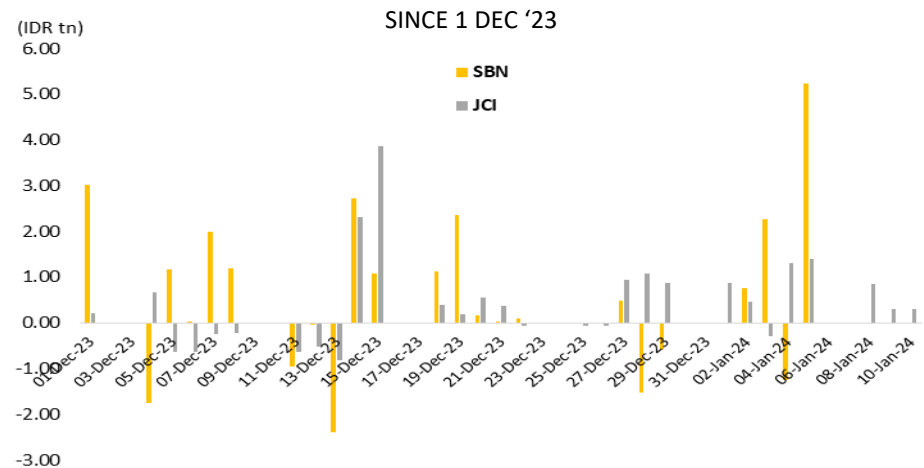
Sources : Bloomberg and KBVS Research-treated (2023)

OWNERSHIP OF TRADABLE SBN



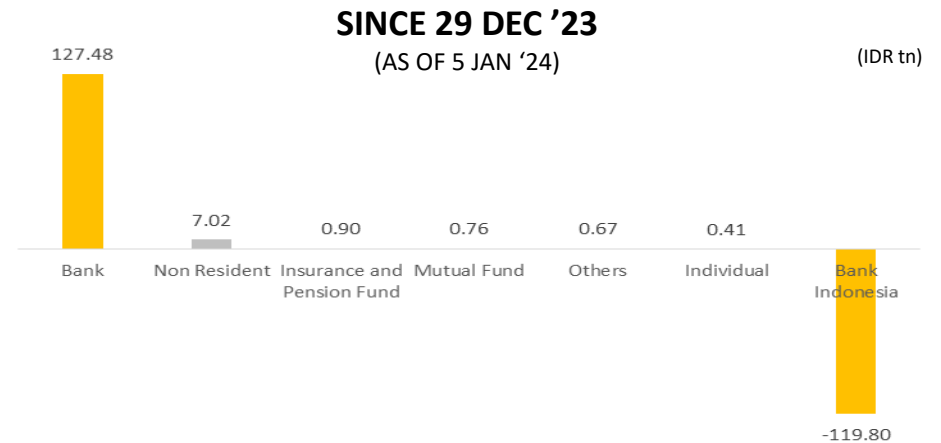
Sources : DJPPR and KBVS Research-treated (2023)

CAPITAL FLOW IN SBN and JCI



Sources : Bloomberg and KBVS Research-treated (2023)

CHANGE IN OWNERSHIP of TRADABLE SBN

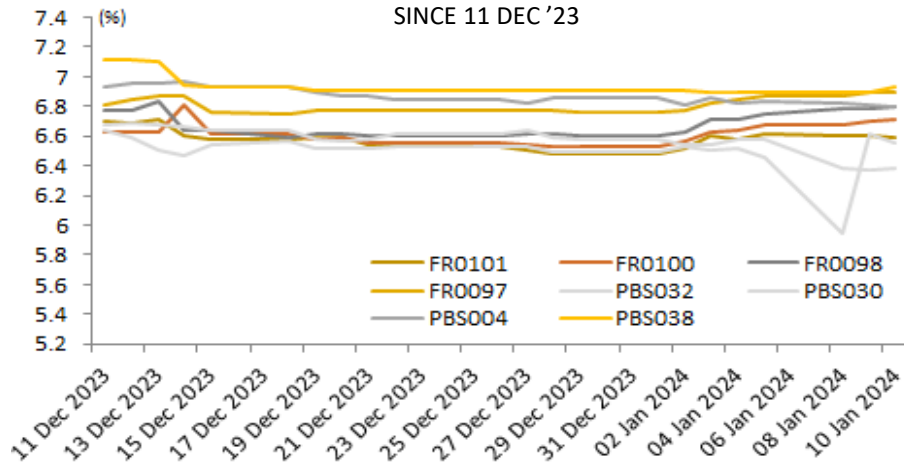


Sources : DJPPR and KBVS Research-treated (2023)

Development of SBN & SBSN Benchmark Series

MOVEMENT OF YTM SBN & SBSN BENCHMARK SERIES

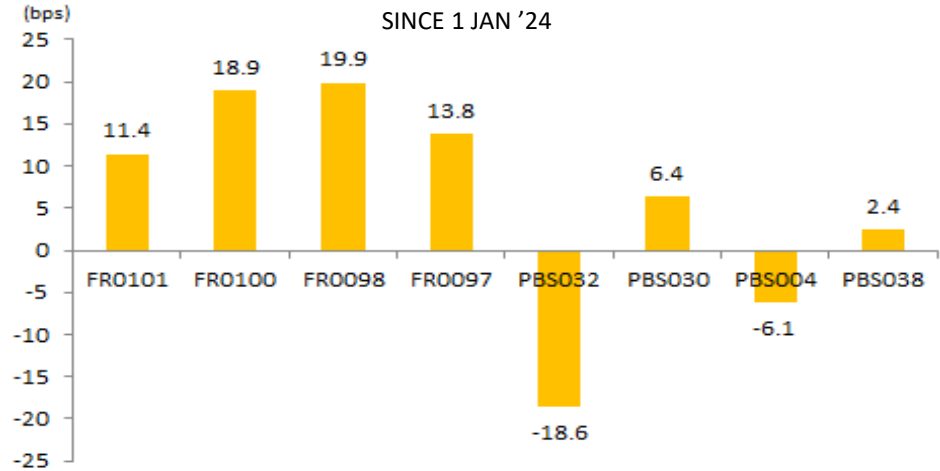
SINCE 11 DEC '23



Sources : Bloomberg and KBVS Research-treated (2023)

DEVELOPMENT OF YIELD SBN & SBSN BENCHMARK SERIES

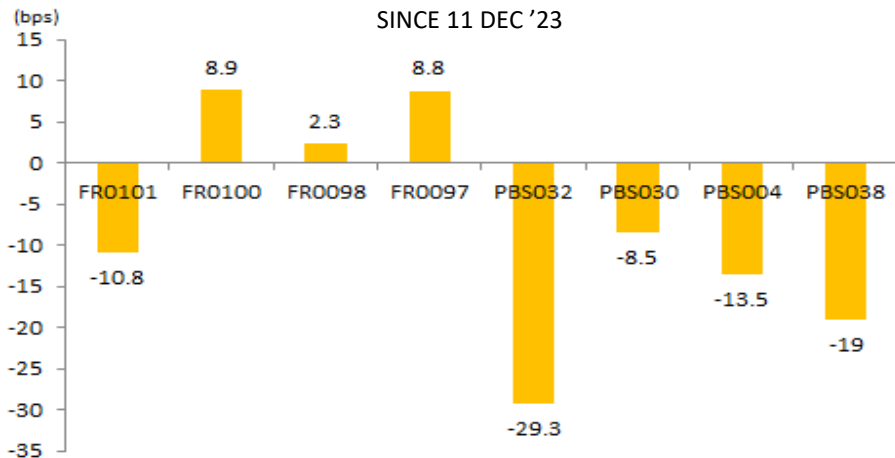
SINCE 1 JAN '24



Sources : Bloomberg and KBVS Research-treated (2023)

DEVELOPMENT OF YIELD SBN & SBSN BENCHMARK SERIES

SINCE 11 DEC '23

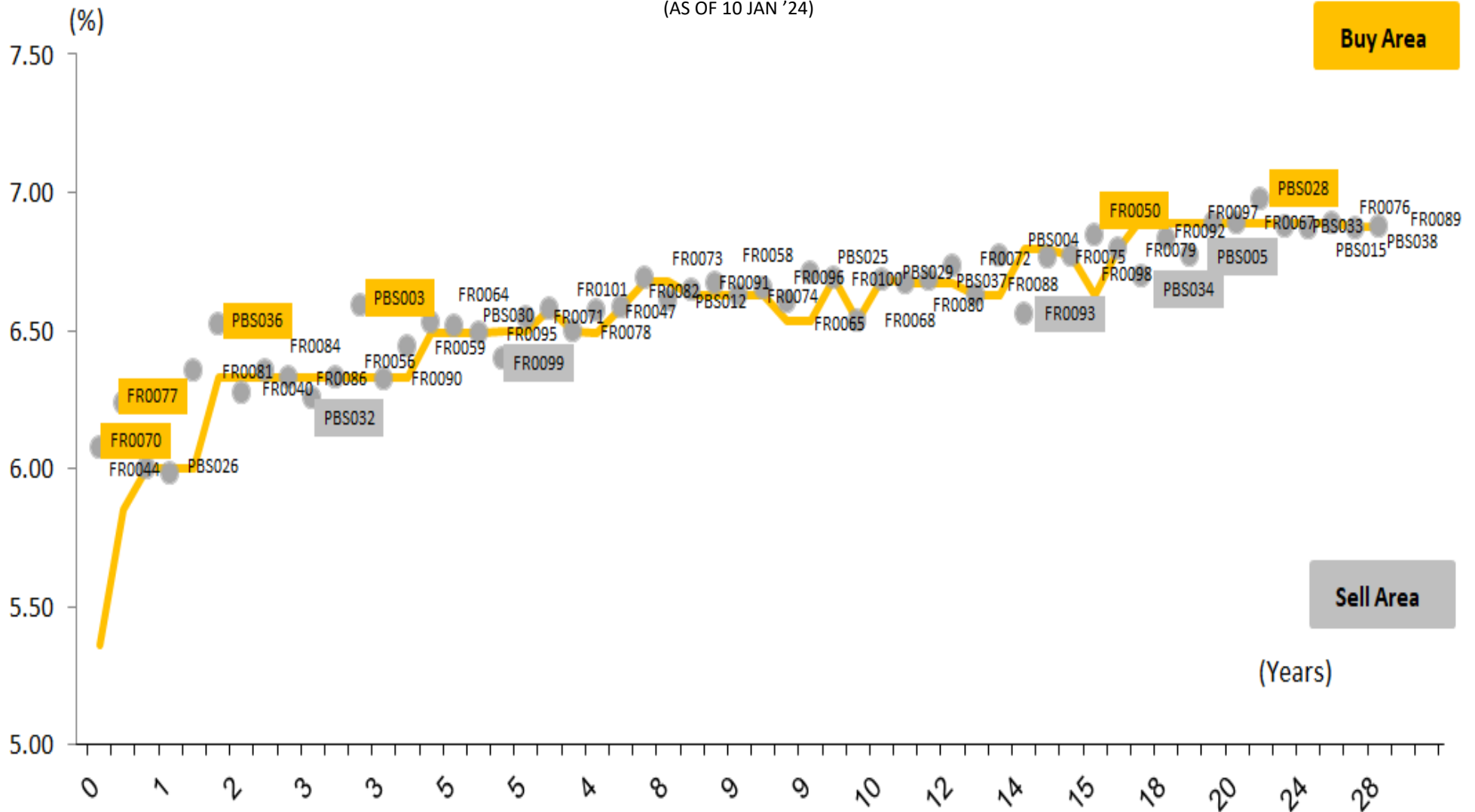


Sources : Bloomberg and KBVS Research-treated (2023)

- Throughout the year 2023, the price movement of benchmark series for SBN and SBSN exhibited a diverse pattern.
- However, in 2024, the yield of both SBN and SBSN benchmark series displayed a mixed trend.
- Notably, during the second week of Jan '24, the price of SBSN showed a sharper decline compared to the SBN benchmark series.

Yield Curve SUN

YIELD CURVE
(AS OF 10 JAN '24)



Sources : Bloomberg and KBVS Research-treated (2023)

This week's Economic Calendar

ECONOMIC CALENDAR

(10 TO 16 JAN 2024)

Wednesday, Jan 10, 2024			
US IEA Short-Term Energy Outlook			
US 3-Year Note Auction	4.11%		4.49%
US API Weekly Crude Oil Stock	-5.215M	-1.200M	-7.418M
ID Retail Sales (YoY)	2.10%		2.40%
JP 10-Year JGB Auction	0.60%		0.70%
CN New Loans		1,400.00B	1,090.00B
EU ECB's De Guindos Speaks			
GE 10-Year Bund Auction			2.45%
EU ECB's Schnabel Speaks			
GB BoE Gov Bailey Speaks			
US Crude Oil Inventories		-0.675M	-5.503M
US Cushing Crude Oil Inventories			0.706M
Thursday, Jan 11, 2024			
GE Buba Balz Speaks			
US 10-Year Note Auction			4.27%
US FOMC Member William Speaks			
GB RICS House Price Balance (Dec)			-43.00%
EU ECB Economic Bulletin			
US Continuing Jobless Claims		1,875K	1,855K
US Initial Jobless Claims		210K	202K
US Core CPI (MoM) (Dec)		0.20%	0.30%
US Core CPI (YoY) (Dec)		3.80%	4.00%
US CPI (YoY) (Dec)		3.20%	3.10%
US CPI (MoM) (Dec)		0.20%	0.10%

Friday, Jan 12, 2024			
US 30-Year Bond Auction			4.34%
US Federal Budget Balance (Dec)		-53.50B	-314.00B
US Fed Balance Sheet			7,681B
JP Adjusted Current Account (Nov)		2.18T	2.62T
JP Current Account n.s.a. (Nov)		2.385T	2.583T
CN CPI (MoM) (Dec)			-0.50%
CN CPI (YoY) (Dec)		-0.40%	-0.50%
CN PPI (YoY) (Dec)		-2.60%	-3.00%
CN Exports (YoY) (Dec)			0.50%
CN Imports (YoY) (Dec)			-0.60%
CN Trade Balance (USD) (Dec)		76.20B	68.39B
GB GDP (MoM) (Nov)		0.20%	-0.30%
GB Industrial Production (MoM) (Nov)		0.10%	-0.80%
GB Manufacturing Production (MoM) (Nov)		0.30%	-1.10%
GB Monthly GDP 3M/3M Change (Nov)		-0.10%	0.00%
GB Trade Balance (Nov)		-15.70B	-17.03B
GB Trade Balance Non-EU (Nov)			-4.83B
EU ECB's Lane Speaks			
GB NIESR Monthly GDP Tracker			-0.10%
US Core PPI (MoM) (Dec)		0.20%	0.00%
US PPI (MoM) (Dec)		0.10%	0.00%
US FOMC Member Kahkari Speaks			

Event	Actual	Forecast	Previous
Monday, Jan 15, 2024			
ID Export Growth (YoY) (Dec)			-8.56%
ID Import Growth (YoY) (Dec)			3.29%
ID Trade Balance (Dec)			2.41B
GB Labor Productivity (Q3)			0.30%
EU Eurogroup Meetings			
EU Industrial Production (MoM) (Nov)			-0.70%
EU Trade Balance (Nov)			11.10B
Tuesday, Jan 16, 2024			
GB Average Earnings Index + Bonus			7.20%
GB Claimant Count Change			16.0K
GB Employment Change 3M/3M (MoM)			50K
GB Unemployment Rate			4.20%
GE CPI (YoY) (Dec)			3.70%
GE CPI (MoM) (Dec)			0.10%
ID Deposit Facility Rate (Jan)			5.25%
ID Lending Facility Rate (Jan)			6.75%
GE ZEW Current Conditions (Jan)			-77.10
GE ZEW Economic Sentiment (Jan)			12.80
EU ZEW Economic Sentiment (Jan)			23.00
US New York Empire State Manufacturing Index (Jan)			-14.50

Sources : Investing and KBVS Research-treated (2024)

- The US labor market data, encompassing both Continuing Jobless Claims and Weekly Initial Jobless Claims, will continue to draw the market's attention. Additionally, inflation data in the US, including both headline and core CPI and PPI, are driving a sense of caution among global market participants, prompting a *wait-and-see* approach.
- Moreover, the release of Chinese data, including inflation figures (CPI and PPI) and trade balance (comprising export and import data), as well as the UK's data (GDP, Industrial Production, Manufacturing Production, and trade balance), is expected to significantly influence global market movements, particularly concerning the Dollar Index (DXY).
- On the domestic front, the sustained 2.1% retail sales figure serves as a positive indicator reflecting the robustness of the retail sector. Furthermore, the upcoming trade balance data on 15 Jan '24, is anticipated to garner market attention, potentially influencing movements in the IDR and the risk premium of SBN.



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