Global Economic Research

Economic Review 2024 and Outlook 2025

Shifting Tides : Cruising The Election and Gepolitical Waves

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Compiled by
Research Team
+62 21 2555 6138 Ext. 8304
research@phintracosekuritas.com

Valdy Kurniawan
Head of Research & Education
Strategist & Economist
valdy@phintracosekuritas.com

Nurwachidah
Banks & Properties
nurwachidah@phintracosekuritas.com

Aditya Prayoga
Telecommunications, Towers, & Cement
adit@phintracosekuritas.com

Muhamad Heru Mustofa
Consumers & Poultry
heru.mustofa@phintracosekuritas.com

Muhamad Rifki Darrisman
Metal & Mineral Mining
rifki.darrisman@phintracosekuritas.com

Key Takeaways

- **The majority of countries started to show an increase in economic growth in 2Q24,** after experiencing a slowdown at the beginning of the year. This condition is a result of tight monetary policy from several central banks.
- **Global monetary policy was less-aggressive than expected in 2024.** Several central banks started easing their monetary policy in 3Q24 as the inflation rate flattened.
- **Geopolitical conflicts continue in 2024.** The conflict in the Middle East has expanded to involve countries other than Israel and Palestine. Meanwhile, the Russia-Ukraine conflict will continue.
- **Several commodity prices tend to stagnate in 2024.** Energy commodities are maintained at the average price in 2023, while food commodities are more mixed, with CPO strengthening 5.26% yoy and wheat weakening 9.05% yoy. On the other hand, safe-haven commodities increased in line with tight monetary policy.
- **Political conditions in various global countries' election years were relatively stable.** Elections in Europe went as expected, except for those in France. Similar to Europe, the presidential candidate debate for the US election to be held on November 5 was relatively conducive.
- **Economic activity's recovery has the potential to continue in 2025.** This is driven by the easing of the monetary policy of several central banks, which could continue in 2025, along with the inflation rate sloping closer to the central bank's target supported by the moderation of several commodities.
- **The exchange rate has the potential to be more stable in 2025.** Loose monetary policy and potential USD depreciation could maintain exchange rate stability in 2025.
- **There is still uncertainty risk from geopolitical conflict.** This is reflected in the Geopolitical uncertainty index, which decreased at the beginning of 2024 but increased again at the end of the year, following the economic uncertainty risk index, which had moved similarly earlier.
- **The policies of countries in the world that have just held elections in 2024 have the potential to be more supportive of economic growth in 2025.**

Table 1. WORLD MACRO ECONOMICS SUMMARY as of Oct-24

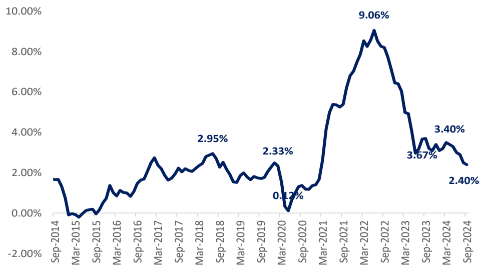
Country	GDP Rate				Inflation Rate				Interest Rate				Unemployment Rate				Debt to GDP		
	FY22	FY23	2Q23	2Q24	FY22	FY23	3Q23	3Q24	FY22	FY23	3Q23	3Q24	FY22	FY23	3Q23	3Q24	FY21	FY22	FY23
US	2.50	2.90	2.80	3.00	6.50	3.40	3.70	2.40	4.50	5.50	5.50	5.00	3.50	3.70	3.80	4.10	123.8	121.9	122.3
Brazil	3.00	2.90	3.50	3.30	5.79	4.62	5.19	4.42	13.75	11.75	12.75	10.75	7.90	7.40	7.70	-	77.3	71.7	74.4
Australia	3.10	1.50	1.90	1.00	7.80	4.10	5.40	-	3.10	4.35	4.10	4.35	3.50	3.90	3.60	4.10	36.1	40.4	42.8
China	3.00	5.20	6.30	4.70	1.80	-0.30	0.00	0.40	3.65	3.45	3.45	3.35	5.50	5.10	5.00	5.10	71.8	77.1	83.6
India	9.70	7.00	8.20	6.70	5.72	5.69	5.02	5.49	6.25	6.50	6.50	6.50	8.30	8.65	7.09	7.80	84.3	82.5	81.6
Japan	1.00	1.90	2.00	-1.00	4.00	2.60	3.00	2.50	-0.10	-0.10	-0.10	0.25	2.50	2.50	2.60	-	255.1	260.1	255.2
South Korea	2.61	1.36	1.00	2.30	5.00	3.20	3.70	1.60	3.25	3.50	3.50	3.50	3.10	3.20	2.60	2.50	46.9	49.6	49.8
Indonesia	5.31	5.05	5.17	5.05	5.51	2.61	2.28	1.84	5.50	6.00	5.75	6.00	5.86	5.32	5.32	-	41.1	39.9	39.3
Malaysia	8.70	3.70	2.80	5.90	3.80	1.50	1.90	-	2.75	3.00	3.00	3.00	3.60	3.30	3.40	-	63.4	61.1	58.1
Singapore	3.80	1.10	0.50	2.90	6.50	3.70	4.10	-	2.53	3.26	3.62	3.31	2.00	2.00	2.00	-	160.0	167.8	163.9
Euro Area	3.40	0.40	0.50	0.60	9.20	2.90	4.30	1.70	2.50	4.50	4.50	3.65	6.70	6.50	6.60	-	93.8	89.5	87.4
England	4.80	0.30	0.50	0.70	10.50	4.00	6.70	1.70	3.50	5.25	5.25	5.00	3.90	3.80	4.10	-	96.6	95.6	97.6
Russia	-1.20	3.60	4.90	4.10	11.90	7.40	6.00	8.60	7.50	16.00	13.00	19.00	3.70	3.00	3.00	-	17.6	16.0	14.9

Source : Tradingeconomics, Investing | as of Jul-2024

The majority of countries started to show an increase in economic growth in 2Q24, after experiencing a slowdown at the beginning of the year. This condition is a result of tight monetary policy from several central banks, especially the Federal Reserve (The Fed) and the European Central Bank (ECB), in an effort to curb inflation, which will continue in early 2024. On the other hand, developing countries such as Indonesia and Malaysia still recorded relatively better economic growth (***Table 1***).

US inflation rate above the Fed's target in 2024. The United States still has a much higher inflation rate than the Fed's target. The Fed targets inflation of 2% in 2024. Until September, inflation was still recorded above 2%. The US inflation rate in September was 2.4% yoy, down 10 bps from 2.5% yoy in August, and has been in a downward trend since April. This is in line with the Consumer Price Index (CPI), which has been stagnant above 310 since April, and services inflation, which has flattened from its highest level of 5.5% yoy. The downward trend in inflation is also reflected in the Producer Price Index (PPI), where the PPI of 1.8% yoy in September was lower than its highest level of 2.9% yoy in June.

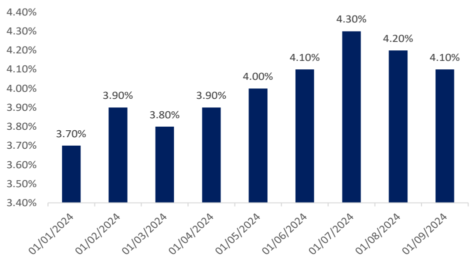
Figure 1. United States Inflation



Source : Trading Economics

On the employment side, the US Unemployment Rate increased by 160 bps ytd to 4.3% yoy in July 2024. The unemployment rate in the United States has also been increasing since the beginning of the year. Additionally, unemployment claims in the US increased 16.67% ytd, with US initial jobless claims amounting to 225k in the last week of September. Both data mean the Fed should maintain its tight monetary policy until July 2024.

Figure 2. United States Unemployment Rate

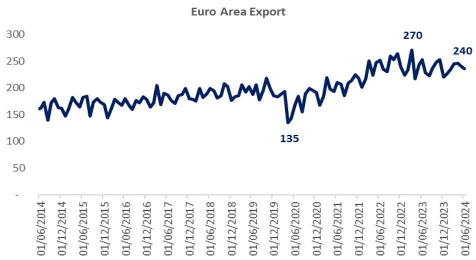


Source : Trading Economics

Where the Fed Funds Rate has been kept at 5.5% since the hike in July 2023. The high unemployment rate in the US also triggered fears of a recession. However, up to 2Q24, there was still GDP growth in the US. US GDP in 2Q24 amounted to 3.1% yoy and 2.9% yoy in 1Q24.

Euro Area Export Performance maintained in 2024. Up to 1H24, the average Euro Area exports amounted to €238 billion. Meanwhile, the average amount of Euro Area exports in 1H23 was recorded at €240 billion. Steady exports to the United States, along with economic growth in the US (contributing 15% of total exports), maintained export performance in the Euro Area in 1H24.

Figure 3. Euro Area Export (EUR Million)

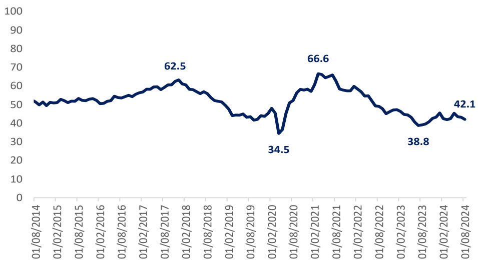


Source : Trading Economics

On the employment side, wage increases tended to stabilize in the Euro Area. Wage growth in 2Q24 amounted to 4.5%, 10 bps lower than the 4.6% growth in 2Q23. The unemployment rate has been maintained at 6.5% since the beginning of 2024.

Weakening manufacturing in Germany is accompanied by high investment activity in China. The contraction in manufacturing activity in Germany continued until August 2024. The Germany manufacturing PMI Index in August was recorded at 42.1, a decline of 2.77% ytd, and continued the contraction of the Germany PMI since July 2022. This is in line with the slower than expected economic recovery in China. In terms of investment, the value of Germany's real investment in China continues to increase, so when the Chinese economy recovers, Germany will benefit optimally. The value of German foreign direct investment to China through 1H24 reached €7.3 billion compared to €6.5 billion in 2023.

Figure 4. Germany Manufacturing PMI

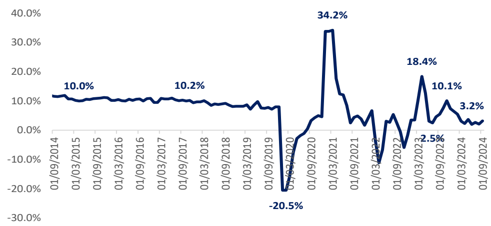


Source : Trading Economics

China continues to boost green energy, electric vehicles, and digital innovation.

Economic recovery in China is slower than expected. PBOC targets China's GDP growth to be above 5% by 2024. 3Q24 GDP of 4.6% yoy was down 10 bps from 4.7% yoy in 2Q24 and down 30 bps yoy. The slowdown aligned with China's weakening property sector, retail sales, and manufacturing activities. China's property sector continues to weaken. This weakness can be seen in China's housing index in August, weakening by 5.3%, while the residential property price index weakened by 5.17% in 1Q24 compared to -3.7% in 1Q23.

Figure 5. China Retail Sales



Source : Trading Economics

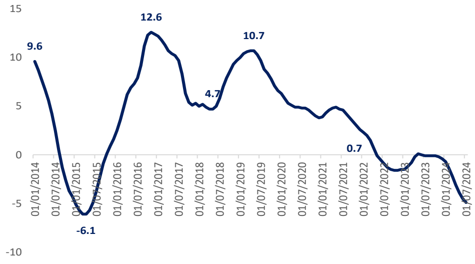
China's retail sales growth in August 2024 was 2.7% yoy, down 42 bps ytd and in a downward trend since the beginning of the year. This was also in line with the decline in the consumer confidence index, which fell to 85.8 points in August compared to 88.9 points at the beginning of 2024. NBS manufacturing PMI in China contracted since the expansionary phase in March and April 2024. The NBS manufacturing PMI of 49.1 in August was lower than 49.4 in July and 49.5 in May, with manufacturing production in August weakening 280 bps ytd to 4.3% yoy.

The Japanese Yen carry trade led to a sell-off in several investment instruments. The Bank of Japan (BoJ) tends to keep its benchmark interest rate at a low level (-0.1%). This attracted investors to take out loans in Japan at low interest rates to reinvest in countries and investment instruments that generate higher returns, known as the carry trade. However, in March 2024, the BoJ began to raise its benchmark interest rate. The BoJ raised interest rates in March to 0.1% and 0.25% in July. Therefore, the Japanese Yen started to strengthen at the beginning of July and triggered a sell-off in investment instruments from the previous carry trade.

In addition, Japan's employment problems continued this year. The most significant wage growth increase since 1996 occurred in June 2024. Wages grew 4.5% yoy to 602k JPY/month. Meanwhile, the ratio of the number of jobs to the number of job applicants decreased by 4.65 pts to 1.3 times in June. So, it will take longer to lower the wage rate in Japan, which will trigger persistent inflation. For information, the latest data on wage growth in Japan is at 3.6% yoy, which is still much higher than the average wage growth in the last three years, which was 1.01% yoy.

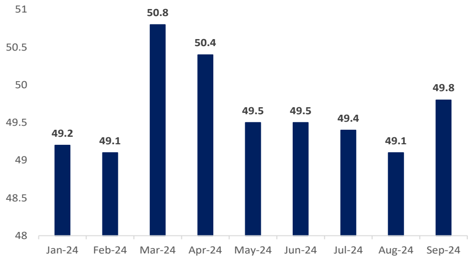
The majority of central banks kept interest rate policy high for longer than expected. The US central bank (the Fed) kept the Fed Funds Rate at 5.5% until July 2024, since the June 2023 hike. Only after inflation started to flatten did the Fed cut the Fed Funds Rate by 50 bps to 5% in September. Meanwhile, the European Central Bank (ECB) cut its benchmark interest rate by 25 bps to 4.25% in June from 4.5% in May.

Figure 6. China House Price Index



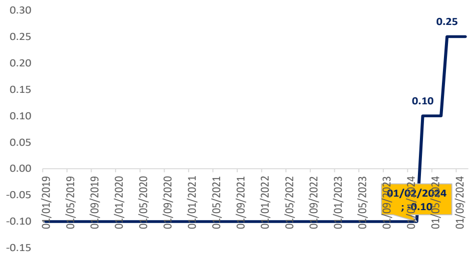
Source : Trading Economics

Figure 7. China NBS Manufacturing



Source : Trading Economics

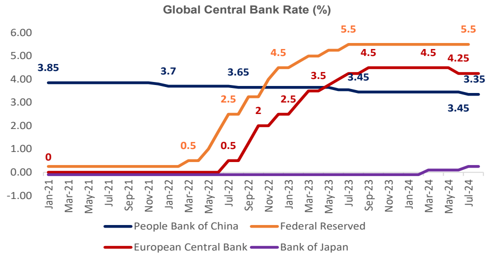
Figure 8. Japan Interest Rate



Source : Trading Economics

The People's Bank of China (PBOC) followed the ECB by lowering its benchmark interest rate by 15 bps to 3.10% in September. However, Europe and China have had high interest rates in the last three years. Japan, which has always had a negative (low) benchmark interest rate, has also started to raise its benchmark interest rate. The Bank of Japan (BoJ) raised its benchmark rate in March to 0.1% Vs. -0.1% in February, and raised 15 bps in July to 0.25%. The high rate was due to persistent inflation from the service sector in the form of wage hikes and continuing geopolitical conflicts in Eastern and Central Europe that have caused fluctuations in oil prices. US inflation in September at 2.5% was down 10 bps from 2.4% in August but fell short of the Fed's target of 2%. Inflation in Europe remained at 4.5% until May 2024, falling 20 bps in June to 4.3%. Inflation in China rose 30 bps to 0.5% in July from 0.2% in June.

Figure 9. Global Central Bank Rate



Source : Trading Economics

The Russia-Ukraine conflict is depressing the supply of Russia and Ukraine's leading commodities. The Russia-Ukraine conflict still continues in 2024. Despite various settlement efforts, such as freezing Russian assets and transferring them to Ukraine by the European Union, Germany plans to end military aid to Ukraine in 2026. Attacks continued in 2024. In early 2024, Ukraine sent drones to the Kursk, Bryansk, Voronezh, and Belgorod regions of Russia. All of these areas are directly adjacent to Ukraine. These attacks focused on Russian oil and energy infrastructure and managed to cause a fire at one of Russia's oil refineries. However, Russia managed to shoot down 158 drones sent at the time.

In early 2024, Ukraine again sent drones to Ukraine, which was similarly attacked by Russia. As Ukraine celebrated its independence day on August 24, 2024, Russia took control of eastern Ukraine (the cities of Pivnichne and Vyimka in the Donetsk region). In addition to these areas, Russia also managed to take control of Ukraine's weapons logistics center in the Pokrovsk area.

Therefore, the Russia-Ukraine conflict impacted the leading commodities of Russia and Ukraine. Russia's leading commodities, such as nickel and aluminum, recorded year-on-year price gains in September. Nickel prices rose 5.49% ytd to USD17,472/ton. Aluminum prices strengthened 8.29% ytd to USD2,586/ton. However, Natural Gas corrected 19.82% ytd to 2.18 MMBtu. Meanwhile, Ukraine's food commodity, wheat, after the expiration of the black sea grain deal in July 2023 due to Russia's refusal to extend the agreement made it difficult for Ukraine to export the commodity. However, in 2024, Ukraine's wheat exports were normalized through a temporary export corridor bordering Ukraine's western coastline, which is relatively safe for cargo ships. This has moderated wheat prices in 2024.

Wheat prices dropped 9.05% yoy to US$566.50/bushel in September 2024.

The Middle East conflict has expanded to involve several countries in the Middle East besides Israel and Palestine. Various efforts to stop the Israeli-Palestinian armed conflict that broke out on October 7, 2023, have been made. The UN Security Council has issued Resolution No. 2728 of 2024 on the Ceasefire in Gaza and guaranteed humanitarian access to Gaza. Meanwhile, the International Criminal Court (ICC) also issued war crimes charges and arrest warrants against Israeli and Hamas leaders on May 20, but these efforts have been ignored, so this armed conflict has escalated. Israeli warplanes penetrated the defenses of Beirut, Lebanon, on July 20. This attack was in response to Hezbollah (Lebanon) firing rockets into Israeli-held territory (focusing on land) in solidarity with Palestine. However, a truce between Israel and Hamas was reached, and Hezbollah also promised to stop its attacks. Similar to Lebanon, the conflict also continues to spread in Yemen. The Houthis in Yemen have targeted US ships on global shipping routes in the Red Sea as well as the southern city of Eilat. This comes as the Israel-Gaza conflict continues, and Israeli attacks on Tel Aviv have killed more than 38,000 people.

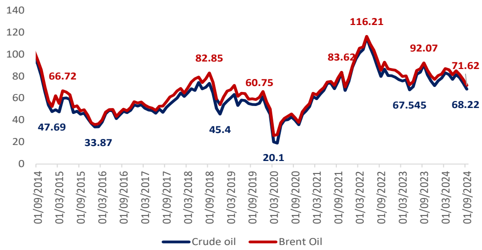
In Iran, the ongoing conflict with Israel is heating up. Israel bombed the Iranian Embassy in Damascus, Syria, on April 1, 2024. As a result of this attack, one of Iran's senior generals and seven military officers were killed. Iran retaliated by sending missiles and drones into Israeli territory.

The escalation of this conflict has the potential to increase world oil prices, where Iran is one of the world's oil producers, while Israel has significant influence in the Middle East region, which is rich in oil reserves.

Impact on trade policy between countries. Iran and Russia have received many sanctions from Western countries, one of which is limiting the price of crude oil, which is the main source of income for Russia and Iran. The price of Russian crude oil has been limited to 60 USD/Barrel since 2022. However, the two countries diverted their sales to China by using other countries as importers and local currencies (not USD). This ensures that China also avoids the US financial sanctions against its large international banks.

Crude oil and Brent oil prices will likely be maintained at 2023 averages. Crude oil prices averaged 77.5 USD/Barrel through September 2024 Vs. 77.5 USD/Barrel in 2023. Brent oil prices average 81.3 USD/Barrel through September 2024 Vs. 81.8 USD/Barrel in 2023. Since the year ended, crude oil has corrected 4.31% ytd while Brent oil has 7.04% ytd. This is a result of high benchmark interest rate conditions in several countries around the world as well as oil production volume cuts by Russia and Saudi Arabia, so oil prices tend to stagnate.

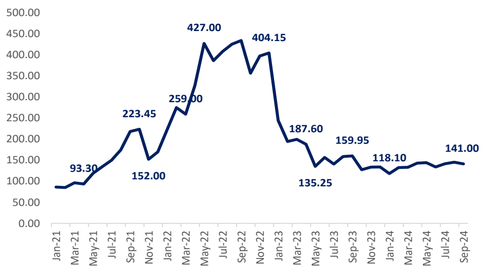
Figure 10. Oil Price (USD/barrel)



Source : Trading Economics

Coal prices rallied 5.38% ytd in September. However, coal prices corrected 11.85% yoy. This was partly due to the economic slowdown in several countries, especially China. However, coal prices rebounded again, driven by demand from India. Imports in India, until July, remained at a high level for the last ten years. India's average imports until July 2024 amounted to 57.25 billion USD, higher than the 2023 average of 55.82 billion USD. And India's manufacturing conditions are still in the expansionary zone throughout 2024 compared to other countries that have contracted several times.

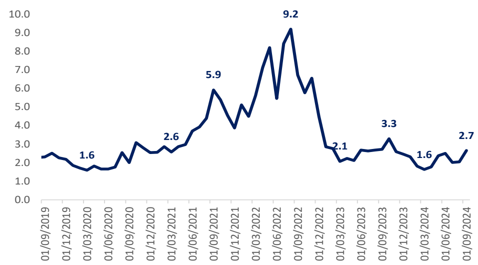
Figure 11. Coal Price (USD/ton)



Source : Trading Economics

Natural gas prices corrected 19.82% yoy to 2.18 MMBtu in September. In contrast to oil and coal commodities, on average, natural gas prices corrected 17.83% yoy to 2.02 MMBtu in January -September 2024. This natural gas price correction aligns with weak economic growth in various parts of the world, especially Asia Pacific. In addition, there is a risk of the expiration of the transit agreement for Russian gas through Ukraine, which is set for December 2024.

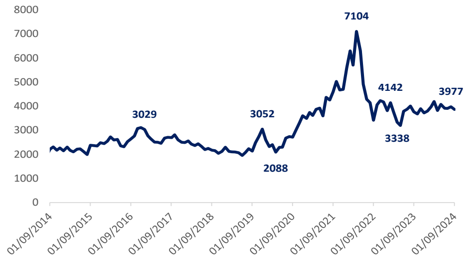
Figure 12. Natural Gas (USD/MMbtu)



Source : Trading Economics

The average Crude Palm Oil (CPO) price increased by 5.26% yoy in January-September 2024. The CPO price reached RM3865/ton, an increase of 2.6% yoy. Factors driving the strengthening of CPO prices include: 1. the unimproved supply of CPO and edible oil; 2. the still growing demand; and 3. extreme weather cycles that come sooner than before. Global CPO supply can be seen in ***figure 13***.

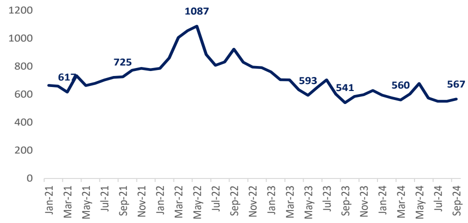
Figure 13. CPO Price (RM/ton)



Source : Trading Economics

Weakness occurred in the wheat commodity until September 2024. The average wheat price fell 9.05% yoy to US$567/bushel in September 2024 (***figure 14***). Meanwhile, on a *year-to-date* basis, wheat prices fell 9.69%. This moderation occurred due to a potential increase in *supply*. The National Agricultural Statistics Service (NASS) estimates that US farmers will produce 1.28 billion bushels of wheat in the winter of 2024, a 2% increase yoy.

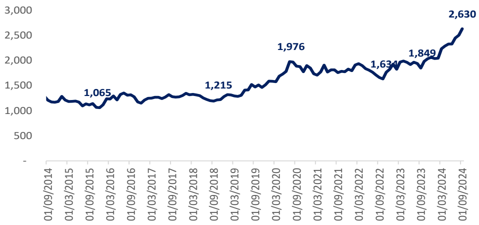
Figure 14. Wheat Price (USD/bushel)



Source : Trading Economics

Gold prices are likely to increase as monetary policy tightens. Increased uncertainty in geopolitical conditions following the escalation of geopolitical tensions in the Middle East and still relatively aggressive monetary policy pushed up the price of *safe-haven* commodities such as gold. The average gold price rose 35.23% yoy to US$2,499/t oz. in January-September 2024 (***figure 15***).

Figure 15. Gold Price (USD/troy ounce)



Source : Trading Economics

Elections in Europe went as expected, with the exception of the French election. The French election was beyond market expectations, with the left-wing New Popular Font (NFP) party winning the election. The NFP party won 188 seats, while the Ensemble Party and National Rally (NR) only won 161 and 142 seats, respectively. The NFP has anti-immigration policies and gives French citizens priority access to housing and employment. In addition, the NFP also provides restrictions on French people with dual citizenship who will be excluded from a number of "strategic posts" such as defense and intelligence. However, In early September, the president chose a prime minister outside the winning coalition party to create a stable government during the transition period.

Michel Barnier proposes a fairer taxation system for the wealthier and plans to reverse the impending increase in the retirement age from 62 to 64.

Dick Schoof was officially sworn in as Prime Minister of the Netherlands by King Willem-Alexander on July 2, 2024. During Dick Schoof's reign as Prime Minister of the Netherlands, a new right-wing coalition government - consisting of the election winners, Partij voor de Vrijheid (Nationalist), Volkspartij voor Vrijheid en Democratie (Democracy), and newcomers, the Peasant-Citizen Movement (BBB) and the New Social Contract (NSC) - was formed. Dick Schoof's planned policy was mainly in favor of Ukraine and limiting immigrants in the Netherlands.

The general election in the UK was won by Keir Starmer of the Labor Party with 412. This victory was as expected given that the Conservative party, which had won the election for 14 consecutive years, began making policies less favorable to the public in 2 years. Starmer's policies are to keep taxes low, reduce waiting times for the National health system, Establish a public company to invest in new renewable energy projects, add 6,500 new teachers and open 3,000 new kindergartens, and expand free breakfast clubs in primary schools.

Elections in the United States will be held on November 5. Based on a survey of eight pollsters as of October 22, Kamala Harris is ahead of Donald Trump, but this difference is relatively small (2-3 points). In the 2024 election, there are seven essential/ decisive states: Arizona, Florida, Georgia, Michigan, Nevada, North Carolina, Wisconsin, and Pennsylvania. In the seven regions, the competition between the Republican and Democratic parties is very tight. For information on the 2016 election, Trump Vs. Clinton, although in various institutions, Clinton voters were superior, but with a slight difference, finally when the election was held, Trump became the president-elect. Based on his first debate with Biden, the market responded positively by strengthening the DXY Index (USD Index) and a rally in stock movements in the US. Similar to the debate with Biden, the market responded positively to the first debate of Trump Vs. Kamala Harris, with DXY and Wall Street Indices strengthening on (11/9).

Harris's (Republican) policy focus favored more significant government intervention in the economy (progressive taxes, high inflation, and maintaining trade relations with foreign countries).

Trump's (Democratic Party) policy focus is more government interventionism that is less involved in the economy (low taxes, low inflation, and a focus on domestic products).

The Fed is expected to cut the Fed Funds Rate 3 to 4 times in 2025 or 75 to 100 bps. Bank Indonesia (BI) estimates the chance of a Fed funds rate (FFR) cut in 2025 as much as 2-3x (50-75 bps). Meanwhile, based on CME FedWatch tools data, the Fed funds rate is projected to be at 2.75%-3.00% at the end of 2025, meaning there is an opportunity for a cut of 75 to 100 bps in 2025. This expectation also aligns with the US inflation rate, sloping closer to the Fed's target.

The Fed is optimistic that inflation will continue its downward trend in 2025. Moderation in world oil prices on a year-to-date basis can potentially continue in 2025. In addition, Trump's potential victory in the upcoming November election indicates weakening world oil prices in 2025. If Trump is officially elected, Trump will not limit oil production in the United States, so world oil prices have the potential to weaken along with the high oil supply. Weakening oil prices could cause inflation to continue its downward trend until 2025. In addition, the International Monetary Fund also projects US inflation to reach 2% in 2025.

Solid labor sector and other energy commodity prices are still risk factors for falling inflation. Other energy commodities and services inflation, such as labor wage growth in the US, which is still high, are risks to inflation. The average hourly wage of workers in the US grew 3.82% yoy or 2.13% ytd to 30.14 USD/ Hour in July. Meanwhile, coal commodity prices have the potential to continue to increase in 2025. Coal prices strengthened by 5.38% ytd in September (*figure xx*). Projections of higher economic growth in India could again push up coal prices.

Easing monetary policy can potentially boost economic activity recovery, especially in manufacturing. PMI in the Euro Area increased by 3.5% to 47.3 in May 2024. The increase came after the ECB cut its benchmark interest rate for the first time in May 2024. Thus, the US monetary policy easing, which could potentially continue until 2025, is expected to boost economic activity, including US manufacturing activity.

US manufacturing production yoy started in positive territory in August (0.2% yoy).

The employment sector has improved, so the unemployment rate has fallen to near full employment. Expansionary monetary policy can encourage the expansion of economic activity and increase employment, decreasing the unemployment rate. However, US GDP is expected to be higher in 2025. The World Bank estimates US GDP at 1.5% in 2024 and 1.7% in 2025, while global economic growth is estimated at 2.6% in 2024 and 2.7% in 2025.

The positive impact of the Fed funds rate cut is likely to be felt in 2Q25. This is because the Fed Funds Rate cut only started in 3Q24 when the US employment sector deteriorated, and manufacturing and economic conditions slowed. Therefore, there is still a risk of slowing economic growth or even contraction from 3Q24 to 1Q25.

Monetary policy easing by the ECB and several central banks in Europe in 2024 boosted investment. Capital flows in the Euro Area increased by 90.90% mom in May after the ECB cut its benchmark interest rate. Likewise, German capital flow increased by 311.54% mom or 464.48% yoy. Euro AreaLoan Growth grew 0.3% yoy in May Vs. 0.2% yoy in April, with credit to the private sector rising 0.03% mom. The PMIs of the Euro Area and Germany manufacturing also increased in May. Euro Area PMI increased by 50 bps to 52.2 in May, while German manufacturing PMI increased by 180 bps in May.

The development of the Russia-Ukraine geopolitical conflict is still a downside risk factor for inflation, especially in Europe. Considerable dependence on Russian natural gas as an energy source causes the Euro Area to experience more persistent inflation than other countries as the Russian conflict continues. However, since 2021, the Euro Area has shown a decline in the use of Russian gas. In order, the use of Russian gas in 2021-2023 (45%, 17.5%, 12.2%). In addition, the wage level continues to record growth, coupled with the Euro Area's demographic conditions, which has an increasing number of people of retirement age with limited population growth.

There is still a chance of widening the room for cuts if energy commodity prices moderate. The Euro Area's efforts to start reducing the use of natural gas from Russia after the Russia-Ukraine conflict have made the composition of energy used by the Euro Area more diverse. The Euro Area targets 0% use of Russian natural gas by 2027, and this is considered achievable. Meanwhile, oil prices are expected to moderate in 2025.

Risk of slower policy easing by the ECB. Commodity prices are still a key factor determining the direction of inflation in Europe. If there is an increase in inflation in 2025, the ECB, which has already cut its benchmark interest rate in May 2024, could potentially be slower in easing monetary policy in 2025.

Incentives to the property sector are expected to encourage the improvement of the property sector in China. Incentives provided by the government for the property sector in China include (May 17): providing a discount on down payment interest rates for property purchases; Providing a 300 billion yuan re-lending loan facility to buy houses that have been completed to be used as subsidized housing through BUMN; and removing minimum mortgage rates and cutting savings fund mortgage rates. Since introducing these incentives, new home sales in June have grown 32% vs. 27% in May. Average new home sales growth in January-July 2024 (19%) was also higher than January-July 2023 (17%). In addition, in September, China's finance minister approved additional stimulus by allowing local governments to issue new bonds to purchase unsold homes.

The PBOC also cut lending rates and reduced reserve requirements. In February 2024, the PBOC cut the reserve requirement ratio for Chinese banks by 0.5 bps, which will increase liquidity by 1 trillion yuan. Following the reserve requirement cut, the PBOC cut the lending rate by 10 bps to 3.35% in July. This policy adds to the government's efforts to boost economic activity.

In September, the government also approved a plan to issue new bonds to recapitalize state-owned banks in China so that they can extend more credit.

Improvement in global *demand* has the potential to boost China's exports. *Global industrial production* tends to stagnate in 2024, but world trade volume grows in 2024. So, with a more accommodative monetary policy in 2025, manufacturing activity and consumption will increase, potentially restoring global demand and improving China's exports.

The Chinese government focuses on driving economic recovery in sectors other than property. After the property crisis in China, the government also began to change its focus by encouraging the Renewable Energy (RE) and Technology sectors to boost the economy in China. In the last ten years, China has spent 230.8 billion yuan to develop Electric Vehicles (EV). China is also active in improving the Electric Vehicle ecosystem. In January -March, 716 thousand charging poles increased by 13.2% yoy based on China Electric Vehicle Charging Infrastructure Promotion Alliance data. In the field of Technology, China focuses on developing artificial intelligence (AI). The scale of the AI industry in China reached 500 billion yuan by March 2024, with the number of companies reaching 4,300. According to the chairman of the China Artificial Intelligence Association, China has a vast market for AI applications but is still weak in terms of basic technology and talent. As such, China's basic budget for science and technology will increase by 10% in 2024.

Results of the 2024 National People's Congress. Some important points include: 1). A growth target of around 5% with a deficit-to-GDP ratio of 3% and an inflation target of 3% in 2024, 2). Advancing the energy revolution, with the energy conservation and environmental protection budget in the top 10 of the 2024 budget, 3). Three new sectors that will be growth drivers are EV, battery, and solar panel production, which have been the focus since 2023, and 4). Integrating AI in existing products and services in the industry

The Chinese government's efforts to restore the economy through stimulus in various sectors are shown in the results of the National People's Congress 2024.

The BoJ targets raising the benchmark interest rate by 100 bps in 2025, which aligns with economic growth. On the other hand, the increase will be implemented if the inflation rate is in line with the forecast of 2% on an ongoing basis. In addition, the BoJ will also consider market volatility, considering that the majority of countries in the world have the potential to loosen their monetary policy in 2025.

Demographic factors are still a risk for high wage hikes in Japan. Japan's population has declined in the last ten years (-2.35%). It will be 124.3 million in 2023 (-0.5% yoy). This condition triggers concerns that wage increases will continue to be followed by an increase in inflation away from the BoJ's projections. If inflation does not meet the BOJ's target, the benchmark interest rate hike has the potential to be more gradual in 2025.

Yen strengthening has the potential to reduce the value of Japan's exports, despite increasing in volume. Japan is the third largest manufacturing country in the world (6.5% of global manufacturing production). As such, both manufacturing and import-export activities are important economic indicators in Japan. A higher Yen exchange rate will increase the price of Japanese goods higher for other countries than when the Yen weakens. This could reduce the value of Japan's exports.

Based on World Bank data, the top 3 manufacturers in the world are:

1. China : 31.6% of Global Manufacturing Production
2. US : 15.9% of Global Manufacturing Production
3. Japan : 6.5% of Global Manufacturing Production

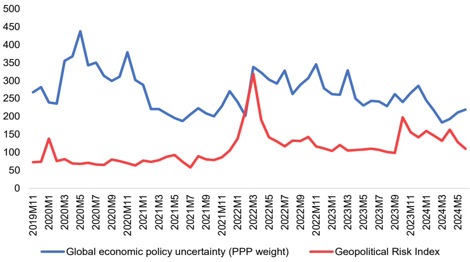
Several Central Banks in the world have the potential to ease their monetary policy in 2025. The downward trend in inflation, along with the moderation of commodity prices, can potentially continue in 2025. Inflation that is increasingly sloping towards the target of each Central Bank has the potential to make central banks ease their monetary policy. The Fed Funds Rate is estimated to reach 3.0% in 2025 (down 200 bps from 5% in September). Meanwhile, the ECB is expected to gradually cut its benchmark interest rate until it reaches 3% in 2025. On the other hand, the BoJ is expected to raise its benchmark interest rate by 100 bps in 2025.

The exchange rate is potentially more stable in 2025. USD has the potential to moderate in 2025, along with monetary policy easing by the Fed and several central banks.

Similar to the Fed, the ECB also has the potential to continue easing monetary policy in 2025, so the Euro has the potential to moderate in 2025. In addition, the spread between US bonds and other countries is shrinking and close to zero, potentially widening along with the easing of central bank monetary policy. The easing of monetary policy in 2025 will encourage other currencies to appreciate.

There is still uncertainty risk from continuing geopolitical conflicts. The geopolitical uncertainty index has decreased throughout 2024, following the Economic uncertainty risk index that decreased earlier in 2024 (***figure 16***). This decline aligns with various reconciliation efforts moderated by several countries, although they have not yet reached an agreement. On the other hand, the war in the Middle East is expanding and involving more countries so that reconciliation efforts will be more difficult. Escalations are still possible and have the potential to trigger concerns that uncertainty will continue along with its policies.

Figure 16. Global Uncertainty vs. Geopolitical Risk Index



Source : Trading Economics

Some commodity prices are expected to moderate in 2025. The average oil price in 2025 is estimated at USD 77 per barrel by Goldman Sachs. This projection is down from the previous estimate of USD 82 per barrel. Meanwhile, the Brent price is estimated at USD 70-85 per barrel. Similar to oil prices, the World Bank expects coal prices to be lower than in 2024, to USD125 - USD150 in 2025. However, this projection is still higher than the average coal price in 2015-2019. Crude palm oil (CPO) price is estimated at USD 825 in 2025, lower than the estimated USD 905 per ton in 2024. Some of the factors affecting commodity prices in 2025 are as follows:

1. <u>Geopolitical conflicts can potentially disrupt commodity supply</u>
   The extension of the Russia-Ukraine conflict and conflicts in the Middle East can potentially disrupt the supply of several commodities. The supply of crude oil, wheat, natural gas, and nickel has the potential to be disrupted due to these conflicts. Therefore, the prices of oil, natural gas, wheat, and nickel have the potential to be appreciated if there is an escalation of the conflict.

2. Substitution

The increase in the price of natural gas, which could continue if the Russia-Ukraine conflict escalates, could make consumers look for other energy alternatives. Coal commodities are generally used as an option to replace natural gas, which tends to be high, considering that the coal supply is still quite high.

3. Demand

China will encourage the development of New Renewable Energy (EBT) and Electric Vehicles (EV). China is the largest coal-consuming country in the world. Meanwhile, China is increasingly focused on developing renewable energy and EVs. China's coal consumption accounts for 55.3% of total energy consumed, a decrease of 12.1% in the last 10 years. China is one of the largest countries leading the renewable energy transition, even though its electricity is still dominated by coal power. China could reach its 1,200 GW wind and solar target for 2030 sooner by July 2024. In the past ten years, China has spent 230.8 billion yuan to develop EVs. In addition, according to data from the Center for Strategic and International Studies (CSIS), 18.8% of electric vehicle sales in 2009-2023 were contributed by government subsidies. Therefore, China's increasing efforts in energy transition could be a negative catalyst for coal prices and a positive catalyst for nickel prices.

Improvement in global demand can potentially boost the price of several commodities. Manufacturing activities in several countries have the potential to improve and even return to expansionary levels in 2025. The easing of monetary policy that will be carried out in various countries in the world has the potential to encourage manufacturing activities in 2025. With manufacturing activities recovering, demand for several commodities will also potentially recover in 2025.

4. Wheater Factor

Extreme weather cycles have the potential to disrupt the harvest of several food commodities. El Nino, usually characterized by a prolonged hot summer, will cause drought in plantations. La Nina, or the extreme rainy season, can cause flooding and damage to plantations.

La Nina is expected to return from the end of 2024 to 2025, especially in several Asian countries. With La Nina, the supply of several food commodities, such as palm oil, wheat, and corn, could potentially be disrupted and experience price appreciation.

5. Regulatory Factor

Based on OPEC estimates, global oil demand will grow by 1.8 million barrels per day in 2025, lower than 2.2 million barrels per day in 2024. Therefore, OPEC+ agreed to cut production until December 2025 to maintain oil prices amid falling demand and US oil inventories. In addition, the potential for new policies from the president-elect in the US election has the potential to make oil prices higher. One candidate will support unrestricted US oil production, while the other will likely exacerbate the escalation of political conflicts. The International Energy Agency (EIA) expects Brent crude oil prices to rise to $89 per barrel in 1Q25.

Policies of countries in the world that will hold new elections in 2024

1. New government policies in Europe

The policy of NFP prime minister candidate Lucie Castets is to focus on increasing state revenue from taxes. Castets will impose citizenship-based taxation after the last 20 years of the French government using a residence-based taxation system. This policy will make France receive more taxes, including from French citizens who live in France and do not earn income.

The second policy plan is also related to increasing tax revenue by adding layers to income tax (PPh). Currently, France has 5 layers of income tax, which will be increased to 14 layers. The addition of these layers aims to reduce the tax burden of the middle and lower classes, and increase tax contributions from the upper classes. In addition, Castets also plans to re-enact the wealth tax. The wealth tax that applies under the current president, Emanual Macron, is wealth on property, so other than property assets are not tax objects.

Dick Schoof's policies as prime minister of the Netherlands include: continuing to support Ukraine in its war against Russia; tightening overseas labor policies; abolishing family reunify cation for refugees; removing subsidies for electric vehicles by 2025; and reducing energy dependence on Russia by increasing investment in North Sea gas extraction, green hydrogen technology and especially investment in nuclear energy.

In the two months under Keir Starmer's leadership, the UK has faced controversial policy decisions, political discord, and civil disorder. The previous government's high deficit, followed by Starmer's relatively aggressive policies, such as keeping taxes low, triggered public protests. Starmer eventually signaled departments would need to make across-the-board spending cuts and would raise taxes in his budget by the end of October.

2. Policy plans of US presidential candidates

Elections in the United States will be held on November 5, 2024, here are the various policies that the two presidential candidates have prepared:

KAMALA HARRIS POLICY

- Stricter policies for the financial industry.
- Raise corporate tax from 28% to 35%.
- Maintain consumer purchasing power and maintain trade relations with China.
- International rules are in accordance with international law that applied during the Biden era.
- Focus on exports in the US but do not limit imports.

TRUMP POLICY

- Increased Merger and Acquisition Activity of companies in the US.
- Trump has issued several tariff policies: a 10% tariff on all imports, a 100% tariff on car imports outside the US, and a 60% tariff on imports from China.
- Individual and corporate tax cuts.
- Limiting the independence of the Fed and devaluing the USD to reduce the US trade balance deficit.

Based on the Quick Count results until November 11, Donald Trump still has 312 electoral votes. The requirement to win is at least 270 electoral votes. Therefore, Donald Trump's policy plans need to be considered. Here are some of the implications of Trump's policies for Indonesia:

- Potential trade wars resulting from Trump's actions would have minimal impact on Indonesia, given its minimal involvement in the Global Value Chain.
- Crude oil prices in the world have the potential to moderate and lower inflation.
- Inflation in the US has the potential to remain high, along with Trump's tariff policy.

CONTACT US

PHINTRACO SEKURITAS
The EAST Tower 16th Floor
Jl. Dr. Ide Anak Agung Gde Agung Kav. E3.2 No. 1
Mega Kuningan, Jakarta 12950
CALL CENTER : +62 21 2555 6111
P. +62 21 2555 6138

Compiled by
Research **Team**
+62 21 2555 6138 **Ext. 8304**
research@phintracosekuritas.com