

Analysts

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Basic Information

Real GDP (in 2024, USD)	514.47 B
M2 (Oct 2024, SGD)	818 B
CPI (Oct 2024)	116.76
PPI (Oct 2024)	95.98
Straits Times Index (STI)	3810.35
Currency	SGD

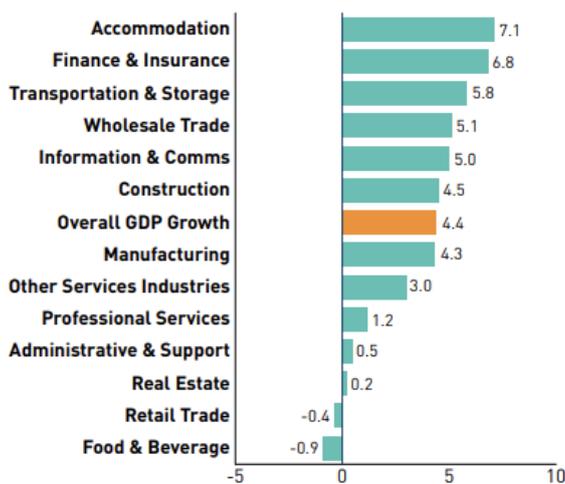
Chart info

Figure 1: GDP Growth Rates



Source: Trading Economics

Figure 2: GDP and Sectoral Growth Rates in 2024



Source: Ministry of Trade & Industry

Overview of the Singapore' Economy

Singapore's economy in 2024 remains resilient despite global environment challenge. The country's GDP growth is projected to range between 0.5%-3% (Figure 1), reflecting a deceleration compared to earlier robust recoveries. Domestic sectors such as tourism, which has seen significant contributions from rising international travel, and public infrastructure projects are key drivers of this growth. Public investments in sustainable infrastructure and housing continue to generate jobs and stimulate domestic demand, partially offsetting challenges in trade-related industries impacted by slower global demand

Headline inflation is expected to settle at 3.5%, down from 4.7% in 2023, while core inflation eases to 3.1%. This stabilization is attributed to steady global food and energy prices, though domestic factors like the GST increase from 8% to 9% in 2024 and adjustments in public transport fares continue to put pressure on living costs. To alleviate these challenges, the government has implemented targeted subsidies, benefiting low-income households.

Singapore faces ongoing global challenges, including high interest rates, which have raised borrowing costs for businesses and households, and geopolitical tensions that disrupt supply chains. But, as open economy country, Singapore exchange rate has much powerful influence compared to the interest rate. With maintain stability around 1.3 against USD, it has ensured the competitiveness of Singapore and stability of the economic despite the uncertainty of global challenges.

Summary of events in the past year

Economic Growth

- **Q1 2024:** The economy expanded by 3.8% year-on-year, surpassing expectations amid a challenging global environment. Growth was fueled by the services sector, driven by the resurgence of tourism and increased domestic consumer spending in retail, food services, and hospitality.
- **Q4 2024:** GDP growth slowed slightly to 2.8%, with services maintaining its lead at 5%. Key contributors included robust tourism-related spending, steady demand for financial services, and resilience in the business services sector (Figure 2).
- **H1 2024:** Singapore's economy grew by 3% in the first half, supported by historic highs in employment levels, accelerated recovery in international travel, and increased investment flows in technology

Credit Rating

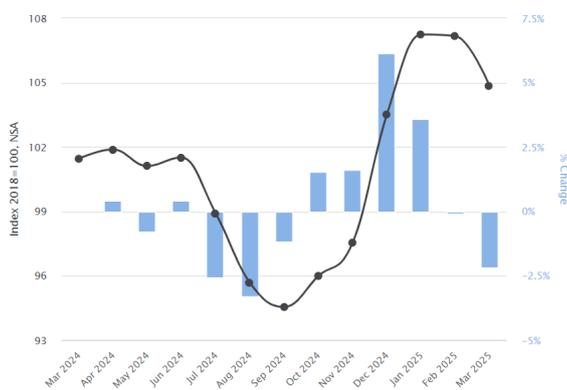
- Japanese credit rating agency R&I affirmed Singapore's 'AAA' sovereign credit rating and maintained a 'Stable' outlook. This

Figure 3: Singapore Core Inflation Rate



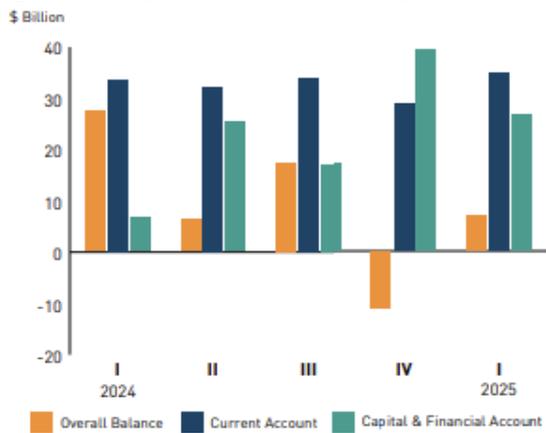
Source: Trading Economics

Figure 4: Singapore Producer Price Index



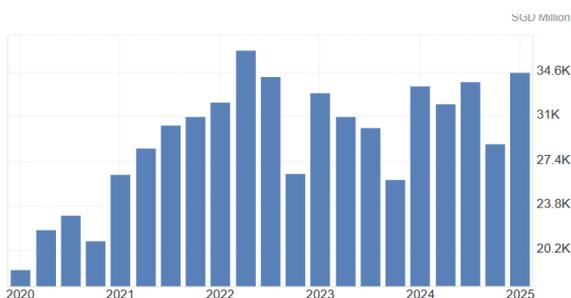
Source: Moody's Analytics

Figure 5: Singapore Balance of Payments



Source: Ministry of Trade & Industry

Figure 6: Singapore Current Account



Source: Trading Economics

decision reflected Singapore's strong macroeconomic fundamentals, sound fiscal management, a highly resilient banking and financial system, robust external payment buffers, and consistent political stability.

Monetary Policy

- To maintain inflationary pressures, the Monetary Authority of Singapore (MAS) maintained a tight monetary policy stance by allowing further appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) within its policy band. This was complemented by targeted fiscal measures, such as enhanced subsidies for utilities and direct financial assistance to lower-income households to mitigate the impact of rising prices.
- These efforts contributed to a moderation in inflation, with the Core Inflation rate around 2-4% from Oct 23 to Oct 24 (Figure 3).
- Risks to the inflation outlook remain, including potential pressures from higher transport costs, wage increases, supply chain disruptions, and the effects of adverse weather conditions on food imports.

Volatility of Singapore PPI

- After staying stable in early 2024, the PPI dropped sharply mid-year due to falling global demand and commodity prices. It then rebounded strongly by early 2025, likely from restocking and price recovery, before declining again in March 2025, which highlighting the sensitivity of Singapore's economy to global market shifts (Figure 4).

Balance of Payments and Current Account

- Singapore recorded an overall balance of payments surplus of \$7.0 billion in the first quarter of 2025, a reversal from the deficit of \$11.2 billion in the preceding quarter (Figure 5).
- The current account surplus remained strong, by Q1 2024, the surplus grew further and reached out the highest, which stands at 37.7 billion SGD (Figure 6) and higher foreign exchange reserves in 496.54 billion SGD (Figure 7), driven by a rebound in financial services exports and moderated import growth.

Fiscal and Debt Management

- Singapore's fiscal policy in 2024 remains contractionary, with reduced public expenditure compared to the COVID-19 years. This moderation, alongside increased tax revenues (such as the GST hike to 9% in 2024), has helped narrow the fiscal deficit and stabilize national debt levels (Figure 8).
- Despite these efforts, reduced government support may have contributed to slower economic growth, highlighting the importance of balancing fiscal consolidation with maintaining robust economic momentum

Figure 7: Foreign Exchange Reserves



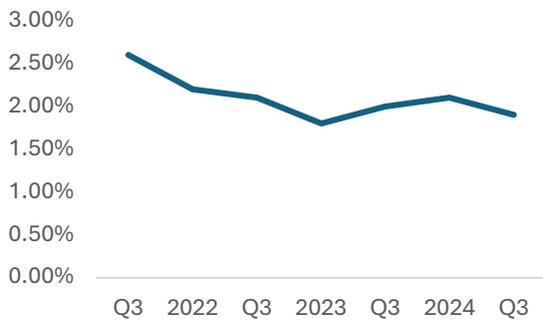
Source: Trading Economics

Figure 8: Fiscal Balance



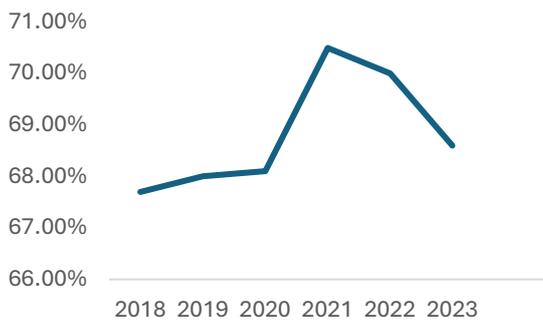
Source: CEIC Data

Figure 9: Unemployment Rate



Source: Trading Economics

Figure 10: Labor Force Participation Rate



Source: Trading Economics

Labor Market

- Singapore’s labor market remains resilient, with unemployment rates holding steady at 2.0%-2.2% in 2024 (Figure 9). Labor force participation increased, particularly among women and older workers, supported by government initiatives to encourage re-skilling and workforce inclusivity.
- However, challenges persist. Job creation has been concentrated in lower-productivity sectors like retail and food services, while high-value sectors such as tech and finance face labor shortages (Figure 10).

Economic Outlook and Risks

- Singapore’s GDP growth for 2025 is projected at 0%-2%, reflecting the impact of weaker global demand. This reflects ongoing external uncertainties and subdued global demand, particularly from key trading partners like the US, China, and the EU. Singapore’s highly open and export-driven economy is sensitive to slowdowns in electronics and manufacturing
- Additionally, geopolitical tensions, tighter global financial conditions, and lingering supply chain disruptions continue to weigh on trade and investment sentiment. While domestic resilience and targeted fiscal support may offer some buffer, the wide forecast range signals caution amid a fragile and uneven global recovery

Policy Recommendations

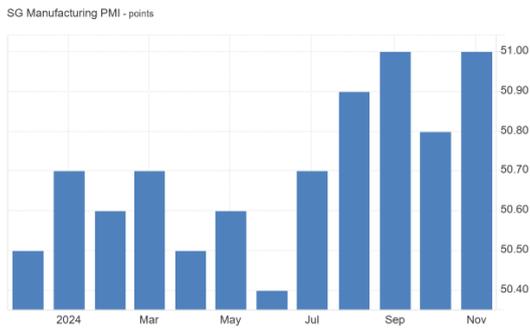
- Singapore could consider broadening its tax base to diversify revenue streams, especially as an aging population increases social spending.
- Strengthening Singapore’s position as a global business hub through trade agreements and incentives for foreign investments will be key to sustaining long-term growth
- Expanding social safety nets using digital tools such as the SkillsFuture Credit program can protect vulnerable groups while fostering lifelong learning.

Figure 11: USD/SGD



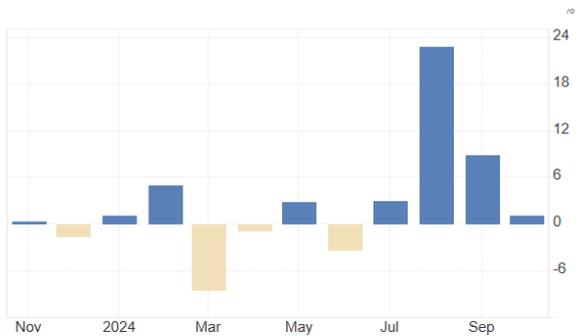
Source: Trading View

Figure 12: Singapore Manufacturing PMI



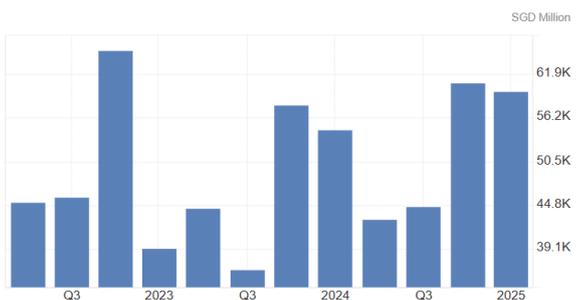
Source: Trading Economics

Figure 13: Singapore Manufacturing Output



Source: Trading Economics

Figure 14: Singapore Foreign Direct Investment



Source: Trading Economics

Economic Outlook Contingent on Global Developments

The Singapore Dollar (SGD) experienced depreciation against the US dollar since Sep 2024, with an increase overall of 5% to 1,35 in the previous week (Figure 11). This primarily driven by the US dollar's strength because of the investor flight to safe-haven assets and the stability of US economic after the election of President Donald Trump. Singapore's economy has demonstrated resilience, recording a quarter-on-quarter (QoQ) GDP increase of 3.2%, which marks the highest growth in the past three years. This strong rebound is primarily attributed to a significant surge in manufacturing output, which rose by 22.9% (Figure 12 & 13).

The sharp rise in manufacturing was supported by robust global demand for electronics such as semiconductors and digital infrastructure components, driven by advances in AI technologies and 5G rollouts. The transport engineering segment also surged, growing 13.6% yoy, supported by increased aerospace MRO (Maintenance, Repair, and Overhaul) activities as international travel demand rebounded post-pandemic.

Beyond manufacturing, other sectors also contributed significantly to Singapore's economic resilience. The services sector, up moderate of 3,7% year-on-year growth. A key driver was tourism and hospitality, where international tourist arrivals that increased by 15,2% around 1.9 million visitors in Q3 2024, this is due to the easing of COVID-19 restrictions and Singapore's strategic role as a host for global events and conferences. The accommodation and food services industries grew notably, benefiting from rising foreign visitor spending.

Furthermore, financial services remained a core pillar, growing 4.3% y/y, as inflows of foreign direct investment (FDI) into Singapore rose by 6.8% (Figure 14), solidifying the country's position as a financial hub in the Asia-Pacific. Wholesale trade also grew by 2.0% yoy, benefitting from increased intra-Asian commerce. Also, construction sector provided steady growth momentum at 6%, supported by public infrastructure projects and ongoing residential and commercial developments. Government-led initiatives, including investments in green infrastructure and digital transformation, further stimulated economic activity in this space.

Stability of Singapore Dollar

The Singapore dollar (SGD) has remained relatively stable despite global market volatility, primarily due to the Monetary Authority of Singapore's (MAS) exchange rate-centred monetary policy. Unlike other central banks that rely on interest rate adjustments, MAS manages the SGD through a nominal effective exchange rate (NEER) band, which ensures currency stability relative to Singapore's trading partners. This strategy enables the SGD to act as a buffer against imported inflation and external economic shocks.

In 2024, the SGD appreciated moderately against regional currencies but remained stable against the USD, trading around 1.34–1.36 per USD. The stability is supported by Singapore's robust foreign reserves, which stood at US\$356 billion as of Q1 2024, providing confidence in its ability to manage currency fluctuations. It further strengthens the SGD by reflecting strong external balances.

The performance of Singapore's Straits Times Index (STI)

Singapore's Straits Times Index (STI) has remained relatively good in 2024, reflecting the nation's economic stability, strong recovery and growth trend. From April 17, 2024 to February 10, 2025, the Straits Times Index (STI) surged **23.2%** to a record high of **3,921.30**, marking its strongest rally toward an all-time high in 17 years (Figure 15), outperforming several regional indices in ASEAN and India's NIFTY50

The STI benefited from sectors such as financials, REITs, and transport, driven by monetary policy stability and increased economic activity. Specifically, banking giants DBS, OCBC, and UOB contributed significantly, supported by robust earnings and expectations of lower interest rates later in the year. Meanwhile, REITs rallied as Singapore's interest rate outlook softened, making them attractive to yield-seeking investors

Compared to regional peers, the Hang Seng Index in Hong Kong faced downward pressure due to China's sluggish recovery, and Malaysia's KLCI showed mixed growth, reflecting slower domestic demand. Globally, US markets outperformed with strong technology gains, while Europe's STOXX 600 Starting around 3,100 in January, the index experienced volatility in the first quarter but saw steady gains from May onward. Although volatility was seen, particularly in August 2024 due to macroeconomic fears and currency adjustments, the STI outperformed global benchmarks, with the S&P 500 gaining 19% and CSI 300 rising 9% in SGD terms over the same period

Figure 14: Singapore's Straits Time Index (STI)



Source: Singapore Exchange (SGX)

Figure 15: The STI constituents and the performances over 10-month period

STI Constituent	Code	Mkt Cap S\$M	Price Change % [Apr 16 2024 close - Feb 10 2025 close]	NIF S\$M [Apr 16 2024 close - Feb 10 2025 close]	Sector
Y2J Shipbldg SGD	B56	11,812	65	61.09	Industrials
SGX	S68	14,666	53	468.00	Financial Services
HongkongLand USD	H78	12,571	45	22.89	Real Estate (excl. REITs)
Singtel	Z74	54,619	43	979.64	Telecommunications
DBS	D05	128,862	40	44.07	Financial Services
Seatrium Ltd	SE2	7,244	37	35.27	Industrials
SATS	S58	4,803	31	111.47	Industrials
UOB	U11	63,134	29	679.75	Financial Services
OCBC Bank	O39	78,183	29	242.55	Financial Services
DFIRG USD	D01	4,352	29	-1.59	Consumer Non-Cyclicals
ST Engineering	S63	15,257	27	213.30	Industrials
JMH USD	J36	15,328	10	-0.81	Industrials
CapLand IntCom T	C38U	14,524	7	-178.72	REITs
ThaiBev	Y92	12,817	6	30.66	Consumer Non-Cyclicals
Jardine C&C	C07	10,557	4	31.91	Consumer Cyclicals
Sembcorp Ind	U96	9,557	3	92.34	Utilities
SIA	C6L	18,791	2	-419.44	Industrials
CapLand Ascendas REIT	A17U	11,661	1	-315.93	REITs
Fraser's Cpt Tr	J69U	3,837	-1	-89.86	REITs
Keppel	BN4	12,173	-2	-69.94	Industrials
CapitaLandInvest	9CI	12,259	-3	-156.25	Financial Services
Mapletree PanAsia Com Tr	N2RU	6,268	-4	-110.63	REITs

Source: Singapore Exchange (SGX)

Figure 16: USD/SGD 4H Chart



Source: Trading View

Trade Idea: Long USD/SGD

Catalyst

One of the significant drivers is Interest rates. Currently, the Fed has start cutting rates until 4,5% in this May 2025. With this lower interest rate, it would reduce borrowing cost for businesses and individuals, encouraging investments in public sectors like housing and infrastructures. With the potential of the increasing economic growth and potential of capital flight to US, which would increase the consumer spending, this action could potentially influence the GDP growth of Singapore and provided a positive impact toward the USD.

Other major catalysts are the US labor market as it influences the economic performance and productivity of the markets. Despite signs of cooling, the job market remains relatively strong with unemployment rate stay below 4%, which is lower by historical standard.

Furthermore, the broader economic outlook toward a soft landing, where it aims slow growth to avoids a major recession. The government has started to increase their government spending to help businesses facing the challenges of higher borrowing cost and uncertainty about demand. This aim to improve the businesses condition in US economy for gradual recovery.

Technicals

The MACD is currently above the signal line, which indicates the bullish momentum, and the crossover also has signalled a strong price move and confirmed current upward trend. Currently, the RSI is at 29.84, it is close to the oversold zone, and it suggests a bullish territory.

Trade

Entry: 1.28477

Take profit: 1.31267

Stop Loss: 1.27826

Risk-reward ratio: 5.02

Analysts

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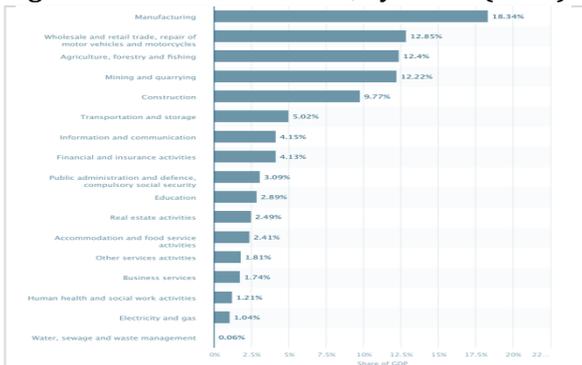
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Basic Information

Real GDP (in 2023, USD)	1.371 T
M2 (Oct 2024, IDR)	9044900 B
CPI (Nov 2024)	106.33
PPI (Nov 2024)	119.32
Jakarta Stock Exchange Index (JCI)	7324,79
Currency	IDR

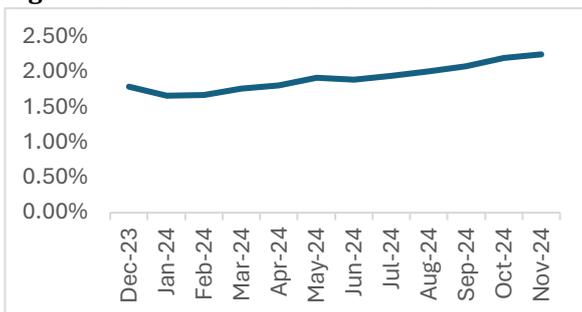
Chart info

Figure 1: Breakdown of GDP, by sector (2023)



Source: Statista

Figure 2: Indonesia Core Inflation Rate



Source: Trading Economics

Figure 3: Indonesia Interest Rate

Overview of the Indonesia's Economy

In 2023, Indonesia continues to reinforce its position as the largest economy in Southeast Asia and a critical player in the global economic landscape. The country's rich cultural diversity, strategic geographical location, abundant natural resources, and ambitious policy frameworks underscore its potential to drive sustainable growth and attract significant foreign investments.

Indonesia's economy has demonstrated remarkable resilience, achieving around 5% yoy GDP growth in Q4 since 2021. With a stable growth of 5-5.1% in these past few years. These results have driven by robust consumer spending and sustained investment inflows. Also, manufacturing has become the highest contributor to Indonesia's economic, which contributed around 18,67%. (Figure 1)

Aside from domestic consumption, Indonesia's export sector also continued its upward trajectory in 2024, with total exports reaching an all-time high of USD 25.7 billion in Q3, representing a 9.4% increase from the same period in 2023. China remains the top trading partner, accounting for 23.2% of exports, followed by the United States (9.9%) and Japan (8.7%). Exports were bolstered by the robust performance of key commodities, including nickel, coal, and palm oil, alongside the country's thriving downstreaming initiatives.

Summary of events in the past year

Interest Rate

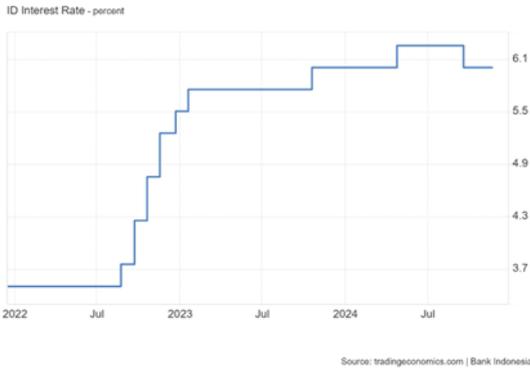
- Bank Indonesia cut its benchmark interest rate, the 7-Day Reverse Repo Rate, to 6% in September 2024. (Figure 3)
- Deposit facility and lending facility rates were also maintained to 5.25% and 6,75%, respectively, to counter imported inflation and stabilize the rupiah amidst global monetary tightening.

Monetary Policy

- Indonesia inflation rate has peaked near 6% in September 2022 after fuel price hikes, but it has eased to 1,55% in last November 2024, within bank Indonesia inflation target range which is around 1,5% -3,5%.
- Core inflation also has slowed down to 2,25%, indicating the success of Indonesia monetary policy in managing domestic price pressure. (Figure 2)

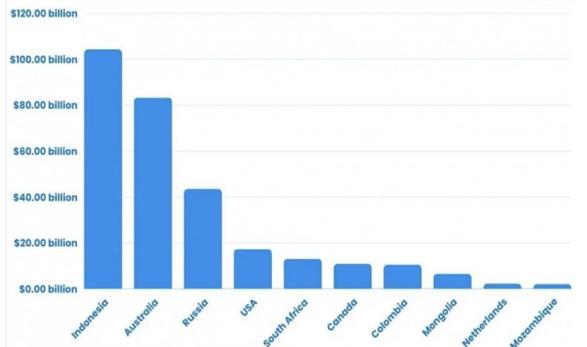
Commodities Market

- Indonesia remains the world's largest exporter of thermal coal, accounting for over 50% of global exports, shipped out more than 500 million metric tons as of 2024. With this high export volume, it has become the main contributor toward the government revenues. (Figure 4)
- Beside coals, Indonesia also has become the world's largest producer and exporter of palm oil since 2023, which has



Source: Trading Economics

Figure 4: Coal Exporters (2023)



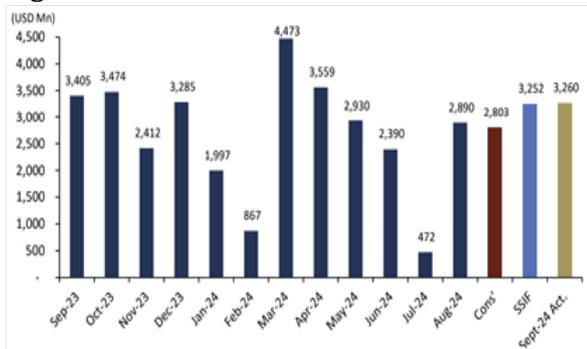
Source: Tradeimex

Figure 5: Palm Oil Producer

Market	% of Global Production	Total Production (2023/2024, Metric Tons)
Indonesia	56%	43 Million
Malaysia	26%	19.71 Million
Thailand	5%	3.6 Million
Colombia	2%	1.88 Million
Nigeria	2%	1.5 Million
Guatemala	1%	890,000
Papua New Guinea	1%	820,000
Cote d'Ivoire	0.79%	600,000
Honduras	0.78%	595,000
Brazil	0.77%	585,000

Source: USDA Foreign Agricultural Service

Figure 6: Indonesia Trade Balance



Source: Samuel Sekuritas Indonesia

Figure 7: IDR/USD and Accumulated Capital Inflow

produced for 43 million metric tons (Figure 5). This large number has been supported by rising global demand and improved production efficiency.

Balance of Trade

- Indonesia recorded a 53rd consecutive trade surplus in September 2024, reaching USD 3.26 billion (Figure 6), up slightly from USD 2.78 billion in July 2024. This represents a fourfold increase since the previous month.
- The growth was partly driven by a strong performance in animal and vegetable fats and oil exports, which surged around 26,4% and import side, which was driven by decreases in both oil and gas imports around 25,56%.
- The primary factors behind this sentiment include concerns over weaker oil demand from China as well as lower oil demand forecasts.

Currency Depreciation

- Indonesia rupiah has weakened by almost 10% since August 2022, reaching 16,020 per USD (Figure 7) due to the US Federal Reserve's hawkish stance and the increased of budget deficit target of 2,53% in August 2025 of GDP

Bonds Market

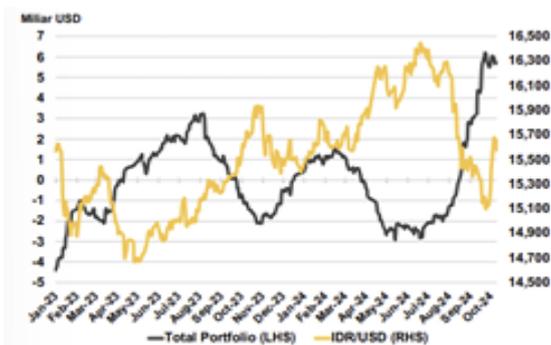
- Indonesia governments has targeted 666,4 trillion issuances of bonds, a 52,2% increase from the revised 2023 targets. These funds are earmarked for infrastructure development, renewable energy and public welfare programs.
- Currently, Indonesia remains a leader in green bond issuance to support its transition to renewable energy and sustainable development, which are targeted in solar, wind and geothermal energy projects.

Indonesia Ambitious Spending

- Under the leadership of President Prabowo, Indonesia has launched an aggressive 100-day spending program with IDR 121 trillion rupiah to address crucial sectors, such as healthcare, education and food security
- This action aims to accelerate Indonesia's development in short term especially in infrastructure and secure more investment from foreign investors

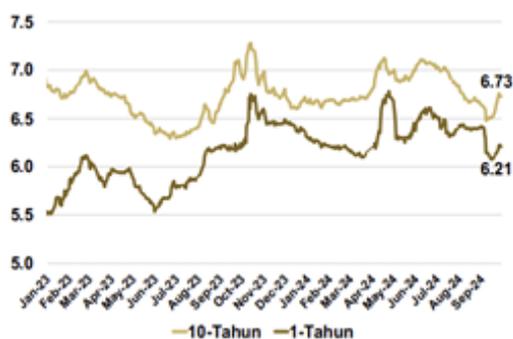
Labor Market

- Indonesia's unemployment rate has decreased to 4,91% in last Q3 2024, this decline has reflected post-pandemic recovery efforts and government job creation initiatives
- Labor force participation has increased to 69,3%, which shows a higher proportion of the working-age population is employed and seeking work. Despite the improvement, many



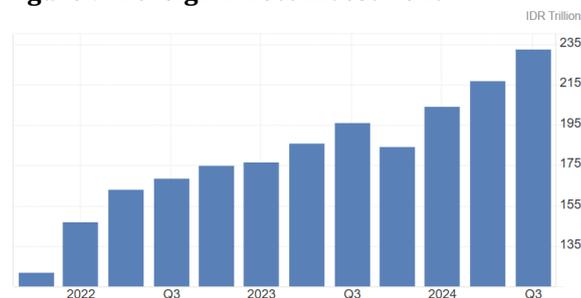
Source: CEIC

Figure 8: Indonesia Government Bond Yield



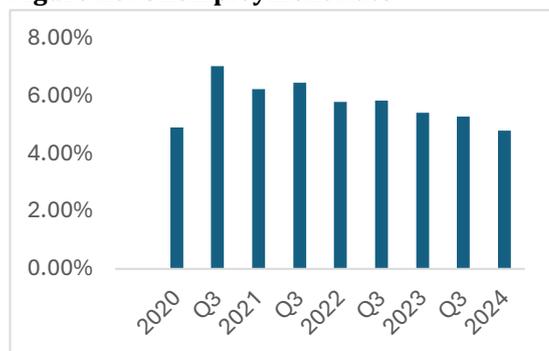
Source: CEIC

Figure 9: Foreign Direct Investment



Source: Trading Economics

Figure 10: Unemployment Rate



Source: Trading Economics

Figure 11: Labor Force Participation Rate

workers remain in the informal sector, facing low wages and limited social protection

Foreign Direct Investment (FDI)

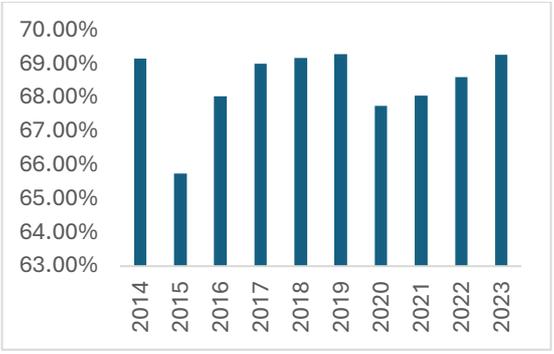
- As the Fed start cut rate, Indonesia has experienced surge in capital inflow of around USD 3.37 billion toward the domestic financial market. With three consecutive positive surplus quartal-on-quartal (QoQ), Indonesia foreign direct investment has reached 231 trillion rupiah or 14,43 billion USD, with a 26.2% increase from previous years

Stock Index & Sectoral Impact on JCI

- Export-oriented stocks (coal, nickel, palm oil) may face short-term pressure due to lower commodity prices and increase of the export tariffs
- Jakarta Stock Exchange may experience some fluctuations as widening of current account deficit that possibly could weaken confidence among foreign investors

Policy Recommendations

- Indonesia could consider expand in digital infrastructure to support growing of digital economy, which is projected to reach \$146 billion by 2025.
- Increase the commitments to reduce greenhouse gas emission through renewable energy projects and target new-zero emission by 2050, like support eco-friendly investment in developing new capital city of Indonesia, Nusantara
- Maintain a fiscal deficit under 3% of GDP to ensure the stability of economics while increasing spending and investing in human capital development and infrastructure



Source: Trading Economics

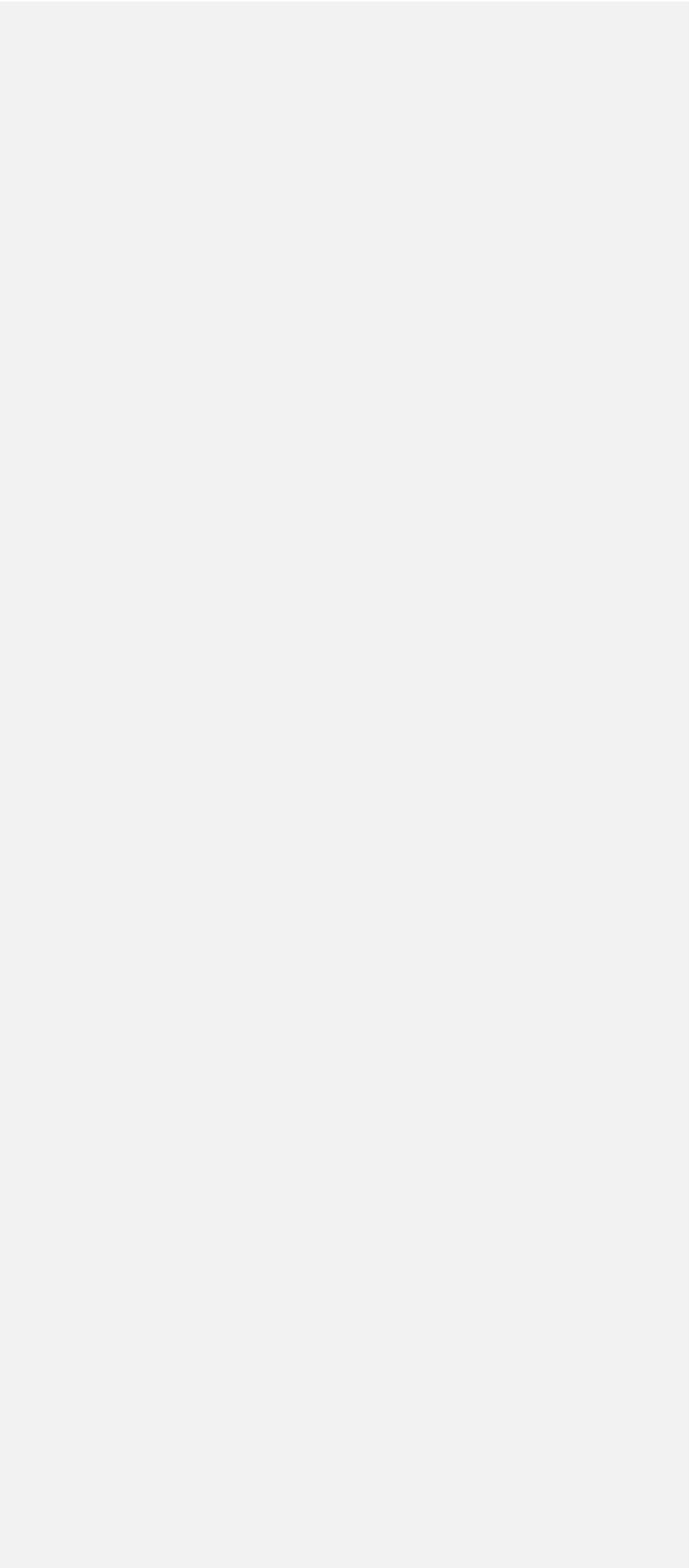
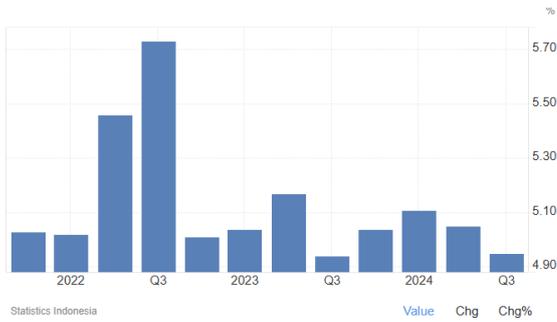
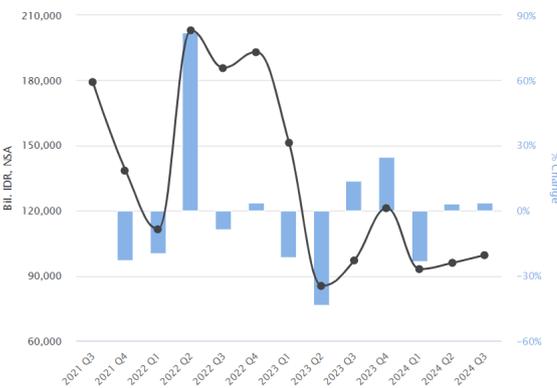


Figure 12: Indonesia GDP Growth (YoY)



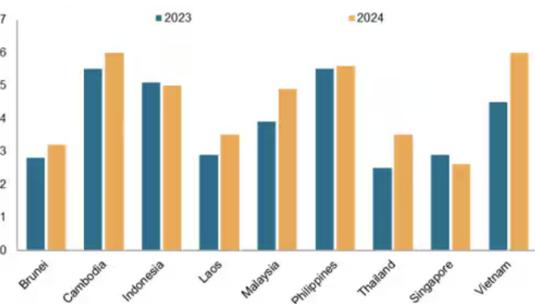
Source: Trading Economics

Figure 13: Net Exports (in Billion IDR)



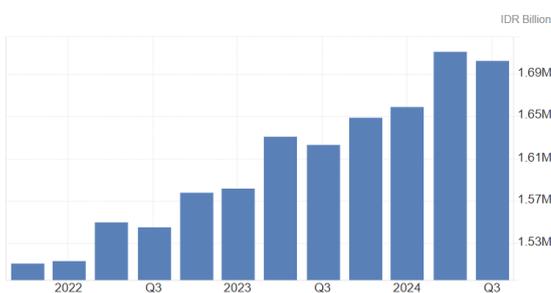
Source: Moody's Analytics

Figure 13: ASEAN GDP growth (2023-2024)



Source: S&P Global

Figure 14: Indonesia Consumer Spending



Economic Growth Potential on Global Development

Indonesia's economy remains on a solid growth trajectory, with GDP growth projected to reach 5.0% by the end of 2024, remarked a stable performance after 2023. Despite experiencing a slight upward in Q1 2024 to 5,11%, growth dipped back to 4,95% in Q3 2024, The moderation in growth was primarily due to shrinking net export especially commodities and softened household spending, affected by global challenges such as slowing demand from China and weaker manufacturing activity in Europe and Japan.

Bank Indonesia's proactive monetary policy has been pivotal in maintaining economic stability. Following a total 250 basis point rate hike since 2022 to counter a weakening rupiah and inflationary pressures, the central bank has successfully kept inflation in check around 2%. This controlled inflation environment, combined with stable monetary policies, creates favourable conditions for continued economic expansion.

Furthermore, Indonesia's economic performance is expected to outperform the ASEAN-10 average GDP growth rate in 2024, underscoring its regional resilience and strong economic fundamentals. The country's large domestic market, expanding middle-class population, and strategic focus on industrial down streaming offer a strong foundation for sustained growth. In addition, infrastructure development remains a priority, particularly with the ongoing construction of the new capital city, Nusantara, in Kalimantan. These investments are expected to generate significant multiplier effects across the economy, creating employment opportunities and driving private sector participation.

Despite external challenges, including global economic uncertainties, geopolitical tensions, and a potential slowdown in global trade, Indonesia's economy remains well-positioned to maintain its growth momentum in 2024. Strong domestic consumption, backed by targeted fiscal measures and easing inflation, will serve as a key growth anchor. Additionally, net foreign inflows into Indonesian financial markets, reflecting investor confidence in the country's emerging market potential have been increasing, providing further support to economic stability. As Indonesia continues to prioritize economic diversification, technological innovation, and sustainable development, it stands as one of Southeast Asia's top-performing economies, maintaining a steady 5.0% growth rate in the year ahead.

Main Contributor of Indonesia Economic Growth

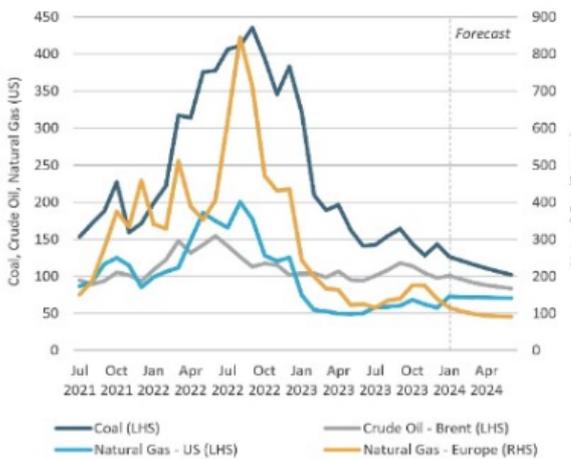
Indonesia's economic growth in 2024 is heavily reliant on domestic demand and exports, both of which present numerous challenges and opportunities. Domestic demand, which accounts for approximately 55-60% of GDP, has remained the backbone of the economy, supported by strong household consumption and government spending. In the first half of 2024, household consumption grew by 5.1%, driven by low inflation (around 2%) and fiscal measures such as cash transfers and subsidies.

However, there are uneven purchasing power across regions and limited access to credit for lower-income households that may restricts their ability to invest more in productive activities or make significant purchase like housing or durable goods. This lack of access not only constraints household consumption but also limits entrepreneurial opportunities that could stimulate economic growth from the middle-lower class sides. Despite these, rising consumer confidence (Figure 15) and targeted government policies, such as tax incentives for homebuyers could boost domestic spending further.

On the export front, Indonesia faces both headwinds and prospects for growth. Exports, which contribute around 24% of GDP, are projected to recover in 2024 after a challenging 2023 marked by declining global commodity prices. The demand for coal, Indonesia's largest export commodity, remains robust due to seasonal energy needs in key markets like China, India, and Europe. As the world's largest exporter of thermal coal, Indonesia benefits from these trends, with coal exports expected to grow by 12% year-on-year in 2024. Similarly, palm oil exports, which account for over 11% of total exports, are rebounding as global demand for food, biofuels, and industrial products rises.

Aside from these two main commodities, Indonesia is currently investing in value-added industries to enhance its export competitiveness. For example, the expansion of downstream processing for palm oil and minerals like nickel aligns with global trends, such as the growing demand for electric vehicle batteries. These initiatives not only diversify export revenues but also create jobs and stimulate local economies. Furthermore, Indonesia's participation in regional trade agreements, like the Regional Comprehensive Economic Partnership (RCEP), opens new markets and reduces reliance on traditional trading partners, offering significant opportunities for long-term export growth.

Figure 15: Growth Index of Commodity Prices (2021-2024)



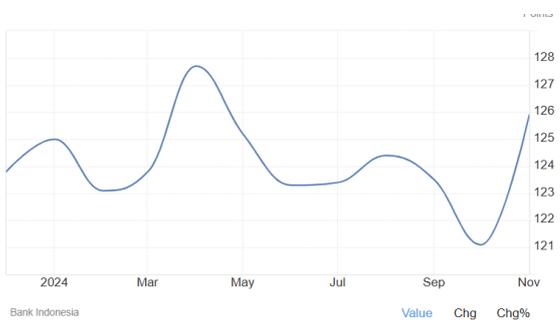
Source: Euromonitor

Key Development of Indonesia

Indonesia's development of Nusantara, the new capital city in East Kalimantan, marks a significant milestone in the country's infrastructure transformation. The project aims to relieve pressure on Jakarta while driving economic growth across various sectors, including infrastructure, retail, services, manufacturing, and renewable energy. With an estimated investment of IDR 466 trillion (approximately USD 32 billion) over the next decade, the project will be funded through a combination of public funds, private investments, and Public-Private Partnerships (PPP).

Key areas of focus include transportation infrastructure, such as new highways, seaports, and an international airport to enhance connectivity. Housing and utilities are also being developed to accommodate the projected 1.5 million residents expected to relocate to Nusantara by 2045, driving demand for residential construction, water supply systems, and energy infrastructure.

Figure 16: Indonesia Consumer Confidence



Source: Trading Economics

In addition to physical infrastructure, Nusantara aims to become a "smart city", integrating advanced digital technologies such as 5G networks and smart energy management systems to enhance urban services. The government's focus on this large-scale development also stimulates growth in retail, services, and manufacturing, as increased demand for construction materials, consumer goods, and workforce needs rises.

Furthermore, Indonesia's ambition to achieve the 2030 Sustainable Development Goals (SDGs) positions the renewable energy sector as a key opportunity. Projects such as hydroelectric power plants and green infrastructure initiatives are gaining traction. For instance, Indonesia has committed to increasing its renewable energy mix to 23% by 2025, with significant investments in solar, wind, and hydropower projects. These initiatives not only align with sustainability targets but also attract domestic and foreign investors eager to participate in Indonesia's green transition.

Inflation Framework Strategy

Bank of Indonesia (BI) has employed a strategy to control the inflation rate in Indonesia, which is called as Inflation Targeting Framework (ITF). This strategy allows BI to set a specific inflation target in beginning of the year.

Typically, BI announces an annual inflation target between 1,5%-3,5%. The goal of this framework is to maintain the price stability and provided a clear guidance for the public and businesses about the expected price levels and reducing uncertainty the economy.

After successfully maintain the inflation this year at 1.84%, it has fostered a stable economic environment and reduced the risk of hyperinflation or deflation. By setting a clear and achievable inflation target, BI also enhances its credibility and supports long-term planning and reduces the risk associated with volatile price movements. With this kind of strategy, BI can respond quickly to inflationary pressures or even economic slowdown. Stable inflation will attract both domestic and foreign investments, as they will be more confident in predictable returns

Danantara: Indonesia's USD\$570 Billion Sovereign Wealth Fund

Danantara, officially known as the Daya Anagata Nusantara Investment Management Agency, is Indonesia's newly established sovereign wealth fund set to launch on February 24, 2025. With an initial capital of approximately Rp1,000 trillion (US\$61 billion), Danantara aims to consolidate and manage the nation's largest state-owned enterprises (SOEs) across various sectors, including energy, banking, telecommunications, and mining. This strategic move is designed to optimize state assets, attract foreign investment, and drive Indonesia's economic growth toward an ambitious target of 8% annual GDP growth by 2029.

Managing a total of US\$900 Billion in Assets

Danantara's formation involves the integration of seven major SOEs: Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Negara Indonesia (BNI), Pertamina (energy), PLN (electricity), Telkom Indonesia (telecommunications), and MIND ID (mining holding company). Collectively, these enterprises represent a substantial portion of Indonesia's economic landscape. By centralizing their management under Danantara, the government seeks to enhance efficiency, profitability, and global competitiveness. The fund is projected to manage assets totaling approximately US\$900 billion (Rp14,715 trillion), positioning it among the world's largest sovereign wealth funds.

Supercharging Growth & Investments

Beyond managing state assets, Danantara will play a crucial role in driving investment into high-impact sectors that are vital for Indonesia's long-term economic transformation. A major focus will be on renewable energy, as Indonesia seeks to reduce its dependence on fossil fuels and meet its target of net-zero emissions by 2060. The fund will allocate capital toward solar, wind, and hydropower projects, helping Indonesia transition to a more sustainable energy system. Another priority area is food security, with investments planned to strengthen agricultural productivity and supply chains to ensure stable food supplies for the growing population. Advanced manufacturing is also a key focus, as the government aims to expand industrial capabilities, promote innovation, and boost local production to reduce reliance on imports. Furthermore, Danantara is expected to enhance infrastructure development, including transportation networks, ports, and logistics hubs, to improve connectivity and support economic growth.

Foreign investment will be a crucial element of Danantara's success. One of the most notable commitments so far comes from the United Arab Emirates (UAE), which has pledged \$10 billion to fund a 10-gigawatt renewable energy project in Indonesia. This partnership is expected to accelerate the

country's clean energy transition while attracting additional foreign investors looking for opportunities in Indonesia's emerging markets. The government is actively working to secure further investments from global partners, including China, Japan, the United States, and Europe, to strengthen Danantara's financial base and expand its reach.

A Key Piece in Indonesia's Grand Strategy

President Prabowo Subianto's administration has set an ambitious goal to elevate Indonesia's annual economic growth to 8% by 2029. Danantara is central to this vision, serving as the primary vehicle to mobilize and deploy capital effectively across strategic sectors. By optimizing the performance of SOEs and attracting foreign investments, Danantara is expected to play a pivotal role in achieving this economic milestone. However, experts emphasize the need for structural reforms, job creation in the formal sector, and investment in manufacturing and export-oriented industries to sustain such growth.

Currently, Danantara represents one of the most ambitious economic initiatives in Indonesia's history. If managed effectively, it has the potential to reshape the country's financial and industrial landscape, attract billions in foreign investment, and position Indonesia as a key global investment hub. However, its long-term impact will depend on the government's ability to ensure sound financial governance, promote transparency, and make strategic investment decisions. With the right policies and execution, Danantara could become the economic engine that drives Indonesia toward sustainable, high-growth development for years to come.

Figure 17: LQ45 Monthly Chart



Source: Trading View

Figure 18: LQ45 Listed Company

No	Securities Code	No	Kode Efek	No	Securities Code
1	AALI	16	ELSA	31	PGAS
2	ADHI	17	EXCL	32	PPRO
3	ADRO	18	GGRM	33	PTBA
4	AKRA	19	HMSP	34	PTPP
5	ANTM	20	ICBP	35	PWON
6	ASII	21	INCO	36	SCMA
7	ASRI	22	INDF	37	SMGR
8	BBCA	23	INTP	38	SMRA
9	BBNI	24	JSMR	39	ARIL
10	BBRI	25	KLBF	40	SSMS
11	BBTN	26	LPKR	41	TLKM
12	BMRI	27	LPPF	42	UNTR
13	BSDE	28	LSIP	43	UNVR
14	BUMI	29	MNCN	44	WIKA
15	CPIN	30	MYRX	45	WSKT

Source: CNBC Indonesia

Trade Idea: Long LQ45

Catalysts

As global trade recover, Indonesia economic would be benefitted from the major trade with the partners such as China, US and India. This recovery will bolster Indonesia’s export sector, providing an essential to boost its economic growth. Additionally, the potential easing of monetary policy and resilience of strong domestic consumption have supported short term recovery and long-term stability of Indonesia economic.

Investor confidence in Indonesia’s economy is also improving, as reflected in a net foreign inflow that approximately 285 billion rupiah this week. This signals a growing preference among global investor to allocate their funds into emerging markets like Indonesia.

This positive sentiment is also further reinforced by Indonesian government’s recent reforms, with a new president elected, Prabowo Subianto. Indonesia currently aims to increase more foreign direct investment (FDIO into strategic sectors such as manufacturing, technology and green energy, positioning Indonesia as competitive and business friendly investment decision.

Furthermore, Indonesia continues to be benefit from strong demand for key commodities such as coal, palm oil and nickel, especially as winter seasons in several countries drive higher energy and resource consumption toward end of the year. The demand for these commodities not only strengthens Indonesia’s export revenue but also supported broader economic recovery.

With the improving global and domestic economic outlook, it will significantly impact the Indonesia Stock Exchange (IDX). As Indonesia benefits from recovering global trade, increasing investor confidence and stronger domestic consumption, large and liquid companies listed in IDX will gain substantially and driving overall market performance and economic resilience.

Technical

The RSI is currently at 43.94, moving upward from oversold levels (<30). This indicated improving momentum, suggesting a potential reversal or upward trend. The

MACD line also has crossed above signal line, forming a bullish crossover and represent strong indicator of potential upward momentum. With a strong support level around 843-851, it indicates potential reversal trend

Trade

Limit Long: 776.704

Take profit: 1062.41

Stop loss: 649.62

Risk-reward ratio: 4.2

Analyst

Manav Jethwani

Global Macro Analyst

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Basic Information

GDP	\$3.6 trillion
CPI Inflation	4.31%
Unemployment Rate	6.4%
Trade Deficit	\$21.94 billion
Repo Rate	6.25%

Charts

Figure 1: India Service Sector Growth

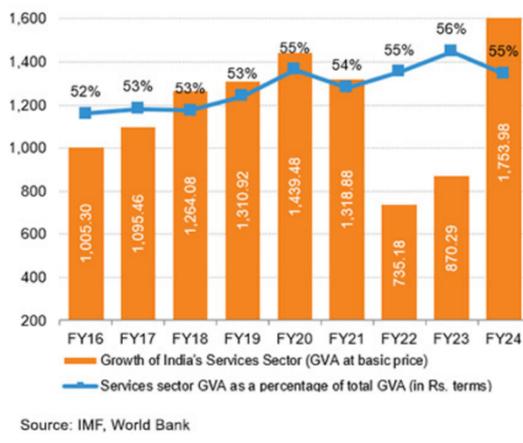


Figure 2: India's Annual GDP QoQ Growth

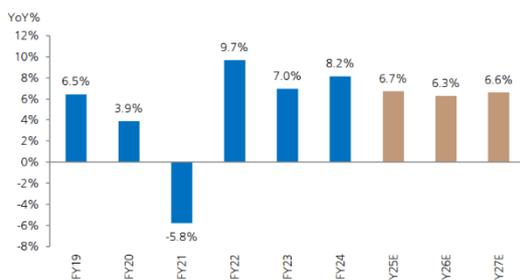
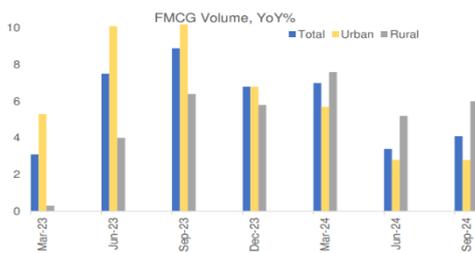


Figure 3: Rural FMCG Volume Increasing



Overview of India

With a total population of 1.45 billion people, India is the fifth-largest economy, with a nominal GDP of USD 3.6 trillion. It is the third-largest economy by PPP and is projected to become the third-largest economy in terms of nominal GDP by 2030. A large proportion of the Indian economy is fuelled by private household consumption (60.34%), followed by investment expenditure standing at 33.74%, while government expenditure is at 10.5% and exports at 21.89% while imports resolute at -23.96%. Besides this, India's service sector contributes to around 50% of the economy's GDP and 55% to its Gross Value Added Product at current prices. Furthermore, India's service sector ranked number 1 in FDI inflows according to the Department for Promotion of Industry and Internal Trade (DPIIT). In addition, India's labour force participation rate stands at 50% (Q324). India's main exports include refined petroleum (\$86.2B), diamonds (\$25.2B) and chemical products (\$19.5B). Its main imports include crude petroleum (\$170B), gold (\$35.8B), petroleum gas (\$32B) and coal briquettes (\$58.7B). The Reserve Bank of India has maintained a Flexible Inflation Targeting Framework, FITF, where the primary purpose involves keeping headline inflation at an average of 4% with an upper band of 6% and lower band at 2%.

Summary of events in the last 6 months

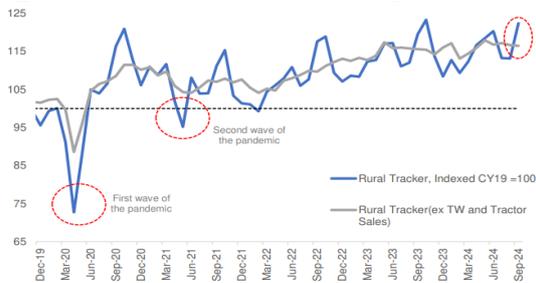
India's Economic Fundamentals

- For the longest time, India has been in the Goldilocks Period, experiencing high economic growth and rising disposable income. However, in recent times, the pace of growth has significantly slowed, with analysts reporting a 6.7% real GDP growth rate in FY2025 compared to 8.2% last fiscal year. The UBS India Composite Economic Indicator (UBS India-CEI), a leading indicator with 15 high-frequency data points, suggests economic momentum likely softened in the September quarter after a weak June quarter in 2024.

Uptick in Rural Demand

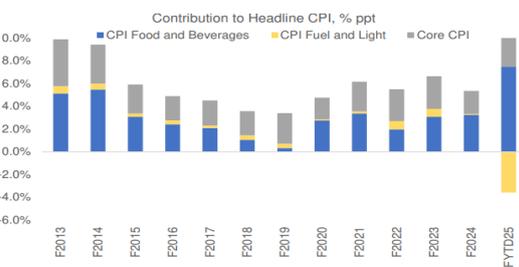
- Rural demand is steadily recovering after being laggard in the past 2 years. For instance, two-wheeler sales have remained largely steady at 12.2% (vs 12% in 2023). Similarly, for FMCG volume growth, rural areas have outpaced urban areas for three consecutive quarters, as sales in rural areas grew 6% in QE Sep-24 while sales in urban areas remained weak at 2.8%. Rural demand has benefited from a range of factors such as a favorable monsoon season, rising real wages, lower non-agricultural input costs that is benefitting the country's terms of trade, and improvements in labor market conditions.

Figure 4: India's Rural Recovery



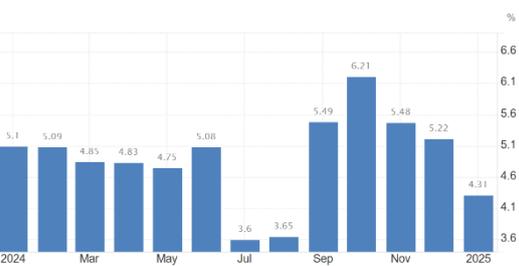
Source: Morgan Stanley

Figure 5: India's Headline Inflation



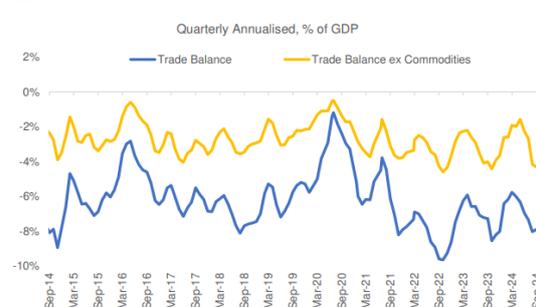
Source: Morgan Stanley

Figure 6: India's Inflation Rate MoM



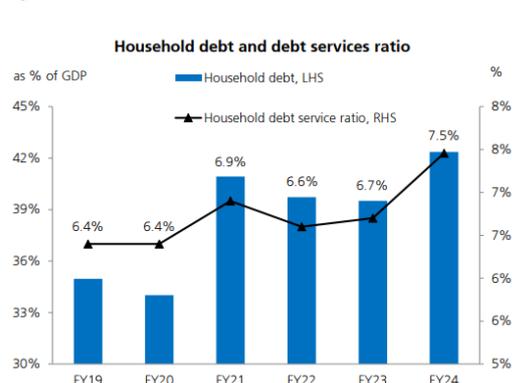
Source: Trading Economics

Figure 7: Trade Balance



Source: Morgan Stanley

Figure 8: Household Debt



Source: UBS

Headline Inflation Eases to 4.3% in January 2025

- Headline Inflation includes extremely volatile components such as food and energy pricing. Since the CPI basket is largely composed of food items, (45 to 50%), headline inflation in the 4Q24 had been on the rise at 6.2% in October 2024. However, we are now seeing signs of moderation towards the RBI's target range of 4% owing to a more favourable monsoon season and subsequently a better harvest. Vegetable prices and commodity pricing (weak global demand) are moderating, hence food inflation is also expected to soften from its peak of 10.87% in October 2024. Core Inflation is expected to remain largely stable.

RBI begins their rate-cutting cycle

- Following the softening in headline and food inflation, the RBI has started its rate cutting regime, beginning with a 25 bps cut in February. UBS baseline case is an expected 75 bps cut until the end of 2025, following improvements in inflation, slowing credit growth conditions and rising household debt to GDP ratios. We expect the RBI to take a more cautious approach given the uncertainty looming the global economy following Trump's universal 10% baseline tariff.

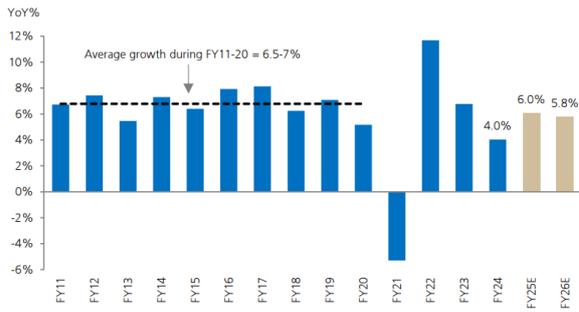
Updates to the Union Budget

- There were significant changes made to the Union Budget, including lowering the tax rates by increasing the income tax thresholds. (The income exemption threshold increased from ₹700,000 to ₹1.2 million)
- This aims to boost overall household consumption amid an uncertain global macroeconomic environment due to Trump's tariff pressures. In addition, the government aims to boost productivity across the agricultural sector and employment opportunities for middle-income earners.
- Credit Cards for Micro Enterprises, fund of Funds for Startups, Public Private Partnership in Infrastructure, and increased Investment into R&D

India's Current Account Deficit to remain Manageable

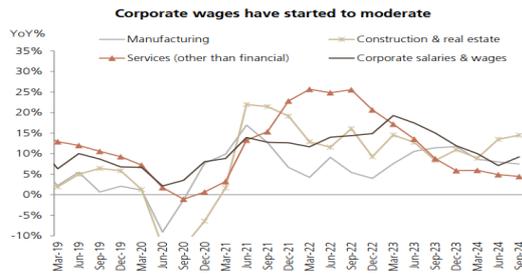
- We estimate India's CAD to remain manageable at 1.3% in FY26E (vs. 1.1% of GDP estimated for FY25E) despite concerns of a regional trade slowdown. In recent years, CAD has not breached this sustainable range due to additional buffers created in the form of a higher services trade surplus and buoyant remittance flow. That said, we expect it to remain below the sustainable range of 2.2-2.5% of GDP.

Figure 9: Household Consumption



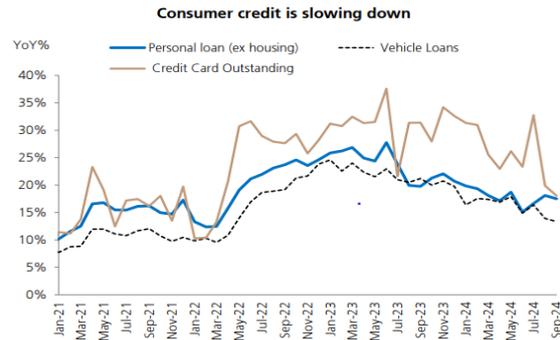
Source: UBS

Figure 10: India Corporate Wages



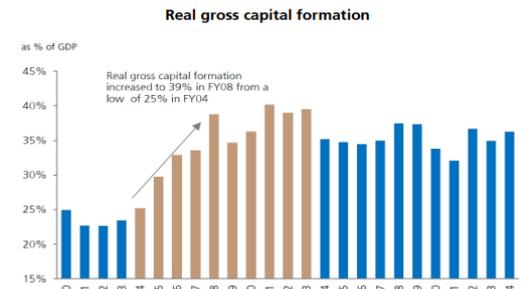
Source: UBS

Figure 11: India Credit Growth Slows



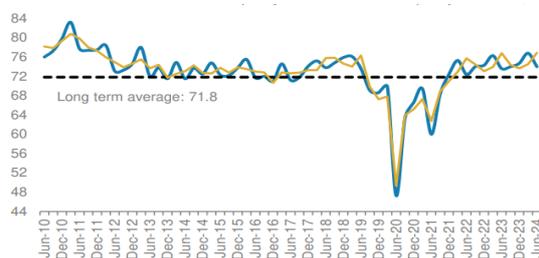
Source: UBS

Figure 12: Real Gross Capital



Source: UBS

Figure 13: Capacity Utilization Levels



Source: Morgan Stanley

GDP Forecast of 6.7% in FY2025

Consumption Growth Below Trend

There is a clear distinction between household consumption and real GDP growth rate, with an apparent narrowing in the K-shaped consumption pattern. The wealthier segments of the population are spending less due to tighter credit conditions and rising household debt-to-GDP ratios, where as the lower-income earners are likely to benefit from government stimulus, welfare spending, and handouts. Hence, we expect household consumption to reduce to 5.8% compared to a 6% consensus.

In addition corporate wages have stagnated with real wages in urban areas decreasing due to higher inflation levels. However, the expected rise in personal income thresholds, as stated in the Union Budget, will boost household income by 0.3%. Hence, in the medium term, we can expect domestic demand to support the bulk of the Indian economy, especially given that banks have seen higher deposit rates and soon to be, anticipated cuts in the repo rates.

Investment recovery

India's real investments rate (real gross capital formation as a percentage of GDP) improved to 36.2% in FY24 from a recent low of 32.1% in FY21 (pandemic period) and compared with 37% in FY19. Since the pandemic, public investment and residential housing demand have been doing the heavy lifting to stabilise investments. The central government capital spending has grown by 25.3% on a 5Y-CAGR basis between F2019-24, growing 3x times in absolute terms. But, in FYTD25, government spending has remained weak due to elections, with growth in total expenditure a tad below last year's levels, while capex has seen a more meaningful decline of 15.4%YoY in 1HF25.

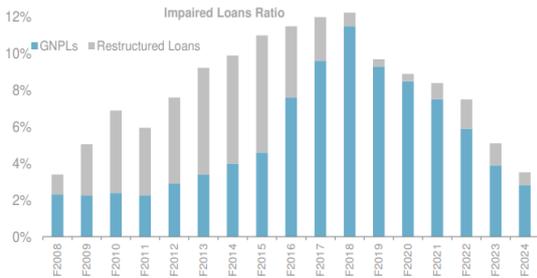
However, recent trends have shown continual improvement in private and public capex having been supported by improving investor sentiments, rising order of capital goods, an increase in corporate funding and credit and higher net fixed assets, specifically in semiconductors, power, and real estate.

We also expect housing demand to remain buoyant due to improving affordability, increased overhang and likely policy easing. Therefore we can expect an overall improvement in investments following higher capacity utilization levels, resilient balance sheets and a supportive policy environment. The impaired loans have fallen to a recent low of 3.5%, indicating that the credit quality of banks have improved and the default rate on bad loans are falling. All this is a major signal toward a positive investment cycle.

In contrast, the key risk we have to identify comes with the potential implications of Trump's tariff policy on China. Given the implied 60% tariff on Chinese goods, there is the fear that China will offload its excess manufacturing capacity to India, reducing India's competitive edge and thus delaying any further boosts to private capex.

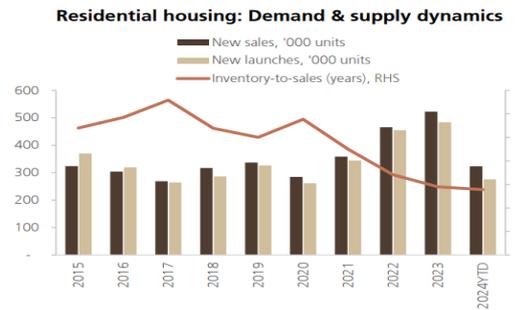
Improvements in India's PMI numbers

Figure 14: Impaired Loan Ratio at a low



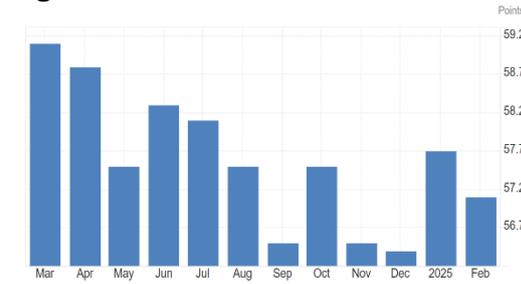
Source: Morgan Stanley

Figure 15: Residential Housing Demand



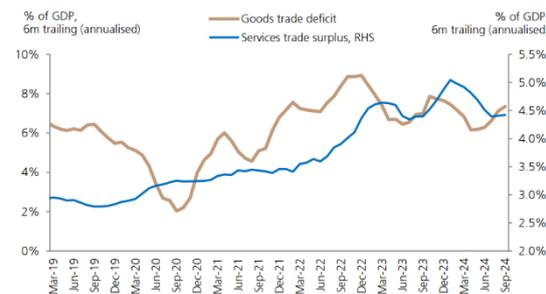
Source: UBS

Figure 16: India PMI



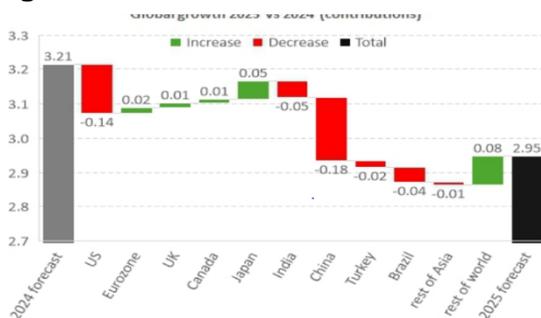
Source: Trading Economics

Figure 17: Trade Deficit



Source: UBS

Figure 18: Global Growth Slowdown



Source: UBS

The HSBC India Manufacturing PMI for January 2025 came in at 57.7. This marked the fastest expansion since last July, with new orders rising at the sharpest pace in six months, driven by the steepest increase in exports in nearly 14 years. As a result, manufacturers ramped up production, continuing a substantial expansion trend since October 2024. Manufacturers also accelerated the purchase of inputs. Firms successfully increased inventories, while vendor performance improved the most in eight months. Companies also hire more workers, with employment expanding at the greatest rate in nearly 20 years. On prices, input costs inflation remained modest and the weakest since February 2024.

Potential weakness in Exports

The historical experience of 2018-19 suggests escalating trade tensions sow the seeds for much weaker global growth, given spillovers to financial markets, consumer and business confidence. Export growth slowed across all of Asia then, not just China. At that time, GDP growth in Asia's open economies were more significantly affected by the hit to global demand. India's trade deficit widened to 7.4% but its service export surplus remained at 4.4%. Given an uncertain global macroeconomic environment, we could see vast drops in trading volumes, adversely affecting the country's trade balance.

Effect of a Trump 2.0 Trade War

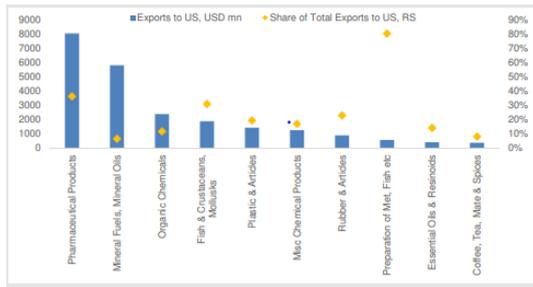
We expect the US to impose incremental tariffs on China and the rest of the Euro Area starting 2025 till the end of the year. In addition, we expect global growth to slow down to 2.9% (versus a benchmark of 3.1%) owing to the US's broader protectionist policies.

The US has been a significant destination for India's exports, with the share of exports at 15.8% in F2018 (pre-tariffs*), while it rose to 16.9% in F2020 and is tracking at 17.7% in F2024. Among key commodities that are exported to the US are pharma products, mineral fuels & oils, marine products, organic chemicals and chemical products, plastic and rubber articles. The US is also an integral destination for India's service exports, with a share of 54% in software service, of which computer services comprising the highest share- standing at 27%. This is followed by professional and management consulting services- which have grown 18.5%.

In March 2018, the US imposed additional tariffs of 25% and 10% on steel and aluminium respectively on a global basis. While India's steel exports declined by 35% during F2019 compared to F2018, aluminium exports in he affected lines increased by 14%.

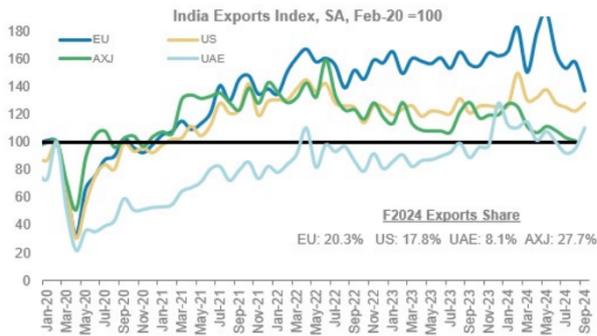
Considering the 2018 trade war, we can anticipate the near term effects on India to come significantly from indirect channels of slower global growth and weaker consumer confidence, potentially affecting capacity utilisation levels and capex.

Figure 19: India Exports to US



Source: Morgan Stanley

Figure 20: India Main Export Destinations



Source: Morgan Stanley

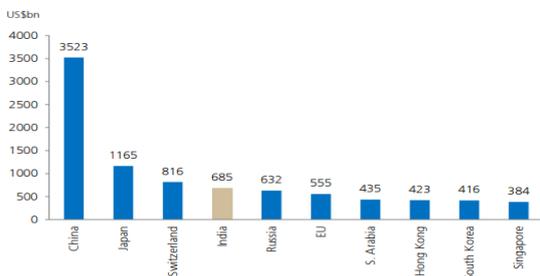
Figure 21: INR depreciate with CNY



Source: UBS

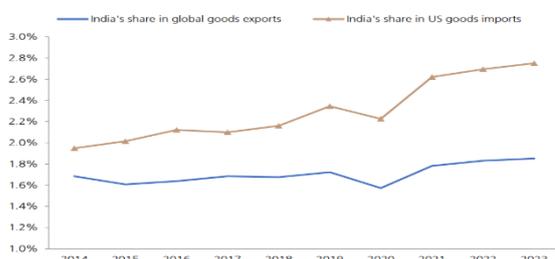
Figure 22: India Resilient Reserves

India has fourth largest forex reserves in the world



Source: UBS

Figure 23: India's Growth in Global Exports



Source: UBS

Weakening Indian Rupee

India's widening trade deficits, in recent times, and persistent inflation have eroded the purchasing power of the rupee and led to larger outflows of the rupee as importers must convert more rupee to purchase more expensive imported inputs. This acts as a positive feedback loop whereby high inflation weakens the currency while a weaker currency makes imports more expensive. Owing to Trump's tariff policies, we can expect further depreciation pressures on the INR as FIIs increase their hot money outflows towards the US. With this in mind, the INR is expected to depreciate by 0.6% against the USD, breaking the 87 mark. However, we can expect this to be contained given the RBI's proactive intervention the foreign exchange market.

On external vulnerability, we believe India's FX reserves remains comfortable at US \$676bn as of 8 November 2024, (vs. a recent low of US\$530bn in October 2022). Import cover for reserves improved to 11 months in October 2024, better than the recent low of 8.5 months in September 2022, as the RBI rebuilt FX reserves. Comparing India with its emerging peers, India's external vulnerability indicators looks comfortable and there seems to be sufficient reserve buffers to mitigate potential external risks.

However, analysts expect further depreciation pressures on the RMB given the 3x increase in tariffs compared to the 2018-19 impact. It is estimated that USDRMB will trade at 7.6 in 2025 and 7.7 in 2026, potentially affecting India's trade balance, given a more competitive Chinese export market.

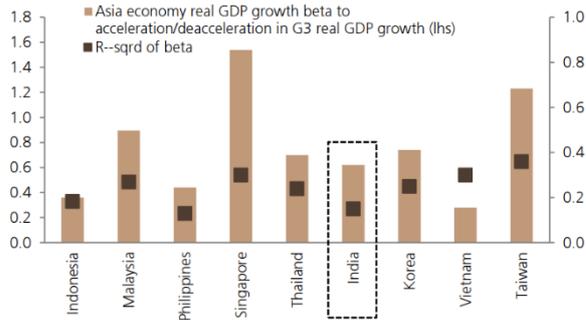
Furthermore, China's fiscal stimulus packages and undervalued equity markets have incited FPI and FIIs to increase capital outflows from India, while redirecting it to Chinese assets. This implication continues to put downward pressure on the INR. In addition, the worsening global economic outlook has increased India's trade deficit by reducing exports and increasing imports, stimulating the RBI to dry out its foreign exchange reserves by \$22B.

Medium Term Impact

Over the medium term, we expect India to be one of the key beneficiaries of supply chain diversification. Further, the government's targeted supply-side reform measures to improve India's attractiveness as an investment destination and a young working age population (low labour costs), are likely to bolster the ease of doing business in the country and therefore gain market share.

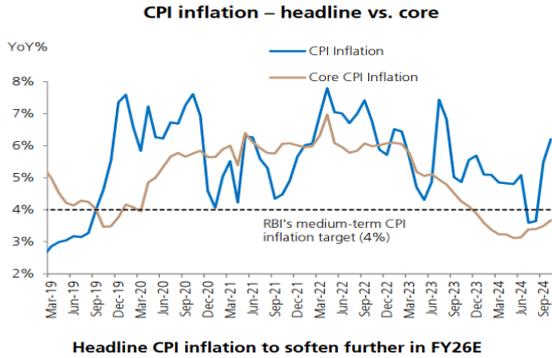
Furthermore, Indian policymakers have made significant progress in developing the country's manufacturing capabilities through lower corporate tax rates and lower labor costs. Given this resilient business environment, an escalation in the US-China trade war might prompt a potential re-routing of the supply chain networks and manufacturing investments toward India. We believe that India has the capacity and the comparative advantage relative to its peers in Asia to benefit from this China +1 supply chain diversification.

Figure 24: India's Real GDP Growth Beta

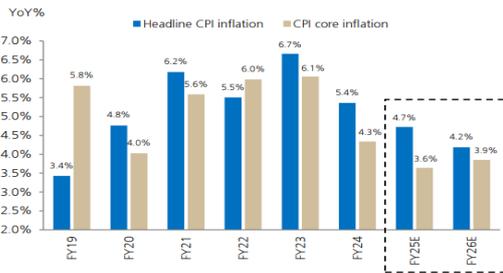


Source: UBS

Figure 25: India's Inflation

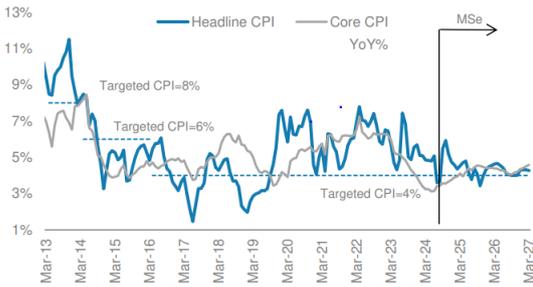


Headline CPI inflation to soften further in FY26E



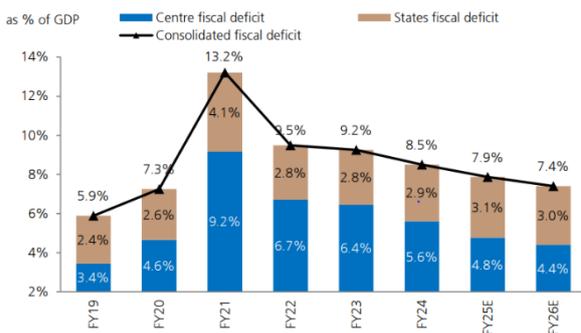
Source: UBS

Figure 26: India's Inflation average at 4.3%



Source: Morgan Stanley

Figure 27: India's Govt Consolidated Debt



Source: UBS

Implications of a 10% universal base tariff

India's export growth will then be subjected to higher tariffs and experience both indirect and direct impacts. The impact of direct effects could lower India's growth by 30 bps. Moreover, if the economy experiences further slowdown through weakening business & investment confidence and increased delays in private capex, we can expect the growth slowdown to be further exacerbated. This might prompt the RBI and the fiscal authority to conduct deeper expansionary policies to curb the downside risk of a lower trading volume through an estimated 100 bps cut in the repo rate.

However, given India's immense private consumption power, it is expected that its slowdown via exports might be offset by increasing disposable incomes and thus increasing domestic expenditures as the government looks towards more fiscal easing and tax relief programs. UBS calculated Asian GDP growth betas to a 1ppt change in a weighted aggregate of G3 real GDP growth. High exports-to-GDP economies mostly have high betas, while betas for more closed economies including India are low (sub 0.5). Hence, India might be less susceptible to the negative spillover effects of a global slowdown compared to other Asian nations.

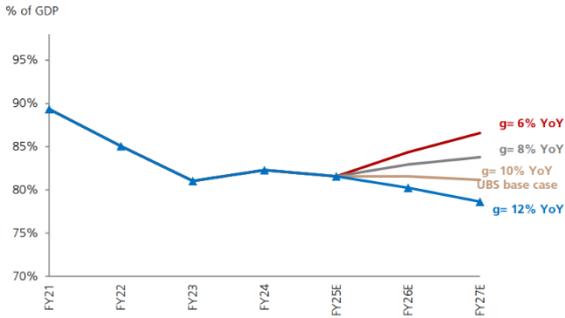
Macro- Stability drives a more certain Indian macro environment

Inflation Outlook

The trend in headline inflation in 2024 has been impacted by the sharp volatility in food prices, which constitutes a disparate weight of 45.86% in the CPI basket. The increased frequency of supply-side imbalances (such as the Covid-19 pandemic and weather-related events) has accentuated food price shocks over the last few years, while core inflation has decelerated driven by a broad-based moderation across both core goods and services. On a CYTD basis, while headline inflation has averaged at 4.8%, food has been above the 6% mark at 8.3% while core CPI has been more well-behaved at 3.4%. The favourable trend in global commodity prices, has ensured that WPI has remained low, averaging ~1.5% in CYTD24, thereby keeping input price pressures at bay.

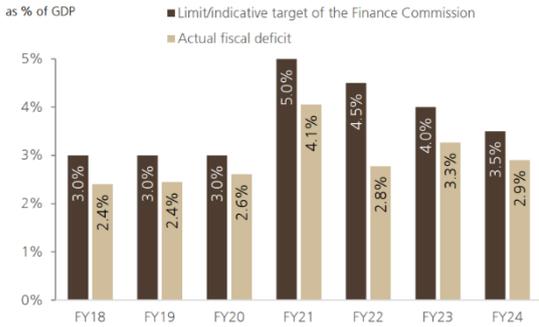
Given this, the inflation outlook we have for India looks positive driven largely by more favorable weather conditions and supply side measures. This would reduce the extent of food inflation as crop harvest improves, enabling our 12 month forecast of headline inflation to average out at around 4.2 to 4.3%. The World Bank's Commodity Markets Outlook projects commodity prices to decrease by 5.1 per cent in 2025 and 1.7 per cent in 2026. The falling oil prices by 3% in 2024, particularly driven by stalling demand, a weak Chinese economy and increasing supply by US and other non- Opec producers. Therefore, it is expected that Brent oil will trade around \$70 a barrel in 2025. However, key risks include America's sanction imposition on oil exports from Iran, further squeezing supply and an immediate end of US assistance to Ukraine. This might boost military spending in Europe up to 4% of their GDP, hence potentially spurring oil prices.

Figure 28: Public Debt under different GDP %



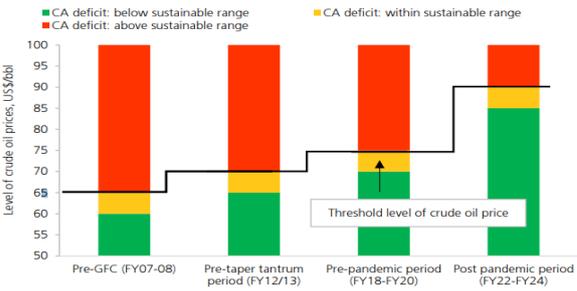
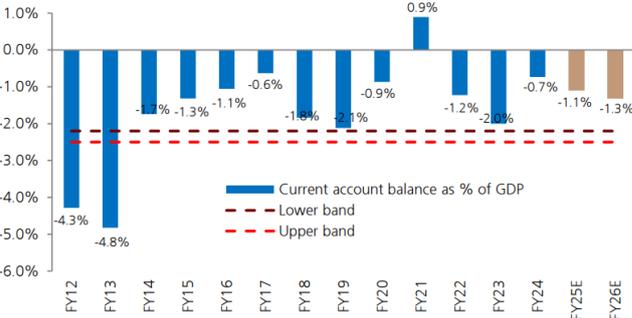
Source: UBS

Figure 29: State Fiscal Deficit vs Benchmark



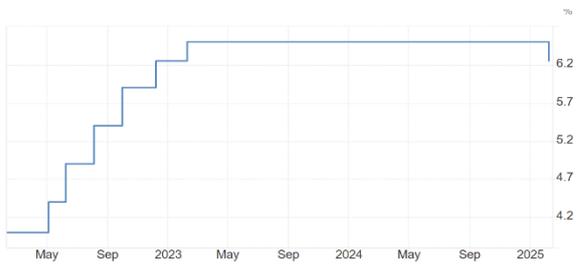
Source: UBS

Figure 30: Current Account Deficit- Stable



Source: UBS

Figure 31: Repo Rate



Source: Trading Economics

This is further supported by an anticipated increase in oil demand largely driven by China’s manufacturing recovery in December due to the fresh stimulus packages implemented by the government. Coupled with further depreciation in the INR, at least in the near term, the Indian economy might potentially face a resurgence in headline inflation; however, it remains highly dependent on what happens next.

Fiscal Consolidation

We expect the consolidated government deficit to narrow to 7.9% of GDP in FY25 and further to 7.4% of GDP in FY26 from the recent peak of 13.2%. We believe adherence to the medium-term fiscal path is critical to ensure there are enough resources to help crowd in the private sector to boost medium-term growth. On the debt sustainability front, India's public debt level has eased from the recent high of 89% of GDP recorded in FY21 (pandemic-period) but will continue to remain elevated at 81% of GDP in FY26 as per our estimates. We believe India's nominal GDP needs to grow at least 10% YoY to help stabilise public debt at the current level before reducing it.

Looking at the details, we estimate FY25 central government fiscal deficit (% of GDP) at 4.8% in FY25 (better than budget estimate of 4.9% and compared to 5.6% registered last year). However, our estimates suggest that states' fiscal deficit (based on 23 states that account for more than 90% of India's GDP) will likely go up by 20bp to 3.1% of GDP in FY25. However in 2026, we expect the central government to remain on the fiscal consolidation path and states to cap their fiscal deficit at 3% of GDP.

Manageable Current Account Deficit

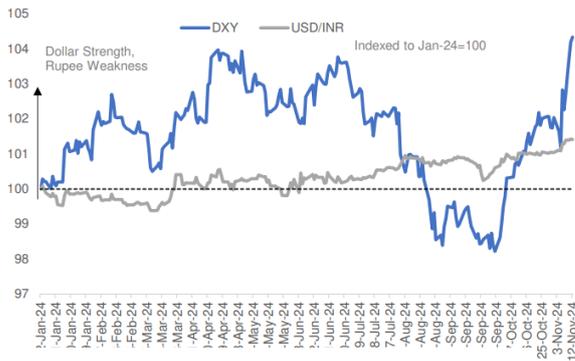
As India imports 88% of its oil requirement, lower crude oil prices (if sustained) would tend to have a favourable impact on India's macro stability risks – inflation, current account deficit (CAD), and fiscal deficit – and hence economic growth prospects. Looking at India's oil price sensitivity, we calculate a US\$10/bbl average decline in global crude prices would narrow India's CAD by US\$16bn (0.4% of GDP). Separately, considering India is importing close to 40% from Russia and taking into account the buffer created by higher services trade surplus and buoyant remittance flow, we estimate India can easily sustain global crude oil prices up to US\$90-95/bbl, all else remaining unchanged.

In addition, FX reserves is expected to rise to USD\$682 billion. Rising service exports, coupled with a high terms of trade will contribute further resilience to their balance sheets and overall CAD. This bodes well for the country’s macro stability prospects.

Monetary Outlook- RBI Stance

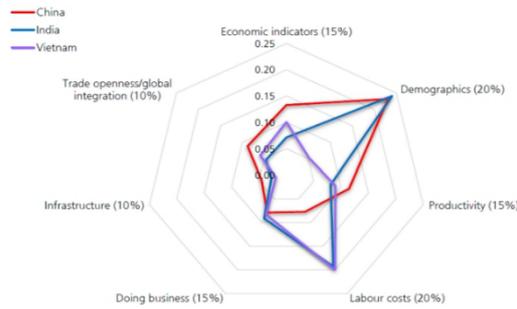
Seeing that the RBI is heavily data dependent on headline CPI data, their decision to cut the repo rate to 6.25% was justified by the moderation in the retail inflation to 4.31% in January 2025. Coupled with favorable weather conditions being reported in the medium term, the RBI MPC should go ahead with a 75bps cut until FY2026.

Figure 32: DXY has appreciated by 6.2%



Source: Bloomberg

Figure 33: India attractive for manufacturing



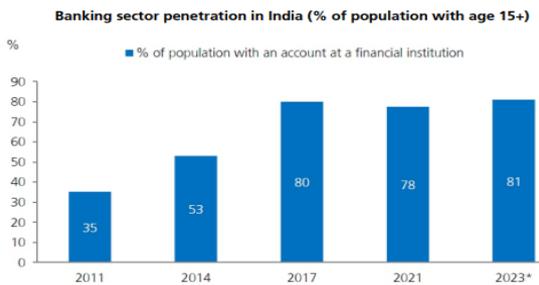
Source: UBS

Figure 34: India attractive for GCC

	English Proficiency	Talent Pool	Attrition Rate	STEM graduates	Higher Education Institutions	Average Cost to employer (US\$)
Romania	High	75,000	15.0%	10,000	92	83,160
Bulgaria	Low	95,000	12.0%	10,500	51	45,900
Poland	High	190,000	20.0%	94,000	428	65,860
The Philippines	Mid	140,000	23.0%	86,000	500	41,250
China	Mid	3,250,000	25.1%	2,750,000	2,663	53,460
India	High	3,000,000	17.2%	2,300,000	3,400	44,000
Vietnam	Low	143,000	12.0%	61,000	130	22,000
Mexico	Low	210,000	18.0%	110,000	1,250	53,955
Brazil	Low	775,000	15.0%	46,000	2,300	61,040

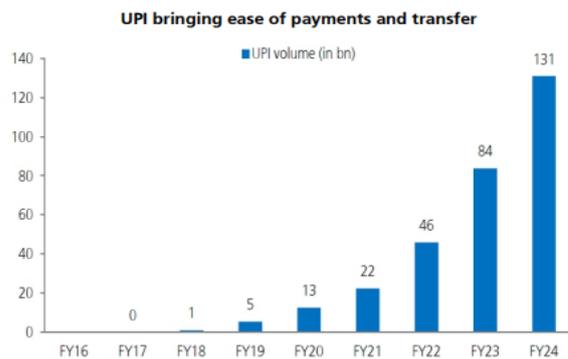
Source: UBS

Figure 35: Banking Sector Penetration



Source: UBS

Figure 36: Efficiency Gains



Source: UBS

In addition the RBI has maintained its neutral stance, as it aims to prioritize steady inflation and foster long-term economic growth. Compared with global central banks around the world, the RBI expected rate cuts are not as large due to their cautious approach of not wanting to reinvigorate inflation. Volatility in financial markets, global uncertainties surrounding tariff policies and adverse weather conditions still pose immense risk to the headline and core inflation numbers.

India's Potential Growth and Efficiency Gains

We believe India's strong underlying fundamentals driven largely by increased digitalisation, improving infrastructure, low labor costs and high service exports will make it an extremely attractive destination for investors. Besides this, an uncertain macro environment between the US and China may drive businesses to diversify their supply and value chains in India, given the country's manufacturing capabilities and strong business environment. The Modi government has also recently commissioned the deregulation of various businesses to help increase private capex and FDI inflows.

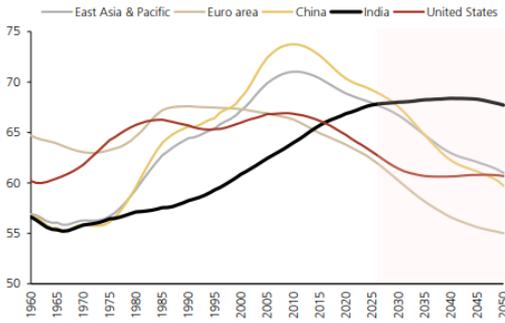
In addition, tight labor markets around the world have increased outsourcing efforts to India due to its large pool of digital talent and global capability center ecosystems (GCC). India's share of service exports increased nearly 1.5x in 2024, while its global share increased to 4.3% in 2023.

Moreover, India is a leader in digital payments, with a 46% share of global digital payments. Data consumption has increased manyfold, helped by increased smartphone penetration and lower data costs. Digital public infrastructure is changing rapidly in India, as 97% of the population has an individual identification number called an Aadhaar card, while 550m have a Jan-dhan account banking penetration is over 80% and the number of active demat account holders has increased more than 7 times from 2015 to 174m in by September 2024, implying increased financial penetration in India. Significant digitalisation adoption over the past few years is helping facilitate the transfer of public resources in a more transparent and efficient manner, expanding markets, reducing implementation costs and increasing financial inclusion.

Furthermore, India's resilient domestic market coupled with a young, educated and cheap labor force. For instance, the average monthly wage in India's manufacturing sector was about \$196 around 2023, significantly lower than some large ASEAN economies and a fraction of China's. In terms of the education level of the labour force, about 25% of India's working age population has intermediate or secondary education (according to ILO), with the average years of schooling for India's working age population at 7.8.

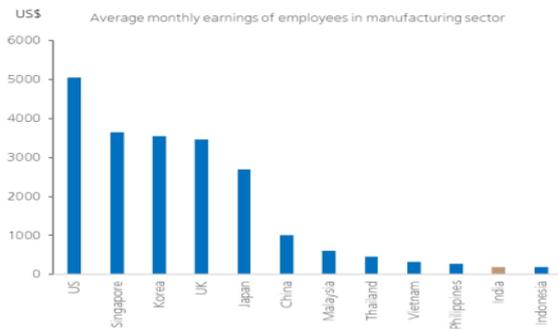
Not to mention, India's ease of doing business has increased dramatically over 5 years. According to the World Bank, the improved ranking followed reforms implemented by India in dealing with construction permits, obtaining electricity, paying taxes and resolving insolvency. In contrast, India continues to struggle with enforcing contracts and starting a business.

Figure 37: Working Age Population



Source: UBS

Figure 38: Manufacturing Wages



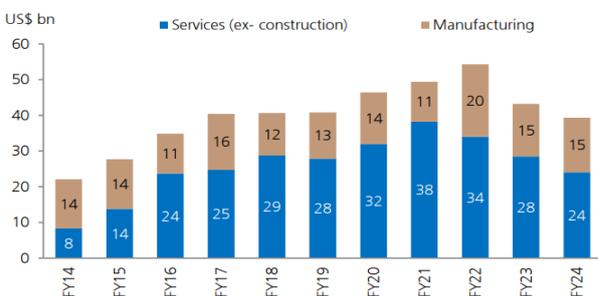
Source: UBS

Figure 39: Infrastructure Investments



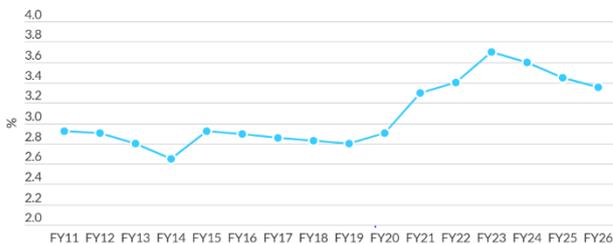
Source: UBS

Figure 40: FDI Inflows



Source: UBS

Figure 41: Indian Bank Net Interest Margins



Source: Fitch

Foreign direct investment into India has also been rising, partly due to the ongoing shift in global supply chains, and India's large domestic market. Annual FDI in terms of fresh equity inflow to India reached US\$56bn in FY20-22 from an average US \$41bn in the past five years, although it slowed to US\$46bn in FY24, with manufacturing FDI accounting for over one-third in the recent couple of years.

We believe the slowdown in headline FDI inflow in FY24 was largely due to: a rise in repatriation/disinvestment of existing investments (US\$44bn vs. an average US\$29bn in FY21-23) and an uncertain global macro environment.

Easing Liquidity Conditions

Fitch estimates that Indian bank NIMs will fall by about 10bp on average in the financial year ending March 2026 (FY26) following the 25bp repo rate cut on 7 February, to 6.25%, and the additional 25bp cut that we expect in FY26. The impact ranges between 5bp and 15bp for Fitch-rated banks. The immediate effect will be felt on floating loans linked to external benchmarks, such as housing and SME loans, but will also be felt through fresh loans in a declining policy rate environment.

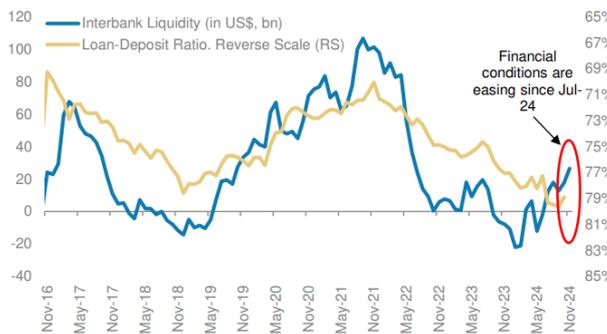
The Indian banking sector's NIM remains healthy, at 3.5% as of 1HFY25, although it has declined from about 3.6% in FY24, partly due to the higher deposit costs incurred under the tighter liquidity conditions during 2024. We believe the sector's NIM will trend towards the long-term average of about 3%, amid slower loan growth and lower yields.

System liquidity pressures have moderated since late January 2025, due to RBI actions, including durable liquidity injections through open market operations and other, short-term liquidity measures, but has so far been insufficient for banks to lower their deposit costs. The RBI also cut its CRR by 50 bps in December 2024, and it's expected to be postponed. If banks remain unable to bring deposit costs down in line with falling policy rates due to tight liquidity, their NIMs could narrow faster than we expect. This is not Fitch's base case, but as the liquidity situation evolves, alongside any further policy rate cuts, its impact on banks' NIMs and overall profitability will be a key factor to watch.

Under Fitch's base case, they anticipate that a moderation of loan growth, to 13% in FY26 from 14% in FY25, will ease funding requirements. We also believe additional measures by the RBI to improve liquidity are likely, and expect postponement of a proposed liquidity coverage ratio requirement that had been due on 1 April 2025.

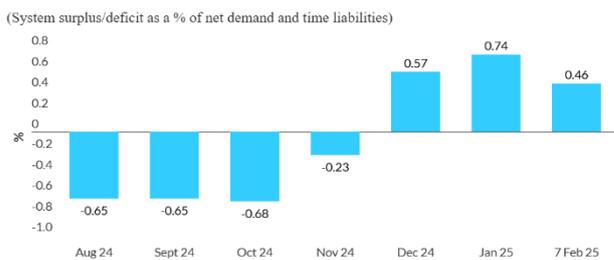
The Weighted Average Call rate has also fallen to 6.35% from a near-high of 6.54 in September 2024. With the Marginal Standing Facility at 6.75%, it is indicative of further easing in the country as the interbank lending rate falls, signalling greater deposit accumulation and looser liquidity conditions.

Figure 42: Interbank Liquidity VS CD ratio



Source: Morgan Stanley

Figure 43: Liquidity Surplus



Source: RBI

Figure 44: CRR cut by 50 bps- postponed till April



Source: Reuters

Figure 45: Near term weakness- Nifty 500



Open	20,792.05	Low	20,616.60	52-wk high	24,573.40
High	20,903.35	Prev close	20,831.10	52-wk low	19,465.85

Moreover, the RBI enhanced liquidity by lowering the Cash Reserve Ratio (CRR), likely boosting market sentiment. Additionally, India's Consumer Price Index (CPI) inflation dropped to 5.48 % in November from 6.21% in October, enhancing investor confidence and raising hopes for potential monetary policy easing by the RBI in February 2025.

In addition, the 10-year Indian govt bond yield dipped to 6.68% in January 2025 amid the RBI's open market purchases of up to USD2.31 billion worth of bonds. This is aimed at injected around 1.5 trillion rupees into the economy. The RBI will continue with two more debt purchases of 200 billion rupees in February.

Near-term weakness but medium-term recovery- Equity

FPIs sold a spree of Indian stocks- ₹3,731.60 crore- a total of ₹73,123 crore and ₹62,124 crore in October. Within the last 2 months, FPIs have been pulling funds out of Indian equity markets and redirecting these investments to China, given the vast stimulus packages recently announced by the Chinese government. This hope of recovery gives FPIs and FIIs confidence in the Chinese economy to recover, while also providing the perfect opportunity to buy into an undervalued macro-environment. To add light to the situation, the P/E ratio of the Hang Seng index remained at 12x but the Nifty was reported at 20x- exposing a significant valuation gap amid all other Asian markets.

In the near term, equities will continue to dip driven by a sharp slowdown in profit growth in the top Indian companies. Corporate earnings were reported at 5% between October and November, significantly lower than in FY2023. Weakening urban demand and falling real wages impacted earnings. An uncertain trade environment also possesses significant challenges for the equities.

However, in the medium term, we believe the Indian equity markets, Nifty 500, 50, and the Sensex to stabilize due to the China+1 diversification strategy. As India become increasingly integrated in the global supply chain and value chain, FPIs are likely to return back to Indian equities. Key sectors like automobiles, chemicals, and pharmaceuticals are likely to benefit. Additionally, logistics costs in India are likely to decrease, making them globally competitive. This indicates a strong growth potential for India's participation in the global supply chain. Besides this, the Indian equity markets also have the backing of the DIIs which can cushion any significant downside risk to the index. The expected cuts to the repo rates will not induce significant rallies in the markets but will stabilize the levels around 21000 in the Nifty 500.



Trade Idea: Long USDINR

Narrative

Given the overall macro-environment concerning the tariffs implemented by US- elected Donald Trump on China and the rest of the world, the rupee is expected to depreciate further. The weaker-than-expected growth forecasted in FY2025, and weaker corporate earnings will encourage FPIs and FIIs to liquidate Indian denominated assets, pushing the rupee even further against the USD. In addition, the demand for USD will grow as it will be seen as a safe haven investment. It will also increase amid growing inflationary expectations in the US economy which might prompt the FED to stall any further rate cuts.

With the RBI having also cut its repo rate to 6.25%, the interest rate differential between the two countries are likely to narrow. Expectations of a 75bps cut starting early 2025 will further aggravate the rupee weakness. The US dollar index has increased to 106.945, reaching 107. Furthermore, Indian equity markets are extremely overvalued compared to the other EM equity markets, which further encourages FPIs to pull their money out of India. Hence, in the near term, we can expect this trend to continue if corporate fundamentals and earnings come in lower than expected, which then puts further downward pressure on the rupee.

However, the RBI does have sufficient foreign exchange reserves (\$676 billion) and have engaged in \$5 billion USD Rupee dollar swaps. All this is expected to moderate the effects of INR depreciation however if the external pressures from the tariff continue to linger and if China does devalue their currency, we can see the INR to continue its upward trend against USD.

Technical Analysis

From the graph, we can see the SMA 20, 50 and 100 taking a downward trend, indicating that there might be a bearish trend in the medium term, given that it also crosses below the SMA 200. The SMA 100 looks like it's going to flatten out. However, from the MACD analysis, we can see the MACD line is above the signal line, implying that the near-term outlook for USDINR is on a bullish trend. The OBV is also on an upward trend indicating a strong buying pressure amongst big investors- implying the risk of a bear trap here. With a bullish momentum trend from the MACD, we can expect that the SMA 20 and 50 to rise and potentially cross the SMA 200 in the medium term.

Entry: 86.60

Take Profit: 87.07

Stop Loss: 86.29

Risk Reward Ratio: 1.56

Duration: 2 months

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