

BI7DRRR Maintained at 6.25% : Focus on Rupiah Stabilization

After Bank Indonesia (BI) unexpectedly raised the BI Rate by 25 bps during the RDG-BI on 24 Apr, it has now decided to maintain the BI Rate at 6.25% (Cons: 6.25%, KBVS: 6.25%, Prev: 6.25%). This decision aligns with BI's pro-stability monetary policies, serving as a preventive and forward-looking strategy to mitigate potential global economic volatility, particularly by enhancing the risk appetite for domestic monetary instruments. At the same time, BI hopes this will keep inflation stable within the target range of 2.5% YoY ±1% and support GDP growth in 2024, which is projected to range between 4.7% and 5.5% YoY.

BI has demonstrated the optimization of monetary instruments, including SRBI and SBN, which have recorded an inflow of USD4.2 bn mtd (as of 20 May). Then as of 21 May '24, the positions of SRBI, SVBI, and SUVBI instruments were recorded at IDR508.41 tn, USD2.13 bn, and USD 257 mn, respectively. This is in line with the increased yields of these instruments. The Weighted Average Winner SRBI for a 12-month tenor rose from 6.93856% on 19 Apr to 7.48390% on 17 May. Similarly, the Weighted Average Yield of 1-month SBI increased from 5.66845% in the 23 Apr auction to 5.69829% in the 21 May auction. Then, the Indicated Return Rate for 1-month SUVBI also increased from 5.669% on 17 Apr to 5.691% in the 15 May auction for the same tenor.

In this meeting, BI's decision also follows a reduction in geopolitical risks and relatively favorable domestic economic conditions, leading BI to anticipate an improvement in the current account for 2Q24. Furthermore, BI expects the trade surplus to continue and the current account to be within a deficit range of -0.1% to -0.9% of GDP in 2024. Meanwhile, the capital and financial account balance is projected to remain in surplus throughout 2024.

In alignment with BI's outlook, we also view that the trade surplus, current account, and Balance of Payments are expected to continue supporting Rupiah stability, alongside the effectiveness of pro-stability monetary policies. Current economic growth for 2Q24 remains positive, as evidenced by the rising number of positive indicators in household consumption and investment, such as the Consumer Price Index, Retail Sales Index, and Manufacturing PMI. Simultaneously, inflation risks are seen to be declining as weather anomalies subside. Additionally, with dovish sentiment from the Fed and easing global geopolitical tensions, we do not anticipate any BI Rate hikes throughout 2024. We expect the BI Rate to decrease once the Fed Rate begins to drop, which we estimate will occur in 3Q24.

Table 1. Interest Rate Data

Indicators	22-May-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.50	5.50	0.0	0.0
European Union	4.50	4.50	0.0	0.0
United Kingdom	5.25	5.25	0.0	0.0
Japan	0.10	0.00	10.0	10.0
China	3.45	3.45	0.0	0.0
India	6.50	6.50	0.0	0.0
Thailand	2.50	2.50	0.0	0.0
Philippines	6.50	6.50	0.0	0.0
Indonesia	6.25	6.00	25.0	0.0
Global Monetary Policy Change (in number of countries)				
Easing	9	4		
Unchanged	20	20		
Tightening	4	7		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	5.44	5.43	0.5	29.5
USD LIBOR -3 Months	5.59	5.58	0.4	18.8
USD LIBOR -6 Months	5.72	5.73	(1.0)	21.6
Domestic Interbank Money Market (in %)				
INDONIA	5.94	5.87	7.3	48.4
JIBOR - 1 Month	6.71	6.65	6.7	31.2
JIBOR - 3 Months	6.99	6.93	6.1	23.0
JIBOR - 6 Months	7.11	7.05	5.7	23.0
JIBOR - 12 Months	7.25	7.19	6.3	17.3

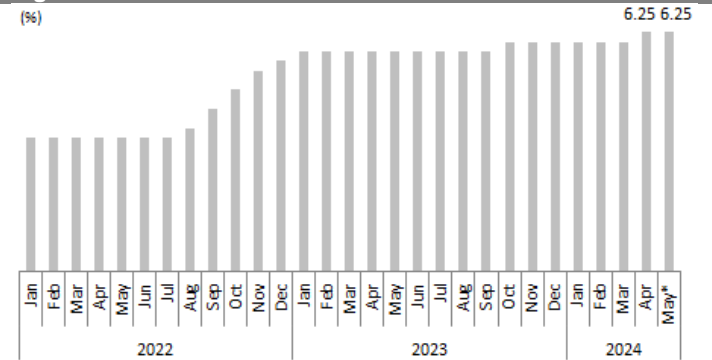
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



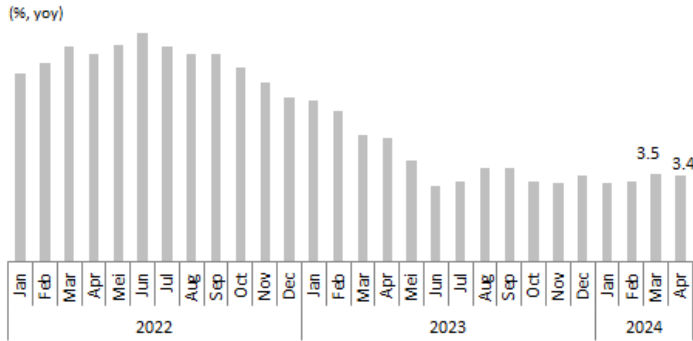
Source: The Fed – treated (2024)

Fig 2. BI7DRR



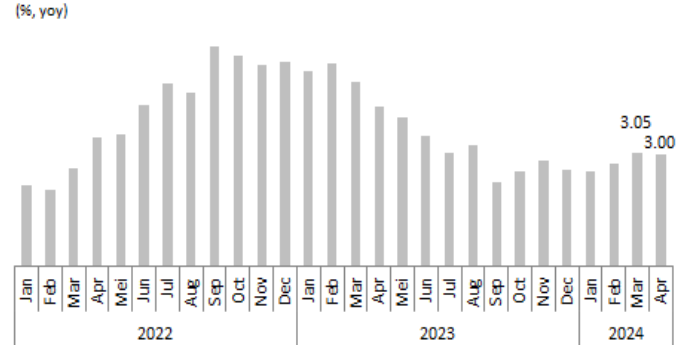
Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



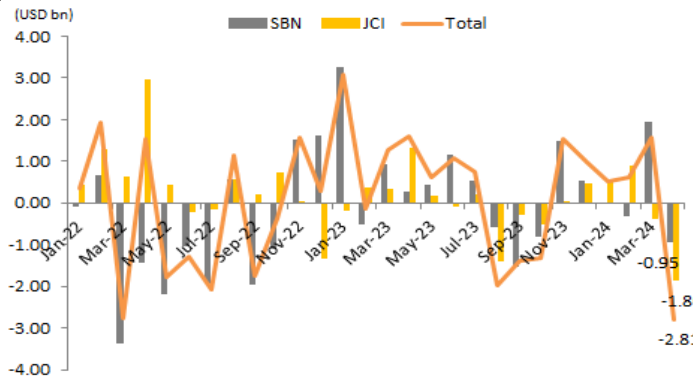
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



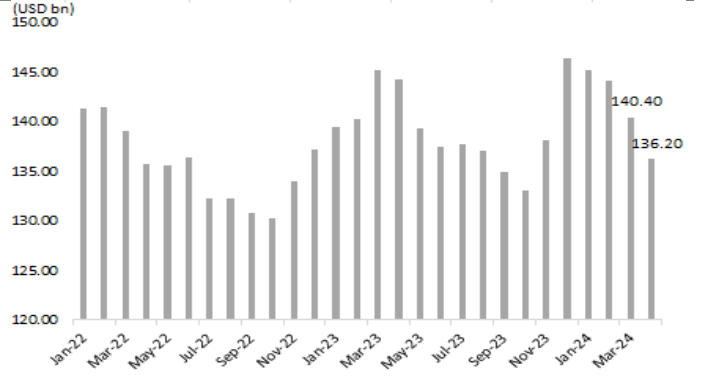
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



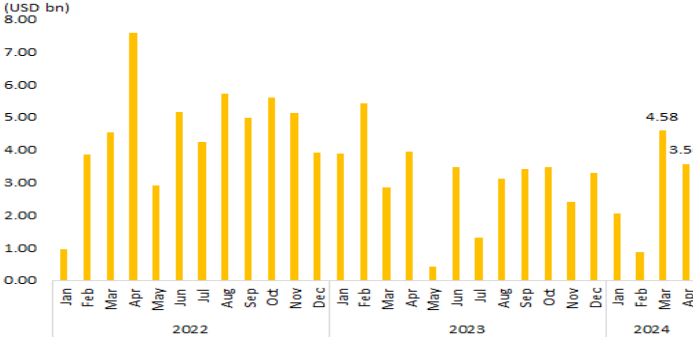
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



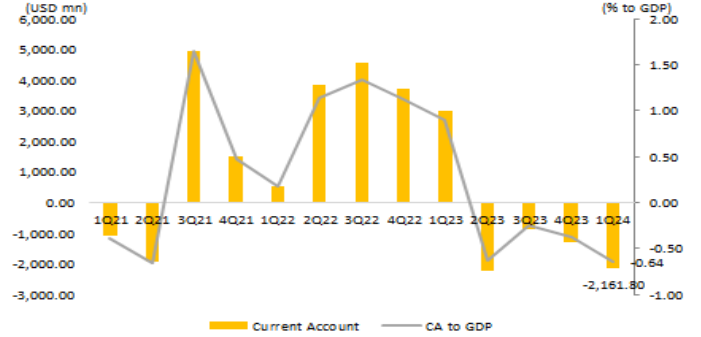
Source : BI – treated (2024)

Fig 7. Indonesia Trade Balance



Source : BI – treated (2024)

Fig 8. Indonesia Current Account



Source : BI – treated (2024)

Table 2. Fed Rate Probabilities, as of 22 May '24

MEETING DATE	MEETING PROBABILITIES							
	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
12-Jun-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%	93.5%
31-Jul-24	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	22.7%	76.1%
18-Sep-24	0.0%	0.0%	0.0%	0.0%	0.7%	12.8%	51.5%	35.0%
7-Nov-24	0.0%	0.0%	0.0%	0.2%	4.7%	25.8%	46.0%	23.3%
18-Dec-24	0.0%	0.0%	0.1%	2.8%	16.6%	37.2%	33.1%	10.1%
29-Jan-25	0.0%	0.1%	1.2%	8.4%	25.1%	35.5%	23.7%	6.0%
19-Mar-25	0.0%	0.7%	5.1%	17.4%	30.7%	29.2%	14.2%	2.8%
30-Apr-25	0.3%	2.3%	9.6%	22.2%	30.2%	23.7%	10.0%	1.8%

Source : CME Group – treated (2024)

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