

BI Playing Safe; Awaiting Fed Rate Cuts

As anticipated, Bank Indonesia (BI) has decided to maintain the BI rate at 6.25% (Cons: 6.25%, KBVS: 6.25%, Prev: 6.25%), alongside the Deposit Facility rate at 6.50% and the Lending Facility rate at 7.00%, as part of its pro-stability measures, particularly to sustain the stability of the Rupiah exchange rate. Although the Rupiah has appreciated sharply by 5.30% (*mtd, as of Aug 21*) or remains slightly depreciated by 0.12% (*ytd*), while the DXY has only declined by -2.98% (*mtd*) or risen by +0.21% (*ytd*). Furthermore, domestic inflation in Jul '24 has settled within Bank Indonesia's lower target range, at only 1.95% YoY for core CPI inflation and 2.13% YoY for headline CPI inflation. However, we view this decision as BI's anticipation of weakening Rupiah fundamentals and the risk of capital sudden reversal, following the release of a) Indonesia's trade surplus for Jul '24, which dropped to USD0.47 bn (*see fig. 7, page 2*), marking its lowest level since May '23 amid higher-than-expected intermediary goods imports, alongside concerns over b) the current account deficit trend (*see fig. 8, page 2*).

Nonetheless, BI continues to implement accommodative macroprudential policies as part of its pro-growth strategy. Additionally, BI will focus on: 1) Strengthening pro-market monetary operations strategies to enhance the effectiveness of monetary policy in stabilizing the Rupiah exchange rate; 2) Enhancing Rupiah exchange rate stabilization strategies through interventions in the foreign exchange market; 3) Strengthening competitive term-repo and foreign exchange swap transaction strategies to ensure adequate banking liquidity; 4) Improving transparency in the publication of Prime Lending Rate (SBDK) assessments; 5) Implementing the Indonesian Payment System Blueprint (BSPI) 2030; 6) Increasing digital acceptance by expanding the use of QRIS and Indonesian Government Credit Card (KKI) in the government segment; and 7) Expanding international financial cooperation and central banking collaboration.

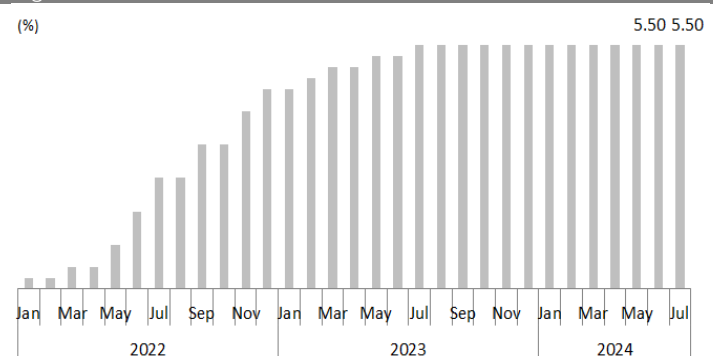
Furthermore, during this RDG, BI forecasts economic growth in 2024 to be within the range of 4.7%-5.5% YoY, primarily driven by: a) Increased household consumption demand; b) The potential rise in government spending, in line with the 2024 fiscal deficit increase from 2.3% to 2.7% of GDP; c) Rising private investment; and d) Expectations of a surplus in the capital and financial account balance. We consider this forecast realistic, with our projection supported by two 25 bps Fed Rate cuts and two 25 bps BI rate cuts by the end of 2024, which could bring economic growth to 5.0% YoY.

Table 1. Interest Rate Data

Indicators	21-Aug-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	4.25	4.25	0.0	(25.0)
United Kingdom	5.00	5.25	(25.0)	0.0
Japan	0.25	0.10	15.0	10.0
China	3.35	3.35	0.0	(10.0)
India	6.50	6.50	0.0	0.0
Thailand	2.50	2.50	0.0	0.0
Philippines	6.25	6.50	(25.0)	0.0
Indonesia	6.25	6.25	0.0	25.0
Global Monetary Policy Change (in number of countries)				
Easing	14	5		
Unchanged	13	10		
Tightening	1	0		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	5.42	5.44	(1.5)	1.5
USD LIBOR -3 Months	5.39	5.57	(18.2)	(22.2)
USD LIBOR -6 Months	5.27	5.64	(37.0)	(59.0)
Domestic Interbank Money Market (in %)				
INDONESIA	6.19	6.07	12.0	18.9
JIBOR - 1 Month	6.90	6.90	0.0	51.0
JIBOR - 3 Months	7.18	7.18	(0.1)	43.2
JIBOR - 6 Months	7.30	7.30	0.4	43.0
JIBOR - 12 Months	7.46	7.44	1.1	40.5

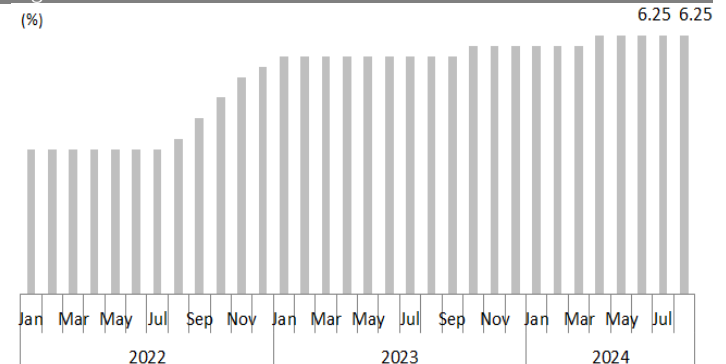
Sources : Each Central Bank and GlobalRates - treated (2024)

Fig 1. Fed Rate



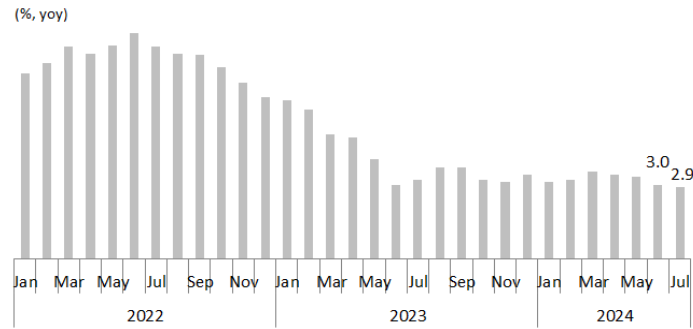
Source: The Fed - treated (2024)

Fig 2. BI7DRR



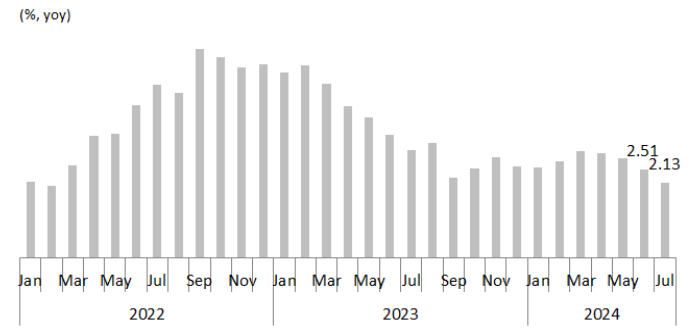
Source: Bank Indonesia - treated (2024)

Fig 3. US CPI Inflation



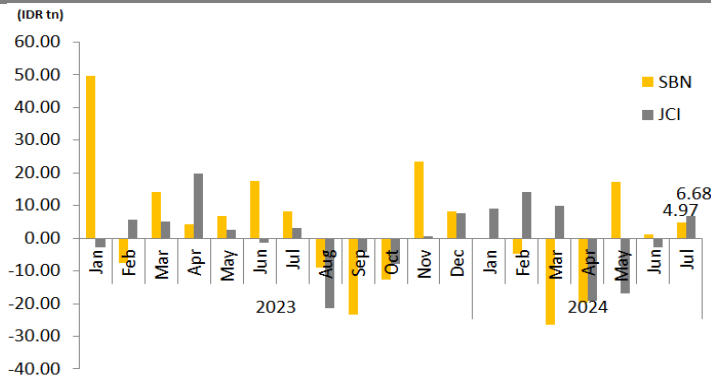
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



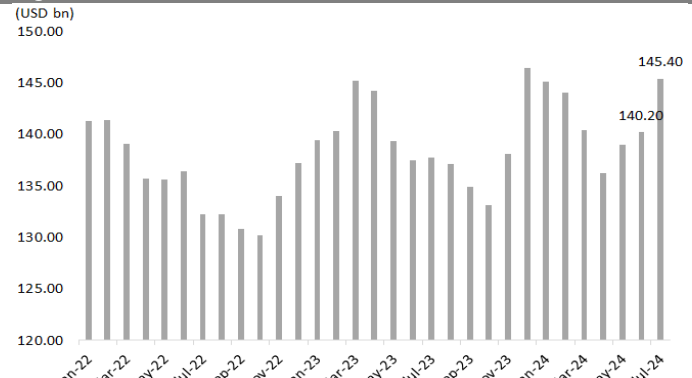
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



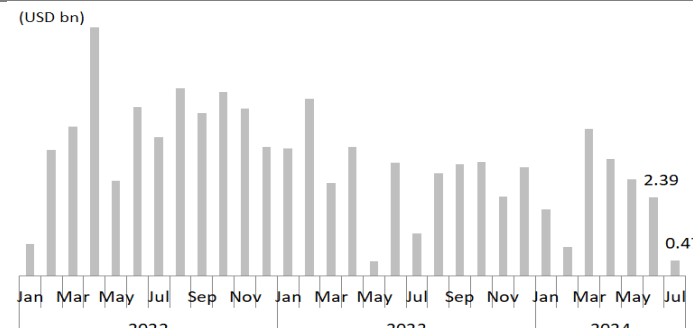
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



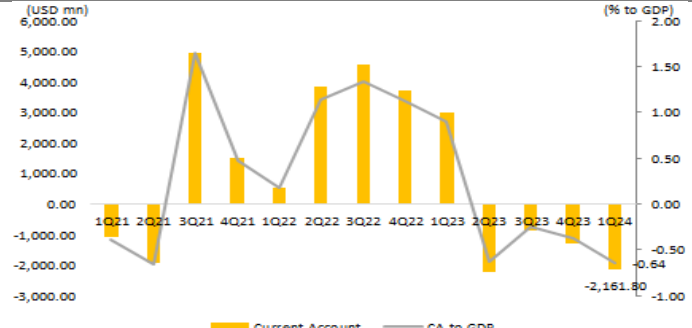
Source : BI – treated (2024)

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 21 Aug '24

MEETING DATE	MEETING PROBABILITIES										
	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525
18-Sep-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	32.5%	67.5%
7-Nov-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.7%	41.8%	49.5%	0.0%
18-Dec-24	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	20.8%	44.6%	31.3%	0.0%	0.0%
29-Jan-25	0.0%	0.0%	0.0%	0.1%	3.6%	21.5%	44.3%	30.5%	0.0%	0.0%	0.0%
19-Mar-25	0.0%	0.0%	0.5%	5.8%	24.2%	42.6%	26.8%	0.0%	0.0%	0.0%	0.0%
30-Apr-25	0.0%	0.3%	3.4%	15.9%	34.3%	34.0%	12.1%	0.0%	0.0%	0.0%	0.0%
18-Jun-24	0.2%	2.7%	13.0%	30.0%	34.0%	17.2%	2.8%	0.0%	0.0%	0.0%	0.0%
30-Jul-24	1.2%	6.9%	20.0%	31.7%	27.1%	11.2%	1.7%	0.0%	0.0%	0.0%	0.0%

Source : CME Group – treated (2024)

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