

BI Lowers BI-Rate by 25 bps to 6.00%

As anticipated, BI has adopted a dovish, pro-growth stance by cutting the BI Rate by 25 bps this RDG at Sep '24 to 6.00% (Cons: 6.25%, KBVS: 6.00%, Prev: 6.25%). This decision also led BI to lower the Deposit Facility rate by 25 bps to 5.25%, and the Lending Facility rate by 25 bps to 6.75%. We see this move as being driven by global economic developments, including (a) expectations of declining global inflation, (b) a global trend of interest rate cuts, and (c) a reduction in global volatility risks.

Additionally, we observe that this policy is underpinned by two main factors targeted by BI: 1) contained inflation, with headline CPI inflation at 2.12% YoY and core CPI inflation at 2.02% YoY in Aug 2024 (see Fig. 4, page 2), along with inflation expectations remaining within the lower end of BI's target range (2.5% +/- 1%) for the end of 2024, and 2) the strengthening of the Rupiah by 0.78% (mtd, as of 17 September 2024), which is expected to remain stable, supported by a continued trade surplus and a projected current account deficit of 0.1% to 0.9% of GDP, alongside continued portfolio inflows into the domestic market.

To further support its pro-growth policy, BI is set to: a) promote the optimal use of pro-market monetary instruments, such as SRBI, SVBI, and SUVBI to encourage foreign portfolio inflows into the domestic financial market; b) push for the implementation of BI's policy mix, including the Macropudential Liquidity Incentive Policy (KLM) in certain sectors and transparency in banking interest rates, both for deposits and lending (SBDK); c) encourage digital economic and financial transactions in society; and d) maintain the stability of the payment system with sound structure and infrastructure. Through these four measures, BI forecasts that economic growth in 2024 will range between 4.7% YoY and 5.5% YoY.

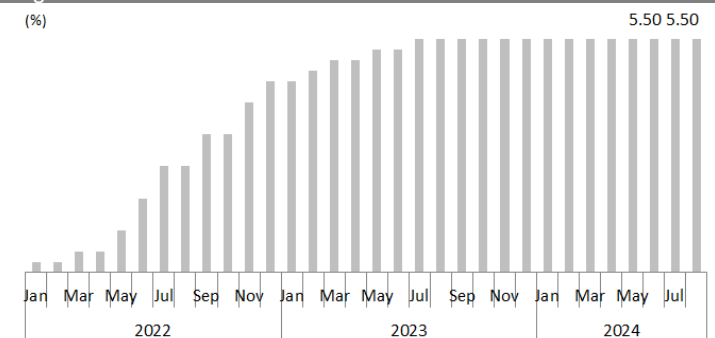
Looking ahead, we anticipate further BI Rate cuts. However, we expect BI to proceed cautiously, maintaining a pro-stability approach. In addition to inflation and the Rupiah's performance, we believe that other key indicators BI may consider in future BI Rate decisions include: a) the level of foreign exchange reserves (see Fig. 6, page 2), b) developments in the domestic trade balance (see Fig. 7, page 2), c) the yield spread between SUN10Y and US10Y, and d) the volume of foreign capital inflows into domestic portfolios (see Fig. 5 page 2).

Table 1. Interest Rate Data

| Indicators | 18-Sep-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 | 3.65 | 4.25 | (60.0) | (85.0) |
| United Kingdom | 5.00 | 5.25 | (25.0) | (25.0) |
| Japan | 0.25 | 0.25 | 0.0 | 35.0 |
| 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) | (25.0) |
| Indonesia | 6.00 | 6.25 | (25.0) | 0.0 |
| Global Monetary Policy Change (in number of countries) | | | | |
| Easing | 9 | 14 | | |
| Unchanged | 7 | 13 | | |
| Tightening | 2 | 1 | | |
| Average International Interest Rate (in %) | | | | |
| USD LIBOR -1 Month | 5.13 | 5.44 | (31.1) | (28.1) |
| USD LIBOR -3 Months | 5.12 | 5.57 | (44.5) | (48.5) |
| USD LIBOR -6 Months | 4.91 | 5.64 | (73.0) | (95.0) |
| Domestic Interbank Money Market (in %) | | | | |
| INDONESIA | 6.30 | 6.07 | 23.6 | 30.5 |
| JIBOR - 1 Month | 6.90 | 6.90 | (0.1) | 50.9 |
| JIBOR - 3 Months | 7.18 | 7.18 | (0.4) | 42.9 |
| JIBOR - 6 Months | 7.30 | 7.30 | 0.5 | 43.0 |
| JIBOR - 12 Months | 7.46 | 7.44 | 1.0 | 40.5 |

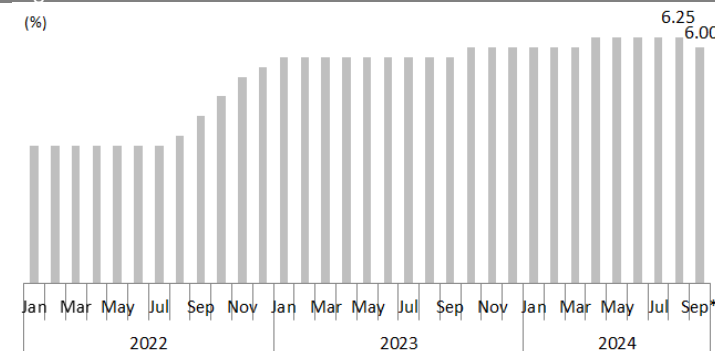
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



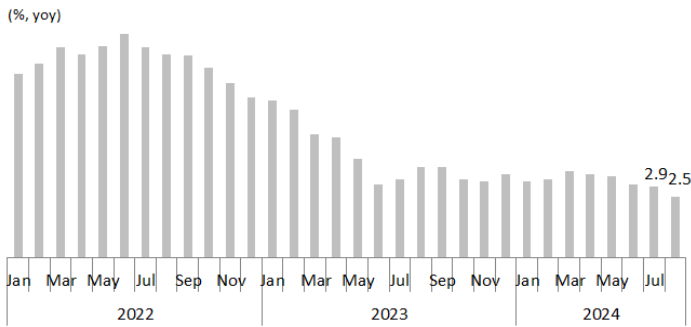
Source: The Fed – treated (2024)

Fig 2. BI7DRR



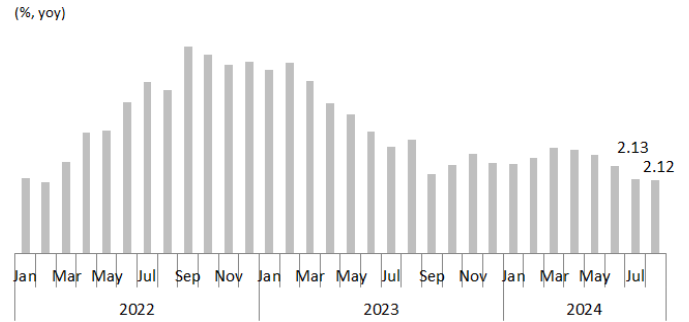
Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



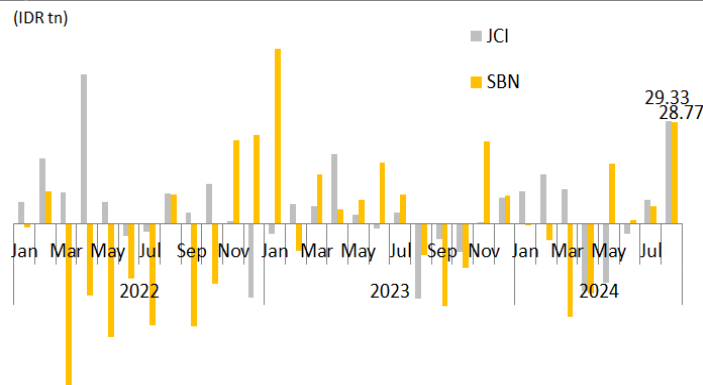
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



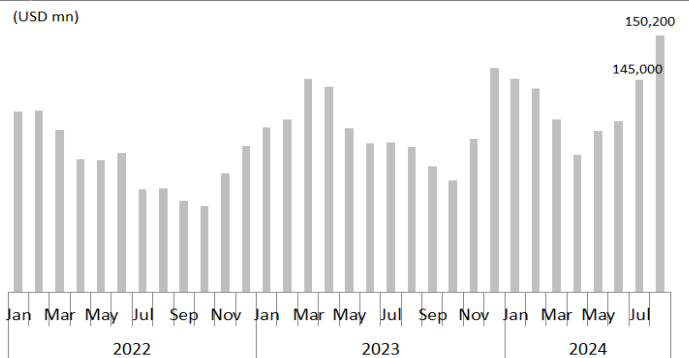
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



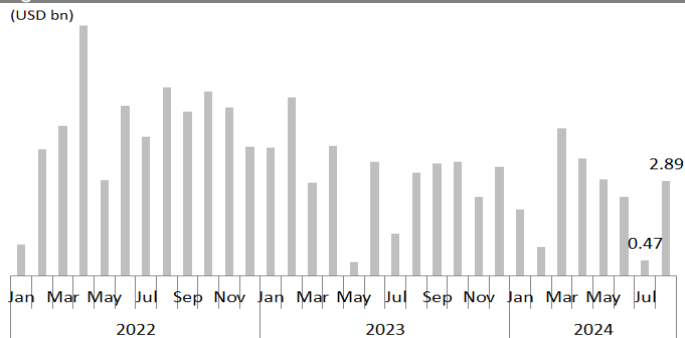
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



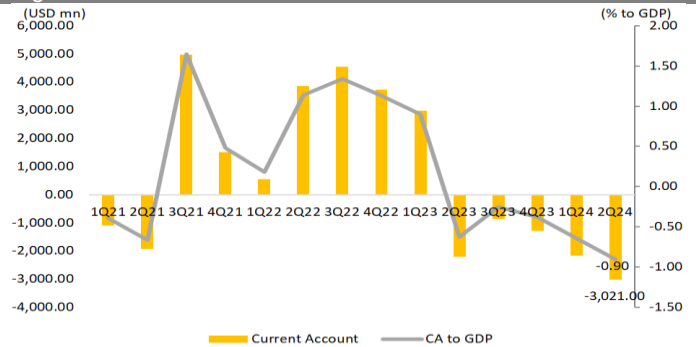
Source : BI – treated (2024)

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 18 Sep '24

| MEETING DATE | MEETING PROBABILITIES | | | | | | | | | | | | |
|--------------|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 200-225 | 225-250 | 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% | 0.0% | 0.0% | 63.0% | 37.0% |
| 7-Nov-24 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 25.7% | 52.4% | 21.9% | 0.0% |
| 18-Dec-24 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 14.9% | 41.1% | 34.8% | 9.2% | 0.0% | 0.0% |
| 29-Jan-25 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 6.7% | 26.8% | 38.2% | 23.2% | 5.0% | 0.0% | 0.0% | 0.0% |
| 19-Mar-25 | 0.0% | 0.0% | 0.0% | 2.2% | 13.4% | 30.6% | 33.3% | 17.2% | 3.4% | 0.0% | 0.0% | 0.0% | 0.0% |
| 30-Apr-25 | 0.0% | 0.0% | 2.0% | 12.2% | 28.8% | 33.0% | 18.9% | 4.8% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% |
| 18-Jun-24 | 0.0% | 1.4% | 9.3% | 24.0% | 31.8% | 22.9% | 8.9% | 1.6% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| 30-Jul-24 | 0.5% | 4.4% | 14.9% | 27.0% | 28.4% | 17.6% | 6.1% | 1.1% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |

Source : CME Group – treated (2024)

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