

BI Rate Stayed at 6.00%, but Room for Cuts Remains Open

Bank Indonesia (BI) continues to adopt a pro-stability policy stance by maintaining the BI rate at 6.00% (Cons: 6.00%, KBVS: 5.75%, Prev: 6.00%). We believe this decision triggered by BI's concern on potential Rupiah volatility in the coming period, despite the central bank's aggressive optimization of various monetary policies to attract foreign portfolio investments. Furthermore, **we explicitly see this decision is driven by, firstly, BI's concern about the risks stemming from potential uncertainties in global trade and supply chains**, which could impact global economic growth (real sector) and capital flows as a result of the imposition of Trump's tariffs and retaliatory measures prepared by various countries. For instance, China's recent export ban on Gallium, Germanium, and Antimony, which was implemented on Dec 3, '24, is one such concern. **Secondly, another risk arises from the hawkish stance likely to be adopted by the Federal Reserve**, even though the Fed rate is expected to decline. Consequently, BI's concern about volatility is reflected in expectations of the UST2Y yield reaching 4.5% in 2025 and the UST10Y yield reaching 4.7% by the end of 2025, alongside concerns over a continued rise in the DXY.

In this RDG, BI also provided a statement regarding the coordination of policies between BI and the Ministry of Finance in 2025. Coordination between BI and the Ministry of Finance includes: a) the planned issuance of SBN and monetary operations for 2025, which has been discussed by both BI and the Ministry of Finance, and b) BI's agreement to continue purchasing SBN in the secondary market, potentially in greater quantities (possibly exceeding IDR150 tn), compared to the IDR100 tn in burden-sharing SBN maturing. However, the detailed implementation of the coordination between BI and the Ministry of Finance will be finalized soon.

With the BI rate held steady at 6.00% over the past four months, while we expect the Federal Reserve will cut its rate by 25 bps tonight, the interest rate differential will be widened to 150 bps. At the same time, we expect the yield spread between the SUN10Y and the US10Y bond to widen further to 275 bps, potentially leading to appreciation in the Rupiah in the financial markets.

However, the cautious sentiment demonstrated by BI signals a careful and *wait-and-see* approach in the financial markets. That said, we anticipate that demand-side support from the real sector will serve as a fundamental driver for the Rupiah going forward, in line with the increase in the trade surplus in Nov '24, which reached USD4.42 bn (Prev: USD2.47 bn), the potential narrowing of the current account deficit in 4Q24, and further support for economic growth. This is also supported by inflation rate, both actual and expectations, remaining well-anchored at 2.5% (+/- 1%). As such, BI still has ample room to lower rates in 2025 from the real sector perspective, with a note of Rupiah stability must also be maintained.

Table 1. Interest Rate Data

Indicators	18-Dec-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	4.75	4.75	0.0	(75.0)
European Union	3.15	3.40	(25.0)	(135.0)
United Kingdom	4.75	4.75	0.0	(50.0)
Japan	0.25	0.25	0.0	35.0
China	3.10	3.10	0.0	(35.0)
India	6.50	6.50	0.0	0.0
Thailand	2.25	2.25	0.0	(25.0)
Philippines	6.00	6.00	0.0	(50.0)
Indonesia	6.00	6.00	0.0	0.0
Global Monetary Policy Change (in number of countries)				
Easing	2	7		
Unchanged	15	10		
Tightening	14	0		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	4.96	4.96	0.0	(45.0)
USD LIBOR -3 Months	4.85	4.85	0.0	(75.6)
USD LIBOR -6 Months	4.68	4.68	0.0	(117.8)
Domestic Interbank Money Market (in %)				
INDONIA	6.12	6.30	(18.3)	11.9
JIBOR - 1 Month	6.63	6.80	(17.5)	23.9
JIBOR - 3 Months	6.92	7.08	(16.2)	16.6
JIBOR - 6 Months	7.05	7.20	(15.0)	18.1
JIBOR - 12 Months	7.20	7.36	(15.3)	15.3

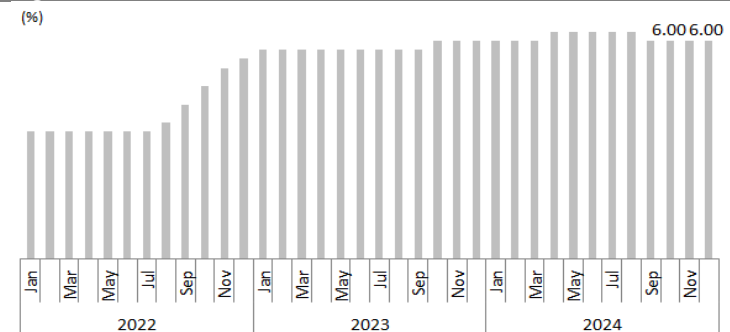
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



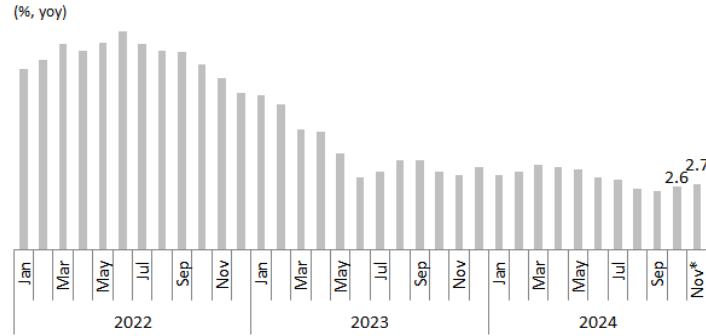
Source: The Fed – treated (2024)

Fig 2. BI Rate



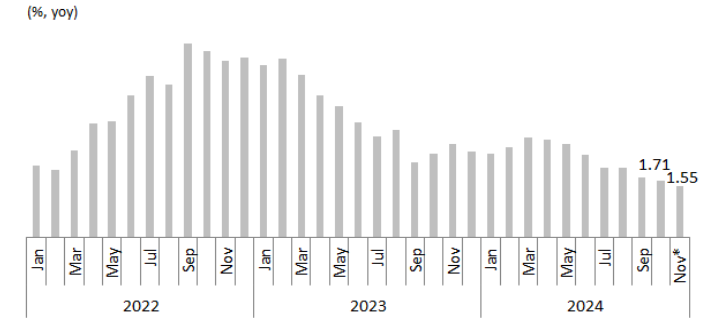
Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



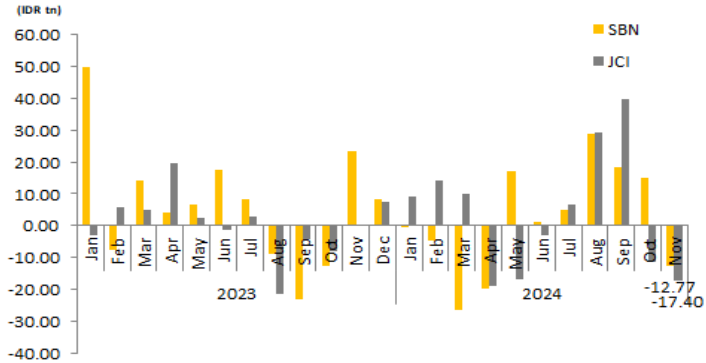
Source : US BLS - treated (2024)

Fig 4. Indonesia CPI Inflation



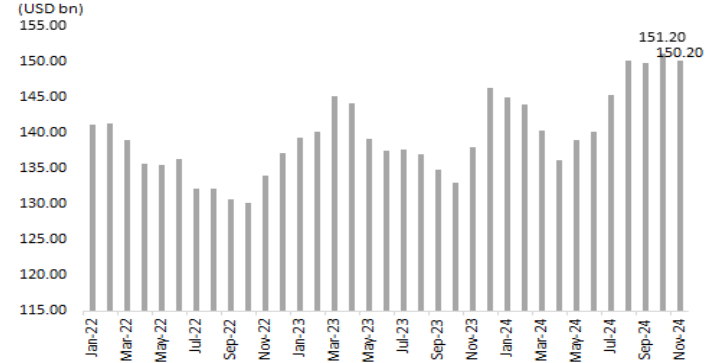
Source : BPS - treated (2024)

Fig 5. Indonesia Portfolio Flow



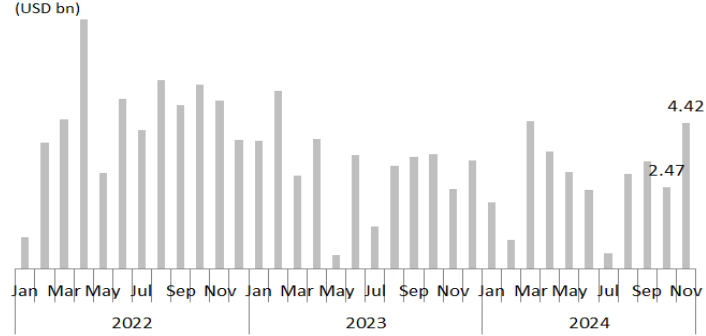
Source : Bloomberg - treated (2024)

Fig 6. Indonesia FX Reserves



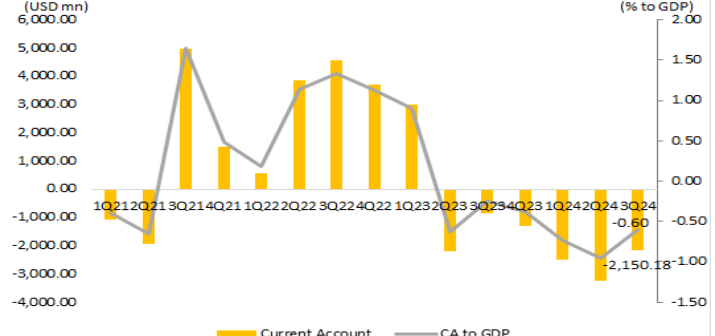
Source : BI - treated (2024)

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 Dec '24

MEETING DATE	MEETING PROBABILITIES							
	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
18-Dec-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	95.4%	4.6%
29-Jan-25	0.0%	0.0%	0.0%	0.0%	0.0%	16.3%	79.9%	3.8%
19-Mar-25	0.0%	0.0%	0.0%	0.0%	8.6%	50.0%	39.6%	1.8%
30-Apr-25	0.0%	0.0%	0.0%	2.2%	19.2%	47.3%	30.0%	1.3%
18-Jun-25	0.0%	0.0%	0.7%	8.0%	28.7%	41.4%	20.2%	0.9%
30-Jul-25	0.0%	0.1%	2.2%	12.0%	31.2%	37.3%	16.4%	0.7%
17-Sep-25	0.0%	0.6%	4.2%	16.1%	32.5%	32.9%	13.1%	0.6%
17-Sep-25	0.1%	1.1%	6.0%	18.5%	32.6%	29.9%	11.3%	0.5%

Source : CME Group - treated (2024)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
T. (021) 25098300
F. (021) 25098400

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Karet Tengsin,
Tanah Abang, Jakarta Pusat 10220
T. (021) 25098300/301

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
Jl. Boulevard Barat Raya Blok A1 No. 10
Jakarta Utara 14240
T. (021) 29451577

Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
Jl. Taman Aries, Kembangan
Jakarta Barat 11620
T. (021) 22542390

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
Jakarta Utara 14450
T. (021) 6692119

Bandung

Jl. Abdul Rivai No. 1A, Kel. Pasirkaliki,
Kec. Cicendo Bandung 40171
T. (022) 3003133

Malang

Jl. Pahlawan Trip No. 7
Malang 65112
T. (0341) 585888

Banjarmasin

Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) 5265918

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 859593

Palembang

Komplek PTC Mall Blok I No. 7
Jl. R. Sukamto
Palembang 30114
T. (0711) 2005050

Surabaya

Pakuwon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 21008080

Padang

Jl. Proklamasi No. 60A
Padang Timur 25121
T. (0751) 8688080

Yogyakarta

Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 8099090

Semarang

Jl. Gajahmada 23A,
Kecamatan Semarang Tengah,
Kelurahan Kembang Sari 50241
T. (024) 40098080

Makassar

Komplek Ruko Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0411) 6000818

Medan

Komplek Golden Trade Center
Jl. Jenderal Gatot Subroto No. 18-19
Medan 20112
T. (061) 50339090

Denpasar

Jl. Teuku Umar No. 177
Komplek Ibis Styles Hotel
Denpasar Bali 80114
T. (0361) 225229

Pontianak

Jl. Prof. M Yamin No. 14
Kotabaru, Pontianak Selatan
Kalimantan Barat 78116
T. (0561) 8069000

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 52392181

Tangerang

Ruko Aniva Junction Blok D No. 32
Gading Serpong, Tangerang,
Banten 15334
T. (021) 35293147

Semarang

Jl. Jati Raya No. D6,
Srandol Wetan, Banyumanik,
Semarang 50265
T. (024) 8415195

Salatiga

Jl. Diponegoro No. 68
Salatiga 50711
T. (0298) 513007

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T. (0271) 3199090

Jambi

Jl. Orang Kayo Hitam No. 48 B
Jambi Timur 36123
T. (0741) 3068533