

BI Unexpectedly Raised The BI7DRR by 25 bps to 6.00%

Bank Indonesia (BI) has decided to increase the BI7DRR rate by 25bps for the first time in 2023, bringing it to 6.00% (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%). We interpret this move as a response to BI's concerns over the weakening Rupiah, which has been evident since 20 Jul '23, indicated by the JISDOR weakness from IDR14,991 per USD to the current (18 Oct '23) rate of IDR 15,838 per USD. This condition has been driven by the capital outflow observed in asset portfolios, amounting to IDR52.73 tn (~USD3.38 bn) during Aug and Sep '23, and an additional IDR13.18 tn (~USD0.84 bn) from 1 to 18 Oct '23. Moreover, there are ongoing concerns about the current account deficit in 3Q23, posing a twin deficit risk (besides fiscal deficit) traditionally leading to fundamental depreciation of the Rupiah. Simultaneously, we perceive this as a reflection of BI's concerns regarding the effectiveness of the implementation of the Foreign Currency Natural Resources Export Earning (DHE SDA), initiated since 1 Aug '23. Instead of boosting foreign exchange reserves, the figure actually decreased by USD2.82 bn between 31 Jul, '23, to 22 Sep'23.

Nevertheless, BI continues to maintain its accommodative macroprudential policy by reducing the Macroprudential Liquidity Buffer ratio by 100 bps for Conventional Commercial Banks and Sharia Commercial Banks/Business Units to 5.00% and 3.50%, respectively. Additionally, BI's pro-growth policy is evident in promoting the effectiveness of implementing the Macroprudential Liquidity Incentive Policy (KLM) to encourage banking credit/financing to priority sectors, including downstream industries (mining, agriculture, plantations, and fisheries), housing (including affordable housing), tourism and creative economy, MSMEs, KUR, Micro, and green sectors, effective since 1 Oct '23. This is accompanied by the continuation of the Loan to Value/Financing to Value (LTV/FTV) for property credit/financing, capped at 100%, and the relaxation of down payment requirements for motor vehicle credit/financing to a minimum of 0% for all types of new motor vehicles, both effective from 1 Jan to 31 Dec '24.

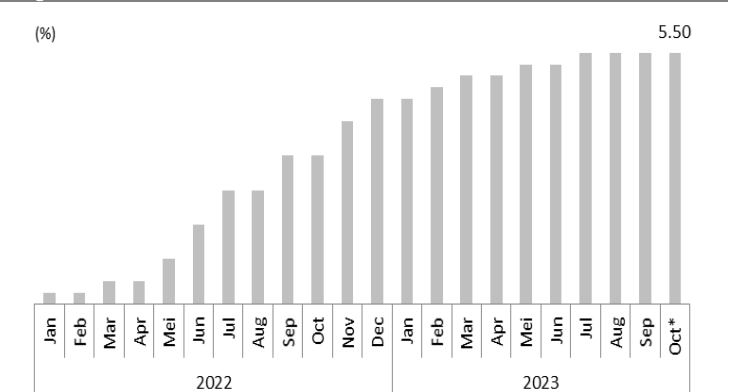
These conditions were unforeseen in our previous projections, prompting us to adjust our assumptions for the SUN10Y yield at the end of 2023 to a new range of 6.70%-7.10%, from 6.06%-6.46%. Simultaneously, the increasing attractiveness of the SUN10Y yield is expected to help stabilize the Rupiah, aiming for a range of IDR 15,481 per USD (recently at IDR 15,838 per USD). Furthermore, we anticipate that this will drive an increase in inflation from the import's side, leading us to forecast that headline inflation will rise from 2.72% YoY-3.12% YoY, from 2.44% YoY-2.84% YoY at the end of 2023. With the note that we also anticipate the liquidity boost facilitated by BI through the issuance of SRBI since 27 Sep '23, foreign currency term deposit (TD Valas) auctions, and DHE SDA, in addition to interventions in DNDF and FX Swap auctions, will be further reinforced by the issuance of BI Foreign Securities (Sekuritas Valas BI-SVBI) and BI Foreign Sukuk (Sukuk Valas BI-SUVBI), scheduled to commence implementation on 21 Nov '23. Simultaneously, we maintain the assumption that the government will not require the issuance of global bonds until the end of 2023.

Table 1. Interest Rate Data

Indicators	19-Oct-23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.50	5.50	0.0	100.0
European Union	4.50	4.50	0.0	200.0
United Kingdom	5.25	5.25	0.0	175.0
Japan	-0.10	-0.10	0.0	0.0
China	3.45	3.45	0.0	(20.0)
India	6.50	6.50	0.0	25.0
Thailand	2.50	2.50	0.0	125.0
Philippines	6.25	6.25	0.0	75.0
Indonesia	6.00	5.75	25.0	25.0
Global Monetary Policy Change (in number of countries)				
Easing	6	4		
Unchanged	14	72		
Tightening	2	12		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	5.45	5.44	0.8	112.8
USD LIBOR -3 Months	5.66	5.66	(0.3)	125.4
USD LIBOR -6 Months	5.86	5.90	(3.4)	108.1
Domestic Interbank Money Market (in %)				
INDONIA	5.64	5.62	2.1	19.4
JIBOR - 1 Month	6.40	6.40	0.0	640.0
JIBOR - 3 Months	6.74	6.74	(0.5)	171.3
JIBOR - 6 Months	6.85	6.85	(0.4)	105.6
JIBOR - 12 Months	7.01	7.02	(0.7)	81.0

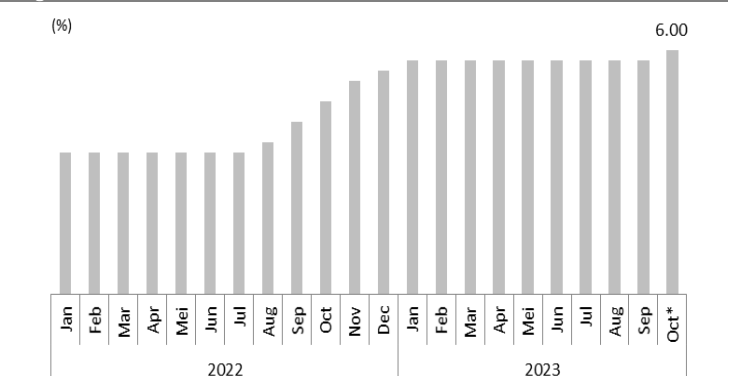
Sources : Each Central Bank and GlobalRates – treated (2023)

Fig 1. Fed Rate



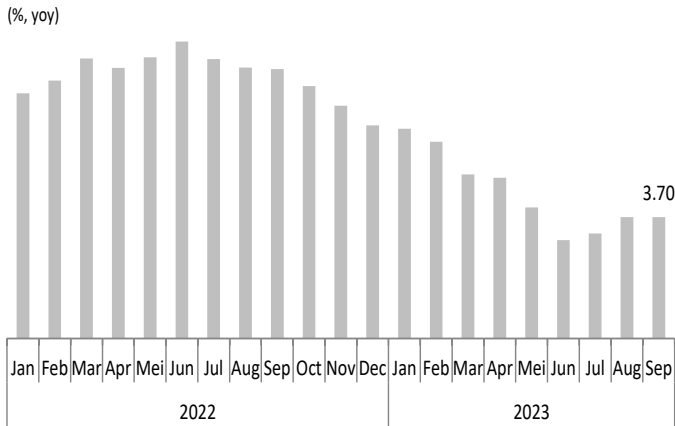
Source: The Fed – treated (2023)

Fig 2. BI7DRR



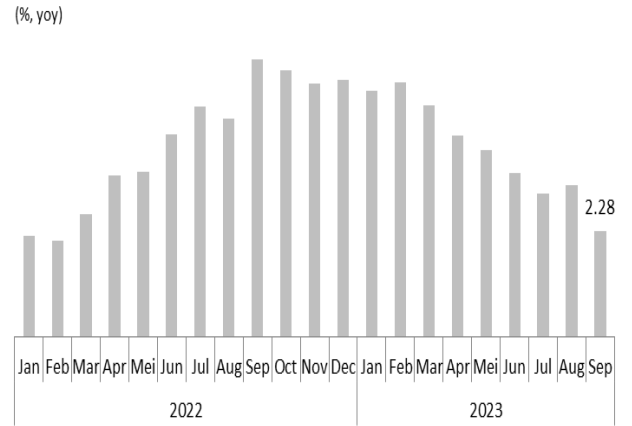
Source: Bank Indonesia – treated (2023)

Fig 3. US CPI Inflation



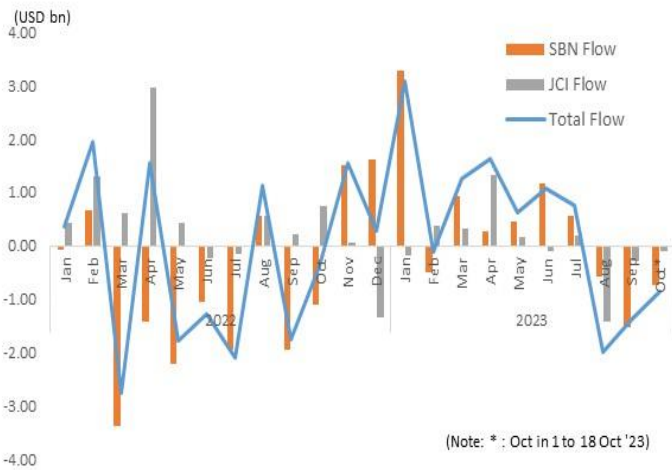
Source : US BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



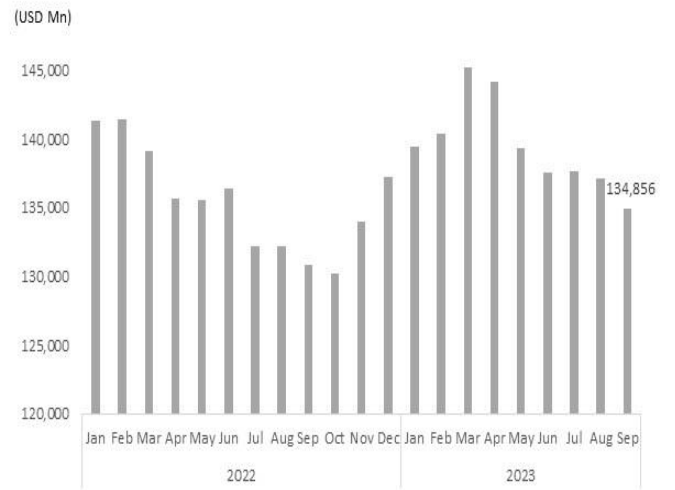
Source : BPS – treated (2023)

Fig 5. Indonesia Portfolio Flow



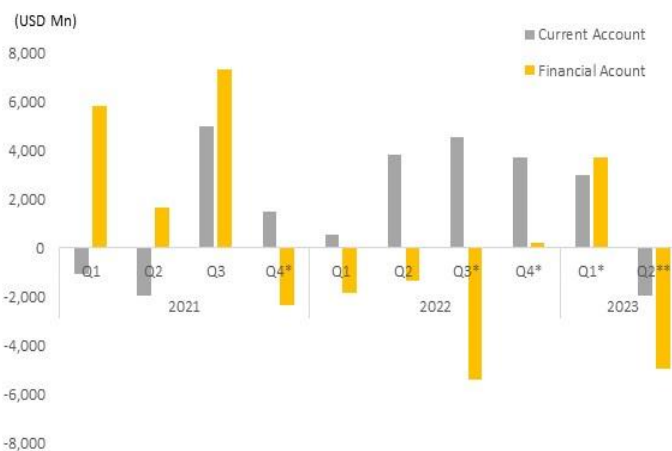
Source : Bloomberg – treated (2023)

Fig 6. Indonesia FX Reserves



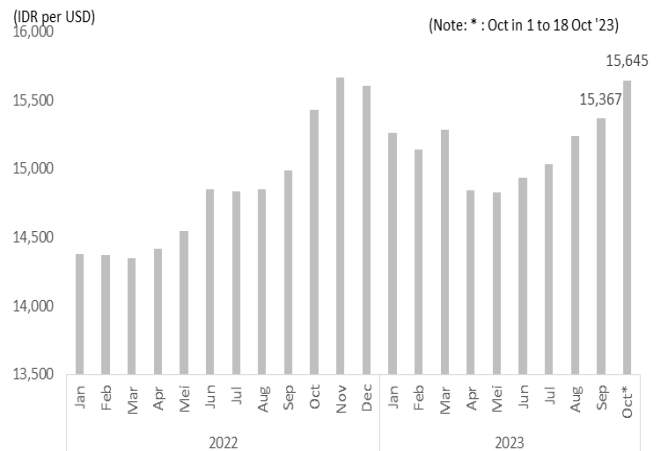
Source : BI – treated (2023)

Fig 7. Indonesia Balance of Payment



Source : BI – treated (2023)

Fig 8. USDIDR



Source : BI – treated (2023)

Table 2. Fed Rate Probabilities, as of 18 October 2023

MEETING DATE	MEETING PROBABILITIES									
	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600	600-625
1-Nov-23		0.0%	0.0%	0.0%	0.0%	0.0%	93.9%	6.1%	0.0%	0.0%
13-Dec-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	61.1%	36.8%	2.1%	0.0%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	52.3%	40.3%	7.1%	0.3%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	6.3%	50.8%	36.3%	6.3%	0.3%
1-May-24	0.0%	0.0%	0.0%	0.0%	2.0%	20.6%	46.1%	26.7%	4.4%	0.2%
12-Jun-24	0.0%	0.0%	0.0%	0.7%	8.4%	29.4%	39.4%	19.0%	2.9%	0.1%
31-Jul-24	0.0%	0.0%	0.3%	4.0%	17.5%	33.8%	30.6%	12.0%	1.7%	0.1%
18-Sep-24	0.0%	0.1%	1.9%	10.0%	24.7%	32.4%	22.4%	7.5%	1.0%	0.0%
7-Nov-24	0.0%	0.8%	5.0%	15.5%	27.6%	28.6%	16.8%	5.0%	0.6%	0.0%
18-Dec-24	0.4%	2.8%	10.0%	21.2%	28.1%	23.0%	11.2%	3.0%	0.3%	0.0%

Source : CME Group – treated (2023)

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 be 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. +62 21 – 250 98 300
F. +62 21 – 255 33 778

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

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T. (022) 87255800

Palembang

Komplek PTC Mall Blok I No. 7
Jl. R. Sukanto
Palembang 30114
T. (0711) 5700281

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T. (024) 8501122

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta Utara 11620
T. (021) 29451577

Malang

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

Surabaya

Pelawon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 2955788

Makassar

Komplek RUKO Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0241) 16000818

Jakarta – Puri Indah

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

Banjarmasin

Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) – 3265918

Padang

Jl. Kampung Nias II No. 10,
Padang 25211
T. (0751) 8955747

Medan

Komplek Jati Junction No. PS-5A
Jl. Perintis Kemerdekaan
Medan 20218
T. (061) 88816222

Jakarta – Pluit

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

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839993

Yogyakarta

Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 623111

Denpasar

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

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 522392181

Semarang

Jl. MT Haryono 637
Semarang 50242
T. (024) 8415195

Salatiga

Jl. Diponegara No. 68
Salatiga 50711
T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T. (0271) 6726306