

**BI-Rate Maintained at 6.00%: Remain Focus on Rupiah Stabilization**

**Bank Indonesia (BI) has decided to maintain the BI 7-Day Reverse Repo Rate (hereafter referred to as the BI-rate) at 6.00% (Cons: 6.00%, KBVS: 6.00%, Prev: 6.00%).** The unchanged BI-Rate reflects a proactive approach by BI towards stability. Simultaneously, we perceive this stance as continuing support to the attractiveness of the domestic portfolio and maintaining Rupiah stability. This is evidenced by the yield spread between the SUN10Y-UST10Y, expected to be sustained above the 250 bps level, as observed since 12 Dec, '23, until present. During this period, this measure has encouraged a net foreign buy in SBN amounting to IDR7.3 tn from 14 to 18 Dec '23. Consequently, this supports Indonesia's balance of payments performance, particularly after experiencing pressure at the end of Oct '23. BI anticipates Indonesia's balance of payments performance to range between -0.4% to +0.4% of GDP by the end of 2023. This trend is also supported by the effective implementation of various instruments introduced by BI in the form of SRBI, SVBI, and SUVBI, attracting non-resident appetite towards these instruments, as evidenced by non-resident holdings of IDR52.87 tn in SRBI and USD6 mn in SVBI.

**Consequently, we expect these measures to also contribute in maintaining Rupiah stability within the range of IDR15,500 to IDR15,700 per USD until the end of 2023.** However, we acknowledge BI's concern regarding the declining performance of the trade surplus, which has diminished in the first two months of 4Q23, reaching only USD5.89 bn compared to USD10.72 bn in the same period in 2022. This decline raises concerns about the potential for a current account deficit in 4Q23, projected by BI to range between -0.1% to -0.9% of GDP by the end of the upcoming 4Q23. Simultaneously, this decline may also act as a downward driver for economic growth from the net-export perspective. Hence, BI projects economic growth to range between 4.5% YoY to 5.3% YoY (KBVS: 5.15% YoY) by the end of 4Q23.

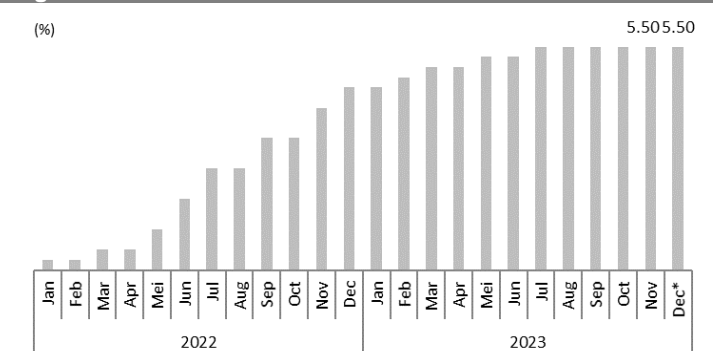
**On the other hand, the possibility of a Fed Rate reduction in 2024 could alleviate uncertainty in the global financial markets.** Simultaneously, an anticipated trend of Fed Rate reduction is expected to be followed by other central banks. Consequently, the long-term risk premium associated with fiscal financing and government debt is expected to decrease, thereby reducing the global cost of funds in the form of lower government bond yields. **Furthermore, we view these conducive global conditions as potentially maintaining Rupiah stability. Moreover, with anticipated controlled inflation, we foresee this prompting BI for a potentially quicker decrease in 2024 compared to the Fed. However, the ongoing presidential and legislative elections are expected not to disrupt economic stability. Instead, they are anticipated to drive economic growth through consumer demand. Nonetheless, we believe this condition might still prompt a wait-and-see approach in the financial markets, presenting an opportunity to acquire SUN perceived as more affordable, with our preference lying in SUNs with tenures ranging from 12 years to 17 years.**

**Table 1. Interest Rate Data**

Indicators	21-Dec-23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
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	6.50	6.50	0.0	100.0
Indonesia	6.00	6.00	0.0	50.0
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	6	6		
Unchanged	28	20		
Tightening	21	5		
<b>Average International Interest Rate (in %)</b>				
USD LIBOR -1 Month	5.47	5.46	1.7	115.3
USD LIBOR -3 Months	5.64	5.64	(0.3)	123.5
USD LIBOR -6 Months	5.68	5.81	(12.6)	90.0
<b>Domestic Interbank Money Market (in %)</b>				
INDONIA	5.85	5.88	(3.2)	40.2
JIBOR - 1 Month	6.65	6.66	(0.5)	665.0
JIBOR - 3 Months	6.95	6.95	0.0	192.9
JIBOR - 6 Months	7.07	7.07	(0.2)	127.4
JIBOR - 12 Months	7.20	7.20	0.0	100.0

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

**Fig 1. Fed Rate**



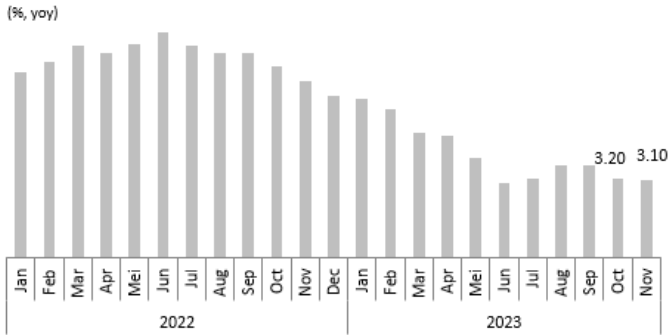
Source: The Fed – treated (2023)

**Fig 2. BI7DRR**



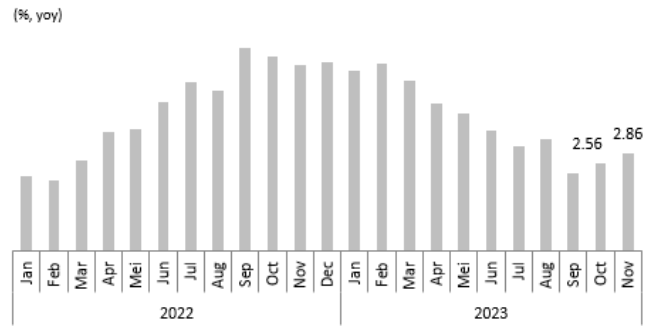
Source: Bank Indonesia – treated (2023)

Fig 3. US CPI Inflation



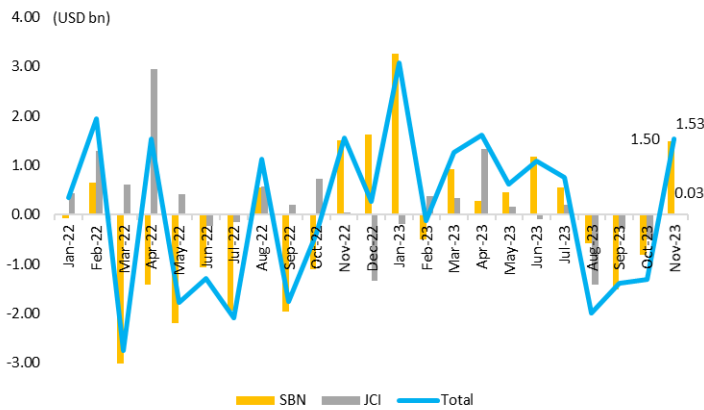
Source : US BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



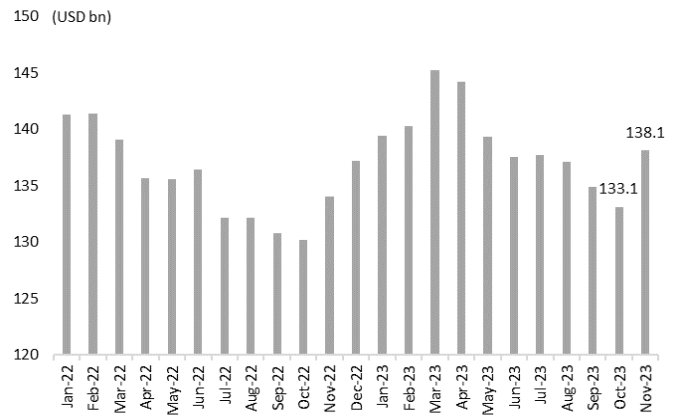
Source : BPS – treated (2023)

Fig 5. Indonesia Portfolio Flow



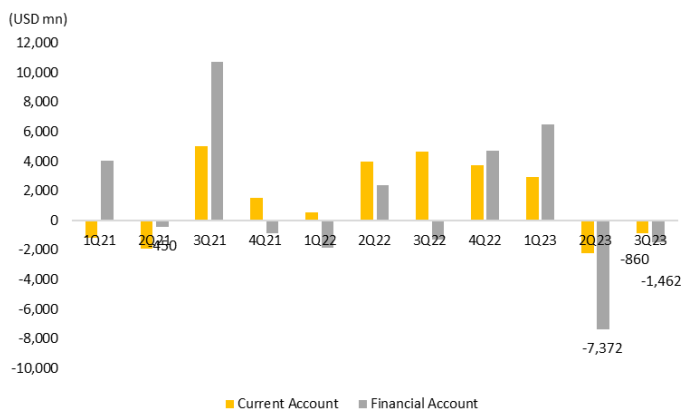
Source : Bloomberg – treated (2023)

Fig 6. Indonesia FX Reserves



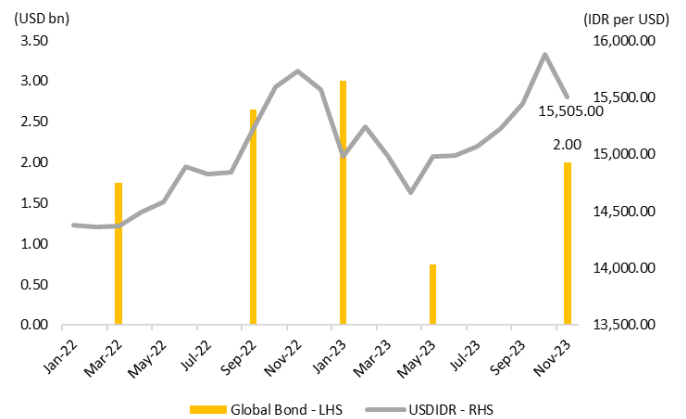
Source : BI – treated (2023)

Fig 7. Indonesia Balance of Payment



Source : BI – treated (2023)

Fig 8. USDIDR and Indonesia's Global Bond Issuance



Source : BI – treated (2023)

**Table 2. Fed Rate Probabilities, as of 21 December 2023**

MEETING DATE	FED RATE PROBABILITIES									
	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.3%	89.7%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.9%	70.6%	21.5%
1-May-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.3%	66.2%	25.0%	1.5%
12-Jun-24	0.0%	0.0%	0.0%	0.0%	0.9%	14.4%	61.2%	22.1%	1.3%	0.0%
31-Jul-24	0.0%	0.0%	0.0%	0.8%	13.1%	56.5%	26.1%	3.4%	0.1%	0.0%
18-Sep-24	0.0%	0.0%	0.7%	12.0%	52.6%	28.8%	5.5%	0.4%	0.0%	0.0%
7-Nov-24	0.0%	0.4%	7.7%	37.3%	37.8%	14.3%	2.3%	0.2%	0.0%	0.0%
18-Dec-24	0.3%	5.9%	29.8%	37.7%	20.2%	5.3%	0.7%	0.0%	0.0%	0.0%

Source : CME Group – treated (2023)

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