

At Current State, Pivoting BI7DRRR Is Possible In 3Q23

The BI7DRRR remains unchanged at 5.75% in Mar '23 RDG, in line with KBVS and consensus expectations. This is supported by Indonesia's strong macroeconomic fundamentals, notably Feb '23 inflation at 5.5% yoy, the Rupiah stabilising at an average of IDR15,129/USD during Feb '23 and a fiscal surplus of IDR131.8 tn up to 28 Feb '23. Furthermore, at this RDG session, the BI also implied that the implementation of FX (Valas) DHE has not been optimal pending an amendment to the presidential decree (PP No.1 of 2019), so that the USD5.48 bn surplus trade balance in Feb '23 only drove a slight increase in foreign exchange reserves of USD0.91bn.

It is assured that the negative contagion effect of the collapse risk of some banks in US and EU will not have a direct effect on Indonesia. However, the stabilization of the Rupiah and yield of SUN through triple interventions and operation twist will be strengthened further to reduce sentiment risk and herding behavior in the Indonesian financial market. This is due to the difference in the business model of Indonesian banking where in Jan '23, strong domestic banking capitalization with CAR of 25.88%, solid credit risk with NPL at 2.59% (gross), and good liquidity condition with AL/NCD 129.64% and AL/DPK (or TPF) 29.13%. The stability cushion for the Rupiah and domestic portfolio assets are strengthened by adding the scope of LCT usage in Thailand, Malaysia, Japan and China as well as pushing for additional cooperation with two new partner countries, South Korea and India in the near future.

In addition, forward looking is being carried out by BI related to the cyclical Ramadan and Iedul Fitri through the Semarak Rupiah Ramadan and Berkah Idulfitri (SERAMBI) 2023 program which in line with the expectation of IDR195 tn increase in demand for cash money. In addition, coordination between TPIP and TPID will be further strengthened, in line with the expectation of increased inflation due to increased seasonal demand for products/services.

Going forward, we are of the view that the BI still opens up room for BI7DRRR adjustment, in line with the potential volatility and the expectation of the terminal Fed Rate of 5.25% to 5.50%. On the other hand, we also see that the BI could pivot the BI7DRRR by the end of 3Q23, ceteris paribus, if the global volatility smoothen and the base effect of subsidized fuel in Sep '22 has been minimal.

Table 1. Interest Rate Data

Indicators	16 Feb '23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	4.75	4.50	25.0	25.0
European Union	3.00	2.50	50.0	50.0
United Kingdom	4.00	3.50	50.0	50.0
Japan	-0.10	-0.10	0.0	0.0
China	3.65	3.65	0.0	0.0
India	6.50	6.25	25.0	25.0
Thailand	1.50	1.25	25.0	25.0
Philippines	5.50	5.50	0.0	0.0
Indonesia	5.75	5.75	0.0	25.0

Global Monetary Policy Change (in number of countries)

Easing	9	3
Unchanged	17	22
Tightening	3	20

Average International Interest Rate (in %)

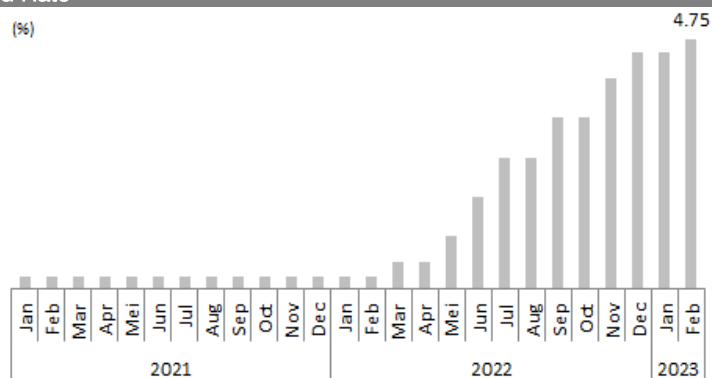
USD LIBOR - Overnight	4.55	4.56	(0.6)	23.5
USD LIBOR - 1 Month	4.73	4.59	13.8	32.6
USD LIBOR - 3 Months	4.94	4.87	6.9	15.9
USD LIBOR - 6 Months	4.97	5.16	(19.0)	(16.8)
USD LIBOR - 12 Months	4.99	5.50	(50.7)	(45.5)

Domestic Interbank Money Market (in %)

INDONESIA	5.78	5.47	30.9	75.9
JIBOR - 1 Month	6.30	6.37	(6.9)	50.3
JIBOR - 3 Months	6.71	6.75	(3.5)	51.1
JIBOR - 6 Months	7.09	6.89	20.8	38.6
JIBOR - 12 Months	7.44	7.08	35.4	52.0

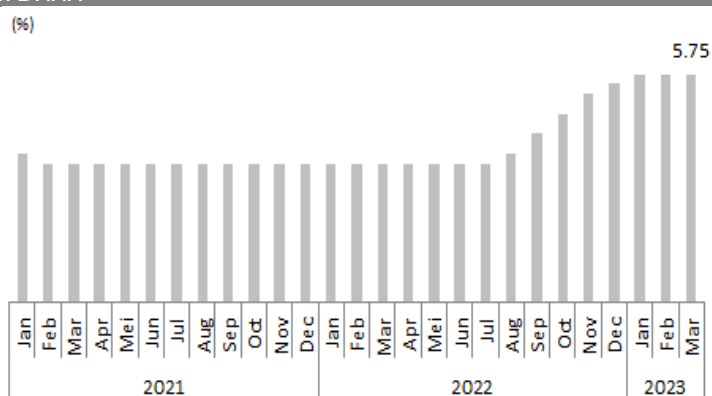
Sources : Each Central Bank and GlobalRates – treated (2023)

Fig 1. Fed Rate



Source: The Fed – treated (2023)

Fig 2. BI7DRRR

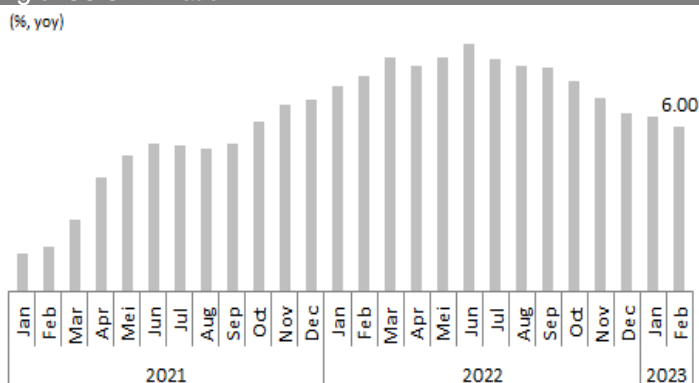


Source: Bank Indonesia – treated (2023)

17 March 2023

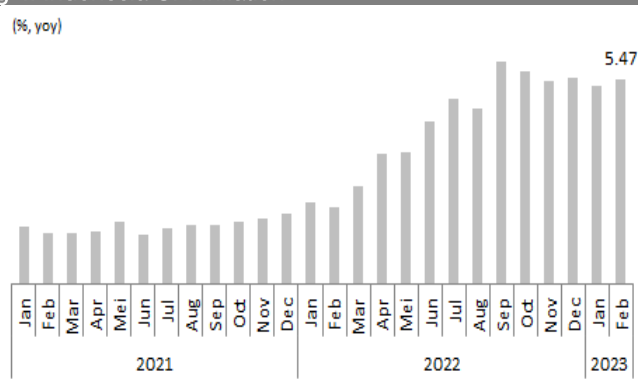
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Fig 3. US CPI Inflation



Source : BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



Source : BPS – treated (2022)

Table 2. Fed Rate Probabilities, as of 15 February 2023

MEETING DATE	Target Rate (in bps)						
	350-375	375-400	400-425	425-450	450-475	475-500	500-525
22-Mar-23	0.0%	0.0%	0.0%	0.0%	43.9%	56.1%	0.0%
03-May-23	0.0%	0.0%	0.0%	0.0%	22.5%	50.2%	27.3%
14-Jun-23	0.0%	0.0%	0.0%	23.5%	49.3%	26.3%	0.0%
26-Jul-23	0.4%	11.1%	35.1%	39.0%	14.5%	0.0%	0.0%
20-Sep-23	8.4%	29.1%	38.0%	20.6%	3.6%	0.0%	0.0%
01-Nov-23	16.8%	32.7%	30.9%	13.7%	2.1%	0.0%	0.0%
13-Dec-23	21.1%	32.3%	26.3%	10.6%	1.6%	0.0%	0.0%

Source : CME Group – treated (2023)

Table 3. Meeting Calendar The Fed (FOMC) and Bank Indonesia (RDG-BI) in 2023

No	Month	FOMC Meeting	RDG-BI
1	January		18 – 19 Jan
2	February	31 Jan – 1 Feb	15 – 16 Feb
3	March	21 – 22 Mar	15 – 16 Mar
4	April		18 – 19 Apr
5	May	2 – 3 May	24 – 25 May
6	June	13 – 14 Jun	21 – 22 Jun
7	July	25 – 26 Jul	24 – 25 Jul
8	August		23 – 24 Aug
9	September	19 – 20 Sep	20 – 21 Sep
10	October		18 – 19 Oct
11	November	31 Oct – 1 Nov	22 – 23 Nov
12	December	12 – 13 Dec	20 – 21 Dec

Sources : The Fed and Bank Indonesia – treated (2023)

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