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BI Maintains BI7DRR; Expects Pivot in 3Q23

In line with our expectation, the Bi7DRRR rate remained at 5.75% (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%) while BI also maintaining Deposit Facility rate at 5.00% and the Lending Facility rate at 6.50%. BI believes that these stances will help drive core and headline inflation back to the target range of 3.0±1% in 3Q23. As a result, the focus of monetary policy can be directed towards strengthening the stabilization of Rupiah to tame imported inflation and mitigate the impact of potential financial market uncertainties, in addition to continuing loose liquidity and macroprudential policies.

On this occasion, BI also continues several monetary operations, such as triple intervention (interventions in the foreign exchange market through spot, forward and DNDF), twist operations, transparent SBDK, the expansion of the QRIS, the TP2DD program, and strengthening international cooperation. We see these measures as BI's effort to support the economy, allowing loose liquidity and a favorable economic environment to contribute positively to credit/financing growth and financial system stability, as well as driving the performance of the digital economy and finance towards a secure, smooth, flexible, and efficient financial system.

BI predicts global economic growth will reach 2.7% (YoY) in 2023, driven by easing inflation despite ongoing uncertainties in the global financial market, particularly regarding the stability of the financial system and government debt ceiling debates in the US. Meanwhile, BI also forecasts Indonesia's economic growth to range between 4.5% and 5.3% (YoY) in 2023, which is expected to be further supported by improved intermediation and banking resilience, maintained inflation, and attractive domestic financial asset yields..

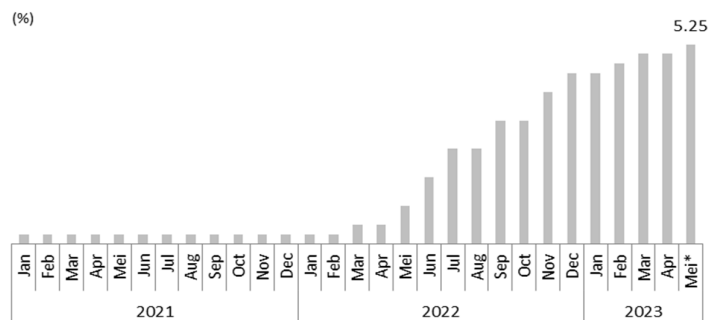
We are of the view that the continued stability of the Rupiah below IDR15,000 per USD since 31 Mar '23, along with a net foreign inflow of IDR32.27 tn in the domestic capital market over the past 38 days and inflation remaining below 5% (YoY) since Mar '23, provides a strong foundation for BI to promptly implement a reduction in the BI7DRRR rate in the 3Q23. Additionally, this positive outlook is supported by a higher balance of payment surplus in the 1Q23, intensified local currency transactions, ongoing revision of DHE, and fiscal surplus until Mar '23.

Table 1. Interest Rate Data

Indicators	25-May-23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.25	5.00	25.0	50.0
European Union	3.75	3.50	25.0	100.0
United Kingdom	4.50	4.25	25.0	75.0
Japan	-0.10	-0.10	0.0	0.0
China	3.65	3.65	0.0	0.0
India	6.50	6.50	0.0	25.0
Thailand	1.75	1.75	0.0	50.0
Philippines	6.25	6.25	0.0	75.0
Indonesia	5.75	5.75	0.0	25.0
Global Monetary Policy Change (in number of countries)				
Easing	6	0		
Unchanged	37	25		
Tightening	20	9		
Average International Interest Rate (in %)				
USD LIBOR - Overnight	5.07	4.81	25.6	49.1
USD LIBOR - 1 Month	5.14	4.96	17.8	55.9
USD LIBOR - 3 Months	5.40	5.26	13.6	47.8
USD LIBOR - 6 Months	5.50	5.31	19.4	17.4
USD LIBOR - 12 Months	5.52	5.27	25.2	(17.7)
Domestic Interbank Money Market (in %)				
INDONIA	5.46	5.60	(13.7)	57.6
JIBOR - 1 Month	6.40	6.40	0.0	60.5
JIBOR - 3 Months	6.76	6.77	(0.6)	57.0
JIBOR - 6 Months	6.88	6.89	(1.1)	18.1
JIBOR - 12 Months	7.08	7.09	(1.1)	17.3

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

Fig 1. Fed Rate



Source: The Fed – treated (2023)

Fig 2. BI7DRRR

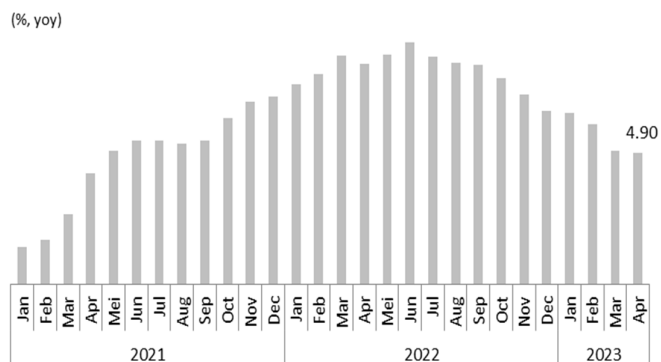


Source: Bank Indonesia – treated (2023)

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Fig 3. US CPI Inflation



Source : BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



Source : BPS – treated (2023)

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

MEETING DATE	Target Rate (in bps)													
	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
14-Jun-23							0.0%	0.0%	0.0%	0.0%	0.0%	70.5%	29.5%	0.0%
26-Jul-23		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	44.2%	44.8%	11.0%
20-Sep-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.4%	44.4%	35.3%	7.9%
1-Nov-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%	34.6%	38.1%	16.3%	2.4%
13-Dec-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.7%	25.8%	36.9%	23.7%	7.1%	0.8%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.3%	20.9%	34.2%	26.9%	11.2%	2.4%	0.2%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	19.2%	32.8%	27.6%	12.8%	3.2%	0.4%
1-May-24	0.0%	0.0%	0.0%	0.0%	0.6%	6.2%	21.3%	32.0%	25.3%	11.3%	2.8%	0.4%	0.0%	0.0%
19-Jun-24	0.0%	0.0%	0.0%	0.4%	4.2%	15.9%	28.2%	27.8%	16.4%	5.9%	1.2%	0.1%	0.0%	0.0%
31-Jul-24	0.0%	0.0%	0.3%	3.6%	14.1%	26.3%	27.8%	18.1%	7.5%	2.0%	0.3%	0.0%	0.0%	0.0%
25-Sep-24	0.0%	0.2%	2.4%	10.3%	21.9%	27.3%	21.6%	11.3%	3.9%	0.9%	0.1%	0.0%	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 ay
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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