

BI7DRRR Remains at 5.75%: BI Further Strengthens Rupiah Stability

In line with our expectations, the BI7DRRR rate remained at 5.75% (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%). This interest rate decision also followed by maintaining the Deposit Facility rate at 5.00% and the Lending Facility rate at 6.50%. We are of the view that these actions are taken to maintain the possibility of increased exchange rate volatility ahead of the Fed Rate hike, the weakening of Indonesia's trade surplus, and the potential of rising imported inflation, as the possibility of a narrowing interest rate differential between BI7DRRR and the Fed Rate arises. However on the other hand, the possibility of a reduction in BI7DRRR is highly likely considering the development of domestic inflation within the BI's target corridor of 3% ($\pm 1\%$) in May '23.

Therefore, it is not surprising that in this RDG, BI signals a more intensive intervention in the Rupiah exchange rate market (both in the Spot and DNDF markets), in addition to increasing the frequency of DHE auctions and optimizing domestic DHE term deposits through competitive interest rates. Furthermore, BI appears to be further increasing its twist operation by selling short-term SUN to make short-term yields more attractive, while purchasing long-term SUN. This condition has been observed shortly after the FOMC Meeting signaled expectations of further Fed Rate hikes, with BI's ownership of tradable SBN increasing by IDR 17.18tn between 16th and 21st Jun '23.

The cautious signals regarding volatility are also evident from the expectations of slowing global economic growth. This is particularly driven by persistent inflationary pressures in the US and the European Union, which have led to a hawkish monetary policy stance in both regions, as well as China's monetary policy easing that has yet to effectively stimulate domestic demand in the country. On the other hand, BI still indicates strong domestic demand and positive export performance, which will maintain optimism regarding economic growth and domestic inflation.

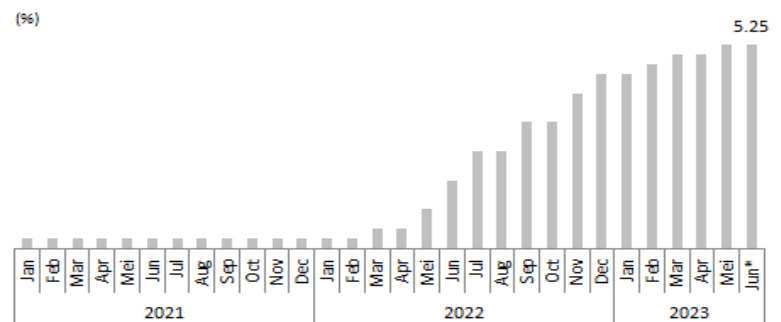
Therefore, we anticipate that the Rupiah will continue to experience a tendency towards depreciation, but within a manageable range, between IDR 14,808 per USD to IDR 15,508 per USD. At the same time, we also expect that the yield of 10Y SUN will remain within a range of 6.04% to 6.74% on average until the end of 2023, *ceteris paribus*.

Table 1. Interest Rate Data

Indicators	22-Jun-23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.25	5.25	0.0	75.0
European Union	4.00	3.75	25.0	125.0
United Kingdom	4.50	4.25	25.0	75.0
Japan	-0.10	-0.10	0.0	0.0
China	3.55	3.65	(10.0)	0.0
India	6.50	6.50	0.0	25.0
Thailand	2.00	1.75	25.0	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	12	6		
Unchanged	47	37		
Tightening	37	20		
Average International Interest Rate (in %)				
USD LIBOR - Overnight	5.08	5.07	0.9	74.7
USD LIBOR - 1 Month	5.15	5.14	1.6	73.7
USD LIBOR - 3 Months	5.52	5.40	12.4	61.4
USD LIBOR - 6 Months	5.67	5.50	17.0	36.8
USD LIBOR - 12 Months	5.90	5.52	37.6	7.5
Domestic Interbank Money Market (in %)				
INDONIA	5.18	5.46	(28.0)	43.9
JIBOR - 1 Month	6.39	6.40	(0.6)	60.5
JIBOR - 3 Months	6.75	6.76	(1.0)	56.4
JIBOR - 6 Months	6.87	6.88	(0.9)	16.9
JIBOR - 12 Months	7.06	7.08	(2.4)	16.2

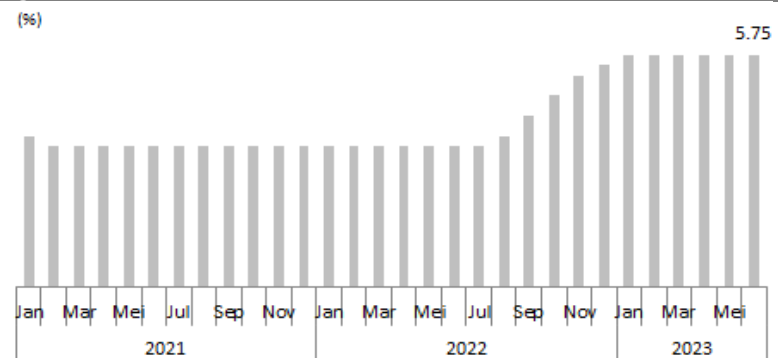
Sources : Each Central Bank and GlobalRates – treated (2023)

Fig 1. Fed Rate



Source: The Fed – treated (2023)

Fig 2. BI7DRRR



Source: Bank Indonesia – treated (2023)

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