Maybank

FX Note

USDIDR Upward Move Can be Limited Near Term

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Pair Can Avoid Moving Too Far Above 16500

USDIDR has been facing upward pressure recently as it touched the highest levels since the early pandemic in 2020. The pair hit as high as 16478 although it has just avoided breaking the 16500 mark. The offshore 1M NDF itself has though broken that mark. Domestic concerns and a biddish greenback has been backing the climb up in the pair. The former in part relates to media reports about Prabowo's ambitious spending plans with Bloomberg recently reporting that the President-elect intends to raise the debt-to-GDP ratio to 50% from the current 39%. The President-elect's own team has however denied this. Interestingly, a member of the President-elect's term has said that the Prabowo has agreed with the existing administration to allocate 71tn rupiah for the free meal program for school children as this amount would help ensure the budget deficit remains below the mandatory 3% cap.

On the margin this looks to have given the IDR support on the day, making it among the best performers regionally at that point although we also note that the greenback pulled back at the same time. We would like to note the risk premiums from the fiscal uncertainty given the incoming administration's possible future economic plans.

Meanwhile, weakness in other major DM currencies including the Euro, JPY and CHF looked to have all given a lift to the greenback and in turn weighed on the USD – Asian pairs including the USDIDR. Safe haven allure (European political election volatility), DM central banks easing ahead of the Fed (SNB, ECB) and the slow reaction function of some central banks (BOJ) have all boosted the greenback. We also cannot forget to mention that the EM carry trade unwind given the political uncertainty in Mexico, South Africa and India has also weighed into the high yielding IDR.

This current situation may on the outset point to more upside risk for the pair. However, we are inclined to actually believe that USDIDR can stay below the 16500 limit in the near term. There are a few factors we think that supports our view on this. Given the recent comments from the Prabowo team, we have some reason to believe that they now look more cognizant of the impact that their announcements can have on investor sentiment. Therefore, we have some expectation to think that they may choose to be more measured on their words in order to try to maintain confidence. Another factor we see that can allow the USDIDR to hold below the 16500 mark is that we do somewhat see the possibility that the greenback upside can become more limited near term. The outcome of the upcoming French election is uncertain but the DXY may hold off grinding higher if Macron and allies can prevent a far right or far left government from being formed. Markets have also already only priced in 1 – 2 rate cuts this year by the Fed as the futures indicate.

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Meanwhile, we are also aware that BI Governor Perry Warjiyo has recently played down the urgency of another rate hike so soon. In the words of the Governor, he had said, “we currently see no need to increase the BI rate yet because inflation is low. This is also so that it doesn’t impact economic growth negatively”. However, he had also added, “we will maintain the stability of the rupiah exchange rate with three instruments: interventions, SRBI instruments and - if necessary - an increase in the BI rate”. **It appears from the Governor’s words that the central bank remains open to the necessary options to stabilize the IDR but would not be pressured by the market to undertake strong measures constantly. We therefore see that BI would still give strong support to the currency when needed and therefore, this can limit gains on the USDIDR.**

From a carry perspective, we would also like to note that the return from funding a long IDR carry trade with the JPY has actually been improving overtime. USD funding wise, the carry return has declined but it is still as high as it was pre-pandemic.

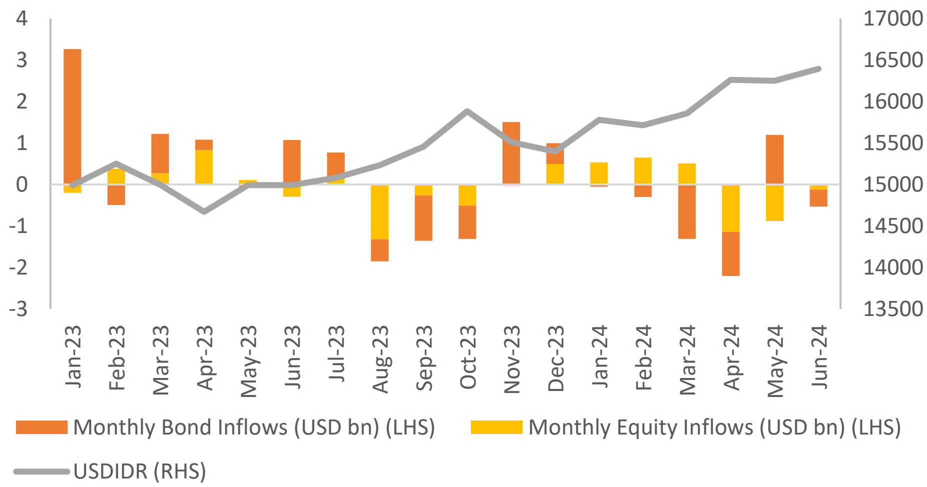
In the medium term, we see the possibility of the USDIDR trading at elevated levels but the pair should still see a downward trajectory overtime as the Fed gradually softens its stance. Our in-house economist believes that the first Fed rate cut may come from as early as Sep onwards with a total of two rate cuts this year in 2H 2024, cumulatively amounting to 50bps. We are only revising our USDIDR forecast for 3Q 2024 higher to better reflect the sentiment towards the pair due to current market developments.

Table 1: USDIDR Forecast

Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDIDR	16400 (16250)	15900 (--)	15700 (--)	15500 (--)

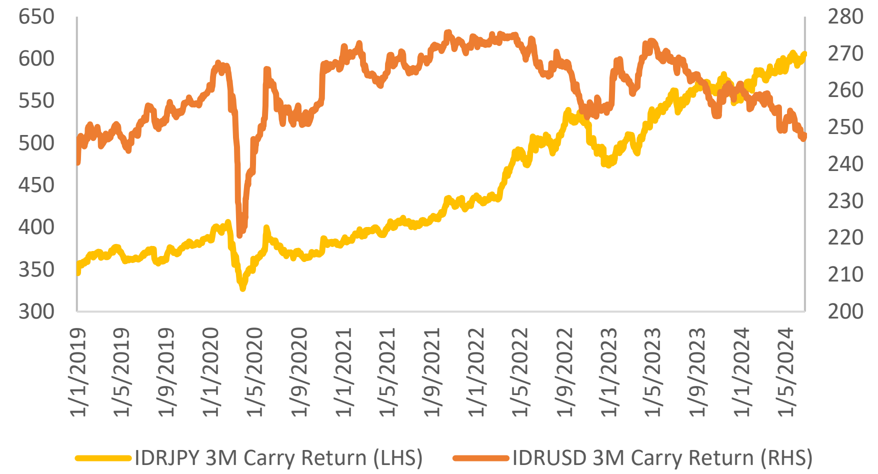
Source: Maybank FX Research & Strategy
Previous Forecasts in Parentheses

Chart 1: There has Been Net Overall Outflows From Bonds and Equities this Year Although this Should the Situation We Believe Should Improve



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Carry Returns Improved for IDR with JPY Funding Whilst for USD Funding, the Carry Return has Declined But as Still as High as Pre-Pandemic



Source: Bloomberg, Maybank FX Research & Strategy

Note: Carry is reflected as a result indexed to 1 Jan 1999 i.e. a reading of 100 implies that carry is identical to carry on 1 Jan 1999 and 200 implies a carry of 2 times carry on 1 Jan 1999. Computed based on borrowing USD or JPY placing it in at the IDR three month deposit, and selling IDR in three months based on the forward rates on the day to unwind.

Chart 3: USDIDR Looks Stretched on the Upside Based on Momentum Indicators

Resistance Levels: 16500 and 16643

Support: 16250 and 16000

Source: Bloomberg, Maybank FX Research & Strategy

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