Macro | FX Research and Strategy

Global

FX Flash

BI Surprise Hike, External Drivers Key to IDR Direction

BI Hikes 25bps, External Factors Crucial to IDR

Bank Indonesia (BI) undertook a surprise hike of 25bps yesterday in what appeared like a move to stabilize and support the IDR. The central bank had said that the move was done given the possibility of worsening global risks and it was a **pre-emptive and forward-looking** step to ensure inflation remains within the target in 2024 - 2025. Quite importantly, they also sounded like they could be hawkish for a while as they now expect fewer Fed rate cuts this year. They see an above 75% chance of one cut of 25bps likely in Dec whilst they also note a potential risk of 50% of not Fed pivot this year and rate cut to be pushed back to 2025.

There was though little move in the USDIDR despite the surprise hike as it continues to hover around the 16200 level this morning. There are a few possible explanations for this. The first could be that markets are still edgy about the EM FX space given the possibility of stronger US data. At this point, we are actually building up to the release of two key US data points which are 1Q A GDP today and the Mar PCE core due tomorrow Friday.

Any strong reading from those data points can actually risk sending EM FX higher although a disappointment lower could give much relief to the EM FX space. Another reason for the limited move could be the possibility of some market expectations that BI was going to hike. However, it appeared to be quite an uncertainty call as up to a quarter of the economists had called for a hike according to the Bloomberg survey whilst the rest did not. In any circumstance, the BI hike did go some way to at least to help limit the extent of the IDR weakness. **Our in-house economist now believes that BI would not cut this year in 2024, of which we believes this hawkishness should help give some support to the IDR support.**

Even so, we believe that the IDR would not be able to escape the pressures engulfing the wider EM FX space in Asia. The possibility of stronger US data leading to the Fed staying higher for longer and the risk of heightened geopolitical tensions together with high oil prices all do no favours for the IDR. These pressures may not exactly dissipate so fast. Near term, we are not ruling out upside risks. Key resistances are at 16419 and 16500. Support is at 16000 and 15800.

In the medium term, we believe that a number of favourable factors are likely to emerge for the IDR. Our in-house economist believes that the Fed would still cut two – three times this year and this should provide much relief for the IDR. Also, there should be more clarity on the new President's policies in time especially once he is sworn later in Oct and his new administration begins. We also believe that positioning into IGBs should strengthened once these factors start to play out. Outflows we note have been heavy recently.

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Alan Lau, CFA
(65) 6320 1378
alanlau@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

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Regardless, **we are still revising our USDIDR forecast upwards** to reflect the general sentiment but we would like to note that we see a downward trend for it intact.

Some risks ahead for our view include the Fed choosing to hike rates again to tackle sticky inflation and any escalation in political uncertainty locally.

Table 1: USDIDR Forecast

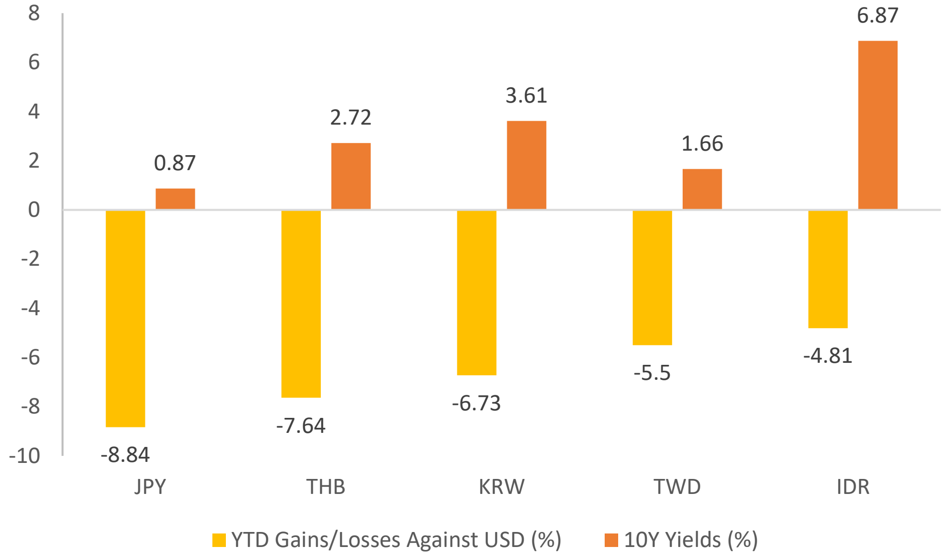
Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDIDR	16500 (15750)	16250 (15650)	15900 (15500)	15700 (15250)

Previous Forecasts in Parentheses

Chart 1: Key resistances are at 16419 and 16500. Support is at 16000 and 15800.

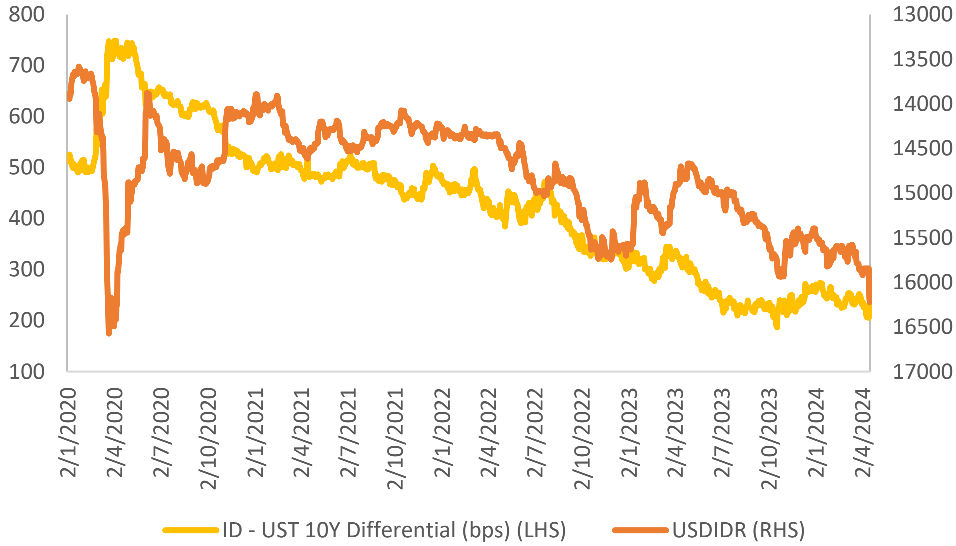
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: The High Yielding Carry Advantage of the IDR has Given it an Advantage and Seen it Perform Better vs Other Low Yielding Regional FX YTD



Source: Macrobond, Maybank FX Research & Strategy

Chart 3: Narrowing Yield Differentials Are Currently Weighing on the IDR Although There Should be Some Relief Eventually as the Fed Eases



Source: Bloomberg, Maybank FX Research & Strategy

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Maybank

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 63201379

Fiona Lim
Senior FX Strategist
fionalim@maybank.com
(+65) 63201374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371