FX

Global

FX Flash

IDR, THB and PHP Impact From Triple Central Bank Decisions

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BI Holds Rates in Line With Consensus

In line with market expectations, Bank Inondesia (BI) held rates at 6.00%. The Governor did not close on the door on future rate cuts and actually said that they see further room for easing depending on the inflation outlook, IDR and the economy. BI also noted that the magnitude of rate cut remains data dependent whilst stating that the focus is not only on the Fed fund rates but also on the on UST yields. He emphasized that the policy focus in the short term is on the IDR stability and we do not rule out that the central bank may be expressing concerned about the global environment especially in the build up to the upcoming US elections. The central banks is expecting 3-4 Fed fund rate cuts in 2025 and the possibility of 25bps each in Nov and Dec.

External Events Remains Main Risk for the USDIDR

The USDIDR continued to move lower following BI's decision to hold rates as the decision supported rate differentials at a time when markets have been paring back its aggressive Fed rate cut expectations. Earlier in the day, the pair had already been heading lower after the UST yields had come off overnight after a period when it had been climbing.

Regardless, we keep a cautious view of the USDIDR and see two way risks given the uncertainty of the upcoming US elections. At this point, polls are in a dead heat although betting sites are showing that Trump may triumph over Kamala. A Trump victory can risk weighing on sentiment towards regional EM currencies including the IDR given his proposal to implement additional tariffs on imports to the US. Such tariffs can risk weighing on global growth and in turn support the broad dollar higher amid safe haven demand. Also, EM central banks would also be under more pressure to ease rates to provide support totheir economies and this in turn can weigh further on their currencies. We do not rule out that the situation can pan out worse compared to 2018 given that EM central banks rates currently are standing high compared to history and there is a stronger need to ease rate. In 2018, EM central banks were actually on a tightening cycle back then from a lower level of rates. The possibility of upward inflation pressures within the US from Trump tariffs may also muddle the Fed's easing path. The tariffs upside pressure on the USDCNH can also potentially guide USDAsian pairs upwards given the sensitivity of regional Asian FX to the CNH. Meanwhile, the size of China's stimulus remains an uncertainty and it is unclear whether it can sufficiently help to lift sentiment for both the CNH and regional currencies.

However, in the other scenario that Kamala does win, USDAsian pairs can continue to trend downwards in the medium term as economic conditions are likely to evolve in line with our base case scenario (described more below). The current vice-president is in contrast not looking to pursue aggressive tariff measures or tax cuts like former president Trump is.

Meanwhile, Idiosyncratically, we are taking note of the current news on the possibility that Sri Mulyani may continue as the Finance Minister. Whilst her reappointment can somewhat be some positive towards IDR sentiment, the negative impact from the risks mentioned above can limit gains from the currency arising from this development.

Despite these concerns that we have highlighted, we would like to note that a Trump victory is not yet a certainty. Over the medium term and into 2025, we still hold the view that the USDIDR should trend downwards as our economists expect that the Fed would cut by an additional 50bps for the rest of this year and by 125bps in 2025. This should allow differentials to become more favorable for the IDR. Additionally, BI is also expected to ease rates, which can help guide short term Indo GB yields lower and improve appetite for them. Indonesia's inflation is much lower compared to other EMs such as Mexico, Brazil, South Africa and India, which puts BI in a better position to ease rates. Indonesia's trade balance can also remain positive into next year as our case is still for a global soft landing and that can allow prices of commodities such as palm oil to hold up. However, we still note that our forecasts do face upside risk in a Trump victory.

BOT Surprised with a Cut

The Bank of Thailand (BOT) surprised with a 25bps cut to bring rates down to 2.25% from 2.50%. However, the central bank did emphasize that the rate cut is to recalibrate monetary policy and not the start of an easing cycle. Additionally, they noted that that the household debt to GDP will rise if the benchmark rate is too low and that the inflation target should not be set too high. The BOT also emphasized that that the cut is not done under political pressure. They forecast that 3Q GDP growth will be at 3% whilst 4Q would be at 4% and expect that inflation would still be in line with target. Despite, the central banks move, it appears that they avoiding trying to sound too dovish and temper any expectations of any further cuts. The USDTHB continued to trade around recent levels of about 33.30 after the decision. In some sense, the BOT move only puts them in line with the global easing cycle that is already in place. Focus for the pair would be on the upcoming major risk events, which include the US elections. There is two-way risks for the USDTHB going forward depending on the developments related to the US elections. However, we have some inkling to believe that the THB may hold up better than other Asian FX if there is more jitteriness from stronger signs of a Trump win given that it does receive support from elevated gold prices. Safe haven demand for gold could help push prices for the precious metal. Regardless, China tariff concerns would still weigh in given the currency's sensitivity to the CNH/CNY. China stimulus can be some positive for regional FX but whether it would be of a sufficient size and composition remains an uncertainty. Over the medium term, the outcome of the election would also remain crucial. A Kamala win would result in our base case holding which is Fed easing to continue and a global soft landing to occur. This would allow for USDTHB to trend downwards overtime. A Trump win would create upside risks to our USDTHB forecasts.

BSP Cut in Line with Expectations

There was little surprise in the BSP's move today as they cut by 25bps bringing down rates to 6.00% from 6.25%. Being its second rate cut in a row, the BSP did try to avoid appearing too dovish. Whilst Governor Eli Remolona has said that another 25bps cut in Dec is still possible, he also mentioned that a 50bps reduction is unlikely. He said that they prefer "to take baby steps in terms of adjusting the policy rate, meaning 25 basis points at a time" and that it may not happen necessarily at every quarter or meeting. He did note that a 100bps cut in 2025 may be possible but highlighted that risks to the inflation outlook in 2025 and 2026 have shifted to the upside on potential adjustments for 2025 and 2026. USDPHP took a leg lower after the decision given the Governor's somewhat less dovish tone. The pair had been moving upwards in light of the aggressive pare back of Fed rate cut expectations and the country's initially perceived dovish central bank and less supported external position (negative trade balance). Despite the meeting outcome, we stay wary of the USDPHP and also see two-way risks from here for the pair depending on developments related to US elections. Stronger signs of a Trump win can result in more de-risking from EM Asian FX and guide the USDPHP higher amid concerns of the negative impact of his tariff proposals on regional economies. The outcome of the election would also be crucial to the medium term trajectory. A Kamala win would result in our base case holding which is Fed easing to continue and a global soft landing to occur. This would allow for USDPHP to trend downwards overtime. A Trump win would create upside risks to our USDPHP forecasts.

Regarding the next twelve months' outlook, our base case is for BI to cut by 25bps at each meeting in November and December, bringing the policy rate to 5.5% by year-end. We reiterate the risk that BI could end up cutting less than forecasted, if rupiah pressure persists. Risk factors include a further dial-back of US rate cut expectations, global geopolitical tensions and the upcoming US elections in November. We pencil in another -75bps of BI rate cuts in 2025, bringing the policy rate to 4.75% by year-end. As for the BOT, we expect the central bank to keep rates on hold at 2.25% until end 2025, given its lingering concerns over household and SME indebtedness and worsening credit quality. GDP at the same time is likely to be supported by a mix fiscal stimulus and monetary easing. Growth has also already been bolstered by the unexpected surge in hard disk drive exports. This would imply less economic pressure for the BOT to further ease too. As for the BSP, we expect no further cuts for this year with rates to be at 6.00% by end 2024 and for 100bps of cuts to 5.00% by end 2025.

Table 1: USDIDR, USDTHB and USDPHP Forecasts

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USDIDR	14800	14600	14400	14200
USDTHB	31.50	30.50	29.50	29.00
USDPHP	53.50	52.50	51.50	51.00
SGDIDR	11608	11496	11339	11225
SGDTHB	24.71	24.02	23.23	22.92
SGDPHP	41.96	41.34	40.55	40.32
MYRIDR	3700	3696	3692	3688
MYRTHB	7.88	7.72	7.56	7.53
MYRPHP	13.38	13.29	13.21	13.25

Technicals

On the USDIDR technicals, momentum indicators for now look mixed but the current macro background is supportive of upside for the USDIDR. Key resistance levels include 15607 (38.2% fibo retracement from Sep low to Jun high) and 15800 (around 200-dma and 50.0% fibo retracement from Sep low to Jun high). Support is at 15483 (50-dma), 15400 and 15070 (year to date low).

Chart 1: USDIDR Technicals

Source: Bloomberg, Maybank FX Research & Strategy

On the USDTHB technicals, momentum indicators also similarly look mixed. However, we have noted two-way risks for the pair. Resistance is a 33.80 (around the 38.2% fibo retracement from Sep low to Jun high and the 50-dma) and 34.57 (around the 50.0% fibo retracement from Sep low to Jun high). Support is at 32.14.

Chart 2: USDTHB Technicals

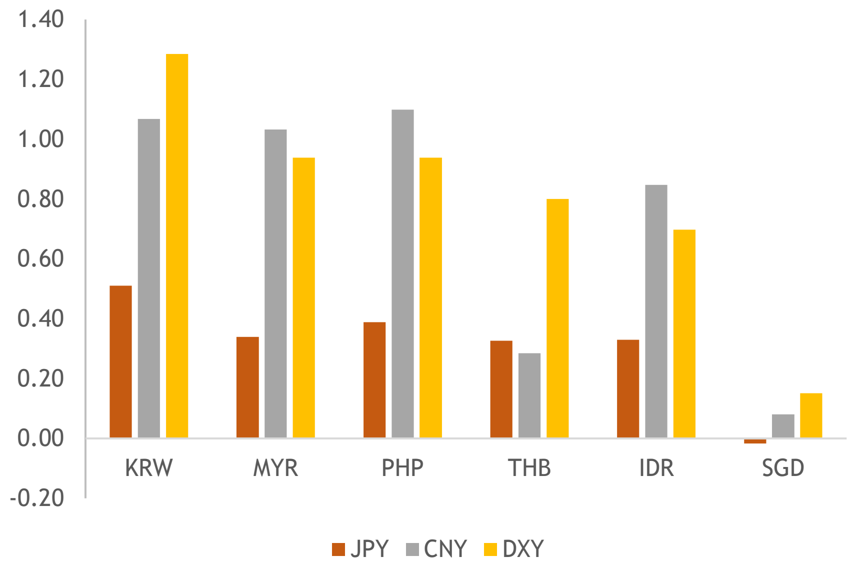
Source: Bloomberg, Maybank FX Research & Strategy

Momentum indicators imply that pair looks stretched on the upside. Regardless we are cautious on the pair and do not rule out further upside risks given the macro environment. Pair has broken above all three key moving averages of 50-dma, 100-dma and 200-dma. Resistance is 58.11 (around the 76.4% fibo retracement from Sep low to Jun high) and 58.93 (year to date high in Jun). Support is at 56.50 and 55.46 (Sep low).

Chart 3: USDPHP Technicals

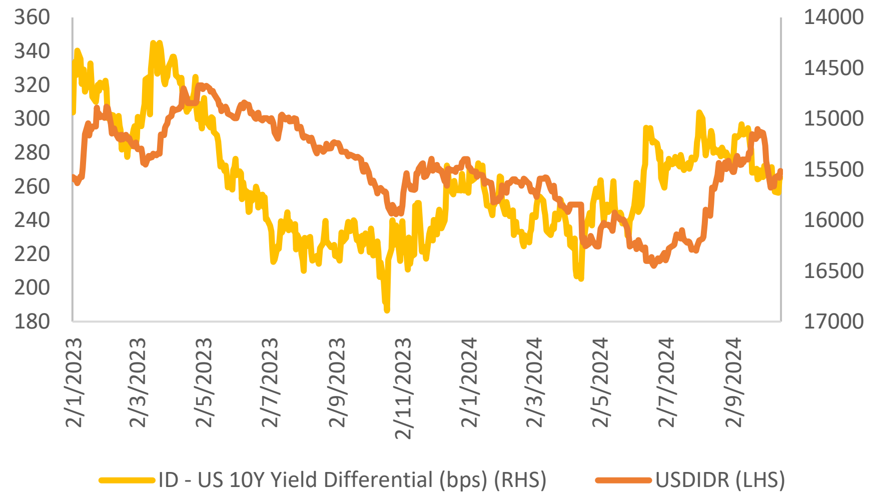
Source: Bloomberg, Maybank FX Research & Strategy

Chart 4: Asian FX Exhibit Quite Some Sensitivity to the CNH



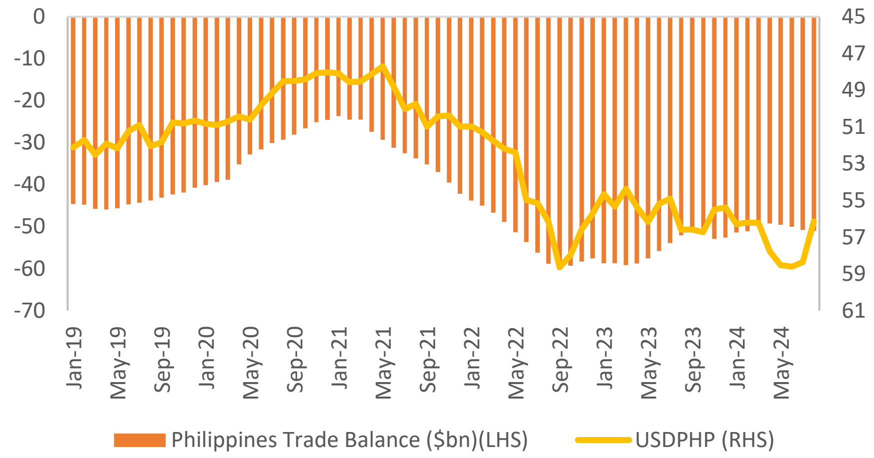
Source: Bloomberg, Maybank FX Research & Strategy
Note: Sensitivity is calculated based on weekly data for the period of Jan 2015 - Sep 2024 and the Y axis is beta sensitivity

Chart 5: Yield Differentials can Continue to Give IDR Support



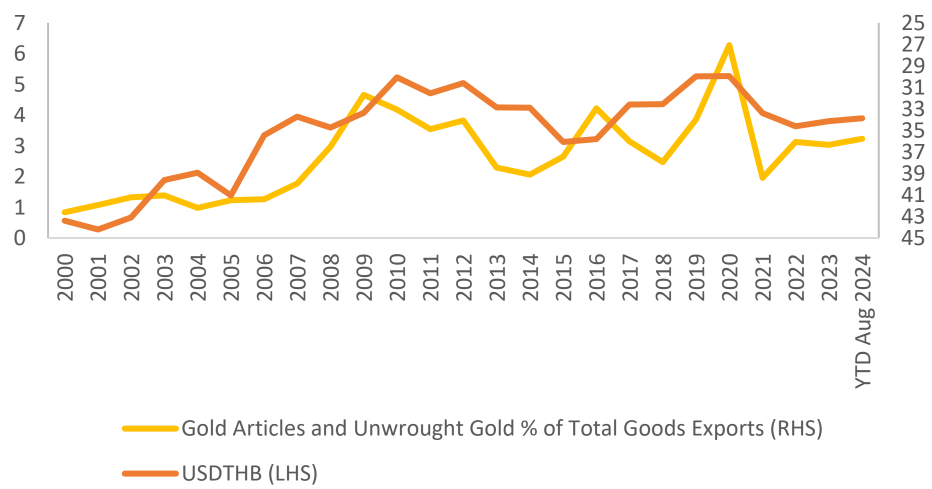
Source: Bloomberg, Maybank FX Research & Strategy

Chart 6: Negative Trade Balance Weighs on PHP



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

Chart 7: Gold is a Supportive Factor for the THB



Source: Bloomberg, Macrobond, Maybank FX Research & Strategy

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