FX

Global

FX Flash

Positive Signal From BI Surprise Cut, Focus on Fed

Positive Signaling of Cut Gives Currency a Lift

In a surprise move that was against the market consensus, Bank Indonesia (BI) cut rates by 25bps to bring it down to 6.00%. Governor Perry Warjiyo mentioned that the "time is right" and the statement itself noted that the decision was done in accordance with expectations of inflation being within target, a strengthening and stable IDR and economic growth that needs to be pushed higher. BI also now sees that the Fed would undertake three rate cuts of 25bps each this year and another four cuts of 25bps each next year. The central bank sees that the IDR would continue to strengthen and that they will keep intervening in the FX market through spot, DNDF and government bonds. They will also continue to monitor the room for lowering policy interest rates. Our economist is expecting that BI would undertake another 50bps cut this year to bring it down to 5.50% and a cumulative 75bps of cuts next year, taking it to 5.00%.

The surprise cut looks to have sent a positive signal to markets that BI may be increasingly confident that the global macro environment is becoming more supportive of the IDR. The USDIDR was fairly steady after the decision but the 1M USDIDR NDF is as of writing trading much lower. BI had appeared before today to be relatively hawkish compared to many of its peer Asian central banks. They had even previously noted that 3Q 2024 was focused on strengthening the IDR.

The move today creates further support for Indonesia GBs as the central bank now looks to be embarking on an easing cycle. Both the short and long end yields declined in line with the decision. Inflows into Indonesian bonds has been strong in recent times boosting support for the currency and the cut can help to support this momentum.

Further strengthening of the IDR and inflows into bonds is also dependent on the Fed decision and their words coming out later. A more dovish tone expressed by the Fed in addition to reassuring words from them about the economy can on its part help to continue giving support for the IDR and Indonesian bonds near term. However, eventually, going into Oct, US election uncertainty could also increasingly be priced in and USDIDR may see some rebound.

Regardless, over the medium term, we hold a bullish view of the IDR on the basis that: 1) BI starting an easing cycle supports appetite for bonds, 2) Economic fundamentals remain robust and trade surplus could be maintained, 3) Inflows into EM equities to strengthen as Fed eases and growth holds up; and 4) Fiscal position looks manageable especially with sufficient leeway to allow for slippage (2025 forecast at 2.53% of GDP, which is well below the legal ceiling of 3.00% of GDP). We therefore stick to our forecasts expecting USDIDR to keep trending downwards over the medium term.

Table 1: USDIDR Forecasts

Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDIDR	15300 (-)	14900 (-)	14800 (-)	14600 (-)

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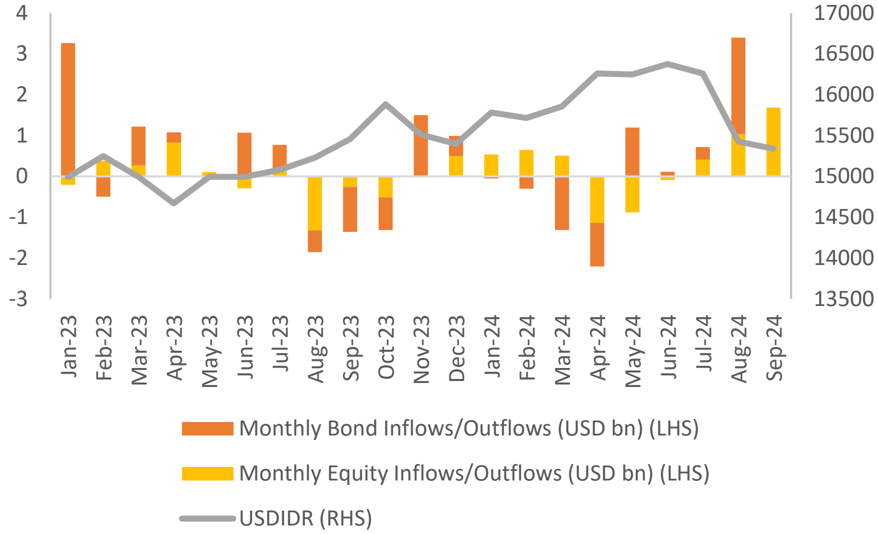
Chart 1: Whilst a BI Cut Today Can be a Positive for Bonds, Further Inflows would also Depend Upon the FOMC Outcome



Source: Bloomberg, Maybank FX Research & Strategy
Note: Sep 2024 data for equities is until 18 Sep 2024 whilst bond data is until 13 Sep 2024 and USDIDR rate is as of 18 Sep 2024

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