Maybank

FX

Global

FX Note

IDR: BI Surprise Cut and Outlook

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Maintain Forecasts even as BI Surprises Market

Yesterday, Bank Indonesia (BI) surprised with a 25bps cut to 5.75% as consensus had widely expected them to hold. In prior meetings, the central bank had quite strongly stated a prioritization to stabilize the IDR and with the currency under pressure, there was little expectation for any move. However, growth concerns appeared to have led the central bank to make the decision to cut rates. BI itself now sees that 2024 growth would fall below the midpoint of 4.7 – 5.5% whilst their 2025 growth forecast has been revised downwards to a range of 4.7 – 5.5% from 4.8 – 5.6% previously. Lower exports from softer global demand in addition to weaker household consumption and private investment are factors they highlighted behind the revision lower. They had also noted that the rate decision is consistent with low projected inflation in 2025 and 2026 within the 2.5±1% target corridor.

In our view, it seems that the central bank is now looking to take a more balanced approach to its decisions as they are probably trying to ensure that the IDR would fall in line with their other economic parameters. In particular, it appears that they are also looking to take into account the extent to which IDR levels would affect inflation. In the statement itself, BI had actually said that the decision is also in line with “maintaining the rupiah exchange rate in line with economic fundamentals to control inflation”. The last Dec inflation reading was at 1.57% and at the edge of the lower bound of their target corridor, implying inflation is less of a threat at this point. Instead, the central bank could now therefore see that it is time to orientate the focus on supporting growth.

However, this is not to say that they would not be wary about the pace of decline. It appears well and clear that the authorities are still in the market and even earlier this morning, BI had said that they were in the market to smoothen the IDR movement. If anything, authorities have noted multiple times over the last month that they have been in the market to stabilize the currency. They also noted yesterday that they would prepare two new instruments for exporters’ FX earnings. This would come in line with recent statements that the government could potentially be extending the mandatory period that commodity exporters are required to keep their foreign currency earnings onshore (from 3 months to 1 year).

We also would not rule out that the central bank would stay cognizant about the appetite for their bonds and other instruments even with the rate cut. We are aware that the SRBI non-resident ownership has taken some dip towards the end of last year (standing at 24.3% of the total in Dec 2024 from 27.3% in Oct 2024). We also note that the 7 Jan conventional bills and bond auction saw a bid-to-cover ratio of 1.21 times (receiving cumulative bid of 32tn rupiah with 26tn rupiah of bonds sold) whilst our fixed income analyst has also noted that the debt management office (DMO) appears keen to front-load as much issuances as possible. Even so, for now, we need to assess the extent to which one rate cut can impact appetite towards Indo GBs and related instruments. Despite the BI rate move, we maintain our USDIDR forecast for this year, which already implies an upward trend for 1H 2025. Our economist is still seeing a cumulative of 75bps of cuts with another 50bps likely to be frontloaded. This has already been factored in our FX outlook.

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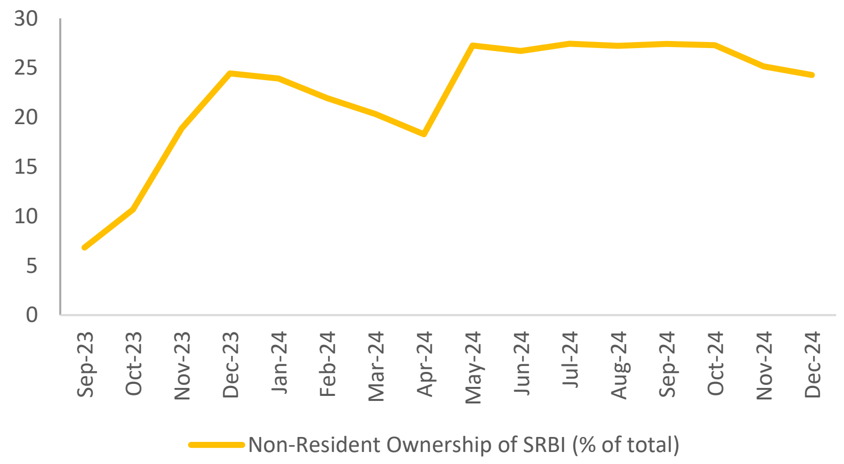
Additionally, we have also accounted for the risks related to Trump's policies (tariffs, immigration, tax cuts, regulation reform) that can lead to upside price pressures and drive up yields within the first half. Movements in the USDIDR as we had forecasted are likely to go up together with the USDAsian pairs as UST yields stay elevated and the broad dollar remains supported. However, as there is more clarity on Trump policies in 2H 2025, the USDIDR could possibly edge lower again. We would also like to stress that the authorities' may smoothen out the currency movements to avoid constant spikes in the USDIDR throughout the year. As a note, the IDR is actually on a NEER basis still holding up. However, we are also wary of some downside risks to our USDIDR forecasts that include Trump's policies panning out to be less severe or US data cooling quite significantly, allowing a faster pace of Fed easing. Meanwhile, at-the-money option prices are implying the USDIDR at a range of 15878 – 17035 by end 1Q 2025 of which our own forecast actually falls within.

Markets are likely to remain anxious building up to Trump's inauguration as they await his first policy announcements after taking office. This could keep the USDIDR under some element of upward pressure for the coming days. However, we note that there is heavy long dollar positioning whilst the momentum indicators show the broad dollar is stretched to the upside. This makes the broad dollar vulnerable to reversals lower if Trump policy announcements do not come out to be too severe and in turn, this can provide much relief to the USDIDR and other USDAsian pairs. Resistance for USDIDR is at 16500 and 16700. Support stands at 16100 and 15900 (around 200-dma).

Table 1: USDIDR Forecasts

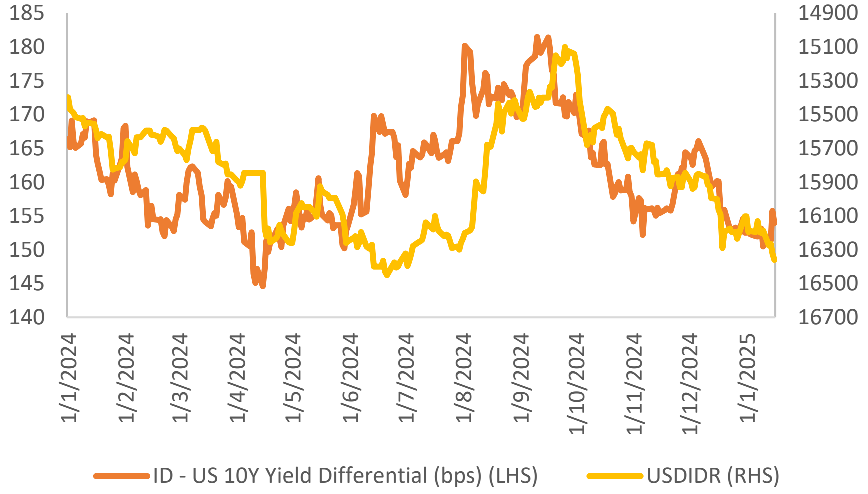
Forecast	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USDIDR	16800	17000	16500	16500
SGDIDR	12353	12364	12132	12268
MYRIDR	3652	3617	3626	3708

Chart 1: SRBI Non-Resident Ownership Dipped End Last Year as Trump Policy Anxiety Creates Pressure on EM Assets



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Narrowing Yield Differentials Places Upward Pressure on USDIDR



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Upward Pressure on the USDIDR as Resistance Stands at 16500

Source: Bloomberg, Maybank FX Research & Strategy

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