FX

Global

FX Flash

IDR: BI Resumes Rate Cuts as IDR Strengthens

BI Cuts Rates to 5.50%, Positive on IDR

In line with wide expectations, Bank Indonesia (BI) resumed cutting rates after a pause in the last three meetings. The central bank reduced the benchmark rate by 25bps from 5.75% to 5.50% as they look to provide more support to the economy. Crucially, the IDR has been performing more strongly and this looks to have facilitated the central bank to ease rates this time around. Since hitting close to 17000 around early Apr, the IDR has strengthened by about over 3% on the basis of easing domestic concerns (fiscal surplus was recently reported), softening dollar and improving bond appetite (amid rising expectations of a BI cut). BI did continue to paint a soft economic picture as they lowered their growth forecast to 4.6% - 5.4% from 4.7% - 5.5% (though they did state at the last meeting that growth would be slightly the midpoint of this range) whilst also reducing their credit growth forecast to 8-11% from 11-13%. The softer outlook does come to reflect a dovish tilt and the possibility of further cuts this year although that would be subject to the IDR stability. The central bank as a whole remains vigilant of the currency as they continued to emphasize that they will stabilize the IDR through market intervention. BI also believes that the Fed would cut by twice, which should give the central bank the space to consider additional easing. Our economist is expecting for another 25bps cut this year. The central bank did raise the foreign funding ratio for the banks from 30% to 35% as they look to target for banks to increase their funding from abroad. BI also lowered the macroprudential liquidity buffer ratio by 100bps to 4% (conventional banks) and 2.5% (sharia banks).

We have turned more positive on the IDR, lowering our USDIDR forecast as we see a number factors now look to work in favor.

The first of these factors is improving inflows into bonds and we have reason to see that this can persist. There can still be further BI rate cuts this year and this would help improve appetite towards the country's bonds. Additionally, fiscal concerns are also easing as the country recently reported a surplus. Our Indonesia economist is of the view that the country's budget deficit can stay below 3.00% and we continue to monitor if the government can meet its spending targets. US asset diversification which we see likely to take hold more strongly this year could also lead to some support for the country's bonds as investors look to reallocate more to local assets.

Gradual diversification out of the US is also driver for our view of a softer dollar this year, which we see as an important factor to give the IDR more support. There has been heavy positioning in the US over the last couple of years and investors still have some way to go to rebalance their assets amid policy uncertainty in the USA (related to both trade and fiscal policies under the Trump administration). From current levels, we see the DXY can still head lower and end the year at around 97.35.

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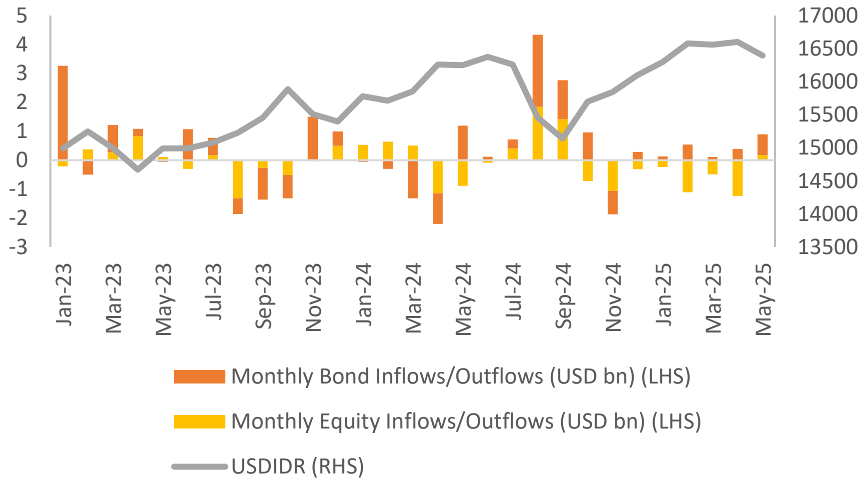
Finally, equity appetite has improved and recent positive inflows into equities has also helped lift the currency. The JCI has staged quite a rebound from its lows as the country's major banks have recovered quite a substantial amount of their value (after being essentially unfairly punished). Momentum for the country's stocks have been strong and we do see there can be further gains, which can give more support for the IDR. However, we are also cautious on the extent of benefits the currency can gain from equities. Whilst valuations for equities are still very compelling and Indonesia remains relatively shielded from the global trade conflict, the global volatility does have a tendency to make investors less willing to consider risk assets such as equities. There is an immense amount of uncertainty surrounding US economic policy and the eventual impact they will have on the world economy. We therefore are not depending on equity flows being a support to our positive currency view.

Overall, we keep to our USDIDR forecast that calls for downward trajectory in the coming year. Near term, we also expect further gains for the currency due to our view that the current DXY decline can still run further. This is especially driven by ongoing speculation that the US could be seeking a softer dollar (talk of currency being a discussion topic at the G7) whilst Trump's big beautiful tax bill could hurt appetite for the greenback too. Overnight, there has been some major developments intensifying concerns regarding this as Trump continued to push ahead with his tax bill, calling it an "ultimate betrayal" if it does not pass. There are also appeared to be a stronger possibility that FX is featuring as topic in trade talks with the US as local Korean media reported that the US US does see a relatively weak KRW as a fundamental cause of South Korea's trade surplus. The US Treasury Department did mention that Kato and Bessent did not discuss FX levels but Kato said they "deepen discussions" on "basic thinking on currency policy". Taiwan's central bank has also come out to say that they allowed the TWD to strengthen earlier in May. DXY closed lower for a third day yesterday and it continued to push lower this morning as it trades just around 99.50 at time of writing. EUR/USD topped 1.1363 before closing at 1.1331 after ECB Governing Council member Kazaks said interest-rate cuts are nearing an end. KRW had also surged to the strongest level in six months.

Table 1: USDIDR Forecasts

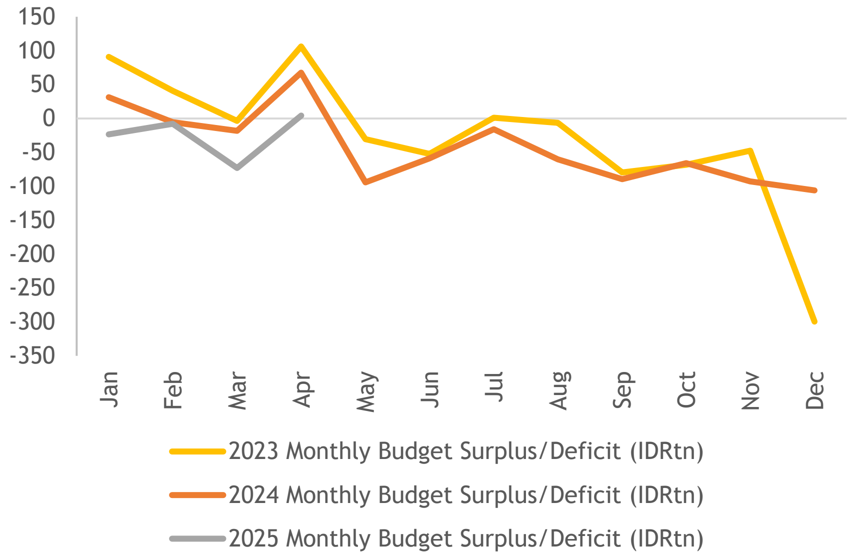
Forecast	2Q 2025	3Q 2025	4Q 2025	1Q 2026
USDIDR	16500	16250	16150	16000
SGDIDR	13127	12891	12846	12817
MYRIDR	4000	3929	3963	3988

Chart 1: Recent Portfolio Inflows have Given Support to the IDR



Source: Bloomberg, Maybank FX Research & Strategy
Note: Note: May 25 bond flows is as of 20 May 2025 and equity flows is as of 21 May 2025 whilst USDIDR is as of 21 May 2025

Chart 2: We are Confident the Country's Fiscal Position Should be Manageable with the Situation Recently Improving



Source: Macrobond, Maybank FX Research & Strategy

Chart 3: USDIDR has Been Heading Lower with Key Support at 16250 and 16000

Source: Bloomberg, Maybank FX Research & Strategy

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