

FX Insight

IDR - Upcoming Jakarta Governor Polls A Bellwether?

Jakarta Gubernatorial Election Closely Watched

Jakartans go to the polls to elect a new governor this Wednesday, 15 Feb. Though this is but one of the regional elections taking place that day, it is the most closely watched one. The Jakarta gubernatorial election is highly anticipated as it is seen as a stepping stone to higher office ever since then-governor Jokowi won the Presidency in 2014. This election is eyed to gauge the level of religious and racial intolerance and pullback from secular pluralism that could eventually affect the next presidential elections in 2019. Any outward manifestation of a move away from pluralism and religious and racial tolerance could spark concern among foreign investors and increase the economy's risk premium.

FX Market Has Been Calm So Far

The FX market has been relatively calm ahead of the gubernatorial election. Market appears to have price in an uneventful election, even if none of the candidates achieve the pre-requisite majority votes. We also look for a peaceful election and do not expect any single candidate to win outright in the first round. Unless violence breaks out, we do not expect the Jakarta gubernatorial election to have a significant impact on the USDIDR.

Range Trades For USDIDR; SGDIDR Grinding Higher

USDIDR have been trading in a familiar range since Jan as it continues to wait for directional cues. Daily momentum indicators are mildly bearish bias, while stochastics is fast approaching oversold conditions. Topside continues to be capped by 50DMA at 13370 ahead of 13420 (high 20 Jan). 200DMA at 13250 should provide support. SGDIDR has been on the slow grind higher since mid-Dec 2016, helped by the relative strength of the SGD vis-à-vis the IDR. Risks to this cross are still to the upside. Momentum indicators and stochastics on the daily chart are bullish bias. Immediate resistance is at 9395 (200DMA) ahead of 9480. Support at recent multi-year low of 9230.

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Outcome Of The Jakarta Polls Might Not Be Known Until Apr

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Much of the fuss surrounding the latter can be traced to incumbent governor Basuki 'Ahok' Tjahaja Purnama's blasphemy trial for his speech that made controversial references to the Quran. Nevertheless, though this has stirred a hornet's nest, it has not dented Ahok's popularity by much and it remains to be seen whether this will translate into votes for the incumbent on 15 Feb. His two opponents - Agus Harimurti Yudhoyono and Anies Baswedan have tried to take advantage of the legal woes of Ahok but recent polls continue to indicate that they lag behind the incumbent.

Still, this does not guarantee that all would remain well for Ahok. If in the first round of elections none of the candidates secure an absolute majority (i.e. more than 50%), a run-off between the two top vote-getters will take place in April. There is a risk that Ahok could lose the election if the opposition parties join forces.

Even if Ahok and his team mate wins the gubernatorial vote eventually, he may still end up not taking office should he get convicted for blasphemy and sentenced to the maximum five years in jail. The verdict is expected only in May after the run-off election in April is over. In this scenario, Ahok will be immediately suspended (as the law suspends office-holders who faced charges with a jail sentence of at least five years) and his deputy will assume the role of governor.

So far, the FX market has been relatively calm ahead of the gubernatorial election. Market appears to have price in an uneventful election, even if none of the candidates achieve the pre-requisite majority votes. We also look for a peaceful election and do not expect any single candidate to win outright in the first round. Unless violence breaks out, we do not expect the Jakarta gubernatorial election to have a significant impact on the USDIDR.

We look at four scenarios in the aftermath of the April run-off with Ahok as one of the top vote-getter in the first round (Table 1). Our base case is for Ahok to win the governorship and is cleared of blasphemy. This would be a positive for the IDR and could see the USDIDR head lower towards 13250. Possibly the worst of the alternative scenarios we have is for Ahok to lose the elections and is also convicted of blasphemy and given the maximum sentence that could trigger protests from his supporters. The IDR is likely come under pressure and the USDIDR could climb higher towards the 13600 levels.

In the scenario that he wins the governorship but is convicted of blasphemy and sentenced to less than five years imprisonment, Ahok can continue as governor while he appeals his conviction. This is likely to be mildly negative on the IDR and the USDIDR could temporarily climb higher towards 13400. On the other hand, should he be convicted and sentenced to the maximum five year jail, Ahok will be suspended from office. This is negative for the IDR and we could see the USDIDR head

higher towards the 13450 levels.

Table 1: Election and Conviction Scenarios And Impact on USDIDR

	Scenario	Impact on USDIDR
Base Case	Ahok wins the governorship and is found not guilty of blasphemy	Positive for the IDR and could see the USDIDR lower at 13250
Alternative Case 1	Ahok wins the governorship but is convicted of blasphemy and sentenced to less than 5-years; continues as governor as he appeals his conviction	Mildly negative on the IDR and the USDIDR could climb higher temporarily towards the 13400 levels
Alternative Case 2	Ahok wins the governorship but is convicted of blasphemy and sentenced to the maximum of 5-years; suspended from office while he appeals his conviction	Negative on the IDR and the USDIDR could head towards 13450
Alternative Case 3	Ahok loses the elections and is convicted of blasphemy and given the maximum sentence; political tensions could rise as protests by his supporters are likely	Negative on the IDR and the USDIDR could climb beyond 13450 towards 13600

Source: Maybank FX Research

Based on technicals, we expect the USDIDR to continue to hover around its current ranges within 13250-13450. In contrast, the SGDIDR remains on the slow grind higher, hovering within 9230-9390.

Daily Chart - USDIDR: Stuck In Range



Source: Bloomberg, Maybank FX Research

USDIDR have been trading in a familiar range since Jan as it continues to wait for directional cues. Last seen around the 13320 levels. Daily momentum indicators are mildly bearish bias, while stochastics is fast approaching oversold conditions. Topside continues to be capped by 50DMA at 13370 ahead of 13420 (high 20 Jan). 200DMA at 13250 should provide support.

Weekly Chart - SGDIDR: Gradual Grind Higher



Source: Bloomberg, Maybank FX Research

SGDIDR has been on the slow grind higher since mid-Dec 2016, helped by the relative strength of the SGD vis-à-vis the IDR. Risks to this cross are still to the upside. Momentum indicators and stochastics on the daily chart are bullish bias. Immediate resistance is at 9395 (200DMA) ahead of 9480. Support at recent multi-year low of 9230.

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