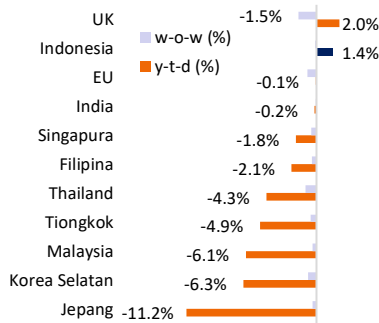


Friday, 22 September 2023

Macro Strategy

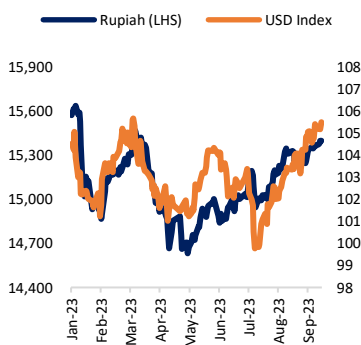
Currency Conundrum

YTD Currency performance (%)



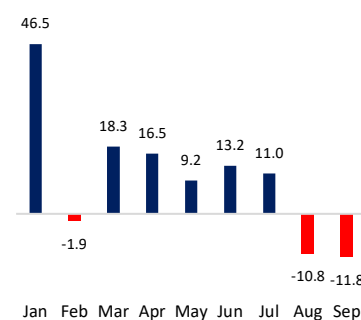
Source: Bloomberg

IDR vs DXY



Source: Bloomberg

Capital Inflow/Outflow (IDRtn)



Source: Bloomberg



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Bank Indonesia's stance has remained consistent with a continued emphasis on stabilizing the currency. BI views that the increasing inflation risks will be temporary and manageable. In addition, BI also foresees capital inflows post an expected peak in the Fed Funds Rate in the November meeting. With an ongoing commitment to safeguard currency volatility, we don't foresee any change in policy rates until year-end. Progress on the SRBI and TD DHE has been promising in providing a buffer on forex reserves.

Keeping the Policy Rate Intact. After keeping the policy rate steady at 5.75% for eight consecutive months, BI announced its intention of maintaining the current rate to uphold IDR stability. BI also projected that inflation would remain stable for the rest of 2023 and 2024. The central bank identified other risks, including the increasing prices of rice and oil and emphasized that adjustments in oil prices would be temporary and apply solely to non-subsidized fuel, which would have a relatively minor impact on overall inflation. As government rice reserves continued to increase to the current 2 million tons level, such a buffer is deemed adequate until 1Q24, paving the way for more stable rice prices. According to BI's latest Price Monitoring Survey (SPH) as of the 2nd week of September, overall price growth stood at 0.15% m-m, translating to 2.2% y-y inflation. BI has reiterated its inflation forecasts for 2023 and 2024 at 2.9% and 2.8%, respectively. Tests on various scenarios with tailwinds also indicate that inflation will remain within BI's target range of 3% +/- 1% in 2023.

Impetus for IDR stability. While the Rupiah remains volatile, it still stands out as one of the best-performing currencies. BI anticipates that capital inflows will commence in November, coinciding with the expected peak of the Federal Reserve's federal funds rate (FFR). Despite successfully managing inflation, BI has announced its intention to retain the prevailing interest policy rate, intervention in forex markets (both spot and DNDF), as well as to further enhance the efficiency of SRBI and TD DHE instruments to stabilize the Rupiah.

Concerning SRBI, BI noted that the secondary market is still in its nascent stage and requires time to mature. Nevertheless, the SRBI auctions held on Wednesday and Friday were oversubscribed by 3.12x and 4.12x, respectively. BI has indicated flexibility in increasing the awarded nominal amount, aligning with SRBI's pro-market stance, despite initial indicative targets of IDR 5-7tn. In the secondary market, SRBI transactions have been active at IDR2.13tn, representing 5% of the combined awarded nominal amount from both auctions, with 82% of participants being foreign entities. Such a trajectory is expected to further accelerate going forward.

With BI's commitment to maintaining these auctions, we believe that the long-term goals of deepening the financial market and stabilizing the Rupiah can be realized. Progress with TD DHE is also promising, as recent data from Bank Indonesia reveals September inflows of USD 1.3bn mtd, compared to Aug's USD 568m. These substantial inflows will bolster forex reserves and be supportive for greater IDR stability. In addition, BI is also contemplating the introduction of another instrument to monetize TD DHE as an underlying asset.

Further improvements on banking intermediary growth. Loans growth accelerated further to 9.06% in Aug from July's 8.54%. With macro-prudential incentives introduced in October and interest subsidies for working capital loans to SMSE, BI maintains its loans growth target of 9-11%. Elsewhere, BI has released a consultative paper on the digital Rupiah and plans to share feedback in October. The Central Bank Digital Currency (CBDC) is currently undergoing proof-of-concept testing, with an expected completion date in March 2024.

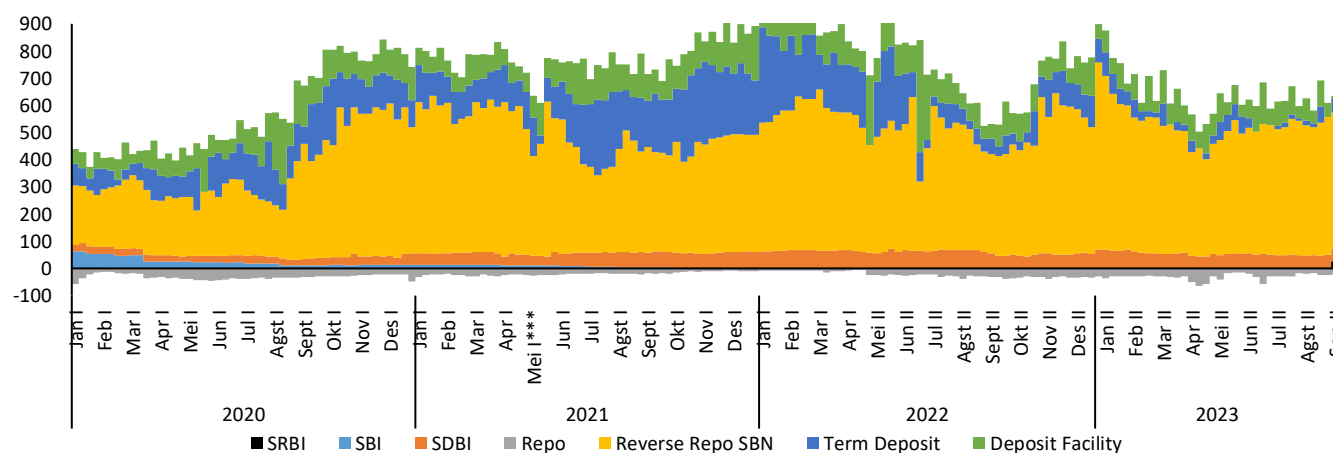
Exhibit 1. Bank Indonesia Rate Tracker

	2020				2021				2022				2023				
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Inflation vs Target	-0.8	-1.0	-1.0	-0.9	-0.8	-0.5	0.2	0.8	0.6	0.6	0.6	0.4	0.2	0.1	-0.1	-0.3	-0.2
Rupiah Volatility	0.3	-1.0	0.0	0.5	-0.1	0.1	-0.2	-0.3	0.3	1.1	0.4	-0.3	1.3	0.1	-0.2	-0.2	-0.5
Rate Spread	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0	-1.7	-2.0	-2.0	-1.9	-2.0	-2.0	-2.2	-2.3	-2.3	-2.4	-2.4
Fed Rate	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	0.1	1.0	1.7	1.7	1.8	1.8	2.0	2.1	2.1	2.3	2.3
OMO	0.7	0.4	0.8	0.8	1.4	1.6	2.2	3.6	2.9	3.1	3.1	3.2	4.2	3.6	3.6	3.5	3.4
Bonds	0.0	-1.5	1.0	-1.4	-1.9	-3.3	-1.2	-2.1	1.3	2.9	-0.7	0.7	0.0	0.2	0.9	0.3	0.3
Equities	-2.3	-2.0	-1.1	-1.3	-1.6	-0.8	-2.1	-1.4	-4.0	-2.1	-1.1	-1.2	0.4	-1.6	-2.2	-1.4	-1.9
Manufacture Utilization Rate	0.4	0.9	1.0	0.6	1.0	0.4	0.1	1.1	0.3	0.4	0.4	0.6	0.8	0.1	0.7	0.9	1.1
BI Rate	3.75	3.5	3.5	3.5	3.5	3.5	3.5	4.25	5.5	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Hike/Cut	0	0	0	0	0	0	0	50	25	25	0	0	0	0	0	0	0



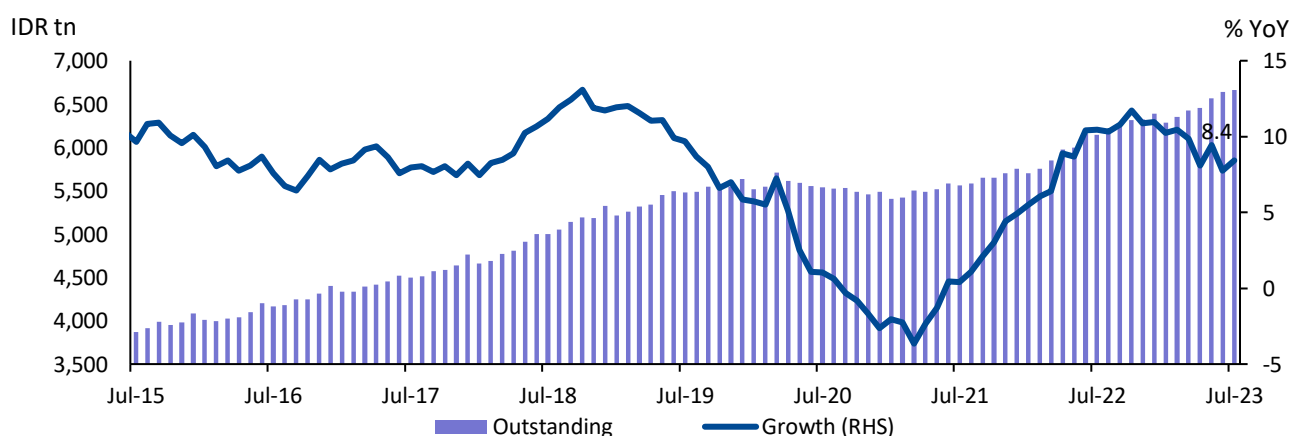
Source: BRIDS

Exhibit 2. BI Open Market Operation Outstanding – an Increase in Reverse Repo SBN



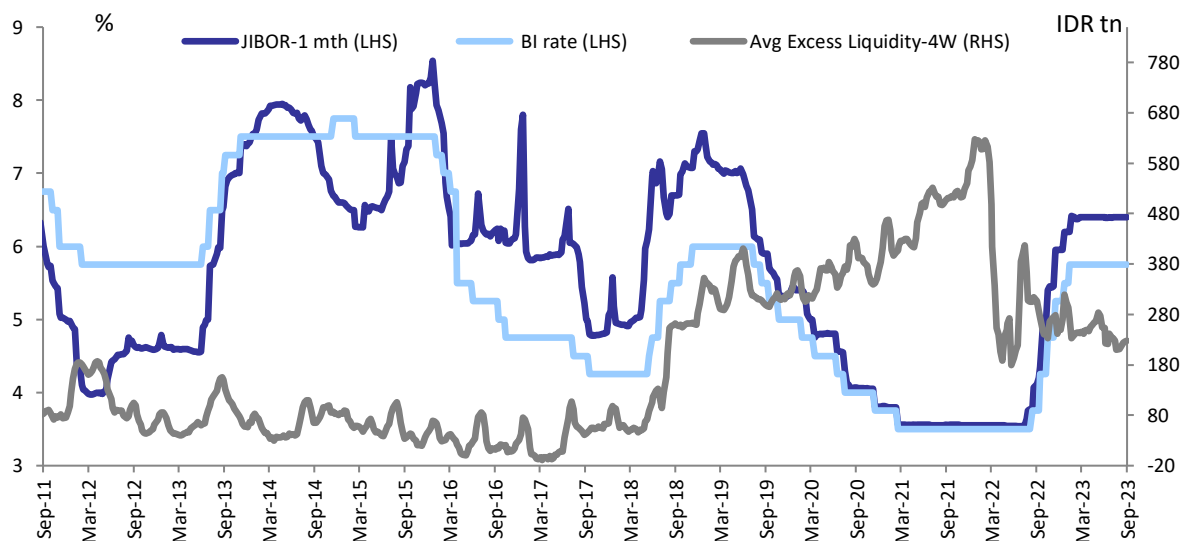
Source: Bank Indonesia

Exhibit 3. Loan Growth



Source: Bank Indonesia

Exhibit 4. Banking Excess Liquidity



Source: Bank Indonesia, BRIDS

Exhibit 5. SRBI Result – 15 September 2023

Tanggal Transaksi/ Transaction Date	15 September 2023/ September 15 th 2023		
Jangka Waktu/ Term	6 Bulan (182 Hari) / 6 months (182 days)	9 Bulan (273 Hari) / 9 Months (273 days)	12 Bulan (364 Hari) / 12 Months (364 days)
Tanggal Setelmen / Settlement Date	15 September 2023/ September 15 th 2023 (sameday settlement)		
Tanggal Jatuh Waktu/ Maturity Date	15 Maret 2024/ March 15 th 2024	14 June 2024/ June 14 th 2024	13 September 2024/ September 13 th 2024
Nominal Penawaran (Rp Miliar) / Bidding Amount (Rp Billions)	8.085,00	3.400,00	18.387,00
Rate Penawaran (%) / Bidding Rate (%)	6,16-6,80	6,35-6,50	6,35-6,60
Rata-Rata Tertimbang Penawaran (%) / Weighted Average Bidding Rate (%)	6,31336	6,40787	6,41899
Nominal Pemenang (Rp Miliar) / Nominal Awarded (Rp Billions)	6.780,00	2.650,00	15.026,00
Rata-Rata Tertimbang Pemenang (%) / Weighted Average Winner (%)	6,29927	6,39142	6,40488
Total Pemenang (Rp Miliar) / Total Nominal Awarded (Rp Billions)	24.456,00		

Source: Bank Indonesia

Exhibit 6. SRBI Result – 20 September 2023

Tanggal Transaksi / <i>Transaction Date</i>	20 September 2023 / <i>September 20th 2023</i>		
Jangka Waktu / <i>Term</i>	6 Bulan (182 Hari) / <i>6 months (182 days)</i>	9 Bulan (273 Hari) / <i>9 Months (273 days)</i>	12 Bulan (364 Hari) / <i>12 Months (364 days)</i>
Tanggal Setelmen / <i>Settlement Date</i>	20 September 2023 / <i>September 20th 2023</i> <i>(sameday settlement)</i>		
Tanggal Jatuh Waktu / <i>Maturity Date</i>	20 Maret 2024 / <i>March 20th 2024</i>	19 Juni 2024 / <i>June 19th 2024</i>	18 September 2024 / <i>September 18th 2024</i>
Nominal Penawaran (Rp Miliar) / <i>Bidding Amount (Rp Billions)</i>	3.785,00	1.460,00	10.390,00
Rate Penawaran (%) / <i>Bidding Rate (%)</i>	6,29-6,40	6,38-6,45	6,38-6,55
Rata-Rata Tertimbang Penawaran (%) / <i>Weighted Average Bidding Rate (%)</i>	6,33044	6,39712	6,42067
Nominal Pemenang (Rp Miliar) / <i>Nominal Awarded (Rp Billions)</i>	2.185,00	1.280,00	9.810,00
Rata-Rata Tertimbang Pemenang (%) / <i>Weighted Average Winner (%)</i>	6,31382	6,39219	6,41678
Total Pemenang (Rp Miliar) / <i>Total Nominal Awarded (Rp Billions)</i>	13.275,00		

Source: Bank Indonesia

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