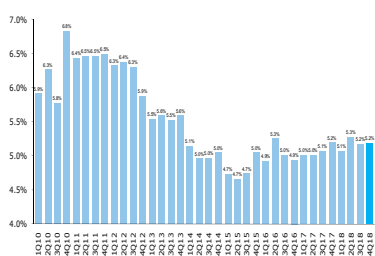


Macroeconomics Indicator

	2018	2019F
GDP growth (% yoy)	5.2	5.2
Inflation (% yoy)	3.1	3.1
7DRRR (% year end)	6.00	6.00
IDR/USD (median)	14,282	14,426
CA balance (% of GDP)	-3.0	-2.5
Fiscal balance (% of GDP)	-1.8	-1.8

GDP growth (% , yoy)



Money & Forex Reserves

	latest	% yoy
M1 - Jan19, Rp1tn	1377.6	3.8
M2 - Jan19, Rp1tn	5646.4	5.5
Reserves -Jan19, US\$bn	120.1	-9.0

Source: BI, BPS, CEIC

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Easing on the verge?

- Policy rate stays at 6%, consistent with expectation.
- Capital inflow surged, inflation and exchange rate stable.
- Global easing yet to come, from the Euro and US.
- Part of market has now expected BI to cut rate.

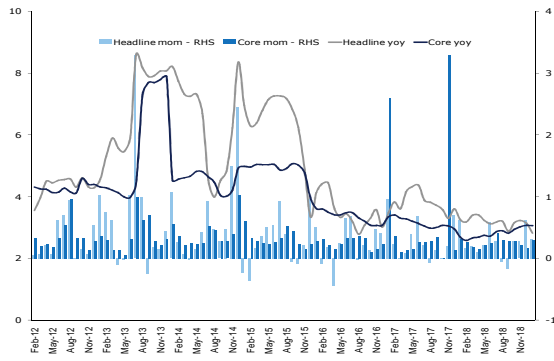
7DRRR at 6%. Bank Indonesia decided to sustain 7DRRR at 6%, with deposit and lending facility rates remained at 5.25% and 6.75%, respectively. This is in line with consensus expectation and ours, albeit recently there has been a soft shift in market expectation, foreseeing any rate cut to take place immediately. Domestic market has gained from improving sentiment against EMs – a reversal from last year’s situation – where Indonesia stood among largest beneficiaries (vs peers) in yield comparison term. BI should be inclined to hold rate until at least 1H19, in our view, given economic and political concerns.

Surging inflow. Capital inflow by third week of Mar19 has reached Rp71.6 tn, 85% of which went to the bond market. This has pushed yield somewhat far from the end of 2019 origin, by -29bps ytd, strongest in comparison to other BBB-rated developing markets, tightly followed by the Philippines, and India. At home, inflation has been soft in Feb19 (2.6%; core inflation robust at 3.1% yoy) and net portfolio asset purchase had supported appreciation of exchange rate USD/IDR by 2.6% ytd. But concern remains from outstanding trade deficit US\$0.73bn, which should continue to challenge CAD standing, slightly below 3% of GDP FY18.

Global easing. Recent mull over monetary easing in developed markets including the US and Eurozone economies, have become probable and imminent, based on latest central bank discussion. The ECB has mentioned about launching stimulus program through TLTRO by Sep19 and to hold rate at current standing until this year. March’s US’ Federal Reserve meeting has also laid out ground for market to believe that current FFR is already at peak, therefore, next move would be for a rate cut. We observe significant change in consensus expecting no more FFR increase this year, and that upcoming rate cut would likely be in 4Q19, thus providing good blow for EMs, notably to our market.

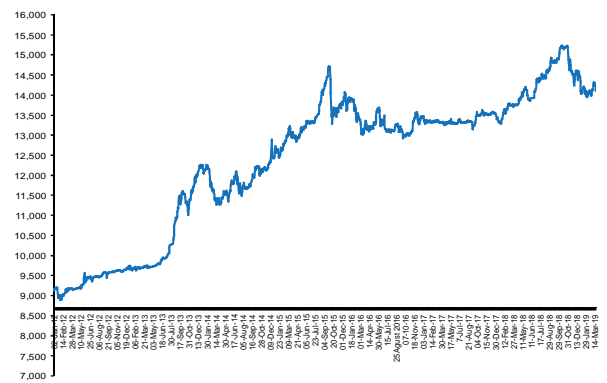
BI to cut rate? There has been genuine talks within market players to date that BI would undertake rate cut anytime immediately, given global environment. In few discussions, BI officials have often signalled the possibility would be diminished in the short timeline. We concur with BI for rate sustenance in a timeline that ends by 1H19, basing our grounds from uncertainty from CAD reduction success, political election, and probability that the Fed has not seen any immediate rate cut on the horizon. Moreover, with downtrend in yield across EMs, Indonesia stands among the few, which enjoys better real yield, as inflation and exchange rate have been stable. This would develop good market momentum for further inflow catalyst. If current situation prolongs, the likelihood for rate cut remains existent, with timeline more probable in the 2H19 than now. We downgrade policy rate estimation by 50bps to 6%, given new set of development.

Fig. 1: Inflation (% yoy)



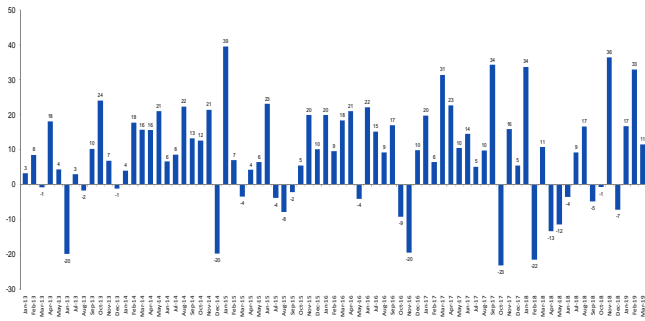
Source : Statistics Indonesia, IndoPremier

Fig. 2: USD/IDR Exchange rate



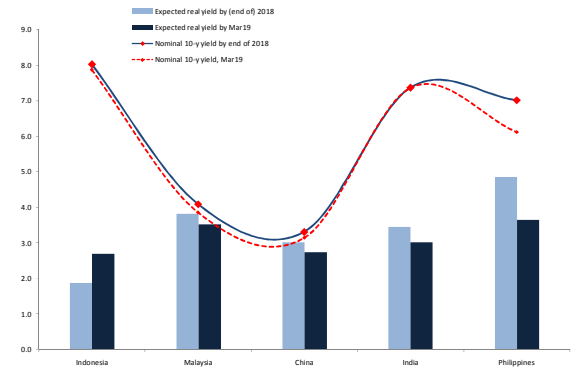
Source : Bank Indonesia, IndoPremier

Fig. 3: Capital inflow to bond market (Rptn)



Source : MOF, Bloomberg, IndoPremier

Fig. 4: Real return from bond market vs peers (%)



Source : MOF, Bloomberg, IndoPremier

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

The views expressed in this research report accurately reflect the analysts' personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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