INDOPREMIER

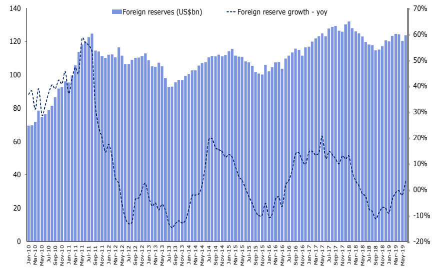
MacroInsight

23 August 2019

Macroeconomics Indicator

	2018	2019F
GDP growth (% YoY)	5.2	5.2
Inflation (% YoY)	3.1	3.1
BI rate (% Year end)	6.00	5.25
IDR/USD (Year-end)	14,282	14,426
CA balance (% of GDP)	-3.1	-3.0
Fiscal balance (% of GDP)	-1.8	-1.8

Foreign reserve (US$bn)



Money & Forex Reserves

	latest	% yoy
M1 – Jun19, Rp tn	1523.5	4.9
M2 –Jun19, Rp tn	5918.5	6.9
Reserves – Jul19, US$ bn	125.9	1.7

Source: BI, BPS, CEIC

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A surprise rate cut, room for further easing remains ample

- BI cut its rate by another 25bps to 5.50% (second time this year), against consensus and our expectation.
- Growth seems to be the priority as of now.
- We think room for further easing remains ample. We penciled at least another 25bps rate cut for the remainder of this year.

BI's second rate cut this year

Bank Indonesia undertook second policy rate cut of 25bps to 5.50% and adjusted lending and deposit facility rates to 6.25% and 4.75%, respectively. This move is against consensus and our expectation. Rationale for the rate cut were: (1) Estimated low inflation by FY19 to be below BI's middle range of expectation (3.5%), (2) Returns in domestic financial asset, where real policy rate remained attractive, offering at least 2% return, and (3) Pre-emptive measure for predicted global economic slowdown.

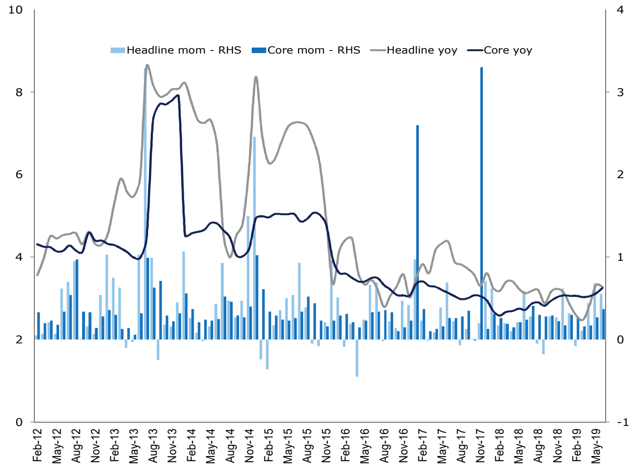
Concern on growth overweight inflation

Other than domestic challenges, BI was also concerned on the external front especially with the current trend of global economic slowdown that may put some pressure to commodity prices, including oil. The move for rate cut is to mitigate such risk, as other countries also deploy their policies such as fiscal stimulus and monetary loosening. BI expects economic growth to hover around 5.1-5.5% in 2020, with lower inflation targeted at the ban of 3±1% (vs 3.5±1% in 2019).

Further room for rate cut

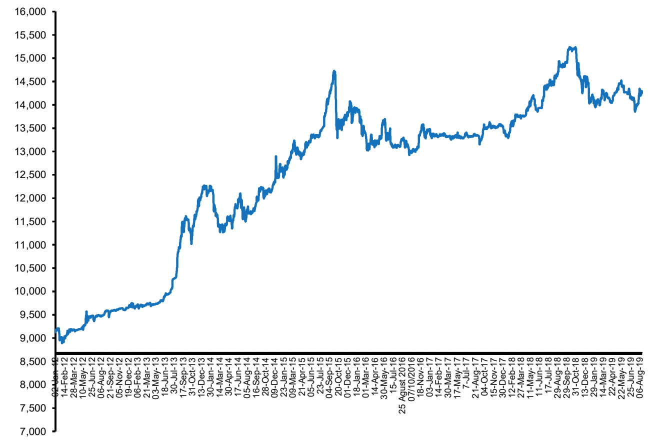
We think the main concern will be future rate direction. BI highlights its intention to prop up growth, which signals its intention for further rate cut. The current policy, which is made based on single FFR's cut (already took place) is conservative in our view, and thus opening a probability of further easing shall Fed cut its rate further (97% probability for another cut in Sept). We penciled at least another 25bps cut for the BI rate on the back of adequate reserve position (equal of 7.3 months of imports), stable exchange rate (0.8% mom appreciation in Jul19), CAD (2.8% of GDP in 1H19 vs 2.5% in 1H18).

Fig. 1: Inflation (%, yoy)



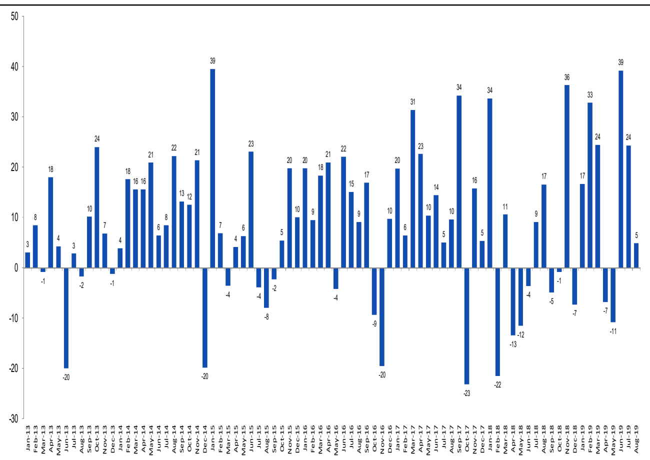
Source: Bank Indonesia, IndoPremier

Fig. 2: Exchange rate (US$/IDR)



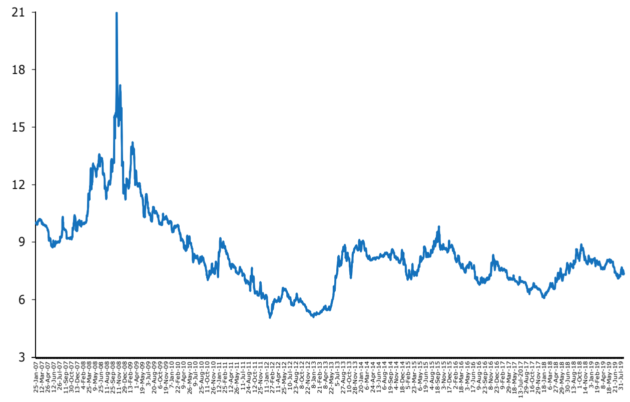
Source: Bank Indonesia, IndoPremier

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



Source: Ministry of Finance, IndoPremier

Fig. 4: 10-y sovereign yield movement (%)



Source: Bloomberg, IndoPremier

Refer to Important disclosures in the last page of this report

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