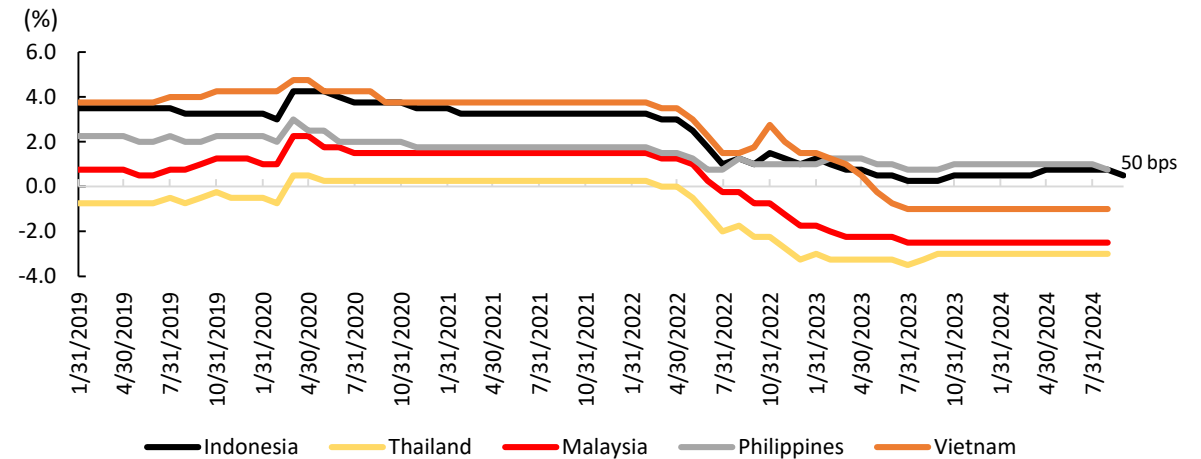


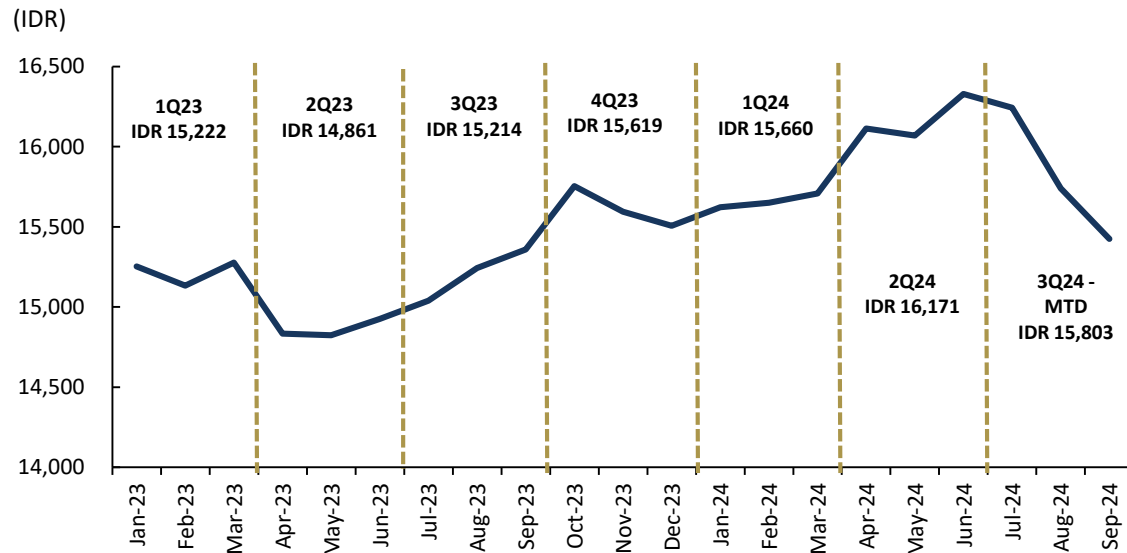
BI's 7-Day Repo Rate: 19 September 2024

- In line with our expectations, Bank Indonesia cut its interest rate by 25 bps to 6% during its September 2024 meeting. However, this defied market consensus, which had expected it to hold the rate steady at its highest level since the benchmark was introduced in 2016. The overnight deposit facility and lending facility rates were also lowered by a quarter point to 5.25% and 6.75%, respectively.
- Given the positive macroeconomic environment, including USD 150.2 billion in forex reserves, the 52nd consecutive trade balance surplus, low inflation, and considerable foreign inflows since August to both the equity (IDR 53.2 trillion) and bond (IDR 33.8 trillion) markets, BI has extra room for this early 25 bps cut, just before the Fed's decision tomorrow (September 19, 1 AM Indonesia time).
- This ahead-of-the-curve stance is justified since the Fed has a 100 percent probability of implementing the long-awaited rate cut of at least 25 bps. Not to mention, Indonesia currently has the highest interest parity gap with the FFR among the ASEAN-5 countries. The first-mover advantage of an early rate cut will surely create positive domestic sentiment, potentially boosting the economy for the rest of the year.
- Going forward, with inflation largely under control and a relatively weak USD, BI has the luxury of maintaining rupiah stability before making possible adjustments in the fourth quarter of the year. However, further rate cuts require prudence, particularly as we head into 2025, given that Indonesia's twin deficits are likely to widen on increased budget spending as well as decreased exports on lower commodity prices pressured by potential economic hard landing in both the US and China.

Spread: Fed Rate vs ASEAN Countries



Quarterly USD/IDR Rate 1Q23 – 3Q24 MTD



FX Reserves (M-o-M)

