BI's 7-Day Repo Rate: 18 December 2024

SAMUEL SEKURITAS INDONESIA
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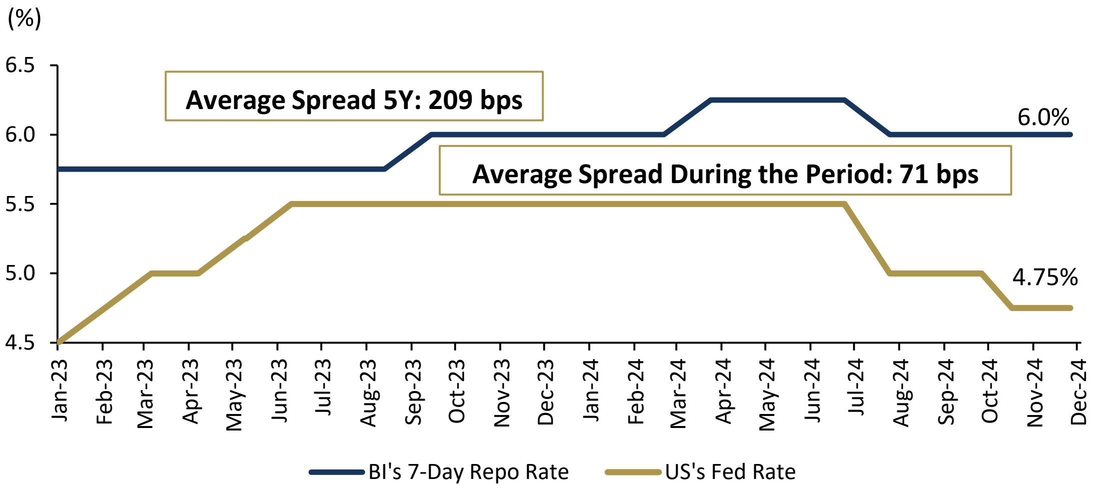
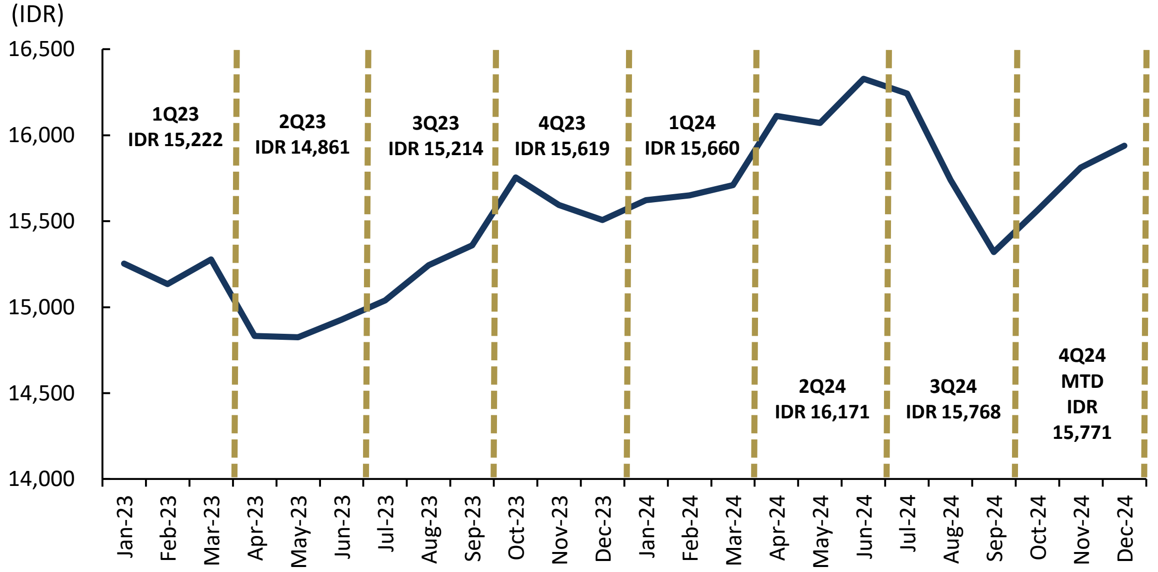
- Awaiting for the Fed's decision to cut the FFR tomorrow at 2 a.m. Jakarta time, Bank of Indonesia (BI) opted to skip its last chance for a rate cut in 2024, preferring to maintain the country's benchmark interest rate at 6% during the December meeting. This central bank's decision was in line with our view as an effort to stabilize the Rupiah (IDR) amidst stronger USD, foreign outflows from both domestic bond & equity markets as well as year-end seasonality characterized by high demand for foreign currencies.
- The local currency came under pressure starting 11 December when the IDR began to test the 16k psychological level to the USD. On the external front, this depreciation was attributable not only to uncertainties surrounding the US Federal Reserve's policy direction, limitation for cuts in the federal funds rate, but also the broad-based strengthening of the USD. Additionally, geopolitical risks have prompted a global shift in investor preference towards US assets, further weighing on emerging market currencies like the IDR.
- In line with its interest rate decision, BI also kept the overnight deposit and lending facility rates unchanged at 5.25% and 6.75%, respectively. These steady rates reflect a balanced approach aimed at supporting financial system stability while addressing global and domestic economic challenges. As the global economic outlook remains uncertain, BI's prudent monetary stance underscores its resolve to navigate these complexities.
- This policy consistency highlights BI's preference for maintaining Indonesia's contained inflation outlook and guarding against unfavorable IDR fluctuations in an effort to strengthen the country's economic fundamentals. However, looking ahead, the persistent strength of the USD and global risk-off sentiment is likely to continue undermining the performance of the IDR. Hence, BI is likely to remain vigilant, employing macro-prudential tools and forex market interventions to stabilize the currency in order to sustain investors' confidence.
- Nevertheless, the Fed may maintain status quo in the first quarter next year given Trump's implementation of various inflationary policies, including heightened trade wars, particularly with China. Thus, the IDR may further weaken in the future due to decreasing commodity prices on global economic slow down, exacerbating Indonesia's twin-deficit problems.

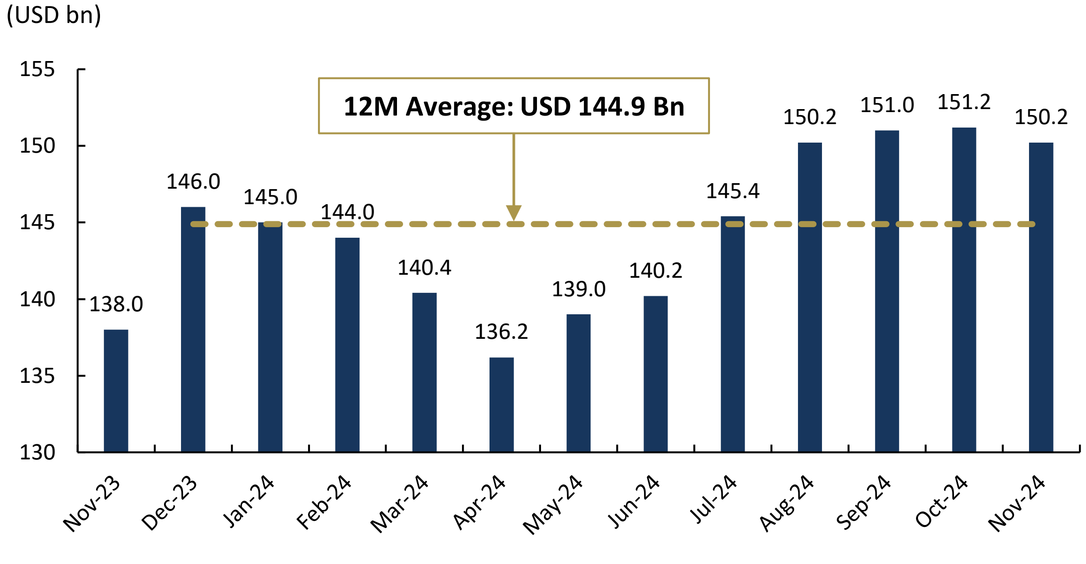
Fed Rate vs BI's Rate



Quarterly USD/IDR Rate 1Q23 – 4Q24 MTD



Monthly FX Reserves



Sources: Bloomberg, Bank Indonesia, SSI Research

Analyst: Fithra Faisal