

Awaiting The Interest Rate Pivoting

Bank Indonesia (BI) continues to demonstrate its Pro-Stability policy stance by maintaining the BI Rate at 6.00% (Cons: 6.00%, KBVS: 6.00%, Prev: 6.00%). This appears to be a measure to sustain Rupiah stability amidst concerns over the decline in Trade Surplus and the potential continuation of a current account deficit, projected to range between -0.1% to -0.9% of GDP in 2024. Furthermore, it aims to mitigate the inflation transmission from imported goods, given the rising distribution costs due to ongoing global geopolitical tensions.

BI also anticipates a potential Fed rate cut in 2H24, which we foresee BI will likely follow suit. Additionally, BI will persist in advocating for the utilization of SRBI, SVBI, SUKBI, and SUVBI as liquidity tools for banks, while ensuring stability in the domestic financial market through a triple intervention policy. This is expected to encourage capital inflows, particularly into SVBI and SUVBI.

The Fed rate also maintained at 5.50% (Cons: 5.50%, Prev: 5.50%) with three potential cuts this year according to The Fed's Dot Plot (see Fig 11, p.34), followed by three additional cuts over the next two years. Meanwhile, the summary of The Fed Economic Projection (see Table 3, p.4) indicates a relatively robust US economy, with GDP growth anticipated to increase to 2.1% YoY (compared to 1.4% YoY in the Dec '23 projection) in 2024, 2.0% YoY in 2025 (compared to 1.8% YoY), and 2.0% YoY in 2026 (compared to 1.9% YoY).

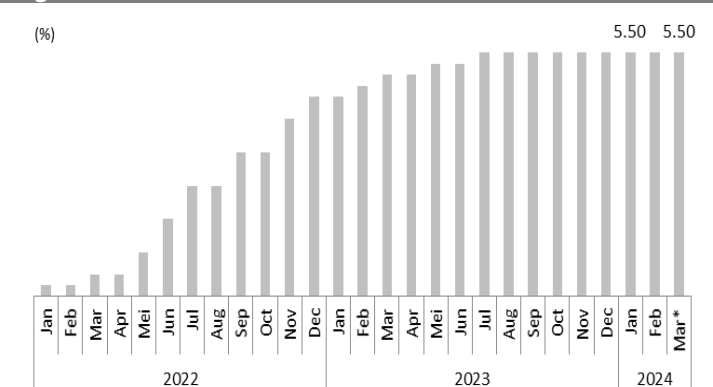
We anticipate that this will promptly lower the UST10Y to approximately 4.0% to 4.1% in early Apr '24, with a subsequent aim to approach the 3.5% level ahead of the first anticipated rate cut by the end of 1H24. Simultaneously, we project that this will create the possibility of a reduction in the BI Rate in Jun or Jul '24, consequently contributing to a sentiment-driven decrease in SUN10Y yields to around 6.5% in early Apr '24 and 6.2% by the end of 1H24.

Table 1. Interest Rate Data

Indicators	21-Feb-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.50	5.50	0.0	0.0
European Union	4.50	4.50	0.0	0.0
United Kingdom	5.25	5.25	0.0	0.0
Japan	0.00	-0.10	10.0	10.0
China	3.45	3.45	0.0	0.0
India	6.50	6.50	0.0	0.0
Thailand	2.50	2.50	0.0	0.0
Philippines	6.50	6.50	0.0	0.0
Indonesia	6.00	6.00	0.0	0.0
Global Monetary Policy Change (in number of countries)				
Easing	5	17		
Unchanged	22	52		
Tightening	6	8		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	5.44	5.45	(0.9)	85.3
USD LIBOR -3 Months	5.59	5.59	0.5	69.5
USD LIBOR -6 Months	5.71	5.60	10.8	46.8
Domestic Interbank Money Market (in %)				
INDONIA	5.87	5.81	6.1	77.1
JIBOR - 1 Month	6.65	6.64	0.5	37.5
JIBOR - 3 Months	6.93	6.94	(1.1)	27.9
JIBOR - 6 Months	7.05	7.06	(0.8)	29.2
JIBOR - 12 Months	7.19	7.19	0.0	22.0

Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



Source: The Fed – treated (2024)

Fig 2. BI7DRR



Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



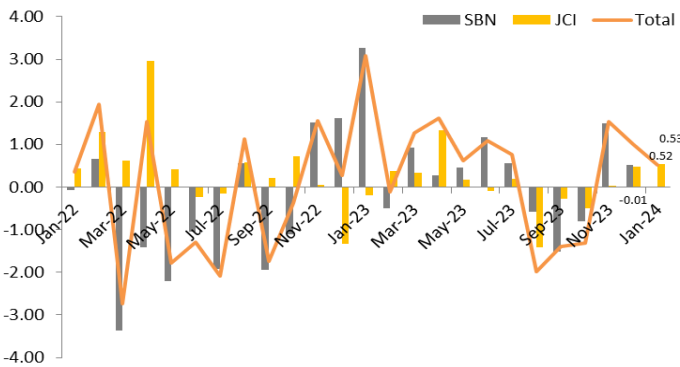
Source: US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



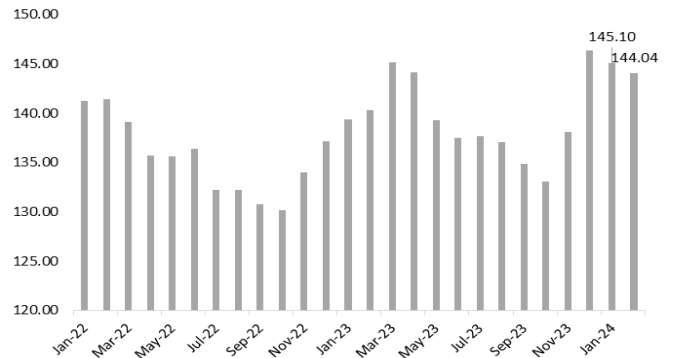
Source: BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



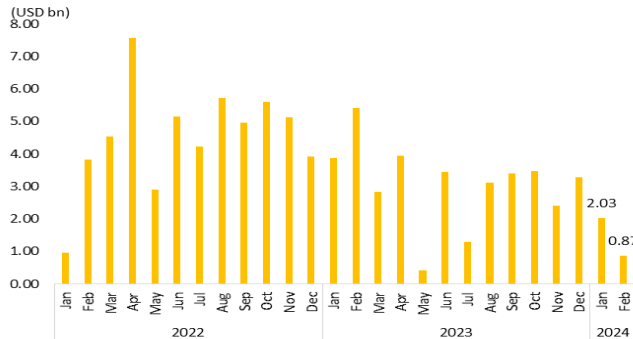
Source: Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



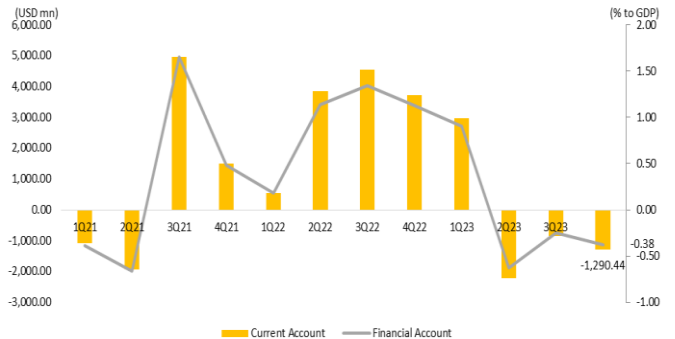
Source: BI – treated (2024)

Fig 7. Indonesia Trade Balance



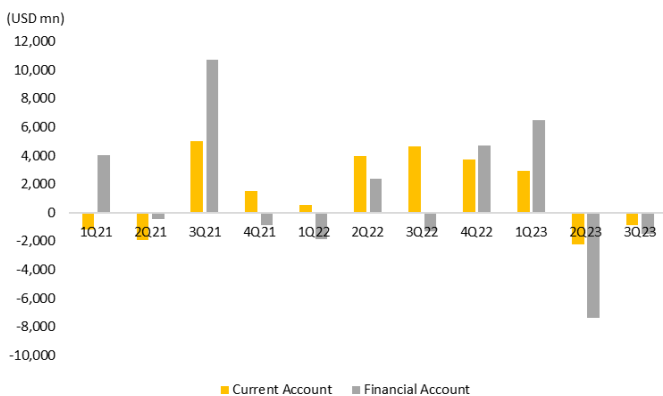
Source: BI – treated (2024)

Fig 8. Indonesia Current Account



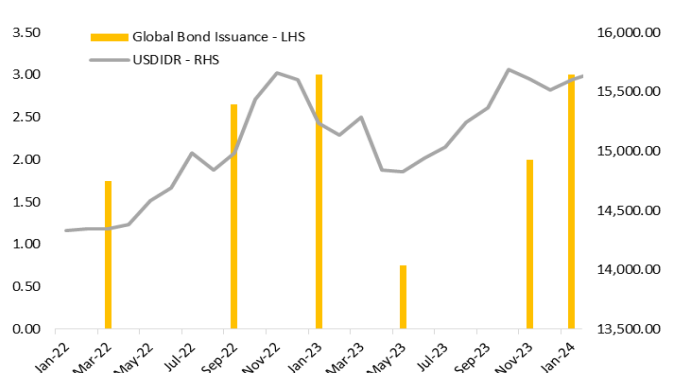
Source: BI – treated (2024)

Fig 9. Indonesia Balance of Payment



Source: BI – treated (2024)

Fig 10. USDIDR and Indonesia's Global Bond Issuance



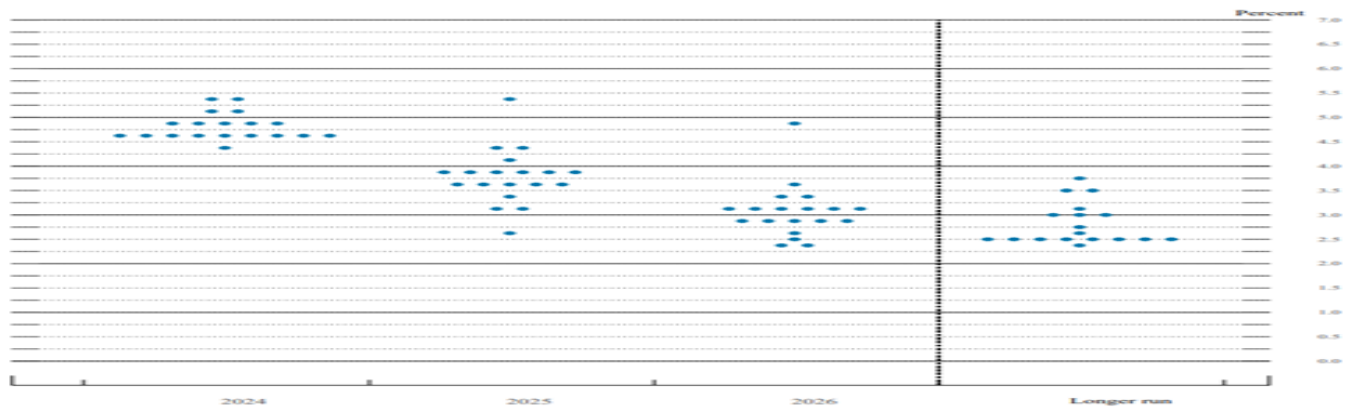
Source: BI – treated (2024)

Table 2. Fed Rate Probabilities, as of 20 Mar '24

MEETING DATE	FED PROBABILITIES								
	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1-May-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.4%	89.6%
12-Jun-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	67.4%	25.1%
31-Jul-24	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	37.2%	46.4%	12.6%
18-Sep-24	0.0%	0.0%	0.0%	0.0%	3.0%	30.9%	44.7%	19.1%	2.4%
7-Nov-24	0.0%	0.0%	0.0%	1.5%	16.7%	37.6%	32.1%	10.9%	1.2%
18-Dec-24	0.0%	0.0%	1.0%	11.6%	30.6%	34.0%	18.0%	4.5%	0.4%
29-Jan-25	0.0%	0.6%	7.1%	22.5%	32.5%	24.8%	10.2%	2.1%	0.2%
19-Mar-25	0.3%	4.0%	15.3%	27.9%	28.4%	17.0%	5.9%	1.1%	0.1%
30-Apr-25	1.9%	9.0%	20.8%	28.1%	23.4%	12.2%	3.8%	0.6%	0.0%

Source : CME Group – treated (2024)

Fig 11. Fed Dot Plot, FOMC Meeting 20 Mar '24



Source : The Fed (2024)

Table 3. Fed Economic Projection, FOMC Meeting 20 Mar '24

Variable	Median ¹				Central Tendency ²				Range ³			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
December projection	1.4	1.8	1.9	1.8	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
December projection	4.1	4.1	4.1	4.1	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2-2.5	2.0-2.2	2.0	2.0	2.1-2.7	2.0-2.5	2.0-2.3	2.0
Core PCE inflation ⁴	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	
December projection	2.4	2.2	2.0		2.4-2.7	2.0-2.2	2.0-2.1		2.3-3.0	2.0-2.6	2.0-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	4.6	3.9	3.1	2.6	4.6-5.1	3.4-4.1	2.6-3.4	2.5-3.1	4.4-5.4	2.6-5.4	2.4-4.9	2.4-3.8
December projection	4.6	3.6	2.9	2.5	4.4-4.9	3.1-3.9	2.5-3.1	2.5-3.0	3.9-5.4	2.4-5.4	2.4-4.9	2.4-3.8

Source : The Fed (2024)

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