

BI7DRR Maintained at 5.75%: Focus Remains on Rupiah Stabilization

Bank Indonesia (BI) has decided to maintain the BI7DRR rate at 5.75% (Cons: 5.75%, KBVS 5.75%, Prev: 5.75%). The central bank's primary concern continues to be the stability of the Rupiah, given the challenges posed by capital outflows and a weakening trade surplus. According to Bloomberg data, financial outflows from Indonesia amounted to IDR30.34 Tn (\approx USD 1.99 Bn) during Aug '23, followed by an outflow of IDR11.69 Tn (\approx USD0.76 Bn) from 1 to 20 Sep '23. Meanwhile, the trade surplus for the first two months of 3Q23 stood at USD4.44 Bn, significantly lower compared to USD9.93 Bn during the same period in 2022. These factors contributed to a decrease in FX reserves by USD0.57 Bn in Aug '23. This trend occurred alongside the implementation of the DHE SDA program, which commenced on 1 Aug '23, resulting in a 0.90% MoM depreciation of the Rupiah in the period and a 1.82% ptp depreciation from 1 Aug to 20 Sep '23.

At the same time, the absence of the impact from last year's non-subsidized fuel price hike, coupled with the decrease in the prices of chili peppers and shallots, although offset by an increase in rice prices, is expected to result in a headline inflation rate of 0.05% MoM or 2.13% YoY in Sep '23. Simultaneously, we anticipate inflation approaching 2.64% YoY by the end of 2023. Therefore, we continue to assume that the real yield of SUN 10Y will remain between 300 bps and 350 bps, making them relatively more attractive compared to US Treasury yields, which we estimate will range between 60 bps and 110 bps by late 2023.

Additionally, the budget surplus of APBN through the end of Aug '23, amounting to IDR147.2 Tn or 0.70% of GDP, is expected to signal a possible reduction in government bond issuances in 2023 (target of IDR1,172.53 Tn). Furthermore, efforts to diversify government bond issuances to retail investors, which are relatively less sensitive to coupon rates or yields, with a target of IDR150 Tn for this year, are expected to help maintain stability in government bond yields through the end of 2023. Meanwhile, the US Federal Budget surplus in Aug '23, reaching USD89.3 Bn (Cons: USD-240.0 Bn, Prev: USD-221.0 Bn), is also expected to reduce the risk of a bond market upheaval and further increases in US Treasury yields.

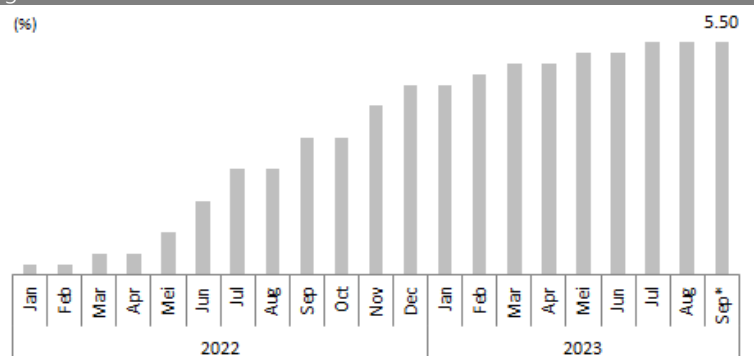
However, the potential risk of a 25 bps increase in the Federal Reserve's policy rate on 1 Nov '23, can hopefully be mitigated through interventions in the Rupiah spot and DNDF market, effective implementation of the DHE SDA program, and the continued issuance of SRBI, along with improved demand from key trading partners, especially China and the US. Nevertheless, given the time required for policy effectiveness and economic recovery, alongside the possibility of Indonesia's current account deficit in 3Q23, we expect that Rupiah stability and economic stability will strengthen in early Nov '23, potentially creating room for a 25 bps reduction in the BI7DRR rate by the end of 2023.

Table 1. Interest Rate Data

Indicators	21-Sep-23		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.50	5.50	0.0	100.0
European Union	4.50	4.25	25.0	175.0
United Kingdom	5.25	5.00	25.0	150.0
Japan	-0.10	-0.10	0.0	0.0
China	3.45	3.45	0.0	(20.0)
India	6.50	6.50	0.0	25.0
Thailand	2.25	2.00	25.0	75.0
Philippines	6.25	6.25	0.0	75.0
Indonesia	5.75	5.75	0.0	25.0
Global Monetary Policy Change (in number of countries)				
Easing	10	6		
Unchanged	25	37		
Tightening	14	20		
Average International Interest Rate (in %)				
USD LIBOR - 1 Month	5.44	5.43	0.9	102.8
USD LIBOR - 3 Months	5.66	5.64	1.4	86.3
USD LIBOR - 6 Months	5.90	5.88	2.2	73.9
Domestic Interbank Money Market (in %)				
INDONESIA	5.62	5.59	3.3	56.4
JIBOR - 1 Month	6.40	6.40	(0.0)	60.5
JIBOR - 3 Months	6.74	6.74	(0.1)	54.3
JIBOR - 6 Months	6.85	6.86	(0.1)	14.6
JIBOR - 12 Months	7.02	7.02	0.2	9.8

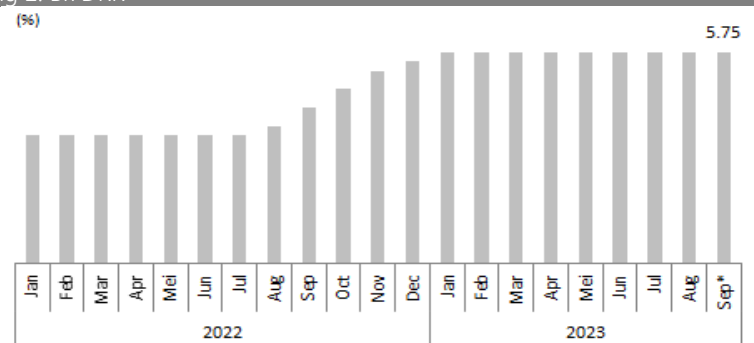
Sources : Each Central Bank and GlobalRates – treated (2023)

Fig 1. Fed Rate



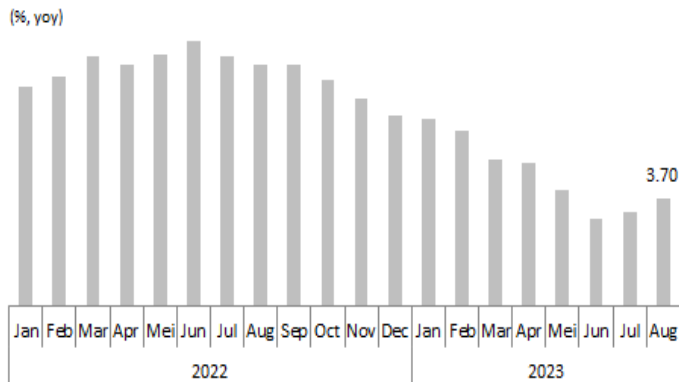
Source: The Fed – treated (2023)

Fig 2. BI7DRR



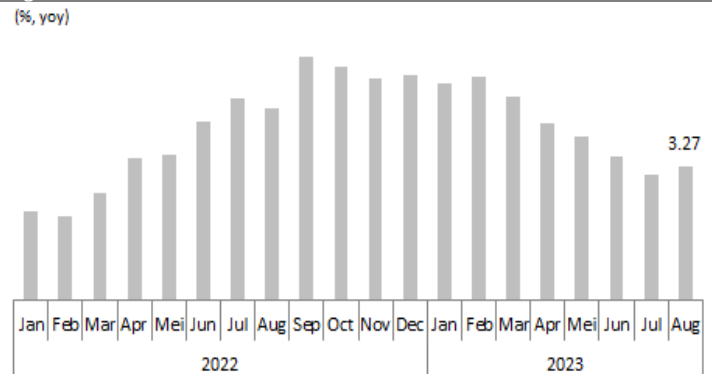
Source: Bank Indonesia – treated (2023)

Fig 3. US CPI Inflation



Source : BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



Source : BPS – treated (2023)

Table 2. Fed Rate Probabilities, as of 24 August 2023

MEETING DATE	MEETING PROBABILITIES										
	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600	600-625	625-650
1-Nov-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	71.6%	28.4%	0.0%	0.0%	0.0%
13-Dec-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	53.4%	39.4%	7.2%	0.0%	0.0%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	51.2%	40.0%	8.6%	0.3%	0.0%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	8.2%	49.4%	35.0%	7.2%	0.3%	0.0%
1-May-24	0.0%	0.0%	0.0%	0.0%	2.3%	20.0%	45.2%	27.0%	5.2%	0.2%	0.0%
12-Jun-24	0.0%	0.0%	0.0%	0.9%	8.8%	29.3%	38.5%	19.0%	3.4%	0.1%	0.0%
31-Jul-24	0.0%	0.0%	0.4%	4.6%	18.4%	33.6%	29.4%	11.7%	1.9%	0.1%	0.0%
18-Sep-24	0.0%	0.2%	2.7%	12.2%	26.7%	31.3%	19.7%	6.3%	0.9%	0.0%	0.0%
7-Nov-24	0.1%	1.5%	7.4%	19.4%	29.0%	25.5%	13.0%	3.6%	0.5%	0.0%	0.0%
18-Dec-24	1.0%	5.6%	15.7%	26.1%	26.6%	16.9%	6.5%	1.4%	0.1%	0.0%	0.0%

Source : CME Group – treated (2023)

Table 3. Meeting Calendar The Fed (FOMC) and Bank Indonesia (RDG-BI) in 2023

No	Month	FOMC Meeting	RDG-BI
1	January		18 – 19 Jan
2	February	31 Jan – 1 Feb	15 – 16 Feb
3	March	21 – 22 Mar	15 – 16 Mar
4	April		18 – 19 Apr
5	May	2 – 3 May	24 – 25 ay
6	June	13 – 14 Jun	21 – 22 Jun
7	July	25 – 26 Jul	24 – 25 Jul
8	August		23 – 24 Aug
9	September	19 – 20 Sep	20 – 21 Sep
10	October		18 – 19 Oct
11	November	31 Oct – 1 Nov	22 – 23 Nov
12	December	12 – 13 Dec	20 – 21 Dec

Sources : The Fed and Bank Indonesia – treated (2023)

Table 4. The Federal Reserve Members Economic Projection

Variable	Latest Data		Median				Longer run
	Period	Value	2023	2024	2025	2026	
Change in real GDP	2Q23	2.6	2.1	1.5	1.8	1.8	1.8
Jun '23 projection			1.0	1.1	1.8		1.8
Mar '23 projection			0.4	1.2	1.9		1.8
Dec '22 projection			0.5	1.6	1.8		1.8
Unemployment rate	Aug '23	3.8	3.8	4.1	4.1	4.0	4.0
Jun '23 projection			4.1	4.5	4.5		4.0
Mar '23 projection			4.5	4.6	4.6		4.0
Dec '22 projection			4.6	4.6	4.5		4.0
PCE inflation	Jul '23	3.3	3.3	2.5	2.2	2.0	2.0
Jun '23 projection			3.2	2.5	2.1		2.0
Mar '23 projection			3.3	2.5	2.1		2.0
Dec '22 projection			3.1	2.5	2.1		2.0
Core PCE inflation	Jul '23	4.2	3.7	2.6	2.3	2.0	
Jun '23 projection			3.9	2.6	2.2		
Mar '23 projection			3.6	2.6	2.1		
Dec '22 projection			3.5	2.5	2.1		
Memo:							
Projected appropriate policy path							
Federal funds rate	Sep '23	5.5	5.6	5.1	3.9	2.9	2.5
Jun '23 projection			5.6	4.6	3.4		2.5
Mar '23 projection			5.1	4.3	3.1		2.5
Dec '22 projection			5.1	4.1	3.1		2.5

Source : The Fed, BLS, KBVS - treated (2023)

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KB Valbury Sekuritas

Headquarters

Sahid Sudirman Center Lantai 41 Unit AC
Jl. Jenderal Sudirman No. 86
Kelurahan Karet Tengsin, Kecamatan Tanah Abang
Jakarta Pusat 10220, Indonesia
T +62 21 250 98 300
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 11620
T +62 21 - 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga
Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29264310

Jakarta - Pluit

Jl. Pluit Putra Raya No. 2
Jakarta 14240
T +62 21 - 29264300
F +62 21 - 22542391

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3521888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta

Jl. Magelang KM 5-5 no. 75
Yogyakarta 55284
T +62 274 - 4469500
T +62 274 - 6231111
F +62 274 - 623222

Galeri Investasi

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18 Cengkareng,
Jakarta Barat 11820
T +62 21 52392181

Semarang

Jl. MT Haryono 637 Semarang
T +62 24 8415195

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118

Surabaya

Pakuwon Center Tunjungan Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60261
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Solo

Jl. Ronggo Warsito no. 34
Solo 57118
T +62 271 632888
F +62 271 656988

Malang

Jl. Pahlawan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 560056

Denpasar

Komplek Ibis Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80114
T +62 361 - 255888
T +62 361 - 225229
F +62 361 - 225339

Banjarmasin

Jl. Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Kalimantan Selatan 70235
T +62 511 - 3265918
F +62 511 - 3253432

Manado

Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado. 95254
T +62 431 7917 836
F +62 431 880 2129

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Salatiga

Jl. Diponegoro No. 68, Rt. 007 Rw. 011,
Kel. Salatiga, Kec. Sidorejo 50711
T +62 298 313007

Medan

Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru

Jl. Tuanku Tambusai
Komplek CNN Blok A No.3 Pekanbaru 28291
T +62 761 - 839393

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Palembang

Komp. PTC Mall Blok I No. 7 Jl. R. Sukanto
Kel. 8 Ilir Kec. Ilir Timur II
Palembang 30114
T 07115700281

Makassar

Kompleks RUKO Citraland City Losari Makassar,
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard
Kel. Maccini Sombala, Kec. Tamalate
Makassar, Sulawesi Selatan 90111
T +62 411 6000818

Galeri Investasi BEI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544032

Manado
Universitas Prisma Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541

