

FX Flash

IDR Pressure Remains

- **Bank Indonesia (BI) surprisingly hiked rates today by 25bps to 6.00%**
- **Higher oil prices, which have been a feature recently tend to weigh on the IDR**
- **Indo - US rate differentials narrowest on real terms since 2018**
- **We therefore do not think one hike can move the needle much and expect the pressure to persist**

Bank Indonesia (BI) surprisingly hiked rates by 25bps today to 6.00% as currency weakness could be at the top of their mind. The USDIDR has been trending upwards recently and hit its highest level since 2020 during the early days of the pandemic.

The IDR weakness looks to have recently been driven by two major factors which are the narrowing Indo - US rate differentials and the climbing oil prices amid the Gaza conflict. For the latter, our studies have shown that the higher prices are negative for the IDR especially given that the country is a net oil importer. Oil prices may still stay elevated for a while amid risks of escalation in the Gaza conflict.

On the rates part, the real rate differential between Indo and US has been the narrowest since 2018 whilst on nominal terms, it is the narrowest since the current benchmark was rolled out in 2016. For this reasons, we also are not expecting that one hike would move the needle and do much to sustainably lift the IDR. Even if a Fed hike does not occur in Nov, we stay wary of the possibility of another later down the road whilst rates could stay high for an extended period of time.

Meanwhile, we are aware the central bank would be issuing FX-denominated securities with notes called SVBI and SUVBI to attract inflows. The notes will use global bonds and sukuk held by the central bank as underlying assets. SVBI would be issued in 1-, 3-, 6-, 9- and 12-month tenors and SUVBI would be in 1-, 3- and 6-month tenors. The securities can be traded by both domestic and foreign investors in the secondary market but it can only be purchased by commercial banks and Shariah-compliant banks in the primary market. We closely watch the impact they can have.

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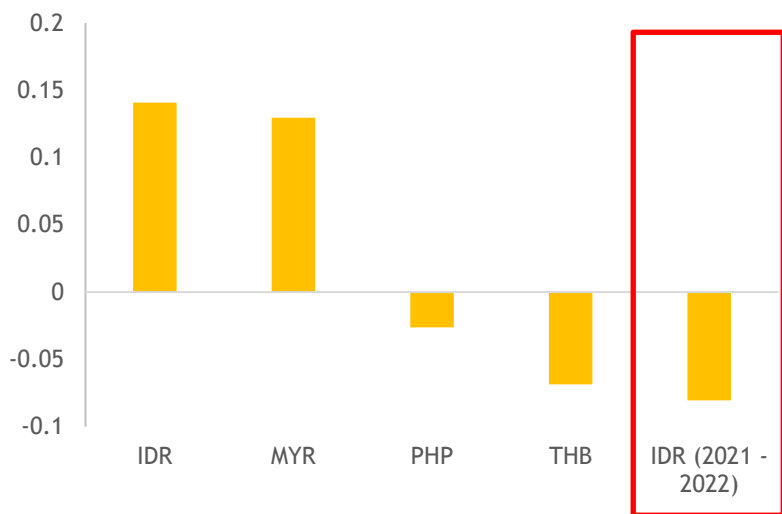
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Overall, we recognize upside risks for the USDIDR near term. Levels wise, we see resistance at 15878 (76.4% fibo extension), 16281 (100.0% fibo extension) and 16625 (2020 high). Support stands at 15600 and 15419 (50-dma) and 15178 (200-dma).

For now, we continue to maintain our IDR forecast as we still expect USD strength to come off seasonally a bit towards end of the year around December, providing some relief for the IDR. However, we are aware of the upside risks to the USDIDR pair that include strong US data persisting, the Gaza conflict spreading further and an extended contested Indonesian Presidential elections. In terms of monetary policy, we stay cognizant of another hike by BI although that may still not be enough too given how wide the rate differentials are as they stand.

Chart 1: Higher Oil Prices Weigh on the IDR Recently

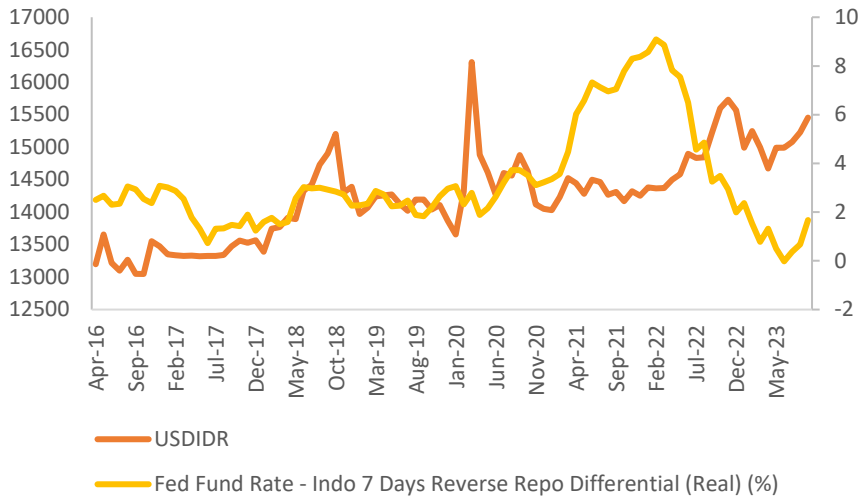


Source: Bloomberg, Maybank GM FX & Research

Note:

- 1) Lower means more negative impact on currency from higher oil prices
- 2) Results derived from a TSLS regression run with respective currency on a number of variables that include rate differential, Brent price, country stock market indices, CPO price, gold price, DXY and coal price over a time period 2013 - 2023 or 2021 - 2022 (as stated) with monthly data - controlling for multicollinearity.

Chart 2: Rate Differentials Have Narrowed



Source: Bloomberg, Maybank GM FX & Research

Chart 3: We Recognize the Risk of More USDIDR Upside



Source: Bloomberg, Maybank GM FX & Research

Table 1: USDIDR Forecasts

Forecast	4Q 2023	1Q 2024	2Q 2024	3Q 2024	4Q 2024
USDIDR	15,500	15,500	15,200	14,800	14,600

Table 2: Table of Headwinds and Tailwinds

	Possible Headwinds	Possible Tailwinds
IDR	<ol style="list-style-type: none"> 1) Prolonged uncertainty from extended contested 2024 Presidential Elections 2) Further spread in the Gaza conflict that could risk guiding oil prices higher and hurting the external position 3) Strong US data persisting leading to continued tightening by the Fed and keeping UST yields elevated 	<ol style="list-style-type: none"> 1) Rise in export commodity prices - palm oil, coal (arising from geopolitical tensions)

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