

A hold but it is a matter of time

Thursday, June 20, 2019

Highlights

- Bank Indonesia held the benchmark rate at 6.0% in line with our expectations.
- BI did cut the reserve ratio requirement (RRR) by 50bps to 6.0% for commercial banks and 4.5% for Shariah banks in order to ensure sufficient liquidity in the system and support loan growth.
- Commercial banks loan growth though has recently come off in 2019 even as commercial banks average lending rates has actually trended downwards.
- Going forward, we see that BI may likely still cut by at least 50bps for 2019 and a first cut of 25bps may even come as early as 3Q 2019 as long as market conditions remain favorable.

Treasury Research

Tel: 6530-8384

Bank Indonesia (BI) held the benchmark rate at 6.0% in line with our expectations.

However, they appeared to turn more dovish as according to Bloomberg, Governor Perry Warjiyo was quoted as saying that a rate cut is a “matter of timing” now. He again emphasized that the central bank will “keep monitoring the global financial market conditions and the external stability of Indonesia’s economy in considering a cut in the key policy rate in line with low inflation and the need to push domestic economic growth”. The central bank’s decision to still keep rates on hold even as conditions appear favorable with a firmer IDR in June amid global expectations of a Fed cut may have raised eyebrows. However, in its statement, BI highlighted that current global conditions are resulting in a “flight to quality”.

BI though did cut the reserve ratio requirement (RRR) by 50bps to 6.0% for commercial banks and 4.5% for Shariah banks in order to ensure sufficient liquidity in the system.

According to Bloomberg, Warjiyo himself had said that the RRR cut was also simply meant to boost lending. **Commercial banks loan growth has recently come off in 2019 (see chart 2) but the commercial banks average lending rate (see chart 3) has in fact been trending downwards for 2019** even as the liquid asset ratio may remain at levels much lower than the highs seen in 2017. It is therefore difficult to judge the cause of this fall off.

On the domestic front, BI did highlight a “softening” of growth has occurred during the second quarter of 2019”.

BI attributed this to “declining export performance”. They also see the inflation will be kept under control and that it is projected to come out below the midpoint of the target corridor of 2.5% - 4.5%. They expect the current account deficit to be in the range of 2.5% - 3.5% in 2019 whilst the balance of payments for 2Q 2019 should remain positive.

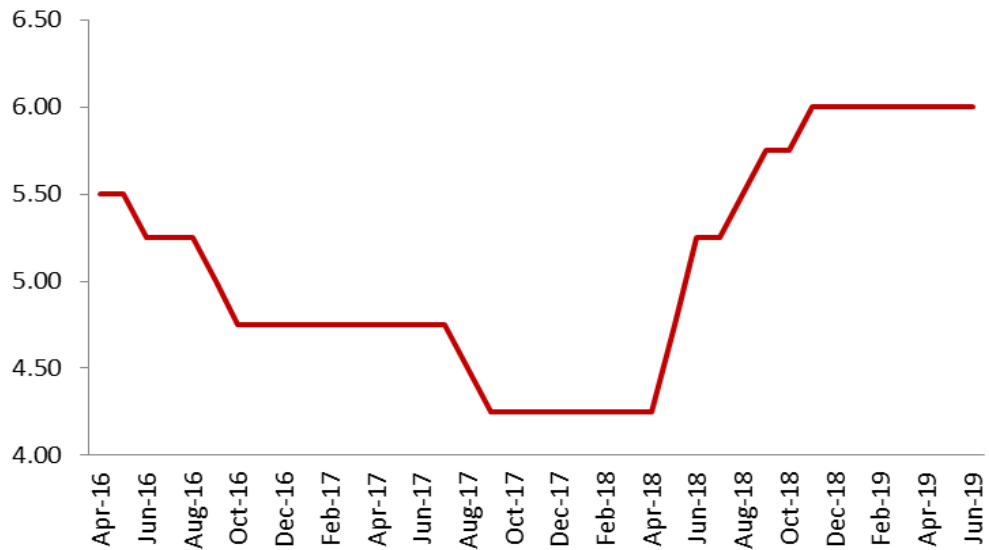
Alan Lau

Tel: 6530-5949

AlanLau@ocbc.com

Going forward, we see that BI may likely still cut by at least 50bps for 2019. We see a first cut of 25bps may even come as early as 3Q 2019 as long as market conditions continue to be favorable. Favorable market conditions include the global trend of rate cuts continuing ahead which provides more support to the IDR. This we believe can also help raise BI’s confidence of a reduced risk of capital outflows in the case of a cut. Whilst there may be a concern of the current account deficit, we see that in the level of 2.5% – 3.0%, it simply continues to just highlight the IDR’s short term vulnerability to external factors. There is also the risk of an outflow of the first phase (ended September 2016) of the repatriated tax amnesty funds when its three year lock period expires this year. However, if the external environment remains sufficiently favorable, a decent amount of these funds may still remain in the country or inflows may be able to offset any outflows. Even if a cut may boost liquidity, which in turn may not necessarily see a marked increase in lending, it is still not ideal that the benchmark rate remains high for long period of times especially as BI continues to highlight a “softening of national economic growth”.

Chart 1: Bank Indonesia 7 – Day Reverse Repo Rate, %



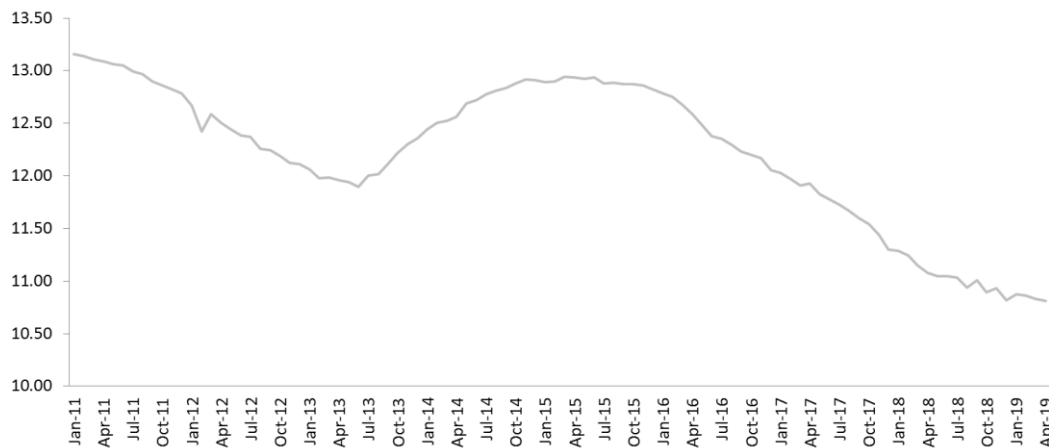
Source: CEIC, Bloomberg and OCBC

Chart 2: Commercial Banks Loan Growth, % yoy



Source: CEIC, Bloomberg and OCBC

Chart 3: Commercial Banks Average Lending Rate, %



Source: CEIC, Bloomberg and OCBC

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W