

Bank Indonesia Rate Hikes Pause in October

Tuesday, October 23, 2018

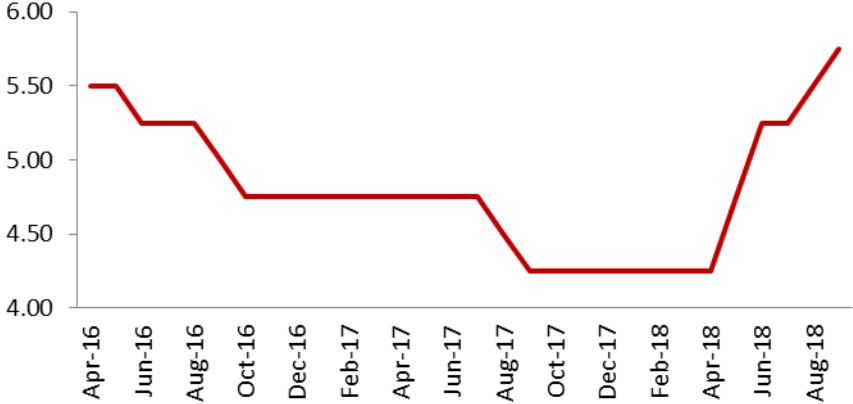
Highlights

- Bank Indonesia (BI) held the benchmark rate at 5.75% as expected.
 - BI mentioned that 3Q 2018 growth will be around 5.1% yoy, actually in line with our own forecast.
 - We believe the central bank will most likely hike again only in December 2018.
-
- **BI held the benchmark rate at 5.75% as expected following the October round of their two days long policy meeting.** Market reaction immediately after the announcement was generally muted with not much change in the USD – IDR value, the Indonesia government 10 year bond generic bid yield nor of the Jakarta Composite Index (JCI). As expected too, the press statement had said that the decision was consistent with efforts to reduce the current account deficit levels and maintain the attractiveness of the domestic financial markets. It also mentioned that the Domestic Non-Deliverable Forward (DNDF) will come into effect on the 1st November 2018.
 - **According to Bloomberg, Senior Deputy Governor Mirza Adityaswara mentioned that growth for 3Q 2018 will be somewhere around 5.1% yoy, which would actually be in line with our forecast.** The press statement noted that the growth coming out weaker than BI expected was mainly due to a decline in net exports. The central bank also mentioned in the statement that consumption was strong, backed by maintained public purchasing power, election spending and more upbeat consumers. They did say that investment performance for the quarter was solid, due to investment in infrastructure projects and both the property and non-building sector. Meanwhile, also according to Bloomberg, Adityaswara had said that the current account deficit had widened in 3Q 2018 but it will improve in 4Q 2018.
 - **Going forward, the central bank will most likely make another hike only in December by at least 25bps.** December is also the month when a widely-expected Fed hike may occur. Governor Perry Warjiyo has constantly reiterated throughout this year that the central bank must be “pre-emptive, front-loading and an ahead of the curve step” especially “amid the trend of rising global interest rates”.

Treasury Research
Tel: 6530-8384

Alan Lau
Tel: 6530-5949
AlanLau@ocbc.com

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



Source: 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