OCBC Bank

Indonesia Outlook

Neutral but expect a BI cut in 2019

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Highlights

- **Bank Indonesia (BI) kept the rate on hold whilst their overall tone continues to appear neutral.**
- **External pressures on the country are also gradually receding.**
- **Hence, we are now calling for a 50bps cut in the benchmark rate to happen in 2H 2019.**

BI kept the rate on hold at 6.00% whilst their overall tone continues to appear neutral. The central bank did announce a number of measures to ease liquidity including strengthening the macroprudential intermediation ratio (MIR) from 82% - 92% to 84% - 94% aside holding regular and scheduled term-repo transactions in additions to FX swaps. All this was in line with our call as we foresaw that BI would continue to be cautious whilst still vigilant of the risk of a liquidity squeeze. The third party rupiah LDR ratio had moved from 89% in December 2017 to 93% in December 2018. The central bank would also work to accelerate financial marketing deepening whilst also strengthening payment systems.

However, external pressures on the country are also gradually receding. The Fed dot plots are now indicating no hikes for 2019 whilst the balance sheet unwinding would slowdown from May onwards before halting in September. Meanwhile, China and the US are working on a final push to reach an agreement by April although Trump has still cautioned that he will keep tariffs until he is sure Beijing will comply with any trade deal. Foreign inflow for bonds also continues and the IDR has been stable throughout most of this year hovering around the range of 14,000 – 14,300. Going forward, we expect interest in Indonesia to continue to be strong and the IDR to remain in this range at least for the next few months. We also expect that inflation should remain moderate this year at 3.2% yoy.

Hence, we are now calling for a 50bps rate cut in 2019 which would bring the benchmark rate down to 5.50%. The central bank we believe would probably want to unwind the 2018 hikes as they could be concerned that the tightening last year could eventually have its effect on liquidity. However, we see that the central bank will gradually begin to hint at a more dovish tilt in the next few months but the cuts will probably only start in 2H 2019. We do though recognize that a cut can still be predicated on a favorable external environment.

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