

## Unexpected cautious hike

Thursday, November 15, 2018

### Highlights

- Bank Indonesia (BI) raised the rate by 25bps to 6.00% as they highlighted that this move was done in anticipation of global interest rates rising in the next few months.
- The central bank also unveiled new regulation for interest rate swap and the overnight index swap.
- Any further hike this year would probably be dependent upon the IDR movement but we still see at least three hikes in 2019.

**In an unexpected move, BI raised the rate from 5.75% to 6.00%.** This now brings the total increase for this year to a cumulative 175bps. BI stated that this step was taken in order to improve the attractiveness for domestic financial assets as BI anticipates global interest rates to rise in the next few months. BI also stated that this move was done in line with efforts to reduce the current account deficit. They also raised the macroprudential liquidity buffer (conventional and syariah) that is reported to BI from 2% to 4% and the average IDR statutory reserves (conventional and syariah) from 2% to 3%.

**The central also unveiled new regulation for the interest rate swap (IRS) and the overnight index swap (OIS) instruments.** BI claims that this was done to support the deepening of the financial markets, particularly the IDR money market. Together with the unveiling of IndONIA and the strengthening of the JIBOR, the central bank believes these measures would be able to help form a more transparent yield curve, which they see in turn should strengthened the monetary transmission mechanism.

**The surprise move may have been an attempt by the central bank to be cautious as they come closer to a widely-expected Fed hike in December.** The IDR though has been below the 15,000 level for most of November so far. However, there are concerns recently as the country recorded a monthly trade deficit of US\$1.8bn for October. This was driven by imports growing strongly at 23.7% yoy whilst exports growth remained slow at 3.6% yoy. This also comes after an announcement that the current account deficit widened to 3.4% of GDP for 3Q 2018. The move this time around did elicit an immediate reaction from the market as the value of the USD – IDR fell below 14,700 after the announcement, having ended the day before at 14,787. **Overall, there is a possibility that BI may be pre-emptive again when they do choose to raise rates if there are concerning signs. For December 2018, we see any further hike would depend on the IDR movement whilst we still see there would be at least three hikes in 2019.**

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