

## Rate stays on hold

Thursday, February 21, 2019

### Highlights

- **Bank Indonesia (BI) held the benchmark rate as expected at 6.00%.**
- **We see BI will keep the benchmark interest rate at 6.00% for the entire 2019.**
- **The immediate reaction in the FX and equity markets was rather muted.**

**As expected, BI announced that the benchmark rate would be kept at 6.00%.** The central bank said the decision was in line with strengthening external stability and to maintain the attractiveness of domestic financial assets. BI also mentioned that going forward, they will look to adopt more accommodative macro prudential policies but details on this were not disclosed. BI said that the increase in the Fed fund rate is expected to be lower and the reduction in the Fed balance sheet to be smaller than planned.

### **We see that BI will keep the benchmark interest rate at 6.00% for the entire 2019.**

Our current house view is that the Fed will stay on hold for this year regardless of the release of the January Fed minutes yesterday which had showed division on the circumstance needed for them to decide rate hikes. With that view in mind, we therefore see that BI would probably not raise the rate this year given that there would not be further pressure to keep up with the Fed movements. Even if there is one Fed hike, we do not believe BI will hike as Governor Perry Warjiyo had previously said that the November 2018 hike had already taken into account “the possibility of Fed fund rate hikes in December and March”. However, at this point, a cut still doesn’t seem likely unless it clearly appears that the trade balance and current account deficit are on a narrowing trend especially given the central bank’s focus on the external situation. Recent trade data numbers for January had shown the deficit had slightly increased as exports fell although imports did decline. Overall, BI itself did not commit to a hawkish or dovish stance during the press conference. On the liquidity front, the commercial bank third party IDR loan to deposit ratio (LDR) has risen from 89% in December 2017 to 93% in December 2018.

### **The immediate reaction to the decision in both the FX and equities market was generally muted.**

The spot USD – IDR rate continued to hover close to 14,000 whilst the Jakarta Composite Index (JCI) moved little. The IDR had fallen to below 14,000 towards the end of 2018 before moving back above that level again in February 2019 after some broad dollar strengthening driven possibly by dovish central bank talk globally and stronger US CPI print. The Indonesian equity markets have also recently seen foreign outflows. However, the US and China are working to reach a resolution over the trade tensions and positive developments from the ongoing trade talks could give the IDR a lift.

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