

# economic

FLASH REPORT SERIES

## Rupiah Stability is a Priority



## Exhibit 1. Indonesia Macro Data Forecast

Macro Indicators	2020	2021F
Real GDP (%YoY)	-2.07	3.76
Average Inflation (%YoY)	2.04	1.87
BI-7 DRR (%)	3.75	3.5
Budget Deficit (%GDP)	6.09	5.42
USD/IDR	14,500	14,400
10 Year Indo GB (%)	5.89	6.45-6.64
JCI	5,979	6,320
EPS Growth (%)	-30	20

Source : BI, MoF, BPS, MNCS Estimate

## Exhibit 2. Global & Domestic Key Rates

Rates (%)	Dec-20	Jul-21*
BI-7 DRR	3.75	3.50
Lending Facility	4.50	4.25
Deposit Facility	3.00	2.75
10 Year Indo GB	5.89	6.32
FFR	0.25	0.25
ECB Rate	0.00	0.00
BoE Rate	0.10	0.10
BoJ Rate	-0.10	-0.10

Source : Bloomberg, BI as of July 19, 2021

## Our View on Bank Indonesia Policy Rate

We expect Bank Indonesia to hold BI 7 Day Reverse Repo Rate at 3.5% with Lending Facility Rate at 4.25% and Deposit Facility Rate at 2.75%. After all the easy policies taken by central bank, now BI should focus on its mandate maintaining rupiah stability. Although downside risk escalates amid Covid-19 cases surge, here are 5 reasons why BI needs to hold the policy rate at current level.

### No Room for Further Rate Cut

BI has cut 150 bps of benchmark interest rate or equal with FFR cut since Covid-19 pandemic strike, hence we believe that there is no room left for further rate cut. In addition domestic central bank also has taken easy policy through liquidity injection in banking system as well as enacting accommodative macroprudential policy to support economic recovery agenda.

### Expecting Banks to Lower Loan Rates

Despite monetary transmission continues, declining banks interest rate remained limited compared to lowering deposit rate and benchmark rate cut. Loan disbursement stayed in a contractionary zone while banks liquidity is maintained ample. We understand that banks risk management is justified yet we believe that banks still have a room for further declining interest rate.

### Maintaining a Positive Real Rates

Historically BI kept a 150-200 bps real positive rates. With low and stable inflation as well as at current level benchmark rate, domestic financial assets offer lucrative valuation thus favoring foreign fund flows.

### Pressure on Rupiah

Emergency Public Activity Restriction (PPKM Darurat) implementation triggered by Covid-19 cases spike has pressured rupiah recently. Rupiah's depreciation against USD has pushed the domestic currency to be traded near the upper bound of its fundamental value.

### The Fed Possible Monetary Normalization

Solid U.S macro data released has indicated that economic recovery is real driven by aggressive vaccination campaigns as well as accommodative macro policy approach taken by government and central bank. Although the Fed repeatedly confirmed its accommodative stance as the risk of uncertainties linger, if jumping inflation figure is persistent and solid data are coming ahead, we believe central bank's tapering off discussion widely opened.



**Tirta Widi Gilang Citradi**

Economist & Fixed Income Analyst

## Contents

No Room for Further Rate Cut	4
Expecting Banks to Lower Loan Rates	5
Maintaining a Positive Real Rates	6
Pressure on Rupiah	7
The Fed Monetary Normalization	8

## No Room for Further Rate Cut

The healthcare crisis that turned into global economic downturn has triggered panic in financial markets in March-20. In response to the turmoil, the Fed aggressively cut FFR by 150 bps and enacted financial asset purchase to calm down the market as well as to soften the blow to the economy. Since then, global central banks followed the suits, BI is no exception causing a global low interest rate environment.

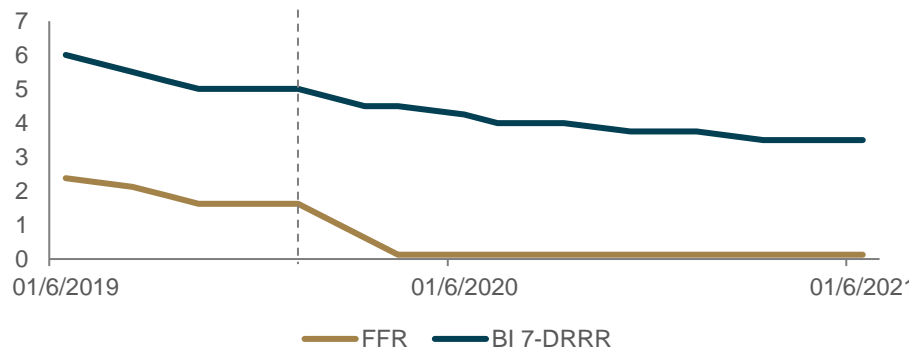
So far domestic central bank has cut 150 bps of its benchmark rate making it to the lowest level in history. Also for the first time since the reformation era, BI has participated in government financing program as widening budget deficit is inevitable. Due to economic dependency to banking system, BI took another step by injecting liquidity to banking system.

In 2020 BI quantitative easing (QE) program has reached IDR726.6 tn in value while purchasing government bond with the total of IDR473.2 tn according to central bank monetary policy report. As of June 15, 2021 BI continued its QE program with the total amount of IDR94 tn and government bond purchased reached IDR116.3 tn.

Accommodative macroprudential policy was also taken by lowering LTV and Down Payment for property & vehicle ownership as well as adjusting macroprudential intermediation ratio from 80-92% to 84-94%. BI has stated that accommodative stance will remain in place for 2021. However it does not mean that BI still have room for rate cut as the magnitude of rate cut has been equal to the FFR cut.

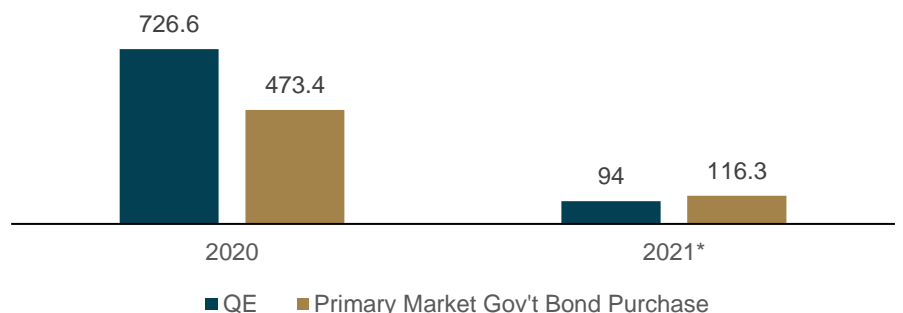
Although BI keeps its accommodative stance, it does not mean domestic central bank still have room for further rate cut

**Exhibit 3. BI 7 DRR vs FFR Cut**



Source : Bank Indonesia, Federal Reserves Bank

**Exhibit 4. BI QE & Government Bond Purchase Value (IDR Tn)**



Source : Bank Indonesia, as of June 15, 2021

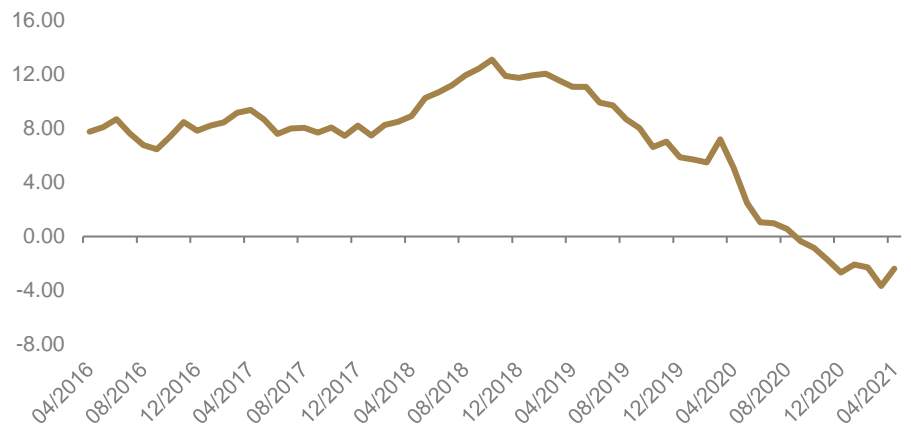
## Expecting Banks to Lower Loan Rates

Domestic banking industry condition remained solid supported by high liquidity and adequate capital. However due to limited demand of credit both from corporation and consumers as well as banks risk management policy loan disbursement still in a negative territory. A recent survey by Bank Indonesia, loan disbursement will likely to improve in 2Q21, but we expect potential upside will still limited.

Despite the continuation of monetary transmission, banks loan interest rates decline still limited compared to deposits rate and BI 7DRR cut. Since Jan-20 to Apr-21 BI 7 DRR has been cut 150 bps. During the same period rupiah deposits rate dropped 180 bps meanwhile interest rate for working capital loan declined only 105 bps; investment loan downed 120 bps and consumption loan lowered 56 bps. Therefore we expect that the room for lowering loan interest rate widely opens.

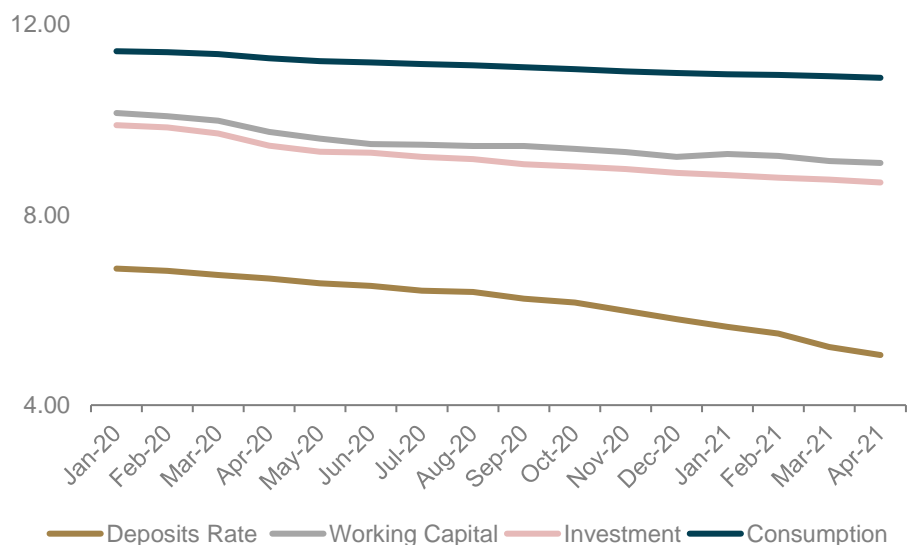
From Jan-20 to Apr-21, rupiah deposit rates dropped 180 bps, meanwhile rupiah working capital loan rates downed 105 bps; investment loan declined 120 bps and consumption loan lowered 56 bps

**Exhibit 5. Indonesia Loan Growth (%YoY)**



Source : OJK

**Exhibit 6. Deposit vs Loan Rates by Type (%)**



Source : OJK

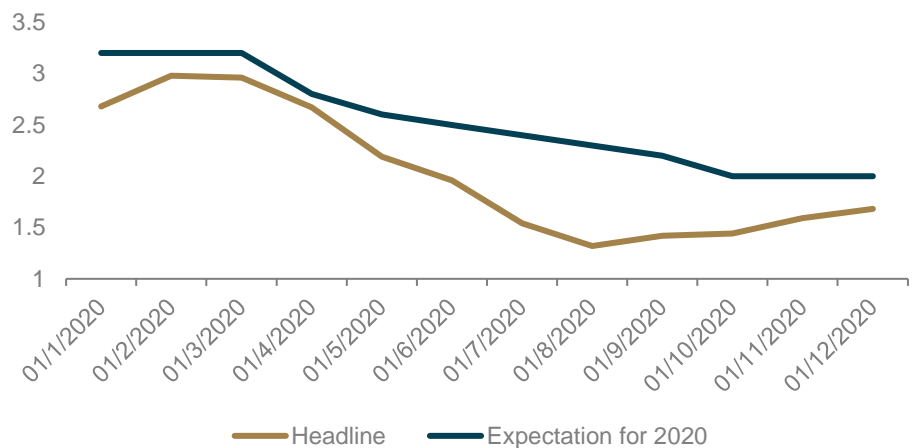
## Maintaining a Positive Real Rates

Covid-19 induced economic malaise has a consequence on low inflationary pressure. Last year average inflation figure was 2.04% or at lower band of central bank's target. The CPI hikes in 2021 still manageable. The average inflation for 1H21 was 1.45%. Recent survey by BI for inflation expectation showed no significant change to be at 2%. We expect average inflation for FY21 will be 1.87%. Low & manageable inflation as well as inflation expectation combined with current interest rate offer a positive real rates that makes domestic financial assets valuation attractive favoring foreign fund flows.

In our view, BI will likely to keep positive real rates to its historical average of 1.5-2% in order to maintain foreign fund flows and keep rupiah stable. According to BI, Based on transaction data from 12-15<sup>th</sup> July 2021, non-resident investors booked a net buy totaling IDR7.55 tn in the domestic financial markets, with a net buy in the SBN market of IDR5.73 tn and a net buy recorded in the stock market of IDR1.82 tn. Based on settlement data in 2021 (ytd), non-resident investors have booked a net buy totaling IDR0.86 tn in the domestic financial markets.

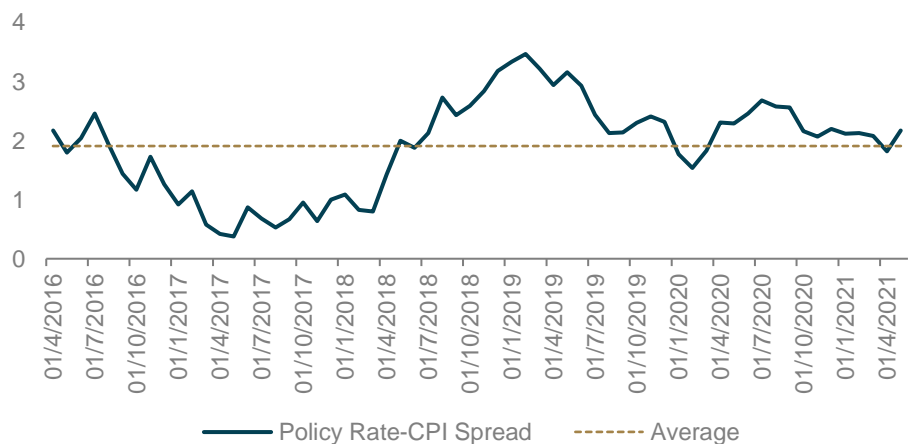
Historically BI maintained a positive real rates of 1..5-2% to favor foreign fund flows to keep rupiah stable

**Exhibit 7. Headline Inflation vs Inflation Expectation (%)**



Source : Bank Indonesia

**Exhibit 8. Indonesia Historical Real Rates (%)**



Source : Bank Indonesia, BPS, MNCS Calculation

## Pressure on Rupiah

Rupiah depreciated by nearly 3.4% in value against USD since 2021 started. Along with rupiah, other Asia and EM currency was also depreciating against the greenback. During the same period Chinese Yuan strengthen by 0.62% during the same period.

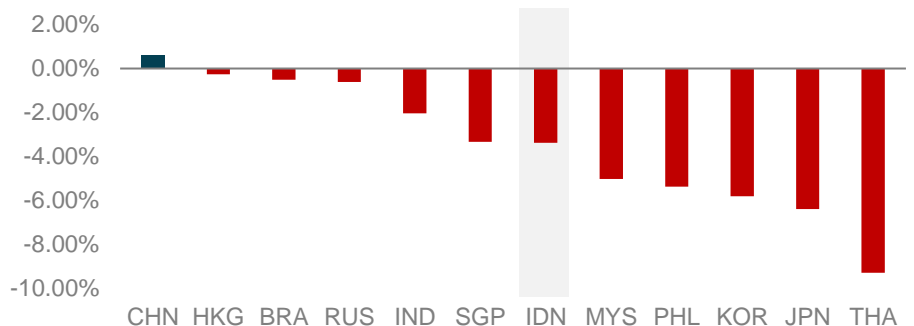
Asia & EM currencies fell after consistently surge of U.S. inflation raised fears the Fed might tighten the monetary policy sooner than expected. Also pressuring Asia & EM currencies were rising 10 year U.S treasury yield to above 1% although declining again recently.

Rupiah was quite stable in April and May 2021, yet pressure on rupiah came as Covid-19 in Indonesia surge and forcing government to take a stricter measures that will likely to hinder recovery momentum for 3Q21.

The depreciation trend that started in the second week of June-21 has forced rupiah to be traded nearly at upper bound of its fundamental value. We believe maintaining rupiah exchange rate policy to maintain stability in line with the currency's fundamental value and market mechanisms are central bank current priority.

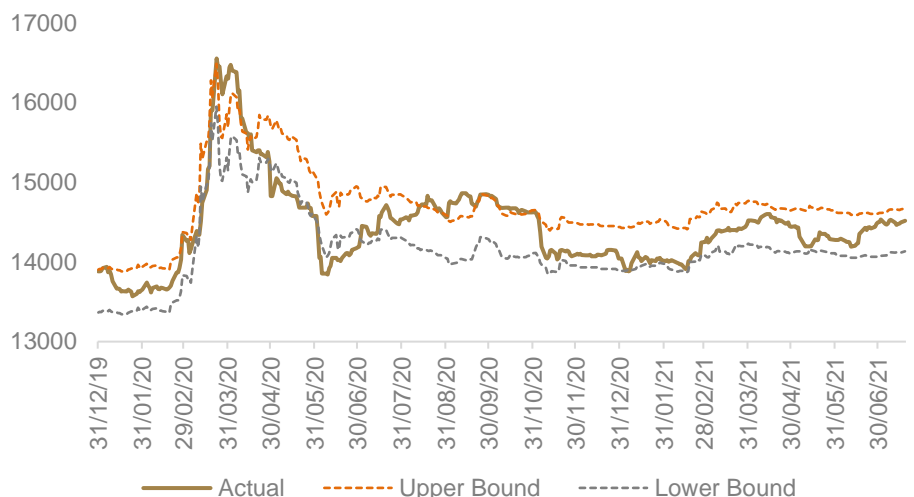
Year to date rupiah performance dropped more than 3% against USD and currently traded nearly at upper bound of its fundamental value

**Exhibit 9. Ytd Asia & EM Currencies Performance Against USD**



Source : Bloomberg

**Exhibit 10. Rupiah Fundamental Value**



Source : Bloomberg, MNCS Calculation

## The Fed Possible Monetary Normalization

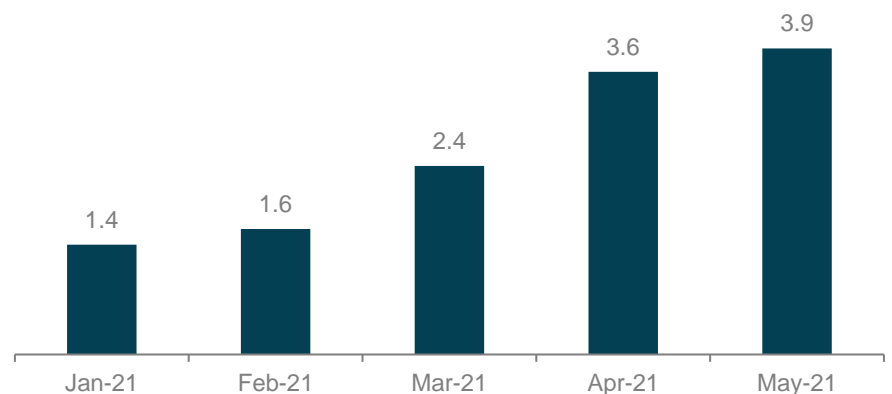
The risk of uncertainties remain linger and the Fed repeatedly stated that it is maintaining easy policy to support solid economic recovery. However a more hawkish tone of FOMC was seen in the latest committee projection that there will be a potential of 50 bps rate hikes in 2023. The Fed also revised up its GDP and PCE growth for 2021.

Recent macro data released was supporting the idea of U.S economy come back stronger yet inflation and personal consumption expenditure (PCE) figures that jumped above central bank's target is expected to be temporary. Under new policy framework the Fed will let inflation to overshoot temporary as long as the average inflation remain 2% in the medium to long term.

Recently widespread of Delta variant and its association with rising Covid-19 cases in U.S are bringing a downside risk. But with effective policy measures and aggressive vaccine inoculation, should persistent inflation & inflation expectation as well as solid macro data are coming ahead we believe that room for discussion of adjusting central bank financial asset purchase program widely opens.

Should persistent inflation & inflation expectation as well as solid macro data are coming ahead we believe that room for discussion of adjusting central bank tapering off widely opens

**Exhibit 10. U.S PCE Inflation (%YoY)**



Source : U.S. Bureau of Economic Analysis

**Exhibit 11. The Fed June-21 Projection**

U.S. Economic Forecast	2021	2022	2023
<b>Real GDP Growth</b>			
June Projection (%)	7.0	3.3	2.4
March Projection (%)	6.5	3.3	2.2
Diff. (bps)	50.0	0	20
<b>Unemployment Rate</b>			
June Projection (%)	4.5	3.8	3.5
March Projection (%)	4.5	3.9	3.5
Diff. (bps)	0.0	-10	0
<b>PCE Inflation</b>			
June Projection (%)	3.4	2.1	2.2
March Projection (%)	2.4	2.0	2.1
Diff. (bps)	100.0	10	10
<b>Federal Funds Rate</b>			
June Projection (%)	0.1	0.1	0.6
March Projection (%)	0.1	0.1	0.1
Diff. (bps)	0.0	0	50

Source : The Federal Reserves Bank



## MNC Research Industry Ratings Guidance

**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

**UNDERWEIGHT:** Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

## MNC Research Investment Ratings Guidance

**BUY :** Share price may exceed 10% over the next 12 months

**HOLD :** Share price may fall within the range of +/- 10% of the next 12 months

**SELL :** Share price may fall by more than 10% over the next 12 months

**Not Rated :** Stock is not within regular research coverage

## PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

### Disclaimer

*This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.*