

Bank Indonesia set to stay on hold, BSP on the move again?

The recent round of tariff slinging between the US and China has sparked EM FX weakness again, which should keep Bank Indonesia on hold for now



Source: Shutterstock

6.0%

Bank Indonesia 7-day reverse repo rate

No change is expected today

Rupiah under pressure again, BI seen to remain on hold

The Indonesia rupiah (IDR) had been performing relatively well in the first four months of the year as a now dovish US Fed signalled a possible window for emerging market central banks to pause and maybe even reverse their aggressive tightening of 2018. Positive expectations for US-China trade negotiations bolstered the case for this but the month of May has added a wrinkle to that narrative: its tariff slinging time again.

The recent escalation of trade tensions has sparked a heavy risk-off tone and EM currencies have been on the run since. For the month, the IDR has pulled back by 1.39% with the currency under additional pressure as Indonesia recorded a wider-than-expected trade deficit for the month of April. With these developments, market players are expecting Bank Indonesia to remain on hold as Governor Warjiyo deploys measures to stabilize the currency.

BSP cut last week, may be in the mood for more

The Philippine peso (PHP), which had moved more so in sync with the IDR in 2018, appears to have escaped the brunt of the sell-off for now, with the Peso down a pedestrian 0.83% despite the Bangko Sentral ng Pilipinas' (BSP) decision to slash policy rates by 25 basis points at their 9 May meeting.

Falling inflation, a recent S&P upgrade and prospects for faster growth in 2H19 post-budget approval may have all contributed to the seemingly stable performance from the PHP with the BSP afforded some space to complement its recent policy rate cut with a liquidity infusion via a reduction in the reserve requirement ratio (RRR). BSP may opt to do so in order to increase the efficacy of its recent move to slash borrowing costs by effectively injecting up to PHP100bn in funds for possible disposal for productive activities. If the BI is likely on hold, the BSP may be lining up a move to cut RRR in the near term. It could even be today.

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