

Indonesia: With Fed on hold, Bank Indonesia keeps rates steady

Bank Indonesia left its key policy rate at 6% but, with the Fed likely to keep rates unchanged in 2019, Governor Warjiyo may be afforded a window to reverse his stance in the near term.



6.0% 7-day reverse repo rate

As expected

Bank Indonesia holds as Fed dots vanish

The central bank opted to keep policy rates unchanged. This was expected by the market, given the dovish stance of the US Federal Reserve which has given the Indonesian rupiah an added boost. Rumblings that the Federal Reserve would be “patient” on rate hikes had helped push funds back into emerging markets this year with the IDR recovering in the first few weeks of 2019. Concerns about Indonesia's current account struggles were refreshed when the nation reported a wider than expected current account deficit in 4Q18, forcing the IDR to give back most of its gains. With the Fed now seen on hold for the duration of the year, the IDR has resumed its

strengthening bias, affording Governor Warjiyo more leeway to possibly consider easing on monetary policy.

Window of opportunity?

Governor Warjiyo had previously hinted that rates were close to “peak”, leading some traders to feel that he was done hiking for the time being. Back then, BI had forecasted a rate hike or two from the Fed later in the year, but with the FOMC seen keeping rates untouched into 2020 this may afford Bank Indonesia a window to reverse its stance and cut policy rates in the near term. We are now revisiting our previous forecast for no change from Bank Indonesia and look to possible easing from the central bank if the IDR continues to strengthen, given the dovish outlook for the Fed.