

Indonesia: Looking At More Rate Cuts Ahead

The BI delivered a larger-than-expected 50bps cut to its benchmark overnight rate to 8.75% on 7 Jan. This was the second consecutive month of rate cut but the pace of monetary easing remains more moderate compared with the other regional countries as inflation in Indonesia has remained at double-digit level despite the collapse in commodity and oil prices (Dec: 11.06%/y/y). Even though inflation is only expected to stabilise at around 5%-6% in 2H09, the BI is likely to continue to cut rates in upcoming meetings due to the substantially higher growth risks. Exports and imports fell 2.4%/y/y and 5.6%/y/y respectively in November, pointing to a worrying trend over both external and domestic demand in the months ahead. BI governor Boediono said there is further room for rate cuts if inflation moderates to 5%-7% this year and this is totally achievable according to our inflation forecast of 6.7% for this year. There appears to be higher chance that the benchmark rate will fall to below 8% by end 1Q-09 although we are expecting the rate at 8.25% by the end of the quarter. The IDR was lifted to 10,700/USD on Wed, up 2.6% from Tue's close of 11,080 as market was focused on the boost from lower cost of borrowing. Nonetheless, concerns over capital outflows could keep the monetary easing in check. There are also hopes for more fiscal stimulus ahead of the April's Parliamentary elections after the government announced IDR50 trn spending (around 1% of GDP) earlier.

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that the reader is able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.
