

## A new phase of monetary policy is underway

Macro Indicators	2024E	2025F
GDP Growth (% YoY)	5.10%	5.15%
Average Inflation (% YoY)	2.50%	2.90%
BI Rate (%)	5.75%	5.00%
Exchange Rate (USD/IDR)	15,500	15,750
10-Year Indo GB (%)	6.25%	6.50%
Current Acct. (% to GDP)	-0.68%	-1.02%
Foreign Reserves (bn US)	148	151
Unemployment Rate (%)	5.05%	5.15%

Sources : BI, MoF, BPS, MNCS Estimate

### Key Takeaways

- Bank Indonesia cut the benchmark policy rate by -25 bps to 6% at its September 18, 2024 meeting, defying the majority consensus, which had expected the BI Rate to remain unchanged.
- BI expects the trend in headline and core CPI to remain within the target range of 2.5±1% for FY24E and FY25F.
- The Fed also lowered the FFR by -50 bps to 4.75%-5.00% at its September 19, 2024 meeting, marking its first rate cut since March 2020.
- Based on FOMC summary of economic projection indicated the Fed sees core PCE inflation peaking at 2.6% this year, lower than June's projection of 2.8%, before cooling to 2.2% in 2025 and 2.0% in 2026.
- Given the global trend of rate cuts in Europe, US, and China, has spurred foreign capital inflows into emerging markets including Indonesia, we expect BI to lower rates by at least -25 bps for FY24E.

### Growth driver in 4Q24

Bank Indonesia's decision to cut interest rates ahead of the Fed surprised the market, as the majority consensus had expected rates to remain unchanged. We view this as a responsive and measured move by BI, supported by stable inflation within target levels, the Rupiah strengthening over the past two months, and significant foreign capital inflows into the domestic market. The anticipated interest rate cut is expected to stimulate domestic investment and consumption, which have been sluggish, as evidenced by retail sales contracting for the past four months. The campaign season for regional elections (Pilkada) in the 4Q24, combined with Christmas and year-end holidays, is expected to drive higher consumption through increased spending on celebrations and campaign activities.

### The Fed pivot fueled EM's growth

The Fed's decision to lower interest rates has encouraged emerging market central banks, including Indonesia to follow suit. This has attracted global investors to Asian financial markets, bolstering regional currencies and investor confidence. The MSCI index of regional stocks rose by +1.3%, while Japan's Topix index surged more than +2%, both outperforming the relatively muted response of US stocks following Fed rate cuts decision. Asian and Emerging Markets, known for their robust economic growth, often benefit from lower US interest rates and a weaker dollar.

### Foreign flows into domestic market

The rally in domestic asset prices continues following the Federal Reserve's historic decision, signaling the start of a global rate-cutting cycle. Investors are eager to invest in stocks, bonds, and commodities like gold. The continued buying spree in SBN has pushed the rupiah closer to 15,000/USD, with foreign fund inflows driving yields lower and creating a steepening yield curve. This decline in yields has made bonds more appealing, attracting further investment and strengthening the currency. We expect foreign capital inflows into the domestic financial market will persist, supported by a favorable rate differential and high market expectations of two more rate cuts by the Fed and at least one more by Bank Indonesia before the end of the year.

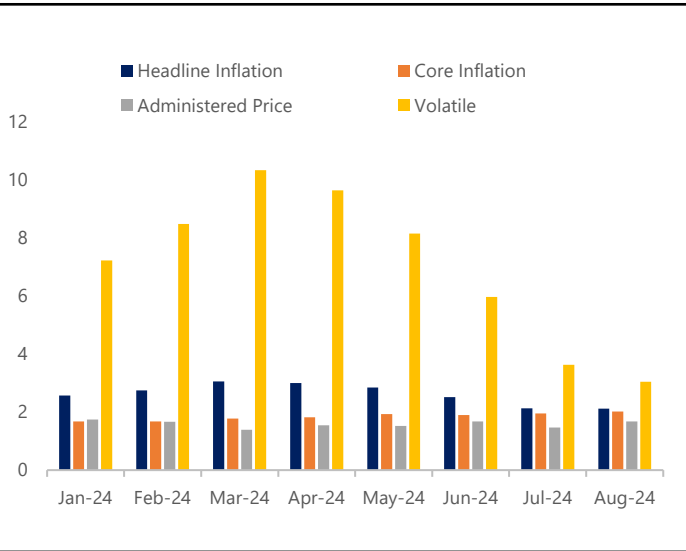
### Rate cuts set to continue

We expect BI to start lowering the benchmark rate to stimulate growth as the Fed signals a shift toward a more accommodative monetary policy, aiming for a soft landing. The Fed is now prioritizing inflation stability while ensuring the unemployment rate remains steady. The FOMC's September 2024 projections point to an FFR of 4.4% for FY24E, with possible further reductions to 3.4% in FY25F. Considering factors like: 1) softening inflation, 2) IDR stability which also supported by BI's triple intervention, and dovish signals from the Fed, we expect the BI rate to drop to at least 5.75% by year-end.

### Economist & Fixed Income Analyst

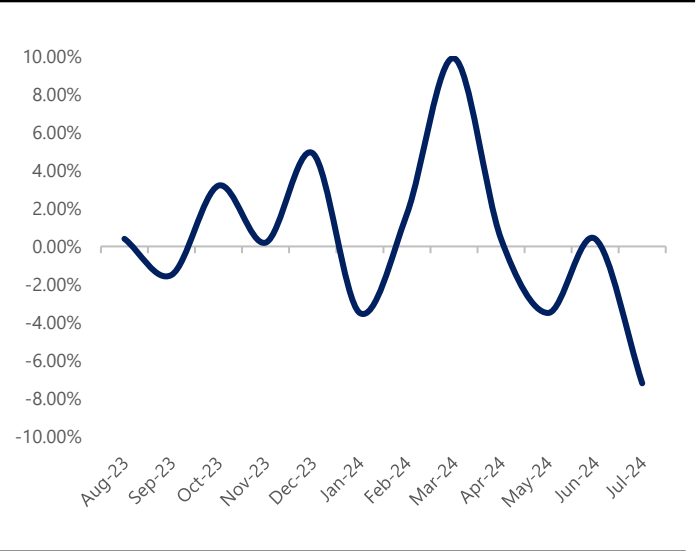
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Exhibit 1. Inflation rate based on components (% YoY)



Sources : BPS, MNCS Research

Exhibit 2. Retail Sales declined in 2Q24 (MoM)



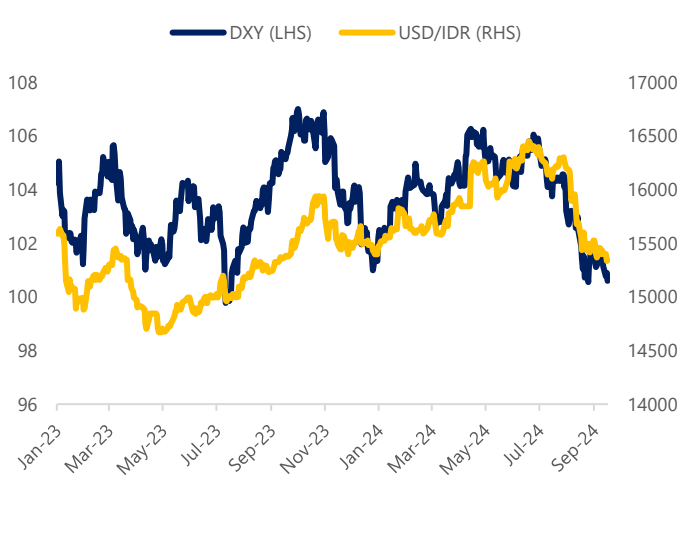
Sources : BI, MNCS Research

Exhibit 3. CB's Rate cuts in 3Q24

Countries	Policy rates (%)	Sep-24	Aug-24	Jul-24
US	5.50	-50 bps	-	-
Euro Area	3.65	-60 bps	-	-
Japan	0.25	-	-	+15 bps
China	3.35	-	-	-10 bps
Indonesia	6.25	-25 bps	-	-
Brazil	10.75	+25 bps	-	-
India	6.50	-	-	-
Malaysia				
Thailand	2.50	-	-	-
Philippines	6.25	-	-25 bps	-
South Korea	3.50	-	-	-

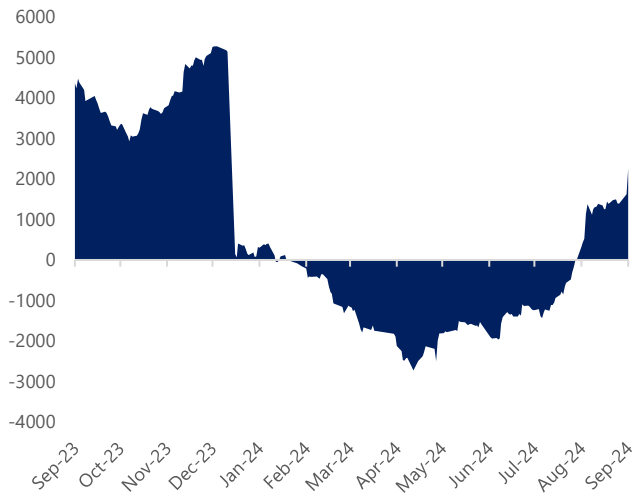
Sources : Trading Economics, MNCS Research

Exhibit 4. USD/IDR response to DXY Index movements



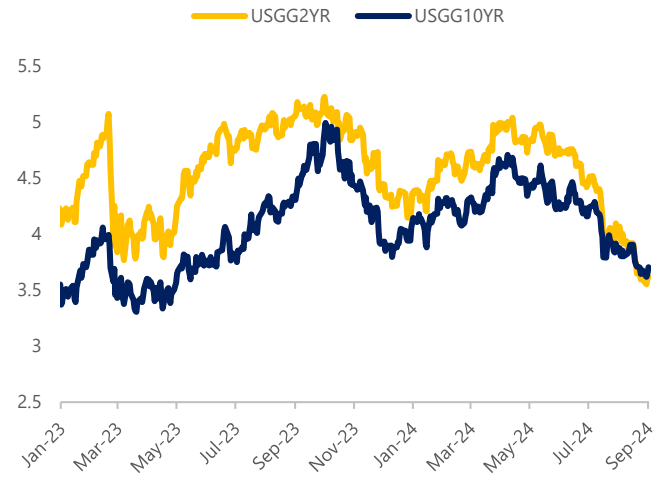
Sources : Bloomberg, MNCS Research

Exhibit 5. Foreign capital flows into SBN market (USD Bn)



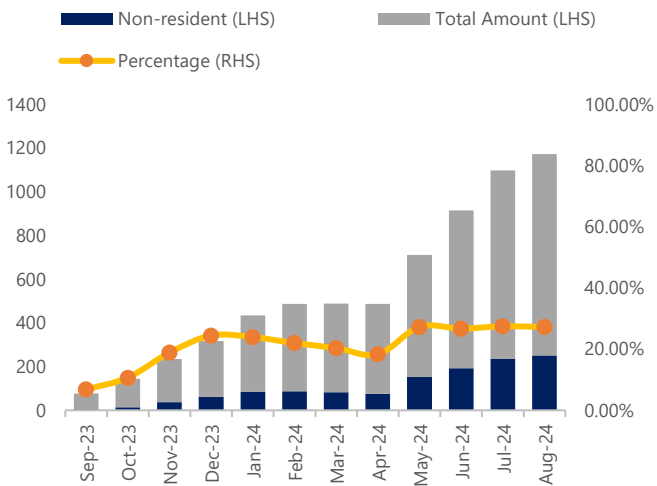
Sources : Bloomberg, MNCS Research

Exhibit 6. UST 2Yr/10Yr reverts to normal curve (%)



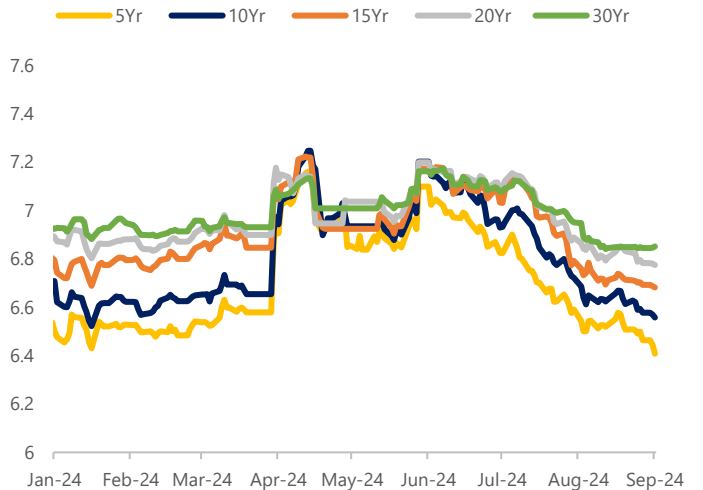
Sources : Bloomberg, MNCS Research

Exhibit 7. SRBI ownership by non-resident (IDR Tn)



Sources : BI, MNCS Research

Exhibit 8. SBN yield curve steepening in response to FFR cuts (%)



Sources : DJPPR, MNCS Research

### 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

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