Research Team
+62 21 392 5550 ext. 611
research@sinarmassekuritas.co.id

The Federal Reserve kept benchmark rate at 2.25% - 2.5% while highlighting the possibility of easing policy framework ahead. On 19 June 2019, The Federal Open Market Committee voted 9 -1 to keep the benchmark rate unchanged. However, Powell's tone became slightly more dovish as he mentioned that "many participants now see the case for somewhat more accommodative policy has strengthened." Market participants are currently pricing in 73.9% probability of a 25bps rate cut and 26.1% probability of a 50bps rate cut in July 2019, while some forecasts a total of 75bps rate cut by the end of 2019. What changed was the Fed's tone and statement as they dropped the word "patient" in describing its monetary policy and the cut in 2019 headline inflation estimate to 1.5% from previously 1.8%. Moreover, the dot plot shifted as 8 members advocate one rate cut this year, 8 favor no change, and one prefers a rate hike. The dot plot in 2020 has a stronger consensus for a rate cut to around 2.1%. We believe that there are a lot of noise and overhang in the market right now and future monetary policy of the Fed and Bank Indonesia partly depends on the progress of issues such as trade war, U.S. - Iran conflict, Brexit, and many more. We advise investors to stay cautious and observe future global economic data releases as weak data is likely to engender a more dovish monetary policy.

While 7DRRR was left unchanged, BI cuts reserve requirements and sees room for rate cuts. Bank Indonesia (BI) left its seven-day reverse repo rate at 6.00%, and maintaining lending and deposit rates at 6.75% and 5.25%, respectively. On the other hand, BI lowered the reserve requirement for banks by 50 bps which is expected to provide the banking system IDR 25 tn of liquidity that they could use to lend to customers. The conservative decision just came hours after the Fed maintained its benchmark rate during its latest Federal Open Market Committee (FOMC) meeting, while also opening rooms to cut rates to battle growing global and domestic economic risks.

Despite the low inflation and economic growth that needs to be pushed, BI sees risks coming from the uncertainties in the global financial market related to trade war, Brexit, and other geopolitical tension which can lead to capital outflows. However, Governor Perry Warjiyo sees room to interest rates cut but telling no indication of timing. On top of that, he also warned that slower global growth, weaker commodity prices, and rising financial market uncertainties could hurt Indonesia's economy and expected growth will probably come in below the midpoint of the central bank's forecast range of 5-5.4% this year.

Favorable USDIDR in the near-term. In the recent weeks, USDIDR movement was quite promising, closed at IDR 14,158 as of 21st June 2019 and has appreciated by ~2.5% from its weakest position this year at IDR 14,525 (spot rate of 22nd May 2019). This brought Rupiah to become one of the top performer currencies in emerging markets (EMs) with appreciation of 2.1% YTD, only losing to Thailand Baht which posted a 4.6% YTD appreciation. The recent favorable USDIDR amid the surging crude oil price was in-line with the weakening DXY index. Note that DXY index have plunged to 96.7 (-1.5%) from its highest level this year at 98.1, which was due to a more dovish stance from the Fed that has opened up a chance for interest rate cut this year. USDIDR was also supported by Bank Indonesia's (BI) decision to maintain its 7DRRR in June meeting; while central banks in several emerging countries have already lowered interest rates in recent months. In our view, this certainly resulted in Indonesia's financial assets (for instance bonds) becoming more attractive, one of which was reflected by strong bid entry for government bonds last week, that helped stabilizing USDIDR as well. We expect USDIDR to be steady in the near future supported by potential rate cut by Fed in July meeting (70% probability at current) while downside risk for USDIDR may still come from increasing crude oil price.

Oil jumped 5% on Iran tension. Oil soared more than 5% this week after Iran shot down US military drone which raises fears of a military confrontation between Tehran and Washington. In Thursday, Iran's Islamic Revolutionary Guard Corps (IRGC) said its air force had shot down US unmanned aircraft which violated Iranian airspace. The US military's Central Command confirmed that the drone was shot down but denied the allegation that the aircraft was over Iran's territory. Several media have reported that President Trump had approved military strikes against Iran, but pulled back from launching them after a day of escalating tensions. These news had sent oil price up for the week. Both WTI and Brent closed at USD 57.4 and USD 65.2 per barrel in Friday, increased by 9.3% and 5.2% week on week (wow) respectively. We advise investors to stay cautious for the week ahead as rising tensions between US and Iran may exert further pressures on oil price.

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