

BI to Lower Policy Rate Thursday

- The BI is expected to lower its benchmark interest rate by 25 bp to 4.75% on Thursday and to leave the door open for future rate cuts amid benign CPI inflation and slowing economic growth
- It will prompt foreign investors to pump funds into local bond markets for higher returns again in the medium term, by considering accommodative external liquidity
- We decide to close our short USD/IDR position on concerns over the coronavirus spreading outside of China but look to rebuild it later

Asia Overview - EM Asian currencies weakened versus the dollar during Tuesday's Asian session, with Apple Inc. issuing a revenue warning. The SGD declined 0.2%, while the JPY closed flat amid a 2.6 bp fall in the 10Y UST yield. Singapore on Tuesday unveiled financial measures worth SGD 6.4bn to help its economy, posting its biggest budget deficit since at least 1997.

The CNY and CNH weakened 0.2% and 0.3% respectively. The dollar/yuan is likely to consolidate at around the 7.0 level now but trade lower in the medium term. US President Donald Trump signaled Tuesday via Twitter that he opposes efforts to block the sale of jet engines to China. China's commerce ministry said on Tuesday that the nation will take steps to stabilize foreign trade, foreign investment and consumption to minimize the impact from the coronavirus outbreak. China said Tuesday that it will start accepting applications for tariff waivers starting from 2 March on a wide range of American commodities. The KRW fell 0.5%. USD/KRW is likely to trade between 1,180 and 1,200 in the near term on concerns over the coronavirus spread. South Korea's public health authorities warned Tuesday that the country should prepare for more coronavirus infections not linked to known clusters. South Korean President Moon Jae-in said on Tuesday the government should make an all-out effort to cushion the economic impact from China's coronavirus outbreak. His comments have boosted expectations of further monetary easing. Moody's said in a new report that the coronavirus outbreak could disrupt multiple sectors in South Korea, which in turn would increase asset quality risks for some exposed banks. The South Korean government will release more measures as soon as this week to help stabilize property price increases in some areas, according to finance minister Hong Nam-ki. The TWD declined 0.2%. USD/TWD is expected to trade above the 30.0 support in the near term. The CBC sold TWD 170bn of 364-day NCDs at an average interest rate of 0.543% on Tuesday, down from 0.571% at the previous sale on 3 January. Sales of Taiwan's computer and information technology (IT) service sector last quarter increased 12% yoy to a record high of TWD 111.8bn.

The INR weakened 0.4%. USD/INR will likely fall below the 71.0 support level after recent range-trading. India's bond and FX markets will be shut Wednesday and Friday for the public holiday. Finance minister Nirmala Sitharaman said on Tuesday that the Indian government will soon announce measures to deal with the impact of coronavirus outbreak on India's industry and exports. Bloomberg reported Tuesday that India is open to greater market access for American farm and dairy products and lower duties on Harley-Davidson Inc. motorcycles as it seeks to conclude a trade deal with the US. The IDR slid about 0.3%, while the MYR, PHP and THB declined about 0.2% each. USD/MYR is expected to head for 4.16 in the coming weeks. USD/PHP will likely trade between 50.5 and 51.0 for now. The Bureau of the Treasury sold all PHP 30bn of 2029 treasury bonds it offered at an auction Tuesday as bids were twice more than what it offered. The THB fell 0.2%. USD/THB will likely trade in a range of 31.0-31.5 at the moment. BoT Governor Veerathai Santiprabhob told reporters in Bangkok on Tuesday that the central bank will review Thailand's 2020 economic growth forecast next month, which is currently estimated at 2.8% growth, as the coronavirus outbreak hurts tourism and may affect supply chains.



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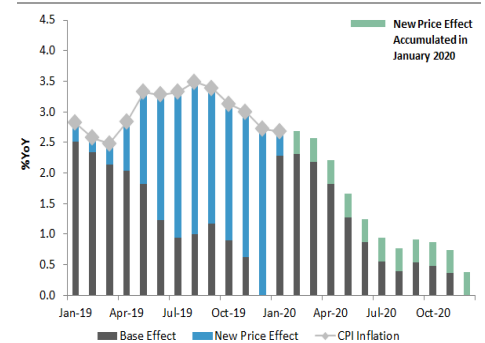
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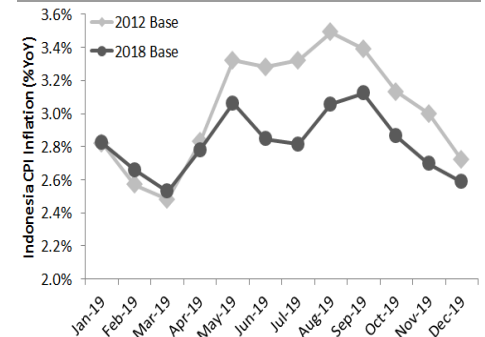
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Indonesia CPI Inflation



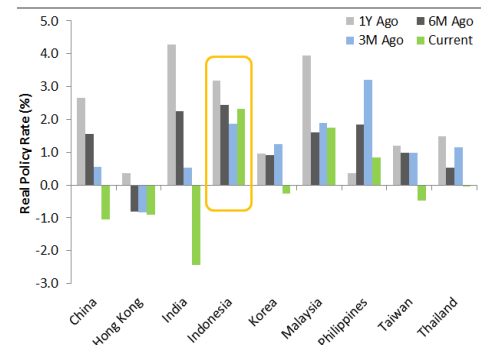
Source: Bloomberg & Scotiabank FICC Strategy

Indonesia CPI Inflation in 2019: 2012 Base vs. 2018 Base



Source: Bloomberg & Scotiabank FICC Strategy

EM Asian Central Bank Real Policy Rates



Source: Bloomberg & Scotiabank FICC Strategy

Most regional equity indices resided in the red on Tuesday. China's SHCOMP index edged up despite USD 770.4mn of equity outflows, while India's NIFTY50 index slid 0.44%. South Korea's KOSPI index dropped 1.48% with foreign investors offloading a net USD 363.6mn of Korean shares. In the meantime, Taiwan's TWSE index fell 0.97% as global funds reduced their holdings in local main board shares by USD 704.6mn on Tuesday. Malaysia's KLCI index closed flat, but Thailand's SET index slipped 0.89% amid USD 78.4mn of stock outflows. Indonesia's JCI index ended 0.33% higher.

Indonesia • We expect the BI to lower its benchmark interest rate by 25 bp to 4.75% on Thursday afternoon amid benign CPI inflation and slowing economic growth. Indonesia's CPI inflation tends to be lower with the 2018 base year instead of 2012, which will lead to a higher real policy rate and provide additional scope for the Indonesian central bank to ease its monetary policy further. In addition, the nation's GDP growth slowed to a four-year low of 5.02% yoy in 2019, justifying our call for more rate cuts.

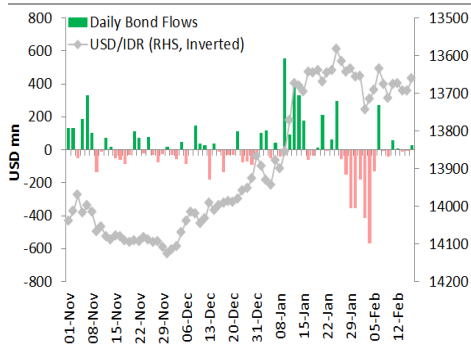
In the medium term, yield-seeking foreign investors will return to Indonesia's bond markets amid the BI's dovish stance and accommodative external liquidity after net offloading a total of USD 1.91bn worth of local government bonds from 27 January to 14 February.

The IDR has been running a tight correlation with the 10Y Indonesian government bond yield, while remaining vulnerable to capital flight as portfolio investment inflows play a substantial role in financing the nation's current account deficit and can be withdrawn at a short notice. The BI said in a statement on 10 February that it expects Indonesia's current account deficit to remain controlled this year at 2.5-3.0% of GDP as positive domestic economic prospects will continue to attract foreign inflows. In 2019, the nation's current account deficit narrowed to 2.72% of GDP from 2.94% the previous year on rising surplus in non-oil and gas trade balance.

In addition, Indonesia has moved a step closer to passing a series of sweeping reforms, including submitting to the parliament a so-called omnibus bill on job creation on 12 February and considering a separate legislation on taxation aimed at lowering the corporate tax rate. Earlier on 11 February, Indonesian President Joko Widodo urged ministries to start spending budget as early as February in response to the threat of global economic slowdown arising from the coronavirus outbreak.

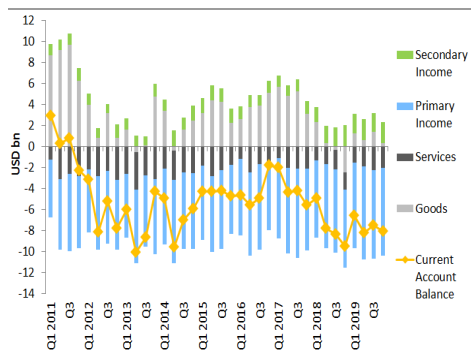
We decide to close our short USD/IDR position entered on 7 February on concerns over the coronavirus spreading outside of China but look to rebuild it when market worries fade away. The BI has reiterated that it remains consistent with commitment to maintain the rupiah stability amid risk-off sentiment and stands ready to intervene in forex, bonds and domestic non-deliverable forwards (DNDFs) markets.

USD/IDR vs. Indonesia Bond Portfolio Flows (+, Inflows)



Source: Bloomberg & Scotiabank FICC Strategy

Indonesia's Current Account Balance



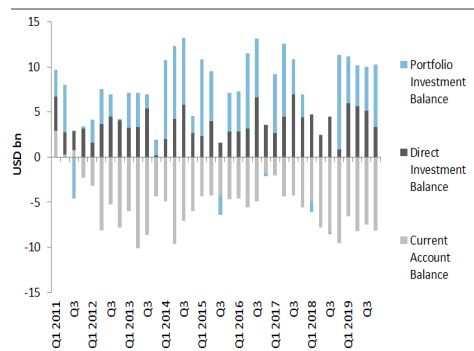
Source: Bloomberg & Scotiabank FICC Strategy

USD/IDR vs. 10Y Indonesian Government Bond Yield



Source: Bloomberg & Scotiabank FICC Strategy

Indonesia's Current Account Balance, Direct Investment & Portfolio Investment



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
08:00	AU	JOB	Skilled Vacancies MoM	Jan			0.6%	med
08:30	AU	JOB	Wage Price Index QoQ	Q4	0.5%		0.5%	high
08:30	AU	JOB	Wage Price Index YoY	Q4	2.2%		2.2%	high
16:00	SG	DATA	Automobile COE Quota Premium for Category A	Feb 19			30,010	med
16:00	SG	DATA	Automobile COE Quota Premium for Category B	Feb 19			34,900	med
16:00	SG	DATA	Automobile COE Quota Premium for Category E	Feb 19			30,890	med
	PH	BOP	BoP Overall	Jan			\$1,572mn	med

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