

## BI to Stay on Hold Next Thursday

- The BI is expected to maintain its policy rate at 5.00% next Thursday, but with the door remaining open to future rate cuts amid benign inflation outlook
- The government's mid-term infrastructure development program will provide a massive boost to the Indonesian economy this year; In addition, the omnibus bill due could attract more foreign investment and create more jobs
- Ongoing US-China trade truce will likely fuel more long positions in the high-yielding currencies such as the IDR in the first half
- We stay with our short USD/IDR position with a new target of 13,400, along with rising risks of technical corrections

**Asia Overview** - EM Asian currencies were mixed versus the dollar during Thursday's Asian session. The SGD declined 0.1% along with a weakened EUR, while the JPY fell 0.2% amid a 2 bp rise in the 10Y UST yield.

The CNY and CNH gained about 0.2% each. The dollar/yuan will likely trade lower towards 6.80 in the weeks ahead. China's overall credit growth held up in December, with the PBoC adding sovereign and local government bonds in aggregate financing calculation from December data. Sun Guofeng, head of the PBoC's monetary policy department, wrote in China Finance magazine on Thursday that the Chinese central bank will keep liquidity at a reasonably ample level by flexibly using monetary tools including RRR, MLF, open market operations and SLF this year. He added that China's RRR for banks is appropriate and has limited room for more cuts. The KRW dropped 0.4%. However, USD/KRW could decline again towards 1,150. The BoK is expected to leave its policy rate unchanged at 1.25% on Friday morning. South Korea and US officials have failed to reach an agreement at its latest defense cost-sharing talks held in Washington D.C. and have confirmed there is still a "difference in stances." The TWD dipped somewhat amid equity outflows. However, USD/TWD is expected to trade lower to 29.8 in the coming weeks. Taiwan's 10-year government bond yield reached the lowest-ever closing level on Thursday.

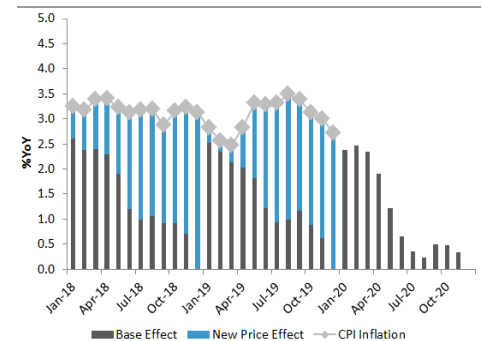
The INR declined about 0.2%. However, USD/INR is still likely to test the 70.5 level amid a strong pipeline of foreign inflows chasing local shares. The RBI on Thursday announced it will conduct a fourth round of Operation Twist on 23 January, simultaneously purchasing and selling INR 100bn each of government securities. In our view, it will help rein in inflation with elevated short-term interest rates while lowering long-term sovereign funding costs amid hovering concerns over the nation's fiscal slippage. Indian's bank credit grew by 7.57% yoy to INR 100.45tn while deposits rose by 9.77% yoy to INR 132.10tn in the fortnight to 3 January. The IDR rallied 0.4% and the MYR rebounded 0.3%. USD/MYR is expected to reach 4.05 before long. The PHP rose slightly. USD/PHP will likely fluctuate between 50.5 and 51.5 for now. Trade Secretary Ramon Lopez said Thursday that Philippine electronics exports may see an upside as tension between the US and China is expected to ease following the signing of the phase-1 trade agreement. The THB weakened around 0.4%. USD/THB is likely to head for the 30.5 resistance in the coming sessions, underperforming other export-driven currencies in the region. Deputy Prime Minister Somkid Jatusripitak said on Thursday that the first-phase trade deal between China and the US could bolster Thailand's exports.

Most regional equity indices resided in the green on Thursday. China's SHCOMP index slid 0.52% despite USD 559.2mn of equity inflows, while India's NIFTY50 index rose 0.10%. South Korea's KOSPI index rallied 0.77% in spite of USD 21.1mn of stock outflows. In the meantime, Taiwan's TWSE index slipped 0.21% as global funds reduced their holdings in local main board shares by USD 154.3mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.17% and 0.04% respectively. Thailand's SET index ended 0.94% higher although foreign investors offloaded a net USD 64.5mn of Thai shares.

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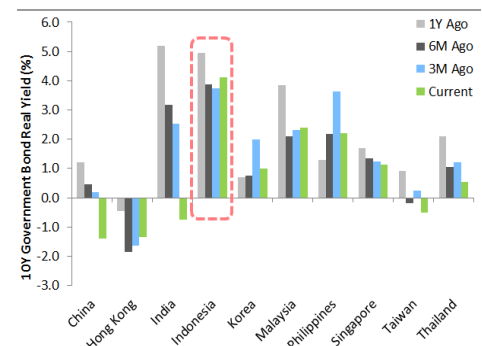
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### Indonesia CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

### EM Asia 10Y Government Bond Real Yields



Source: Bloomberg & Scotiabank FICC Strategy

### USD/IDR vs. 10Y Indonesia Government Bond Yield



Source: Bloomberg & Scotiabank FICC Strategy

**Indonesia** • The BI is expected to maintain its policy rate at 5.00% on 23 January, but with the door remaining open to future rate cuts amid Indonesia’s benign inflation outlook.

- BI Governor Perry Warjiyo said last Friday that the Indonesian central bank expects the January inflation rate to remain low, despite an increase in food prices as a result of major flooding in many parts of the country.
- IGP Wira Kusuma, director of the BI’s economic and monetary policy department, said in Jakarta on Wednesday that the BI will maintain its accommodative policy stance as the growth of the Southeast Asia’s biggest economy remains a concern.

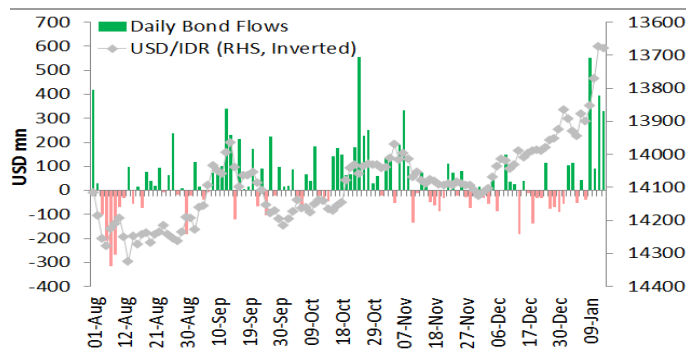
The BI’s accommodative stance could prompt foreign investors to pour more funds into the nation’s bond markets on top of their net purchase of USD 1.44bn worth of local government bonds on 1-14 January. As we know, the IDR has been running a tight correlation with the 10Y Indonesia government bond yield, 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. We note Indonesia’s trade deficit narrowed substantially to USD 28mn in December from USD 1,393mn the previous month, which would improve the nation’s current account deficit.

The Jakarta Post reported Wednesday that as many as 52 national strategic projects in the form of toll roads, sea ports and special economic zones are scheduled for completion this year as part of the government’s mid-term infrastructure development program. It will provide a massive boost to the Indonesian economy this year. In addition, President Joko "Jokowi" Widodo stated on Wednesday that his administration will submit an omnibus bill on job creation to the House of Representatives this week as the government strives to attract more investment. According to President Jokowi, the government has identified 1,244 articles and 79 laws as of Wednesday afternoon that would be revoked by the omnibus law.

More importantly, ongoing US-China trade truce will likely fuel more long positions in the high-yielding IDR in the first half this year. We believe implied vols of USD/IDR will remain subdued in the foreseeable future, continuing to support the so-called carry trade with a high Sharpe ratio.

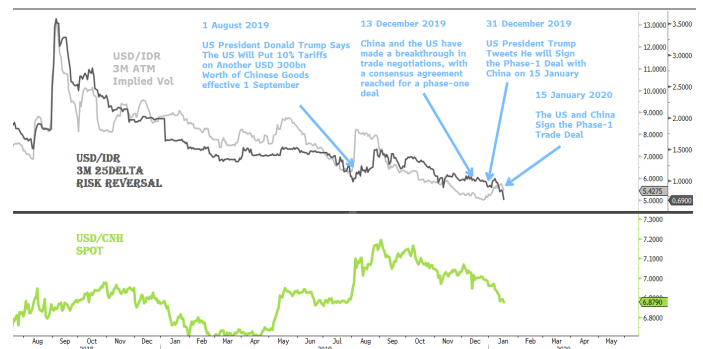
**We maintain our short USD/IDR position with a new target of 13,400 and a trailing stop of 13,800 after the pair fell below our original target of 13,900.** The IDR is expected to advance further with the BI’s nod for more gains, but with rising risks of technical corrections. BI Deputy Governor Dody Budi Waluyo told reporters in Jakarta on Monday that intervention measures won’t be taken by the Indonesian central bank as long as the rupiah appreciation is in line with fundamentals.

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



Source: Bloomberg & Scotiabank FICC Strategy

USD/IDR: 3M ATM Implied Vol vs. 3M 25Delta Risk Reversal



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
08:30	SG	TRADE	Non-oil Domestic Exports SA MoM	Dec	-1.5%		5.8%	med-high
08:30	SG	TRADE	Non-oil Domestic Exports YoY	Dec	-1.0%		-5.9%	med-high
~09:00	KR	BOK	BoK 7-Day Repo Rate	Jan 17	1.25%		1.25%	high
10:00	CN	DATA	Retail Sales YoY	Dec	7.9%		8.0%	med-high
10:00	CN	DATA	Retail Sales YTD YoY	Dec	8.0%		8.0%	med-high
10:00	CN	DATA	Industrial Production YoY	Dec	5.9%		6.2%	med-high
10:00	CN	DATA	Industrial Production YTD YoY	Dec	5.6%		5.6%	med-high
10:00	CN	DATA	Fixed Asset (Ex Rural) YTD YoY	Dec	5.2%		5.2%	med-high
10:00	CN	DATA	Property Investment YoY	Dec			10.2%	med-high
10:00	CN	GDP	GDP SA QoQ	Q4	1.4%		1.5%	high
10:00	CN	GDP	GDP YTD YoY	Q4	6.2%		6.2%	high
10:00	CN	GDP	GDP YoY	Q4	6.0%		6.0%	high
15:30	TH	DATA	Foreign Reserves	Jan 10			\$227.5bn	med
15:30	TH	DATA	Forward Contracts	Jan 10			\$35.8bn	med

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