

BI to Stay on Hold Thursday

- The BI is expected to hold its policy rate steady at 3.75% on Thursday afternoon
- US Treasury Secretary nominee Janet Yellen urges Congress during her confirmation hearing to move swiftly on bold stimulus spending and vows to take a hard line against currency manipulation
- We maintain our short USD/IDR position on expectations for a renewed dollar weakness

Asia Overview - Most EM Asian currencies rallied versus the dollar during Tuesday's Asian session. The SGD gained about 0.2%, but the JPY declined 0.2% amid an uptick in the 10Y UST yield.

The CNY and CNH rallied 0.2% and 0.3% respectively. USD/CNH will likely trade in a range of 6.40-6.50 at the moment, with downside potential. The PBoC is expected to maintain 1-year and 5-year LPR at 3.85% and 4.65% respectively on Wednesday. The KRW rose 0.1%. USD/KRW will likely slide towards the 1,080 level after consolidating around 1,100. South Korean Vice Finance Minister Kim Yong-beom said on Tuesday that the nation will monitor the change in both local and overseas environment, long-term bond yield movements and possible increase in market volatility. The TWD pared most of its early gains and closed up somewhat on Tuesday. USD/TWD is expected to trade between 28.0 and 28.2 in the near term. The Life Insurance Association said in a report released on Monday that Taiwan's life insurers saw their combined first-year premiums (FYPs) plunge 28.7% yoy to TWD 783.71bn last year.

The INR advanced about 0.2%. In the near term, USD/INR is likely to stay in a descending triangle with the 73 horizontal trend line. Reuters reported on Tuesday that India is considering revising its foreign investment rules for e-commerce, a move that could compel players to restructure their ties with some major sellers. The IDR edged up. USD/IDR will likely fluctuate around the 14,000 level in the coming future. The MYR inched up. USD/MYR will likely head for the psychological 4.00 support level after fluctuating around 4.05. The BNM is expected to leave its overnight policy rate (OPR) unchanged at 1.75% on Wednesday. The PHP edged down, with USD/PHP to consolidate around the 48.0 level. The THB rebounded around 0.3%. USD/THB will likely fluctuate around the 30.0 support level at this stage. The Thai Cabinet on Tuesday approved a THB 217bn cash handout program that is expected to benefit 31.1mn people.

Regional equity indices diverged on Tuesday. China's SHCOMP index slid 0.83% despite USD 175.8mn of equity inflows, while India's NIFTY50 index gained 1.68%. South Korea's KOSPI index jumped 2.61% with foreign investors purchasing a net USD 584.0mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 1.70% as global funds added to their holdings in local main board shares by USD 234.6mn on Tuesday. Malaysia's KLCI index and Indonesia's JCI index closed down 0.47% and 1.06% respectively. Thailand's SET index ended 0.83% higher.

Indonesia • The BI is expected to hold its policy rate steady at 3.75% on Thursday afternoon, after delivering a total of 125 bp rate cut since the beginning of 2020. In our view, the nation's CPI inflation will likely stay between 1.0% and 2.0% in the coming months.

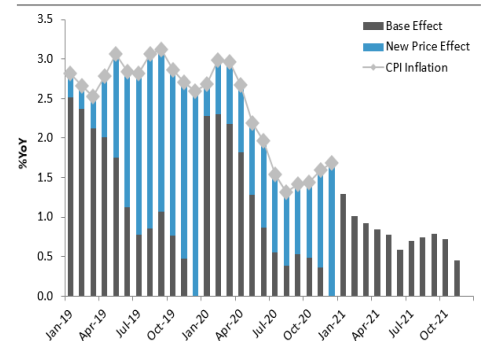
On 13 January, Indonesian President Joko Widodo gets the nation's first Sinovac vaccine shot, kicking off a mass inoculation program in the Southeast Asian country. It will enable Indonesia to fully open up its economy when reaching herd immunity and alleviate market concerns over its fiscal conditions.

Recently, the 10Y Indonesian government bond yield had surged along with rising

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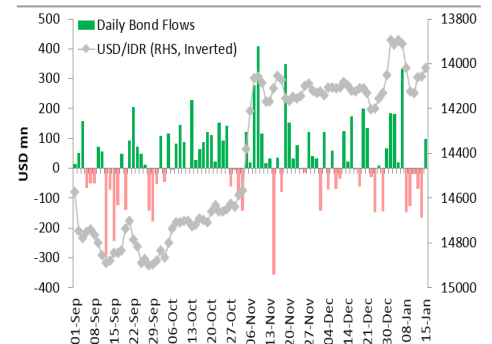
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Indonesia CPI Inflation



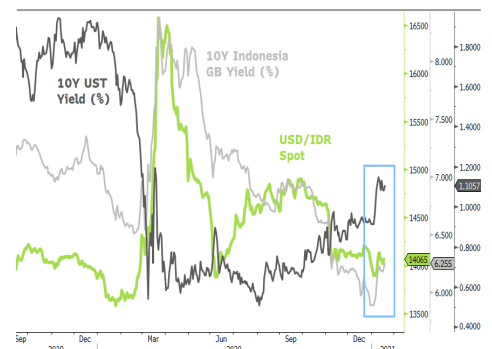
Source: Bloomberg & Scotiabank FICC Strategy

USD/IDR vs. Indonesia Cross-border Government Bond Flows



Source: Bloomberg & Scotiabank FICC Strategy

USD/IDR vs. 10Y Indonesian Government Bond Yield



Source: Bloomberg & Scotiabank FICC Strategy

10Y UST yield, prompting bond outflows while weighing on the high-yielding rupiah. Foreign ownership of Indonesian government bonds declined to 25.0% of total as of 15 January from 26.0% on 1 December. The Indonesian government sold IDR 24.45tn of T-bills and bonds in auction on Tuesday, with IDR 55.29tn worth of bids received.

However, Indonesian government bond yields are likely to stay under control, with the 10Y UST yield retreating from the January 11 high of 1.146%. In addition, the nation's elevated real bond yields will attract bond inflows amid ample external liquidity conditions. Foreign investors turned net buyers on 15 January, purchasing a net IDR 1.37tn of local government bonds after reducing their holdings by a total of IDR 7.41tn (USD 527mn) in the period of 8-14 January.

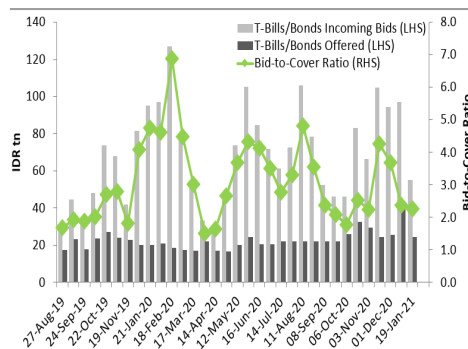
On Tuesday, US Treasury Secretary nominee Janet Yellen urged Congress during her confirmation hearing to move swiftly on bold stimulus spending and vowed to take a hard line against currency manipulation. Speaking before the Senate Finance Committee, Yellen said 1) additional spending that provides relief for struggling families and businesses could provide the most "bang for the buck" for the economy as a whole; 2) President-elect Biden does not plan to repeal the entire 2017 tax law, but after the pandemic is over he will look to reverse provisions in the law that benefit the rich and big corporations; 3) the US doesn't seek a weaker dollar for competitive advantage while affirming the US commitment to market-determined exchange rates, and efforts by foreign countries to artificially manipulate their currencies are "unacceptable" and; 4) the US is prepared to use the full array of tools to address China's "abusive, unfair and illegal practices," including undercutting American companies by dumping products, erecting trade barriers, giving illegal subsidies to corporations and stealing intellectual property.

When answering Senate Ron Wyden's question on the dollar exchange rate, Yellen said "maintaining confidence in the long-term strength of the US economy and the stability of the US financial system is good for America as well as our trading and investing partners" and "I look forward to working with Congress to make the US economic recovery as strong as possible."

Yellen pushing for a big stimulus at the Senate hearing is expected to improve risk sentiment and spark risk appetite across the markets, weighing on the dollar and boosting EM Asian currencies in our view. In addition, Yellen may aim to maintain and enhance market confidence in the US currency and financial system rather than returning to "a strong dollar is in the US interest" policy, when making clear that the US doesn't seek a weaker dollar for competitive advantage.

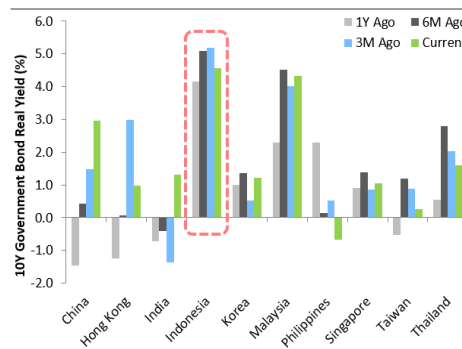
The IDR will likely continue trading in a range of 13,800-14,200 in the weeks ahead. We maintain our short USD/IDR position on expectations for a renewed dollar weakness post Yellen's confirmation hearing, with a target of 13,500 and a trailing stop of 14,500.

Indonesia T-Bills/Bonds Auction History



Source: Bloomberg & Scotiabank FICC Strategy

EM Asian Government Bonds: 10Y Real Yields



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
09:30	CN	PBOC	1-Year Loan Prime Rate (LPR)	Jan 20	3.85%		3.85%	high
09:30	CN	PBOC	5-Year Loan Prime Rate (LPR)	Jan 20	4.65%		4.65%	high
15:00	MY	BNM	BNM Overnight Policy Rate	Jan 20	1.75%		1.75%	high
16:00	TW	TRADE	Export Orders YoY	Dec	30.4%		29.7%	med-high
16:00	SG	DATA	Automobile COE Quota Premium for Category A	Jan 20			40,609	med
16:00	SG	DATA	Automobile COE Quota Premium for Category B	Jan 20			49,001	med
16:00	SG	DATA	Automobile COE Quota Premium for Category E	Jan 20			49,489	med

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