

## A stronger Dollar amid a spring of policy doves

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### Summary

- Despite the BoJ's recent rate hikes, the global monetary policy condition is still expected to loosen as the BoJ still maintains its presence in the JGB market while lower inflation clears the path for European central banks to lower their policy rate.
- The market is growing sceptical about the Fed's 75 bps FFR cut signal, fuelling the expectation of a widening policy rate gap that may drive up the demand for US Treasuries.
- The risk of foreign capital outflow due to the widening policy rate gap against the Fed could be more significant in the Asian market given the underlying regional problem.

- We saw monetary policy decisions taken by global central banks to be moving in three different directions in the past week. First, the Bank of Japan is moving northward with its policy rate setting, bringing the policy rate to a 0-0.1% corridor after eight years of experiment with the Negative Interest Rate Policy (NIRP).
- We have quipped earlier that the BoJ's decision to end the NIRP may spark uncertainties in the market due to a potential unfurling of years of JPY carry trade positions. However, concerns over a potential shift in global capital inflows due to the BoJ's recent actions seem to be too much for now. While the BoJ has also terminated the yield curve control (YCC) policy and purchases of ETFs and J-REITS, the central bank is still putting its weight behind the Japanese government bond (JGB) market – signalling its continued

readiness to intervene in the market and keep the yield on JGBs stable (*see Chart 1*).

- Hence, **the recent BoJ policy decision may be better understood as an opening move towards policy normalisation**, rather than the start of a further tightening campaign à la the Fed and other global central banks in 2022-2023. Although inflation in Japan in February 2024 accelerated to 2.80% YoY (2.20% YoY in January 2024), the energy component-driven CPI number shows that the higher annual inflation figure was primarily due to the base effect, although the potential effect from the recent higher-than-expected *Shunto* result is still too early to consider. Nevertheless, BoJ officials have sounded their confidence that inflation would converge to the 2% target by the end of 2024, while the official announcement from **the recent BoJ meeting further highlights the signal that accommo-**

**inflationary pressures are expected to persist.**

- The BoJ's signals of a continued disinflationary trend and accommodative financing conditions are echoed by its European counterparts. While the Bank of England (and the European Central Bank early in the month) still chose the second, middle path of maintaining its policy rate in the March meeting, **the consensus remains in the market that financing conditions in Europe will be loosened later in the year.**
- The coherence between European central banks' policy signals and expectations in the market stems from the macroeconomic situation that now presents in the European economy. Despite early inflationary shocks from the 2022 Russian invasion of Ukraine, the successful adjustment and improvement of the Europe-bound supply chain (such as the ramping up of LNG imports from the US and Qatar) helped to quell much of the inflationary pressures. **The manufacturing winter since 2022, and the ongoing technical recession, also helped to suppress the demand condition that further muted inflationary pressures in Europe (see Table 1).**
- The widespread expectation that European central banks would need to start cutting their policy rate in 2024 explains movements in the Euro exchange rate, which has been on a downward trend since the ECB meeting on 7 March 2024. **The plummeting Euro exchange rate poses a particular challenge for other major European central banks such as the Swiss National Bank (SNB).** The pass-through effect from the EUR/CHF exchange rate

*“Unlike with European central banks, the market is growing sceptical that the Fed will need to cut rates in 2024”*

complicates the SNB's effort to revive inflationary pressures in the Swiss economy, as reflected in the CPI inflation dropping to 1.2% YoY in February 2024. The SNB decided to lower its policy rate by 25 bps to 1.50% in last week's meeting, marking the third, southward path taken by central banks in the March meeting.

- While the Fed has also taken the same path as the ECB and the BoE in the March FOMC meeting, the Fed's policy signals appear to be received by the market with some scepticism. **Unlike its European counterparts, the decision by FOMC members to maintain its 75-bps rate cut signal in 2024 seems to be out of tune with the prevailing US macro conditions.** Indeed, rental inflation (based on online listing data), which is the final frontier in returning US CPI inflation to the 2% target, has been creeping up in recent periods. The upward trend in petroleum prices, reaching USD 3.97 per gallon compared to the 2015-2019 average of USD 2.72 per gallon, adds to concerns that inflationary pressures in the US have not only become more entrenched but also re-intensified.

- Meanwhile, the still-strong GDP number, as indicated by the 2.1% GDPNow estimates, suggests that the higher Fed funds rate (FFR) has yet to fulfil its function of lowering demand conditions and thus quelling inflation. Additionally, FOMC members' decision to upgrade their GDP growth and core PCE expectations (to 2.1% from 1.4% and 2.6% from 2.4%, respectively) further adds to the conflicting signals that fuel markets' scepticism

regarding the Fed's urgency to lower its policy rate in 2024.

- Despite the three differing paths of central banks' policymaking that we have observed in the past week, **differences in market perceptions of the Fed's and other central banks' policy signals may be more significant in driving the market in the upcoming period.** While continued increase in the balance of retail money market funds may help to secure the demand for the short-end of the US treasuries market (*see Chart 2*), European central banks' clearer path towards policy easing (and the BoJ's still-long path towards full policy normalisation) may widen the policy gap between the Fed and other major central banks – potentially strengthening the USD as foreign investors collect more UST and other US debts in search of yields. The still-strong corporate revenue growth in the US may further drive-up foreign demand for US debts, as indicated by offshore financial centres' expanding UST portfolios (*see Chart 3*).
- The detrimental impact of the UST market's relative attractiveness may be more palpable in more peripheral markets, as foreign investors often prioritise higher yields when investing in these markets. Alas, **the widening policy gap problem may be more acute in the Asian market, especially as the PBoC continues to expand its balance sheet and maintain loose financing conditions.** The recent gap between the Yuan spot and fixing

rates seems to be a case in point here. The contagion effect could ripple through other Asian EMs, potentially adding to the USD 1.26 Bn of foreign capital outflows that the SBN market has recorded so far in 2024.

- While the potential return of the higher-for-longer scenario would be troubling, it might be better for the Indonesian financial market to sit and wait rather than prompt BI to launch another intervention. After all, a violent swing in the FFR expectation pendulum has been one of the longest-running themes in the market this year, and **the Fed is still indicating a total of 75 bps rate cuts (and even signalling a potential QT taper) in 2024.**
- It remains important for the central bank to balance between external pressures threatening the Rupiah and the internal risk of anaemic consumption growth. Given the likelihood that fiscal policy would return to its usual pace after a burst of spending early in the year, monetary policy would eventually need to play a more significant role in boosting growth, although the extent to which it could play a role will still be circumscribed by external developments.

***“It might be better for the Indonesian financial market to sit and wait rather than prompt BI to respond to the recent shift in FFR expectation”***

Table 1

**Different ball game**

Conditions in the real sector have cleared the path for European central banks to lower their policy rate, while the Fed continue to face a heating economy.

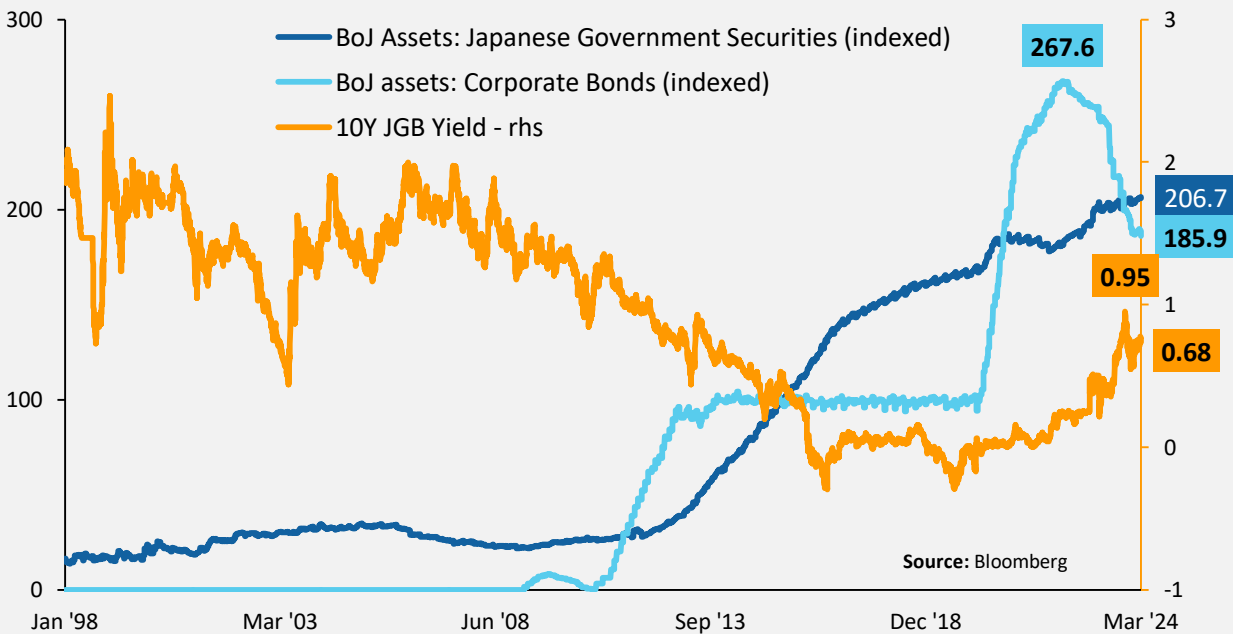
	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>US</b> CPI YoY	6.4	6	5	4.9	4	3	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2
Manuf. PMI	46.9	47.3	49.2	50.2	48.4	46.3	49	47.9	49.8	50	49.4	47.9	50.7	52.2
Retail Sales YoY	8.0	5.6	2.2	1.3	2.1	1.5	2.8	2.8	4	2.2	3.6	5	0	1.5
<b>EU</b> CPI YoY	10.0	9.9	8.3	8.1	7.1	6.4	6.1	5.9	4.9	3.6	3.1	3.4	3.1	2.8
Manuf. PMI	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5
Retail Sales YoY	-1.7	-2.9	-3.8	-3.3	-2.6	-1.3	-1.3	-2.1	-3.1	-0.8	-0.4	-0.5	-0.6	-0.6
<b>UK</b> CPI YoY	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	4.6	3.9	4	4	3.4
Manuf. PMI	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43	44.3	44.8	47.2	46.2	47	47.5
Retail Sales YoY	-5.6	-4.2	-4.7	-3.6	-2.5	-1.8	-3.1	-1.3	-1.3	-2.4	0.2	-2.7	0.5	-0.4
<b>Swiss</b> CPI YoY	3.3	3.4	2.9	2.6	2.2	1.7	1.6	1.6	1.7	1.7	1.4	1.7	1.3	1.2
Manuf. PMI	NA													
Retail Sales YoY	0.7	2.4	1.3	-1.5	1.4	3.6	0.4	0.1	-1.4	0	0	0.9	0.8	0.8
<b>Japan</b> CPI YoY	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3	3.3	2.8	2.6	2.2	2.8
Manuf. PMI	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9	48	47.2
Retail Sales YoY	4.9	7.4	6.9	5.1	5.8	5.6	7	7.1	6.3	4.1	5.4	2.3	2.1	2.1

Source: Bloomberg

Chart 2

**Interventions expected**

The BoJ signalled its intention to remain active in the JGB market despite ending the NIRP, reducing the risk of a global shift in foreign capital flows.



Source: Bloomberg

Chart 3

**Still-good domestic demand**

The continued increase in the balance of retail money market funds may help to secure the demand for short-term treasuries, which explains the stable T-bills yield in recent auctions despite the recent hawkish shift in FFR expectations.

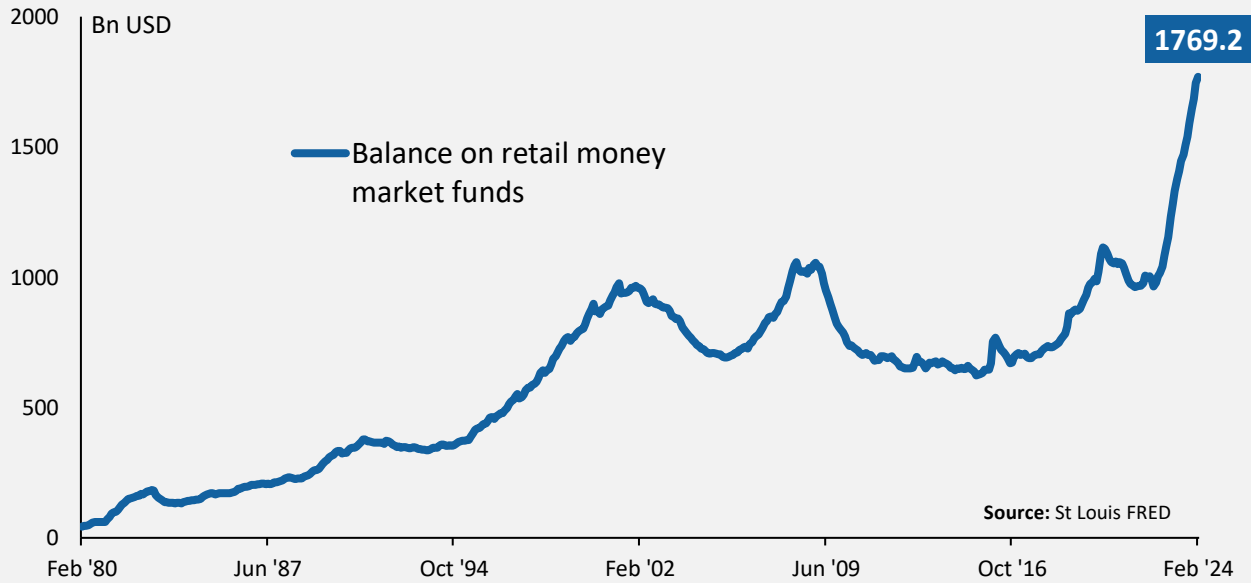
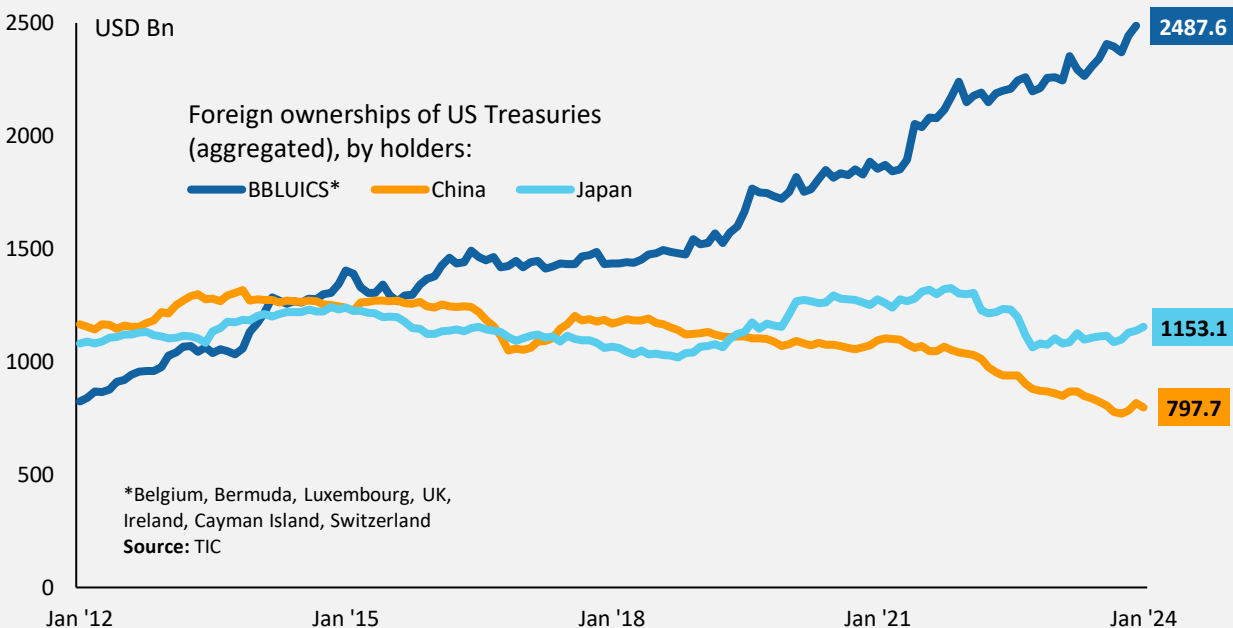


Chart 4

**Steady external demand**

The UST market continues to benefit from a steady stream of foreign demand as the plummeting demand from Chinese investors is replaced by higher demand from OFCs.



Economic Calendar				
		Actual	Previous	Forecast*
11 Maret 2024				
ID	Car Sales YoY, %	-18.8	-26.1	-
ID	Motorbike Sales YoY, %	-2.9	-3.7	-
12 Maret 2024				
US	Inflation Rate YoY, %	3.2	3.1	3.2
13 Maret 2024				
ID	Consumer Confidence	123.1	125.0	126
14 Maret 2024				
ID	Retail Sales YoY, %	1.1	0.2	0.8
15 Maret 2024				
<b>ID</b>	<b>Balance of Trade (USD Bn)</b>	<b>0.87</b>	<b>2.0</b>	<b>2.5</b>
20 Maret 2024				
<b>ID</b>	<b>BI Rate Announcement, %</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
ID	Loan Growth YoY, %	11.28	11.8	-
21 Maret 2024				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>
1 April 2024				
<b>ID</b>	<b>Inflation rate YoY, %</b>		<b>2.75</b>	<b>3.20</b>
ID	S&P Manufacturing PMI		52.7	54.0
CN	Caixin Manufacturing PMI		50.9	51.0
US	ISM Manufacturing PMI		47.8	50.0
2 April 2024				
US	JOLTs Job Openings (Mn)		8,863	-
4 April 2024				
US	Balance of Trade (USD Bn)		-67.4	-63.5
5 April 2024				
<b>ID</b>	<b>Foreign Exchange Reserves (USD Bn)</b>		<b>144.0</b>	<b>135.5</b>
US	Non-Farm Payroll, (Th)		275	200
US	Unemployment Rate, %		3.9	3.9
8 - 15 April 2024				
ID	Eid Al-Fitr Holiday			

\*Forecasts of some indicators are simply based on market consensus  
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

### Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	22-Mar	-1 mth	Chg (%)
US	5.50	Dec-23	2.30	Baltic Dry Index	2,196.0	1,632.0	34.6
UK	5.25	Dec-23	1.85	S&P GSCI Index	574.4	553.9	3.7
EU	4.50	Dec-23	1.90	Oil (Brent, \$/brl)	85.4	82.3	3.8
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	125.9	122.5	2.7
China (lending)	2.50	Dec-23	3.65	Gas (\$/MMBtu)	1.55	1.50	3.3
Korea	3.50	Nov-23	0.40	Gold (\$/oz.)	2,165.4	2,024.4	7.0
India	6.50	Dec-23	1.41	Copper (\$/MT)	8,756.0	8,424.0	3.9
Indonesia	6.00	Nov-23	3.25	Nickel (\$/MT)	17,044.6	16,112.5	5.8
				CPO (\$/MT)	918.6	833.1	10.3
				Rubber (\$/kg)	1.64	1.53	7.2
Money Mkt Rates	22-Mar	-1 mth	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	19.31	20.49	-5.79
SUN (10Y)	6.64	6.61	3.0	Import (\$ bn)	18.44	18.49	-0.29
INDONIA (O/N, Rp)	5.78	5.97	-18.4	Trade bal. (\$ bn)	0.87	2.00	-56.64
JIBOR 1M (Rp)	6.65	6.64	0.9	Central bank reserves (\$ bn)*	144.0	145.1	-0.72
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Feb	Jan	Nov
Lending (WC)	8.86	8.91	-4.93	Consumer confidence index (CCI)	123.1	125.0	123.6
Deposit 1M	4.76	4.52	24.61	Car sales (%YoY)	-18.8	-26.1	-7.5
Savings	0.69	0.67	1.94	Motorcycle sales (%YoY)	-2.9	-3.7	-2.8
Currency/USD	22-Mar	-1 mth	Chg (%)	Manufacturing PMI	Feb	Jan	Chg (bps)
UK Pound	0.794	0.792	-0.17	USA	52.2	50.7	150
Euro	0.925	0.925	0.00	Eurozone	46.5	46.6	-10
Japanese Yen	151.4	150.0	-0.92	Japan	47.2	48.0	-80
Chinese RMB	7.229	7.193	-0.51	China	50.9	50.8	10
Indonesia Rupiah	15,780	15,660	-0.76	Korea	50.7	51.2	-50
Capital Mkt	22-Mar	-1 mth	Chg (%)	Indonesia	52.7	52.9	-20
JCI	7,350.2	7,352.6	-0.03				
DJIA	39,475.9	38,563.8	2.37				
FTSE	7,930.9	7,719.2	2.74				
Nikkei 225	40,888.4	38,363.6	6.58				
Hang Seng	16,499.5	16,247.5	1.55				
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)				
Stock	3,236.2	3,115.8	120.46				
Govt. Bond	837.1	841.9	-4.76				
Corp. Bond	9.5	10.4	-0.89				

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

\*Data from an earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, >50 indicates economic expansion, <50 otherwise



## Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16.037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

\* Estimation of the Rupiah's fundamental exchange rate

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