

## EM Alpha

## Indonesia / Philippines – Long IDR vs PHP

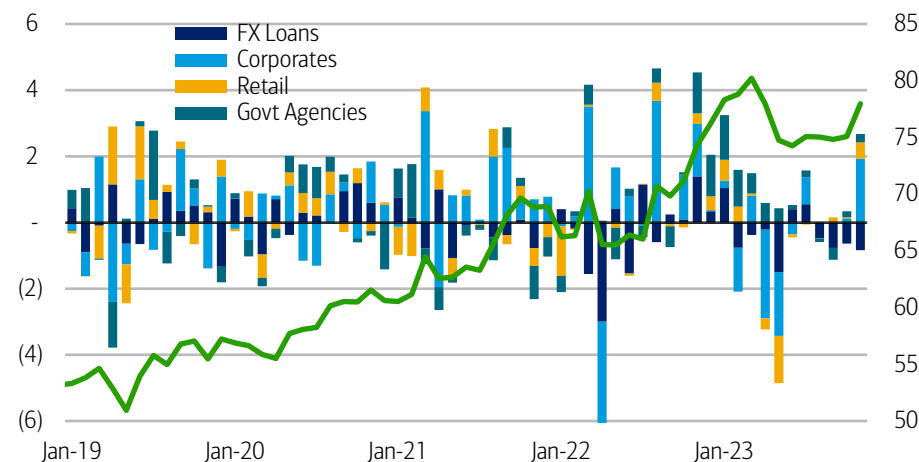
## Enter long IDR vs PHP

We recommend adding long IDR vs PHP (entry PHPIDR NDF 1m 280, spot ref IDR 15623, PHP 55.83, target 276, stop 282, carry 5bps/m) on a) diverging central bank reaction functions – BI focus on ensuring IDR strength prior to easing rates while BSP has been re-building reserves over the last few months. And b) possibility of lower election uncertainty post presidential elections on 14<sup>th</sup> February, as recent opinion polls show Prabowo crossing the half-way mark in the first-round. The risk to the trade comes from risk-off moves and a drop in energy commodities which could improve Philippines' terms of trade over Indonesia.

Fundamental flows remain more supportive of IDR vs PHP – a) Indonesia's BoP remains in surplus due to much lower CA deficit and positive capital flows while basic balance in Philippines has been in a deficit. Recent trade data in Indonesia surprised positively while Philippines deficit widened again in Nov'23. b) Indonesia would benefit more from bond inflows vs Philippines in an easing cycle and has more attractive valuations in the front-end of bond curve with higher yields compared to Philippines. c) Recent IDR weakness despite better trade balance, strong SRBI inflows and softer USD points towards still elevated level of corporate FX deposits and FX hedges. Lower political uncertainty would likely result in unwinding of these hedges and support IDR. d) Valuations on PHP look less appealing now with elevated NEER and REER.

**Exhibit 1: IDR price action points to still elevated corporate FX deposits after Nov'23 surge**

Bank's FX deposits (USD Bn, rhs) and monthly USD liquidity change on deposits and loans (USD Bn, lhs)



Source: BofA Global Research, Bloomberg

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For the complete list of open and closed trades in the last 12 months, please see [Global Emerging Markets Weekly: EM FX – Pain trades: A who-dunnit? 19 January 2024](#)

**Glossary**

BI: Bank Indonesia

BoP: Balance of payments

BSP: Bangko Sentral Ng Pilipinas

CA: Current account

IDR: Indonesian Rupiah

NDF: Non-deliverable forward

NEER: Nominal effective exchange rate

PHP: Philippines Peso

REER: Real effective exchange rate

SRBI: Bank Indonesia Rupiah Securities

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