**LONG USDIDR NDFs**

**Reduction of trade surplus**

* Rupiah has been bolstered by solid current account positions from strong commodity exports thus far. However, growth headwinds regionally and globally threaten to reduce exports including palm oil, nickel, coal. This is especially true given a demand slowdown in China, Indonesia's main trading partner.
* Trade surpluses (and economic activity) should weaken into year-end and reduce the currency’s resilience to Fed hikes.

**Weakening economy**

* Export strength has helped buoy the domestic economy, alongside a resurgence in pent-up demand earlier this year, which was encouraged by fuel caps and other subsidies that kept consumer costs low.
* Lifting of subsidies and rising inflation should dampen consumer sentiment, while global economic slowdowns reduce the price and quantity of exports. The economic picture should begin to look more like the semi-stagflation of some other comparable countries.

**Hikes to remain restrained**

* BI has hiked rates 75bps from 3.5% to 4.25% over two meetings. With inflation at 4.6% (3% core), the BI signaled that some hikes should be front-loaded due to anticipated rise in inflation from a weakening currency and winding down of fuel subsidies, but holds the view that ‘more aggressive hikes are not needed in Indonesia.’
* While expectations have been beaten in the past two meetings, market pricing has now adjusted. The policy rate gap vs Fed should narrow into next year and apply continued pressure.

**‘Triple intervention’ won’t stop depreciation**

* In a strong effort to contain inflation via FX, BI has announced ‘triple intervention’ where the bank supports the rupiah closer to ‘fundamental value’ with the view that current moves are transient. This is done through spot, DNDF, and the bond market (selling short-term, buying long-term) to support spot, guide market expectations, and reduce capital outflows.
* This can be an effective strategy but will come under market pressure in the context of weaker trade/economic activity and continued Fed hawkishness. The BI will have to accept a faster rate of depreciation in return for keeping that rate less volatile.
* FX reserves: $132bn.

**View**

While the BI is serious about FX interventions, the rupiah will come under additional pressure due to sentiment and global growth headwinds this winter impacting trade balance and local activity. While the currency has remained strong relative to peers, sustained pressures should encourage the BI to accept a relatively higher (temporary) rate of depreciation.

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**LONG USDTHB**

**Stagflation**

* Thailand’s economy has still not fully recovered from the pandemic, with tourism and consumption remaining weak. At the same time, inflation has reached over 7%.
* Headwinds to growth and sentiment will likely weigh on export revenues and economic activity further, while inflation continues to become more broad-based from cost pass-throughs, worsened by a weaker baht and as some subsidies get phased down.

**Economic weakness holding back hikes**

* On Wednesday, the BOT hiked by a moderate 25bps despite inflation and the weak baht, citing dollar strength as the primary reason for the latter and setting aside worries of the weak currency’s impact on costs and imported inflation - prioritizing reviving economic activity.
* BOT is held back by a still-weak economy; even though a cheaper currency helps exports and tourism, overarching trends in global growth and consumer sentiment will likely keep these positive effects muted and could worsen negative ones.
* Given the economic situation and guidance by BOT officials, I believe hikes will not be frontloaded and will occur in 25bps increments for the time being, with the rate differential to the US widening further and real rates becoming more negative.

**Imports, exports, and outflows**

* Exports (manufactured goods, plastics/rubbers, vehicles)/tourism are unlikely to recover robustly further, which has already begun to weigh on export revenues.
* And, even though global commodity prices have tempered, import costs should remain elevated. Thailand is an energy importer, including LNG, which will be tight given competition with Europe.
* Continued negative real rates paired with poor growth will drive further capital outflows from the country. A weaker baht can exacerbate this situation.
* FX reserves: $190bn, down from $225bn earlier this year.

**View**

Thailand’s weak local economy will have issues recovering from the pandemic in the current global environment. At the same time, this inhibits BOT from frontloading rate hikes aggressively enough to deal with inflation and stem capital outflows. Given the pace of the drawdown in reserves, any FX intervention by the BOT would not be enough to reverse depreciation beyond temporarily.