

(BN) Indonesia Signals Return as Asia's Emerging Market of Choice

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By Ruth Carson

(Bloomberg) -- Indonesia's revival as the emerging market of choice in Asia is picking up pace, with its currency and bonds leading gains on optimism over the U.S.-China trade talks and the prospects of a pause in U.S. rate hikes.

The rupiah surged as much as 1.8 percent, the biggest one-day move since October 2015, to trade at 14,022 per dollar.

Yields on 10-year debt plummeted 21 basis points, the most since May, to 7.89 percent.

Indonesia is often seen as an emerging market bellwether with its high yields, strong economic growth and a reformist government, with foreign investors holding about 40 percent of local-currency bonds. The direction of its markets may provide clues as to whether the stress that swept developing nations last year may be coming to an end.

Federal Reserve Chairman Jerome Powell's comments on Friday indicating a possible pause in rate hikes, an easing in China's monetary policy, and hopes of improvement in trade tensions between Beijing and America have all combined to boost emerging markets on Monday.

"The rupiah looks to be on that nice catch-down trade given the Goldilocks' moment that markets are reveling in," said Vishnu Varathan, head of economics and strategy at Mizuho Bank Ltd. in Singapore. "Fed's Powell humming all the right notes out of the markets song book has gone a long way" in boosting the rupiah, he said.

Traders are awaiting the outcome of the U.S.-China trade negotiations that started Monday. While the mid-level talks aren't expected to produce a major breakthrough, the South China Morning Post reported that U.S. President Donald Trump may hold further discussions with Chinese Vice President Wang Qishan at the World Economic Forum later this month.

In a sign of improving confidence, Indonesia sold 28.25 trillion rupiah (\$2 billion) of bills and bonds on Thursday, the most since at least January 2016. Further boosting the assets are the nation's foreign-exchange reserves which jumped to the

highest since May after the government sold \$3 billion of sovereign bonds overseas and the currency rebounded, according to a person familiar with the matter.

While the worst may finally be over for the rupiah, investors shouldn't expect big rallies from here, said Mitul Kotecha, senior EM strategist at TD Securities in Singapore. "Its gains look overly rapid lately," said Kotecha. "Much of its undervaluation has been erased and while it still looks attractive from a carry perspective, I think further spot appreciation will be limited."

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