

## Indonesia Rupiah, Stocks Plunge on Record Current-Account Gap 2013-08-19 10:45:55.156 GMT

By Yudith Ho and Harry Suhartono

Aug. 19 (Bloomberg) -- Indonesia's rupiah fell to 10,500 per dollar for the first time since 2009, stocks dropped by the most in 22 months and government bonds plunged after the current-account deficit widened to a record last quarter.

The Jakarta Composite Index of shares has fallen 8 percent in two days, and is now the world's worst performer this quarter. The yield on 10-year notes surged to the highest since March 2011 after Bank Indonesia said late Aug. 16 the current-account shortfall was \$9.8 billion, the largest in data compiled by Bloomberg going back to 1989. Inflation quickened to a four-year high and economic growth slowed to the least since 2010, figures showed last week.

"Indonesia has seen a gradual but persistent bout of bad news, with slowing growth, quickening inflation and then the current-account deficit," said Leo Rinaldy, a Jakarta-based economist at PT Mandiri Sekuritas, a unit of the nation's largest lender by assets. "The implication going forward is that demand for dollars will increase."

The rupiah slid 1 percent to 10,490 per dollar as of 4 p.m. in Jakarta, the biggest drop since July 23, according to prices from local banks. It touched 10,500 earlier and has declined 5.4 percent this quarter, the worst performance among Asia's 11 most-traded currencies.

The Jakarta Composite index fell 5.6 percent to 4,313.52, the biggest drop since Oct. 3, 2011, on volumes 32 percent higher than the 30-day average. The gauge lost more than 10 percent this quarter, the most among 94 global indexes tracked by Bloomberg, and has now erased all of its gains this year.

### Falling Exports

Indonesian shares traded at 12.74 times 12-month projected earnings, the least since July 2012, compared with 15.8 times on May 20, when the index was at an all-time high. PT Bank Central Asia, the largest lender by market value, lost 7.8 percent, the biggest drag to the index, and PT Telekomunikasi Indonesia declined 6.6 percent.

Among other decliners, PT Semen Indonesia, the nation's largest cement maker, and PT Berau Coal Energy both lost 11 percent, while PT Alam Sutera Realty slid 10 percent.

"This is all because of the current-account deficit data," John Rachmat, head of equities research and strategy at Mandiri Sekuritas in Jakarta. "Once the rupiah is considered cheap, capital inflows could start coming back. Right now foreign investors, especially portfolio investors, are worried about investing in Indonesia."

The current account has remained in deficit for seven quarters and overseas sales decreased for a 15th month in June, driven by declines in prices for Indonesia's key commodity exports. Coal fell 32 percent since the end of 2011, while palm oil slid 26 percent. Bank Indonesia's policy is to manage the currency's depreciation to support overseas shipments, Edward Teather, a Singapore-based economist at UBS AG, wrote in an Aug. 15 research note.

### Bonds Drop

Consumer prices increased 8.6 percent last month from a year earlier, and growth slowed to 5.8 percent in the second quarter, official data showed last week. Bank Indonesia left its benchmark interest rate at 6.5 percent on Aug. 15 after increasing it by 75 basis points over the previous two meetings.

“The market took the view that Bank Indonesia wasn’t that concerned about the weakness of the currency,” Robert Prior- Wandesforde, an economist at Credit Suisse Group AG in Singapore, wrote in a research note today, referring to the central bank’s decision to leave borrowing costs unchanged. “The good news is that we suspect the second-quarter current- account deficit represents the peak, albeit because deteriorating domestic demand depresses imports further.”

The yield on government bonds due May 2023 climbed for a sixth consecutive day, rising 18 basis points, or 0.18 percentage point, to 8.37 percent, prices from the Inter Dealer Market Association show. It touched 8.41 percent earlier, the highest level since March 2011.

### Fed Tapering

The rupiah spot rate traded at a 3.4 percent premium to the one-month non-deliverable forwards, which slid 1.4 percent to 10,845 per dollar. A fixing by the Association of Banks in Singapore used to settle the forwards was set at 10,499. One- month implied volatility, a measure of expected moves in the exchange rate used to price options, surged 1.85 percentage points to 13.62 percent, data compiled by Bloomberg show.

Most Asian currencies fell today on speculation a reduction in Federal Reserve stimulus that has driven fund flows to emerging markets is imminent.

“Rupiah depreciation today is in line with regional currency movements,” Bank Indonesia Deputy Governor Perry Warjiyo said in a mobile-phone text message, adding that the central bank will stay in the market to stabilize the currency.

Barclays Plc, the U.K.’s second-largest lender, revised its 2013 current-account deficit forecast for Indonesia to \$28.5 billion from \$23.5 billion, following the worse-than-expected second-quarter data, according to Prakriti Sofat, a Singapore- based economist.

“The widening in the current account, no rate hike from Bank Indonesia and market concerns around Fed tapering are weighing on the rupiah and Indonesian assets,” she said.

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