

FX Reserves:

Rebound amid changing global circumstances

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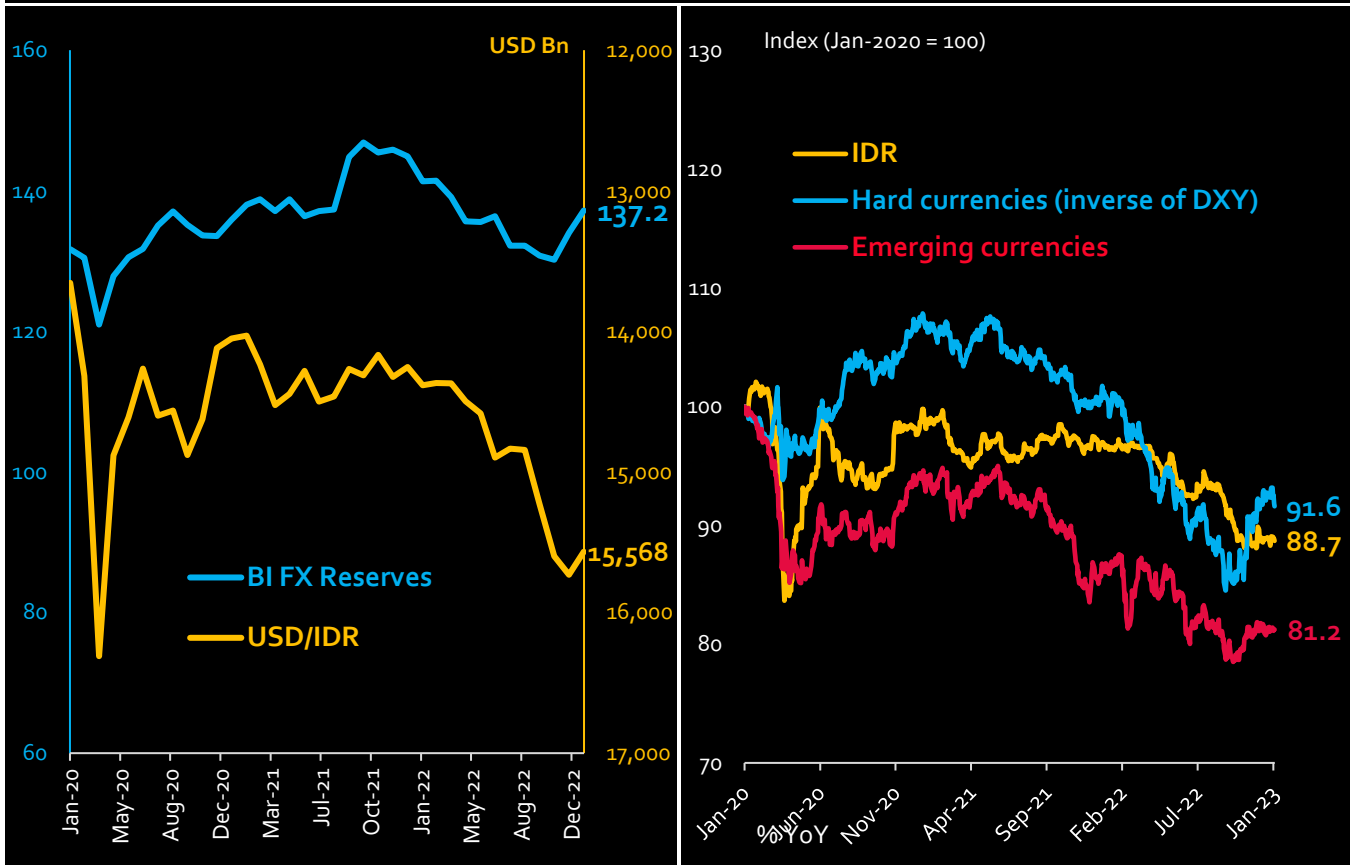
Executive Summary

- BI's foreign reserve exchange continues its rebounding trend caused by both global and domestic trends.
- The main story remains the significant uncertainty regarding the global monetary policy outlook. Potential Fed loosening increased inflows into bonds, stabilizing the Rupiah and domestic FX liquidity.
- Various global developments coupled with domestic restrictions weaken exports, increasing the need to bring home FX funds and recent penalties for exporters.
- BI is also likely to keep a slight conservative bent, increasing its policy rate slightly to 6.00% in the early months of this year.

- Bank Indonesia's foreign exchange reserves continues its rebounding trend, further increasing to USD 137.2 Bn in December, up from previously 133.9 Bn in November. Domestic and global factors both contributed to the increase, and it further vindicates our view that – despite short-term volatility – the worst has largely passed for the Rupiah, and that we should see a flatter, but perhaps no less bumpier, trajectory for 2023.
- The domestic factor concerns the typical year-end window dressing exercise, as exporters repatriate their FX holdings to fulfill the payment of natural resource royalties. Meanwhile, state-owned commodity exporters (e.g. Pertamina, Antam) also pays out a significant amount of royalties and dividends by the end of year. Both of these explains why FX reserves typically increases in December, and why banks' placement in BI's FX instruments had also risen, from less than USD 12 Bn in late October to 16.4 Bn in the latest data.
- But the main story remains the flux in global monetary policy outlook. Signs of global growth slowdown and disinflation has increased bets that the Fed is nearing its rate hike cycle – and many even bet that it could start rate cuts this year, if SOFR futures are accurate. On the other hand, the outlook in Europe and Japan continues to be that of further tightening. The latter in particular may be contributing to the global turmoil, as rising Japanese funding costs reduce demand for US treasuries, shifting the US yield curve upwards and weakening the Greenback.

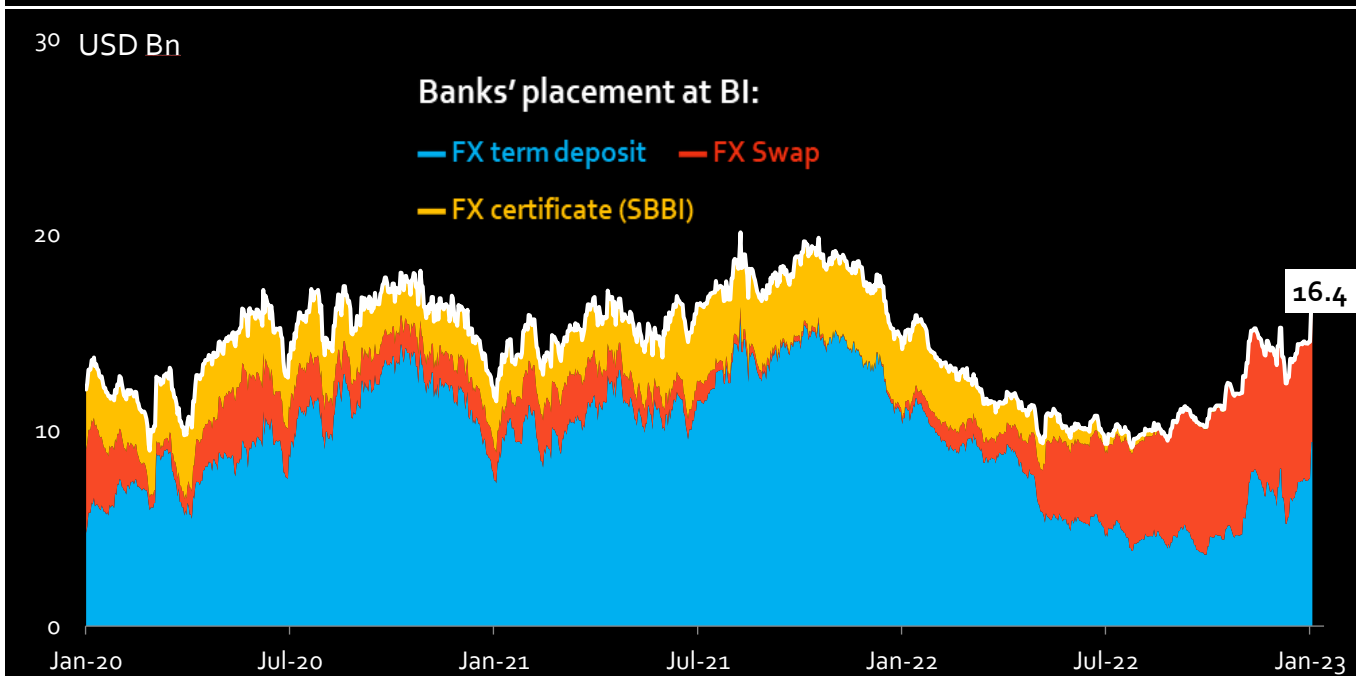
- This situation has benefited Indonesia to some extent, as it drove inflows into government bonds and also stabilized the Rupiah at around Rp 15,600 for the past month. The latter, of course, contributed to the domestic FX liquidity, while the latter reduced the need for BI interventions in the FX market.
- At the same time, however, inflows from exports and into equities have been declining. This was the result of declining coal and gas prices, amid unseasonably warm weather in Europe and China's reopening of coal imports from Australia. Meanwhile, China's re-opening has not yet translated to the hoped for rebound in commodity demand, as Covid-19 infections wreak havoc on business and consumer activities. Future prospects, at least in the short-term, are also weighed down by the government's policy to limit or ban exports of certain commodities in a bid to boost domestic processing, with that for CPO effective per January and bauxite ores by June.
- The upcoming reduced FX supply from exports has again increased the spotlight on authorities to bring home FX funds. In the past month, there has been some push to increase repatriation of FX funds, mainly by penalizing rogue exporters. However, the effect of this policy is yet to be seen, as the size of the penalties remained small compared to the potential profits to be made abroad. A wider impact would probably be seen if/when BI issue a new FX instrument as promised, with more favorable return rates for banks (which would in turn be passed on to their exporter clients).
- The situation, as such, is as we mentioned: less depreciation for the Rupiah, but with many speedbumps along the way. Accumulating FX reserves, plus judicious interventions in the spot and forward markets, would continue to be important in BI's policy mix. BI is also likely to keep a slight conservative bent, increasing its policy rate slightly to 6.00% in the early months of this year.

Panel 1. The Rupiah and FX reserves have regained ground as the USD begins to weaken



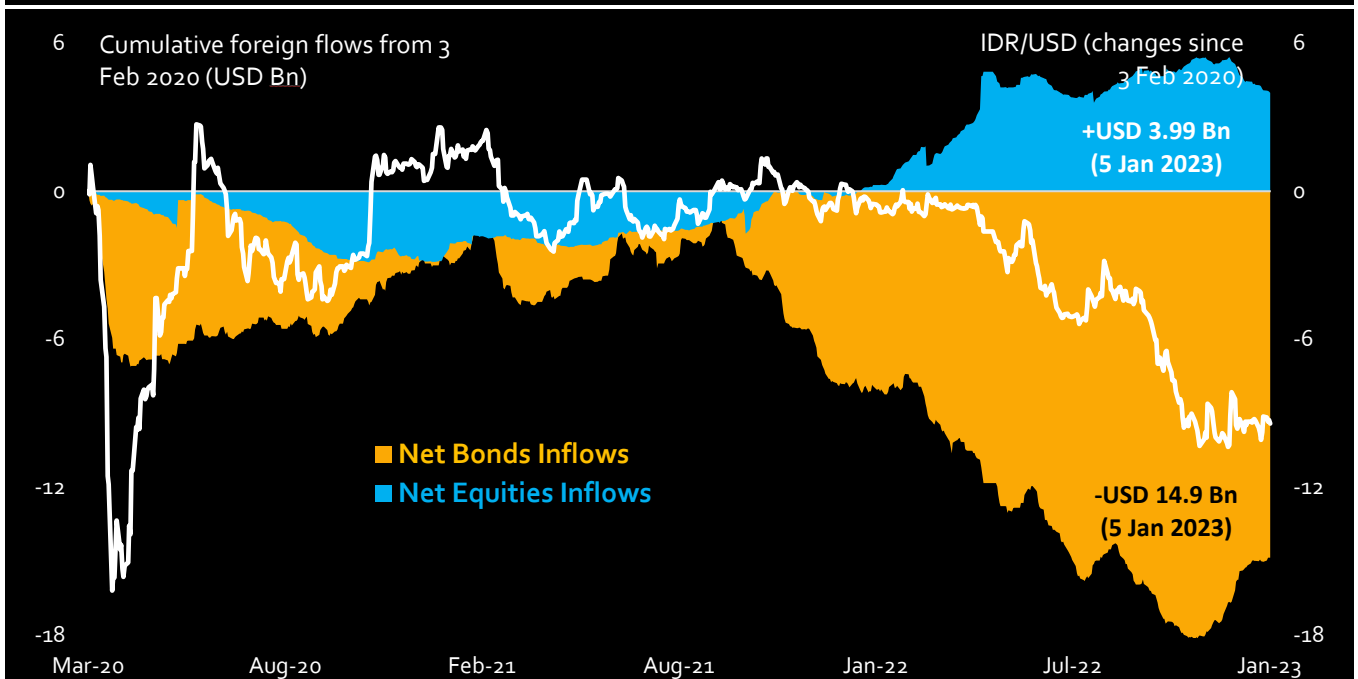
Source: Bloomberg

Panel 2. Increased capital inflows loosen domestic FX liquidity



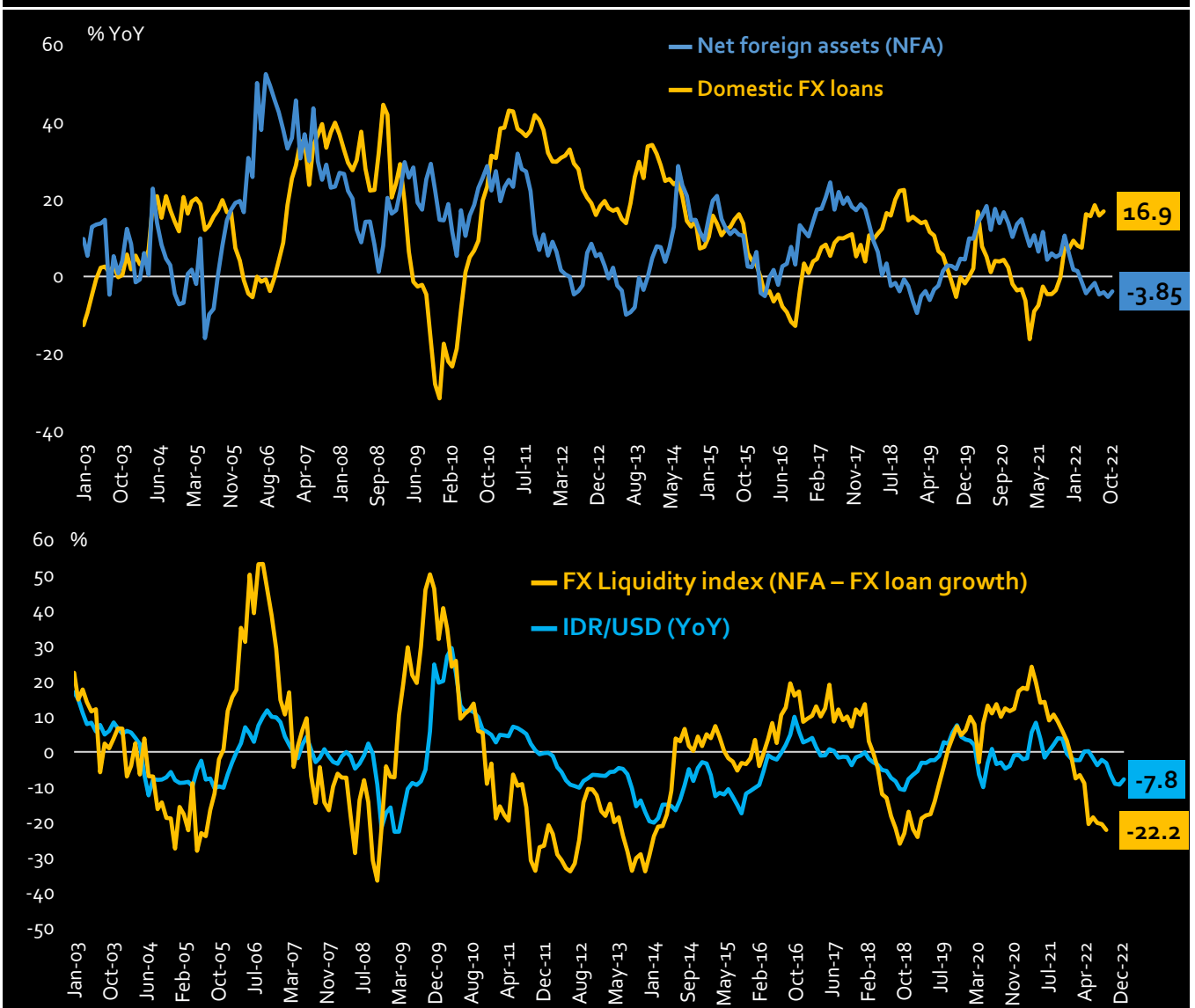
Source: BI

Panel 3. Increasing likelihood of Fed loosening drive bond inflows



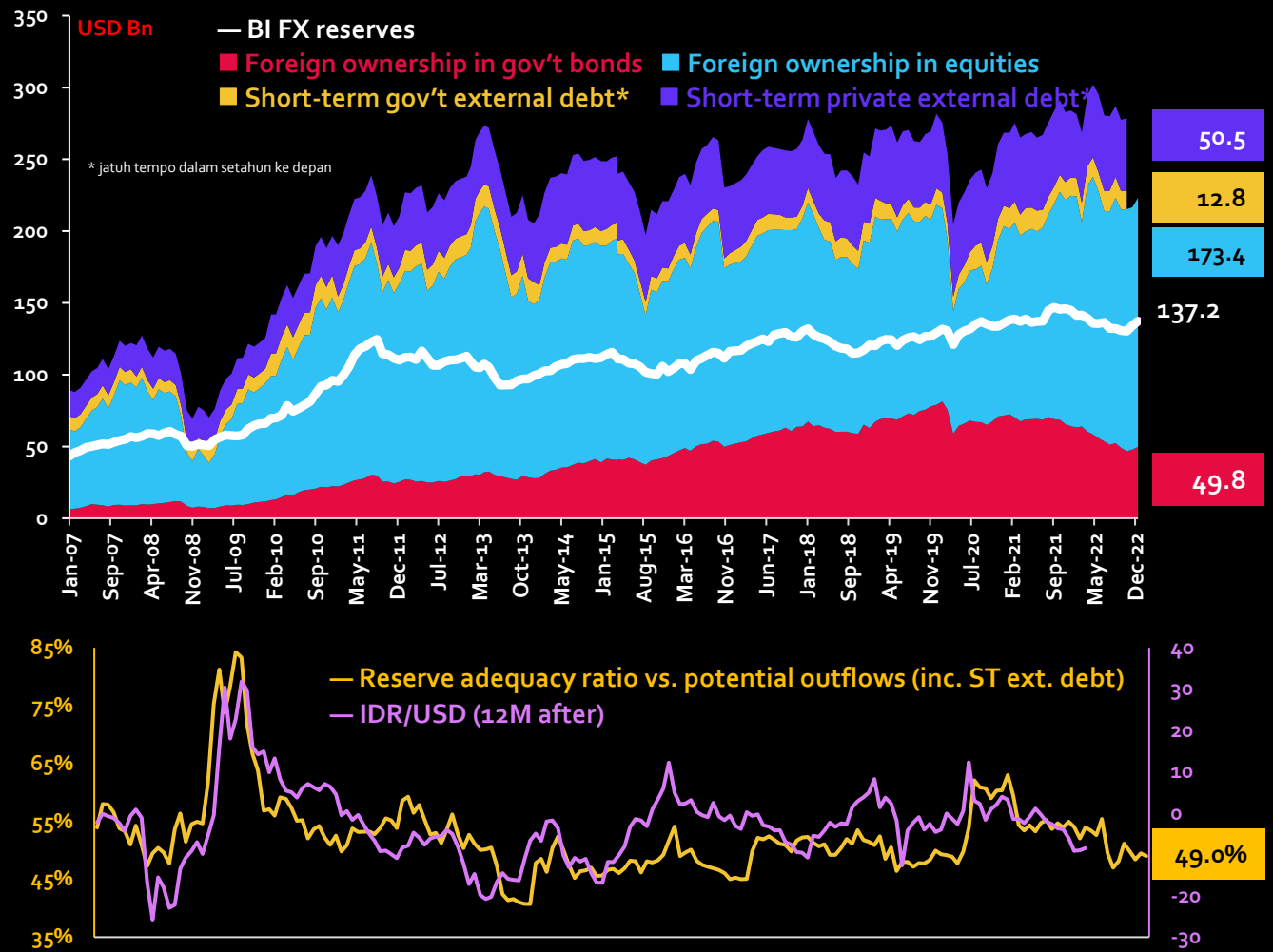
Source: Bloomberg

Panel 4. Persistent FX shortage means the Rupiah's earlier plunge was always on the cards



Source: BI, Bloomberg

Panel 5. Despite the rebound, FX reserves still far from adequate to cover potential outflows



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	5-Jan	-1 mth	Chg (%)
US	4.50	Jan-23	-2.60	Baltic Dry Index	1,146.0	1,323.0	-13.4
UK	3.50	Jan-23	-7.20	S&P GSCI Index	571.1	593.8	-3.8
EU	2.50	Jan-23	-7.60	Oil (Brent, \$/bbl)	78.7	82.7	-4.8
Japan	-0.10	Jan-16	-3.90	Coal (\$/MT)	328.5	369.5	-11.1
China (lending)	4.35	Jan-23	2.75	Gas (\$/MMBtu)	3.77	4.00	-5.8
Korea	3.25	Nov-22	-1.75	Gold (\$/oz.)	1,832.9	1,768.7	3.6
India	6.25	Dec-22	0.37	Copper (\$/MT)	8,361.5	8,348.5	0.2
Indonesia	5.50	Dec-22	-0.01	Nickel (\$/MT)	27,599.0	28,556.0	-3.4
Money Mkt Rates	5-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	923.1	916.5	0.7
SPN (1M)	3.97	4.64	-66.6	Rubber (\$/kg)	1.33	1.35	-1.5
SUN (10Y)	6.98	6.89	9.1	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	4.99	4.81	17.6	Export (\$ bn)	24.12	24.73	-2.5
JIBOR 1M (Rp)	6.20	5.95	25.0	Import (\$ bn)	18.96	19.14	-0.9
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	5.16	5.59	-7.8
Lending (WC)	8.42	8.42	-0.03	Central bank reserves (\$ bn)*	137.2	130.2	5.38
Deposit 1M	2.87	2.83	3.57	Prompt Indicators	Nov	Oct	Sep
Savings	0.65	0.64	0.98	Consumer confidence index (CCI)	119.1	120.3	117.2
Currency /USD	5-Jan	-1 mth	Chg (%)	Car sales (%YoY)	4.2	23.3	18.9
UK Pound	0.840	0.820	-2.31	Motorcycle sales (%YoY)	26.9	20.9	10.7
Euro	0.950	0.953	0.30	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	133.4	136.8	2.50	USA	N/A	49.0	-60
Chinese RMB	6.880	6.963	1.19	Eurozone	47.8	47.1	70
Indonesia Rupiah	15,608	15,468	-0.90	Japan	48.9	49.0	-10
Capital Mkt	5-Jan	-1 mth	Chg (%)	China	49.0	49.4	-40
JCI	6,653.8	6,987.3	-4.77	Korea	48.2	49.0	-80
DJIA	32,930.1	33,947.1	-3.00	Indonesia	50.9	50.3	60
FTSE	7,633.5	7,567.5	0.87				
Nikkei 225	25,820.8	27,820.4	-7.19				
Hang Seng	21,052.2	19,518.3	7.86				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	2,699.4	2,656.0	43.37				
Govt. Bond	762.2	736.9	25.26				
Corp. Bond	12.5	14.5	-2.05				

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

*Data from earlier period

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

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



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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3*	4.6
GDP per Capita (US\$)	3927	4175	3912	4350	4564*	4525
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,292
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	55.8*	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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