FX Reserves:
Spreading the pain, reaping the gain

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Executive Summary

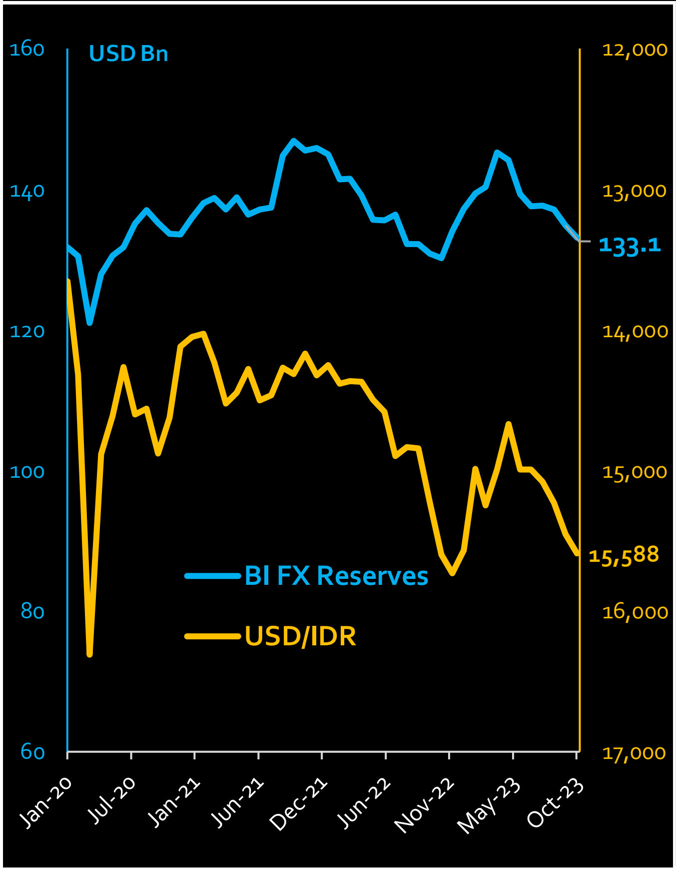
- BI FX reserves stood at USD 133.1 Bn at the end of October 2032, a USD 1.8 Bn decline, as FX intervention was still needed even after BI's 25 bps hike. The decline is due to the pressure on the FX market and the atypically large government bond issuance in Q4.
- The latest FOMC refilled the FX liquidity, as the Fed pivot sentiment returned, potentially a good sign for the initial SVBI/SUVBI auction on November 21st.
- On balance, BI may do one more rate hike in the absence of drastic global developments. Our FX liquidity index, however, shows that the Rupiah remains fundamentally on a sound trajectory, and that the recent depreciation may be a temporary overshoot.

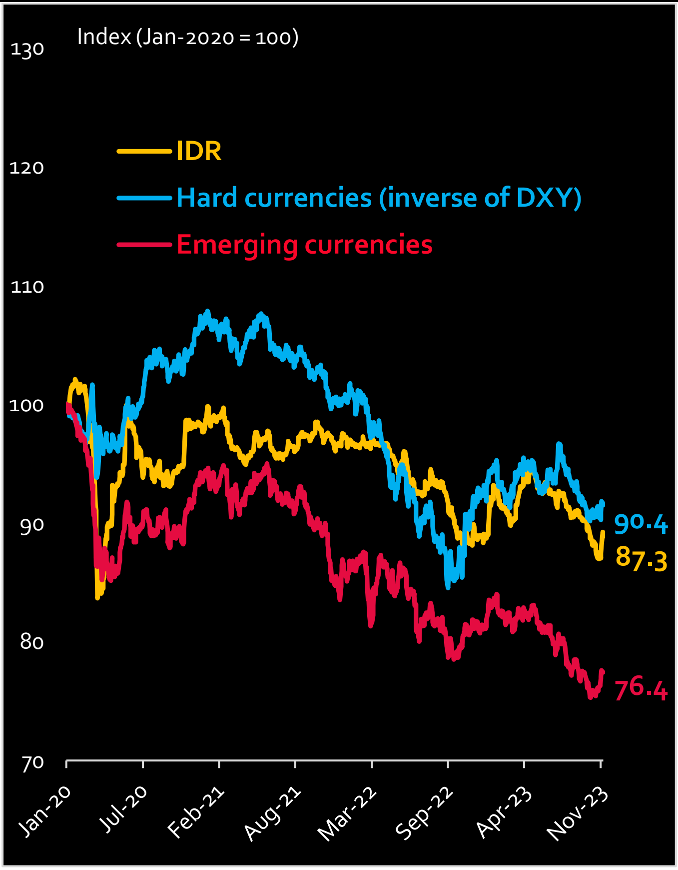
- Indonesia's FX reserves bore another sizable decline of USD 1.8 Bn, to USD 133.1 Bn at the end of Oct-23. This is only a marginal slowdown from the pace of decline in September (USD 2.2 Bn), and it showed that the need for FX intervention were still substantial despite BI's 25 bps hike on October 19th. If anything, the USD/IDR actually flirted with the 16,000 level in the week after the rate hike.
- That a single tool (7d Repo Rate hike) could not curtail the pressure on its own speaks to the scale of the challenge faced by BI in October. As we have mentioned in other recent reports, the pressure was not merely an FX market issue, but is tightly interlinked to the bond market – due to atypically large government bond issuance in Q4 – and this is why the Rupiah underperformed compared to most other currencies.
- The reason why no single tool was sufficient is, of course, that BI cannot do a large enough adjustment with one to see of the pressure – and so it has to be absorbed through several channels. There is an understandable reluctance to hike the 7d-RR, while SRBI auctions have the dis-advantage of showcasing investors' demand for higher short-term yields
- Tighter export receipts (DHE) regulations, meanwhile, still generate far less liquidity than expected, with only USD 0.51 Bn added to the outstanding amount of export-linked FX term deposit (TD-DHE) in October. BI expects that more DHE is forthcoming, since August-October represents just a 3-month grace period for exporters. Nonetheless, we reserve some skepticism on this front, since well-connected exporters may still have the means to evade compliance, through transfer pricing, misinvoicing, or other tactics.
- Finally, BI's new tool the SVBI/SUVBI (Sekuritas/Sukuk Valas Bank Indonesia) could, in theory, add to the FX reserves over the long-run by providing another attractive means to park excess FX liquidity. But of course, the limiting factor remains the availability of that

excess liquidity itself. When capital outflows were rampant, as in October, adding SVBI/SUVBI would have amounted to draining water from an already dry pool.

- We are very fortunate, then, that the pool is getting refilled quickly following the latest FOMC and a slew of not-so-good data on the US economy – which resuscitate the hope that the Fed may pivot, after all. FX swaps, for instance, have attracted an additional USD 0.6 Bn since November 2nd, which perhaps bode well for the initial SVBI/SUVBI auction that will take place on the 21st.
- The IDR's prior underperformance was also a factor behind its recent rebound – which, at 2.5%, was the second-highest among Asian peers after the MYR. Meanwhile, the 5Y CDS basis also lowered to around 86 from its peak in October (103), which further shows the linkage between FX and bond market pressures.
- Overall, however, these sharp gyrations only serves to show how FX liquidity remains profoundly dependent on external factors – and so when a perfect storm hits, BI's best bet is to spread the pain across multiple instruments. Our baseline case is for BI to do one more hike (to 6.25%), but probably no more unless there is a drastic global development. It is worth reminding that our FX liquidity index (NFA growth minus FX loan growth by domestic banks) have actually swung to positive in recent months – a sign that the Rupiah is, fundamentally speaking, still on a sound trajectory and that the recent depreciation might well represent a temporary overshoot.

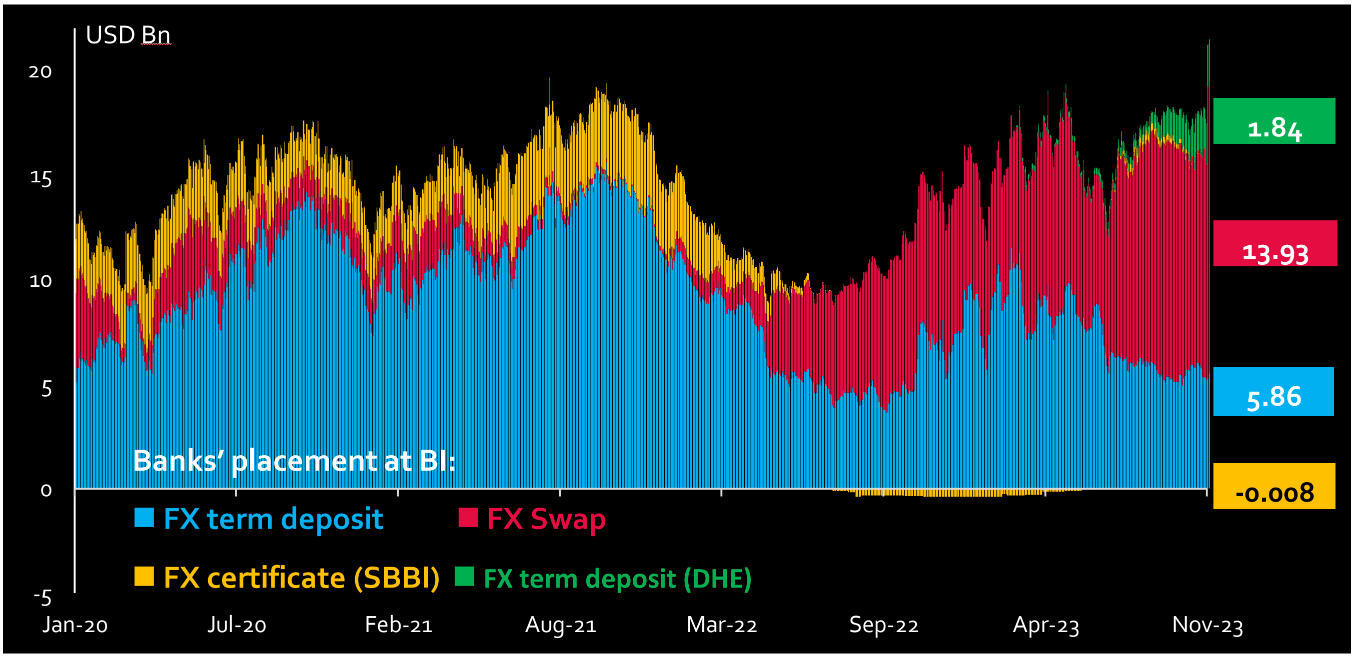
Panel 1. FX reserves are deteriorating, and the pressure on IDR and emerging currencies have remained significant





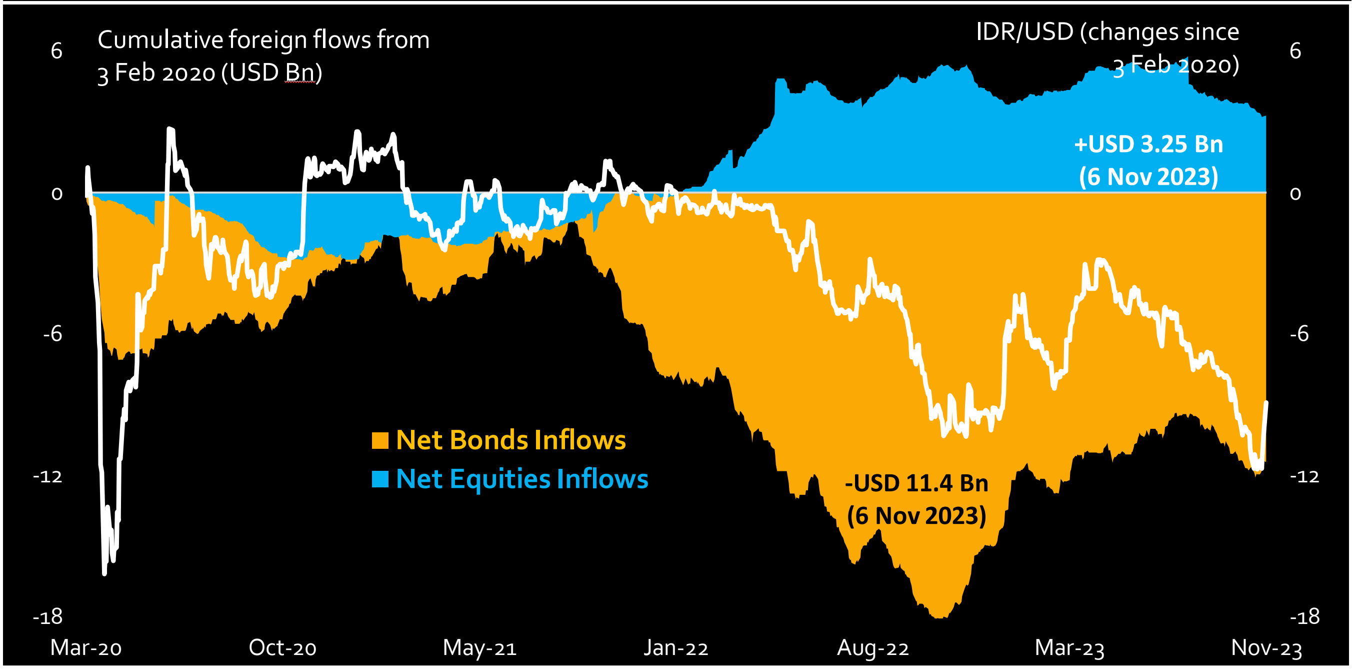
Source: Bloomberg

Chart 1. The value of export receipts (DHE)-linked instrument has increased since DHE rule-change in Aug 1st, contribute positively to the share of overall FX liquidity



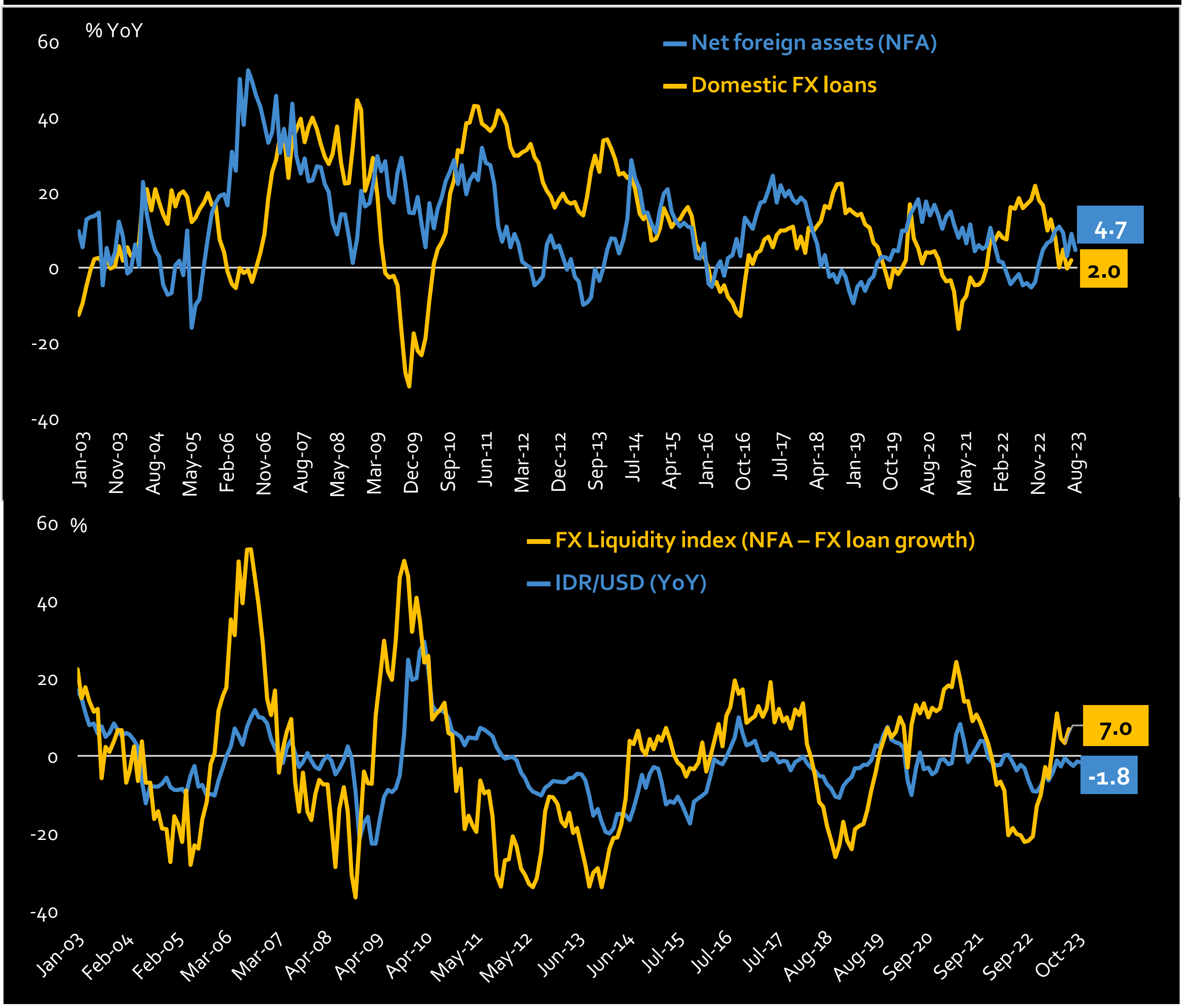
Source: BI

***Chart 2.* IDR depreciation further exacerbated by the outflow of foreign capital from both the bond and stock market**



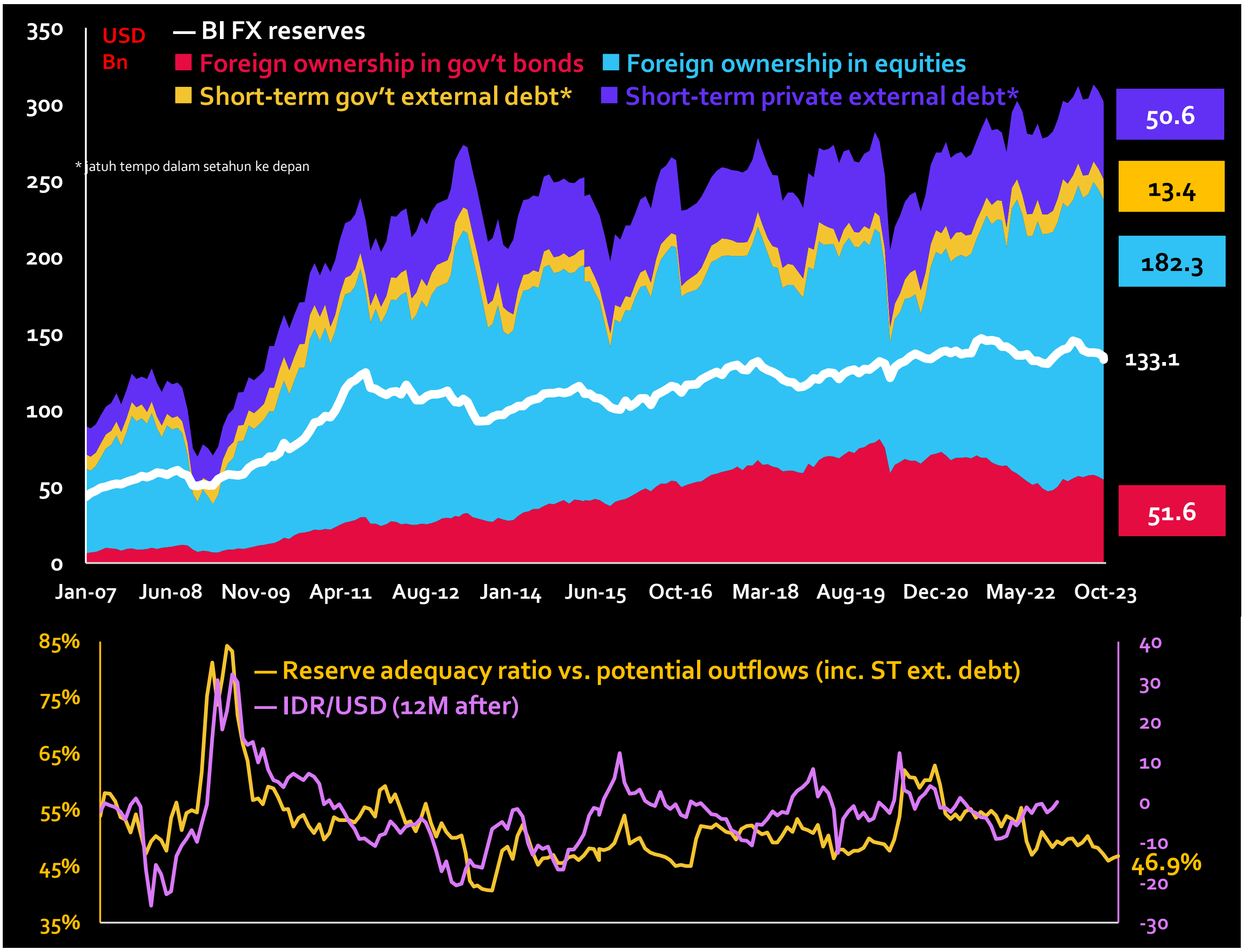
Source: Bloomberg

***Panel 2.* Demand for FX continue to slow down in recent months**



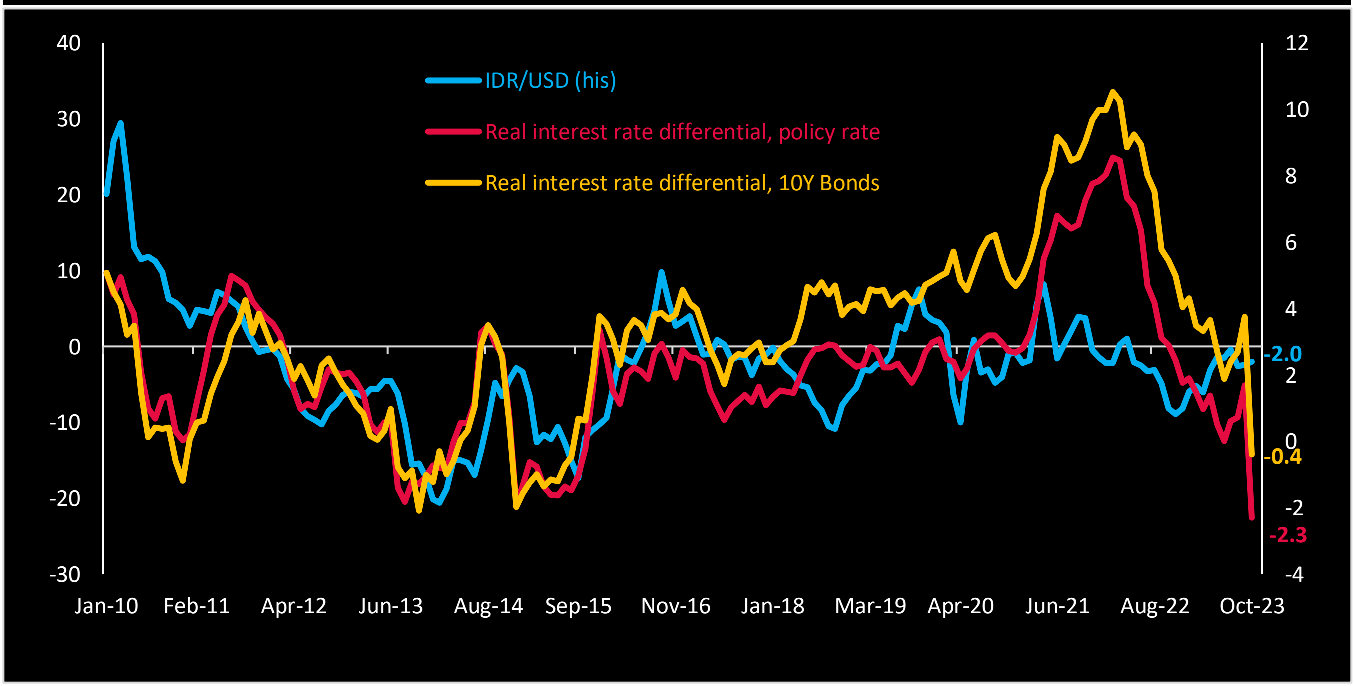
Source: BI, Bloomberg

Panel 3. **FX reserve coverage has fallen slightly, due to recent outflows**



Source: BI, Bloomberg

Chart 3. **IDR/USD has been much less dependent on ID-US real rate differentials**



Source: Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Nov-23	1.80
UK	5.25	Nov-23	-1.45
EU	4.50	Nov-23	1.60
Japan	-0.10	Jan-16	-3.10
China (lending)	2.50	Oct-23	4.35
Korea	3.50	Oct-23	-0.30
India	6.50	Oct-23	1.48
Indonesia	6.00	Oct-23	3.44

Money Mkt Rates	6-Nov	-1 mth	Chg (bps)
SPN (1M)	6.15	6.17	-2.0
SUN (10Y)	6.84	6.99	-15.6
INDONIA (O/N, Rp)	5.85	5.58	27.0
JIBOR 1M (Rp)	6.66	6.40	25.8

Bank Rates (Rp)	Jul	Jun	Chg (bps)
Lending (WC)	8.95	8.93	2.84
Deposit 1M	4.24	4.19	4.92
Savings	0.67	0.67	-0.41

Currency/USD	6-Nov	-1 mth	Chg (%)
UK Pound	0.810	0.817	0.87
Euro	0.933	0.945	1.25
Japanese Yen	150.1	149.3	-0.50
Chinese RMB	7.270	7.298	0.38
Indonesia Rupiah	15,538	15,610	0.46

Capital Mkt	6-Nov	-1 mth	Chg (%)
JCI	6,878.8	6,888.5	-0.14
DJIA	34,095.9	33,407.6	2.06
FTSE	7,417.8	7,494.6	-1.03
Nikkei 225	32,708.5	30,994.7	5.53
Hang Seng	17,966.6	17,486.0	2.75

Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)
Stock	2,895.1	2,833.3	61.89
Govt. Bond	809.3	823.0	-13.66
Corp. Bond	11.3	10.8	0.52

Trade & Commodities	6-Nov	-1 mth	Chg (%)
Baltic Dry Index	1,523.0	1,929.0	-21.0
S&P GSCI Index	578.7	575.7	0.5
Oil (Brent, $/brl)	85.2	84.6	0.7
Coal ($/MT)	126.5	146.2	-13.4
Gas ($/MMBtu)	2.71	3.13	-13.4
Gold ($/oz.)	1,978.1	1,833.0	7.9
Copper ($/MT)	8,157.7	7,971.3	2.3
Nickel ($/MT)	18,200.0	18,310.3	-0.6
CPO ($/MT)	782.5	759.7	3.0
Rubber ($/kg)	1.47	1.38	6.5

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	20.76	22.00	-5.63
Import ($ bn)	17.34	18.88	-8.15
Trade bal. ($ bn)	3.42	3.12	9.61
Central bank reserves ($ bn)*	134.9	137.1	-1.63

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	121.7	125.2	123.5
Car sales (%YoY)	-20.1	-8.3	-6.7
Motorcycle sales (%YoY)	-0.9	1.8	45.6

Manufacturing PMI	Oct	Sep	Chg (bps)
USA	46.7	49.0	-230
Eurozone	43.1	43.4	-30
Japan	48.7	48.5	20
China	49.5	50.6	-110
Korea	49.8	49.9	-10
Indonesia	51.5	52.3	-80

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	5.1
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.6
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.25
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	16,114
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	32.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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