

## Not much support in the old reliables

6 May 2024

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### Summary

- The loosening global financial condition translates positively to the Rupiah's value, but the recent recovery may mask the sustained sell-off pressure in the domestic financial market.
- The recovering terms of trade may help Bank Indonesia to expand its market interventions, although the policy could be increasingly costly given the Rupiah's seemingly worsening fundamentals.
- Higher domestic demand for hard currencies may further complicate BI's efforts to expand its presence in the FX market.

- The aftermath of last week's FOMC meeting seems to herald a new dawn for the Rupiah and other currencies. The announcement of the tapered treasury securities run-off has led to a 1.08% decrease in the USD index compared to pre-FOMC levels. Consequently, the Rupiah is edging closer to the 16,000/USD mark, a positive shift from the 16,260/USD level observed by the end of April 2024.
- **This recent improvement, however, masked the sustained external pressure in the domestic financial market.** Foreign investors have yet to show renewed confidence in the Indonesian financial market, as indicated by the USD 194.5 Mn outflows in the domestic stock market. Apart from persistent external

pressures, the increasingly challenging domestic context may also start to weigh heavily on the Rupiah's fundamentals, with the upcoming dividend repatriation cycle seeming to be already in everyone's mind.

- Against this backdrop, Bank Indonesia looks to expand its "triple interventions" tool to stand between the Rupiah and the cliff of depreciation – a herculean task **as investors is well aware of the challenges facing the Rupiah in upcoming weeks.** Despite that, BI's confidence in the efficacy of market interventions is well understood, given that the pressure on the IDR in the upcoming periods may prove to be milder relative to past periods of exchange rate volatility.

### Commodity prices: A busy cavalry

- To understand BI's apparent optimism, we must compare and contrast recent periods of volatility in the FX market. In Q3-2023, for instance, the hawkish swing in global interest rate expectations strengthened the USD's

value, while China's seemingly anaemic growth outlook at the time deflated investors' sentiment on financial markets across Asia.

- Much of this setting is still happening in the current market. The US Dollar continues to

dominate other currencies, while sentiment in Asian financial markets has barely improved due to the volatile JPY. Fortunately, **just like the early days of the Fed’s post-pandemic hiking cycle, the recovering commodity prices may once again provide a shelter for the Rupiah (see Chart 1)**, creating an opening for BI not to bow to market pressures to further tighten the policy rate.

- Indeed, the wind has been blowing favourably for commodity producers in recent times. First, continuous expansion in China’s industrial and infrastructure sectors (including the still-battered property sector following the completion of the whitelist) allows prices of industrial metals to recover, most importantly nickel which has recovered by 16.1% YTD. Also encouraging is that the increase in stainless steel prices lately is even more significant for 300 series steel (which contains Nickel, unlike Manganese in 200 series steel), further strengthening Indonesia’s metal export outlook in the upcoming periods.
- It is coal, however, that may continue to play the deciding role in Indonesia’s trade outlook (*see Chart 2*). **Coal prices have been hovering near the USD 150/MT level in recent weeks, thanks to higher electricity demand due to the heat wave that now engulfs parts of South, East and Southeast Asia.** Higher coal prices may also prove to be a long-term trend, given China’s bid to secure its energy supplies and continuous expansions in energy-intensive sectors (ranging from mineral smelters to data centres and AI) that could delay the phasing

*“The recovering commodity prices may not provide much support for the Rupiah, considering the still-deficit current account outlook”*

out of coal from the energy mix in Asia and globally.

- Alas, **the improving outlook for Indonesia’s exports is likely to be matched by higher imports.** First, recent releases of Q1 2024 investments (DDI increased by 29.7% YoY) and GDP (Fixed-asset investments account for 1.19% of the 5.11% GDP growth) confirm our hypothesis of the accelerated pace of investments in the Indonesian economy. Investments, of course, often correlated with higher capital goods or raw materials imports, although the causal link between investments and imports may be more limited currently given the higher share of building investments (relative to investments in machinery) and the higher local content requirement typical of government-sponsored projects.
  - Similar to exports, **energy commodities may also keep Indonesia’s imports in high gear.** This time, oil takes centre stage. As we noted in a separate report, the purchasing power of lower-income households has been degraded by higher prices, particularly in the case of food. This situation limits the government’s ability to adjust domestic fuel prices without further jeopardising the domestic growth momentum, although the mismatch between the stable domestic fuel prices and the volatile global fuel prices (further exacerbated by the depreciating Rupiah) may translate negatively to the government’s fiscal posture.
- **Complications stemming from the mercurial global oil prices may even spread to the domestic financial sector in two ways.** First, as hinted above, higher oil prices may damage

Indonesia’s fiscal posture, further damaging the sentiment on the SBN market which may intensify the sell-off pressure in the market. Second, higher oil prices may increase the demand for hard currencies in the domestic Eurodollar market (see Chart 3), further reducing the domestic FX supply as SOEs’ pressing need for FX bridging loans came head-to-head with the private sector’s demand for USD financing.

- Given the arguments laid above, recent improvements in Indonesia’s trade outlook may not be enough to rescue the Rupiah out of the woods. The recovering terms of trade may improve the sentiment on the Rupiah, but

Indonesia’s FX coffers may not improve much given the still-deficit current account outlook.

- At the same time, BI’s emphasis on market interventions to stabilise the domestic financial market may further suppress the FX reserves, potentially lowering the coverage ratio (FX reserves compared to potential outflows) that could exacerbate the pressure on the Rupiah down the line. Hence, **despite concerns over the slowing domestic growth momentum, we did not discount the possibility of BI raising the policy rate by another 25 bps in 2024**, especially if the Fed’s high-for-longer rate signal continues to weigh heavily on the Rupiah’s value.

Chart 1

**Higher prices, higher confidence**

Unlike in Q3-2023, the improving outlook on Indonesia’s trade balance seems to boost Bank Indonesia’s confidence in using FX interventions to stabilise the Rupiah’s value.

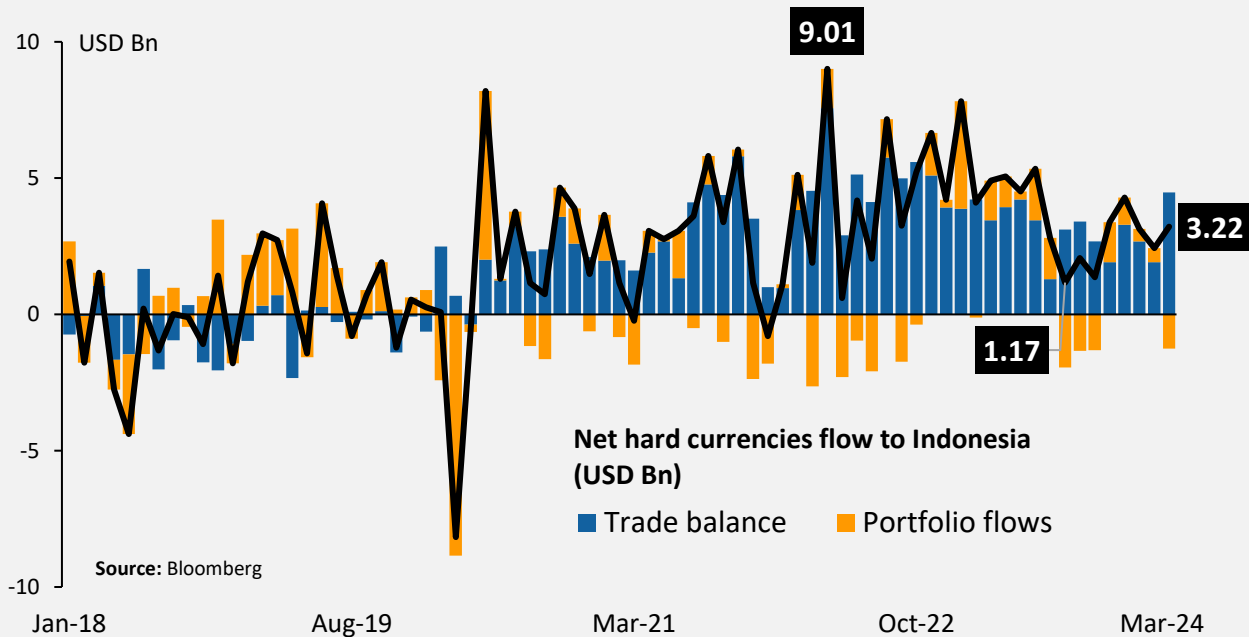


Chart 2

### Higher on all fronts

Indonesia's export prices are improving, thanks to the higher electricity demand in China and other Asian economies. But higher exports could be matched by higher imports given the elevated oil prices.

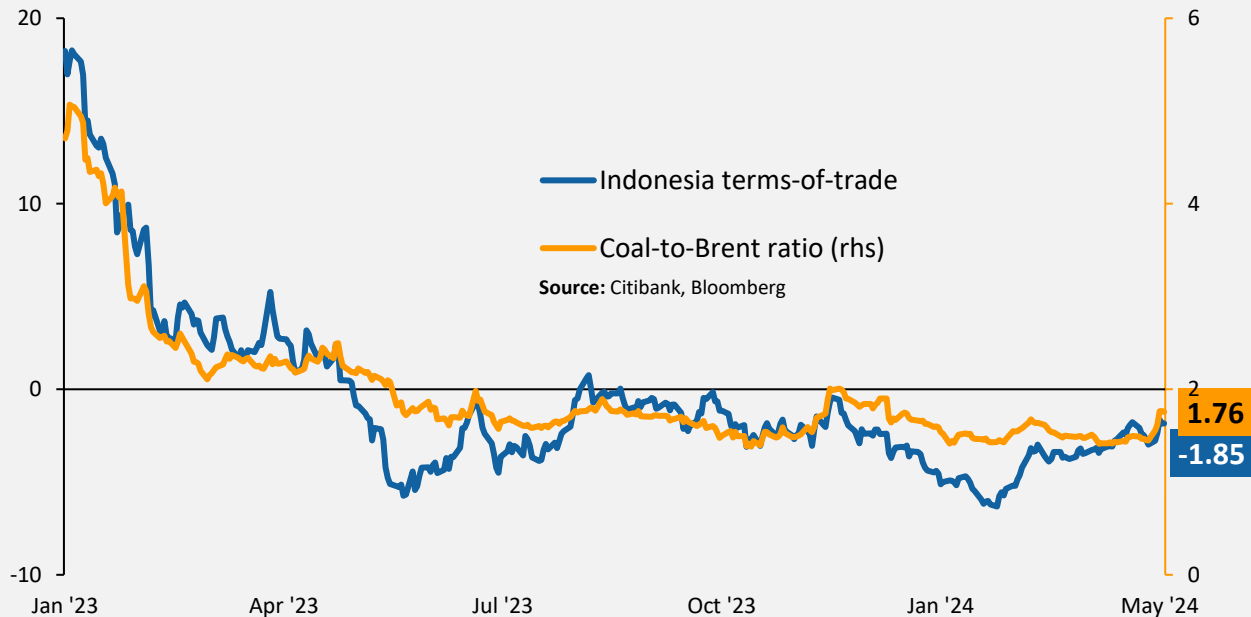
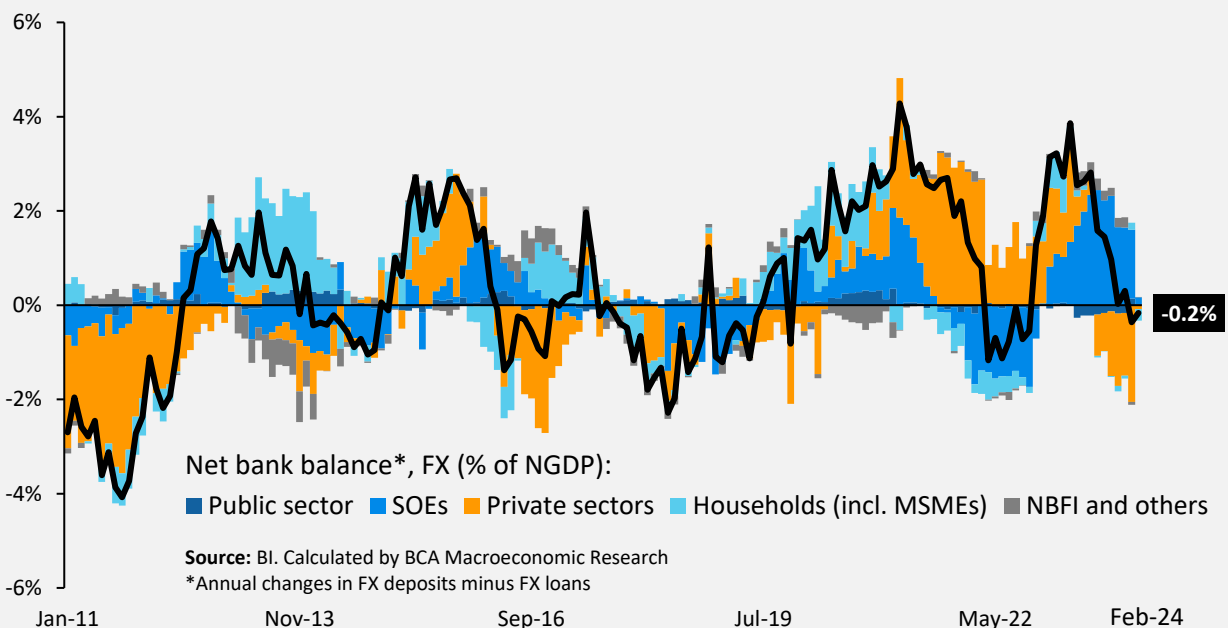


Chart 3

### Dwindling balance

High oil prices may increase the domestic demand for hard currencies, further reducing the domestic FX supply that often translates negatively to the Rupiah's value.



Economic Calendar				
		Actual	Previous	Forecast*
1 Mei 2024				
US	ISM Manufacturing PMI	49.2	50.3	49.9
US	JOLTs Job Openings (Mn)	8.48	8.81	8.70
2 Mei 2024				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>
<b>ID</b>	<b>Inflation rate YoY, %</b>	<b>3</b>	<b>3.05</b>	<b>2.9</b>
ID	S&P Global Manufacturing PMI	52.9	54.2	54.1
US	Balance of Trade (USD Bn)	-69.4	-69.5	-69.0
3 Mei 2024				
US	Non-Farm Payroll, (Th)	175	315	238
US	Unemployment Rate, %	3.9	3.4	3.8
6 Mei 2024				
<b>ID</b>	<b>GDP Growth YoY, %</b>	<b>5.11</b>	<b>5.04</b>	<b>5.08</b>
7 Mei 2024				
CN	Foreign Exchange Reserves (USD Bn)		3240	3300
8 Mei 2024				
<b>ID</b>	<b>Foreign Exchange Reserves (USD Bn)</b>		<b>140.4</b>	<b>138.0</b>
ID	Motorbike Sales YoY, %		-7.8	-
13 Mei 2024				
ID	Consumer Confidence		123.8	123.1
14 Mei 2024				
ID	Retail Sales YoY, %		-7.8	-
15 Mei 2024				
<b>ID</b>	<b>Balance of Trade (USD Bn)</b>		<b>4.47</b>	<b>3.9</b>
US	Inflation rate YoY, %		3.8	-
20 Mei 2024				
ID	Car Sales YoY, %		-26.2	-
22 Mei 2024				
<b>ID</b>	<b>Interest Rate Decision</b>		<b>6.25</b>	<b>6.25</b>
ID	Loan Growth YoY		12.4	-

\*Forecasts of some indicators are simply based on market consensus

**Bold** indicates indicators covered by the BCA Monthly Economic Briefing report.

### Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	3-May	-1 mth	Chg (%)
US	5.50	Jul-23	2.00	Baltic Dry Index	1,876.0	1,714.0	9.5
UK	5.25	Aug-23	2.05	S&P GSCI Index	573.2	590.6	-2.9
EU	4.50	Jul-23	2.10	Oil (Brent, \$/brl)	83.0	88.9	-6.7
Japan	-0.10	Jan-16	-2.80	Coal (\$/MT)	145.4	135.1	7.7
China (lending)	2.50	Aug-23	4.25	Gas (\$/MMBtu)	1.68	1.65	1.8
Korea	3.50	Jan-23	0.60	Gold (\$/oz.)	2,301.7	2,280.7	0.9
India	6.50	Feb-23	1.65	Copper (\$/MT)	9,790.1	8,888.1	10.1
Indonesia	6.25	Apr-24	3.25	Nickel (\$/MT)	19,047.0	16,844.9	13.1
Money Mkt Rates	3-May	-1 mth	Chg (bps)	CPO (\$/MT)	818.4	925.6	-11.6
				Rubber (\$/kg)	1.59	1.61	-1.2
Bank Rates (Rp)	Feb	Jan	Chg (bps)	External Sector	Mar	Feb	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	22.43	19.27	16.40
SUN (10Y)	7.15	6.67	47.7	Import (\$ bn)	17.96	18.44	-2.60
INDONIA (O/N, Rp)	6.05	5.89	16.1	Trade bal. (\$ bn)	4.47	0.83	436.66
JIBOR 1M (Rp)	6.90	6.65	25.5	Central bank reserves (\$ bn)*	140.4	144.0	-2.53
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Prompt Indicators	Mar	Feb	Jan
Lending (WC)	8.84	8.87	-3.03	Consumer confidence index (CCI)	123.8	123.1	125.0
Deposit 1M	4.62	4.68	-5.80	Car sales (%YoY)	-26.2	-18.8	-26.1
Savings	0.67	0.68	-0.11	Motorcycle sales (%YoY)	-7.8	-2.9	-3.7
Currency/USD	3-May	-1 mth	Chg (%)	Manufacturing PMI	Apr	Mar	Chg (bps)
UK Pound	0.797	0.795	-0.25	USA	50.0	51.9	-190
Euro	0.929	0.929	-0.08	Eurozone	45.7	46.1	-40
Japanese Yen	153.1	151.6	-0.97	Japan	49.6	48.2	140
Chinese RMB	7.241	7.233	-0.12	China	51.4	51.1	30
Indonesia Rupiah	16,084	15,897	-1.16	Korea	49.4	49.8	-40
Capital Mkt	3-May	-1 mth	Chg (%)	Indonesia	52.9	54.2	-130
JCI	7,134.7	7,237.0	-1.41				
DJIA	38,675.7	39,170.2	-1.26				
FTSE	8,213.5	7,935.1	3.51				
Nikkei 225	38,236.1	39,838.9	-4.02				
Hang Seng	18,475.9	16,931.5	9.12				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	3,294.9	3,226.6	68.31				
Govt. Bond	791.0	810.7	-19.68				
Corp. Bond	8.4	9.4	-0.97				

Source: Bloomberg, BI, BPS

Notes:

\*Data from an earlier period

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

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

## Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16.119
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

\*Estimation of the Rupiah's fundamental exchange rate

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