FX Reserves:
From one tunnel into the next

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Executive Summary

- FX reserves increased to USD 155.7 Bn in Dec-24, driven by a seasonal increase in FX tax revenue, as well as foreign loans and oil/gas revenue.
- SRBI outstanding amount declined, coupled with lower interest from foreign investors.
- USD strengthening the major factor in December's IDR depreciation, but outflows from SRBI limited BI's ability to hold the line.
- Uncertainty over Trump policies, plus large amount of maturing SRBI, should keep BI in a defensive posture early in the year.

- Indonesia's FX reserves jumped to USD 155.7 Bn in Dec-24, a 4.5 Bn increase from November and a new record high. The increase, however, was mainly a product of seasonal increase in tax revenue (mainly from exporters), with additional contributions from new government loans (bilateral or multilateral) and SOE (oil/gas) revenue.

- Changes in private FX liquidity (as reflected by bank placements in BI's FX instruments) are minimal. While FX swaps increased by USD 1.8 Bn, other sources such as TD, and SVBI/SUVBI recorded an almost matching outflow. As a whole, then, placement to BI only increased by USD 0.04 Bn. This may suggest some uptick in imports in December, which would align with pre-Ramadan/Chinese New Year restocking and a slight rise in BCA Business Transaction Index (*Intrabel BCA*).

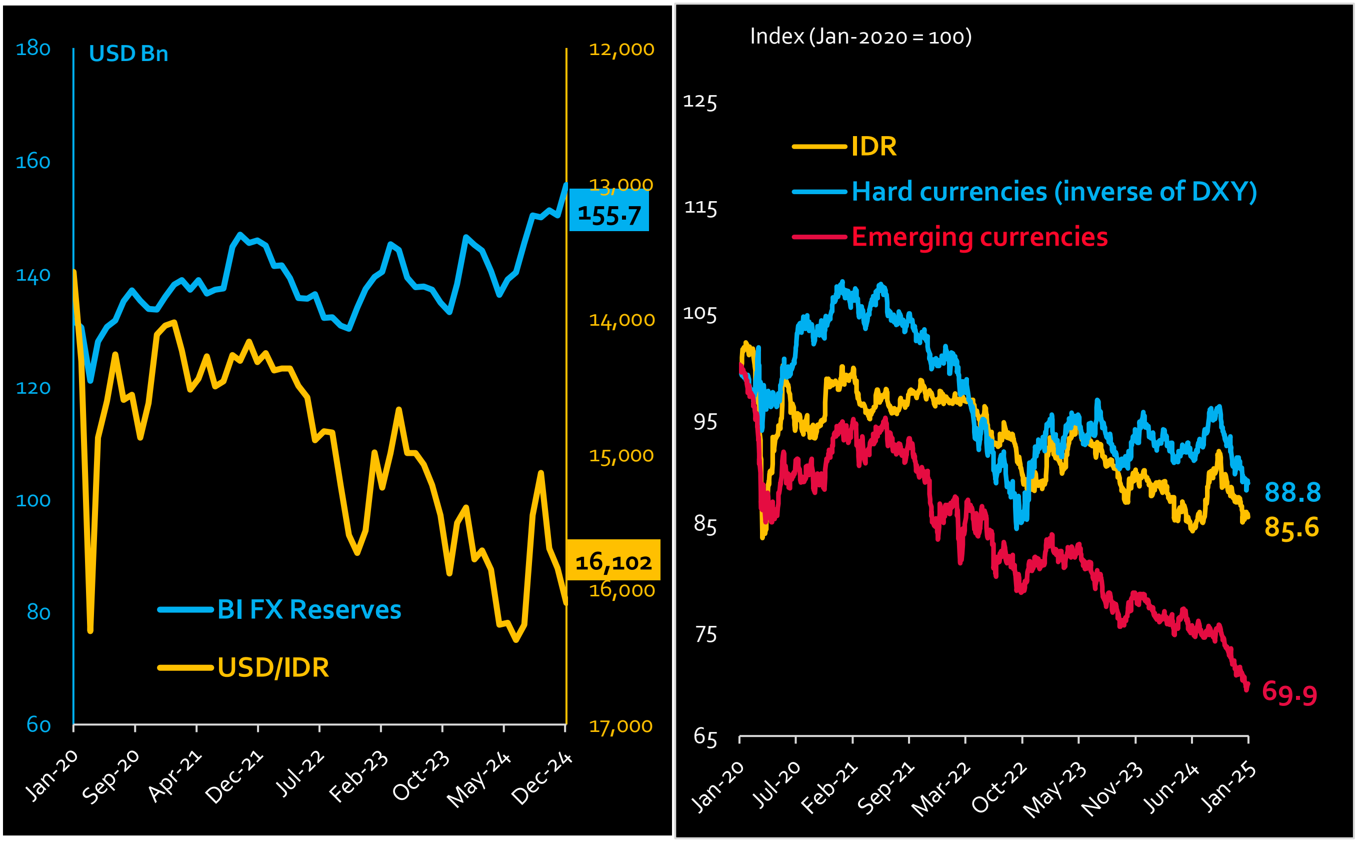
- Private FX liquidity may equally have been absorbed by the government's coffers, as with the aforementioned seasonal trend. Dec-24 saw 54% higher tax revenue compared to the rest of 2024, versus Dec-23 where the tax revenue was higher by "only" 44%. The government's FX liquidity was also enhanced by international loans, which has become a go-to tactic to finance the deficit amid unfavorable conditions in the bond market.

- Portfolio flows also seem to have minimal effect to our FX reserves for December, with stocks recording a net outflow of USD 0.3 Bn while bonds a net inflow of USD 0.4 Bn. Some of the selloff in equities, no doubt, was due to seasonal effect in December (profit taking and tax-loss harvesting), which will often be reversed come January.

- The more interesting outcome, however, was the decline in outstanding SRBI, as BI issued less than the amount maturing in December. This decline was coupled with seemingly fading interest from foreign investors, such that foreign ownership in SRBI has fallen to a fresh low of 24.27% of total. Taken together, then, there might have been USD 1.2 Bn net outflow from SRBI.

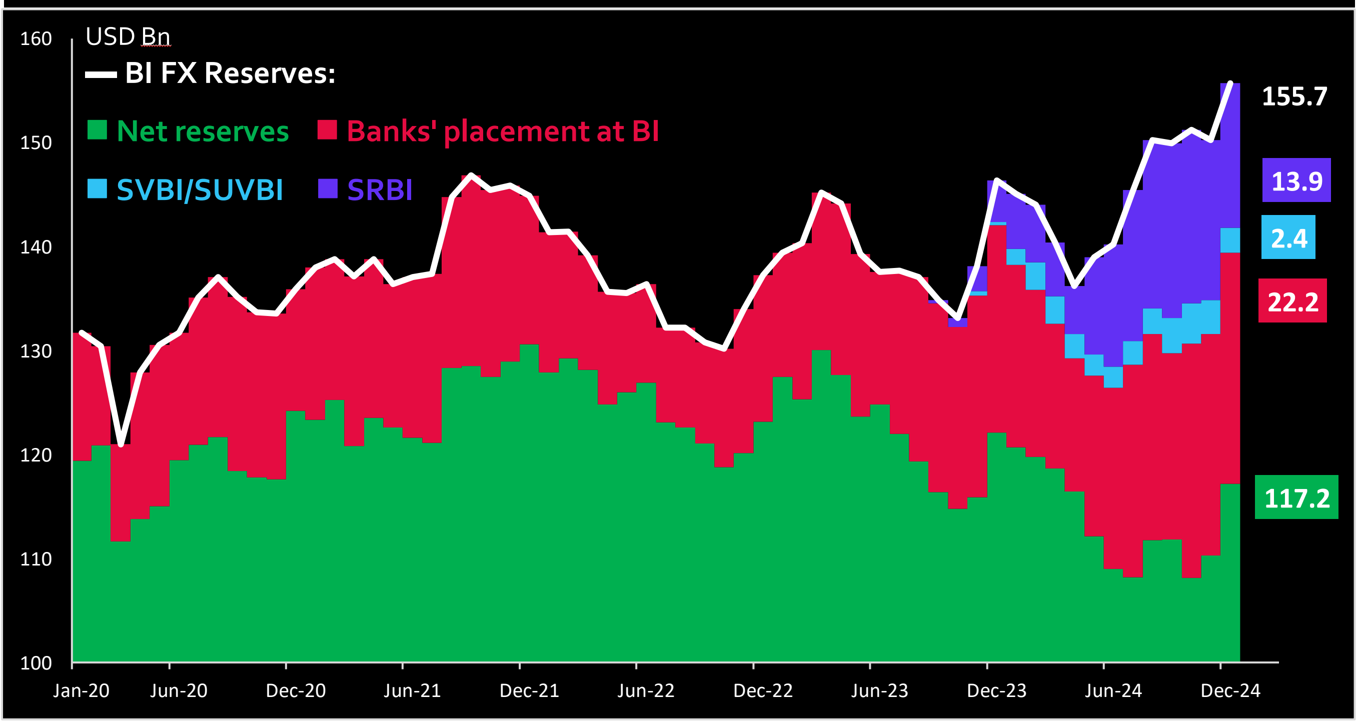
- This lower foreign ownership is quite interesting, since SRBI yields actually moved up by an average of 19 bps compared to November, while 1 year T-Bills have decreased by 14 bps instead (i.e. wider spread). However, the market seems to demand higher SRBI yields—with weighted average bid rate rising from 7.1% to 7.3%—to compensate for higher expectations of Rupiah depreciation, which is reflected in 12-month NDF spread which has risen to 2.3% versus spot.
- These demand for higher rates by foreign investors are highly undesirable for BI, since SRBI issuance had already resulted in negative carry for BI due to lower yields on the underlying long-term government bonds (SBN). So far, then, BI seems to be avoiding higher SRBI rates. It is unclear, however, if this can continue in Jan-Feb 2025, with around IDR 200 Tn of SRBI set to mature and potential fallout from the Trump administration's policies.
- It is quite telling that, despite the higher FX reserves, the Rupiah had continued to tumble in December, depreciating by around 1.6% MoM against the USD. Of course, this loss was almost solely caused by USD strength, but the outflow from SRBI essentially precluded BI's attempt to hold the line.
- Looking ahead, there is no guarantee that the *ex-post* "Trump trade" would be the same as the *ex-ante* effect that we have seen so far. On one hand, there is possibility that Trump's actual policies will be muted compared to his campaign promises, with news that Trump's advisors planned to reduce the scope of tariffs to only cover "national and/or economic security". Still, it's important to mention that Trump himself had denied the rumored scope reduction, and such public rejection might bury the plan for good.
- On the other hand, it is also possible that the upcoming Trump effect would be even more difficult for Indonesia. Aside from his stated intention to slap 10-20% tariffs on all countries, Trump may also single out Indonesia for its trade surplus versus the US, and also for its recent entry into BRICS. In recent weeks, Trump had voiced his intent to apply more tariffs to BRICS members, possibly as deterrence to prevent more countries from joining the group.
- Nevertheless, the fact that Trump's major landmark policies are still up in the air this late into his inauguration on Jan 20th points to an increased uncertainty in US fiscal policy, especially considering one of the administration's main aims (reindustrialization) conflicts heavily with their other policies that tend to strengthen the Dollar.
- With these increased uncertainty in mind, BI may opt to keep its powder dry for the time being (with respect to BI Rate and FX/SBN interventions), adopting a wait-and-see approach to Trump first few days in office and possibly synchronizing their policy with Fed's hawkish outlook.

Panel 1. **Rupiah's depreciation still not as steep as other emerging currencies**



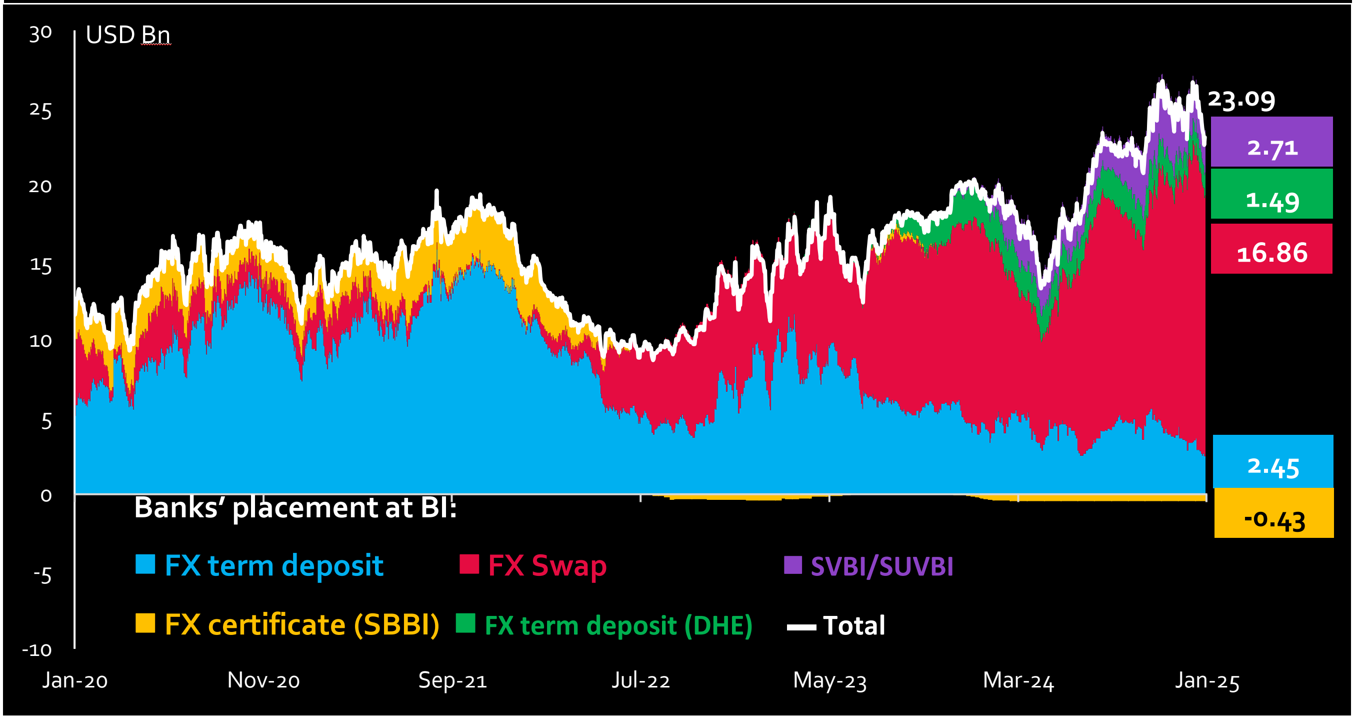
Source: Bloomberg

Panel 2. **Net reserves rise on the back of increased government deposit**



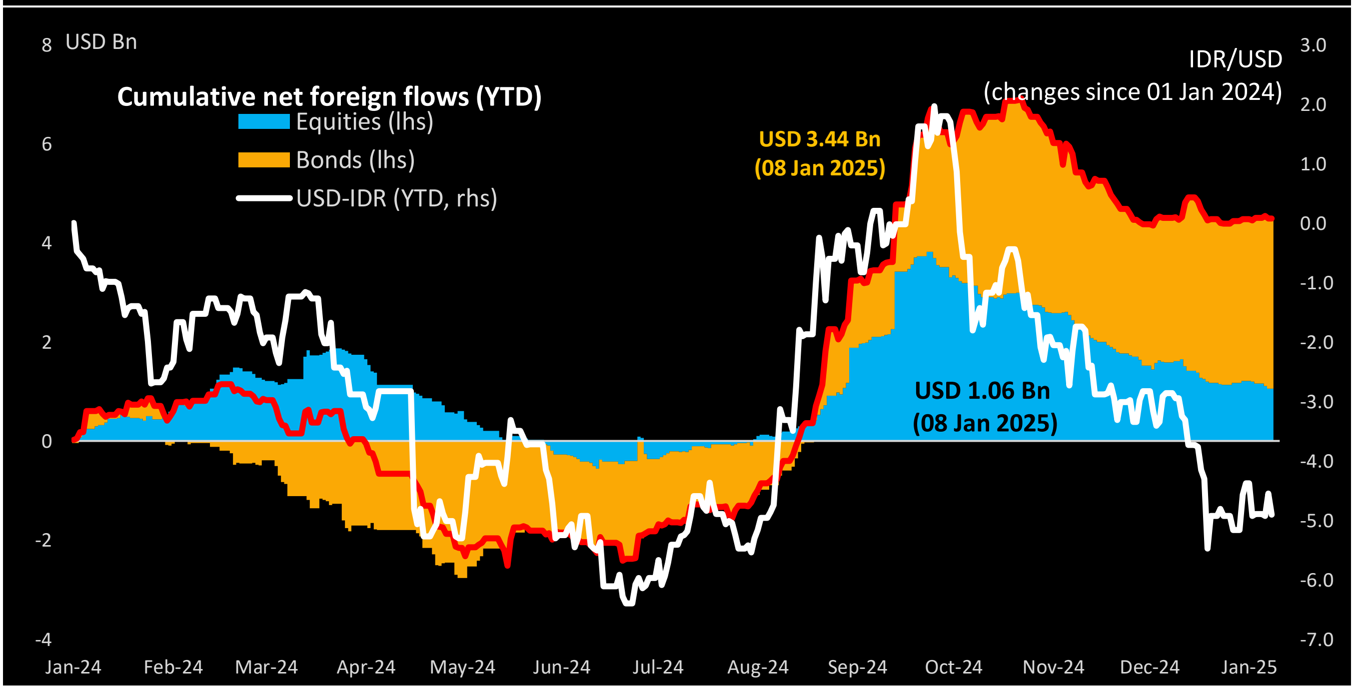
Source: BI

Panel 3. Increase in FX swap is counterbalanced by decrease in other securities



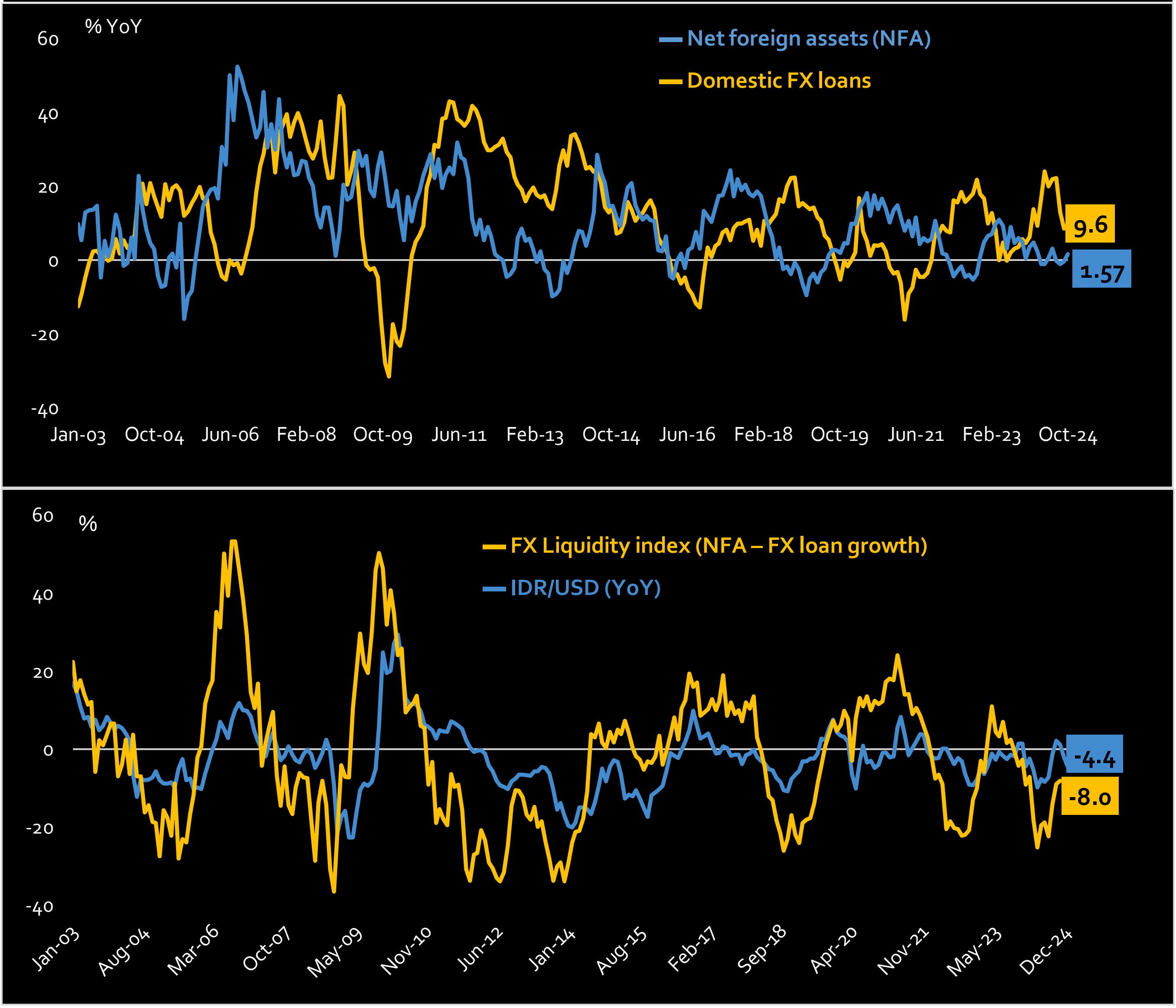
Source: BI

Panel 4. Net inflow in bonds is mostly balanced by net outflow in stocks



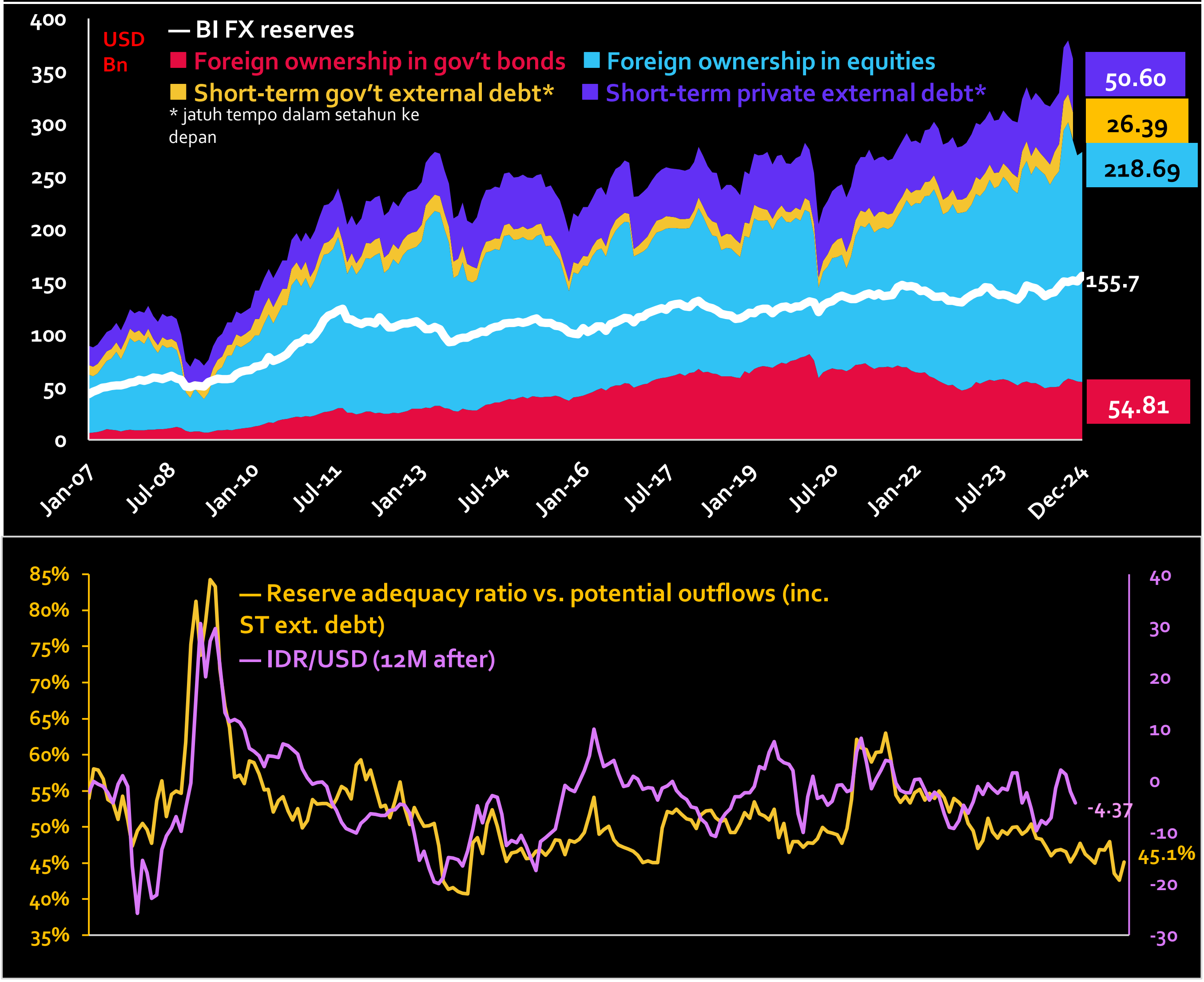
Source: Bloomberg

Panel 5. Domestic FX loan growth declined sharply as Rupiah depreciates



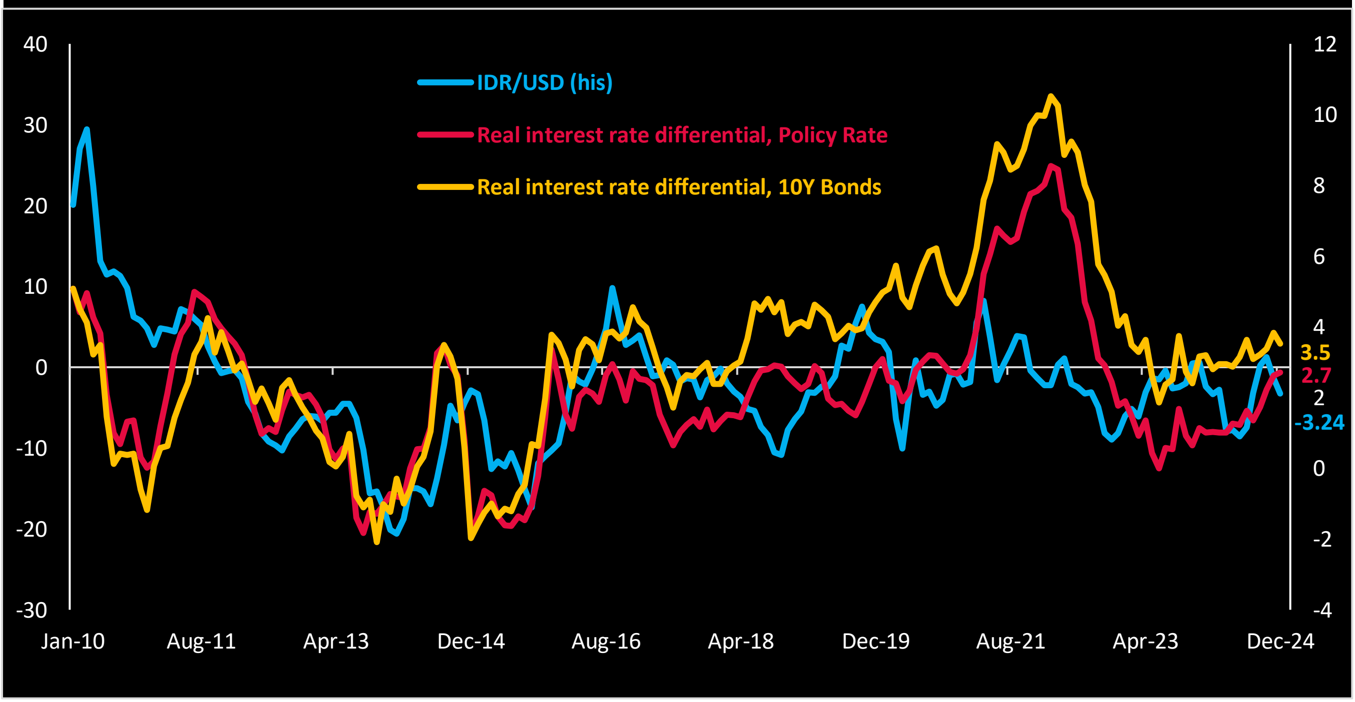
Source: Bloomberg

Panel 6. Reserves adequacy ratio sees an uptick but has been declining for a while



Source: BI, Bloomberg

Panel 7. Policy rate real differential likely to persist to defend Rupiah



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.50	Dec-24	1.80
UK	4.75	Nov-24	2.15
EU	3.15	Dec-24	0.75
Japan	0.25	Jul-24	-3.00
China (lending)	2.00	Sep-24	4.15
Korea	3.00	Nov-24	1.10
India	6.50	Feb-23	1.02
Indonesia	6.00	Sep-24	4.43

Money Mkt Rates	7-Jan	-1 mth	Chg (bps)
SPN (1Y)	6.73	6.88	-14.6
SUN (10Y)	7.12	6.90	22.2
INDONIA (O/N, Rp)	6.06	5.97	8.8
JIBOR 1M (Rp)	6.62	6.63	-0.4

Bank Rates (Rp)	Sep	Aug	Chg (bps)
Lending (WC)	8.87	8.78	8.91
Deposit 1M	4.81	4.79	2.01
Savings	0.67	0.65	1.33

Currency/USD	7-Jan	-1 mth	Chg (%)
UK Pound	0.801	0.785	-2.10
Euro	0.967	0.946	-2.16
Japanese Yen	158.1	150.0	-5.09
Chinese RMB	7.328	7.272	-0.77
Indonesia Rupiah	16,131	15,850	-1.74

Capital Mkt	7-Jan	-1 mth	Chg (%)
JCI	7,083.3	7,382.8	-4.06
DJIA	42,528.4	44,642.5	-4.74
FTSE	8,245.3	8,308.6	-0.76
Nikkei 225	40,083.3	39,091.2	2.54
Hang Seng	19,447.6	19,865.9	-2.11

Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)
Stock	3,521.3	3,402.4	118.98
Govt. Bond	876.6	872.5	4.15
Corp. Bond	5.9	7.1	-1.18

Trade & Commodities	7-Jan	-1 mth	Chg (%)
Baltic Dry Index	1,015.0	1,167.0	-13.0
S&P GSCI Index	557.3	531.5	4.9
Oil (Brent, $/brl)	77.1	71.1	8.3
Coal ($/MT)	121.4	136.3	-10.9
Gas ($/MMBtu)	3.80	2.84	33.8
Gold ($/oz.)	2,648.6	2,633.4	0.6
Copper ($/MT)	8,886.9	9,011.9	-1.4
Nickel ($/MT)	15,171.5	15,824.5	-4.1
CPO ($/MT)	1,051.4	1,208.2	-13.0
Rubber ($/kg)	1.88	2.12	-11.3

External Sector	Nov	Oct	Chg (%)
Export ($ bn)	24.01	24.41	-1.66
Import ($ bn)	19.59	21.94	-10.72
Trade bal. ($ bn)	4.42	2.48	78.56
Central bank reserves ($ bn)*	150.2	151.2	-0.66

Prompt Indicators	Nov	Oct	Sep
Consumer confidence index (CCI)	125.9	121.1	123.5
Car sales (%YoY)	-11.9	-3.9	-9.1
Motorcycle sales (%YoY)	-10.3	5.4	3.7

Manufacturing PMI	Dec	Nov	Chg (bps)
USA	49.4	49.7	-30
Eurozone	45.1	45.2	-10
Japan	49.6	49.0	60
China	50.5	51.5	-100
Korea	49.0	50.6	-160
Indonesia	51.2	49.6	160

Source: Bloomberg, BI, BPS
Notes:
*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

	2019	2020	2021	2022	2023	2024E	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	7.0	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4975	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6#	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00#	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	7.04	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102#	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.4	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections*

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