

FX Reserves:

Rising tide with leaks below

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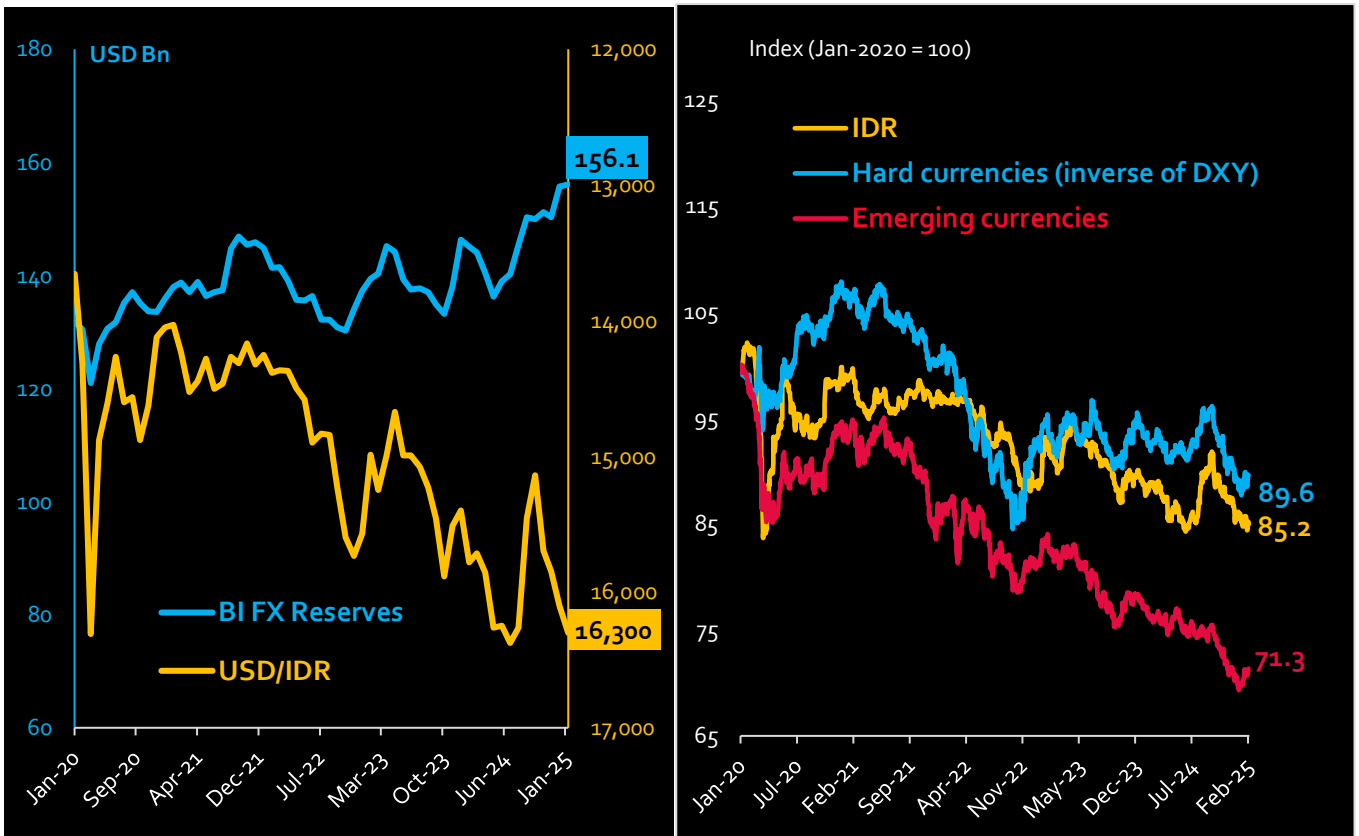
Executive Summary

- Indonesia's FX reserves rose by USD 0.4 Bn in January to USD 156.1 Bn, supported by tax receipts and USD 3.45 Bn in global bond issuance.
- SRBI saw a net foreign inflow in January. With smaller maturity in the coming months, BI have more flexibility – coupled with the liquidity freed up by BI rate cut.
- Rupiah remains under some pressure, as improving conditions for bonds is offset by outflows from equities.
- BI's next move remains to be decided on a per-month basis, in the meantime BI has ample room to both support growth and stabilize Rupiah.

- Indonesia's FX reserves rose by USD 0.4 Bn in January to USD 156.1 Bn. The modest increase was mainly driven by tax receipts and USD 3.45 Bn in global bond issuance, with no maturities during the month.
- The issuance helped offset a mild outflow from portfolios (equities: USD -0.23 Bn, SBN: +1.33 Bn), as well as a general need by BI to stabilize the market during a turbulent month. Still, January turned out better than expected despite initial fears of Trump-related whiplash, and BI's "surprise" rate cut – while it cemented expectations of a controlled depreciation – did not lead to undue pressure on the Rupiah.
- Interestingly, SRBI probably saw foreign inflows of USD 0.79 Bn, after net outflows in the preceding two months. Of course, the Nov-Jan period was a difficult one for SRBI given the sizable amount maturing, and so – unlike in May-Jul 2024 – its effect proved insufficient to stem Rupiah depreciation.
- But BI has more breathing room going forward, with only IDR 118 Tn coming due between Feb-Apr. The smaller issuance – coupled with the liquidity freed up by BI's rate cut – has helped reduce SRBI yields, at only 6.57% for 12M in the latest auction.
- There is even more breathing room given developments in the US Treasury market. Long-end UST yields decline after Trump tariffs on Canada and Mexico were postponed, and this was further compounded after the recent Quarterly Refinancing Announcement (QRA).
- With the US hitting the debt ceiling, and Scott Bessent reluctant to shift issuance from bills to coupons, the steepened yield curve from "Trump trade" in previous months is partially reversed, to the benefit of peripheral markets like Indonesia. SBN 10Y yields, for instance, settles at 6.88% as of this writing.

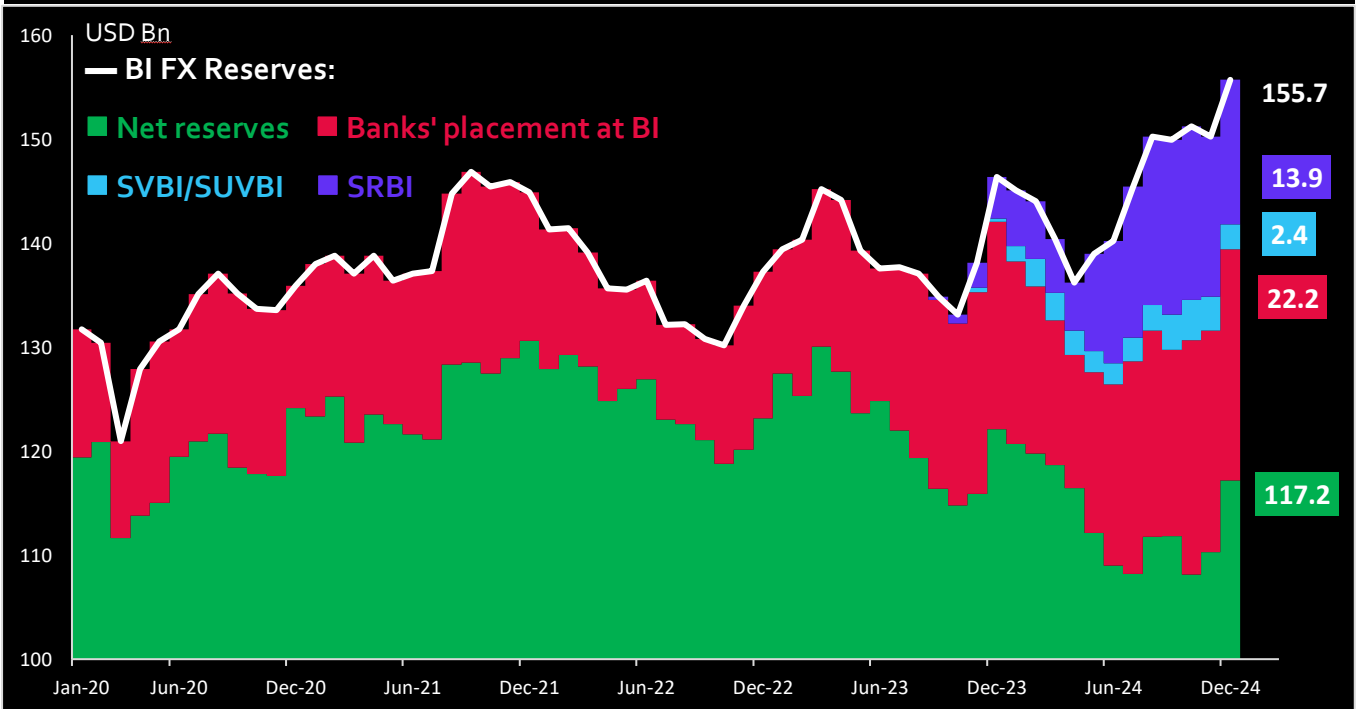
- But despite sanguine news from the bond market, the equity market faces an uphill battle. There has been USD 0.23 Bn in just the first week of February, contrary to the trend in other Asian and global markets during the same period. This shift, then, seems to have been driven by factors unique to Indonesia, following a spate of recent data and announcements.
- These outflows, coupled with uncertainty surrounding Trump's policies, have put renewed pressure on the Rupiah in the early weeks of the year despite a slightly weaker USD. This means that BI does not have a clear path to continue easing policy, but will have to decide on a per-month basis.
- With the Fed now expected to only cut in June or perhaps even later in the year, the timing for BI's next (potential) cut, then, may be pushed further back. In the meantime, though, BI has ample room to support growth and domestic growth, by gradually unwinding outstanding SRBI – thus freeing up liquidity – and by purchasing IDR 150 Tn worth of SBN as planned.
- On the stability side, BI now has ample ammunition to smooth out Rupiah's trajectory using its FX reserves, and this will be supported in the coming months by export proceeds (DHE) from commodities. As we know, these proceeds now have to be held 100% domestically for a period of 12 months – as opposed to 30% for 3 months previously.
- The authorities estimate up to an extra USD 90 Bn in FX liquidity to be obtained, although the relatively limited outstanding amount of TD-DHE (only around USD 2 Bn) suggests that compliance remains an issue. Still, even with such "leakages", the potential liquidity retained is still quite large that we can now expect higher FX reserves – yet a controlled depreciation of the Rupiah – for this year.

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



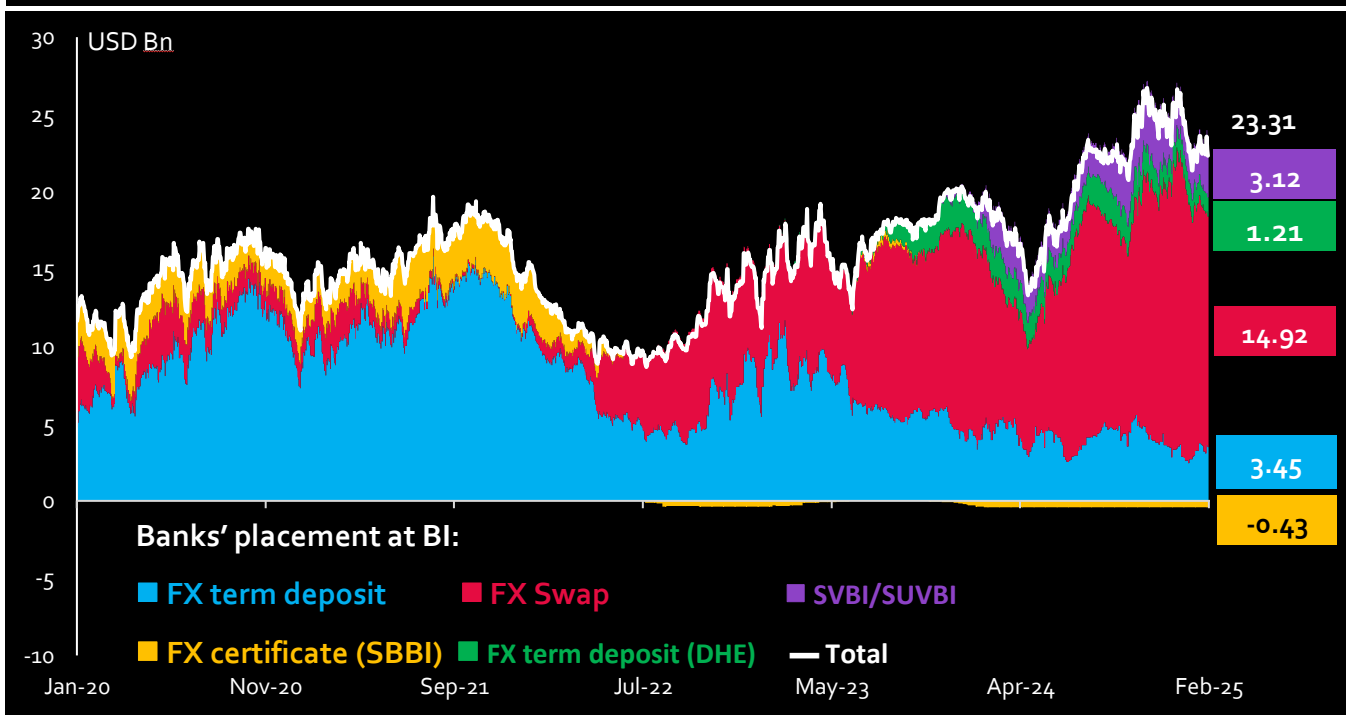
Source: Bloomberg

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



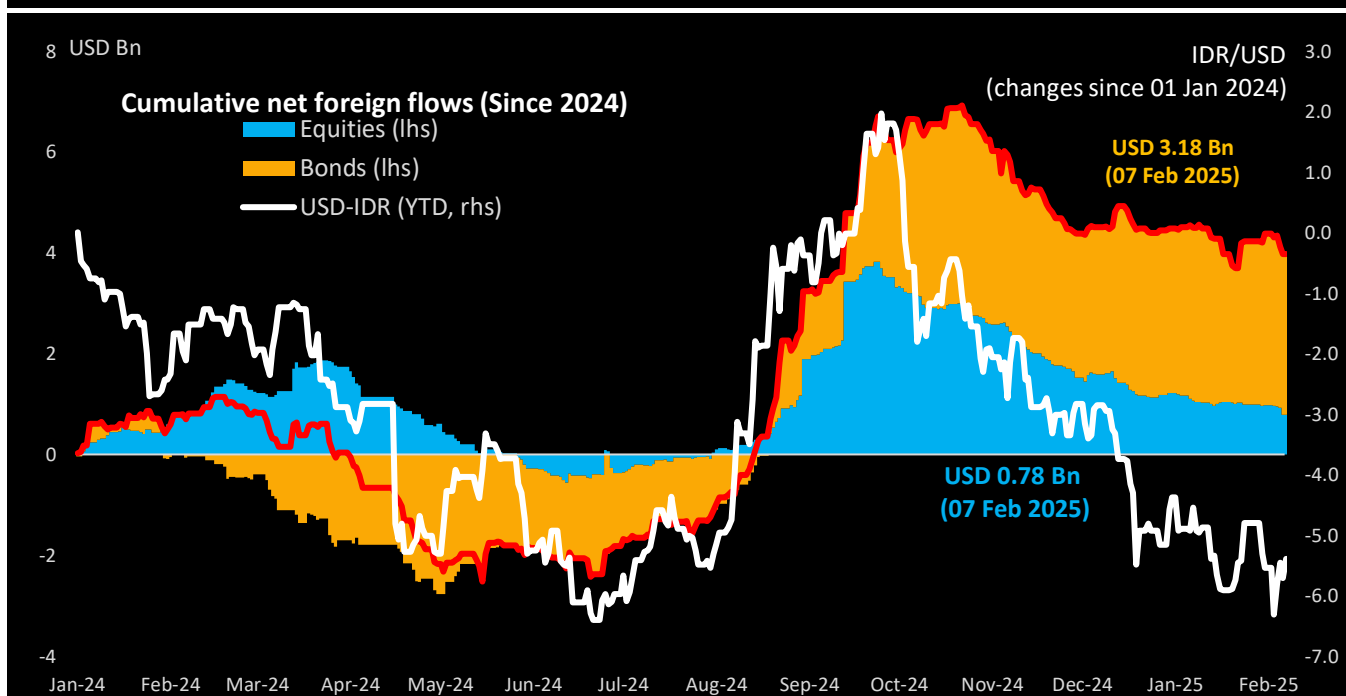
Source: BI

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



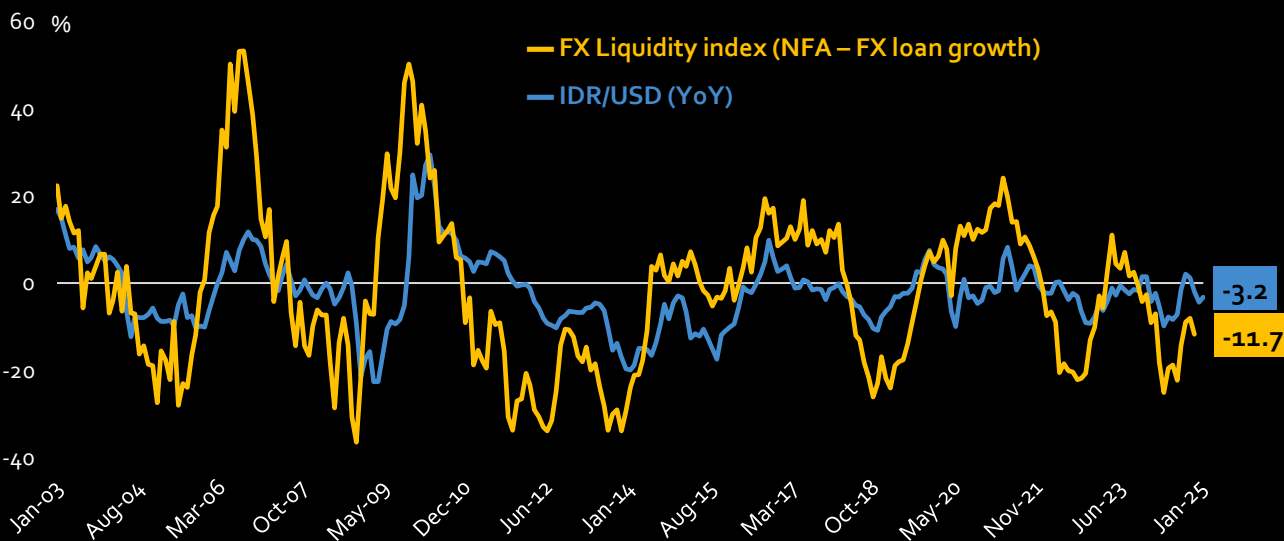
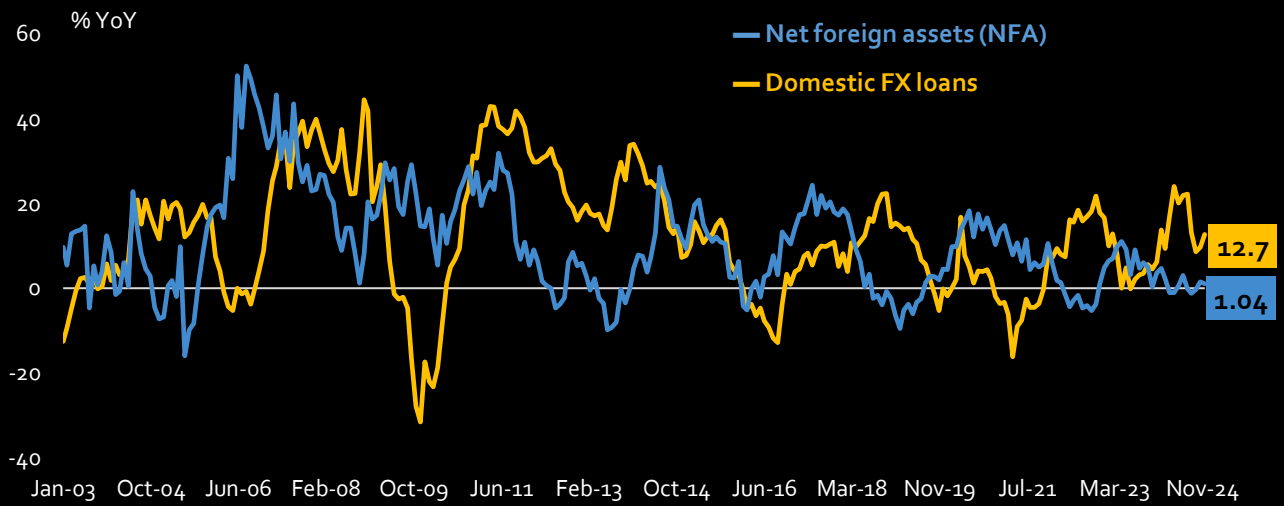
Source: BI

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



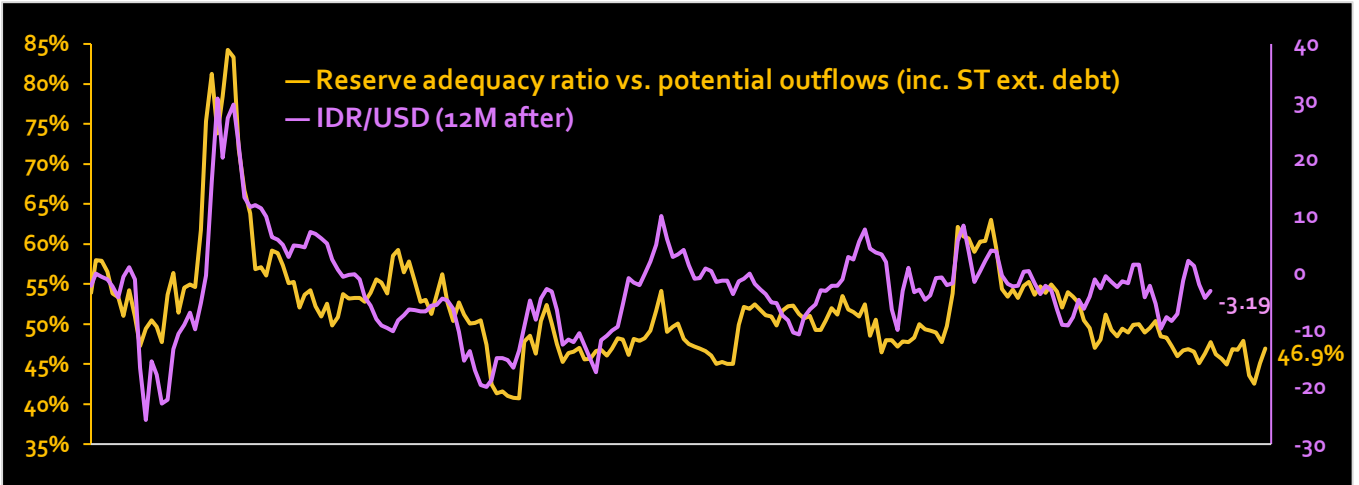
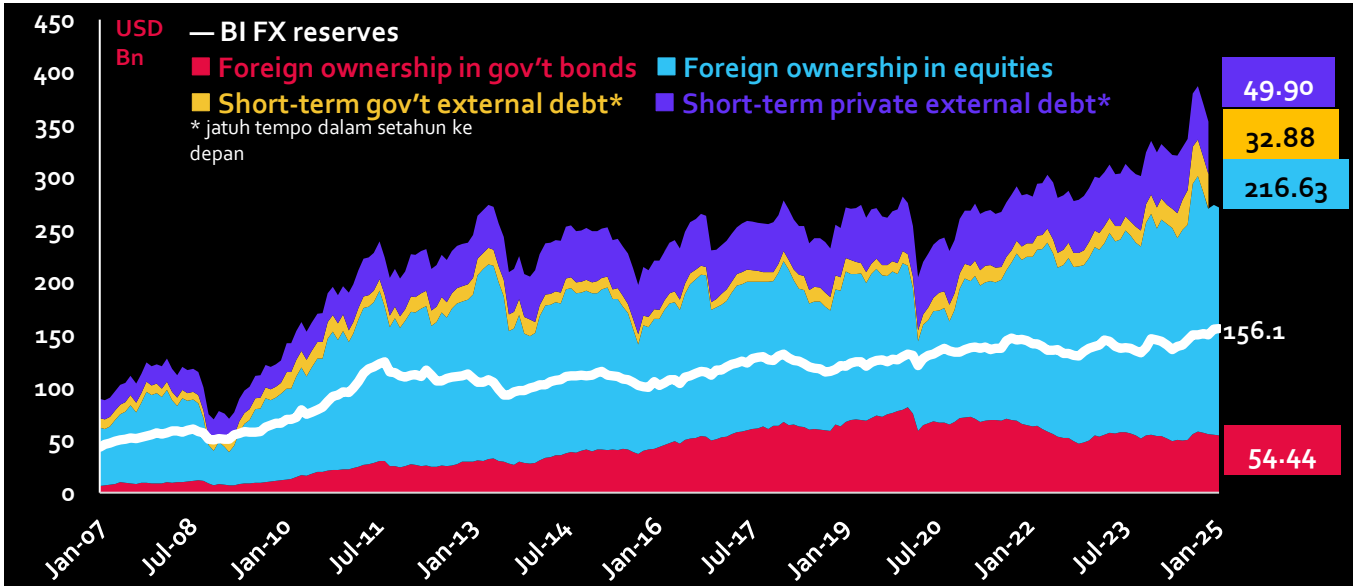
Source: Bloomberg

Panel 5. Domestic FX loan growth starting to show an uptick



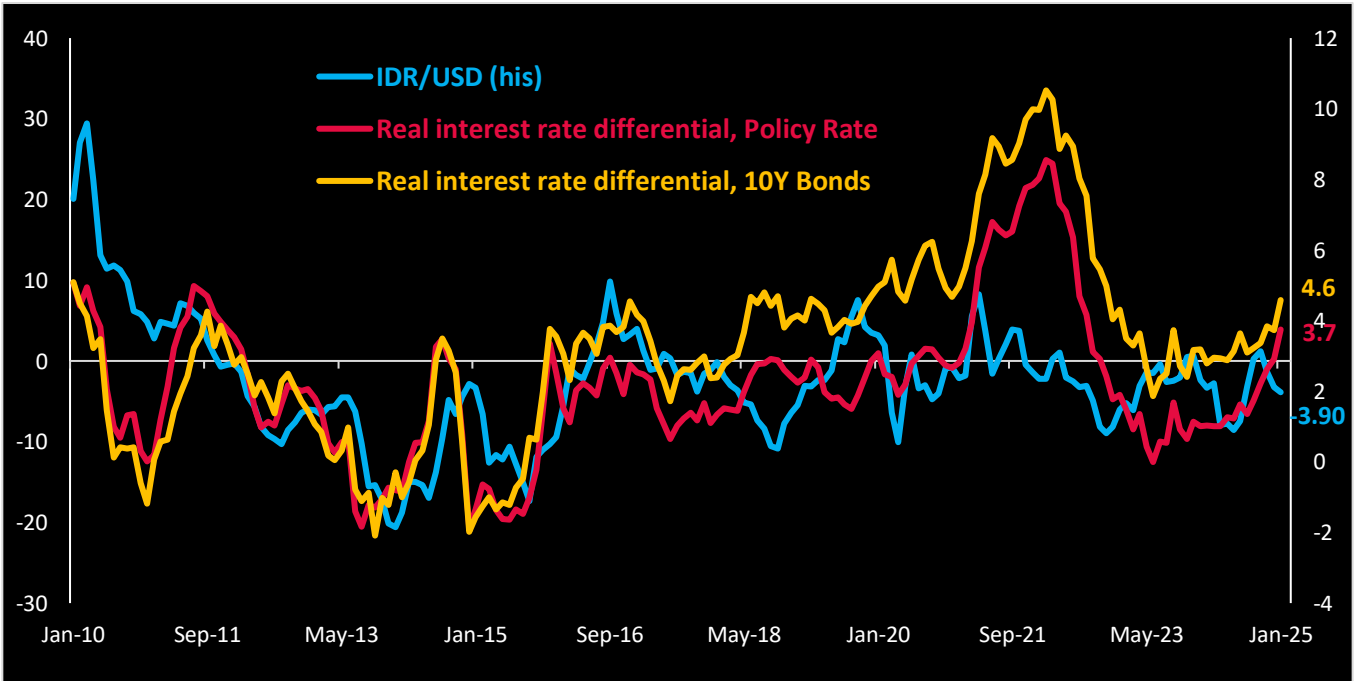
Source: Bloomberg

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 (%)	Trade & Commodities	6-Feb	-1 mth	Chg (%)
US	4.50	Dec-24	1.60	Baltic Dry Index	793.0	1,043.0	-24.0
UK	4.50	Nov-24	2.00	S&P GSCI Index	562.0	555.8	1.1
EU	2.90	Jan-25	0.40	Oil (Brent, \$/brl)	74.3	76.3	-2.6
Japan	0.50	Jan-25	-3.70	Coal (\$/MT)	113.5	121.7	-6.7
China (lending)	2.00	Sep-24	4.25	Gas (\$/MMBtu)	3.31	4.05	-18.3
Korea	3.00	Nov-24	0.80	Gold (\$/oz.)	2,856.3	2,636.5	8.3
India	6.25	Feb-23	1.03	Copper (\$/MT)	9,155.4	8,887.1	3.0
Indonesia	5.75	Jan-25	4.99	Nickel (\$/MT)	15,594.4	14,949.1	4.3
Money Mkt Rates	6-Feb	-1 mth	Chg (bps)	CPO (\$/MT)	1,054.2	1,042.9	1.1
				Rubber (\$/kg)	1.99	1.90	4.7
SPN (1Y)	6.25	6.84	-59.4	External Sector	Dec	Nov	Chg (%)
SUN (10Y)	6.89	7.04	-15.4				
INDONIA (O/N, Rp)	5.78	6.07	-29.2	Export (\$ bn)	23.46	24.00	-2.24
JIBOR 1M (Rp)	6.40	6.62	-22.7	Import (\$ bn)	21.22	19.63	8.10
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Trade bal. (\$ bn)	2.24	4.37	-48.73
Lending (WC)	8.68	8.72	-3.69	Central bank reserves (\$ bn)*	155.7	150.2	3.65
Deposit 1M	4.78	4.78	-0.49	Prompt Indicators	Dec	Nov	Oct
Savings	0.67	0.66	0.37				
Currency/USD	6-Feb	-1 mth	Chg (%)	Consumer confidence index (CCI)	127.7	125.9	121.1
UK Pound	0.804	0.799	-0.68	Car sales (%YoY)	-6.4	-11.9	-3.9
Euro	0.963	0.962	-0.07	Motorcycle sales (%YoY)	-5.5	-10.3	5.4
Japanese Yen	151.4	157.6	4.10	Manufacturing PMI	Jan	Dec	Chg (bps)
Chinese RMB	7.285	7.328	0.59				
Indonesia Rupiah	16,330	16,195	-0.83	USA	51.2	49.4	180
Capital Mkt	6-Feb	-1 mth	Chg (%)	Eurozone	46.6	45.1	150
JCI	6,875.5	7,080.5	-2.89	Japan	48.7	49.6	-90
DJIA	44,747.6	42,706.6	4.78	China	50.1	50.5	-40
FTSE	8,727.3	8,249.7	5.79	Korea	50.3	49.0	130
Nikkei 225	39,066.5	39,307.1	-0.61	Indonesia	51.9	51.2	70
Hang Seng	20,891.6	19,688.3	6.11				
Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)				
Stock	3,531.1	3,521.3	9.76				
Govt. Bond	881.3	876.6	4.65				
Corp. Bond	6.0	5.9	0.10				

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	2024	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	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	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	6.97	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	31.0	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 our projections; other numbers for 2024 are final

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