

FX Reserves:

Savior on the horizon?

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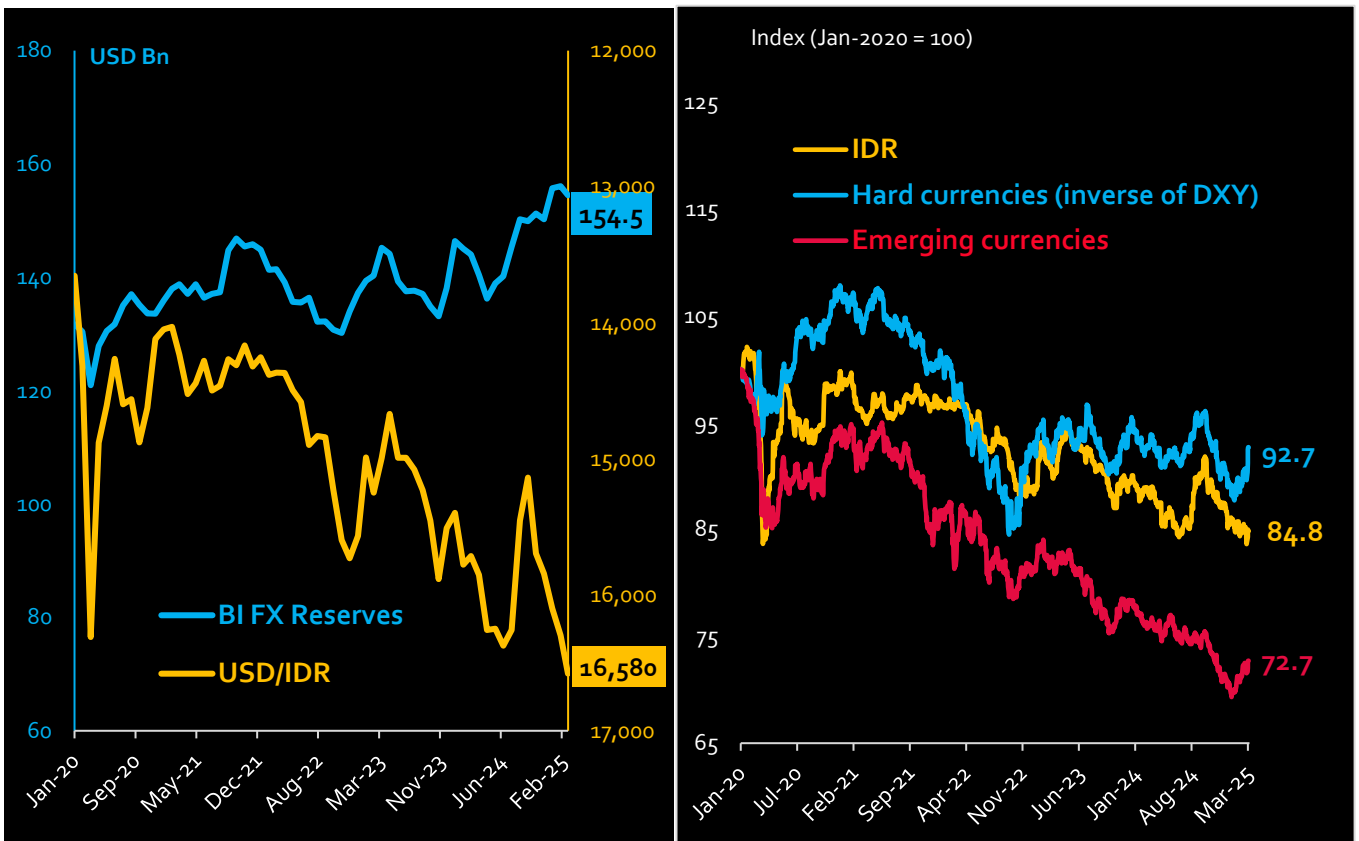
Executive Summary

- Indonesia's FX reserves decreased to USD 154.5 Bn, mainly caused by Rupiah stabilization amid portfolio outflows and payment of external debt.
- Rupiah under pressure as net inflow in bonds was countered by net outflow from SRBI and stocks.
- Weakening economic data and uncertainty over tariffs have weakened USD and increased market expectation of rate cuts.
- Export proceeds regulation will increase FX reserve, though possibly dampened by decline in nickel and coal prices.

- Indonesia's FX reserves decreased to USD 154.5 Bn in Feb-25 from USD 156.1 Bn the month prior. BI's efforts to stabilize the Rupiah amid net portfolio outflows—as well as payment of external debt—appeared to be the main driver of this decline.
- Bonds actually managed to record a net inflow of around USD 0.54 Bn in Feb-24, thanks to a stark turnaround in global market sentiment. The so-called "Trump trade"—which pushed yields up due to inflation and deficit fears—began to unwind, while the debt ceiling delayed the large issuance of long-term USTs.
- All these have pushed down Indonesian yields across the whole curve, from long-term SBN to short-term SRBI. But the (much steeper) decline in SRBI yields may not have helped the Rupiah, given the continued reduction of gross issuance—and negative net issuance—by BI. Indeed, we think it is likely that there was a sizable foreign net outflow from SRBI in Feb-25, since foreign ownership was reported at 25.24% on Feb 17th (down from 26.59% Jan 31st).
- Unfortunately, the good news in bonds were offset by outflows from stocks, which totaled USD 1.11 Bn for February. A host of factors, from (global and domestic) growth concerns to (global and domestic) policy uncertainty, contributed to these seasonally unusual outflows—typically, such outflows mostly happen post-dividend.
- This situation put further pressure onto the Rupiah, which had depreciated by 1.68% MoM—in a stark contrast to other currencies which appreciated versus the USD during the month. As we have often mentioned in other reports, however, capital flows should not be seen as the only driver of this depreciation. Instead, our growing savings deficit vis-à-vis investment is probably a bigger driver, albeit one that should enable Indonesia to continue growing faster than its productive capacity.

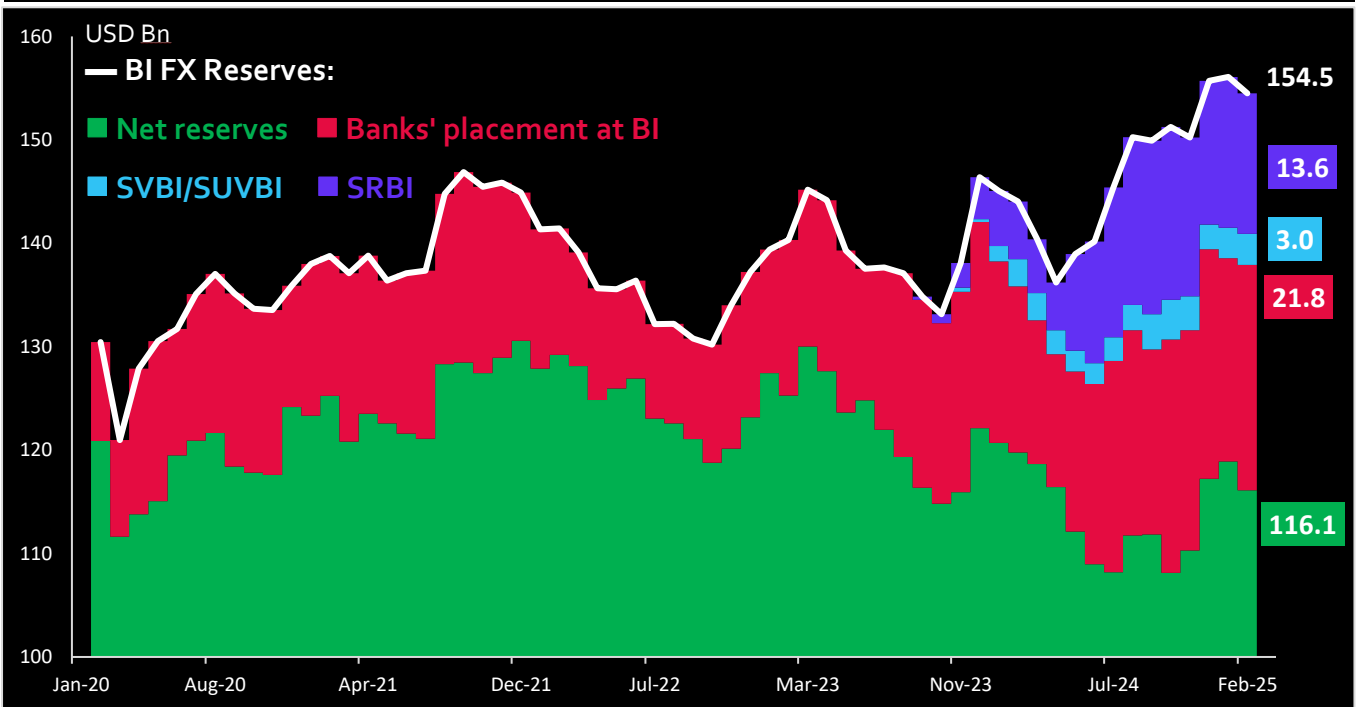
- The weakening of the USD against most other currencies, however, does offer hope that relief is coming. The recent flurry of US economic data had raised fears of US economic slowdown, and this has outweighed Trump's tariffs against Mexico, Canada, and China. The market is also starting to price in three rate cuts this year, a stark contrast to earlier in the year when even the prospects of a single cut was questioned.
- The impact on Asian currencies—anchored by the Chinese Yuan—is also proving better than expected. Recent “Two Sessions” of the CCP had put a renewed focus on boosting domestic demand, fueled by an increase in higher fiscal deficit ceiling to counter-act Trump's tariffs. These factors had increased investors' confidence in the Chinese market, with the CNY only weakening by 0.96% YTD despite Trump increasing tariff by 20%—very different from the outcome during Trump 1.0.
- FX reserves also have a potential to increase substantially from the new export proceeds (DHE) regulations, which requires commodity exporters to place 100% of their earnings at home. But while we think that this could increase domestic FX deposits by about USD 40-50 Bn, not all of them will be added into BI's FX reserves (via either TD-DHE, SVBI, or FX swaps with banks), since we will have to account for increased demand for FX loans for working capital and sundry imports. Thus, as we mentioned in a recent report, the DHE regulations may not necessarily strengthen the Rupiah—at least, not without sacrificing growth.
- Another big worry, of course, is the declining value of Indonesian exports as coal and nickel prices continue to edge down due mainly to oversupply in China. This could dampen the gains from DHE and worsen the S-I gap, especially considering that export volumes could also continue to languish. Recall that the growth in FY 24 exports was mainly fuelled by improved terms of trade, while export quantity had stayed relatively stagnant.

Panel 1. Rupiah continued to depreciate even as other countries reversed trend



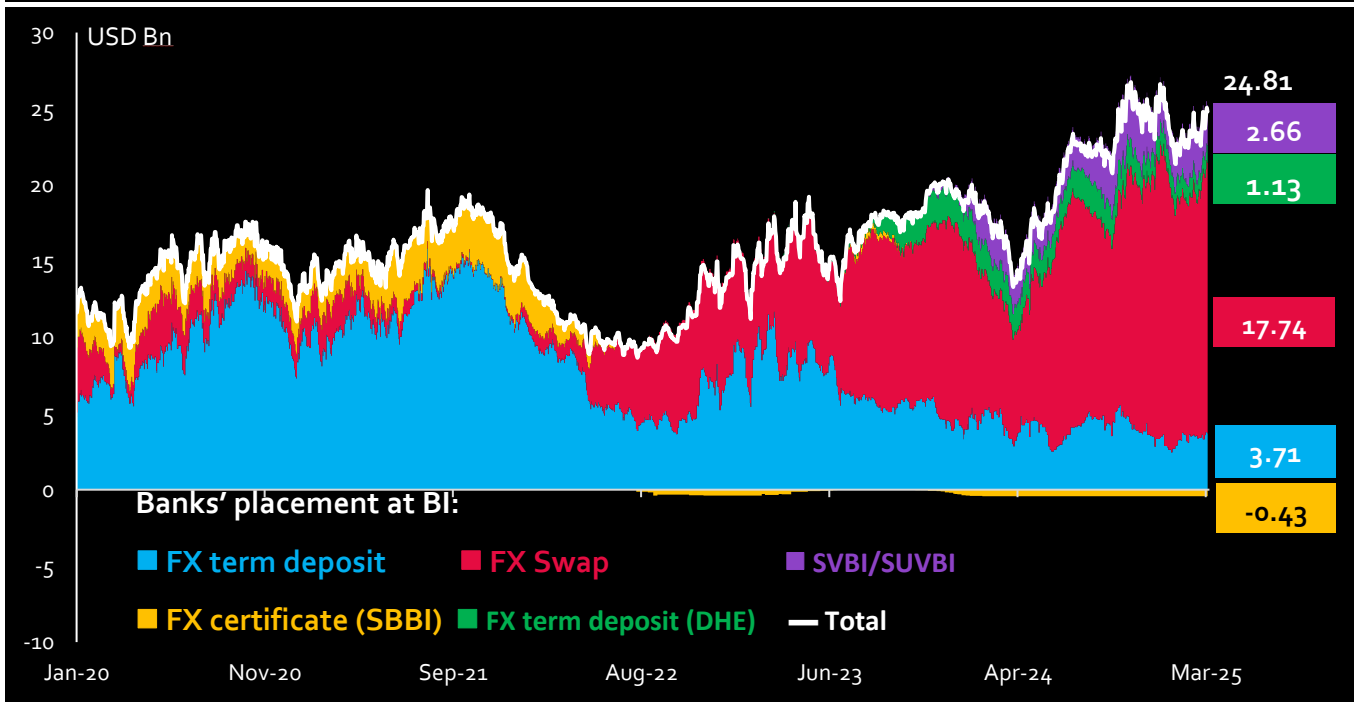
Source: Bloomberg

Panel 2. Net reserves declined due to BI's rupiah stabilization



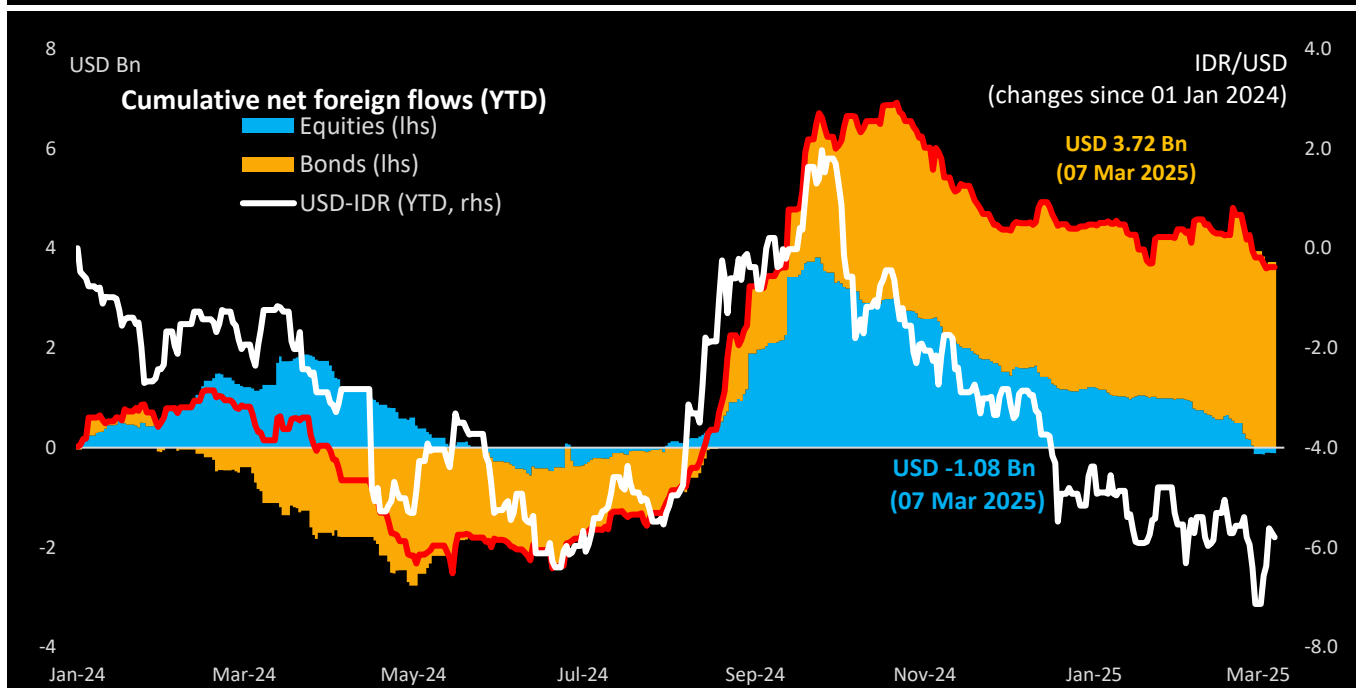
Source: BI

Panel 3. Increase in TD-DHE and SVBI/SUVBI expected over the coming months



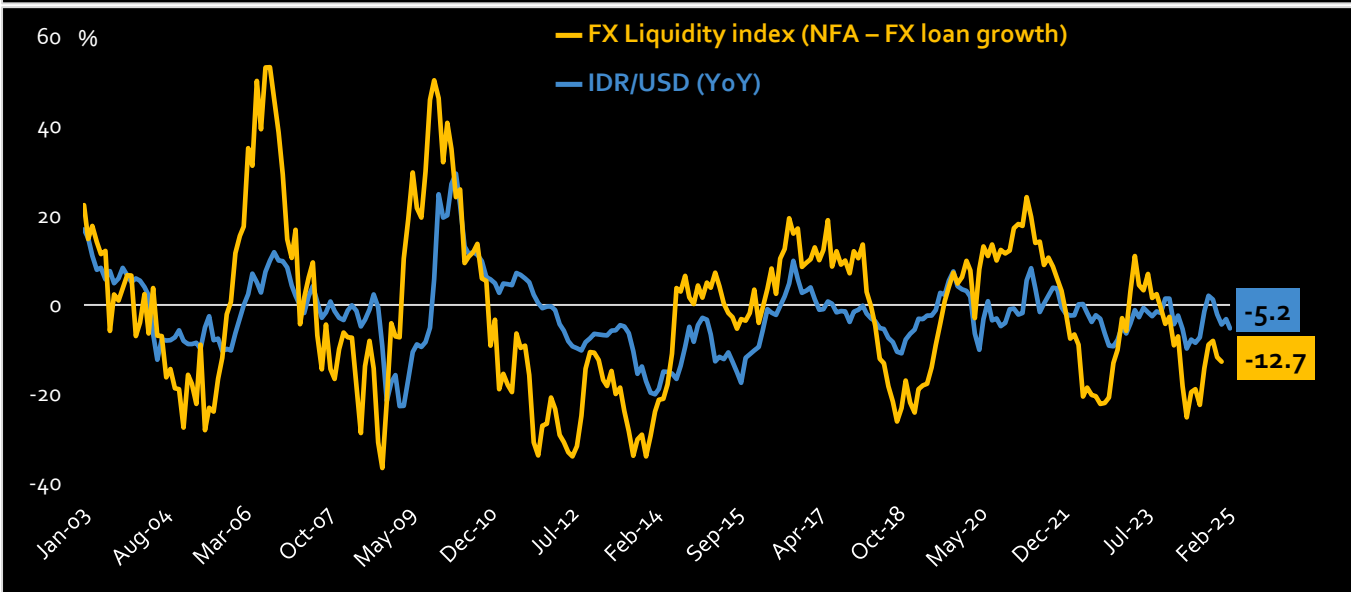
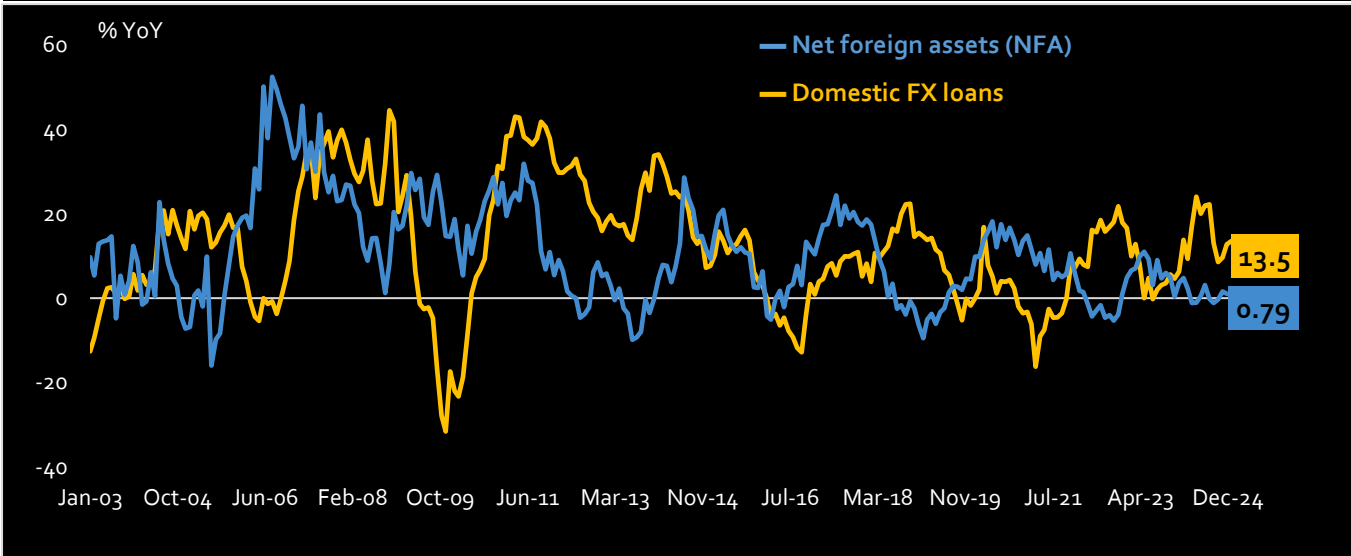
Source: BI

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



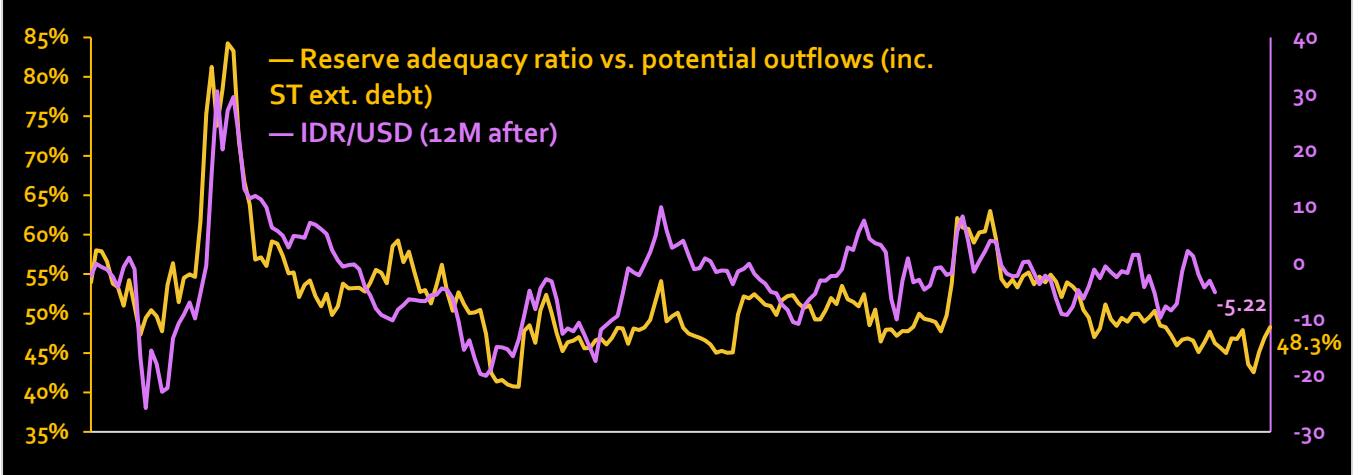
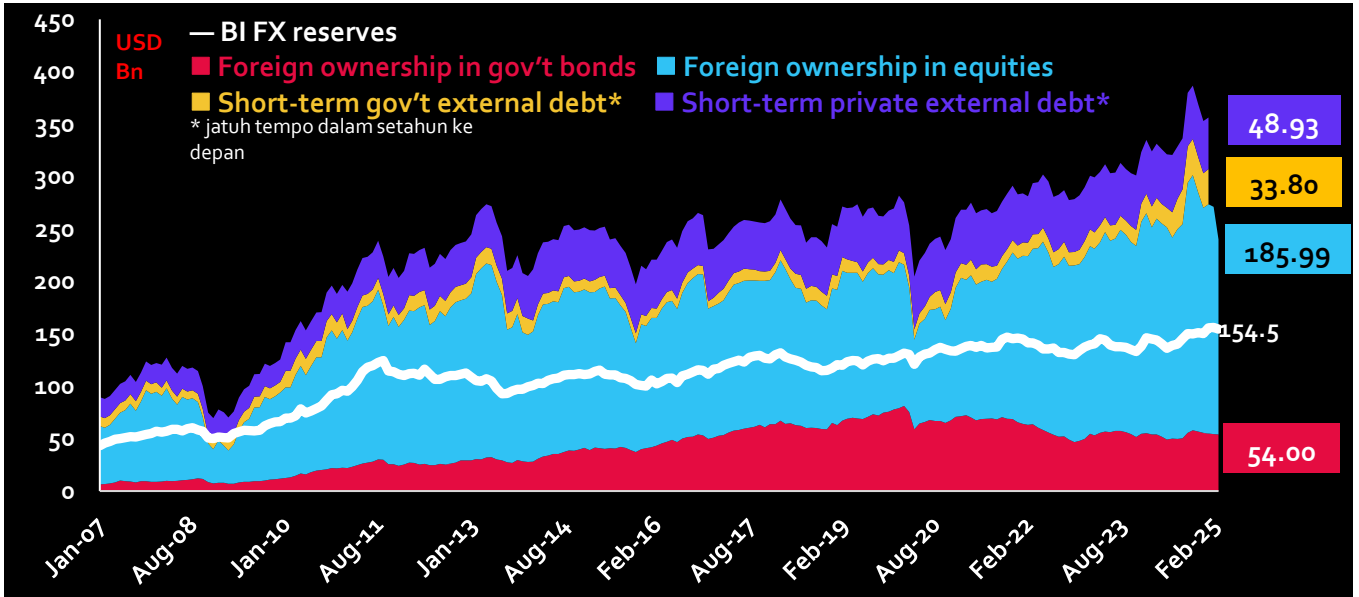
Source: Bloomberg

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



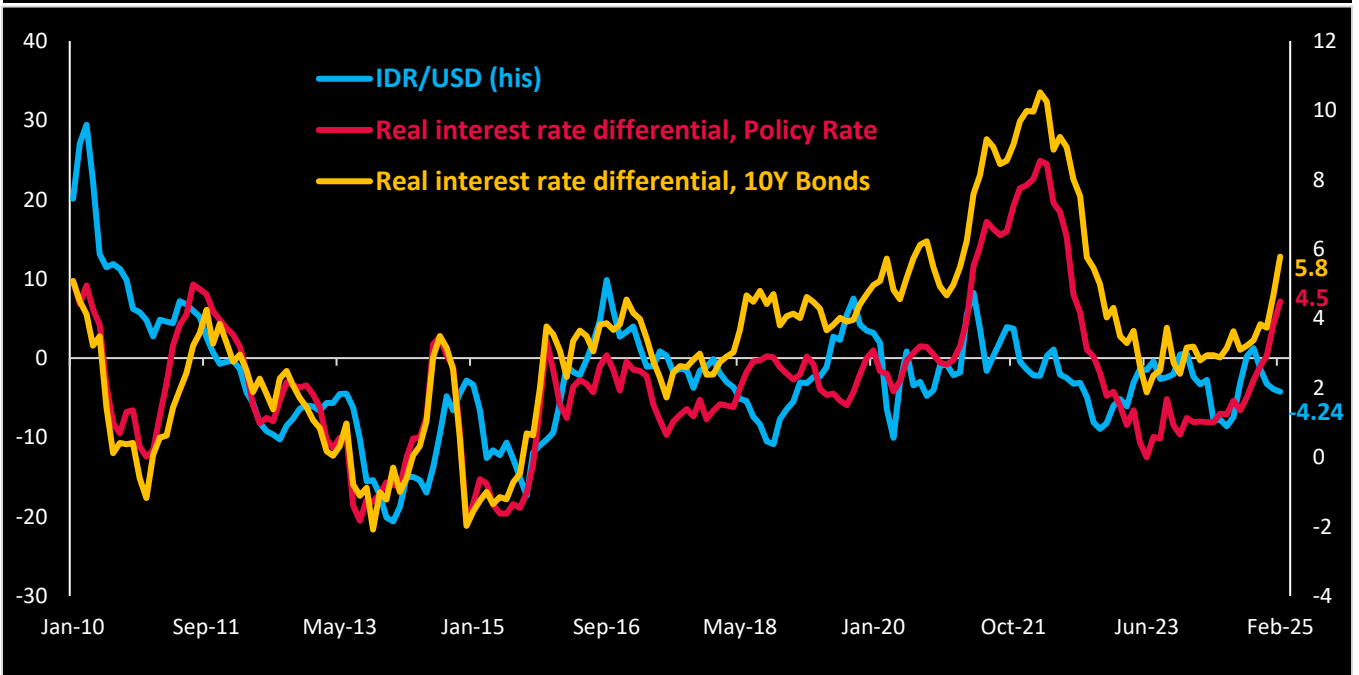
Source: Bloomberg

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-Mar	-1 mth	Chg (%)
US	4.50	Dec-24	1.50	Baltic Dry Index	1,286.0	738.0	74.3
UK	4.50	Feb-25	1.50	S&P GSCI Index	547.5	566.9	-3.4
EU	2.65	Jan-25	0.25	Oil (Brent, \$/brl)	69.5	76.0	-8.6
Japan	0.50	Jan-25	-3.50	Coal (\$/MT)	104.7	118.8	-11.9
China (lending)	2.00	Sep-24	3.85	Gas (\$/MMBtu)	4.39	3.30	33.0
Korea	2.75	Feb-25	0.75	Gold (\$/oz.)	2,911.8	2,815.2	3.4
India	6.25	Feb-25	1.94	Copper (\$/MT)	9,747.8	8,978.6	8.6
Indonesia	5.75	Jan-25	5.84	Nickel (\$/MT)	16,084.6	14,993.6	7.3
Money Mkt Rates	6-Mar	-1 mth	Chg (bps)	CPO (\$/MT)	1,080.2	1,041.0	3.8
				Rubber (\$/kg)	2.05	2.02	1.5
SPN (1Y)	6.06	6.25	-19.2	External Sector	Jan	Dec	Chg (%)
SUN (10Y)	6.86	7.05	-19.0	Export (\$ bn)	21.45	23.46	-8.56
INDONIA (O/N, Rp)	5.72	5.80	-8.0	Import (\$ bn)	18.00	21.22	-15.18
JIBOR 1M (Rp)	6.38	6.40	-1.9	Trade bal. (\$ bn)	3.45	2.24	54.17
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Central bank reserves (\$ bn)*	156.1	155.7	0.23
Lending (WC)	8.62	8.68	-5.92	Prompt Indicators	Jan	Dec	Oct
Deposit 1M	4.92	4.78	14.17	Consumer confidence index (CCI)	127.2	127.7	121.1
Savings	0.68	0.67	1.19	UK Pound	0.776	0.803	3.47
Currency/USD	6-Mar	-1 mth	Chg (%)	Euro	0.927	0.967	4.26
				Japanese Yen	148.0	154.7	4.56
				Chinese RMB	7.242	7.245	0.04
				Indonesia Rupiah	16,330	16,435	0.64
Capital Mkt	6-Mar	-1 mth	Chg (%)	Manufacturing PMI	Feb	Jan	Chg (bps)
JCI	6,617.8	7,030.1	-5.86	USA	52.7	51.2	150
DJIA	42,579.1	44,421.9	-4.15	Eurozone	47.6	46.6	100
FTSE	8,682.8	8,583.6	1.16	Japan	49.0	48.7	30
Nikkei 225	37,704.9	38,520.1	-2.12	China	50.8	50.1	70
Hang Seng	24,369.7	20,217.3	20.54	Korea	49.9	50.3	-40
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)	Indonesia	53.6	51.9	170
Stock	3,083.7	3,531.1	-447.42				
Govt. Bond	890.2	881.3	8.86				
Corp. Bond	5.1	6.0	-0.89				

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

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