

## FX Reserves: Anticipating the Fed's Hawkish Stance

### Executive Summary:

- FX reserves stood at USD 145.9 Bn, influenced by export duty and continuous trade surplus trend.
- Indonesia still benefits from the high commodity price, although the trade surplus only marginally offsets the ongoing capital outflow period.
- The Fed's hawkish stance underlined the capital outflow risks, while effects of the Omicron variant are still unclear.
- Indonesia's FX reserves position provides Bank Indonesia with an ample room to take a more active approach to maintain IDR stability.

- **Bank Indonesia's official reserves asset stood at USD 145.9 Bn** at the end of November 2021, compared to USD 145.5 Bn in October 2021. The current official reserve assets position is sufficient to fund 8.3 months of imports or 8.1 months of imports and servicing the government's external debt.

- The official reserve assets increase in November 2021 was attributed to positive current account reception, especially trade surplus and export duty receptions. The significant impact of trade surplus and export duty to the recent increase in FX reserves underlined the trade-driven nature of Indonesia's official reserves asset, which currently benefits from the persisting high commodity prices. **(see Chart 1)**

- **Risks are still looming around for Indonesia's FX reserves.** For instance, Fed Chair Jerome Powell's Senate testimony, which **entertains the idea of a speedier Fed rate hike timeline**, could put the market to unrest, heightening the risks of capital flight from emerging markets as investors flocked to safer assets. As a result, capital flows in Indonesia, which have been trending outward for some time, could continue its outflow trend **(Chart 2)**. The persisting capital outflow trend explains the relatively modest USD 0.4 Bn increase in the FX reserves position despite the substantial current account surplus.

- The Fed's faster taper timeline, which is somewhat unexpected by the market, could also threaten Indonesia's trade surplus. Premature tightening measures could force commodity traders to pull back, leading to corrections in the commodity market, which puts commodity-exporting countries such as Indonesia in a disadvantageous position.

- Additionally, uncertainties around the Omicron variant could also throw the market into imbalance, although its **impact on the economy remains indeterminate**.

Evidence of a higher lethality rate could lead to mobility restriction measures to make a comeback, slowing down the global economy. The reintroduction of lockdown measures, either in the manufacturing hubs of Asia or the western market, would reduce demand for energy commodities like coal, threatening Indonesia's trade surplus as demand and price dwindle.

- On the other hand, the Omicron variant could also force the Fed to rethink its hawkish stance. Easy policies might be necessary to help the US market glide through the Omicron-riddled economy without being significantly unscathed. A longer Fed rate hike timeline would be well-received by emerging economies to lessen capital outflow risks.
- Last month's official reserves asset position benefits from the current account surplus, which offset capital outflows, although on a relatively modest margin. Capital outflow risks are heightened by the Fed's apparent eagerness to execute the Fed rate hike on a premature timeline. A continuous capital outflow trend could force IDR to stay on its downward trend. But, Indonesia's FX reserves stock provides Bank Indonesia with enough flexibility to launch its triple intervention strategy in the money market. FX reserves position put Bank Indonesia in the position to take a more active approach to control the IDR movement and ensure its stability.

Chart 1. Bank FX liquidity declined slightly, even as Indonesia is enjoying trade surplus....

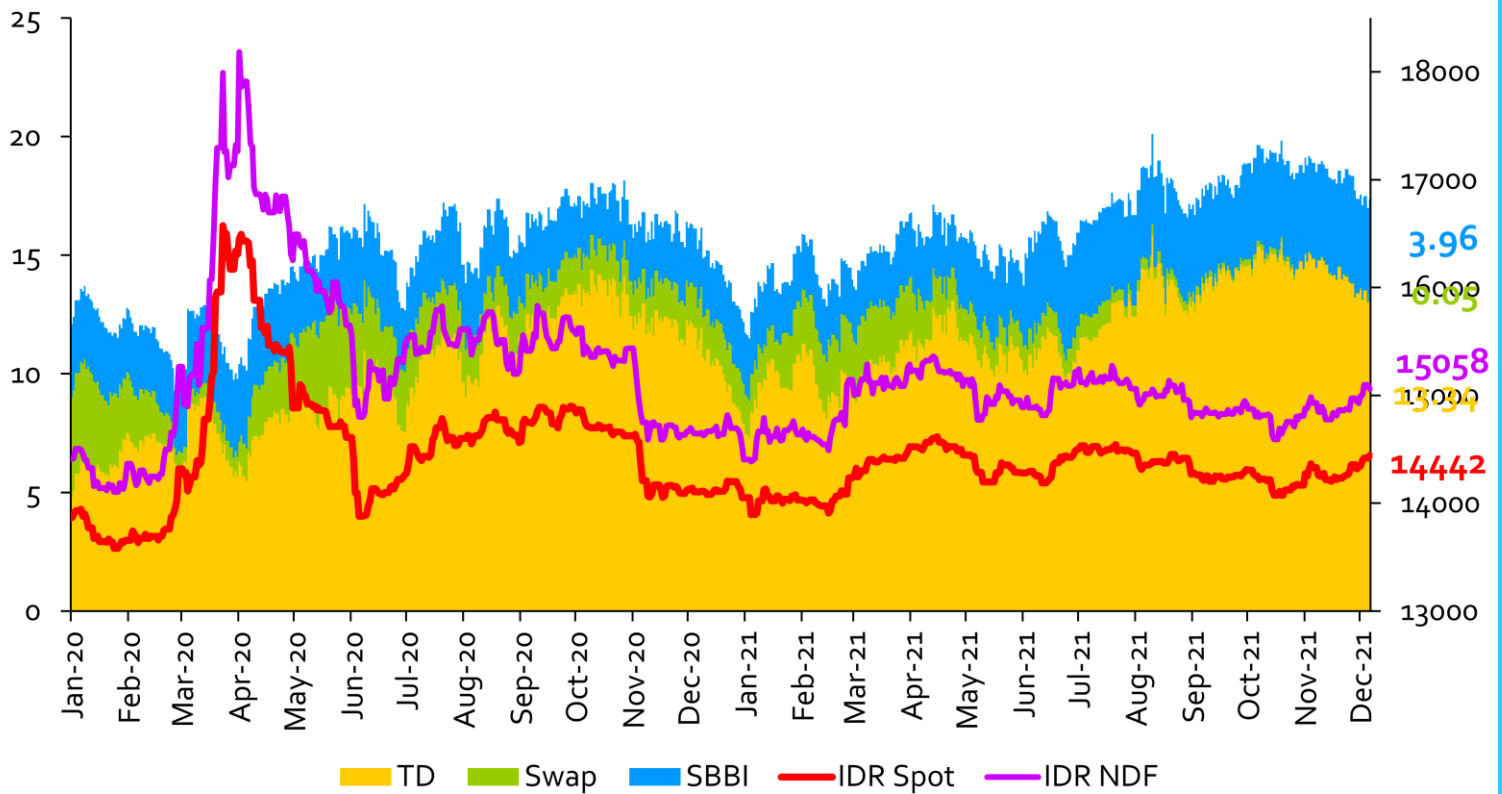
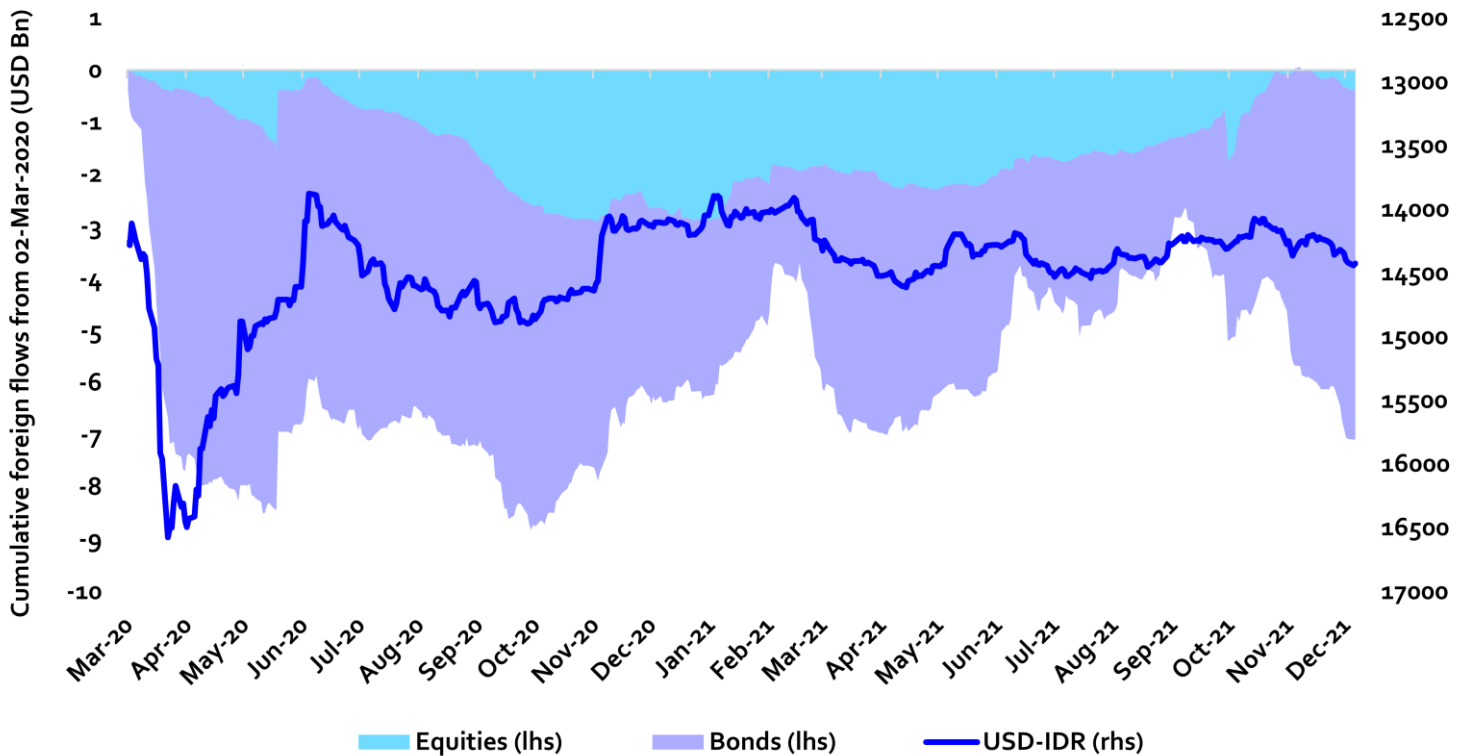


Chart 2. ...caused by the continuous capital outflow trend



Source: Bloomberg (last update: 7 Dec 2021)

## Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Dec	-1 mth	Chg (%)
US	0.25	Mar-20	-5.95	Baltic Dry Index	3,235.0	2,715.0	19.2
UK	0.10	Mar-20	-4.10	S&P GSCI Index	534.3	580.3	-7.9
EU	0.00	Mar-16	-4.90	Oil (Brent, \$/bbl)	73.1	82.7	-11.7
Japan	-0.10	Jan-16	-0.20	Coal (\$/MT)	144.6	147.8	-2.1
China (lending)	4.35	Oct-15	2.85	Gas (\$/MMBtu)	3.64	5.37	-32.2
Korea	1.00	Aug-21	-2.70	Gold (\$/oz.)	1,778.7	1,818.4	-2.2
India	4.00	May-20	-0.48	Copper (\$/MT)	9,558.3	9,753.0	-2.0
Indonesia	3.50	Feb-21	1.75	Nickel (\$/MT)	19,961.5	19,505.0	2.3
Money Mkt Rates	6-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	1,234.3	1,283.6	-3.8
SPN (1M)	2.44	2.35	9.6	Rubber (\$/kg)	1.69	1.65	2.4
SUN (10Y)	6.28	6.05	23.4	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	2.79	2.79	-0.1	Export (\$ bn)	22.03	20.61	6.9
JIBOR 1M (Rp)	3.55	3.55	0.0	Import (\$ bn)	16.29	16.23	0.4
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	5.73	4.37	31.1
Lending (WC)	8.85	8.92	-6.89	Central bank reserves (\$ bn)	145.5	146.9	-0.96
Deposit 1M	3.24	3.31	-7.36	Prompt Indicators	Oct	Sep	Aug
Savings	0.73	0.76	-2.84	Consumer confidence index (CCI)	113.4	95.5	77.3
Currency /USD	6-Dec	-1 mth	Chg (%)	Car sales (%YoY)	54.1	73.2	123.5
UK Pound	0.754	0.741	-1.73	Motorcycle sales (%YoY)	-	22.0	48.2
Euro	0.886	0.865	-2.44	Cement sales (%YoY)	5.3	3.7	-1.0
Japanese Yen	113.5	113.4	-0.06	Capital Mkt	6-Dec	-1 mth	Chg (%)
Chinese RMB	6.376	6.399	0.35	JCI	6,547.1	6,581.8	-0.53
Indonesia Rupiah	14,442	14,331	-0.77	DJIA	35,227.0	36,328.0	-3.03
Capital Mkt	6-Dec	-1 mth	Chg (%)	FTSE	7,232.3	7,304.0	-0.98
JCI	6,547.1	6,581.8	-0.53	Nikkei 225	27,927.4	29,611.6	-5.69
DJIA	35,227.0	36,328.0	-3.03	Hang Seng	23,349.4	24,870.5	-6.12
FTSE	7,232.3	7,304.0	-0.98	Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)
Nikkei 225	27,927.4	29,611.6	-5.69	Stock	2,233.2	2,248.9	-15.79
Hang Seng	23,349.4	24,870.5	-6.12	Govt. Bond	918.5	949.3	-30.81
Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)	Corp. Bond	22.4	23.1	-0.69
Stock	2,233.2	2,248.9	-15.79				
Govt. Bond	918.5	949.3	-30.81				
Corp. Bond	22.4	23.1	-0.69				

Source: Bloomberg, BI, BPS

Notes:

\*Previous data

\*\*For change in currency: **Black** indicates appreciation against USD, **Red** indicates depreciation\*\*\*For PMI, **> 50** indicates economic expansion, **< 50** indicates contraction

## Indonesia Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.0
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,215
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	32.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	0.4

\*\* Estimation of Rupiah's fundamental exchange rate

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