

## FX Reserves:

# A less cushy buffer

Keely Julia Hasim  
Economist/Analyst

Barra Kukuh Mamia  
Senior Economist

13 May 2022

### Executive Summary

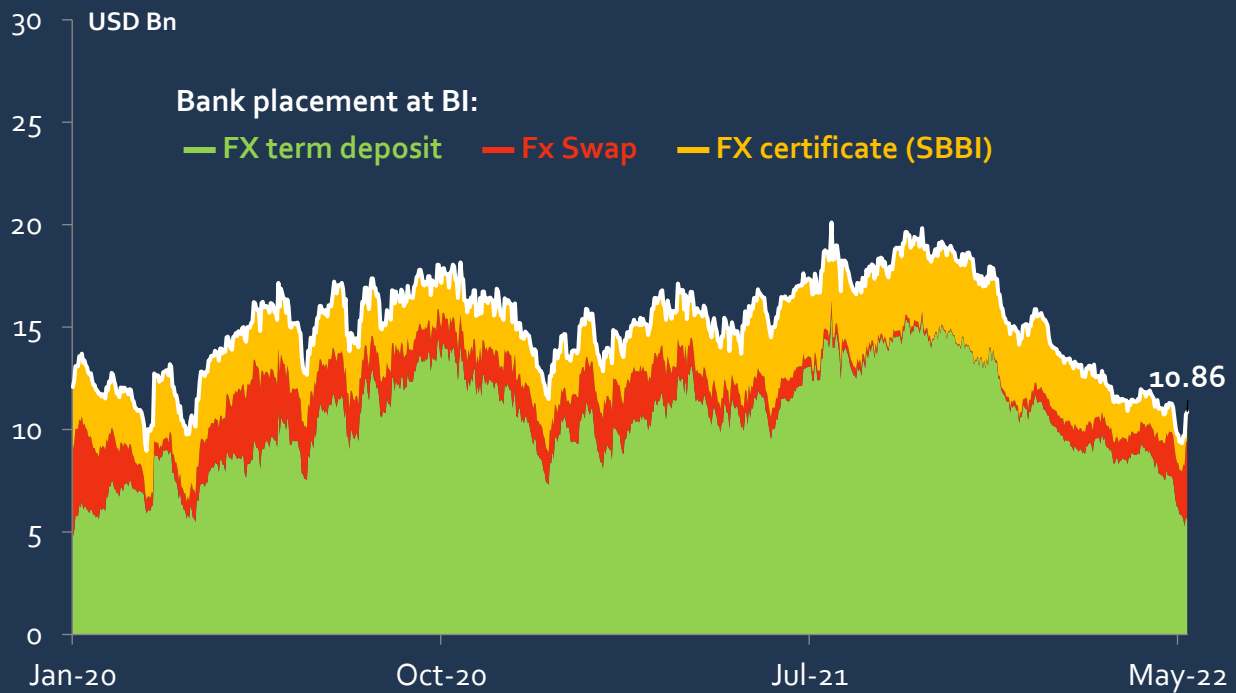
- Bank Indonesia's foreign exchange reserves slightly declined from USD 139.1 Bn in March to USD 135.7 Bn in April, caused in part by the payment of global bonds, but also by the need for FX intervention, amid global capital outflows which intensified in the past month.
- While Rupiah has performed better than most EM currencies this year, the Fed's hawkish policy as well as rising domestic inflation would likely increase outflows from Indonesian bonds and equities in the coming months.
- We expect that BI will act in an anticipatory manner to this development, meaning that not only there may be a wider band range of BI rate hikes (50-150 bps), but the timing of the initial hike could come earlier than originally expected.

- Bank Indonesia's foreign exchange reserves slightly declined from USD 139.1 Bn in March to USD 135.7 Bn in April. The decline is caused in part by the payment of global bonds, but also by the need for FX intervention, amid global capital outflows which intensified in the past month.
- The decline also mirrored the fall in banks' FX placements at BI (**Chart 1**). As mentioned in our previous reports, part of this decline is explicable by increased demand for imports amid domestic recovery. However, the persistence of this decline despite Indonesia's commodity trade surplus begs explanation.
- One explanation is that part of our trade surplus is recycled abroad, or simply not repatriated in the first place. We find that the net errors and omissions component of the BoP has tended to grow bigger during commodity booms (**Chart 2**), which seems to support this theory.
- The discrepancy may also be exacerbated by the government's efforts to control domestic prices by curbing or even banning exports of CPO and coal. Given that the drastic move to ban CPO exports was only made official on April 28, the trade surplus (and therefore FX supply) could decline further in May. Nonetheless, we think that this drastic measure is unlikely to be sustained for too long, given the drop in farmers' earnings as well as its relatively limited impact so far on retail cooking oil prices, which have hitherto only declined by 1% MoM.

**"The persistence of this decline despite Indonesia's commodity trade surplus begs explanation."**

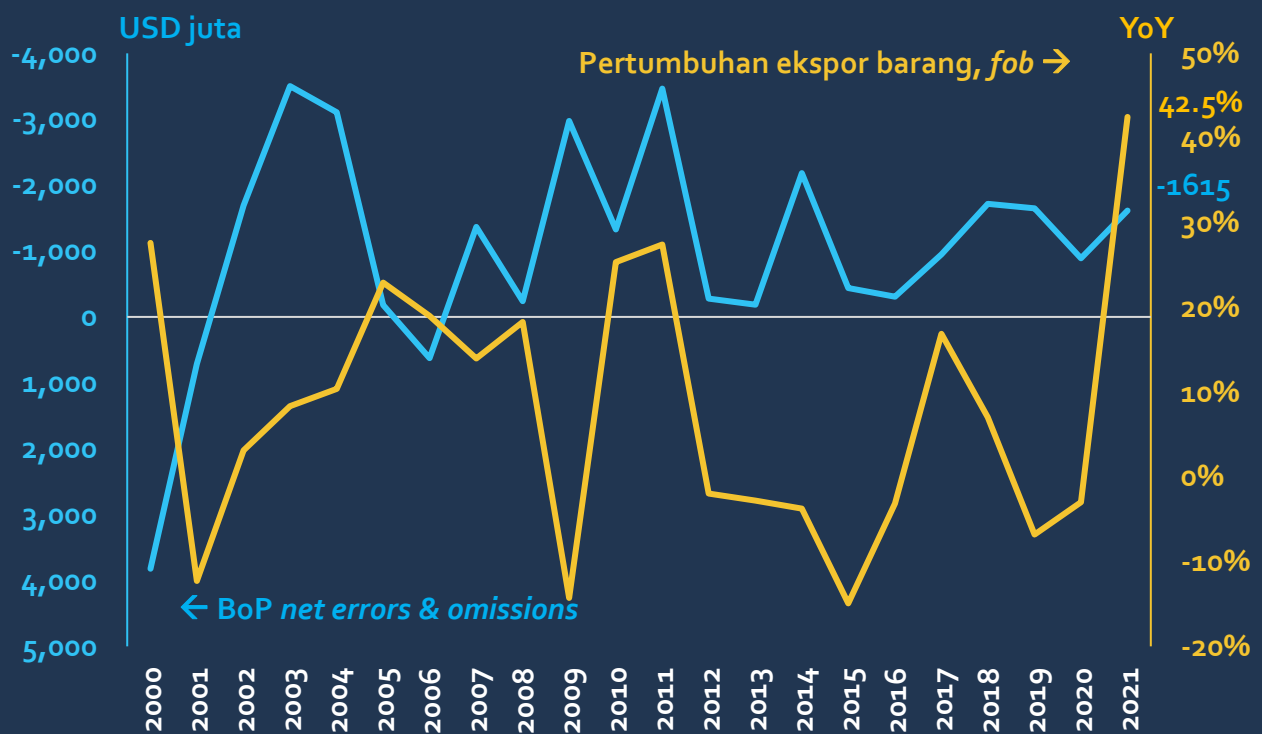
- This leaves Rupiah, which has performed better than most EM currency this year, with a somewhat less cushy buffer than we would like, just when the US Dollar is growing much stronger. The Fed's hawkish policy has led to increased outflows from EM bonds and equities - even Indonesian equities (**Chart 3**) which include many energy companies among its ranks.
- The situation is complicated by the possibility that the government will start to phase out its energy subsidies over the next few months. Any increase in the price of Peralite, electricity, or the household 3 kg LPG could cause greater impact on inflation than the adjustment on VAT and Pertamina last month. The resurgence in domestic inflation then, would narrow Indonesia's real yield differentials relative to the US and further increase the risk of IDR depreciation. We expect that BI will act in an anticipatory, as opposed to reactive, manner to this development, meaning that not only there may be a wider band range of BI rate hikes (50-150 bps), but the timing of the initial hike could come earlier than originally expected.

**Chart 1. Despite high export earnings, banks' foreign currency placements in BI have generally declined**



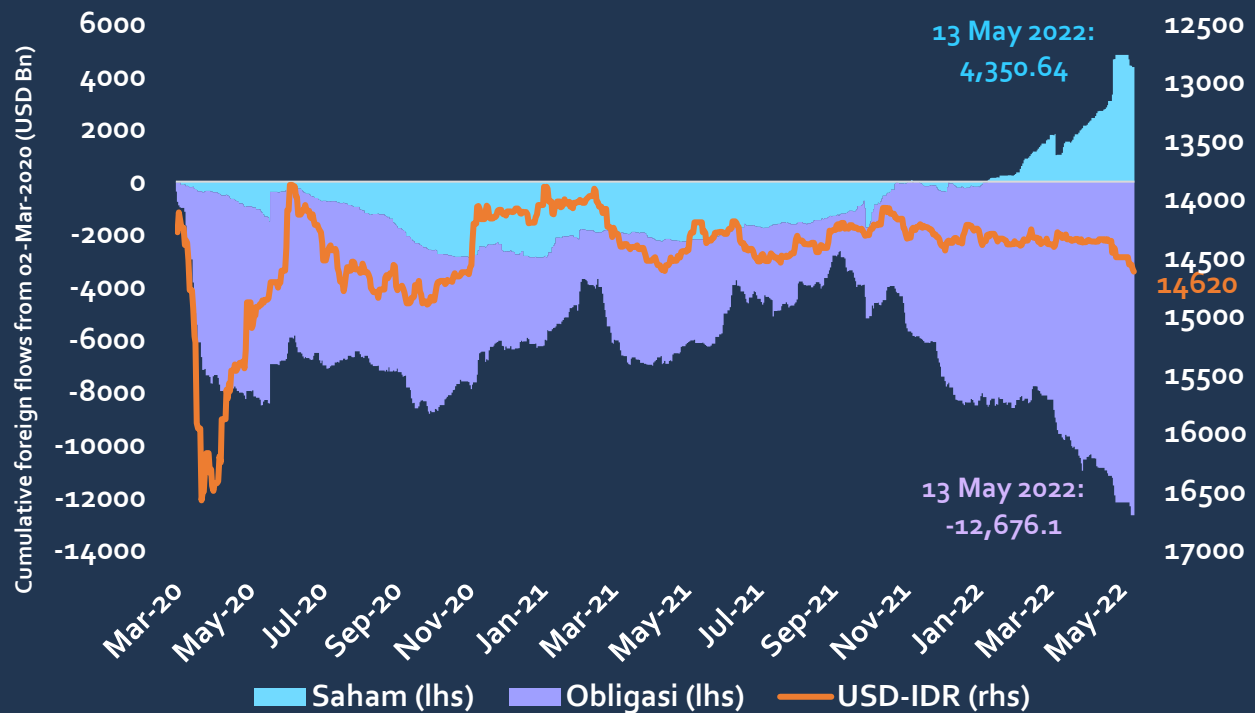
Source: BI, BCA Research Team

**Chart 2. Net errors and omissions component of the BoP has tended to grow bigger during commodity booms**



Source: BI

*Chart 3. The Fed's hawkish policy has led to increased outflows from Indonesian bonds and equities*



Source: Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	12-May	-1 mth	Chg (%)
US	0.50	Mar-22	-7.80	Baltic Dry Index	3,117.0	2,031.0	53.5
UK	0.75	Mar-22	-6.25	S&P GSCI Index	744.5	706.8	5.3
EU	0.00	Mar-16	-7.50	Oil (Brent, \$/bbl)	107.5	98.5	9.1
Japan	-0.10	Jan-16	-1.30	Coal (\$/MT)	328.3	272.6	20.5
China (lending)	4.35	Oct-15	2.25	Gas (\$/MMBtu)	7.25	6.34	14.4
Korea	1.50	Apr-22	-3.30	Gold (\$/oz.)	1,821.8	1,953.5	-6.7
India	4.40	May-22	-3.39	Copper (\$/MT)	9,103.5	10,181.8	-10.6
Indonesia	3.50	Feb-21	0.03	Nickel (\$/MT)	27,724.5	32,468.0	-14.6
Money Mkt Rates	12-May	-1 mth	Chg (bps)	CPO (\$/MT)	1,582.5	1,567.7	0.9
				Rubber (\$/kg)	1.57	1.71	-8.2
SPN (1M)	3.51	2.15	135.7	External Sector	Mar	Feb	Chg (%)
SUN (10Y)	7.38	6.84	53.5	Export (\$ bn)	26.50	20.47	29.4
INDONIA (O/N, Rp)	2.79	2.79	-0.2	Import (\$ bn)	21.97	16.64	32.0
JIBOR 1M (Rp)	3.54	3.55	-0.6	Trade bal. (\$ bn)	4.53	3.83	18.1
Bank Rates (Rp)	Jan	Dec	Chg (bps)	Central bank reserves (\$ bn)*	135.7	141.4	-4.06
Lending (WC)	8.66	8.63	2.97	Prompt Indicators	Apr	Mar	Feb
Deposit 1M	2.88	2.92	-3.51	Consumer confidence index (CCI)	113.1	111.0	113.1
Savings	0.69	0.69	0.87	UK Pound	0.820	0.767	-6.35
Currency/USD	12-May	-1 mth	Chg (%)	Euro	0.963	0.919	-4.63
				Japanese Yen	128.3	125.4	-2.31
				Chinese RMB	6.786	6.370	-6.13
				Indonesia Rupiah	14,597	14,366	-1.58
Capital Mkt	12-May	-1 mth	Chg (%)	Cement sales (%YoY)	N/A	23.2	13.6
JCI	6,599.8	7,203.8	-8.38	Manufacturing PMI	Apr	Mar	Chg (bps)
DJIA	31,730.3	34,308.1	-7.51	USA	55.4	57.1	-170
FTSE	7,233.3	7,618.3	-5.05	Eurozone	55.5	56.5	-100
Nikkei 225	25,748.7	26,821.5	-4.00	Japan	53.5	54.1	-60
Hang Seng	19,380.3	21,208.3	-8.62	China	46.0	48.1	-210
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)	Korea	52.1	51.2	90
Stock	2,599.7	2,463.5	136.15	Indonesia	51.9	51.3	60
Govt. Bond	827.9	848.3	-20.43				
Corp. Bond	18.5	19.4	-0.92				

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

\*Data from 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

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	4.8
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4615
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	4.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	48.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

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

### Economic, Banking & Industry Research Team

**David E.Sumual**

*Chief Economist*

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

**Victor George Petrus Matindas**

*Senior Economist*

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Livia Angelica Thamsir**

*Economist / Analyst*

livia\_thamsir@bca.co.id

+6221 2358 8000 Ext: 1069933

**Ahmad Aprilian Rizki**

*Research Assistant*

ahmad\_rizki@bca.co.id

+6221 2358 8000 Ext: 20378

**Agus Salim Hardjodinto**

*Senior Industry Analyst*

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

*Industry Analyst*

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Lazuardin Thariq Hamzah**

*Economist / Analyst*

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: -

**Arief Darmawan**

*Research Assistant*

arief\_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

**Barra Kukuh Mamia**

*Senior Economist*

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Derrick Gozal**

*Economist / Analyst*

derrick\_gozal@bca.co.id

+6221 2358 8000 Ext: 1066122

**Keely Julia Hasim**

*Economist / Analyst*

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: -

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

#### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: [ahmad\\_rizki@bca.co.id](mailto:ahmad_rizki@bca.co.id)