FX Reserves:
A passing storm

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Executive Summary

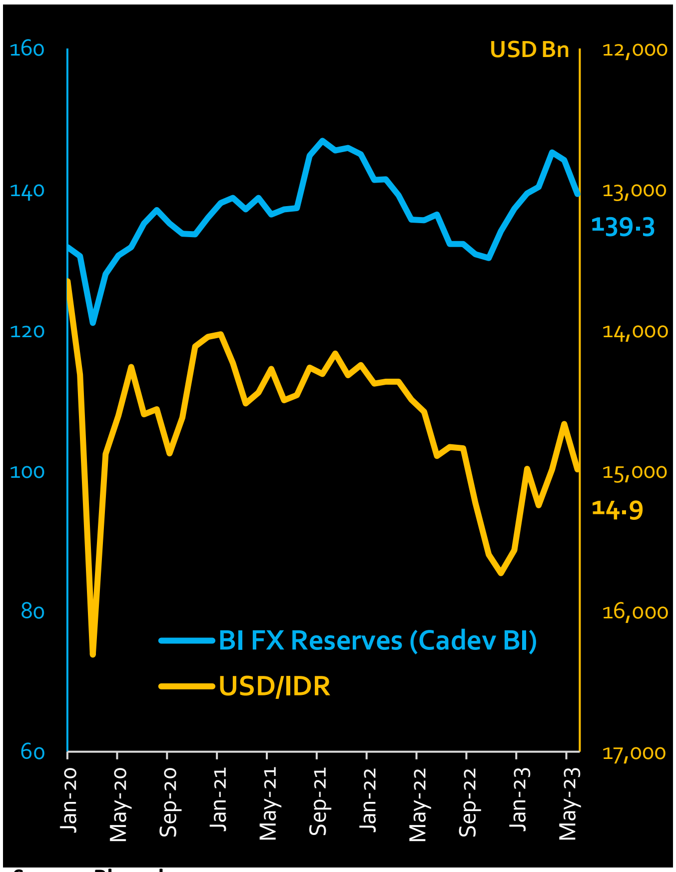
- Indonesia's FX reserves declined by USD 4.9 Bn to USD 139.3 Bn by the end of May-23, due to factors including dividend repatriation, global bond repayments, and a possible decline in trade surplus.
- Rupiah has remained stable, despite uncertainties in the global market, with the debt ceiling and the threat of renewed Fed hikes in June-July prompting a rise in the Dollar index.
- The Rupiah's relative strength and the disinflationary effects emanating from China is raising the chance that BI could cut rates later in the year, probably ahead of the Fed. Nonetheless, we believe this to be a lower-priority move compared to fiscal stimulus or even reducing the reserve requirement.

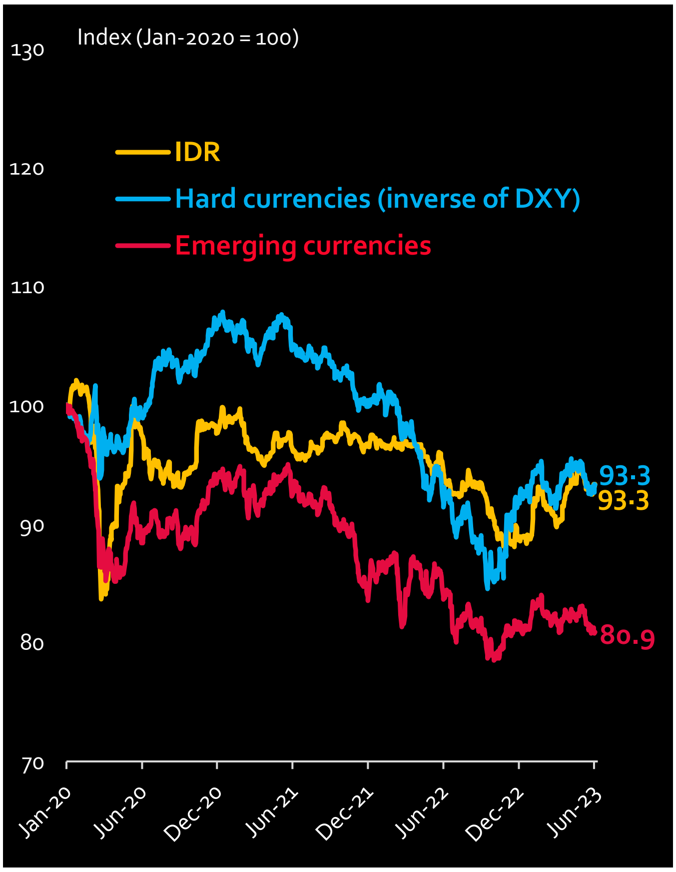
- Indonesia's FX reserves declined by USD 4.9 Bn to USD 139.3 Bn by the end of May-23, which represents the largest month-to-month fall since Mar-20. The decline was caused by a perfect storm of events: dividend repatriation, global bond repayments, and a possible decline in trade surplus.
- Repatriation is of course a recurrent event following dividend payment around April, but this year it is a much bigger deal than usual – thanks to the strong inflows and generous payouts following a sterling year for Indonesian equities. Meanwhile, there were two maturing USD-denominated bonds in May, both by SOEs (Pertamina, Pelabuhan Indonesia).
- The narrowing of our trade surplus is something that we have anticipated for quite some time given the decline in commodity prices, but it has not fully materialized yet thanks partly to higher export volumes following China's reopening. However, this volumetric increase is likely to be short-lived considering China's weakening demand, and a surplus of only USD 2-3 Bn on average (versus 4.4 Bn in the past 16 months) is a more probable outcome for the next few months.
- Yet amid these disruptions, the Rupiah had stayed firm (+0.14% MoM). This is even more remarkable given the state of the global market in May, with debt ceiling and the threat of renewed Fed hikes in June-July prompting a rise in the Dollar index.
- Is this stability, then, a product of successful intervention by BI – which would also explain the sharp decline in reserves – or a broader market confidence towards Indonesia? We are leaning towards the latter explanation, given the continued narrowing of the non-deliverable forward (NDF) spread and CDS premium. Foreign capital also continued to record net inflows for both bonds (USD 41.5 Mn) and equities (USD 310.6 Mn).
- The big drop in FX reserves, then, is not something that should be immediately concerning unless it continues. Both global bonds maturity and dividend repatriation are seasonal in

nature, while the market indications remain more sanguine. We do, however, reserve some caution over the current account balance, which is likely to turn into a narrow deficit this year.

- The Rupiah's relative strength and the disinflationary effects emanating from China is raising the chance that BI could cut rates later in the year, probably ahead of the Fed. Nonetheless, as mentioned previously, we believe this to be a lower-priority move compared to fiscal stimulus or even reducing the reserve requirement.

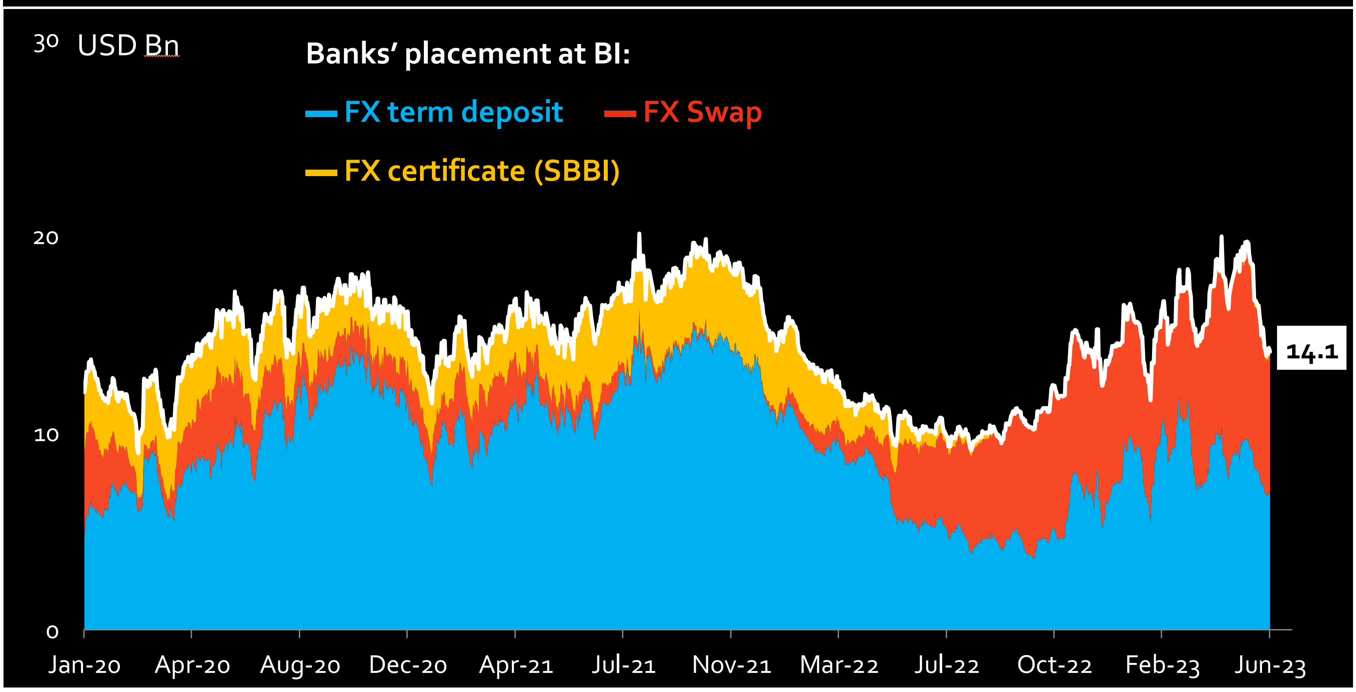
Panel 1. Rupiah continue to remains remarkably stable in May 2023, despite the significant decline in FX reserves





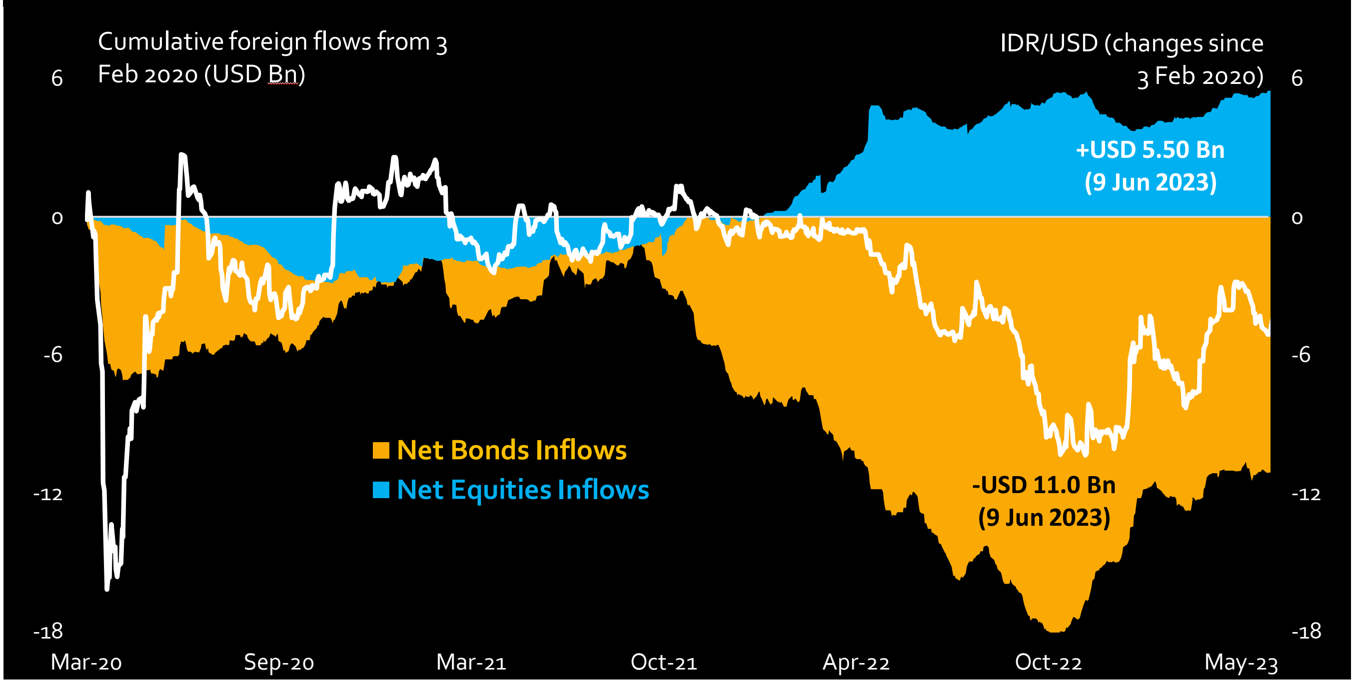
Source: Bloomberg

Panel 2. Banks' placement at BI has likely declined due to dividend payouts and maturing bonds



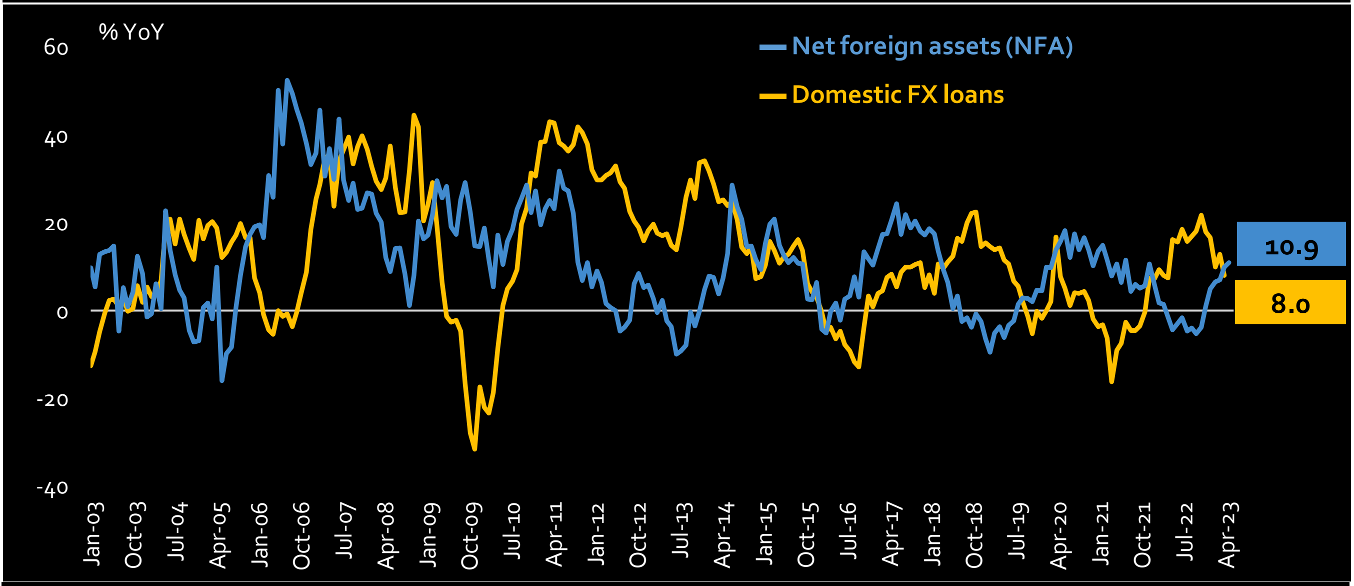
Source: BI

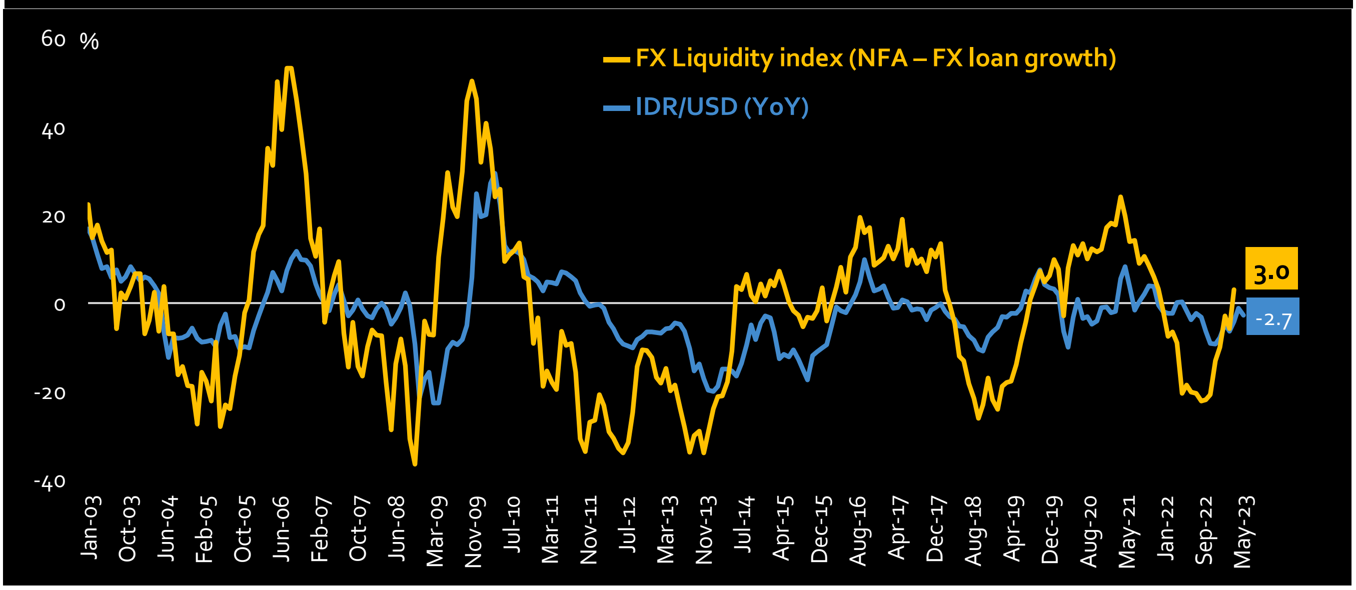
Panel 3. Capital inflows continue to rise reflecting growing confidence on the Indonesian economy



Source: Bloomberg

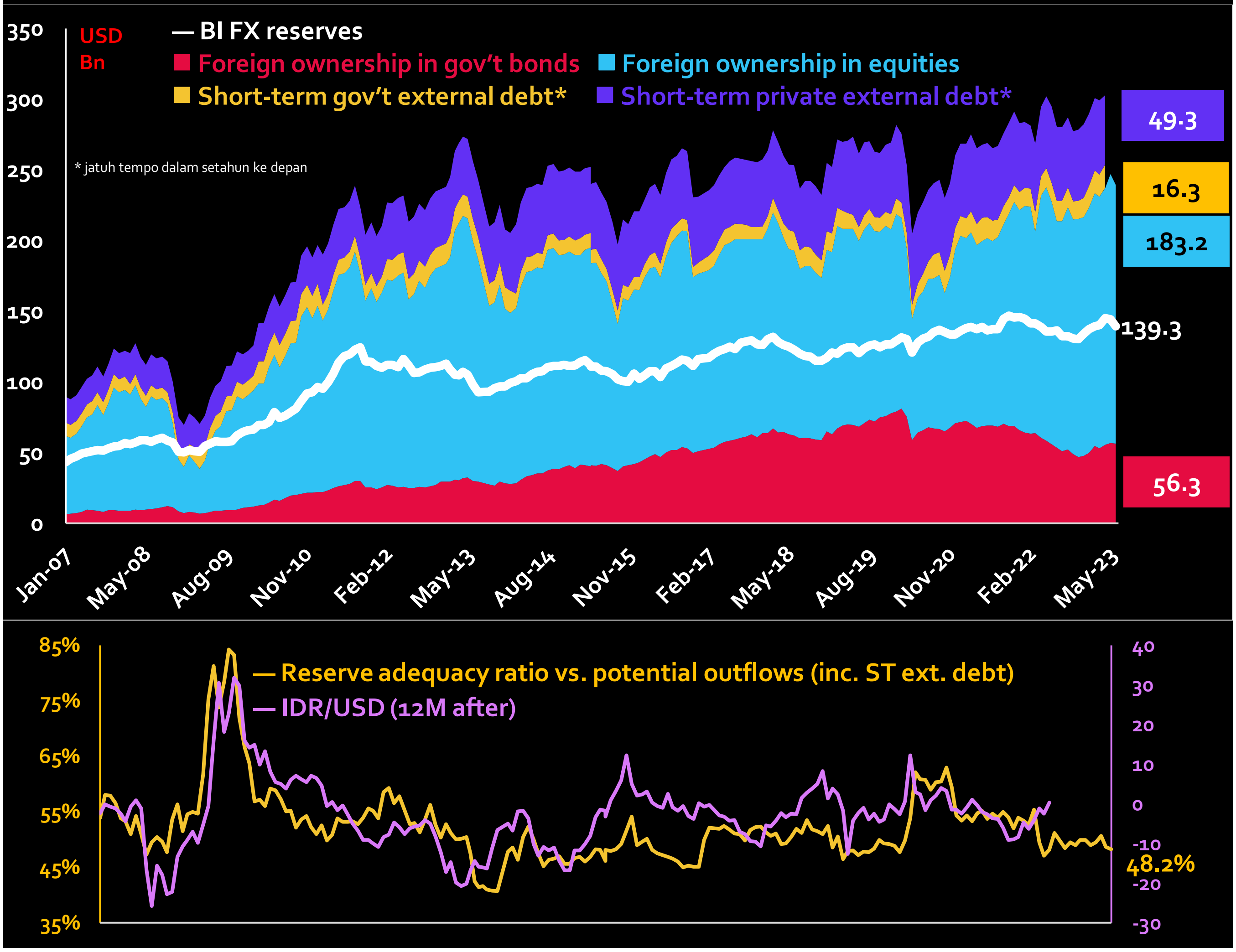
Panel 4. Increased foreign inflow improve domestic FX liquidity





Source: BI, Bloomberg

Panel 5. FX reserves remain adequate to cover potential outflows



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.25	Jun-23	0.35
UK	4.50	Jun-23	-4.20
EU	3.75	Jun-23	-2.35
Japan	-0.10	Jan-16	-3.60
China (lending)	4.35	Jun-23	4.15
Korea	3.50	May-23	0.20
India	6.50	Jun-23	1.80
Indonesia	5.75	May-23	1.75

Money Mkt Rates	8-Jun	-1 mth	Chg (bps)
SPN (1M)	3.92	4.35	-43.3
SUN (10Y)	6.34	6.46	-12.3
INDONIA (O/N, Rp)	5.57	5.62	-5.2
JIBOR 1M (Rp)	6.40	6.40	0.0

Bank Rates (Rp)	Mar	Feb	Chg (bps)
Lending (WC)	8.95	8.89	6.13
Deposit 1M	4.20	4.18	2.24
Savings	0.69	0.67	1.92

Currency/USD	8-Jun	-1 mth	Chg (%)
UK Pound	0.796	0.793	-0.46
Euro	0.927	0.909	-2.02
Japanese Yen	138.9	135.1	-2.75
Chinese RMB	7.112	6.914	-2.78
Indonesia Rupiah	14,895	14,700	-1.31

Capital Mkt	8-Jun	-1 mth	Chg (%)
JCI	6,666.3	6,769.6	-1.53
DJIA	33,833.6	33,618.7	0.64
FTSE	7,599.7	7,778.4	-2.30
Nikkei 225	31,641.3	28,949.9	9.30
Hang Seng	19,299.2	20,297.0	-4.92

Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)
Stock	2,738.1	2,789.1	-51.06
Govt. Bond	830.0	822.7	7.29
Corp. Bond	11.8	11.8	-0.01

Trade & Commodities	8-Jun	-1 mth	Chg (%)
Baltic Dry Index	1,040.0	1,558.0	-33.2
S&P GSCI Index	545.5	553.5	-1.4
Oil (Brent, $/brl)	76.0	77.0	-1.4
Coal ($/MT)	147.8	182.6	-19.1
Gas ($/MMBtu)	2.10	2.12	-0.9
Gold ($/oz.)	1,965.5	2,021.2	-2.8
Copper ($/MT)	8,336.0	8,560.3	-2.6
Nickel ($/MT)	21,011.0	24,447.3	-14.1
CPO ($/MT)	727.5	926.4	-21.5
Rubber ($/kg)	1.32	1.38	-4.3

External Sector	Apr	Mar	Chg (%)
Export ($ bn)	19.29	23.42	-17.62
Import ($ bn)	15.35	20.59	-25.45
Trade bal. ($ bn)	3.94	2.83	39.43
Central bank reserves ($ bn)*	144.2	145.2	-0.70

Prompt Indicators	Apr	Mar	Dec
Consumer confidence index (CCI)	126.1	123.3	119.9
Car sales (%YoY)	-28.8	2.7	9.0
Motorcycle sales (%YoY)	-19.4	40.5	24.6

Manufacturing PMI	May	Apr	Chg (bps)
USA	46.9	47.1	-20
Eurozone	44.8	45.8	-100
Japan	50.6	49.5	110
China	50.9	49.5	140
Korea	48.4	48.1	30
Indonesia	50.3	52.7	-240

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

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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.0
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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