

FX Reserves:

Narrowing buffers, but rupiah's stability endures

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Executive Summary

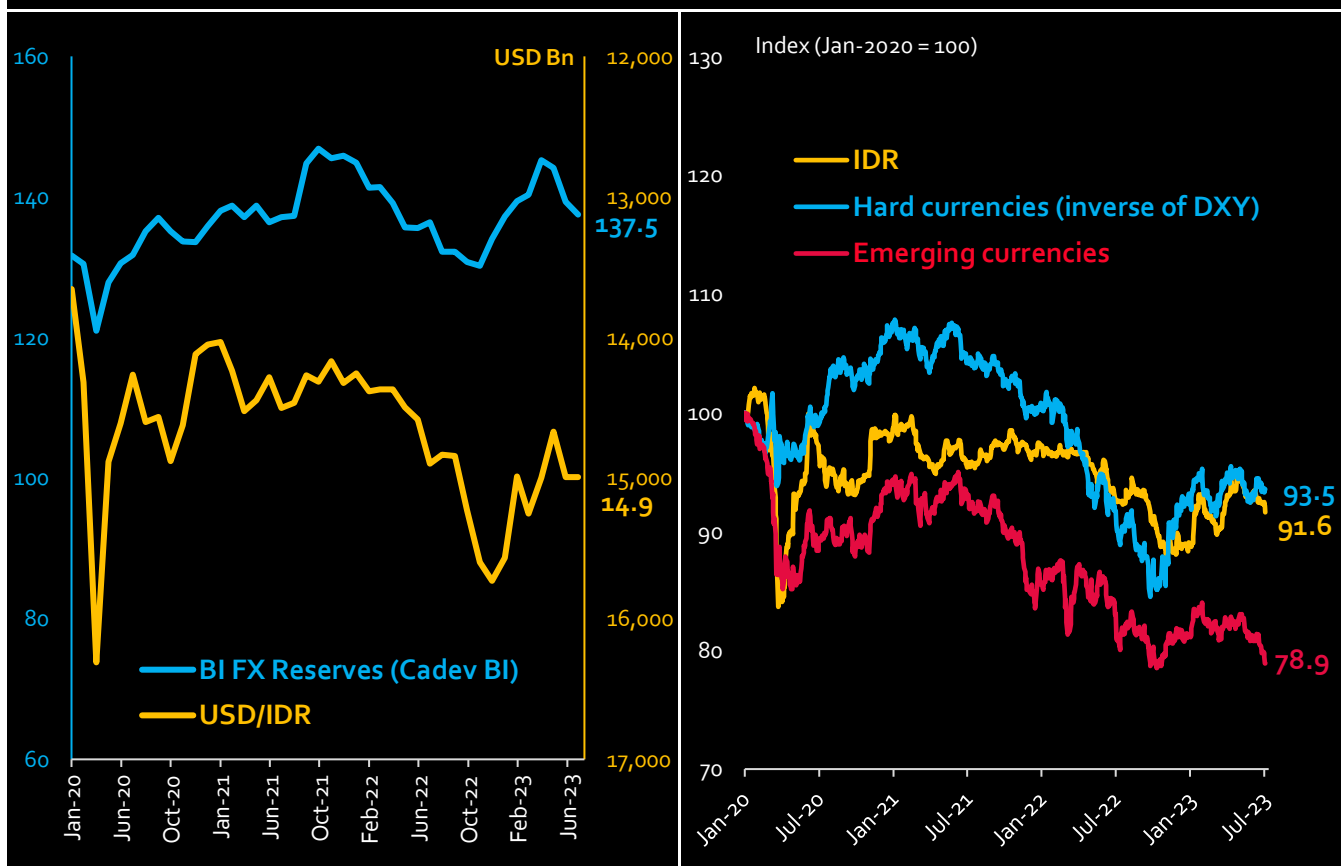
- Indonesia's FX reserves declined by USD 1.8 Bn to USD 137.5 Bn by the end of June 2023, due to maturing global bonds and narrower trade surplus.
- The recent global volatility has led to IDR depreciation in June, but the decline is still smaller than many other Southeast Asian currencies.
- Despite the relatively limited downside for the IDR, there are few catalysts for renewed IDR appreciation in the short-term, barring an outright Fed pivot.
- BI would likely maintain the policy rate for the time being, while fiscal spending would likely take precedence in boosting growth in H2-2023.

- Indonesia's FX reserves stood at USD 137.5 Bn at the end of June 2023, representing a decline of USD 1.8 Bn compared to previous month's figures. The decline was largely expected due to maturing global bonds amounting to around USD 1.6 Bn last month, whereas no new global bonds were issued in the same month. Dividend repatriation could also contribute to the decline in June, but likely not as much of a contributing factor compared to the month prior due to its seasonal nature.
- The drop in FX liquidity may also indicate the continued slowdown in our trade balance, which fell to a three-year low in May (USD 0.44 Bn). Indeed, prices for Indonesia's key export items, such as coal and CPO, have each declined by 20.0% MoM and 5.4% MoM in June. Such decline in prices went hand-in-hand with declining demand from China, with the official PMI data pointing to manufacturing contraction in three straight months.
- This thinner cushion may seem like bad news for the IDR, given recent global backdrop. The Dollar index has been picking up since the Fed made its "hawkish pause", as more investors now believe in a July hike. It has also been further burdened by the pressures on the CNY and JPY, which – in typical fashion – exerted collateral damage on regional currencies.
- Despite all these concerns, however, the IDR has performed startlingly well. Its depreciation in June (-0.82% MoM) was wider than the PHP, but much better than the MYR and THB. Both the CDS premium and the non-deliverable forward (NDF) spread against spot IDR have also stayed near historic lows – which testify to the perception of resilience among foreign investors. Small wonder, then, that foreign capital continued to record inflows for both bonds (USD 575.4 Mn) and equities (USD 36.6 Mn), albeit narrower than before.
- That said, we feel justified in our view that the USD/IDR levels fundamentally lies at around 14,700 – 15,200 for the year, unlike some of the more optimistic voices earlier in the year. While there is relatively limited downside for the IDR compared to other currencies, there are

precious few catalysts for renewed appreciation barring an outright pivot by the Fed. The falling commodity prices, especially, put a hard ceiling on the current account and may also dampen investors' appetite for Indonesian equities.

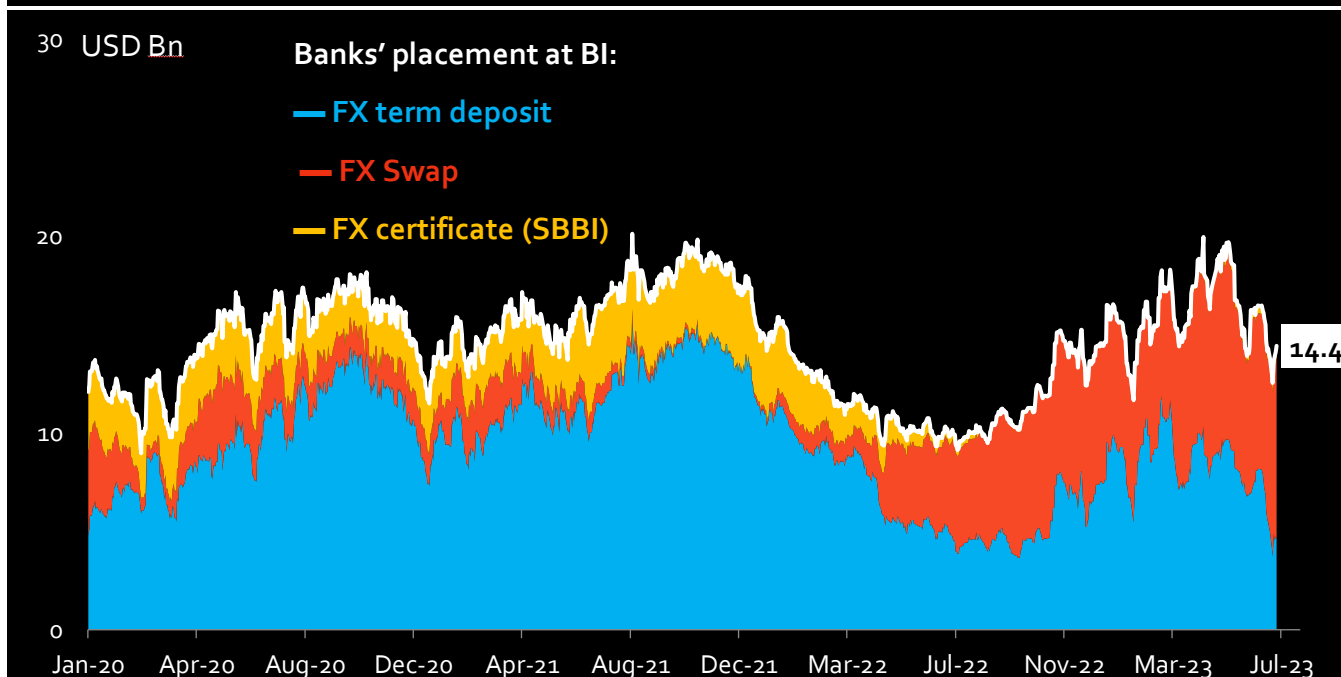
- Overall, the drop in the FX reserves is still not too concerning at the moment, considering that it has been more heavily influenced by seasonal and temporary factors. But the smaller "margin of error" for IDR strengthens our belief that BI would likely maintain the BI7DRR at 5.75% for the time being (instead of cutting rates), while fiscal and Elections-related spending would take precedence in boosting growth in H2-23.

Panel 1. Rupiah continue to remains relatively resilient in June 2023, despite the recent global backdrop



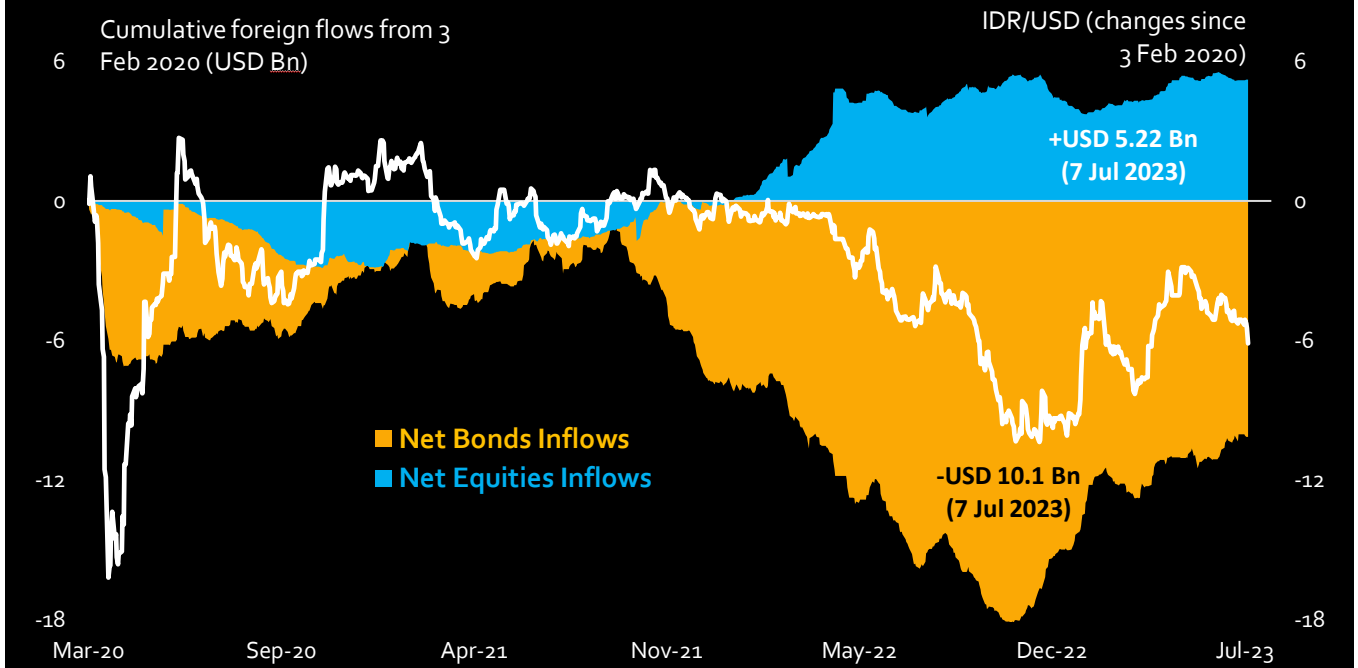
Source: Bloomberg

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

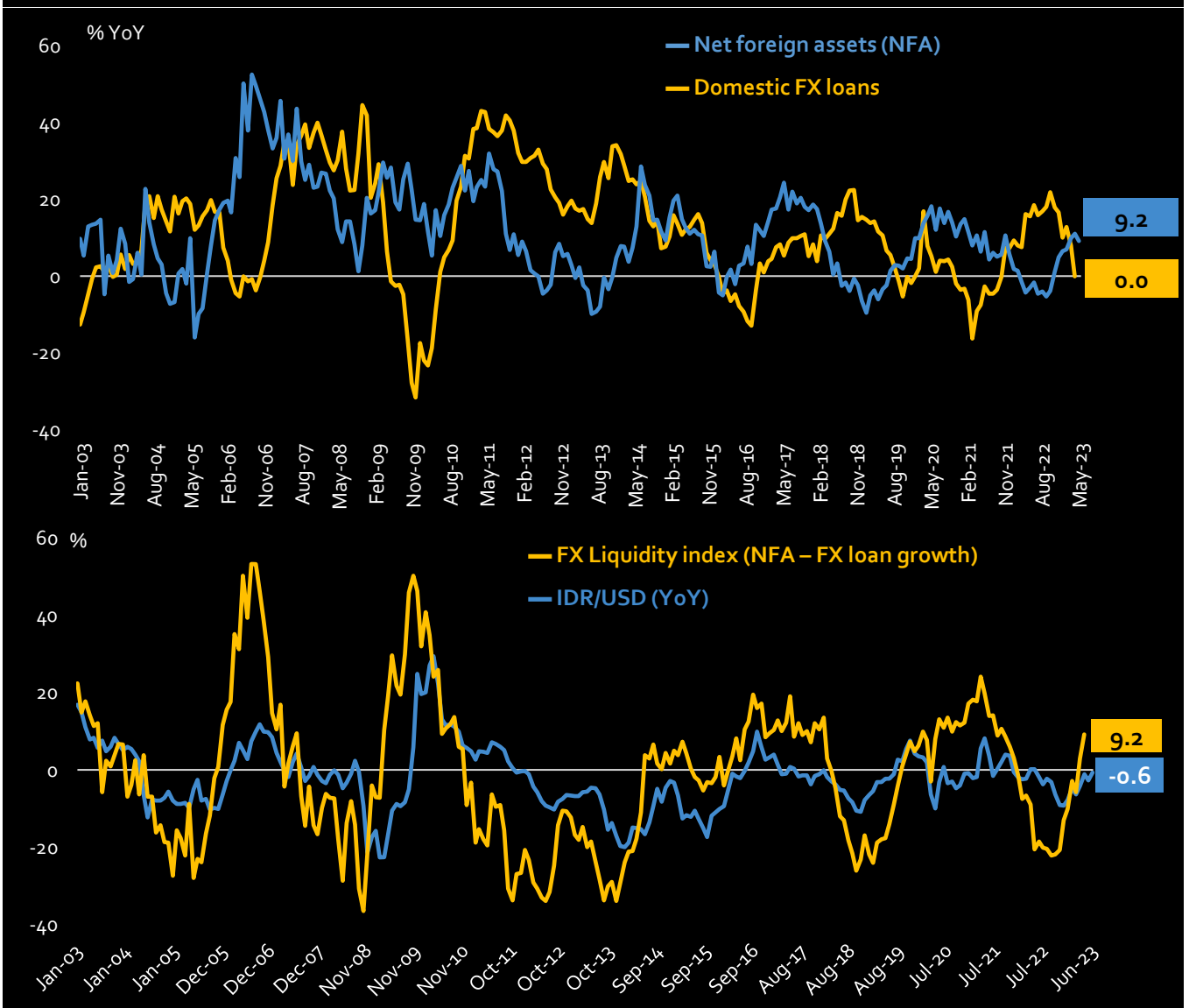


Source: BI

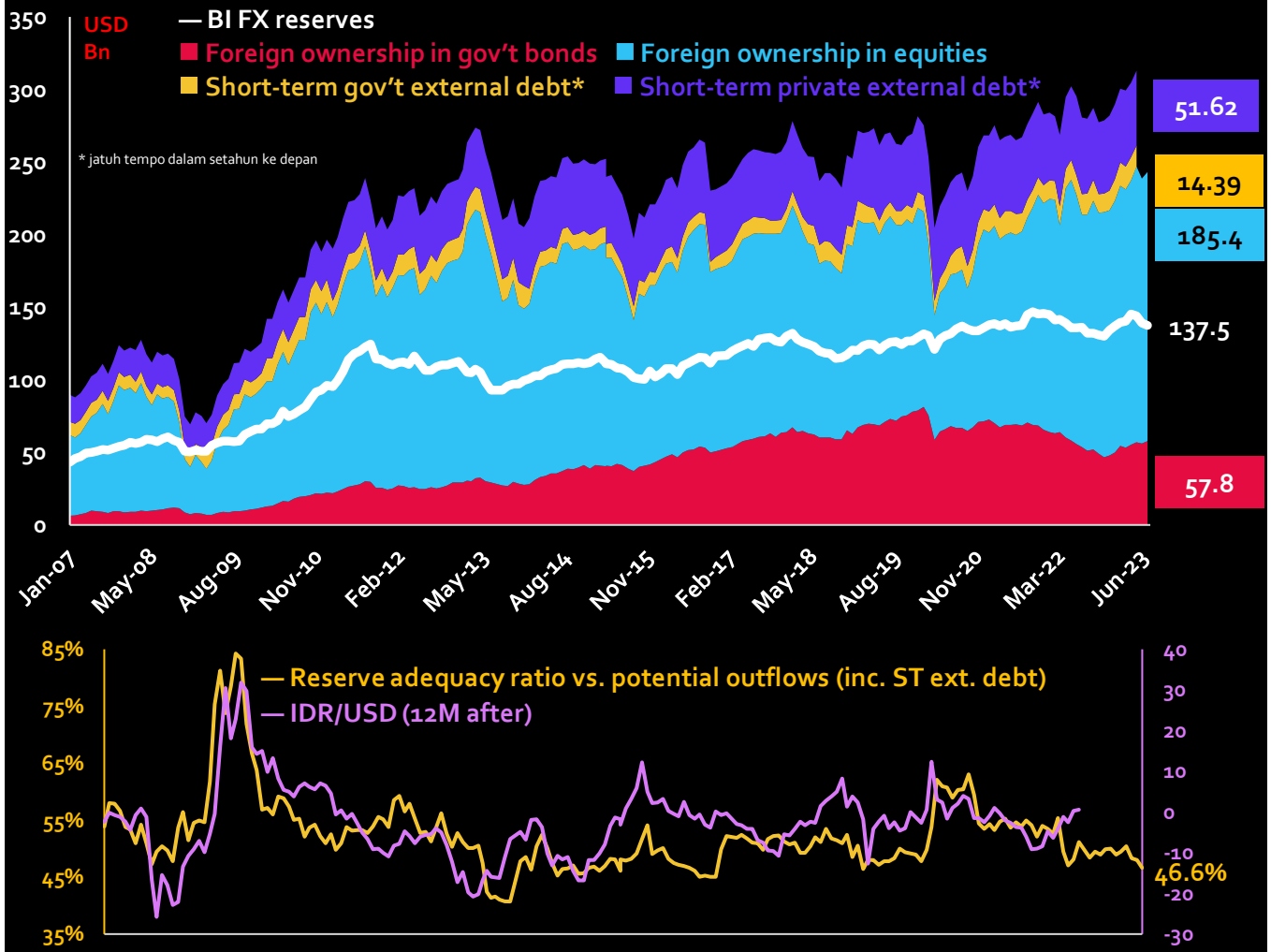
Panel 3. Capital inflows continue to rise reflecting foreign investor's confidence on the Indonesian economy



Panel 4. Increased foreign inflow improve domestic FX liquidity



Panel 5. FX reserves remain adequate to cover potential outflows



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Jul	-1 mth	Chg (%)
US	5.25	Jul-23	1.25	Baltic Dry Index	993.0	939.0	5.8
UK	5.00	Jul-23	-3.70	S&P GSCI Index	544.1	547.7	-0.6
EU	4.00	Jul-23	-1.50	Oil (Brent, \$/bbl)	76.5	76.7	-0.2
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	143.8	147.0	-2.2
China (lending)	4.35	Jul-23	4.15	Gas (\$/MMBtu)	2.52	1.93	30.6
Korea	3.50	May-23	0.80	Gold (\$/oz.)	1,910.9	1,961.9	-2.6
India	6.50	Jun-23	2.25	Copper (\$/MT)	8,246.0	8,331.0	-1.0
Indonesia	5.75	Jun-23	2.23	Nickel (\$/MT)	21,023.5	20,770.0	1.2
Money Mkt Rates	6-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	822.2	739.3	11.2
				Rubber (\$/kg)	1.31	1.32	-0.8
SPN (1M)	5.07	4.64	42.7	External Sector	May	Apr	Chg (%)
SUN (10Y)	6.18	6.37	-19.0	Export (\$ bn)	21.72	19.28	12.61
INDONIA (O/N, Rp)	5.69	5.57	12.6	Import (\$ bn)	21.28	15.35	38.65
JIBOR 1M (Rp)	6.40	6.40	-0.4	Trade bal. (\$ bn)	0.44	3.94	-88.91
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Central bank reserves (\$ bn)*	139.3	144.2	-3.38
Lending (WC)	8.92	8.95	-2.71	Prompt Indicators	May	Apr	Mar
Deposit 1M	4.18	4.20	-2.70	Consumer confidence index (CCI)	128.3	126.1	123.3
Savings	0.67	0.69	-1.70	Car sales (%YoY)	65.2	-28.8	2.7
Currency/USD	6-Jul	-1 mth	Chg (%)	Motorcycle sales (%YoY)	113.4	-19.4	40.5
UK Pound	0.785	0.804	2.43	Manufacturing PMI	Jun	May	Chg (bps)
Euro	0.918	0.933	1.64	USA	46.0	46.9	-90
Japanese Yen	144.1	139.6	-3.12	Eurozone	43.4	44.8	-140
Chinese RMB	7.249	7.102	-2.02	Japan	49.8	50.6	-80
Indonesia Rupiah	15,045	14,890	-1.03	China	50.5	50.9	-40
Capital Mkt	6-Jul	-1 mth	Chg (%)	Korea	47.8	48.4	-60
JCI	6,757.3	6,633.4	1.87	Indonesia	52.5	50.3	220
DJIA	33,922.3	33,562.9	1.07				
FTSE	7,280.5	7,600.0	-4.20				
Nikkei 225	32,773.0	32,217.4	1.72				
Hang Seng	18,533.1	19,108.5	-3.01				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	2,755.0	2,738.1	16.95				
Govt. Bond	846.9	829.4	17.53				
Corp. Bond	11.3	11.8	-0.47				

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	2.3
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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