

## FX Reserves:

# Reserves stabilized, but Rupiah not out of the woods

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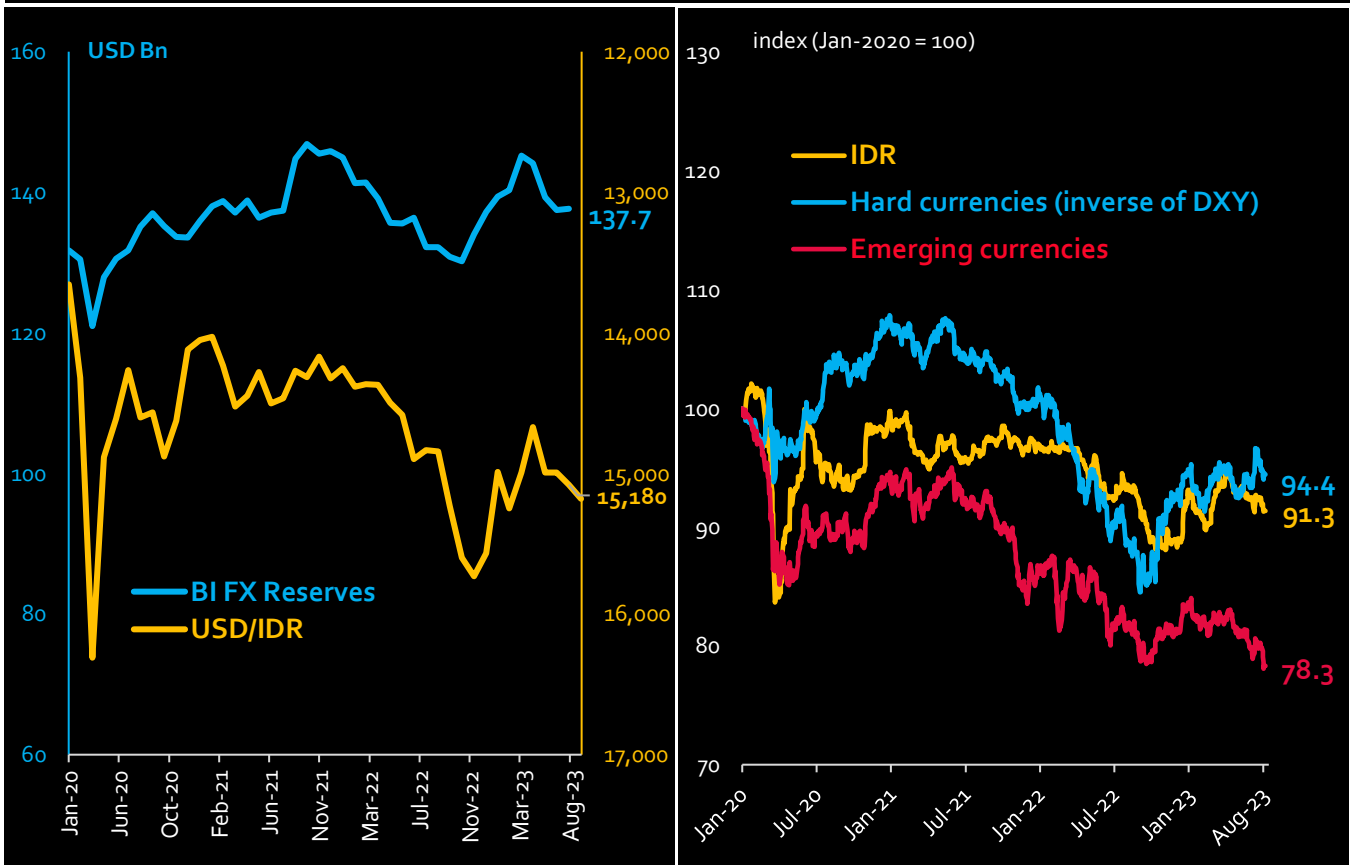
### Executive Summary

- BI FX reserves stabilized at USD 137.7 Bn, after falling for two straight months due to seasonal repatriation and debt repayment outflows.
- Recent increase in longer-dated UST yields present renewed risk for the IDR, but so far private bond outflows have been offset by equity inflows and bond purchase by official agencies.
- The Q2 GDP surprise was partly fueled by robust investment growth, which contrasts with limited domestic liquidity amid falling commodity prices.
- The liquidity issue remains manageable for Rupiah, but the likely return of current account deficit implies a smaller margin of error with respect to FX liquidity.
- The new export receipts regulations by BI should help stabilize FX liquidity over the long-run, but concerted enforcement would be needed.

- Bank Indonesia's FX reserves finally stabilized at USD 137.7 Bn (+0.1% MoM) in July, after falling for two straight months. This comports with [our belief at the time](#) that [the decline was temporary](#), caused by seasonal repatriation outflows and external debt repayment by the public sector. However, this by no means mark an end to the pressures on the IDR – and as such, we see little reason for BI to shift towards looser policy in the coming months.
- Two sets of risks are becoming more apparent in recent weeks, although both remains manageable. One is the turmoil in the global bond markets, as heady hopes of disinflation and Fed pivot were overtaken by recent events. The increase in oil and grain prices, combined with a slew of bad news hitting the US Treasuries – YCC relaxation by the BoJ, rating downgrade by Fitch, increased issuance of longer-dated notes and bonds – have pushed the 10Y UST above 4% for the first time since 2008.
- We dealt with this issue [in a recent report](#), where we noted that this could be a start of a structural repricing as the market takes stock of more entrenched inflation. But this is far from spelling doom for Indonesia. Indeed, despite worsening real interest rate differentials (RIRD) vs. the US, the IDR has kept a slim gain (2.9%) year-to-date against the USD.
- Since early 2021, USD/IDR movements (**see Chart 3**) have actually decoupled from RIRD – in stark contrast to their previous tight correlation – which would suggest limited spillover in the short-term. Furthermore, the ensuing outflow by private investors from Indonesian bonds have been offset by an influx of official investors (central banks or reserve managers) looking to diversify their bond holdings, as well as solid inflows into equities spurred by rebounding commodities.

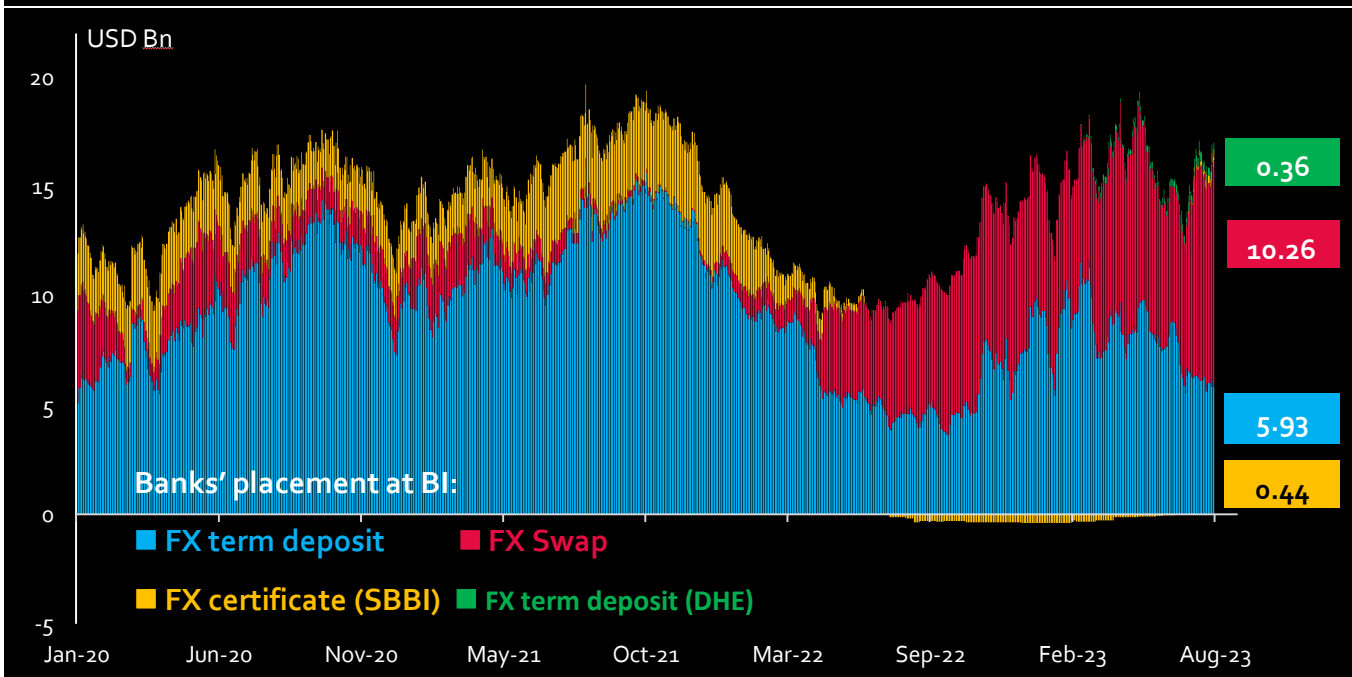
- The second problem is a good problem to have: Indonesia's still-solid investment growth (4.6% YoY in Q2-23) might be limited by the lack of domestic savings. [Our analysis of listed companies' financial data](#), as well as the transaction patterns of our corporate clients, indicates that corporate spending (including CAPEX) have been growing faster than their revenues over the last quarter.
- Some of the starkest examples of this phenomenon are in the primary sectors, which still sees strong investment appetite despite falling commodity prices. This is, in a way, a 'vote of confidence' that the price decline is but a blip *en route* to a commodity supercycle – and it might not even be an issue insofar as the companies have saved up their earnings from last year's boom.
- However, not everyone is in as enviable a situation. The overall corporate sector (as per BI data in May) have been drawing down their savings YTD, and liquidity issues may be coming to the forefront in certain areas such as manufacturing and construction (subcontractors for public/SOE projects). Meanwhile, private individuals and SMEs have turned into net borrowers since the economy began to turn around in late 2021. As such, it would take a dose of liquidity injection to continue Indonesia's remarkable run of GDP growth.
- For IDR liquidity, this is an eminently manageable issue, as the liquidity could readily come from fiscal spending or reserve requirement ratio (RRR) cut, or simply more lending from banks which still sit on a good amount of cash assets (IDR 500 – 600 Tn). For FX, however, the margin of error is rather thinner. We expect the current account to record a slight deficit in Q2 (about 0.5% of GDP), and this will probably continue as the commodity terms of trade grows less favorable for Indonesia.
- This is where efforts to retain export receipts (*devisa hasil ekspor/DHE*) at home, as detailed in the latest BI regulations (PBI 7/2023) become important – not so much to shore up the Rupiah in the short-term, but to ensure sustained financing for investment in the long-term. The provision that these retained FX deposits could be forcibly converted to IDR in case of monetary emergency may nonetheless be a sticking point for exporters, and concerted efforts by the authorities will be needed to enforce these rules.

**Panel 1. FX reserves are stabilizing, but the pressure on emerging currencies have remained significant**



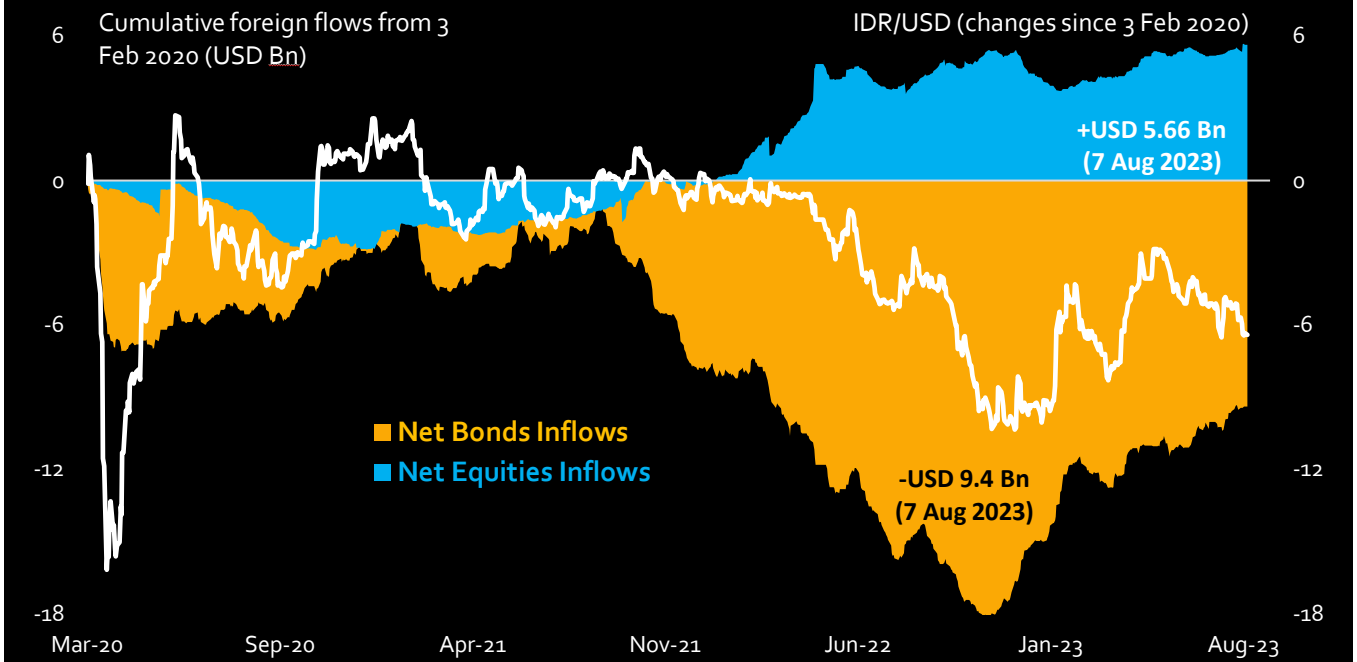
Source: Bloomberg

**Chart 1. FX liquidity at banks have been stable, but export receipts (DHE)-linked instrument has been merely a minor contributor**

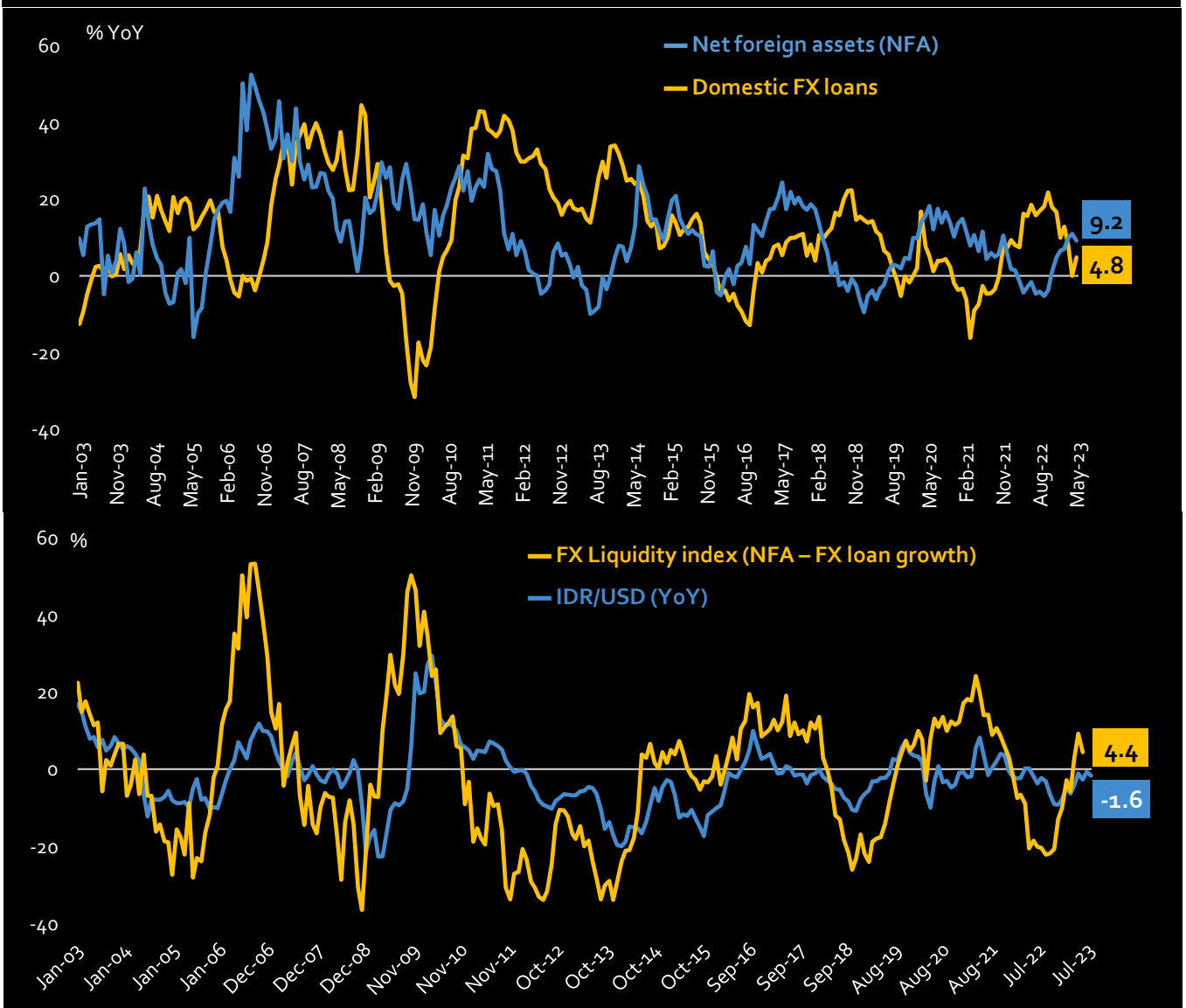


Source: BI

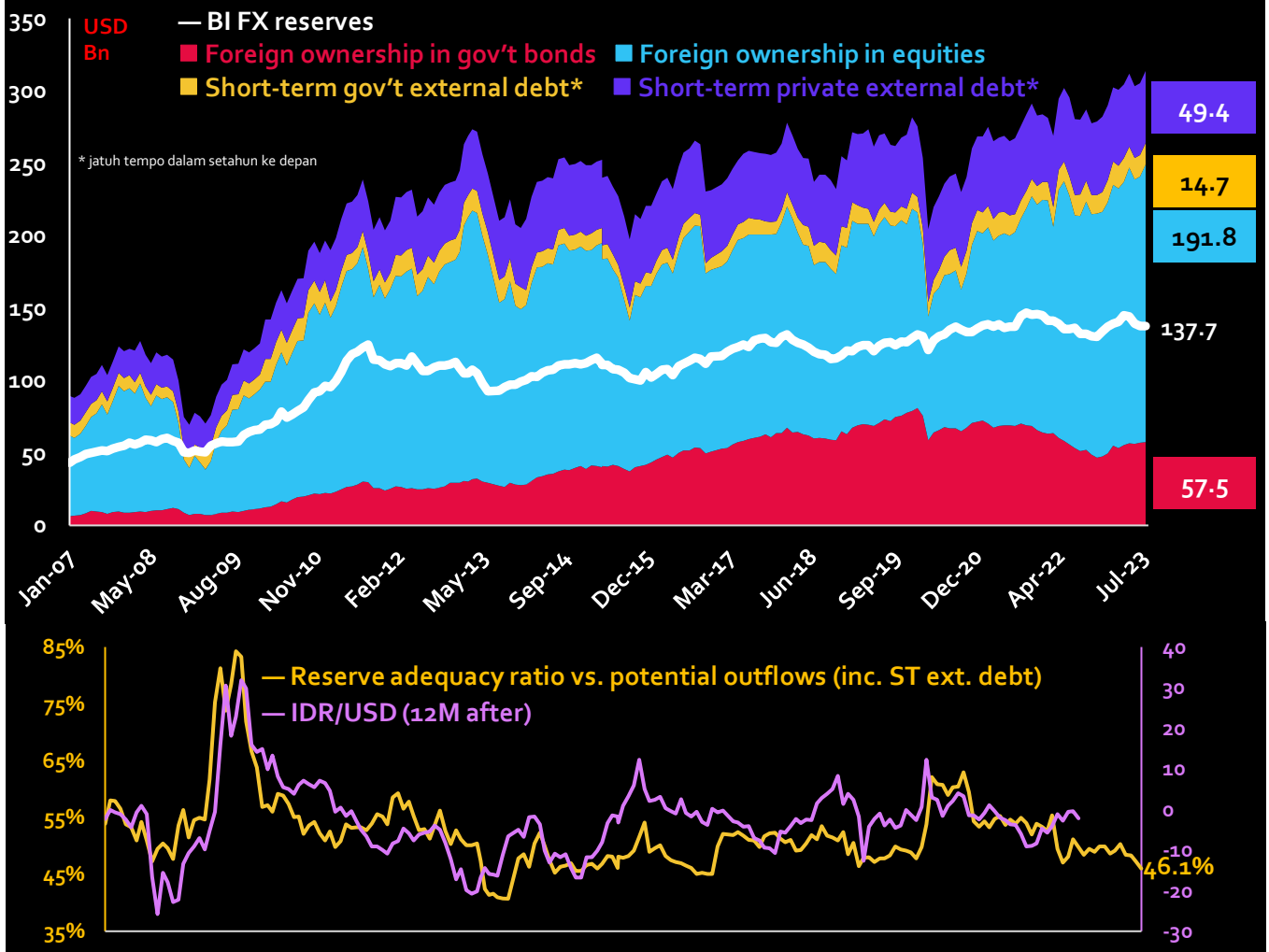
**Chart 2. Indonesian bonds and equities have maintained their attractiveness to foreign investors despite global market volatility**



**Panel 2. The balance between FX supply and demand remains favorable for Rupiah**

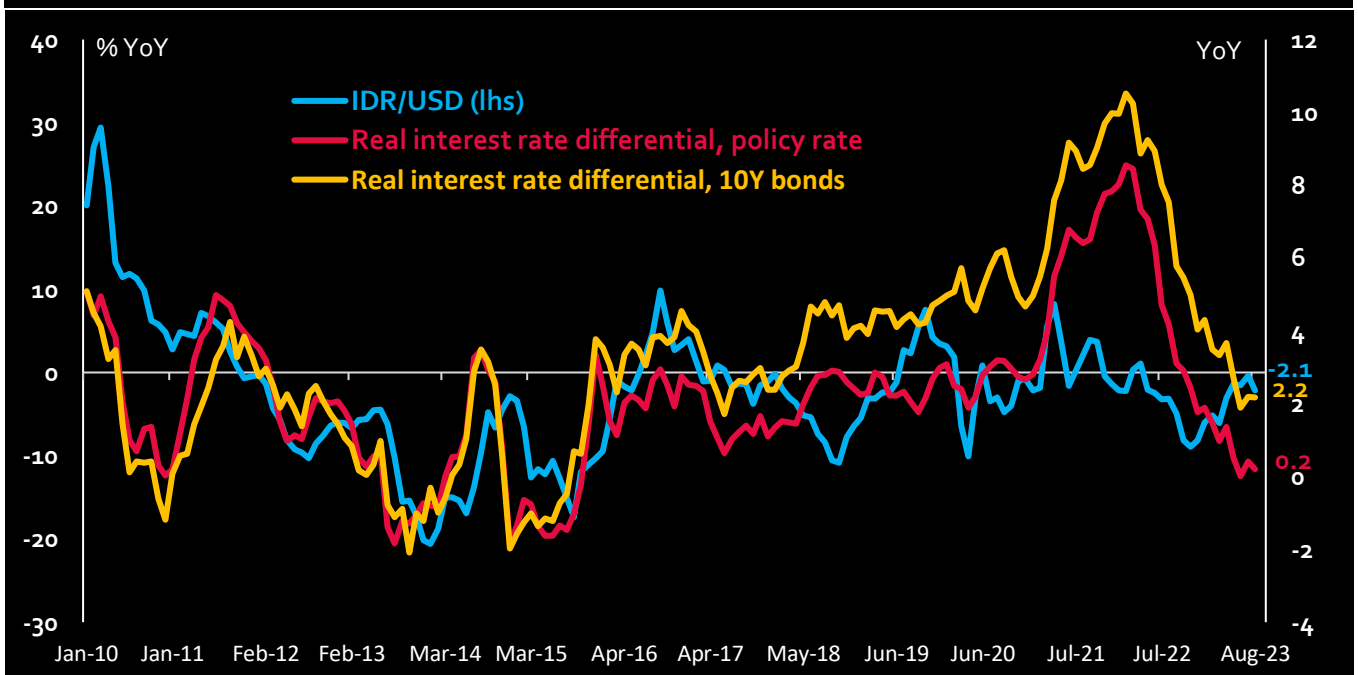


Panel 3. FX reserve coverage has fallen slightly, partly also due to recent inflows



Source: BI, Bloomberg

Chart 3. IDR/USD has been much less dependent on ID-US real rate differentials



Source: Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	7-Aug	-1 mth	Chg (%)
US	5.50	Aug-23	2.50	Baltic Dry Index	1,145.0	1,009.0	13.5
UK	5.25	Aug-23	-2.65	S&P GSCI Index	588.3	551.8	6.6
EU	4.25	Aug-23	-1.05	Oil (Brent, \$/bbl)	85.3	78.5	8.8
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	144.3	145.5	-0.8
China (lending)	4.35	Aug-23	4.35	Gas (\$/MMBtu)	2.65	2.48	6.9
Korea	3.50	Jul-23	1.20	Gold (\$/oz.)	1,936.6	1,925.1	0.6
India	6.50	Jun-23	1.69	Copper (\$/MT)	8,436.1	8,360.5	0.9
Indonesia	5.75	Jul-23	2.67	Nickel (\$/MT)	20,863.0	20,606.0	1.2
Money Mkt Rates	7-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	834.2	812.9	2.6
				Rubber (\$/kg)	1.27	1.31	-3.1
SPN (1M)	5.24	4.93	30.7	External Sector	Jun	May	Chg (%)
SUN (10Y)	6.34	6.23	10.8	Export (\$ bn)	20.61	21.71	-5.08
INDONIA (O/N, Rp)	5.69	5.58	11.0	Import (\$ bn)	17.15	21.28	-19.40
JIBOR 1M (Rp)	6.40	6.39	0.8	Trade bal. (\$ bn)	3.45	0.43	708.66
Bank Rates (Rp)	May	Apr	Chg (bps)	Central bank reserves (\$ bn)*	137.5	139.3	-1.25
Lending (WC)	8.93	8.92	0.35	Prompt Indicators	Jun	May	Apr
Deposit 1M	4.19	4.18	1.37	Consumer confidence index (CCI)	127.1	128.3	126.1
Savings	0.67	0.67	0.00	Car sales (%YoY)	4.7	65.2	-28.8
Currency/USD	7-Aug	-1 mth	Chg (%)	Motorcycle sales (%YoY)	66.6	113.4	-19.4
UK Pound	0.782	0.779	-0.43	Manufacturing PMI	Jul	Jun	Chg (bps)
Euro	0.909	0.912	0.32	USA	46.4	46.0	40
Japanese Yen	142.5	142.2	-0.20	Eurozone	42.7	43.4	-70
Chinese RMB	7.193	7.225	0.45	Japan	49.6	49.8	-20
Indonesia Rupiah	15,185	15,135	-0.33	China	49.2	50.5	-130
Capital Mkt	7-Aug	-1 mth	Chg (%)	Korea	49.4	47.8	160
JCI	6,886.4	6,716.5	2.53	Indonesia	53.3	52.5	80
DJIA	35,473.1	33,734.9	5.15				
FTSE	7,554.5	7,256.9	4.10				
Nikkei 225	32,254.6	32,388.4	-0.41				
Hang Seng	19,537.9	18,365.7	6.38				
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)				
Stock	2,892.9	2,755.0	137.88				
Govt. Bond	846.9	846.9	0.00				
Corp. Bond	11.3	11.3	-0.03				

Source: Bloomberg, BI, BPS

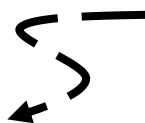
Notes:

^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	5.2
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	2.7
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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