

FX Reserves:

November rain may not last forever

Elbert Timothy Lasiman **Barra Kukuh Mamia**
Economist/Analyst Senior Economist

07 Dec 2023

Executive Summary

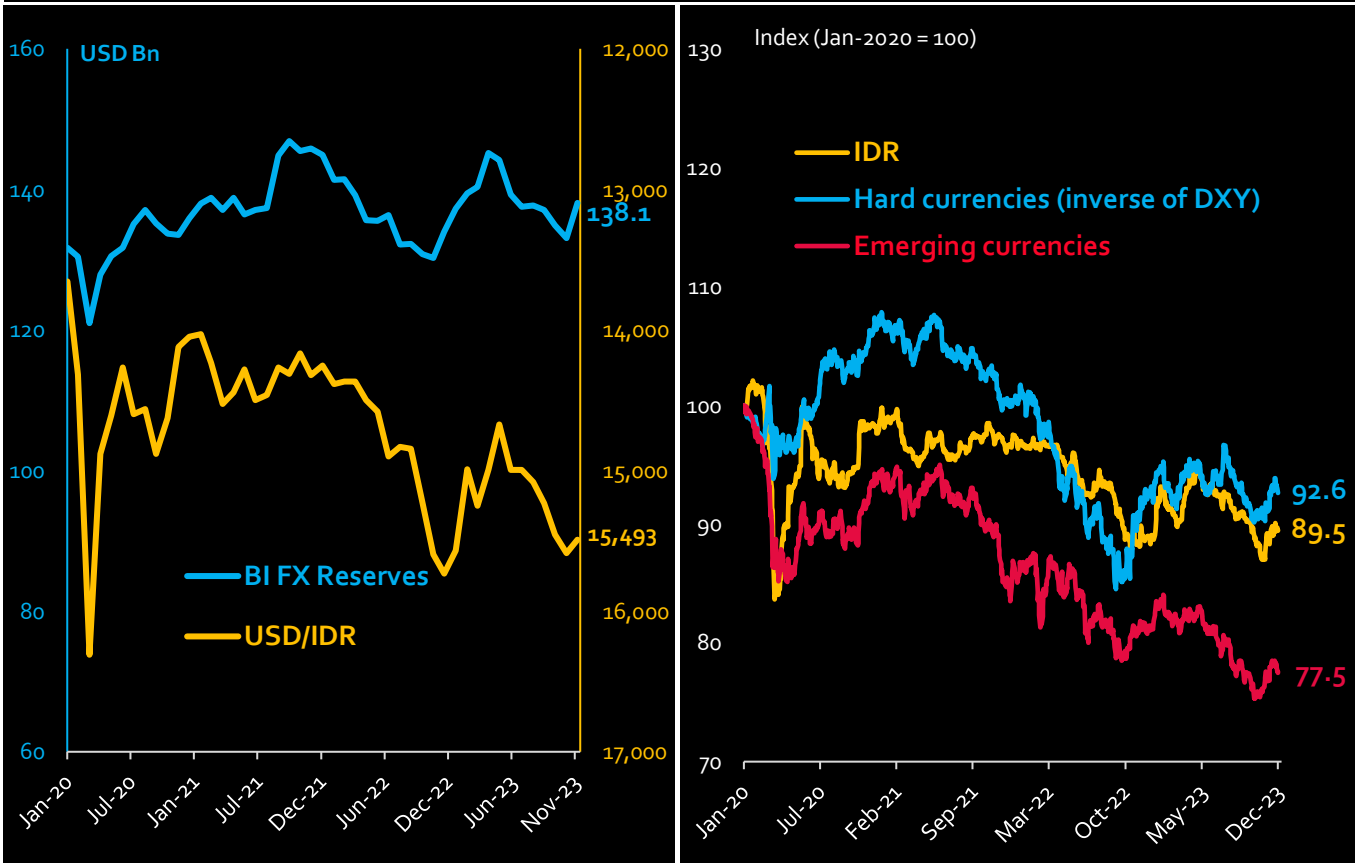
- Bank Indonesia's FX reserves experienced a sharp increase of USD 5.0 Bn to USD 138.1 Bn, as capital inflows increased due to a reversal of the market's expectation regarding the Fed rate trajectory. In addition, the issuance of sovereign USD bonds and withdrawal of government external debt are the bigger sources of inflows.
- SVBI/SUVBI and TD-DHE contributed minor inflows into BI's FX instruments, but it is likely these two compete, as the former offered slightly higher yields.
- BI may not make early cuts next year in the changing market condition, as the market may be over-optimistic that the Fed could pivot early.

- Bank Indonesia's FX reserves stood at USD 138.1 Bn in Nov-23, registering a sharp increase of USD 5.0 Bn. And so, like the torrential rain erasing the El Nino drought in the previous months, so did the rush of capital inflows reversed the decline of reserves since June.
- These inflows, of course, were driven by a sharp reversal in the market's expectations of the Fed rate trajectory. A total of USD 1.47 Bn went into our equities and the secondary bond market, cancelling out the losses in October (-1.31 Bn).
- An even bigger source of inflows, however, was the primary issuance of sovereign USD bonds, to the tune of 2.0 Bn, plus another 0.47 Bn of corporate bonds. The timing of these issuances is immaculate, given the stark reversal of market sentiment in November. In addition, there is also a sizable withdrawal of government external debt.
- Last but not least, we also saw minor inflows into BI's FX instruments that can be traded by non-banks. SVBI/SUVBI collected USD 0.39 Bn in just two auctions, but the term deposit linked to export receipts (TD-DHE) only saw a modest gain at 0.18 Bn.
- This may seem to reflect a decline in DHE compliance, but it is equally likely that the gaggle of instruments issued by BI simply compete with each other for a finite amount of liquidity – as we foresaw last month. Indeed, on Nov 30th, SVBI offered slightly higher yields than TD-DHE (respectively, 5.62% and 5.28% for 1M).
- But just as recent rains have not erased the threat of food inflation, the changing market conditions are in no way a sign that BI can let down its guard and make early cut(s) next year. This is despite a further "bad news"-driven rally recently, inspired by weaker job data and Jerome Powell's comments.
- In between the two rallies (early Nov and early Dec), we saw a sharp increase in bid-ask spreads on IDR bonds, indicating that the bond market remains fundamentally under pressure. While the government has announced a decrease in net issuance next year, the size

of gross issuance remains a concern given the amount of bonds that will mature during Q1-24 (USD 2.15 Bn and IDR 186.37 Tn)

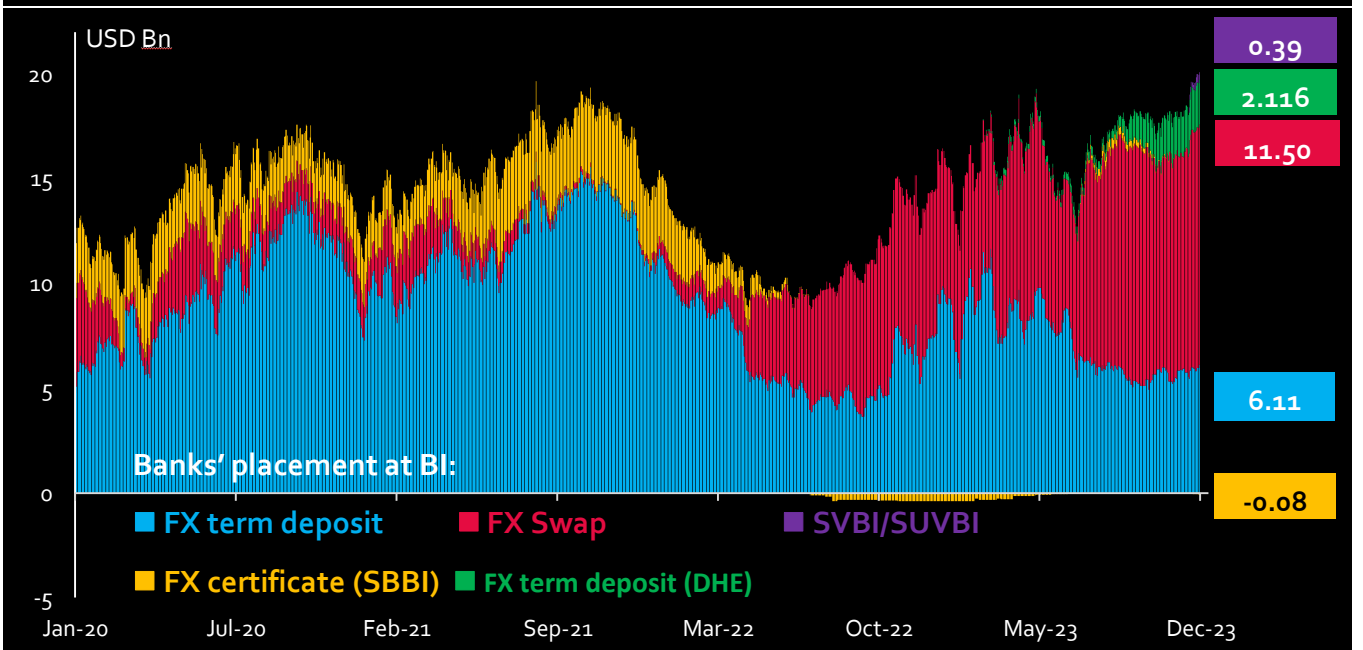
- The market may also be over-optimistic that the Fed could pivot early (Mar-24). This probability may indeed rise given the continued oil price decline, but we are by no means certain that the Fed will cut early unless confronted with a severe recession or a sudden “break” in the market.

Panel 1. FX reserves increased as pressure on IDR and emerging currencies eased



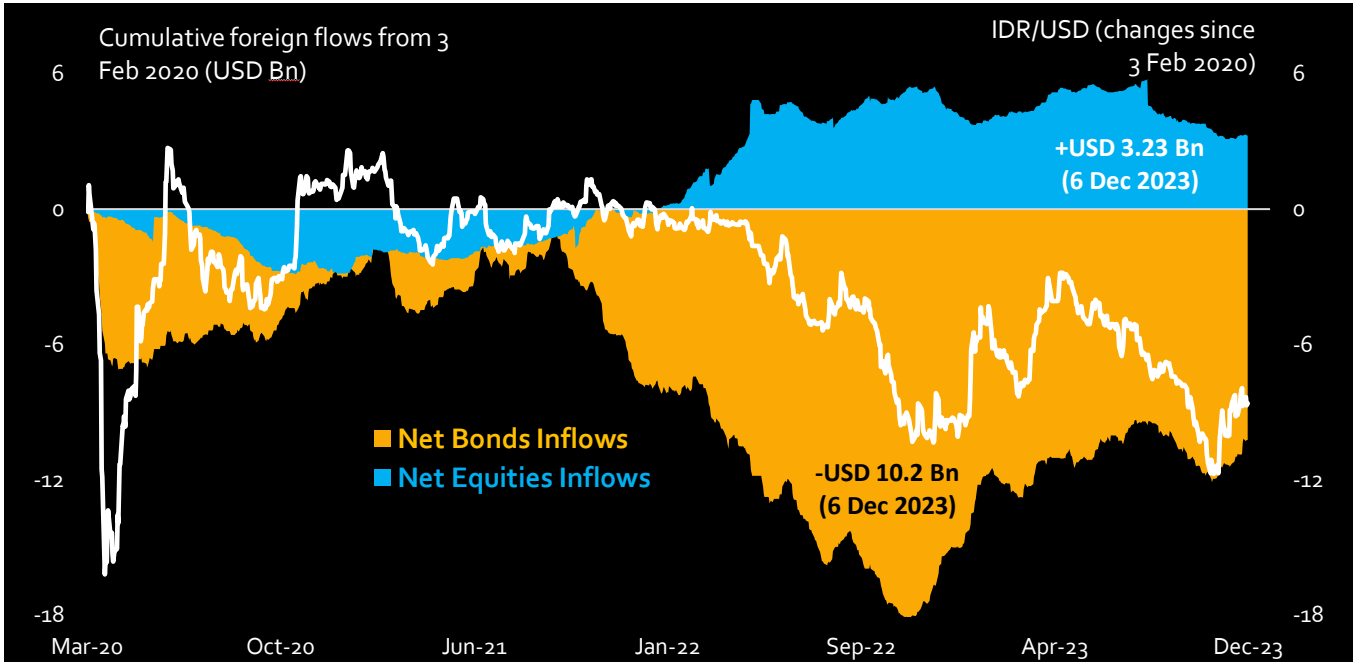
Source: Bloomberg

Chart 1. FX liquidity quickly increased after November's FOMC Meeting, with SVBI/SUVBI contributing positively to the share of overall FX liquidity



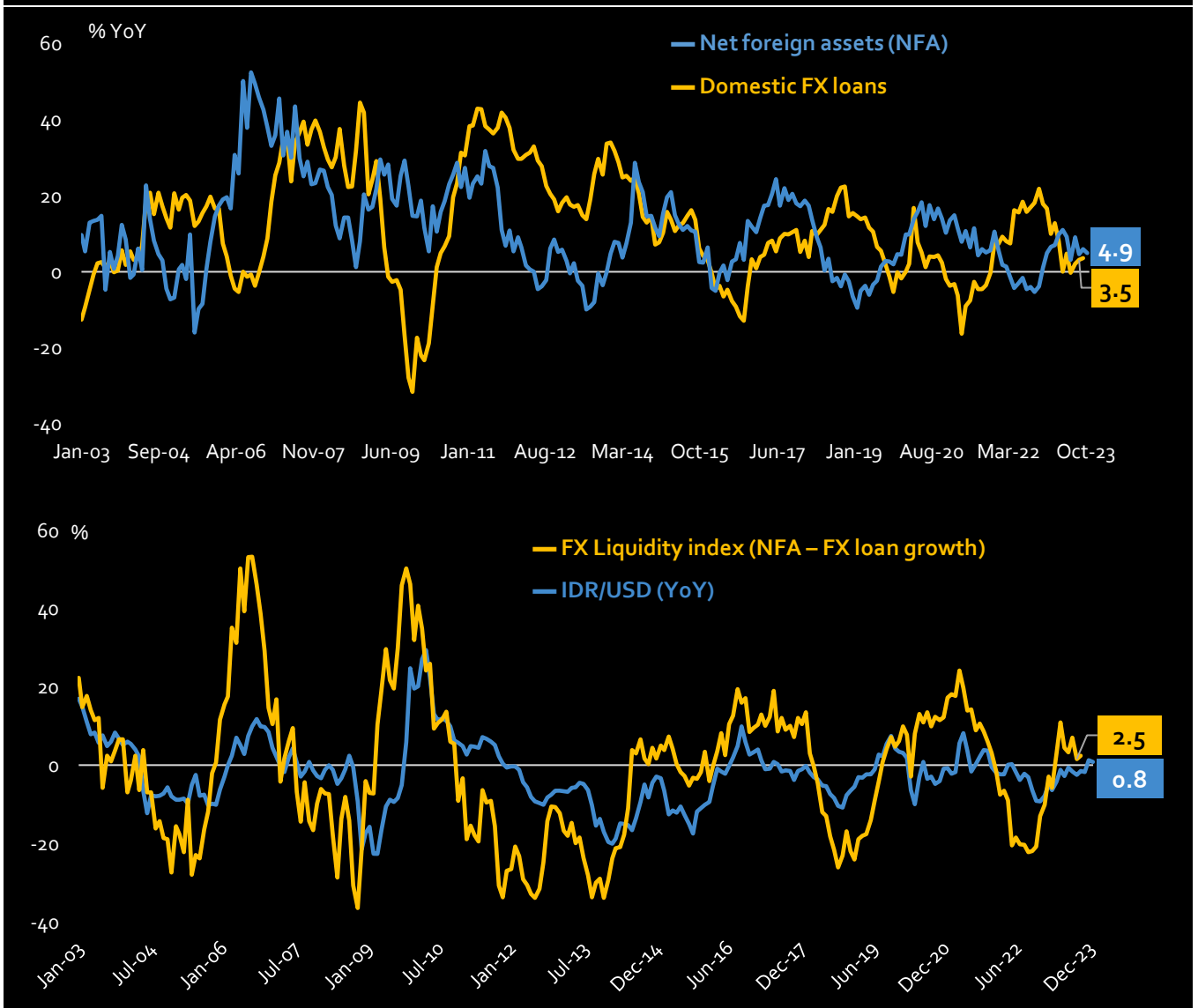
Source: BI

Chart 2. Inflow from both the bond and stock market strengthens IDR



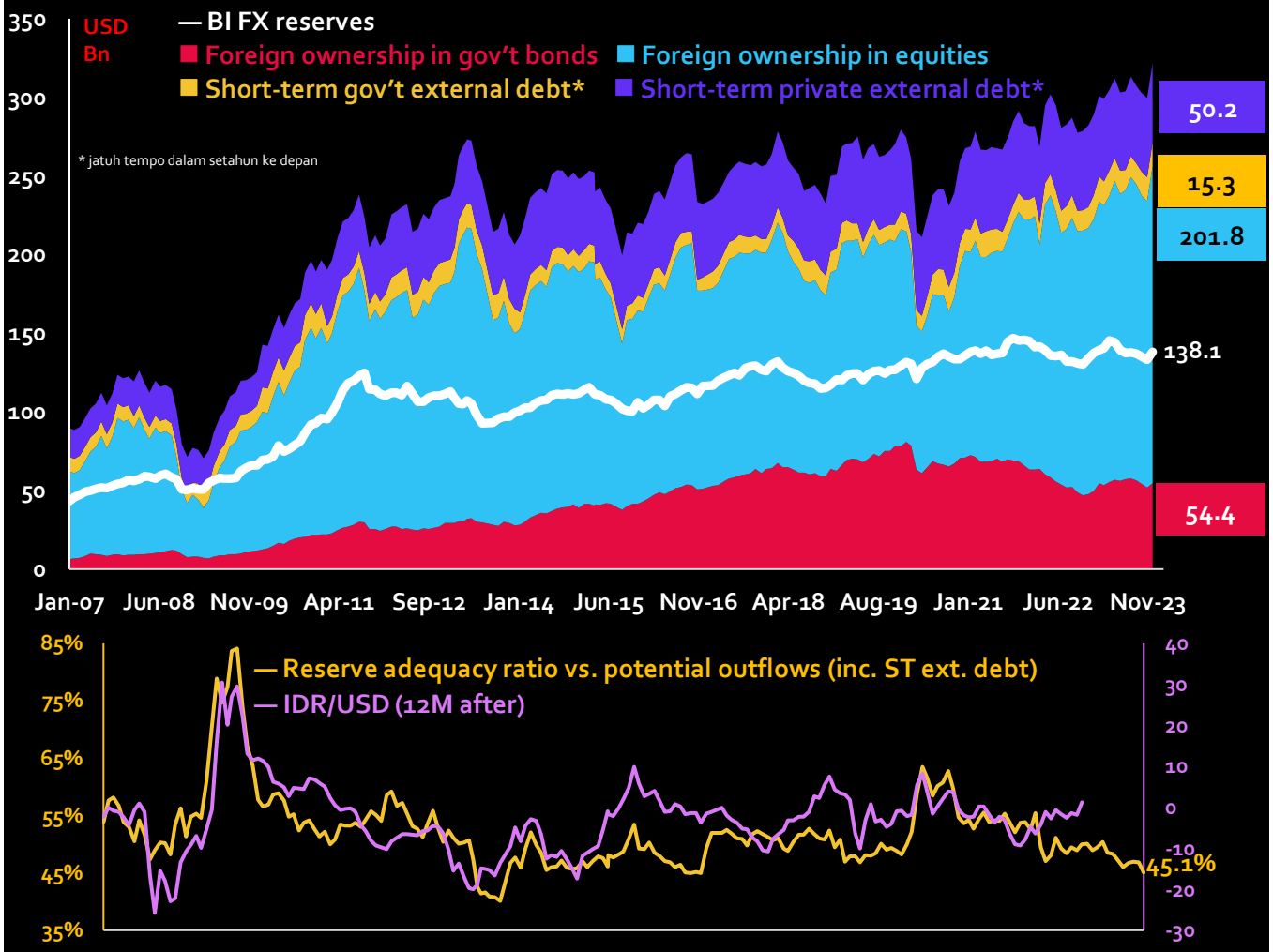
Source: Bloomberg

Panel 2. Demand for FX has continued to slow down in recent months



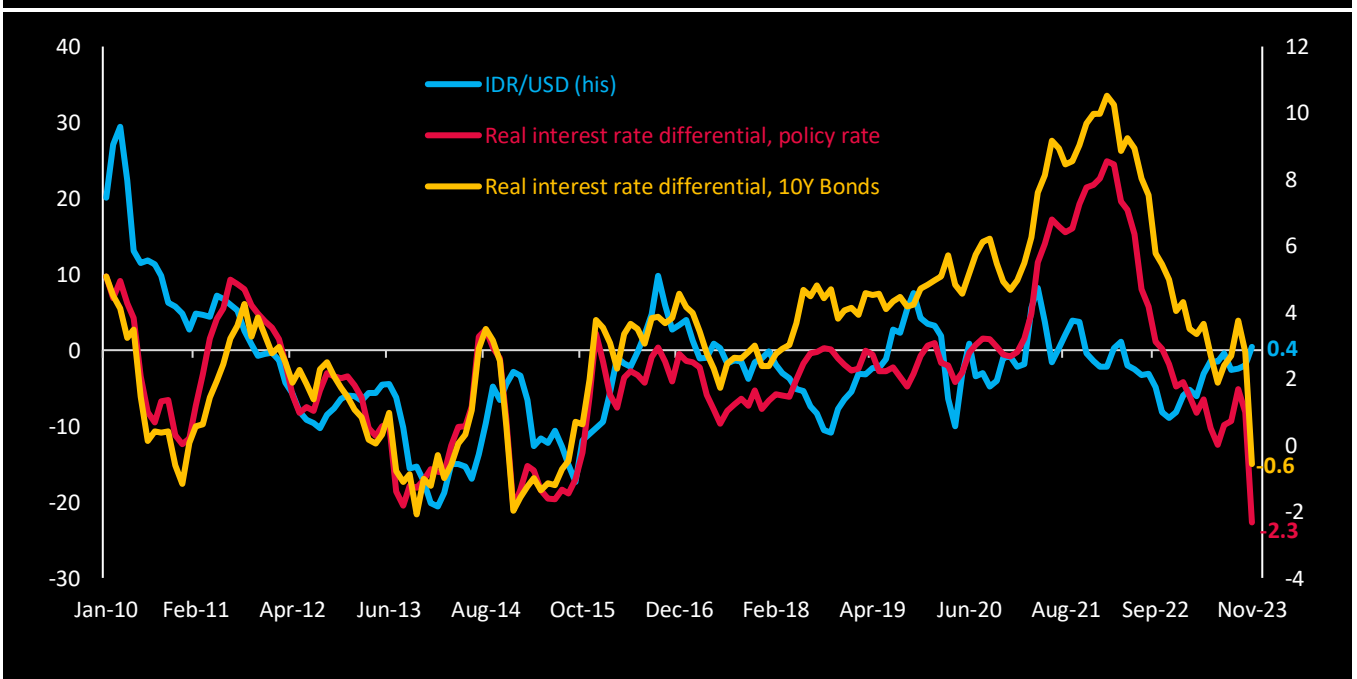
Source: BI, Bloomberg

Panel 3. A slight uptick in FX reserve coverage due to recent inflows



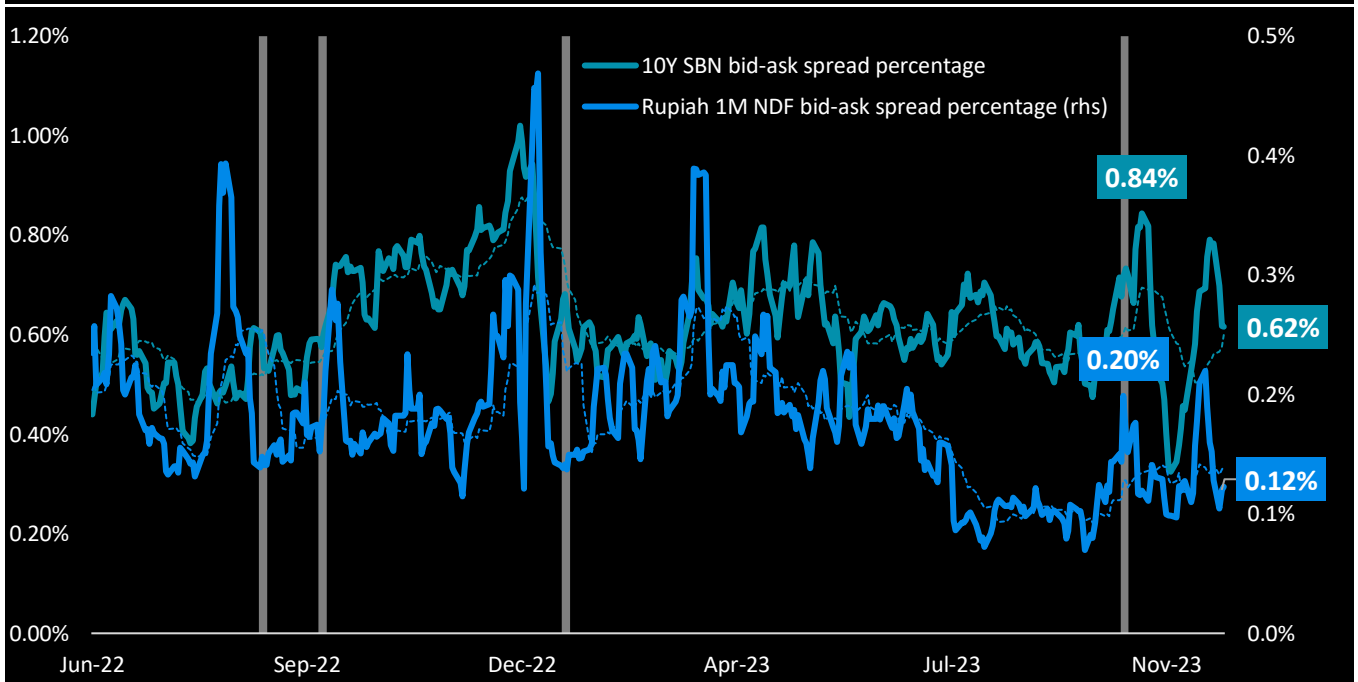
Source: BI, Bloomberg

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



Source: Bloomberg

Chart 4. The bond market is under pressure as the bid-ask spread increased



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Dec	-1 mth	Chg (%)
US	5.50	Dec-23	2.30	Baltic Dry Index	2,848.0	1,462.0	94.8
UK	5.25	Dec-23	0.65	S&P GSCI Index	525.1	577.9	-9.1
EU	4.50	Dec-23	2.10	Oil (Brent, \$/bbl)	74.3	84.9	-12.5
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	142.0	130.0	9.2
China (lending)	2.50	Nov-23	4.55	Gas (\$/MMBtu)	2.76	3.00	-8.0
Korea	3.50	Nov-23	0.20	Gold (\$/oz.)	2,025.6	1,992.7	1.7
India	6.50	Oct-23	1.63	Copper (\$/MT)	8,201.3	8,095.7	1.3
Indonesia	6.00	Nov-23	3.14	Nickel (\$/MT)	16,014.5	17,984.5	-11.0
Money Mkt Rates	6-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	766.0	775.5	-1.2
SPN (1M)	6.21	6.22	-0.8	Rubber (\$/kg)	1.40	1.47	-4.8
SUN (10Y)	6.57	6.84	-27.6	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	5.87	5.82	5.4	Export (\$ bn)	22.15	20.75	6.76
JIBOR 1M (Rp)	6.65	6.66	-1.3	Import (\$ bn)	18.67	17.34	7.68
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	3.48	3.41	2.08
Lending (WC)	9.02	8.96	5.79	Central bank reserves (\$ bn)*	133.1	134.9	-1.30
Deposit 1M	4.33	4.29	4.24	Prompt Indicators	Oct	Sep	Aug
Savings	0.66	0.66	0.38	Consumer confidence index (CCI)	124.3	121.7	125.2
Currency/USD	6-Dec	-1 mth	Chg (%)	UK Pound	0.796	0.808	1.45
UK Pound	0.796	0.808	1.45	Euro	0.929	0.932	0.31
Euro	0.929	0.932	0.31	Japanese Yen	147.3	149.4	1.41
Japanese Yen	147.3	149.4	1.41	Chinese RMB	7.161	7.275	1.60
Chinese RMB	7.161	7.275	1.60	Indonesia Rupiah	15,493	15,728	1.52
Indonesia Rupiah	15,493	15,728	1.52	Capital Mkt	6-Dec	-1 mth	Chg (%)
Capital Mkt	6-Dec	-1 mth	Chg (%)	Manufacturing PMI	Nov	Oct	Chg (bps)
JCI	7,087.4	6,788.9	4.40	USA	46.7	46.7	0
DJIA	36,054.4	34,061.3	5.85	Eurozone	44.2	43.1	110
FTSE	7,515.4	7,417.7	1.32	Japan	48.3	48.7	-40
Nikkei 225	33,445.9	31,949.9	4.68	China	50.7	49.5	120
Hang Seng	16,463.3	17,664.1	-6.80	Korea	50.0	49.8	20
Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)	Indonesia	51.7	51.5	20
Stock	3,136.1	2,895.1	240.91				
Govt. Bond	833.9	810.4	23.50				
Corp. Bond	11.2	11.3	-0.14				

Source: Bloomberg, BI, BPS

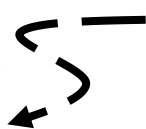
Notes:

^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



Scan for the link to our report depository or click:

https://s.id/BCA_REI

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.1	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4982	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.8	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,728	16,037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	34.9	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.4	-0.5

*Estimated number

** 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

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Agus Salim Hardjodino

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1007431

Aldi Rizaldi

Research Assistant

aldi_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th 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: 20378 or fax to: (62-21) 2358 8343 or email: firman_tember@bca.co.id