

FX Reserves:

Smoothing out the choppy waves

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Executive Summary

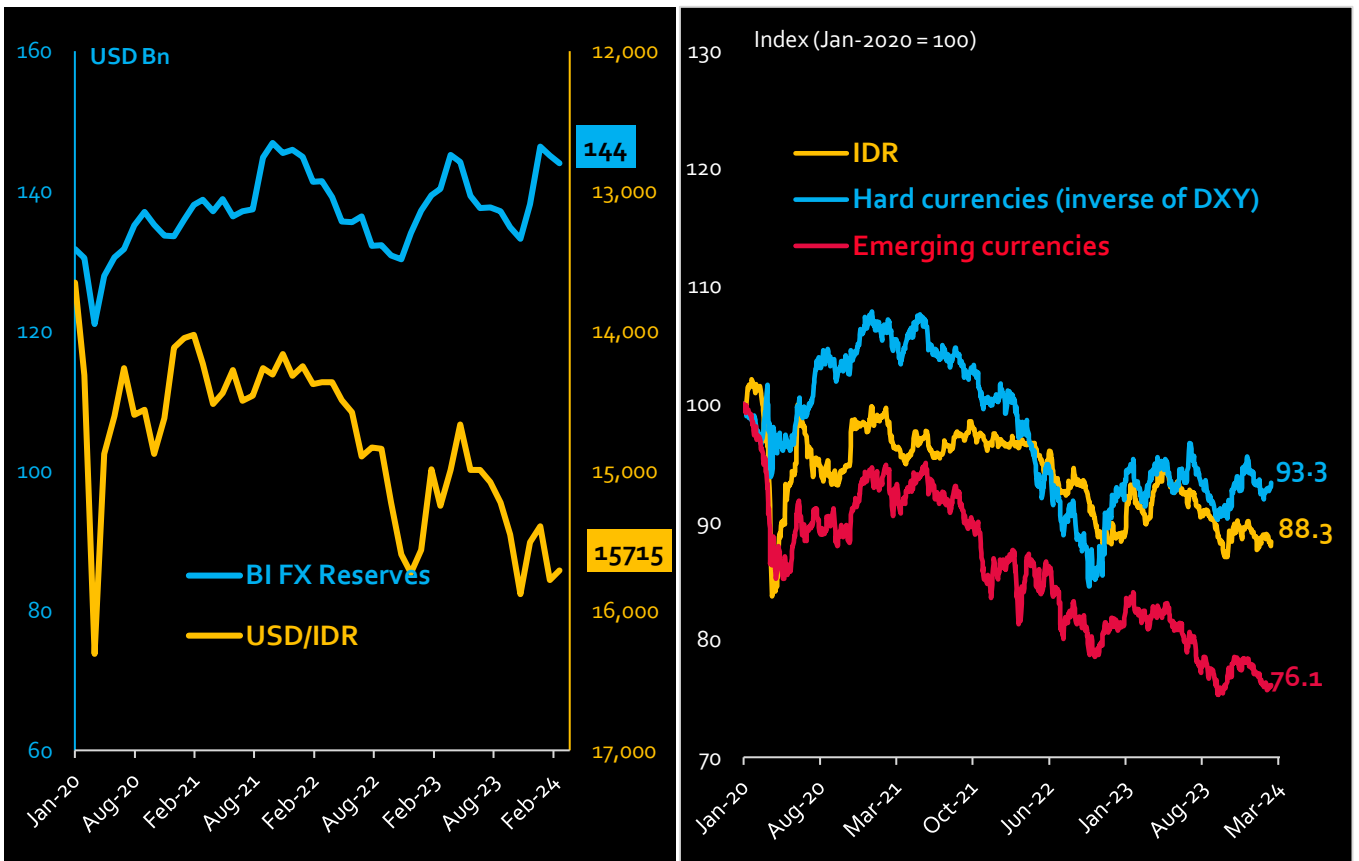
- Bank Indonesia's FX reserves stood at USD 144.0 Bn in February 2024, declining by USD 1.1 Bn. The decline can be attributed to the maturing sovereign global bonds and FX intervention amid renewed pressures on the Rupiah.
- The post-Election bounce in the stock market proved short-lived, and was offset by outflows from the bond market due to growing uncertainty in Fed rate outlook as well as fiscal deficits both in the US and Indonesia.
- BI's response to the situation is unlikely to be drastic, making it crucial that it now has ample FX reserves to ride the choppy market relatively smoothly.

- Bank Indonesia's FX reserves stood at USD 144.0 Bn in February 2024, declining by USD 1.1 Bn (**see Panel 1**). Part of this decline can be explained by maturing sovereign global bonds, to the tune of USD 0.47 Bn, but this is not the only part of the story.
- The other part probably involved BI intervention in the market, as the Rupiah remains under some pressure especially in the last weeks of February. Market expectations on Fed rate cuts – practically euphoric since December – dissipated after a series of data revealed resilience in both US economic performance and inflation.
- This explained the USD 0.61 Bn outflows from the Indonesian bond market, which offset the USD 0.55 Bn inflows into the equity market. Indeed, if not for a strong but short-lived post-Election bounce in the stock market, the pressure on the Rupiah could have been even more palpable.
- Given the relatively moderate pressure and the still-reasonable expectation that the Fed is going to ease policy later in the year, it is sensible for BI to not make a drastic reaction and simply smooth things out through FX interventions. Indeed, if anything, BI has been doing a measure of policy easing by buying sovereign bonds (SBN) recently.
- This purchase is not without reason, given that banks have been switching away from SBN to acquire higher-yielding SRBI. BI, then, had to take up the SBN as foreign demand has been weak while the government has been making sizable net issuance to finance their (front-loaded) fiscal spending.
- Interestingly, the switch towards SRBI is paralleled by a similar switch towards SVBI/SUVBI (the FX version of SRBI) from FX swaps. This supported our argument a few months ago, that

SVBI/SUVBI may have limited impact on total FX liquidity, but simply usurp the position of “traditional” instruments like swaps and term deposits.

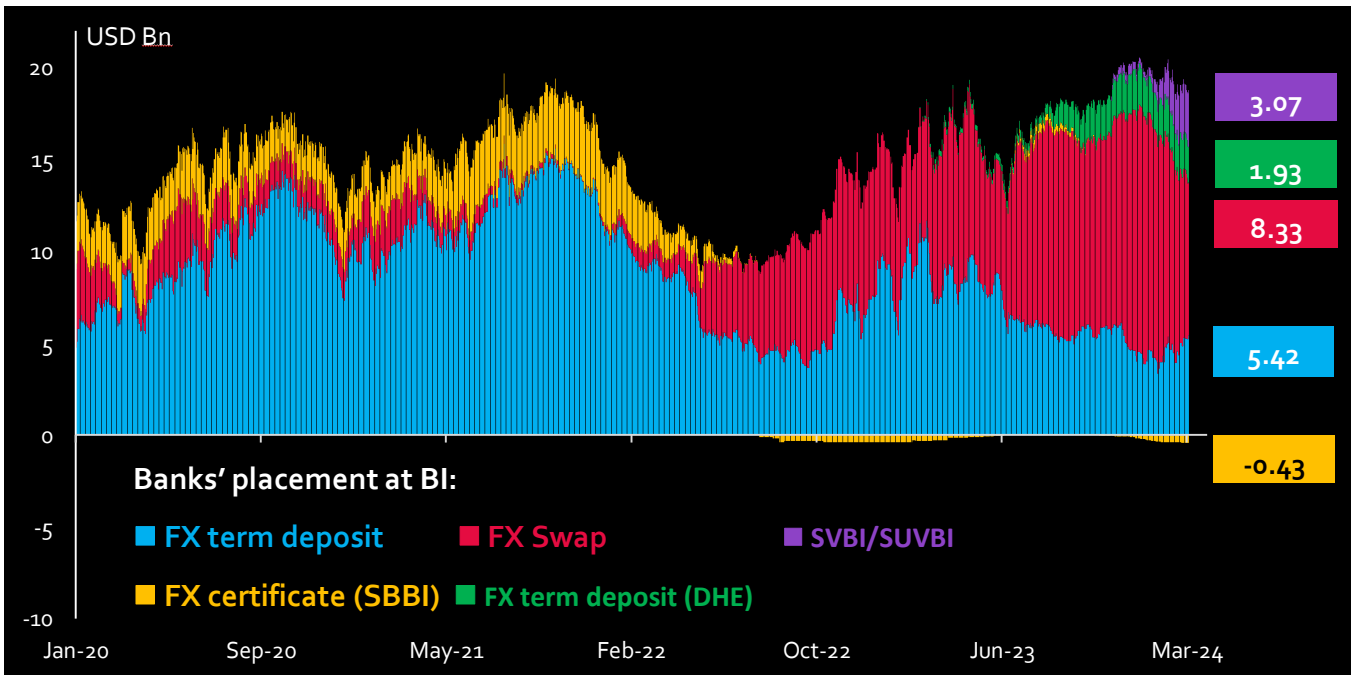
- For all our hand-wringing about FX liquidity, we do not see the reserves data as necessarily a bad sign for our trade surplus in February, which we expect to remain within the range of USD 1.5 – 3.0 Bn. In fact, there is now some possibility that the surplus could widen again in March, as the prices of metals such as nickel and gold are now rising again, thereby boosting Indonesian exports.
- Concerns remain, however, regarding the financial account. The pace of FDI has been slowing down, while the bond market in particular remains in wait-and-see mode, as they await resolution over three key (domestic and global) issues: (1) Fed rate outlook, (2) US federal deficit outlook, and (3) Indonesian fiscal outlook under the incoming Prabowo administration. Another wave of dividend repatriation is also coming in Q2.
- Overall, we think the BI Rate will likely stay put in the coming months, barring any extreme moves in the global market. Under these circumstances, BI would probably continue to rely on FX interventions, making it crucial that its FX coffers remain substantial (equivalent to 6.3 months of imports and government debt repayment).

Panel 1. FX reserves declined, partly due to BI intervention to stabilize the Rupiah



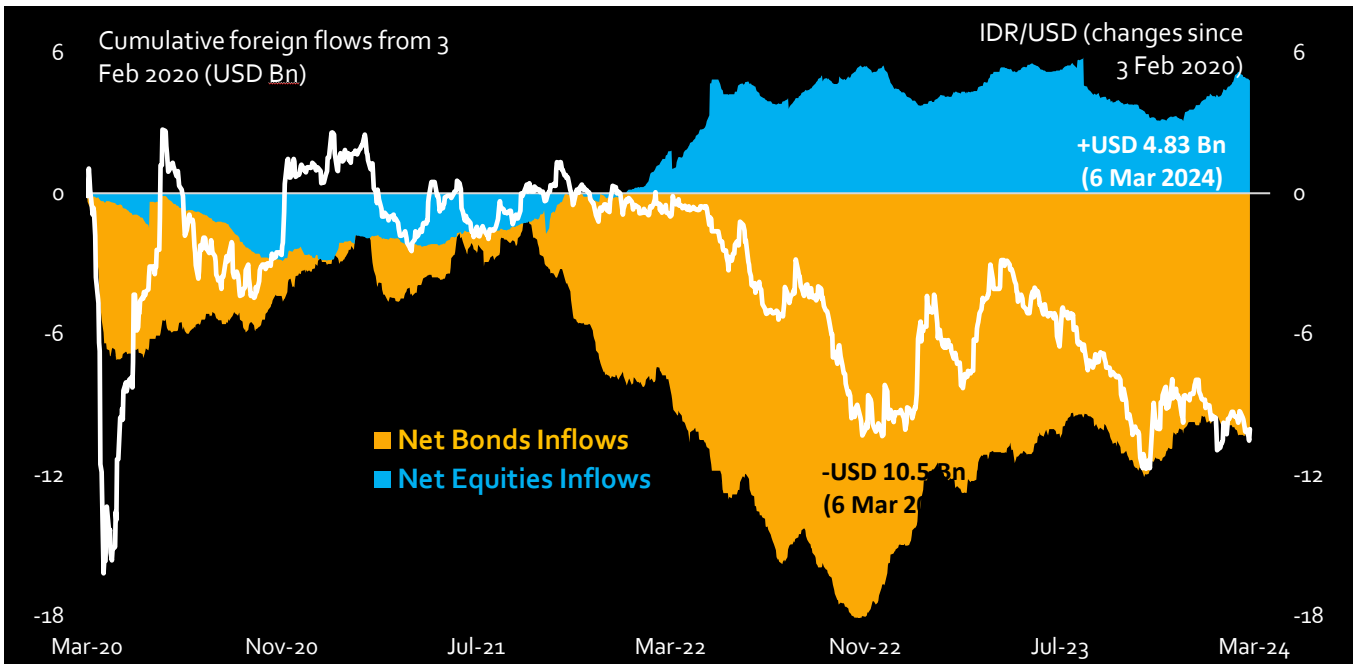
Source: Bloomberg

Panel 2. There has been a shift from FX swap to SVBI/SUVBI due to the higher yields at comparable maturities



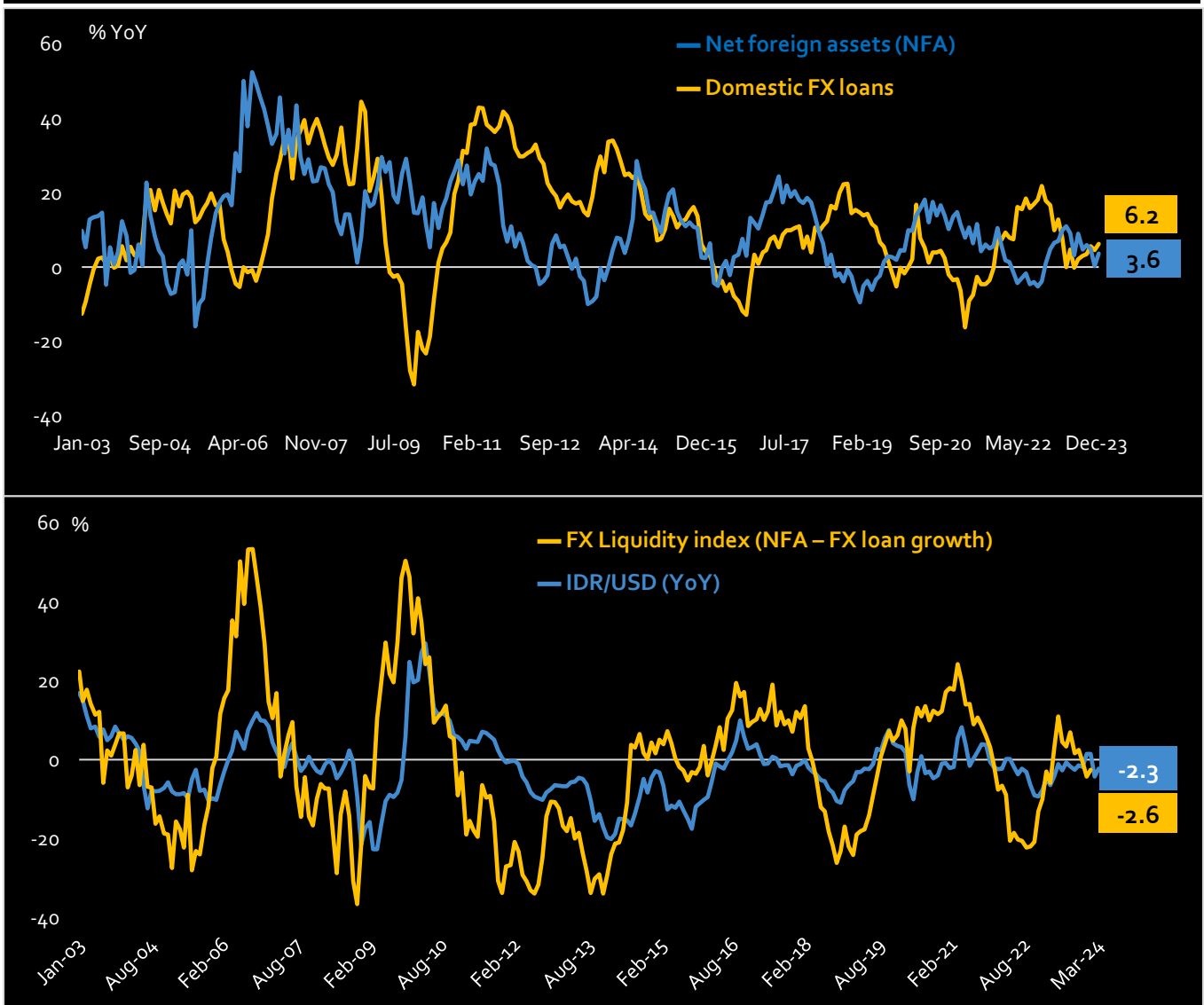
Source: BI

Panel 3. Bond market suffered from outflows due to a gradual shift on future rate outlook



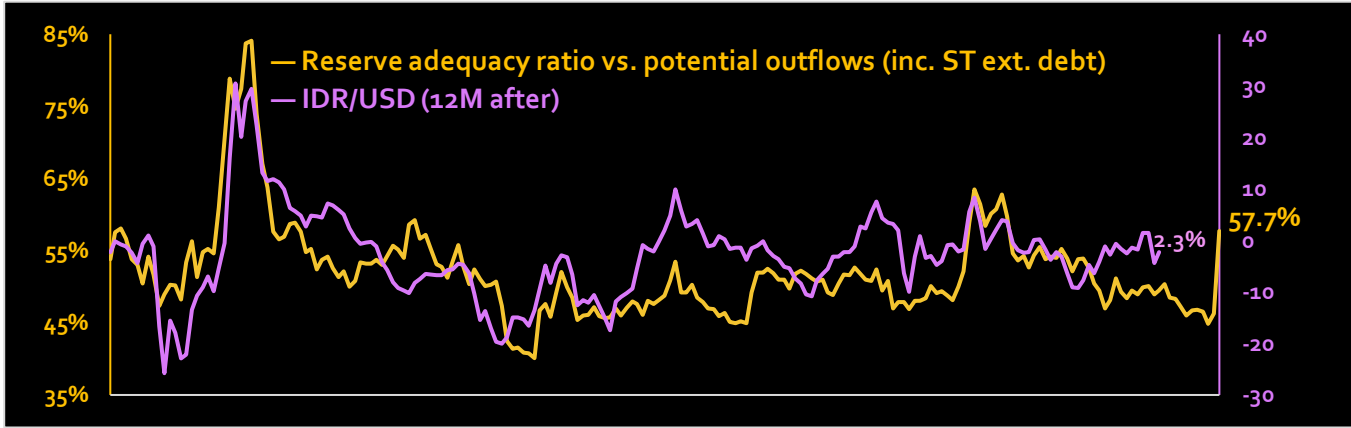
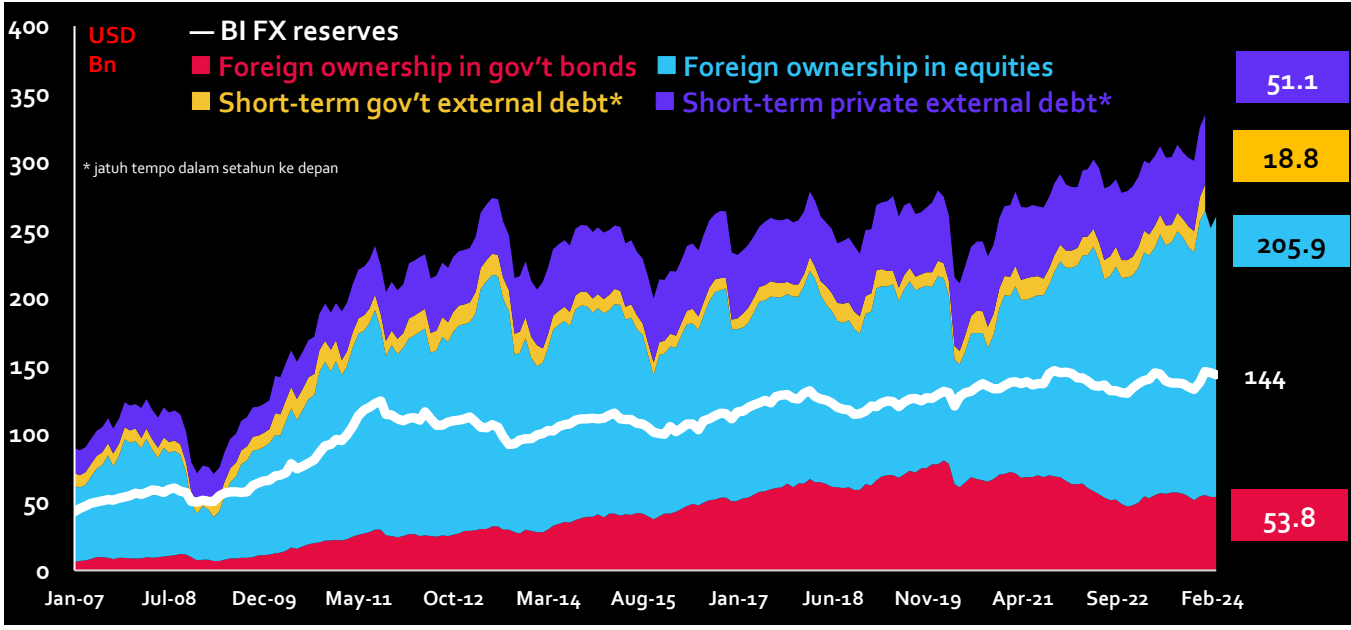
Source: Bloomberg

Panel 4. Demand for FX liquidity is picking up in recent months



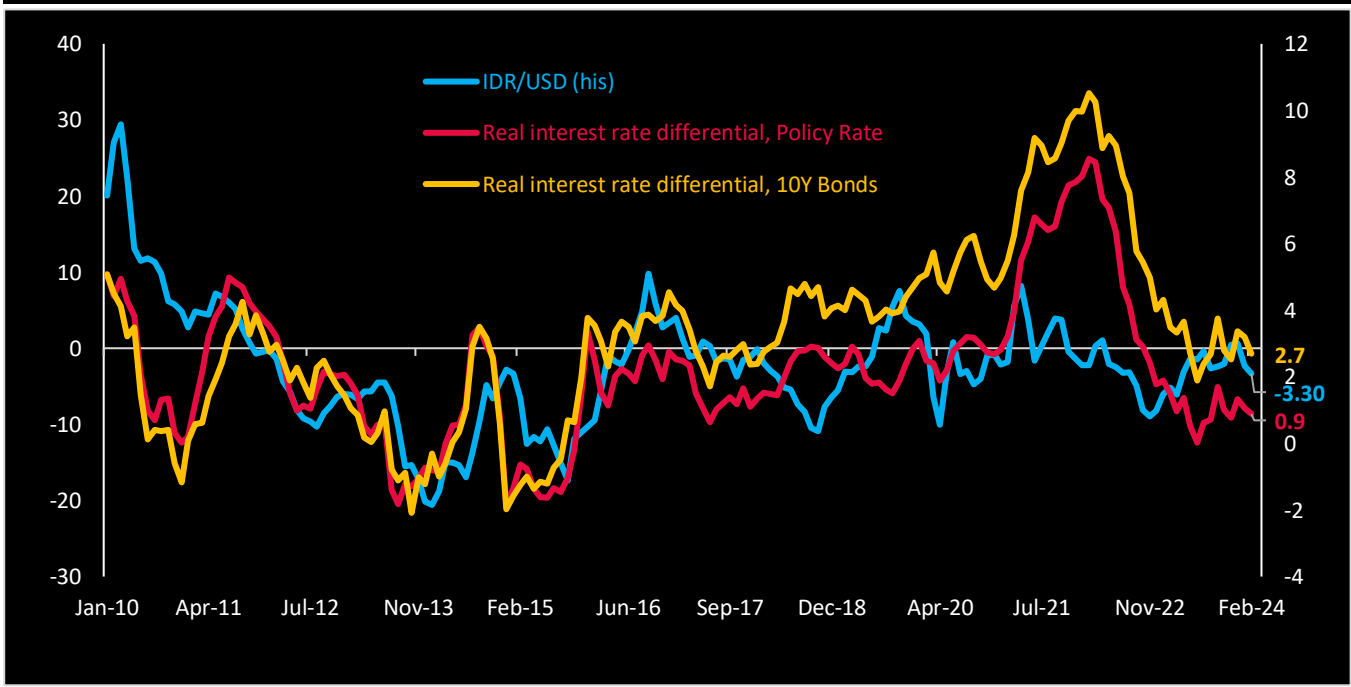
Source: BI, Bloomberg

Panel 5. Reserves are adequate for now, indicating limited room for short-term depreciation



Source: BI, Bloomberg

Panel 6. Narrowing real rate differentials might add another pressure on the Rupiah



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	7-Mar	-1 mth	Chg (%)
US	5.50	Dec-23	2.40	Baltic Dry Index	2,251.0	1,436.0	56.8
UK	5.25	Dec-23	1.25	S&P GSCI Index	563.6	541.3	4.1
EU	4.50	Dec-23	1.90	Oil (Brent, \$/brl)	83.0	78.0	6.4
Japan	-0.10	Jan-16	-2.30	Coal (\$/MT)	137.6	123.6	11.3
China (lending)	2.50	Dec-23	5.15	Gas (\$/MMBtu)	1.56	2.12	-26.4
Korea	3.50	Nov-23	0.40	Gold (\$/oz.)	2,160.0	2,025.1	6.7
India	6.50	Dec-23	1.40	Copper (\$/MT)	8,546.5	8,247.2	3.6
Indonesia	6.00	Nov-23	3.25	Nickel (\$/MT)	17,768.0	15,753.8	12.8
Money Mkt Rates	7-Mar	-1 mth	Chg (bps)	CPO (\$/MT)	869.9	806.5	7.9
				Rubber (\$/kg)	1.59	1.52	4.6
Bank Rates (Rp)	Dec	Nov	Chg (bps)	External Sector	Jan	Dec	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	20.52	22.39	-8.34
SUN (10Y)	6.62	6.59	2.8	Import (\$ bn)	18.51	19.11	-3.13
INDONIA (O/N, Rp)	5.91	5.92	-1.4	Trade bal. (\$ bn)	2.02	3.29	-38.67
JIBOR 1M (Rp)	6.64	6.64	0.5	Central bank reserves (\$ bn)*	145.1	146.4	-0.91
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Jan	Dec	Nov
Lending (WC)	8.86	8.91	-4.93	Consumer confidence index (CCI)	125.0	123.8	123.6
Deposit 1M	4.76	4.52	24.61	Car sales (%YoY)	-26.1	-19.1	-7.5
Savings	0.69	0.67	1.94	Motorcycle sales (%YoY)	-3.7	-11.6	-2.8
Currency/USD	7-Mar	-1 mth	Chg (%)	Manufacturing PMI	Jan	Dec	Chg (bps)
UK Pound	0.781	0.798	2.18	USA	50.7	47.9	280
Euro	0.913	0.931	1.91	Eurozone	46.6	44.4	220
Japanese Yen	148.1	148.7	0.43	Japan	48.0	47.9	10
Chinese RMB	7.193	7.199	0.08	China	50.8	50.8	0
Indonesia Rupiah	15,653	15,705	0.33	Korea	51.2	49.9	130
Capital Mkt	7-Mar	-1 mth	Chg (%)	Indonesia	52.9	52.2	70
JCI	7,374.0	7,198.6	2.44				
DJIA	38,791.4	38,380.1	1.07				
FTSE	7,692.5	7,612.9	1.05				
Nikkei 225	39,598.7	36,354.2	8.92				
Hang Seng	16,229.8	15,510.0	4.64				
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)				
Stock	3,236.2	2,700.6	535.61				
Govt. Bond	837.1	811.9	25.24				
Corp. Bond	9.5	12.4	-2.94				

Source: Bloomberg, BI, BPS

Notes:

*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

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	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	15,397	16.037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

** Estimation of Rupiah's fundamental exchange rate

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