



Monthly Economic & Finance Briefing

Economic, Banking & Industry Research of BCA Group - DKP

FX Reserve: ~~Better hope that this spring(s) is eternal~~

Executive Summary:

- Indonesian FX reserves recovered back to USD 138.8 Bn in April, alongside strong inflows into government debt.
 - Rupiah's recent strength is the product both of the Fed's dovish stance, and Indonesia's still-relatively narrow CAD in Q1.
 - While Fed tightening is still some way off in the future, market speculations of tightening is likely to return in H2-21. Coupled with the widening CAD, this could translate to some exchange rate volatility down the road.
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- BI's FX reserves bounced back to USD 138.8 Bn in April – regaining virtually all the ground it lost in March. The news should not come as a surprise, given strong inflows into Indonesian sovereign bonds during the month (**Chart 1**) as well as additional loans obtained by the government.
 - The supply of FX in the financial sector, as measured by outstanding BI instruments (**Chart 2**) has also remained stable. This is quite crucial as dividend repatriation and loan repayment is expected, as usual, to peak in Q2.
 - And judging from the tenor of the market in the past few days (and weeks), it could be the case that the usual dictum – “sell in May and go away” – is not completely applicable this year. **After March's bond market rout, investors seem to have come to the realization that the Fed's reaction function really is different this time, and policy tightening may still be some distance away in the horizon.**
 - Of course, not all major central banks are as lenient as the Fed, with both the Bank of Canada and the Bank of England already in taper-mode as of May. And with the Fed increasingly cognizant about the danger of asset price bubbles, it is expected that some hawkish measures – at least in terms of moral suasion/forward guidance – will be enacted at some point.
 - This is why we remain quite cautious regarding the exchange rate outlook, even after the Rupiah's recent strong performance vis-à-vis the USD. While CA deficit in Q1 is not expected to widen too conspicuously relative to last year, this is unlikely to hold true for the remainder of the year.
 - The reasons are two-fold. One is that the average oil price in Q1 was lower compared to our expectations for the year (USD 60 – 70/barrel) if the global recovery continues. **The other is the relatively sluggish consumption in Q1, both from the private and the public sector (i.e. fiscal stimulus), which is unlikely to persist for the rest of the year – especially given what we have seen since late March.**
 - As such, we cannot expect the present rosy situation to last far beyond this springtime. At current rates, summer (Q3-21) in the US, UK, and even Europe may already mark a return to relative normalcy, and signs of actual overheating (as opposed to temporary inflation) could become much more apparent – bolstering speculations of global monetary tightening. So while the Indonesian government has done an admirable job driving the recovery while managing various macro risks, its task – especially with respect to the BoP – could grow more challenging in the medium-term.

Chart 1. Foreign capital return to Indonesian sovereign bonds, following two consecutive months of outflows

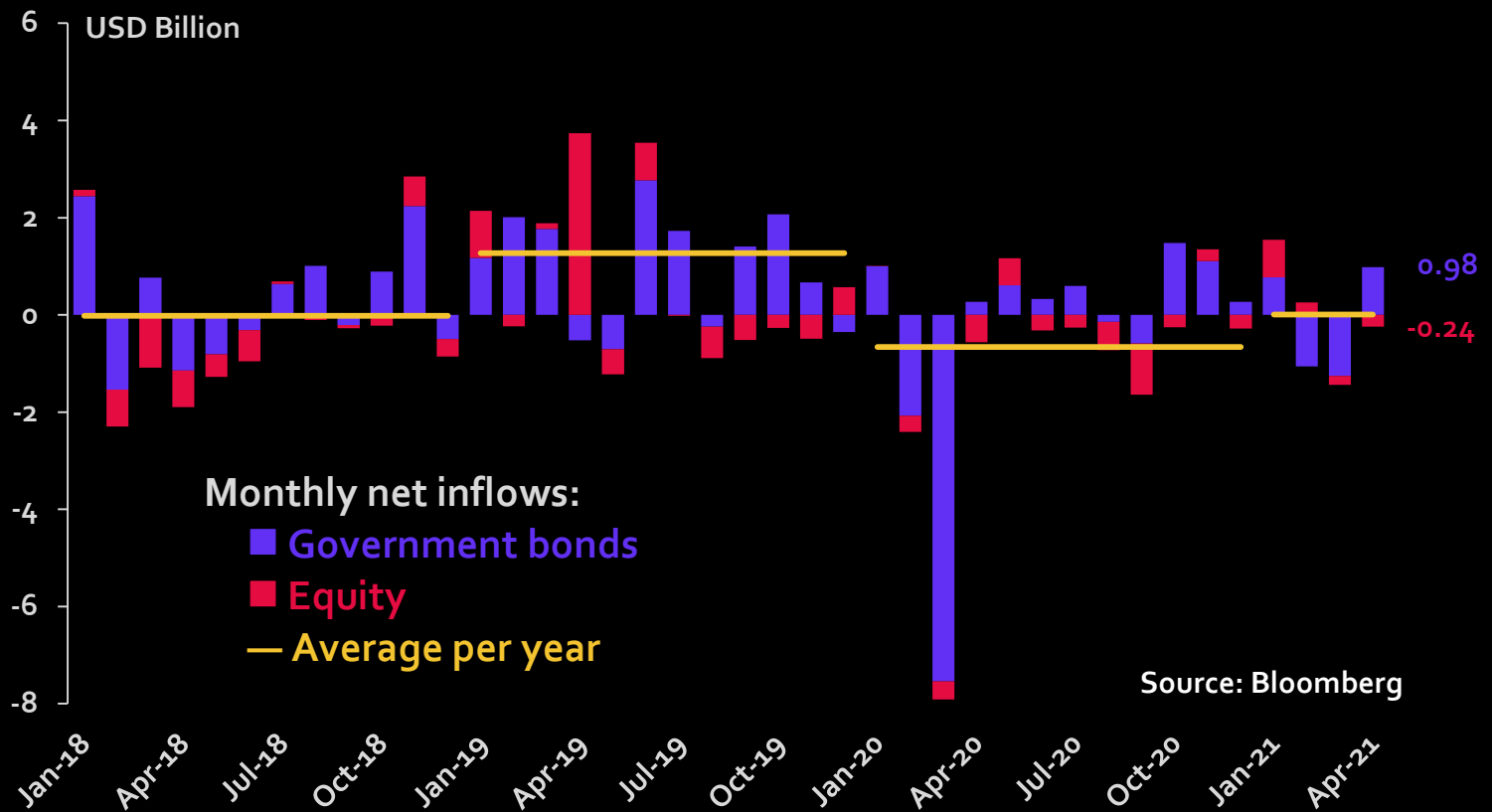
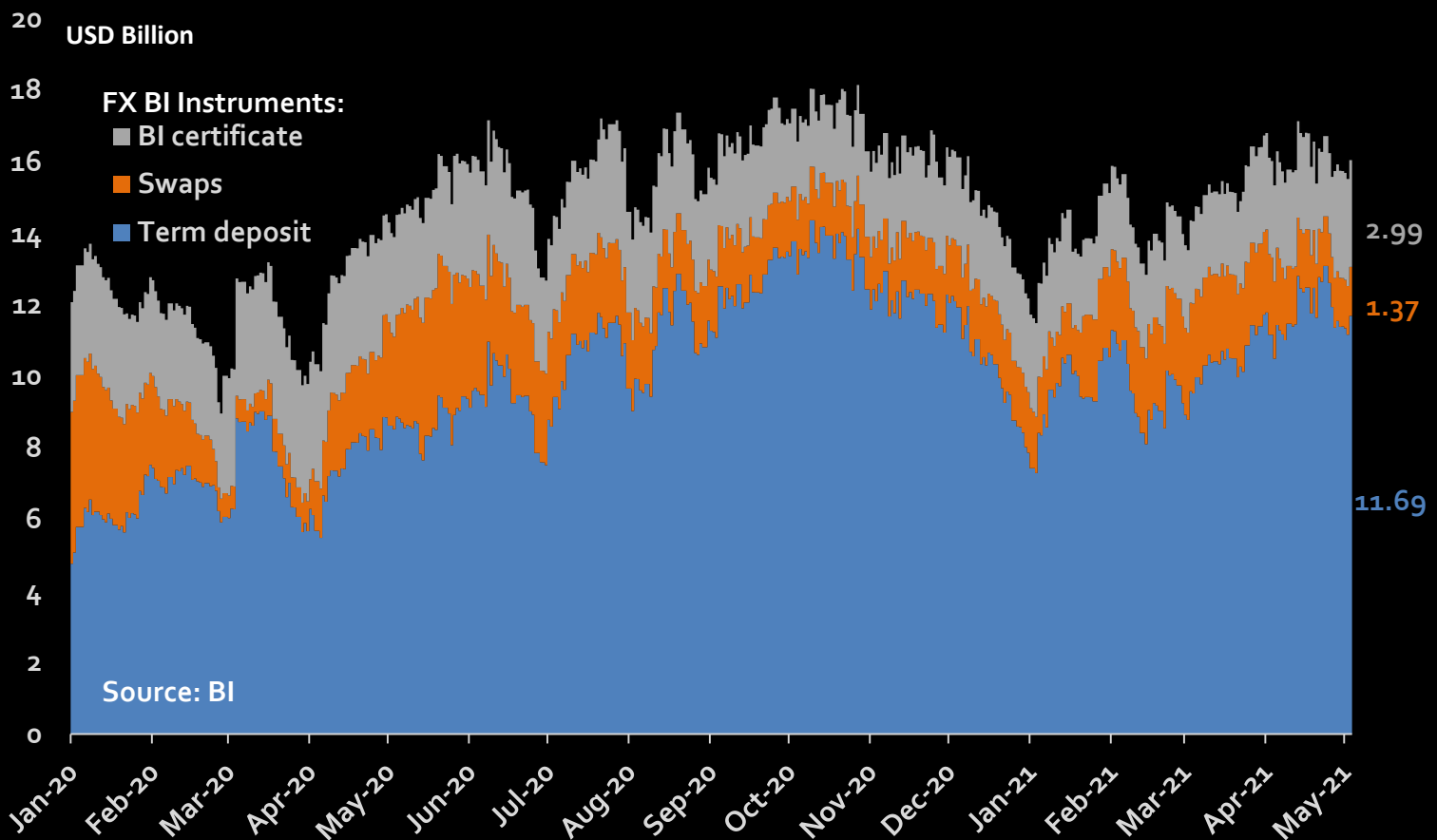


Chart 2. FX liquidity among banks had remained quite stable



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-May	-1 mth	Chg (%)
US	0.25	Mar-20	-2.35	Baltic Dry Index	3,212.0	2,072.0	55.0
UK	0.10	Mar-20	-0.60	S&P GSCI Index	518.9	464.3	11.7
EU	0.00	Mar-16	-1.60	Oil (Brent, \$/bbl)	68.1	62.2	9.6
Japan	-0.10	Jan-16	0.10	Coal (\$/MT)	95.9	89.0	7.8
China (lending)	4.35	Oct-15	3.95	Gas (\$/MMBtu)	2.90	2.38	21.8
Korea	0.50	May-20	-1.80	Gold (\$/oz.)	1,815.2	1,728.3	5.0
India	4.00	May-20	-1.52	Copper (\$/MT)	10,095.5	8,794.5	14.8
Indonesia	3.50	Feb-21	2.08	Nickel (\$/MT)	17,912.3	16,167.5	10.8
Money Mkt Rates	6-May	-1 mth	Chg (bps)	CPO (\$/MT)	1,129.2	1,001.0	12.8
				Rubber (\$/kg)	1.69	1.63	3.7
SPN (1M)	4.00	2.87	112.9	External Sector	Mar	Feb	Chg (%)
SUN (10Y)	6.41	6.62	-20.9				
INDONIA (O/N, Rp)	2.79	2.79	-0.0	Export (\$ bn)	18.35	15.26	20.3
JIBOR 1M (Rp)	3.56	3.56	-0.3	Import (\$ bn)	16.79	13.27	26.6
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	1.57	1.99	-21.3
				Central bank reserves (\$ bn)	137.1	138.8	-1.23
Lending (WC)	9.23	9.27	-4.29	Prompt Indicators	Mar	Feb	Jan
Deposit 1M	3.88	4.05	-16.69				
Savings	0.83	0.84	-0.97				
Currency/USD	6-May	-1 mth	Chg (%)	Consumer confidence index (CCI)	93.4	85.8	84.9
UK Pound	0.720	0.719	-0.08				
Euro	0.829	0.847	2.13	Car sales (%YoY)	10.5	-38.2	-34.2
Japanese Yen	109.1	110.2	1.00				
Chinese RMB	6.464	6.567	1.59	Motorcycle sales (%YoY)	-7.2	-30.8	-14.7
Indonesia Rupiah	14,319	14,515	1.37				
Capital Mkt	6-May	-1 mth	Chg (%)	Cement sales (%YoY)	10.9	0.7	-5.9
JCI	5,970.2	5,970.3	-0.00	Manufacturing PMI	Apr	Mar	Chg (bps)
DJIA	34,548.5	33,527.2	3.05				
FTSE	7,076.2	6,737.3	5.03	USA	60.7	64.7	-400
Nikkei 225	29,331.4	30,089.3	-2.52	Eurozone	63.3	62.5	80
Hang Seng	28,637.5	28,938.7	-1.04	Japan	53.6	52.7	90
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)	China	51.9	50.6	130
				Korea	54.6	55.3	-70
Stock	1,892.9	1,878.6	14.30	Indonesia	54.6	53.2	140
Govt. Bond	964.6	951.4	13.20				
Corp. Bond	28.5	28.9	-0.37				

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.5
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

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