FX Reserves:
Picking the best time to fight to save resources

Lazuardin Thariq Hamzah
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

- BI's FX reserves declined by USD 1.6 Bn to USD 145.1 Bn in January 2024, driven by maturing global bonds, although the impact was cushioned by substantial foreign capital inflows during the same period.
- While the Indonesian financial market continues to benefit from foreign capital inflows, the Rupiah trended downward throughout January 2024 as BI appeared reluctant to utilise the ample FX reserves to intervene in the money market.
- BI may be seeking to conserve its FX reserves, anticipating that intensifying pressure on the Rupiah in the upcoming months will eventually prompt them to launch more stringent market interventions.

- Bank Indonesia's foreign exchange reserves stood at USD 145.1 Bn in January 2024, a decline from USD 146.4 Bn in the previous month ***(see Panel 1)***. The USD 1.6 Bn decline marked an end to the upward trend in BI's FX reserves that began in October 2023, although the FX reserves position remains substantial as it could cover around 6.4 months of imports and interest payment needs.

- As reported by BI, the declining FX reserves seem to be almost exclusively driven by principal payments on a maturing global bond, which was worth around USD 1.68 Bn. However, the government chose not to roll over the matured RI0124 USD-denominated global bond, opting instead to raise around USD 3.48 Bn (IDR 54.40 Tn) in new IDR-denominated bonds despite the more significant decline in the yield on Indonesia's global bonds (-12.3 bps YTD, relative to the 10.5 bps YTD decline in the yield on IDR-denominated bonds).

- The government's decision not to roll over the matured global bond, then, is not driven by tactical consideration of yields and prices. The decision appears to indicate the government's effort to improve the resiliency of its finances, as cutting its exposure to USD bonds would limit the risk of a sudden spike in the demand for FX liquidity to pay its coupons. Such a strategy is particularly relevant at the moment, given the risk of slowing FX revenues amidst the seemingly accelerating demand for FX loans, as indicated by the limited growth in banks' FX placement at BI instruments/facilities and our FX liquidity index ***(see Panel 2 & 4)***.

- Fortunately, the Indonesian government did not have much trouble attracting investors into the SBN market **(*see Panel 3*)**. The IDR 54.40 Tn in new SBN issuance is paltry compared to the total SBN outstanding, while at the same time, BI and other investors from the domestic non-bank sectors continue to ramp up the demand for SBN. Foreign investors also continue to show their appetite for purchasing IDR-denominated debts, although the foreign inflow into the domestic bond market has considerably slowed down in 2024 compared to the previous year.

- It is during recent SRBI auctions, however, that foreign investors appear to show a stronger interest in purchasing Rupiah assets. Foreign ownerships reached 24.4% of total SRBI outstanding in December 2024, a figure that is likely to increase given the spike in the demand for SRBI in 2024. It could be said, then, that the Indonesian financial market benefits from a healthy stream of foreign capital inflows – explaining why the recent decline in FX reserves is not as large as the principal payment on the matured RI0124 global bond. Despite this stream of foreign capital inflows, however, the Rupiah's value continues to march southward so far in 2024.

- The downward trend in the Rupiah's value could be attributed to several factors. From the external side, the weakening sentiment on other, more prominent Asian currencies creates a spillover effect that puts the Rupiah (and other Asian currencies) at a disadvantage. Internally, the still restricted domestic liquidity growth and rising uncertainties ahead of the election did not help to deter speculators away from the domestic money market. The surge in inflows to SRBI provides another hint for investors' demand for short-term (and thus safer) instruments. Such a condition often prompts BI to intervene in the FX market to stabilise the Rupiah exchange rate. However, despite the hitherto ample FX reserves position, BI currently seems reluctant to react and intervene in the market on the same scale as in Q3 2023.

- Indeed, BI had primarily relied on money market interventions to stabilise the Rupiah's value in 2023, resulting in a decrease in FX reserves from March to October 2023 when the central bank increased the BI rate to the present 6.00% level. BI's apparent reluctance to utilise its FX reserves and intervene in the FX market could be taken by the market as a signal that the central bank would allow the Rupiah to slide further, which could extend the ongoing downward trend in the currency's value.

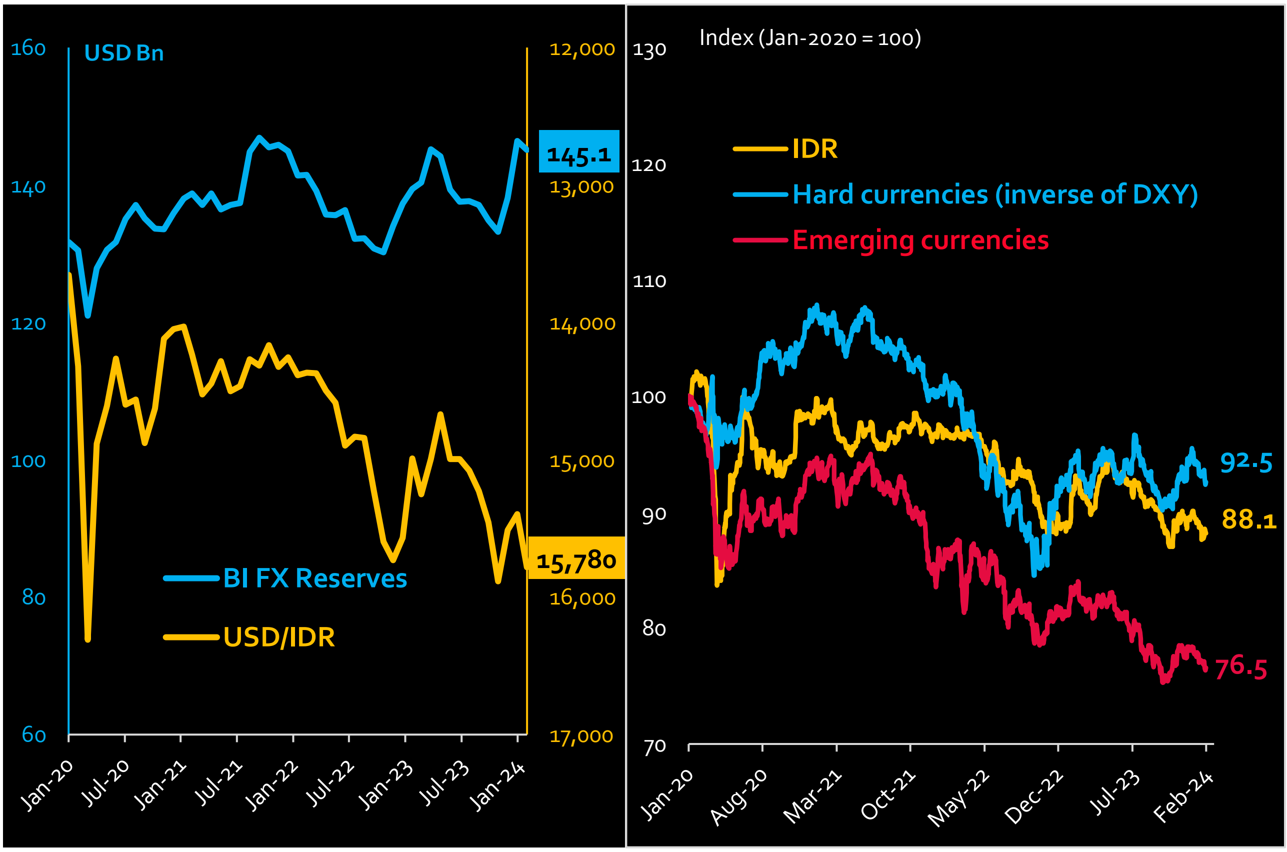
> ***"Indonesia's FX revenues seem to slow down in January 2024 as exports decline while the demand for FX liquidity continues to accelerate"***

- However, despite the anaemic imported inflation number, it is unlikely that BI has embraced a weaker Rupiah as a policy. BI has iterated its focus to stabilise the Rupiah's value back in October 2023, and we have not encountered any changes in their policy signals ever since. After all, the decline in the Rupiah's exchange rate is still occurring gradually and predictably, rather than the abrupt slump we experienced in Q3 2023.

- However, internal and external challenges that hitherto threaten the Rupiah may only intensify in the coming days. Apart from the domestic and regional uncertainties, one of the risks came from still-hot US economic data and the resulting FOMC officials' hawkish Fedspeaks, which runs in contrast to the market's lofty expectations for a total of 100-125 bps of FFR cuts in 2024. The negative rate expectations shock that may follow such a scenario could threaten to cut foreign capital inflows to the Indonesian financial market ***(see Panel 5)***, resulting in a more dramatic depreciation pressure on the Rupiah and other risky assets.

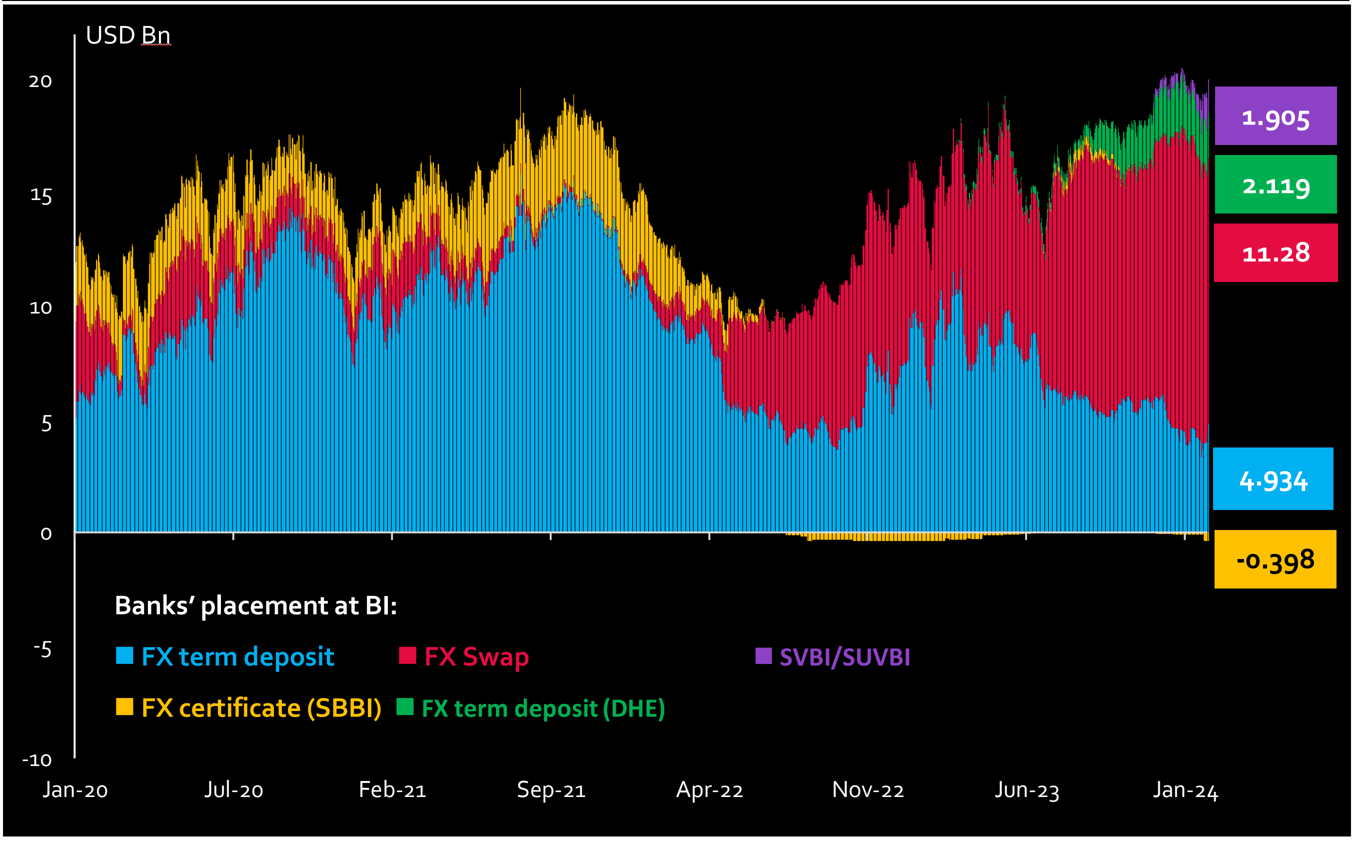
- Persistent pressures on the Rupiah would eventually require BI to back its policy signals with more stringent policy actions. Re-starting the rate hike campaign, of course, would not be preferable, given the slowing domestic consumption growth momentum and the anticipated FFR cuts in 2024.
- Therefore, BI could again find exchange rate interventions as its most practical tool to stabilize the Rupiah. The apparent reluctance to use FX reserves to halt the ongoing slide in the currency's value could be interpreted as BI's strategy to conserve its dry powder for future challenges. This approach would allow the central bank to manage the Rupiah's value without significantly altering its policy stance until the Fed began its move towards looser financial conditions, potentially easing pressure on the Rupiah.

Panel 1. **FX reserves declined in January 2024, in tandem with the downward trend on the Rupiah although the decline is primarily caused by a maturing global bond**



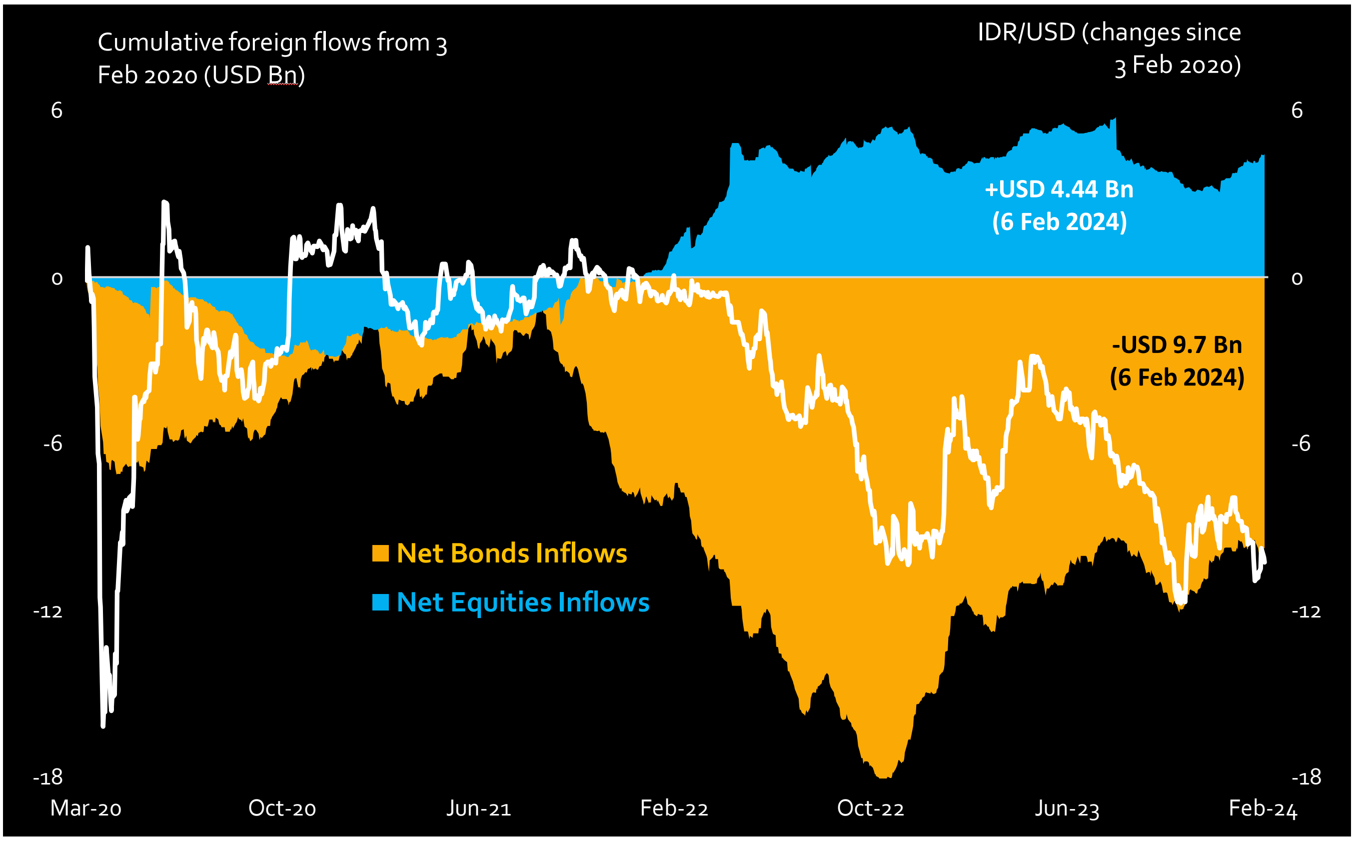
Source: Bloomberg

Panel 2. **Banks' FX liquidity growth stagnated in January 2024 as FX revenues slowed down while the demand for FX loans accelerated**



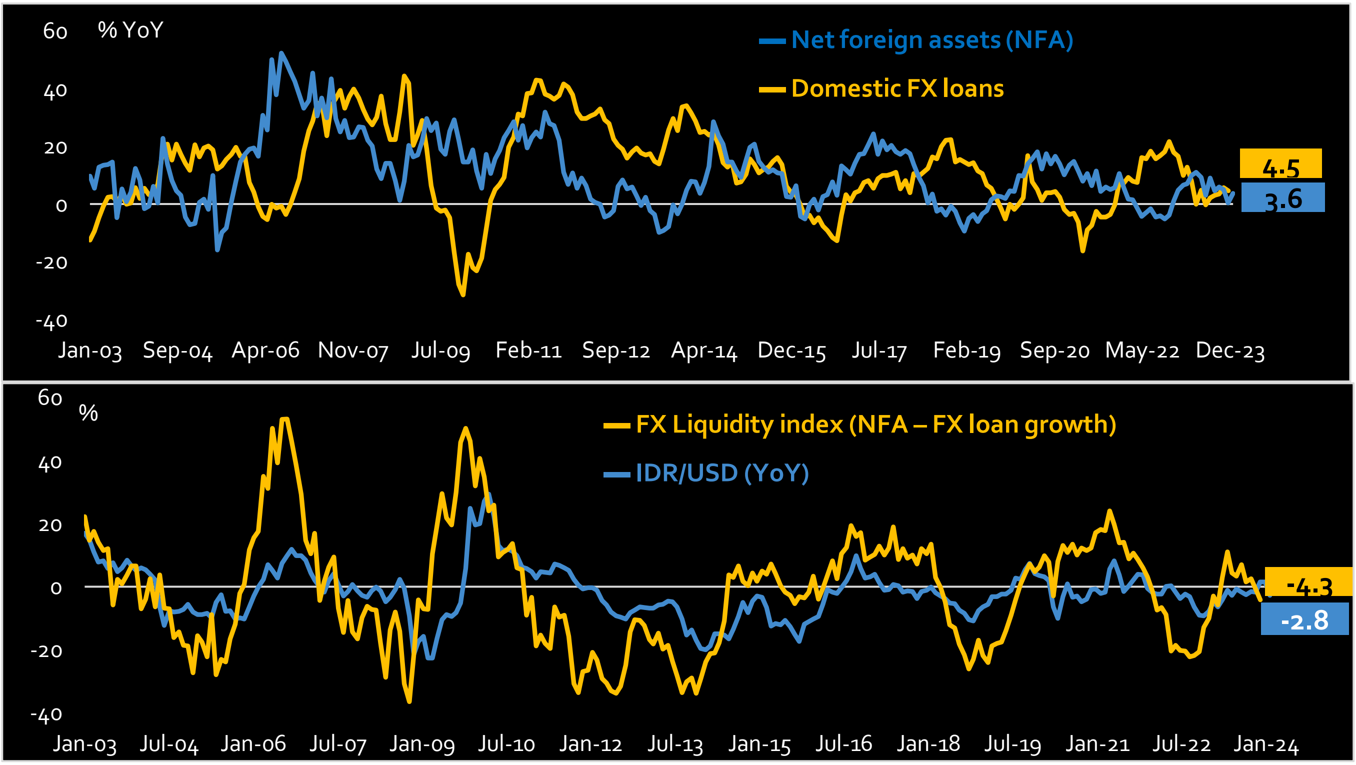
Source: BI

Panel 3. **The rupiah is on a downward trend despite substantial foreign capital inflows into the domestic financial market**



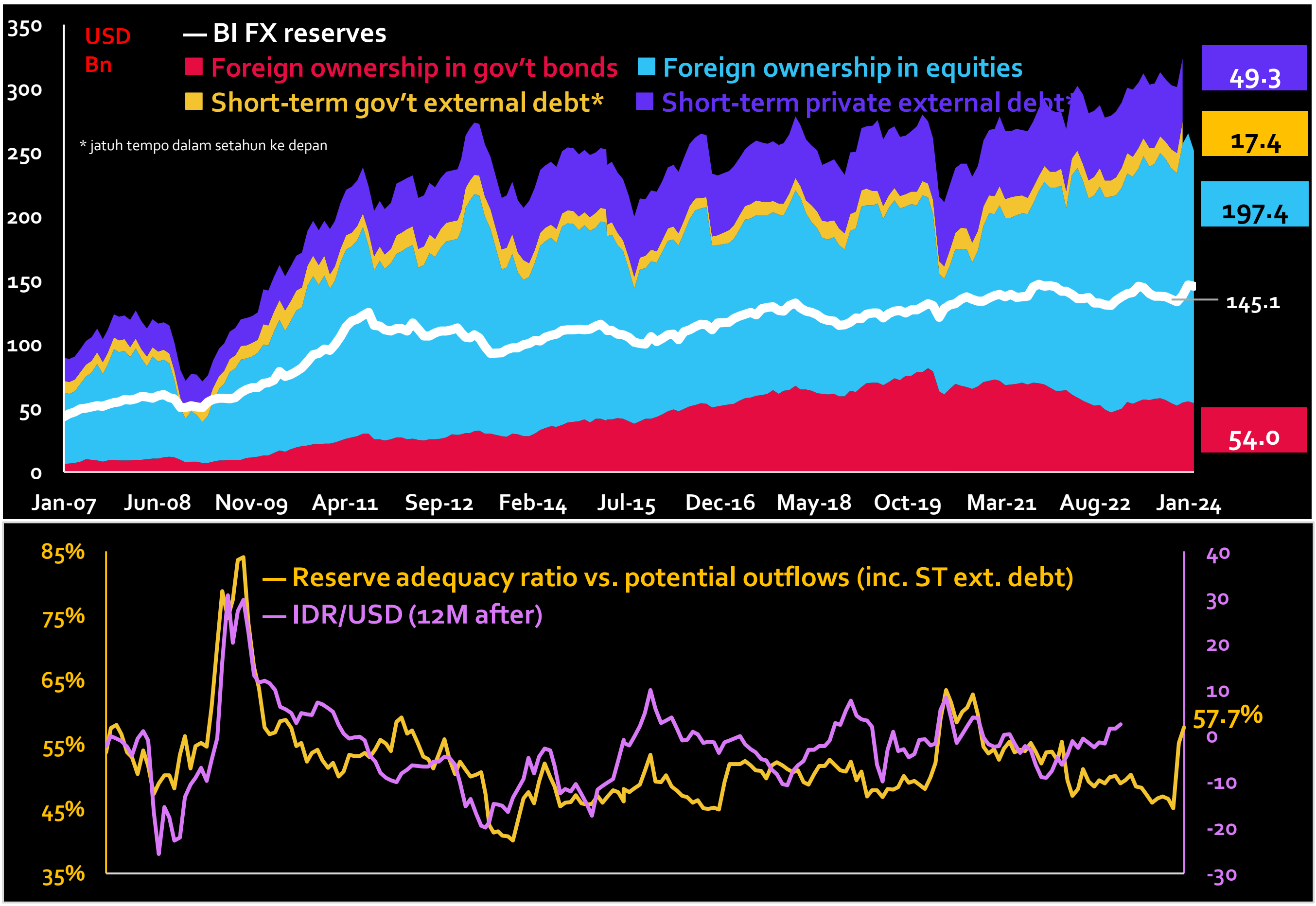
Source: Bloomberg

Panel 4. **Demand for FX continues to accelerate following its nadir in late Q2 2023**



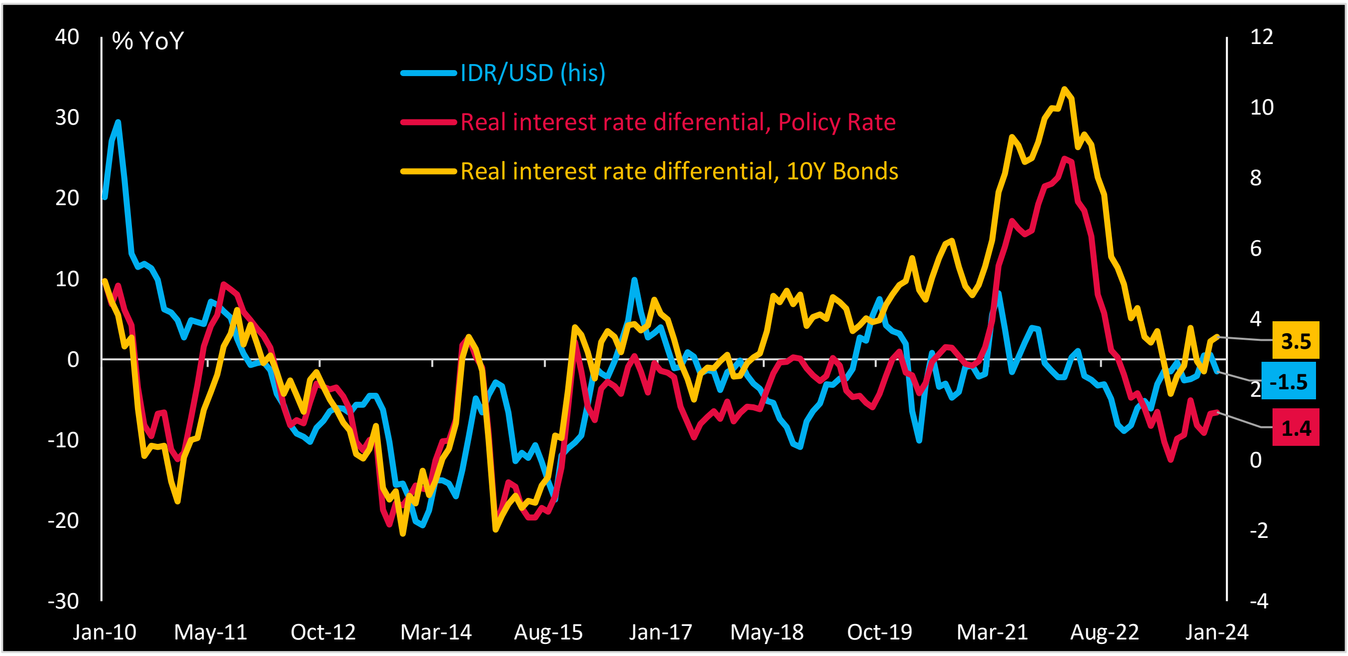
Source: BI, Bloomberg

Panel 5. **The present FX reserves position provides a sufficient cushion against the risk of foreign portfolio flows, but BI may still need to conserve its FX resources**



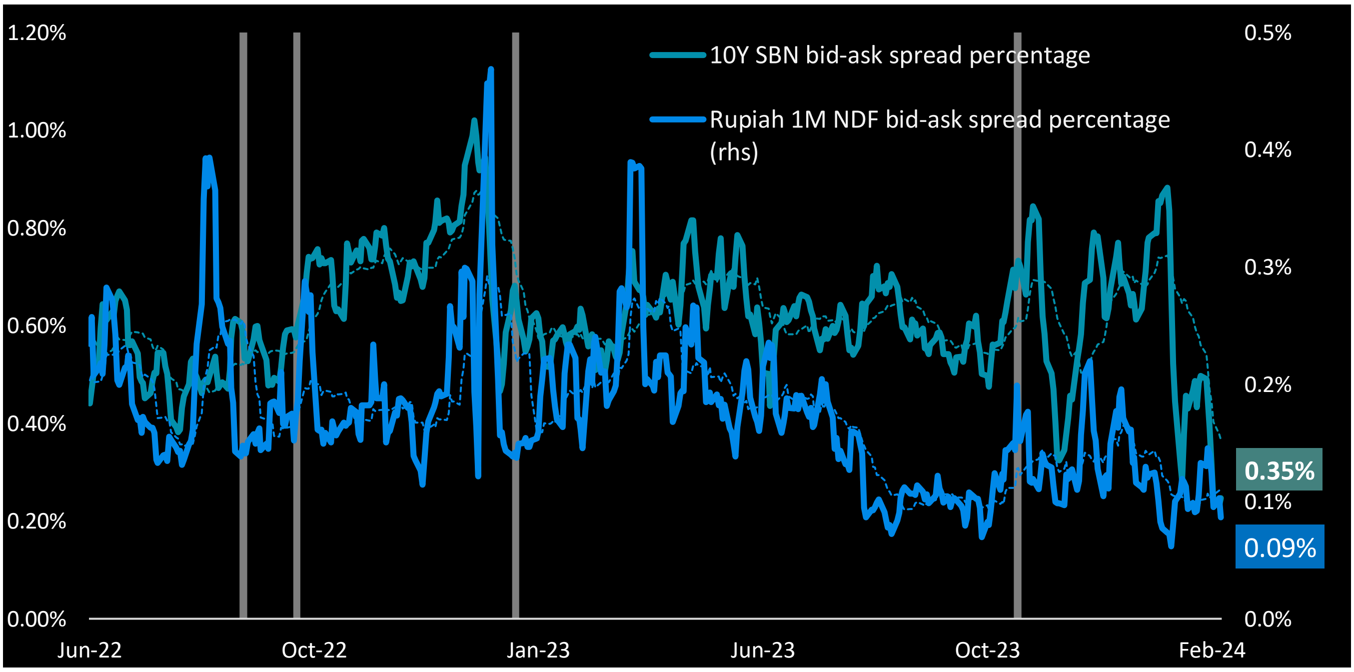
Source: BI, Bloomberg

Panel 6. **Narrowing real interest rates vis-à-vis the US may add to the depreciation pressure facing the Rupiah**



Source: Bloomberg

Panel 7. **The hitherto loose global financial condition improves the liquidity in the Indonesian financial market**



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Dec-23	2.10
UK	5.25	Dec-23	1.25
EU	4.50	Dec-23	1.70
Japan	-0.10	Jan-16	-2.70
China (lending)	2.50	Dec-23	4.65
Korea	3.50	Nov-23	0.70
India	6.50	Dec-23	0.81
Indonesia	6.00	Nov-23	3.43

Money Mkt Rates	6-Feb	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.61	6.68	-7.1
INDONIA (O/N, Rp)	5.94	5.80	13.1
JIBOR 1M (Rp)	6.63	6.64	-1.1

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.91	9.05	-13.89
Deposit 1M	4.52	4.43	8.25
Savings	0.67	0.67	0.34

Currency/USD	6-Feb	-1 mth	Chg (%)
UK Pound	0.794	0.786	-0.96
Euro	0.930	0.914	-1.72
Japanese Yen	147.9	144.6	-2.24
Chinese RMB	7.190	7.147	-0.60
Indonesia Rupiah	15,730	15,515	-1.37

Capital Mkt	6-Feb	-1 mth	Chg (%)
JCI	7,247.4	7,350.6	-1.40
DJIA	38,521.4	37,466.1	2.82
FTSE	7,681.0	7,689.6	-0.11
Nikkei 225	36,160.7	33,377.4	8.34
Hang Seng	16,136.9	16,535.3	-2.41

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,115.8	3,226.3	-110.54
Govt. Bond	841.9	842.1	-0.17
Corp. Bond	10.4	10.6	-0.19

Trade & Commodities	6-Feb	-1 mth	Chg (%)
Baltic Dry Index	1,516.0	2,110.0	-28.2
S&P GSCI Index	544.7	541.8	0.5
Oil (Brent, $/brl)	78.6	78.8	-0.2
Coal ($/MT)	123.3	128.9	-4.3
Gas ($/MMBtu)	2.09	2.75	-24.0
Gold ($/oz.)	2,036.1	2,045.5	-0.5
Copper ($/MT)	8,293.3	8,361.0	-0.8
Nickel ($/MT)	15,660.0	16,151.5	-3.0
CPO ($/MT)	811.9	791.8	2.5
Rubber ($/kg)	1.51	1.51	0.0

External Sector	Dec	Nov	Chg (%)
Export ($ bn)	22.41	22.00	1.89
Import ($ bn)	19.11	19.59	-2.45
Trade bal. ($ bn)	3.31	2.41	37.13
Central bank reserves ($ bn)*	146.4	138.1	6.01

Prompt Indicators	Dec	Nov	Oct
Consumer confidence index (CCI)	123.8	123.6	124.3
Car sales (%YoY)	-19.1	-7.5	-13.8
Motorcycle sales (%YoY)	-11.6	-2.8	-4.0

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	50.7	47.9	280
Eurozone	46.6	44.4	220
Japan	48.0	47.9	10
China	50.8	50.8	0
Korea	51.2	49.9	130
Indonesia	52.9	52.2	70

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

*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

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Aldi Rizaldi
Research Assistant
aldi_yanto@bca.co.id
+6221 2358 8000 Ext: 1020451

Fikri Adam Zaqi
Research Assistant
Fikri_zaqi@bca.co.id
+6221 2358 8000 Ext: -

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