

FX Reserves:

Sharp jump amid extraordinary sentiment

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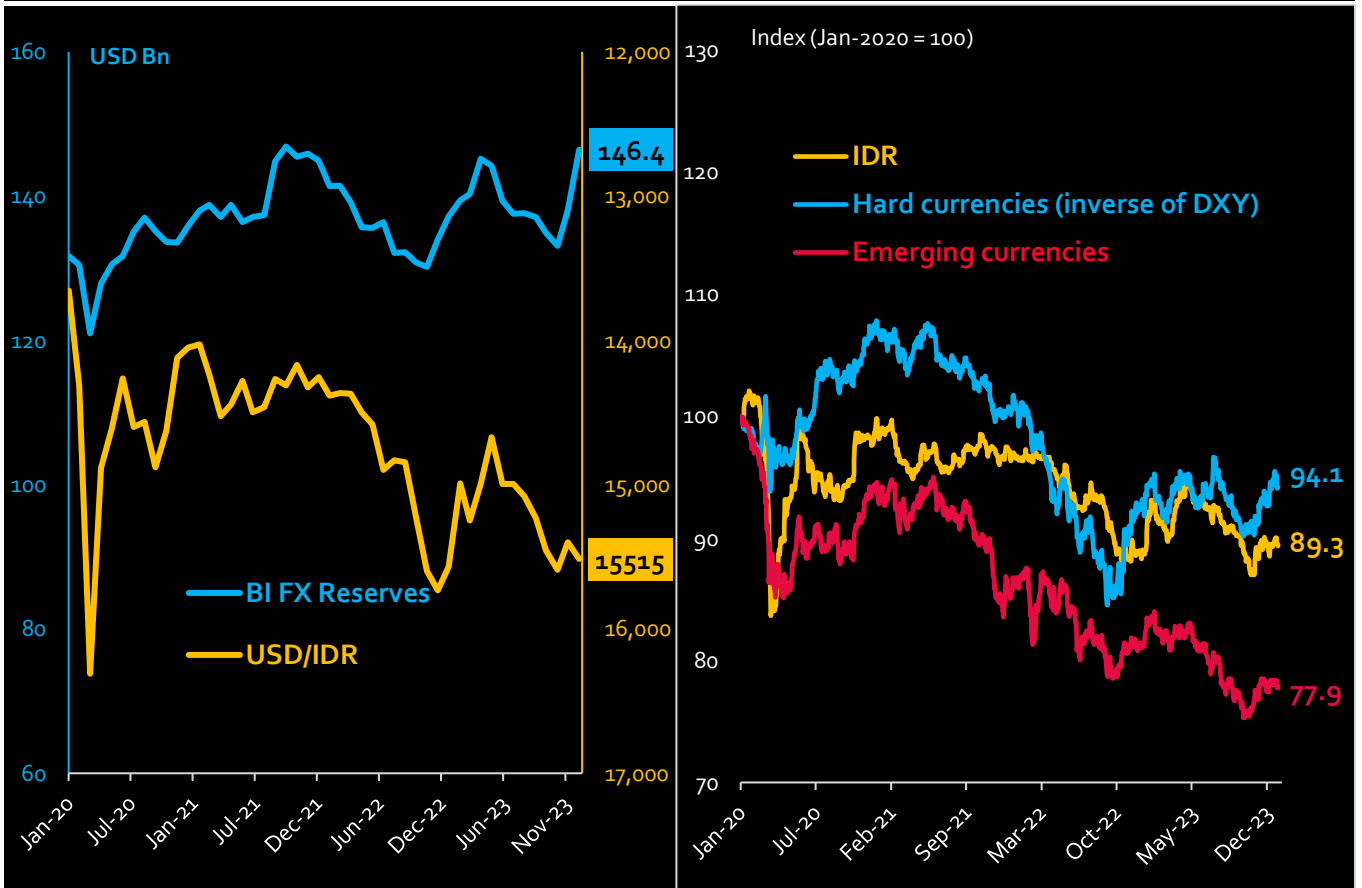
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Executive Summary

- Indonesia's FX reserves experienced a sharp increase of USD 8.3 Bn to USD 146.4 Bn, largely due to capital inflows, withdrawal of external loans, and tax revenue.
 - Recent market rally is attributed to year-end optimism regarding Fed rate cuts. There has been an emerging belief that commodity price could resurge due to geopolitical tensions and potential rebound in China. Both expectations benefit Indonesia, but it is unlikely that this "best of both worlds" scenario would materialize.
 - Robust FX reserves would help Indonesia weather the uncertainty in H1-24, but the extra cushion does not necessarily give BI room to cut rates early in the year.
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- Indonesia's FX reserves stood at USD 146.4 Bn at the end of Dec-23, an extraordinary increase of USD 8.3 Bn compared to the previous month. This marks the second consecutive month of growth following the shift in market sentiment regarding the Fed policy. It is also worth noting that FX reserves tend to increase in the December of every year over the past decade, except for 2021.
 - The increase, of course, is partly attributed to the continuation of foreign capital inflows into the domestic stock and secondary bond market, totaling USD 1.00 billion, slightly below the Nov-23 figure of USD 1.47 billion. Additionally, there was a significant influx which originated from the withdrawal of the government's external loans, which amounted to a hefty ~USD 4 Bn.
 - Additional inflows in Dec-23 were facilitated through year-end tax reconciliation and auctions of BI's foreign exchange instruments (albeit very minor). SUVBI and term deposits linked to export receipts (TD-DHE) collected USD 0.04 billion and USD 0.12 billion, respectively, but with a net decline in SVBI of approximately USD 0.13 billion.
 - The recent market rally can be attributed to year-end optimism regarding Fed rate cuts in 2024. To this, we could add another ingredient into the mix in January: an emerging belief that commodity price could resurge following recent geopolitical tensions (Houthi attacks on shipping) and a potential turnaround in China.
 - Both expectations, of course, benefit of Indonesia. A Fed pivot, on one hand, generally fosters more risk-on sentiment, while higher commodity prices could enhance Indonesian exports. There is, however, no guarantee that this "best of both worlds" scenario would materialize, since the Fed may not sit idly by and stay on an easing path if inflation returns.
 - Nevertheless, the robust FX reserves position at the end of 2023 would help Indonesia weather uncertainty with regard to food inflation, elections, and Fed policy timeline in H1-24.

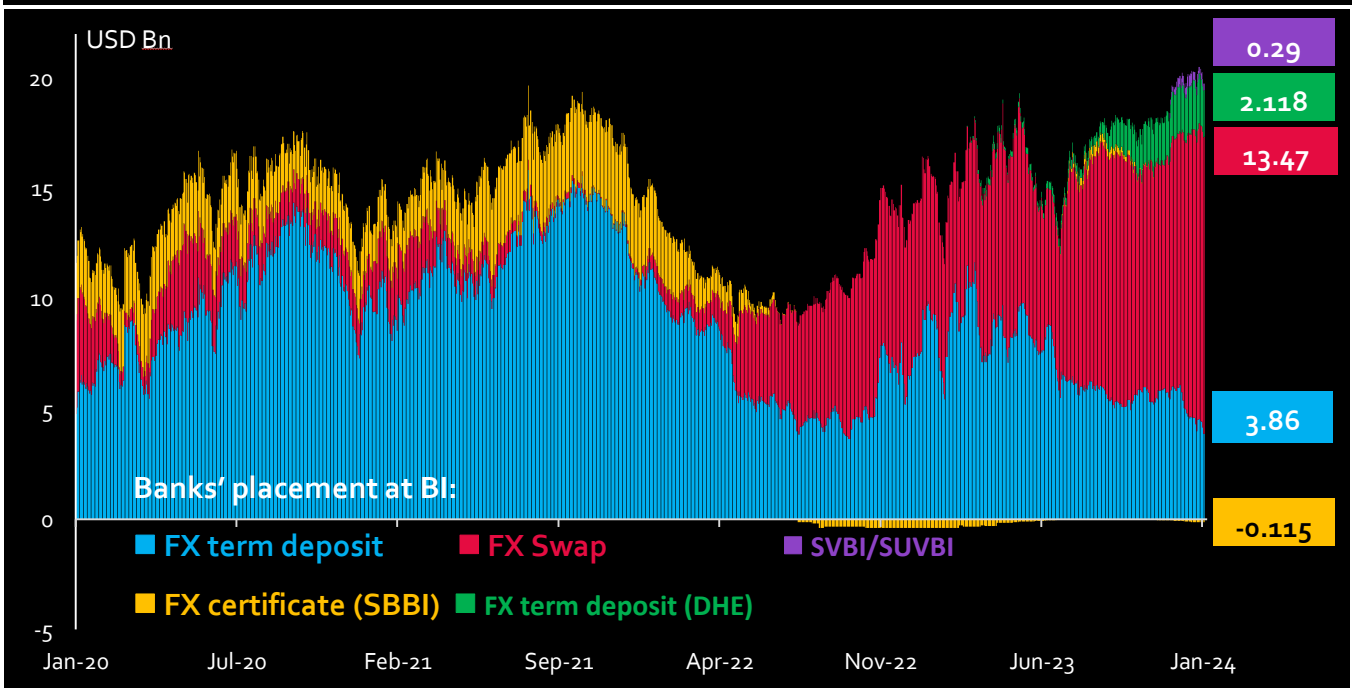
This extra cushion, however, does not necessarily give BI room to cut rates early in the year, and consequently we maintain an outlook of limited rate cuts and flat/slightly depreciating Rupiah in 2024.

Panel 1. FX reserves increased amid strengthening IDR and EM currencies



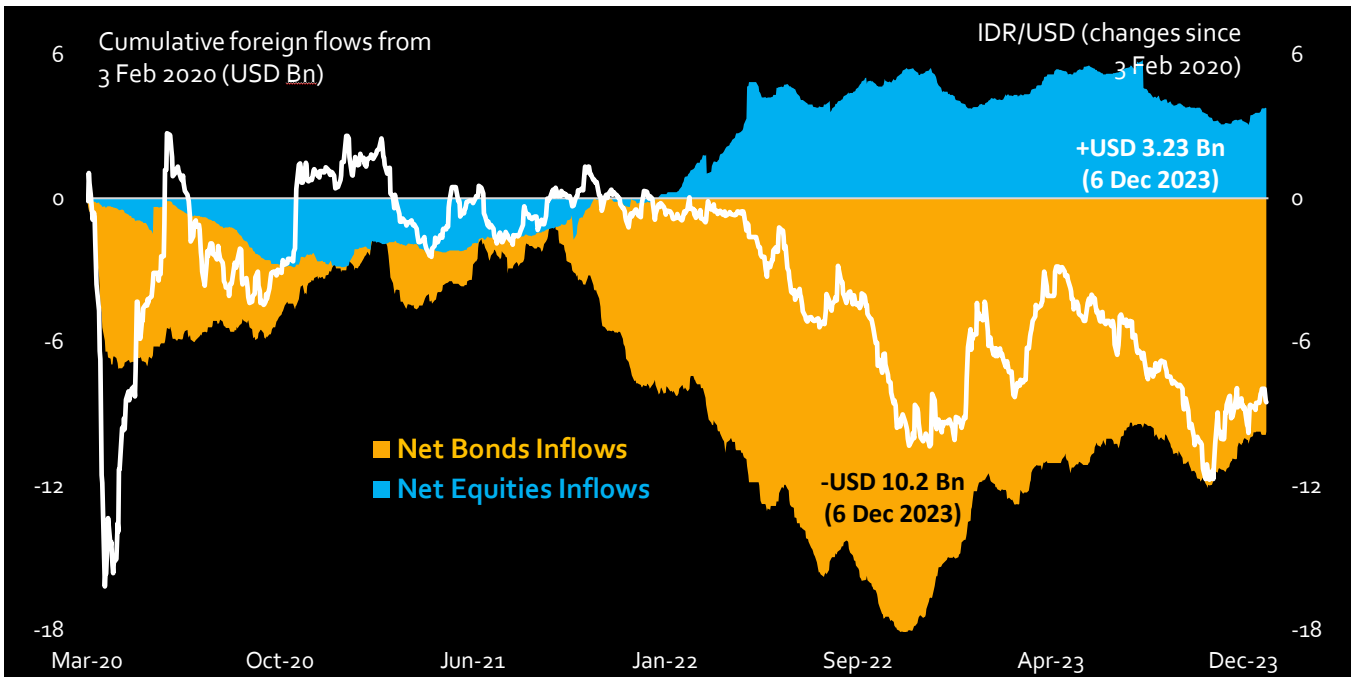
Source: Bloomberg

Panel 2. There was also a minor inflow into BI's SUVBI and FX term deposit instruments



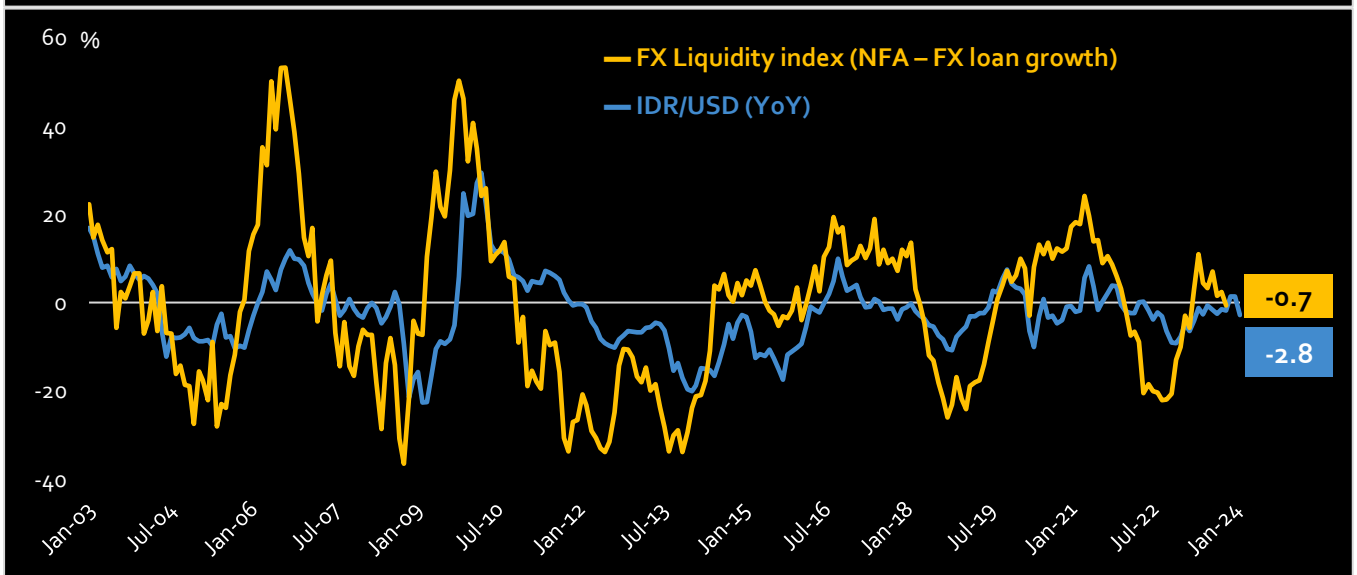
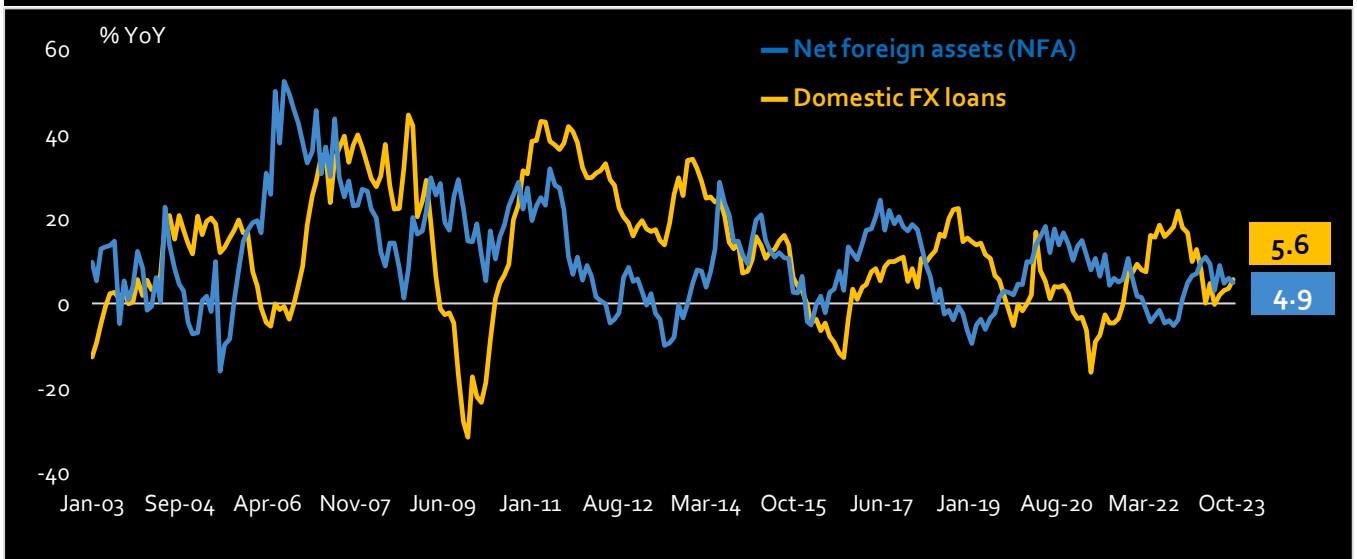
Source: BI

Panel 3. Expectations of Fed rate cut drive inflows into domestic stock and bond market



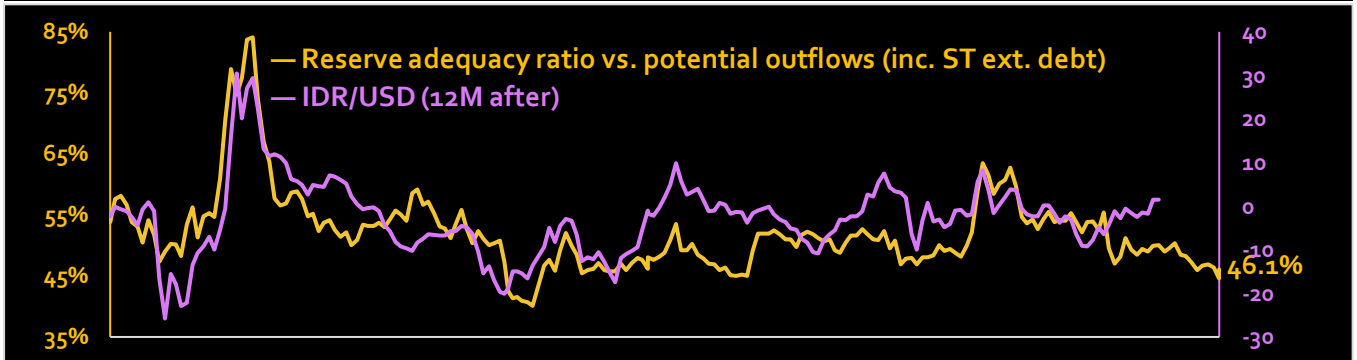
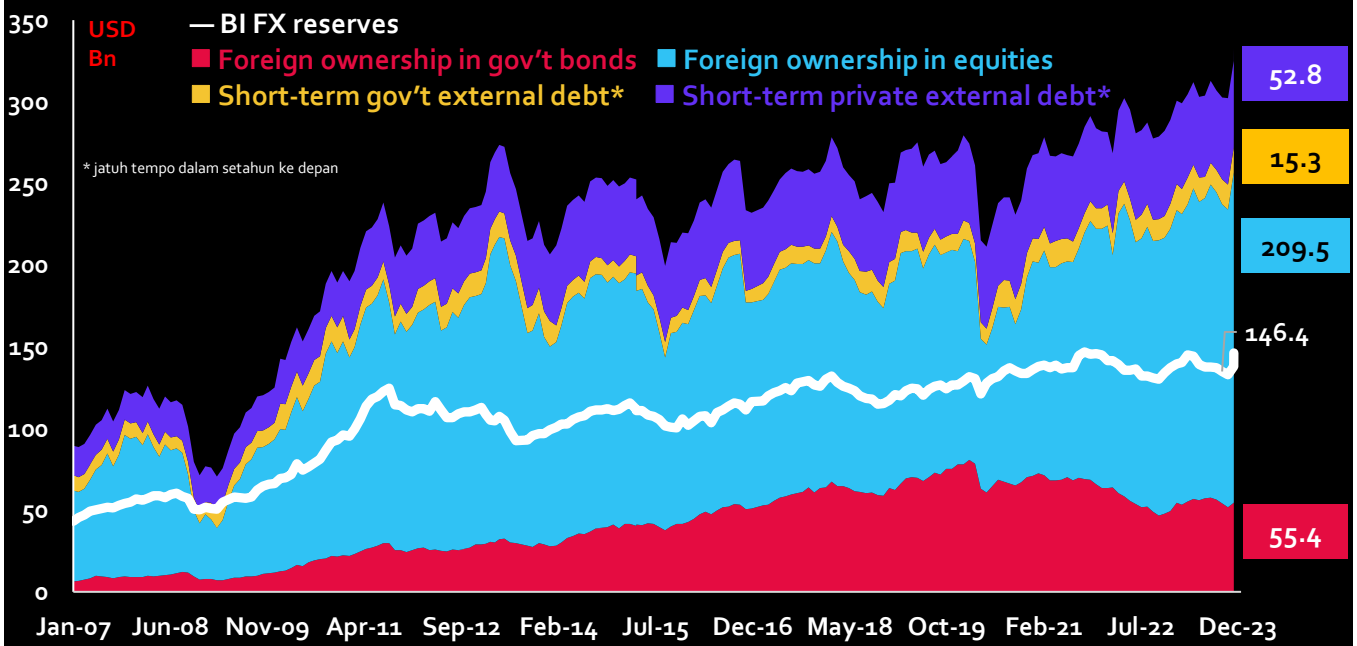
Source: Bloomberg

Panel 4. Demand for FX has continued to slow down in recent months



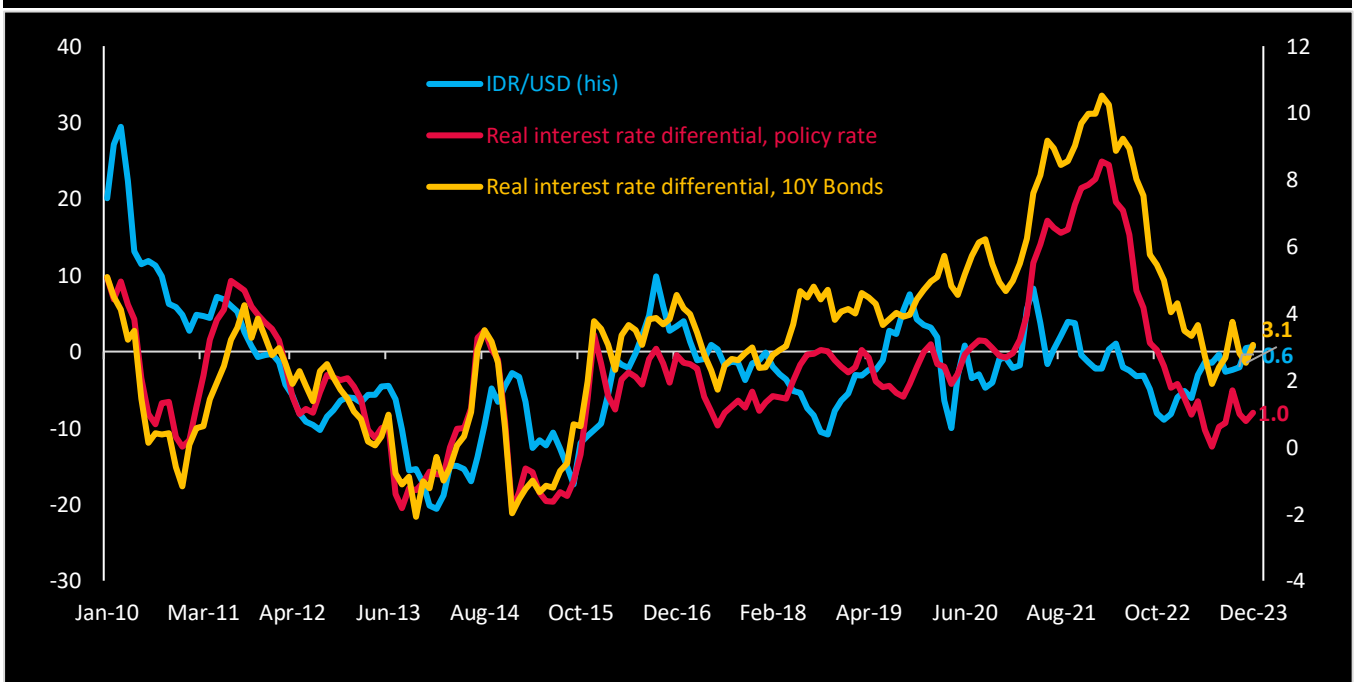
Source: BI, Bloomberg

Panel 5. A slight uptick in FX reserve coverage due to recent inflows



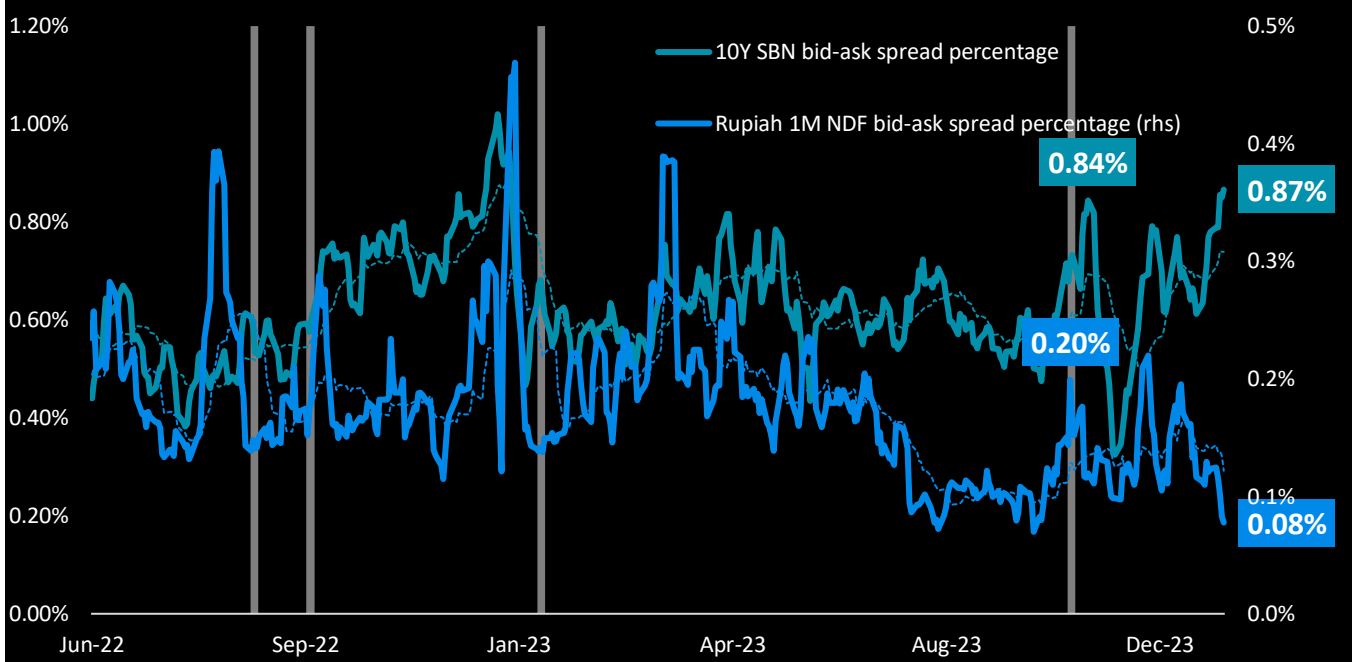
Source: BI, Bloomberg

Panel 6. IDR/USD has been much less dependent on ID-US real rate differentials



Source: Bloomberg

Panel 7. The bond market is increasingly under pressure as the bid-ask spread widen



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	5-Jan	-1 mth	Chg (%)
US	5.50	Dec-23	2.40	Baltic Dry Index	2,110.0	3,143.0	-32.9
UK	5.25	Dec-23	1.35	S&P GSCI Index	541.8	539.9	0.3
EU	4.50	Dec-23	1.60	Oil (Brent, \$/brl)	78.8	77.2	2.0
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	130.5	135.1	-3.4
China (lending)	2.50	Dec-23	4.85	Gas (\$/MMBtu)	2.75	2.73	0.7
Korea	3.50	Nov-23	0.30	Gold (\$/oz.)	2,045.5	2,019.4	1.3
India	6.50	Dec-23	0.95	Copper (\$/MT)	8,361.0	8,252.8	1.3
Indonesia	6.00	Nov-23	3.39	Nickel (\$/MT)	16,151.5	15,940.0	1.3
Money Mkt Rates	5-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	791.1	783.1	1.0
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.51	1.40	7.9
SUN (10Y)	6.68	6.57	10.4	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	5.80	5.94	-13.7	Export (\$ bn)	22.00	22.15	-0.67
JIBOR 1M (Rp)	6.64	6.65	-0.4	Import (\$ bn)	19.59	18.67	4.89
Bank Rates (Rp)	Oct	Sep	Chg (bps)	Trade bal. (\$ bn)	2.41	3.47	-30.56
Lending (WC)	9.05	9.02	2.79	Central bank reserves (\$ bn)*	138.1	133.1	3.73
Deposit 1M	4.43	4.33	10.10	Prompt Indicators	Nov	Oct	Sep
Savings	0.67	0.66	0.19	Consumer confidence index (CCI)	123.6	124.3	121.7
Currency/USD	5-Jan	-1 mth	Chg (%)	Car sales (%YoY)	-7.5	-13.8	-20.1
UK Pound	0.786	0.794	0.99	Motorcycle sales (%YoY)	-2.8	-4.0	-0.9
Euro	0.914	0.926	1.35	Manufacturing PMI	Nov	Oct	Chg (bps)
Japanese Yen	144.6	147.2	1.74	USA	46.7	46.7	0
Chinese RMB	7.147	7.147	0.00	Eurozone	44.2	43.1	110
Indonesia Rupiah	15,515	15,505	-0.06	Japan	48.3	48.7	-40
Capital Mkt	5-Jan	-1 mth	Chg (%)	China	50.7	49.5	120
JCI	7,350.6	7,100.9	3.52	Korea	50.0	49.8	20
DJIA	37,466.1	36,124.6	3.71	Indonesia	51.7	51.5	20
FTSE	7,689.6	7,489.8	2.67	Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)
Nikkei 225	33,377.4	32,775.8	1.84	Stock	3,226.3	3,136.1	90.27
Hang Seng	16,535.3	16,327.9	1.27	Govt. Bond	841.0	833.9	7.17
				Corp. Bond	10.6	11.2	-0.59

Source: Bloomberg, BI, BPS

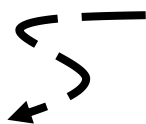
Notes:

^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

	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

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