

## FX Reserves:

# The worst has passed, but the uncertainty remains

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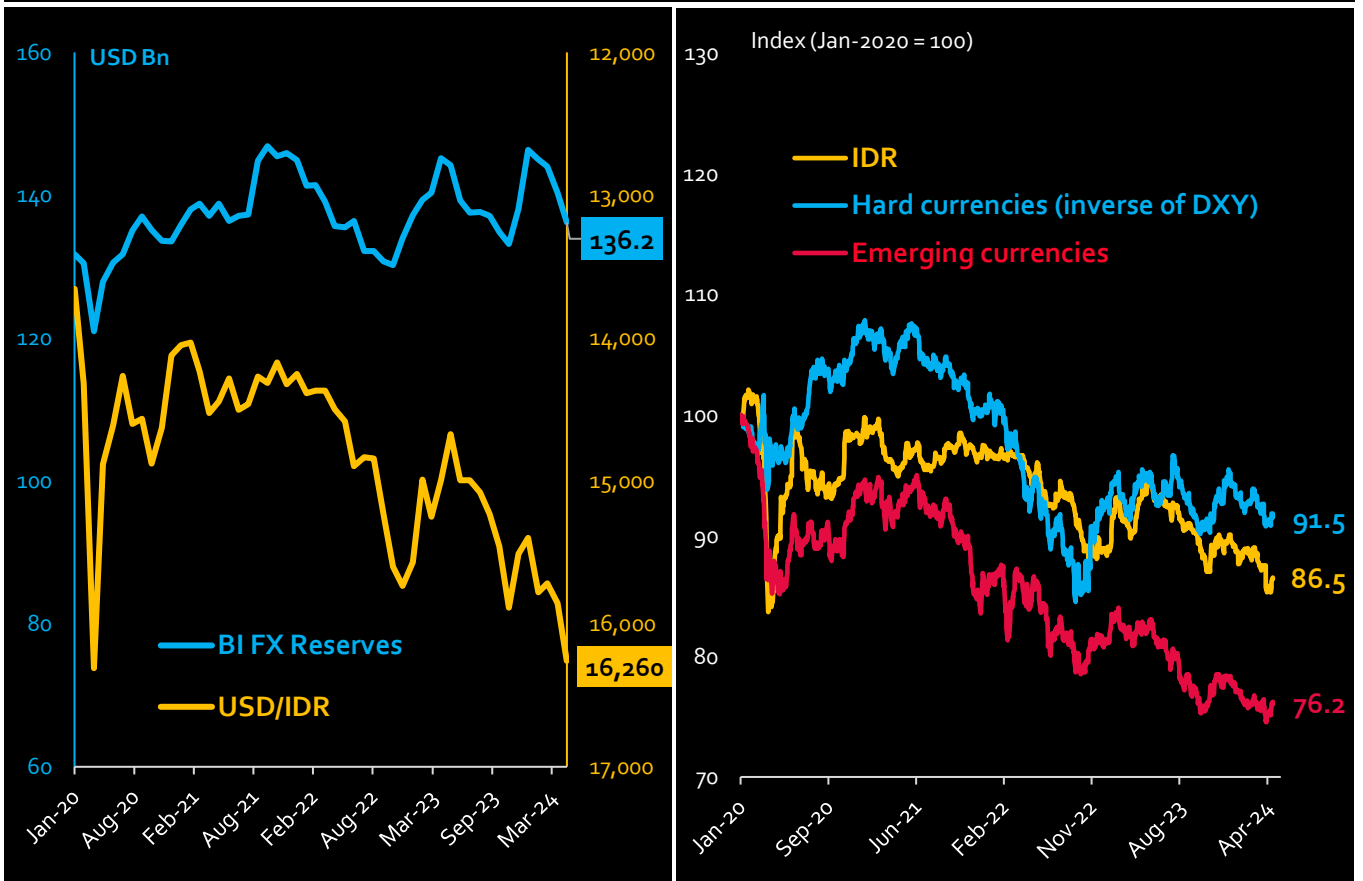
### Executive Summary

- Bank Indonesia's FX reserves declined by USD 4.2 Bn to USD 136.2 Bn in Apr-24. The Rupiah faced a sort of perfect storm in April, as geopolitical tensions escalated and "higher-for-longer" expectations triggered capital outflows.
- The global pressure has eased, and the Rupiah has rebounded. Potential growth slowdown, concerns about slowing consumption, and easing FX demand have reduced the likelihood of another BI-Rate hike in May.
- However, looming concerns arise from the maturity of government bonds in Q2 and Q3, along with further dividend repatriation and continued signs of liquidity stress that may further strain the Rupiah.

- Bank Indonesia's FX reserves stood at USD 136.2 Bn in April 2024, marking another sharp decline of USD 4.2 Bn from the previous month. This decrease was anticipated due to the evident pressure on the Rupiah, though it was the biggest drop since May-23, when there was a "perfect storm" of dividend repatriation and global bond repayment.
- The Rupiah arguably faced another sort of perfect storm in April, as Israel-Iran geopolitical tensions escalation and "higher-for-longer" expectations from the Fed due to the better-than-expected US economy data had triggered an estimated USD 2.6 Bn in capital outflows (1.1 Bn from equities, 1.0 Bn from government bonds, and 0.45 Bn from SRBI). BI had chosen to take a 25bps BI-Rate hike to 6.25% to stabilize the Rupiah – different from last month with just FX interventions.
- But the global pressure peaked around the time of QRA and FOMC meeting; since then, global yields have declined while the Dollar index eased somewhat (-0.65% MTD). The capital inflows have also been trickling back into the bonds market. Rupiah has been a fast rebounder (+1.10% MTD), enabling BI to conserve its reserves.
- This also lessens the chance of another rate hike in May. Given potential growth slowdown in the coming quarters due to the lack of drivers after Election and Ramadan, BI may be reluctant to tighten policy unless the Rupiah faces intense pressure like in Oct-23 or Apr-24. Concerns about slowing consumption, particularly among high-income households, further underscore this cautious approach.

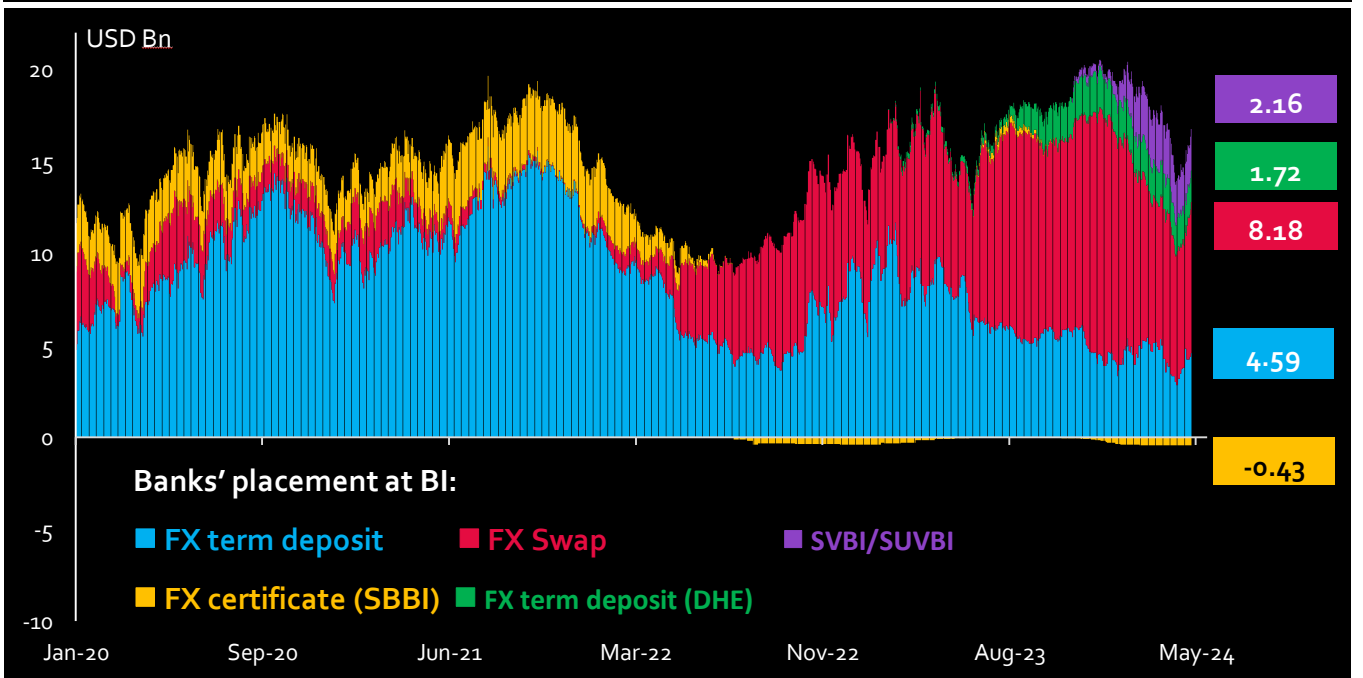
- Additional support for this stance may stem from the easing FX demand within the domestic economy, as evidenced by Banks' reduced placements at BI, declining by just USD 0.43 Bn compared to the previous month's USD 2 Bn decrease. This trend suggests a potential decrease in corporations' FX requirements, likely reflecting normalized imports post-Ramadan/Lebaran and a narrowing gap between FX earnings and needs. Moreover, Indonesia's FX reserves currently provide coverage nearly twice the size of the short-term debt.
- However, looming concerns arise from the maturity of government bonds totaling USD 3.37 billion in Q2-Q3, which could further strain the Rupiah and reduce Indonesia's FX reserves. There are also warranted apprehensions regarding additional dividend repatriation and continued signs of liquidity stress. While SBN yields have declined (10Y yields are now below 7%), the bid-ask spreads in the SBN market remains somewhat elevated.
- Short-term yields are also elevated, as we can see from SRBI yields (1Y at 7.47%) and the spread between O/N money market rate (Indonesia) and BI deposit facility at 70.8 bps.

**Panel 1. FX reserves declined due to the ongoing global pressure**



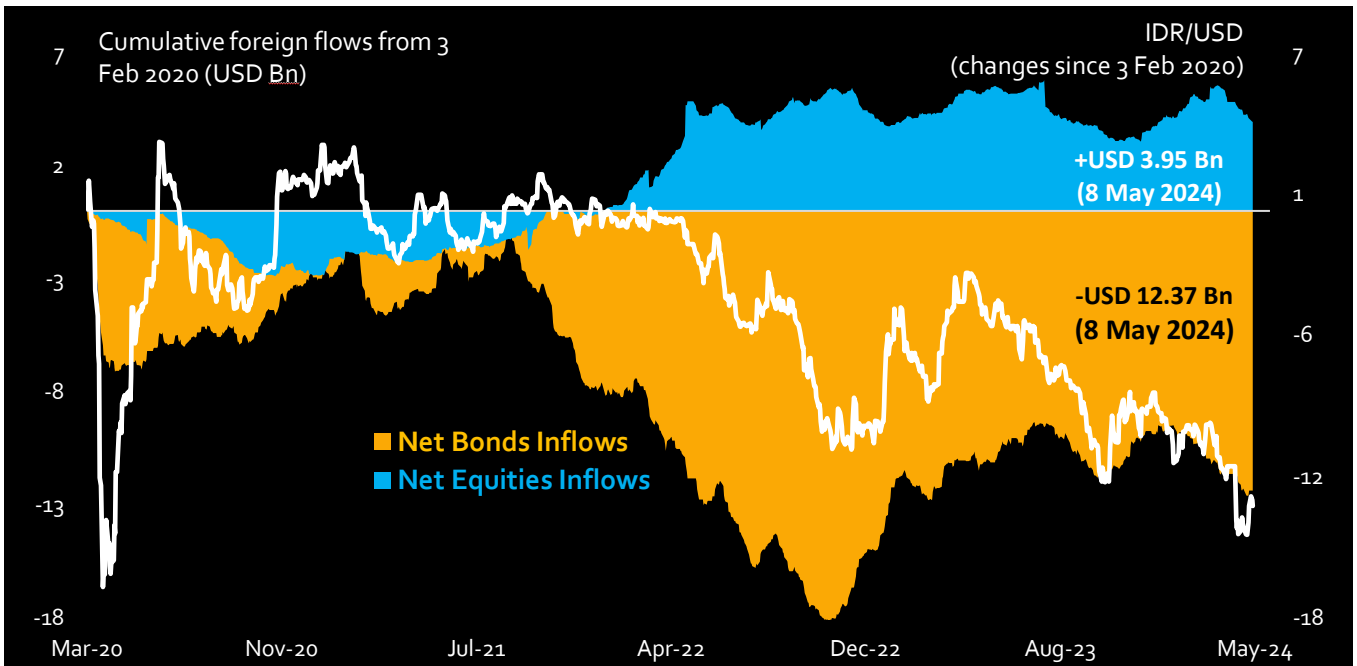
Source: Bloomberg

**Panel 2. The decline in the banks' placement at BI slowed down, reflecting easing FX demand**



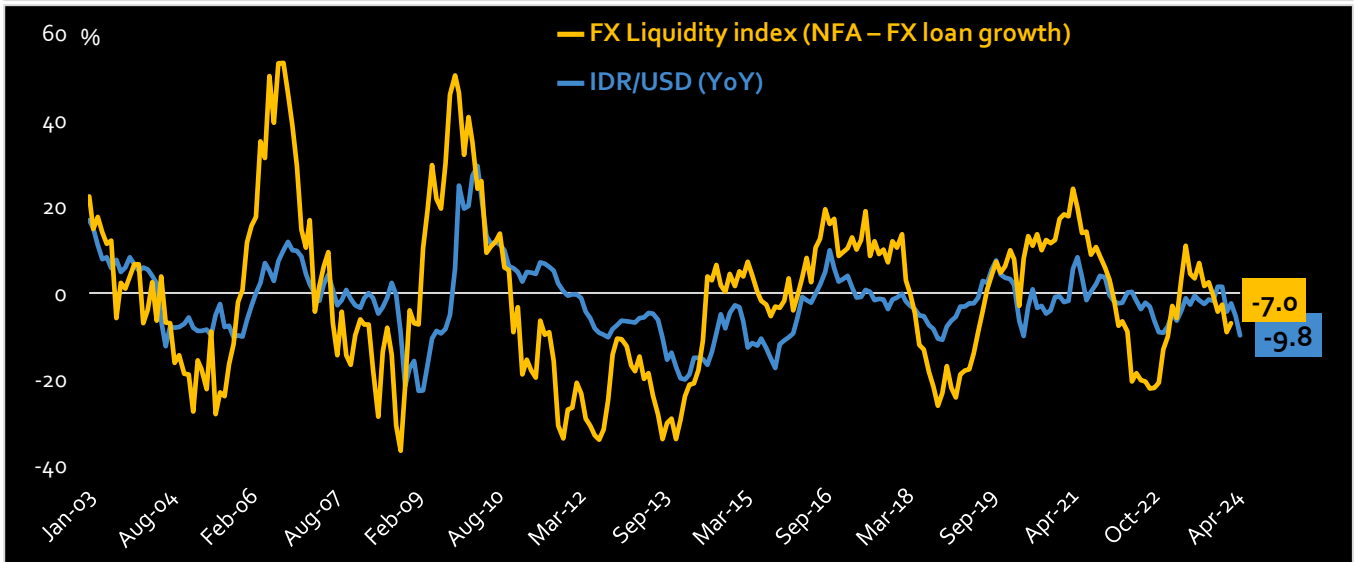
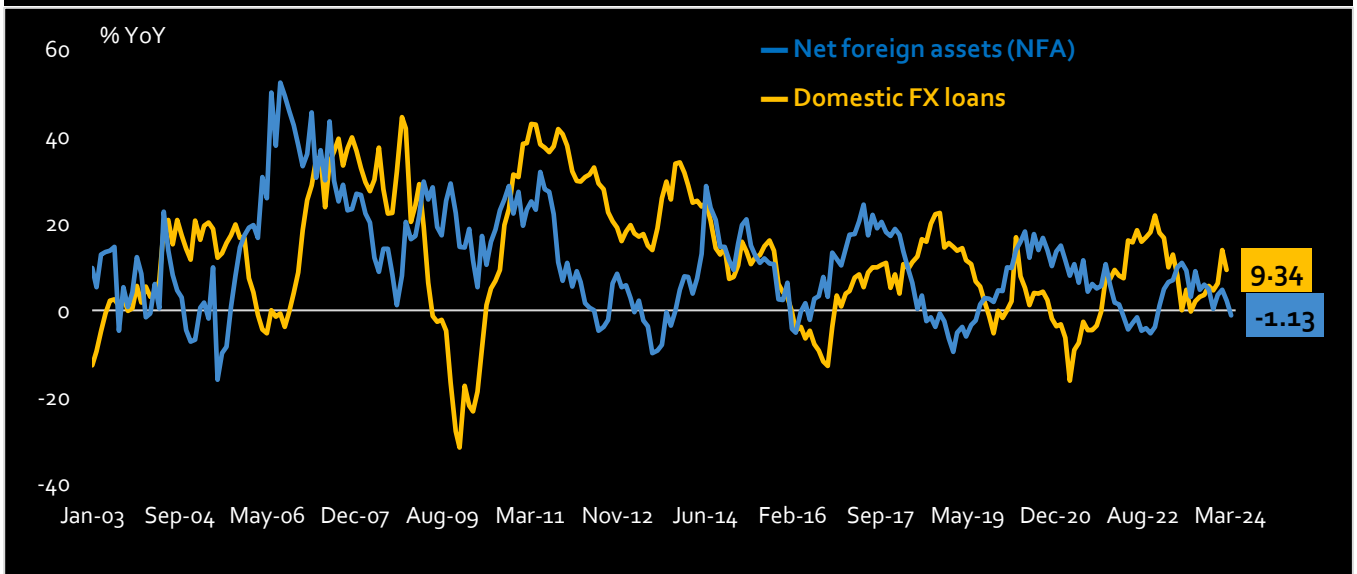
Source: BI

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



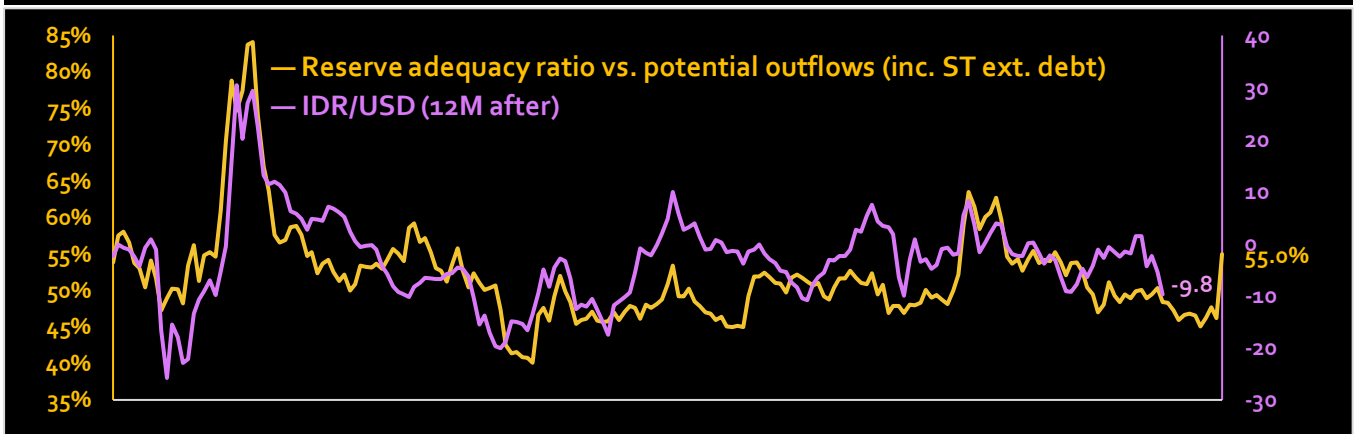
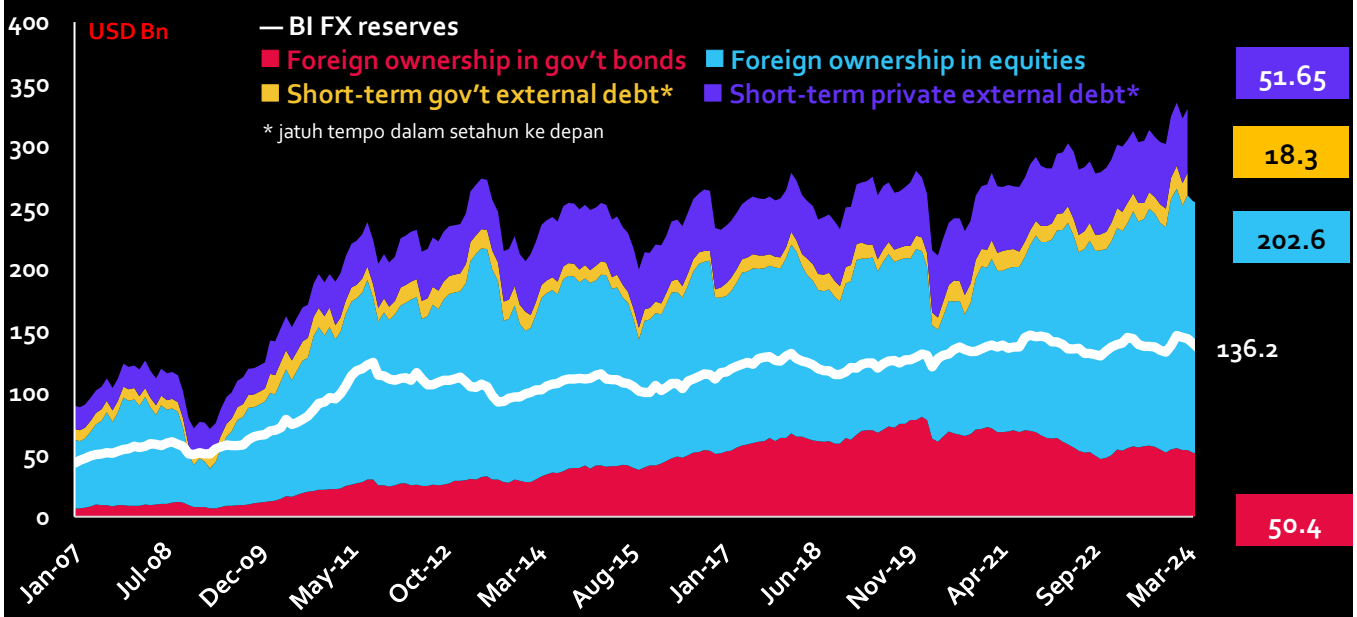
Source: Bloomberg

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



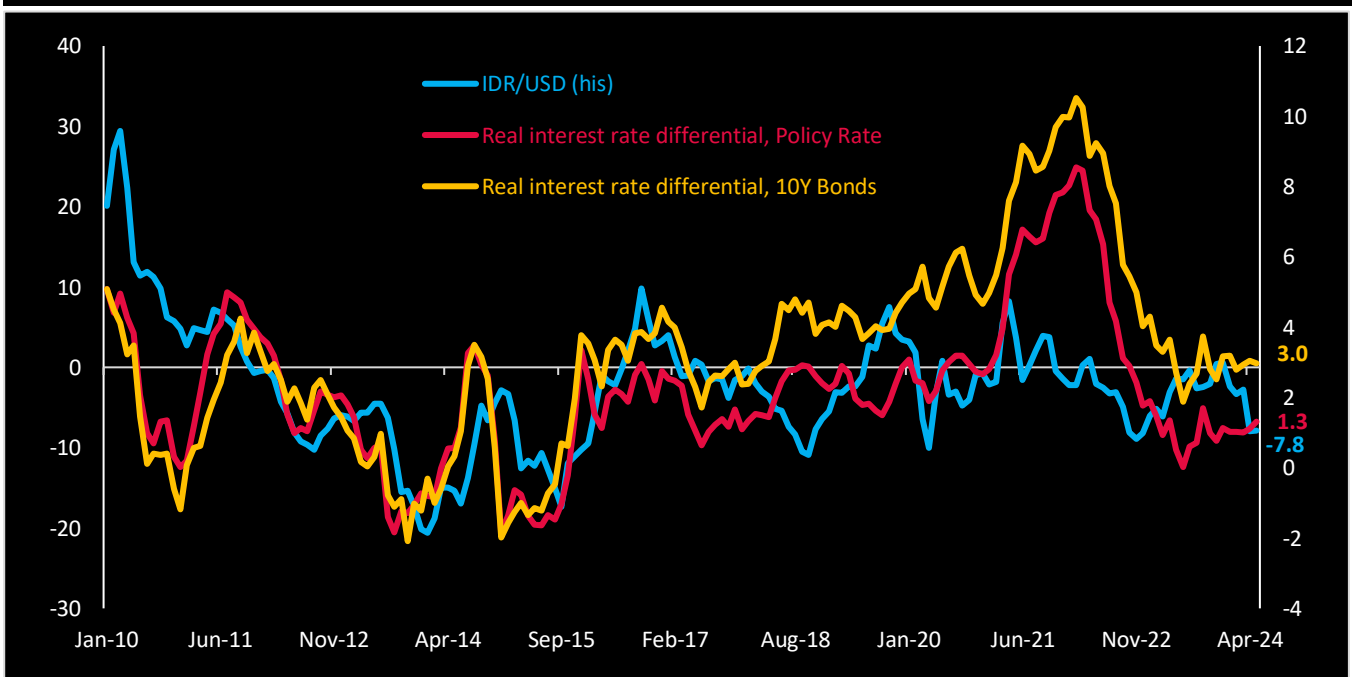
Source: BI, Bloomberg

**Panel 5. Reserves adequacy ratio might be worsening in the coming months**



Source: BI, Bloomberg

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



Source: Bloomberg

## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	7-May	-1 mth	Chg (%)
US	5.50	Jul-23	2.00	Baltic Dry Index	2,083.0	1,628.0	27.9
UK	5.25	Aug-23	2.05	S&P GSCI Index	577.7	601.9	-4.0
EU	4.50	Jul-23	2.10	Oil (Brent, \$/brl)	83.2	91.2	-8.8
Japan	-0.10	Jan-16	-2.80	Coal (\$/MT)	146.6	131.6	11.4
China (lending)	2.50	Aug-23	4.25	Gas (\$/MMBtu)	1.95	1.57	24.2
Korea	3.50	Jan-23	0.60	Gold (\$/oz.)	2,314.1	2,329.8	-0.7
India	6.50	Feb-23	1.65	Copper (\$/MT)	9,894.3	9,208.5	7.4
Indonesia	6.25	Apr-24	3.25	Nickel (\$/MT)	19,063.7	17,637.9	8.1
Money Mkt Rates	7-May	-1 mth	Chg (bps)	CPO (\$/MT)	833.1	950.4	-12.3
				Rubber (\$/kg)	1.62	1.60	1.3
Bank Rates (Rp)	Feb	Jan	Chg (bps)	External Sector	Mar	Feb	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	22.43	19.27	16.40
SUN (10Y)	6.90	6.65	24.8	Import (\$ bn)	17.96	18.44	-2.60
INDONIA (O/N, Rp)	6.21	6.19	1.9	Trade bal. (\$ bn)	4.47	0.83	436.66
JIBOR 1M (Rp)	6.90	6.65	24.7	Central bank reserves (\$ bn)*	140.4	144.0	-2.53
Currency/USD	7-May	-1 mth	Chg (%)	Prompt Indicators	Mar	Feb	Jan
Lending (WC)	8.84	8.87	-3.03	Consumer confidence index (CCI)	123.8	123.1	125.0
Deposit 1M	4.62	4.68	-5.80	Car sales (%YoY)	-26.2	-18.8	-26.1
Savings	0.67	0.68	-0.11	Motorcycle sales (%YoY)	-7.8	-2.9	-3.7
UK Pound	0.799	0.791	-1.02	Manufacturing PMI	Apr	Mar	Chg (bps)
Euro	0.930	0.923	-0.76	USA	50.0	51.9	-190
Japanese Yen	154.7	151.6	-1.98	Eurozone	45.7	46.1	-40
Chinese RMB	7.219	7.233	0.20	Japan	49.6	48.2	140
Indonesia Rupiah	16,049	15,845	-1.27	China	51.4	51.1	30
Capital Mkt	7-May	-1 mth	Chg (%)	Korea	49.4	49.8	-40
JCI	7,123.6	7,286.9	-2.24	Indonesia	52.9	54.2	-130
DJIA	38,884.3	38,904.0	-0.05				
FTSE	8,313.7	7,911.2	5.09				
Nikkei 225	38,835.1	38,992.1	-0.40				
Hang Seng	18,479.4	16,723.9	10.50				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	3,294.9	3,226.6	68.31				
Govt. Bond	791.0	810.7	-19.68				
Corp. Bond	8.4	9.4	-0.97				

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	6.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,119
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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