FX Reserves:
A pleasant summer for Rupiah

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Executive Summary

- BI's FX reserves increased by USD 4.8 Bn to USD 150.2 Bn in August 2024, driven by a combination of foreign inflows into equities, government bonds, and SRBI.
- BI had slowed down its net SRBI issuance in August to USD 3.85 Bn, a decrease of 50% and with lower yields from July, while foreign ownership starting to show sign of decline.
- Market expectations have largely been priced in, the pace of foreign inflows may slow down, which along with the decline in SRBI issuance could present some headwinds in Q4-24.

- Indonesian FX reserves stood at USD 150.2 Bn by the end of August, marking an increase of USD 4.8 Bn. The increase was driven by foreign inflows to SRBI (+1.05 Bn) as well as equities and government bonds (+4.34 Bn), but partially offset by the maturity of global bonds without refinancing (-0.75 Bn). This also bodes well for August's trade balance, after having fallen to less than 0.5 Bn in July.

- As expected, BI is starting to reduce its net SRBI issuance in August (to USD 3.85 Bn), a decrease of over 50% from the previous month. Yields on SRBI are also 30-40 bps lower than at the start of July, which slightly reduced the appetite of foreign investors; per mid-August, foreign SRBI ownership has declined somewhat to 27%.

- In the meantime, rising expectations of Fed rate cuts have driven continued foreign inflows into Indonesia's equities and government bonds, with the latter being preferred (USD 2.49 Bn for bonds vs. 1.85 Bn for equities). This inflow trend persists into the first week of September, particularly in equities, while the bond market begins to experience outflows. The shift to a risk-on posture may not be particularly supported by recent global data, but rather a logical result of the expected decline in future discount rates.

- We should also note that the FX reserves may have benefited from mark-to-market effect, as the global bull market in bonds lifted valuations of BI's reserve assets. Aside from bonds, gold comprises a significant chunk of BI reserves and has also enjoyed a rally in recent months, but the revaluation may have occurred from a lower base – BI having seemingly sold gold earlier in the year when the Rupiah was under pressure.

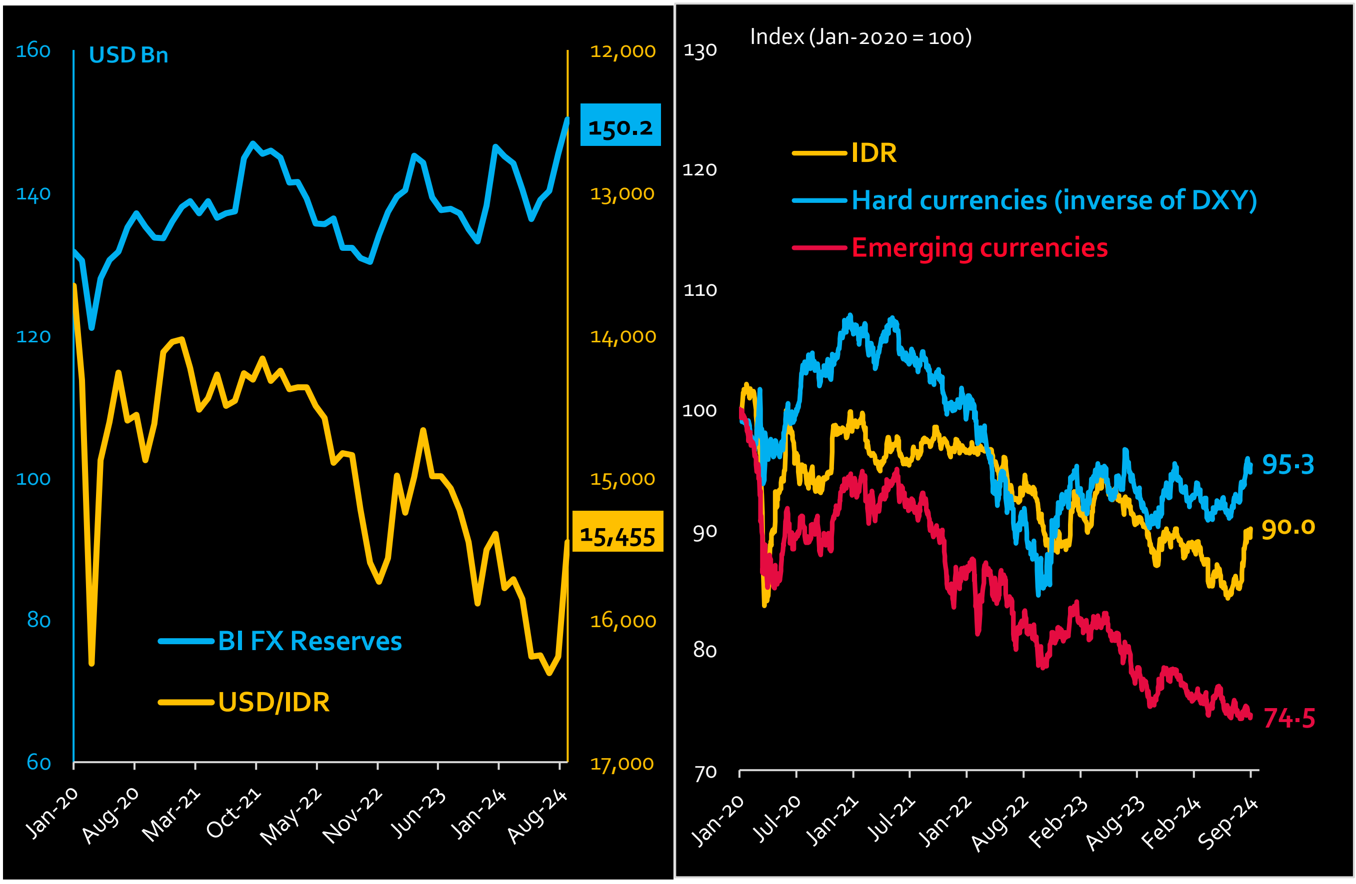
- Crucially, this increase in reserves happened despite a decline in banks' FX placement at BI – meaning that BI's net reserves are rising. Given the loosening FX liquidity conditions in recent months, the decline in banks' placement suggests robust demand for FX loans. This is in line with recent trend of strong CAPEX in capital-intensive industries namely metals, mining, and chemicals, which naturally requires extensive FX financing.

"Accordingly, foreign inflows might begin to slow"

- This latest result is another piece of good news for the Rupiah, which is again testing the level of 15,300/USD recently. However, we maintain our view that the Rupiah's appreciation was partly a product of overshooting, especially given BI's relative disinclination to intervene to prevent the Rupiah from being too strong (interventions are mostly aimed at propping up the Rupiah).

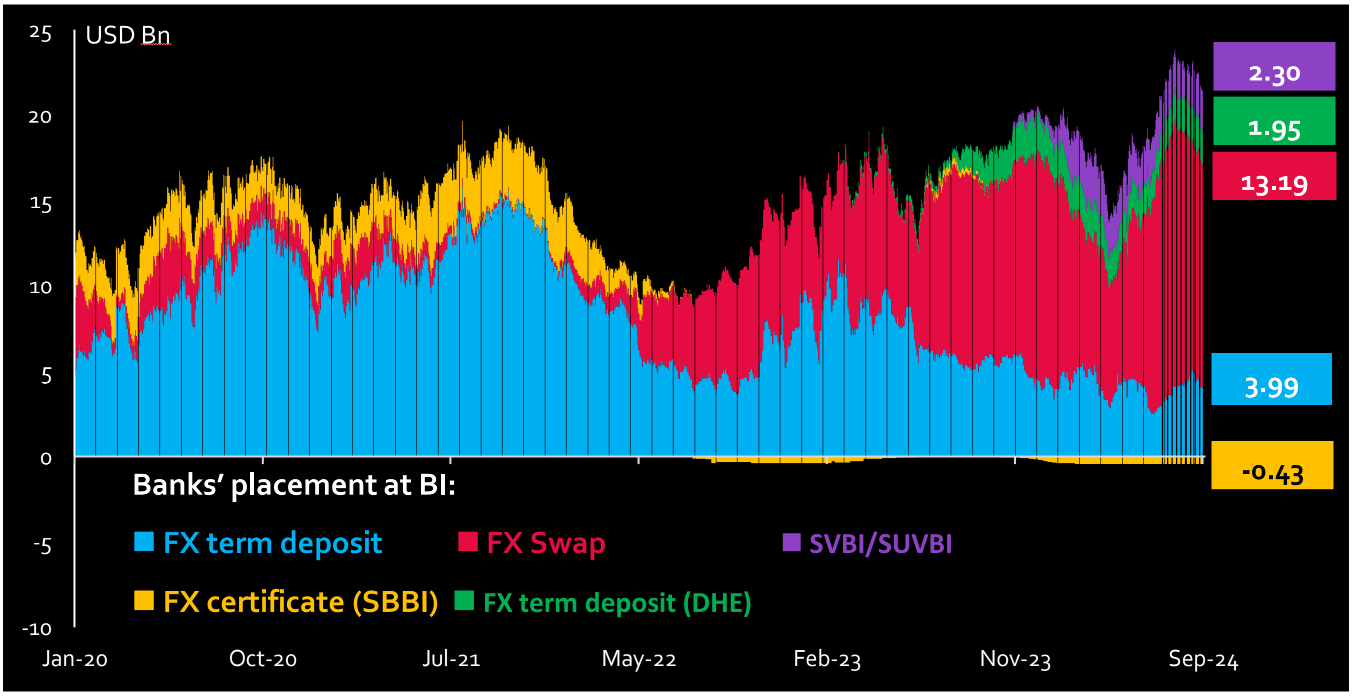
- Looking forward, we expect less room for appreciation and indeed potential room for some correction, as Fed rate cut expectations have largely been priced in. Accordingly, foreign inflows might begin to slow, which – combined with the slowdown in SRBI issuance – could present some headwinds in Q4-24.

Panel 1. FX reserves increased due to SRBI and net global bond issuance



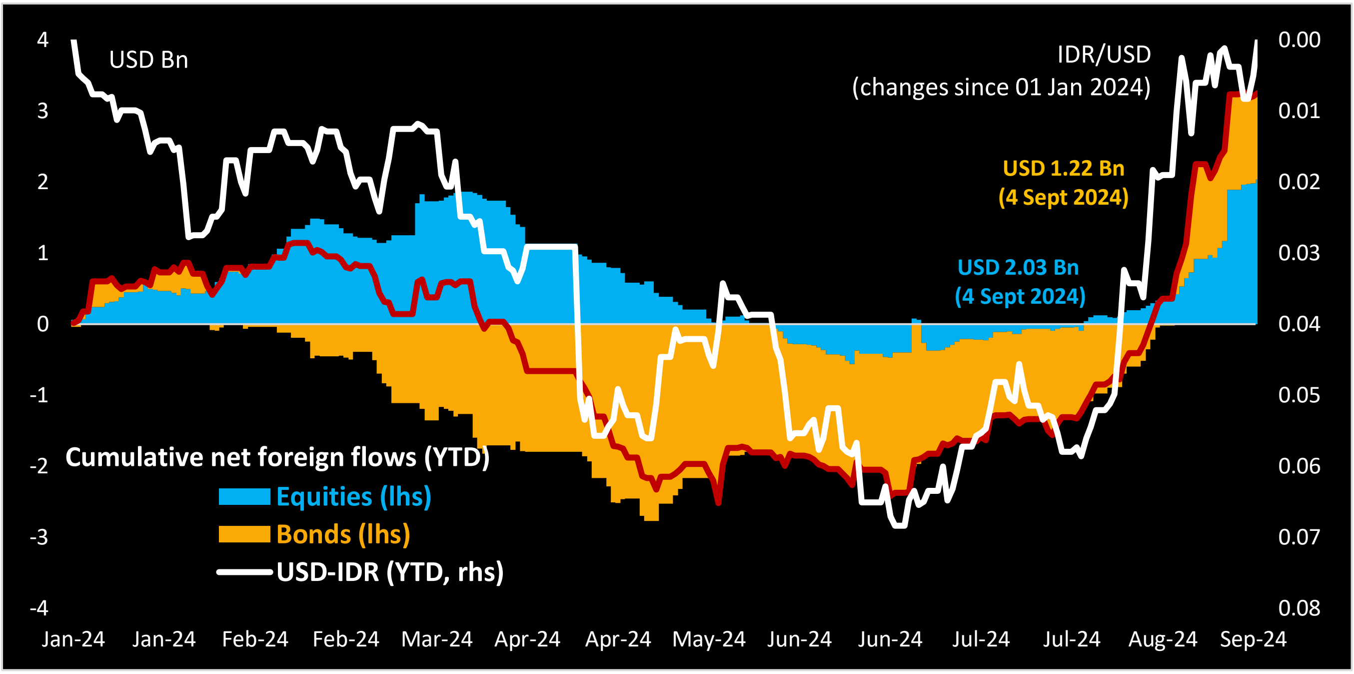
Source: Bloomberg

Panel 2. Banks' placement at BI start to decline, driven mainly by FX swap



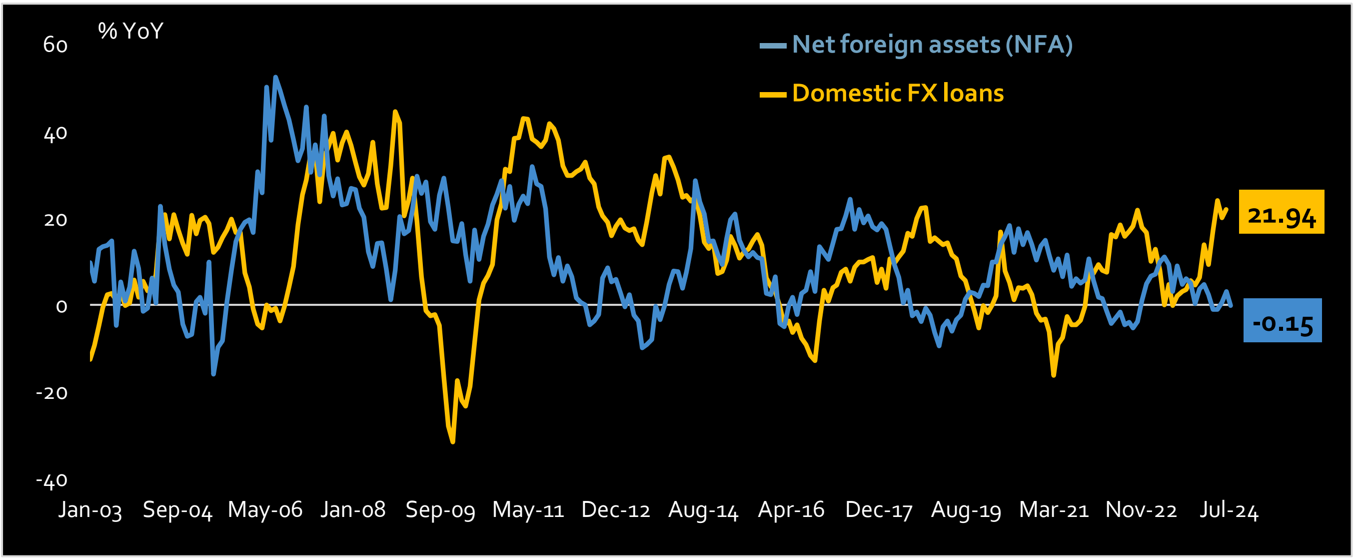
Source: BI

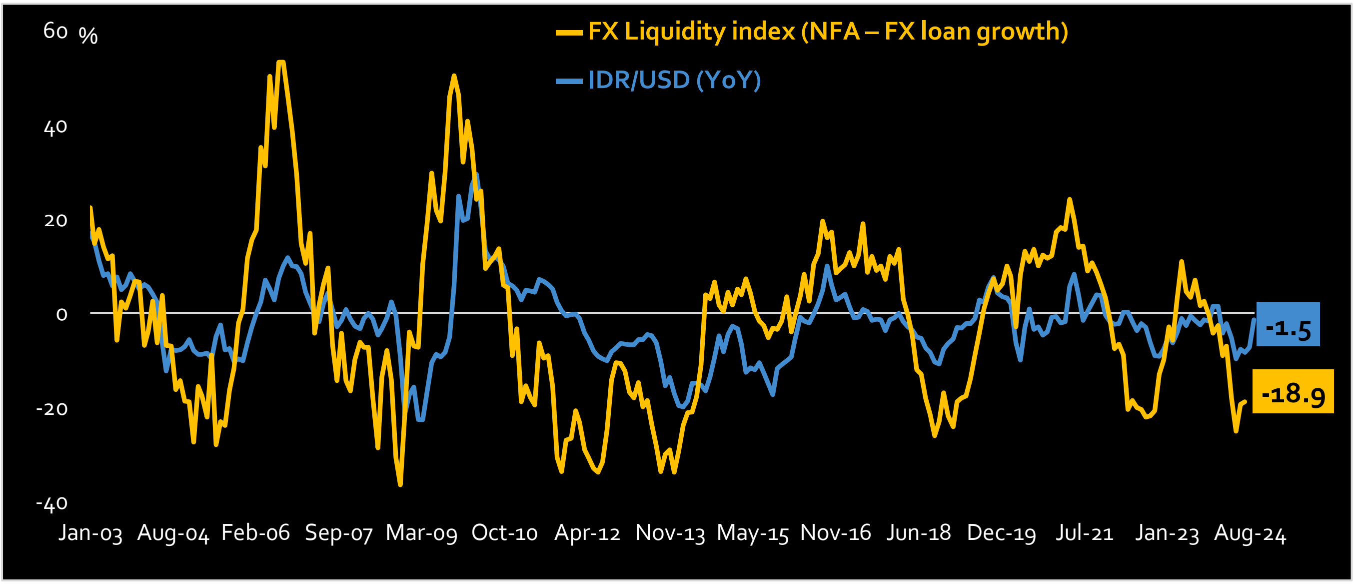
Panel 3. Increased capital inflow in both equities and bonds



Source: Bloomberg

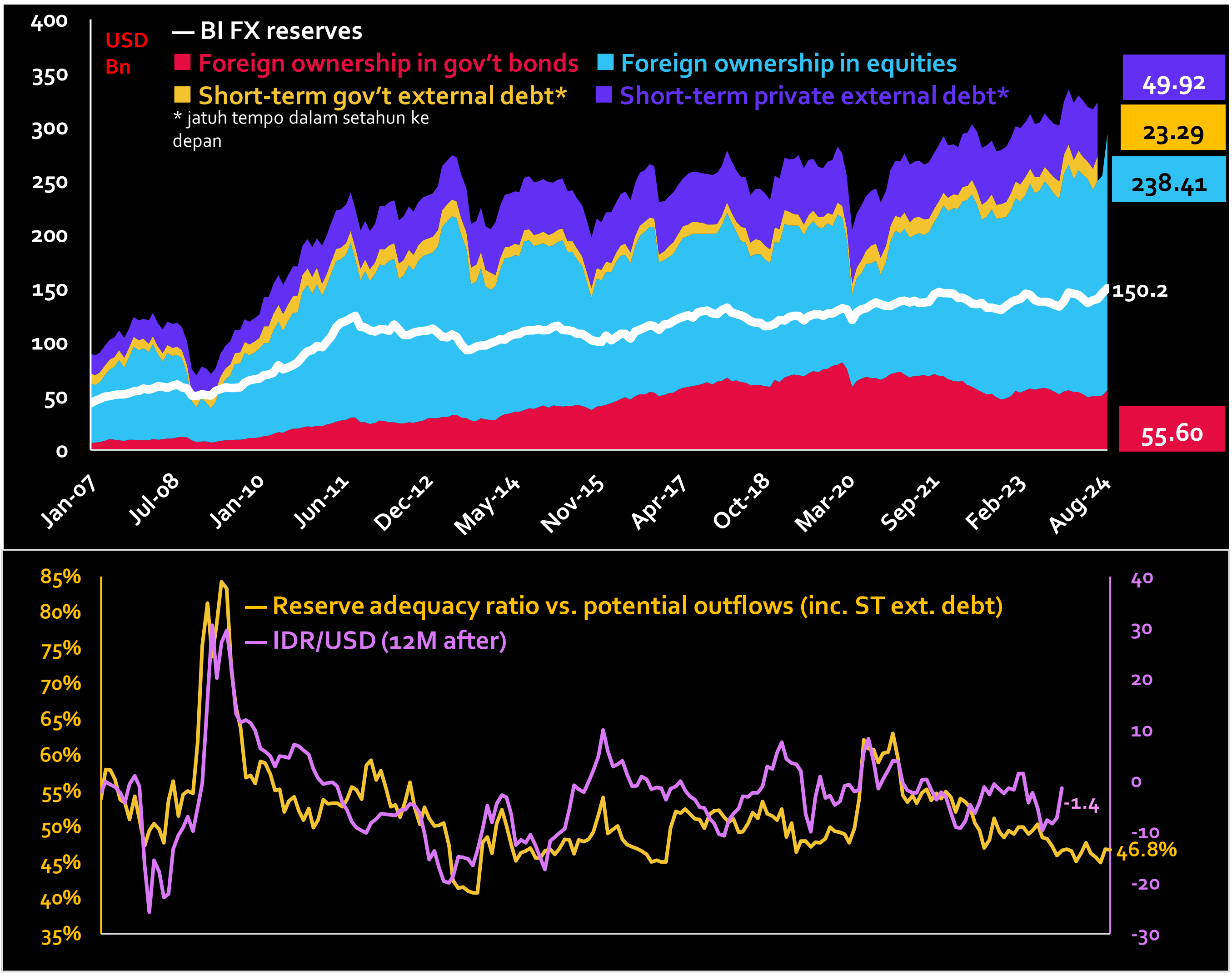
Panel 4. Demand for FX liquidity continue to pick up





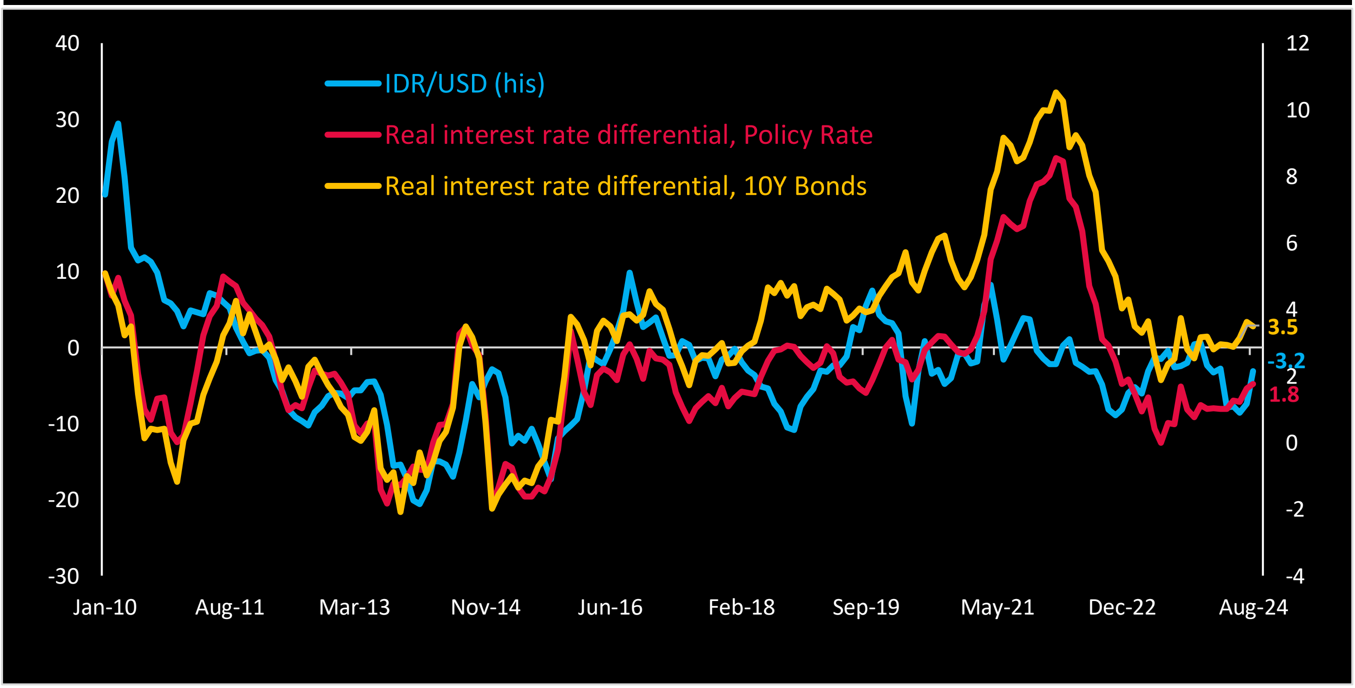
Source: BI, Bloomberg

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



Source: BI, Bloomberg

***Panel 6*. Still narrow real rate differentials may add pressure on the Rupiah**



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Jul-23	2.60
UK	5.00	Aug-23	2.80
EU	4.25	Jul-23	2.05
Japan	-0.10	Jan-16	-2.90
China (lending)	2.30	Aug-23	3.85
Korea	3.50	Jan-23	1.50
India	6.50	Feb-23	2.96
Indonesia	6.25	Jul-24	4.13

Money Mkt Rates	5-Sep	-1 mth	Chg (bps)
SPN (3M)	6.42	6.56	-13.6
SUN (10Y)	6.62	6.79	-16.9
INDONIA (O/N, Rp)	6.36	6.29	6.5
JIBOR 1M (Rp)	6.90	6.90	-0.1

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.82	8.86	-3.79
Deposit 1M	4.70	4.68	2.60
Savings	0.67	0.67	0.02

Currency/USD	5-Sep	-1 mth	Chg (%)
UK Pound	0.759	0.783	3.16
Euro	0.900	0.913	1.45
Japanese Yen	143.5	144.2	0.51
Chinese RMB	7.089	7.140	0.72
Indonesia Rupiah	15,398	16,185	5.11

Capital Mkt	5-Sep	-1 mth	Chg (%)
JCI	7,681.0	7,059.7	8.80
DJIA	40,755.8	38,703.3	5.30
FTSE	8,241.7	8,008.2	2.92
Nikkei 225	36,657.1	31,458.4	16.53
Hang Seng	17,444.3	16,698.4	4.47

Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)
Stock	3,322.0	3,273.1	48.98
Govt. Bond	813.1	808.1	4.97
Corp. Bond	7.6	8.2	-0.60

Trade & Commodities	5-Sep	-1 mth	Chg (%)
Baltic Dry Index	1,919.0	1,677.0	14.4
S&P GSCI Index	520.1	529.3	-1.7
Oil (Brent, $/brl)	72.7	76.3	-4.7
Coal ($/MT)	140.5	146.8	-4.3
Gas ($/MMBtu)	2.02	1.82	11.0
Gold ($/oz.)	2,516.8	2,410.8	4.4
Copper ($/MT)	8,978.7	8,765.3	2.4
Nickel ($/MT)	15,821.4	16,017.1	-1.2
CPO ($/MT)	923.6	898.0	2.8
Rubber ($/kg)	1.80	1.73	4.0

External Sector	Jul	Jun	Chg (%)
Export ($ bn)	22.21	20.85	6.55
Import ($ bn)	21.74	18.45	17.82
Trade bal. ($ bn)	0.47	2.39	-80.29
Central bank reserves ($ bn)*	145.4	140.2	3.74

Prompt Indicators	Jul	Jun	Apr
Consumer confidence index (CCI)	123.4	123.3	127.7
Car sales (%YoY)	-7.9	-11.8	-17.4
Motorcycle sales (%YoY)	26.0	3.5	18.3

Manufacturing PMI	Aug	Jul	Chg (bps)
USA	47.9	49.6	-170
Eurozone	45.8	45.8	0
Japan	49.8	49.1	70
China	50.4	49.8	60
Korea	51.9	51.4	50
Indonesia	48.9	49.3	-40

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US$ 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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