FX Reserves:
Staying strong against the current

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Executive Summary

- BI's FX reserves increased by USD 1.3 Bn to USD 151.2 Bn in October, driven by FX tax receipts and external loans, as well as improved FX liquidity in the private sector and bond market.
- Despite "Trump trade", government bonds (SBN) performed well due to shift from SRBI as well as improved perception on fiscal risk, in part due to re-appointment of Sri Mulyani.
- "Trump trade" may lose steam after Trump's victory, but uncertainty on Rupiah trajectory may remain, and BI's effort to stabilize it may be complicated by the large amount of SRBI maturing in the next three months.

- Bank Indonesia's FX reserves rose to USD 151.2 Bn in October, up 1.3 Bn from the previous month. BI attributed this to an influx of tax receipts (in FX) and an intake of external loans, which has been planned since at least mid-year. However, there were also notable improvements in FX liquidity in the private sector and capital markets, which indirectly contributed to this increase.

- Domestic banks' FX placement at BI—our proxy for the private sector's FX liquidity—increased by a staggering USD 5.13 Bn, with the bulk of it coming in the form of FX swaps (4.97 Bn). This could be a good harbinger for the trade surplus in October, or at least a sign that export revenue has improved due to rising commodity prices (ex-oil) in recent months, with CPO being the latest—and rather spectacular—exemplar.

- Meanwhile, our analysis of listed companies' financial data in Q3 revealed still-weak CAPEX growth, which would translate to limited FX demand too. Rupiah's depreciation might have also slowed speculative FX demand, which seemed quite widespread in September.

- On the capital markets, Indonesia actually showed net outflow in equities (USD 0.72 Bn) in October, but this was more than offset by a net inflow into our government bonds or SBN (+0.97 Bn). The latter is quite staggering, given that global markets were dominated by the so-called "Trump trade", which generally involved rising long-term yields, selling-off of risk assets (esp. in emerging/peripheral markets), and an increase in gold and cryptocurrencies.

- US economic data also tended to surprise on the upside, which—coupled with the brief oil price increase in early October—dimmed the markets' optimism on future Fed rate cut prospects. As such, UST yields increased significantly in October: by 60 bps on 5Y notes and by 50 bps on 10Y notes. Remarkably, SBN yields rose more slowly at the same time: by 49 bps for 5Y, and by 34 bps for 10Y. This means that SBN managed to attract more inflows despite a slimmer rate differential with UST.

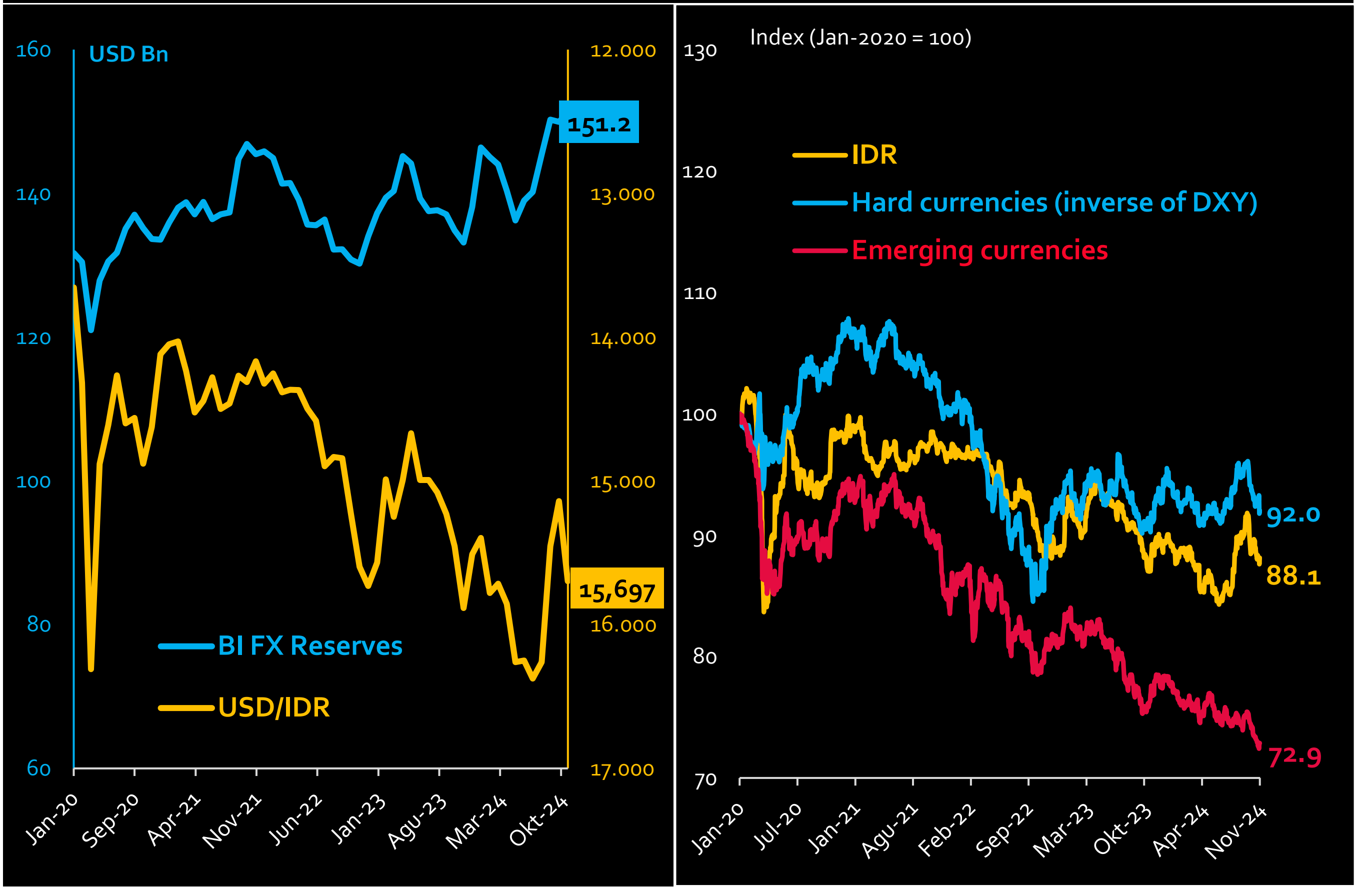
- What explains this remarkable feat? Part of it may be explained by a tactical shift of foreign hedge funds away from SRBI, whose yields have been declining, into SBN. But an even more intriguing explanation is political. Since mid-year, foreign investors have sounded their skepticism on the Prabowo administration's fiscal plans, leading to sharp outflows and a brief spike in SBN yields. These investors' concerns, then, seems to have been assuaged by the re-appointment as Finance Minister of Sri Mulyani, who has been previously expected not to continue.

- Still, the improving mood in the bond market did not directly help the Rupiah, which is now trading at around 15,700-15,800 to the USD. This has prompted interventions by BI, as well as more net SRBI issuance (IDR 33.1 Tn). As we mentioned before, BI seems to believe that the Rupiah is currently undervalued, which leads it to a more actively interventionist stance despite a more dovish policy overall.

- With Trump now elected, the Rupiah may enjoy a reprieve as investors take profits and reassess their outlook for the USD (after all, the man himself is in favor of a weak Dollar). However, there are still a lot of uncertainties ahead, including from Trump's tariffs—which could raise inflation and slow down the pace of Fed rate cuts ahead—and Trump's deficit plans—which could trigger outflows from EM bonds and into UST.

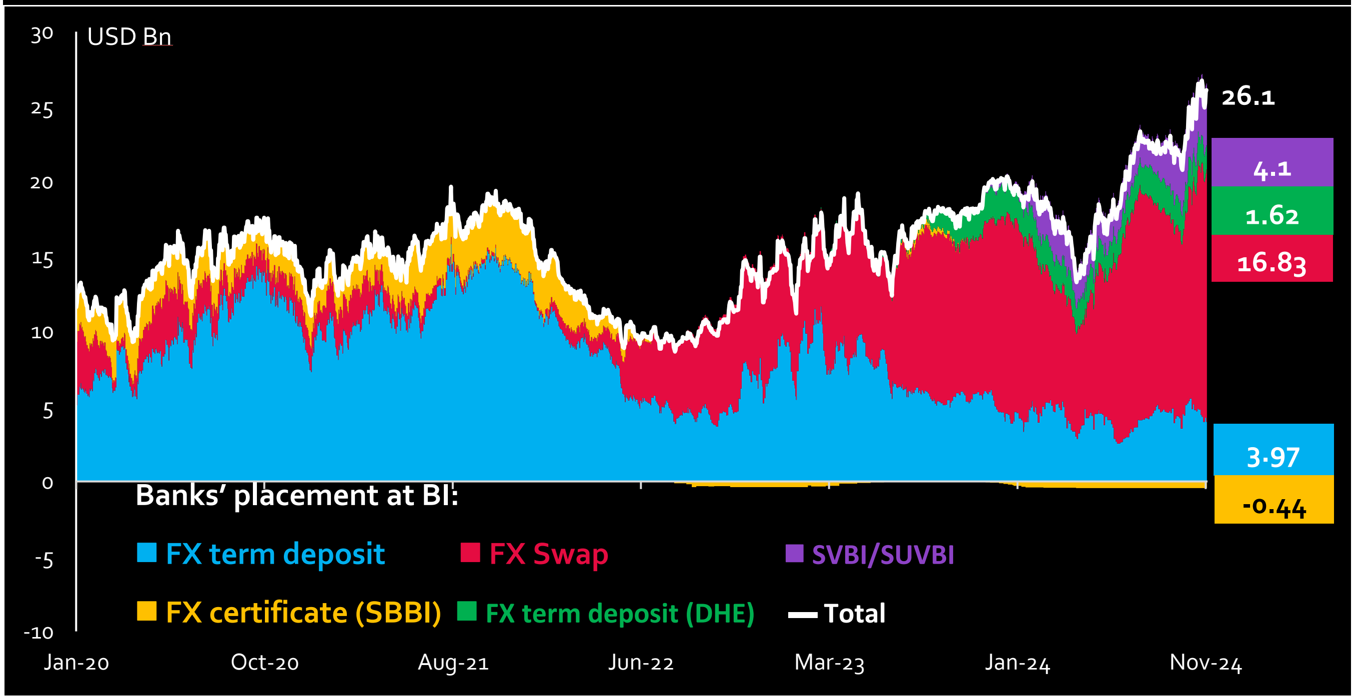
- Further complicating this is the fact that a lot of SRBI (IDR 295 Tn) is set to mature between November and January, which BI will have to refinance amid a still-unknown market condition. If the bearish trend for bonds continue, BI may have to raise SRBI yields to attract foreign flows, which might in turn compete with SBN. The remarkable feat in October, then, may not be replicable in the long-haul.

Panel 1. **BI's FX reserves have strengthened in spite of Rupiah's sharp depreciation.**



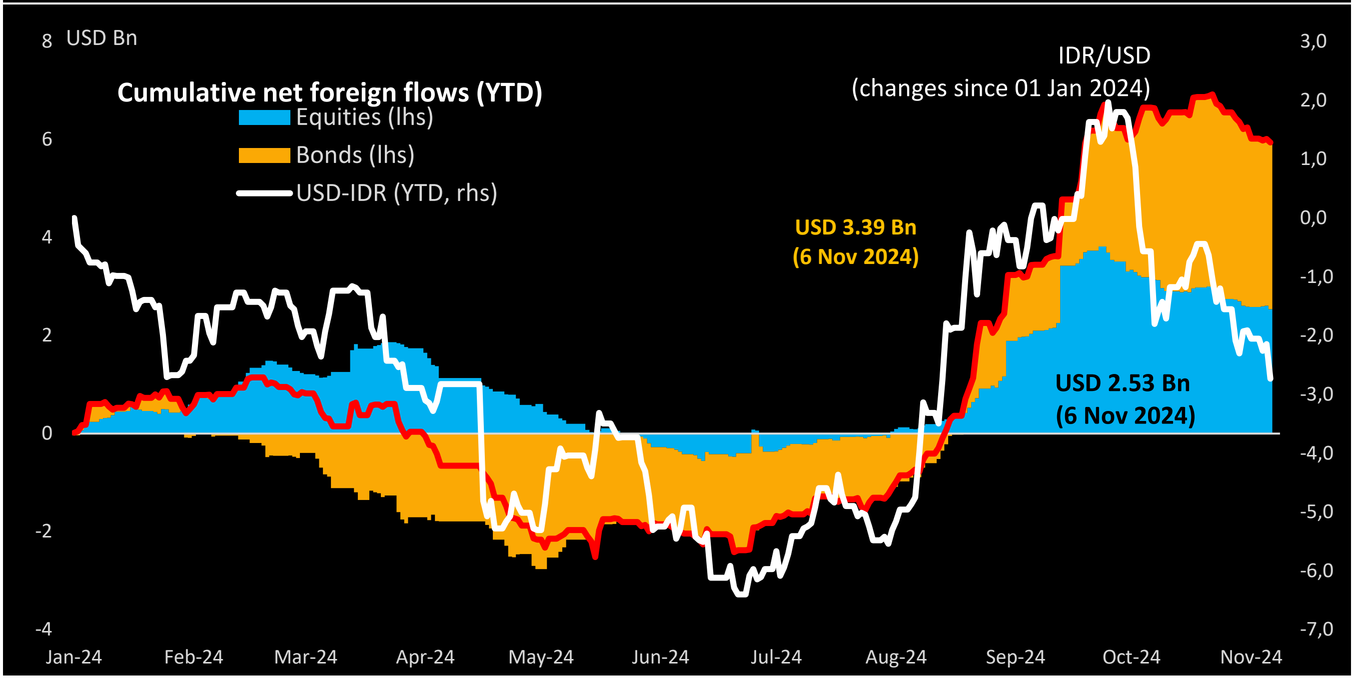
Source: Bloomberg

Panel 2. **FX swaps make up the bulk of the increase in Banks' placement at BI**



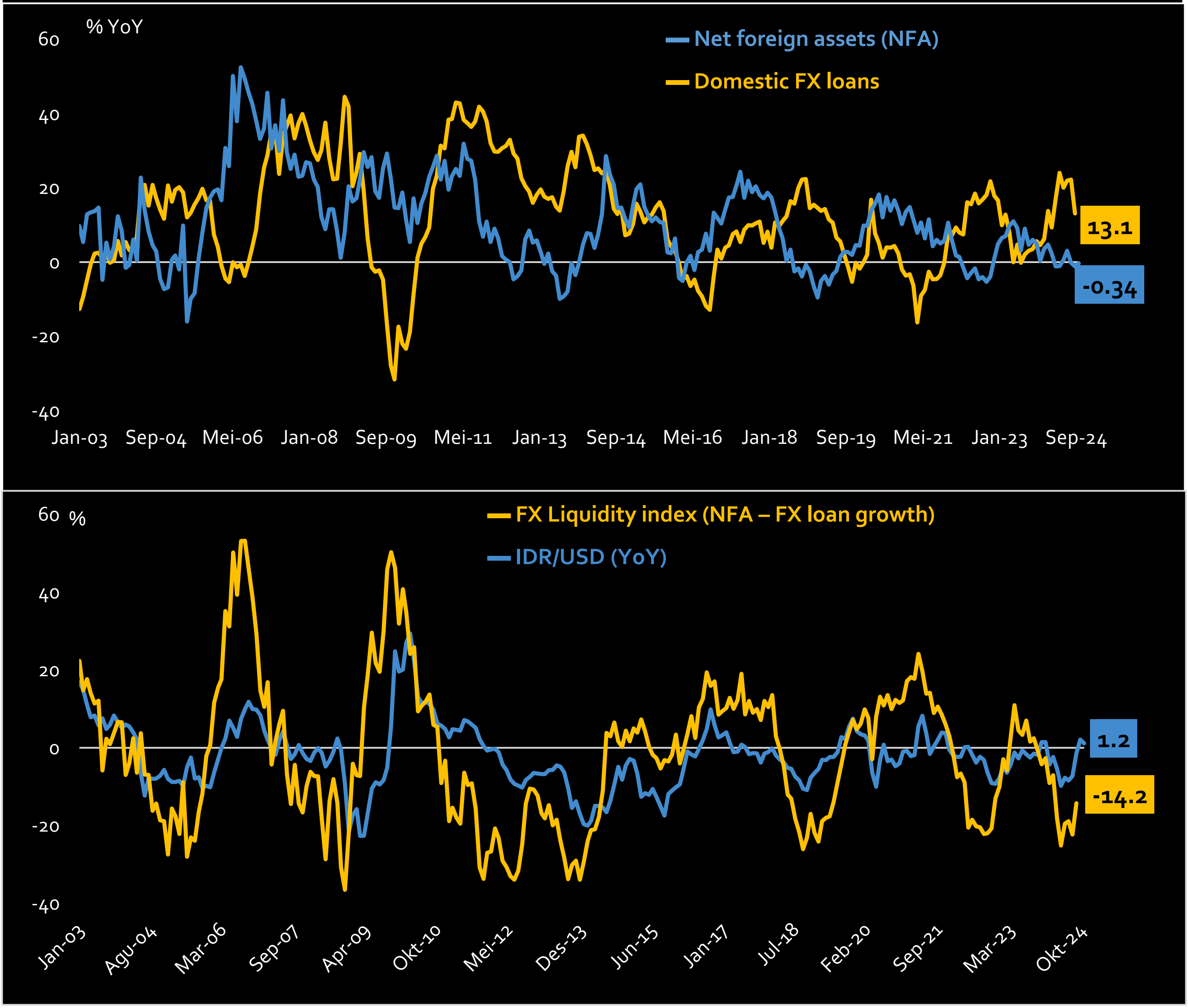
Source: BI

Panel 3. Bonds' FX inflow this month might partly be caused by Sri Mulyani's appointment



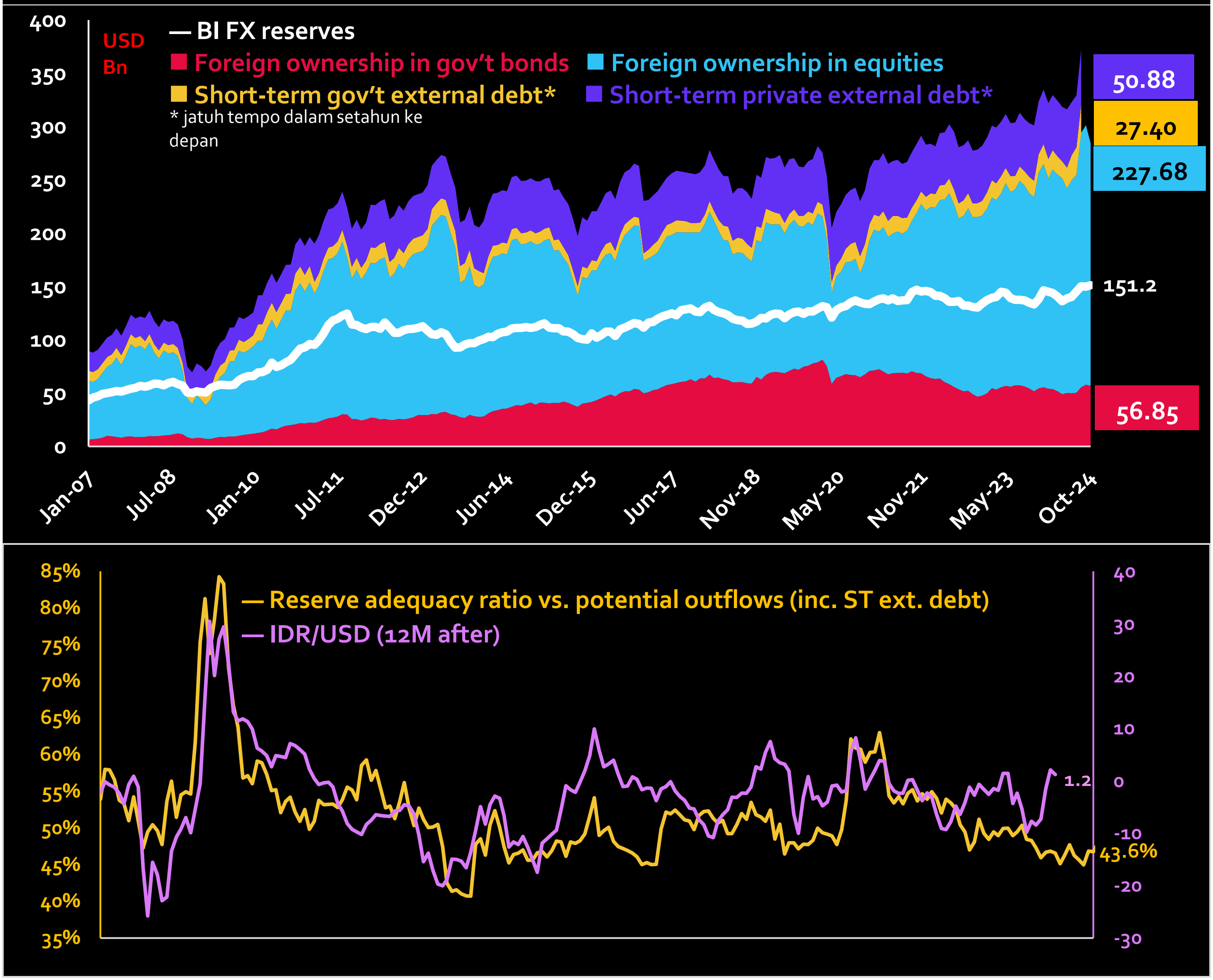
Source: Bloomberg

Panel 4. Demand for FX liquidity continue to pick up



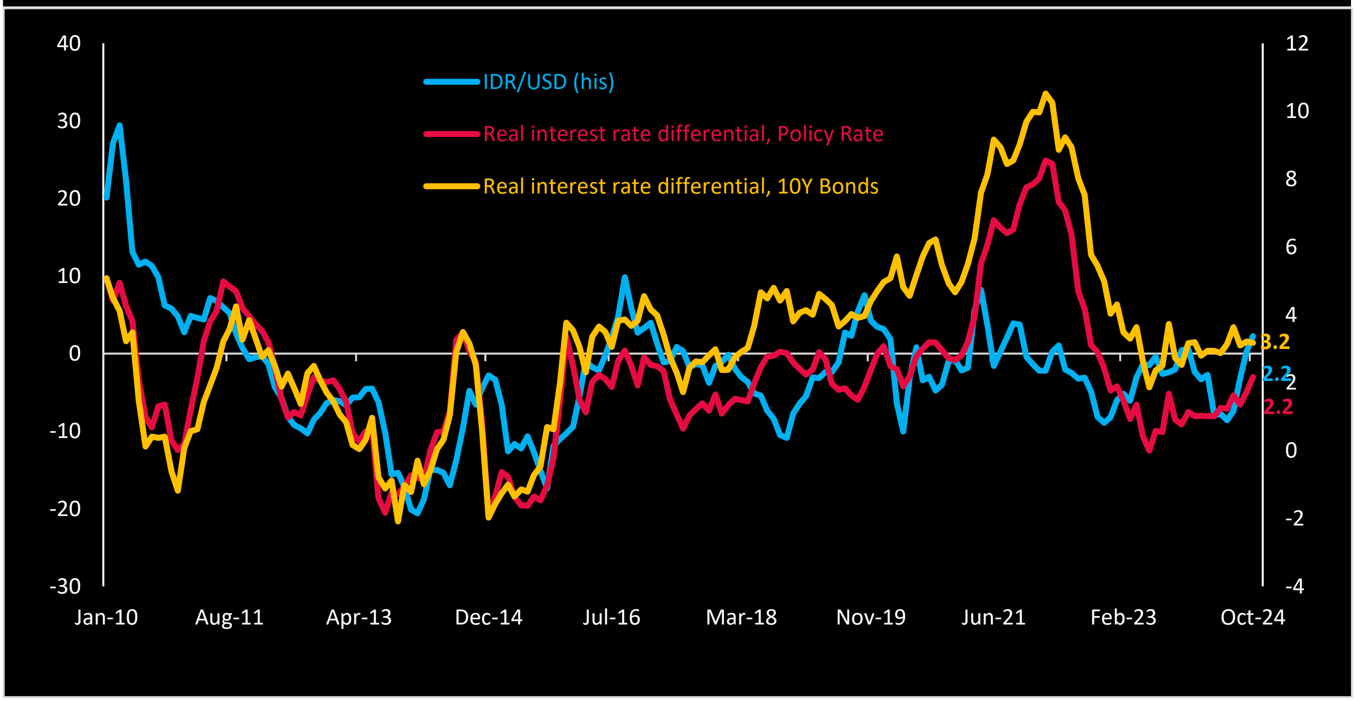
Source: BI, Bloomberg

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



Source: BI, Bloomberg

Panel 6. Still narrow real rate differentials has not hindered Rupiah's rise



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.00	Sep-24	2.60
UK	5.00	Aug-24	3.30
EU	3.40	Oct-24	1.40
Japan	0.25	Jul-24	-2.60
China (lending)	2.00	Sep-24	3.95
Korea	3.25	Oct-24	1.95
India	6.50	Feb-23	1.01
Indonesia	6.00	Sep-24	4.29

Money Mkt Rates	6-Nov	-1 mth	Chg (bps)
SPN (1Y)	6.66	6.47	19.4
SUN (10Y)	6.74	6.63	11.2
INDONIA (O/N, Rp)	5.99	6.11	-12.2
JIBOR 1M (Rp)	6.63	6.65	-1.6

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.78	8.81	-2.51
Deposit 1M	4.79	4.78	1.00
Savings	0.65	0.65	-0.09

Currency/USD	6-Nov	-1 mth	Chg (%)
UK Pound	0.776	0.762	-1.85
Euro	0.932	0.911	-2.23
Japanese Yen	154.6	148.7	-3.83
Chinese RMB	7.175	7.019	-2.18
Indonesia Rupiah	15,830	15,485	-2.18

Capital Mkt	6-Nov	-1 mth	Chg (%)
JCI	7,383.9	7,496.1	-1.50
DJIA	43,729.9	42,352.8	3.25
FTSE	8,166.7	8,280.6	-1.38
Nikkei 225	39,480.7	38,635.6	2.19
Hang Seng	20,538.4	22,736.9	-9.67

Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)
Stock	3,573.9	3,558.2	15.66
Govt. Bond	885.6	870.6	14.98
Corp. Bond	6.9	6.9	-0.07

Trade & Commodities	6-Nov	-1 mth	Chg (%)
Baltic Dry Index	1,427.0	1,928.0	-26.0
S&P GSCI Index	541.5	557.4	-2.9
Oil (Brent, $/brl)	74.9	78.1	-4.0
Coal ($/MT)	142.9	152.6	-6.4
Gas ($/MMBtu)	1.80	2.51	-28.3
Gold ($/oz.)	2,659.1	2,653.6	0.2
Copper ($/MT)	9,199.6	9,796.4	-6.1
Nickel ($/MT)	15,870.0	17,743.3	-10.6
CPO ($/MT)	1,127.7	1,036.5	8.8
Rubber ($/kg)	1.98	2.07	-4.3

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	22.08	23.44	-5.80
Import ($ bn)	18.82	20.67	-8.91
Trade bal. ($ bn)	3.26	2.78	17.37
Central bank reserves ($ bn)*	149.9	150.2	-0.21

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	123.5	124.4	123.4
Car sales (%YoY)	-9.1	-14.2	-7.8
Motorcycle sales (%YoY)	3.7	7.4	24.1

Manufacturing PMI	Oct	Sep	Chg (bps)
USA	48.5	47.3	120
Eurozone	46.0	45.0	100
Japan	49.2	49.7	-50
China	50.3	49.3	100
Korea	48.3	48.3	0
Indonesia	49.2	49.2	0

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	15,650
Trade Balance (US$ 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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