

FX Reserves:

The conundrum continues

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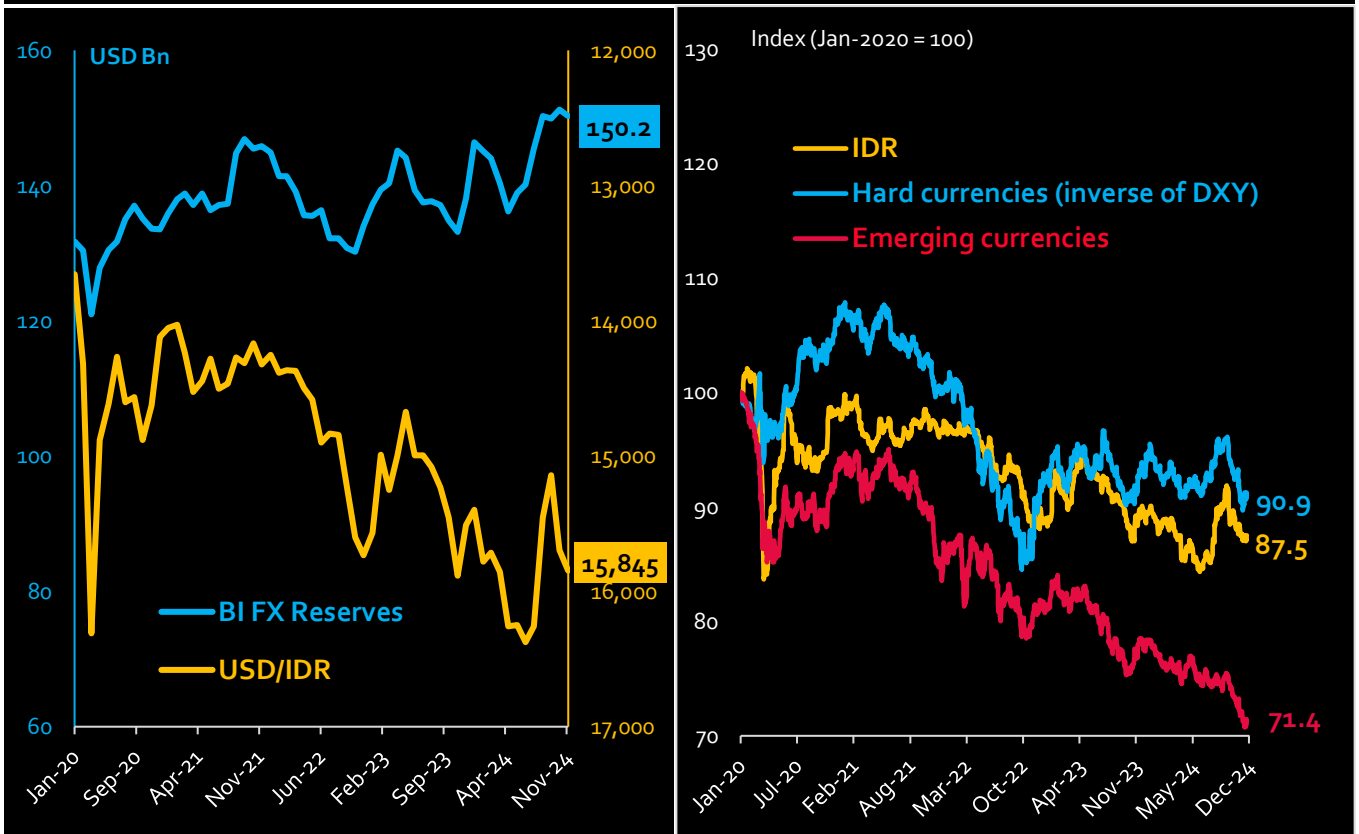
Executive Summary

- Bank Indonesia reported a slight decrease in FX reserves to USD 150.2 Bn in November 2024, even though the rupiah experienced a significant depreciation. The depreciation was mostly driven by global conditions, while domestic conditions have not worsened too much.
- However, foreign capital flows worsen, as foreign ownership of SRBI declines along with outflows in bond and equity markets. In addition, Trump effect is unlikely to have been fully priced in.
- BI might use SRBI to address Rupiah volatility by increasing its yield but may face a dilemma: between intervening, allowing the Rupiah to adjust to some degree, or accepting slower loan growth.

- Bank Indonesia reported FX reserves of USD 150.2 Bn in November 2024, a modest decrease of USD 1.0 Bn from the previous month. This decline is considered relatively minor, especially given the Rupiah's significant depreciation, towards the 15,850 – 15,950 range against the US Dollar.
- Of course, this depreciation was mostly driven by global factors, rather than a reflection of fundamental flaws on the Rupiah's part. Donald Trump's potentially inflationary policies have raised the fear of Fed policies staying higher for longer. The market only stabilized, and the Dollar index ceased its ascent, after Trump nominated Scott Bessent as Treasury Secretary on November 22nd, allowing the Rupiah to find a new equilibrium.
- The domestic condition itself, on the other hand, has not worsened too much, with FX liquidity by the private sector remaining stable. Banks' placements at Bank Indonesia decreased by USD 1.86 Bn in November from their peak, but the outstanding amount remains substantial. This decline is partially attributed to maturing SVBI/SUVBI instruments and FX term deposits, possibly indicating a slowdown in BI's net issuance of SVBI/SUVBI rather than tightening FX liquidity per se.
- The worrying trend, however, lies in foreign capital flows. November marked the beginning of a decline in foreign ownership of SRBI (-USD 1.2 Bn), despite an increase in the outstanding amount. This coincided with outflows in both the bond (-USD 0.8 Bn) and equity (-USD 1.1 Bn) markets. Such simultaneous declines across all three assets are unusual, since it means foreigners are avoiding Indonesia altogether, rather than merely rotating between riskier and safer options.

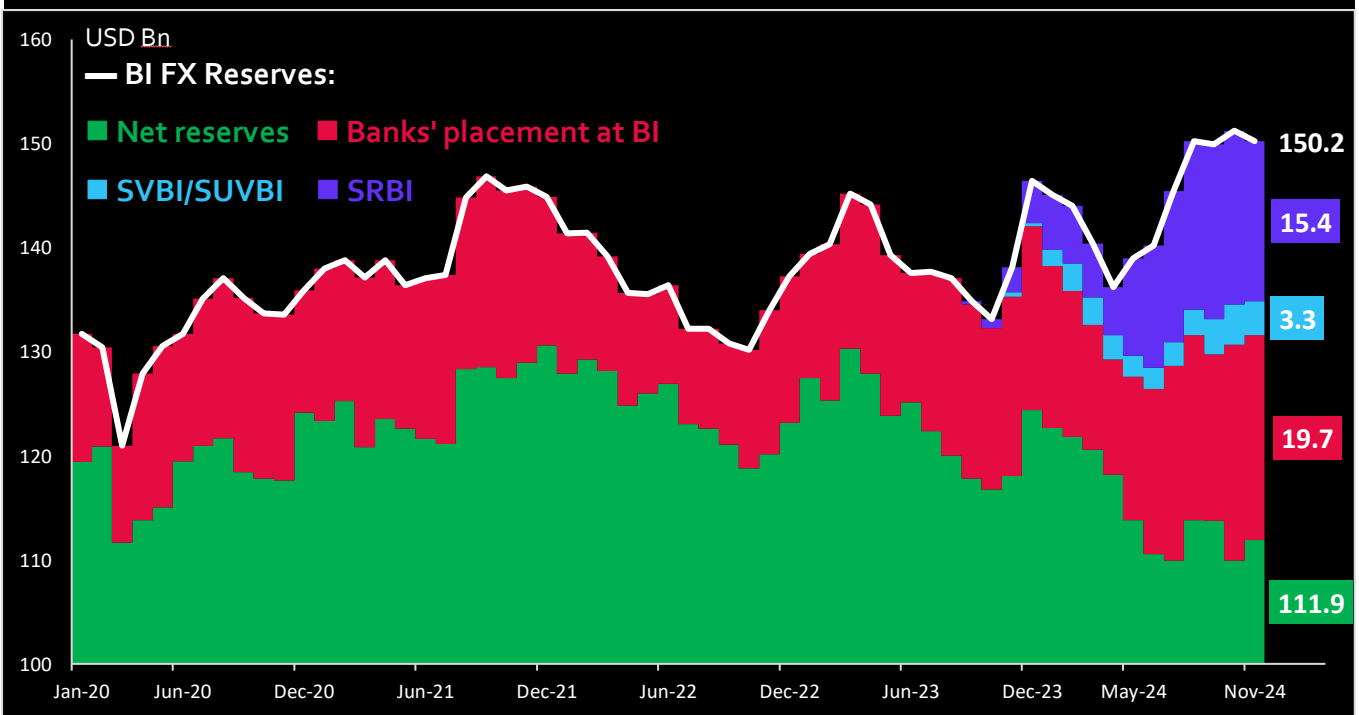
- The medium to long-term outlook, moreover, presents some concerns. Thus far, the market has been roiled by expectations over what Trump could do – but volatility could return when Trump finally takes office in January. It is doubtful if Trump policies have been fully priced-in by the market, and it is also unclear if the global FX market has taken into account the potential geopolitical shifts that could happen under his watch. Looking back at Trump's 2018 tariffs, the USD actually strengthened upon actual implementation of the tariffs, with Rupiah depreciating 6.1% YoY against the USD in 2018 (Chinese Yuan, we should note, weakened by 5.7%).
- Trump's other policies may limit the Federal Reserve's ability to implement rate cuts. His deportation policy could tighten the US job market by reducing the inexpensive labor force, while the higher fiscal deficit outlook may drain liquidity from other countries and push longer-term US Treasury yields higher. All these could potentially exert additional pressure on the Rupiah.
- Going forward, it is hard to see BI not relying upon SRBI again to address Rupiah volatility. Currently, 10% of FX reserves is comprised of SRBI, with an additional 2% from SVBI/SUVBI (**Panel 2**). Excluding these instruments, the 'actual' FX reserves are approximately USD 131.6 Bn. This is roughly the threshold level when BI initiated its rate hike cycle in August 2022, and also when it abruptly increased rates in October 2023.
- To attract foreign inflows, BI could consider increasing SRBI yields, as it has done in recent weeks (12M SRBI is at 7.23% at the latest auction). BI will also have to issue more SRBI to offset the large amount set to mature soon. As we have mentioned previously, SRBI maturity peaks between November 2024 and January 2025 due to substantial issuance from May to July 2024. In the next two months, approximately IDR 200 Tn of SRBI will mature with about 27% foreign-owned, equating to about USD 3.4 Bn in FX reserves.
- The issue, then, remains the potential tradeoff between SRBI and the already-tight domestic market liquidity. Slowing loan growth in 2025 thus looks very likely, especially given the concurrent increase in government bond (SBN) issuance.
- For now, we still think that BI can safely cut its rate by 25 basis points this year – provided the Fed also cuts its rate (which the market still think is likely at 87% probability). By next year, however, BI may face a more intractable dilemma: between intervening, allowing the Rupiah to adjust to some degree, or accepting slower loan growth. For now, arguably only larger stimulus bazooka from China and/or higher commodity prices remain as potential *dei ex machina* that would deliver BI from this unpalatable tradeoff.

Panel 1. BI's FX reserves declined a bit along with rupiah depreciation



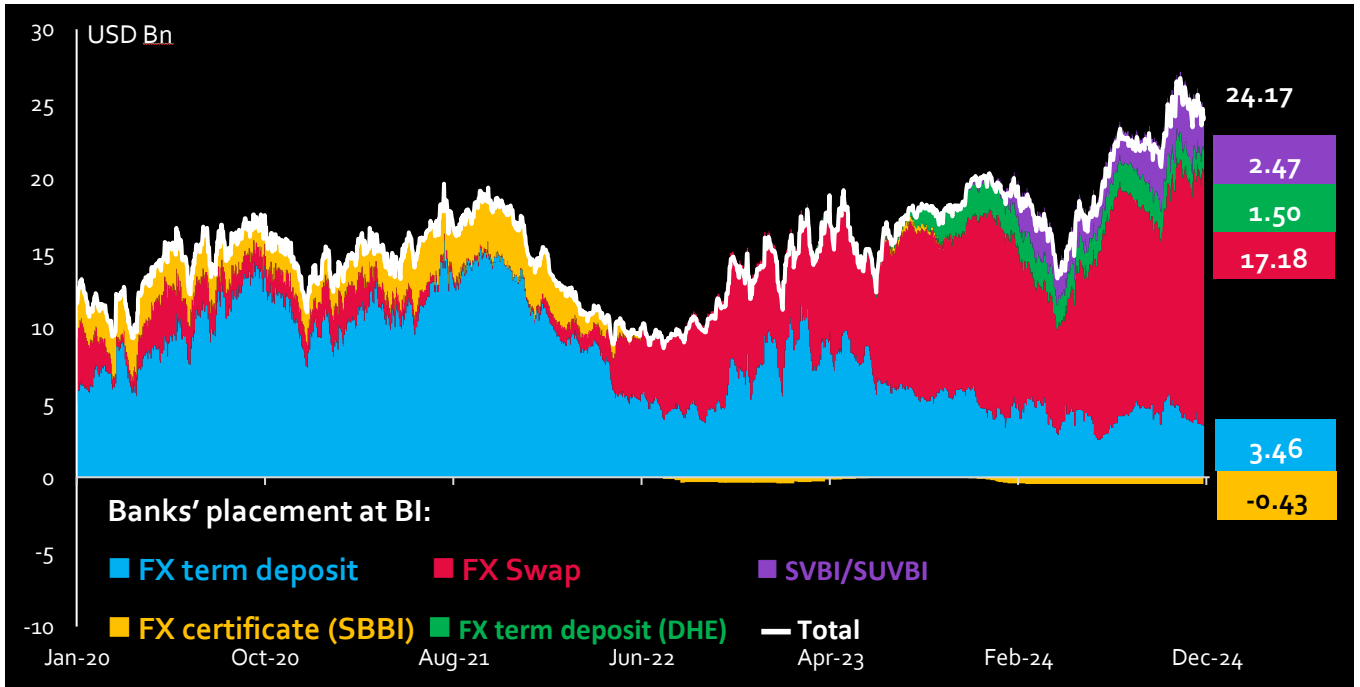
Source: Bloomberg

Panel 2. SRBI and SVBI/SUVBI take up 12% of BI's FX reserves



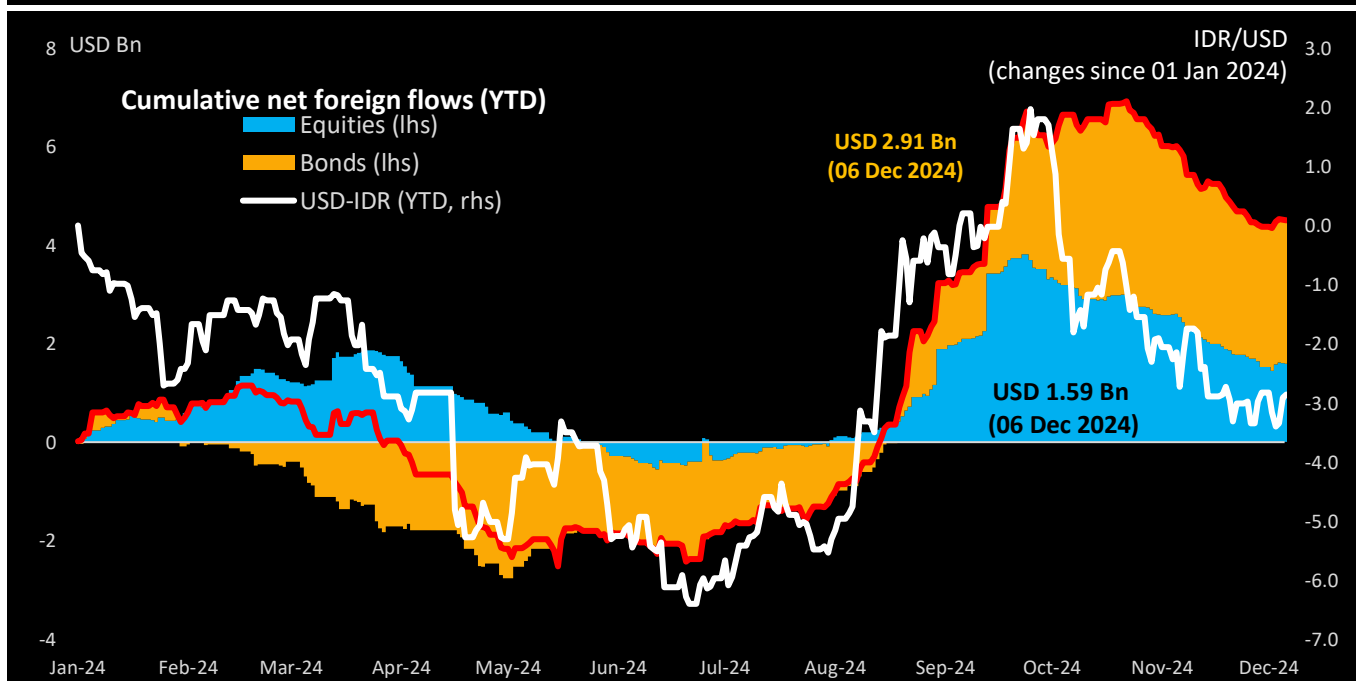
Source: BI

Panel 3. SVBI/SUVBI declined due to a lower net issuance



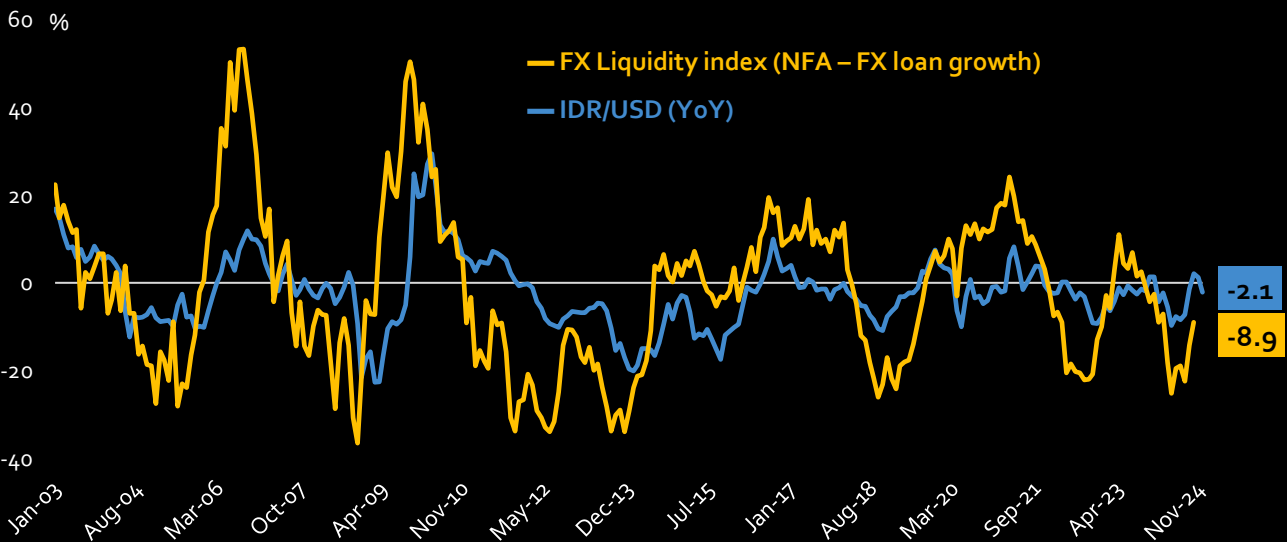
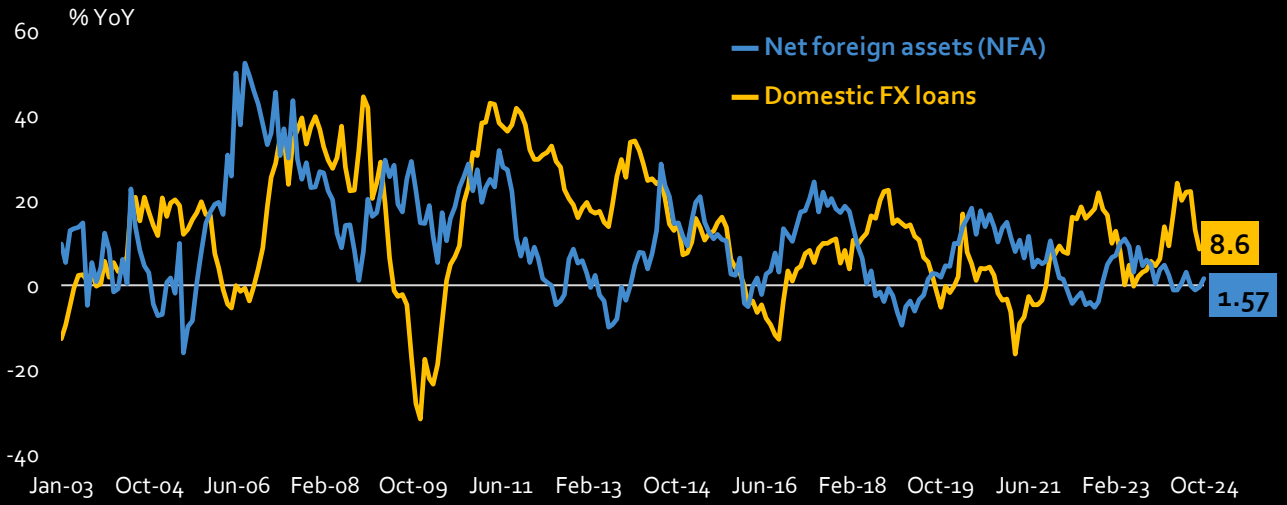
Source: BI

Panel 4. Both bonds and equities markets suffered from foreign outflow



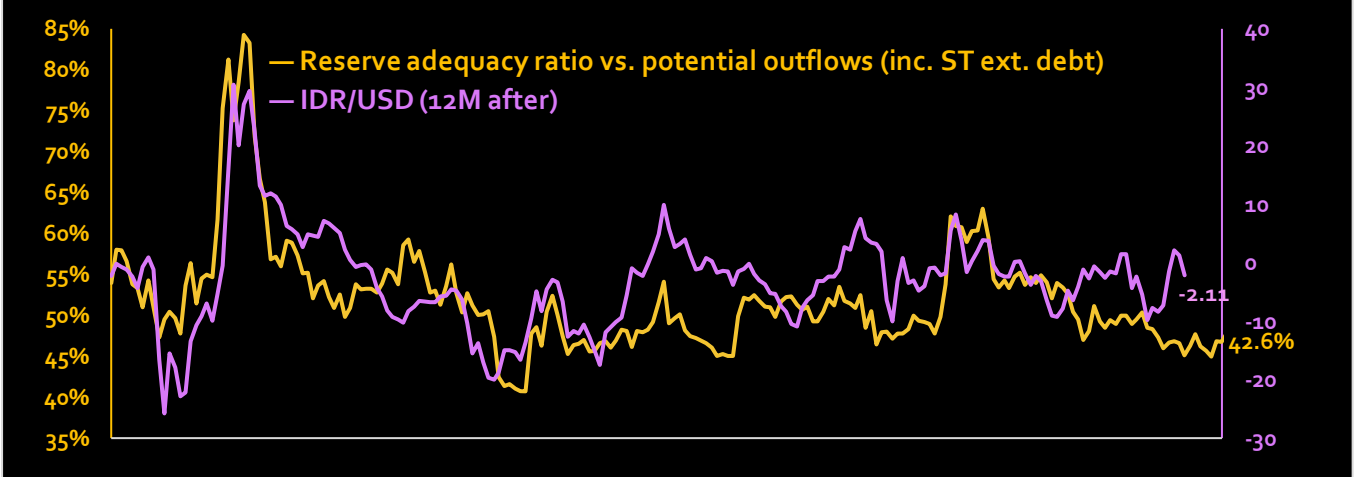
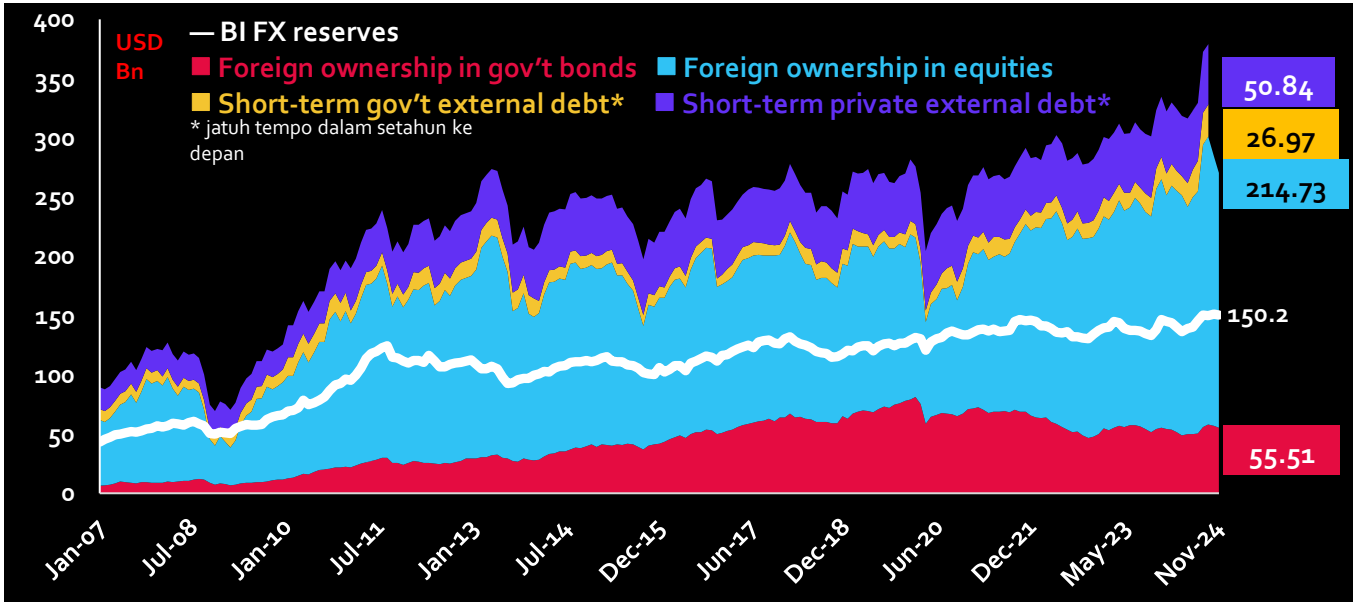
Source: Bloomberg

Panel 5. Demand for FX liquidity is slowing down, easing some pressure on the rupiah



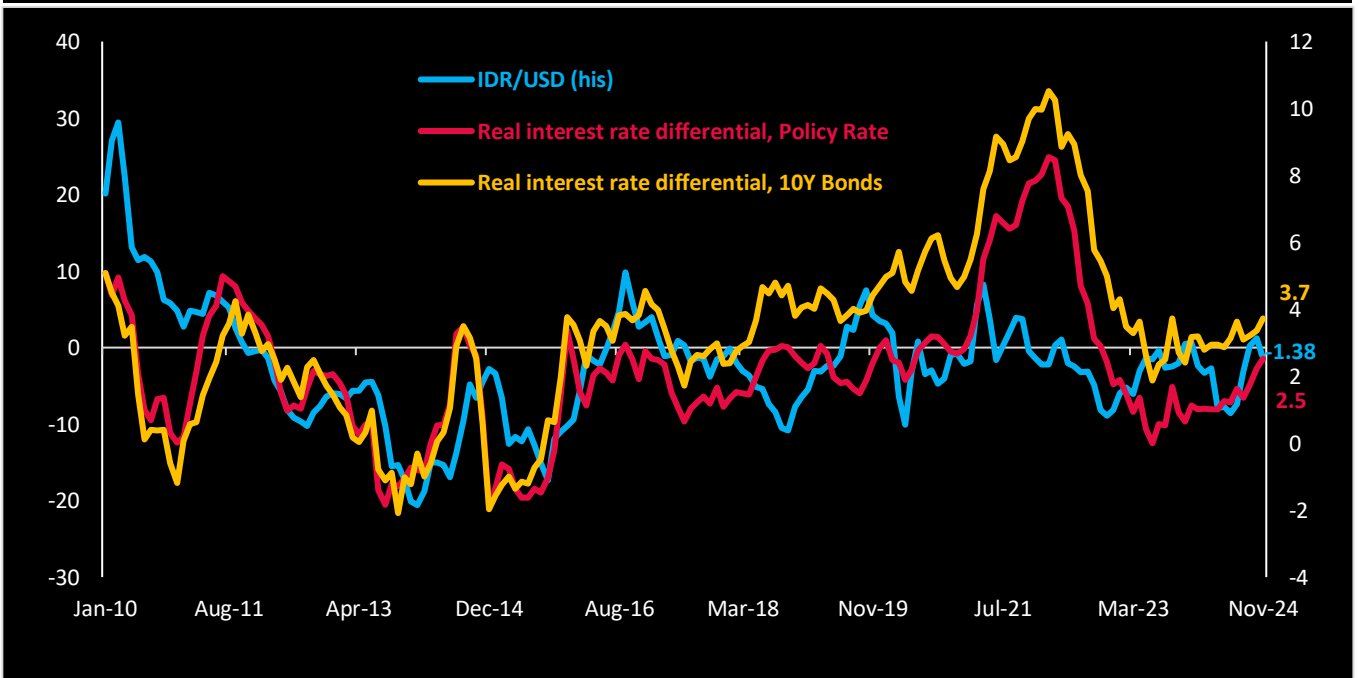
Source: Bloomberg

Panel 6. The reserves adequacy ratio might worsen in the coming months



Source: BI, Bloomberg

Panel 7. Real rate differentials do not change much and have less effect on the rupiah



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Dec	-1 mth	Chg (%)
US	4.75	Nov-24	2.15	Baltic Dry Index	1,167.0	1,405.0	-16.9
UK	4.75	Nov-24	2.45	S&P GSCI Index	531.5	545.5	-2.6
EU	3.40	Oct-24	1.10	Oil (Brent, \$/brl)	71.1	75.5	-5.8
Japan	0.25	Jul-24	-2.40	Coal (\$/MT)	132.4	144.8	-8.5
China (lending)	2.00	Sep-24	4.15	Gas (\$/MMBtu)	2.84	1.72	64.7
Korea	3.00	Oct-24	1.50	Gold (\$/oz.)	2,633.4	2,744.0	-4.0
India	6.50	Feb-23	0.29	Copper (\$/MT)	9,011.9	9,598.0	-6.1
Indonesia	6.00	Sep-24	4.45	Nickel (\$/MT)	15,824.5	15,864.9	-0.3
Money Mkt Rates	6-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	1,207.3	1,142.6	5.7
				Rubber (\$/kg)	2.12	2.00	6.0
SPN (1Y)	6.74	6.69	5.2	External Sector	Oct	Sep	Chg (%)
SUN (10Y)	6.90	6.72	17.8	Export (\$ bn)	24.41	22.06	10.69
INDONIA (O/N, Rp)	5.97	6.12	-14.9	Import (\$ bn)	21.94	18.82	16.54
JIBOR 1M (Rp)	6.63	6.63	-0.4	Trade bal. (\$ bn)	2.48	3.23	-23.39
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Central bank reserves (\$ bn)*	151.2	149.9	0.87
Lending (WC)	8.87	8.78	8.91	Prompt Indicators	Nov	Oct	Sep
Deposit 1M	4.81	4.79	2.01	Consumer confidence index (CCI)	125.9	121.1	123.5
Savings	0.67	0.65	1.33	UK Pound	0.785	0.767	-2.28
Currency/USD	6-Dec	-1 mth	Chg (%)	Euro	0.946	0.915	-3.31
				Japanese Yen	150.0	151.6	1.08
				Chinese RMB	7.272	7.105	-2.30
				Indonesia Rupiah	15,850	15,735	-0.73
Capital Mkt	6-Dec	-1 mth	Chg (%)	Manufacturing PMI	Nov	Oct	Chg (bps)
JCI	7,382.8	7,491.9	-1.46	USA	49.7	48.5	120
DJIA	44,642.5	42,221.9	5.73	Eurozone	45.2	46.0	-80
FTSE	8,308.6	8,172.4	1.67	Japan	49.0	49.2	-20
Nikkei 225	39,091.2	38,474.9	1.60	China	51.5	50.3	120
Hang Seng	19,865.9	21,007.0	-5.43	Korea	50.6	48.3	230
Foreign portfolio ownership (Rp Tn)	Nov	Oct	Chg (Rp Tn)	Indonesia	49.6	49.2	40
Stock	3,402.4	3,573.9	-171.49				
Govt. Bond	872.5	885.6	-13.07				
Corp. Bond	7.1	6.9	0.23				

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

	2020	2021	2022	2023	2024E	2025E
Gross Domestic Product (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.9
GDP per Capita (US\$)	3912	4350	4784	4920	4945	4980
Consumer Price Index Inflation (% YoY)	1.7	1.9	5.5	2.6	1.9	2.5
BI 7 day Repo Rate (%)	3.75	3.50	5.50	6.00	5.75	5.00
USD/IDR Exchange Rate (end of year)**	14,050	14,262	15,568	15,397	15,947	16,393
Trade Balance (US\$ Bn)	21.7	35.3	54.5	37.0	29.3	26.2
Current Account Balance (% GDP)	-0.4	0.3	1.0	-0.1	-0.7	-0.9

** Estimation of Rupiah's fundamental exchange rate

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