

## FX Reserves:

## Is the worst over?

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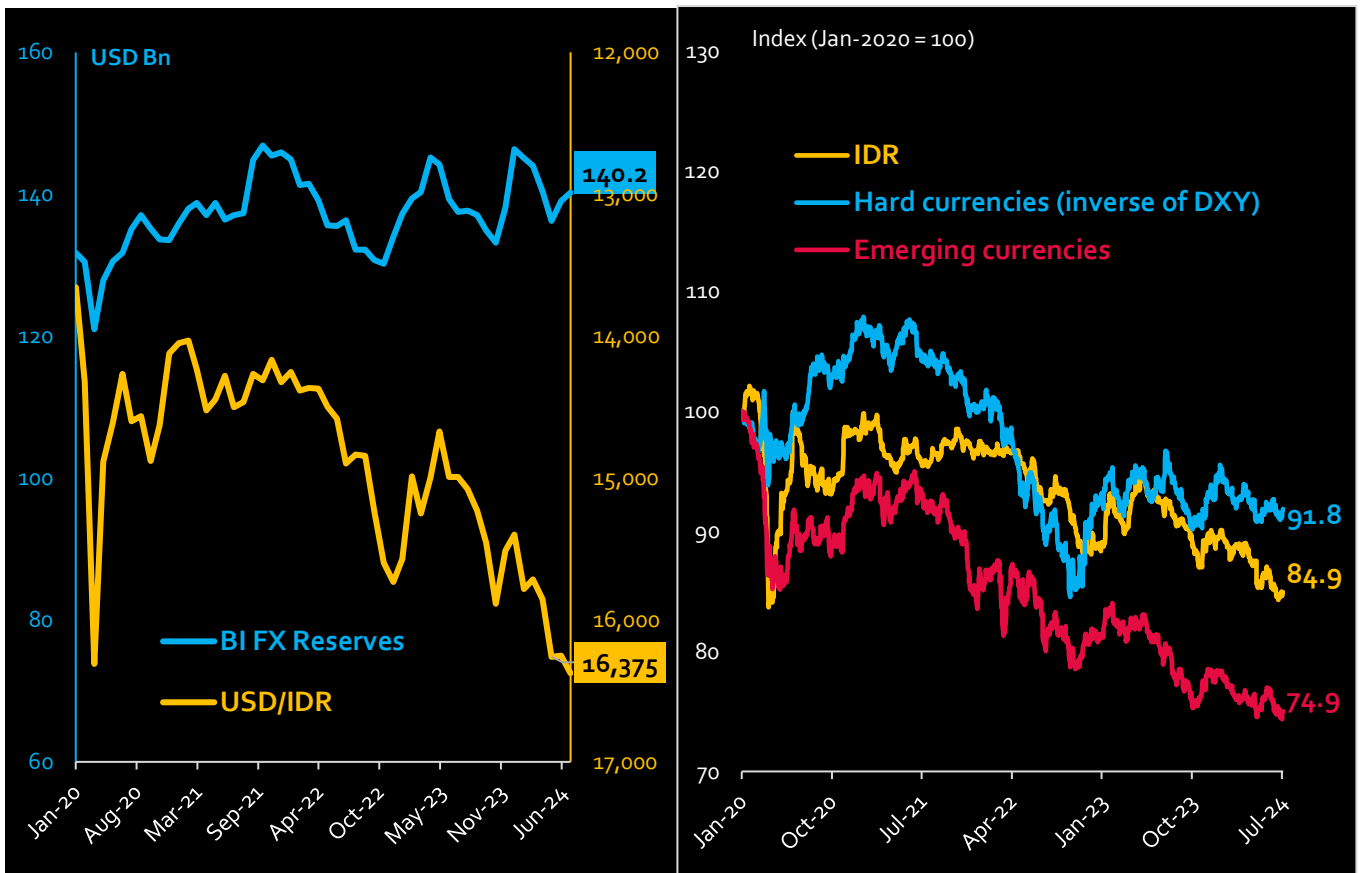
### Executive Summary

- Bank Indonesia's FX reserves increased by USD 1.2 Bn to USD 140.2 Bn in June 2024 due largely to foreign inflows from SRBI.
- FX reserves may be stable going forward due to more bond issuance in the second half and the global situation after a series of weak US economic data.
- There are risks due to substantial amount of maturing SRBI in the second half, and BI's more limited maneuvering room with respect to SBN.

- Bank Indonesia's FX reserves stood at USD 140.2 Bn in June 2024, a USD 1.2 Bn increase. This is the second month of increasing FX reserves, defying the jittering IDR.
- As in May, the increase this month was thanks to SRBI, in which foreign investors have already added USD 1.70 Bn of SRBI to their portfolio during the first half of June. This offset outflows from stocks (USD 91.7 Mn), even though bonds recovered with a small inflow (USD 117.4 Mn).
- But despite the mixed picture in June, it might be fair to ask if the worst is over for Rupiah. After all, seasonal events such as dividend repatriation and Hajj pilgrimage that drives current account deficits mostly occurred in Q2.
- The global situation is another factor that may help the Rupiah. In recent weeks, US data has mostly fallen below expectations, and the market subsequently also upgraded its outlook for Fed rate cuts this year from 25 bps to 50 bps. The Dollar has remained strong regardless, mainly due to rate cuts in many other countries (China, EU, Swiss), but this strength may prove to be temporary.
- The trend for FX reserves may also be positive, or at least stable, going forward. The main cause is the forthcoming bond issuance by the government. Net global bond issuance until the end of June 2024 is USD -0.10 Bn, much lower than USD 0.81 Bn net issuance during 2023. In addition, net IDR bonds issuance in 2023 is IDR 355.7 Tn, while net IDR bonds issuance until now is IDR 195.4 Tn.
- Inevitably, the government will have to issue more bonds in H2-24, including USD 2.35 Bn worth of global bonds (including green bonds) which it had just issued on July 2nd. This deluge of issuance should drive inflows but may also lead to higher yields, although the effect may be mitigated if UST yields continue to trend lower.

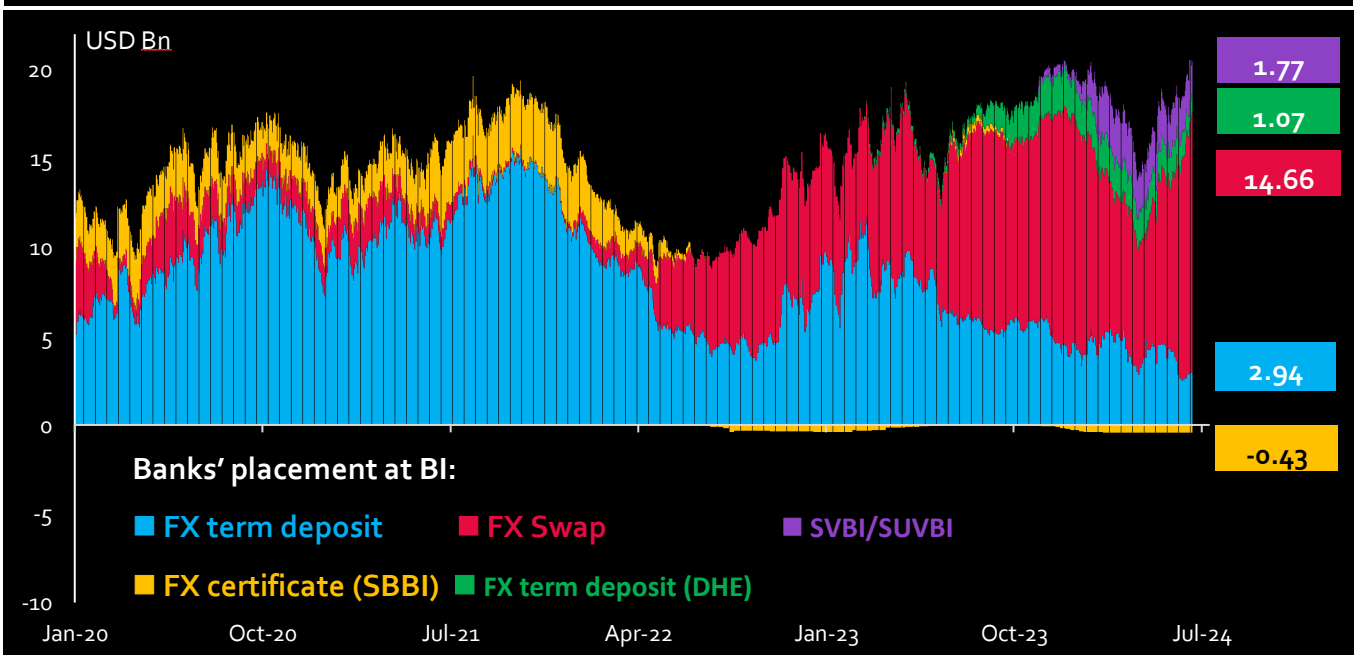
- Trade, meanwhile, is probably a non-factor to FX reserves. Metal prices, which have boosted the surplus in recent months, are still flat or in decline, meaning we cannot rely on it to have a positive effect on FX reserves.
- But if in Q2, BI's reserves were kept afloat by SRBI issuance, would it continue in Q3? [In our previous FX reserves report](#), we already mentioned the cost of SRBI. Another issue that might come up is the estimated IDR 325.5 Tn of SRBI set to mature in the second half. Given foreign ownership of 27.0% in mid-June, this translates to about USD 3-5 Bn of effective outflows, which will have to be replenished through reissuance.
- Adding more net SRBI issuance, however, is a more difficult proposition altogether. [As we discussed recently](#), BI has been buying SBN to offset the amount offloaded by banks and foreign investors to take on SRBI. This purchase, however, is not done directly but simply by reducing the utilization of reverse repo, such that BI's gross ownership of SBN does not change much.
- However, the SBN used in reverse repo is now nearly exhausted, meaning that banks will have to start selling SBN directly to purchase more SRBI. BI, then, has two choices: to increase its (gross) ownership of SBN, which may strain its credibility, or allow the market to dictate SBN yields.
- BI's more limited maneuvering room, then, keeps the possibility of further BI rate hike by 25 bps alive, if global pressures flares anew. Nonetheless, we are now more sanguine on FX reserves outlook due to the bond issuance and global developments.

**Panel 1. FX reserves increased due to SRBI**



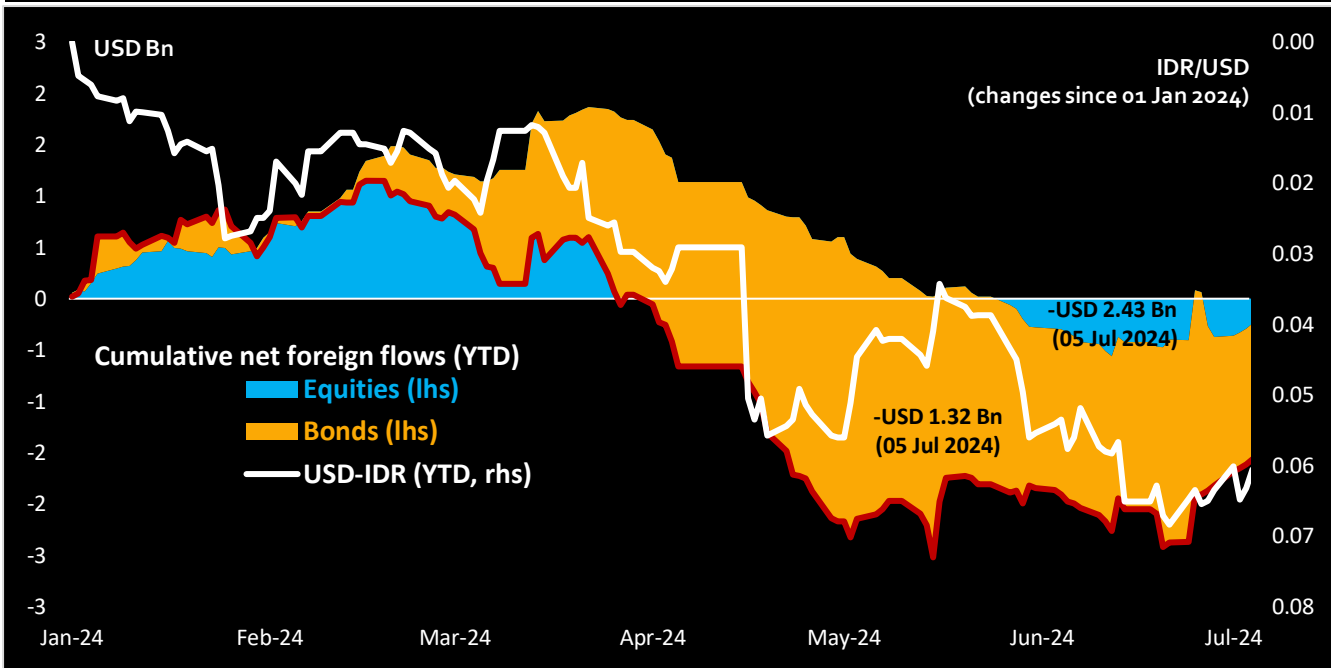
Source: Bloomberg

**Panel 2. Banks' placement at BI increased, driven mainly by FX swap**



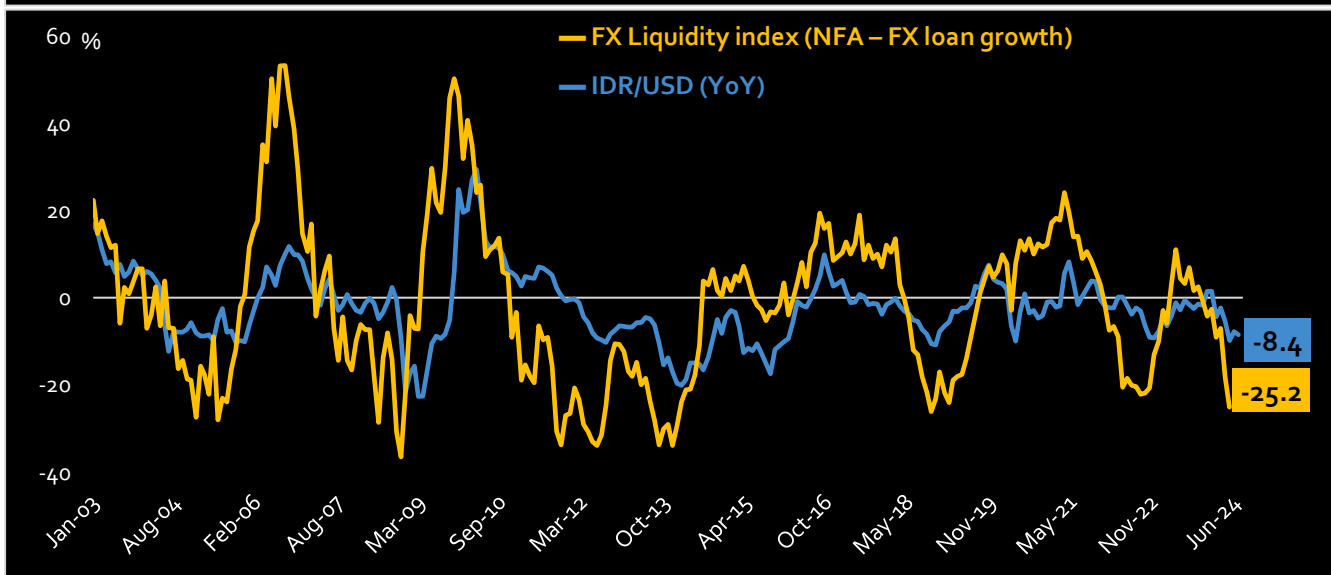
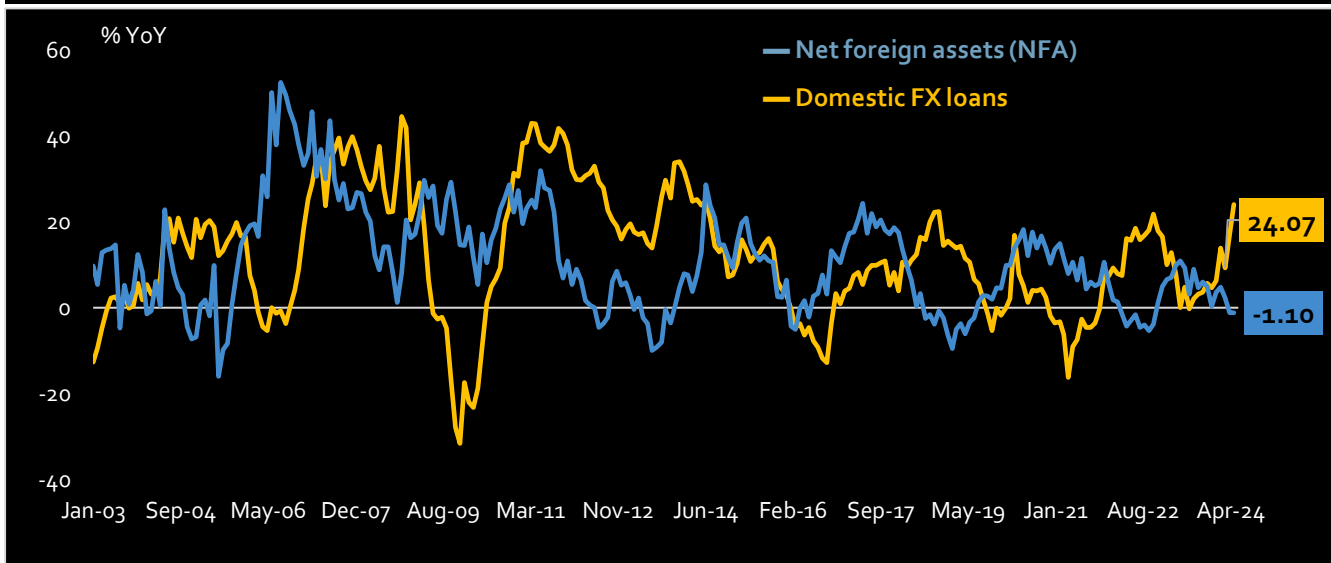
Source: BI

**Panel 3. Inflows to bonds recovered while equities continue recorded outflows**



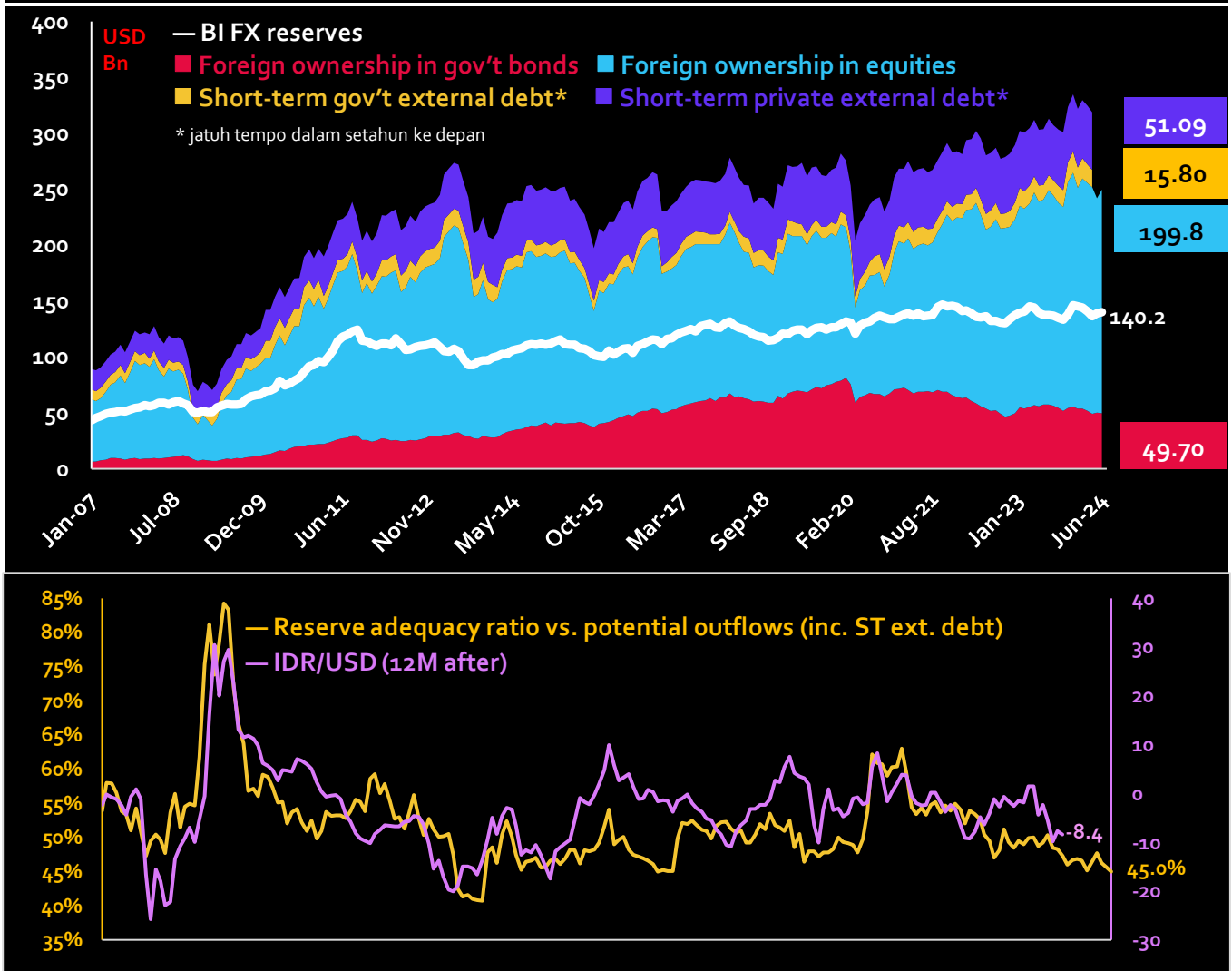
Source: Bloomberg

**Panel 4. Demand for FX liquidity continue to pick up**



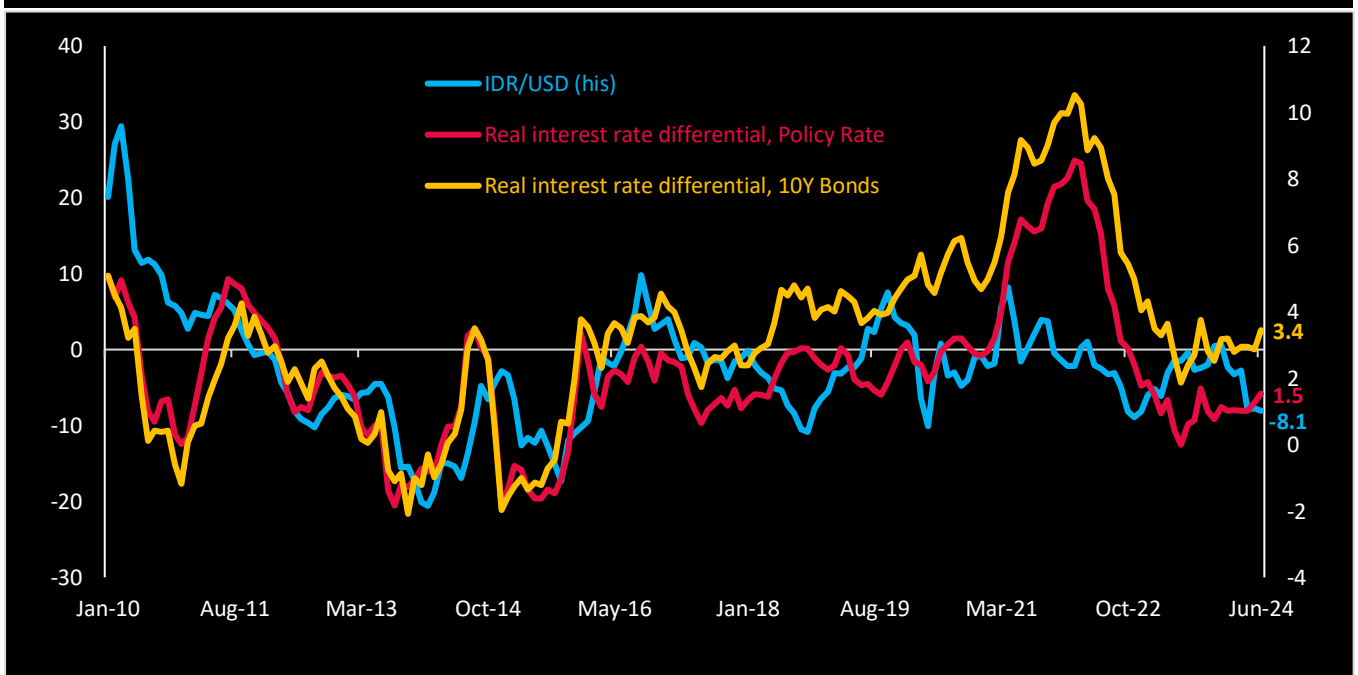
Source: BI, Bloomberg

**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 (%)	Trade & Commodities	4-Jul	-1 mth	Chg (%)
US	5.50	Jul-23	2.20	Baltic Dry Index	2,021.0	1,808.0	11.8
UK	5.25	Aug-23	3.25	S&P GSCI Index	588.7	563.8	4.4
EU	4.25	Jul-23	1.75	Oil (Brent, \$/bbl)	87.4	78.4	11.6
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	137.9	146.5	-5.9
China (lending)	2.50	Aug-23	4.05	Gas (\$/MMBtu)	2.02	2.55	-20.8
Korea	3.50	Jan-23	1.10	Gold (\$/oz.)	2,356.7	2,350.8	0.3
India	6.50	Feb-23	1.75	Copper (\$/MT)	9,734.1	10,017.0	-2.8
Indonesia	6.25	Apr-24	3.74	Nickel (\$/MT)	16,964.5	19,177.8	-11.5
Money Mkt Rates	4-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	878.0	862.6	1.8
				Rubber (\$/kg)	1.67	1.76	-5.1
Bank Rates (Rp)	Apr	Mar	Chg (bps)	External Sector	May	Apr	Chg (%)
SPN (1M)	5.88	5.80	7.6	Export (\$ bn)	22.33	19.62	13.82
SUN (10Y)	7.07	6.87	19.3	Import (\$ bn)	19.40	16.90	14.82
INDONIA (O/N, Rp)	6.16	6.11	4.4	Trade bal. (\$ bn)	2.93	2.72	7.61
JIBOR 1M (Rp)	6.90	6.90	0.0	Central bank reserves (\$ bn)*	139.0	136.2	2.02
Lending (WC)	8.85	8.83	2.01	Prompt Indicators	May	Apr	Mar
Deposit 1M	4.65	4.62	3.47	Consumer confidence index (CCI)	125.2	127.7	123.8
Savings	0.68	0.68	0.22	Car sales (%YoY)	-13.3	-17.5	-26.2
Currency/USD	4-Jul	-1 mth	Chg (%)	Motorcycle sales (%YoY)	-4.5	18.3	-7.8
UK Pound	0.784	0.781	-0.37	Manufacturing PMI	Jun	May	Chg (bps)
Euro	0.925	0.917	-0.84	USA	51.6	51.3	30
Japanese Yen	161.3	156.1	-3.22	Eurozone	45.8	47.3	-150
Chinese RMB	7.268	7.242	-0.36	Japan	50.0	50.4	-40
Indonesia Rupiah	16,330	16,230	-0.61	China	51.8	51.7	10
Capital Mkt	4-Jul	-1 mth	Chg (%)	Korea	52.0	51.6	40
JCI	7,220.9	7,036.2	2.62	Indonesia	50.7	52.1	-140
DJIA	39,308.0	38,571.0	1.91				
FTSE	8,241.3	8,262.8	-0.26				
Nikkei 225	40,913.7	38,923.0	5.11				
Hang Seng	18,028.3	18,403.0	-2.04				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	3,273.1	3,115.0	158.05				
Govt. Bond	805.6	807.0	-1.38				
Corp. Bond	8.2	8.2	-0.06				

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	16,304
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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