

09 June 2023

### Macroeconomics Indicator

	2021	2022	2023F
GDP growth (%YoY)	3.69	5.31	5.23
Inflation (%YoY)	1.87	5.51	4.18
BI rate (% Year-end)	3.50	5.50	6.00
Rp/US\$ (Average)	14,316	14,855	15,541
CA deficit (% of GDP)	+0.30	+1.0	-0.5
Fiscal deficit (% of GDP)	5.44	2.38	2.41

## May23 FX reserves: lower FX reserve on seasonal Hajj demand

- FX reserve dropped by US\$4.9bn to US\$139.3bn in May23 (vs. US\$144.2bn in Apr23) from FX stabilization measure at c.US\$4.4bn.
- Rupiah still appreciated by +4.6% YTD to Rp14.8k/US\$ (+0.2% mom/-1.6% yoy in May23) due to net foreign inflow at US\$0.6bn MTD.
- For now, we keep our Rupiah expectation at c.Rp15.5k/US\$ in average in FY23 (Rp15.1k/US\$ avg YTD) from higher external volatility risk.

### FX reserve dropped mainly for anticipating FX liquidity needs

FX reserve declined by US\$4.9bn to US\$139.3bn in May23 (US\$144.2bn in Apr23) due to FX stabilization measures at c.US\$4.4bn ultimately for Hajj pilgrimage purposes. In addition, the government external debt repayment also depleted the FX reserves by c.US\$0.5bn. In our knowledge, the schedule for government's external debt servicing is on semi-annual basis i.e. Jun-Aug and year-end in Nov-Dec. In addition, the FX reserve position was equivalent to 6.1 months of import or 6.0 months of import with government external debt payment. The lower FX reserves were in-line with the higher Rupiah 3-mo volatility at 235 points standard deviation (vs. 194/140 points SD in Apr/Jan23). During the month, Rupiah depreciated by roughly Rp280 from Rp14.7k at the beginning of the month to Rp14.9k at end May. However, YTD Rupiah still appreciates by +4.6% to Rp14.8k/US\$, better than peer countries' i.e. Thailand's Baht at -0.1%, Philippine's Peso at -0.5%, and Malaysia's Ringgit at -4.7% YTD.

### Strengthening Rupiah on foreign inflow to bond market

Rupiah appreciation trend slowed to +0.2 mom/-1.6% yoy in May23 (+2.7% mom/-3.4% yoy in Apr23). We see the increasing Rupiah volatility movement in May23 were due to higher onshore demand for the Hajj pilgrimage preparation but mitigated partially by net foreign inflows worth of US\$5.8bn YTD, coming from bond markets at US\$4.4bn and equity markets at US\$1.4bn YTD. We see continuous inflows to bond markets suggests foreign investors' confidence to Indonesia's macroeconomic stability. This was reflected in narrowing bond yield spread at 286bp in May23 vs. 325bp in Jan23) and foreign ownership at c.15.3% YTD vs. 14.4% of total by the end of FY22.

### FX reserve may drop further in short-term

We are on the view that FX reserves position may continue to decline in short-term. As there may be higher onshore US\$ demand due to the pilgrimage (Hajj) and school holidays seasonality in c.Jun-Jul23. Meanwhile, we see that external volatility may persist as reflected in DXY index that started to inch up to 104 index point in Jun23 vs. 102.7 at the beginning of FY23. Furthermore, we see that absorption rate from DHE policy remains considerably small at US\$0.7bn YTD (relatively unchanged since the beginning of Apr23). However, shall Rupiah come under pressure we see a minimum adverse impact to FX-debt default risk. This is on the back of continuous contraction in total external debt at -1.9% yoy in May23 (-3.4% yoy in Feb23), emanating from private debt contraction at -2.9% yoy (-2.7% yoy in Feb23). All in all, for now we keep our Rupiah expectation to be at c.Rp15.5k/US\$ in average in FY23 (Rp14.8k/US\$ in FY22).

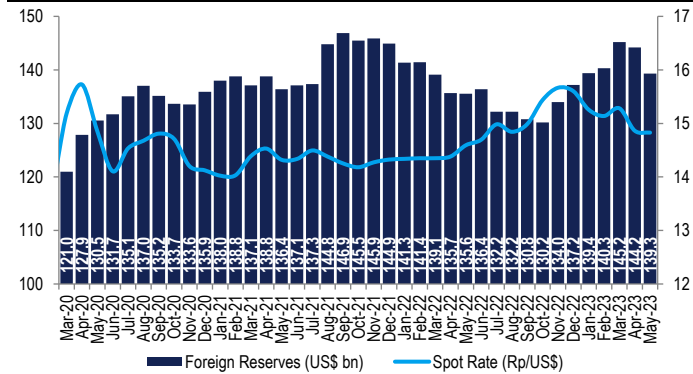
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**Fig. 1: FX reserve dropped on stabilization measures**



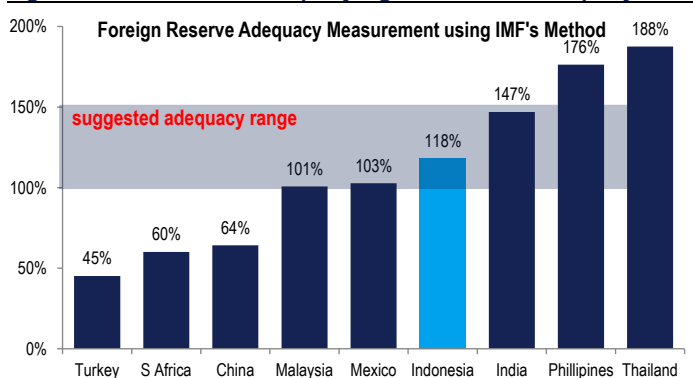
Source: BI, Bloomberg, Indo Premier

**Fig. 2: net reserve relatively stable**



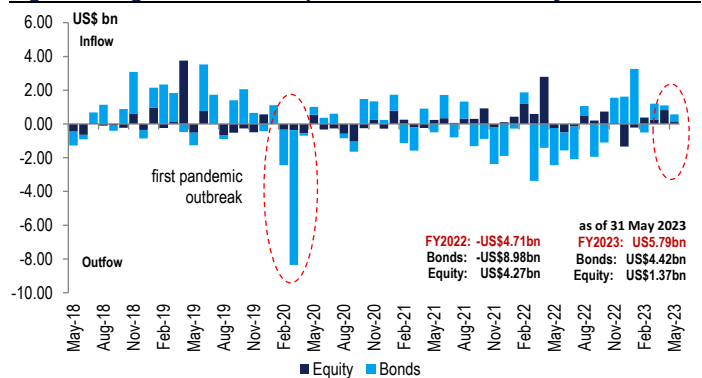
Source: BI, CEIC, Indo Premier

**Fig. 3: Indonesia reserve adequacy higher than IMF's adequacy ratio**



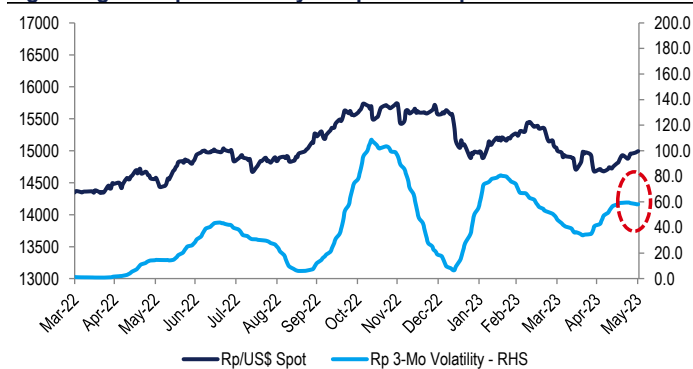
Source: BI, IMF, Indo Premier

**Fig. 4: Foreign investors still posted net inflows in May23**



Source: Bloomberg, Indo Premier

**Fig. 5: Higher Rupiah volatility compared to Apr23**



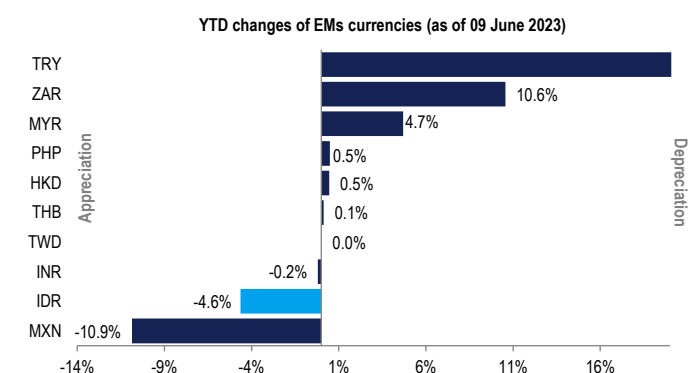
Source: Bloomberg, Indo Premier

**Fig. 6: 10y govies yield spread declining further**



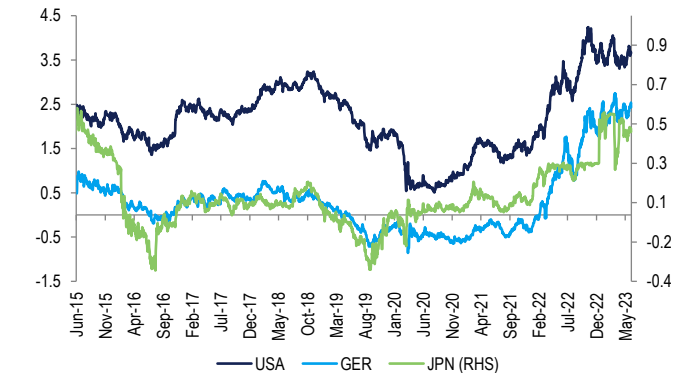
Source: Bloomberg, Indo Premier

**Fig. 7: Rupiah still appreciate YTD, better than peers**



Source: Bloomberg, Indo Premier

**Fig. 8: Yield in advanced countries rose**



Source: Bloomberg, Indo Premier

## **ANALYSTS CERTIFICATION**

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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