One seller among many

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Summary

- Reignition of the Iran war and China's economic slowdown may dampen Indonesia's economic prospects, leading the Rupiah to breach its 18,000 mark.
- Higher projected deficit and financing in excess of budget deficit (SiLPA) would likely result in increased debt issuance at a time of high interest rates.
- The government may opt to diversify the currency and duration of bond issuance in order to reduce cost of funding.

- After a brief respite in June, geopolitical tensions have gone back into the limelight. The US and Iran have continued to trade blows (and rhetoric) over the past few days, resulting in the price of Brent crude rising to USD 85/bbl at the time of writing, after briefly going below pre-war level prices.
- Even if the Strait were to reopen again, it's possible that freedom of navigation through the Strait has been lost forever. Iran has been persistent in arguing for a toll for ships passing through the Strait (either with or without Oman's involvement), and Donald Trump has likewise floated the idea of a 20% 'guardianship' fee, before backtracking and replacing it with trade and investment deals between Gulf states and the U.S, making it clear the US is expecting a 'reimbursement' of some kind.
- With these ongoing uncertainties in mind, the ongoing diversification away from the Strait (either through alternate oil routes and/or transition to green energy sources) are likely to continue for the foreseeable future. For example, the UAE has plans to build a new port in the Gulf of Oman to completely bypass the Strait.
- Adding to this streak of malaise has been China's GDP print, falling to 4.3% YoY in Q2-26 below the official growth target of 4.5 – 5%. This data seems divergent from alternate indicators, such as retail sales and industrial production which surprised to the upside in June. This slowdown in GDP growth even amidst higher demand for Chinese green exports underscore the soft underbelly of domestic demand, likely indicating a period of demand slowdown for commodities.
- However, not all global developments have been sombre this week; with the US core CPI figure declining to 2.6% YoY in June (vs expectations of 2.9%), causing the market to pencil in higher chance of a no-hike scenario this year.
- In Indonesia's case, foreign sentiment has been relatively mixed. S&P Dow Jones index provider has recently announced a potential reclassification of Indonesian equities into the frontier market, largely echoing the same

concerns of MSCI. However, on the bonds side S&P had bucked the trend of its competitors, keeping Indonesia's outlook stable due to perceived strong commitment to the 3% deficit rule and the willingness to cut costs if necessary. Unfortunately, this singular endorsement hasn't fully countervailed the bearish trend on the US-IR war reigniting, leading the Rupiah to slide below the 18,000 thresholds once again, after hovering around the 17,900 mark after BI's measures in early June.

A prudential need to borrow more

- We stand to reason that S&P's endorsement of the government's relatively prudent fiscal expenditure are borne out by the data. In the second quarter, the government's fiscal deficit had barely increased ***(see Chart 1)***, a marked departure compared to the heydays Q1-26, resulting in 0.76% deficit-to-GDP amount Year-to-Date. This can be attributed to the relatively high tax revenue during the period (around 13.6% of our Q2-GDP estimate), as well as the spending slowdown of the free lunch program after allegations of corruption from its (former) leaders.

"Higher projected budget deficit and excess financing (SiLPA) could push up government debt issuance at a time of high interest rates"

- Unfortunately, the efficiency measures in H1-26 likely won't result in a decreased full year deficit, with the budget outlook now forecasting a 2.85% deficit-to-GDP for the year ***(see Table 1),*** likely due to the higher fuel subsidy expenditure. On top of this, the legislative assembly has also projected the government's excess financing over the budget deficit (SiLPA) to reach IDR 255 Tn.
- This potential road of higher financing in excess of increased deficit could prove costly, considering the high-interest rate environment Indonesia is currently in. In times of high interest rates, a possible response are to shift issuance from longer-term notes into shorter-term ones, implicitly betting that interest rates would soon fall to allow for cheap refinancing.
- The US treasury has been a recent pursuant of this strategy. For example, during the times of rapidly rising yields throughout 2023, the US Treasury under Janet Yellen have significantly increased the amount of short-term debt issued over longer-term ones, with this approach being repeated by Scott Bessent in 2025 when The Fed was widely believed to be dovish ***(see Chart 2)***.
- However, Indonesia's currently inverted yield curve (mainly due to SRBI) may make this approach unpalatable, since the government would either need to pay a premium to issue these short-term notes, or have BI become the primary buyer, considering its ability to purchase SPNs (discount bonds with less than 1 year maturity) directly from the government. Furthermore, the Indonesian government historically tend to issue few SPNs to reduce interest payment volatility.
- Another compelling alternative would be diversifying the currency through which foreign bonds are denominated. The government itself has shown some tendency to embrace this approach, signified by the upcoming maiden issuance of panda bonds

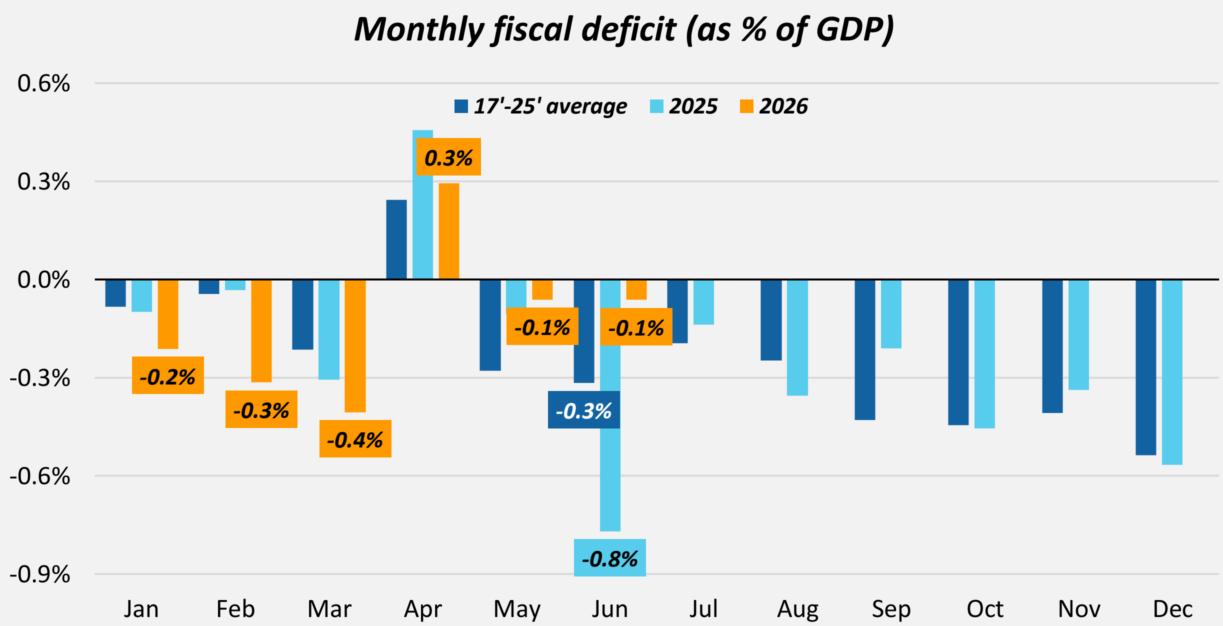
(onshore CNY bonds) to tap into China's abundant domestic savings.

- One of the strongest arguments for this approach are about yield: we can see a sharp divergence between yields for Indonesian bonds in different currencies ***(see Chart 3)***, where JPY and CNH-denominated bonds enjoy significantly lower yield compared to their EUR & USD counterparts. Both currencies also offer attractive qualities for bond sellers, with the Japanese Yen facing some weaknesses lately while the Chinese Yuan are likely to remain undervalued due to China's export-oriented growth approach.
- Another factor favouring this approach is the widening yield differential between Indonesia's domestic (Rupiah-denominated) and foreign currency bonds. Domestic bonds have had a steeper rise in yield in recent times, caused by Rupiah's weaknesses and BI's less active presence in the bond market. Issuing more FX bonds allows the government to capitalize on their relatively lower increase in yield while simultaneously helping to bolster BI's FX reserves.

Chart 1

Prudence in times of caution

The government has undertaken a more fiscally cautious stance in Q2-26, as revenue growth remained robust while spending slowed down compared to prior years.



Source: MoF

Graph 1

In need of cash

Forecasts of a higher deficit and financing in excess of budget deficit (SiLPA) would likely result in increased debt issuance at a time of high interest rates

	2025	2026		
	Audited	APBN	Outlook	Growth (%)
Total Revenue	**2765,1**	**3153,6**	**3208,1**	**16,0%**
Tax revenue	1917,9	2357,7	2310,8	20,5%
Excise & customs	300,3	336	320,6	6,8%
Non-tax revenue	541,5	459,2	575,1	6,2%
Total expense	**3435,5**	**3842,7**	**3942,4**	**14,8%**
Ministry / Institution expenditure	1483,8	1510,5	1630,4	9,9%
Non-Ministry / Institution expenditure	1102,6	1639,2	1615,1	46,5%
Regional transfers	849	693	696,7	-17,9%
Primary Balance	**-155,9**	**-89,7**	**-152,1**	**-2,4%**
Deficit / Surplus	-670,3	-689,1	-734,3	9,5%
% of GDP	**-2,81**	**-2,68**	**-2,85**	**-0,04**

Source: MoF

Chart 2

Shifting when it counts

US Treasury has periodically increased short term issuance of bills when interest rates are expected to go lower, securing lower refinancing rates down the road.

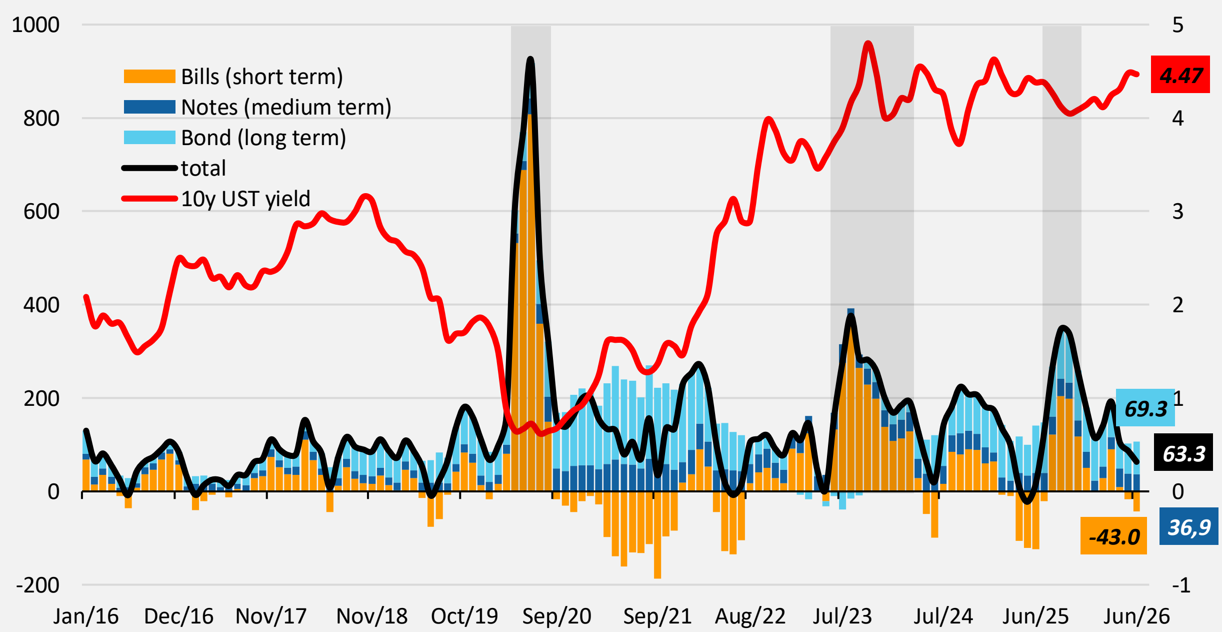
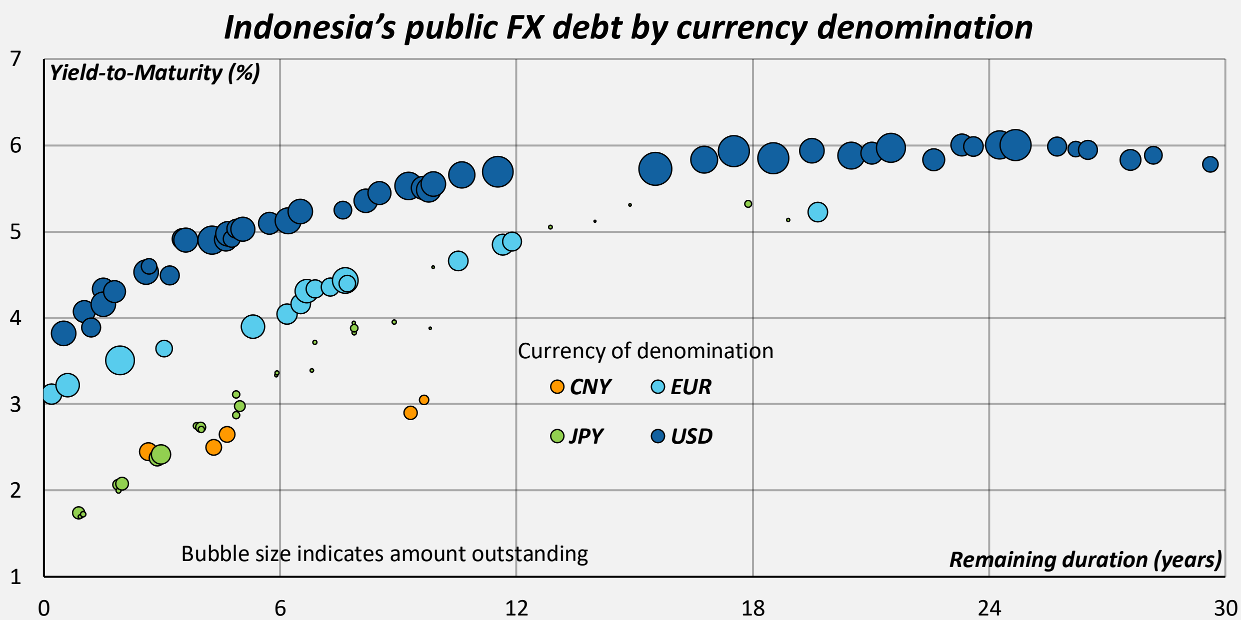


Chart 3

Having a finger in every pie

Diversification of FX bond issuance towards other currencies could reduce Indonesia's payment dependency on the USD while securing lower yields



Source: Bloomberg (13 Jul 26)

Economic Calendar

		Actual	Previous	Forecast*
01 July 2026				
ID	S&P Global Manufacturing PMI	46.9	50.0	50.4
ID	**Trade balance (May-26), USD Bn**	**-1.61**	**0.09**	**4.0**
ID	**Inflation Rate YoY, %**	**3.34**	**3.08**	**3.1**
02 July 2026				
US	Non Farm Payrolls, th	57	129	110.0
06 July 2026				
EA	Retail Sales YoY, %	1.6	0.9	1.4
07 July 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**145.6**	**144.9**	**145**
US	Trade balance (May-26), USD Bn	-77.6	-54.6	-80.0
08 July 2026				
ID	Consumer Confidence	117.8	120.9	125
09 July 2026				
CN	Inflation Rate YoY, %	1	1.2	1.3
ID	Retail Sales YoY, %	-3.9	-3.7	2.0
ID	Motorbike Sales YoY, %	1.1	-5.1	-
10 July 2026				
ID	Car Sales YoY, %	12.0	14.0	-
14 July 2026				
CN	Trade balance, USD Bn	125.62	105.43	110
US	Inflation Rate YoY, %	3.5	4.2	3.9
15 July 2026				
CN	Retail Sales YoY, %	1.0	-0.6	0.2
16 July 2026				
US	Retail Sales YoY, %		6.9	6.7
22 July 2026				
ID	**BI-Rate Decision, %**		**5.75**	**-**
ID	Loan Growth YoY, %		11.51	9.0
23 July 2026				
ID	M2 Money Supply YoY, %		10.8	-
29 July 2026				
ID	**Foreign Direct Investment YoY, %**		**8.5**	**-**
30 July 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
US	PCE Price Index YoY, %		4.1	3.7

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	3.75	Dec-25	0.25
UK	3.75	Dec-25	0.95
EU	2.40	Jun-26	-0.40
Japan	1.00	Jun-26	-0.50
China (lending)	2.00	Sep-24	3.35
Korea	2.50	May-25	-0.70
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.41

Money Mkt Rates	14-Jul	-1 mth	Chg (bps)
SPN (1Y)	7.55	6.99	56.3
SUN (10Y)	7.22	7.36	-14.0
INDONIA (O/N, Rp)	6.07	6.03	4.0
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Apr	Mar	Chg (bps)
Lending (WC)	7.96	8.00	-4.00
Deposit 1M	4.48	4.47	1.00
Savings	0.68	0.67	1.00

Currency/USD	14-Jul	-1 mth	Chg (%)
UK Pound	0.747	0.746	-0.12
Euro	0.876	0.864	-1.28
Japanese Yen	162.3	160.2	-1.24
Chinese RMB	6.772	6.763	-0.13
Indonesia Rupiah	18,092	17,870	-1.23

Capital Mkt	14-Jul	-1 mth	Chg (%)
JCI	6,039.5	6,007.7	0.53
DJIA	52,508.3	51,202.3	2.55
FTSE	10,529.4	10,471.7	0.55
Nikkei 225	67,743.5	66,020.0	2.61
Hang Seng	24,340.7	24,718.1	-1.53

Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Stock	2,573.5	2,820.6	-247.08
Govt. Bond	885.7	863.2	22.43
Corp. Bond	5.7	5.8	-0.09

Trade & Commodities	14-Jul	-1 mth	Chg (%)
Baltic Dry Index	2,980.0	2,729.0	9.2
S&P GSCI Index	662.0	667.2	-0.8
Oil (Brent, $/brl)	84.7	87.3	-3.0
Coal ($/MT)	130.7	143.5	-9.0
Gas ($/MMBtu)	2.81	3.08	-8.8
Gold ($/oz.)	4,052.9	4,219.3	-3.9
Copper ($/MT)	13,595.8	13,645.3	-0.4
Nickel ($/MT)	16,562.3	17,614.4	-6.0
CPO ($/MT)	1,104.2	1,100.6	0.3
Rubber ($/kg)	2.21	2.29	-3.5

External Sector	May	Apr	Chg (%)
Export ($ bn)	23.20	25.30	-8.30
Import ($ bn)	24.81	25.21	-1.59
Trade bal. ($ bn)	-1.61	0.09	-1,907.18
Central bank reserves ($ bn)*	144.9	146.2	-0.89

Prompt Indicators	Jun	May	Apr
Consumer confidence index (CCI)	117.8	120.9	123.0
Car sales (%YoY)	32.9	14.0	55.0
Motorcycle sales (%YoY)	1.1	-5.1	28.1

Manufacturing PMI	Jun	May	Chg (bps)
USA	53.9	55.1	-120
Eurozone	51.4	51.6	-20
Japan	54.8	54.5	30
China	51.7	51.8	-10
Korea	52.1	54.8	-270
Indonesia	46.9	50.0	-310

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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