Borrowing momentum

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas
victor_matindas@bca.co.id

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Summary

- The Rupiah recorded a strong return in the past week, aided by returning inflows to the domestic market, while the global market remains sanguine despite rising oil prices.
- The reversing AI trade appears to have benefited Indonesia, as limited exposure to the sector and cheap valuations present a compelling option for investors to diversify.
- A material improvement in corporate earnings and fiscal outlook will be needed to transform the valuation-driven recovery momentum into a more durable rally.

- The financial market, especially in Indonesia, has been characterised by subdued liquidity and lower trading volumes in recent weeks. This backdrop, however, may soon change as the World Cup concludes and gives way to earnings season. However, before expanding on this argument, it is worth stepping back to assess how some of the overarching macro themes have evolved in recent weeks, and why it has led us to adopt a more cautiously optimistic view.
- The first overarching theme, of course, concerns geopolitics. As we had anticipated, the US-Iran ceasefire agreement proved fragile, with the resumption of hostilities once again disrupting shipping through the Straits of Hormuz, pushing oil prices back above their historical USD 70-80/bl range.
- However, **US financial markets have remained uncharacteristically sanguine despite the resumption of hostilities between the US and Iran** (and the resulting rise in oil prices, ***see Chart 1***). The softer-than-expected US inflation reading for Jun-2026 (3.5% YoY vs. 4.2% YoY in the previous month) may explain this conviction, as it indicates that **US inflation and oil prices may not have much uplift potential beyond the war and security premium**. Indeed, some political analysts have argued that the renewed military conflict is likely to be short-lived, viewing it primarily as a strategic effort to strengthen the US negotiating position.
- Meanwhile, job creation in the US has remained subdued, with non-farm payrolls (NFP) increasing by just 57K last month (from 214K in Mar-2026), scaling back the expectations for another FFR hike in 2026. This second overarching theme – a softer US macro backdrop coupled with increasingly dovish Fed policy expectations – has likely weighed on the US Dollar Index (DXY), which should provide support for emerging market currencies over the past week.

When disadvantages turn into an advantage

- Compared with other emerging market currencies, **the Rupiah appears to have uniquely benefited from these recent developments *(see Chart 2)***. Indeed, the Rupiah delivered its strongest weekly returns since mid-June 2026, surpassed only by the famously volatile South American currency, while most Asian currencies remained largely pinned down. The Rupiah's outperformance is particularly noteworthy given that it had underperformed for much of the year, even as several of its regional peers had, insofar, recorded a positive YTD return against the US Dollar.
- The Rupiah's recent strength extends beyond the overarching themes of heightened geopoli-tical risks and the dovish shift in Fed policy expec-tations, helping to explain why the currency has outperform-med most of its regional peers. One important idiosyncratic factor has been the improving market sentiment following the positive surprise on Indonesia's sovereign credit rating. By avoiding the widely anticipated outlook downgrade, Indonesia appears to have turned a corner in investors' risk perceptions, encou-raging the return of foreign capital to domestic financial markets ***(see Chart 3)***.
- Unfortunately, the lag in SBN data releases makes it difficult to quantify the full impact of this improvement in risk sentiment, while the still-high benchmark yield makes it easy to sidestep the effect. However, the narrowing bid-ask spread points to improving liquidity conditions in the SBN market, a condition that is often associated with stronger participation by foreign investors, which eventually lends support to the Rupiah.
- As illustrated in Chart 3, Indonesia's success in improving the market's risk perception and inviting foreign buy-ins is more palpable in the equities market, which has attracted around USD 95.3 Mn in foreign inflows in the days following the credit rating announcement. However, other factors must be at play in driving foreign inflows back into the Indonesian equities market, given that credit ratings primarily concern the sovereign bond market. Hence, the Indonesian equities market may have benefited from another unique factor, which has allowed the market to end up in the green by the end of last week while its regional peers turned red.

"The reversal in AI trade may have allow the Indonesian market to end up in the green by the end of last week, while its regional peers turned red"

- **Recent developments in the AI sector may have also contributed to this shift**. Reports suggest that some early AI adopters are seeking to moderate their AI-related costs, spelling an end to the "Tokenmaxxing" trend and raising questions about whether AI companies can sustain the exponential revenue growth that investors have come to expect.
- At the same time, the higher rate environment in Q2-2026 has reportedly forced some leveraged AI-focused ETFs and investment vehicles to unwind positions. **The resulting reversal in the AI trade had energised markets across Asia, while markets with limited exposure to the sector, namely Indonesia, are**

benefiting as global investors start to diversify.

- The appeal for Indonesia as an option for diversification is becoming increasingly evident. The Rupiah appears to have stabilised within the current 17,900 – 18,100/USD range, while Bank Indonesia's policy measures (such as the discount on FX swaps) have helped to reduce depreciation risks. Meanwhile, **the prolonged sell-off over the past year has left Indonesian equities trading at fire-sale valuations**, encouraging foreign investors to make another entry to the market, particularly as the valuation gap relative to AI-heavy regional peers has widened to historic levels ***(see Chart 4)***.
- **The key question, however, is whether the Indonesian market can build on this borrowed momentum**. Positioning the domestic market primarily as a cheaper alternative to other Asian markets means that the current rally may have limited room to run, as foreign inflows may soon moderate once the valuation gap narrows. Sustaining the uptrend will therefore require a material improvement in the corporate earnings outlook, allowing the equity market to transition from a valuation-driven recovery rally to a more durable bull market.
- Likewise, a stronger fiscal outlook will be essential to sustain foreign demand for SBN at lower yields, even though Indonesia has managed to avoid a rating downgrade. Notably, the decision to affirm Indonesia's credit rating was predicated on the expectation that the government would succeed in strengthening its revenues, which is essential to bring the interest payment-to-revenue ratio back below the 15% threshold.
- This expectation highlights the urgency for the government to strengthen its revenue base, whether through the implementation of its single-window export mechanism or by investigating potential revenue leakages within the system.

"Positioning the domestic market primarily as a cheaper alternative to other Asian markets means that the current rally may have limited room to run"

Chart 1

Uncharacteristically sanguine

The market swings to a no-hike expectations as the inflation expectations subsided, yet oil prices have been on the rise again as the peace agreement is proven to be short-lived

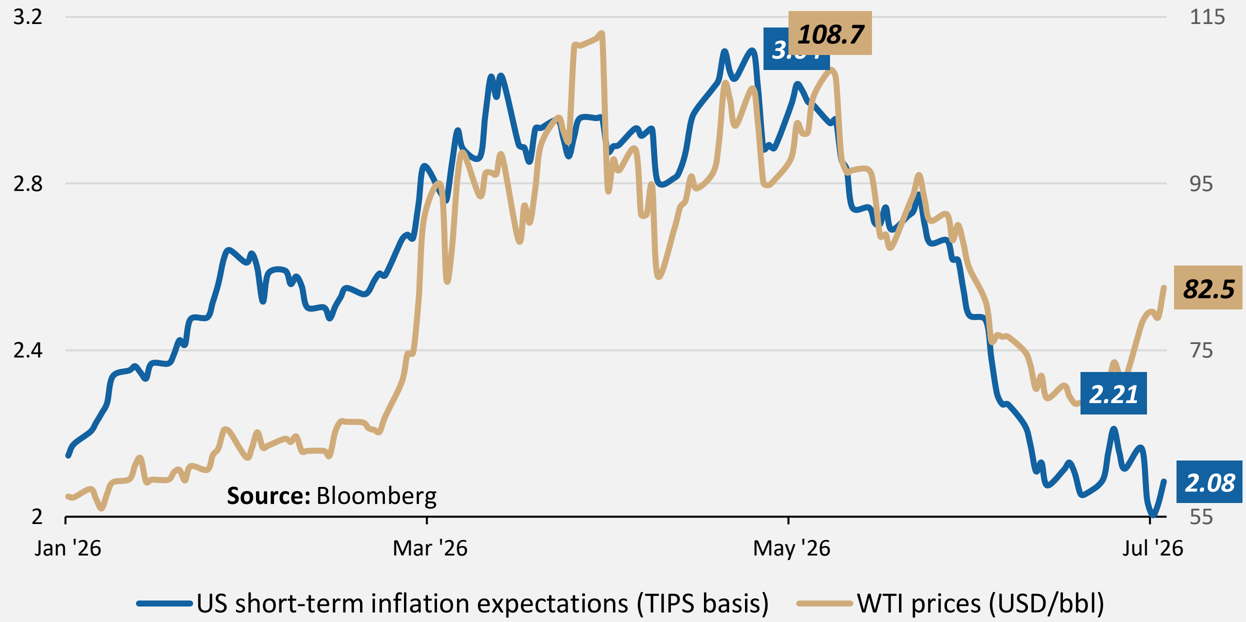


Chart 2

Our turn in the sun

Rupiah assets recover in recent weeks, thanks to the positive shock regarding Indonesia's credit rating and recent development in the AI-exposed Asian markets

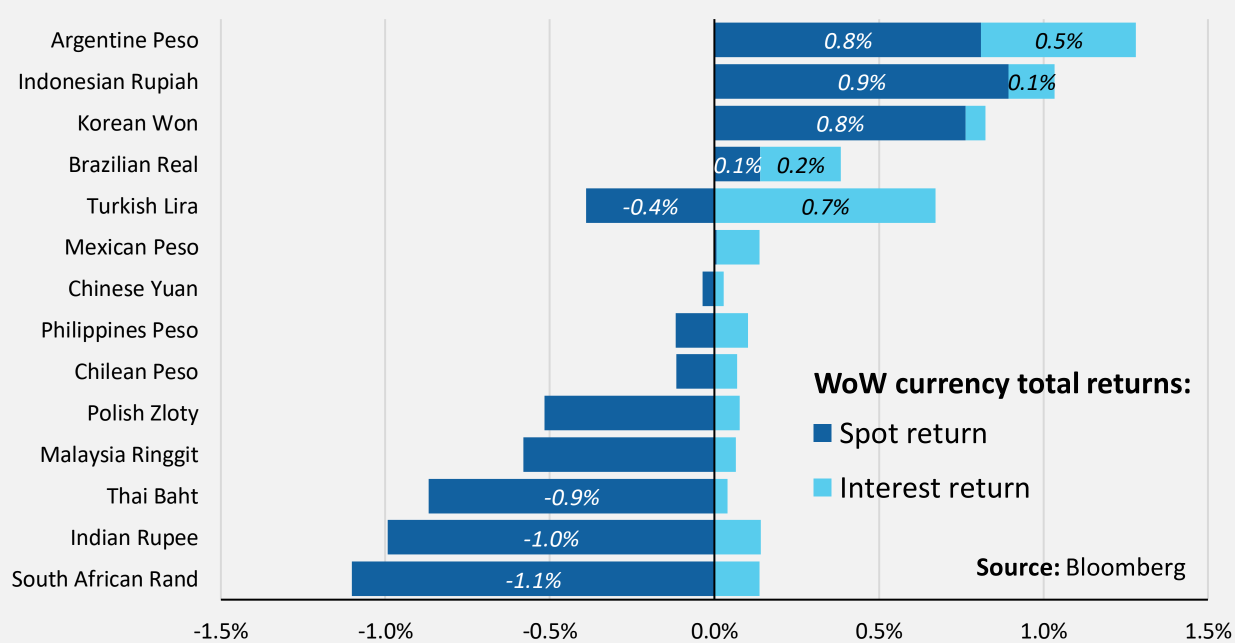


Chart 3

Relieved by external tumults

Higher yields encourage foreign investors to return to the SBN market, while rising volatility in the AI-heavy Asian equities markets may have push inflows to Indonesia.

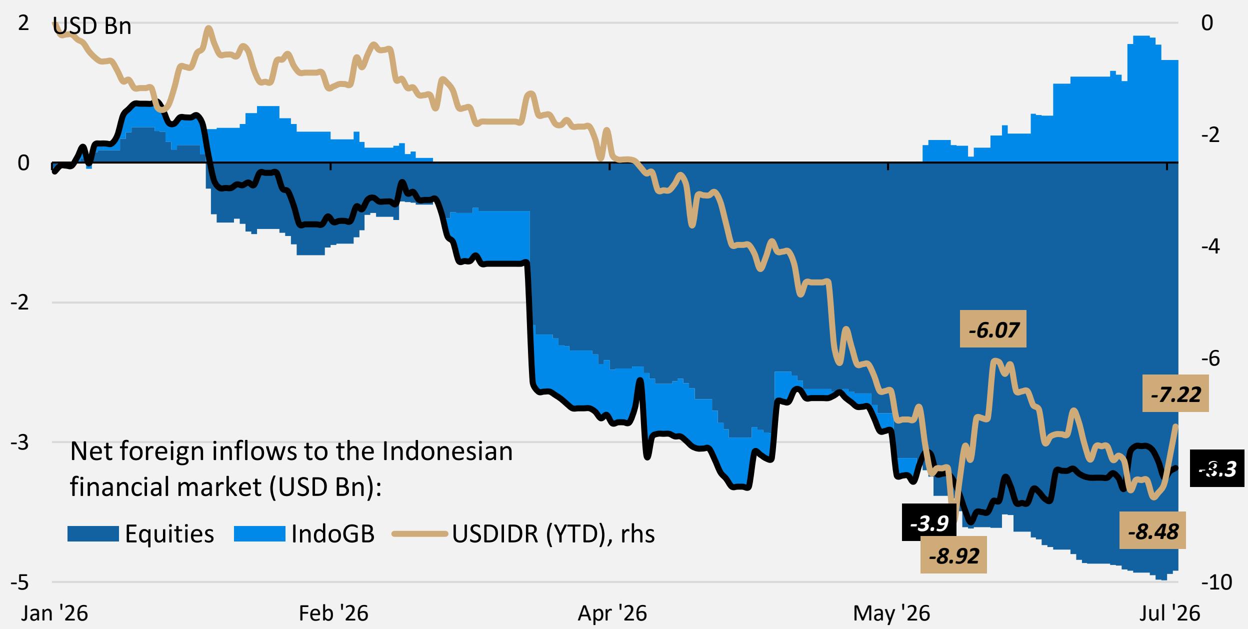
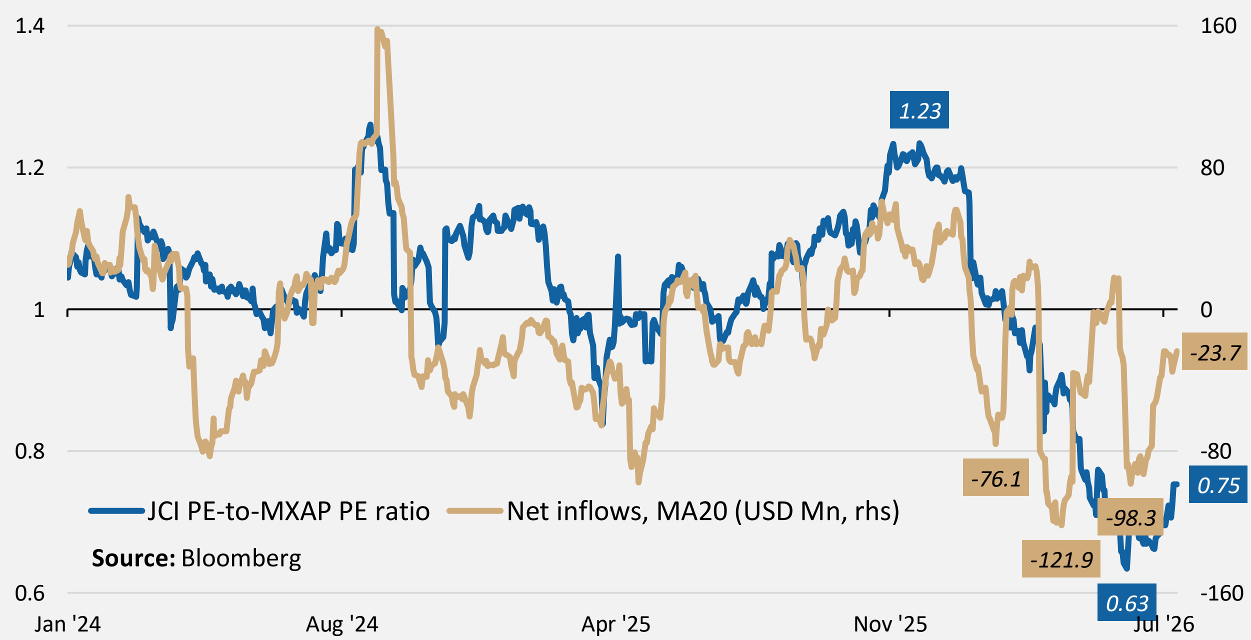


Chart 4

Bargain hunter rarely stays

Relying on cheap valuations to attract investors may not allow the domestic equity market to run far, as foreign investors may head to the exit door once the valuation gap narrows



Source: Bloomberg

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				
ID	**Foreign Direct Investment YoY, %**	**27.4**	**8.5**	**-**
US	Retail Sales YoY, %	6.7	7.3	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	-
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	2.75	Jul-26	-0.45
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.41

Money Mkt Rates	20-Jul	-1 mth	Chg (bps)
SPN (1Y)	6.89	7.06	-17.2
SUN (10Y)	7.26	7.05	20.2
INDONIA (O/N, Rp)	6.15	6.17	-2.0
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	20-Jul	-1 mth	Chg (%)
UK Pound	0.745	0.756	1.50
Euro	0.876	0.872	-0.50
Japanese Yen	162.5	161.3	-0.74
Chinese RMB	6.768	6.768	-0.00
Indonesia Rupiah	17,942	17,790	-0.85

Capital Mkt	20-Jul	-1 mth	Chg (%)
JCI	6,231.8	6,177.1	0.88
DJIA	51,839.3	51,564.7	0.53
FTSE	10,524.8	10,363.3	1.56
Nikkei 225	64,141.1	71,250.1	-9.98
Hang Seng	25,143.1	23,924.8	5.09

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	20-Jul	-1 mth	Chg (%)
Baltic Dry Index	2,671.0	2,722.0	-1.9
S&P GSCI Index	678.7	642.2	5.7
Oil (Brent, $/brl)	89.2	80.6	10.7
Coal ($/MT)	135.6	130.9	3.6
Gas ($/MMBtu)	2.79	3.09	-9.8
Gold ($/oz.)	4,008.0	4,155.7	-3.6
Copper ($/MT)	13,621.2	13,526.6	0.7
Nickel ($/MT)	16,723.7	17,395.0	-3.9
CPO ($/MT)	1,100.8	1,097.5	0.3
Rubber ($/kg)	2.19	2.29	-4.4

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*

BCA Economic & Industry Research

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Victor George Petrus Matindas
Head of Banking Research and Analytics
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Arif Agung Wibowo
Economist / Analyst
arif_agung@bca.co.id
+6221 2358 8000 Ext: -

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Samuel Theophilus Artha
Economist / Analyst
samuel_artha@bca.co.id
+6221 2358 8000 Ext: 1080373

Jennifer Calysta Farrell
Economist / Analyst
jennifer_farrell@bca.co.id
+6221 2358 8000 Ext: 1082423

PT Bank Central Asia Tbk

BCA Economic & Industry Research
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000   Fax : (62-21) 2358-8343