The Focal Point

Racing the frontier

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Summary

- Hawkish expectations now seem inevitable, as the prolonged war has eroded market confidence in the Fed's ability to control inflation, thereby driving up UST yields.
- BI may further inject liquidity to the market, risking Rupiah depreciation, while BI's FX interventions increasingly rely on short-term debt.
- FX interventions come at the cost of net reserves, while recovery of the reserve ultimately hinges on current account improvement.

- The volatility in the US bond market continued to intensify in the past week, with 10-year UST yield had breached the 5% ‘psychological threshold’. Bessent's recent $5.2 billion UST buyback failed to reassure investors, contributing to further sell-offs in long-dated bonds. However, the Treasurer seems to remain defiant on this approach, dismissing traders as 'Bloomberg Terminal bros' and rejecting the premise that heightened US risk premia are the primary drivers of rising yields.
- To be fair, the (expected) inflation picture does explain some of the rise. Saudi Arabia had closed its East-West pipeline due to continuous strikes, reducing up to 7Mn barrels of oil supply daily from the global oil market. Worryingly, Trump seems to have accepted that the conflict would persist past the midterms, breaking a key assumption of ‘oil doves’ that predict a quicker resolution. Instead of tampering down on oil prices, the President have opted to woo the American public by promising a $5,000 check if GOP won the midterms, though the political willingness of Congress to enact this policy remains in question.
- However, the direct price of oil isn’t the sole driver global inflation. China’s August PPI figure has soared to 3.8% YoY due to the ongoing oil crisis, providing an alternate source of inflationary pressures. This PPI figure could raise further, as we have seen an increase in Shanghai oil prices above Brent recently, signalling increased Chinese demand ***(see Chart 1)***.
- These bouts of inflationary pressure have put further pressure on The Fed, with the market now forecasting two hikes in 2026. Interestingly, these hawkish expectations have not been followed by a commensurate strengthening of the greenback, with the DXY still weakening MtD ***(see Chart 2)***. There are a few possible reasons for this divergence. One, investors may have reduced confidence in the Federal Reserve’s ability to maintain 2% inflation, and this higher inflation expectations have pushed up nominal yields. Two, the hawkish outlook for the BoJ have led to continuous unwinding of the yen carry trade, some of which are financing the US Treasury market.

Still in an all-out manoeuvre

- Amidst the higher-for-longer expectations and higher oil prices, the government has promised to keep subsidized fuel prices stable, prioritizing national growth at the cost of greater 'mandatory' fiscal spending. However, this time the government opted to increase non-tax revenue and/or claw back the funds it had given, compared to earlier in the year where it mainly cut spending by downsizing the budget and scope of its priority programs.
- Rerouting funds from Danantara and regional governments seems to be the lynchpin of this strategy. Danantara was ordered to give out IDR 120 Tn in dividends to the government, in contrast to last year when the SWF was told to reinvest its net income. Unfortunately, this risks disrupting the investment arm of the SWF. Danantara itself has frequently borrowed in domestic & foreign capital markets, indicating some need to pad out its own cashflow.
- Additionally, Purbaya instructed that idle regional government funds, totalling IDR 100 Tn and held in regional banks, be returned to the central government. This risks slowing down the performance of regional banks, whose third-party funds have already declined due to the substantial cuts to regional transfers this year. However, with Suahasil's surprise promotion on Monday, it is still unknown whether these measures will be enacted or if the government would pursue more conventional means.
- Considering the factors above, BI may inject liquidity to the financial markets further, to alleviate the liquidity crunch experienced by these institutions. However, such actions usually entail further Rupiah depreciation, as the downward pressure on Indonesian yields coupled with rising yields in developed nations may induce foreign capital flight.
- Unfortunately, it's still unknown to what extent BI can repeat the massive intervention throughout Q2-26. While overall FX reserves don't change much during Q2-26, there has been a significant increase in short term debt to finance FX interventions ***(see Chart 3)***. Excessive reliance on portfolio inflows to buttress Rupiah would also weaken it in the long term, due to the ever-increasing outflows from the Income Account.
- Furthermore, we have also seen a substantial increase in FX SBN issuance lately ***(see Chart 4)***, with the government securing a substantial tranche (CNY 30 Bn) of Panda bonds available to issue over the next few years. Unlike loans whose funding are mostly tied to projects, FX bonds provide more flexibility regarding spending allocations, but are usually issued with a lower duration, thus providing more volatility regarding interest payments. With this in mind, BI may opt to constrain its own 'FX hunting' scheme to balance Indonesia's aggregate FX risk.
- Ultimately, however, recovery in Indonesia's "net reserves" are ultimately predicated upon improvement in its Current Account. With the US-IR conflict still ongoing and subsidized fuel prices fixed, the government would need to increase its own exports performance as well as reducing imports where available. Fortunately, the government has launched some initiatives to reduce this in the longer term, such as the recent B50 requirement as well as the 2027 plan to construct a national electric vehicles company.

Chart 1

Going back to the market

Shanghai Crude has consistently traded at a discount to Brent during the war, attributed to lower import volumes. However, recent price appreciation indicates renewed purchases from China.

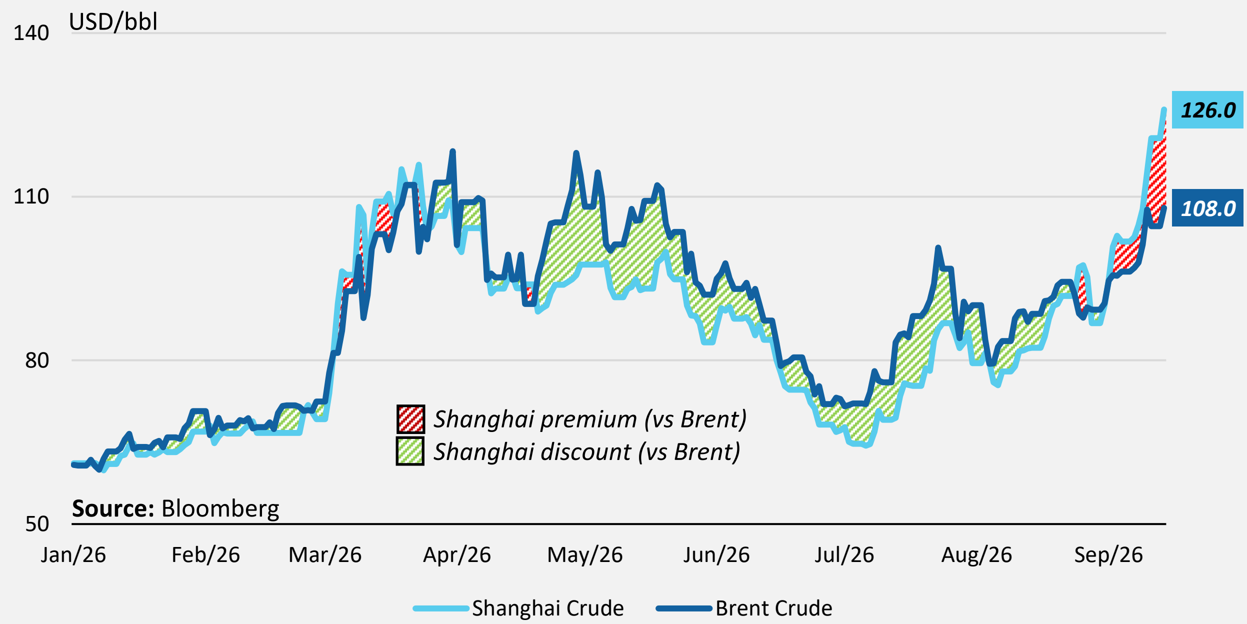


Chart 2

No longer top dog?

Despite recent DXY strengthening and a substantial increase in yields, DXY remained weak on a YTD basis, indicating continued foreign outflows from the UST market.

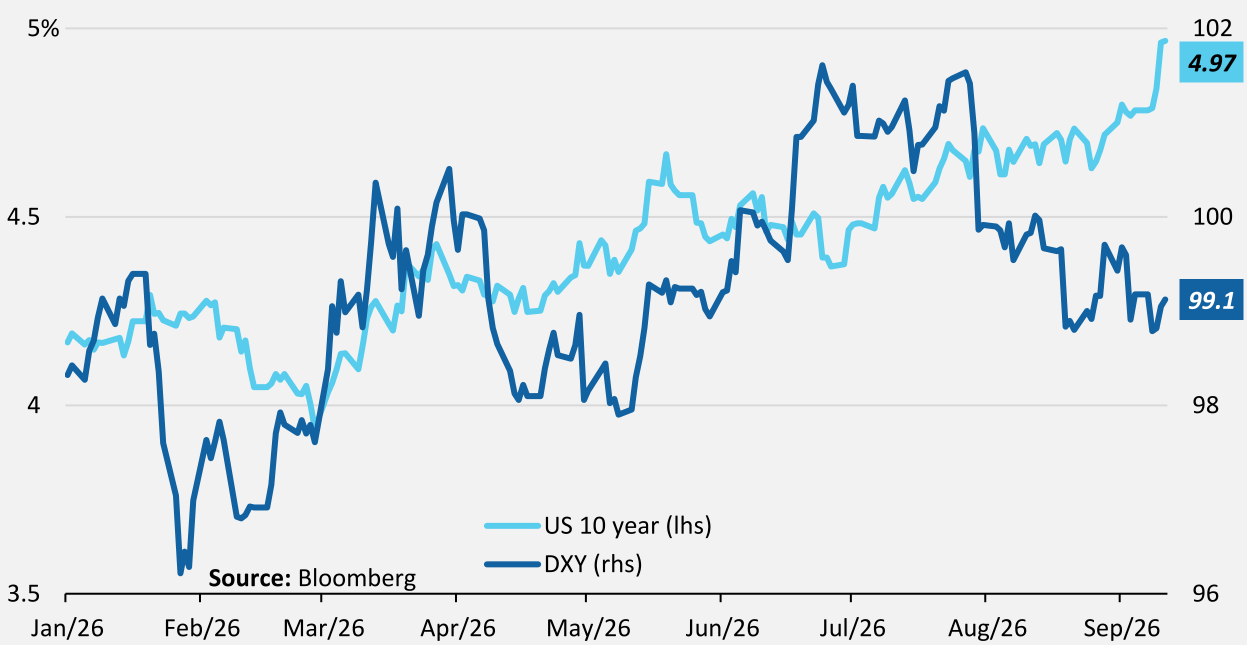
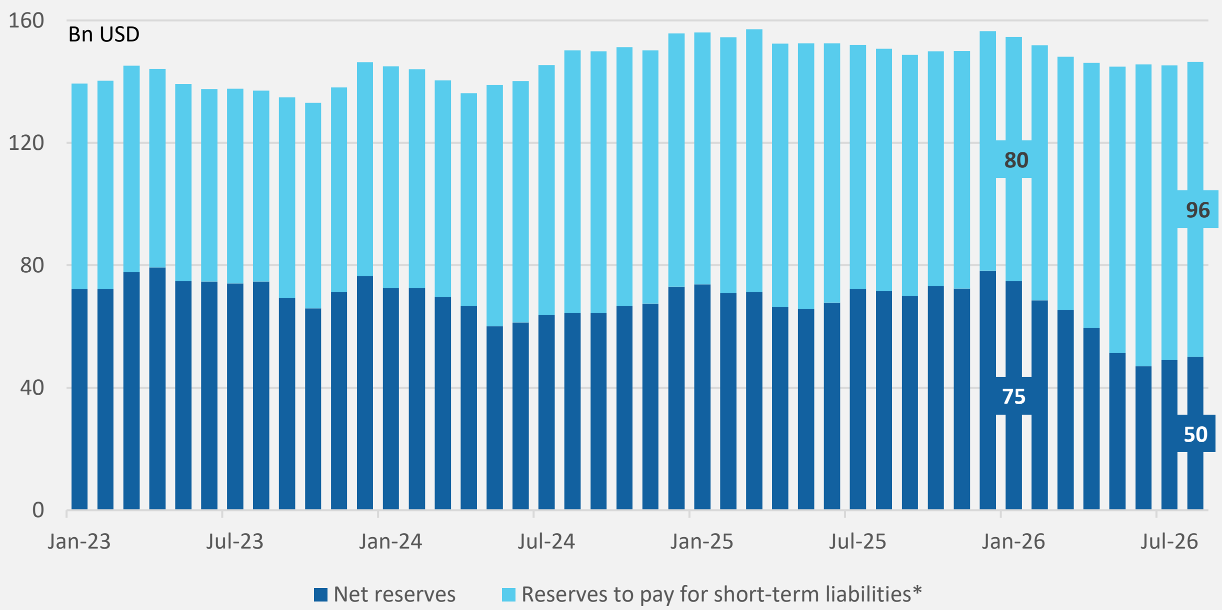


Chart 3

Hollow reserves

While Indonesia's foreign reserves present a strong figure, yet this is largely due to increasing short-term debt, with its actual net reserves having depleted since early 2026.

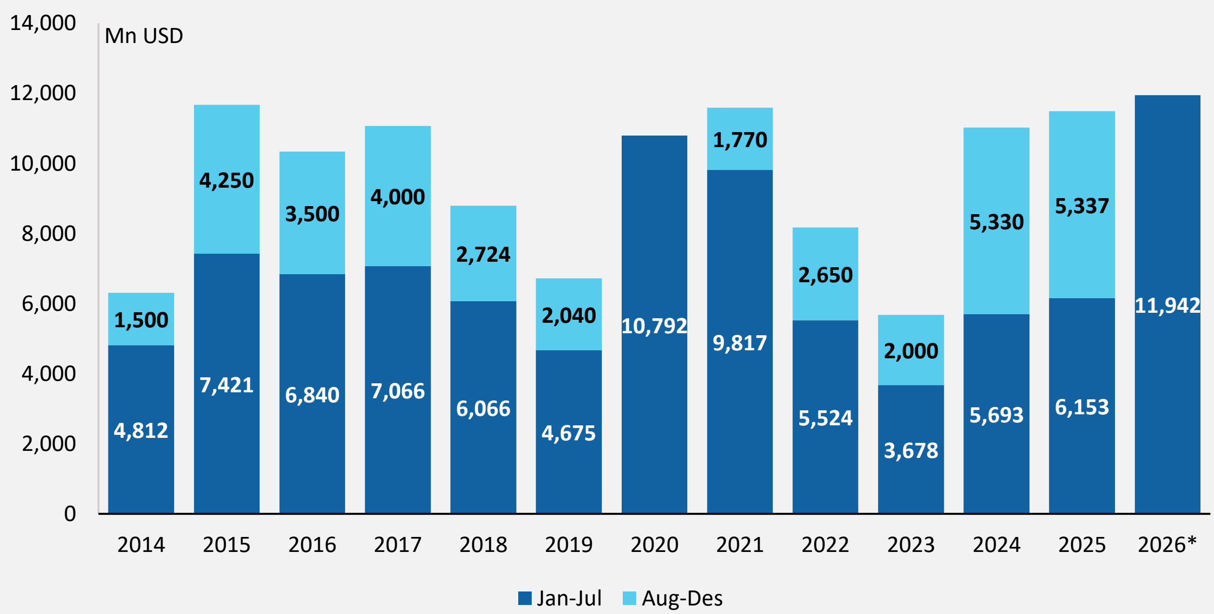


Source: BI (SULNI)

Chart 3

FX debt surge

Indonesia FX debt issuance had reached its highest in the past decade and are expected to grow further in the second half.



Economic Calendar

		Actual	Previous	Forecast*
01 September 2026				
ID	S&P Global Manufacturing PMI	49.8	50.2	50.5
ID	**Trade balance (Aug-26), USD Bn**	**0.13**	**-0.45**	**-0.3**
ID	**Inflation Rate YoY, %**	**3.19**	**2.88**	**3.2**
US	S&P Global Manufacturing PMI	53.9	53.9	53.2
03 September 2026				
US	Trade balance (Jul-26), USD Bn	-88.6	-71.2	-91.2
04 September 2026				
EA	Retail Sales YoY, %	0.6	1.4	0.9
US	Non Farm Payrolls, th	162	21	42.0
07 September 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**146.5**	**145.3**	**-**
08 September 2026				
CN	Trade balance, USD Bn	119.1	112.5	120.0
09 September 2026				
ID	Car Sales YoY, %	32.4	33.3	-
ID	Motorbike Sales YoY, %	3.18	8.3	-
CN	Inflation Rate YoY, %	0.8	0.5	0.7
ID	Consumer Confidence	118.5	116.8	117
10 September 2026				
ID	Retail Sales YoY, %	1.1	-3	-3.3
11 September 2026				
US	Inflation Rate YoY, %	3.4	3.4	3.4
15 September 2026				
CN	Retail Sales YoY, %	0.4	0.6	1.0
16 September 2026				
US	Retail Sales YoY, %		5	-
17 September 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**4**
23 September 2026				
ID	**BI-Rate Decision, %**		**5.75**	**5.75**
ID	Loan Growth YoY, %		13.58	-
24 September 2026				
ID	M2 Money Supply YoY, %		8.3	-
30 September 2026				
US	PCE Price Index YoY, %		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	0.35
UK	3.75	Dec-25	0.65
EU	2.65	Jun-26	-0.65
Japan	1.00	Jun-26	-0.90
China (lending)	2.00	Sep-24	3.55
Korea	3.00	Aug-26	-0.10
India	5.25	Dec-25	0.43
Indonesia	5.75	Jun-26	2.56

Money Mkt Rates	15-Sep	-1 mth	Chg (bps)
SPN (1Y)	6.74	7.15	-41.1
SUN (10Y)	7.16	7.11	4.5
INDONIA (O/N, Rp)	5.69	6.12	-43.9
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.07	7.95	12.00
Deposit 1M	4.96	4.52	44.00
Savings	0.68	0.68	0.00

Currency/USD	15-Sep	-1 mth	Chg (%)
UK Pound	0.742	0.739	-0.44
Euro	0.866	0.864	-0.22
Japanese Yen	155.1	159.3	2.72
Chinese RMB	6.712	6.743	0.46
Indonesia Rupiah	17,691	17,825	0.76

Capital Mkt	15-Sep	-1 mth	Chg (%)
JCI	6,461.2	6,401.9	0.93
DJIA	52,093.1	53,732.4	-3.05
FTSE	10,658.1	10,750.1	-0.86
Nikkei 225	63,484.1	68,713.8	-7.61
Hang Seng	24,667.2	25,116.9	-1.79

Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)
Stock	2,949.5	2,805.0	144.49
Govt. Bond	907.8	892.4	15.35
Corp. Bond	4.8	5.6	-0.74

Trade & Commodities	15-Sep	-1 mth	Chg (%)
Baltic Dry Index	3,360.0	2,863.0	17.4
S&P GSCI Index	765.2	686.4	11.5
Oil (Brent, $/brl)	108.8	88.5	22.9
Coal ($/MT)	146.4	136.1	7.6
Gas ($/MMBtu)	2.87	2.79	2.9
Gold ($/oz.)	4,292.2	4,376.4	-1.9
Copper ($/MT)	14,021.0	14,576.3	-3.8
Nickel ($/MT)	15,817.4	16,617.3	-4.8
CPO ($/MT)	1,131.3	1,107.5	2.2
Rubber ($/kg)	2.37	2.22	6.8

External Sector	Jul	Jun	Chg (%)
Export ($ bn)	26.22	25.46	2.98
Import ($ bn)	26.09	25.91	0.72
Trade bal. ($ bn)	0.12	-0.45	-127.06
Central bank reserves ($ bn)*	145.3	145.6	-0.17

Prompt Indicators	Aug	Jul	Jun
Consumer confidence index (CCI)	118.5	116.8	117.8
Car sales (%YoY)	32.4	33.3	33.0
Motorcycle sales (%YoY)	3.2	8.3	1.1

Manufacturing PMI	Aug	Jul	Chg (bps)
USA	53.9	53.9	0
Eurozone	52.7	51.9	80
Japan	54.9	54.5	40
China	51.5	50.9	60
Korea	52.3	53.1	-80
Indonesia	49.8	50.2	-40

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	5.3
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.1
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5126
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.2
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	7.31
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,621
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,238
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2

Notes:

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

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