

Summertime cut short

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Summary

- The US government made good on its promise to impose higher import tariffs on Canada, Mexico, and China as soon as January ended, bringing volatility back to the financial markets.
- Anticipation of higher import duties had led to a surge in US imports, fueling manufacturing expansion in consumer goods-producing economies, including Indonesia. However, this trend may prove untenable as the now-higher tariffs could indirectly impact Indonesia.
- Allowing currencies to depreciate may remain the least disruptive solution to mitigating the threat of higher US tariffs, meaning that maintaining a weaker Rupiah may be necessary to preserve domestic manufacturers' access to the US market.

- We recently noted the relatively sanguine global financial conditions following last week's FOMC meeting, when both the USD index (DXY) and UST yields retreated despite the hawkish tilt in the Fed's policy signals. Indeed, notwithstanding the short trading week, the Indonesian financial market appears to be relatively calm in the past week, with the 10Y UST yield hovering around 6.78-6.84% while the Rupiah stayed at around 16,300/USD.

Manufacturing good times, even just for a while

- The higher import tariff under the Trump presidency should not have been something to be surprised about. While Trump's focus on immigration and border issues during his inauguration speech may have calmed the market, he did warn that executive orders on

- However, developments earlier today may have upended that narrative. True to his threat, US President Trump imposed tariffs of up to 25% on imports from Canada and Mexico (also 10% on imports from China and energy imports from Canada), sending the DXY 1.36% higher to 109.85 in a single day (per the time of writing). What results, then, is renewed pressure on Indonesia and other financial markets, with the Rupiah opening at 16,448/USD today, while the benchmark 10Y SBN yield is climbing closer to 7.00%.

higher import tariffs could be signed within the first 10 days of his administration.

- However, while the market seemed to be oblivious to tariff threats, US importers seem to be more consistent with their expectation of higher import duties. US imports from tariff-threatened countries rise in Q4-2024, with

imports from China, Mexico, and Canada leading the pack (*see Chart 1*). The higher import demand in the US to front-run the incoming tariff hike seems to correspond with the expanding manufacturing activities in exporting economies, although the growth appears to be more limited to consumer goods-producing manufacturing centres (such as China, Mexico, and Indonesia) rather than capital goods-producing manufacturing centres (such as South Korea and Germany).

- While Indonesia did not benefit much from industrial relocations (that would be countries like Vietnam or India), the economy did benefit from the surge in US import demands prior to the highly expected Trump tariffs, as

“Rather than confronting the US, de-escalating the tariff war while allowing the currency to depreciate may yield less damage to tariff-threatened countries’ growth potential”

- highlighted by the expanding manufacturing PMI in Q4-2024. Together with factors such as higher social spending realisation, the US import-driven expansion in manufacturing activities might have played a role in the recovery in domestic consumption currently observed in Indonesia (see Chart 2). The economy is currently facing an uneasy reality with industrial stagnation, with export demand from American customers instrumental in keeping export demand for Indonesian manufactured goods afloat (especially for electronics and other consumer goods, see our previous [reports](#)).
- The higher consumer demand resulting from the expanding manufacturing sector could be further boosted by the upcoming Ramadan period when Indonesian household demand traditionally peaks. Alas, whether the

newfound strength in household consumption will last beyond the festive periods remains uncertain. The seasonality of Indonesia’s consumption-driven economic growth engine is well known, thus, with the Ramadan period now falling squarely in Q1, it is not yet clear what catalysts that may drive household consumption forward in the following periods.

- Meanwhile, the trickle-down effect from the now-expanding manufacturing sector to the household sector may also not be counted on to continue indefinitely.

While Indonesia is not at the centre of President Trump’s trade rhetoric, how China responds to the higher US import duties may translate negatively to Indonesian manufacturers. Most analysts expect China to

allow their currencies to depreciate further to circumvent the recently announced higher import tariffs (see Chart 3), making made-in-China goods competitive not only in the US but also in Indonesia and elsewhere.

- Indeed, Chinese authorities seem to be taking a peculiar strategy to limit the damage from the most recent mercantilist shift in the US trade policies. Rather than the confrontative and zero-sum responses delivered by Canadian and Mexican authorities, the Chinese response to the higher tariff seems to be more muted, as Chinese trade officials “simply” denounced Trump’s decision to impose the 10% across-the-board tariff on Chinese goods, while also making sure that the door remains open for the US to avoid further tariffs.
- In contrast, the Canadian government wasted no time in launching its retaliatory tariff,

slapping a 25% tariff on imports from the US, a move soon to be followed by their southernmost USMCA partner. As illustrated in Chart 3, these two strategies did not appear to influence the financial market much in the short term, as currencies of the trio of tariff-impacted countries all suffered from substantial depreciation following the announcement of the higher US import duties. How each economy reacted to the higher import tariffs, however, may matter in the medium-to-long term.

- In contrast with China’s “deescalate-but-depreciate” strategy to maintain access to the US market, adopting a Canadian-style retaliatory tariff on US exports may escalate the trade feud, providing the US government with justification for further tariff hikes. This presents a no-win situation for America’s trade adversaries, potentially resulting in an asymmetrical loss of growth potential vis-à-vis the US, given the unrivalled size of the US economy and its highly diversified trade relationships.
- Alas, a government’s ability to execute the “deescalate-but-depreciate” strategy may be restricted by its domestic political condition. For instance, the Canadian and Mexican governments may have little choice but to respond more strongly to the US’ mercantilist threats, as a geopolitically timid government may carry less support from the electorate. Meanwhile, the Chinese government has famously embraced the concept of Taoguang Yanghui (hide your strength, bide your time), with its more stable domestic politics allowing

“Despite its many benefits, BRICS membership may unwittingly drag Indonesia to the ongoing tariff war”

it to avoid an overly confrontational response to adverse geopolitical developments. Moreover, China’s less consumer-driven society means that Chinese consumers may be less sensitive to a weakening currency, unlike other, more consumer-driven economies such as Mexico, Canada, and even, Indonesia.

- There are no signs, of course, that Indonesia is at the centre of Trump’s crusade to rebalance the US trade deficit. However, the country’s BRICS membership may be reason enough for Trump to set his crosshairs on Indonesia—if not deliberately, then unwittingly—by imposing higher tariffs on BRICS as a whole. It is crucial, then, for Indonesian policymakers to start strategising a way out of Trump’s tariffs (negotiating a trade deal remains one of the clearest solutions). If that is not possible, efforts should focus on limiting the damage tariffs may inflict on export demand for Indonesian manufactured goods.
- Alas, the Indonesian government (or any other government) does not seem to have a solid “break-the-glass-in-case-of-tariff” solution should the US choose to put the country on its bad list of exporters. Like Canada, Indonesia lacks the economic heft to counter US tariffs pound-for-pound. Replacing the US market with a single or even regional markets would be a daunting task for Indonesian manufacturers, given the highly diversified nature of American consumer demand. Allowing the Rupiah to gradually depreciate, then, may remain the best option for local manufacturers to maintain export orders—though the pill may be too bitter to swallow.

Chart 1

Front-loading while the tariff is still loading

Most industrial economies experienced an improvement in their domestic manufacturing activities in Q4-2024, coinciding with higher import demand from the US.

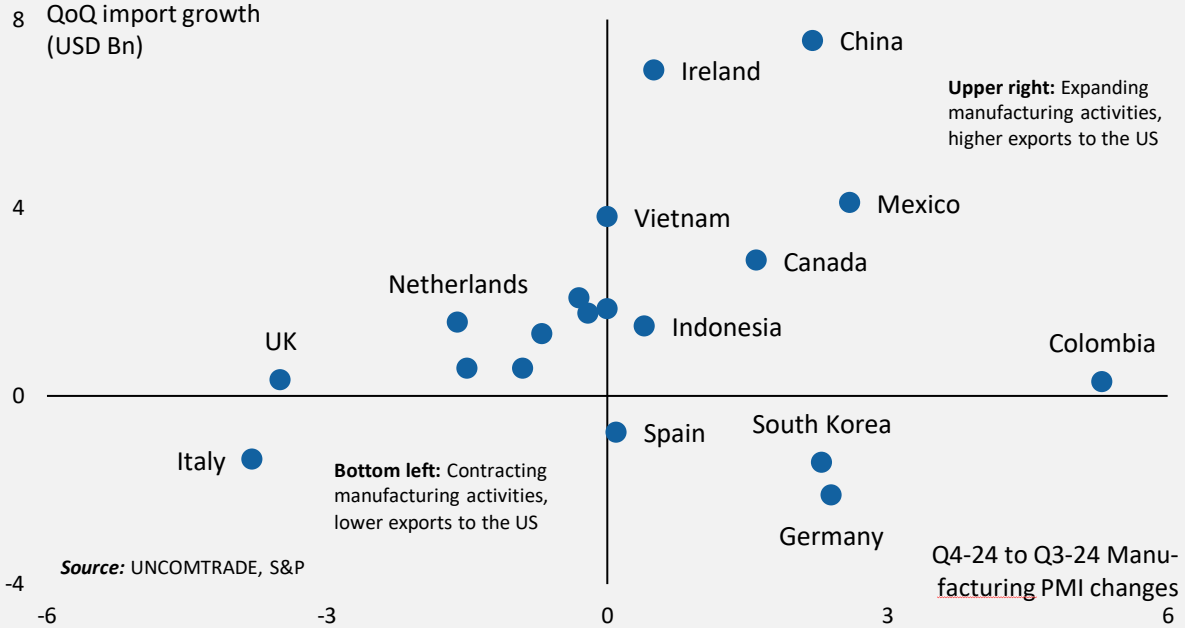


Chart 2

Good times never last

Expanding manufacturing activities and seasonal events may allow household consumption to surge higher in Q1-2025, but the trend remains season-driven and temporary

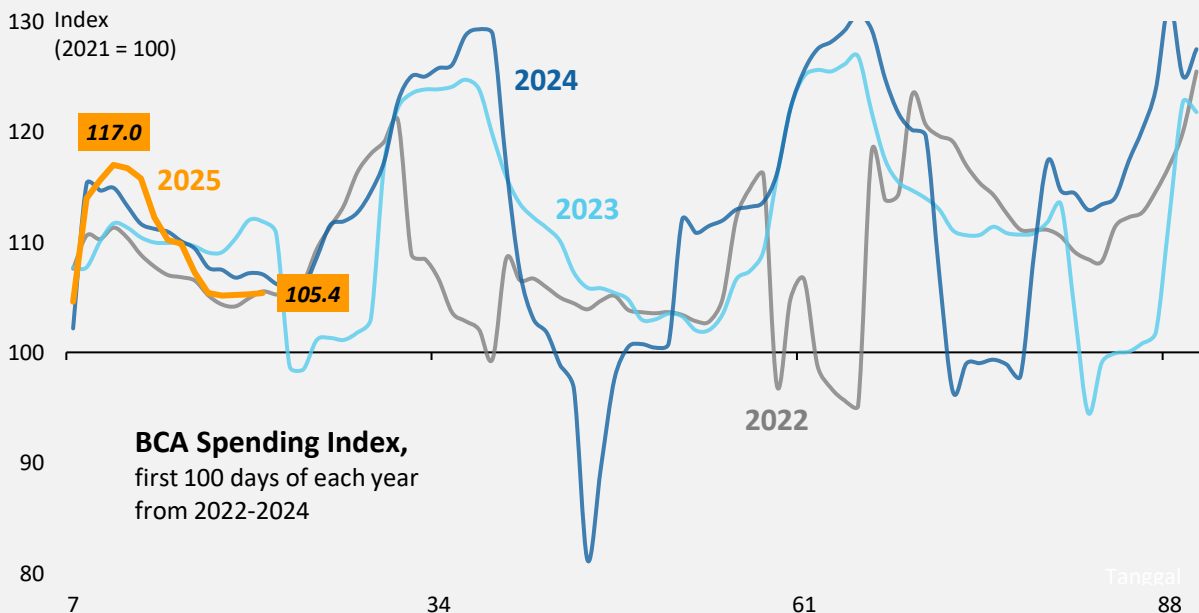
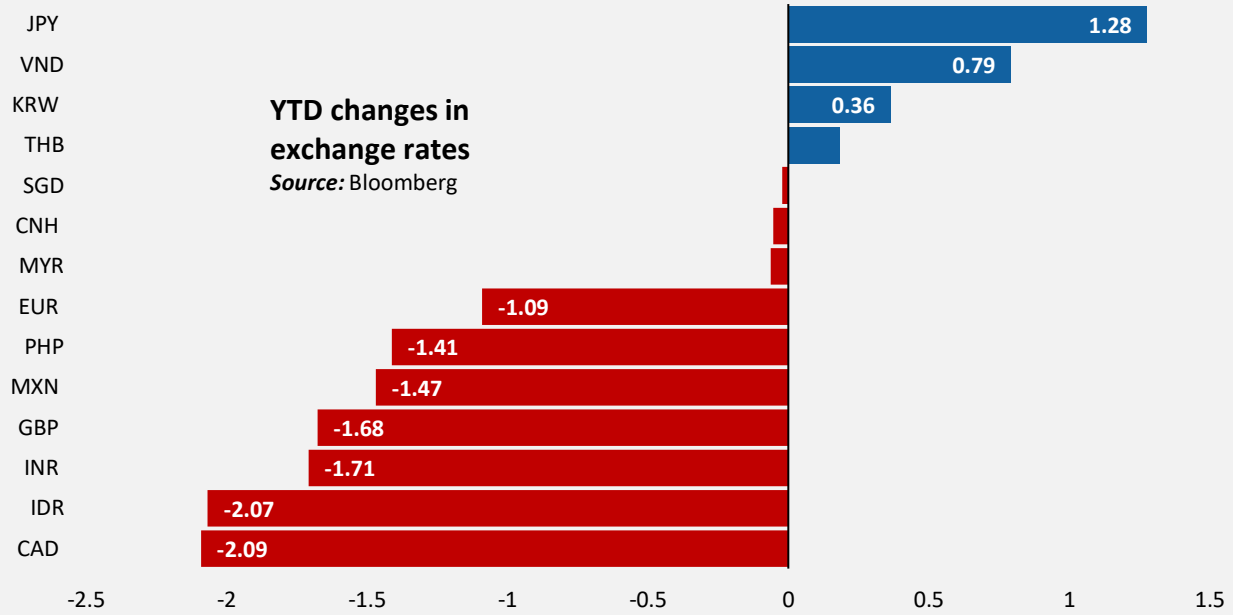


Chart 3

Ducking low to avoid the tariff

The weakening Rupiah should not sound much alarm as depreciating currencies remain the most fool-proof way to limit the damaging impact of higher US import duties



Economic Calendar				
		Actual	Previous	Forecast*
03 February 2025				
ID	S&P Global Manufacturing PMI	51.9	51.2	51.6
ID	Inflation Rate YoY, %	0.76	1.57	1.7
ID	Tourist Arrivals YoY, %	8.72	17.27	18.0
US	S&P Global Manufacturing PMI		49.4	50.1
05 February 2025				
ID	GDP Growth Rate YoY, %		4.95	5.2
US	Balance of Trade, USD Bn		-78.2	-93.0
06 February 2025				
EA	Retail Sales YoY, %		1.2	1.7
07 February 2025				
ID	Foreign Exchange Reserves, USD Bn		155.7	-
US	Non-Farm Payrolls, th		256	205
09 February 2025				
CN	Inflation Rate YoY, %		0.1	0.0
10 February 2025				
ID	Motorbike Sales YoY, %		-5.5	-
11 February 2025				
ID	Consumer Confidence		127.7	-
12 February 2025				
ID	Retail Sales YoY, %		0.9	3.7
US	Inflation Rate YoY, %		2.9	-
13 February 2025				
ID	Car Sales YoY, %		-6.4	-
14 February 2025				
US	Retail Sales YoY, %		3.9	-
17 February 2025				
ID	Balance of Trade, USD Bn		2.24	-
19 February 2025				
ID	Interest Rate Decision, %		5.75	-
20 February 2025				
ID	M2 Money Supply YoY, %		4.4	-
21 February 2025				
ID	Loan Growth YoY, %		10.39	-
28 February 2025				
US	PCE Price Index YoY, %		2.6	-

*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 (%)	Trade & Commodities	31-Jan	-1 mth	Chg (%)
US	4.50	Dec-24	1.60	Baltic Dry Index	735.0	997.0	-26.3
UK	4.75	Nov-24	2.25	S&P GSCI Index	561.9	549.6	2.2
EU	2.90	Jan-25	0.50	Oil (Brent, \$/brl)	76.8	74.6	2.8
Japan	0.50	Jan-25	-3.70	Coal (\$/MT)	121.9	129.1	-5.6
China (lending)	2.00	Sep-24	4.25	Gas (\$/MMBtu)	2.92	3.40	-14.1
Korea	3.00	Nov-24	1.10	Gold (\$/oz.)	2,798.4	2,624.5	6.6
India	6.50	Feb-23	1.28	Copper (\$/MT)	8,928.5	8,652.7	3.2
Indonesia	5.75	Jan-25	4.99	Nickel (\$/MT)	15,003.1	15,111.0	-0.7
Money Mkt Rates	31-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	1,032.0	1,099.9	-6.2
				Rubber (\$/kg)	1.98	1.99	-0.5
SPN (1Y)	6.67	6.73	-5.7	External Sector	Dec	Nov	Chg (%)
SUN (10Y)	6.97	6.97	0.4				
INDONIA (O/N, Rp)	5.83	6.18	-34.8	Export (\$ bn)	23.46	24.00	-2.24
JIBOR 1M (Rp)	6.40	6.62	-22.8	Import (\$ bn)	21.22	19.63	8.10
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Trade bal. (\$ bn)	2.24	4.37	-48.73
Lending (WC)	8.68	8.72	-3.69	Central bank reserves (\$ bn)*	155.7	150.2	3.65
Deposit 1M	4.78	4.78	-0.49	Prompt Indicators	Dec	Nov	Oct
Savings	0.67	0.66	0.37				
Currency/USD	31-Jan	-1 mth	Chg (%)	Consumer confidence index (CCI)	127.7	125.9	121.1
UK Pound	0.807	0.799	-0.97	Car sales (%YoY)	-6.4	-11.9	-3.9
Euro	0.965	0.966	0.08	Motorcycle sales (%YoY)	-5.5	-10.3	5.4
Japanese Yen	155.2	157.2	1.30	Manufacturing PMI	Jan	Dec	Chg (bps)
Chinese RMB	7.245	7.299	0.76				
Indonesia Rupiah	16,300	16,102	-1.21	USA	50.1	49.4	70
Capital Mkt	31-Jan	-1 mth	Chg (%)	Eurozone	46.1	45.1	100
JCI	7,109.2	7,079.9	0.41	Japan	48.7	49.6	-90
DJIA	44,544.7	42,544.2	4.70	China	50.1	50.5	-40
FTSE	8,674.0	8,173.0	6.13	Korea	50.3	49.0	130
Nikkei 225	39,572.5	39,894.5	-0.81	Indonesia	51.9	51.2	70
Hang Seng	20,225.1	20,060.0	0.82				
Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)				
Stock	3,531.1	3,521.3	9.76				
Govt. Bond	881.3	876.6	4.65				
Corp. Bond	6.0	5.9	0.10				

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

	2019	2020	2021	2022	2023	2024E	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	5.9	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4975	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6 [#]	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00 [#]	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97 [#]	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102 [#]	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0 [#]	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections

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