Finding succour in the (debt) ceiling

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Summary

- Long-term interest rates in the US are declining again while short-term rates rise, as the recent QRA signals the US government's decision to maintain short duration in the UST market for the upcoming quarters.
- The ongoing debt ceiling debate adds more clarity to the market, as the US government is in no rush to lift the debt ceiling, thanks to its ample TGA balance.
- The stabilising UST market has had a positive spillover effect on the SBN market, which does not appear to suffer from repricing amidst the barrage of negative news on the Indonesian economy.

- The heart is a fickle thing, and so are US policies and the US financial market. The first salvo of President Trump's trade war against Canada and Mexico lasted only 24 hours, as the USMCA trio agreed to freeze the already announced tariffs for a month (although the tariffs on China remain). The market, seemingly blinded by its naiveté just days ago, is now celebrated as an oracle that sniffed out President Trump's tariff pragmatism. The S&P 500 then went on a week-long rally, closing 0.94% higher as the market closed last Friday.
- But now, the trade war appears to be escalating again. President Trump has signalled his intention to impose another 25% tariff on US steel and aluminium imports later today, despite his decision to enter the temporary truce with Canada and Mexico just days ago. **The short-term economic outlook may continue to shift in response to the zigzagging of US government policies, while other economies–including Indonesia –remain caught in an uneasy tango of slowing domestic growth momentum (due to the trade war) and limited fiscal space (a byproduct of the lower capital inflow)**.

Same duration, same amount of supply – no problem

- It is in this cautiously optimistic climate that US Treasury Secretary Scott Bessent delivers his first quarterly refunding announcement (QRA), which turns out to be an eventful one, not in spite, but because of its lack of policy changes. **Despite his criticism of his predecessor for distorting the market, Secretary Bessent follows Janet Yellen's**

lead in his first QRA, signalling that US debt issuances will remain Bills-heavy in the upcoming quarters ***(see Chart 1)***.

- **The Treasury and the Fed, then, seem to be singing the same tune of higher short-term interest rates**, calming the previous concern that the second Trump administration will undermine the Fed's policy independence. Trump 47th, of course, is not the same as Trump 45th, as indicated by Secretary Bessent's statement in an interview that the president will not hector the Fed to lower short-term rates and will instead focus on long-term rates ***(see Chart 2)***.
- The rising short-term interest rate expec-tations in the US, driven by still-high bill issuance and the Fed's reaffir-med policy inde-pendence, means that the USD may remain expensive – limiting the room for Bank Indonesia and other central banks to provide more support for their ailing domestic economy. Recent FX reserves data (see our report on Jan-25 BI FX reserves position) indicate that BI has had to continue utilising its FX coffers to stabilise the Rupiah, which has depreciated by 0.28% since the end of last month amid significant capital outflows from the domestic financial (stock) market.
- Fortunately, **the limited upside risk for UST supply means that Indonesia (and other) financial markets may not need to compete with the UST market for liquidity**. The US government may not be able to increase its debt issuance and absorb more share of global liquidity at the moment, even if it wanted to. The debt ceiling was reinstated on 1 January 2025, meaning that the US government cannot push its debt above USD 36.1 Tn (the level on 31 December 2024) before agreeing on a deal to lift the debt ceiling. The debt ceiling, of course, is more often cited as a source of uncertainty rather than otherwise. However, unlike in 2023 when expectations of unchecked debt issu-ance following the resolution of the January-May 2023 debt ceiling debacle led to a drop in the US credit rating, the ongoing debt ceiling debate does not seem to ruffle many feathers.

"Depending on its success, the DOGE may further lower the urgency for the US government to return to the bond market, providing a model on how to identify excesses in public spending."

- Indeed, **the US government is in a better condition liquidity-wise, which should lower the urgency for them to strike a deal to lift the debt ceiling and frantically refill the treasury general account (TGA) afterwards.** This condition is especially crucial amid the backdrop of the Fed's dwindling reverse repo (RRP) balance, which highlighted the dearth of liquidity available in the US financial market to absorb new UST supplies ***(see Chart 3)***.
- Adding to the good news is that the urgency for the US government to issue more debt to refill its TGA coffers may not arise until the next couple of quarters. The TGA balance typically spikes in the April-May period, coinciding with the US income tax filing

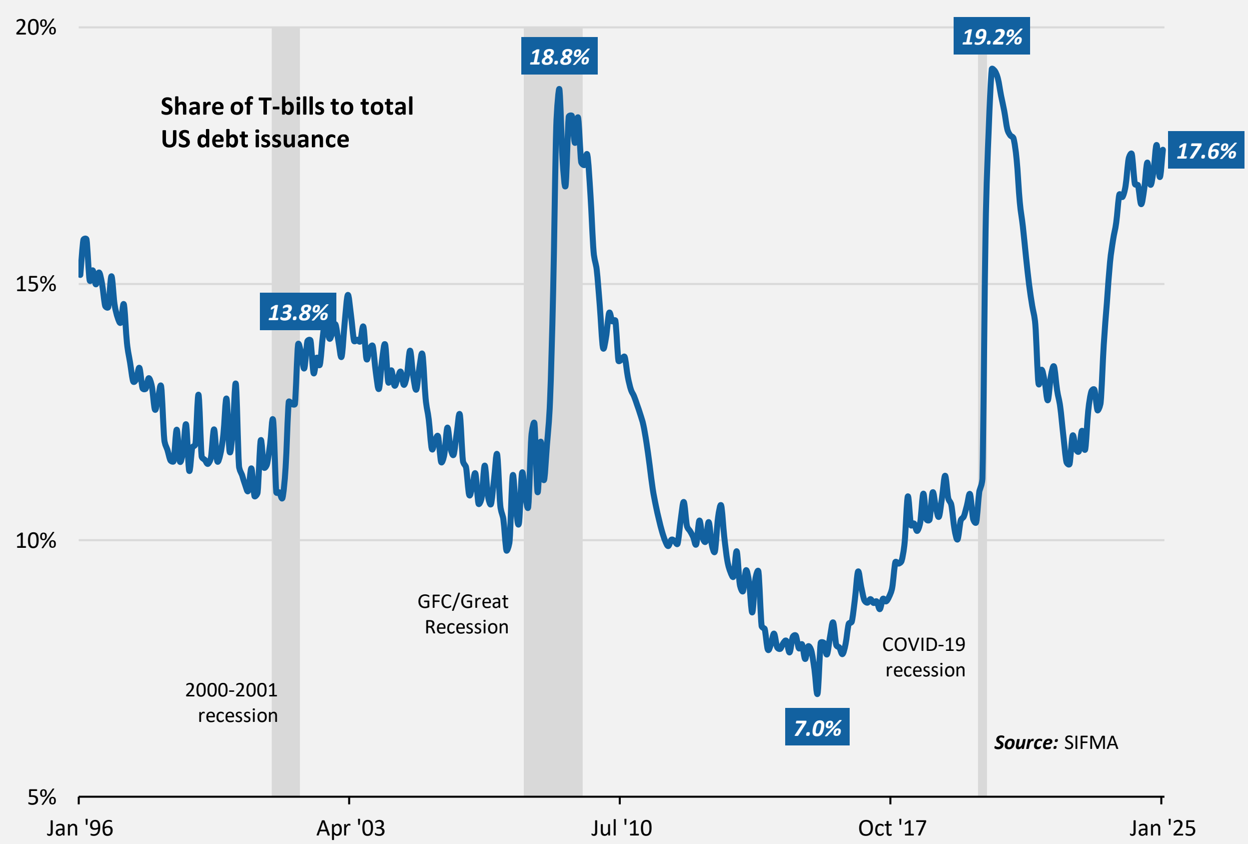
season. The strong US stock performance over the past year should deliver healthy personal income tax revenue for the US government ***(see Chart 4)***, meaning the TGA may remain substantially filled until Q3-2025. Additionally, **multiple spending excesses identified by the Department of Government Efficiency (DOGE) could further optimise US public spending**, potentially extending the duration of the TGA drawdown to a later period.

- The Indonesian economy, then, may start to expect that the recent stream of foreign capital outflows may soon revert, at least in the SBN market. **The nominal yield spread between 10Y SBN and UST has remained constant at 2.35-2.50% since December 2024, indicating that investors have not re-assess the risk in the SBN market vis-à-vis the UST market despite the potpourri of recent bad news**. The new-found stability in the UST market, then, may continue to translate positively to the SBN market, which shall help the government to control its borrowing costs.

Chart 1

Picking up where it left off

The US Treasury Department has signaled its decision to maintain activist treasury issuance, despite Secretary Bessent's earlier criticisms on the strategy.



Source: SIFMA

Chart 2

Keeping it high on the short

Continuously high T-bills issuance and returning inflationary pressures have lower the market's short-term rate expectation, as the market remains split on whether the Fed could cut the FFR by mid-year.

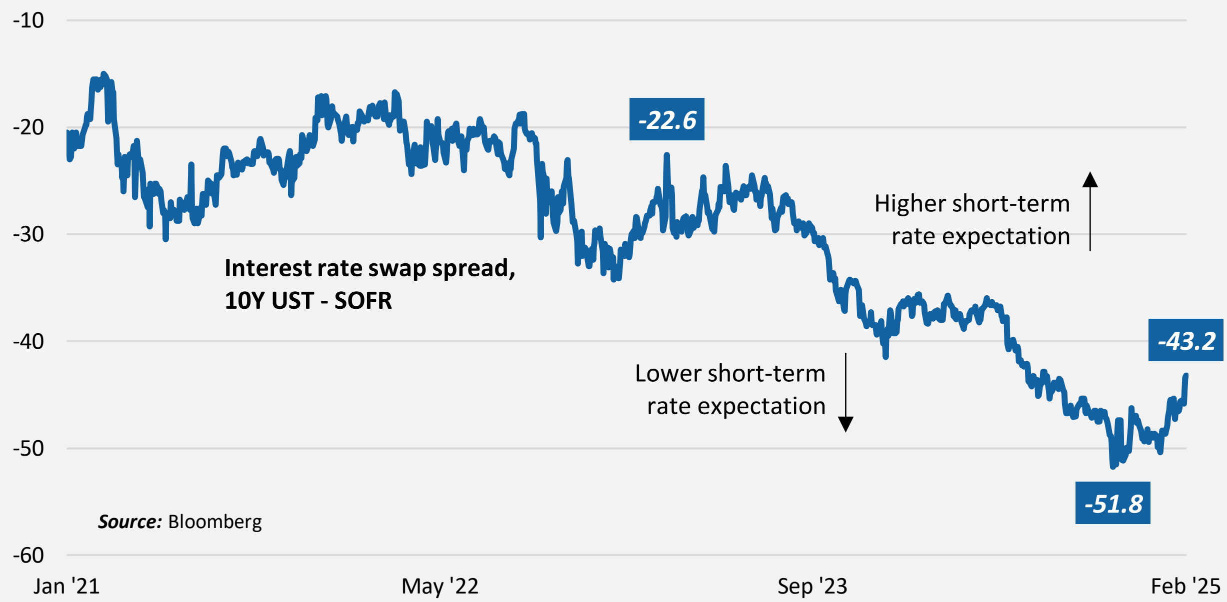


Chart 3

Cash rich

The dwindling RRP balance is not a pressing issue as the ample TGA balance (and the debt ceiling) means that the Treasury Department did not need to draw liquidity away from banks.

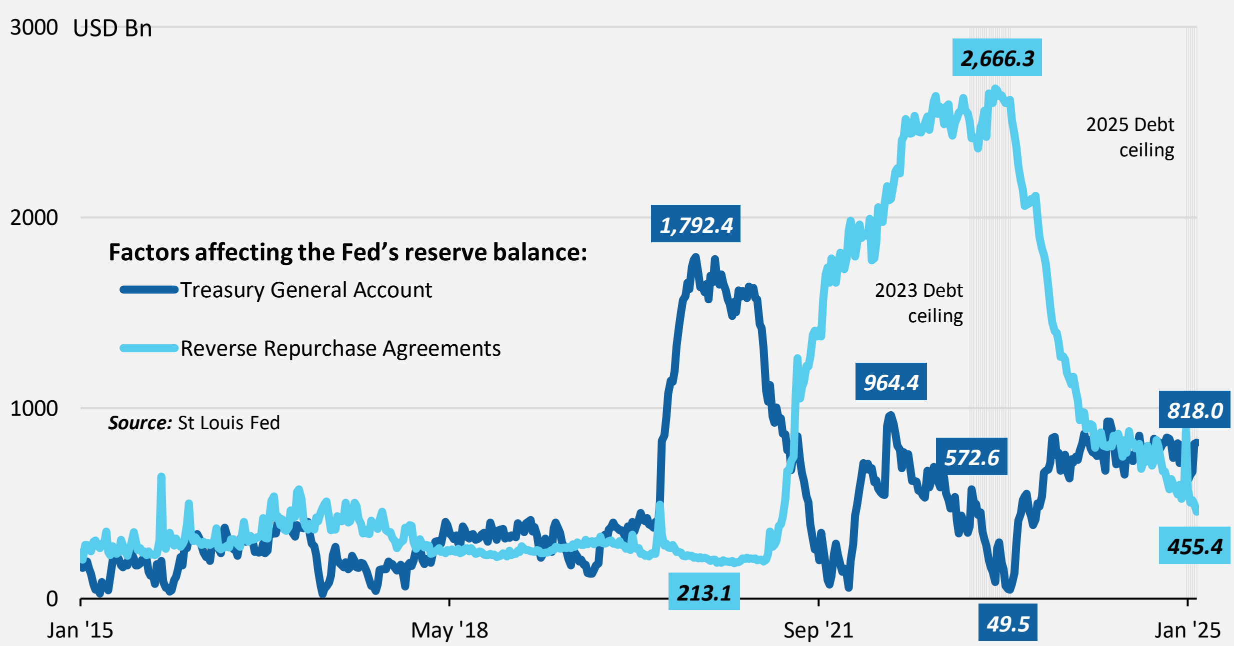
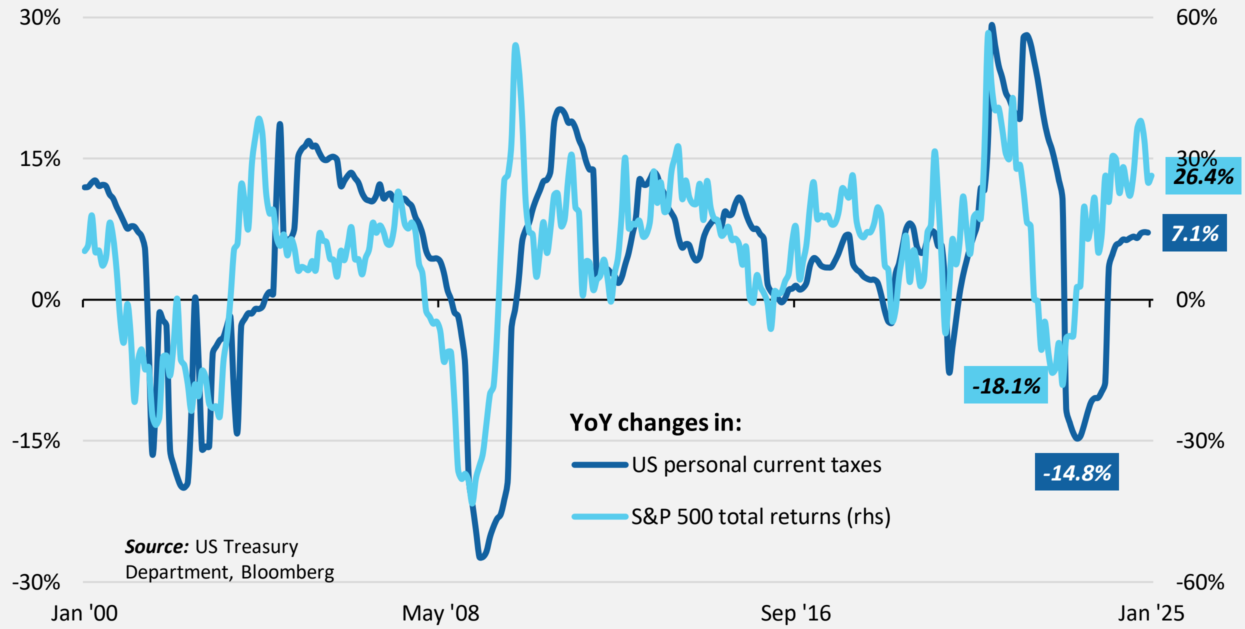


Chart 4

Tax money coming in

Strong US market performance in 2024 may help the US Treasury Department to hit its revenue target, meaning that the US government may remain liquid until Q3-2025.



Source: US Treasury Department, Bloomberg

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	51.2	49.4	50.1
05 February 2025				
ID	**GDP Growth Rate YoY, %**	**5.02**	**4.95**	**5.2**
US	Balance of Trade, USD Bn	-98.4	-78.2	-93.0
06 February 2025				
EA	Retail Sales YoY, %	1.9	1.6	1.7
07 February 2025				
ID	**Foreign Exchange Reserves, USD Bn**	**156.1**	**155.7**	**-**
US	Non-Farm Payrolls, th	143	307	205
09 February 2025				
CN	Inflation Rate YoY, %	0.5	0.1	0.2
ID	Motorbike Sales YoY, %	-6.0	-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 (%)
US	4.50	Dec-24	1.60
UK	4.50	Feb-25	2.00
EU	2.90	Jan-25	0.40
Japan	0.50	Jan-25	-3.70
China (lending)	2.00	Sep-24	3.85
Korea	3.00	Nov-24	0.80
India	6.25	Feb-25	1.03
Indonesia	5.75	Jan-25	4.99
Money Mkt Rates	**7-Feb**	**-1 mth**	**Chg (bps)**
SPN (1Y)	6.17	6.84	-66.6
SUN (10Y)	6.86	7.12	-26.4
INDONIA (O/N, Rp)	5.69	6.06	-36.8
JIBOR 1M (Rp)	6.40	6.62	-22.7
Bank Rates (Rp)	**Nov**	**Oct**	**Chg (bps)**
Lending (WC)	8.68	8.72	-3.69
Deposit 1M	4.78	4.78	-0.49
Savings	0.67	0.66	0.37
Currency/USD	**7-Feb**	**-1 mth**	**Chg (%)**
UK Pound	0.806	0.801	-0.60
Euro	0.968	0.967	-0.12
Japanese Yen	151.4	158.1	4.39
Chinese RMB	7.295	7.328	0.46
Indonesia Rupiah	16,275	16,131	-0.88
Capital Mkt	**7-Feb**	**-1 mth**	**Chg (%)**
JCI	6,742.6	7,083.3	-4.81
DJIA	44,303.4	42,528.4	4.17
FTSE	8,700.5	8,245.3	5.52
Nikkei 225	38,787.0	40,083.3	-3.23
Hang Seng	21,133.5	19,447.6	8.67
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

Trade & Commodities	7-Feb	-1 mth	Chg (%)
Baltic Dry Index	815.0	1,015.0	-19.7
S&P GSCI Index	563.2	557.3	1.1
Oil (Brent, $/brl)	74.7	77.1	-3.1
Coal ($/MT)	110.8	120.3	-7.9
Gas ($/MMBtu)	3.32	3.80	-12.6
Gold ($/oz.)	2,861.1	2,648.6	8.0
Copper ($/MT)	9,287.6	8,886.9	4.5
Nickel ($/MT)	15,537.8	15,171.5	2.4
CPO ($/MT)	1,068.9	1,050.4	1.8
Rubber ($/kg)	2.00	1.88	6.4
External Sector	**Dec**	**Nov**	**Chg (%)**
Export ($ bn)	23.46	24.00	-2.24
Import ($ bn)	21.22	19.63	8.10
Trade bal. ($ bn)	2.24	4.37	-48.73
Central bank reserves ($ bn)*	155.7	150.2	3.65
Prompt Indicators	**Dec**	**Nov**	**Oct**
Consumer confidence index (CCI)	127.7	125.9	121.1
Car sales (%YoY)	-6.4	-11.3	-3.7
Motorcycle sales (%YoY)	-5.5	-10.3	5.4
Manufacturing PMI	**Jan**	**Dec**	**Chg (bps)**
USA	51.2	49.4	180
Eurozone	46.6	45.1	150
Japan	48.7	49.6	-90
China	50.1	50.5	-40
Korea	50.3	49.0	130
Indonesia	51.9	51.2	70

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	2024	2025E
Pertumbuhan PDB riil (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Pertumbuhan PDB nominal (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
PDB per Kapita (USD)	4175	3912	4350	4784	4920	4960	5005
Inflasi IHK (% 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
Nilai tukar USD/IDR (akhir tahun)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Neraca perdagangan (US$ billion)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Neraca tahun berjalan (% of PDB)	-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 our projections; other numbers for 2024 are final*

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