

Back in sync, but remains apart

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kuku Mamia
barra_mamia@bca.co.id



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Summary

- Despite the spiking oil prices, the US financial market has not reacted to the intensifying Iran nuclear crisis, although market participants are still looking for updates.
- The DXY index seems to be moving in tandem with UST yields again, although still at a different price level given the polytopic uncertainties still present in the US economy.
- The renewed UST-USD alignment poses another challenge for the Rupiah, as the currency may face pressure from both rising UST yields and a recovering USD.

- Geopolitical development once again took precedence over macroeconomic factors in driving market sentiment last week. Despite an official White House communiqué stating that the US would spend two weeks deliberating its response to Iran, President Trump shocked the world early on the weekend by announcing a military operation against Iran, claiming that the strike had obliterated the country's nuclear capabilities. Iranian officials quickly travelled to Russia in response, escalating the conflict on Iran's nuclear interest.
- The further increase in the geopolitical risk premium has pushed Brent crude prices to USD 79.03/bl, up 13.9% since Israel launched the opening salvo on Iran's military infrastructure. Interestingly, beyond the spot oil market, the escalating Iran nuclear crisis has had limited impact on broader financial markets, including the still-anaemic oil futures curve – indicating that traders may have priced in a narrowly

targeted US military intervention targeting Iran's nuclear facilities. It should be noted, however, that market sentiment is now divided on the possibility of Iran causing a severe disruption in the Strait of Hormuz, as reflected by the 47% probability assigned to such an outcome on Polymarket.

- The market may remain on edge, fearing any potential move by Iranian commandos on the Strait of Hormuz. However, until such action materialises, **US financial markets have shown little reaction to the escalating Iran nuclear crisis.** The S&P 500 remains flat, as do UST yields and the USD's value (as indicated by the DXY index). It is safe to say, then, that the 'reciprocal' tariff announcement remains the biggest 'bomb' the Trump administration has dropped to the financial market thus far in 2025, as the resulting shock has reportedly disrupted the typically positive correlation between the USD and UST yields (*see Chart 1*).

An ersatz 'UST-USD' split

- Some analysts have been quick to note this apparent 'UST-USD split', arguing that it reflects the USD's waning supremacy, as investors reportedly shift out of USD-denominated assets in favour of other safe havens. In hindsight, the earlier view that the USD is increasingly behaving like emerging market currencies is nothing too controversial, given the growing concerns over stagflation, policy uncertainties and debt unsustainability that hitherto plaguing the US economy.
- Fast forward a couple of months, however, this finding does not seem to be particularly true anymore. Despite the still-apparent gap between the DXY index and the benchmark UST yield due to the re-pricing event in April 2025, a more careful examination will show that **the two asset classes seem to have been moving in tandem again lately, albeit at a still markedly different price level.**
- A simple examination may lead one to suspect the USD as the asset class that suffers the most from the April 2025 re-pricing event, which is fair given the significant 4.91% drop following the 'reciprocal' tariff announcement. An argument could be made for King Dollar to reclaim its lost crown. For instance, some in the market are already pricing in the possibility of the Fed abandoning its policy easing campaign in 2025, a scenario the central bank could execute with minimal short-term fuss, thanks to the still-robust US economy (at least as suggested by coincident indicators). Rising oil prices have since reinforced the case for the Fed to maintain its hawkish stance, although

"While the DXY index stops moving like an emerging market currency, it may continue to trade lower given many uncertainties hitting the US economy"

the shift is already widely expected before the spike in oil prices (*see Chart 2*).

- If the USD suffers from a severe depreciation episode in April 2025, it is interesting to look at the relatively stable UST. As noted in [a previous report](#), the US federal budget debate early in the year is a happenstance for the UST market, as the US government's temporary inability to issue additional debt contributed to greater supply certainty (*see Chart 3*); thereby helping to stabilise the market despite layer of uncertainties in the demand condition.
- Given the renewed UST-USD co-movement, the potential implications of lifting the US debt ceiling could carry significant consequences for both US and global financial markets. As is widely known, rising term premia have prompted the Trump administration to signal a continuation of the Biden-era activist Treasury issuance (ATI) strategy, helping them to shore up liquidity and keep the long-term interest rate stable by focusing on short-term T-bills issuance. **Recent inflows into USD-denominated fixed-income ETFs may serve as a harbinger of the UST market siphoning global liquidity on the back of higher T-bills issuance, potentially pulling the USD upward as the momentum accelerates.**
- Recent actions by European central banks may also help reveal the floor for the USD. Asset migration from the U.S. to European markets and other safe havens (such as gold) has led to a notable appreciation in European currencies. This may undermine European manufacturers' export competitiveness (which often cluster in

countries that tend to dominate ECB's decision-making), just as China is on the lookout for new export markets, while the weaker USD hit American importers' purchasing power.

- The dynamic facing the Euro partly explains the more expeditious rate-cutting campaign undertaken by European central banks, a move that should help stabilise the DXY index, given its heavy weighting toward European hard currencies. However, this does not necessarily imply that the USD will fully retrace its post-tariff repricing, **as the structural break may persist amid the continued presence of polytopic uncertainties affecting the US market.**
- This reading underscores the challenge Bank Indonesia is likely to face in maintaining Rupiah stability in the coming weeks or months, depending on how far the scenario unfolds. **The state budget's sensitivity to oil prices means that BI has limited room to allow exchange rate flexibility,** lest further depreciation of the IDR pushes the fiscal deficit uncomfortably close to the 3% of GDP cap. Ironically, it is the very increase in oil prices that may contribute to a stronger USD, thereby

exerting additional downward pressure on the Rupiah (*see Chart 4*).

- Meanwhile, the prospect of returning inflows into US financial markets may also be a source of headache for BI officials, as weakening foreign demand for SBNs could further burden the central bank in its efforts to maintain stable yield conditions. BI has justified its interventions in the SBN market on the grounds that lower yield conditions could incentivise banks to expand their loan portfolios, despite the role the banking sector plays in keeping the benchmark SBN yield stable. Ergo, it may be prudent to expect the 'triple interventions' approach to remain BI's primary policy tool going forward, as the external environment has grown increasingly unfavourable to the continuation of its rate-cutting campaign.

"The unfavourable external condition means that BI's policy option may remain limited to its 'triple interventions' approach"

Figure 1

A more distant relationship

The USD and the UST yield is moving on a different since the 'reciprocal' tariff announcement but has continue to move in the same pattern lately.

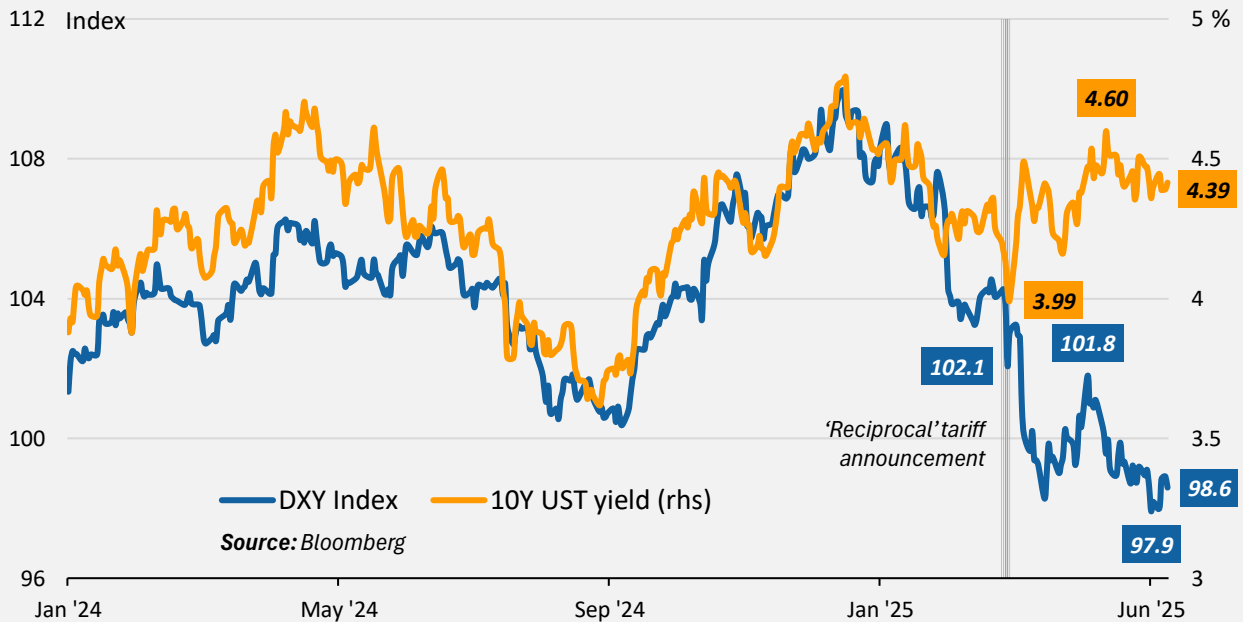


Chart 1

Jumping without fossil fuel

Oil prices move higher as tensions are rising again in the Middle East, but the hawkish shift in the Fed's policy signal is already priced in prior to the oil price spikes

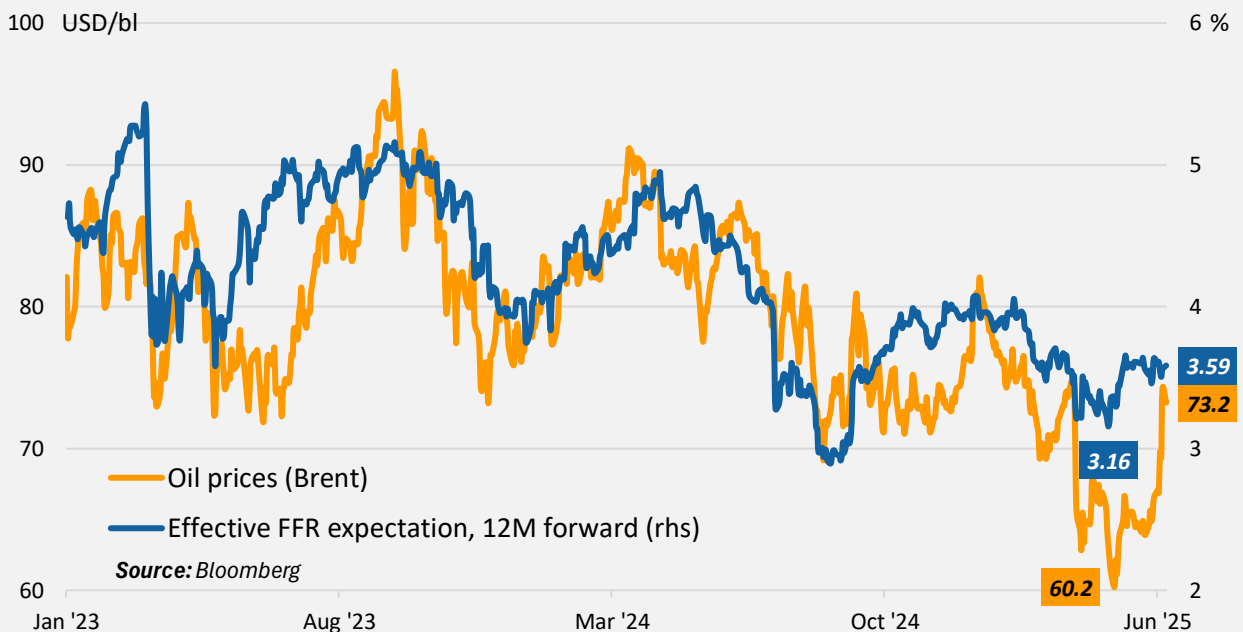


Chart 2

Temporarily offline

Lower US debt issuance helps to keep the UST yield stable. Meanwhile, the continued rise in the term premia will compel the US government to finance its growing deficits with T-bills

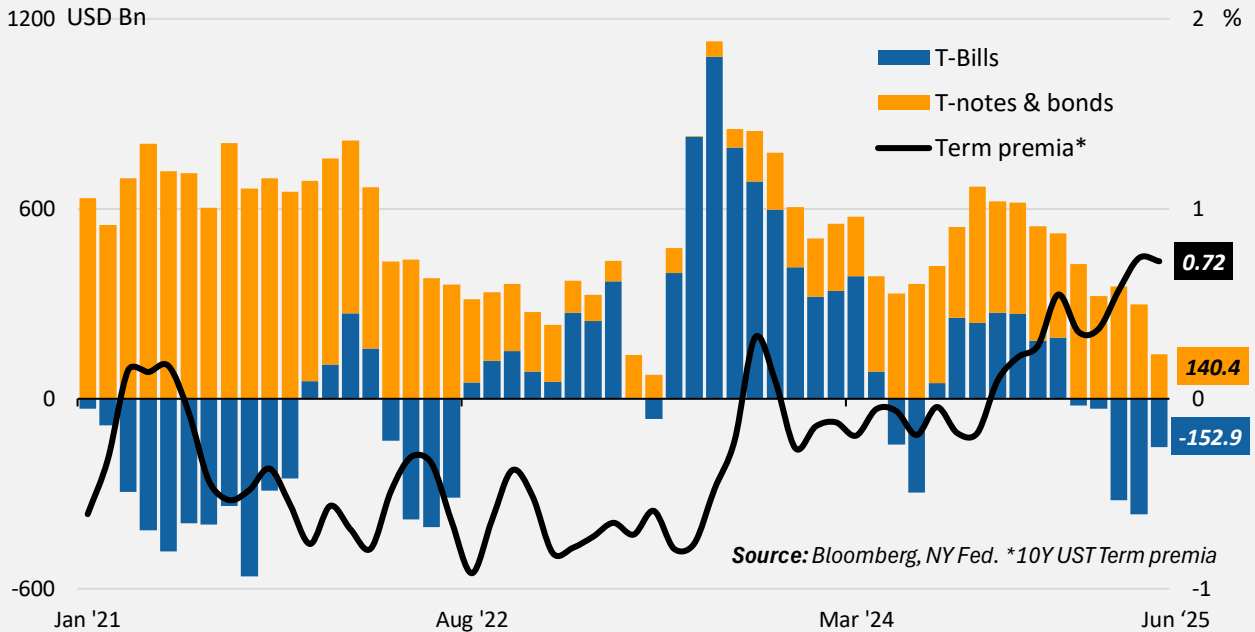
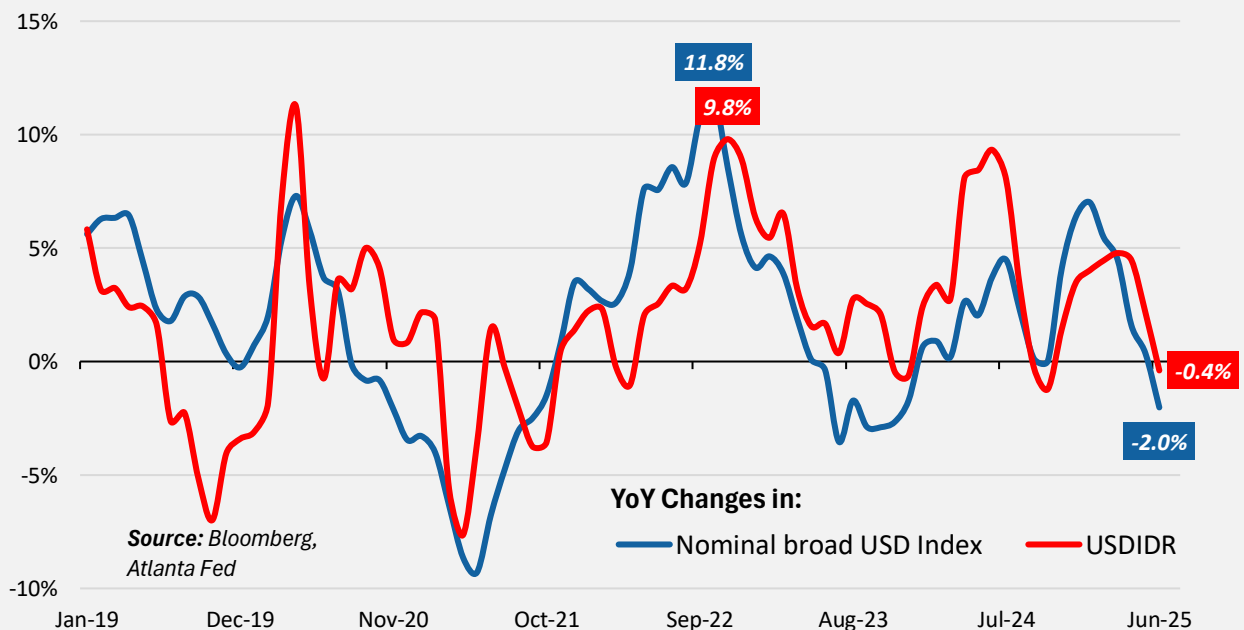


Chart 4

A familiar ghost

The IDR may lose its newfound stability as the currency remains vulnerable to the ebb and flow in the USD's value amidst the limited improvement in the domestic liquidity condition



Economic Calendar				
		Actual	Previous	Forecast*
02 June 2025				
ID	S&P Global Manufacturing PMI	47.7	46.7	48.3
ID	Trade balance (Apr-25), USD Bn	0.15	4.33	3.1
ID	Inflation Rate YoY, %	1.6	1.95	1.9
US	S&P Global Manufacturing PMI	52	50.2	52.3
05 June 2025				
US	Trade balance, USD Bn	-61.6	-138.3	-66.6
06 June 2025				
EA	Retail Sales YoY, %	2.3	1.9	1.1
US	Non Farm Payrolls, th	139	147	130.0
09 June 2025				
CN	Inflation Rate YoY, %	-0.1	-0.1	-0.2
CN	Trade balance, USD Bn	103.22	96.18	100.0
10 June 2025				
ID	Foreign Exchange Reserves, USD Bn	152.5	152.5	-
11 June 2025				
US	Inflation Rate YoY, %	2.4	2.3	2.5
ID	Car Sales YoY, %	-15.1	5.0	-
ID	Motorbike Sales YoY, %	-0.1	3	-
12 June 2025				
ID	Consumer Confidence	117.5	121.7	122.2
13 June 2025				
ID	Retail Sales YoY, %	-0.3	5.5	2.1
16 June 2025				
CN	Retail Sales YoY, %	6.4	5.1	4.7
17 June 2025				
US	Retail Sales YoY, %	3.3	5	4.9
18 June 2025				
ID	BI-Rate Decision, %	5.5	5.5	5.5
ID	Loan Growth YoY, %	8.43	8.88	8.8
19 June 2025				
US	Fed Rate Decision, %	4.5	4.5	4.5
23 June 2025				
ID	M2 Money Supply YoY, %	4.9	5.2	-
27 June 2025				
US	PCE Price Index YoY, %		2.1	-

*Some forecasts 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	20-Jun	-1 mth	Chg (%)
US	4.50	Dec-24	2.10	Baltic Dry Index	1,689.0	1,340.0	26.0
UK	4.25	May-25	0.85	S&P GSCI Index	581.0	536.3	8.3
EU	2.15	Jun-25	0.25	Oil (Brent, \$/bbl)	77.0	65.4	17.8
Japan	0.50	Jan-25	-3.00	Coal (\$/MT)	112.3	108.4	3.6
China (lending)	2.00	Sep-24	4.45	Gas (\$/MMBtu)	3.09	3.14	-1.6
Korea	2.50	May-25	0.60	Gold (\$/oz.)	3,368.4	3,290.1	2.4
India	5.50	Jun-25	2.68	Copper (\$/MT)	9,908.5	9,522.7	4.1
Indonesia	5.50	May-25	3.90	Nickel (\$/MT)	14,818.1	15,313.7	-3.2
Money Mkt Rates	20-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	958.5	919.3	4.3
SPN (1Y)	5.95	6.04	-8.4	Rubber (\$/kg)	1.65	1.75	-5.7
SUN (10Y)	6.75	6.83	-7.9	External Sector	Apr	Mar	Chg (%)
INDONIA (O/N, Rp)	5.18	5.77	-59.7	Export (\$ bn)	20.74	23.25	-10.77
JIBOR 1M (Rp)	6.15	6.38	-22.9	Import (\$ bn)	20.59	18.92	8.80
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Trade bal. (\$ bn)	0.16	4.33	-96.33
Lending (WC)	8.66	8.67	-0.75	Central bank reserves (\$ bn)*	152.5	157.1	-2.94
Deposit 1M	5.01	5.02	-0.47	Prompt Indicators	May	Apr	Mar
Savings	0.68	0.68	0.16	Consumer confidence index (CCI)	117.5	121.7	121.1
Currency/USD	20-Jun	-1 mth	Chg (%)	Car sales (%YoY)	-15.1	5.0	-5.1
UK Pound	0.743	0.747	0.43	Motorcycle sales (%YoY)	-0.1	-3.0	-7.2
Euro	0.868	0.886	2.13	Manufacturing PMI	May	Apr	Chg (bps)
Japanese Yen	146.1	144.5	-1.08	USA	52.0	50.2	180
Chinese RMB	7.182	7.217	0.49	Eurozone	49.4	49.0	40
Indonesia Rupiah	16,385	16,415	0.18	Japan	49.4	48.7	70
Capital Mkt	20-Jun	-1 mth	Chg (%)	China	48.3	50.4	-210
JCI	6,907.1	7,094.6	-2.64	Korea	47.7	47.5	20
DJIA	42,206.8	42,677.2	-1.10	Indonesia	47.4	46.7	70
FTSE	8,774.7	8,781.1	-0.07				
Nikkei 225	38,403.2	37,529.5	2.33				
Hang Seng	23,530.5	23,681.5	-0.64				
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)				
Stock	3,435.7	3,244.2	191.47				
Govt. Bond	926.3	995.6	-69.37				
Corp. Bond	5.2	5.1	0.08				

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
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.0
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.02
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0

Notes:

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

Economic, Banking & Industry Research Team

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

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

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

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

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

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

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

Barra Kukuh Mamia
Head of Macroeconomic Research
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

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

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

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

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

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