

Calm and collected in the SBN market

21 July 2025

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id



Scan for the link
to our report
depository

Summary

- Sovereign bond yields are rising across developed economies, as G7 governments look to increase debt issuance to finance their fiscal expansions all at once.
- In contrast, the stable supply outlook and robust domestic demand explain the ongoing stability in the SBN market.
- Expectations of further policy rate cuts amidst the muted domestic growth outlook also explain the relatively stable bond yield in Indonesia and other developing Asian economies.

- The US economy continued to exceed expectations in the past week, both in encouraging and discouraging ways. On a more positive note, coincident indicators such as retail sales (0.6% MoM) and housing starts (1.32 Mn, 4.6% MoM) are rising above market expectations in June 2025, while soft data such as the consumer sentiment index also continue to recover from its April 2025 nadir. On the other hand, the June 2025 US inflation is clocked in at 2.7% YoY (2.9% YoY for core inflation), adding to the proof of the tariff effect on the inflation reading in the US.
- The robust economic indicator and the rising inflation figure are consistent with the Fed's policy signal, as highlighted in the FOMC's latest summary of economic projections released last month. This pushback against a further FFR cut may have played some role in the recent upward trend in the UST yield, with the 10Y UST yield now standing at 4.42% (+17.39 bps MTD). Rising UST yields, as we know, run counter to US President Trump's demands for lower interest rates, leading to the President attacking the Fed's policy independence, which is now denting the sentiment towards the USD.

Global bond markets: When higher supply meets lower demand

- While much of the fuss about rising yields stems from President Trump's social media activity, it is important to note that the uptrend in sovereign bond yields is not unique to the US. **Yields have been rising across all G7 economies in recent months**, with the increase in European bond yields particularly notable (*see Chart 1*).
- Rising bond yields across G7 economies are not too surprising. **Debt supply is expected to rise across the first world**, with the US relying on an infusion of increased debt issuance and tariff revenues to fill the revenue gap due to the OBBBA-sanctioned tax cuts. Meanwhile, in Europe, the Trump administration's constant attack on NATO

has prompted Germany and other governments to ease fiscal restraints and ramp up military spending toward the 5% of GDP target.

- The difference for European bond issuers, of course, is that while they were previously able to keep bond yields relatively stable amidst rising debt issuance, thanks to their strengthening safe haven status, the same thing no longer holds in the past couple of months. **Similar to what previously hit the UST market, the European bond market seems to be reeling from the reversing JPY carry trade**, as the rising JGB yield may have encouraged Japanese investors to cut their foreign exposure on their way home (*see Chart 2*).
- **The upward trend in the JGB yield may continue for a while.** The recent Japanese upper house election delivered strong gains

for populist parties, which campaigned on a platform of tax cuts and expanded child benefits as a remedy for the country's persistently declining fertility rate. **The strong showing by populist parties may pressure the ruling LDP-Komei coalition to accommodate calls for fiscal expansions, potentially adding to Japan's debt burden.** At the same time, the Bank of Japan is not expected to reverse its policy normalisation campaign, keeping the JGB yields high as concerns over the country's fiscal sustainability may amplify.

"Relatively controlled supply condition, a less sensitive buyer profile, and slowing growth prospects help keep SBN yields stable and low"

The SBN market: Defying the global trend

- In contrast, the Indonesian bond market has remained notably stable in recent months. The SBN market recorded foreign inflows to the tune of USD 877.8 Mn so far in July 2025, more than compensating for the USD 322.3 Mn outflow from the domestic equity market. As a result, the benchmark 10Y SBN yield has declined to 6.52%, its lowest level since early November 2024 and well below the government's 7.0% target. So, what explains this condition?
- In hindsight, the SBN market appears more favourable compared to conditions in most G7 bond markets. **On the supply side, despite the expected higher deficit in 2025 (-2.78% of GDP, -2.53% target), the**

government remains committed to keeping net SBN issuance around the earmarked IDR 642.6 Tn, with the government choosing to tap its accumulated excess budget balance (SAL) to cover the revenue pitfall. The front-loaded SBN issuance may also fuel expectations that debt issuance will proceed more gradually over the remainder of the year, unlike in the debt ceiling-impacted US.

- On the demand side, conditions surrounding the SBN market also appear favourable. **Apart from the aforementioned foreign inflows, domestic demand for SBN remains robust.** While Bank Indonesia does not seem to be actively intervening in the market recently, the central bank's gradual exit from

SRBI encourages banks to pivot back to the SBN market, as indicated by the IDR 75.49 Tn increase in banks' ownership of marketable SBNs since early July 2025. The SBN market also continues to face stable demand from individual investors, which may continue given the still-attractive real interest rate.

- The SBN market's buyer profile also highlights its resiliency compared to the UST or other major bond markets. **Whereas demand in the UST market is driven by alpha-seeking foreign private investors, investors in the SBN market may not be overly reactive to short-term fluctuations in the market (see Chart 3).** Indeed, 28.3% of the total marketable SBN outstanding is now held by BI and other foreign officials, investors that are not typically active in the secondary market. Another class of investors not known to be active sellers in the secondary market is individual investors (including their holdings through mutual funds), adding another 12.2% of marketable SBN that may not be traded actively in the secondary market.

- Similar to other developing Asian economies, **another factor that seems to have helped anchor the benchmark SBN yield may have something to do with the dim outlook on Indonesia's growth momentum (see Chart 4).** While it is true that the negative net SRBI issuance has compelled banks to return to the SBN market, the pace and magnitude at which banks decided to pour liquidity into the SBN market are partly driven by the muted demand for loans. The limited growth outlook also sparks the expectation for BI to continue its rate-cutting campaign, which, in turn, supports the outlook for a low and stable SBN yield, although the Rupiah's depreciation today highlights the complicated path BI still have to navigate to further its rate-cut action.

"Apart from the expected higher supply, lower foreign demand seems to also play a role in increasing bond yields across developed economies"

Chart 1

Defying the upward pull

Long term interest rates are rising across developed economies, while the benchmark SBN yield continue to move lower as banks and foreign investors return to the market

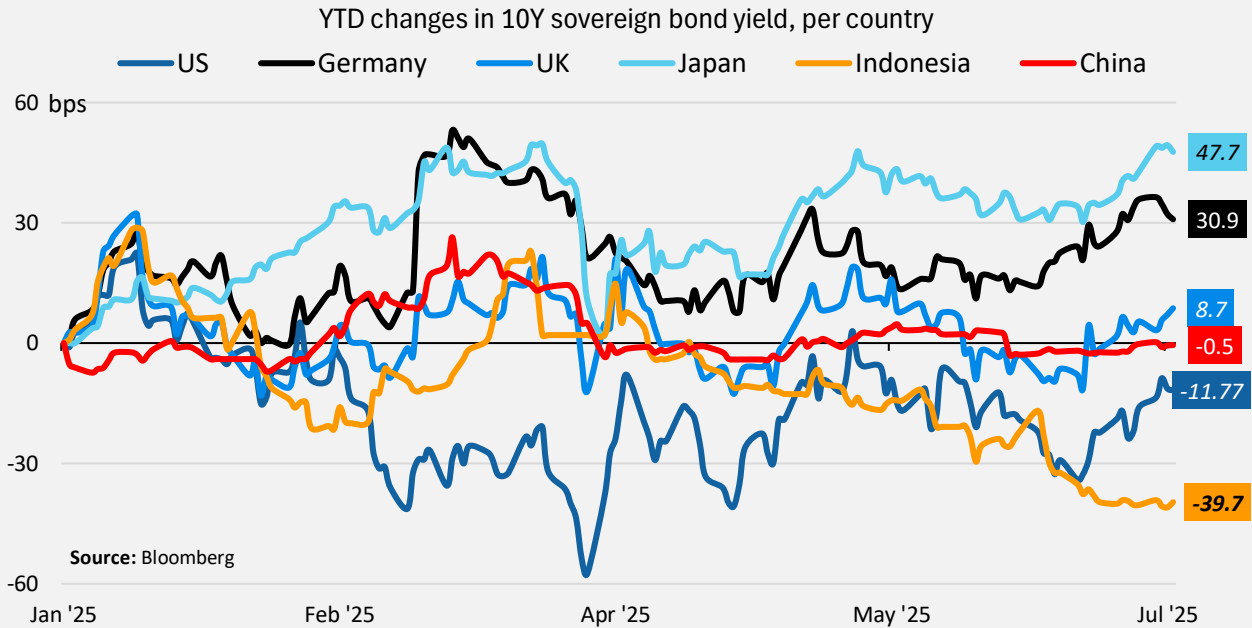


Chart 2

Mrs. Watanabe says sayonara

Persistently high JGB yields may encourage Japanese investors to return home, leading to selloffs in European and other bond markets

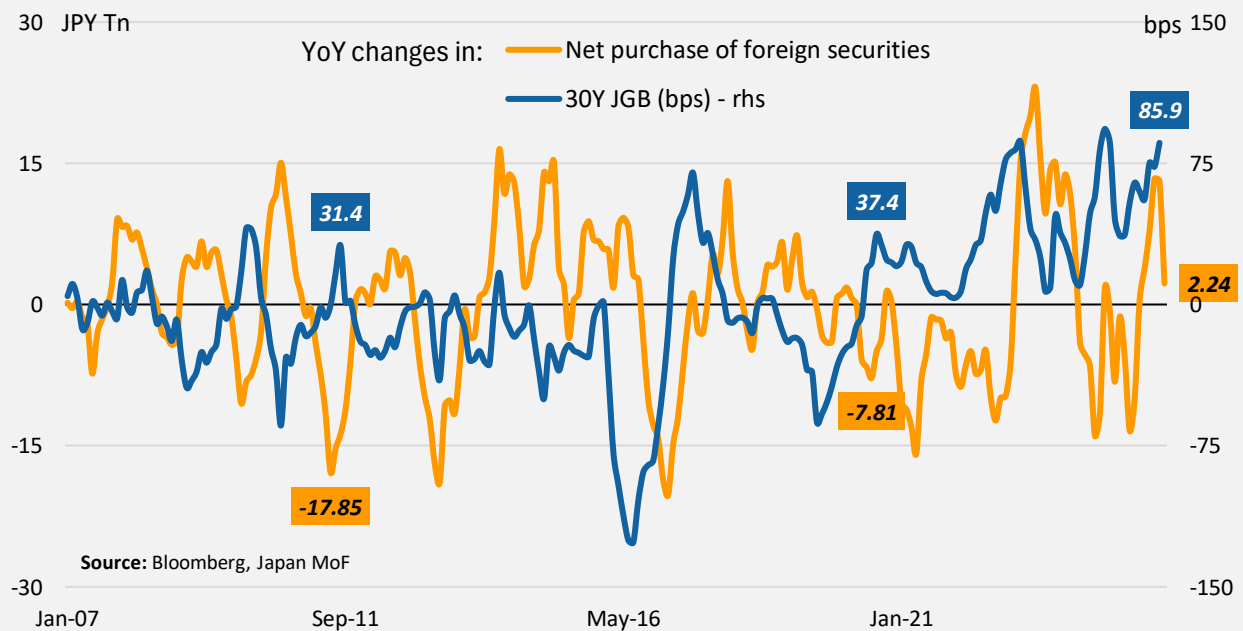


Chart 3

Chilling out

The SBN market has been increasingly dominated by price-insensitive investors, thanks to BI's interventions while households are not known to be active in the secondary market

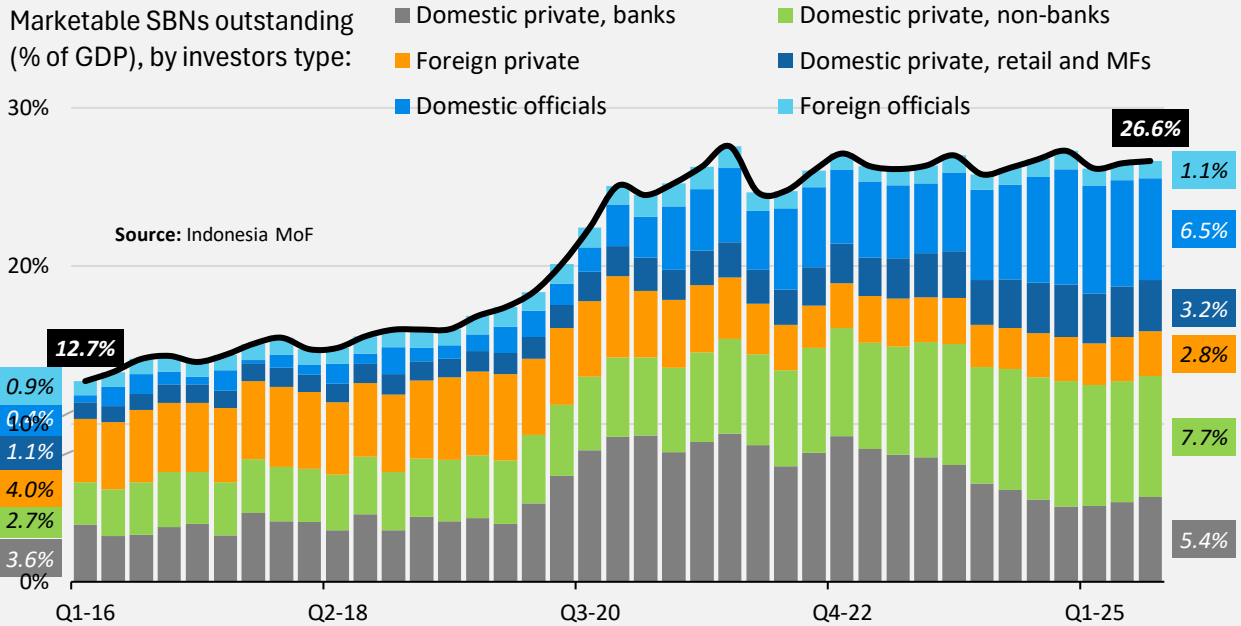
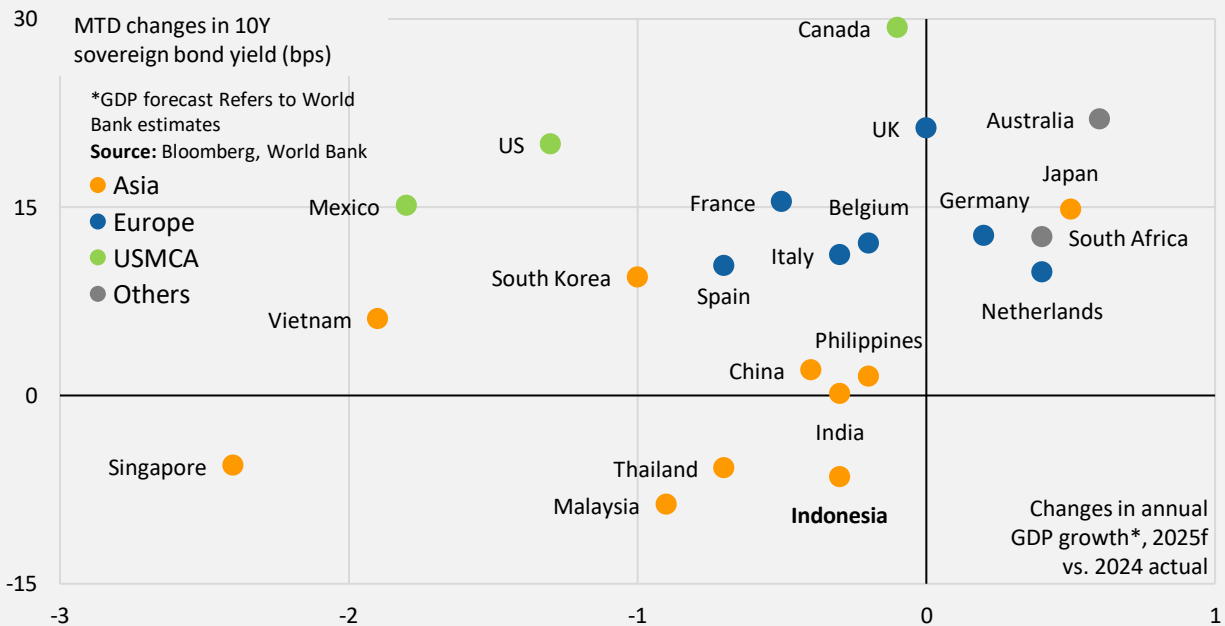


Chart 4

Flattened out

Lower yields across developing Asia may reflect the slowing GDP growth momentum within the region, while the room for fiscal expansion is also limited



Economic Calendar				
		Actual	Previous	Forecast*
01 July 2025				
ID	S&P Global Manufacturing PMI	46.9	47.4	48.5
ID	Trade balance (May-25), USD Bn	4.3	0.16	1.0
ID	Inflation Rate YoY, %	1.87	1.6	1.7
US	S&P Global Manufacturing PMI	52.9	52	52
03 July 2025				
US	Trade balance, USD Bn	-71.5	-60.3	-72
US	Non Farm Payrolls, th	147	144	100.0
07 July 2025				
ID	Foreign Exchange Reserves, USD Bn	152.6	152.5	157.0
EA	Retail Sales YoY, %	1.8	2.7	1.7
ID	Motorbike Sales YoY, %	-0.3	-0.1	-
08 July 2025				
ID	Consumer Confidence	117.8	117.5	123
09 July 2025				
ID	Retail Sales YoY, %	1.9	-0.3	0.3
ID	Car Sales YoY, %	22.6	-16.1	-
CN	Inflation Rate YoY, %	0.1	-0.1	0.1
14 July 2025				
CN	Trade balance, USD Bn	114.77	103.22	100
15 July 2025				
CN	GDP Growth Rate YoY, %	5.2	5.4	5.3
CN	Retail Sales YoY, %	4.8	6.4	6.1
US	Inflation Rate YoY, %	2.7	2.4	2.6
16 July 2025				
ID	BI-Rate Decision, %	5.25	5.5	5.25
ID	Loan Growth YoY, %	7.77	8.43	8.5
17 July 2025				
US	Retail Sales YoY, %	3.9	3.3	3.6
22 July 2025				
ID	M2 Money Supply YoY, %		4.9	-
29 July 2025				
ID	Foreign Direct Investment YoY, %		12.7	-

*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 (%)	Trade & Commodities	18-Jul	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	2,052.0	1,952.0	5.1
UK	4.25	May-25	0.65	S&P GSCI Index	551.6	578.7	-4.7
EU	2.15	Jun-25	0.15	Oil (Brent, \$/bbl)	69.3	76.5	-9.4
Japan	0.50	Jan-25	-2.80	Coal (\$/MT)	113.0	116.8	-3.3
China (lending)	2.00	Sep-24	4.25	Gas (\$/MMBtu)	3.50	2.89	21.1
Korea	2.50	May-25	0.30	Gold (\$/oz.)	3,349.9	3,388.1	-1.1
India	5.50	Jun-25	3.40	Copper (\$/MT)	9,724.7	9,791.8	-0.7
Indonesia	5.25	Jul-25	3.38	Nickel (\$/MT)	15,023.6	14,720.0	2.1
Money Mkt Rates	18-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	996.5	957.7	4.0
SPN (1Y)	5.46	5.98	-51.4	Rubber (\$/kg)	1.73	1.66	4.2
SUN (10Y)	6.52	6.71	-18.9	External Sector	May	Apr	Chg (%)
INDONIA (O/N, Rp)	4.83	5.34	-50.7	Export (\$ bn)	24.61	20.74	18.66
JIBOR 1M (Rp)	5.89	6.16	-26.5	Import (\$ bn)	20.31	20.59	-1.32
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Trade bal. (\$ bn)	4.30	0.16	2,608.75
Lending (WC)	8.66	8.67	-0.75	Central bank reserves (\$ bn)*	152.5	152.5	0.01
Deposit 1M	5.01	5.02	-0.47	Prompt Indicators	Jun	May	Apr
Savings	0.68	0.68	0.16	Consumer confidence index (CCI)	117.8	117.5	121.7
Currency/USD	18-Jul	-1 mth	Chg (%)	UK Pound	0.745	0.745	-0.10
UK Pound	0.745	0.745	-0.10	Euro	0.860	0.871	1.27
Euro	0.860	0.871	1.27	Japanese Yen	148.8	145.3	-2.37
Japanese Yen	148.8	145.3	-2.37	Chinese RMB	7.175	7.187	0.17
Chinese RMB	7.175	7.187	0.17	Indonesia Rupiah	16,290	16,280	-0.06
Indonesia Rupiah	16,290	16,280	-0.06	Capital Mkt	18-Jul	-1 mth	Chg (%)
Capital Mkt	18-Jul	-1 mth	Chg (%)	JCI	7,311.9	7,155.9	2.18
JCI	7,311.9	7,155.9	2.18	DJIA	44,342.2	42,215.8	5.04
DJIA	44,342.2	42,215.8	5.04	FTSE	8,992.1	8,834.0	1.79
FTSE	8,992.1	8,834.0	1.79	Nikkei 225	39,819.1	38,536.7	3.33
Nikkei 225	39,819.1	38,536.7	3.33	Hang Seng	24,825.7	23,980.3	3.53
Hang Seng	24,825.7	23,980.3	3.53	Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)	Stock	3,336.8	3,435.7	-98.91
Stock	3,336.8	3,435.7	-98.91	Govt. Bond	918.7	995.6	-76.96
Govt. Bond	918.7	995.6	-76.96	Corp. Bond	4.3	5.2	-0.92
Corp. Bond	4.3	5.2	-0.92				

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

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

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

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

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

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

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

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

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redistributed to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: eri_tristanto@bca.co.id