Reading signals from Mr Market

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Summary

- Recent policy decisions highlight the Indonesian government's expectation of easing global pressures, even as yield conditions continue to trend upward globally.
- The hitherto stable SBN yields, supported by strong domestic demand, may have encouraged some foreign investors to take profits, which in turn added temporary pressure on the Rupiah through the balance of payments channel.
- Balancing growth objectives with exchange rate stability will be important to safeguard the government's fiscal space.

- The condition in the global financial market has not changed significantly over the past week. One of the few key data releases was the PCE inflation number, which registered at 2.70% YoY (2.90% YoY for core PCE) last month – the highest level in six months – though broadly in line with market expectations. The higher import tariffs do not appear to be front and centre in driving PCE inflation, as the decline in US corporate profits (-3.25% YoY in Q2-2025) suggests that American businesses have been keeping retail prices stable at the expense of their margin.
- Meanwhile, American consumers reported higher-than-expected income and spending growth in August 2025 (0.4% MoM and 0.6% MoM, respectively), signalling a still-robust purchasing power despite growing concerns over the US labour market. This reading may spark confidence in American businesses to pass on more costs to customers, potentially making the inflationary impact of the higher US import tariffs more noticeable.
- It is no surprise, then, that UST yields continued to edge higher in the week following the FFR cut. Yields on the shorter end of the UST market also continued to edge higher (+4 bps for 2Y UST yield), reflecting the market's view that the FFR cut signalled in the September 2025 FOMC meeting is still written in the sand. However, Indonesian monetary and fiscal authorities seem to be betting against this FFR scenario.

More challenges as investors left

- Bank Indonesia and the government's decision to bet on aggressive FFR cuts and a weaker USD in the months ahead is evident in their recent policy moves. On the monetary side, **BI opted to lower the BI rate by another 25 bps to 4.75% in its recent policy meeting, effectively**

prioritising loan growth as its primary objective while betting on a weaker USD to support its exchange rate stability goal.

- On the fiscal side, the government has approved a higher spending bill for the next fiscal year, raising the deficit target by IDR 50.34 Tn. – from 2.48% of GDP to 2.68%. On paper, the higher deficit will expose the SBN market to more supply risks, although the Ministry of Finance does not find it necessary to change its lending rate assumption. The government's confidence in a stable yield condition stemming from a more favourable global financial environment was particularly evident during the recent announcement of the 2025 state budget realisation, during which **the MoF quipped that global uncertainties remain elevated but are waning.**

- Alas, foreign investors do not seem to subscribe to the government's conviction, at least currently. From the fiscal perspective, foreign investors are still awaiting further evidence of the government's commitment to fiscal discipline, as evidenced by the USD 321.34 Mn of outflows from the SBN market since the 2026 state budget was signed into law. This steady stream of foreign outflows explains the pressure hitherto facing the Rupiah ***(see Chart 1)***, with the currency moving as low as 16,676 last week, necessitating BI's more active intervention.

- If this steady stream of outflows explains the ongoing pressure on the Rupiah, then what is driving foreign investors to head for the exit? **The divergence between Indonesia's policy direction and market expectations regarding the trajectory of global financial markets may offer an explanation**. As we know, BI and the government have made considerable efforts to bring domestic interest rates lower, while developments in major markets (such as the US and Japan) have reinforced investors' conviction that global interest rates will remain elevated.

- **Inadvertently, some policies may have also made it easier for foreign investors to reduce their exposure to the domestic financial market *(see Chart 2)***. Policies such as reducing SBN issuance and refraining from rolling over SRBIs have shifted the balance in the SBN market, resulting in an appreciation of SBN prices over the past couple of months. This price appreciation may have encouraged investors to realise their profits and seek opportunities elsewhere, with BI's continued presence in the SBN market perceived as a backstop that will keep prices relatively stable despite rising selling pressures.

> ***"The decision to increase the deficit target in 2026 highlights the government's conviction that the global market conditions will be more favourable in the upcoming periods"***

- **Indonesia's persistent foreign portfolio outflows are particularly concerning given the uncertain trade balance outlook**. While the August 2025 trade balance is projected to remain elevated at around USD 5.0 Bn, **higher US import tariffs and a manufacturing slowdown amid China's anti-involution campaign suggest that Indonesia's trade surplus could remain volatile**. At the same time, the weaker Rupiah is likely to raise the cost of key imports such as fuel. Fortunately, the impact on headline CPI inflation may stay limited, as the government absorbs these additional costs through the budget.

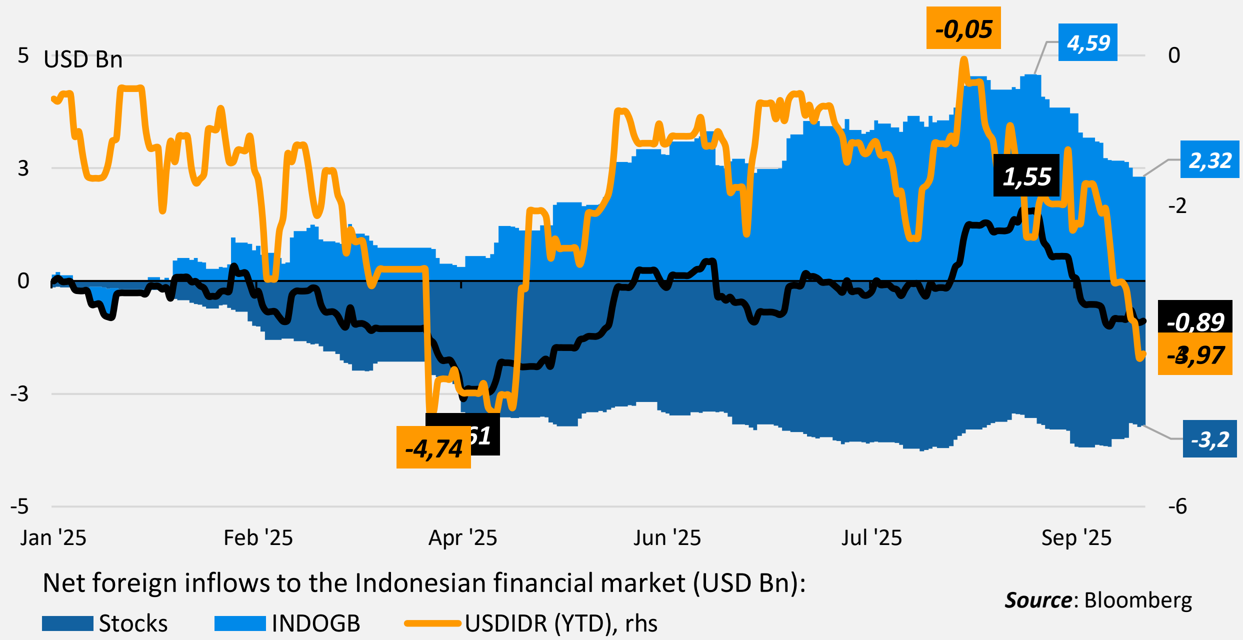
- It is the government's fiscal posture, then, that is likely to be hit hardest by the weakening Rupiah. For instance, **allowing the USDIDR exchange rate to hover at its current level until the end of the year may push the fiscal balance from the targeted -2.78% of GDP to around -2.85% of GDP** ***(see Chart 3)***, other things held constant. Hence, sidelining exchange rate stability in favour of maximising growth may ultimately work against the government's interest, as the additional fiscal burden due to a weaker currency could limit its ability to deploy ad-hoc measures such as stimulus packages – a strategy that has often been its preferred response to emerging short-term economic challenges.
- Rather than challenging itself to lift the burden left by foreign investors, the government's challenge should be to attract foreign investors back into the Indonesian market, effectively increasing the demand for Indonesian assets that will support the Rupiah. Communicating updates on the growth target and realisation of several flagship programmes will be key, as investors are struggling to connect the government's eclectic fiscal priorities.
- Alas, we may have to wait some time for the priority programmes to yield tangible results, meaning the Rupiah may remain under pressure in the short term. Unfortunately, **BI may have limited room for intervention, as overly aggressive measures could shrink the money supply and undermine its pro-growth policy mix.** The challenge for BI, then, is to flexibly shift between pro-growth and pro-stability policies, abandoning forward guidance as the central bank may need to make decisions on a meeting-by-meeting basis.

"Narrowing fiscal space due to the weakening Rupiah may lower the government's ability to respond to short-term economic problems"

Chart 1

Running from uncertainties

The Rupiah continue to tumble along with foreign capital outflows, as foreign investors remain unsure of the feasibility of achieving the government's growth target

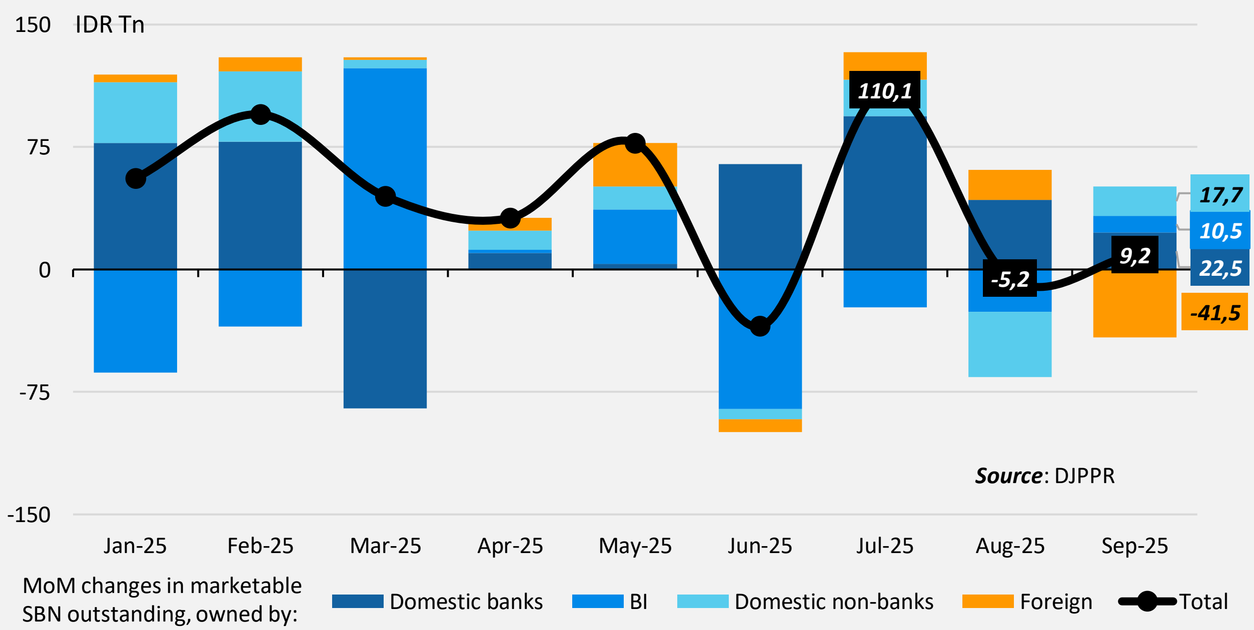


Source: Bloomberg

Chart 2

Leaving at the top

Price appreciation due to lower supply and higher domestic demand encourages foreign investors to take their profit and move away from the SBN market



Source: DJPPR

Chart 3

Uneven cost-benefit ratio

Higher revenue due to a successful implementation of pro-growth policies may not offset the additional costs due to weaker currencies.

Indonesia FY 2025 deficit scenario		USDIDR Exchange Rate						
		15,000	15,500	16,000	16,500	17,000	17,500	18,000
FY GDP growth (YoY, %)	5.6	-2.59	-2.66	-2.73	-2.80	-2.87	-2.94	-3.01
	5.5	-2.60	-2.67	-2.74	-2.81	-2.88	-2.95	-3.02
	5.4	-2.61	-2.68	-2.75	-2.82	-2.88	-2.95	-3.02
	5.3	-2.62	-2.69	-2.75	-2.82	-2.89	-2.96	-3.03
	5.2	-2.62	-2.69	-2.76	-2.83	-2.90	-2.97	-3.04
	5.1	-2.63	-2.70	-2.77	-2.84	-2.91	-2.98	-3.05
	5.0	-2.64	-2.71	-2.78	-2.85	-2.92	-2.99	-3.06
	4.9	-2.65	-2.72	-2.79	-2.86	-2.93	-3.00	-3.07
	4.8	-2.66	-2.73	-2.80	-2.87	-2.94	-3.00	-3.07
	4.7	-2.67	-2.74	-2.81	-2.87	-2.94	-3.01	-3.08
	4.6	-2.68	-2.74	-2.81	-2.88	-2.95	-3.02	-3.09

Source: *Indonesia MoF, BCA Economic Research*

Economic Calendar

		Actual	Previous	Forecast*
01 September 2025				
ID	S&P Global Manufacturing PMI	51.5	49.2	49.8
ID	**Trade balance (Jul-25), USD Bn**	**4.18**	**4.11**	**6.0**
ID	**Inflation Rate YoY, %**	**2.31**	**2.37**	**2.4**
02 September 2025				
US	S&P Global Manufacturing PMI	53.0	49.8	53.3
04 September 2025				
EA	Retail Sales YoY, %	2.2	3.5	2.3
US	Trade balance, USD Bn	-78.3	-59.1	-79.3
05 September 2025				
US	Non Farm Payrolls, th	22	79	75.0
08 September 2025				
CN	Trade balance, USD Bn	102.33	98.24	95.0
ID	**Foreign Exchange Reserves, USD Bn**	**150.7**	**152**	**-**
ID	Motorbike Sales YoY, %	0.7	-2.0	-
09 September 2025				
ID	Car Sales YoY, %	-19.0	-18.0	-
10 September 2025				
CN	Inflation Rate YoY, %	-0.4	0	-0.1
ID	Consumer Confidence	117.2	118.1	119.3
11 September 2025				
ID	Retail Sales YoY, %	4.7	1.3	1.5
US	Inflation Rate YoY, %	2.9	2.7	2.8
15 September 2025				
CN	Retail Sales YoY, %	3.4	3.7	5.0
16 September 2025				
US	Retail Sales YoY, %	5	4.1	3.2
17 September 2025				
ID	**BI-Rate Decision, %**	**4.75**	**5.0**	**5.0**
ID	Loan Growth YoY, %	7.56	7.03	-
18 September 2025				
US	**Fed Interest Rate Decision, %**	**4.25**	**4.5**	**4.25**
23 September 2025				
ID	M2 Money Supply YoY, %	7.6	6.6	-
26 September 2025				
US	PCE Price Index YoY, %	2.7	2.6	2.8

*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	4.25	Sep-25	1.35
UK	4.00	Aug-25	0.20
EU	2.15	Jun-25	0.15
Japan	0.50	Jan-25	-2.20
China (lending)	2.00	Sep-24	4.75
Korea	2.50	May-25	0.80
India	5.50	Jun-25	3.43
Indonesia	4.75	Sep-25	2.44
Money Mkt Rates	**26-Sep**	**-1 mth**	**Chg (bps)**
SPN (1Y)	5.06	4.88	18.7
SUN (10Y)	6.41	6.31	9.6
INDONIA (O/N, Rp)	3.97	4.40	-43.3
JIBOR 1M (Rp)	5.17	5.56	-39.4
Bank Rates (Rp)	**Jun**	**May**	**Chg (bps)**
Lending (WC)	8.62	8.64	-1.78
Deposit 1M	4.89	4.86	2.28
Savings	0.71	0.70	0.82
Currency/USD	**26-Sep**	**-1 mth**	**Chg (%)**
UK Pound	0.746	0.742	-0.58
Euro	0.854	0.859	0.52
Japanese Yen	149.5	147.4	-1.40
Chinese RMB	7.135	7.153	0.26
Indonesia Rupiah	16,741	16,295	-2.66
Capital Mkt	**26-Sep**	**-1 mth**	**Chg (%)**
JCI	8,099.3	7,905.8	2.45
DJIA	46,247.3	45,418.1	1.83
FTSE	9,284.8	9,265.8	0.21
Nikkei 225	45,355.0	42,394.4	6.98
Hang Seng	26,128.2	25,524.9	2.36
Foreign portfolio ownership (Rp Tn)	**Aug**	**Jul**	**Chg (Rp Tn)**
Stock	3,760.3	3,539.4	220.93
Govt. Bond	953.9	1,213.4	-259.57
Corp. Bond	4.5	4.7	-0.16

Trade & Commodities	26-Sep	-1 mth	Chg (%)
Baltic Dry Index	2,259.0	2,041.0	10.7
S&P GSCI Index	561.4	543.1	3.4
Oil (Brent, $/brl)	70.1	67.2	4.3
Coal ($/MT)	106.4	111.8	-4.8
Gas ($/MMBtu)	2.89	2.82	2.5
Gold ($/oz.)	3,760.0	3,393.6	10.8
Copper ($/MT)	10,142.6	9,752.2	4.0
Nickel ($/MT)	14,988.1	15,099.9	-0.7
CPO ($/MT)	1,032.8	1,044.1	-1.1
Rubber ($/kg)	1.76	1.78	-1.1
External Sector	**Jul**	**Jun**	**Chg (%)**
Export ($ bn)	24.75	23.44	5.60
Import ($ bn)	20.58	19.33	6.43
Trade bal. ($ bn)	4.17	4.10	1.71
Central bank reserves ($ bn)*	152.0	152.6	-0.38
Prompt Indicators	**Aug**	**Jul**	**Jun**
Consumer confidence index (CCI)	117.2	118.1	117.8
Car sales (%YoY)	-19.0	-18.4	-22.5
Motorcycle sales (%YoY)	0.7	-0.5	-0.3
Manufacturing PMI	**Aug**	**Jul**	**Chg (bps)**
USA	53.0	49.8	320
Eurozone	50.7	49.8	90
Japan	49.7	48.9	80
China	50.5	49.5	100
Korea	48.3	48.0	30
Indonesia	51.5	49.2	230

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	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
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
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.75

Notes:

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

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