

When liquidity is not flowing further away

14 October 2025

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Summary

- The still-going US government shutdown and renewed US-China trade war tension bring volatility back to the global economy. However, the Rupiah remains stable as foreign inflows are returning.
- The rally in the stock market precedes foreign inflows to the market, highlighting that the rally is almost exclusively driven by households and other domestic investors.
- Households' preference for equities over productive assets may weaken the multiplier effect from the government's liquidity interventions.

- We have seen popular narratives suggesting that global economic volatility has peaked and continues to dissipate in the rest of the year, particularly since the announcement of the negotiated US import tariffs in mid-July 2025. Alas, events transpired throughout the past week that seem to be pushing back against that narrative.
- First, trade tensions are once again making headlines, as China re-tightens export restrictions on rare earths, prompting US President Trump to threaten an additional 100% tariff on all US-bound China exports. For context, China's share of total US imports has fallen from 13.5% in December 2024 to 9.4% following the US-China trade deal announced in July 2025, and the retaliatory tariff hike may push Chinese manufacturers further away from the US market.
- Chinese manufacturers may thus increasingly depend on regional markets (such as Indonesia) to sustain their export growth

momentum, which stood at a strong 8.3% YoY in September 2025. As we have argued ad nauseam, this condition presents a risk for local manufacturers, unless they can replace China in supplying to the US market.

- This is what Indonesian manufacturers appear to have been doing through early Q3-2025, as the front-loaded export demand helps to propel the share of imports from Indonesia to total US imports (from 0.89% in December 2024 to 1.11% in July 2025). Unfortunately, the second factor currently contributing to global volatility – the weakening US economy – suggests that this condition may prove to be ephemeral.
- Indeed, more US federal workers have been put on furlough as the US government shutdown is entering its second week, further loosening the US labour market, which bolsters the angst on the economy. The weakening demand for labour leads to the market pencilling 50 bps of FFR cuts for the rest of

2025, creating a sense of relative bonanza in the market despite the grim picture on Main Street.

- But first, it is worth noting that not all markets appear to benefit from the prevailing expectation of cheaper Dollar liquidity in the upcoming periods. Rising long-term yields across developed markets suggest that

Here to trade, not to invest

- While the Indonesian stock market is a laggard relative to other emerging stock markets (for instance, the Hang Seng index is up 31.93% YTD), what may lie behind the 16.3% YTD increase in the JCI (at the time of writing) makes for an interesting story in its own. For one, the rally in Indonesia's equities market has occurred despite persistent foreign outflows, indicating that domestic investors have been able to absorb the assets offloaded by their foreign counterparts, despite the absence of a centralised stabilising force, such as Bank Indonesia in the SBN market.
- The question, then, is what drives domestic investors' activity in the equities market? As often happens in the financial market, animal spirits may be active in the Indonesian equity market, as the corporate-driven relief rally following the correction in February-April 2025 attracts individual investors to the market. The now-lower yield in the SBN market may also prompt individual investors to rotate into the equities market, as the lower discount rate creates a more favourable condition to capture alpha in the equities market (*see Chart 2*).
- The improved liquidity condition may also play a factor. Central to the shift in the liquidity condition are changes in government policies, ranging from the swifter realisation of routine fiscal spending to non-routine stimulus

investors are not enthusiastic about sovereign debts, as the global wave of populist fiscal policies continues to fuel concerns over fiscal dominance. As many have noted, gold has been leading other asset classes in terms of returns, followed by other real assets, including digital/crypto assets and emerging market equities such as the JCI (*see Chart 1*).

"The ongoing US government shutdown and renewed trade tensions between the US and China shows that the global economy is skating on a thin ice of volatility"

measures aimed at propping up consumer spending and overall economic activity. As lower-income households – who benefit from the stimulus measures – realise their spending, liquidity consequently flows upward, enabling better-off, entrepreneurial households to channel these funds to execute their investment in equities and other financial products.

- However, better-off (especially entrepreneurial) households' current preference to invest in financial assets also highlights a problem on its own. For one, it limits the multiplier effect from the government's stimulus measures, as liquidity released from the government's coffers was absorbed again into the financial system, albeit in a different instrument. As such, the current equities market rally may be better characterised as a flow game rather than genuine investments (*see Chart 3*), as evidenced by the sharp appreciation of "second liner" stocks whose

valuations are not adequately supported by underlying fundamentals.

- The real sector would benefit more if the additional liquidity were utilised for more productive investments outside of the financial market, such as business expansion that will generate demand for loans and more sustainable real economic growth. Alas, there does not seem to be much guarantee that real investments will yield higher returns than financial investments under the current macroeconomic backdrop. Real investments typically generate returns only in the medium to long term, where BI's own survey offers little cause for optimism, contrasted with the quicker gains available in the now-bullish market.
- Ergo, under the current pipeline condition, policies focused on merely adding liquidity to the system may simply widen the divergence between the real and financial sectors. The ongoing liquidity-injecting operation simply lowers the discount rate, thus increasing the expectation of returns on financial assets. Meanwhile, the real sector is not confident enough to leverage up and expand its operations. The task for the government, then, is to provide incentives that could enhance returns on investments in the domestic real

sector, such as by increasing the absorption of locally manufactured products in place of imports – an approach that would also help strengthen the domestic supply chains.

- Fortunately, there are reasons to be optimistic that the buoyant equities and financial markets will be backed by a commensurate macroeconomic condition. Foreign investors are returning lately, with inflows to the tune of USD 193.6 Mn recorded in the domestic equities market over the past week (*see Chart 4*). Returning foreign inflows to Indonesia's equities market appear to be accompanied by improving earnings expectations, which are partly driven by stronger fiscal spending realisation in H2 2025. A stronger macroeconomic landscape may therefore encourage investors to view the equities market as a genuine long-term investment opportunity rather than a mere flow game, fostering a more sustainable asset price appreciation that could, in turn, bolster household confidence in the economy once the positive wealth effect kicks in.

“A better macroeconomic backdrop would eventually be needed to sustain the rally in the equities market”

Chart 1

Keeping it debt free

Improving liquidity condition amidst widespread concern over the US (and global) fiscal condition seems to explain the higher appetite for real assets rather than debt

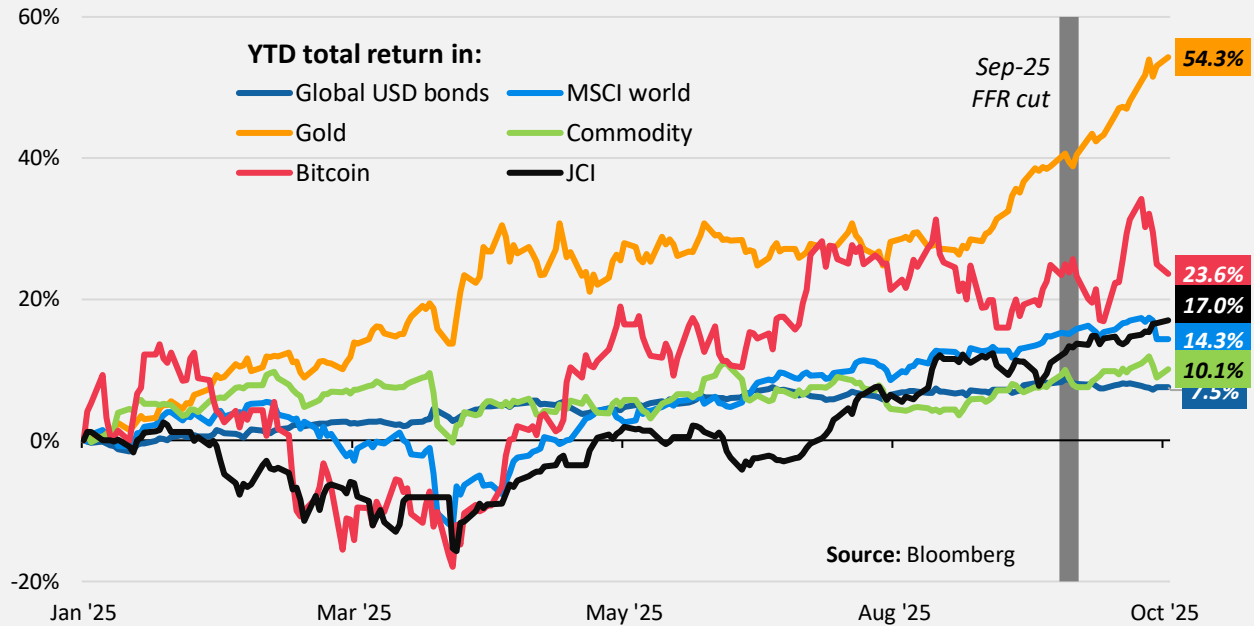


Chart 2

Relocation effect

The improvement in liquidity condition pushes domestic banks to purchase more SBN, lowering the yield that consequently push some investors back to the equities market.

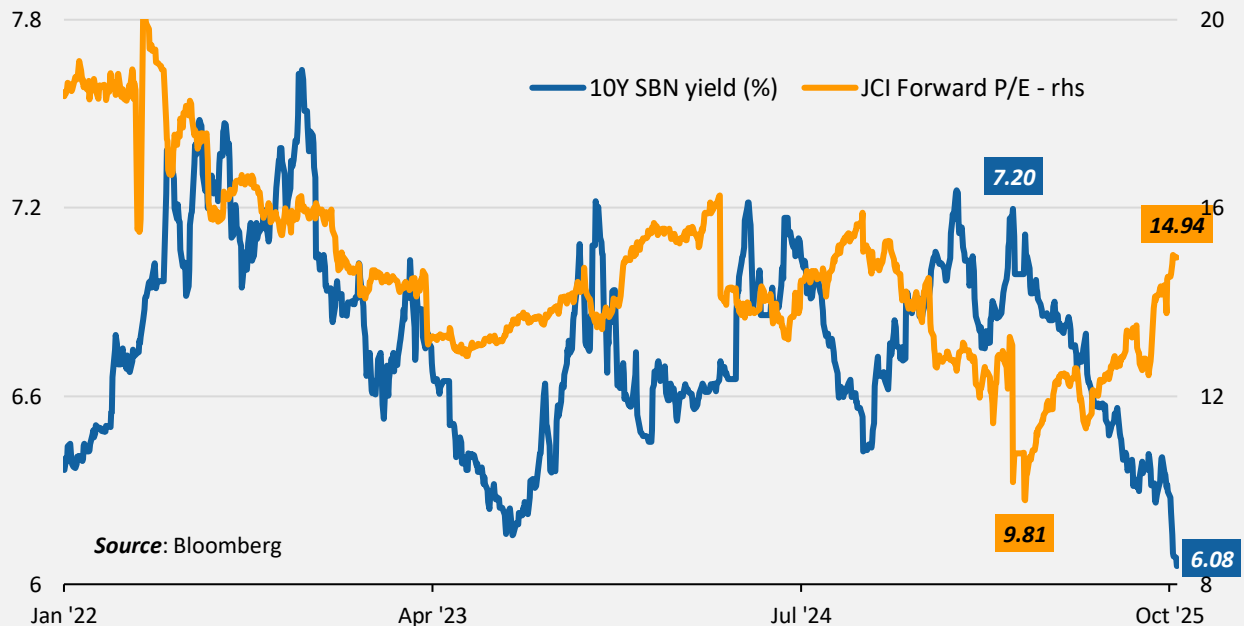


Chart 3

Here to trade?

The growing divergence between growth and fundamental stocks may indicate that investors are in the equities market for trading rather than investing.

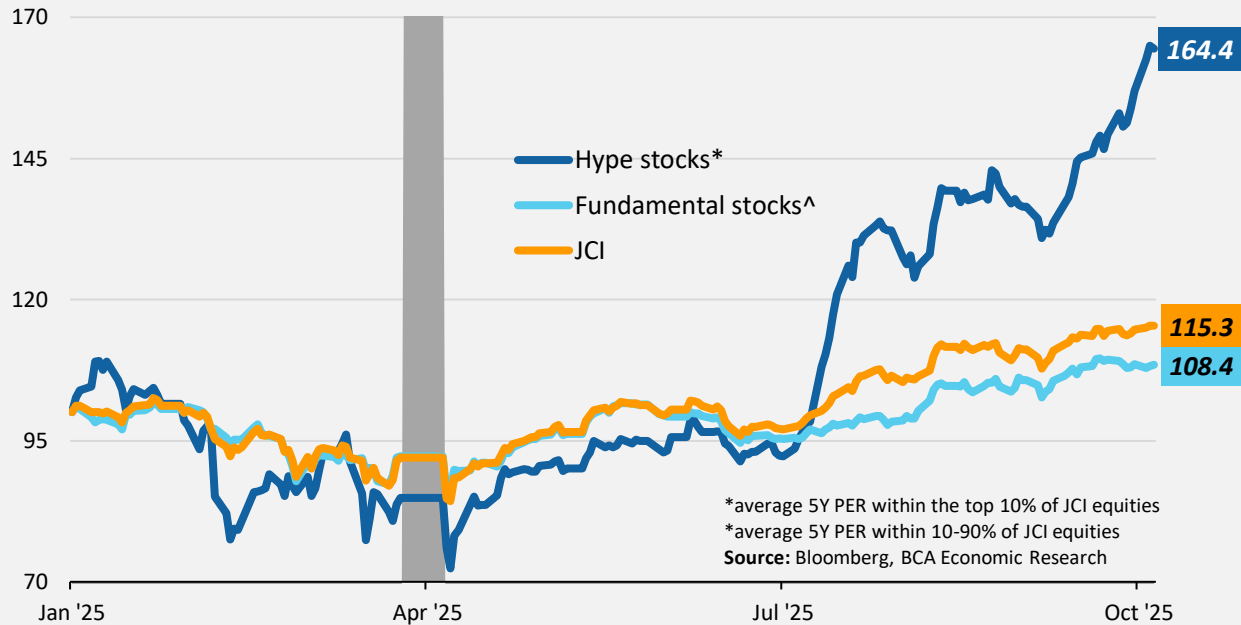
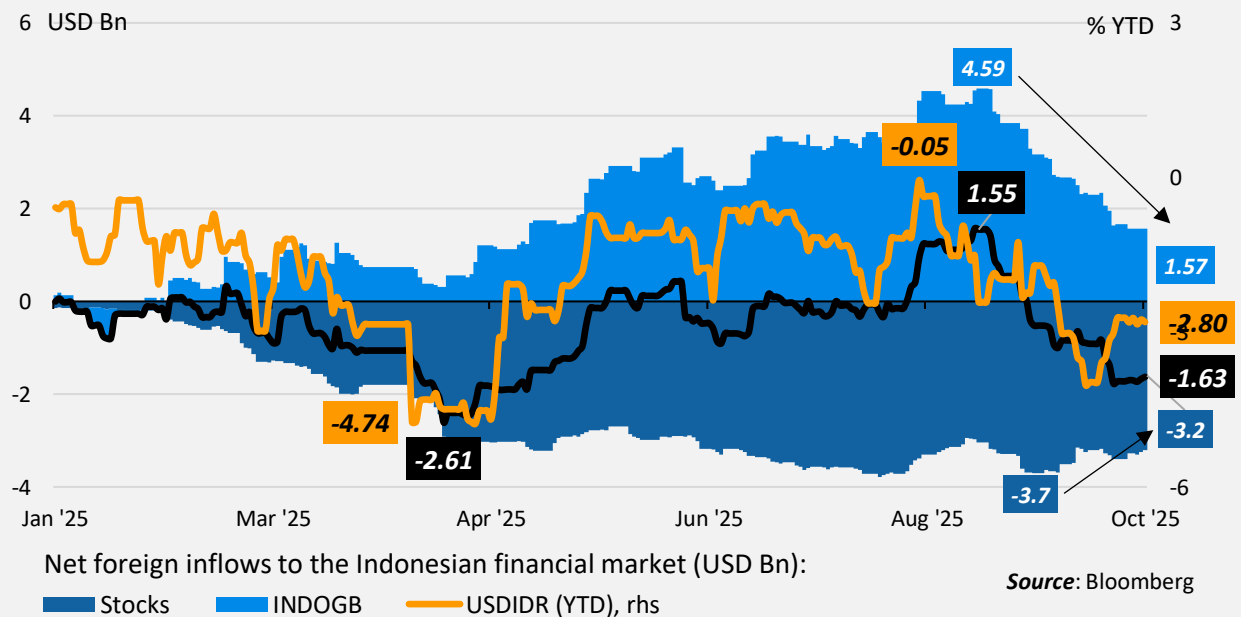


Chart 4

Foreigners inbound

The Rupiah has been relatively stable over the past week, as the now-manageable global financial market condition help to attract inflows to the domestic stocks and bond markets



Economic Calendar				
		Actual	Previous	Forecast*
01 October 2025				
ID	S&P Global Manufacturing PMI	50.4	51.5	52
ID	Trade balance (Aug-25), USD Bn	5.49	4.18	3.9
ID	Inflation Rate YoY, %	2.65	2.31	2.4
US	S&P Global Manufacturing PMI	52.0	53.0	52
06 October 2025				
EA	Retail Sales YoY, %	1.0	2.1	2.0
07 October 2025				
ID	Foreign Exchange Reserves, USD Bn	148.7	150.7	159.0
08 October 2025				
ID	Consumer Confidence	115.0	117.2	120
ID	Car Sales YoY, %	-15.1	-19.0	-
09 October 2025				
ID	Retail Sales YoY, %	3.5	4.7	3.9
ID	Motorbike Sales YoY, %	7.3	0.7	-
13 October 2025				
CN	Trade balance, USD Bn	90.45	102.33	96
15 October 2025				
CN	Inflation Rate YoY, %		-0.4	0.0
ID	Foreign Direct Investment YoY, %		-7	-6.0
US	Inflation Rate YoY, %		2.9	3.0
16 October 2025				
US	Retail Sales YoY, %		5	2.9
20 October 2025				
CN	Retail Sales YoY, %		3.4	6.2
22 October 2025				
ID	BI-Rate Decision, %		4.75	4.5
ID	Loan Growth YoY, %		7.56	7.5
23 October 2025				
ID	M2 Money Supply YoY, %		7.6	-
30 October 2025				
US	Fed Interest Rate Decision, %		4.25	4.0
31 October 2025				
US	PCE Price Index YoY, %		2.7	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 (%)	Trade & Commodities	13-Oct	-1 mth	Chg (%)
US	4.25	Sep-25	1.35	Baltic Dry Index	2,144.0	2,126.0	0.8
UK	4.00	Aug-25	0.20	S&P GSCI Index	546.5	548.4	-0.3
EU	2.15	Jun-25	-0.05	Oil (Brent, \$/bbl)	63.3	67.0	-5.5
Japan	0.50	Jan-25	-2.20	Coal (\$/MT)	108.6	106.2	2.2
China (lending)	2.00	Sep-24	4.75	Gas (\$/MMBtu)	2.90	2.86	1.4
Korea	2.50	May-25	0.40	Gold (\$/oz.)	4,110.3	3,643.1	12.8
India	5.50	Jun-25	3.96	Copper (\$/MT)	11,047.3	9,994.1	10.5
Indonesia	4.75	Sep-25	2.10	Nickel (\$/MT)	15,003.2	15,219.8	-1.4
				CPO (\$/MT)	1,044.4	1,047.1	-0.3
				Rubber (\$/kg)	1.73	1.75	-1.1
Money Mkt Rates	13-Oct	-1 mth	Chg (bps)	External Sector	Aug	Jul	Chg (%)
SPN (1Y)	4.93	5.10	-17.3	Export (\$ bn)	24.96	24.75	0.87
SUN (10Y)	6.08	6.32	-23.2	Import (\$ bn)	19.48	20.58	-5.35
INDONIA (O/N, Rp)	4.02	4.58	-56.1	Trade bal. (\$ bn)	5.49	4.17	31.50
JIBOR 1M (Rp)	5.16	5.52	-36.0	Central bank reserves (\$ bn)*	150.7	152.0	-0.84
Bank Rates (Rp)	Jun	May	Chg (bps)	Prompt Indicators	Sep	Aug	Jul
Lending (WC)	8.62	8.64	-1.78	Consumer confidence index (CCI)	115.0	117.2	118.1
Deposit 1M	4.89	4.86	2.28	Car sales (%YoY)	-15.1	-19.0	-18.4
Savings	0.71	0.70	0.82	Motorcycle sales (%YoY)	7.3	0.7	-0.5
Currency/USD	13-Oct	-1 mth	Chg (%)	Manufacturing PMI	Sep	Aug	Chg (bps)
UK Pound	0.750	0.738	-1.65	USA	52.0	53.0	-100
Euro	0.864	0.852	-1.40	Eurozone	49.8	50.7	-90
Japanese Yen	152.3	147.7	-3.02	Japan	48.5	49.7	-120
Chinese RMB	7.131	7.125	-0.08	China	51.2	50.5	70
Indonesia Rupiah	16,560	16,378	-1.10	Korea	50.7	48.3	240
				Indonesia	50.4	51.5	-110
Capital Mkt	13-Oct	-1 mth	Chg (%)				
JCI	8,227.2	7,854.1	4.75				
DJIA	46,067.6	45,834.2	0.51				
FTSE	9,442.9	9,283.3	1.72				
Nikkei 225	48,088.8	44,768.1	7.42				
Hang Seng	25,889.5	26,388.2	-1.89				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	3,846.5	3,760.3	86.20				
Govt. Bond	912.8	1,213.4	-300.66				
Corp. Bond	4.1	4.5	-0.40				

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	16,461
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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