

Bidding farewell to the QT campaign

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Summary

- Yields on the longer end of the UST market have been declining lately, which is consistent with the Fed telegraphing an end to its QT campaign.
- Continued deterioration in US banks' liquidity condition may justify an exit from QT, as improving the liquidity condition and keeping the credit pipeline open will be crucial to sustain the US growth outlook.
- How the Fed time and communicates its exit from QT will be instrumental in determining whether the policy will be a boon or a bane for the global market.

- Conditions in Indonesian financial markets appear to be mixed throughout the past week. On the exchange rate front, the Rupiah stood still at the 16,550-16,600/USD range, unbothered by Bank Indonesia's decision to delay its rate-cutting campaign and return currency stability to its official communique in the recent policy meeting.
- On the capital inflows front, foreign investors continued to pare their exposure to Rupiah-denominated debts, with outflows to the tune of USD 123.17 Mn recorded in the SBN market. Fortunately, foreign demand for Indonesian equities appears to be improving, in line with stronger earnings expectations as the government is doubling down on its commitment to bolster the domestic aggregate demand condition.

All depends on the vibes and timing

- Meanwhile, global economic uncertainties seem to have been dissipating throughout the past week. On the trade front, reports from talks between American and Chinese trade representatives have been positive, which may return the global trade order to the status quo ante China's additional export controls. On the monetary policy front, the lower-than-expected rise in US CPI inflation (3.0% YoY in Sep-2025, 0.3% MoM) should embolden the Fed to press ahead with its rate-cutting campaign, which has become increasingly urgent as the chill from the US government shutdown freezes the demand for labour in the US economy.
- Fed Chairman Jerome Powell also remarked that the central bank's policy pivot may extend beyond merely delivering on its rate-cut signals. He stated that **normalising the Fed's balance sheet to its pre-pandemic level has**

never been the objective, suggesting that the balance sheet runoff (more popularly known as quantitative tightening) could be halted even while reserves remain ample.

- **However, liquidity within the US banking system does not appear to be at the level FOMC officials would describe as ample (see Chart 1).** Warning signals have been flashing in the US overnight lending market, as indicated by SOFR rates consistently nudging above the interest on reserves balance (IORB) in recent weeks. The Fed’s reverse repo facility has also been virtually inactive, further suggesting that US banks are now scrambling for liquidity.
- The liquidity shortage among American banks could be linked to several developments. First, the recent collapse of a subprime auto lender has highlighted credit risks within the US financial sector, prompting banks to brace for potential contagion risks. **Another, probably more significant factor behind the decline in US banks’ liquidity conditions is the ongoing TGA refill operation (see Chart 2).** As many have observed, the US government has been quick to issue new debt and rebuild its cash reserves, following the debt ceiling increase as the OBBA was signed into law in early July 2025.
- Hence, while doing so may not resemble a soft-landing scenario, **the Fed may already have a solid case for ending its QT campaign.** Indeed, an internal Fed paper (co-authored by New York Fed President John Williams) identifies a 13% ratio of bank reserves to total bank assets as the threshold indicating that banks’ demand for reserves is properly satiated – a ratio that

has fallen below this benchmark in recent weeks (as highlighted in Chart 2).

- The Fed’s need to improve liquidity conditions within the US financial sector, whether by terminating QT or through other means, extends beyond mere stabilisation policies. Restoring ample liquidity may help dispel the aforementioned contagion fears in both banking and non-bank sectors, thereby unclogging the financial plumbing that would secure the supply of credit.
- It is no surprise, then, that investors have been reacting positively to the Fed signalling an end to its QT campaign. For instance, Chairman Powell’s remarks on the possibility of the Fed ending QT have reenergised the longer-end of the UST market (**see Chart 3**), briefly pulling the benchmark 10Y UST yield below the 4% level for the first time since early April 2025, when the announcement of “reciprocal” tariffs rattled both US and global growth outlooks.
- However, **whether the telegraphed QT-halt will prove a boon or a bane for the global economy may depend on the timing of its execution by the Fed.** Stopping it too late, then the market may perceive the QT-halt as a response to the already-apparent slowdown in the US economy. The market, then, may interpret the Fed’s action as a signal for a pronounced ‘risk-off’ sentiment, leading to a flight to safe-haven assets that may exacerbate outflows from riskier markets (such as the Indonesian market)
- In contrast, stopping QT too soon may reinforce expectations that the Fed will be too ready to intervene at the slightest hint of a slowdown, ushering in a period of excess

“A premature QT exit may strengthen popular expectations that the Fed will be too ready to intervene at the slightest hint of slowdown”

global liquidity that in previous episodes had fuelled disproportionate asset price appreciation. Indeed, some analysts have drawn parallels to such a scenario, noting that mere signs of US economic weakness have strengthened popular calls for the Fed to loosen its policy, which in turn has coincided with rallies in both safe assets (such as gold) and risky assets (such as AI stocks and cryptocurrencies).

- Echoing the global condition, some of Indonesia's economic problems can be traced

to this very scenario, as previous episodes of abundant global liquidity have led to imprudent capital allocation domestically. However, it could also be argued that the Indonesian economy is now better suited to withstand the latter scenario, given the tighter public-private coordination in executing the government's economic vision. Nevertheless, a careful assessment of the environment in which the Fed may halt QT will be important, as such an assessment will be crucial in determining the flexibility and space for BI to tweak its monetary policy posture.

Chart 1

Dried up

Liquidity is drying up from the US' overnight lending market, leading to a persistently high overnight rate that prompted the Fed to signal an end to the QT campaign

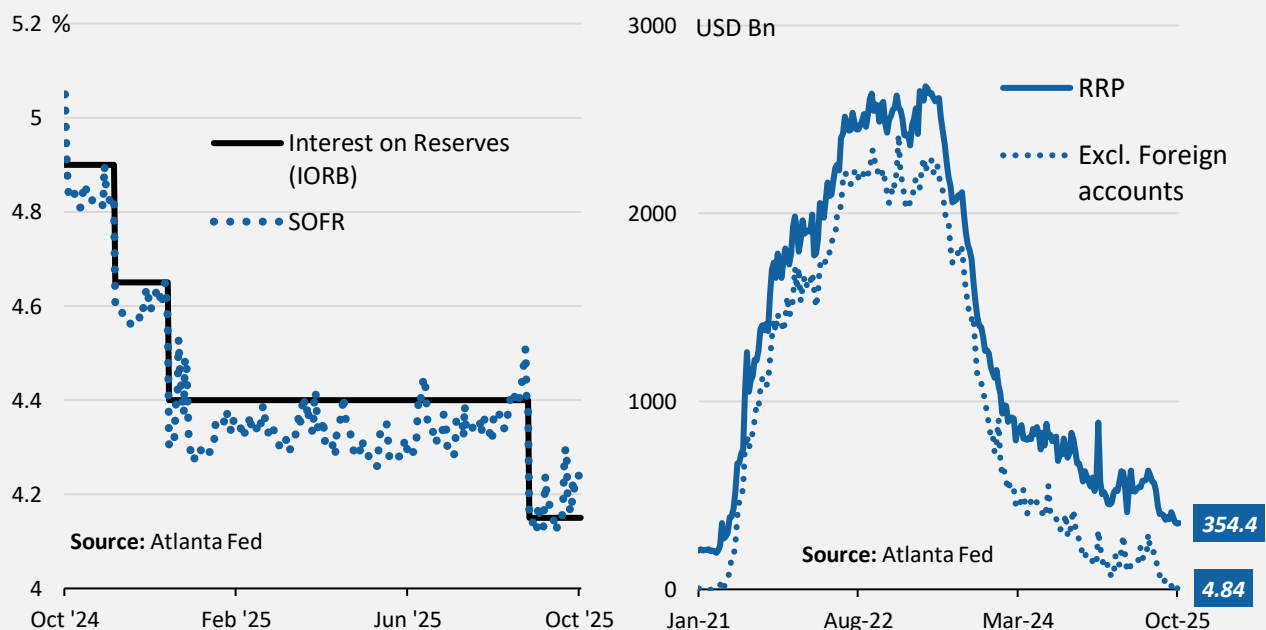


Chart 2

Flowing out of banks and into the government's coffers

The ongoing TGA refill operation following an increase in the US debt ceiling explains the decline in bank reserves

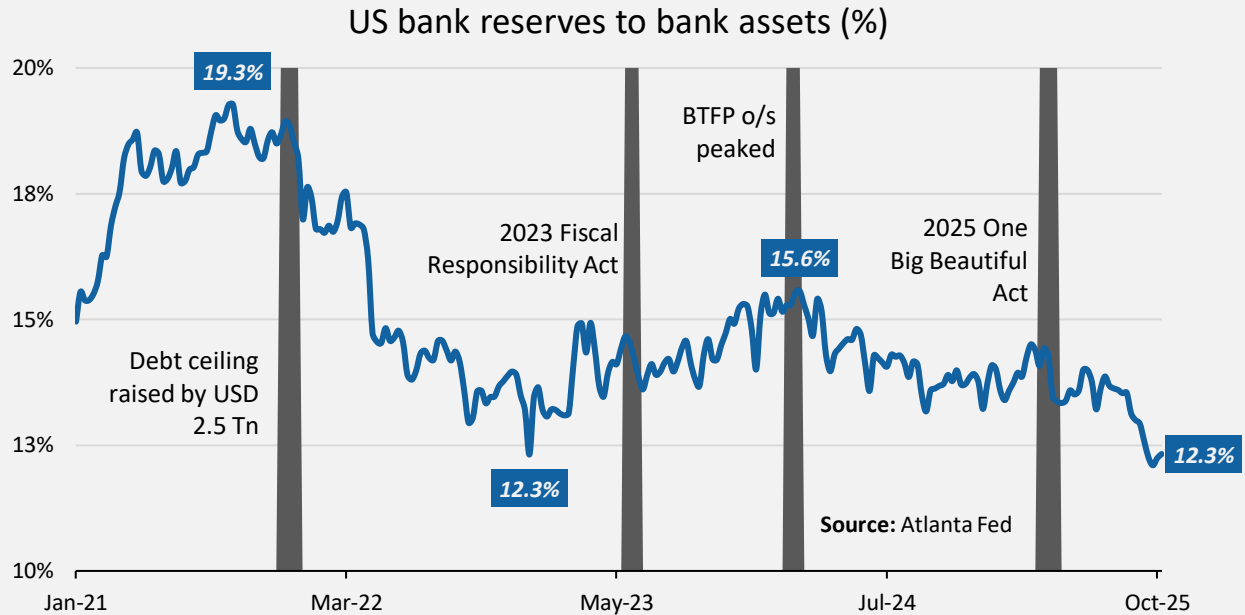


Chart 3

Bull flattener

Fed chairman has laid out a condition in which the Fed could exit from QT, leading to lower yields in long-term USTs relative to shorter-dated USTs

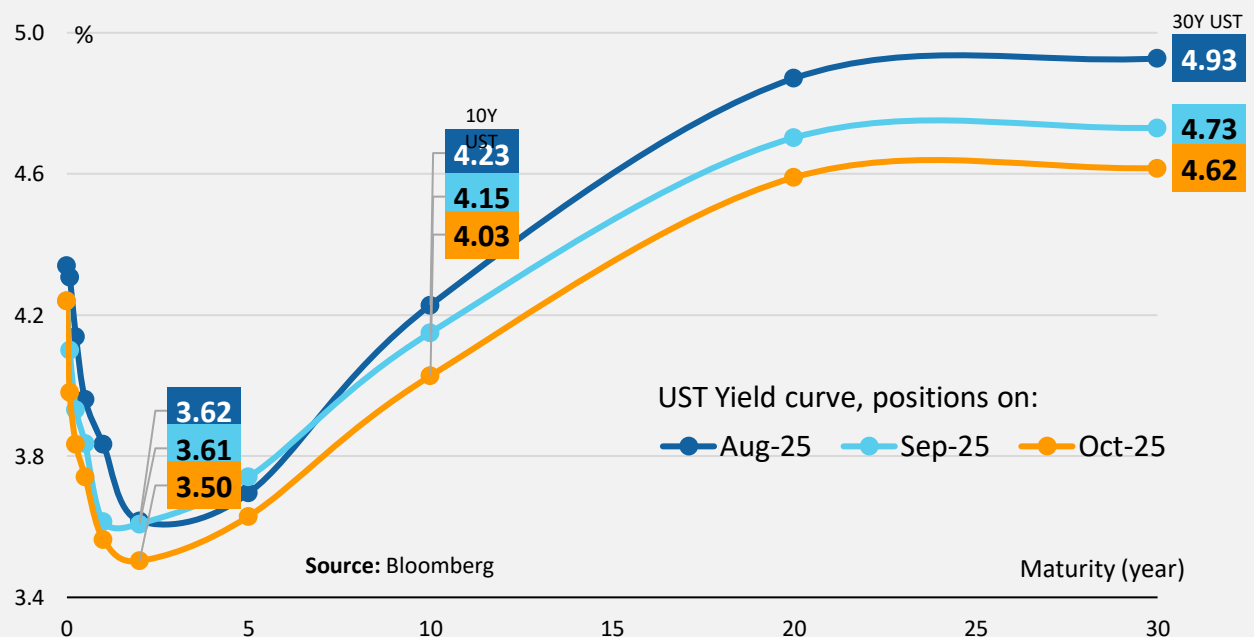
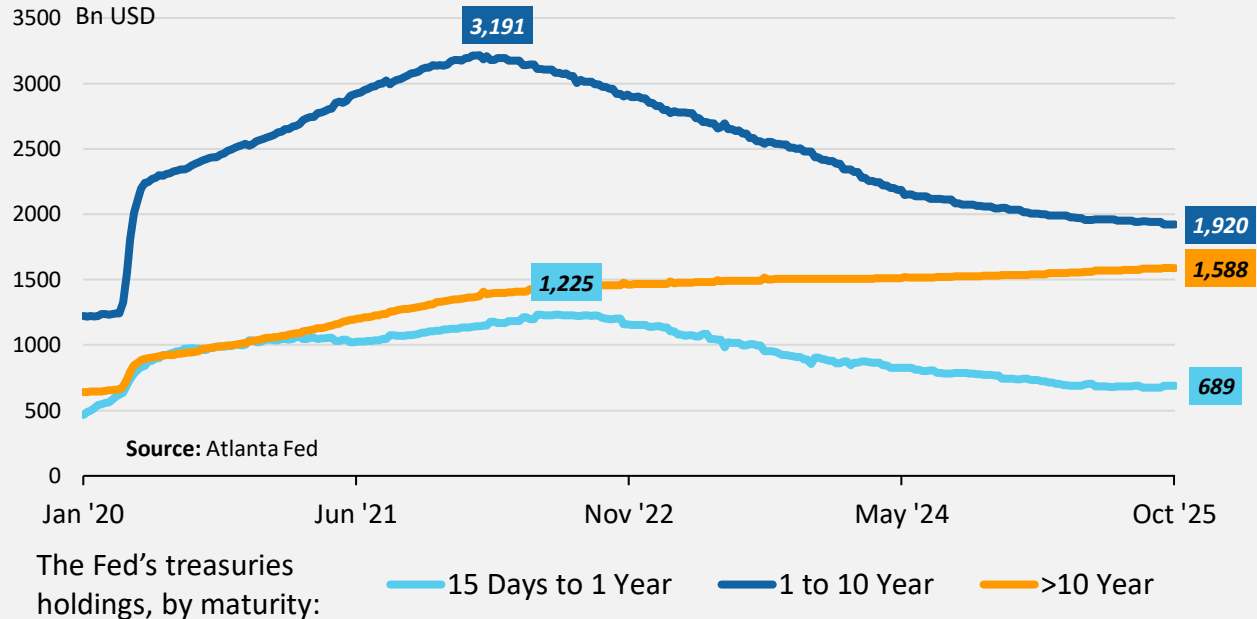


Chart 4

Additional support

Putting an end to QT, along with the continuous increase in retail MMFs outstanding and FFR cut expectations, may bolster support on the shorter end of the Treasury market.



Economic Calendar

		Actual	Previous	Forecast*
17 October 2025				
ID	Foreign Direct Investment YoY, %	-8.9	-7	-6.0
20 October 2025				
CN	Retail Sales YoY, %	3	3.4	3.3
22 October 2025				
ID	BI-Rate Decision, %	4.75	4.75	4.5
ID	Loan Growth YoY, %	7.7	7.56	7.5
23 October 2025				
ID	M2 Money Supply YoY, %	8.0	7.6	-
24 October 2025				
US	Inflation Rate YoY, %	3	2.9	3.0
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	24-Oct	-1 mth	Chg (%)
US	4.25	Sep-25	1.25	Baltic Dry Index	1,991.0	2,200.0	-9.5
UK	4.00	Aug-25	0.20	S&P GSCI Index	559.1	551.5	1.4
EU	2.15	Jun-25	-0.05	Oil (Brent, \$/bbl)	65.9	67.6	-2.5
Japan	0.50	Jan-25	-2.40	Coal (\$/MT)	110.7	110.0	0.6
China (lending)	2.00	Sep-24	4.65	Gas (\$/MMBtu)	3.21	2.86	12.2
Korea	2.50	May-25	0.40	Gold (\$/oz.)	4,113.1	3,764.0	9.3
India	5.50	Jun-25	3.96	Copper (\$/MT)	10,936.5	9,901.4	10.5
Indonesia	4.75	Sep-25	2.10	Nickel (\$/MT)	15,166.9	15,180.7	-0.1
Money Mkt Rates	24-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,042.2	1,019.5	2.2
SPN (1Y)	4.67	4.97	-29.2	Rubber (\$/kg)	1.77	1.74	1.7
SUN (10Y)	5.98	6.33	-35.3	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	4.00	4.12	-12.0	Export (\$ bn)	24.96	24.75	0.87
JIBOR 1M (Rp)	5.10	5.19	-8.9	Import (\$ bn)	19.48	20.58	-5.35
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	5.49	4.17	31.50
Lending (WC)	8.62	8.64	-1.78	Central bank reserves (\$ bn)*	150.7	152.0	-0.84
Deposit 1M	4.89	4.86	2.28	Prompt Indicators	Sep	Aug	Jul
Savings	0.71	0.70	0.82	Consumer confidence index (CCI)	115.0	117.2	118.1
Currency/USD	24-Oct	-1 mth	Chg (%)	Car sales (%YoY)	-15.1	-19.0	-18.4
UK Pound	0.751	0.739	-1.59	Motorcycle sales (%YoY)	7.3	0.7	-0.5
Euro	0.860	0.846	-1.59	Manufacturing PMI	Sep	Aug	Chg (bps)
Japanese Yen	152.9	147.6	-3.41	USA	52.0	53.0	-100
Chinese RMB	7.123	7.113	-0.13	Eurozone	49.8	50.7	-90
Indonesia Rupiah	16,595	16,665	0.42	Japan	48.5	49.7	-120
Capital Mkt	24-Oct	-1 mth	Chg (%)	China	51.2	50.5	70
JCI	8,271.7	8,125.2	1.80	Korea	50.7	48.3	240
DJIA	47,207.1	46,292.8	1.98	Indonesia	50.4	51.5	-110
FTSE	9,645.6	9,223.3	4.58				
Nikkei 225	49,299.7	45,493.7	8.37				
Hang Seng	26,160.2	26,159.1	0.00				
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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