

Another year for getting “physical”?

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Summary

- Tangible assets have been recording stronger growth than paper assets such as sovereign debts over the past year, highlighting a shift in investors' preferences amidst widespread concerns over global debt sustainability.
- Heightened geopolitical uncertainty and inflation concerns mean that the current global landscape may remain supportive for tangible assets relative to paper assets.
- Continued uptrend in gold prices may skew some of Indonesia's economic indicators upwards, adding to the challenge in observing the domestic aggregate demand condition.

▪ An atmosphere of anticipation and caution characterised the beginning of last year, as the US administration transitioned to a Republican-controlled trifecta. This year, the beginning of the year was marked by the sound of blazing guns. The US government has moved swiftly on Venezuela, creating a power vacuum in the oil-rich nation that spells uncertainties for the global oil market in the period to come. The Fed's policy direction also feeds into the overall sense of uncertainty in the short term, considering that Jerome Powell will lead another three FOMC meetings before ending

his tenure as Fed chairman at the end of May 2026.

▪ Despite the heightened uncertainties surrounding the Fed's and global monetary policies since last year, **it is worth noting that the market was largely correct in predicting where the FFR would stand by the end of the year**. While the US inflation reading has been pushing upwards since Q2-2025, the hawkish camp has arguably been losing out in 2025, as the declining non-farm payroll numbers prompted the Fed to swiftly cut its rates in Q2-2025.

When rocks beat papers

▪ While the global monetary policy setting has evidently swung toward a more accommodative stance in 2025, **the improving liquidity conditions do not appear to have indiscriminately lifted valuations across all asset classes (see Table 1)**. For instance, the

strong rally in cryptocurrency and other digital asset markets stalled following the FFR cut in September 2025, before eventually nosediving as the Fed continued to cut its rate between October and November 2025, ending the

stellar performance recorded over the previous couple of years.

- Like digital asset markets, **investors in the debt market appear to have little to cheer from lower policy rates in the US and globally**. Yields on European sovereign bonds remain stubbornly high despite a sizable 91.1 bps YTD reduction in the ECB's overnight rate, with long-term yields rising by as much as 66.7 bps YTD. While the situation is less acute in the US, yields on Treasury notes and bonds have also largely failed to track the more pronounced decline in policy rates, leaving Treasury investors with returns only marginally above the inflation rate.
- There are a couple of factors that may explain the disconnect between short- and long-term yields. First, the gradual unwinding of the JPY carry trade – triggered by rising JGB yields – has diminished foreign demand for bonds, while China's lower USD surplus amidst the episodic rise in trade tensions may have curtailed its capacity to recycle savings into US government securities. Together, these developments suggest a **partial reversal of the “excess savings” dynamic that helped suppress global bond yields over the previous decade**.
- Second, and possibly more crucial in explaining the disconnect is the growing concerns over the US and other developed economies' fiscal sustainability, as reflected in the rising term premia on US Treasuries. Elevated issuance needs and questions surrounding medium-term fiscal sustainability have led investors to demand greater compensation for holding longer-dated sovereign debt, weakening the

“Concerns over unsustainable global debt level may explain investors’ shifting preference from paper to physical assets”

traditional anchoring role of policy rates on the yield curve.

- **Growing concerns over the sustainability of US and global debt may also explain the increasingly evident shift in investor preferences away from sovereign debt instruments toward more tangible assets**, such as equities and non-energy commodities. Indeed, these markets have trended higher following the 2025 Jackson Hole Conference (*see Chart 1*), during which Fed Chairman Powell strongly hinted at what would be the first rate cut of 2025.
- What differentiates the two markets as we move past 2025, however, is where investors seemingly place their concerns. Much has been written about the risk of valuation bubbles in the US equities market, while in the Indonesian equities market, the government's tighter control over domestic economic levers appears to be adding a distinct dynamic to equity prices; one that some foreign investors perceive as being less market-led and, therefore, discouraging their participation.
- In contrast, concerns for non-energy commodity markets (primarily industrial metals) are focused mainly on whether supply can meet growing demand. Indeed, companies in the metal-producing sectors have been recording lower CAPEX realisation despite minerals' crucial role in supporting the global push for energy transmission, as factors ranging from high costs of capital and bureaucratic red tape complicate mining capacity expansion in some mineral-rich countries.

- While returns on equities and industrial metals have been exceptional, any kaleidoscopic writing aiming to describe cross-asset performance in 2025 would be incomplete without taking gold into account. Although gold prices have recorded a strong run since 2023 amid reports of increased central bank purchases, the rally has accelerated in 2025 as a broader set of investors (including households) has joined the party. **Supportive factors, such as heightened geopolitical uncertainty and still-elevated inflation risks, remain firmly in place at the start of the new year**, underpinning the still-golden outlook for gold prices in the months ahead.
- To conclude with a side note, the fact that most Indonesian households are more attentive to gold prices than to any other asset prices means that, for better or worse, **a continued rally in gold prices may imprint a more sizable effect on the Indonesian economy than similar conditions in other asset markets**, perhaps, with the possible exception of the SBN market.
- For instance, a continued rise in gold prices may skew certain economic indicators upward, notably household consumption and price

indices (**see Chart 2**). In other words, consumer spending indices and inflation figures may signal a sizable improvement in domestic aggregate demand as gold prices continue to move higher, even though underlying conditions may differ, given the limited spillover of gold purchases into other economic activities.

- Therefore, it is crucial to avoid claiming an early victory over the current domestic challenge of weak private aggregate demand growth, as **increases in consumer transaction data and inflation may remain gold-driven and, thus, cannot be equated with a genuine rise in household consumption**. This concern is particularly relevant for the public sector, as another slowdown in fiscal realisation – or, worse, a premature withdrawal of fiscal support – could halt the ongoing uptrend in household consumption from growing further.

"Apart from SBN yields, gold prices may have a greater real impact on the Indonesian economy than most other assets"

Table 1

The year for physical assets

Poly-uncertainties throughout 2025 lead to physical assets rising higher in 2025 while debt and digital assets are climbing down the ladder

2023		2024		2025	
Asset class	YTD total returns	Asset class	YTD total returns	Asset class	YTD total returns
Bitcoin	152.2%	Bitcoin	118.6%	Commodity: Gold	63.6%
Crypto ex.Bitcoin	96.5%	Crypto ex.Bitcoin	74.8%	Equities: Emerging markets	30.9%
Equities: US Large Cap	24.7%	Commodity: Gold	28.6%	Equities: Asia-Pacific	25.5%
Commodity: Gold	12.2%	Equities: US Large Cap	25.0%	Equities: Indonesia JCI	20.7%
Equities: US Equal-weighted	11.7%	Debt: Asia USD High Yield	14.2%	Commodity: Metals	17.7%
US REIT	11.2%	Equities: US Equal-weighted	12.6%	Equities: US Large Cap	15.2%
Debt: Indonesia SBN	8.8%	Equities: Asia-Pacific	9.4%	Debt: Indonesia SBN	12.1%
Debt: US Corporates	8.1%	Equities: Emerging markets	7.2%	Debt: Asia USD High Yield	9.4%
Equities: Asia-Pacific	8.1%	US REIT	6.2%	Equities: US Equal-weighted	8.7%
Debt: Asia USD BBB-/higher	7.3%	Debt: US T-Bills	5.3%	Debt: Asia USD BBB-/higher	8.2%
Equities: Emerging markets	6.4%	Debt: Indonesia SBN	4.8%	Debt: US Corporates	7.9%
Debt: Europe Sovereign	5.8%	Debt: Asia USD BBB-/higher	4.0%	Debt: US T-Bonds	6.0%
Equities: Indonesia JCI	5.6%	Debt: US Corporates	2.9%	Debt: US T-Bills	4.3%
Debt: US T-Bills	5.1%	Debt: Europe Sovereign	2.0%	US REIT	2.0%
Debt: Asia USD High Yield	4.7%	Commodity: Metals	0.3%	Debt: Europe Sovereign	1.2%
Debt: US T-Bonds	1.9%	Equities: Indonesia JCI	-2.7%	Bitcoin	-11.1%
Commodity: Metals	-13.8%	Debt: US T-Bonds	-5.9%	Commodity: Energy	-14.2%
Commodity: Energy	-20.8%	Commodity: Energy	-6.3%	Crypto ex.Bitcoin	-24.4%

Source: Bloomberg. Numbers provided reflects annual gross

Chart 1

Money chases rock

Traders start to take positions in the copper market following signs of FFR cuts, despite trade uncertainties are still putting a clamp on industrial activities

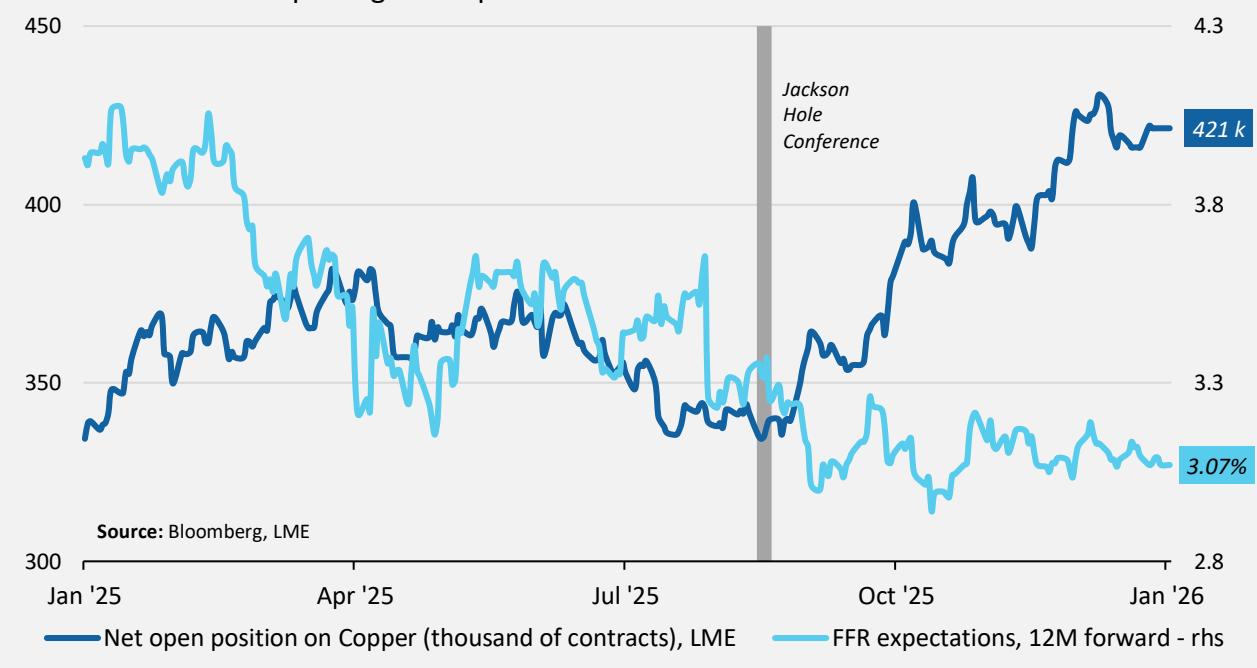
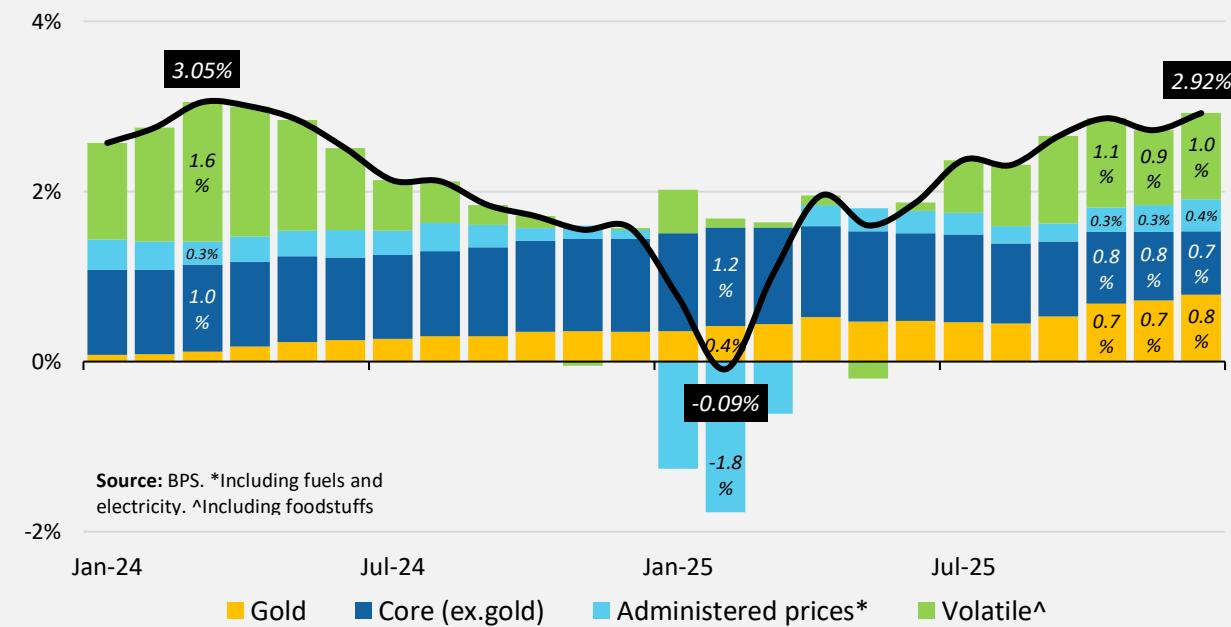


Chart 2

Blinded by gold

Continued rally in gold prices mean Indonesia's core inflation reading may remain skewed upward, joining other forces in explaining the spike in headline inflation number.



Economic Calendar				
		Actual	Previous	Forecast*
05 January 2026				
ID	Trade balance (Oct-25), USD Bn	2.66	2.4	2.7
ID	Inflation Rate YoY, %	2.92	2.72	2.5
08 January 2026				
US	Trade balance (Oct-25), USD Bn		-52.8	-54.0
ID	Foreign Exchange Reserves, USD Bn		150.1	-
09 January 2026				
CN	Inflation Rate YoY, %		0.7	0.7
ID	Consumer Confidence		124.0	-
EA	Retail Sales YoY, %		1.5	1.9
ID	Motorbike Sales YoY, %		2.1	-
ID	Car Sales YoY, %		-0.8	-
US	Non Farm Payrolls, th		64	45.0
12 January 2026				
ID	Retail Sales YoY, %		4.3	-
13 January 2026				
US	Inflation Rate YoY, %		2.7	-
14 January 2026				
CN	Trade balance, USD Bn		111.68	105
US	Retail Sales YoY (Nov-25), %		3.5	3.0
15 January 2026				
ID	Loan Growth YoY, %		7.74	-
ID	BI-Rate Decision, %		4.75	4.75
US	Retail Sales YoY (Dec-25), %		-	-
16 January 2026				
CN	Retail Sales YoY, %		1.3	-
23 January 2026				
ID	M2 Money Supply YoY, %		8.3	-
29 January 2026				
US	Fed Interest Rate Decision, %		3.75	3.75
US	Trade balance (Nov-25), USD Bn		-	-53.0
US	PCE Price Index YoY (Oct), %		2.8	2.8
30 January 2026				
ID	Foreign Direct Investment YoY, %		-	-

*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	05-Jan	-1 mth	Chg (%)
US	3.75	Dec-25	1.05	Baltic Dry Index	1,882.0	2,727.0	-31.0
UK	3.75	Aug-25	0.55	S&P GSCI Index	548.0	564.7	-3.0
EU	2.15	Jun-25	0.05	Oil (Brent, \$/brl)	60.3	63.8	-5.5
Japan	0.75	Jan-25	-2.15	Coal (\$/MT)	105.5	109.7	-3.8
China (lending)	2.00	Sep-24	3.65	Gas (\$/MMBtu)	3.99	5.19	-23.1
Korea	2.50	May-25	0.20	Gold (\$/oz.)	4,421.5	4,197.8	5.3
India	5.25	Jun-25	4.54	Copper (\$/MT)	12,508.1	11,643.6	7.4
Indonesia	4.75	Sep-25	1.83	Nickel (\$/MT)	16,676.3	14,749.0	13.1
Money Mkt Rates	05-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	978.7	997.9	-1.9
SPN (1Y)	4.51	4.75	-23.3	Rubber (\$/kg)	1.86	1.74	6.9
SUN (10Y)	6.07	6.18	-10.6	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	4.00	4.16	-15.2	Export (\$ bn)	22.52	24.24	-7.08
JIBOR 1M (Rp)	5.03	5.03	-0.4	Import (\$ bn)	19.86	21.84	-9.08
Bank Rates (Rp)	Oct	Sep	Chg (bps)	Trade bal. (\$ bn)	2.66	2.39	11.23
Lending (WC)	8.30	8.46	-16.00	Central bank reserves (\$ bn)*	150.1	149.9	0.09
Deposit 1M	4.75	4.96	-21.00	Prompt Indicators	Oct	Sep	Aug
Savings	0.68	0.70	-2.00	Consumer confidence index (CCI)	121.2	115.0	117.2
Currency/USD	05-Jan	-1 mth	Chg (%)	Car sales (%YoY)	-4.4	-15.1	-19.0
UK Pound	0.745	0.750	0.71	Motorcycle sales (%YoY)	8.4	7.3	0.7
Euro	0.856	0.859	0.38	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	157.1	155.3	-1.10	USA	51.8	52.2	-40
Chinese RMB	6.981	7.071	1.29	Eurozone	48.8	49.6	-80
Indonesia Rupiah	16,746	16,644	-0.61	Japan	50.0	48.7	130
Capital Mkt	05-Jan	-1 mth	Chg (%)	China	50.1	49.9	20
JCI	8,819.4	8,632.8	2.16	Korea	50.1	49.4	70
DJIA	48,382.4	47,955.0	0.89	Indonesia	51.2	53.3	-210
FTSE	9,951.1	9,667.0	2.94				
Nikkei 225	51,832.8	50,491.9	2.66				
Hang Seng	26,308.5	26,085.1	0.86				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	4,186.7	4,017.6	169.11				
Govt. Bond	878.7	1,343.0	-464.38				
Corp. Bond	4.7	4.1	0.64				

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	2026E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5014	5362
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8	2.5
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75*	4.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.05*	6.50
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,468*	16,784
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,690*	16,842
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	40.0	33.8
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	0.0	-0.4

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (*) for 2025 are final; other numbers for 2025 are our projections

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