Separating the good from the bad

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Summary

- The Rupiah is not alone in facing depreciation pressures despite the weakening DXY index, as the USD remain relatively stable against some Asian currencies.
- Despite its less-flexible policy signal, the solid FX reserve may help to deter speculators while also allows BI to be more active in the currency market.
- FFR cut expectations, and improving outlook on anchor Asian currencies, may open the room for BI to deliver on its rate cut signals.

- Last week was a topsy-turvy one for the global financial sector. News flow was centred on the World Economic Forum, where another round of tariff threats hung in the air as US President Trump clashed with his European counterparts over the Greenland issue. Fortunately, the US President soon tempered his maximalist demand, claiming that a framework for a deal had been agreed with NATO, while the US financial market bore the brunt of his assault on European economies and security infrastructure.
- Similar to the weeks leading up to the announcement of "reciprocal" tariffs, **President Trump's efforts to reshape global trade and politics in his own image have led to another instance of a "Sell America" event**. The DXY index depreciated by 1.80% since the start of the WEF, as the market is fretting over the long-term relevance of the USD, with the US government appearing increasingly willing to weaponise the currency – even against its NATO allies. At the same time, the 10Y UST yield briefly touching 4.3%, its highest level since August 2025. However, **the risk of European investors de-risking from the USD market may have been overstated**, given the high share of European UST investors that are domiciled in the trio of Europe's financial centres (Ireland, Belgium, and Luxembourg).
- Recent developments in the global financial market have raised some interesting questions among macroeconomic watchers in Indonesia. The main concern centres on the depreciating Rupiah, which fell by as much as 1.56% YTD last week – as if the currency had missed the memo that the USD has been trending south over the same period. Indeed, the seemingly unrelenting depreciation pressure on the Rupiah, despite the USD's own weakness, has been cited as a sign of idiosyncratic risk undermining the currency, with a cohort of analysts pointing to expectations of loosening fiscal discipline and weakening central bank independence as sources of the risk.

Highlighting the good from the currency

- The market, of course, is vindicated in its concern and scepticism over the Rupiah. Indonesia's fiscal balance has indeed been trending lower over the past couple of years, which – coupled with a narrow tax base, a growing interest burden, and the government's extensive spending programmes – has sparked expectations of even deeper deficits in the years ahead.
- Similarly, the market is also justified in perceiving closer policy coordination between the monetary and fiscal authorities, given the central bank's expanded mandate and the growing amount of public debt on its balance sheet. What some in the market should note, however, is that these concerns are not unique to the Rupiah, as **worries over long-term debt sustainability, and the resulting risks to central banks' policy indepen-dence, have also been eroding confidence in fiat currencies across economies worldwide.**

"The Rupiah's previous weakness may not be viewed solely as a reflection of idiosyncratic domestic factors"

- It is also important to note that the Rupiah has not been alone in experiencing downward pressure amidst the USD's recent weakness. While the DXY index (which tracks the USD's exchange rate against a basket of other G6 currencies) has moved southward over the past week, the greenback's performance against Asian currencies has remained largely stable ***(see Chart 1)***. **This divergence suggests that the Rupiah's underwhelming perfor-mance may also reflect a broader pattern of relative weakness across Asian currencies**, rather than a narrow reflection of idiosyncratic domestic factors.
- Asian currencies' comparatively weaker performance against the USD is not unex-pected. Many analysts have downgraded their expectations for Asia's growth prospects, as persistently elevated trade uncertainties continue to weigh heavily on the region's export-oriented growth model. **Ongoing volatility in Asia's anchor economies, most notably Japan, added to the pressures on Asian currencies**, limiting capital inflows into the region and constraining currency appreciation even amidst a broadly weaker US Dollar.
- In this context, the Rupiah may claim some exceptional status compared with other Asian currencies. For instance, Indonesia's domestically ori-ented growth model means that its growth outlook is less sensitive to the growing uncertainties in the global supply chain, although fiscal sustain-ability remains a key question in this assessment.
- Moreover, Indonesia's commodity-heavy trade pattern may also shield its export demand from the vicissitudes of trade and tariff policies, as key commodities (such as copper, nickel, and other industrial metals) are often subject to more lenient tariff regimes. Theoretically, **Indonesia's relatively guarded position should command a premium for the Rupiah if global uncertainties continue to flare up**, especially now given that the currency appears to have oversold relative to its emerging market peers ***(see Chart 2)***.
- Finally, Bank Indonesia plays a major part in our argument for a more stable Rupiah in the

short-term, contrasting the widespread concerns over the central bank's policy independence. The need to boost its pro-growth credentials may have constrained BI's flexibility in adjusting its policy rate signal, while popular (although not necessarily well-informed) narratives have also been growing against the central bank's liquidity absorption operations. Thankfully, **ample FX reserves mean that BI could mobilise its last exchange rate stabilisation tool, namely market interventions, with a higher level of urgency.** The growing FX reserves position also provides a solid buffer against the risk of continued capital outflows ***(see Chart 3)***, which may help to deter speculators and, thus, lessen the risk of episodic pressures on the Rupiah's value.

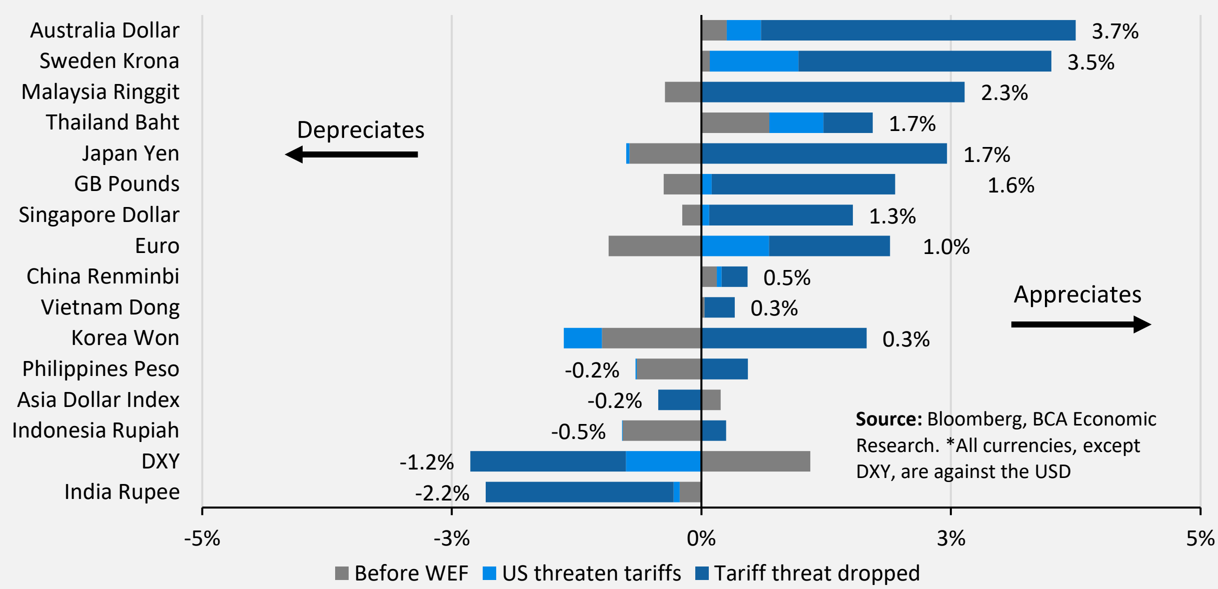
- Thankfully, BI may not need to be particularly active in the currency market at the moment. The JPY is currently rallying past its two-month high, fuelled by reports of a coordinated USD/JPY intervention that necessarily adds to the Dollar's weakness. The market also remains resolved in its outlook for a 50 bps FFR cut in 2026, although the timeline has been delayed to H2-2026. **The condition in 2026 may thus develop in a way that would be accommodative for BI to realise its rate cut signals**, although whether further rate cuts will translate to higher and more balanced loan growth would remain a question of demand rather than supply.

Chart 1

Stronger against the east

The DXY index weakens amidst the Greenland crisis but remains stable against Asian currencies, meaning that recent currency weaknesses are not unique to the Rupiah

2026 YTD changes in exchange rate*

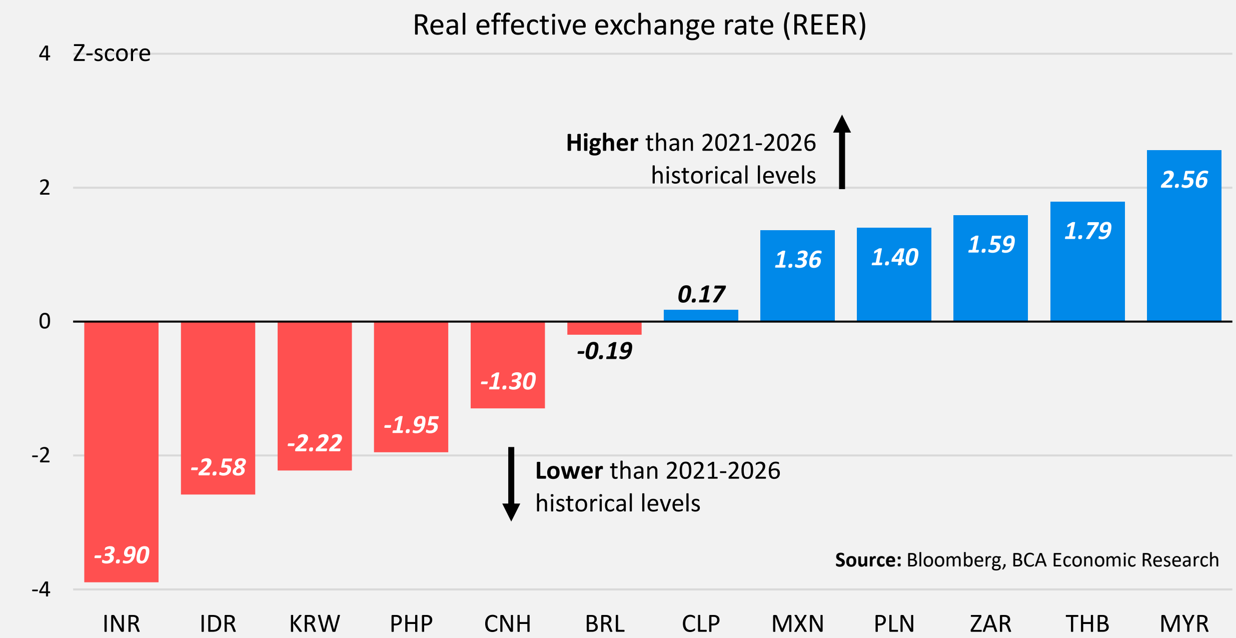


Source: Bloomberg, BCA Economic Research. *All currencies, except DXY, are against the USD

Chart 2

REER-view

The Rupiah's lower REER highlight the currency's relative attractiveness compared to other emerging market currencies

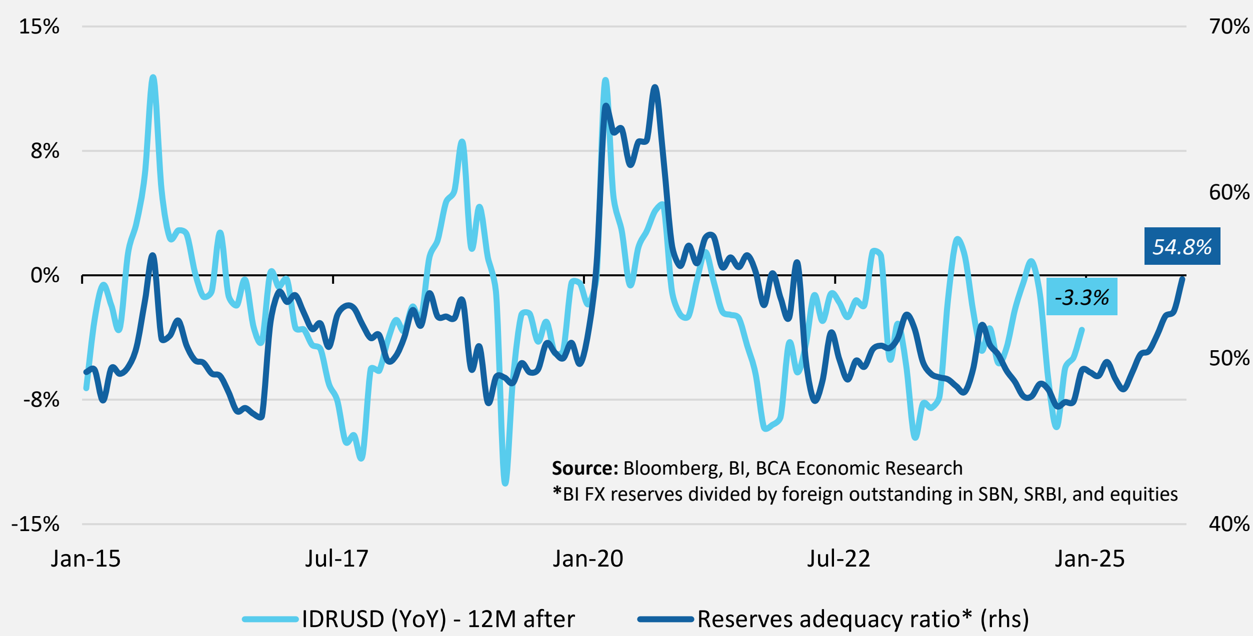


Source: Bloomberg, BCA Economic Research

Chart 3

Deep cover

BI's ample FX reserves provide a solid cover against the risk of continued foreign outflows, a condition which often leads to a stronger IDR's value



Source: Bloomberg, BI, BCA Economic Research

*BI FX reserves divided by foreign outstanding in SBN, SRBI, and equities

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	-29.4	-52.8	-54.0
ID	**Foreign Exchange Reserves, USD Bn**	**156.5**	**150.1**	**-**
09 January 2026				
CN	Inflation Rate YoY, %	0.8	0.7	0.7
ID	Consumer Confidence	123.5	124.0	125
EA	Retail Sales YoY, %	2.3	1.9	1.9
ID	Motorbike Sales YoY, %	14.5	2.1	3.6
ID	Car Sales YoY, %	25.7	-0.8	1.9
US	Non Farm Payrolls, th	50	56	45.0
12 January 2026				
ID	Retail Sales YoY, %	6.3	4.3	4.0
13 January 2026				
US	Inflation Rate YoY, %	2.7	2.7	2.6
14 January 2026				
CN	Trade balance, USD Bn	114.1	111.68	105
US	Retail Sales YoY (Nov-25), %	3.3	3.3	3.0
16 January 2026				
ID	**Foreign Direct Investment YoY, %**	**4.3**	**-8.9**	**-**
19 January 2026				
CN	Retail Sales YoY, %	0.9	1.3	1.4
21 January 2026				
ID	**BI-Rate Decision, %**	**4.75**	**4.75**	**4.75**
ID	Loan Growth YoY, %	9.69	7.74	7.6
22 January 2026				
US	PCE Price Index YoY, %	2.8	2.7	2.7
23 January 2026				
ID	M2 Money Supply YoY, %	9.6	8.3	-
29 January 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
US	Trade balance (Nov-25), USD Bn		-29.4	-53.0

*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	3.75	Dec-25	1.05
UK	3.75	Aug-25	0.35
EU	2.15	Jun-25	0.25
Japan	0.75	Jan-25	-1.35
China (lending)	2.00	Sep-24	3.55
Korea	2.50	May-25	0.20
India	5.25	Jun-25	3.92
Indonesia	4.75	Sep-25	1.83

Money Mkt Rates	23-Jan	-1 mth	Chg (bps)
SPN (1Y)	4.13	4.78	-65.0
SUN (10Y)	6.38	6.13	25.1
INDONIA (O/N, Rp)	3.68	4.15	-46.2
JIBOR 1M (Rp)	5.03	5.03	-0.1

Bank Rates (Rp)	Oct	Sep	Chg (bps)
Lending (WC)	8.30	8.46	-16.00
Deposit 1M	4.75	4.96	-21.00
Savings	0.68	0.70	-2.00

Currency/USD	23-Jan	-1 mth	Chg (%)
UK Pound	0.733	0.740	0.92
Euro	0.845	0.848	0.28
Japanese Yen	155.7	156.2	0.34
Chinese RMB	6.963	7.030	0.95
Indonesia Rupiah	16,822	16,780	-0.25

Capital Mkt	23-Jan	-1 mth	Chg (%)
JCI	8,951.0	8,584.8	4.27
DJIA	49,098.7	48,442.4	1.35
FTSE	10,143.4	9,889.2	2.57
Nikkei 225	53,846.9	50,412.9	6.81
Hang Seng	26,749.5	25,774.1	3.78

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

Trade & Commodities	23-Jan	-1 mth	Chg (%)
Baltic Dry Index	1,762.0	1,889.0	-6.7
S&P GSCI Index	584.1	554.5	5.3
Oil (Brent, $/brl)	65.9	62.4	5.6
Coal ($/MT)	111.5	106.3	4.9
Gas ($/MMBtu)	30.72	3.37	811.6
Gold ($/oz.)	4,987.5	4,484.5	11.2
Copper ($/MT)	13,048.9	12,073.7	8.1
Nickel ($/MT)	18,553.3	15,568.3	19.2
CPO ($/MT)	1,022.1	981.2	4.2
Rubber ($/kg)	1.89	1.80	5.0

External Sector	Nov	Oct	Chg (%)
Export ($ bn)	22.52	24.24	-7.08
Import ($ bn)	19.86	21.84	-9.08
Trade bal. ($ bn)	2.66	2.39	11.23
Central bank reserves ($ bn)*	150.1	149.9	0.09

Prompt Indicators	Oct	Sep	Aug
Consumer confidence index (CCI)	121.2	115.0	117.2
Car sales (%YoY)	-4.4	-15.1	-19.0
Motorcycle sales (%YoY)	8.4	7.3	0.7

Manufacturing PMI	Dec	Nov	Chg (bps)
USA	51.8	52.2	-40
Eurozone	48.8	49.6	-80
Japan	50.0	48.7	130
China	50.1	49.9	20
Korea	50.1	49.4	70
Indonesia	51.2	53.3	-210

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

	2020	2021	2022	2023	2024	2025E	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.2	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5014	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9*	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75*	4.50
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05*	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468*	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690*	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	40.0	33.8

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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