All down when King Dollar stands

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Summary

- The recent pressure in the Indonesian market may have been aggravated by broader weakness across Asian markets, driven by the US government's signalling of its preference for a stronger USD.
- A robust growth outlook and stronger returns have solidified the US market as a global liquidity sink, adding to the strength of the USD.
- The "Dollar debasement" trade may turn out to be less crowded following the credible Fed chairmanship nomination.

- Considering an array of metrics, it is fair to say that the closing week of January 2026 is one to forget for Indonesian investors. Transaction data recorded IDR 13.93 Tn in foreign capital outflows from the equities market over the past week, while the SBN market did not fare significantly better, with IDR 1.99 Tn in foreign outflows keeping the benchmark 10Y yield 27.1 bps above the level seen at the start of the year.
- Meanwhile, Bank Indonesia's return to the SRBI market – which attracted foreign capital inflows to the tune of IDR 8.85 Tn in the process – may have helped offset these pressures. Alas, it is unsurprising that the Rupiah was pushed back above the 16,750/USD level amid such violent outflows ***(see Chart 1)***.
- The short-lived rally for Asian currencies also helps to explain the recently intensifying pressures on the Rupiah. While the benchmark JGB yield has receded below its two-decade peak of 2.35%, the JPY found itself 0.56% WoW lower as the market closed on Friday, with other anchor Asian currencies moving in the same direction. The renewed weakness in Asian currencies follows the US government's recent statement that the US is not ready to intervene on behalf of the JPY's weakness, which has led to a broad-based surge in Asian currencies in the week before.
- US Secretary Bessent shutting down the rumour of USDJPY interventions is not the only news that have bring the USD back to power in recent days. Another, possibly more impactful news is President Trump's nomination of Kevin Warsh as the next Fed chairman, who previously served on the Fed's Board of Governors during the Bush administration and through the Global Financial Crisis into the Obama era.

The king is dead, long live the king

- While the mystery surrounding Jerome Powell's successor has been resolved (pending Senate confirmation hearing), President Trump's decision to formally nominate Kevin Warsh has given rise to a new set of questions. For context, President Trump's demand for lower US lending rates has long been well known, the realisation of which would hinge on a more dovish Fed Chair – particularly against the backdrop of rising inflation expectations and elevated term premia.
- While the market believes that Kevin Warsh has won the game of Fed chairmanship as a proponent of rate cuts (evidenced by the market still pricing in 50 bps of FFR cuts in 2026), **a brief historical review of his first tenure at the Fed reveals a stark contrast between Warsh's policy preference and President Trump's demand**. Indeed, the market is quick to note Warsh's calls for a faster withdrawal of quantitative easing and other monetary interventions, which came as early as December 2009, whereas the NBER only marked the end of the GFC in June 2009. The soon-to-be Fed chairman has also been critical of the Fed's increasing influence in the market and its ballooning balance sheet, indicating that restarting QE may not be high on his list of policy priorities.
- It is not surprising, then, that some analysts and market watchers have linked Kevin Warsh's nomination to the recent asset sell-offs, which have been especially pronounced in the market for precious metals and other physical assets. Many in the market have subscribed to the thesis that the succeeding Fed chair will be far more aligned with the whims of the US government, giving rise to the popularity of "Sell America" or "Dollar debasement" trades, given concerns that the Fed may willingly expand its balance sheet and engage in debt monetisation despite structurally higher inflation.
- Warsh's nomination may therefore have encouraged some investors to pull back from this thesis, hedging against the potential return of his hawkish tendencies. It is not surprising, then, that the DXY index has only strengthened since 27 January 2026, when Warsh's odds of securing the Fed chairmanship pulled ahead of those of Christopher Waller or Rick Rieder.

> ***"The US market continue to be a sink for global liquidity, despite the widely reported 'Sell America' trade"***

- While it is easy to pinpoint the Warsh effect as a turning point in the DXY index's recent strength**,** we should also point to other factors that may contribute to the USD's appreciation. For instance, **our stronger-USD scenario primarily stems from the relative robustness of the US economy**, as the rapid and sustained expansion of the AI sector has turned the US equities market into a global liquidity sink ***(see Chart 2)***.
- The K-shaped divergence between the DXY index and rising inflation expectations further signals a potential correction in the USD's value ***(see Chart 3)***. The relationship between inflation expectations and the DXY index depends on the US macroeconomic backdrop, with the two measures often exhibiting a negative correlation during periods of softer growth (influenced by the "flight to safety" trade) before eventually re-converging during

phases of more robust growth. Combined with expectations of continued monetary policy credibility in the post-Powell era, a still-robust US growth outlook may lead to higher yields, sustaining inflows into USD assets and, thus, allowing inflation expectations and the DXY index to re-converge.

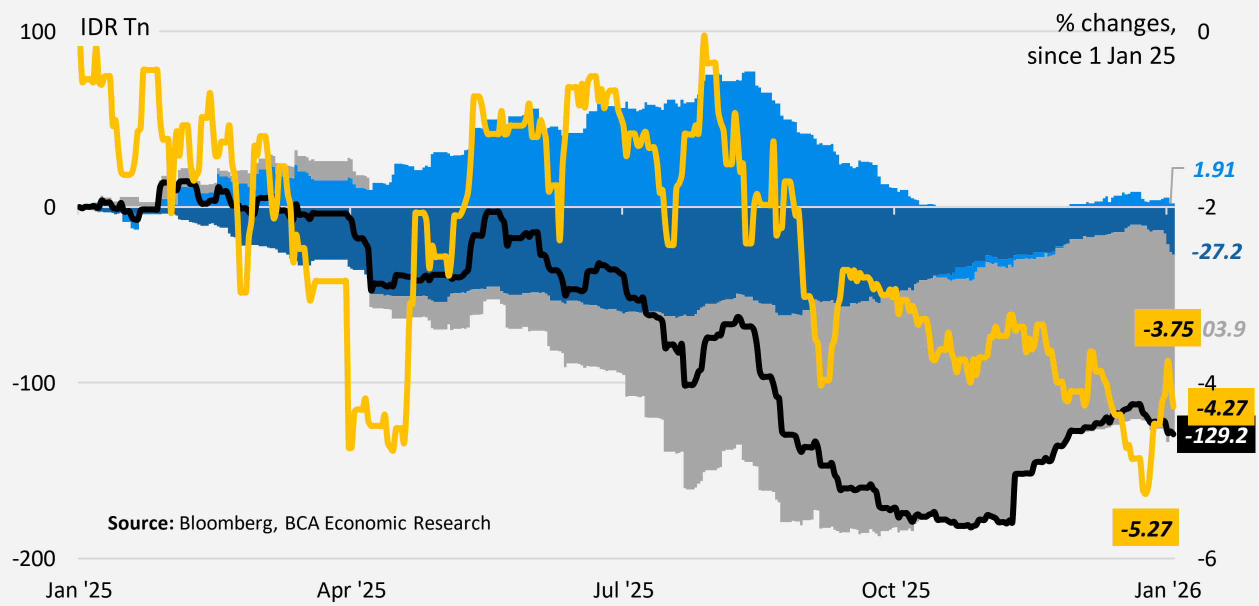
- **Political expediency is another factor that may allow the USD to strengthen in the coming weeks *(see Chart 4)***. As we have argued in the previous report (***read FOMC meeting: In a holding pattern ahead of policy whirlwinds***), textbook economics dictate that a weaker currency will shift costs from foreign suppliers to domestic importers, while the robust domestic aggregate demand in the US may lower the restraint for importers to pass these additional costs to consumers. **Given President Trump's low approval ratings on inflation management (-22.3% net approval rating), moderating inflation will be critical to addressing one of his most politically damaging vulnerabilities ahead of the midterm**, while his comparatively stronger approval on economic and immigration issues should reduce the immediate urgency to support reindustrialisation efforts.

- This reading strengthens our conviction that the USD may remain robust in the periods ahead. Indeed, the widely reported "Sell America/Dollar debasement" trade, global financial flows continue to gravitate toward the US financial market, while the US government may prove to be more comfortable with a stronger USD. **The USD's relative strength has therefore led us to shift our outlook to a 25 bps BI rate cut in 2026**. At the same time, however, we remain sanguine on the Rupiah, supported by BI's ample FX reserves.

Chart 1

Battered by the west

The Rupiah weakens again as the strengthening DXY index intensify selling pressures across Asian markets



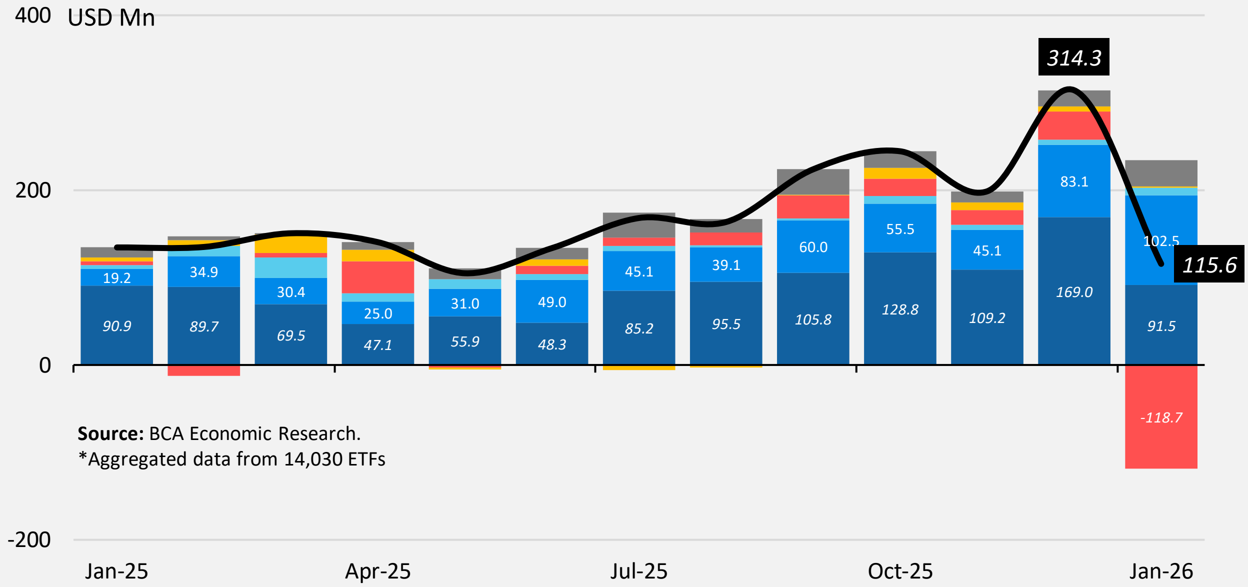
Source: Bloomberg, BCA Economic Research

Net foreign inflows to the Indonesian market: (Dark blue) Equities | **(Blue)** SBN | **(Gray)** SRBI | **(Yellow)** USDIDR, rhs.

Chart 2

Liquidity sink

The US market remains the go-to place for global liquidity, despite the growing popularity of "Sell America/Dollar debasement" trade

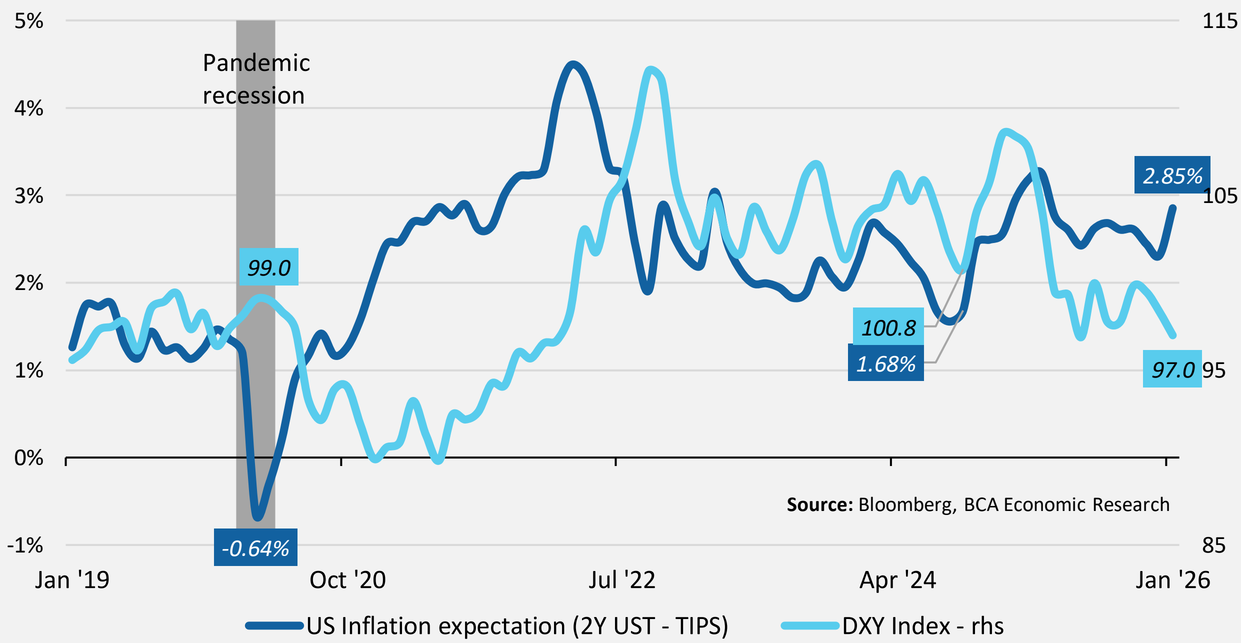


Source: BCA Economic Research.
*Aggregated data from 14,030 ETFs

Chart 3

Walking along when things are all right

The DXY index weakens despite rising inflation expectations, but re-convergence often occurs especially during periods with robust growth outlook.

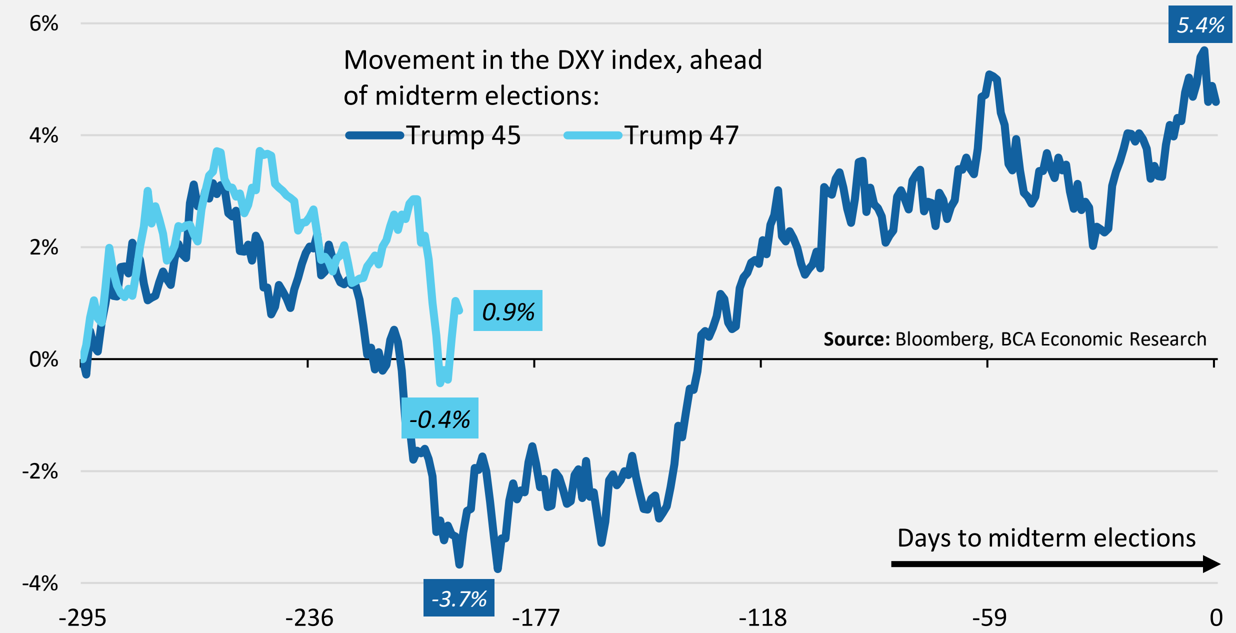


Source: Bloomberg, BCA Economic Research

Chart 4

The rest is politics

The current US government may prefer a stronger USD closer to the midterm elections, given that a stronger currency may stop inflation from becoming an issue



Economic Calendar

		Actual	Previous	Forecast*
02 February 2026				
ID	S&P Global Manufacturing PMI	52.6	51.2	51.4
ID	**Trade balance (Dec-25), USD Bn**	**2.52**	**2.66**	**3.0**
ID	**Inflation Rate YoY, %**	**3.55**	**2.92**	**3.9**
US	S&P Global Manufacturing PMI	52.4	51.8	51.9
05 February 2026				
ID	**GDP Growth Rate YoY, %**		**5.04**	**5.26**
EA	Retail Sales YoY, %		2.3	2.0
06 February 2026				
ID	**Foreign Exchange Reserves, USD Bn**		**156.5**	**-**
ID	Property Price Indeks YoY, %		0.84	1.0
US	Non Farm Payrolls, th		50	40.0
09 Februay 2026				
ID	Consumer Confidence		123.5	123.9
10 February 2026				
ID	Retail Sales YoY, %		6.3	-
US	Retail Sales YoY (Dec-25), %		3.3	-
ID	Motorbike Sales YoY, %		14.5	-
11 February 2026				
CN	Inflation Rate YoY, %		0.8	0.7
US	Inflation Rate YoY, %		2.7	-
13 February 2026				
ID	Car Sales YoY, %		25.7	-
19 February 2026				
ID	**BI-Rate Decision, %**		**4.75**	4.75
ID	Loan Growth YoY, %		9.69	-
US	Trade balance (Dec-25), USD Bn		-56.8	-55
20 February 2026				
ID	Current Account, (USD Bn)		4.0	-
US	PCE Price Index YoY, %		2.8	-
23 February 2026				
ID	M2 Money Supply YoY, %		9.6	-

*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	Dec-25	-1.35
China (lending)	2.00	Sep-24	3.55
Korea	2.50	May-25	0.50
India	5.25	Dec-25	3.92
Indonesia	4.75	Sep-25	1.20

Money Mkt Rates	02-Feb	-1 mth	Chg (bps)
SPN (1Y)	4.61	4.56	5.3
SUN (10Y)	6.31	6.03	27.5
INDONIA (O/N, Rp)	3.85	4.00	-15.1
JIBOR 1M (Rp)	5.03	5.03	0.0

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	02-Feb	-1 mth	Chg (%)
UK Pound	0.732	0.743	1.56
Euro	0.848	0.853	0.61
Japanese Yen	155.6	156.8	0.78
Chinese RMB	6.945	6.988	0.61
Indonesia Rupiah	16,790	16,725	-0.39

Capital Mkt	02-Feb	-1 mth	Chg (%)
JCI	7,922.7	8,748.1	-9.44
DJIA	49,407.7	48,382.4	2.12
FTSE	10,341.6	9,951.1	3.92
Nikkei 225	52,655.2	50,339.5	4.60
Hang Seng	26,775.6	26,338.5	1.66

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	4,021.0	4,186.7	-165.77
Govt. Bond	878.6	1,327.7	-449.17
Corp. Bond	5.2	4.7	0.53

Trade & Commodities	02-Feb	-1 mth	Chg (%)
Baltic Dry Index	2,148.0	1,882.0	14.1
S&P GSCI Index	575.2	548.0	5.0
Oil (Brent, $/brl)	66.3	60.8	9.1
Coal ($/MT)	116.6	105.0	11.0
Gas ($/MMBtu)	4.40	3.99	10.3
Gold ($/oz.)	4,661.4	4,332.3	7.6
Copper ($/MT)	12,832.3	12,508.1	2.6
Nickel ($/MT)	16,608.3	16,676.3	-0.4
CPO ($/MT)	1,074.3	980.3	9.6
Rubber ($/kg)	1.94	1.83	6.0

External Sector	Dec	Nov	Chg (%)
Export ($ bn)	26.35	22.52	16.99
Import ($ bn)	23.83	19.86	20.02
Trade bal. ($ bn)	2.51	2.66	-5.61
Central bank reserves ($ bn)*	156.5	150.1	4.27

Prompt Indicators	Dec	Nov	Oct
Consumer confidence index (CCI)	123.5	124.0	121.2
Car sales (%YoY)	17.9	-1.0	-4.3
Motorcycle sales (%YoY)	14.5	2.1	8.4

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	52.4	51.8	60
Eurozone	49.5	48.8	70
Japan	51.5	50.0	150
China	50.3	50.1	20
Korea	51.2	50.1	110
Indonesia	52.6	51.2	140

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 (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	41.1*	33.8
Current account balance (% of GDP)	-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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