

Defending against unwinding risks

13 April 2026

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Summary

- Strong wage growth and inflationary pressures stemming from the war may pave the way for another BoJ rate hikes, at a time when Japan's fiscal expansion agenda is in full swing.
- Rising JGB yields may ripple through demand conditions in the SBN market, which is often more influential than developments in the UST market.
- Higher demand from domestic banks and non-bank investors may help keep SBN yields stable, albeit at the potential cost of slower loan growth.

- The US-Israel war against Iran enters day 43 today, yet little has changed relative to the early days of the war. Ceasefire hope remains elusive, while US President Trump's bellicose weekend remarks continue to stir energy and asset prices. At the same time, the world's premier disinflation exporter, China, has reported a positive PPI inflation for the first time since October 2022, indicating that inflation risks may not exclusively be oil-driven. Amid all this, minutes from the latest FOMC meeting reveal the Fed's wait-and-see stance (or rather, lack of direction) amid the ongoing war, adding uncertainty to the US and global monetary policy outlook as oil prices continue to steer macroeconomic expectations.
- While the Fed remains reluctant to signal an end to its rate-cutting cycle (the FOMC's dot plot still pencils in a 25-bps cut in 2026), inflation risks stemming from the war have led other major central banks to open the door to rate hikes. The outgoing ECB President Christine Lagarde has remarked that a short-lived surge in inflation would be a sufficient reason for the central bank to hike its policy rate, with the market expecting 50-75 bps of hikes in the ECB's key interest rates this year.
- Among G4 central banks, the Bank of Japan arguably has the strongest case for a rate hike. While Japan's headline inflation rate cooled to 1.3% YoY in February 2026 (-0.2% MoM), the downtrend since Q4-2025 has largely been driven by lower electricity and gas costs, as the Takaichi administration poured JPY 211 Bn into energy subsidies. Spiking oil and LNG prices due to the war may thus derail Japan's declining energy inflation, while the acceleration in inflation for components such as housing, healthcare, and household items highlights a still-robust demand condition.
- On top of this, the Japanese Trade Union Confederation (Rengo) has negotiated an average wage hike of 5.26% YoY in the spring wage negotiation period (Shunto), which is higher than the 5.0% expectations and, thus, should fall into the BoJ's virtuous wage-price cycle scenario. The potential dual increase in Japan's inflation and wage growth has led to expectations that the BoJ will follow with another rate hike in Q2 2026 (with an ~50%

chance of a rate hike in the April 2026 policy meeting), which would see Japan’s policy rate

return to the 1.00% mark not seen since June 1995.

A potential demand shock from the Far East

- The widely expected BoJ rate hike, coupled with PM Sanae Takaichi’s expansive fiscal agenda (earmarked at USD 135.4 Bn, ~3.04% of Japan’s GDP), explains the upward trend in Japan’s benchmark 10Y sovereign bond yield, which, as of writing, is sitting at a two-decade high of 2.46% following a 39.8 bps YTD increase. This market re-pricing in JGB yields over the past year appears to be more substantial compared to the yo-yoing UST yields, although it is only natural for the UST market to draw more attention given its global importance.
- As has happened before, rising JGB yields may have a sizable effect on global capital flows. Returning inflationary expectations and the start of the BoJ’s policy normalisation campaign under Governor Ueda have compelled Japanese investors to cut overseas lending and investments (*see Chart 1*), unwinding the yen carry trade that had bankrolled foreign demand for USTs and other global assets. **The current weakness in the JPYUSD exchange rate indicates that another round of carry trade unwinding has not yet transpired**, but the continued rise in JGB yields due to expanding deficits and BoJ rate hikes may bring us closer to this scenario.
- Fortunately for the UST market, past occurrences have shown that the market may continue to rely on robust foreign demand during episodes of selloffs by Asian investors, as strong US corporate revenues may drive demand for USTs from offshore financial centres. The same, however, cannot be said for Indonesia and other Asian markets. Indeed, **liquidity conditions in**

“Volatilities in the JGB market often influence the SBN market more than USTs”

the SBN market appear to be somewhat influenced by volatility in the JGB market, even more so than by the UST market (*see Chart 2*). Regional proximity and deep economic and financial ties may explain this dynamic, highlighting the risk that a continued uptrend in JGB yields poses to demand conditions in the SBN market.

- The risk of further Japanese and other foreign investors’ withdrawal from the SBN market is an unwelcome development, especially given the context at present. SBN yields remain largely stable in Q1-2026 despite persistent foreign outflows, as the government maintains tight control over debt issuance throughout the quarter. However, **the expected increase in fuel subsidy and compensation bills has led the government to telegraphed higher SBN issuance in Q2-2026** (*see Chart 3*), which may sharply accelerated SBN supply growth relative to the recent periods, at the time when foreign appetite for SBN remains uncertain.
- The government has floated the idea of using its excess budget balance (SAL) to fund the additional deficit, seeking to calm the market when the benchmark 10Y SBN yield temporarily rise above the 6.9% threshold as foreign investors scramble to the exit door amid the speculation that the government has begun pondering the possibility of relaxing the deficit cap. However, doing so may not be straightforward. As we know, a significant portion of the government’s cash reserves (which may include SAL) is now parked within the

domestic banking system, meaning that cash drawdowns could temporarily tighten banks' liquidity. The MoF has been attentive to this risk when it decided to roll-over its deposit by another six months, with **the ample liquidity condition allowing banks to remain active in the SBN market.**

- Higher demand from banks may play a crucial part in keeping SBN yields relatively stable (see **Chart 4**). However, **banks may only maintain their presence in the SBN market as long as liquidity conditions remain ample, which have recently been driven more by slowing loan growth rather than accelerating deposit growth.** At the same time, Bank Indonesia may remain active in the SBN market, although the central bank seems to rein in its bond-buying activity when SBN yields stabilise.

- Fortunately, SBNs may remain in demand among domestic non-bank investors, although the allure of ever-rising gold prices is still swaying individual investors to exit the SBN market. Among other classes of investors, **insurance and pension funds provide the stronger and more consistent support for SBN demand,** with much of the demand coming from social insurances (BPJS).
- At the same time, corporate and other investors have collected IDR 48.24 Tn worth of SBN throughout Q1 2026, IDR 26.11 Tn more than in the same period last year. Be that as it may, **we may need to be cautious in monitoring the increase in corporate demand for SBN,** as the higher demand for paper investments may be a symptom of a lower appetite for real investments.

Chart 1

When Mrs Watanabe returns from her overseas trip

Rising inflation risks and hawkish BoJ signals may compel Japanese investors to unwind their offshore position, which may lead to a stronger JPY as the capital returns

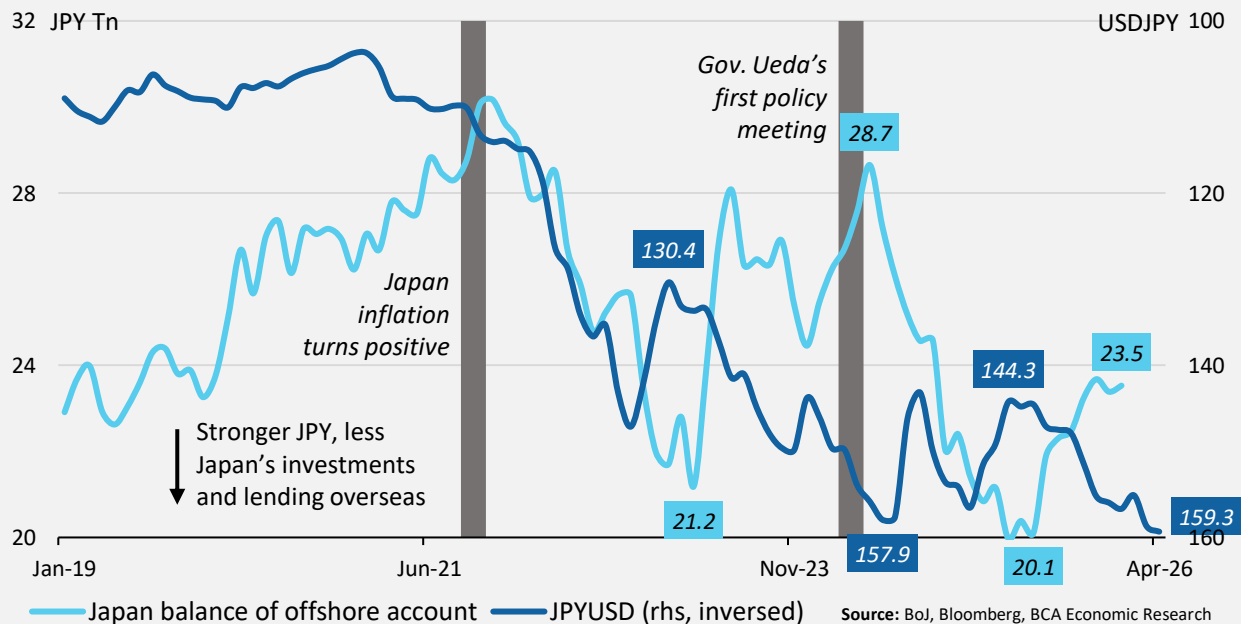


Chart 2

Problem rises from the Middle East

Developments in the JGB market may ripple more to the SBN market, highlighting the risk for Indonesia as Japan’s deeper fiscal deficits and rising policy rate may push JGB yields higher

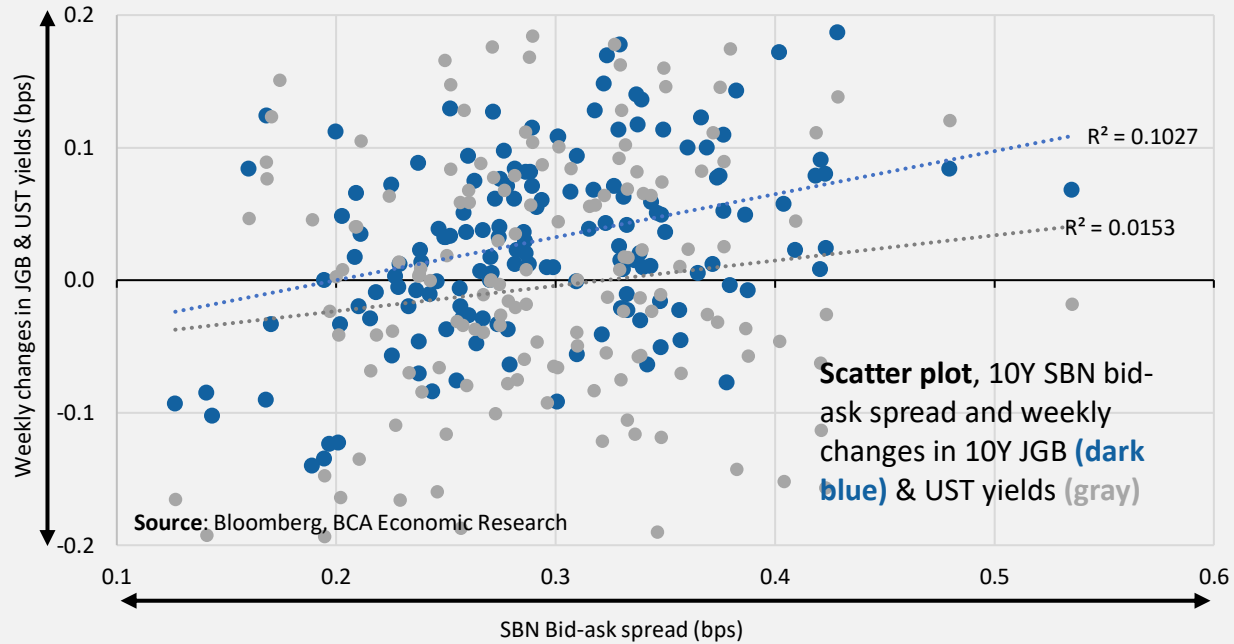


Chart 3

Stepping off the brake

SBN yields have declined in recent years as the government has been careful to control SBN issuance. However, debt issuance has accelerated in the past couple of years

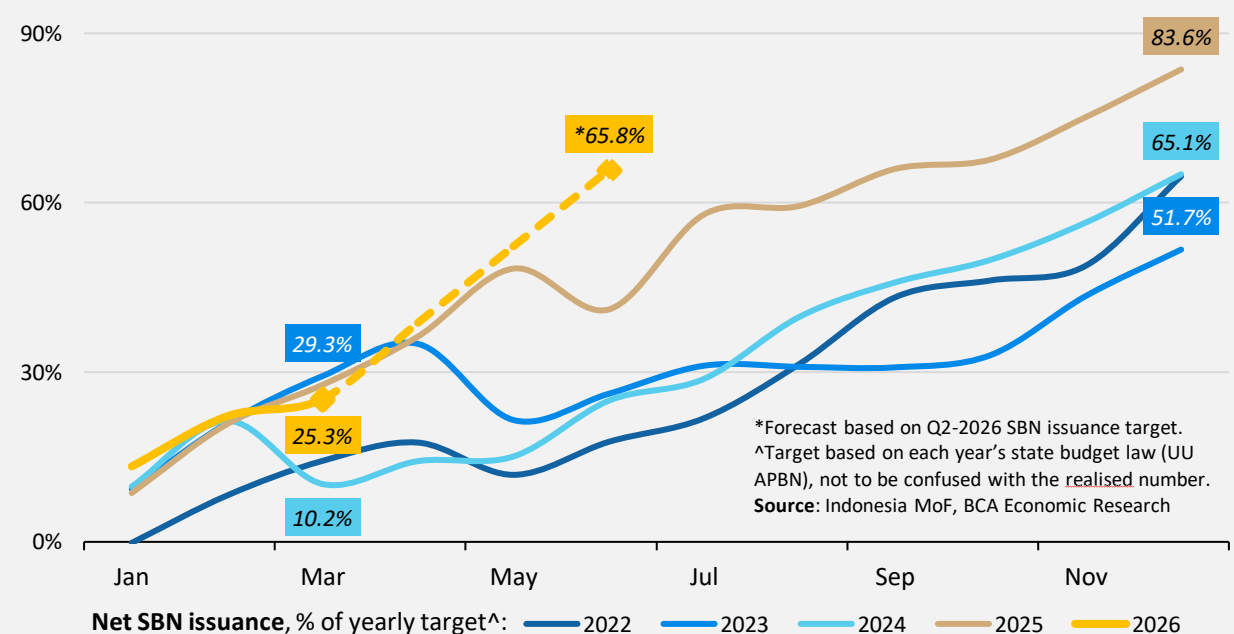
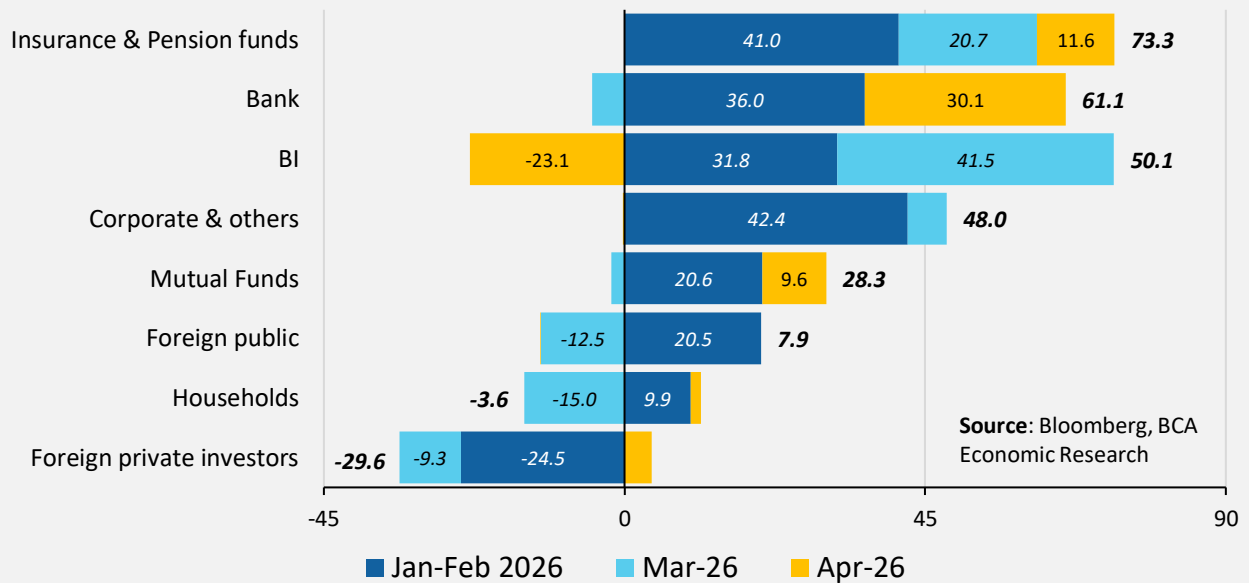


Chart 4

Saved by pensioners

Higher demand from banks, insurance, and pension funds will be crucial to stabilise SBN yields, while BI could be relied on to jump into the market when volatility is at its highest

YTD changes in marketable SBN ownership (IDR Tn)



Economic Calendar				
		Actual	Previous	Forecast*
02 April 2026				
US	Trade balance (Feb-26), USD Bn	-57.3	-54.7	-60.0
03 April 2026				
US	Non Farm Payrolls, th	178	-133	50
08 April 2026				
ID	Foreign Exchange Reserves, USD Bn	148.2	151.9	164
EA	Retail Sales YoY, %	1.7	2.1	1.8
09 April 2026				
US	PCE Price Index YoY (Feb), %	2.8	2.8	2.8
ID	Motorbike Sales YoY, %	-17.1	1.0	-
10 April 2026				
CN	Inflation Rate YoY, %	1	1.3	1.1
ID	Consumer Confidence	122.9	125.2	120
US	Inflation Rate YoY, %	3.3	2.4	3.2
ID	Car Sales YoY, %	-13.8	12.3	-
13 April 2026				
ID	Retail Sales YoY, %	6.5	5.7	5.9
14 April 2026				
CN	Trade balance, USD Bn		213.62	105
16 April 2026				
CN	Retail Sales YoY, %		2.8	3.5
21 April 2026				
US	Retail Sales YoY, %		3.7	2.4
22 April 2026				
ID	BI-Rate Decision, %		4.75	-
ID	Loan Growth YoY, %		9.37	7.5
23 April 2026				
ID	M2 Money Supply YoY, %		8.7	-
29 April 2026				
ID	Foreign Direct Investment YoY, %		4.3	-
30 April 2026				
US	Fed Interest Rate Decision, %		3.75	-
US	PCE Price Index YoY (Mar), %			3.3

*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	10-Apr	-1 mth	Chg (%)
US	3.75	Dec-25	0.45	Baltic Dry Index	2,201.0	1,919.0	14.7
UK	3.75	Dec-25	0.75	S&P GSCI Index	704.7	675.0	4.4
EU	2.15	Jun-25	-0.35	Oil (Brent, \$/brl)	95.2	87.8	8.4
Japan	0.75	Dec-25	-0.55	Coal (\$/MT)	129.9	131.8	-1.4
China (lending)	2.00	Sep-24	3.35	Gas (\$/MMBtu)	17,040.52	#####	-1.4
Korea	2.50	May-25	0.30	Gold (\$/oz.)	17,040.5	17,279.6	-1.4
India	5.25	Dec-25	2.04	Copper (\$/MT)	17,040.5	17,279.6	-1.4
Indonesia	4.75	Sep-25	1.27	Nickel (\$/MT)	17,040.5	17,279.6	-1.4
Money Mkt Rates	10-Apr	-1 mth	Chg (bps)	CPO (\$/MT)	1,152.0	1,110.4	3.7
				Rubber (\$/kg)	17,040.52	#####	-1.4
Bank Rates (Rp)	Jan	Dec	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1Y)	4.60	5.09	-48.5	Export (\$ bn)	22.17	22.16	0.05
SUN (10Y)	6.55	6.69	-14.1	Import (\$ bn)	20.89	21.20	-1.45
INDONIA (O/N, Rp)	4.12	4.13	-1.2	Trade bal. (\$ bn)	1.27	0.95	33.43
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	151.9	154.6	-1.73
Bank Rates (Rp)	Jan	Dec	Chg (bps)	Prompt Indicators	Feb	Jan	Dec
Lending (WC)	8.06	8.08	-2.00	Consumer confidence index (CCI)	125.2	127.0	123.5
Deposit 1M	4.46	4.54	-8.00	Car sales (%YoY)	12.2	7.1	17.9
Savings	0.69	0.70	-1.00	Motorcycle sales (%YoY)	1.0	3.1	14.5
Currency/USD	10-Apr	-1 mth	Chg (%)	Manufacturing PMI	Mar	Feb	Chg (bps)
UK Pound	0.743	0.745	0.33	USA	52.3	51.6	70
Euro	0.853	0.861	0.96	Eurozone	51.6	50.8	80
Japanese Yen	159.3	158.1	-0.77	Japan	51.6	53.0	-140
Chinese RMB	6.829	6.869	0.58	China	50.8	52.1	-130
Indonesia Rupiah	17,098	16,861	-1.39	Korea	52.6	51.1	150
Capital Mkt	10-Apr	-1 mth	Chg (%)	Indonesia	50.1	53.8	-370
JCI	7,458.5	7,440.9	0.24				
DJIA	47,916.6	47,706.5	0.44				
FTSE	10,600.5	10,412.2	1.81				
Nikkei 225	56,924.1	54,248.4	4.93				
Hang Seng	25,893.5	25,959.9	-0.26				
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)				
Stock	3,208.6	3,864.0	-655.43				
Govt. Bond	848.9	875.4	-26.42				
Corp. Bond	6.2	5.1	1.08				

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	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.0
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5457
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.9
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.75
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	17,018
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	-0.1	-0.4

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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