

## Questions on three cues

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### Summary

- Apart from an unfavourable global backdrop, balance of payments deficits driven by weaker exports and higher fuel imports help explain the Rupiah's weakness.
  - Widespread concerns over BI's commitment to its stability mandate, alongside widening fiscal deficits, are adding further pressure on the Rupiah.
  - Higher SBN yields resulting from lower demand from public institutions should be viewed positively, as they signal improving price discovery while strengthening the market's role as a feedback mechanism for the government's fiscal agenda.
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- Markets globally have turned sombre lately. Geopolitics remains a source of volatility, with the global oil market responding to the Israeli military's retaliatory strikes against Iran (despite US President Trump's urge for restraint) by sending oil prices 3.79% higher to USD 96.6/bl as markets opened this week. The increasingly widespread expectation of a 25 bps FFR hike in 2026 has also pushed the DXY index back into triple digits, its highest level since late March 2026.
  - At the same time, conditions across Asia look even worse. Investors seem to be reassessing their positions in the tech/AI hardware trade, sending the chip-heavy indices of major Asian markets tumbling. Recent activities by the Chinese coast guard near Taiwanese waters have also renewed tensions, reminding us of the ever-present threat that looms over Asia's semiconductor manufacturing hub.

### Three strikes from within

- While it is clear that global developments have not been favourable to the Indonesian financial market, it is also important to acknowledge that domestic conditions currently offer little comfort

to investors holding Rupiah-denominated assets. We are seeing at least three pillars weakening simultaneously, each playing a role in pushing the Rupiah towards its historically low levels.

- **The first pillar concerns the economy’s ability to generate external surpluses and, hence, FX earnings.** In the post-pandemic period, the Indonesian economy has drawn strength from its ability to maintain balance of payments (BoP) surpluses, bolstered by the success of the downstreaming programme, which has seen ferro-alloys complement traditional commodity exports in helping to sustain Indonesia’s trade surplus.
- Alas, the widening current account (CA) deficits in Q1-2026 (-1.09% of GDP, from -0.67% in Q4-2025) lead to some investors putting a question mark on this assumption, especially in light of recent policies (such as the revamped RKAB submissions regulations and the creation of the single-window export body). Several reports suggest that the government’s ambition to strengthen its influence in the global commodity market may have come with unintended side effects, most notably a decline in export volumes. This, in turn, could cause the economy to miss out on the momentum created by the recent upswing in commodity prices (*see Chart 2*), especially if the government’s focus on consumption-driven growth continue to fuel the demand for imports.
- **The second pillar concerns Bank Indonesia’s policy stance.** While BI continues to point to the SRBI market as evidence of its commitment to stabilising the Rupiah, the central bank also continues to inject liquidity into the SBN market (*see Chart 3*), thereby weakening the impact of aggressive SRBI issuance on the currency’s

*“Global conditions may not provide a succour for the Rupiah, as worldwide fiscal backsliding may have send global yields into a major uptrend”*

stability. The recently enacted Financial Sector Development and Strengthening Law (UU P2SK) have also expanded BI’s mandate to include the promotion of economic growth and employment, undermining investors’ confidence that the Rupiah’s value will be protected from the vicissitudes of short-term fiscal and growth agendas.

- **Concerns over fiscal management is the third pillar that has recently played a role in undermining the Rupiah’s value.** Looking back, rumours had been circulating that Indonesia was in contention for a credit rating upgrade, thanks to its smooth exit from the pandemic-era fiscal framework (Indonesia’s fiscal deficit fell back below the 3% threshold as early as 2022, despite a deficit target of 4.85% of GDP). Market sentiment towards Indonesia’s fiscal management has since undergone a 180-degree reversal, as investors continue to view the sitting administration’ fiscal programmes as a mere short-term consumption doping rather than long-term investments in human capital.
- **It is important to note, however, that fiscal backsliding is not unique to Indonesia (see Chart 4).** Governments across both developed and developing economies have similarly become more adventurous in their fiscal management, as rising geopolitical tensions and weakening global growth momentum have increased the need for fiscal intervention. What is unique about Indonesia, however, is that the Indonesian sovereign bond market has refuse to reward the higher risk taken by investors with higher yield (10Y SBN-UST spread fell to 233.2 bps from 299.4 in April 2026), discouraging foreign inflows that help craters the Rupiah in the process.
- BI’s active presence in the SBN market helps explain the stability of SBN yields, although the

government loves to point to stable yields (and bid-to-cover ratios) as evidence of investors’ confidence. Allowing this mechanism to persist, however, may pose certain risks. First, fiscal backsliding across the globe may have pushed us into a major uptrend in global yields, implying that higher yields will be required to attract investors. BI, of course, has been attempting to assume part of this role by continuing to issue higher-yielding, shorter-term SRBI instruments. Alas, allowing the yield curve to flatten may diminish the government’s ability to kick fiscal risks down the road, further eroding the trust and sentiments on Indonesia’s long-term fiscal sustainability.

- Thankfully, BI has recently signalled its intention to allow SBN yields to trade closer to its market-clearing level, enabling the sovereign bond market to function more effectively as a feedback mechanism for the government’s fiscal agenda. Today’s sharp rise in SBN yields (to 7.14% as of writing) should be interpreted as a call for the government to rationalise its fiscal plans, as persisting with the current trajectory and allowing the triple deficits (BoP, fiscal, and saving-investment gap) to widen risk increasing the trade-off between exchange rate stability and economic growth.

Chart 1

### The worst in all markets

Indonesia is one of the worst performing equity and currency markets so far in 2026, dragged below by its internal weaknesses while the DXY index has been moving sideways

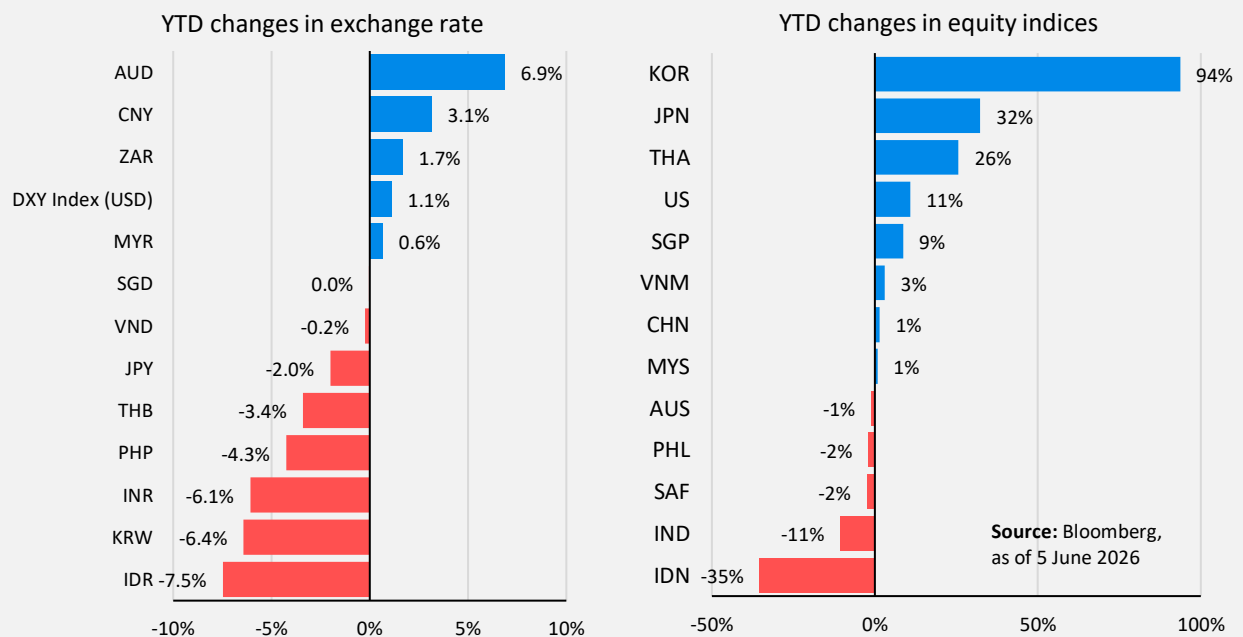


Chart 2

**Policy-driven drop**

Commodity prices are on the uptrend, yet Indonesia’s trade surplus fell to its lowest level since COVID times, as government policies require imports while exporters are derailed

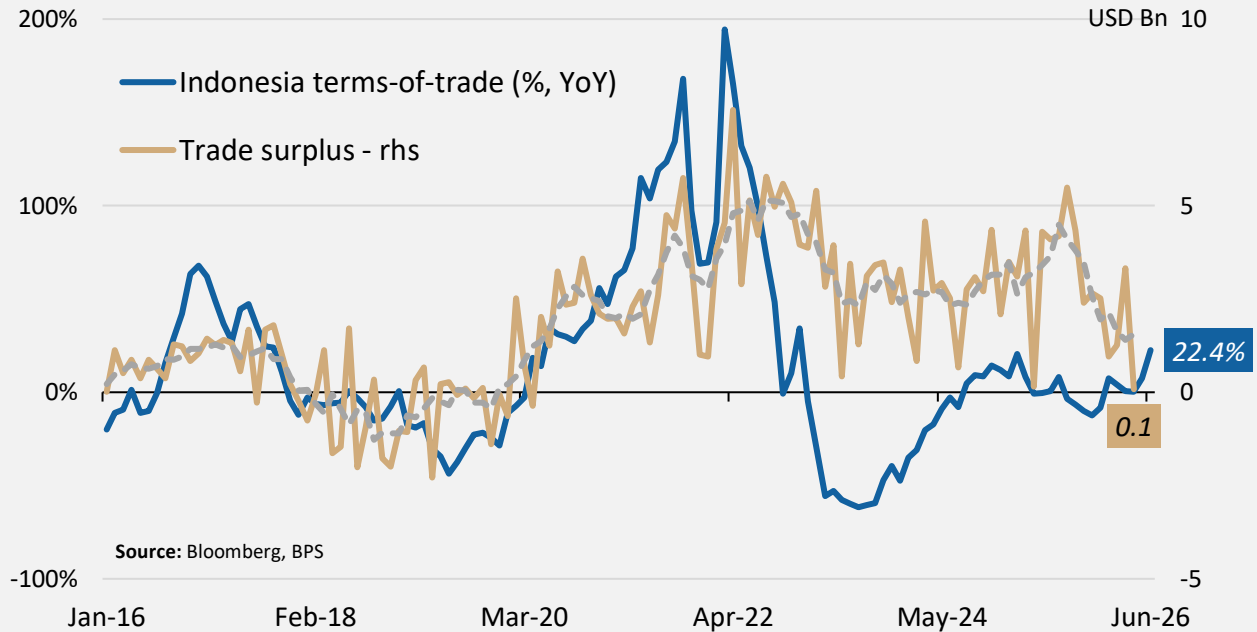


Chart 3

**Half of everything equals none**

BI has been aggressive in issuing SRBI to fend-off Rupiah’s volatility, yet the central bank continues to inject the system with liquidity through its interventions in the SBN market

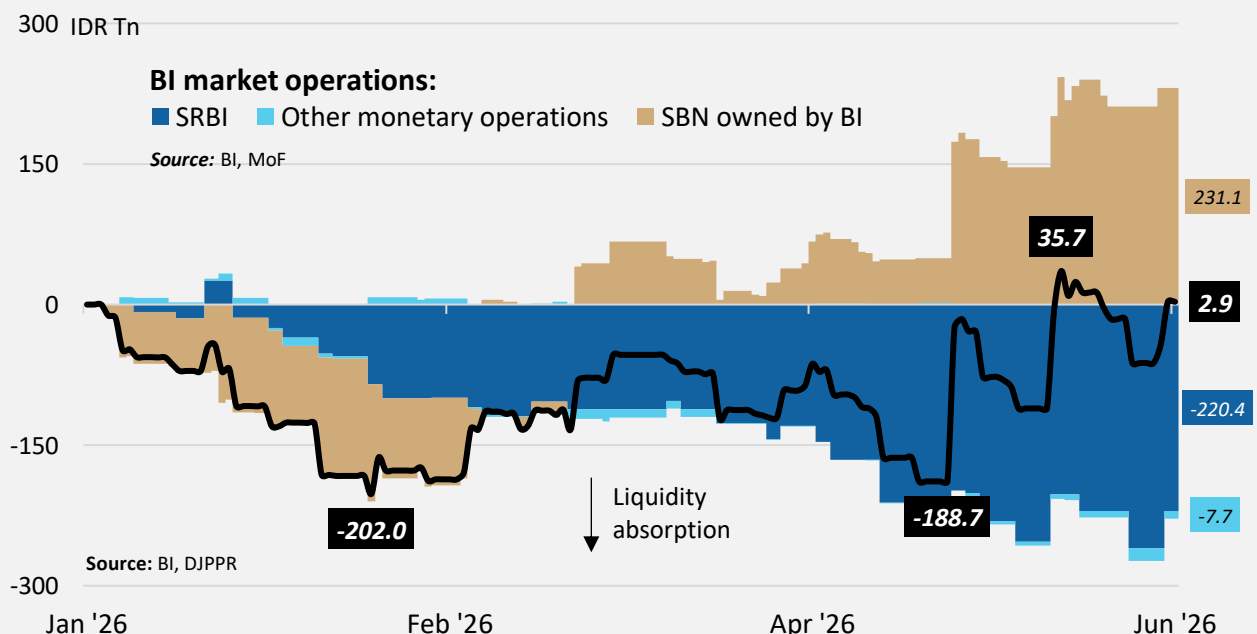
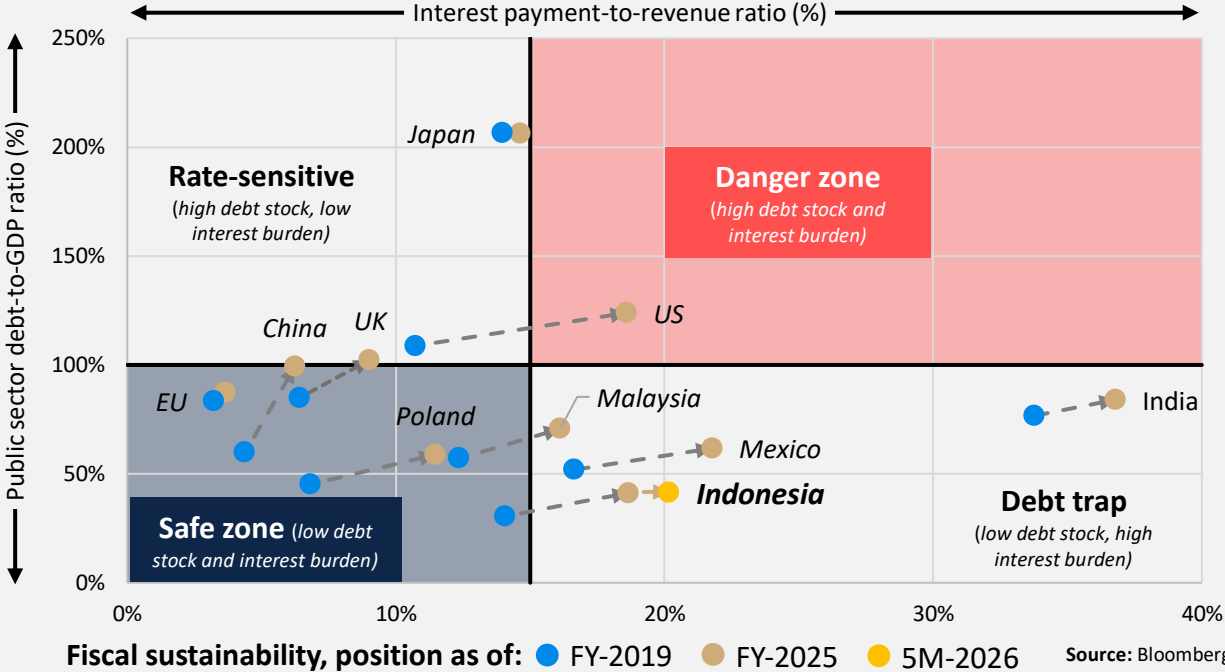


Chart 4

**Dirty shirt in a dirty laundry**

Investors are fretting about Indonesia’s loosening fiscal control, which is happening globally, although other bond markets have been compensating investors with higher yields



Economic Calendar				
		Actual	Previous	Forecast*
02 June 2026				
ID	S&P Global Manufacturing PMI	50.0	49.1	49.5
<b>ID</b>	<b>Trade balance (Apr-26), USD Bn</b>	<b>0.09</b>	<b>3.32</b>	<b>0.5</b>
<b>ID</b>	<b>Inflation Rate YoY, %</b>	<b>3.08</b>	<b>2.42</b>	<b>3.1</b>
04 June 2026				
EA	Retail Sales YoY, %	1	2.1	0.7
05 June 2026				
US	Non Farm Payrolls, th	172	179	102.0
08 June 2026				
<b>ID</b>	<b>Foreign Exchange Reserves, USD Bn</b>	<b>144.9</b>	<b>146.2</b>	-
09 June 2026				
CN	Trade balance, USD Bn		84.82	89.0
US	Trade balance (Apr-26), USD Bn		-60.3	-57.9
10 June 2026				
CN	Inflation Rate YoY, %		1.2	1.4
ID	Consumer Confidence		123.0	124
US	Inflation Rate YoY, %		3.8	3.9
ID	Motorbike Sales YoY, %		28.1	-
11 June 2026				
ID	Retail Sales YoY, %		3.4	3.6
12 June 2026				
ID	Car Sales YoY, %		55.0	-
16 June 2026				
CN	Retail Sales YoY, %		0.2	-
17 June 2026				
US	Retail Sales YoY, %		4.9	4.0
18 June 2026				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>		<b>3.75</b>	<b>3.75</b>
<b>ID</b>	<b>BI-Rate Decision, %</b>		<b>5.25</b>	<b>5.25</b>
ID	Loan Growth YoY, %		9.98	-
23 June 2026				
ID	M2 Money Supply YoY, %		9.2	-
25 June 2026				
US	PCE Price Index YoY, %		3.8	-

\*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	05-Jun	-1 mth	Chg (%)
US	3.75	Dec-25	-0.05	Baltic Dry Index	2,981.0	2,832.0	5.3
UK	3.75	Dec-25	0.95	S&P GSCI Index	693.8	765.1	-9.3
EU	2.15	Jun-25	-1.05	Oil (Brent, \$/brl)	93.1	109.9	-15.3
Japan	0.75	Dec-25	-0.65	Coal (\$/MT)	147.5	140.8	4.8
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	3.04	2.82	7.8
Korea	2.50	May-25	-0.60	Gold (\$/oz.)	4,328.5	4,556.9	-5.0
India	5.25	Dec-25	1.77	Copper (\$/MT)	13,490.3	13,059.2	3.3
Indonesia	5.25	May-26	2.17	Nickel (\$/MT)	18,360.1	19,448.3	-5.6
				CPO (\$/MT)	1,113.3	1,167.2	-4.6
				Rubber (\$/kg)	2.33	2.20	5.9
Money Mkt Rates	05-Jun	-1 mth	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1Y)	6.48	5.79	68.9	Export (\$ bn)	25.30	22.53	12.32
SUN (10Y)	6.85	6.80	5.5	Import (\$ bn)	25.21	19.21	31.28
INDONIA (O/N, Rp)	5.34	4.46	87.5	Trade bal. (\$ bn)	0.09	3.32	-97.32
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	146.2	148.2	-1.32
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Prompt Indicators	Apr	Mar	Feb
Lending (WC)	8.00	8.05	-5.00	Consumer confidence index (CCI)	123.0	122.9	125.2
Deposit 1M	4.47	4.47	0.00	Car sales (%YoY)	55.0	-13.8	12.3
Savings	0.67	0.68	-1.00	Motorcycle sales (%YoY)	28.1	-17.1	1.0
Currency/USD	05-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
UK Pound	0.750	0.738	-1.47	USA	55.1	54.5	60
Euro	0.868	0.855	-1.46	Eurozone	51.6	52.2	-60
Japanese Yen	160.3	157.9	-1.50	Japan	54.5	55.1	-60
Chinese RMB	6.788	6.828	0.59	China	51.8	52.2	-40
Indonesia Rupiah	18,020	17,425	-3.30	Korea	54.8	53.6	120
				Indonesia	50.0	49.1	90
Capital Mkt	05-Jun	-1 mth	Chg (%)				
JCI	5,594.8	7,057.1	-20.72				
DJIA	50,866.8	49,298.3	3.18				
FTSE	10,368.1	10,219.1	1.46				
Nikkei 225	66,588.1	59,513.1	11.89				
Hang Seng	24,962.0	25,898.6	-3.62				
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)				
Stock	2,820.6	3,158.9	-338.29				
Govt. Bond	865.2	866.9	-1.77				
Corp. Bond	5.8	5.8	-0.01				

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	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	8.0
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	3.3
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	5.75
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.76
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

**Notes:**

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

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