

Good relationships must eventually evolve

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Summary

- Indonesia's manufacturing, inflation and trade indicators improved, with China's manufacturing recovery likely supporting exports, industrial activity and demand for Indonesian commodities.
- However, growing trade deficits and CNY settlement create an increasingly asymmetric relationship, exposing Indonesia to greater currency risks and dependence on Chinese manufactured goods.
- Chinese manufacturing investment and Panda bonds could help rebalance ties by strengthening domestic supply chains, capturing more value and addressing Indonesia's structural CNY funding needs.

- A stream of good news wash over the Indonesian economy over the past week. At first, Indonesia's manufacturing sector is reported to be on an expansionary mode throughout the past month, with manufacturing PMI improving to 52.4 against the 50.3 estimates. Soon afterwards, the September 2026 CPI inflation number is announced to be at a still-manageable level of 3.28% YoY (3.19% YoY in the previous month), highlighting the government's effort in keeping domestic prices stable amid the dual threat of weaker Rupiah and adverse weather conditions. Indonesia's trade surplus also turned out to be much stronger than expected in August 2026 (USD 3.55 Bn vs. USD 0.6 Bn forecast), explaining the Rupiah's relatively strong performance during the month.
- While the lagging trade balance number makes it hard for us to see the recent release indicators on the same light, we may still argue that **these three positive developments may nevertheless be driven by the same underlying factor: the recently re-energised Chinese manufacturing**

sector (see Chart 1). Indeed, a recovery in export demand, which has reached its highest level since mid-2022, has reportedly been a significant driver of the recent improvement in Indonesia's manufacturing PMI, rather than the more usual contribution from domestic demand. While the report does not identify any specific trading partner, China's status as Indonesia's largest trading partner makes it difficult to argue otherwise, particularly as nickel exports (HS 75) surged to a record high of USD 1.35 Bn in the preceding month.

- Apart from Indonesia's manufacturing sector (particularly its increasingly dominant raw material producers), **the recent uptick in China's manufacturing activity also appears to have benefited Indonesian consumers.** The pattern, of course, is hardly new. Rising Chinese exports have helped suppress the prices of imported goods in Indonesia (**see Chart 2**), allowing local consumers to maintain their consumption basket. Apart from its consumers, Indonesia's productive sectors have also appeared to be increasingly reliant on Chinese imports, as

indicated by the uptrend in machinery imports from China

- Taken together, the dynamic described above clearly highlight China's increasingly dominant position within Indonesia's domestic economy, creating a relationship that, one might argue, has been mutually-reinforcing. China's pivotal role in Indonesia's nickel down-streaming programme has duly put Indonesia on the upstream of China's manufacturing supply chain, making

development in China's manufacturing sector as a positive determinant to Indonesia's manufacturing activity. At the same time, **the continued influx of inexpensive Chinese manufactured goods has incentivised a growing number of Indonesian consumers to acclimatise themselves with China-made manufactured goods and cultures**, potentially deepening the trade and economic ties between the two economies for the foreseeable future.

Trying to move on from a limited partnership

- The question, then, is who benefits more from these mutualistic linkages? Indonesia's growing trade deficit with China suggests that the balance may currently favour the latter, as Indonesia increasingly imports higher-value manufactured goods while its exports remain concentrated in commodities and raw materials. China's push for Renminbi internationalisation, including greater use of CNY for trade settlement, adds another complication for Indonesia (*see Chart 3*). With commodity exports still largely denominated in US dollars, **Indonesia could face a structural CNY funding mismatch as its imports from China increasingly require payment in Renminbi**. This could create additional demand for CNY and expose Indonesia to greater currency risk, particularly if the CNY continues to appreciate against the Rupiah.
- These underlying imbalances in bilateral trade and flow of funds could become an increasingly relevant sticking point in future relations. Once again, the risk we point out is hardly new. The current trade pattern risks reinforcing an asymmetric trade relationship that may become politically difficult to sustain, particularly if this

"China may support Indonesia's real sector in the short-term, at the cost of a widening trade and financial flow imbalances"

trade pattern continues to weigh on domestic manufacturers and, subsequently, employment. The relationship between Indonesia and its regional hegemon, then, must eventually evolve, although the current pattern of commodity and raw-material exports to China in exchange for inexpensive imports remains the most viable avenue for supporting Indonesia's real-sector recovery in the short term.

- Fortunately, the Indonesian government has taken several steps to allow its economic

relationship with China to evolve towards a more balanced footing. First, **the expanding presence of Chinese manufacturers in Indonesia's many SEZs should be viewed positively as an initial step**. While their impact on exports remains limited and the incentives provided to these manufacturers have often been criticised as a drag on fiscal revenues, the foreign investment they attract could eventually help reduce Indonesia's reliance on imports from China. This would be particularly beneficial if domestic component (TKDN) requirements encourage these manufacturers to develop local supply chains, allowing Indonesia to capture a greater

share of the value added from Chinese-led manufacturing activities.

- Indonesia's inaugural issuance of Panda bonds this year also marks a first step towards evolving the relationship between the two economies, from a strictly producer-buyer relationship towards one involving both financier and investee. **China's persistent CNY surplus and its non-committal on fully opening its financial markets have increasingly pushed it towards exporting capital (see Chart 4),** while Indonesia

faces a structural need for CNY funding amid its widening currency mismatches. Panda bonds could therefore provide a mutually beneficial channel: Indonesia can tap China's relatively low-cost funding to address its CNY funding needs, while Chinese savers gain access to alternative assets for deploying their surplus savings. Ergo, we may see such issuance to continue, particularly if Rupiah pressures force BI to maintain greater alignment with the Fed rather than the PBoC, potentially widening the relative attractiveness of CNY-denominated funding.

Chart 1

Following the example

China's manufacturing activity often predates Indonesia, indicating that the recent domestic manufacturing expansion may be influenced by the similar uptick in China

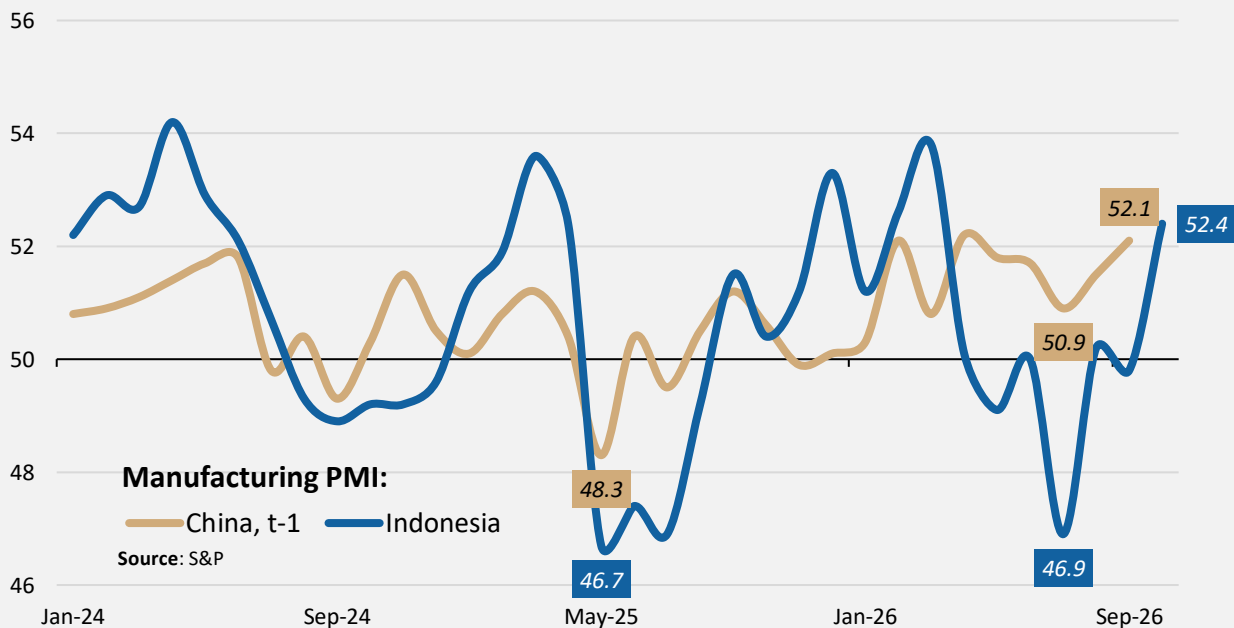


Chart 2

Keeping things cheap

China's higher exports supply Indonesia with cheap manufactured goods, which help to protect consumers' purchasing power

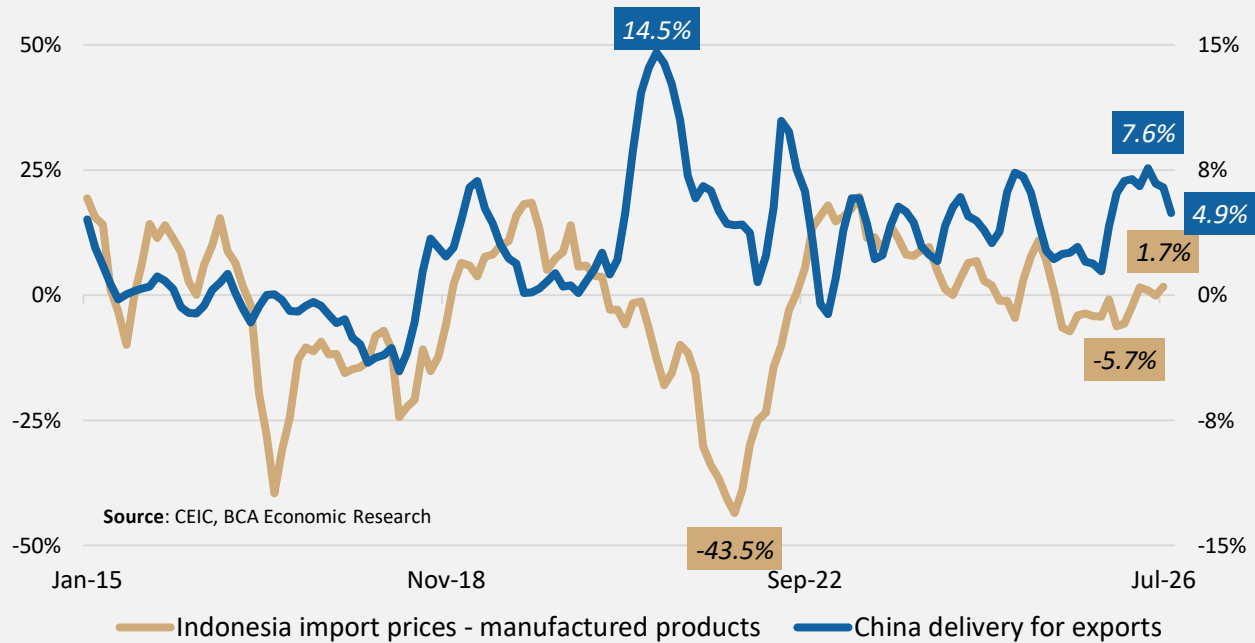


Chart 3

Opportunity when one needs it

China's lower yield may present an opportunity to secure cheaper financing, although Indonesia's widening CNY deficits may better explain the decision to issue Panda bonds

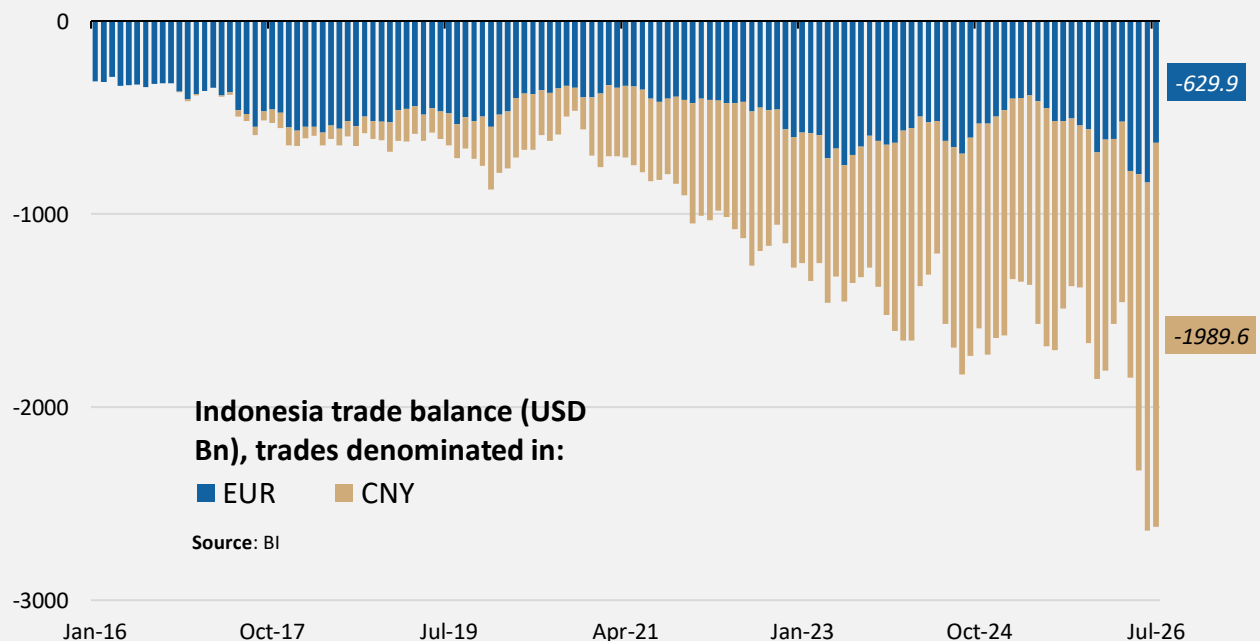
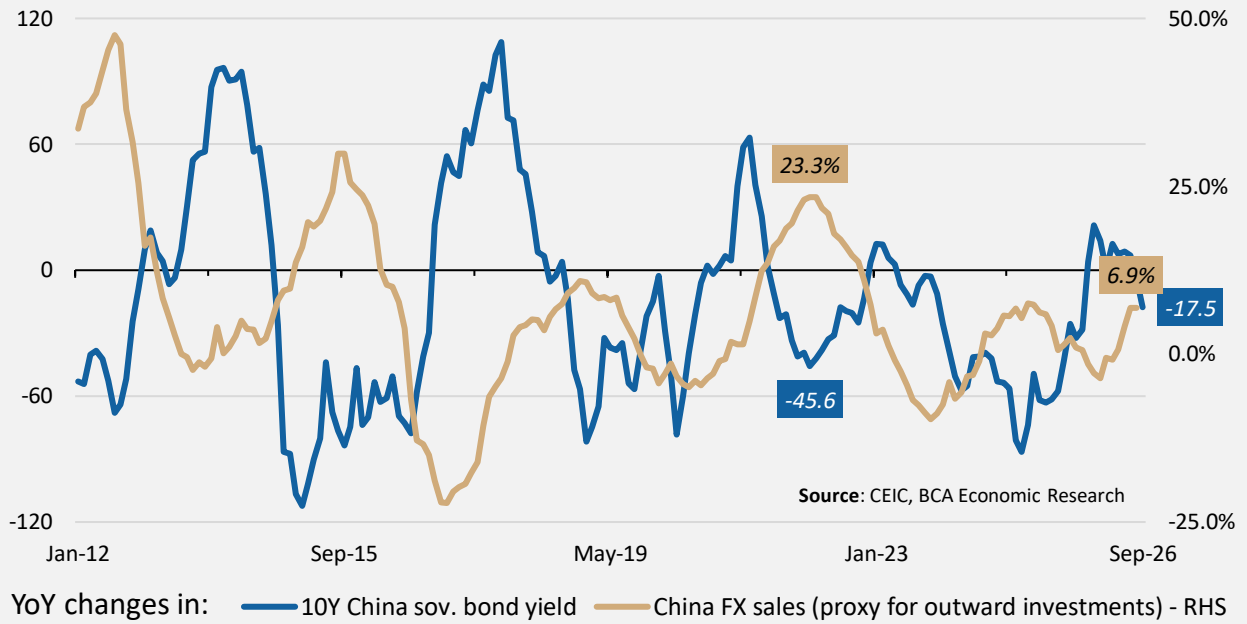


Chart 4

Looking for options

China's capital control does not stop savers to look for investment opportunities elsewhere during periods of lower CNY yield, making China a reliable capital exporter



Economic Calendar				
		Actual	Previous	Forecast*
01 October 2026				
ID	S&P Global Manufacturing PMI	52.4	49.8	50.3
ID	Trade balance (Aug-26), USD Bn	3.55	0.13	1.3
ID	Inflation Rate YoY, %	3.28	3.19	3.4
US	S&P Global Manufacturing PMI	55.9	53.9	57
02 October 2026				
US	Non Farm Payrolls, th	29	133	90.0
06 October 2026				
EA	Retail Sales YoY, %		0.6	0.5
US	Trade balance (Jul-26), USD Bn		-88.6	-102.2
07 October 2026				
ID	Foreign Exchange Reserves, USD Bn		146.5	144
08 October 2026				
ID	Consumer Confidence		118.5	118
09 October 2026				
ID	Retail Sales YoY, %		1.1	1.3
ID	Motorbike Sales YoY, %		3.18	-
ID	Car Sales YoY, %		32.4	-
14 October 2026				
CN	Inflation Rate YoY, %		0.8	0.8
CN	Trade balance, USD Bn		119.1	79
US	Inflation Rate YoY, %		3.4	3.7
15 October 2026				
US	Retail Sales YoY, %		6	5.2
16 October 2026				
ID	Foreign Direct Investment YoY, %		27.4	-
19 October 2026				
CN	Retail Sales YoY, %		0.4	1
21 October 2026				
ID	BI-Rate Decision, %		5.75	5.75
ID	Loan Growth YoY, %		13.36	12.6
23 October 2026				
ID	M2 Money Supply YoY, %		8.2	-
29 October 2026				
US	Fed Interest Rate Decision, %		4	-
US	PCE Price Index YoY, %		3.4	3.2

*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-Oct	-1 mth	Chg (%)
US	4.00	Sep-26	0.60	Baltic Dry Index	3,070.0	3,628.0	-15.4
UK	3.75	Dec-25	0.65	S&P GSCI Index	728.5	735.8	-1.0
EU	2.65	Sep-26	-1.15	Oil (Brent, \$/bbl)	100.3	96.3	4.2
Japan	1.25	Sep-26	-0.65	Coal (\$/MT)	151.1	154.1	-1.9
China (lending)	2.00	Sep-24	3.55	Gas (\$/MMBtu)	2.96	2.92	1.7
Korea	3.00	Aug-26	0.10	Gold (\$/oz.)	4,139.5	4,430.0	-6.6
India	5.25	Dec-25	0.43	Copper (\$/MT)	14,496.0	14,490.2	0.0
Indonesia	5.75	Jun-26	2.47	Nickel (\$/MT)	15,524.4	16,686.3	-7.0
Money Mkt Rates	05-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,069.4	1,143.8	-6.5
SPN (1Y)	6.29	6.79	-50.2	Rubber (\$/kg)	2.58	2.37	8.9
SUN (10Y)	7.16	7.09	6.9	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	5.52	5.65	-12.9	Export (\$ bn)	26.61	26.22	1.51
JIBOR 1M (Rp)	5.03	5.03	0.0	Import (\$ bn)	23.06	26.09	-11.63
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	3.55	0.12	2,814.03
Lending (WC)	8.14	8.07	7.00	Central bank reserves (\$ bn)*	146.5	145.3	0.80
Deposit 1M	5.35	4.96	39.00	Prompt Indicators	Aug	Jul	Jun
Savings	0.68	0.68	0.00	Consumer confidence index (CCI)	118.5	116.8	117.8
Currency/USD	05-Oct	-1 mth	Chg (%)	Car sales (%YoY)	32.4	33.3	33.0
UK Pound	0.756	0.740	-2.20	Motorcycle sales (%YoY)	3.2	8.3	1.1
Euro	0.891	0.861	-3.37	Manufacturing PMI	Sep	Aug	Chg (bps)
Japanese Yen	157.9	156.3	-1.04	USA	55.9	53.9	200
Chinese RMB	6.706	6.711	0.08	Eurozone	52.9	52.7	20
Indonesia Rupiah	17,907	17,637	-1.51	Japan	54.1	54.9	-80
Capital Mkt	05-Oct	-1 mth	Chg (%)	China	52.1	51.5	60
JCI	6,118.9	6,636.5	-7.80	Korea	53.9	52.3	160
DJIA	51,267.9	53,414.3	-4.02	Indonesia	52.4	49.8	260
FTSE	10,497.9	10,831.1	-3.08				
Nikkei 225	69,946.9	65,020.9	7.58				
Hang Seng	24,040.3	25,650.9	-6.28				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	2,723.2	2,949.5	-226.26				
Govt. Bond	907.5	907.8	-0.34				
Corp. Bond	4.3	4.8	-0.53				

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	5.3
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.1
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5126
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.2
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	7.31
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,621
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,238
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2

Notes:

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

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