When the valve blows

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas
victor_matindas@bca.co.id

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Summary

- SBN yields have surged to their post-pandemic highs despite improving domestic liquidity, reflecting heightened fiscal risk perceptions amid the Rupiah's ongoing weakness.
- Allowing yields to move closer to their market value will be crucial to attracting the capital inflows needed to maintain exchange rate stability.
- Slower borrowing earlier in the year risks forcing the government to accelerate debt issuance in the remaining months, potentially at higher yields.

- Indonesian macroeconomic watchers continue to view the economy through a Janussian lens. On the one hand, recent data releases continue to paint a picture of economic resilience, with Indonesia recording another USD 3.36 Bn trade surplus in Sep-2026. The more recent inflation number (3.23% YoY in Oct-2026, down from 3.28% YoY previously) may also project a positive outlook on the economy, although the accelerating food inflation (our food price index rose to 12.8% YoY) may increasingly become a source of pain for the household sector.
- While the government should remain vigilant as inflation continue latch at the upper end of Bank Indonesia's target range, the continued improvement in Indonesia's manufacturing PMI should provide policymakers with some reassurance. Indonesia's manufacturing PMI climbed to a 31-month high of 54.0, driven by an upsurge in new orders and export demand, reflecting the similar trajectory in industrial activity across key export markets, most significantly China. Improving industrial activities and trade surpluses should translate positively to the expectation for GDP growth and CA balance in Q3-2026, allaying concerns that the economy will run out of steam in the latter half of the year.
- On the other hand, Indonesia's financial markets present a contrasting vista. The country's main equity index remains firmly in the red, down 6.90% since the start of last week as foreign investors continue to turn a blind eye on Indonesia's attractive valuations. Net foreign outflows from the equities market may have moderated compared to the recent shock but remain significant at around USD 174.7 Mn since the start of last week. Lingering uncertainty surrounding Indonesia's place in the global asset universe has kept the Rupiah above the IDR 18,000/USD threshold, as though this has become the new normal.

Rate pressure eventually manifests somewhere

- Unlike during the previous equity market downturn early in the year, the latest market shock does not appear to be confined to the equities market and the Rupiah alone. The benchmark 10Y SBN yield spiked up to its post-pandemic high of 7.71% in the two weeks following the shock, despite the SBN market continuing to attract modest foreign capital inflows (totalling around USD 11.98 Mn since mid-October). **Strikingly, the rise in SBN yields has occurred even as domestic liquidity conditions have improved** ahead of BI's Oct-2026 policy meeting, at which the central bank held its policy rate steady while further aiding the improvement in Rupiah liquidity by reducing the reserve requirement ratio (RRR).
- Several factors may explain why SBN yields have risen sharply despite continued (albeit modest) foreign inflows and BI's still-accommodative policy stance. **The more straight-forward and widely held explanation points to the CDS spread**, which has surged past 100 bps as the Rupiah's depreciation following the recent market shock has heightened perceptions of fiscal risks. However, this relationship has not always held. Earlier in the year, for instance, BI's interventions have allowed SBN yields to move largely independently of the exchange rate ***(see Chart 1)***, as BI's bond buying keeps SBN prices at premium despite rising fiscal risks.
- The re-emergence of co-movement between SBN yields and the Rupiah may, therefore, also reflect a shift in BI's strategy. Previously, BI twins its yield stability effort with prolong and active interventions in the FX market, a strategy whose risks have manifested in declining FX reserve adequacy. **The noticeable decline in BI's FX reserve adequacy ratio (now equivalent to 5.3 months of import needs, down from 6.1 months in Jan-2026) means BI must rely more heavily on foreign capital retention to stabilise the Rupiah** – meaning that the central banks will need to offer higher returns on portfolio investments flowing into Indonesia.
- However, it has become clear that BI has been very careful in using its instrument to raise the interest rates, either through BI-rate or the previously active SRBI. **The central bank is also actively manoeuvring its way out of the need to offer higher yields**, as reflected in its repeated adjustments to foreign currency hedging incentives. However, reducing investors' risk is not the same as offering them higher returns, particularly when the higher inflows attracted by above-normal returns could, in the first place, reduce the cost of currency hedging. Moreover, **the hedging discount does not answer the increasing risk of resident outflows**, as evident from the significant increase in domestic savers converting their Rupiah deposits into foreign currencies.

"SBN yields and USDIDR rate start moving in concert again as BI seeks to attract capital inflows to stabilise the Rupiah"

- **BI's limitations in raising interest rates through the BI Rate or other monetary policy instruments have, therefore, left the SBN market as the only outlet for rate increases**. Indeed, compared with earlier in the year, the central bank has been less active in the SBN market, allowing yields to move closer to their fair market valuation, which could be around 8.0-8.2% according to our estimates ***(see Chart 2 & 3)***.
- In hindsight, these developments mark a return to policy orthodoxy following the earlier experiment with SRBI, which impact on domestic

liquidity conditions has been well reported. The additional costs stemming from higher SBN yields, however, will be squarely borne by the government, whose rising interest burden has been steadily eating into its fiscal space year after year. The impact of higher SBN yields may also be felt immediately, as **the slow-paced SBN issuance earlier in the year mean that debt issuance may need to be accelerated in the coming periods, and at potentially higher rates *(see Chart 4)***.

- Given this dilemma, it might be worthwhile to run through the policy options going forward. First, the government has signalled the urgency of optimising its revenue potential, accurately pointing to Indonesia's chronically low tax ratio. However, extracting more tax revenue entails a trade-off with growth potential, which may be incongruent with the government's ambitious growth target.
- Second, the government may tap into its excess budget balance (SAL), which is specifically set aside for this purpose. However, as we know, the sitting administration has made a practice of placing SAL in commercial banks, meaning that an untimely withdrawal risks tightening banks' liquidity conditions, disrupting financial intermediation necessary to support higher growth. The third option may see BI's more active presence in the SBN market, but forcing the central bank to continue expanding its balance sheet amidst the global trend of balance sheet tightening may do little to address the Rupiah's weakness, which is arguably the genesis of the problem.
- As always, there is hope for Indonesia's current predicament. **Global rate pressures may already be nearing their peak, with expectations of Fed rate hikes softening following last week's FOMC meeting.** Expectations of a Bank of Japan rate hike have also softened, with most market participants pencilling in the BoJ policy rate to settle below 2.0% by the end of 2027. All attention, however, should be directed towards the potential aftermath of the US midterm elections, given their significance for the US growth outlook (particularly concerning AI and data centre investments), the continuation of the US-Iran war, and its subsequent impact on global energy prices.

"While internal solutions are limited, global development may provide a respite from the government's ongoing dilemma"

Chart 1

Reunite again after interventions

SBN yields have been chasing the weakening Rupiah lately, breaking the trend early in the year when the currency may have been allowed to slide in favour of lower yields.

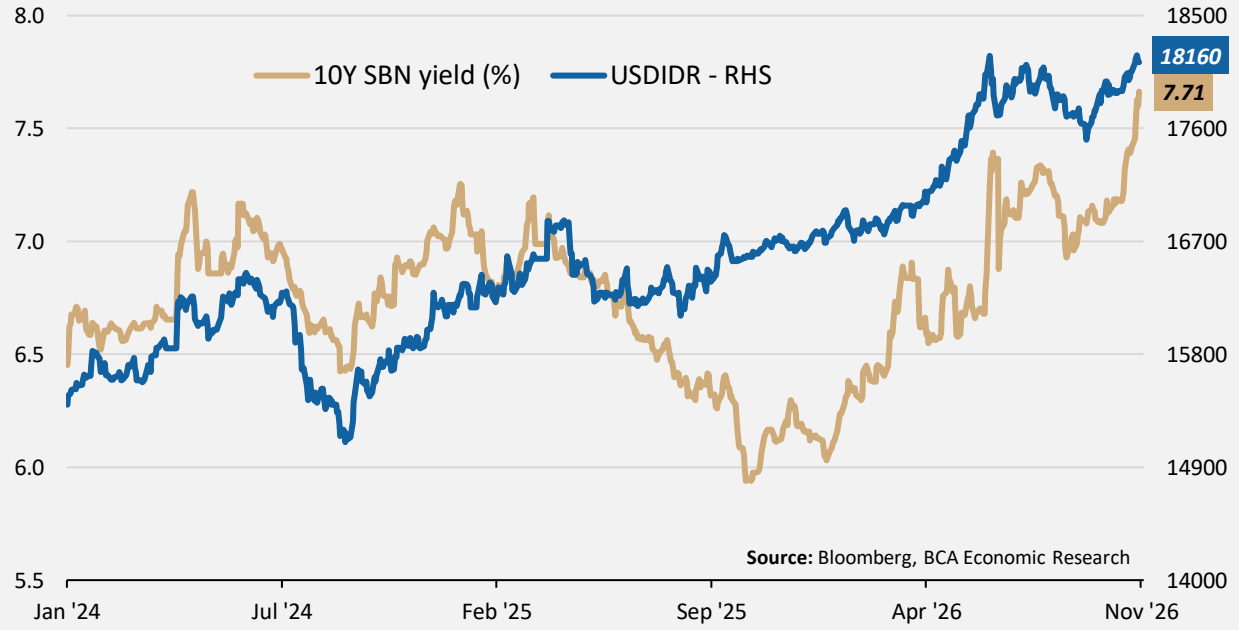


Chart 2

Stepping off and offering more so others may come in

BI's less-active presence in the SBN market allow SBN yield to float closer to its market value, as the central bank seeks to attract more foreign inflows to help stabilise the Rupiah

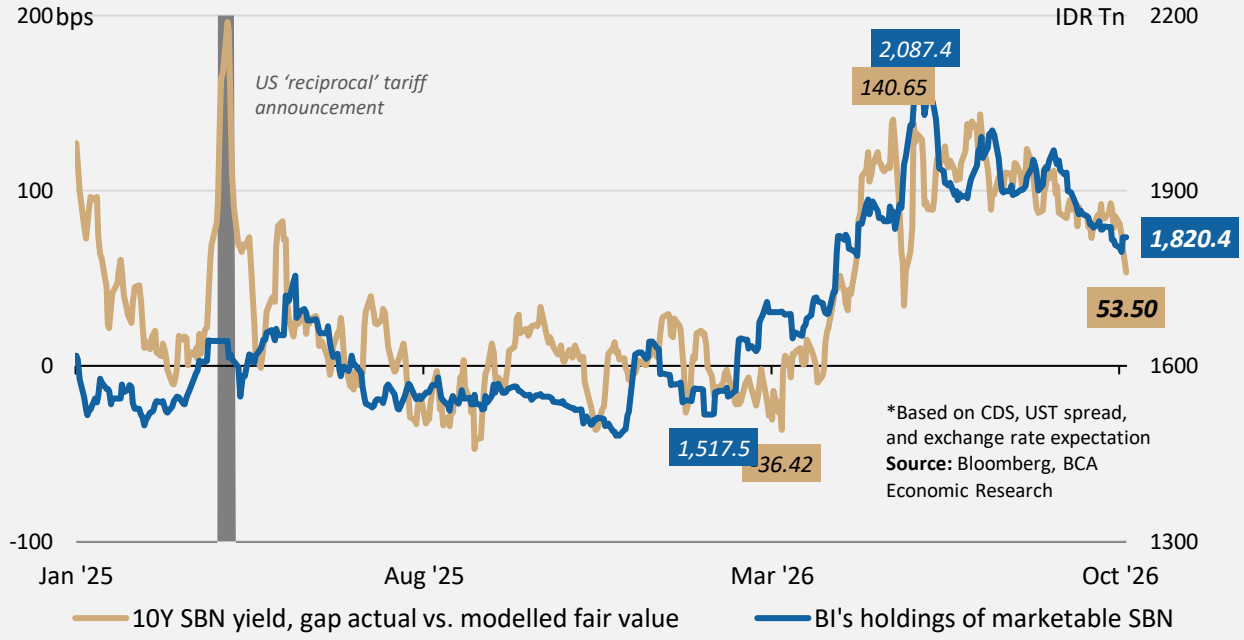
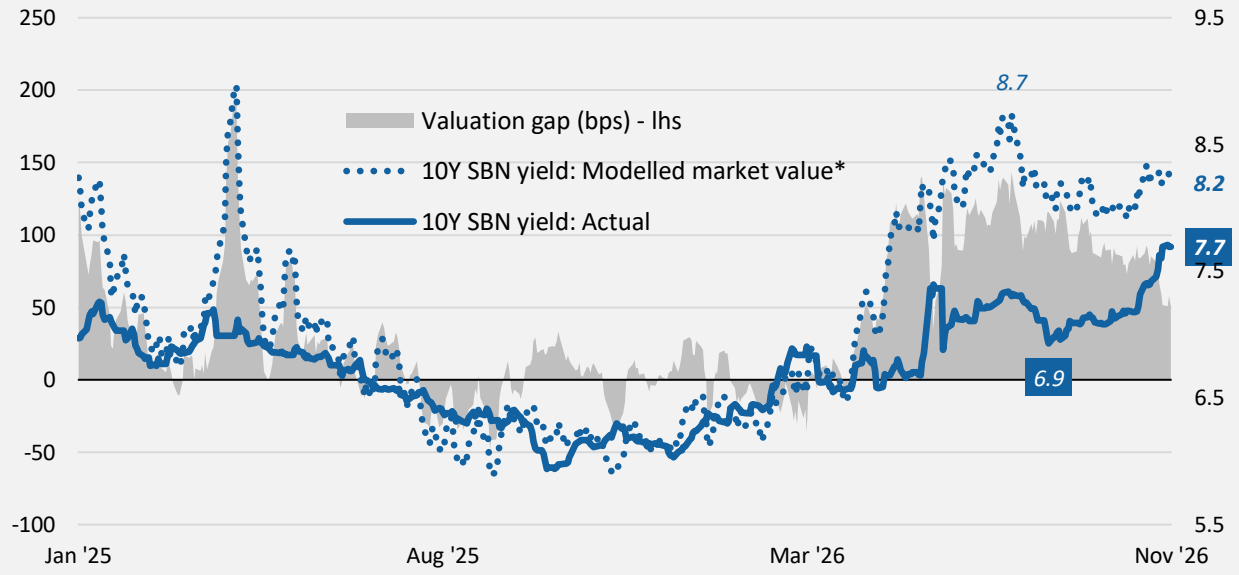


Chart 3

Market corrections

While interventions are important to smooth short-term market gyrations, prolonged interventions may discourage investors as valuations detach from their fair value

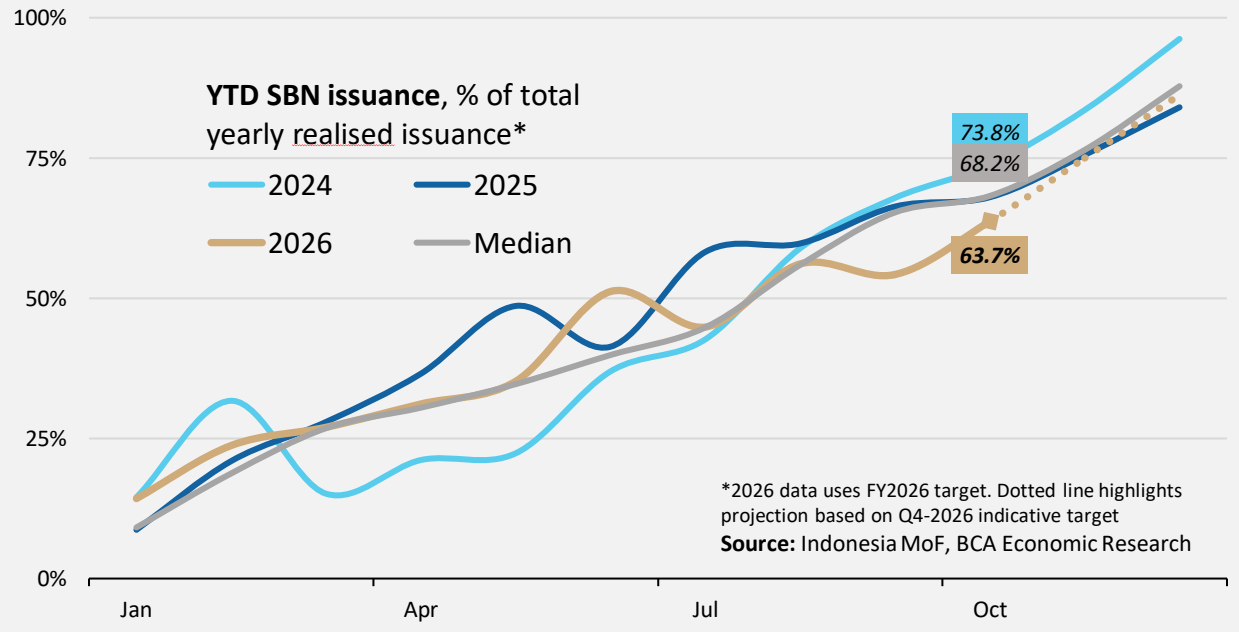


*Based on CDS, UST spread, and exchange rate expectation. **Source:** Bloomberg, BCA Economic Research

Chart 4

Accelerating at the worst of time?

SBN issuance has been slow walked so far in 2026, but the seasonal spike in spending and locked SAL balance means SBN issuance may re-accelerate when yield is near its YTD high



Economic Calendar

		Actual	Previous	Forecast*
02 November 2026				
ID	S&P Global Manufacturing PMI	54.0	52.4	51.9
ID	**Trade balance (Sep-26), USD Bn**	**3.36**	**3.55**	**3.7**
ID	**Inflation Rate YoY, %**	**3.23**	**3.28**	**3.3**
US	S&P Global Manufacturing PMI	54.9	55.9	56
04 November 2026				
US	Trade balance (Sep-26), USD Bn		-105.6	-108.8
05 November 2026				
ID	**GDP Growth Rate YoY, %**		**5.29**	**5**
06 November 2026				
ID	**Foreign Exchange Reserves, USD Bn**		**146.3**	**144**
ID	Property Price Indeks YoY, %		1.32	1
EA	Retail Sales YoY, %		0.8	0.5
US	Non Farm Payrolls, th		29	40.0
09 November 2026				
CN	Inflation Rate YoY, %		0.9	0.9
ID	Consumer Confidence		118.1	118.5
ID	Car Sales YoY, %		28.1	-
10 November 2026				
CN	Trade balance, USD Bn		133.53	135.0
ID	Retail Sales YoY, %		1.3	-4
US	Inflation Rate YoY, %		3.7	-
ID	Motorbike Sales YoY, %		15.37	-
16 November 2026				
CN	Retail Sales YoY, %		1.1	-
17 November 2026				
US	Retail Sales YoY, %		6.3	5.2
18 November 2026				
ID	**BI-Rate Decision, %**		**5.75**	**6**
ID	Loan Growth YoY, %		13.26	-
20 November 2026				
ID	**Foreign Direct Investment YoY, %**		**27.4**	**-**
21 November 2026				
ID	Current Account, (USD Bn)		-12.5	-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 (%)
US	4.00	Sep-26	0.30
UK	3.75	Dec-25	0.25
EU	2.65	Sep-26	-1.15
Japan	1.25	Sep-26	-0.85
China (lending)	2.00	Sep-24	3.45
Korea	3.00	Aug-26	0.20
India	5.50	Oct-26	-0.04
Indonesia	5.75	Jun-26	2.52

Money Mkt Rates	03-Nov	-1 mth	Chg (bps)
SPN (1Y)	6.06	6.38	-31.5
SUN (10Y)	7.69	7.14	55.1
INDONIA (O/N, Rp)	5.09	5.68	-58.8
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.17	8.14	3.00
Deposit 1M	5.45	5.35	10.00
Savings	0.75	0.68	7.00

Currency/USD	03-Nov	-1 mth	Chg (%)
UK Pound	0.745	0.755	1.31
Euro	0.893	0.888	-0.55
Japanese Yen	158.7	157.9	-0.53
Chinese RMB	6.671	6.706	0.53
Indonesia Rupiah	18,148	17,875	-1.50

Capital Mkt	03-Nov	-1 mth	Chg (%)
JCI	4,904.3	6,036.9	-18.76
DJIA	51,786.7	51,177.0	1.19
FTSE	10,638.4	10,462.0	1.69
Nikkei 225	63,081.9	68,309.5	-7.65
Hang Seng	23,526.0	23,972.3	-1.86

Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)
Stock	2,235.4	2,723.2	-487.83
Govt. Bond	914.8	907.5	7.38
Corp. Bond	4.3	4.3	-0.04

Trade & Commodities	03-Nov	-1 mth	Chg (%)
Baltic Dry Index	2,590.0	3,148.0	-17.7
S&P GSCI Index	720.8	730.3	-1.3
Oil (Brent, $/brl)	103.6	102.3	1.3
Coal ($/MT)	148.9	151.3	-1.6
Gas ($/MMBtu)	2.63	2.91	-9.5
Gold ($/oz.)	3,929.7	4,141.2	-5.1
Copper ($/MT)	14,154.1	14,312.0	-1.1
Nickel ($/MT)	15,151.2	15,438.3	-1.9
CPO ($/MT)	1,072.7	1,068.6	0.4
Rubber ($/kg)	2.44	2.56	-4.7

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	27.59	26.61	3.68
Import ($ bn)	24.23	23.06	5.09
Trade bal. ($ bn)	3.36	3.55	-5.51
Central bank reserves ($ bn)*	146.3	146.5	-0.13

Prompt Indicators	Sep	Aug	Jul
Consumer confidence index (CCI)	118.1	118.5	116.8
Car sales (%YoY)	28.1	32.4	33.3
Motorcycle sales (%YoY)	15.4	3.2	8.3

Manufacturing PMI	Oct	Sep	Chg (bps)
USA	54.9	55.9	-100
Eurozone	52.7	52.9	-20
Japan	53.3	54.1	-80
China	52.0	52.1	-10
Korea	51.3	53.9	-260
Indonesia	54.0	52.4	160

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*

BCA Economic & Industry Research

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Victor George Petrus Matindas
Head of Banking Research and Analytics
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Arif Agung Wibowo
Economist / Analyst
arif_agung@bca.co.id
+6221 2358 8000 Ext: 1080926

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Samuel Theophilus Artha
Economist / Analyst
samuel_artha@bca.co.id
+6221 2358 8000 Ext: 1080373

Jennifer Calysta Farrell
Economist / Analyst
jennifer_farrell@bca.co.id
+6221 2358 8000 Ext: 1082423

PT Bank Central Asia Tbk

BCA Economic & Industry Research

20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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