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FX & Interest Rate

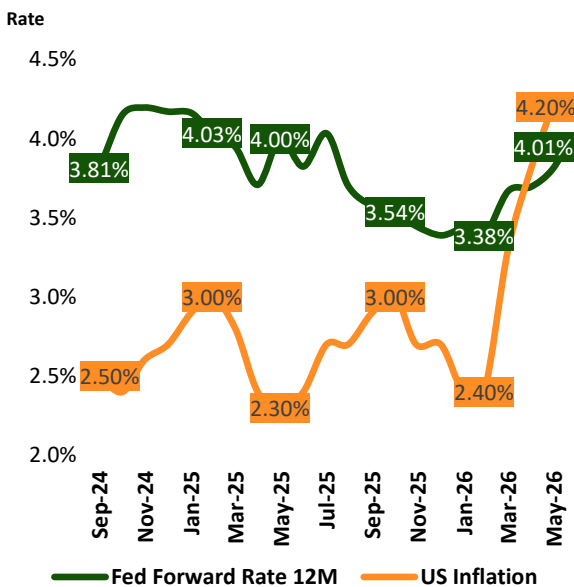
Bank Indonesia (BI) raised its policy rate by a cumulative 100 bps in May–June 2026 to 5.75%, aiming to stem Rupiah depreciation and attract foreign inflows through more competitive domestic yields. This move mirrors the Federal Reserve’s hawkish stance, as the Jun-26 Dot Plot signaled a potential 25 bps hike in 2026, lifting the median year-end projection to 3.8% from 3.4% in March. With U.S. inflation expected to remain elevated, BI is likely to maintain a tightening bias, including optimizing SRBI yields, where the 12-month tenor was lifted to 7.70%. On the non-monetary side, BI capped non-underlying FX purchases at USD 10,000 per month and lowered the outbound document threshold to USD 25,000, effective July 01, 2026.

The Ministry of Finance plans to reallocate IDR 400 tn in excess fiscal cash (SAL) placements back into state-owned banks (Himbara) to ensure ample liquidity in the banking sector. Meanwhile, the bond market continues to face a yield curve inversion, driven by heavy short-term issuance and rising SRBI yields. Although fiscal energy risks are beginning to ease, upcoming large bond maturities around IDR 141.6 tn in Jul-26 and IDR 193.1 tn in Sep-26 intensify cash management requirements. These maturities highlight the need for proactive liquidity planning, especially amidst continued fiscal expansion. The expansion is expected to support Indonesia’s growth momentum through social assistance and other stimulus.

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Chart 1. Forward Rate Expectations Surge Alongside U.S. Inflation

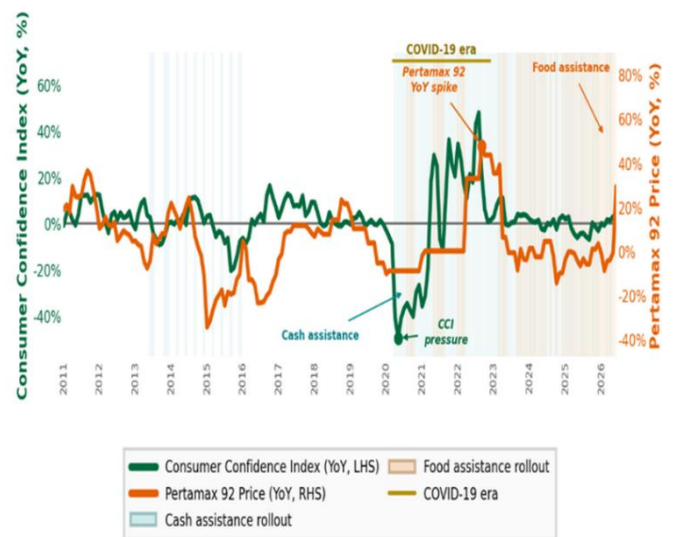


Source: Bloomberg

Chart 2. Social Assistance is Propping Up Purchasing Power

Consumer Confidence, Pertamina 92 Price & Assistance Intensity

YoY log change; shaded background marks assistance rollout months



Source: Bank Indonesia, Bank Danamon Indonesia Calculation, Copilot AI

Automotive Industry

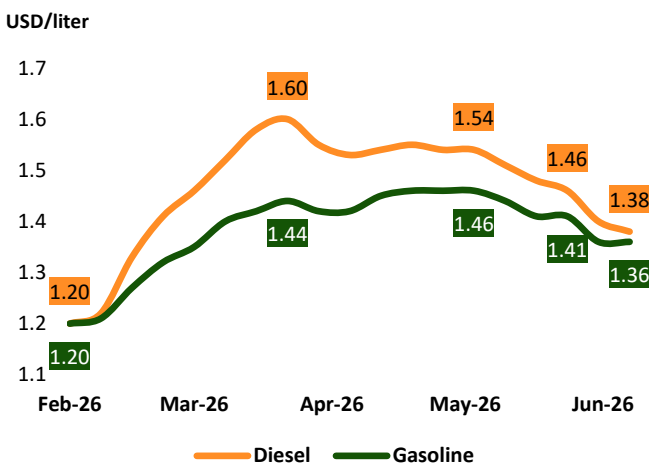
The United States (U.S.)-Iran peace deal is reducing fuel price woes. On June 14, the U.S. and Iran announced a preliminary peace deal, which ceased attrition on all fronts and reopened the Strait of Hormuz. With the chokepoint reopening, oil markets instantly repriced distribution and production recovery optimism, with Brent prices falling to around USD 70/bbl. The decline in oil prices will further lower fuel prices, which have already experienced a substantial decline (Petrol: -5.56% MTD; Diesel: -8.61% MTD) since June 01. Following the same logic as when Brent prices spiked, nations that have liberalized their fuel markets will experience faster declines compared to those that administer fuel prices, such as Indonesia. Hence, we expect non-subsidized fuel prices to drop from Jul-26 onwards.

However, there are setbacks for oil-derived liquids to normalize. After the deal took effect on June 18, the energy production ecosystem in the Middle Eastern Region will require a 1-to-2-year timeframe to fully recover. Facilities such as Habshan (gas), Ras Tanura (crude oil), and Ras Laffan (LNG and base oil) are either closed or operating under sub-optimal conditions. A particular constraint for global supplies occurred in Ras Laffan, which experienced major setbacks after an explosion on June 21. Consequently, 20% of the world’s Group III and Group III+ base oil production is halted. The halt is expected to further constrain engine and transmission fluid supplies, further brewing price pressures and usage rationing trends at the consumer level, which will lift vehicle maintenance costs further.

The Jul-26 launching spree will be dominated by Plug-in Hybrids (PHEVs). With oil driving vehicle cost inflation, automotive brands are adapting further by offering an increasing array of fuel-saving alternatives. We expect the array of choices to expand as the usual Jul-26 launching spree unfolds. However, while 2025’s splurge of Battery Electric Vehicle (BEV) launches was driven by lucrative government policies since Mar-25, the lack of incentives in 2026 (at least until Aug-26) is shifting the exposure profile to PHEVs. Amid unclear policy direction, manufacturers decided to capture potential demand outside Greater Jakarta (±30% of national wholesale), which is more conservative. This group wants less dependence on combustible fuel (petrol/diesel) but is not ready for full electrification due to longer charging time, sparse charging facilities, and long-range trips.

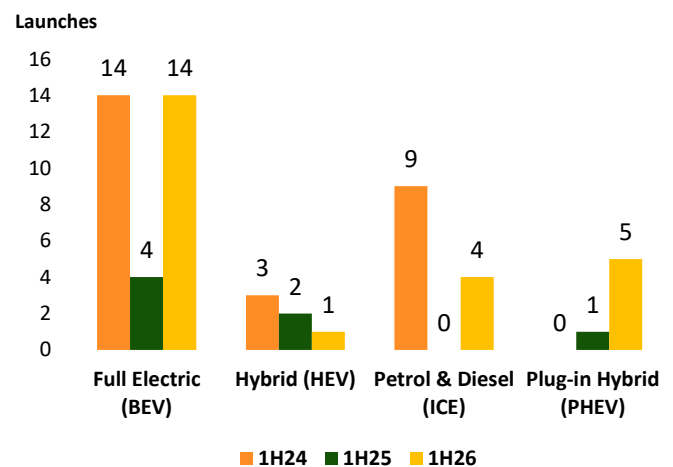
Initially postponed to Jul-26, the government’s pro-nickel BEV incentive has been rescheduled to Aug-26. The Minister of Economic Affairs, Airlangga Hartarto, did not include any mention of BEV incentives for 2W and 4W. When asked, the Minister stated that the incentive had been postponed for one month to Aug-26, citing technical calculations still in progress at the Ministry of Finance. If announced, we expect the incentive to top up IDR 9.36 tn to the 2H26 fiscal stimulus package, bringing the total 2H26 fiscal stimulus to IDR 35.70 tn (0.14% of GDP).

Chart 3. Global Fuel Prices are Plummeting



Source: Compiled

Chart 4. PHEVs are the New Trendsetter in Indonesia



Source: Bank Danamon Indonesia Calculation

Indonesia's Selected Economic Indicators

| | 2023 | 2024 | 2025 | 2026E |
|---|--------|--------|--------|--------|
| National Accounts | | | | |
| Real GDP (% y-o-y) | 5.0 | 5.03 | 5.11 | 5.30 |
| Domestic demand ex. inventory (% y-o-y) | 4.6 | 4.94 | 4.99 | 5.20 |
| Real Consumption: Private (% y-o-y) | 4.9 | 4.9 | 4.98 | 5.31 |
| Real Gross Fixed Capital Formation (% y-o-y) | 4.4 | 4.61 | 5.09 | 5.24 |
| GDP (USD bn) — nominal | 1,371 | 1,440 | 1,445 | 1,699 |
| GDP per capita (USD) — nominal | 4,920 | 4,960 | 5,083 | 5,401 |
| Open Unemployment Rate (%) | 5.3 | 4.9 | 4.7 | 4.5 |
| External Sector | | | | |
| Exports (% y-o-y, BoP Basis) | -11.3 | 6.51 | 6.15 | 4.56 |
| Imports (% y-o-y, BoP Basis) | -7.3 | 7.95 | 2.83 | 6.81 |
| Trade balance (USD bn, BoP Basis) | 46.4 | 31.04 | 41.05 | 29.87 |
| Current account (% of GDP)* | -0.1 | -0.3 | -0.1 | -1.2 |
| Central government debt (% of GDP) | 38.9 | 39.13 | 40.50 | 40.74 |
| International Reserves –IRFCL (USD bn) | 146.4 | 155.7 | 156.5 | 150.0 |
| Reserve Cover (Months of imports & ext. debt) | 6.5 | 6.5 | 6.3 | 6.2 |
| Currency/USD (Year-end) | 15,399 | 16,235 | 16,703 | 17,830 |
| Currency/USD (Average) | 15,244 | 15,920 | 16,482 | 17,479 |
| USD/CNH (Year-end) | 7.13 | 7.34 | 6.98 | 6.80 |
| USD/CNH (Average) | 7.09 | 7.21 | 7.19 | 6.83 |
| Currency/CNH (Year-end) | 2,161 | 2,199 | 2,391 | 2,622 |
| Currency/CNH (Average) | 2,150 | 2,199 | 2,292 | 2,559 |
| Other | | | | |
| BI 7-Day Reverse Repo rate (% year end) | 6.0 | 6.0 | 4.75 | 6.25 |
| Consumer prices (% year end) | 2.61 | 1.57 | 2.92 | 3.50 |
| Fiscal balance (% of GDP; FY) | -1.65 | -2.3 | -2.92 | -2.89 |
| S&P's Rating – FCY | BBB | BBB | BBB | BBB |

Source: CEIC, E= Danamon Estimates

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