6 November 2026

Indonesia Market Color

A Tale of Two Economies

Danamon

A member of MUFG

Executive Summary

- The Democratic sweep pulled Treasury yields and the dollar lower as markets reassessed fiscal expansion, but persistent inflation risks kept expectations for a December Fed hike elevated.
- Stronger Indonesia's 3Q26 headline GDP growth masked moderating domestic demand, while thinner external buffers and MSCI uncertainty pressured markets. We raise our growth forecasts to 5.35% in 2026 and 5.26% in 2027.
- Motorcycles retain stronger momentum on rural income support, while higher prices and financing costs constrain cars. New models should sharpen competition, with a more meaningful car-sales recovery expected from 2Q27.

Global Economy

Blue Sweep Sends Yields and the Dollar Lower

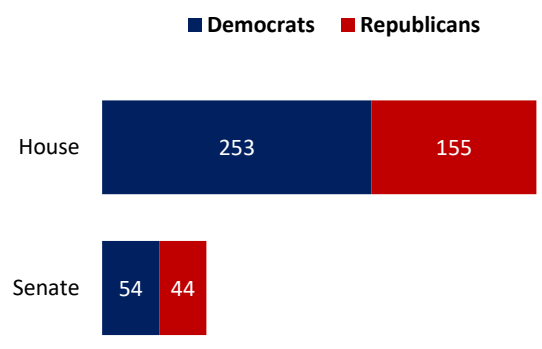
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The Democratic sweep of Congress prompted markets to unwind part of the U.S. fiscal-expansion premium. Democrats regained both the Senate and the House in the November 3 midterms, setting up divided government when the new Congress convenes in January. Investors reassessed the prospects for additional tax cuts and large spending packages, which would face greater legislative resistance. The result changed expectations for future policy rather than existing fiscal settings, while tariffs and foreign policy remained key areas of presidential discretion.

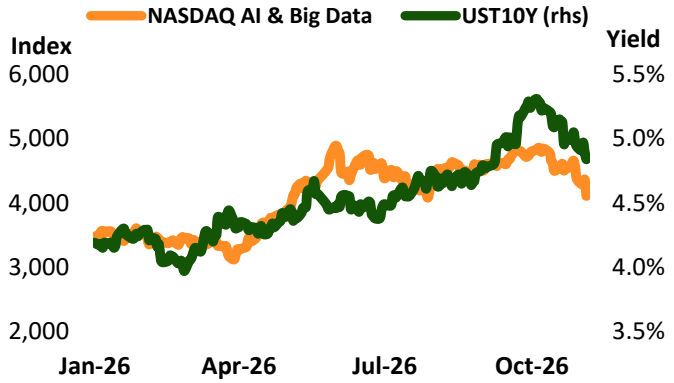
Treasuries rallied as expectations of fiscal restraint coincided with falling oil prices and concerns over AI-led growth. The 10Y UST yield declined 6 bps to 4.89% on November 4. Oil prices fell more than 8% on hopes for Middle East de-escalation, easing inflation concerns, while restrictions on data-center development raised questions about the strength of the AI investment cycle. These forces supported bonds even as equities recovered from the initial technology-led sell-off. The decline in yields therefore reflected several reinforcing drivers, rather than the election outcome alone.

Chart 1. Democrats Sweep Both Chambers of Congress



Source: NBC News as of 05-Nov

Chart 2. Treasury Yields Fall as AI Stocks Retreat



Source: CEIC, St. Louis Fed as of 05-Nov

The dollar also weakened, despite markets retaining strong expectations for a December Fed hike. DXY touched 101.2 on November 4, its lowest since September 30, before recovering to around 101.6. Meanwhile, futures continued to price roughly an 80% probability of a December rate increase. Softer Treasury yields and concerns about the U.S. growth outlook weighed on the dollar, outweighing support from near-term Fed pricing. The divergence showed that the post-election move was driven primarily by a reassessment of fiscal and growth risks, rather than a dovish shift in monetary policy expectations.

Domestic Economy

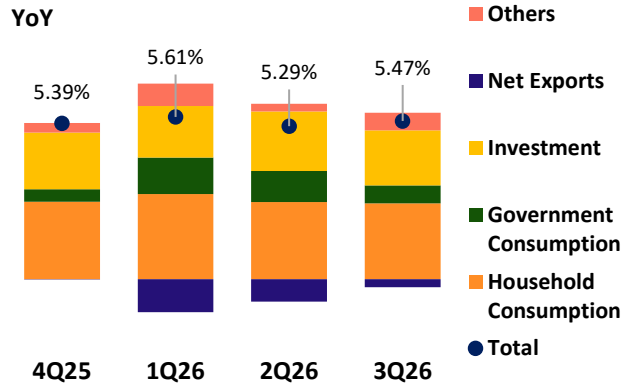
Growth Beats Expectations as Manufacturing Gains Momentum

Indonesia's economy accelerated in 3Q26, but a smaller external drag masked moderating domestic demand. GDP grew 5.47% YoY, beating consensus of 5.18% and our 5.0% forecast, up from 5.29% in 2Q26. The key swing came from net exports, whose drag narrowed to 0.28 percentage points from 0.90pp as export growth accelerated to 4.59% and import growth slowed to 7.31%. Domestic spending remained supportive but lost momentum with household consumption edged down to 5.04% from 5.06%, fixed investment moderated to 6.06% from 6.87%, and government consumption slowed to 8.95% from 15.97%. Household spending remained the largest growth contributor at 2.62pp, followed by fixed investment at 1.91pp and government consumption at 0.62pp.

Manufacturing and trade drove the production-side acceleration, with stronger factory orders carrying momentum into October. Manufacturing's contribution to GDP growth increased to 1.20pp in 3Q26 from 0.90pp in 2Q26, while trade's contribution rose to 0.94pp from 0.83pp. The manufacturing PMI subsequently climbed to 54.0 in October from 52.4, its highest reading since March 2024. New orders expanded at their fastest pace in five years, supported by mostly overseas demand, while export orders recorded their strongest growth since the survey began. Hiring, however, remained marginal. The survey therefore points to firmer orders and output, but a more limited transmission to employment and household purchasing power.

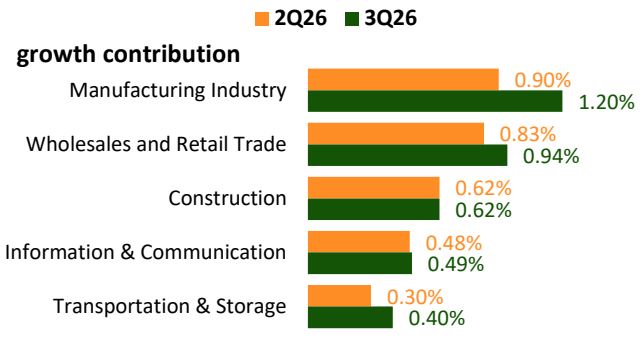
Stronger headline credit growth masked slowing household borrowing and softer investment momentum. Bank lending accelerated to 13.26% YoY in September from 12.67% in June, driven by working-capital loans, which strengthened to 11.89% from 8.94%. However, investment credit moderated to 23.20% from 24.90%, while consumer lending slowed to 4.86% from 5.75%. Although investment remained the fastest-growing credit segment, its deceleration alongside household borrowing reinforces the GDP evidence of softer consumption and investment growth in 3Q26.

Chart 3. Growth Rises as Domestic Demand Slows



Source: Statistics Indonesia

Chart 4. Manufacturing & Trade Drive the Growth Pickup



Source: Statistics Indonesia

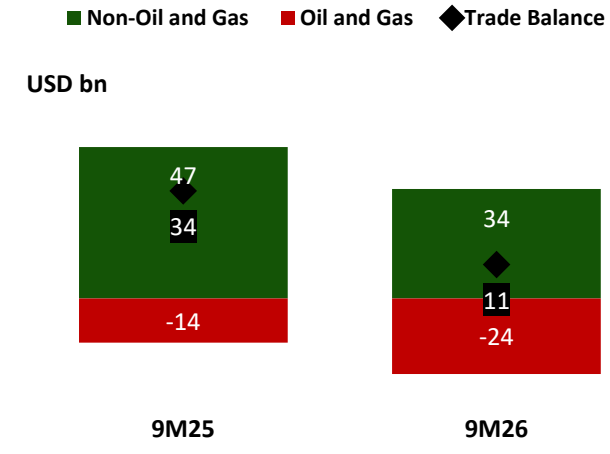
Market Turbulence Persists Despite Solid Growth

October's market sell-off highlighted the gap between resilient growth and thinner external buffers, despite some relief from the post-election global rally. USD/IDR rose to 18,147 at end-October from 17,894 at end-September, a 1.41% monthly Rupiah depreciation, while the 10Y IndoGB yield touched around 7.7%. Lower U.S. yields, a softer dollar, and falling oil prices subsequently eased pressure, bringing USD/IDR to 18,082 and the 10Y IndoGB yield to around 7.6% on November 5. However, the trade cushion remained substantially weaker than last year. September's USD3.4bn surplus, supported by non-oil exports and a narrower energy deficit, brought the 9M26 surplus to USD11bn versus USD34bn a year earlier. Investment and production thus supported GDP while generating import demand, helping explain why solid activity offered limited protection against concerns over external financing, fiscal costs, and market access.

Energy support cushioned domestic purchasing power while shifting part of the cost pressure onto the fiscal accounts. Headline inflation eased to 3.23% YoY in October from 3.28%, with core inflation declining to 2.56% from 2.84%. However, the moderation masked persistent supply pressures. Volatile-food inflation rose to 5.81% as lower chili production constrained supply, while higher airfares added to administered-price pressures. Limited fuel-price adjustments helped contain direct energy inflation and spillovers into transport and distribution costs, shielding household spending. The fiscal accounts absorbed part of that protection, with subsidies and compensation payments reaching IDR377tn through September, up 54.1% YoY (84.3% of 2026 budget), alongside a deficit of IDR319tn, or 1.24% of GDP. Elevated oil prices and Rupiah weakness increased the domestic-currency cost of energy support, exposing the budget to pressures not fully reflected in consumer inflation.

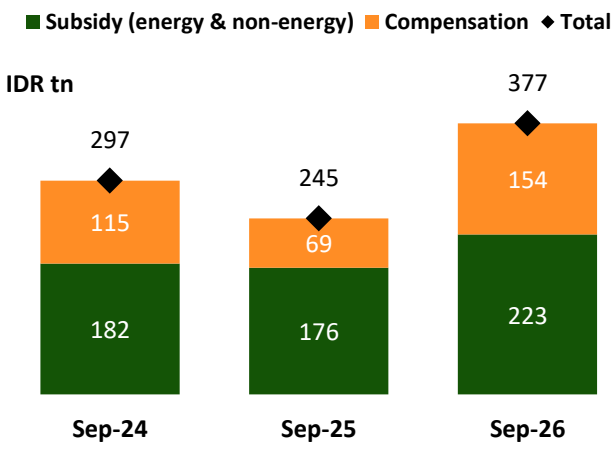
MSCI uncertainty lifted market-access concerns as BI balanced Rupiah stability with liquidity support. On October 15, MSCI proposed moving Indonesia from Emerging Market to Standalone status over ownership transparency and enforcement concerns, with a decision due by June 30, 2027. Sovereign risk pricing also deteriorated, with the 5Y CDS rising to 106.35 bps on October 26 from 91.74 bps on October 14. Against this backdrop, BI held its policy rate at 5.75%, raised the Deposit Facility rate by 25 bps to 5.00%, and strengthened DNDF incentives to support Rupiah returns. Meanwhile, phased reserve-requirement cuts from 9% to 7% across November–December, partly offset by a lower KLM ceiling, supported banking liquidity while reflecting the challenge of stabilizing financial markets while sustaining real-sector growth.

Chart 5. Trade Surplus Narrows Sharply



Source: Statistics Indonesia

Chart 6. Subsidies & Compensation Reach 84.3% of Budget



Source: Ministry of Finance as of 9M26

Automotive Industry

Motorcycles Gain Ground as Cars Face an Affordability Test

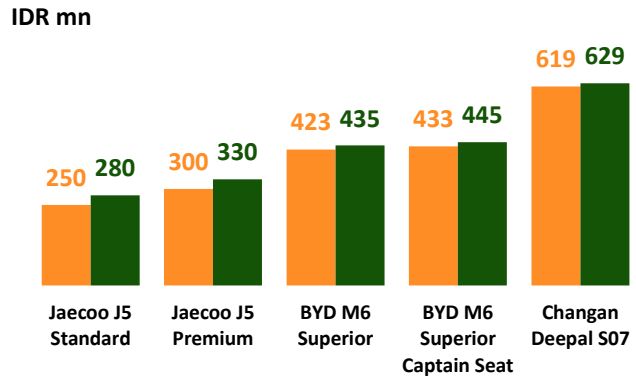
September vehicle sales diverged, with motorcycles gaining momentum while car sales eased sequentially. Motorcycle wholesales reached 654,343 units, up 15.4% YoY and 9.7% MoM, marking the strongest monthly performance this year. Firmer agricultural incomes provide a supportive backdrop for rural demand, particularly outside Java. Car wholesales, meanwhile, remained strong at 79,540 units, up 28.1% YoY, but fell 2.7% from August. The contrast points to uneven purchasing power across vehicle segments, with higher-ticket purchases facing a tougher affordability test.

Chinese car prices are rising as currency pressures squeeze margins. Despite greater domestic assembly (CKD) since 2026, several major models have recorded price increases as manufacturers protect profitability. Continued reliance on Chinese components, including tires, suspension parts, and bearings, leaves production costs sensitive to the Yuan. The Rupiah cost of the Yuan has risen approximately 13.7% YTD through November 6, increasing pressure to pass higher input costs on to buyers. Higher vehicle prices and financing rates are compounding affordability pressures, making year-end promotions and sales of high-volume models increasingly important.

November launches are sharpening the contest for year-end volumes. Manufacturers are targeting the mass-market family segment to strengthen their year-end sales, led by the upcoming Kia Carens EV, which shares its platform with the Hyundai Neira. Positioned near the BYD M6, the Carens EV uses a nickel-manganese-cobalt (NMC) battery, a chemistry generally more expensive than the lithium-iron-phosphate (LFP) batteries widely used by Chinese competitors. Its arrival could revive competition in Indonesia's sizeable IDR300–500mn seven-seat MPV segment after a relatively quiet year, setting the stage for a more competitive automotive market in 2027.

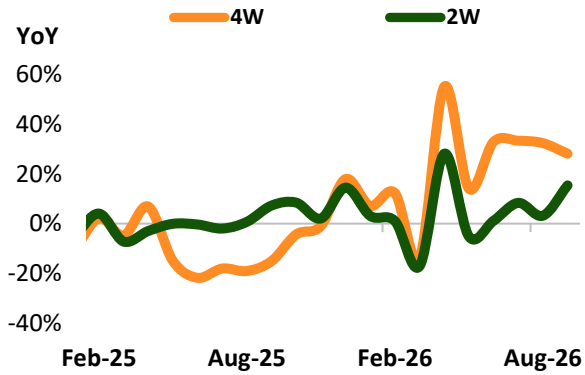
Higher local-content requirements will shape 2027 incentives, with support likely to favor motorcycles. Presidential Regulation 79/2023 raises minimum local content for battery-electric cars and motorcycles to 60% from 2027, reinforcing the policy emphasis on domestic manufacturing. Detailed incentive arrangements remain under formulation. The motorcycle proposal cited in the draft envisages IDR3mn per vehicle, while the separate 2027 planning target covers 63,000 motorcycle conversions. For four-wheelers, Industry Minister Sarmuji has proposed smaller incentives for hybrid, plug-in hybrid, and range-extending vehicles (HEVs, PHEVs, and REEVs). We see implementation as less certain, with fiscal priorities likely to favor motorcycle electrification as part of the broader drive to reduce fuel dependence.

Chart 7. Prices Rise for Major BEV Models



Source: Bank Danamon Indonesia Calculation (Compiled)

Chart 8. Motorcycle Sales Accelerate as Car Sales Ease



Source: GAIKINDO, Bank Danamon Indonesia Calculation

Outlook

Macroeconomy: Growth Outlook Brightens, Market Recovery Hinges on Policy

We raise our GDP growth forecasts to 5.35% for 2026 and 5.26% for 2027, as firmer domestic demand and improving exports strengthen the growth outlook. The upgrade from 5.15% for 2026 incorporates the stronger 3Q26 realization, although we expect growth to moderate to 5.04% in 4Q26 as government consumption faces a higher comparison base and the improvement in net exports may not repeat. Year-end services spending and ongoing investment should nevertheless sustain activity. Our 2027 revision from 5.10% also reflects the expected transmission of stronger exports into household consumption with a lag of around two quarters, as export receipts gradually support business cash flow, employment, and income. Continued investment execution and additional productive capacity should reinforce this impulse, while elevated borrowing costs and limited fiscal space keep growth slightly below this year's pace.

Stronger growth should support sentiment, but sustained market stabilization still requires attractive Rupiah returns and a lower risk premium. Softer U.S. yields, the dollar, and oil prices provide near-term relief, while a thinner external buffer and MSCI uncertainty leave Indonesian assets sensitive to capital flows. We retain our expectation for the BI Rate to reach 6.25% by end-2026 and remain there through 2027, helping stabilize the Rupiah and contain inflation risks. Conditional on this response and easing external pressures, we maintain our end-2026 forecasts of USD/IDR at 18,032 and the 10Y IndoGB yield at 7.4%. The recovery remains vulnerable to renewed global inflation pressures or persistent market-access concerns, making policy credibility and progress on transparency and enforcement central to converting real-sector resilience into stronger financial-market performance.

Automotive Industry: Motorcycle Momentum Holds, Car Recovery Waits Until 2Q27

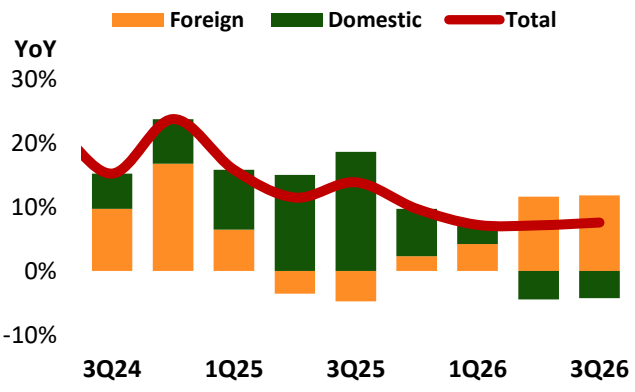
We expect motorcycles to retain stronger momentum through year-end, with a more meaningful recovery in car wholesales from 2Q27. Higher palm oil prices and the harvest cycle should support rural purchasing power and sustain two-wheeler demand. Four-wheelers face a tougher affordability backdrop as higher vehicle prices and financing costs weigh on purchases. Year-end promotions and new launches in the IDR300–500mn segment should cushion sales but are unlikely to deliver a sustained rebound through early 2027. We expect the recovery to gain traction from 2Q27 as competition among mass-market MPVs broadens model choice and sharpens pricing and financing offers, with competitive pressure extending into the growing crossover segment.

Table 1. Nominal Government Spending Set to Moderate

IDR tn	4Q25	4Q26E	YoY
Central Government Spending	1,217	1,307	7.4%
(-) Interest Expense	125	154	22.9%
Spending Impulse	**1,092**	**1,153**	**5.6%**
Regional Government Transfers	204	98	-52.1%
Total	**1,296**	**1,251**	**-3.5%**

Source: Ministry of Finance, Bank Danamon Indonesia Calculation

Chart 9. Investment Pipeline Supports Growth



Source: Ministry of Investment

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Indonesia's Selected Economic Indicators

	2023	2024	2025	2026E
National Accounts				
Real GDP (% y-o-y)	5.0	5.03	5.11	5.35
Domestic demand ex. inventory (% y-o-y)	4.6	4.94	4.99	5.61
Real Consumption: Private (% y-o-y)	4.9	4.9	4.98	5.13
Real Gross Fixed Capital Formation (% y-o-y)	4.4	4.61	5.09	6.18
GDP (USD bn) — nominal	1,371	1,440	1,445	1,506
GDP per capita (USD) — nominal	4,920	4,960	5,083	5,191
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	16.29
Trade balance (USD bn, BoP Basis)	46.4	31.04	41.05	9.75
Current account (% of GDP)	-0.1	-0.3	-0.1	-1.5
Central government debt (% of GDP)	38.9	39.13	40.50	41.54
International Reserves –IRFCL (USD bn)	146.4	155.7	156.5	147.5
Reserve Cover (Months of imports & ext. debt)	6.5	6.5	6.3	5.6
Currency/USD (Year-end)	15,399	16,235	16,703	18,032
Currency/USD (Average)	15,244	15,920	16,482	17,735
USD/CNH (Year-end)	7.13	7.34	6.98	6.65
USD/CNH (Average)	7.09	7.21	7.19	6.70
Currency/CNH (Year-end)	2,161	2,199	2,391	2,711
Currency/CNH (Average)	2,150	2,199	2,292	2,647
Other				
BI Rate (% year end)	6.0	6.0	4.75	6.25
Consumer prices (% year end)	2.61	1.57	2.92	3.29
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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