

Indonesia Investments

‘Rupiah under Pressure’

- Capital Outflows from Indonesian Bonds and Stocks Put Pressure on the Rupiah Rate
- Investors Focus on Rising US Treasury Yields and Joe Biden’s ‘Build Back Better’ Program
- US Federal Reserve Expected to Leave Interest Rates and Bond-Buying Program Unchanged
- Huge Challenges for Indonesia’s COVID-19 Immunization Program
- Will Bank Indonesia Need to Raise Its Key Interest Rate Soon to Support the Rupiah?

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Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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Indonesian Rupiah, Stocks and Bonds Under Pressure due to Developments in the USA; Bank Indonesia to Adjust Its Monetary Policy?

For the first time since early November 2020 – which is around five months ago – the Indonesian rupiah depreciated beyond the IDR 14,500 per US dollar level. It is a threshold that makes Indonesians a bit concerned.

However, it is not so much the case that foreign investors lost their confidence in the (economic) conditions of Indonesia (in other words: in Indonesian assets), but it is more that developments outside Indonesia are facilitating capital outflows.

One influential development is that the US 10-year treasury yield, a key measure of US long-term borrowing costs and as such closely watched as an indicator of broader investor confidence, has been rising toward 1.8 percent, touching its highest point since January 2020 (around the time when the COVID-19 crisis started).

Rising yields are caused by a sell-off in bond markets on expectations of stronger US economic growth and inflation in the period ahead as the ongoing US immunization program is expected to allow a major rebound in economic activity. Moreover, US President Joe Biden unveiled a USD \$2 trillion infrastructure package at the start of April 2021 (partly financed by a higher corporate tax), which comes on top of a USD \$1.9 trillion fiscal stimulus bill announced in March 2021.

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