PHINTRACO SEKURITAS
Member of Indonesia Stock Exchange

Global Economic Research

Economic Review 2025 and Outlook 2026

Wave of Change:
Embracing the Economic Dynamics of 2026

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Key Takeaways

- **Global economic growth is expected to continue slowing due to high global uncertainty.**The situation has created uncertainty in global trade and investment. Although a global recession is not currently projected, this uncertainty continues to have a negative impact on economic growth.
- **U.S. President, Donald Trump's import tariff policies have created uncertainty; however, recent negotiations show potential for a resolution**. Amidst trade agreement efforts between the U.S. and China involving partial tariff reductions and the postponement of Chinese export restrictions on critical minerals, strict monitoring of transshipment practices presents a new risk for global trade.
- **Artificial Intelligence (AI) is a part of global economic transformation, automating production processes to address labor shortages**. The integration of AI and robotics improves industrial efficiency, particularly amid aging populations in the US, Europe, and China. With the support of adaptive labor and migration policies, this technology has the potential to maintain productivity and create new high-value jobs.
- **Global inflation pressure has eased, except in the US, Europe, and the UK, due to import tariffs and strong demand.** Several major central banks in worldwide have begun to loosen their monetary policies by lowering interest rates, while others remain cautious in maintaining stability amid persistently high inflationary pressures.
- **Global fiscal prospects are increasingly fragile due to geopolitical tensions, US tariff policies, and high public debt in many countries.** Expansionary fiscal policies and interest rate hikes are driving up debt costs, narrowing policy space, and increasing risks to global economic stability.
- **Geopolitical tensions disrupt supply chains, leading to increased energy and food commodity prices**. However, global commodity prices in 2025 exhibit diverse trends, influenced by weakening demand, supply disruptions, and climate change.

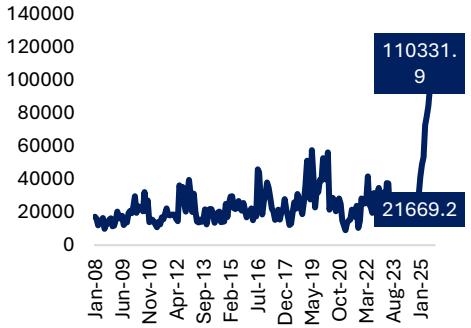
Global economic growth is expected to continue slowing due to persistently high global uncertainty. It is triggered by reciprocal tariffs between the United States (U.S.) and its trading partners, increasing geopolitical tensions, and policy fragmentation across various countries. These conditions have created uncertainty in global trade and investment. Although International Monetary Fund (IMF) projections indicate that a global recession will not occur, this uncertainty continues to have negative impacts. Global trade flows are disrupted, while business actors and investors have become more cautious in making investment and business expansion decisions.

The increasing uncertainty is reflected in the World Uncertainty Index (WUI), which rose significantly throughout 2025 **(Figure 1).** The WUI increased substantially from 21,669.2 points in October 2024 to 110,331.9 points in October 2025, representing an increase of 88,662.7 points. Despite being shaded by uncertainty risks, the International Monetary Fund (IMF) revised its global economic growth projection upward by 20 basis points to 3.2% YoY, from the previous estimate of 3.0% YoY for FY25. This revision is based on the private sector's swift response in accelerating imports in 1H25, as well as trade agreement negotiations between various countries and the U.S. Nevertheless, its growth projection remains slower than the 3.3% YoY recorded in FY24.

The U.S. Gross Domestic Product (GDP) recorded a significant improvement, growing 3.8% QoQ in 2Q25 from a contraction of 0.6% QoQ in 1Q25. This improvement was supported by increased consumer spending, which contributed 1.68% to GDP growth, and a significant decline in imports, which pushed net exports to contribute 4.83% to GDP growth in 2Q25 **(Figure 2).** This substantial growth in net exports was in line with private sector policies that accelerated imports in 1H25, particularly in 1Q25.

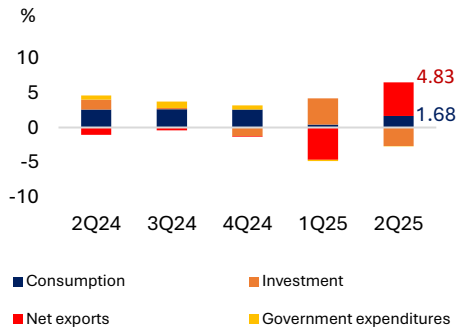
On the other hand, the slowdown in private investment suppressed U.S. domestic investment, resulting in this component contributing 2.66% to GDP in 2Q25. A negative contribution also came from Government spending at -0.01% of GDP in 2Q25. The slowdown in Government spending was due to President Trump's policies aimed at maximizing information technology modernization, enhancing government worker productivity, reducing lengthy regulations, and cutting federal government expenditure.

Figure 1. World Uncertainty Index (WUI)



Source: WorldUncertaintyIndex.com | Phintraco Sekuritas Research

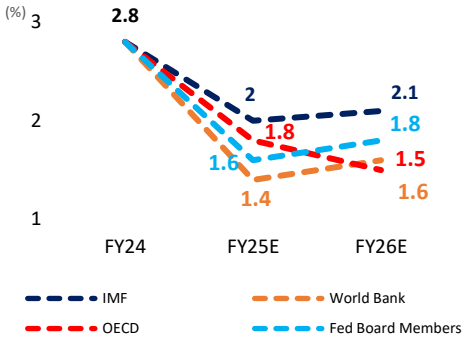
Figure 2. U.S. GDP QoQ



Source: U.S. Bureau Economic Analysis | Phintraco Sekuritas Research

U.S. economic growth is expected to decelerate in 2025 and 2026. The IMF estimates that US economic growth will remain at 2.0% YoY for 2025 and 2.1% YoY for 2026. Meanwhile, the World Bank estimates economic growth of 1.4% YoY in 2025 and 1.6% YoY in 2026. The Organisation for Economic Co-operation and Development (OECD) has set its US economic growth projections at 1.8% YoY in 2025 and 1.5% YoY in 2026. Meanwhile, the Fed estimates growth of 1.6% YoY in 2025 and 1.8% YoY in 2026 **(Figure 3).** This deceleration is based on the main factor of reciprocal tariffs announced in April 2025. Although negotiations are underway to reach an agreement on lower import tariffs, tariffs on certain goods, such as pharmaceuticals, semiconductors, and steel, remain relatively high. Therefore, the application of these import tariffs has the potential to trigger inflation as producers and importers bear higher costs, which will lead to higher selling prices.

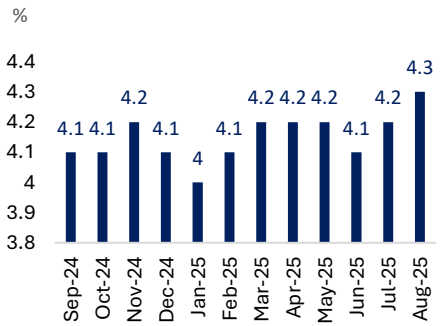
Figure 3. U.S. GDP Forecast to FY25 and FY26



Source: IMF | World Bank | OECD | Fed Board Members

The U.S. labor market weakened in August 2025. Three key labor market indicators are the unemployment rate, nonfarm payrolls, and job openings, which tend to deteriorate. The unemployment rate rose to 4.3% in August 2025 from 4.2% in July 2025 **(Figure 4).** The number of unemployed individuals increased by 148,000 to 7.38 million, although the number of workers also increased by 436 to 170.78 million in August 2025. Nonfarm payrolls (NFP) fell to 22,000 in August 2025 from 79,000 in July 2025 **(Figure 5).** The most significant job gains occurred in the healthcare sector, with 31,000 new jobs, and in social assistance, with 16,000 new jobs. Meanwhile, jobs in the mining and wholesale trade sectors fell by 6,000 and 12,000, respectively. Declines were also recorded in the manufacturing and U.S. government sectors, by 12,000 each. The number of job vacancies in the U.S. fell by 176,000 to 7.18 million in July 2025 from 7.36 million in June 2025, below market expectations of 7.40 million **(Figure 6).** The most significant declines were seen in the healthcare and social assistance sector, which decreased by 181,000, and the arts, entertainment, and recreation sector, which decreased by 62,000.

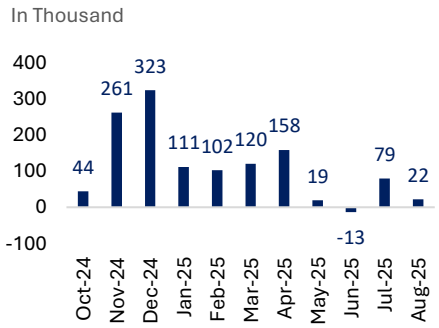
Figure 4. U.S. Unemployment Rate



Source: Bloomberg | Phintraco Sekuritas Research

Weakened labor absorption has led to a weakening in aggregate demand. Several institutions, such as the OECD, estimate that the unemployment rate will be 4.4% in 2026, while the Fed estimates that the unemployment rate will be 4.5% for 2025-2026. Another factor is the mitigation of immigrants, which has led to fewer US labor recruitments due to higher wages. This condition puts additional pressure on the consumption and investment sectors as companies face increased labor costs.

Figure 5. U.S. Nonfarm Payrolls



Source: Bloomberg | Phintraco Sekuritas Research

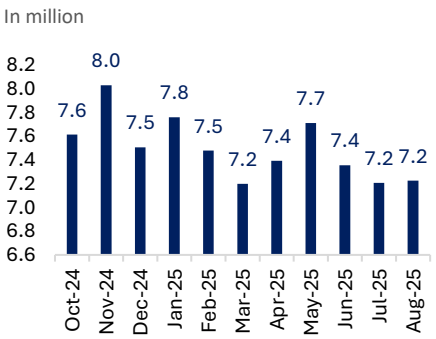
The U.S. Consumer Price Index (CPI) inflation rose to 3.0% YoY in September 2025 from 2.9% YoY in August 2025. Core inflation fell to 3.0% YoY in September 2025 from 3.1% YoY in August 2025 **(Figure 7).** The increase in inflation was driven by a 3.1% YoY rise in food prices (index), due to a 5.2% YoY increase in meat, egg, and poultry prices in September 2025. Inflation in the services sector declined, supported by stagnant housing costs and lower transportation costs, while inflation in goods rose due to cost pressures from import tariffs and supply chain adjustments.

The IMF forecasts a 2.7% YoY increase in the U.S. CPI in 2025 and a 2.4% YoY increase in 2026. Higher inflation in 2025 is based on the assumption that import prices will rise due to the implementation of a series of import tariffs in 2025. However, inflation is expected to moderate in 2026 based on the possibility of tariff agreements through negotiations and the downward trend in oil prices (due to the energy emergency status in the US). Another factor underlying the projected moderation in inflation is the downward trend in housing prices in the last five months since April 2025, in line with the Fed's interest rate cuts. The final factor is the deceleration in wage growth due to the weakening labor market.

The Euro Area economy grew higher than expected and showed resilience to US import tariff increases. Euro Area GDP grew 0.2% QoQ in the preliminary estimate for 3Q25, up from 0.1% QoQ in 2Q25. The European Union economy also recorded growth of 0.3% QoQ in preliminary estimates for Q3 2025, up from 0.2% in Q2 2025 **(Figure 8).** France was the main driver of the Euro Area with economic growth of 0.5% QoQ in the preliminary estimate for 3Q25. Meanwhile, Germany and Italy experienced stagnation and nearly fell into recession after negative growth in 2Q25. Meanwhile, the Spanish economy grew 0.6% QoQ in the preliminary estimate for 3Q25, making it the country with the best growth in Europe.

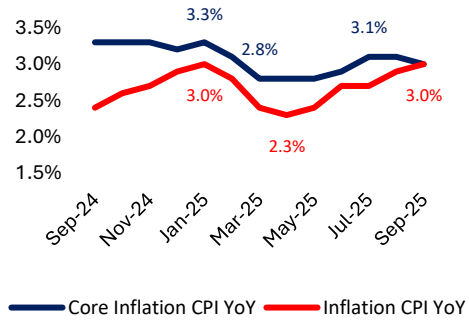
The OECD estimates Euro Area economic growth at 1.2% YoY in 2025 and 1.0% YoY in 2026. These projections are based on eased monetary policy and lower energy prices in Europe. Labor market conditions will remain tight, with worker shortages in several sectors, and very low unemployment rates will slow the normalization of wage increases. These conditions will trigger increased consumption (spending), thus inflation pressure risks remain relatively high in the Euro Area. Additionally, there are risks from increased trade friction and geopolitical uncertainties in the European region.

Figure 6. U.S. JOTL Job Opeining



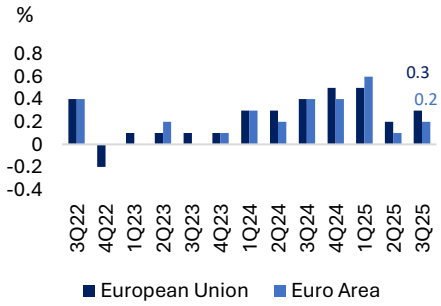
Source: Bloomberg | Phintraco Sekuritas Research

Figure 7. U.S. CPI Inflation



Source: Bloomberg | Phintraco Sekuritas Research

Figure 8. European GDP QoQ



Source: Bloomberg | Phintraco Sekuritas Research

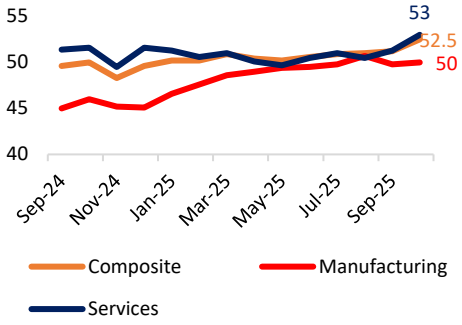
The Euro Area Composite Purchasing Managers' Index (PMI) rose to 52.5 in October 2025. The industrial sector showed signs of recovery, as indicated by the manufacturing PMI index of 50 in October 2025 and the services PMI index of 53 in October 2025 **(Figure 9).** The Economic Sentiment Indicator in Europe also rose to 96.8 in October 2025 from 95.6 in September 2025, although it remained at a pessimistic level **(Figure 10).** However, Industrial Production in August 2025 slowed by 1.2% MoM in the Euro Area and slowed by 1% MoM in the European Union. It highlights the ongoing challenges in the industrial sector, mainly due to the effect of accelerated exports in 1Q25 and the issue of product competitiveness.

The normalization of U.S.-EU trade is expected to occur in 2026 as U.S. import tariffs on goods from the EU are reduced to 15% on July 27, 2025, thereby gradually easing trade policy uncertainty.

Euro Area Harmonised Indices of Consumer Prices (HCIP) inflation fell to 2.1% YoY in the initial October 2025 estimate, from 2.2% YoY in September 2025. Meanwhile, EU HCIP inflation rose to 2.6% YoY in September 2025 from 2.4% YoY in August 2025 **(Figure 11).** The most significant contribution to the annual inflation rate in the Euro Area came from service prices (3.4% YoY), followed by food, alcohol, and tobacco (2.5% YoY) and non-energy industrial goods (0.6% YoY). Meanwhile, energy prices declined (-1.0% YoY).

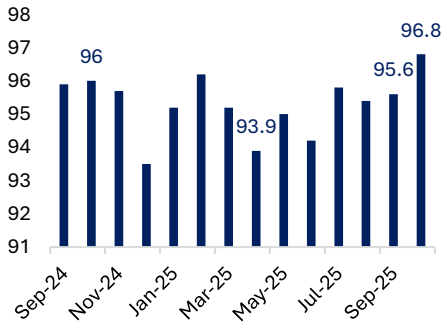
The countries with the lowest inflation were Cyprus (0.3% YoY), France (0.9% YoY), and Italy (1.3% YoY). Meanwhile, the highest inflation was experienced by Estonia (4.5% YoY), Austria (4.0% YoY), and Croatia (4.0% YoY). Annual inflation in the Euro Area fell in ten member countries, remained stable in five countries, and rose in five countries in the initial October 2025 estimate compared to September 2025 **(Figure 12).**

Figure 9. Euro Area PMI Index



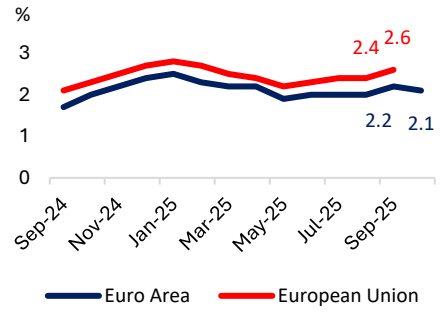
Source: Bloomberg | Phintraco Sekuritas Research

Figure 10. Euro Area Economic Sentiment



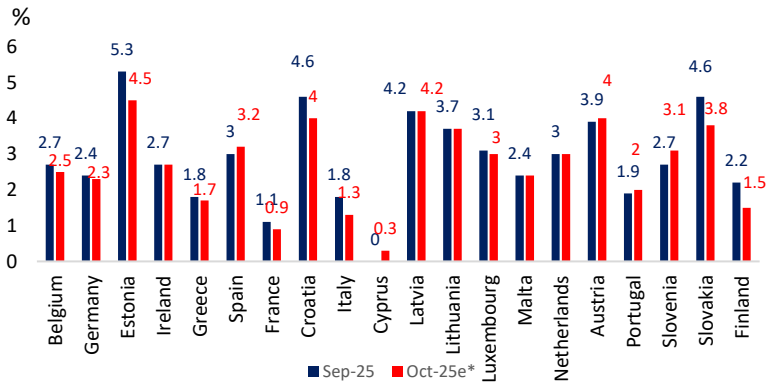
Source: Bloomberg | Phintraco Sekuritas Research

Figure 11. European HCIP Inflation YoY



Source: Bloomberg | Phintraco Sekuritas Research

Figure 12. European HCIP Inflation YoY



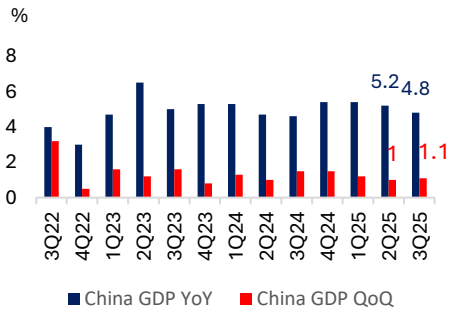
Source: Eurostat | Phintraco Sekuritas Research

The OECD estimates that Euro Area HICP inflation will moderate to 2.1% YoY in 2025 and decrease to 1.9% YoY in 2026. Labor market conditions will remain tight, with worker shortages in several sectors and very low unemployment rates slowing the normalization of wage increases. These conditions will trigger increased consumption (spending), maintaining relatively high inflationary pressure risks in the Euro Area. Nevertheless, energy price deflation is expected to continue until the end of 2025. This deflation is attributed to declining oil and gas prices, as well as relaxation policies in the energy sector, such as electricity tariff reductions in Germany due to lower taxes and grid costs. Food inflation is also projected to decline to an average of 2.4% YoY in 2026, below its long-term average of 2.8% YoY, in line with potential wage normalization, particularly in 2H26.

Political instability is increasing in most Euro Area countries, with the latest tensions in France. Prime Minister Bayrou's government collapsed on September 8, 2025, after losing a veto on austerity measures. Bayrou became the third prime minister to be ousted in less than a year. Bond markets are pricing in higher risk premiums on French debt as President Macron appoints a new prime minister amid rising debt and the influence of more socially conservative left-wing parties.

China's economic growth to 4.8% YoY in 3Q25 from 5.2% YoY in 2Q25. On a quarterly basis, GDP grew 1.1% QoQ in 3Q25, compared to 1.0% in 2Q25 (Figure 13), indicating that the slowdown remains relatively contained. This slowdown was triggered by low consumption, as consumer confidence levels remained below pre-pandemic averages due to slowing real income and the negative impact of the weakening property market. China's Consumer Confidence Index of 89.2 points in August 2025 signifies a pessimistic phase (<100 points) since April 2022. Low consumer confidence is an obstacle to economic recovery, although it can be remedied through monetary and fiscal stimulus, which began intensifying in 4Q25.

Figure 13. China GDP



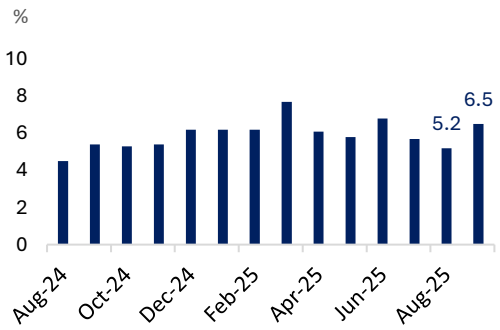
Source: Bloomberg | Phintraco Sekuritas Research

Although economic growth slowed in 3Q25, China is still expected to achieve its annual economic growth target of 5% YoY in 2025. On the other hand, this view raises concerns that it may reduce the urgency of the stimulus needed to accelerate a more solid and sustainable economic recovery.

China's economic growth is expected to slow down in 2025 and 2026. The OECD forecasts China's economy will grow by only 4.9% YoY in FY25 and decelerate to 4.4% YoY in FY26. Increasing trade barriers and ongoing weakness in the property sector remain the main negative sentiments. Another factor is the impact of the trade war with the U.S., which could reduce China's export and import values. Therefore, the Government is attempting to mitigate the negative tariff impact through reducing administrative burdens for Companies and eliminating Value Added Tax (VAT) for exports.

China's Industrial Production grew faster than expected, reaching 6.5% YoY in September 2025 from 5.2% in August 2025 (Figure 14). Monthly momentum also remained positive with industrial production increasing consecutively for 18 months, most recently by 0.64% MoM in September 2025, up from 0.37% MoM in August 2025. Manufacturing activity growth also increased to 7.30% YoY in September 2025 from 5.70% YoY in August 2025. Supporting industrial sectors include automotive and electric vehicles (+16% YoY), communication equipment, computers, and other electronics (+11.3% YoY), and railway and shipbuilding (+10.3% YoY). With stimulus, particularly on the export side, domestic industrial production is expected to maintain growth.

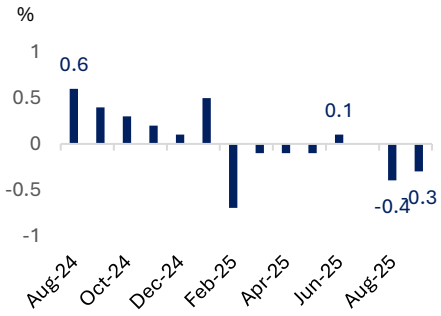
Figure 14. China Industrial Production



Source: Bloomberg | Phintraco Sekuritas Research

Deflation continues in China's Consumer Price Index (CPI), though showing improvement to -0.3% YoY in September 2025, from -0.4% YoY in August **(Figure 15).** This marks the sixth consecutive month of deflation since February 2025. Food prices fell significantly by 4.4% YoY due to increased supply, lower production costs, and weak demand. Conversely, non-food inflation increased to 0.7% YoY in September 2025 from 0.5% YoY in August 2025, supported by trade-in schemes. Inflation occurred in healthcare (1.1% YoY), clothing (1.7% YoY), and education (0.8% YoY) sectors. Core inflation excluding food and energy rose to 1.0% YoY in September 2025 from 0.9% YoY in August 2025, reaching its highest level in 19 months since February 2024.

Figure 15. China Consumer Price Index YoY



Source: Bloomberg | Phintraco Sekuritas Research

China is expected to be deflationary in 2025 before returning to inflation in 2026. The OECD estimates that there will still be deflation of 0.2% YoY in 2025 and a return to inflation of 0.3% YoY in 2026 in China. The primary factors include weak domestic demand, such as the property market, excess industrial production capacity, price wars resulting from accumulated inventories, and consumer restraint. However, several Chinese government policies have begun to curb deflation by launching a major campaign to expand social security, thereby boosting domestic consumption.

Import tariffs initiated by U.S. President Donald Trump have become a source of high uncertainty risk. However, after the 90-day pause period proposed by the U.S. government ended, there were signs of improvement. These improvements include no evidence of real disruption due to tariffs, limited retaliatory actions, and the emergence of negotiation patterns, with lower than initially proposed import tariffs applied to most U.S. trading partner countries. Nevertheless, specific products, such as pharmaceuticals and semiconductors, which are subject to higher tariffs, will impact the economic stability of countries that heavily rely on these products, including China. This continues to create uncertainty in the global economy and international trade.

The aggressive U.S. import tariff policy has prompted global companies to restructure their supply chains as a strategic measure to reduce risk. New, broad, and dynamic tariffs, particularly on Chinese products and strategic sectors such as electric vehicles, semiconductors, steel, and clean energy, create cost and supply chain uncertainties. For many multinational companies, this situation is not merely a short-term disruption but a structural threat to their profitability and business continuity. Consequently, companies no longer rely on a single global production source but are building more flexible multi-location and multi-country supply networks.

The U.S. and China reached a new agreement to ease the trade war after a meeting in Busan, South Korea, on November 1, 2025. In the agreement, the U.S. agreed to reduce some import tariffs on Chinese products, including cutting duties on goods related to opioid precursor materials, Such as Fentanyl, from 20% to 10%, thereby bringing the total average tariff on Chinese imports down to 47%. The U.S. also postponed plans to expand its blacklist of Chinese technology companies for 1 year.

In return, China suspended restrictions on the exports of rare earth minerals and magnets, which are vital to electric vehicles, defense, and high-tech industries, for one year. China also granted export permits for strategic earth commodities, including gallium, Germanium, Antimony, and Graphite. Additionally, China pledged to increase purchases of U.S. agricultural products, including soybeans, sorghum, and hardwood, committing to 12 million tons of soybeans by the end of 2025 and 25 million tons annually for the next 3 years.

The imposition of high import tariffs on U.S. trading partners creates opportunities for trans-shipment practices. Trans-shipment involves redirecting goods from one country through a third country before exporting them to the U.S. This has led the U.S. Government to strengthen its oversight of import tariffs and rules of origin. These measures aim to prevent companies or specific countries from avoiding high tariffs by disguising the origin of goods. The U.S. can impose additional tariffs even higher than base rates, along with legal actions such as anti-dumping investigations, anti-subsidy measures, and import bans for parties engaging in trans-shipment practices. These conditions encourage countries and companies to be more cautious in their investments and focus on value-adding investments.

Artificial Intelligence (AI) is triggering significant changes in the global economic order. Like previous major innovations that were versatile and had broad impacts, such as electricity and the internet, AI has great potential to revolutionize how economies operate, particularly in the production, distribution, and consumption of goods and services. Industry players are beginning to focus on implementing AI in production processes through to final products. It is an industry response to limitations in human resource quality and quantity, rising production costs, supply chain disruptions, and evolving consumer needs that demand personalization and flexibility.

Modern robotics technology now surpasses the limitations of traditional industrial robots, which were rigid and relatively expensive. The integration of advanced hardware, artificial intelligence, and vision systems produces more innovative, more flexible, and relatively economical robots. Recent innovations enable robots to adapt to various tasks in real-time, accelerating the implementation of smaller-scale solutions, such as the use of chatbot technology in small and medium-sized industrial businesses. Production issues, evolving consumer needs, and the adaptation of technology are expected to trigger the acceleration of automation as part of future industrial strategies.

Changes in global demographics marked by declining birth rates and increasing elderly populations in developed countries, strengthen the urgency of adopting Physical AI-based automation in the industrial sector. Countries in Europe, China, and Japan are facing significant declines in their productive workforce, which risks a decrease in productivity if not offset by more efficient replacement technologies.

Physical AI adalah bentuk kecerdasan buatan yang tidak hanya ada di komputer, tapi juga memiliki wujud fisik misalnya robot, *drone*, atau mesin pintar yang bisa bergerak dan berinteraksi langsung dengan dunia nyata. Penggabungan *AI* (otak digital) dengan robotika (tubuh fisik), sehingga bisa melihat, mendengar, merespons, dan belajar dari lingkungan

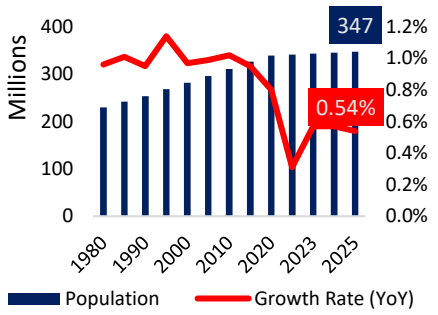
The US has a relatively younger population structure compared to other developed nations. The majority of its population is of working age, although population growth has stagnated **(Figure 16).** The national median age is approximately 39 years, and the birth rate continues to decline to 1.6 births per woman. Population growth is now sustained mainly by international migration, which plays a crucial role in maintaining workforce stability in the US. This condition indicates that US productivity sustainability now relies on immigrants and increased workforce efficiency.

Europe faces more severe challenges due to the rapid acceleration of population aging. The median age of the population has surpassed 44 years, and the elderly group aged 65 years and above already accounts for over 20% of the total population. Meanwhile, the working-age population is expected to continue declining, accounting for approximately 63% of the total population. Low fertility rates and high life expectancy create an increasing economic burden on the active workforce, particularly in healthcare and pension financing. Although immigrants help curb population decline, Europe's age structure still shows a downward population trend **(Figure 17).**

China has entered a phase of population decline after reaching its peak population in the 1990s. In recent years, the population has decreased consecutively to approximately 1.4 billion people by the end of 2025 **(Figure 18).** While the working-age group remains dominant, the elderly population is growing faster, reaching more than 20% of the total population. The government has begun taking steps to raise the retirement age to offset workforce contraction gradually. This condition suggests that China is undergoing a transition to an aging population structure, which may strain the labor supply in the future.

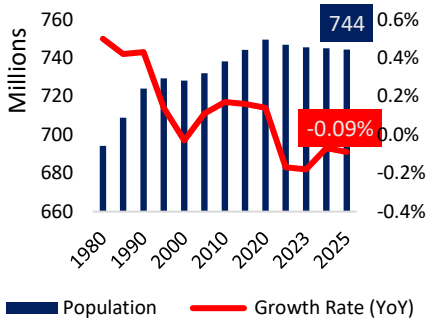
AI presents new opportunities in addressing demographic challenges in these three regions. AI technology can replace some routine tasks and help increase worker productivity across various sectors, including services, healthcare, and administration. Amid population aging, AI can fill workforce gaps and support economic efficiency. However, its success heavily depends on educational readiness, workforce training, and adaptive labor market policies.

Figure 16. U.S. Population and Growth



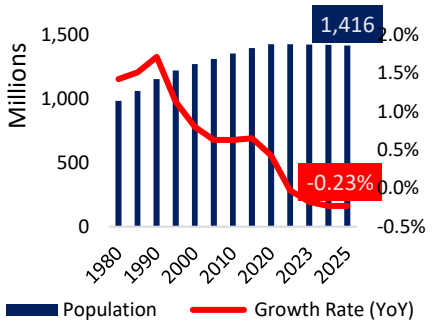
Source: U.N. Economic&Social Dept. | Phintraco Sekuritas Research

Figure 17. European Population and Growth



Source: U.N. Economic&Social Dept. | Phintraco Sekuritas Research

Figure 18. China Population and Growth

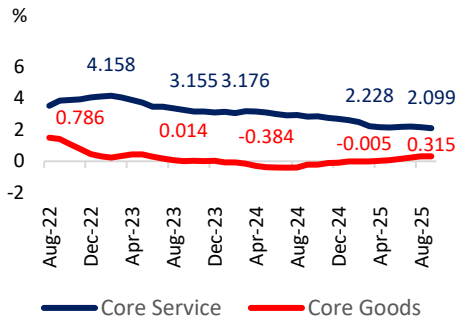


Source: U.N. Economic&Social Dept. | Phintraco Sekuritas Research

By combining the application of AI, increased participation of women and older workers in the workforce, and wise migration policies, countries such as the US, Europe, and China can maintain productivity amid demographic changes. However, the success of this transformation depends not only on technology but also on the readiness of organizations and the ability of the workforce to operate and apply AI technology.

Global inflation has shown a slowing trend in recent months, but in many developed countries, inflation rates remain above central bank targets. Core inflation, which excludes food and energy components, remains high in the US due to pressure from the service sector, housing, and a tight labor market. In addition, US import tariffs have caused an increase in goods prices at a time when service sector inflation remains high (**Figure 19**). A similar situation is occurring in the Euro Area, where overall inflation has fallen significantly, but service inflation remains high and labor costs remain high. Meanwhile, China is experiencing deflation due to increased supply, lower production costs, and weak demand. This phenomenon shows that although global inflationary pressures have eased thanks to the normalization of supply chains, the process of lowering inflation is uneven and slower than expected.

Figure 19. U.S. Goods and Services Inflation

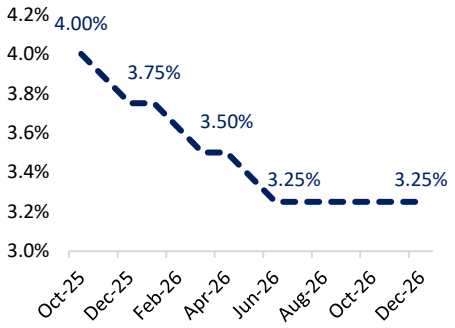


Source: Bloomberg | Phintraco Sekuritas Research

This situation poses a policy dilemma because prolonged high interest rates have the potential to suppress economic growth, while inflationary pressures resulting from protectionist trade policies remain quite high.

The Fed cut interest rates by 25 bps to 3.75%-4.00% in October 2025. This is the second cut in 2025. This cut was based on greater concerns about the US labor market conditions. This situation reinforces the belief that the Fed will cut interest rates by 25 bps at the Federal Open Market Committee (FOMC) in December 2025, with the potential for an additional 50 bps cut in early and mid-2026 **(Figure 20).** The weakening of purchasing power due to import tariffs, the weakening of the labor sector, the potential for a slowdown in economic growth, the stability of global oil prices, and the moderation of residential costs are considered to give the Fed more room to be more dovish in 2026.

Figure 20. Fed Upper Target Interest Rate Projection



Source: CME Fed Watch Tools as of 4th November 2025

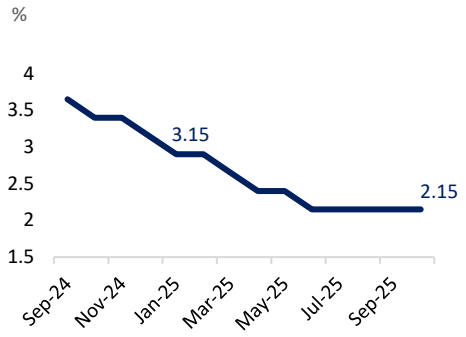
The European Central Bank* (ECB) cut interest rates by 100 bps from 3.15% to 2.15% during 2025 *(Figure 21). The relatively solid economic conditions in the Euro Area and relatively stable inflation at around 2% YoY reduce the likelihood of further cuts to the benchmark interest rate in the near future. However, there are several factors that could potentially prompt the ECB to make further cuts, including the strengthening of the euro exchange rate, the possibility of aggressive benchmark interest rate cuts by the Fed, the impact of US import tariffs, and political crises in several European countries.

The Bank of England (BoE) decided to keep its benchmark interest rate at 4% in September 2025 (Figure 22). Relatively high inflation of 3.8% YoY in September 2025 was one of the main reasons for the BoE to maintain its benchmark interest rate at 4%. Upcoming economic data will determine whether the next interest rate cut can be made or will only occur in 2026.

The People's Bank of China (PBoC) maintained the 1-year Loan Prime Rate at 3.0% and the 5-year Mortgage Prime Rate at 3.5% in October 2025 *(Figure 23).* These interest rates remained unchanged for four months since June 2025 after being cut by 10 bps in May 2025, which was the first cut in 2025. The PBoC is considered to be maintaining a loose monetary policy approach to support economic recovery, particularly through increased domestic consumption. The PBoC and the Chinese government are strengthening monetary and fiscal policy coordination, for example, through fiscal stimulus to accelerate the recovery of domestic consumption.

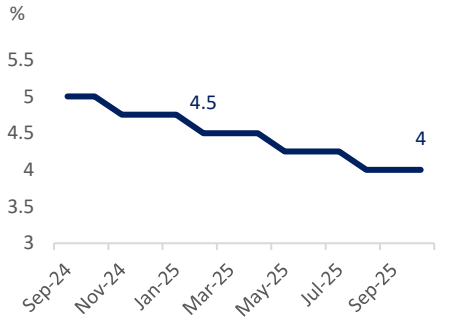
The Bank of Japan (BoJ) is taking a cautious stance on interest rate policy amid the political transition under new Prime Minister Sanae Takaichi. Takaichi is known to be pro-stimulus, tending to maintain accommodative fiscal and monetary policies. The BoJ is currently holding its benchmark interest rate at around 0.5% **(Figure 24)**, However, market signals indicate pressure from hawkish members of the monetary policy board to raise interest rates to a neutral level of around 1% as core inflation remains above 2%. However, Takaichi emphasized that monetary measures must be in line with the government's fiscal policy and should not rush to suppress domestic demand, as Japan's current inflation is driven more by import costs and the weakening of the yen than by increased consumption.

Figure 21. ECB Interest Rate



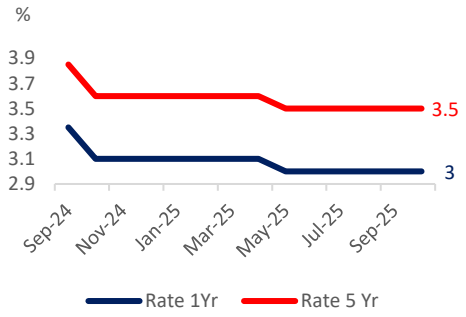
Source: Bloomberg | Phintraco Sekuritas Research

Figure 22. BoE Interest Rate



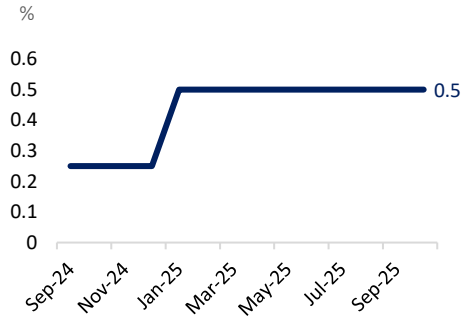
Source: Bloomberg| Phintraco Sekuritas Research

Figure 23. PBoC Interest Rate 1 Yr and 5 Yr



Source: Bloomberg | Phintraco Sekuritas Research

Figure 24. BoJ Interest Rate



Source: Bloomberg | Phintraco Sekuritas Research

The global economic outlook and fiscal policy are fraught with uncertainty following the escalation of geopolitical tensions, US import tariffs, and domestic political instability in several countries. Increased uncertainty due to import tariffs, geopolitics, and economic policy has led to a rise in government bond yields in several countries, particularly the US, the UK, Germany, and France. One of the accelerators is the expectation of increased government bond issuance to finance increased defense budgets, particularly in Europe.

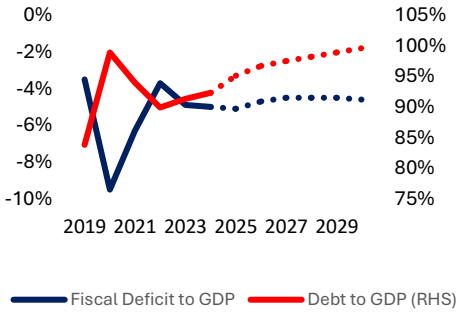
Developing countries will be affected by these conditions. These conditions have the potential to increase the Cost of Funds (CoF), which could exacerbate fiscal risks if central banks decide to keep benchmark interest rates high for a longer period of time.

Based on the IMF report, the global fiscal situation will deteriorate in 2024, although with significant differences between countries. The IMF estimates that the global fiscal deficit will increase by 0.1% in 2025, reaching an average of 5.0% of GDP, while public debt will rise by 1% to 92.3% of GDP (**Figure 25**). The highest debt increase is projected for developed countries, which could exceed 100% of GDP, such as Japan (231.7% of GDP), in the next 10 years. This reflects the ongoing legacy of deficits from high subsidies, social assistance, other routine expenditures, and increases in net interest costs **(Figure 26).**

The US experienced an increase in its fiscal deficit to 7.3% of GDP in 2024 from 7.2% of GDP in 2023. Meanwhile, the primary deficit, which excludes interest payments, improved by falling 50 bps to 3.3% of GDP in 2024 and 3.8% of GDP in 2023 **(Figure 27).** Although the deficit is declining, the interest burden is likely to increase due to the still high interest rates and the large amount of US government debt.

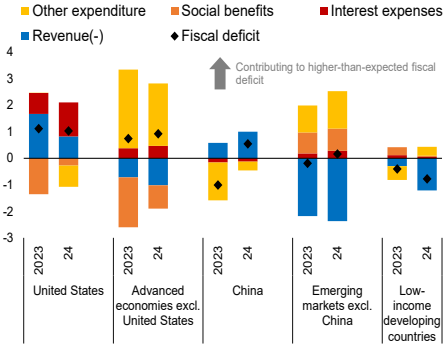
Concerns over rising fiscal deficits in the US following the passage of the One Big Beautiful Bill Act (OBBBA) by the US Senate. This Act shifts the focus away from the Inflation Reduction Act (IRA), removing green incentives and prioritizing reindustrialization, traditional energy production, and fiscal sovereignty. In general, this policy includes permanent tax cuts, subsidies for heavy industry, increased defense spending, and tighter immigration policies.

Figure 25. World Fiscal Deficit and Debt to GDP



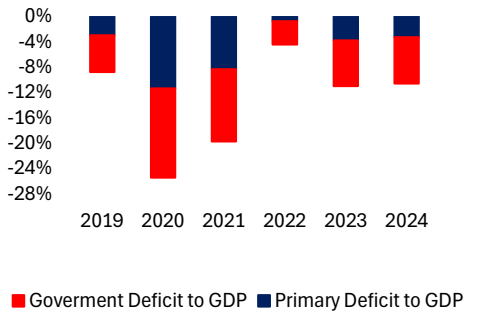
Source: IMF| Phintraco Sekuritas Research

Figure 26. Fiscal Policy Spending Category



Source: IMF| Phintraco Sekuritas Research

Figure 27. U.S. Primary and Government Deficit



Source: IMF | US Fiscal&Treasury.gov | Phintraco Sekuritas Research

OBBBA is feared to trigger long-term fiscal imbalances due to the mismatch between government revenue, which has been reduced by tax cuts, and government spending. The OBBBA will raise the US government debt ceiling by US$5 trillion to US$41.1 trillion **(Figure 28).**

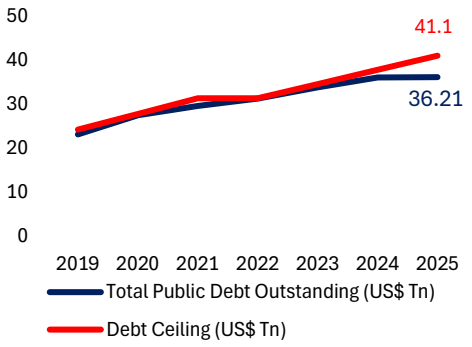
The U.S. Congressional Budget Office (CBO) estimates that the OBBBA will add approximately US$3.8 trillion to the U.S. government deficit over the next ten years. When interest costs are factored in, the potential deficit could reach US$4.5 trillion. The CBO estimates that debt will increase to 130% of GDP by 2034 if the U.S. Senate makes the OBBBA permanent **(Figure 29).**

The implementation of OBBBA has led to an increase in new debt issuance and a rise in US government bond yields. High debt interest payments and high defense spending have raised doubts about the sustainability of long-term fiscal management. High debt levels and rising interest rates could trigger a crisis of confidence if corrective measures are not taken immediately to balance the debt to deficit ratio.

Central Europe is facing a significant increase in fiscal deficits due to a combination of high public spending needs, weaker revenues, and pressure from debt interest costs. Fiscal policy is likely to be expansionary, mainly due to commitments to defense spending and energy transition, which are putting increased pressure on European national budgets. However, there has been a decline in government borrowing estimates, even though fiscal deficits remain high.

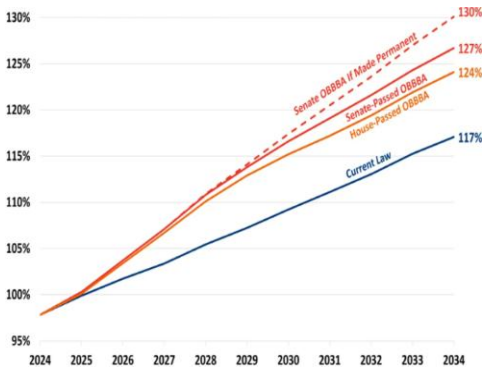
As a result, the 10-year government bond yield rose to around 4.4–4.6% in the UK. France faces a more fragile situation, with a deficit still above 5% of GDP, as well as political uncertainty, so the 10-year government bond yield is now in the range of 3.4–3.6%. On the other hand, Germany, previously known for its fiscal discipline, is now facing pressure due to increased defense spending and public investment, pushing the 10-year government bond yield up to around 2.7% **(Figure 30).** The increase in yields in these three countries indicates that the market is demanding greater risk compensation as the fiscal outlook worsens. If not offset by credible budget consolidation, this has the potential to weaken European fiscal stability in the medium term.

Figure 28. U.S. Public Debt and Debt Ceiling



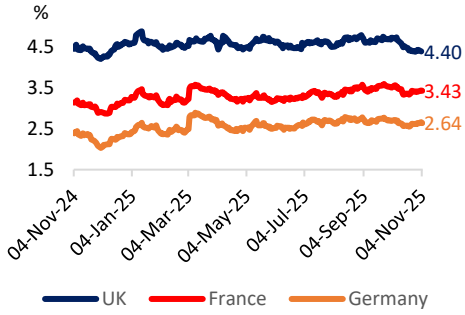
Source: US Treasury.gov | Bloomberg | Phintraco Sekuritas Research

Figure 29. OBBA Implication for Debt to GDP



Source: Committee for Responsible Federal Budget (CRFB.gov)

Figure 30. European Major Countries 10 Yr Bond Yield



Source: Bloomberg | Phintraco Sekuritas Research

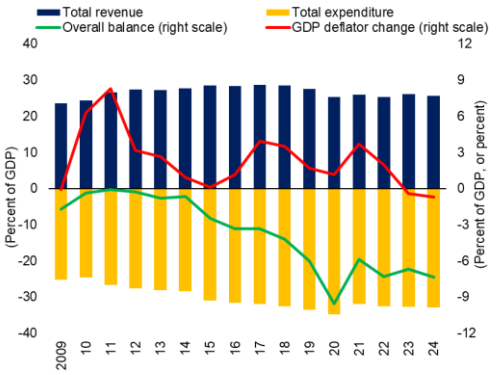
China's fiscal deficit increased by 0.6%, reaching a high level of 7.3% of GDP in 2024. Government revenue declined in 2024 **(Figure 31),** mainly due to a 3.4% YoY decline in tax revenue in 2024. In addition, land sales fell significantly by 22.4% YoY due to the sluggish property market. This decline was partially offset by a 25.4% increase in non-tax revenue from state-owned enterprises and more aggressive efforts by local governments to collect local revenue.

The IMF estimates that China's fiscal policy will become increasingly expansionary, with the deficit rising to 8.6% of GDP in 2025. This increase is driven by efforts to boost consumption and strengthen the social safety net, although the decline in non-tax revenues poses a challenge. Policy reforms, such as raising the retirement age, are expected to help curb government spending. However, the IMF estimates that the public debt ratio could rise significantly to 116% of GDP in 2030 **(Figure 32).**

The transition from fossil fuel dominance to New and Renewable Energy (EBT) is in line with significant cost reductions and exponential increases in power generation capacity. Solar or Photovoltaic (PV) power generation capacity rose to 1,840 Gigawatts (GW) in 2024 from 41 GW in 2010. Meanwhile, production costs have fallen to US$0.043/kilowatt-hour (kWh) in 2024 from US$0.417/kWh in 2010. On the other hand, wind power generation capacity rose to 1,129 GW in 2024 from 181 GW in 2010, followed by a decline in production costs to US$0.057/kWh in 2024 from US$0.160/kWh in 2010 **(Figure 33).** The optimization of EBT is supported by advances in manufacturing technology, a more stable raw material supply chain, and increased energy conversion efficiency. In addition, government policy support, such as tax incentives for renewable energy financing, accelerates EBT optimization.

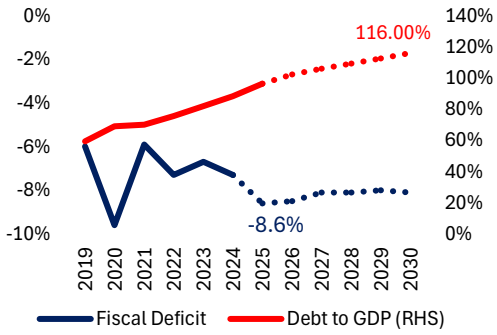
Global Electric Vehicle (EV) sales are growing rapidly. EV sales have increased more than 33-fold, from 0.5 million units or 1% of total car sales in 2015 to more than 17 million or 20% of total car sales in 2024 **(Figure 34).** EVs accounted for nearly 50% of total car sales in China, 20% in Europe, and more than 10% in the US in 1H25. Emerging markets in Asia and Latin America are becoming new growth centers, with EV sales growing significantly by more than 60% in 2024, reaching nearly 600,000 units, equivalent to the size of the European market in 2019. Global EV sales in 2025 are expected to exceed 20 million units, which means more than 25% of total car sales worldwide.

Figure 31. China Fiscal Structure



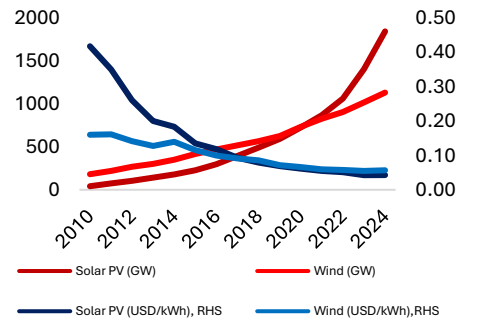
Source: IMF | Phintraco Sekuritas Research

Figure 32. China Fiscal Deficit and Debt to GDP



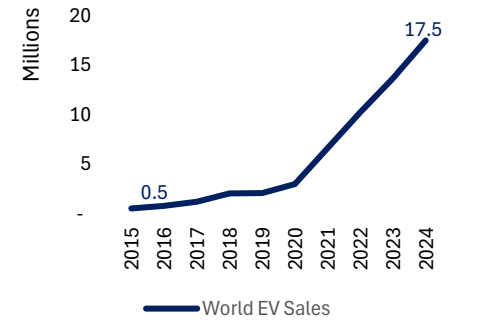
Source: IMF | Phintraco Sekuritas Research

Figure 33. Solar PV & Wind Energy Cost and Capacity



Source: International Reneweable Energy Agency (IRENA)

Figure 34. World EV Sales



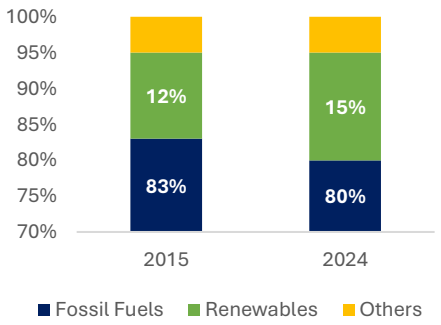
Source: International Energy Agency | Phintraco Sekuritas Research

Global Electric Vehicle (EV) sales are growing rapidly. EV sales have increased more than 33x, from 0.5 million units or 1% of total car sales in 2015 to more than 17 million or 20% of total car sales in 2024 **(Figure 34).** EVs accounted for nearly 50% of total car sales in China, 20% in Europe, and more than 10% in the US in 1H25. Emerging markets in Asia and Latin America are becoming new growth centers, with EV sales growing significantly by more than 60% in 2024, reaching nearly 600,000 units, equivalent to the size of the European market in 2019. Global EV sales in 2025 are expected to exceed 20 million units, which means more than 25% of total car sales worldwide.

Global energy supply is still dominated by fossil fuels, although their market share has declined from 83% in 2015 to 80% (renewable energy accounts for about 15% of energy sources) in 2024 **(Figure 35).** Half of the world's countries use fossil fuels as their primary energy source (75% of energy sources). The dominance of fossil fuels persists because the transition to renewable energy is slow due to the large amount of energy required, the adoption of green technology is still limited to certain sectors and regions, many power plants still use fossil fuels, fossil fuels are easier to distribute and cheaper than renewable energy, and global energy demand continues to increase. Thus, renewable energy currently contributes more to the total energy supply than it does to replacing fossil fuels.

Regional conflicts pose additional risks to economic stability. The prolonged conflict between Russia and Ukraine, the war involving Israel and Iran, and recurring tensions in the Middle East are among the risks of uncertainty. The Russia-Ukraine war has disrupted the supply chain for commodities such as wheat, natural gas, and fertilizer. Escalation between Israel and Iran has increased security uncertainty around vital shipping routes, from the eastern Mediterranean to access to the Suez Canal. Several ceasefire agreements between Iran and Israel and Israel and Palestine have eased geopolitical tensions, but uncertainty remains. These conditions have negatively impacted investment sentiment, triggered volatility in energy and food prices, and added to inflationary pressures, which ultimately weigh on purchasing power and fiscal and monetary policy space in various countries.

Figure 35. Global Energy Supplies Energy



Source: International Energy Agency | Phintraco Sekuritas Research

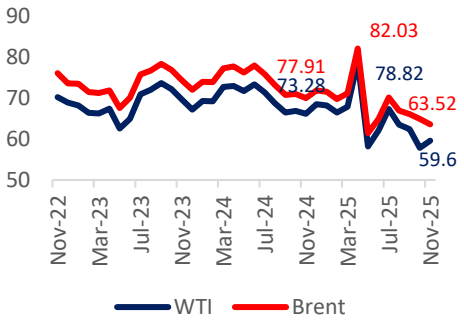
Oil prices are in a stagnant trend and even tend to decline in 2025. Brent Crude Oil prices touched US$82.03/barrel, while WTI Crude Oil touched US$78.82/barrel in early 2025. Both prices reversed to US$63.52/barrel for Brent and US$59.6/barrel for Crude on November 5, 2025 **(Figure 36)**. This decrease was caused by OPEC+'s decision to increase production by ~137,000 barrels/day in November 2025. In addition, the easing of tensions in Gaza reduced the oil market risk premium.

Coal prices experienced a downtrend from their peak at the end of 2022 to early 2023. Coal prices fell to US$93.7/Mt in 1H25 due to weakening electricity demand in East Asia, increased supply from Indonesia and Australia, and the acceleration of energy transition in Europe. Entering 2H25, coal prices rebounded and stabilized in the range of US$104-110/Mt **(Figure 37).** This strengthening was triggered by increased demand from India and China to maintain supply ahead of the winter, as well as a temporary drop in Australian exports due to weather disruptions.

Global natural gas prices fluctuated throughout 2025. Natural gas prices peaked at US$4.49/MMBtu on March 10, 2025, before reversing and weakening. Natural gas prices rose again to US$4.23/MMBtu on November 5, 2025 **(Figure 38).** This increase was caused by winter arriving earlier than expected in Europe. Attacks on Ukraine's energy infrastructure in early October 2025 contributed to the increase as well. On the other hand, the physical market for spot Liquid Natural Gas (LNG) in Asia became active again as winter arrived in northern Asia.

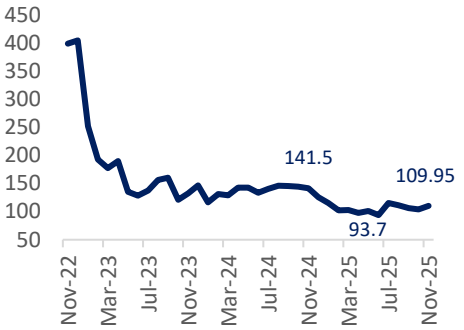
Crude Palm Oil (CPO) prices experienced an uptrend to MYR4,762/ton in 1Q25 before reversing to a downtrend to MYR4,075/ton *(Figure 39).* The main pressure on CPO prices came from an increase in global vegetable oil supplies in 1H25, particularly soybean and canola oil, whose production increased due to relatively good weather conditions in South America and Europe. However, seasonal demand growth in India and China, as well as the implementation of the B35 and B40 programs in Indonesia, sustained CPO demand, especially towards the end of the year.

Figure 36. Crude Oil Price (USD/barrel)



Source: Bloomberg | Phintraco Sekuritas Research

Figure 37. Coal ICE Newcastle Price (USD/Mt)

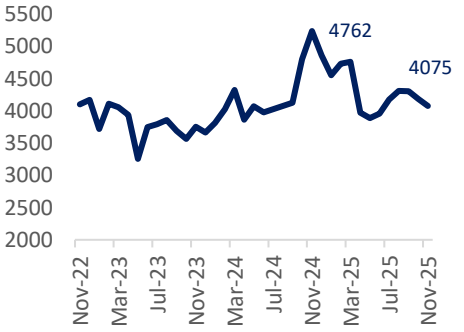


Source: Bloomberg | Phintraco Sekuritas Research

Figure 38. Natural Gas Price (USD/MMBtu)

Source: Bloomberg | Phintraco Sekuritas Research

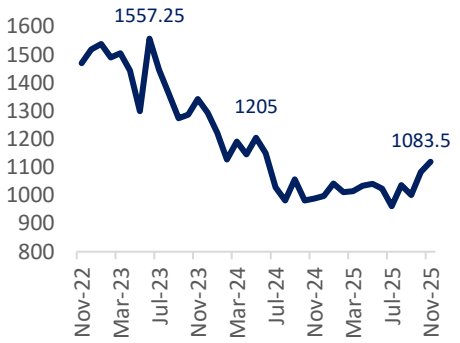
Figure 39. Crude Palm Oil Price (MYR/ton)



Source: Bloomberg | Phintraco Sekuritas Research

Soybean prices fluctuated in 2025. Soybean prices stood at US$1,083.5/bushel on November 5, 2025 **(Figure 40).** This position was above the average price for 2025. The price increase towards the end of 2025 is due to the estimated decline in harvests in the US and expectations of China reopening imports in line with tariff negotiations with the US. In addition, the US government is considering a huge agricultural aid package, with an initial allocation of US$15 billion.

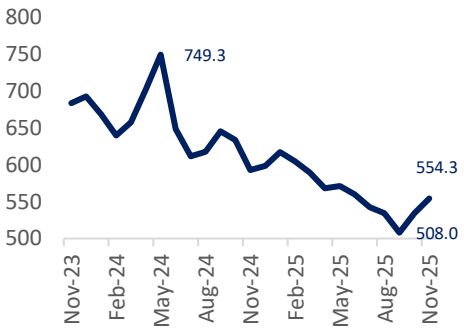
Figure 40. Soybean Price (USD/bushel)



Source: Bloomberg | Phintraco Sekuritas Research

Wheat prices have fallen, reaching a low of US$508/bushel in September 2025. Wheat prices fell due to expectations of a significant increase in global harvests, particularly in Europe. Europe raised its soft wheat harvest forecasts for 2025 and 2026. However, wheat prices gradually rose to US$554.3/bushel in November 2025 **(Figure 41)** due to supply disruptions from the Black Sea region and extreme weather.

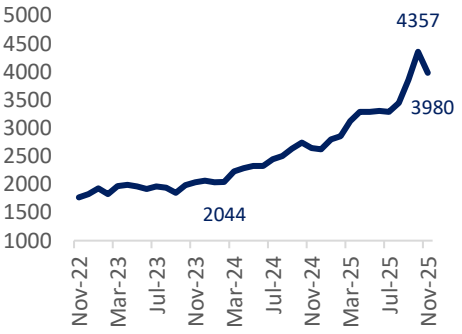
Figure 41. Wheat Price (USD/bushel)



Source: Bloomberg | Phintraco Sekuritas Research

The price of gold reached an all-time-high of US$4,356.45/*troy ounce* in 2025. However, gold experienced a correction in November 2025 triggered by profit-taking **(Figure 42).** However, long-term fundamentals continue to support gold as a safe-haven. This is in line with global uncertainty regarding tariffs, fiscal uncertainty in several developed countries, and several major central banks, such as the PBoC, continuing to purchase large amounts of gold.

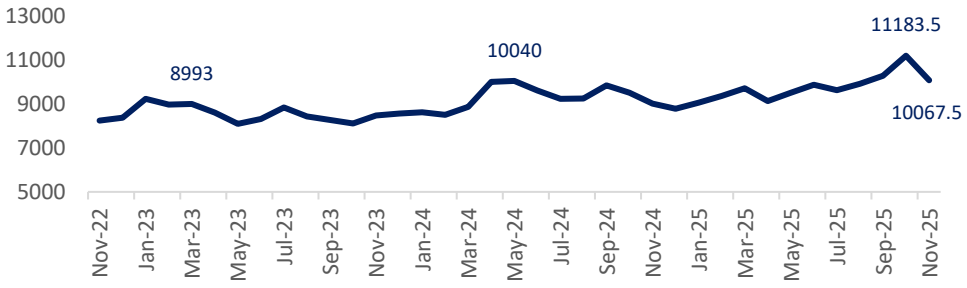
Figure 42. Gold (XAU) Price (USD/troy ounce)



Source: Bloomberg | Phintraco Sekuritas Research

Copper prices tended to rise since the beginning of 2H25 before falling again in November 2025 (Figure 43). The increase in copper prices was influenced by a decline in supply due to force majeure conditions affecting one of the major copper producers in Indonesia. In addition, global macroeconomic factors such as the weakening of the US dollar have made metal-based commodities cheaper for foreign buyers. Another factor is the downward trend in benchmark interest rates, which has increased the attractiveness of metal commodities as real asset investments.

Figure 43. LME Copper Price (USD/Mt)

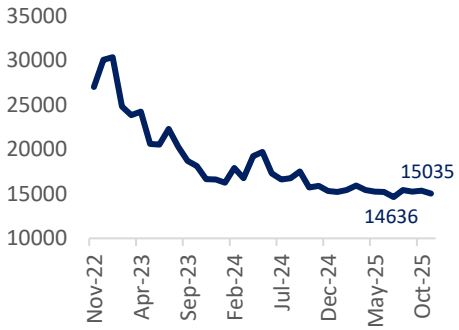


Source: Bloomberg | Phintraco Sekuritas Research

Nickel prices are stable in the range of US$14,600-15,330/Mt in 2H25 (Figure 44), due to oversupply conditions following significant investment in nickel production facilities. Another factor holding back nickel price increases is the shift in demand for nickel as a battery raw material to Lithium Ferro Phosphate (LFP), which is relatively cheaper. On the other hand, the stainless steel industry is growing at a limited pace and is therefore unable to absorb the excess supply resulting from the EV euphoria.

The tin price has been on an uptrend since May 2025 and was last at around US$35,649/Mt (Figure 45). The movement of tin prices was influenced by supply disruptions from Myanmar, one of the major tin producers, which closed the large Man Maw mine for auditing. On the other hand, Indonesia, another major tin producer, has closed thousands of illegal tin mines to enforce national mining governance. Meanwhile, tin stocks in LME warehouses fell significantly to an average of 1,700 Mt in July-August 2025 due to demand from electronics, semiconductor, and renewable energy component manufacturers such as solar panels.

Figure 44. LME Nickle Price (USD/Mt)



Source: Bloomberg | Phintraco Sekuritas Research

Figure 45. LME Tin Price (USD/Mt)

Source: Bloomberg | Phintraco Sekuritas Research

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