

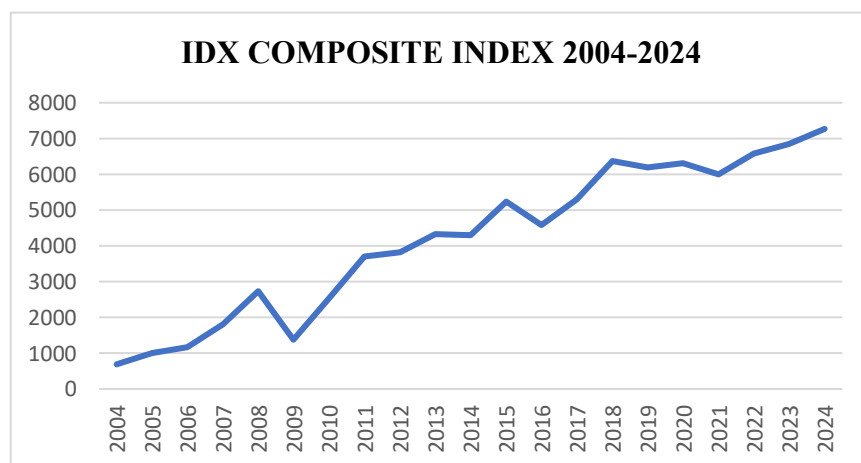
CHAPTER I

INTRODUCTION

1.1 Background

Indonesia's capital markets experienced a boom in the 2023-2025 period, characterized by extreme volatility triggered by changes in global economic fundamentals and international trade policies. The Composite Stock Price Index recorded a dramatic journey from a correction of 2.65 percent in 2024 which closed at 7,079.90, then rose with a strengthening of 22.10 percent throughout 2025 and recorded an all-time high of 24 times with closing at the level of 8,644.26 at the end of the year.

Figure 1. 1 Indonesia's Composite Stock Price Index Rate 2004-2024



Soruce: Investing.com

This achievement was even more impressive when the JCI touched the level of 9,002 in early January 2026, with a market capitalization of Rp15,810 trillion or grew 28.16 percent annually and exceeded the target of *the* Pasari Modali Roadmap and RPJMN with a market capitalization to GDP ratio of 71.41 percent. However,

the journey to this glorious achievement did not go smoothly, especially in the first half of 2025 when the JCI had slumped to a low of 5,996 and experienced two *trading halts* on March 18 and April 8, 2025 due to massive external pressures.

JCI volatility in the 2023-2024 period cannot be separated from the dynamics of four global macroeconomic variables that experience extreme movements. First, world gold prices recorded a spectacular surge with 27 percent growth throughout 2024, increasing from USD2,062 per *troy ounce* at the beginning of the year to USD2,623 per *troy ounce* by the end of the year, even reaching an all-time high of USD2,790 per *troy ounce* on October 30, 2024.

This upward trend continues in 2025 with gold prices breaking through the level of USD2,700 per *troy ounce*, driven by increasing global geopolitical uncertainty, concerns over US economic policy, and massive purchases by world central banks that reached 1,081 tons in 2022. In the domestic market, Antam's gold price also experienced a significant increase of 32.4 percent throughout 2024, from IDR 1.14 million per gram to IDR 1.52 million per gram, reflecting the response of domestic investors to global economic turmoil and increasing preference for *safe haven assets*. Projections from various international financial institutions such as J.P. Morgan and BMO Capital indicate that gold prices will continue to strengthen in 2025 with an average of around USD2,750-2,850 per *troy ounce*, driven by expectations of additional interest rate cuts from global central banks, especially the Federal Reserve.

World oil prices show high volatility triggered by geopolitical dynamics and fundamental *changes in supply-demand*. *Indonesiani Crudei Pricei* in January 2025

is set at USD76.81 per barrel, up USD5.20 per barrel from December 2024 which is at the level of USD71.61 per barrel, in line with the increase in the price of major crude oil exports such as *Dated Brent* which rose by USD5.29 per barrel to USD79.23 per barrel and *West Texas Intermediate* (WTI) which increased by USD5.40 per barrel to USD75.10 per barrel. The gains were mainly influenced by market optimism after China announced plans for fiscal stimulus and interest rate cuts to boost economic growth, as well as fears of tightening *supply* due to broader sanctions on Russian and Iranian oil by the United States and Europe.

However, oil prices experienced a sharp correction in mid-2025, with WTI falling to the range of USD60-61 per barrel and *Brent* at USD63-64 per barrel, mainly due to uncertainty due to the tariff war triggered by President Donald Trump's policies and expectations of weakening global demand. Entering early 2026, oil prices rebounded with WTI increase nearly 3 percent to \$61.16 a barrel, hitting a 12-week high, triggered by rising geopolitical risks related to President Trump's rhetoric on Iran and supply disruption fears.

The monetary policy of the United States Federal Reserve has undergone a significant change from an era of tightening to an era of easing. After aggressively raising interest rates from early 2022 to mid-2023 to suppress inflation that peaked above 5.5 percent, the Federal Reserve began its rate cutting cycle in September 2024 by cutting by 100 basis points through the end of 2024. This easing policy continues throughout 2025 with a total cut of 75 basis points in the second half of the year, bringing *the Federal Fund Rate* down to a range of 3.5-3.75 percent in December 2025. The December 2025 cut decision was controversial with three FOMC members voting against it, with two members preferring to keep interest

rates on hold while one proposed a larger cut of 50 basis points, marking the first internal split since September 2019. *The Summary of Economic Projections (SEP)* released showed increased optimism for U.S. economic growth with projections for 2026 rising to 2.3 percent from 1.8 percent in September 2025, while core *PCE inflation projections* fell to 2.5 percent from 2.6 percent.

The rupiah exchange rate against the US dollar is depreciating by 2.74 percent throughout 2025, with very volatile movements throughout the year. The rupiah recorded its lowest level in May 2025 at around Rp16,246 per US dollar and the highest level in April 2025 reaching Rp16,853 per US dollar, before closing at the end of December 2025 at the level of Rp16,693 per US dollar. The pressure on the rupiah intensified in March 2025 when the exchange rate almost broke through the psychological level of Rp17,000 per US dollar along with the collapse of the JCI, triggered by a combination of external factors in the form of Trump's tariff policy, Federal Reserve interest rate cuts that weakened the attractiveness of dollar assets, and negative sentiment in the global market. The depreciation of the rupiah creates double pressure on the Indonesian economy, on the one hand increasing the burden of foreign debt payments and import costs, but on the other hand it has the potential to increase Indonesia's export competitiveness, although the impact is limited considering Indonesia's current export structure relies on imported raw materials.

One of the main catalysts that created extraordinary turmoil in the Indonesian capital market in 2025 was the reciprocal tariff policy announced by US President Donald Trump. On July 7, 2025, Trump sent an official letter to Indonesian President Prabowo Subianto announcing the imposition of a 32 percent tariff on all

Indonesian products entering the United States, effective August 1, 2025, in response to a large trade deficit and unbalanced non-tariff trade barriers.

Trump's tariff policy on JCI is very significant, especially in the first half of 2025. On March 18, 2025, the JCI plummeted by 5.03 percent towards the end of the first trading session, triggering a *trading halt* or temporary freeze of trading throughout the Indonesia Stock Exchange for the first time this year. The situation worsened on April 8, 2025 when JCI immediately opened trading with a decline of 9.19 percent, again triggering a second *trading halt* and bringing the index to a low of 5,996. This drastic decline was triggered by Trump's announcement on April 2, 2025 that he imposed a base tariff of 10 percent for all U.S. imports, with higher tariffs for major trading partners such as China 54%, Vietnam 46%, and Indonesia 32%.

This turmoil created widespread negative sentiment among investors, both domestic and foreign, with fears that the tariff war would trigger global inflation, slow economic growth, and reduce the profitability of export-oriented companies, especially in the textile and textile products, footwear, and manufacturing sectors. In response to this crisis, the Financial Services Authority (OJK) and the Self Regulatory Organization (SRO) immediately took emergency measures including establishing a share *buyback* policy without the need for a General Meeting of Shareholders (GMS), adjusting *halt and auto rejection* trading rules, and coordinating with the government to inject liquidity of Rp200 trillion into the market.

Although the 19 percent tariff agreement in July 2025 provides some relief and even becomes a positive catalyst for the JCI recovery in the second half of 2025, this agreement still poses long-term structural risks to the Indonesian economy. The trade asymmetry created, where U.S. products can enter Indonesia without tariffs while Indonesian products are subject to a 19% tariff to enter the United States, has the potential to weaken the competitiveness of domestic industries and trigger a flood of imports of U.S. products in various strategic sectors such as energy, agriculture, electronics, aircraft, and pharmaceuticals. Economists highlight the lack of a *safeguard mechanism* in the deal, which means local producers will face unequal competition, especially since the United States is known to provide large subsidies to its producers including energy subsidies and high-tech research. Commitments to purchase more than \$20 billion worth of U.S. products also have the potential to put pressure on the current account and reduce the government's fiscal flexibility, although on the other hand it could strengthen bilateral ties and open up opportunities for investment cooperation.

Most previous studies used data before 2023, so they have not captured the unique phenomena that occurred in the 2023-2025 period, including the massive cuts in *the Federal Fund Rate* after an era of aggressive tightening, the surge in gold prices that reached *all-time highs* many times, the extreme volatility of oil prices due to the tariff war and international sanctions, and the depreciation of the rupiah amid massive external pressures. In addition, there is no study that specifically analyzes the impact of Trump's reciprocal tariff policy on the interaction between global macroeconomic variables and JCI performance, even though this policy has been proven to create extraordinary turmoil that triggered trading halts twice and

brought JCI to its lowest level in the period before then bouncing back with historic record achievements. Research that integrates all four variables simultaneously in a single analytical framework is also very limited, although understanding the complex interactions between these variables is crucial for investors, market participants, and policymakers in making strategic decisions amid heightened global uncertainty.

Based on the extreme phenomena that occurred in the 2023-2025 period, the inconsistencies of previous research results, as well as the temporal and contextual limitations of previous studies, this study aims to comprehensively analyze the influence of world gold prices, world oil prices, *Federal Fund Rates*, and rupiah exchange rates on the Composite Stock Price Index (JCI) using the latest data that includes the dynamics of Trump's tariff policy, changes in the Federal Reserve's monetary regime, as well as the extreme volatility of global commodity markets. This research is expected to make a theoretical contribution in strengthening the understanding of the relationship between global macroeconomic variables and capital market performance in developing countries such as Indonesia, as well as making practical contributions for investors in developing optimal portfolio strategies, for market participants in anticipating volatility, and for policymakers in formulating appropriate responses to external turmoil to maintain national financial market stability.

1.2 Problems Summary

Based on the description of the background of the dispute presented above, it can be found that the following problems are formulated:

1. Does world oil prices affect the Combined Stock Price Index in Indonesia in 2004-2024?
2. Does the price of gold affect the Combined Stock Price Index in Indonesia in 2004-2024?
3. Does the Federal Funds Rate affect the Combined Stock Price Index in Indonesia in 2004-2024?
4. Does the Rupiah Exchange Rate have an effect on the Combined Stock Price Index in Indonesia in 2004-2024?

1.3 Research Objectives

Based on the background description and the formulation of the problems that have been presented in the previous section, the objectives of this research are as follows:

1. To find out the effect of world oil prices on the Stock Price Index in Indonesia in 2004-2024
2. To find out the influence of world gold prices on the Stock Price Index in Indonesia in 2004-2024
3. To find out the effect of the Federal Funds Rate on the Stock Price Index in Indonesia in 2004-2024
4. To find out the effect of the Rupiah Exchange Rate against the US Dollar on the Stock Price Index in Indonesia in 2004-2024.

1.4 Scope of Research

The analysis method used is a quantitative approach with an econometric model to test the influence between variables, which allows the researcher to understand

how global commodity price dynamics and international and domestic financial indicators interact in determining the movement of the Indonesia Composite Stock Price Index.

1.5 Research Benefits

Based on the background description, problem formulation and research objectives that have been presented in the previous section, the benefits of research can enrich the literature and the development of economics, especially in the fields of macroeconomics, international finance, and monetary policy. The results of this study can expand understanding of the relationship between world oil prices, gold prices, *Federal Funds Rate*, and the Combined Stock Price Index (JCI) on the Rupiah exchange rate. Thus, this study can be an academic reference for future researchers in analyzing external and internal factors that affect exchange rate fluctuations in Indonesia through an empirical approach.

Meanwhile, practically, this research is expected to provide useful information for policy makers, financial market participants, and the general public. For the government and monetary authorities such as Bank Indonesia, the results of the research can be considered in formulating exchange rate stabilization policies and foreign exchange reserve management. For investors and capital market participants, this research can help in understanding the dynamics of global and domestic indicators that affect exchange rates, so that it can support more rational investment decision-making.