

Special Interest Commentary

Indonesia

Navigating the Currents

- As of 6 February 2026, the Jakarta Composite Index (“JCI”) sank ~12% in comparison to 26 January 2026 following the impacts of (1) MSCI’s free float concern and (2) Moody’s negative outlook.
- **Rates View:** The Indonesian fixed income market has been reacting to fiscal headlines since the start of the year. Both the USD INDON curve and the local currency IndoGB curve have steepened year-to-date, in line with our curve bias. Given market perception of fiscal uncertainty, we maintain our preference for short-end bonds. Investors may want to stay cautious against duration. **We maintain our Neutral credit direction for INDON for now**, but we will closely monitor onshore developments and review this outlook in due course.
- **FX View:** While lingering downside risks remain around potential portfolio outflows, particularly as global investors reassess EM allocations in response to index and rating-related signals. We see scope for IDR stabilisation over time. Many of the issues flagged by rating agencies and index providers have been well-telegraphed and are somewhat priced. A clearer demonstration of fiscal discipline, coupled with continued policy commitment to rupiah stability, should help rebuild investor confidence. The external backdrop also matters. IDR can trade with a neutral-to-stable bias when USD softness returns and global risk sentiment finds better footing.
- **Credit View:** **We maintain Neutral credit direction for the Indonesian corporate bonds under our coverage.** That said, we expect higher volatility for Indonesian USD credit amidst negative headlines and weaker investor sentiments. Overall impacts to the Indonesian corporate bonds under our coverage are manageable, with prices moving from +0.4ppts to -1.1ppts since 26 January 2026. Based on their rating triggers, there appears a high likelihood that the outlook of State-Owned Enterprises including PT Perusahaan Listrik Negara and Pertamina Persero PT could also be downgraded to negative by Moody’s.

Chin Meng Tee
Credit Research Analyst

Andrew Wong
Credit Research Analyst

Frances Cheung, CFA
FX and Rates Strategy

Christopher Wong
FX and Rates Strategy

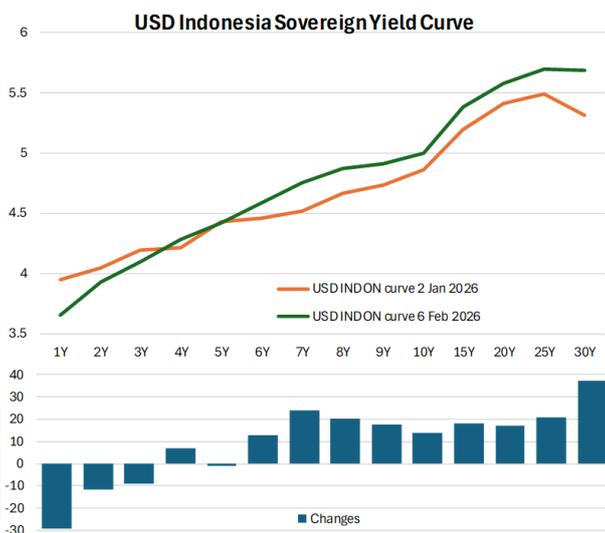
Background

On 28 January 2026, MSCI raised concerns about “investability issues” and data transparency in the index. The index provider stated that if insufficient progress on transparency is achieved by May 2026, it will reassess Indonesia’s market accessibility, sparking fears of a possible downgrade from emerging-market to frontier-market status. The Indonesia Stock Exchange said it is working with MSCI to improve data transparency, including plans to lift minimum free float on stocks to 15% from 7.5%. On 5 February 2026, Moody’s Ratings changed Indonesia’s sovereign credit rating outlook from ‘stable’ to ‘negative’.

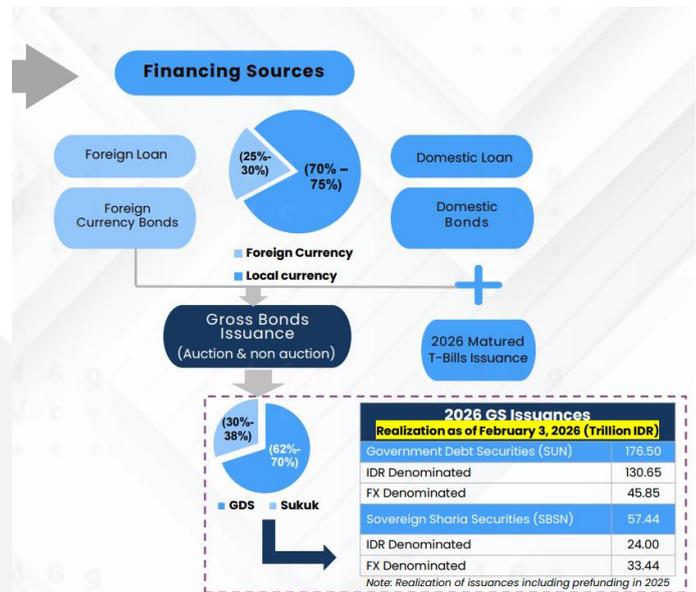
Sovereign

The Indonesian fixed income market has been reacting to fiscal headlines since the start of the year. 5Y INDON 5Y USD CDS widened from below 70 in early January to the latest 80 – relatively stable on Friday notwithstanding the outlook change by Moody’s. Both the USD INDON curve and the local currency IndoGB curve have steepened year-to-date, in line with our curve bias. Given market perception of fiscal uncertainty, while the 10Y INDON-UST yield differential is not particularly wide, we maintain our preference for short-end bonds. Investors may want to stay cautious against duration. We maintain our neutral credit direction for INDON for now, but we will closely monitor onshore developments and review this outlook in due course. These developments include how the fiscal positions and accompanied financing activities evolve, and whether more credible policy choices are coming.

Regarding financing activities, year to date as of 3 February, gross issuances via local currency and FX bonds amounted to IDR234trn (including pre-funding). Domestic bonds and loans are expected to support 70-75% of total fiscal financing needs. Domestic auctions so far this year have all been upsized, likely with a view to providing some buffer to financing needs. Most of the domestic supply has been absorbed by domestic investors, with banks and non-bank domestic investors having increased their holdings year-to-date, while foreign holdings were little changed compared to the level at the start of the year. Although it is still early in the year, financing activities are so far on track with full year financing needs, provided that there is no material fiscal slippage.



Source: Bloomberg, OCBC Group Research. Note: USD INDON curves use Bloomberg’s I389 Mid YTM USD Indonesia Sovereign Curve



Source: DJPPR

Forex

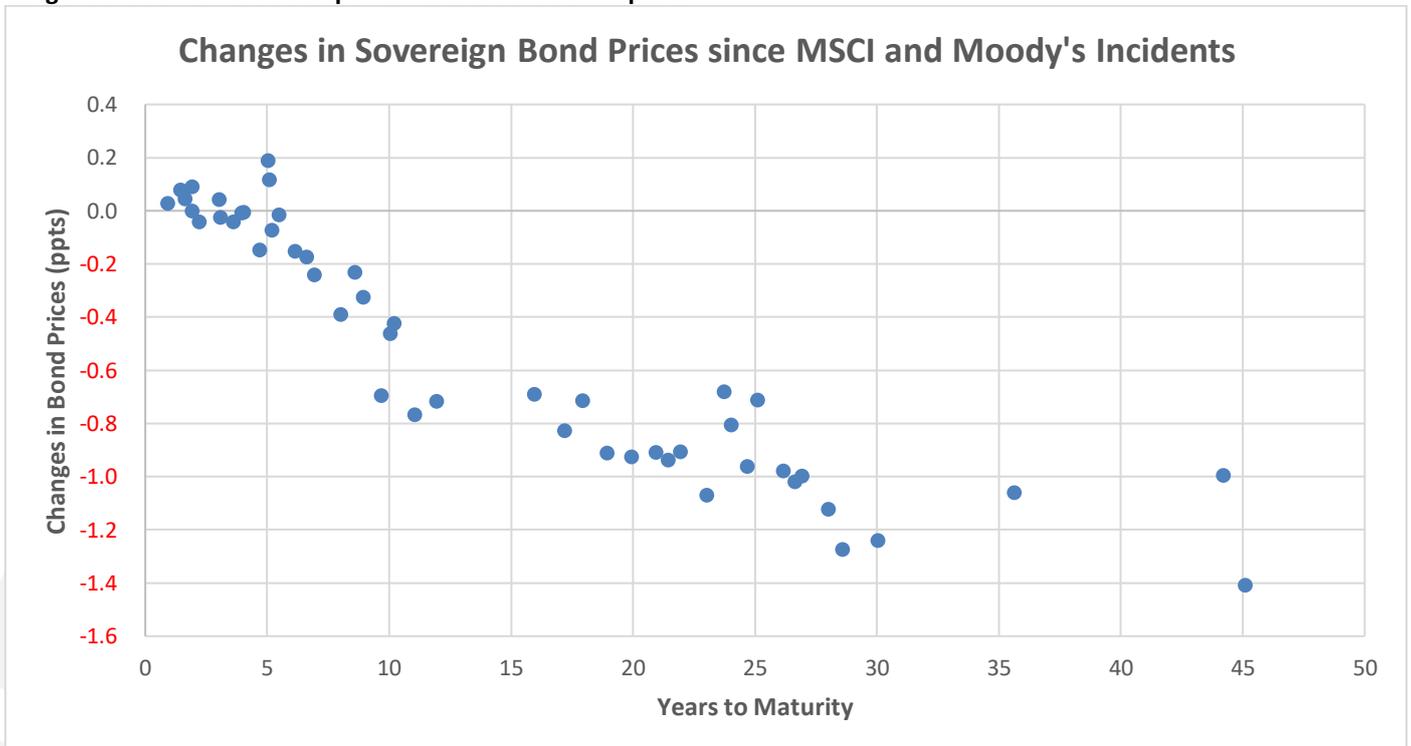
From an IDR point of view, the recent Moody’s outlook downgrade and MSCI’s earlier announcement of potential reclassification of Indonesia from "emerging market" to "frontier market" status added to a sense of perceived caution around IDR, rather than introduce fundamentally new risks. Lingering downside risks remain around potential portfolio outflows, particularly as global investors reassess EM allocations in response to index and rating-related signals. At the same time, ongoing concerns over fiscal slippage, alongside the prospect of further narrowing in yield differentials, may dim IDR’s traditional carry appeal, tempering the extent of any sustained appreciation and warranting a more cautious near-term trajectory.

That said, we see scope for IDR stabilisation over time. Many of the issues flagged by rating agencies and index providers have been well-telegraphed and are somewhat priced. A clearer demonstration of fiscal discipline, coupled with continued policy commitment to rupiah stability, should help rebuild investor confidence. The external backdrop also matters. IDR can trade with a neutral-to-stable bias when USD softness returns and global risk sentiment finds better footing.

Credit

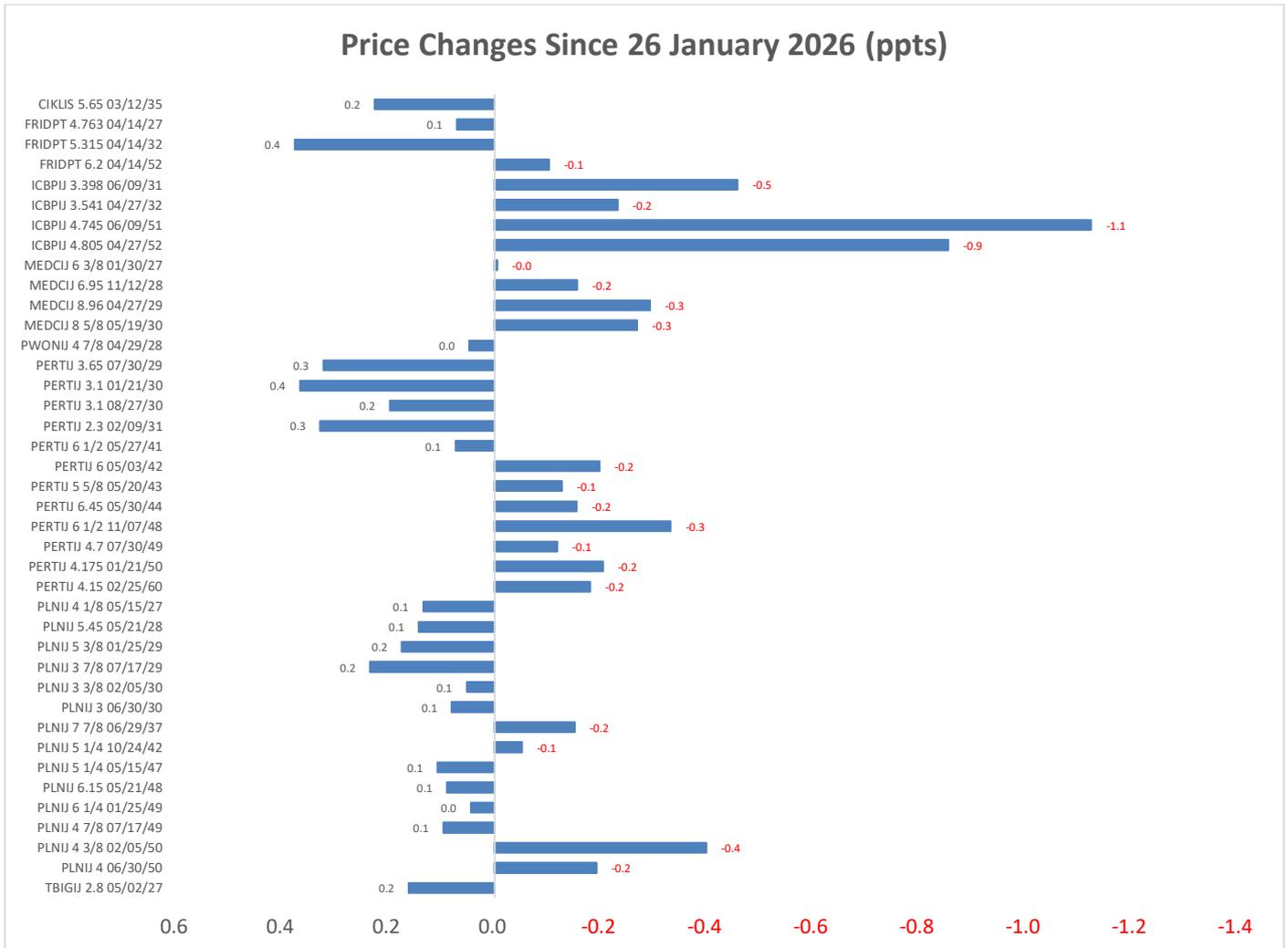
Based on our findings, the price of sovereign bonds (ticker INDON) as of 6 February 2026 remained largely stable, ranging between +0.2ppts to -1.4ppts in comparison to 26 January 2026 (prior to the MSCI and Moody’s incidents). The long tenor bonds are generally the worse performers given the duration effects, with the worst performer (INDON 3.35 03/12/2071) falling 1.5ppts. The credit spread of these bonds mostly widened by 5-10bps based on our observations.

Longer duration suffered steeper fall due to duration impacts



Source: Bloomberg, OCBC Group Research

Overall impacts to the Indonesian corporate bonds under our coverage are manageable in our view, with prices moving from +0.4ppts to -1.1ppts since 26 January 2026. It is expected that the outlook of State-Owned Enterprises (“SOE”) including PT Perusahaan Listrik Negara and Pertamina Persero PT may be downgraded to negative by Moody’s, in line with the sovereign rating action based on their respective downgrade triggers. Meanwhile, depending on the development of these incidents, there could be wider impacts to Indonesian corporate names should investor sentiments weaken further.



Source: Bloomberg, OCBC Group Research

Overall impacts are manageable

Issuer	Average of Price Changes (ppts)
Cikarang Listrindo Tbk PT	0.2
Freeport Indonesia PT	0.1
Indofood CBP Sukses Makmur Tbk	-0.7
Medco Energi Internasional Tbk	-0.2
Pakuwon Jati Tbk PT	0.0
Pertamina Persero PT	-0.0
PT Perusahaan Listrik Negara	0.0
PT Tower Bersama Infrastructure	0.2

Source: Bloomberg, OCBC Group Research

At this juncture, **we maintain Neutral credit direction for these Indonesian corporate bonds under our coverage.** That said, we expect higher volatility movements to these Indonesian USD credit amidst negative headlines and weaker investors sentiments.

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