

FX Focus

IDR: Beyond the MSCI Shock

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- **MSCI's proposed reclassification adds to IDR's vulnerabilities, but the immediate risk is to investor confidence rather than forced selling.** Indonesia's weight in MSCI EM has already declined to 0.43%, potentially limiting the remaining mechanical outflow risk. The bigger concern is whether foreign investors reassess their exposure to Indonesian assets more broadly.
- **Foreign investor exposure has already been substantially reduced.** EPFR data show a sharp decline in Indonesia's allocation within Global Emerging Market (GEM) equity funds, while foreign fund-flow momentum has moderated. This suggests that some adjustment has already taken place, although it does not necessarily mean selling pressure is exhausted.
- **We retain a mildly cautious IDR bias, but external conditions remain important.** Our market-driver model suggests IDR has underperformed regional FX movements in 2026, although the divergence is not unusually stretched. Elevated oil prices and UST yields remain headwinds, but a sustained easing in external conditions could provide meaningful relief and limit further IDR depreciation.

MSCI: Immediate confidence risk versus portfolio outflows

MSCI's proposal on 15 October to reclassify Indonesia from Emerging Market to Standalone status adds another layer of uncertainty to an already challenging investment backdrop. The consultation runs until 30 April 2027, with a final decision expected by end-June 2027. While the proposed reclassification would ultimately result in benchmark-related selling if implemented, the immediate concern is more about investor confidence and the risk of discretionary portfolio outflows ahead of any formal decision.

Importantly, Indonesia's representation in MSCI EM has already diminished substantially. Its weight declined from 1.16% at end-2025 to just 0.43% in September 2026, alongside a reduction in the number of constituents from 18 to nine. This suggests that the remaining mechanical exposure is considerably smaller than before. Nevertheless, a lower index weight does not necessarily imply limited selling pressure, particularly if the development

prompts a broader reassessment of Indonesia's investment attractiveness.

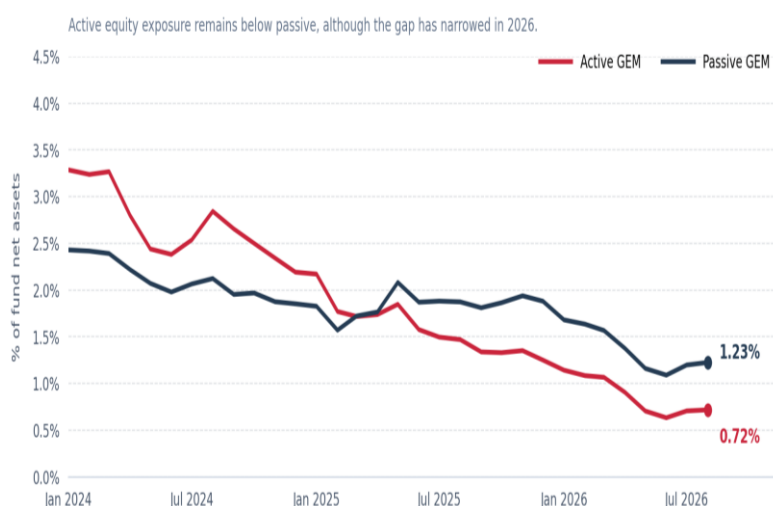
For IDR, the transmission is primarily through portfolio flows and sentiment. The proposed reclassification directly affects equities rather than government bonds. For now, spillovers into the bond market appear relatively contained, with foreign holdings of IndoGBs having been on a broad uptrend since late March. However, a sustained deterioration in investor confidence could reverse this trend and potentially prolong IDR depreciation pressures.

Indonesia's exposure in GEM portfolios has declined substantially

EPFR Country Allocations data suggest that Indonesia's exposure within global EM (GEM) equity portfolios has already contracted substantially ahead of MSCI's latest announcement.

Indonesia's allocation in active GEM equity funds fell from 1.25% at end-2025 to 0.72% in August 2026, while passive GEM allocations declined from 1.88% to 1.23% over the same period. Active funds have maintained lower exposure than passive funds, although the gap narrowed slightly this year.

Indonesia's exposure in GEM equity portfolios has declined



Note: EPFR Country Allocations measure portfolio exposure, while Country Flows estimate flows attributable to countries based on fund subscriptions/redemptions and country weights. Neither series is directly comparable with transaction-based foreign portfolio-flow statistics. The GEM active/passive allocation series were not specifically filtered for foreign funds.

Source: EPFR Country Allocations, OCBC Group Research.

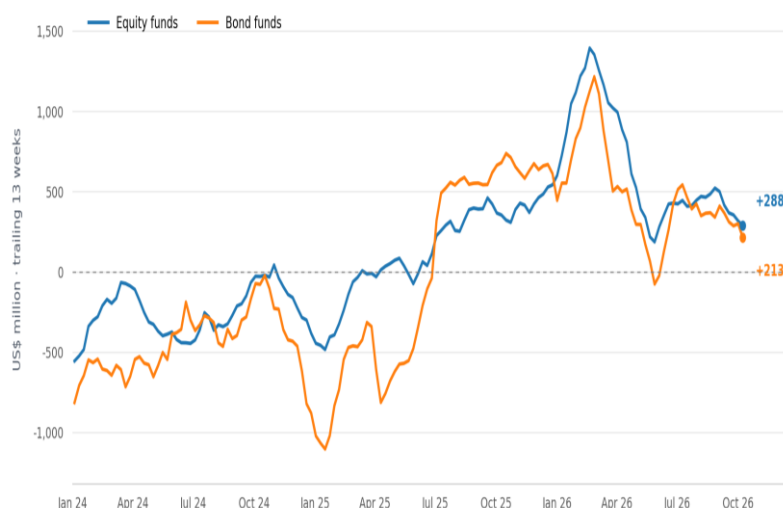
The decline suggests that Indonesia entered the latest MSCI episode with a substantially smaller footprint in global EM

portfolios. This could temper the scope for incremental selling, although it would be premature to conclude that investor positioning has reached an extreme. Changes in portfolio weights reflect both market valuations and investment decisions, while the passive GEM universe is not restricted to funds tracking MSCI EM.

Separately, EPFR's foreign-filtered Country Flows provide another perspective on investor behaviour. While estimated foreign equity fund inflows remained positive at around US\$1.8bn in 2026 through early October, this contrasts with approximately US\$4.9bn of net foreign equity selling reported in IDX transaction statistics through 15 October. The divergence partly reflects differences in coverage and methodology. EPFR estimates country-level flows based on fund subscriptions, redemptions and portfolio allocations, rather than actual securities transactions. Consequently, positive EPFR Country Flows do not necessarily translate into net foreign purchases of Indonesian equities.

More importantly, **EPFR data suggest that foreign fund-flow momentum has weakened considerably**. Over the latest 13 weeks to 8 October, estimated foreign equity and bond fund flows remained positive at US\$288mn and US\$213mn, respectively. However, equity flows were virtually flat over the latest five weeks, while bond funds registered modest net outflows of US\$65mn.

Foreign fund flows (rolling 13w sum) losing momentum



Note: Flows are fund-based estimates not actual foreign securities transactions. Data predates 15 Oct MSCI announcement

Source: EPFR foreign-filtered Indonesia country flow estimates (weekly observations through 8 Oct), OCBC Group Research.

The readings suggest waning foreign fund-flow support rather than an indiscriminate withdrawal of capital. Nevertheless, with the latest observations predating MSCI's announcement, the next few releases will be important in assessing whether the confidence shock is translating into more sustained fund redemptions.

IDR: Domestic pressures remain, but external conditions matter

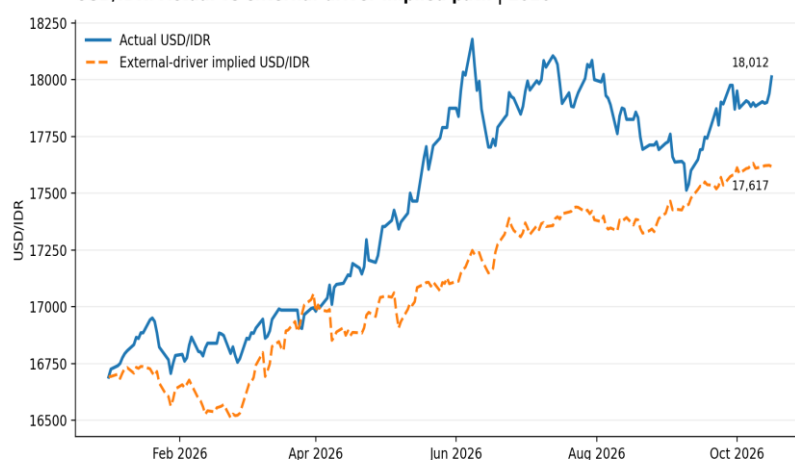
Beyond portfolio flows, we also examined the extent to which IDR's recent depreciation can be explained by broader market developments.

Our short-term USD/IDR market-driver model uses daily changes in an equally weighted ASEAN FX basket (MYR, THB and PHP) and Indonesia's 5Y sovereign CDS. We also tested global factors, including DXY, UST yields, Brent oil prices and VIX, but these provided limited additional explanatory power once regional FX movements were incorporated.

Estimated using daily observations from 2022 to 2025, the ASEAN FX factor alone explains approximately 35% of daily USD/IDR movements. Adding sovereign CDS improves the adjusted R^2 modestly to around 36%. The positive CDS coefficient suggests that sovereign risk repricing is associated with IDR weakness, although the model captures contemporaneous relationships rather than necessarily providing a leading FX signal.

USDIDR trading above ASEAN FX/CDS model-implied levels

USD/IDR: Actual vs external-driver implied path | 2026



Note: Model-implied USD/IDR is based on an OLS regression of daily FX movements against an equally weighted ASEAN FX basket (MYR, THB and PHP) and changes in Indonesia's 5Y CDS, estimated over 2022–2025. The model provides an indicative reference for relative FX performance, rather than an estimate of fundamental fair value.

Source: Bloomberg, OCBC Group Research estimates.

Our model suggests that IDR has depreciated slightly beyond what broader market conditions would ordinarily explain.

As of 16 October, USD/IDR stood around 18,012, compared with approximately 17,617 implied by our ASEAN FX and CDS model. The simpler ASEAN FX specification leaves around 2.1ppts of cumulative IDR depreciation unexplained in 2026, narrowing to approximately 1.9ppts after incorporating sovereign CDS.

The residual could reflect factors not captured by the model including portfolio flows, investor positioning and changing market sensitivities.

Importantly, the latest 20-day unexplained depreciation remains within one historical standard deviation. This suggests that while IDR may have been underperforming, the divergence is not exceptionally stretched by historical standards.

We would therefore be cautious about interpreting the model-implied USD/IDR level as an equilibrium exchange rate or a target for an imminent correction. Rather, the model helps distinguish broader market influences from country-specific pressures and provides a useful framework for assessing whether further depreciation is becoming excessive.

IDR Outlook – External Relief Could Temper Depreciation Pressure

We retain a mildly cautious bias on IDR. The bigger risk would be a sustained withdrawal of foreign portfolio capital, especially if equity selling spills over into the domestic bond market.

External conditions also matter. While elevated oil prices and UST yields remain headwinds for IDR, a sustained easing in both, alongside a softer USD, could temper depreciation pressures and open the door for a USD/IDR retracement, even as domestic uncertainties linger.

Looking ahead, we would monitor foreign portfolio flows, BI's policy response and progress on market reforms. While risks remain tilted towards some IDR weakness in the near term, a more sustained recovery would likely require stabilisation in foreign flows and renewed investor confidence.

Technical Outlook: Upside bias but retracement risks rising

USDIDR gapped higher in the open on Fri but saw some signs of retracement into end session. Last closed at 18,012. Daily MACD remains in positive territory, suggesting upside momentum is still intact, though the impulse does not look especially strong. At the same time, RSI is near overbought territory, suggesting that upside may slow near current levels and that some consolidation or shallow pullback cannot be ruled out.

Near term, 18,190 remains the key resistance (2026 high) to watch. A decisive break above this level would reinforce the bullish bias and open the door for another leg higher. On the downside, initial support comes in around 17,838 (23.6% fibo retracement of 2026 low to high), followed by 17,620 (38.2% fibo). A break back below these levels would suggest that upside momentum is fading and could expose a deeper retracement towards 17,420/450 levels (50% fibo, 200 DMA).

USDIDR (Daily Chart): Upside bias but RSI near overbought



Source: Bloomberg, OCBC Group Research

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