Macro Weekly Notes

The Rupiah's Battle: Defending Below 17,000 (18-23 January 2026)

Key Takeaways

- This week, the rupiah has moved back to the center of Indonesia's macro narrative, weakening toward the 17,000 handle and printing new all-time lows near IDR 16,985 per USD on 20 January.
- FY25 wider fiscal deficit at -2.92% of GDP has narrowed perceived policy buffers and increased market sensitivity to funding risks and the potential for more front-loaded SBN issuance.
- FY25 fiscal slippage underscores revenue fragility, raising doubts over the feasibility of an aggressive FY26 tax rebound.
- Renewed BI governance headlines, including Thomas Djiwandono's nomination as a Deputy Governor candidate, have added to the risk premium through credibility optics at a fragile FX level.
- Globally, Greenland-related geopolitical escalation has revived risk-off positioning, supporting the dollar and weighing on EM carry via higher volatility.
- Bank Indonesia held the BI Rate at 4.75% with a firmer stabilization tone, reaffirming FX stability as the primary policy
- USD/IDR has retraced toward IDR 16,800, per USD at the end of this week, signaling easing near-term pressure, though the rebound appears tactical rather than a structural trend shift.
- Looking ahead, BI is likely to keep rates unchanged through 1Q26 to manage imported inflation risks, while preserving optionality for rate cuts in 2H26 if core inflation remains contained and FX pressures fade.

Entering this week, the rupiah has moved back to the center of Indonesia's macro narrative. The currency has weakened bringing USD/IDR toward the 17,000 handle and printing new all time lows near IDR 16,985 per USD (20/1). This week is a critical inflection point, markets are effectively testing whether IDR 17,000 per USD remains a credible line in the sand or turns into a new regime level. With sentiment sensitive to both global rates uncertainty and domestic policy credibility, the near-term direction is likely to be dictated by whether stabilization efforts can keep spot anchored below that psychological threshold, or whether a break above it triggers another round of positioning and hedging pressure.

Domestic Factor: Rising Fiscal Strain and Central Bank Credibility Concerns

On the domestic front, fiscal dynamics and institutional credibility have jointly become the key backdrop, even if they are not the sole driver of daily price action. Indonesia's FY25 fiscal deficit widening to -2.92% of GDP, close to the -3.00% statutory cap, continues to shape market perceptions around buffer adequacy and policy space. While the deficit outcome has been known since early January, it still matters at the margin because it narrows room for error and raises sensitivity to incremental negative surprises, particularly when global risk appetite is already fragile. The market's focus is less on sustainability risk and more on what the print implies for near-term funding conditions, including the likelihood of higher SBN issuance and more front-loaded supply if revenue underperforms or spending proves sticky.

This week, the rupiah's weakening trend was pushed further by renewed headlines around BI governance, following the nomination of Prabowo's nephew, Thomas Djiwandono, as a candidate for Deputy Governor of BI. Even without any formal institutional shift, FX markets tend to price such developments through the lens of policy credibility and governance optics, especially when the currency is already trading near a psychological level. With fiscal buffers thinner, any ambiguity around central bank insulation can amplify risk premia, encourage more defensive positioning, and raise the bar for policy reassurance. In this configuration, fiscal constraints and credibility concerns reinforce each other, keeping USD/IDR more sensitive to headlines and execution risk.

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Global Factor: Geopolitical Uncertainty from Greenland

On the global front, markets have pivoted back toward geopolitical risk, with the ongoing Greenland crisis reminding investors that geopolitics can re-enter financial risk pricing abruptly. What began as a rhetorical dispute over U.S. interest in Greenland, alongside threats of punitive tariffs toward several European NATO members, has pushed investors into more defensive positioning amid elevated uncertainty. In mid-January, former U.S. President Donald Trump threatened a 10% tariff on imports from eight European countries opposing US control of Greenland, with escalation to 25% if progress toward acquisition stalled. For the rupiah, episodes like this typically reinforce a stronger dollar through safe-haven demand and tighter global financial conditions, while compressing investor appetite for EM carry when volatility rises.

BI Holds at 4.75% as USD/IDR Tests 17,000: Stabilization Takes Priority

Bank Indonesia kept the BI Rate unchanged at 4.75%, in line with both our forecast and market consensus (Cons: & MCS: 4.75%). In our view, this was the most rational decision at this stage, given the rupiah is approaching the IDR 17,000 per USD psychological threshold and market positioning has become increasingly sensitive to both global volatility and domestic credibility risks. Notably, BI's statement carried a firmer stabilization tone than in previous months. This time, BI framed the decision as being consistent with "the current policy focus on stabilizing the IDR from the impact of increasing global uncertainty," which reads as a more direct signal that FX stability is the immediate policy anchor, rather than a secondary objective. The message is clear: as USD/IDR tests a key technical and psychological level, BI is prioritizing credibility and market reassurance over policy experimentation. In the press briefing, Governor Perry Warjiyo attributed the rupiah's weakness to a combination of external and domestic pressures. Externally, BI highlighted the role of elevated global uncertainty and shifting expectations around global rates. Domestically, BI pointed to higher FX demand from key state-linked entities such as Pertamina, PLN, and Danantara, alongside rising investor concerns over fiscal conditions. BI also reiterated that its stabilization toolkit remains active and broad-based, emphasizing that it has taken "intensive stabilization measures" through interventions in the spot FX market, offshore NDFs, and onshore DNDFs.

End of This Week: Rupiah Regains Ground to 16,800, but the Battle Is Not Over

USD/IDR has pulled back toward 16,800 after briefly testing the 17,000 area, suggesting near-term pressure has eased and markets have stepped away from a disorderly break narrative. The move looks tactical rather than structural, supported by a combination of a softer external risk backdrop and likely stabilization support domestically. Externally, risk sentiment improved after Trump signaled a step-back from tariff escalation on several European countries, reducing the immediate geopolitical risk premium tied to the Greenland episode. As volatility cooled, the dollar's safe-haven bid softened at the margin and carry appetite stabilized, giving EM FX including rupiah room to recover. Domestically, the speed of the reversal away from 17,000 is also consistent with BI support in the market, even though intervention is not directly observable in real time. Looking ahead to 1Q26, we expect BI to remain firmly focused on defending rupiah stability and keeping the policy rate unchanged, as depreciation risks continue to complicate the easing path via imported inflation concerns. At the same time, BI's communication suggested a clearer recalibration in its inflation narrative, with greater emphasis placed on core inflation as the key policy guide and a reiterated comfort range of 1.50%–3.50% for inflation. In our view, this framing provides BI with additional flexibility to justify future rate cuts even if headline inflation re-accelerates due to policy-driven demand effects, provided core inflation remains contained. Against that backdrop, we see BI's 1Q26 stance as total FX stabilization. With FX reserves standing at USD 136.98bn, we see BI as having sufficient buffers to sustain stabilization efforts through 1Q26 and keep rupiah stability intact around the IDR 17,000 per USD handle. Subsiding depreciation and inflationary pressure in the next quarters will allow BI to resume pro-growth monetary policy. We suspect BI to tolerate weaker Rupiah in the range of IDR 17,000-17,500 per USD, considering the policy priority of President Subianto's administration.

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