

ABSTRACT

Investment opportunity of ASEAN-5 currencies increased based on Indonesia's perspective because of ASEAN Economic Community (AEC) integration reduced the cost of foreign exchange transaction among ASEAN members to improve the efficiency of the ASEAN foreign exchange market.

This study observed how the phenomenon affected ASEAN-5 currencies as an investment in Indonesia through its return and risk correlation, portfolio optimization, and ASEAN-5 currencies portfolio performance. The correlation test conducted in this study is the Pearson's correlation method, the portfolio optimization method used in this study is the Markowitz optimization, and the portfolio performance test method in this study is the Sharpe index.

Portfolio optimization based on return maximization got from allocated whole budget in SGD currency, while optimization based on risk minimization allocated most of the budget in THB currency. Both portfolios have negative performance compared to the weekly interest of three-month term deposits. Based on the development of the quarterly portfolio, both portfolios return and risk to be more stable post-AEC. Both portfolios still have negative performance for 40 quarters. Positive performance recorded in two periods, 2008.3 and 2013.4. The development of portfolio performance also showed that optimization based on return maximization has better performance compared to risk minimization.

Keywords: Foreign Exchange, ASEAN-5, Pearson's Correlation, Markowitz optimization, Sharpe Index, Indonesia