

Indonesia Weekly Bond Update

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The Yield Curve Becomes More Attractive This Week

Indonesia government bond markets slightly weakened in the last week. According to Inter Dealer Market Association (IDMA) index from Bloomberg, the average prices of government bond slightly declined from 96.76 on 22-26 Apr-19 to 95.72 on 29 Apr-19 until 3 May-19. In line with that condition, the yield curve posed a lower rate in almost all tenor of series. The government also absorbed Rp5.07 trillion from its Sukuk auction on 30 Apr-19. It's below government's target at Rp6 trillion. The main factor for lower government bond prices during last week is investors' profit taking action after the realization of general election. Investors prefer to realize their profit before the official result of general election is announced on 22 May-19.

Recent inflation result didn't give substantial impacts to domestic bond market. Inflation is reported to be stronger from 0.11% MoM (2.48% YoY) in Mar-19 to 0.44% MoM (2.83% YoY) in Apr-19. The peak periods of inflation have been begun in Apr-19. The culmination of inflation occurs during Apr-19 until Jun-19. It relates to stronger consumption demand, especially for basic foods needs, due to several big events, such as National Election and Moslem Festivities (Fasting Month & Ied). Moreover, the market players also booked profit taking action after the Fed's decision to keep its policy rate on the same level. The Fed still underlines benign inflation as its economic concern. Those aforementioned conditions have reduced investors' risk appetite to Indonesia although the gap of investment yields between Indonesia's government bonds and the United States' government bonds also remain wide. Indonesia's 5Y CDS slightly increased from 96.22 on 26 Apr-19 to 96.60 on 03 May-19. In the meantime, the yields of Indonesia's 10Y government bonds and United States 10Y government bonds are 7.88% and 2.53%, respectively, on 03 May-19. It's still higher than the average yields gap of Indonesia's 10Y government bonds and United States 10Y government bonds during last year at 452 bps.

Busy selling actions appeared in the last week, especially for short medium tenor bonds. Total volume transactions reached Rp77.94 trillion in Indonesia bond market in the four days session during 29 Apr-19 until 3 May-19. Foreign investors' ownership in the government bonds decreased from Rp964.74 trillion on 26 Apr-19 to Rp960.12 trillion 03 May-19. It indicated that the foreign players have realized their profit. FR0061 (coupon rate, maturity period: 7.000%; 15 May-22), FR0077 (8.125%; 15 May-24), and FR0078 (8.250%; 15 May-29) are the top three of most traded government bonds by Rp27.12 trillion of total volume transactions during last week. Meanwhile, from the corporate side, BEXI02BCN4 (9.750%; 07 Jan-20), BEXI02CCN5 (9.500%; 13 Mar-20), and ADMF04ACN3 (7.500%; 26 Aug-19) are the top three of most traded corporate bonds by Rp1.07 trillion of total volume transactions during 29 Apr-19 until 3 May-19.

Furthermore, the market players also have strong attention on today's government bond auction amidst recent negative global sentiment due to a surprise statement from U.S. President Donald Trump to threaten China with steeper tariffs over the pace of trade talks. This is the first auction in May-19. Investors put their strong attentions on the medium long tenors of government bonds on today's auction. Today, the government has successfully absorbed Rp21.57 trillion from its conventional bond auction. It exceeded the government's target at Rp15 trillion. Total investors' incoming bids reached Rp32.96 trillion on today's auction. FR0077, FR0078, and FR0068 are the investors' top target on today's auction. The average yields from those bonds are also higher, compared the average yields on previous conventional auction. An attractive investment yield, with backed up by sound macroeconomic & social political backgrounds, is the reason for investor to keep collecting Indonesian government bonds. The country has successfully maintained its economic growth trends at 5%-level in 1Q19 amidst lessening exports' contributions during various global challenges, such as moderate progress on the global economic recovery and China's economic slowdown during the trade war against the United States. It still indicates that the country have maximized its domestic driven sectors. Domestic consumption expenditure growth strengthened from 5.10% YoY in 4Q18 to 5.25% YoY in 1Q19. Going forward, for this week, we foresee investors to keep doing carry trade action after seeing recent saga on the trade war. Endless saga on this story can weaken further global economic outlook. Investors will also continue to watch on upcoming major economic releases during this week, such as inflation results in China and the United States. On the other side, we expect the investors to keep doing "buy on weakness" direction for the medium long tenors of government bonds benchmark series amidst recent conducive condition on domestic's social political climate.

Exhibit 1: Government Bond Activities Summary During 29 Apr-19 until 3 May-19

No	Series	Coupon Rate (%)	Maturity	Price	Yield (%)	Volume (Rp)	Trade Frequency
1	FR0061	7	05/15/22	99.74	7.096	12,746,507,000,000	51
2	FR0077	8.125	05/15/24	102.95	7.41	8,293,497,000,000	146
3	FR0078	8.25	05/15/29	102.61	7.868	6,079,743,000,000	246
4	PBS016	6.25	03/15/20	93.457	14.603	5,050,000,000,000	4
5	FR0063	5.625	05/15/23	94.3	7.285	4,185,239,000,000	51
6	FR0056	8.375	09/15/26	102.8	7.863	4,170,834,000,000	55
7	FR0079	8.375	04/15/39	99.8	8.395	3,862,506,000,000	410
8	FR0068	8.375	03/15/34	100.85	8.273	3,589,955,000,000	152
9	FR0070	8.375	03/15/24	103.75	7.437	3,311,633,000,000	47
10	PBS014	6.5	05/15/21	98.6	7.255	2,957,872,000,000	62
11	FR0053	8.25	07/15/21	102.7	6.893	2,648,209,000,000	27
12	PBS013	6.25	05/15/19	100	6.068	2,396,450,000,000	25
13	FR0059	7	05/15/27	95.5	7.764	2,273,188,000,000	55
14	SPN12190606	ZERO	06/06/19	99.481	5.601	1,480,431,000,000	4
15	FR0064	6.125	05/15/28	88.75	7.891	1,051,754,000,000	36
16	FR0075	7.5	05/15/38	96.8	7.826	1,006,723,000,000	229
17	FR0072	8.25	05/15/36	102.9	7.936	975,036,000,000	161
18	VR0031	FLOAT	07/25/20	89.712	941.121	900,000,000,000	2
19	FR0031	11	11/15/20	106.5	6.474	787,540,000,000	8
20	Others					6,126,037,000,000	533
	Total					73,893,154,000,000	2304

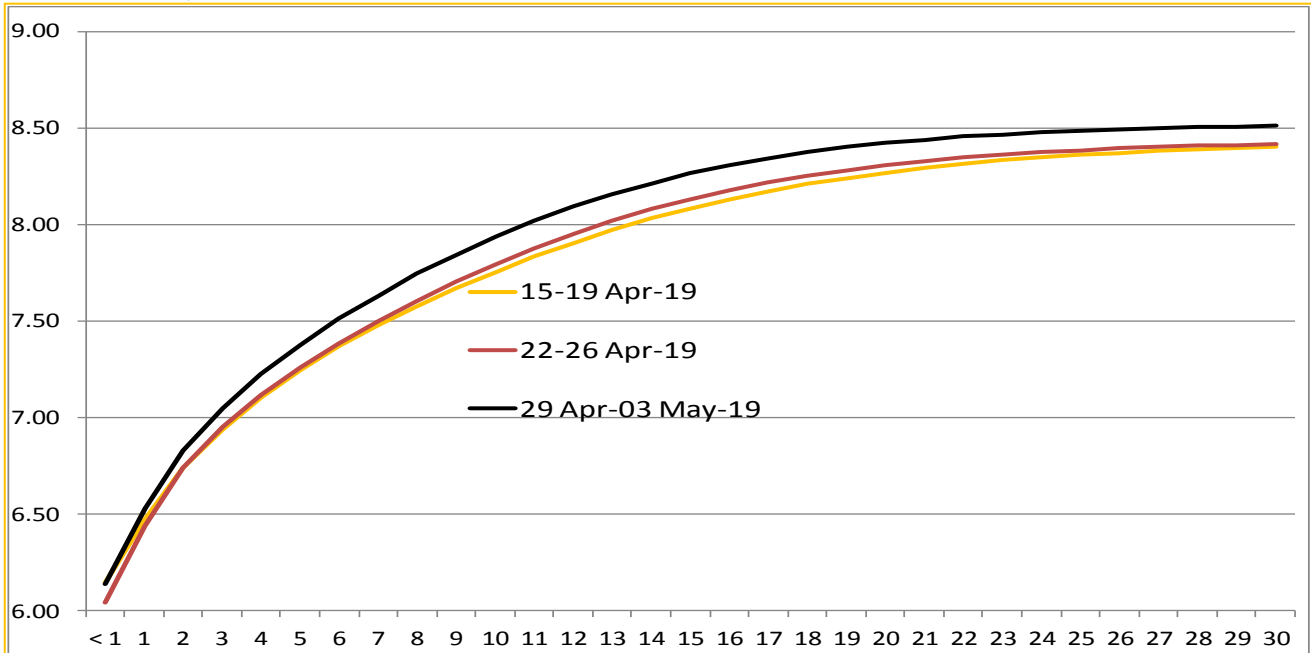
Source: Bloomberg

Exhibit 2: Corporate Bond Activities Summary During 29 Apr-19 until 3 May-19

No	Series	Coupon Rate (%)	Maturity	Price	Yield (%)	Volume (Rp)	Trade Frequency
1	BEXI02BCN4	9.75	01/07/20	101.55	7.339	400,000,000,000	4
2	BEXI02CCN5	9.5	03/13/20	101.6	7.533	400,000,000,000	2
3	ADMFO4ACN3	7.5	08/26/19	100.9	4.595	267,000,000,000	9
4	BEXI04DCN3	9.75	11/08/25	104.52	8.829	203,600,000,000	4
5	BBKP02SBCN2	11	02/28/24	98.12	11.512	174,000,000,000	21
6	FIFA03BCN1	8.45	04/26/20	100.9	7.491	154,000,000,000	12
7	WSKT03ACN2	7.75	02/23/21	99.6	7.989	120,300,000,000	4
8	NISP03ACN1	6.75	07/16/19	100.083	6.309	110,000,000,000	2
9	BEXI03BCN5	7.9	08/15/22	99.07	8.226	80,000,000,000	4
10	ADMFO4CCN3	8.5	08/16/21	100.307	8.35	76,000,000,000	3
11	ADMFO4DCN2	7.5	03/21/23	98.52	7.946	72,500,000,000	7
12	BBTN02ACN2	8.2	08/30/19	100.22	7.332	70,000,000,000	2
13	SMASDF01ACN1	6.1	06/05/19	100.07	5.295	64,000,000,000	4
14	SSIA01BCN1	10.5	09/22/21	101.37	9.842	60,000,000,000	4
15	MLJK01C	8.3	11/08/24	96.8	9.043	60,000,000,000	2
16	SMFP04ACN5	7.5	08/24/19	100.059	7.304	59,000,000,000	2
17	EXCL01ACN1	8.25	10/26/19	100.479	7.231	58,000,000,000	2
18	ISAT01BCN4	8	09/02/19	100.42	6.704	57,400,000,000	5
19	WSKT02ACN3	8.5	02/21/20	98.06	11.097	53,000,000,000	2
20	Others					1,488,660,000,000	320
	Total					4,027,460,000,000	415

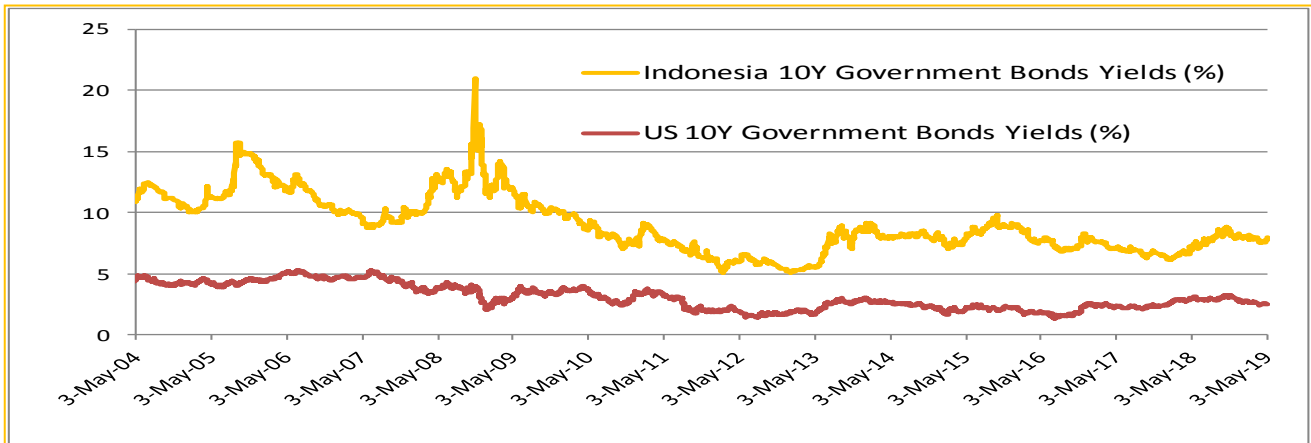
Source: Bloomberg

Exhibit 3: Weekly Government Bonds Yield Curve (%)



Source: CEIC

Exhibit 4: Indonesia 10Y Government Bonds Yields vs U.S. 10Y Government Bonds Yields



Source: Bloomberg

Exhibit 5: Government Bond Auction Results as of 07 May-19

	SPN03190808	SPN12200508	FR0077	FR0078	FR0068	FR0079	FR0076
Maturity Date	8-Aug-19	8-May-20	15-May-24	15-May-29	15-Mar-34	15-Apr-39	15-May-48
Tenor	3M	1Y	5Y	10Y	15Y	20Y	29Y
Coupon (%)	Discounted	Discounted	8.125	8.250	8.375	8.375	7.375
Total Incoming Bid	Rp2.685 Tn	Rp6.930 Tn	Rp5.4948 Tn	Rp8.3368 Tn	Rp6.1837 Tn	Rp1.7907 Tn	Rp1.5377 Tn
Nominal Amount Won	Rp1.370 Tn	Rp3.300 Tn	Rp4.000 Tn	Rp5.850 Tn	Rp4.550 Tn	Rp1.350 Tn	Rp1.150 Tn
Total Nominal Amount Won	Rp21.57 Tn						
Bid to Cover Ratio (%)	1.96	2.10	1.37	1.43	1.36	1.33	1.34
Awarded Weighted Avg. Yield	5.84423%	6.07970%	7.48536%	7.98771%	8.47469%	8.55739%	8.66557%

Source: Indonesia Debt Management Office

Macro Economic Indicators

INDICATORS	2014	2015	2016	2017	2018	2019F	2020F
Inflation (% YoY)	8.36	3.35	3.02	3.61	3.13	3.70	3.35
Inflation (% avg)	6.42	6.38	3.53	3.81	3.20	3.25	3.58
Core Inflation (% YoY)	4.93	3.95	3.07	2.95	3.07	3.10	3.04
Core Inflation (% avg)	4.53	4.89	3.35	3.15	2.81	3.08	3.00
Exchange Rate Eop (Rp/US\$)	12440	13795	13436	13548	14481	14600	14800
Exchange Rate Avg (Rp/US\$)	11885	13458	13330	13397	14267	14301	14720
Current Account (% GDP)	-3.09	-2.03	-1.82	-1.60	-2.98	-2.50	-2.20
Fiscal Balance (% GDP)	-2.20	-2.80	-2.46	-2.46	-1.76	-1.90	-1.80
Interest Rate							
BI 7-Day (Reverse) Repo Rate (% p.a)	5.86	6.25	4.75	4.25	6.00	6.00	6.00
Time Deposit 3 month (% p.a)	8.95	7.99	6.69	6.11	6.84	6.95	6.95
Lending rate working capital (% p.a)	12.81	12.46	11.36	10.68	10.34	10.58	10.58
Credit							
Growth (% YoY)							
Property Credit	17.29	11.86	14.98	13.05	16.33	14.54	14.16
Consumer credit	11.51	9.09	8.76	11.04	10.35	11.14	11.04
Working Capital Credit	10.83	9.04	6.93	8.48	13.03	11.39	10.97
Investment Credit	13.16	14.69	8.65	4.82	10.94	8.11	9.84
Total Credit	11.58	10.44	7.87	8.24	11.75	10.51	10.72
Deposit	12.29	7.26	9.60	9.36	6.45	8.64	9.37
NPL Commercial Banks (%)	2.16	2.49	2.93	2.59	2.37	2.52	2.42
Car Sales (1000 Units)	1208	1013	1062	1080	1151	1184	1223
Car Sales Growth (%)	-1.78	-16.12	4.79	1.70	6.62	2.85	3.29
Motorcycle Sales (1000 Units)	7867	6480	5931	5886	6383	6680	7079
Motorcycle Sales Growth (%)	1.59	-17.63	-8.47	-0.76	8.44	4.65	5.98
Unemployment Rate (%)	5.94	6.18	5.61	5.50	5.34	5.10	5.00
International Reserve (US\$ bn)	111.9	105.9	116.4	130.2	120.7	129.4	134.2
GDP Growth (%)	5.01	4.88	5.03	5.07	5.17	5.14	5.30

Note : the red numbers are forecast

Source : Maybank Indonesia Economic Research

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