

Indonesia Weekly Bond Update

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Positive Momentum Still Lingers in the Bond Market

Indonesia bond market sustained its positive movements last week (10-14 Jun-19). Various positive sentiments in the local bond market during last week were recent conducive domestic political climate, manageable domestic inflation, upgraded credit rating euphoria from S&P, and strong investors' expectation on more dovish policies prospects from both the Fed and Bank Indonesia. Investors became to be more confidences on further Bank Indonesia's more loosening monetary policy prospect after seeing recent statement from the Central Bank Governor. According to Governor Perry Warjiyo, mentioned by Bloomberg, Bank Indonesia sees room to cut interest rates. He also stated that low inflation and a necessary to boost economic growth are two factors that creating room to lower interest rate. However, he didn't mention an indication of timing. Finance Minister Sri Mulyani Indrawati also stated that Bank Indonesia will likely join other central banks in easing monetary policy to counter a global economic slowdown. Furthermore, there were no strong negative shocks that significantly appeared in the local bond market during the last week.

According to Inter Dealer Market Association Hinddasun Daily Fixing (IDMA), the average prices of Indonesia's government bond index increased by 1.74% WoW, from 94.91 during 27-31 May-19 to 96.56 during 10-14 Jun-19. Nevertheless, total trading volume transactions dropped from Rp149.68 trillion during 27-31 May-19 to Rp66.73 trillion during 10-14 Jun-19 due to post-long holiday mood. FR0078 (coupon rate; maturity period: 8.250%; 15 May-29), FR0077 (8.125%; 15 May-34), and FR0068 (8.375%; 15 Mar-34) are the most traded bonds during 10-14 Jun-19. Total values of trading volume transactions from those respective bonds have reached Rp26.27 trillion on 10-14 Jun-19. Indonesian bond market was blessed by various positive sentiments since an upgraded rating from S&P on 31 May-19 until post-long holiday season on 14 Jun-19. Investors targeted the benchmark government bonds with medium long tenors of series after seeing positive sentiments from both global and domestic sides. Furthermore, investors began to realize their profits in the last day of trading session on previous week after profit taking sentiment surfaced. In line with that condition, Indonesia's 10Y government bonds yields dropped from 7.96% on 31 May-19 to 7.68% on 14 Jun-19. Total values of foreign investors' ownership in the government bonds increased from Rp949.56 trillion on 31 May-19 to Rp955.15 trillion on 14 Jun-19.

Meanwhile, Indonesian bond market is still attractive given that the gap of investment yields between Indonesia's government bonds and the United States' government bonds also remain wide. Moreover, the US treasury yields have dropped amidst investors' perception on the Fed's more dovish policy outlook due to the consequences of lower growth outlook on the global economy during the trade war saga. The yields of Indonesia's 10Y government bonds and United States 10Y government bonds are 7.68% and 2.08%, respectively, on 14 Jun-19. It's still higher than the average yields gap of Indonesia's 10Y government bonds and United States 10Y government bonds at 452 bps during 2018. A movement in the bond market is also in line with the situation in the local currency. Rupiah significantly strengthened against US\$ from 14,269 on 31 May-19 to 14,241 on 12 Jun-19. However, Rupiah, finally, depreciated against US\$ since 13 Jun-19 until yesterday, driven by stronger domestic demand on US\$ for paying routine payment and investors' profit taking in the financial market.

In the period during 10-14 Jun-19, the government also successfully obtained funds from its debt actions. Ministry of Finance reported that Indonesian government successfully sold its global bonds by Eur and US\$-denominations on 11 Jun-19. RIEUR0926 and RI0929 are two series of government bonds that successfully sold by Eur750 million and US\$750 million, respectively. It offer coupon rate by 1.450% and 3.400%, respectively. RIEUR0926 and RI0929 have 7 year and 10 year, subsequently, of tenors. The settlement date for those BBB-ratings of global government bonds is today. The government successfully took positive momentum from recent credit rating upgraded by S&P to sell the bonds with low cost.

Today, the government successfully absorbed Rp24.00 trillion from its auction. It's in line with its indicative target by Rp15 trillion. This result is also larger than total Rp10.80 trillion of total absorbed amounts on the previous government's bond auction edition on 21 May-19. On its last bond auction, the result is better. Both total incoming bids and absorbed values are larger than the previous edition on 21 May-19. The government also awarded lower weighted average yields. Today, the government received Rp54.80 trillion of incoming bids. It's significantly higher than Rp26.20 trillion of incoming bids on the previous edition. The government awarded lower yields for almost all auctioned tenors on its last Bond auction. On today's government bonds auction, the government gave weighted awarded average yields by 5.83800%, 5.90000%, 7.09257%, 7.64444%, 7.98971%, 8.14932%, and 8.44044% for SPN03190919 (tenor; coupon rate: 3 month; discounted), SPN12200619 (1 year; discounted), FR0077 (5 year; 8.125%), FR0078 (10 year; 8.250%, FR0068 (15 year; 8.375%), FR0079 (20 year; 8.375%), and FR0076 (29 year; 7.375%), subsequently. Meanwhile, today's auction yields are still better than the yield curve from our database. According to our database, the yields for government bonds that have tenors on 1 year, 5 year, 10 year, 15 year, 20 year, and 30 year are 6.72%, 7.20%, 7.68%, 8.01%, 8.16%, and 8.51%, subsequently. On this auction, the market players have strong attention on SPN12200619, FR0077, and FR0078. It have tenor on 1 year, 5 year, 10 year, respectively. From those series on this auction (SPN12200619, FR0077, and FR0078), the government absorbed Rp14.00 trillion. It have 2.82 of bid-to-cover-ratio from total incoming bids that have reached Rp39.48 trillion.

According to those aforementioned conditions, we expect the local bond market to sustain its rally trends during this week, at least until the day of Bank Indonesia's monetary policy announcement. Recent various positive sentiments still linger to drive more investors' confidences for collecting Indonesia's government bonds. Indonesia's short tenor of government bonds will be investors' main priority, then shifting their investment duration to be longer.

From the economic side, investors will focus on further monetary policies announcement by the Federal Reserve and Bank Indonesia. Both central banks are expected to give more dovish tones on next monetary meeting. We just changed our projection for Bank Indonesia's policy rate outlook for this year from 6.00% to 5.50%. We believe that BI will cut its policy rate for supporting domestic economic growth amidst recent conditions of local low inflation, manageable currency position, and recent more dovish tone from global central banks as the implications of gloomy outlook on the global economic growth during trade war saga. Furthermore, investors also keep focusing to the saga of the trade war between the United States and its trading partners, not only China. Meanwhile, from the political development, the condition is conducive enough. The Constitutional Court successfully held its sessions for hearing the dispute on the presidential election result since 14 Jun-19 until today. The Constitution Court is scheduled to release its final decision on the dispute of presidential election result on 28 Jun-19.

Exhibit 1: Government Bond Activities Summary Within 10-14 Jun-19

No	Series	Coupon Rate (%)	Maturity	Price	Yield (%)	Volume (Rp)	Trade Frequency
1	FR0078	8.25	05/15/29	104.25	--	13,018,774,000,000	476
2	FR0077	8.125	05/15/24	104	7.142	11,248,830,000,000	333
3	FR0068	8.375	03/15/34	103.5	--	8,184,164,000,000	468
4	PBS014	6.5	05/15/21	99	7.065	6,319,671,000,000	56
5	PBS016	6.25	03/15/20	100	6.233	4,993,120,000,000	13
6	FR0053	8.25	07/15/21	102.65	6.853	3,888,600,000,000	40
7	FR0079	8.375	04/15/39	102.66	--	3,131,946,000,000	612
8	FR0070	8.375	03/15/24	104.65	--	2,760,881,000,000	86
9	FR0059	7	05/15/27	95.5	7.771	2,475,033,000,000	78
10	FR0071	9	03/15/29	108.1	7.795	2,352,135,000,000	72
11	FR0056	8.375	09/15/26	104.4	--	2,083,027,000,000	57
12	FR0072	8.25	05/15/36	101	--	1,898,661,000,000	206
13	FR0061	7	05/15/22	99.8	7.074	1,873,700,000,000	30
14	FR0073	8.75	05/15/31	106.59	7.885	1,743,507,000,000	43
15	FR0063	5.625	05/15/23	94.8	7.172	1,723,704,000,000	51
16	FR0064	6.125	05/15/28	90.3	7.645	1,527,252,000,000	72
17	FR0058	8.25	06/15/32	101.25	8.093	1,365,473,000,000	25
18	ORI013	6.6	10/15/19	99	9.738	1,201,170,000,000	51
19	SPN12190704	ZERO	07/04/19	99.735	5.701	1,150,000,000,000	12
20	Others					7,628,826,000,000	851
	Total					80,568,474,000,000	3,632

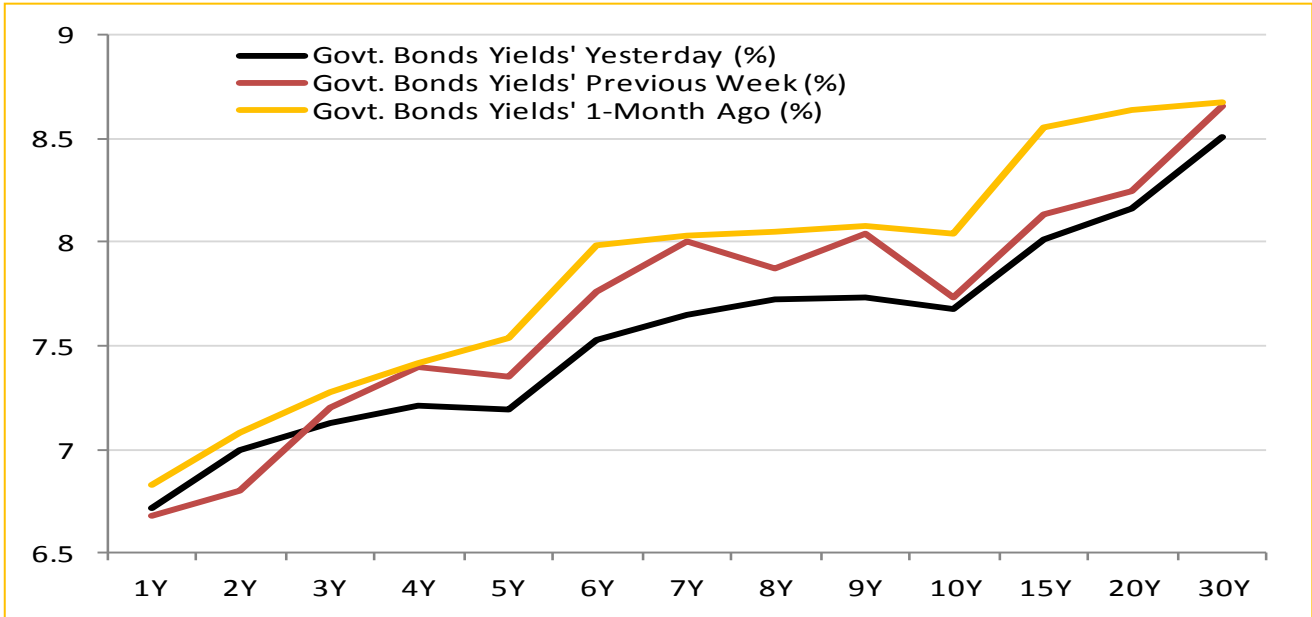
Source: Bloomberg

Exhibit 2: Corporate Bond Activities Summary Within 10-14 Jun-19

No	Series	Coupon Rate (%)	Maturity	Price	Yield (%)	Volume (Rp)	Trade Frequency
1	ADHI02CN1	9.25	06/22/22	100.02	9.241	160,000,000,000	6
2	ADMFO4ACN3	7.5	08/26/19	100.07	7.145	136,342,000,000	3
3	ISAT01BCN1	10.3	12/12/19	101.49	7.204	116,000,000,000	2
4	BBTN03DCN1	8.9	07/13/27	100.02	8.896	100,000,000,000	2
5	BIIF01ACN3	8.3	11/03/19	100.202	7.738	90,000,000,000	1
6	WSKT03BCN2	8.25	02/23/23	94.3	10.117	88,100,000,000	4
7	SIAGI01ACN1	9.9	06/06/20	99.02	10.965	71,992,000,000	10
8	BJBR01BSBCN1	9.9	12/06/24	101.63	9.514	70,000,000,000	9
9	FIFA03BCN3	7.45	04/11/21	97.85	8.423	66,400,000,000	7
10	WSKT02BCN3	9	02/21/22	96.99	10.292	66,000,000,000	2
11	FIFA03BCN1	8.45	04/26/20	100.75	7.534	64,000,000,000	6
12	BBIA01C	9.6	04/01/20	101.67	7.426	56,000,000,000	4
13	WSKT02ACN3	8.5	02/21/20	100.21	8.172	55,200,000,000	4
14	AKRA01B	8.75	12/21/19	100.375	8.01	54,000,000,000	2
15	TAFS02BCN2	8.5	02/14/20	100.75	7.33	53,000,000,000	4
16	MYOR01CN3	8.15	04/24/23	97.35	8.968	48,000,000,000	8
17	BBKP02SBCN2	11	02/28/24	96.5	11.983	46,000,000,000	16
18	ADMFO4CCN2	7.4	03/21/21	98.69	8.206	45,000,000,000	9
19	MORA01A	9.9	12/06/20	101.065	9.12	45,000,000,000	9
20	Others					1,458,125,000,000	293
	Total					2,889,159,000,000	401

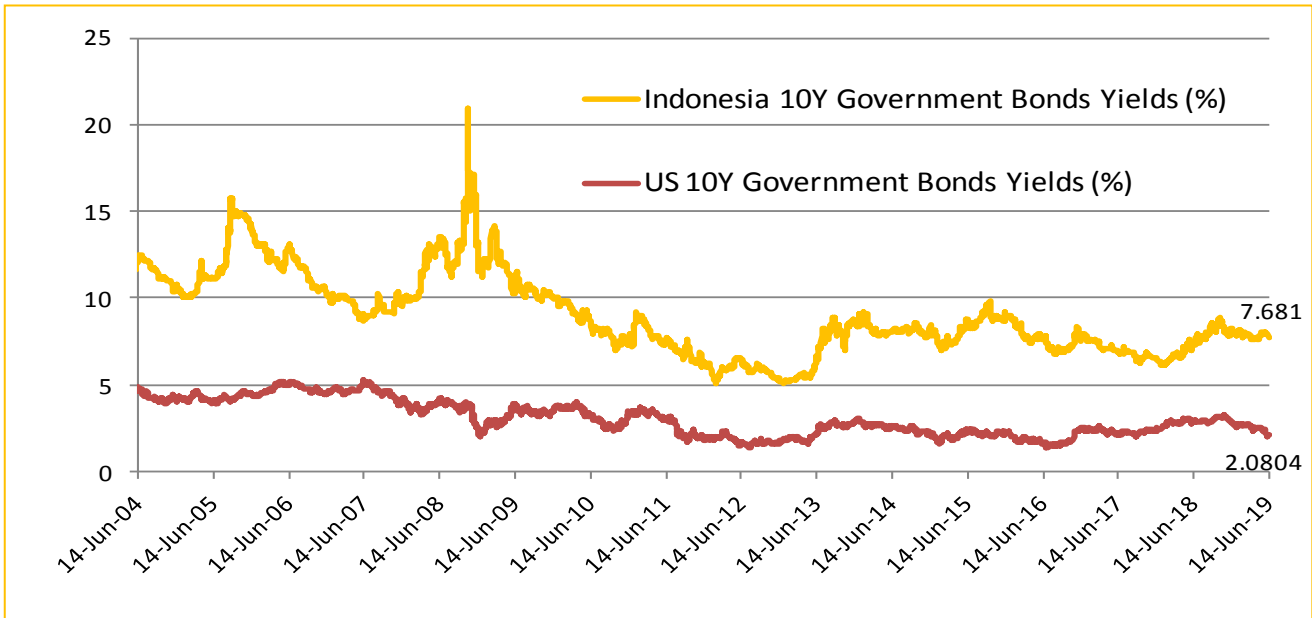
Source: Bloomberg

Exhibit 3: Indonesia Government Bonds Yields (%)



Source: Bloomberg

Exhibit 4: Trend of Yields on Indonesia 10Y Govt. Bond & U.S. 10Y Govt. Bond



Source: Bloomberg

Exhibit 5: Government Bond Auction Result as of 18 Jun-19

	SPN03190919	SPN12200619	FR0077	FR0078	FR0068	FR0079	FR0076
Maturity Date	19-Sep-19	19-Jun-20	15-May-24	15-May-29	15-Mar-34	15-Apr-39	15-May-48
Tenor	3M	12M	5Y	10Y	15Y	20Y	29Y
Coupon (%)	Discounted	Discounted	8.125	8.250	8.375	8.375	7.375
Total Incoming Bid	Rp2.950 Tn	Rp6.310 Tn	Rp19.811 Tn	Rp13.362 Tn	Rp7.3625 Tn	Rp3.2867 Tn	Rp1.7147 Tn
Nominal Amount Won	Rp1.500 Tn	Rp1.100 Tn	Rp5.000 Tn	Rp7.900 Tn	Rp4.900 Tn	Rp2.600 Tn	Rp1.000 Tn
Total Nominal Amount Won	Rp24.00 Tn						
Bid to Cover Ratio (%)	1.97	5.74	3.96	1.69	1.50	1.26	1.71
Awarded Weighted Avg. Yield	5.83800%	5.90000%	7.09257%	7.64444%	7.98971%	8.14932%	8.44044%

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	-2.70	-2.40
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	5.50	5.50
Time Deposit 3 month (% p.a)	8.95	7.99	6.69	6.11	6.84	6.50	6.50
Lending rate working capital (% p.a)	12.81	12.46	11.36	10.68	10.34	10.28	10.28
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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