

Indonesia Bond

Bond note

January, 2020

Bond price in the better risk and liquidity condition

Higher foreign flow. The Foreign composition at government bond has been increased to IDR1091bn up 21%yoy or representing 39.3% of the total government issuance. The expectation of the de-escalation of the US-CHN trade war and the dovish tone in the global market has contributed to the higher liquidity flow into the emerging market. From the domestic side, the lower cycle of the inflation creates the room for the real yield interest differential and the carry trade to remain attractive compares to the peers. The lower risk premium amid the resiliency of the economic growth was another supporting factor for the domestic bond market. We expect that the bond would still at the mildly bullish on the back of the global monetary policy outlook and benign domestic inflation from the domestic side. The demand for the safe haven assets due to the risk aversion currently stemmed from the negative impact from the Corona Virus in China. The market concerns to this risk and still digesting the negative impact on the economy while another risk factor regarding the US politic is still subdued.

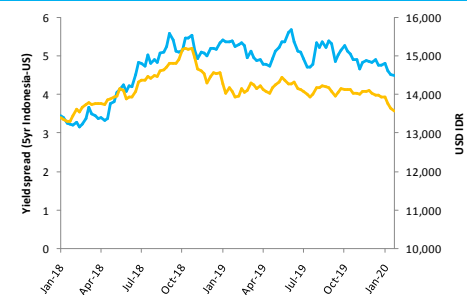
The US monetary policy is estimated to hold the rate after its previous cutting and would maintain the rate at 1.5%-1.75%. The risk of inflation is forecasted at the favorable level for the monetary authority and the risk of overheating still at manageable path despite the new development of the relaxation in the trade war post the US-China phase 1 deal agreement that bring a robust optimism for a resolution to the trade tension combined with strong job market data would be the risk of forward inflation. However the stabilizing and consolidative pace in the world economy would bring a balance on the risk that supports the argument for the Fed to maintain the rate at unchanged for this year. This would be a positive catalyst for domestic bond as the improvement in the risk appetite has been seen in the higher foreign inflow and the appreciation of the rupiah.

Indonesia monetary policy remains accommodative. The slower pace of the GDP growth for the last 4 quarters and the appreciation of the rupiah against USD would provide the room for the further rate cutting of the 7DRepo rate. The risk of the outflow has been lower due to the improvement of the risk appetite on Indonesia as seen in the CDS. The Bank of Indonesia has slashed down the 7D Repo rate or the second times this year by 25bps on September to 5.5%. The slower domestic aggregate demand (5.05%yoy in 2019) amid the external challenges was part of the reason for the BI to cut the rate. On the other hand, the slower domestic demand and the GDP growth at 5.1% could pave the way for the BI to relax the policy. We expect one more rate cut is possible before first semester of 2020 amid the stable domestic inflation. This would support the bond yield to move lower until the end of this year despite with the limited room.

	1/31/2020	1/30/2020
USD/IDR	13,650	13,657
EUR/USD	1.102	1.103
USD/JPY	109.05	108.96
USD/SGD	1.361	1.362

Government Bond Ownership (in trillion)		
Investor	1/29/2020	1/28/2020
BI	106.74	92.51
Bank	742.33	751.45
Foreign	1,084.33	1,089.18
Others	848.33	848.59
Total	2,781.73	2,781.73

Yield Spread (Indonesia-US) & USDIDR – Easing Pressure



Source: Bloomberg, Shinhan Sekuritas Indonesia

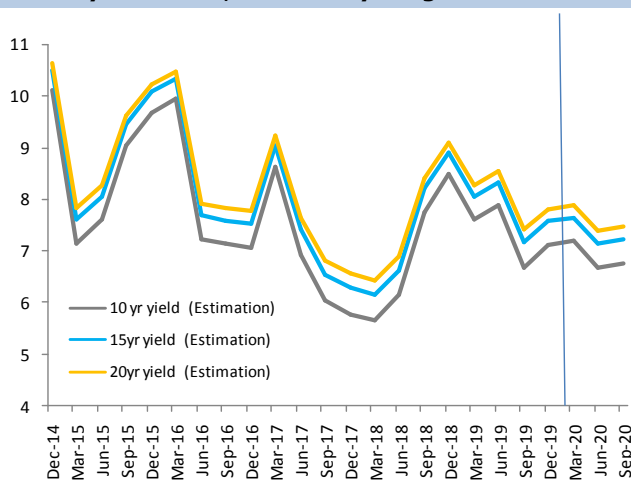
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Inflation is expected to be lower amid the appreciation of rupiah and lower administrated price due to the lower gasoline price. The benign inflation outlook at 3% will also supported by the government policy to control the volatile food policy by preserving the inventory supply by import to reduce the volatility of food price. This would maintain the Indonesia real yield remain attractive compares the peers which provide another reason for the capital inflow amid the external volatility. **The Indonesia real yield was at 3.8% or higher than Malaysia, Korea and Thailand at 2.17%, 1.3%, 0.92% respectively.**

The risk of higher bond supply due to the countercyclical fiscal policy by letting the higher fiscal deficit is estimated to be at the manageable level since the demand from the foreign flow is projected to increase amid the lower risk premium. The range of the fiscal deficit is estimated at 1.7% to 1.9% which, we think remain at the healthy level. This point to the stable bond price as the higher supply is balanced with the demand. The total government bond financing in 2020 is projected at IDR735.5tn while about IDR389.9tn is for debt financing that matured this year. The government deficit without debt financing is about IDR307.7tn. The foreign ownership in bond market has been increased to IDR1028tn in January 2020 or up IDR190tn from last year. The foreign ownership in Bond is about 39.3% of the total or picked up from 37.2% last year. The average incoming bid/ auction in 2019 was IDR35.48tn while the average awarded bid was IDR14.14tn or 2.5x, which we think remain sizeable to fund the fiscal financing without deteriorate the bond price. Overall, we expect the improvement of the bond price ahead on the back of the recovery of the liquidity to emerging market with a slower pace as the yield has fluctuated at our targeted estimation range.

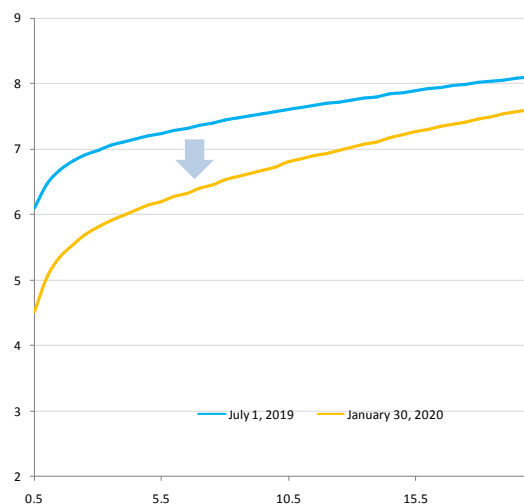
Improvement in credit risk premia as the supporting factor. The credit risk premium for the Indonesia bond has reduced gradually to the level of 62 this week compared to 77bps at last. **We revised down our assumption of the CDS to 60bps from 82bps, US FFR at at 1.75% and inflation steady at 3.5% for our model and find that the select series such FR82 (10yr) would be at 6.7% as the fair yield, while FR80 (15yr) at 7.1% and FR83(20yr) at around 7.4%.**

Estimation yield for 10,15 and 20 yr of gov. bond



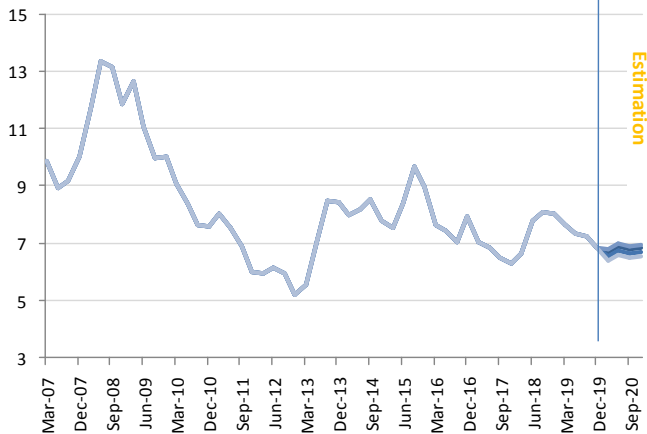
Source: Bloomberg, Shinhan Sekuritas Indonesia estimation

Indonesia Yield Curve



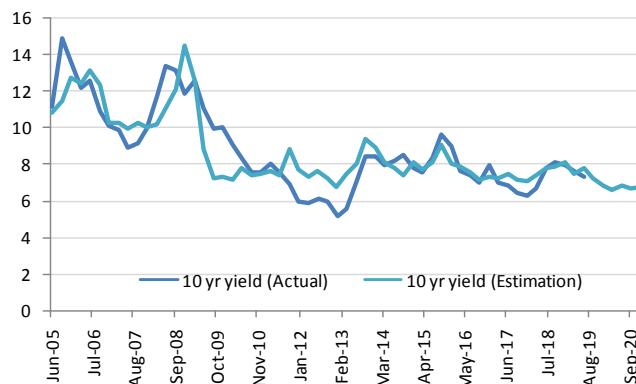
Source: Shinhan Sekuritas Indonesia Yield curve calculation

10 Yr Yield Estimation



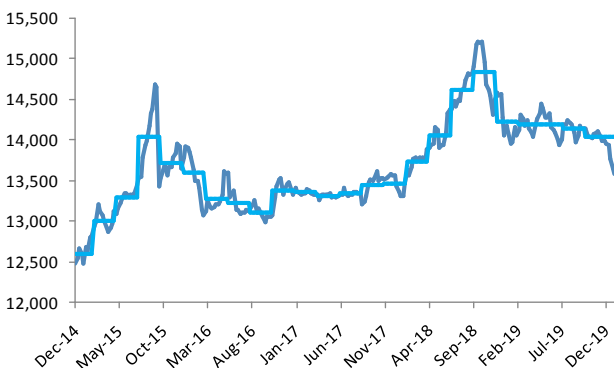
Source: Shinhan Sekuritas Indonesia Estimation

10 Yr yield actual VS estimation – Cointegrated model



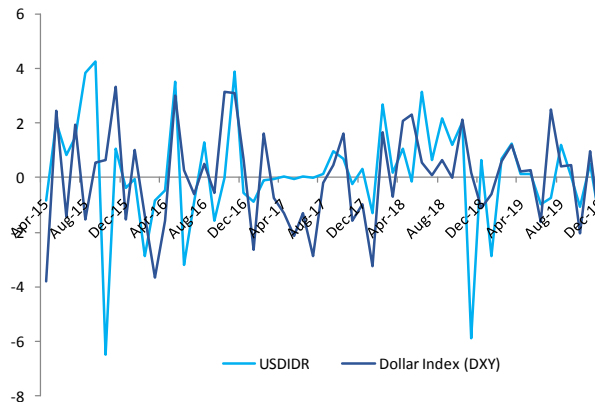
Source: Bloomberg, Shinhan Sekuritas Indonesia

USD IDR fluctuate at IDR14,000/USD



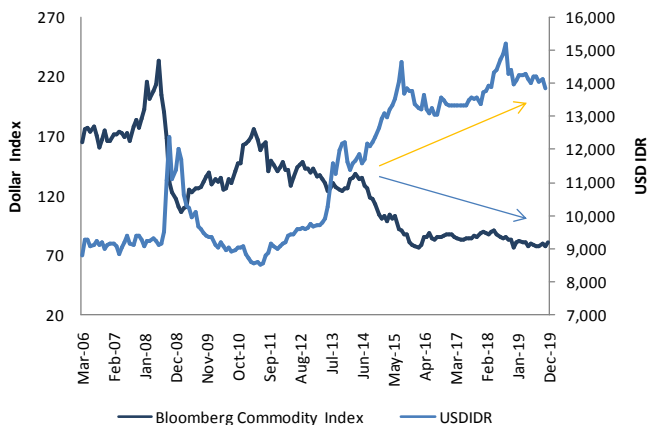
Source: Bloomberg, Shinhan Sekuritas Indonesia

USD IDR and Dollar Index (mom%), Weakening of US Dollar help to easy rupiah



Source: Bloomberg, Shinhan Sekuritas Indonesia

The commodity price contributes to the rupiah movement- Stable outlook for rupiah ahead



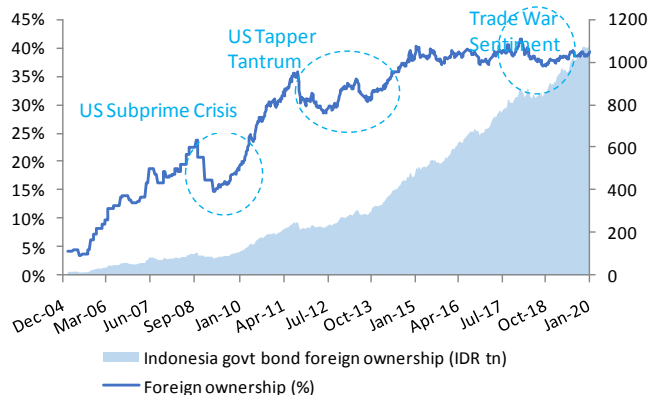
Source: Bloomberg, Shinhan Sekuritas Indonesia

Rupiah and Yield Spread (5yr Indonesia-US)



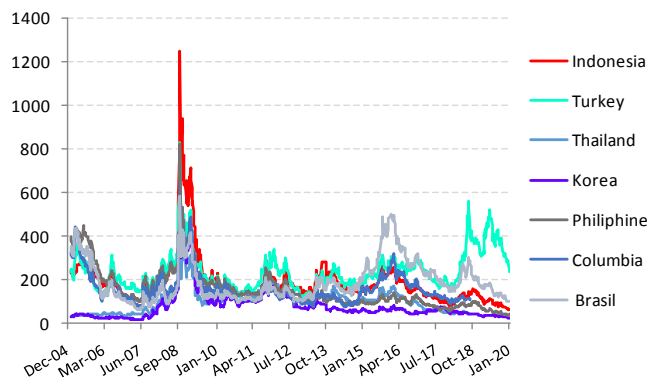
Source: Bloomberg, Shinhan Sekuritas Indonesia

Resilience foreign ownership in Indonesia Gov. Bond



Source: Bloomberg, Shinhan Sekuritas Indonesia

5Yr CDS remains below the 2008 and 2013



Source: Bloomberg, Shinhan Sekuritas Indonesia

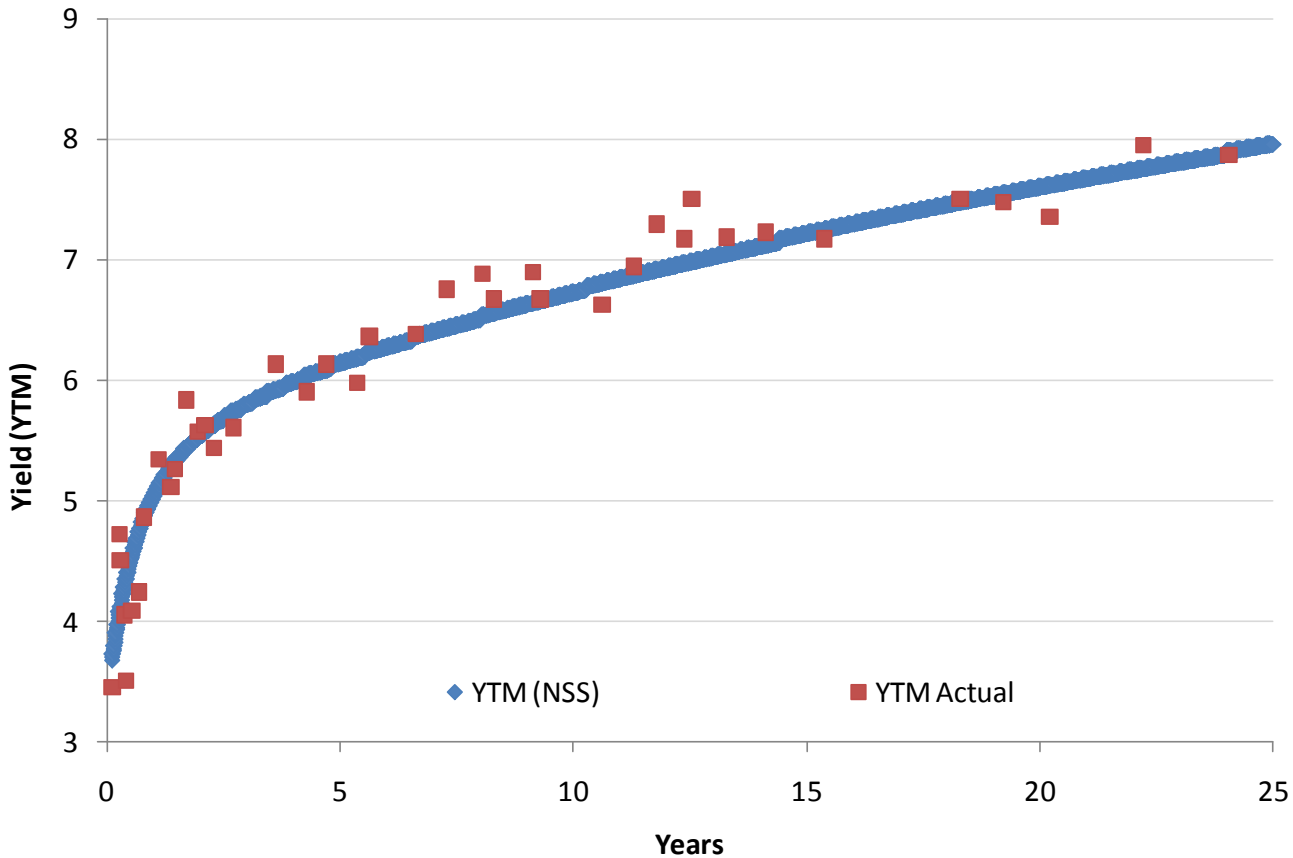
Bond Valuation (Nelson-Siegel-Svensson Model)

Series	Tenor	Coupon	Last Price	Fair Price	Bps (+/-)	YTM	Yield Curve (NS)	Spread to YC (bps)	Trading Idea
SPNS07022020	0.02	10.3%	99.957	102.30	-2.34	3.90%	3.43%	0.5	Neutral
SPN03200206	0.02	10.3%	99.968	100.05	-0.08	3.90%	3.43%	0.5	Neutral
SPN12200313	0.12	10.3%	94.539	102.79	-8.25	3.45%	3.71%	-0.3	Neutral
SPN12200508	0.27	10.3%	98.913	103.51	-4.60	4.72%	4.07%	0.7	Under value
SPNS15052020	0.29	10.3%	98.722	102.88	-4.16	4.50%	5.30%	-0.8	Over value
SPN12200619	0.38	10.3%	98.47	104.08	-5.61	4.05%	4.28%	-0.2	Neutral
SPN12200703	0.42	10.3%	98.536	104.26	-5.72	3.50%	4.33%	-0.8	Over value
SPN12200814	0.54	10.3%	97.845	104.68	-6.84	4.08%	4.62%	-0.5	Over value
SPN12201009	0.69	10.3%	97.148	105.33	-8.18	4.24%	4.81%	-0.6	Over value
SR010	1.11	10.3%	100.6	106.96	-6.36	5.34%	5.11%	0.2	Neutral
FR0053	1.45	8.3%	104.11	104.97	-0.86	5.26%	5.28%	0.0	Neutral
PBS002	1.96	12.0%	99.78	113.44	-13.66	5.57%	5.55%	0.0	Neutral
SR011	2.11	10.3%	104.8	110.44	-5.64	5.62%	5.57%	0.1	Neutral
FR0061	2.29	7.0%	103.3	103.30	0.00	5.43%	5.59%	-0.2	Neutral
ORI016	2.71	12.0%	102.9	116.82	-13.92	5.60%	5.79%	-0.2	Neutral
PBS019	3.62	10.3%	106.48	115.24	-8.76	6.13%	5.86%	0.3	Neutral
FR0077	4.29	12.0%	108.3	123.33	-15.03	5.90%	6.03%	-0.1	Neutral
PBS026	4.71	10.3%	102	118.04	-16.04	6.13%	6.03%	0.1	Neutral
FR0081	5.38	12.0%	97.052	127.14	-30.09	5.97%	6.18%	-0.2	Neutral
FR0056	6.63	8.4%	110.626	111.20	-0.57	6.38%	6.35%	0.0	Neutral
FR0059	7.29	7.0%	101.4	102.99	-1.59	6.75%	6.48%	0.3	Neutral
FR0064	8.29	11.5%	96.55	132.04	-35.49	6.67%	6.50%	0.2	Neutral
FR0071	9.13	12.0%	114.1	136.65	-22.55	6.89%	6.63%	0.3	Neutral
FR0078	9.29	12.0%	110.786	136.27	-25.48	6.67%	6.63%	0.0	Neutral
FR0082	10.63	12.0%	102.85	138.53	-35.68	6.62%	6.78%	-0.2	Neutral

Source: Shinhan Sekuritas Indonesia

Series	Tenor	Coupon	Last Price	Fair Price	Bps (+/-)	YTM	Yield Curve (NS)	Spread to YC (bps)	Trading Idea
FR0073	11.29	12.0%	114	139.01	-25.01	6.94%	6.90%	0.0	Neutral
PBS012	11.80	10.3%	112.35	126.77	-14.42	7.29%	6.90%	0.4	Neutral
FR0058	12.38	8.3%	108.75	110.20	-1.45	7.17%	7.03%	0.1	Neutral
FR0074	12.55	9.0%	100	115.98	-15.98	7.50%	7.03%	0.5	Neutral
FR0065	13.30	6.6%	95.25	96.32	-1.07	7.18%	7.03%	0.2	Neutral
FR0068	14.13	8.4%	110.1	110.86	-0.76	7.22%	7.15%	0.1	Neutral
FR0080	15.38	9.0%	103	115.33	-12.33	7.17%	7.30%	-0.1	Neutral
FR0075	18.30	9.0%	100	115.36	-15.36	7.50%	7.43%	0.1	Neutral
FR0079	19.22	9.0%	109.15	114.40	-5.25	7.47%	7.55%	-0.1	Neutral
FR0083	20.22	9.0%	101.5	113.28	-11.78	7.35%	7.68%	-0.3	Neutral
FR0062	22.22	6.4%	83.75	85.40	-1.65	7.94%	7.80%	0.1	Neutral
FR0067	24.06	8.8%	109.55	108.98	0.57	7.86%	7.95%	-0.1	Neutral
FR0076	28.31	9.0%	98.5	108.63	-10.13	7.50%	8.20%	-0.7	Over value

SSI's Fair Yield Curve Vs Actual



Source: Shinhan Sekuritas Indonesia Model



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