

Indonesia Bond

Bond note

July 16, 2019

Expecting mildly bullish on the bond

Bond yield moved lower. The combination of external and internal factors has triggered the rally in the Indonesia bond price this month. The bolt statement from President Jokowi in his political speech has mentioned his vision to continue the structural reform in bureaucratization, labor market, tax, and infrastructure. This has built confidence in rupiah that has appreciated against the USD. The appetite in the bond market has improved as reflected in the 5yr yield that moved lower by 38bps to 6.49% from the early of this month while the 10yr yield slid by 24bps to 7.12% and 15yr bond slashed down by 27bps to 7.67%. The higher bond price trend is likely on the back of the global monetary policy outlook and benign domestic inflation.

Less hawkish monetary policy tone. The global monetary policy as seen in the US and Europe were less hawkish as the central bank has revised its previous statement toward the outlook of the global economy that would be lower than expected. The US GDP is estimated at 3.1% lower than the previous estimation at 3.2% this year while the growth in Eurozone was also revised down for next year growth to 1.4% from 1.5% while maintaining the same estimation this year at 1.2%. From Asian, China has also slashed down its GDP growth by 0.5% to 6% due to the lower trade volume growth ahead. The risk of overheating that could trigger the steepness of the yield curve is fading out which would translate into the less capital outflow from the emerging market. This could be a positive support for the domestic bond market ahead.

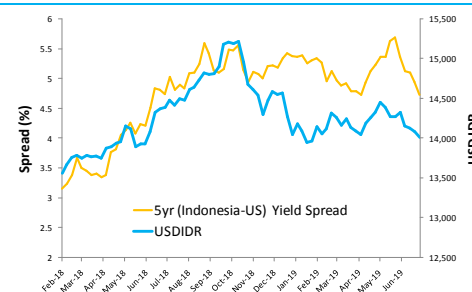
The Inflation and 7D Repo rate outlook. The Indonesia Central Bank has also adjusted the 7D reverse repo rate for five times to 5.50% and the more interest rate hike is still possible depends on the volatility ahead. We estimate the inflation would be hovered at around 3.5%. This could create the space for the real yield to stay at the attractive level across the maturity compared to the regional. The 7DRRepo rate is estimated to maintain at 6% and the probability of the lower rate would depend on the FFR trajectory. However, the dovish monetary outlook has reflected in the Bank Indonesia policy that has cut the minimum reserve requirement by 50bps to 6%.

Benign risk, easier rupiah volatility, and bond value. The CDS was at 86 bps or slightly lower than the average at 114bps or paring the emerging market movement. Compared to 2008 at 1,248bps and 281.7bps in 2013, the current CDS is remained lower or points to the better milieu. The normalize CDS would support the rupiah and the bond market. By assuming the CDS fluctuate at 82bps to 90bps, the FFR at 2.25% and inflation steady at 3.5%, we estimate the benchmark series such FR78 would be at 7% to 7.5% as the fair yield. This suggests that the bond price has reached its fair price and the improvement would depend on the domestic inflation that we think would be at below 4% or 3.5%.

	7/16/2019	7/15/2019
USD/IDR	13915	14007
EUR/USD	1.1276	1.127
USD/JPY	107.94	107.91
USD/SGD	1.3562	1.357

Government Bond Ownership (in trillion)		
Investor	7/13/2019	7/12/2019
BI	113.59	109.78
Bank	634.38	631.29
Foreign	1,000.36	1,000.23
Others	802.94	801.97
Total	2,551.27	2,543.27

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



Source: Bloomberg, Shinhan Sekuritas Indonesia

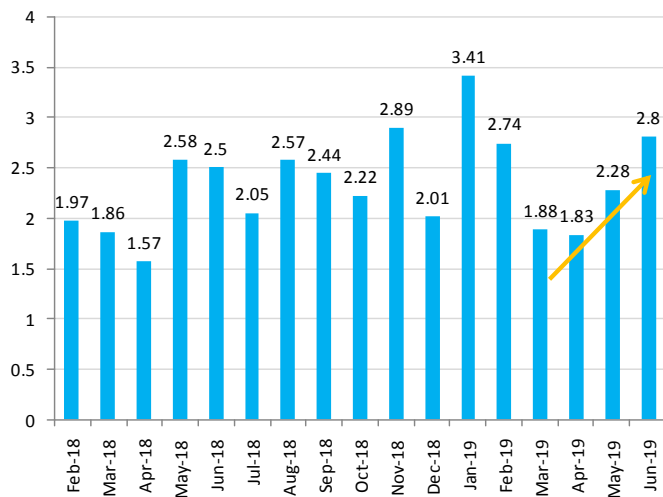
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Less pressure in the supply side. The government aims to raise IDR825.7tn this year while until July this year, the total issuance was about IDR558.1tn or 67.6% of the target. This signaled the less pressure in the second semester this year due to lower supply needed. The demand for the bond auction has gradually improved on the back of the expectation of the dovish monetary policy amid the slower economic activity due to the prolonged trade war uncertainty. The total incoming bid to cover ratio was 2.8x in July or higher than 2.12 in April. The foreign ownership in Bond was at 39% or IDR1000tn, up 12%ytd. 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.

Gov. Bond Primary market performance

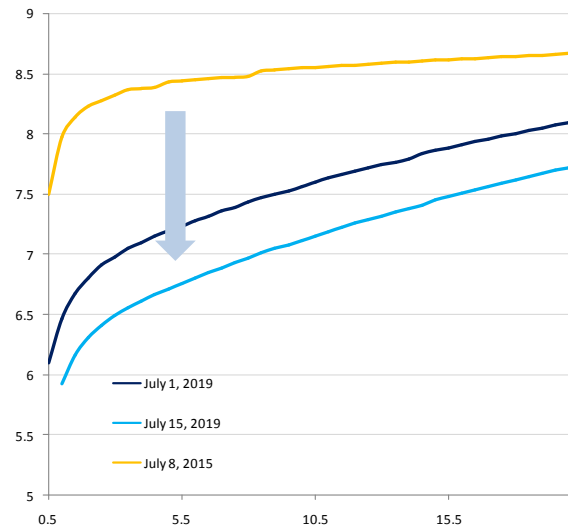
Gov. Bond Auction Bid to Cover Ratio (x)-

Average incoming bid in 2019 : IDR52.87 tn/auction while average awarded bid in 2019 = IDR22.06 tn/auction



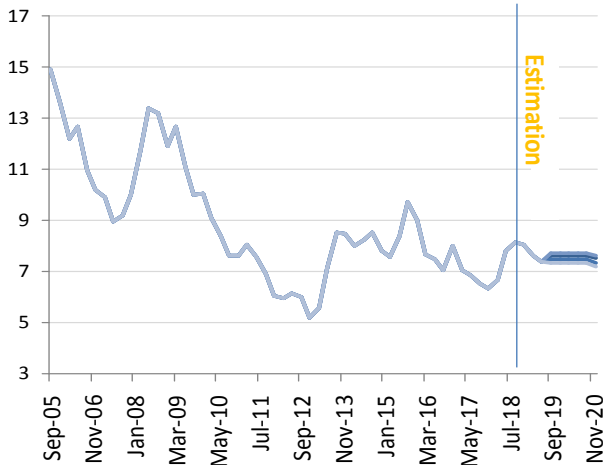
Source: MOF, Shinhan Sekuritas Indonesia

Indonesia Yield Curve



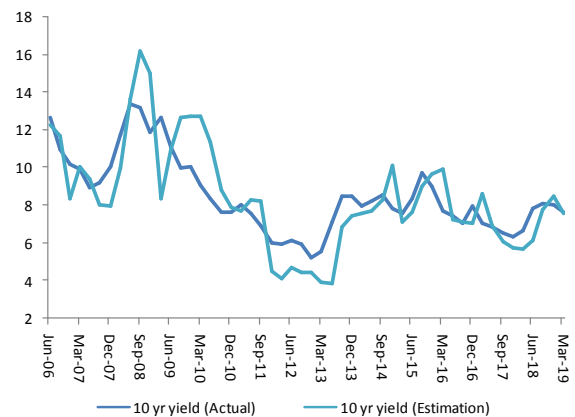
Source: Shinhan Sekuritas Indonesia Yield curve

10 Yr Yield Estimation



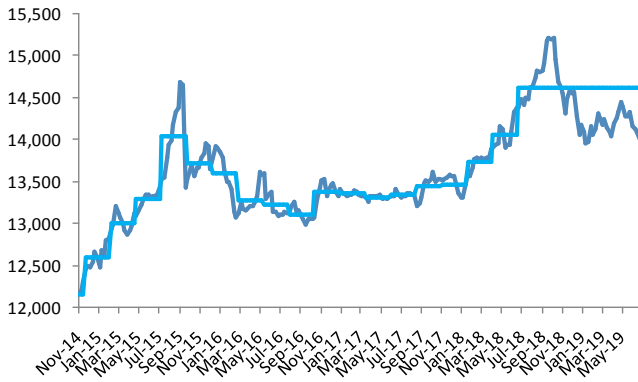
Source: Shinhan Sekuritas Indonesia Estimates

10 Yr yield actual VS estimation – Cointegrated model



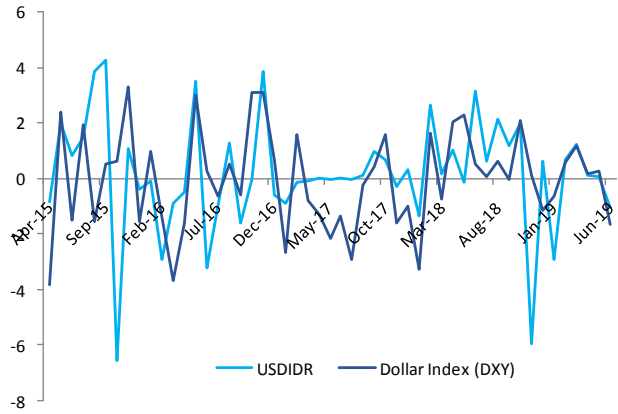
Source: Bloomberg, Shinhan Sekuritas Indonesia

USD IDR strengthening



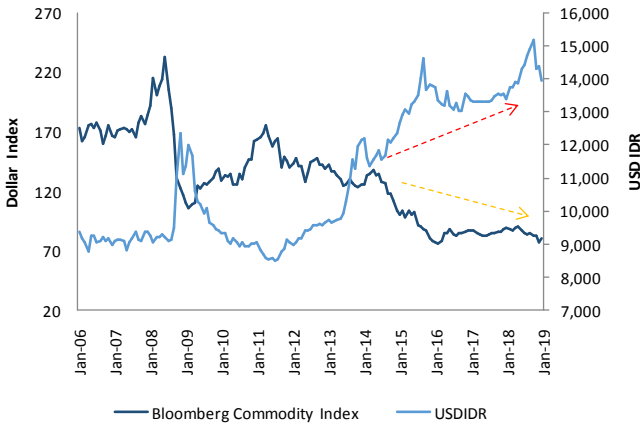
Source: Bloomberg, Shinhan Sekuritas Indonesia

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



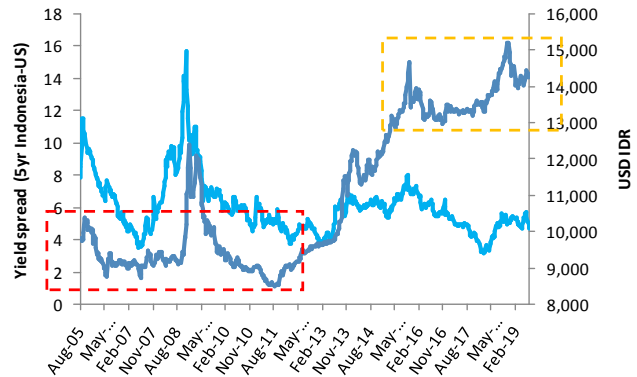
Source: Bloomberg, Shinhan Sekuritas Indonesia

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



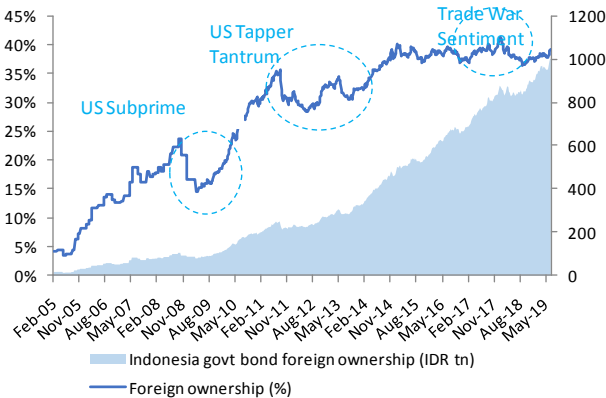
Source: Bloomberg, Shinhan Sekuritas Indonesia

Rupiah and Yield Spread (5yr Indonesia-US)



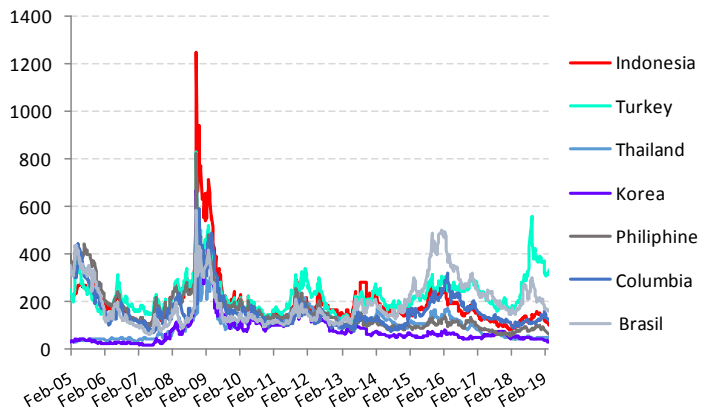
Source: Bloomberg, Shinhan Sekuritas Indonesia

Foreign ownership in Indonesia Gov. Bond, improves



Source: Bloomberg, Shinhan Sekuritas Indonesia

5Yr CDS remains below the 2008 and 2013



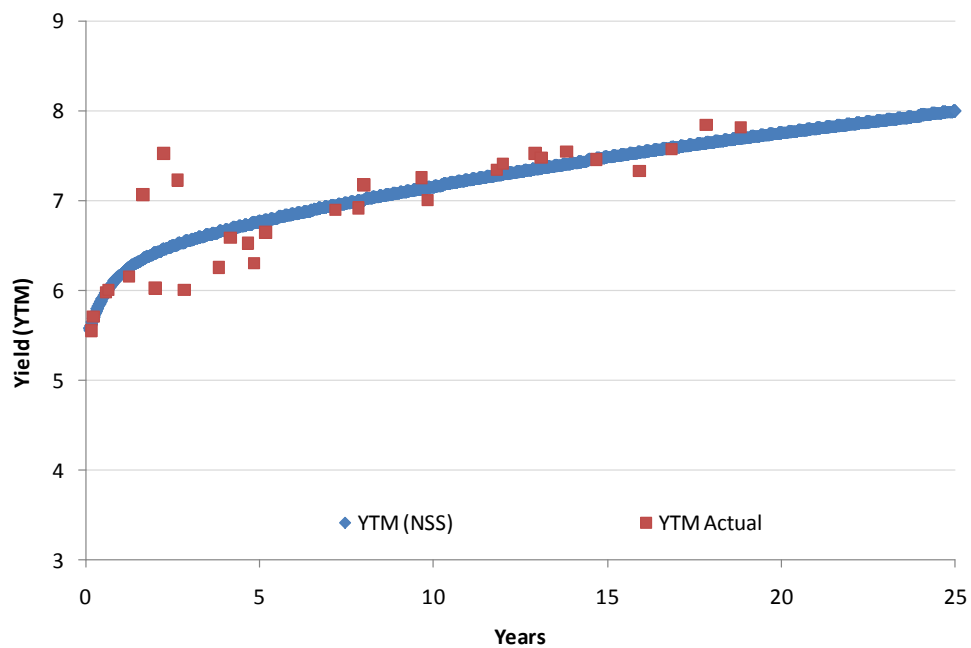
Source: Bloomberg, Shinhan Sekuritas Indonesia

Bond Valuation (Nelson-Siegel-Svensson Model)

Series	Tenor	Coupon	Last Price	Fair Price	Bps (+/-)	YTM	Yield Curve (NS)	Spread to YC (bps)	Trading Idea
PBS016	0.67	10.3%	95.494	102.40	-6.91	6.00%	6.33%	-0.3	Neutral
ORI014	1.25	12.0%	99.64	106.65	-7.01	6.15%	6.23%	-0.1	Neutral
SR010	1.65	10.3%	98.2	105.88	-7.68	7.06%	6.38%	0.7	Under value
ORI015	2.25	12.0%	101.5	111.22	-9.72	7.52%	6.44%	1.1	Under value
SR011	2.65	10.3%	102	108.78	-6.78	7.22%	6.55%	0.7	Under value
FR0063	3.83	5.6%	97.9	96.43	1.47	6.25%	6.68%	-0.4	Neutral
FR0070	4.67	12.0%	107.35	120.59	-13.24	6.52%	6.69%	-0.2	Neutral
FR0077	4.84	12.0%	107.5	120.79	-13.29	6.30%	6.79%	-0.5	Over value
FR0071	9.67	12.0%	112	132.77	-20.77	7.25%	7.17%	0.1	Neutral
FR0078	9.84	12.0%	108.75	133.19	-24.44	7.00%	7.17%	-0.2	Neutral
FR0073	11.84	12.0%	111	136.63	-25.63	7.34%	7.27%	0.1	Neutral
FR0074	13.09	12.0%	100.25	138.11	-37.86	7.47%	7.36%	0.1	Neutral
FR0065	13.84	11.5%	92.25	134.28	-42.03	7.54%	7.44%	0.1	Neutral
FR0068	14.67	12.0%	108.15	139.68	-31.53	7.45%	7.45%	0.0	Neutral
FR0072	16.84	12.0%	106.35	140.59	-34.24	7.57%	7.63%	-0.1	Neutral

Source: Shinhan Sekuritas Indonesia

SSI's Fair Yield Curve Vs Actual



Source: Shinhan Sekuritas Indonesia



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