

Yield Forecast

SPN (3-mo,1-yr), FR69, FR70, FR71, FR67 Auctions



Bond	4-Mar-14*	18-Feb-14	5-Feb-14
SPN03140605 - new	6.00-6.20	-	-
SPN12150305 - new	6.40-6.60	-	-
FR0069 (15/04/19)	7.75-7.85	7.82	7.99
FR0070 (15/03/24)	8.15-8.25	8.43	9.02
FR0071 (15/05/29)	8.70-8.80	9.01	9.56
FR0067 (15/02/44)	9.15-9.25	9.34	9.77

Source: Bloomberg, *Danamon Estimates

Sentiments stay positive but remain cautious

Dian Ayu Yustina
Economist / Bond Analyst
dian.yustina@danamon.co.id

- The government today will auction the 3-mo,1-yr t-bill, 5-yr, 10-yr, 15-yr and 20-yr bonds with indicative target of Rp10tn. At the last auction, the government absorbed higher than initial target (Rp 10tn) at Rp 12.25tn out of relatively high bids of Rp23.3tn. As per today the government has absorbed around Rp132 tn or around 36.9% of the total gross issuance at Rp357.9tn this year. This includes the issuance of Retail SUKUK by around Rp19.3tn, above the initial target of around Rp15tn, due to high demand.
- Bond market rally continued on the back of improved sentiments on the economic data and the strengthening rupiah. The inflation rate in February rose mildly by 0.26%mom(7.75%yoy), below market expectation. Impact of floods and bad weather were much less than expected. The trade balance slides back to a small deficit (USD -0.43bn), but this does not bring large impact on the market as the overall trend is improving. Comments from the authorities also helped sentiments. The central bank expected the CA deficit to continue to improve in 1Q to below 2% of GDP (better than the last quarter).
- The rupiah continue to strengthen reaching Rp11,596/USD (Mar 3), its strongest level since the beginning of the year. On the bonds market, yield curve seen bear flattening with the mid to long end generally lower compared to the last conventional auction (Feb 18). The 10-yr benchmark yield was recently at 8.16%, dropping by 25bps since the last conventional bond auction.
- Persistent buying was seen in the past few days. Foreign ownership in bonds rose significantly by Rp15.6tn (as of Feb 27), compared to end of Jan. Foreign investors currently owns Rp344.2tn of bonds (or about 33.3% of total bonds ownership).
- Despite the positive perception, in the few months ahead we still need to be cautious on the economic data, particularly on the development of the trade deficit and also some external volatility that may have impact on the rupiah.
- For today's auction, we think demand will still be high and the government may absorb above its initial target, as yields have declined. The government will continue its front loading strategy as they currently also planning to issue domestic USD bonds in the first quarter.

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013	2014E	2015E
National Accounts						
Real GDP (% y-o-y)	6.2	6.5	6.3	5.8	5.7	6.2
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.1	5.1	5.5	5.7
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.3	5.2	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.7	4.7	4.0	6.8
GDP (US\$bn) — nominal	710	845	879	871	925	1,086
GDP per capita (US\$) — nominal	2,986	3,509	3,596	3,490	3,640	4,215
Open Unemployment Rate (%)	7.1	6.6	6.1	6.3	6.1	6.1
External Sector						
Exports, fob (% y-o-y, US\$ bn)	32.1	27.0	-6.1	-2.6	4.2	6.0
Imports, fob (% y-o-y, US\$ bn)	43.7	30.3	8.4	-1.4	3.5	4.2
Trade balance (US\$ bn)	30.6	34.8	8.6	6.1	3.3	6.8
Current account (% of GDP)	0.7	0.2	-2.7	-3.3	-2.9	-2.4
Central government debt (% of GDP)	26.1	24.6	23.1	22.0	21.2	22.2
International Reserves –IRFCL (US\$ bn)	96.2	110.1	112.8	99.4	100.0	103.5
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6	5.8
Currency/US\$ (Year-end)	8,991	9,068	9,670	12,189	11,058	10,754
Currency/US\$ (Average)	9,085	8,779	9,380	10,428	11,605	10,770
Other						
BI policy rate (% year end)	6.50	6.00	5.75	7.50	7.75	8.00
Consumer prices (% year end)	6.96	3.79	4.30	8.38	4.94	4.61
Fiscal balance (% of GDP; FY)	-0.73	-1.14	-1.77	-2.24	-1.80	-2.00
S&P's Rating – FCY	BB	BB+	BB+	BB+	BB+	BB+

Source: CEIC, Danamon Estimates

Economic and Market Research

Anton H. Gunawan anton.gunawan@danamon.co.id	Chief Economist	+62 21 5799-1466
Dian Ayu Yustina dian.yustina@danamon.co.id	Economist / Bond Analyst	+62 21 5799-1563
Anton Hendranata anton.hendranata@danamon.co.id	Economist / Econometrician	+62 21 5799-1563

PT Bank Danamon Indonesia, Tbk.
Menara Bank Danamon
Jalan Prof. Dr. Satrio Kav. E IV #6
Mega Kuningan, Jakarta 12950
INDONESIA

Facs: +62 21 5799-1048

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