

Yield Forecast

SPN (3-mo,1-yr), FR70, FR71, FR68 Auctions



Bond	5-Feb-14*	21-Jan-14	7-Jan-14
SPN03140506 – new	6.55-6.65	-	-
SPN12150206 - new	7.0-7.10	-	-
FR0070 (15/03/24)	9.05-9.15	8.45	8.89
FR0071 (15/03/29)	9.50-9.60	9.02	9.39
FR0068 (15/03/34)	9.60-9.70	8.85	9.40

Source: Bloomberg, *Danamon Estimates

Positive domestic data but global sentiments remained

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- The government continued to front load issuance by auctioning the 3-mo,1-yr t-bill, 10-yr, 15-yr and 20-yr bonds today with indicative target of Rp10tn. At the last auction, the government maximized issuance by absorbing Rp15tn of conventional bonds and Rp1.6tn of domestic SUKUK. Therefore so far, the government already issued Rp77tn or around 22% of gross issuance target.
- Recent economic data was still in the positive tone. Inflation was higher in January (1.07%mom/8.22%yoy), affected by the weather anomaly (heavy rains, floods), and the LPG price hike. A more upbeat tone was seen in the trade data that showed a significant rise in surplus of USD1.5bn due mostly to a sharp rise on exports. But we still have to be cautious on the number as some front-running of raw mineral exports (before the partial ban of raw mineral exports regulation applied in Jan) may have distorted the exports performance. Nevertheless, the positive December trade data could bring optimism on the improving CA deficit number (Q4) that is due to come out next week.
- The statistics office also released the medium and large manufacturing data that showed a favorable improvement in 2013, growing from 4.12%yoy in 2012 to 5.64%yoy in 2013. The manufacturing industry is also supported by large inflows of FDI in 2013. The strong manufacturing activities should support the economy in 2013, amid the unfavorable situation on the external balance. The statistics office will release the GDP number today. Some slowdown may be seen in Q4, but for the overall year we expect the GDP in 2013 will reach 5.7%yoy.
- As the economic data remained positive, we expect BI to hold the benchmark policy rate at 7.5% at its next meeting. Fundamentally, the economy is still on track but the exchange rate remained at a weak level of Rp12000-12300/USD as the global environment remained volatile. Sentiments grew over the slowing manufacturing data in the US and China drove outflows from the equities.
- The positive economic data failed to boost bonds performance, as the bond yield (10-yr benchmark) were still hovering around 8.7-9.1%. Prices managed to rise slightly but quickly used as an opportunity to sell by some investors. But there was little change in the foreign investor ownership. As per Jan28, the position was at Rp328.9tn, slightly decline from its highest position at Jan24 (Rp330.4 tn).
- For today's auction, we think the government would still want to maximize the absorption, as demand should be high considering yields have reached an attractive level.

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013E	2014E	2015E
National Accounts						
Real GDP (% y-o-y)	6.2	6.5	6.2	5.7	5.7	6.2
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.2	5.0	5.5	5.7
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.2	5.2	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.8	4.7	4.0	6.8
GDP (US\$bn) — nominal	710	845	879	893	925	1,086
GDP per capita (US\$) — nominal	2,986	3,509	3,596	3,563	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	-4.6	4.2	6.0
Imports, fob (% y-o-y, US\$ bn)	43.7	30.3	8.4	-1.1	3.5	4.2
Trade balance (US\$ bn)	30.6	34.8	8.6	2.0	3.3	6.8
Current account (% of GDP)	0.7	0.2	-2.7	-3.5	-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)						
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6	6.0
Currency/US\$ (Year-end)	8,991	9,068	9,670	12,186	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

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