

JULY 2019

Timing the Next Move

Fluctuation of the trade war

The trade war between the US and China escalated during the second quarter. Due to sluggish trade negotiations, Trump made the decision to challenge China through his Twitter account on 6 May 2019. Then on 10 May 2019, the US Government officially increased tariffs on US\$200 billion of imports of Chinese goods from 10% to 25%. 3 days later, the Chinese Government retaliated by raising the tariffs on the imports of US\$ 60 billion of goods. At the G20 Summit held in late June in Japan, Trump and Xi Jinping finally met and the two leaders agreed that negotiations between the two sides should continue.

Fluktuasi perang dagang

Eskalasi perang dagang antara AS dan China meningkat selama kuartal II. Hal tersebut bermula dari ancaman Trump terhadap China yang disampaikan melalui akun *Twitter*-nya pada 6 Mei 2019 karena dia merasa negosiasi berjalan dengan lambat. Lalu pada 10 Mei 2019, Pemerintah AS secara resmi meningkatkan tarif untuk \$200 miliar barang impor China dari 10% menjadi 25%. Selang 3 hari kemudian, Pemerintah China membalas dengan menaikkan tarif impor untuk barang AS senilai \$60 miliar. Pada G20 summit yang diadakan akhir Juni lalu di Jepang, pada akhirnya Trump dan Xi Jinping bertemu dan sepakat untuk melanjutkan negosiasi perang dagang antara kedua belah pihak.

The trade tensions have led to greater global economic uncertainty, such that demand for safe-haven instruments (US treasuries) has increased. This is evident from the significant downward trend in US treasury yields. As of the end of June 2019, the 10-year US treasury yield was 2.00%, or down 69bps compared to its level at the end of last year. In addition, the difference between the 10-year US treasury and the Fed Rate dropped from 19bps to negative 50bps. Based on historical data, a negative spread between the two interest rates is an early indicator of an incoming recession.

Meningkatnya tensi perang dagang beberapa waktu terakhir mendorong ketidakpastian perekonomian global sehingga permintaan untuk *instrumen safe haven*, yaitu *US treasury* meningkat. Hal tersebut terlihat dari tren penurunan *yield US treasury* yang cukup signifikan. Per akhir Juni 2019, *yield US treasury* 10-tahun tercatat sebesar 2,00%, atau telah mengalami penurunan sebesar 69bps jika dibandingkan dengan posisinya di akhir tahun lalu. Selain itu, selisih antara *US treasury* 10-tahun dan *Fed Rate* turun dari 19bps menjadi negatif 50bps. Berdasarkan data historis, negatif *spread* antara kedua suku bunga tersebut merupakan indikator awal akan terjadinya resesi.

Indonesia FCLT Rating

S&P	BBB-
Moody's	Baa2
Fitch	BBB

Key Market Indicators as of 09-Jul-19

BI Rate	6.00%
JCI	6.352
IDR	14,130
Inflation (yoy)- Jun-19	2.05%

Domestic Bonds Outstanding

Gov't Bonds as of 08-Jul-19	IDR	2,547.6 bn
Corp Bonds as of 30-Jun-19	IDR	436.4 bn

Trading Volume in Jun 2019

Government Bonds	IDR	136.6 tn
Corporate Bonds	IDR	6.2 tn

Benchmark Yields as of 09-Jul-19

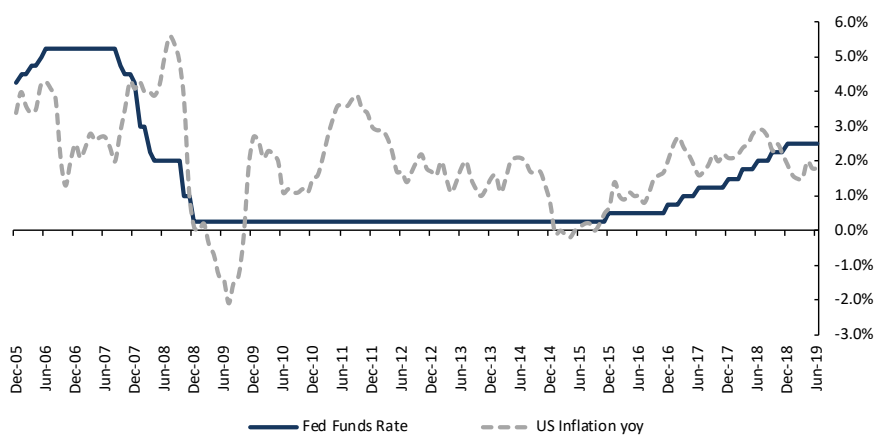
FR0077	(5 year)	6.74%
FR0078	(10 year)	7.24%
FR0068	(15 year)	7.59%
FR0079	(20 year)	7.76%

Source: Bloomberg

Analyst

Laras Nerpatari Suilyas
 (62 21) 2955 5777 ext 3403
 laras.nerpatari@danareksa.com

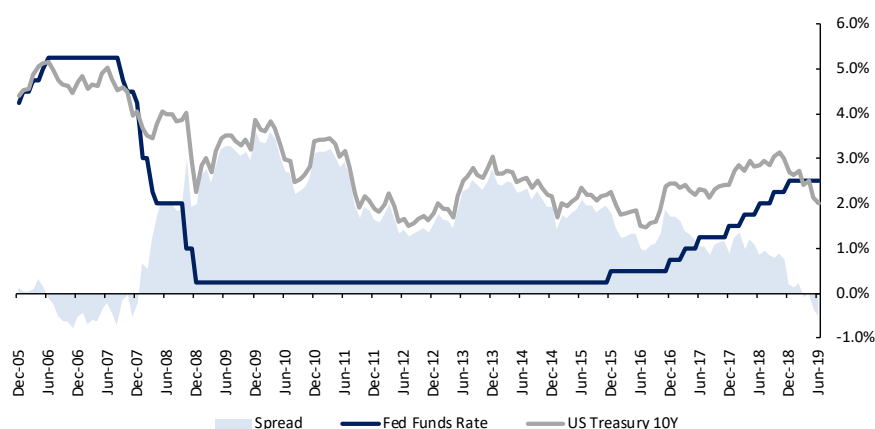
Exhibit 1. FFR vs US inflation



Source: Bloomberg

Please read important disclosure at the back of this report.

Exhibit 2: FFR vs US Treasury 10Y



Source: Bloomberg, US Treasury

More dovish tone from the Fed

In the second quarter of 2019, the Federal Reserve (Fed) held 2 FOMC meetings on 30 April and 18 June. Although the Fed chose to keep interest rates in the range of 2.25% - 2.50%, it also signalled that cuts in interest rates in the future were more likely. At the press release of the FOMC meeting on 30 April, the Fed pointed toward continued expansion of the economy, a strong labour market and benign inflation which is in-line with the target of 2%. At the FOMC meeting on 18 June, however, the Fed said that the outlook was more uncertain, such that the “patient” tone highlighted at the FOMC meeting on 30 April was missing. In turn, this raised market expectations that the Fed would cut interest rates at the FOMC meeting at the end of July as reflected in the Bloomberg calculation for the Fed Rate implied probability (ticker: WIRP) as of 1 July 2019, showing that the chance of a cut in the Fed rate in July was 100%.

Of particular interest is the direction of Fed policy as reflected in the historical Fed Funds Rate (FFR) data for the past 18 years. The data shows that the Fed has never made adjustments to FFR interest rates (either raising or reducing them) in July in the past 18 years. Rather, the Fed made more adjustments to interest rates in December (50.00%), June (36.84%), March (31.58%), and September (27.78%)

Sikap yang lebih dovish dari outlook Fed

Selama kuartal II tahun 2019, *Federal reserve (Fed)* telah menggelar 2 kali FOMC *meeting* pada 30 April dan 18 Juni. Meski kedua pertemuan tersebut menghasilkan keputusan *the Fed* untuk menahan tingkat suku bunga di *range* 2,25% - 2,50%, namun sinyal penurunan tingkat suku bunga di beberapa waktu ke depan semakin kuat. Pada *press release* FOMC *meeting* 30 April tersebut, *Fed* melihat bahwa ekspansi aktivitas ekonomi masih berlanjut, pasar tenaga kerja yang kuat serta tingkat inflasi yang masih sesuai dengan target yaitu 2%. Namun pada FOMC *meeting* 18 Juni, *Fed* berpendapat bahwa ketidakpastian akan *outlook* tersebut mengalami peningkatan, sehingga nada “sabar” yang ditonjolkan oleh *Fed* pada FOMC *meeting* 30 April tidak lagi diperlihatkan. Pernyataan tersebut meningkatkan ekspektasi pasar bahwa *Fed* akan memangkas tingkat suku bunga pada FOMC *meeting* di akhir Juli mendatang. Hal ini juga terlihat dari perhitungan *Bloomberg* untuk *Fed Rate implied probability* (ticker: WIRP) per tanggal 1 Juli 2019 memperlihatkan bahwa peluang penurunan *Fed rate* di bulan Juli telah mencapai 100%.

Hal menarik terkait arah kebijakan *Fed* adalah data historis *Fed Funds Rate* (FFR) selama 18 tahun terakhir. Data tersebut memperlihatkan bahwa *Fed* tidak pernah melakukan penyesuaian tingkat suku bunga FFR (baik meningkatkan ataupun memangkas) pada bulan Juli selama 18 tahun tersebut. *Fed* lebih banyak melakukan *adjustment* terhadap suku bunga di bulan Desember (50,00%), Juni (36,84%), Maret (31,58%), dan September (27,78%).

Exhibit 3: Bloomberg US Interest Rate Probability

Meeting	Hike Prob	Cut Prob	1-1.25	1.25 - 1.5	1.5 - 1.75	1.75 - 2	2 - 2.25	Fwd Rate
01-May-19	0.0%	2.6%	0.0%	0.0%	0.0%	2.6%	97.4%	2.40
19-Jun-19	0.0%	12.6%	0.0%	0.0%	0.3%	12.4%	87.4%	2.38
31-Jul-19	0.0%	15.8%	0.0%	0.0%	0.7%	15.1%	84.2%	2.37
18-Sep-19	0.0%	31.7%	0.0%	0.1%	3.4%	28.1%	68.3%	2.32
30-Oct-19	0.0%	35.2%	0.0%	0.3%	4.7%	30.2%	64.8%	2.31
11-Dec-19	0.0%	49.7%	0.1%	1.3%	10.4%	37.9%	50.3%	2.25
29-Jan-20	0.0%	57.0%	0.3%	2.6%	14.4%	39.7%	43.0%	2.21

Source: Bloomberg

Calculated as of 1 July 2019

Indonesia Economic Update

Exhibit 4. Changes in Fed Funds Rate (bps)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	-100	0	-50	-50	-50	-25	0	-25	-50	-50	-50	-25
2002	0	0	0	0	0	0	0	0	0	0	-50	0
2003	0	0	0	0	0	-25	0	0	0	0	0	0
2004	0	0	0	0	0	25	0	25	25	0	25	25
2005	0	25	25	0	25	25	0	25	25	0	25	25
2006	25	0	25	0	25	25	0	0	0	0	0	0
2007	0	0	0	0	0	0	0	0	-50	-25	0	-25
2008	-125	0	-75	-25	0	0	0	0	0	-100	0	-75
2009	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0	0	0	0	0	25
2016	0	0	0	0	0	0	0	0	0	0	0	25
2017	0	0	25	0	0	25	0	0	0	0	0	25
2018	0	0	25	0	0	25	0	0	25	0	0	25
2019	0	0	0	0	0	0						
Number of Change	3	1	6	2	3	7	0	3	5	3	4	9
Percentage	15.79%	5.26%	31.58%	10.53%	15.79%	36.84%	0.00%	16.67%	27.78%	16.67%	22.22%	50.00%

Source: Bloomberg, processed data

When will Bank Indonesia cut its reference rate?

Some central banks have adopted loose monetary policies related to expectations of a global economic slowdown and more dovish Fed policymaking. On 7 May 2019, Bank Negara Malaysia lowered its benchmark interest rate for the first time in the past 3 years by 25bps to 3%. Meanwhile, in early June, the Reserve Bank of Australia (RBA) also cut interest rates by 25bps to 1.25%, its lowest-ever level. Meanwhile, the Reserve Bank of India (RBI) lowered its benchmark interest rate for the third time this year from 6% to 5.75% and changed its monetary policy stance from "neutral" to "accommodative".

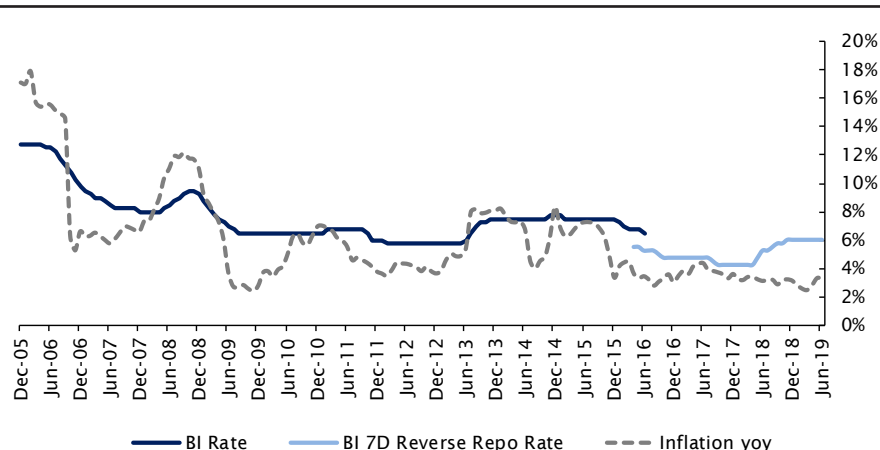
Unlike these countries, however, Bank Indonesia (BI), which held a Board of Governors' Meeting (RDG) on 19-20 June 2019, decided to keep its BI7DRR benchmark rate at 6%. However, BI has signalled that it is considering reducing policy interest rates due to the low inflation rate and in a bid to maintain Indonesia's economic growth. Meanwhile, to increase the availability of banking liquidity, BI reduced the Rupiah Statutory Reserves (GWM) for Conventional Commercial Banks and Islamic Commercial Banks / Sharia Business Units by 50bps to 6% and 4.5% respectively.

Kapan Bank Indonesia akan memangkas suku bunga acuan?

Beberapa Bank Sentral telah menerapkan kebijakan moneter longgar terkait adanya ekspektasi perlambatan ekonomi global serta arah kebijakan *Fed* yang semakin *dovish*. Pada 7 May 2019, Bank Negara Malaysia menurunkan tingkat suku bunga acuannya untuk pertama kali dalam 3 tahun terakhir sebesar 25bps menjadi 3%. Sementara itu, pada awal Juni, *Reserve Bank of Australia* (RBA) juga memangkas tingkat suku bunga 25bps menjadi 1,25%, sekaligus menjadi level terendah sepanjang sejarah. Di sisi lain, *Reserve Bank of India* (RBI) menurunkan tingkat suku bunga acuan untuk ketiga kalinya di tahun ini dari 6% menjadi 5,75% dan mengubah *stance* kebijakan moneter dari "neutral" menjadi "accommodative".

Berbeda dengan ketiga Negara tersebut, Bank Indonesia (BI) yang menggelar Rapat Dewan Gubernur (RDG) pada 19 – 20 Juni 2019 memutuskan untuk mempertahankan tingkat suku bunga acuan BI7DRR *rate* di level 6%. Meski demikian, BI memberikan sinyal bahwa mereka mempertimbangkan untuk menurunkan suku bunga kebijakan terkait dengan rendahnya tingkat inflasi serta untuk menjaga pertumbuhan ekonomi Indonesia. Sedangkan untuk menambah ketersediaan likuiditas perbankan, BI menurunkan Giro Wajib Minimum (GWM) Rupiah untuk Bank Umum Konvensional dan Bank Umum Syariah/Unit Usaha Syariah masing-masing sebesar 50bps menjadi 6% dan 4.5%.

Exhibit 5: BI rate vs inflation rate



Source: Bloomberg

Widening current account deficit

Indonesia’s Balance of Payments (NPI) recorded a surplus of \$2.4 billion during the first quarter of 2019, better than in the same period in 2018 when the deficit was \$3.8 billion. Nevertheless, the Current Account Deficit (CAD) has grown in 2019 compared to 2018. During the first quarter of 2019, the CAD was recorded at \$6.96 billion, or around 2.6% of the Gross Domestic Product (GDP). This figure is higher than the deficit in the first quarter of 2018 of \$5.19 billion (2.01% of GDP). In other words, the improvement in the balance of payments during the first quarter of 2019 reflects an increase in the financial account surplus from \$2.2 billion during 1Q18 to \$10 billion in 1Q19.

In May 2019, the trade balance posted a surplus of \$0.21 billion, or far better than in April when a deficit of \$2.28 billion was recorded. This reflects an increase in exports of 12.4% from \$13.1 billion to \$14.7 billion. Imports, by comparison, dropped from \$15.4 billion to \$14.5 billion, down 5.6%. Thus, in 5M19, Indonesia’s trade balance recorded a deficit of \$2.14 billion or an improvement from the \$2.86 billion deficit recorded in the same period of 2018.

Meanwhile, during the second quarter of 2019, the Rupiah tended to appreciate against the US Dollar. Since the end of December 2018, the Rupiah strengthened 1.83% to IDR14,126 per US Dollar or up 0.82% compared to the end of the first quarter of 2019. On the other hand, the DXY index weakened 1.11% compared to the end of March 2019 to 96 points.

Pelebaran defisit transaksi berjalan

Neraca Pembayaran Indonesia (NPI) mencatatkan surplus sebesar \$2,4 miliar selama kuartal I-2019, lebih baik jika dibandingkan dengan periode yang sama di tahun 2018 yang mencatatkan defisit sebesar \$3,8 miliar. Meski demikian, defisit transaksi berjalan (CAD) mengalami pelebaran dibandingkan dengan tahun 2018. Selama kuartal I-2019, CAD tercatat sebesar \$6,96 miliar, atau sekitar 2,6% dari Produk Domestik Bruto (PDB). Angka tersebut lebih tinggi dibandingkan dengan defisit selama kuartal I-2018 sebesar \$5,19 miliar (2,01% dari PDB). Dengan kata lain, perbaikan NPI selama kuartal I-2019 disebabkan oleh meningkatnya surplus akun transaksi finansial dari \$2,2 miliar selama 1Q18 menjadi \$10 miliar pada 1Q19.

Di sisi lain, neraca perdagangan selama bulan Mei mencatatkan surplus sebesar \$0,21 miliar, jauh lebih baik dibandingkan dengan angka pada bulan April yang mencatatkan defisit sebesar \$2,28 miliar. Hal tersebut disebabkan oleh peningkatan ekspor sebesar 12,4% dari \$13,1 miliar menjadi \$14,7 miliar. Sedangkan impor mengalami penurunan dari \$15,4 miliar menjadi \$14,5 miliar, atau turun 5,6%. Dengan demikian, selama 5M19 neraca dagang Indonesia tercatat defisit sebesar \$2,14 miliar lebih baik dibandingkan dengan periode yang sama tahun 2018 yang mencatatkan defisit sebesar \$2,86 miliar.

Sementara itu, selama kuartal kedua tahun 2019, nilai tukar Rupiah terhadap US Dolar cenderung mengalami apresiasi. Sejak akhir Desember 2018, Rupiah menguat 1,83% menjadi Rp14.126 per US Dolar atau menguat 0,82% dibandingkan dengan akhir kuartal I 2019. Di sisi lain, indeks DXY melemah 1,11% dibandingkan dengan akhir Maret 2019 menjadi 96 poin.

Bond Market Overview

Credit rating upgrade has created an opportunity

At the end of May 2019, international ratings agency Standard and Poor's (S & P) increased Indonesia's credit rating from BBB- (stable outlook) to BBB (stable outlook). The prospect of strong economic growth and prudent fiscal policy are the main reasons why S & P increased its rating to investment grade following Moody's and Fitch. This move will reduce the required yield from investors and raise Indonesia's attractiveness as an investment destination due to lower perceived risks. As such, Indonesia's 5-year credit default swap (CDS), one of the indicators used to measure the level of risk, fell significantly during June. As of the end of June 2019, Indonesia's 5-year CDS was recorded at 90bps, or down by 25bps from its position at the end of May 2019 of 115bps.

Could the Indonesia CDS be lower?

The potential for a decline in Indonesia's CDS due to a higher rating from S & P can be predicted from the difference in the average CDS from the group of countries with a minimum rating of BBB- (without Italy) and BBB (without Indonesia). Based on Bloomberg data as of the end of June 2019, the CDS average for the BBB group was 55bps, or 31bps lower than the CDS average for the BBB- group (86bps). In addition, Indonesia's position as the country that has the highest CDS in the BBB group signals greater potential for a reduction in its CDS. As of the end of June, Indonesia's 5-year CDS was 92bps or 37bps higher than the CDS average for the BBB group.

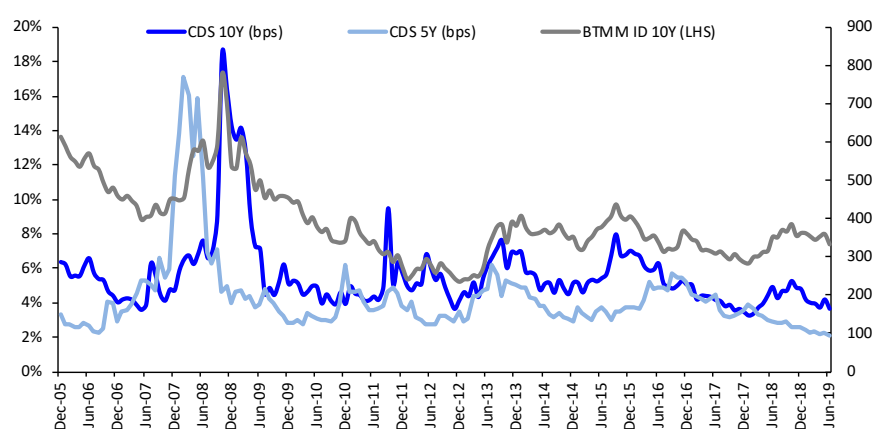
Peningkatan peringkat memberikan sebuah peluang

Pada akhir Mei 2019, lembaga pemeringkat internasional *Standard and Poor's* (S&P) meningkatkan *credit rating* Indonesia dari BBB- (*stable outlook*) menjadi BBB (*stable outlook*). Prospek pertumbuhan ekonomi yang kuat serta kebijakan fiskal yang *prudent* menjadi alasan utama S&P meningkatkan *rating* tersebut sekaligus melengkapi gelar *investment grade* dari ketiga lembaga pemeringkat internasional bersama *Moody's* dan *Fitch*. Hal tersebut akan berdampak pada penurunan *required yield* dari investor seiring dengan membaiknya persepsi tingkat risiko untuk berinvestasi di Indonesia. Oleh karena itu, *credit default swap* 5-tahun (CDS) Indonesia, salah satu indikator yang digunakan untuk mengukur tingkat risiko, mengalami penurunan signifikan selama bulan Juni. Per akhir Juni 2019, CDS 5-tahun Indonesia tercatat sebesar 90bps, atau turun sebesar 25bps dari posisinya di akhir Mei 2019 sebesar 115bps.

Apakah CDS Indonesia dapat lebih rendah?

Potensi penurunan CDS Indonesia terkait peningkatan *rating* dari S&P dapat diprediksi dari selisih rata-rata CDS dari kelompok Negara dengan *rating* minimum BBB- (tanpa Itali) dan BBB (tanpa Indonesia). Berdasarkan data *Bloomberg* per akhir Juni 2019, rata-rata CDS untuk kelompok BBB tersebut sebesar 55bps, atau 31bps lebih rendah dari rata-rata CDS untuk kelompok BBB- sebesar 86bps. Selain itu, posisi Indonesia sebagai Negara yang memiliki CDS paling tinggi di kelompok BBB menawarkan potensi penurunan CDS yang lebih besar. Per akhir Juni, CDS 5-tahun Indonesia sebesar 92bps atau lebih tinggi 37bps dibandingkan rata-rata CDS kelompok BBB.

Exhibit 6: Indonesia CDS vs Government bond yield



Source: Bloomberg

Foreign investors: The end of the wait-and-see stance

The escalation of trade wars and the country’s general elections in April encouraged foreign investors to maintain their holdings in the Indonesian bond market. In the first quarter of 2019 foreign investors increased their holdings by IDR73.87 trillion to IDR967.12 trillion (38.26% of the total outstanding) at the end of March 2019. Then during April and May, foreign holdings declined by IDR17.56 trillion to IDR949.56 trillion as of May. However, in terms of the proportion to the total outstanding, foreign ownership only decreased by 0.37% from 38.26% to 37.88% in the same period.

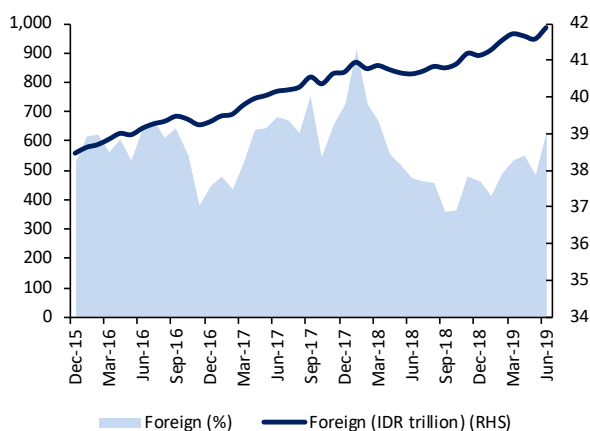
In June 2019, foreign holdings in the Indonesian bond market increased significantly. This reflects the lower political uncertainty following the general elections in the country and the increase in Indonesia’s ranking by S&P. Foreign ownership grew by IDR39.19 trillion during June 2019 to IDR988.75 trillion, or 39.06% of the total outstanding. This is the highest proportion since April 2018. There was net buying by foreign investors of IDR95.50 trillion during the first semester of 2019, or more than in the same period in 2018 when foreign outflows reached IDR5.98 trillion.

Investor Asing: akhir dari sikap *wait and see*

Eskalasi perang dagang hingga pemilihan umum mendorong investor asing untuk menjaga proporsinya di pasar obligasi Indonesia. Investor asing sempat mencatatkan pertumbuhan signifikan selama kuartal I tahun 2019 sebesar Rp73,87 triliun menjadi Rp967,12 triliun (38,26% dari total *outstanding*) di akhir Maret 2019. Sedangkan selama April dan Mei, kepemilikan asing mengalami penurunan secara nominal dari bulan Maret sebesar Rp17,56 triliun menjadi Rp949,56 triliun di bulan Mei. Namun jika dibandingkan berdasarkan proporsi terhadap total *outstanding*, porsi kepemilikan asing hanya turun sebesar 0,37% dari 38,26% menjadi 37,88% selama periode yang sama.

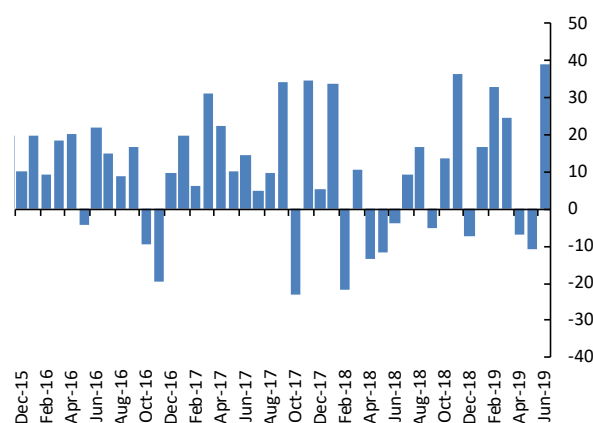
Tren berbeda diperlihatkan oleh investor asing selama bulan Juni 2019, di mana kepemilikan asing di pasar obligasi Indonesia meningkat signifikan. Hal ini dipicu oleh kepastian hasil pemilihan umum di Indonesia serta naiknya peringkat Indonesia oleh S&P. Kepemilikan asing meningkat sebesar Rp39,19 triliun selama Juni 2019 sekaligus menutup akhir kuartal II tahun 2019 di level Rp988,75 triliun, atau 39,06% dari total *outstanding*. Proporsi ini merupakan proporsi tertinggi sejak bulan April 2018. Jika dibandingkan dengan akhir tahun 2018, kepemilikan asing mencatatkan *net buy* sebesar Rp95,50 triliun selama semester pertama 2019, atau lebih tinggi dibandingkan dengan periode yang sama di tahun 2018 yang mencatatkan *foreign outflow* sebesar Rp5,98 triliun.

Exhibit 7: Foreign investor



Source: Ministry of Finance

Exhibit 8: Foreign net buy/sell in Indonesia fixed income market



Source: Ministry of Finance

Government bond issuances: well managed

Government bond issuances in the first semester reached IDR558.10 trillion, or 67.59% of the total requirement for 2019's gross issuances of IDR825.7 trillion. This figure is higher than the target for the first semester (50%-60%). Of the total issuances, IDR118.93 trillion is of foreign currency bonds, or 21.31% of the total gross issuances. By comparison, the gross issuances of Rupiah-denominated bonds consisted of IDR297.41 trillion of conventional bonds (53.29%) and IDR141.76 trillion of Sukuk (25.40%). In addition, retail bonds and retail sukuk have also played an important role in the issuance of bonds in 2019. The issuance of Government retail instruments in 1H19 was recorded at IDR33.14 trillion, or 5.94% of the total gross issuances (the initial target for the full year is IDR60 - IDR80 trillion).

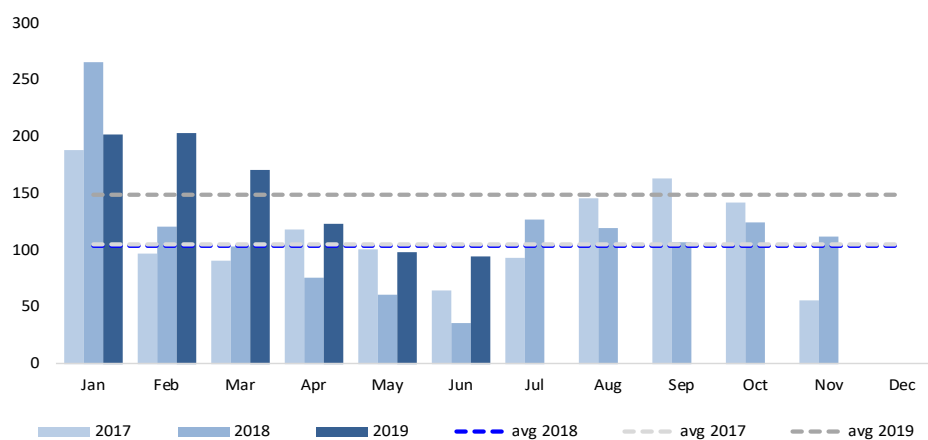
The target for the Government auction in the second quarter was achieved. With a target of IDR129 trillion, Government bond and sukuk issuances in the second quarter were recorded at IDR132.96 trillion. The total incoming bids during the second quarter were less than in the first quarter as were the accepted bids. This implies a lower bid-to-cover ratio for the second quarter. In the third quarter, there are 7 bond auctions and 6 sukuk auctions with an issuance target of IDR185 trillion.

Penerbitan obligasi Pemerintah: terjaga dengan baik

Realisasi *gross* penerbitan obligasi Pemerintah selama semester pertama telah mencapai Rp558,10 triliun, atau 67,59% dari total kebutuhan *gross* penerbitan 2019 sebesar Rp825,7 triliun. Pencapaian tersebut melebihi target pada semester I yang ditargetkan sebesar 50%-60%. Dari pencapaian tersebut, sebesar Rp118,93 triliun merupakan obligasi mata uang asing, atau sebesar 21,31% dari total *gross* penerbitan. Di sisi lain, realiasi *gross* penerbitan obligasi dengan mata uang Rupiah terdiri dari Rp297,41 triliun obligasi konvensional (53,29%) dan Rp141,76 triliun Sukuk (25,40%). Selain itu, obligasi ritel serta sukuk ritel juga berperan penting dalam penerbitan obligasi tahun 2019. Penerbitan instrumen ritel Pemerintah selama 1H19 tercatat sebesar Rp33,14 triliun, atau 5,94% dari total *gross* penerbitan. Sedangkan target penerbitan instrumen ritel Pemerintah di tahun 2019 tercatat sebesar Rp60 – Rp80 triliun.

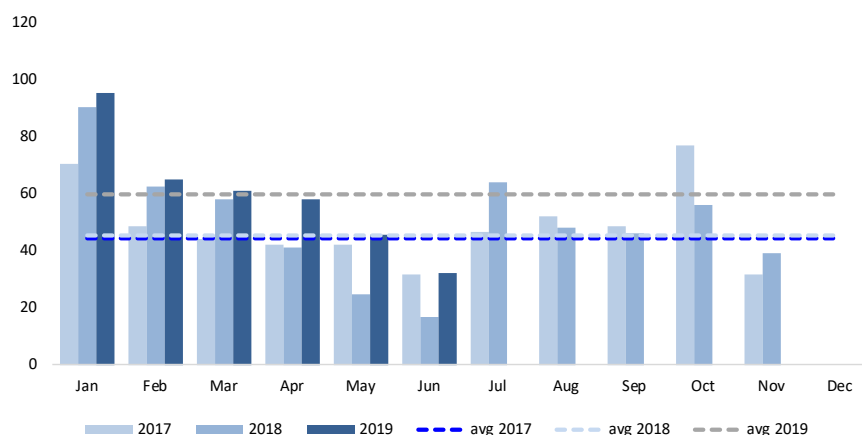
Target lelang Pemerintah di kuartal II juga tercapai dengan baik. Dengan target sebesar Rp129 triliun, realisasi penerbitan obligasi dan sukuk Pemerintah selama kuartal II tercatat sebesar Rp132,96 triliun. Total *incoming bid* selama kuartal II tercatat lebih rendah dibandingkan dengan angka selama kuartal I, demikian pula dengan jumlah yang diterima oleh Pemerintah yang lebih sedikit dibandingkan dengan kuartal I. Sehingga berimplikasi pada nilai *bid-to-cover ratio* selama kuartal II yang lebih rendah. Selama kuartal III, terdapat 7 kali lelang obligasi dan 6 kali lelang sukuk dengan target penerbitan sebesar Rp185 triliun.

Exhibit 9: Incoming bids in the Government's securities auction (IDR trillion)



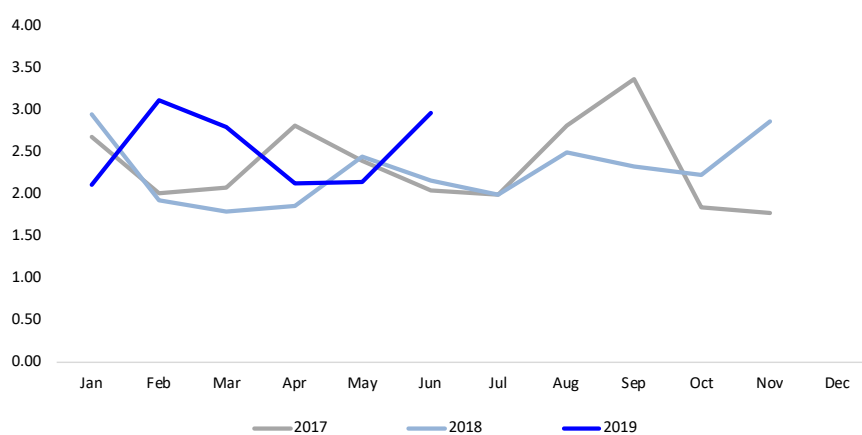
Source: Ministry of Finance

Exhibit 10: Bids accepted in the Government's securities auction (IDR trillion)



Source: Ministry of Finance

Exhibit 11: Bids to cover ratio in the Government's securities auction (x)



Source: Ministry of Finance

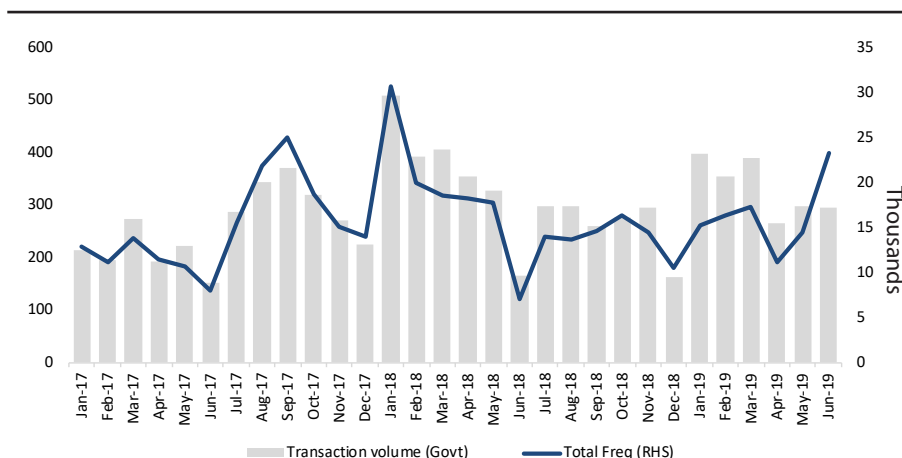
Government bonds secondary market

The total volume per transaction for Indonesian bonds during the second quarter of 2019 was lower at IDR17.51 billion compared to IDR23.42 billion in 1Q19 and IDR19.69 billion in 2Q18. Meanwhile, the total transaction volume for 1H19 was IDR1,999 trillion, slightly lower than in the same period the previous year IDR2,155 trillion.

Pasar sekunder obligasi Pemerintah

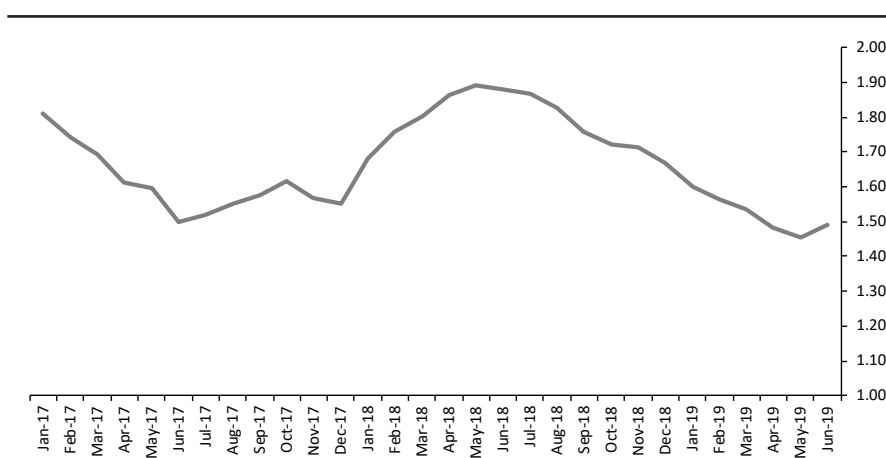
Total volume per transaksi obligasi Indonesia selama kuartal II 2019 lebih rendah yaitu sebesar Rp17,51 miliar dibandingkan dengan 1Q19 (Rp23,42 miliar) dan 2Q18 (Rp19,69 miliar). Sementara itu, total volume transaksi selama 1H19 yaitu sebesar Rp1.999 triliun sedikit lebih rendah dibandingkan dengan periode yang sama tahun sebelumnya Rp2.155 triliun).

Exhibit 12: Government bond secondary market activities (IDR trillion)



Source: IDX processed data

Exhibit 13: Government bonds turnover LTM



Source: IDX processed data

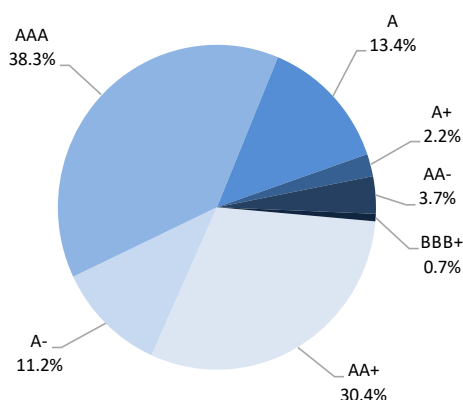
Corporate bond issuances

During the first semester of 2019, corporate bond issuances were slightly lower at IDR54.96 trillion compared to issuances in the same period of the previous year which reached Rp56.44 trillion. In 2Q19, corporate bond issuances reached IDR33.67 trillion, or higher than in 2Q18 when they reached IDR 27.43 trillion. The financial institution sector was still the largest issuer in 2Q19 (IDR13.17 trillion), followed by banking (IDR10.79 trillion). Based on the instrument rating, AAA rated instruments still dominated with a total value of IDR12.89 trillion.

Penerbitan obligasi korporasi

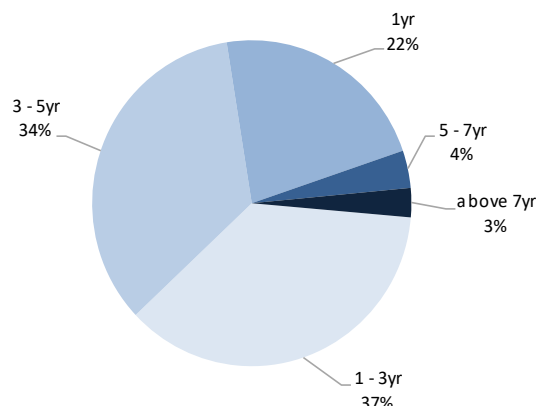
Selama semester pertama 2019, penerbitan obligasi korporasi sedikit lebih rendah yaitu sebesar Rp54,96 triliun dari periode yang sama tahun sebelumnya yaitu sebesar Rp56,44 triliun. Sementara di 2Q19, penerbitan obligasi korporasi tercatat sebesar Rp33,67 triliun, lebih tinggi dibandingkan dengan 2Q18 yaitu sebesar Rp27,43 triliun. Sektor *inancial institution* masih merupakan penerbit terbesar obligasi selama 2Q19 yaitu sebesar Rp13,17 triliun, diikuti oleh *banking* sebesar Rp10,17 triliun. Sementara berdasarkan peringkat instrumen, *instrument* dengan peringkat AAA masih mendominasi penerbitan dengan total penerbitan sebesar Rp12,89 triliun.

Exhibit 14: Corporate bond issuance by rating



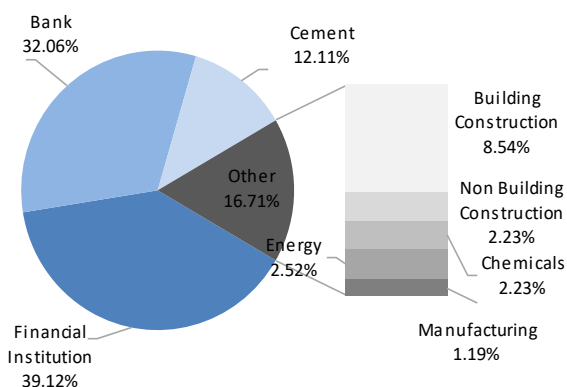
Source: IDX, KSEI processed data

Exhibit 15: Corporate bond issuance by tenor



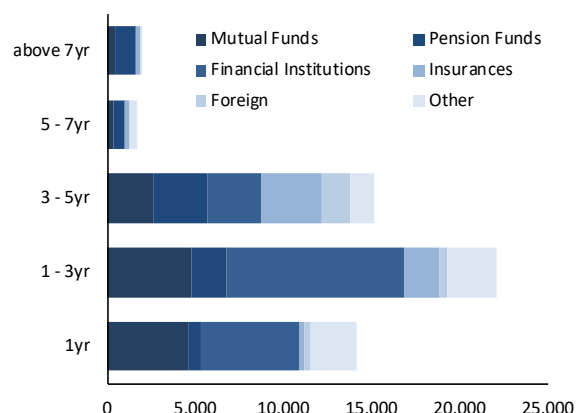
Source: IDX, KSEI processed data

Exhibit 16: Corporate bond issuance by sector



Source: IDX, KSEI processed data

Exhibit 17: Ownership of 1H19 issuance



Source: IDX, KSEI processed data

Corporate bonds secondary market

The total volume per transaction of corporate bond during the second quarter of 2019 was higher than in the first quarter of 2019, but smaller than in the same quarter the previous year. In 2Q19, volume was recorded at IDR9.43 billion per transaction while the figures for 1Q19 and 2Q18 were IDR8.73 billion per transaction and IDR10.53 billion per transaction, respectively. The transaction volume in 1H19 reached IDR131.656 trillion with 14,500 transactions, or more than 13,188 transactions in 1H18 with total transaction volume of IDR120,518 trillion.

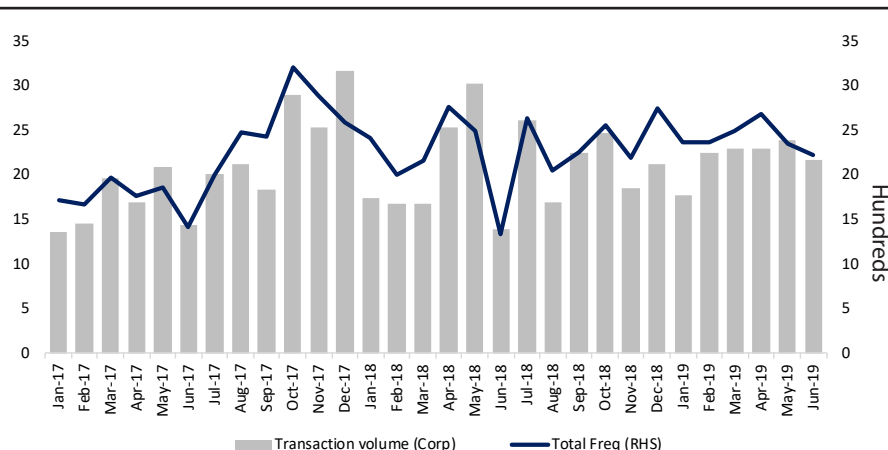
By issuer, ADMF bonds dominated the transaction volume in the second quarter of 2019, reaching IDR6.19 trillion, or accounting for 9.02% of the total transactions volume. In second and third positions were BEXI and SMFP with transactions volume of IDR5.68 trillion and IDR3.77 trillion, respectively.

Pasar sekunder obligasi korporasi

Total volume per transaksi obligasi korporasi selama kuartal II 2019 lebih tinggi dibandingkan dengan kuartal I 2019, namun lebih kecil dibandingkan dengan kuartal yang sama tahun sebelumnya. Pada 2Q19, volume transaksi tercatat sebesar Rp9,43 miliar per transaksi sementara 1Q19 dan 2Q18 masing-masing sebesar Rp8,73 miliar per transaksi dan Rp10,53 miliar per transaksi. Volume transaksi selama 1H19 sebesar Rp131.656 triliun dengan transaksi sebanyak 14.500, lebih tinggi dibandingkan dengan 1H18 dengan 13.188 transaksi dengan total volume Rp120.518 triliun.

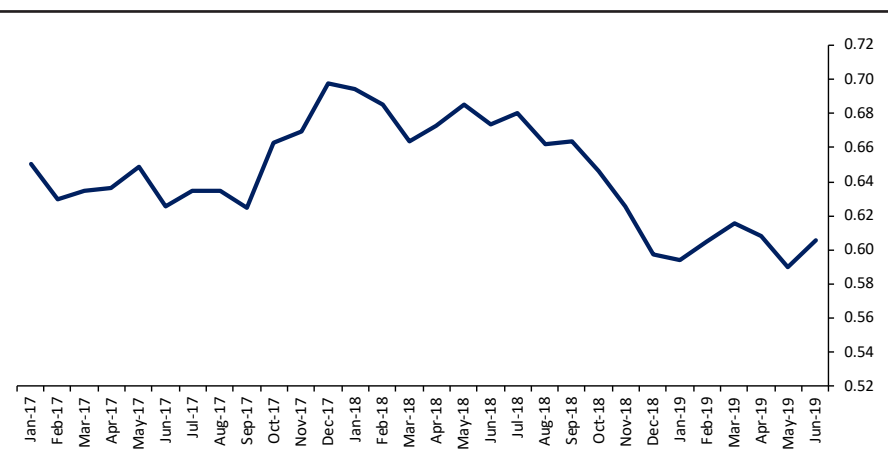
Berdasarkan emiten, obligasi ADMF mendominasi volume transaksi selama kuartal kedua 2019 yaitu sebesar Rp6,19 triliun, atau berkontribusi sebesar 8,99% dari total volume transaksi. Sedangkan posisi kedua dan ketiga ditempati oleh BEXI dan SMFP dengan volume transaksi masing-masing sebesar Rp5,68 triliun dan Rp3,77 triliun.

Exhibit 18: Corporate bonds secondary market activities (IDR trillion)



Source: Indonesia Stock Exchange

Exhibit 19: Corporate bonds turnover LTM



Source: Indonesia Stock Exchange, KSEI

More optimistic forecast

The escalation of the US-China trade war, slowdown in the global economy, and the shift in the direction of the Fed’s policies led to changes in several indicators that influenced the yields on Indonesian bonds. Interest rate cuts in several countries and room for the Fed to reduce interest rates have also had a significant effect. Projections for the 10-year US Treasury yield have fallen significantly compared to the previous quarter from 2.2-2.8% to 1.95-2.35%. With investors attracted toward safe-haven instruments, projected foreign ownership in Indonesian government bonds is estimated to stand at 38% -39%, or lower than the previous projection of 39% -40%. Meanwhile, several other factors such as room for Bank Indonesia to cut the benchmark interest rate and the increase in Indonesia’s S & P rating in May which impacted Indonesia’s 5-year CDS, then Danareksa’s projected Government Rupiah bonds yield (BTMM ID 10- year) is more optimistic (in the range of 7.13% -7.66%).

Estimasi yang lebih optimis

Perkembangan *trade wars*, perlambatan ekonomi dunia, serta pergeseran arah kebijakan *The Fed* menyebabkan beberapa indikator yang mempengaruhi *yield* obligasi Indonesia mengalami perubahan. Pemangkasan suku bunga di beberapa negara serta adanya ruang bagi *The Fed* untuk menurunkan suku bunga juga memberi pengaruh signifikan. Proyeksi *yield US Treasury* 10 tahun turun signifikan dibandingkan kuartal sebelumnya berada di kisaran 2,2%-2,8% diperkirakan menjadi 1,95%-2,35%. Dengan tingginya minat investor terhadap *instrument safe haven*, maka proyeksi kepemilikan asing diperkirakan menjadi 38%-39%, lebih rendah dibandingkan dengan proyeksi sebelumnya di kisaran 39%-40%. Sementara itu, beberapa faktor lain seperti adanya ruang bagi Bank Indonesia untuk menurunkan suku bunga acuan, adanya peningkatan *rating* Indonesia oleh S&P pada bulan Mei sehingga memberi dampak yang besar terhadap CDS 5-tahun Indonesia, maka proyeksi *yield* obligasi Rupiah Pemerintah (BTMM ID 10-tahun) Danareksa lebih optimis menjadi di kisaran 7,13%-7,66%.

Appendices

Appendix 1. Danareksa IDR Government bonds yield forecast

Indicator	2014	2015	2016	2017	2018	2019F
GDP Growth (%)	5.02	4.79	5.02	5.19	5.17	5.05 - 5.15
Inflation (%)	8.36	3.35	3.02	3.61	3.13	3.00 - 3.50
7Days Repo Rate (%)	5.75	5.5	4.75	4.25	6.00	5.75 - 6.00
USDIDR (avg)	11,885	13,485	13,330	13,402	14,245	14,000 - 14,500
US Treasury (%)	2.17	2.27	2.45	2.40	2.69	1.95 - 2.35
CDS 5 yrs (bps)	157	233	158	85	137	80 - 90
Foreign Ownership (%)	38.13	38.21	37.55	39.82	37.7	38 - 39
IDR SUN Yield (BTMM ID 10Y) (%)	7.80	8.99	7.97	6.32	8.03	base optimistic
						7.66 7.13

Source : Danareksa estimates

as of : 27 Jun 19

Appendix 2. Top 10 contributors in 2Q19 corporate bond secondary market transactions

No	Corp ID	Total Vol (IDR bn)	Total Freq	Average per Freq (IDR bn)	Proportion to Total Transaction (%)
1	ADMF	6,185.26	596	10.38	9.02
2	BEXI	5,657.51	449	12.60	8.25
3	SMFP	3,746.40	225	16.65	5.47
4	FIFA	3,720.58	306	12.16	5.43
5	ISAT	2,919.95	333	8.77	4.26
6	WSKT	2,697.16	294	9.17	3.93
7	WOMF	2,322.16	254	9.14	3.39
8	BDMN	2,189.00	68	32.19	3.19
9	TUFI	2,055.86	153	13.44	3.00
10	TBIG	1,891.40	80	23.64	2.76
	Total	33,385.28			48.70

Source : Indonesia Stock Exchange, Danareksa estimates

FIXED INCOME TEAM

Managing Director**Institutional Capital Market**

Budi Susanto
budisusanto@danareksa.com

ext. 3200

DEBT RESEARCH TEAM**Telp No.****+62-21-29555777****Fax No.****+62-21-3501709****Head of Debt Research**

Amir A. Dalimunthe
amirda@danareksa.com

ext. 3405

Credit Analysts

Laras Nerpatari Suilyas
laras.nerpatari@danareksa.com

ext. 3403

Production & Database Management

Eka Nuraini
ekan@danareksa.com

ext. 3407

DEBT CAPITAL MARKET TEAM**Telp No.****+62-21-29555777****Fax No.****+62-21-3501724/25****Head of Debt Capital Market**

Anung Rony Hascaryo
anung.hascaryo@danareksa.com

ext. 3220

Debt Sales

Rachmat Eko Putranto
rachmat.putranto@danareksa.com

ext. 3218

Debt Brokerage

Dody Mudjiyanto
dodym@danareksa.com

ext. 3329

Smitha Tiara Hapsari

smitha.hapsari@danareksa.co.id

ext. 3227

Citra Isramij P.

citra.isramij@danareksa.com

ext. 3228

Febryna Maharlika Fauzie

febryna.fauzie@danareksa.co.id

ext. 3221

Putrika Mayadipta

putrikam@danareksa.com

ext. 3217

Sarah Immanuela

sarah.immanuela@danareksa.co.id

ext. 3222

Jennifer Novian Rusli

jennifer.rusli@danareksa.co.id

ext. 3223

PT Danareksa Sekuritas
1st-3rd Fl, Danareksa Building
Jl. Merdeka Selatan No. 14
Jakarta, INDONESIA
Tel : (62-21) 3509888 Fax : 62 21 3501709

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue hereof.

This document does not constitute, nor is it calculated to invite, an offer or invitation to subscribe for or purchase any securities or financial instruments and neither this document nor anything contained herein shall form the basis for or be relied upon in connection with any contract or commitment whatsoever.

To the extent that any securities or financial instruments or issues are discussed in this report, please note that P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents may from time to time make markets in such securities or financial instruments, hold share options, rights and/or warrants in respect thereof and may, as principal or agent, buy or sell such securities or financial instruments.

No action has been or will be taken in any country or jurisdiction that would permit a public offering of any investments referred to in this document, or possession or distribution of this document, or any other offering or publicity material relating to any company or investment mentioned in this document, in any country or jurisdiction where action for that purpose is required.

We have no responsibility to update this report in respect of events and circumstances occurring after the date of this report.

We expressly disclaim any responsibility or liability (express or implied) of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, actions, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in this report and any liability in respect of this report or any inaccuracy herein or omission herefrom which might otherwise arise is hereby expressly disclaimed.

Accordingly, none of P.T. Danareksa Sekuritas and/or its affiliated companies and/or their respective employees and/or agents shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement or omission in any information contained in this report.

The information contained in this report is not to be taken as any recommendation made by P.T. Danareksa Sekuritas and/or its affiliated companies and/or their employees and/or agents to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report. In considering any investment you should make your own independent assessment and seek your own professional financial and legal advice.

U.S. Distribution: This report is only intended for distribution in the United States to "major U.S. institutional investors" as defined by Rule 15a-6 under the Securities Exchange Act of 1934 and may not be reproduced, transmitted and/or distributed, directly or indirectly, to any other person in the United States.

Hong Kong Distribution: This document has not been registered as a prospectus with the Registrar of Companies in Hong Kong and may not be issued or passed on in Hong Kong to any persons other than to a person whose ordinary business is to buy and sell shares or debentures.

UK Distribution : This document has not been approved as an investment advertisement in the United Kingdom pursuant to Section 57 of the Financial Services Act 1986 and may not be issued or passed on in the United Kingdom except to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemption) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on. At your request, this report is being provided to you as a potential investor who is a person of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisement) (Exemption) Order 1995 despite our pointing out to you that this report should not be relied upon by you. Accordingly any degree of reliance placed on this report in your decision to make any investment will be at your own risk.

Japanese Distribution: This report is not intended to serve as a solicitation in connection with any offering or secondary distribution of securities under the Securities and Exchange Law, nor does it contain any 'investment judgment' under the Investments Advisory Business Law.