

22 MAY 2017

**Indonesia's Sovereign Rating**

S & P	BBB-
Moody's	Baa3
Fitch	BBB-

**Key Market Indicator as of 19-May-17**

BI 7-Day RR Rate	4.75%
JCI	5,792
IDR	13.325
Inflation (y-o-y)-Apr-17	4.17%

**Domestic Bonds Outstanding**

Gov't Bonds as of 18-May-17	IDR	1,917.5 bn
Corp Bonds as of 30-Apr-17	IDR	333.1 bn

**Previous Week Trading Volume**

Government Bonds	IDR	54.36 tn
Corporate Bonds	IDR	3.77 tn

**Benchmark Yield as of 19-May-17**

FR0061	(5 year)	6.691%
FR0059	(10 year)	7.012%
FR0074	(15 year)	7.580%
FR0072	(20 year)	7.825%

Source : Bloomberg, Mid YTM

**Government Bond Indices as of 19-May-17**

Price Index (Bloomberg : DGBIIDPR)	130.94
Yield Index (Bloomberg : DGBIIDYD)	7.08%
TR Index (Bloomberg : DGBIIDTR)	526.11

**Calendar of Event**

25-May-17  
US Initial Jobless Claims SA  
(Survey : 238k; Prior : 232k)

25-May-17  
UK GDP Chained GDP at Market Prices YoY  
(Survey : 2.1%; Prior : 2.1%)

31-May-17  
Indonesia Money Supply M2 YoY  
(Survey : NA; Prior : 10.0%)

**Analysts**

Amir A. Dalimunthe  
(62 21) 29 555 777 ext. 3405  
amir@danareksa.com

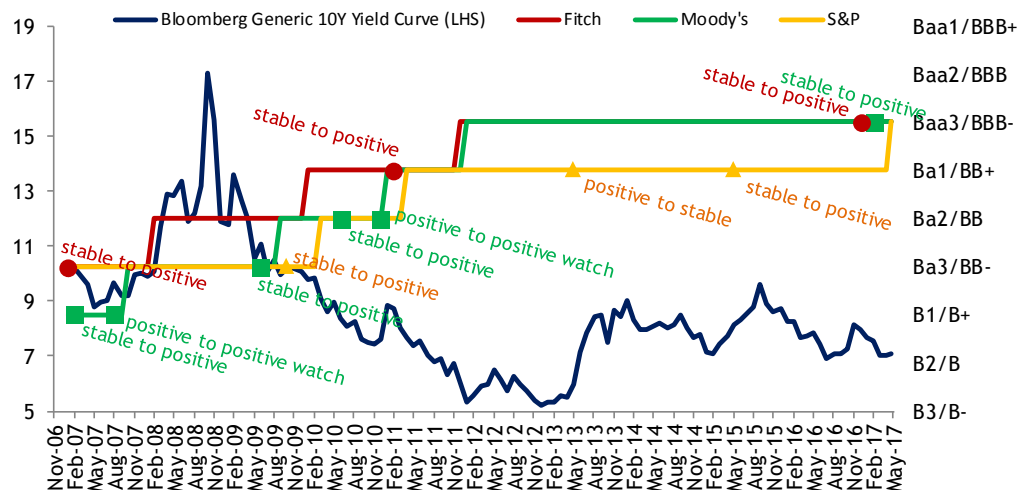
Rifki Rizal  
(62 21) 29 555 777 ext. 3404  
rifkir@danareksa.com

Please read important disclosure at the back of this report

# Congratulation, Indonesia!

After years of waiting, S&P finally gave Indonesia the long-awaited investment grade rating. The ratings agency upgraded Indonesia's rating on 19th May 2017 from BB+ (pos) to BBB- (stable), matching the rating given by Moody's (Baa3) and Fitch (BBB-). In December 2016, Fitch upgraded its outlook for Indonesia to positive, a move soon followed by Moody's who upgraded its outlook in February 2017. These upgrades helped to lower the yield on the 10-yr IDR Government Bonds benchmark (10-yr SUN) in 4M17. On the day of the rating upgrade last week, the yield declined significantly during the last few trading hours.

Setelah bertahun-tahun menunggu, S&P akhirnya memberi Indonesia peringkat investment grade yang telah lama ditunggu. Lembaga pemeringkat tersebut meningkatkan peringkat Indonesia pada tanggal 19 Mei 2017 dari BB + (pos) menjadi BBB- (stable), menyamai peringkat yang telah diberikan oleh Moody's (Baa3) dan Fitch (BBB-). Pada bulan Desember 2016, Fitch meningkatkan outlook Indonesia menjadi positif, diikuti oleh Moody's yang meningkatkan outlook pada bulan Februari 2017. Peningkatan ini berkontribusi terhadap penurunan yield instrumen Obligasi Pemerintah 10-thn (SUN 10 tahun) di 4M17. Pada hari terjadinya rating upgrade minggu lalu, yield turun secara signifikan pada beberapa jam perdagangan terakhir.

**Exhibit 1. Indonesia's IDR Government Bond Yield**

Source: Bloomberg, Fitch Rating, Moody's Rating, S&P

The bid yield for FR0059 ended last week at 7.01%, recording a 73bps decline from its level at the end of 2016, according to Bloomberg data. Compared to the previous week, the yield was 8bps lower. The yield decline can also be observed from Indonesia's USD instruments such as Indon Series and the bonds of several SOEs, which recorded an average yield decline of 5bps and 3bps, respectively, from the week before.

Bid yield untuk FR0059 di akhir pekan lalu di 7,01%, mencatat penurunan 73bps dari levelnya di akhir 2016, menurut data Bloomberg. Dibandingkan minggu sebelumnya, yield 8bps lebih rendah. Penurunan yield juga dapat diamati dari instrumen USD di Indonesia seperti Indon Series dan obligasi beberapa BUMN, yang mencatatkan rata-rata penurunan yield sebesar masing-masing 5bps dan 3bps dari minggu sebelumnya.

The downward trend in bond yields depicts improving confidence toward Indonesia's economy. This is further implied by the shrinking spread between the 10-yr USD Indon over US Treasury Notes/Bonds of similar maturities. Year-to-date, the spread has declined by more than 30bps. Aside from lower yields, we expect to see significant improvements in foreign investor participation in Indonesia's corporate bond market in the long run, especially IDR bonds. Based on KSEI data, foreign ownership in corporate bonds only reached 6.5% as of April 2017, a very low level compared to their ownership in IDR tradable SBN which has already reached 38% of the total outstanding amount. Hence, with the newly-attained investment grade rating, we expect foreign investors to be more active in Indonesia's domestic corporate bonds market going forward.

Tren penurunan yield obligasi menunjukkan peningkatan kepercayaan terhadap perekonomian Indonesia. Hal ini semakin tersirat oleh menyusutnya spread antara yield USD 10 thn Indon atas US Treasury Notes dengan jangka waktu yang sama. Dibandingkan dengan akhir tahun 2016, spread telah mencatatkan penurunan lebih dari 30bps. Selain yield yang lebih rendah, kami berharap dapat melihat peningkatan signifikan dalam partisipasi investor asing di pasar obligasi korporasi Indonesia dalam jangka panjang, terutama obligasi Rupiah. Berdasarkan data KSEI, kepemilikan asing di obligasi korporasi hanya mencapai 6,5% pada April 2017, jauh lebih rendah dibandingkan kepemilikannya pada IDR Tradable SBN yang telah melampaui 38% dari jumlah outstanding. Dengan nilai investment grade yang baru dicapai, kami memperkirakan investor asing akan lebih aktif dalam pasar obligasi korporasi domestik di Indonesia.

## Exhibit 2. Select Gol and Indonesian SoE Bonds

Instruments	Sector	Maturity	Bid Yield (%) as of 19 May 2017	Yield Changes (bps)	
				Week	Ytd
PERTIJ 4.875 05/03/22	Integrated Oils	3-May-22	2.62	-14	-22
PLNIJ 7.75 01/20/20	Utilities	20-Jan-20	2.93	-9	-50
PERTIJ 5.25 05/23/21	Integrated Oils	23-May-21	3.29	-8	-70
PERTIJ 6.5 05/27/41	Integrated Oils	27-May-41	5.43	-8	-86
PLNIJ 5.5 11/22/21	Utilities	22-Nov-21	3.27	-7	-58
PERTIJ 4.3 05/20/23	Integrated Oils	20-May-23	3.82	-7	-53
PLNIJ 8 08/07/19	Utilities	7-Aug-19	2.40	-6	-69
PLNIJ 7.875 06/29/37	Utilities	29-Jun-37	5.39	-5	-89
PLBIII 4.875 10/01/24	Transportation & Logistics	1-Oct-24	3.72	-4	-44
PERTIJ 5.625 05/20/43	Integrated Oils	20-May-43	4.85	-4	-90
PGASIJ 5.125 05/16/24	Utilities	16-May-24	3.05	0	-41
PERTIJ 6 05/03/42	Integrated Oils	3-May-42	4.43	0	-69
GARUDA 5.95 06/03/20	Airlines	3-Jun-20	3.68	0	93
PLNIJ 5.25 10/24/42	Utilities	24-Oct-42	2.27	0	-24
PLBIJ 5.375 05/05/45	Transportation & Logistics	5-May-45	5.31	4	-7
PLBIJ 4.25 05/05/25	Transportation & Logistics	5-May-25	6.73	8	-32
PERTIJ 6.45 05/30/44	Integrated Oils	30-May-44	6.48	16	-103
INDON 4.75 01/08/26	Sovereigns	8-Jan-26	3.72	-14	-57
INDON 5.25 01/17/42	Sovereigns	17-Jan-42	4.60	-14	-52
INDON 5.25 01/08/47	Sovereigns	8-Jan-47	4.69	-12	-53
INDOIS 6.125 03/15/19	Sovereigns	15-Mar-19	4.73	-12	-50
INDON 6.625 02/17/37	Sovereigns	17-Feb-37	4.73	-11	-58
INDON 8.5 10/12/35	Sovereigns	12-Oct-35	4.83	-11	-58
INDON 5.875 01/15/24	Sovereigns	15-Jan-24	3.73	-10	-54
INDON 5.875 03/13/20	Sovereigns	13-Mar-20	2.48	-9	-33
INDON 5.375 10/17/23	Sovereigns	17-Oct-23	4.16	-9	-126
INDON 6.75 01/15/44	Sovereigns	15-Jan-44	3.92	-7	-53
INDON 7.75 01/17/38	Sovereigns	17-Jan-38	4.80	-7	-63
INDON 3.375 04/15/23	Sovereigns	15-Apr-23	4.11	-7	-88
INDON 5.95 01/08/46	Sovereigns	8-Jan-46	4.39	-6	-92
INDON 4.625 04/15/43	Sovereigns	15-Apr-43	5.38	-5	-83
INDON 3.7 01/08/22	Sovereigns	8-Jan-22	5.20	-5	-95
INDOIS 4.35 09/10/24	Sovereigns	10-Sep-24	3.67	-5	-59
INDON 4.875 05/05/21	Sovereigns	5-May-21	2.87	-3	-44
INDOIS 4.55 03/29/26	Sovereigns	29-Mar-26	3.11	-3	-46
INDON 4.125 01/15/25	Sovereigns	15-Jan-25	4.94	-2	-44
INDOIS 4.325 05/28/25	Sovereigns	28-May-25	6.84	-1	-89
INDOIS 3.4 03/29/21	Sovereigns	29-Mar-21	3.05	0	-41
INDOGB 4.05 06/24/26	Sovereigns	24-Jun-26	4.04	0	115
INDON 11.625 03/04/19	Sovereigns	4-Mar-19	1.89	0	-37
INDON 4.35 01/08/27	Sovereigns	8-Jan-27	2.09	1	-26
INDON 3.75 04/25/22	Sovereigns	25-Apr-22	4.51	1	-77
INDON 5.125 01/15/45	Sovereigns	15-Jan-45	5.88	1	-104
INDOIS 3.3 11/21/22	Sovereigns	21-Nov-22	4.90	1	-11
INDOIS 4 11/21/18	Sovereigns	21-Nov-18	2.01	2	6

Source: Bloomberg

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**FIXED INCOME TEAM**


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**Director of Debt 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 (ad interim)**

Amir A. Dalimunthe  
amirda@danareksa.com ext. 3405

**Market Analyst**

Rifki Rizal  
rifkir@danareksa.com ext. 3404

**Credit Analysts**

Ayesha Ardelia  
ayesha@danareksa.com ext. 3406

**Production & Database Management**

Eka Nuraini  
ekan@danareksa.com ext. 3407

Arif Sentanu  
arif.sentanu@danareksa.com ext. 3402

Laras Nerpatari Suilyas  
laras.nerpatari@danareksa.com ext. 3403

**DEBT CAPITAL MARKET TEAM**

**Telp No.** +62-21-29555777  
**Fax No.** +62-21-3501724/25

**Debt Sales & Brokerage**

Setyo H. Purnomo  
setyohp@danareksa.com ext. 3226

**Debt Trading & Investment**

Romi Mulyadi  
romi@danareksa.com ext. 3213

Rina Rimawati D  
rina@danareksa.com ext. 3223

Indra Figrachanda  
indraf@danareksa.com ext. 3214

Putrika Mayadipta  
putrikam@danareksa.com ext. 3215

Rachmat Eko Putranto  
rachmat.putranto@danareksa.com ext. 1684

Hernita Dwi Ariesandhy  
hernitada@danareksa.com ext. 3216

Citra Isramij P.  
citra.isramij@danareksa.com ext. 3228

Khalid Abdurrahman  
khalid.abdurrahman@danareksa.com ext. 3212

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