

Interest Rates Focus

26 February 2024

IndoGB Watch

- IndoGBs outperformed USTs year-to-date as the domestic bonds were supported by local demand while USTs were sold off upon hawkish re-pricing of Fed funds rate expectations. This has resulted in a re-narrowing in IndoGB-UST yield differentials. Foreign flows are yet to make a decisive comeback to the IndoGBs market, while some foreign interest might have been diverted to SRBIs. Bank Indonesia kept its policy rate unchanged at its February meeting as widely expected; the central bank continued to highlight patience with regards to rate cuts.
- Demand at auctions thus far this year was mostly solid, although incoming bids amounts fell somewhat of late. As of 12 February, gross LCY financing amounted to IDR168trn while FCY financing amounted to IDR31.8trn. The sukuk auction on 20 February added another IDR12trn. 2024 debt financing is set at IDR648.1trn, with 75-85% of the financing needs being planned to be via local currency securities. Q1 issuance target of IDR240trn is in line with overall financing requirement.
- Against the current monetary policy backdrop and the neutral bond supply outlook, and between supportive local demand and a lack of foreign demand, we are neutral IndoGBs and do not prefer to chase yields lower at this juncture.

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

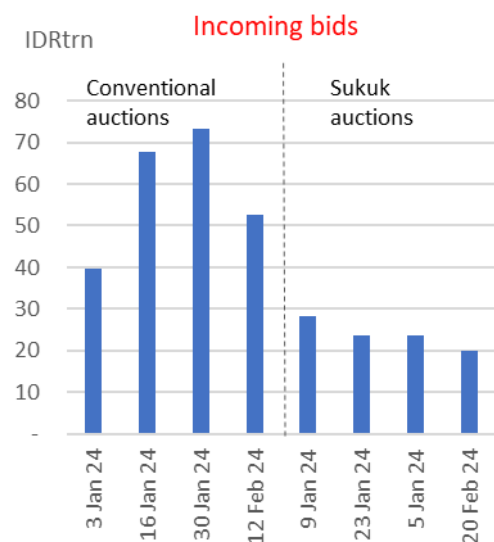


Table 1. Issuance calendar

Q1 2024 Assurance Schedule:

Months	Auction Dates	SPN		ON						SPNS		PBS						Total incoming Bid IDRtrn	Total Awarded Bid IDRtrn	Quarterly Target IDRtrn	
January	03-Jan-24	3M	12M	5Y			10Y	15Y	20Y	30Y								39.80	21.75	240	
	09-Jan-24										6M	9M	2Y	4Y		13Y	17Y	25Y	28.30		12.00
	16-Jan-24	3M	12M	5Y			10Y	15Y	20Y	30Y									67.60		24.00
	23-Jan-24										6M	9M	2Y	4Y	7Y	13Y		25Y	23.80		12.00
	30-Jan-24	3M	12M	5Y	8Y		10Y	15Y	20Y	30Y									73.20		24.00
Total																	232.70	93.75			
February	05-Feb-24										6M	9M	2Y	4Y		13Y	17Y	25Y	23.65		11.15
	12-Feb-24	3M	12M	5Y			10Y	15Y	20Y	30Y									52.63		24.00
	20-Feb-24										6M	9M	2Y	4Y	7Y	13Y		25Y	19.88		12.00
	27-Feb-24	3M	12M	5Y			10Y	15Y	20Y	30Y											
Total																					
March	05-Mar-24										6M	9M	2Y	4Y		13Y	17Y	25Y			
	13-Mar-24	3M	12M	5Y			10Y	15Y	20Y	30Y											
	19-Mar-24										6M	9M	2Y	4Y	7Y	13Y		25Y			
	26-Mar-24	3M	12M	5Y			10Y	15Y	20Y	30Y											
Total																					
Q1 Total																					

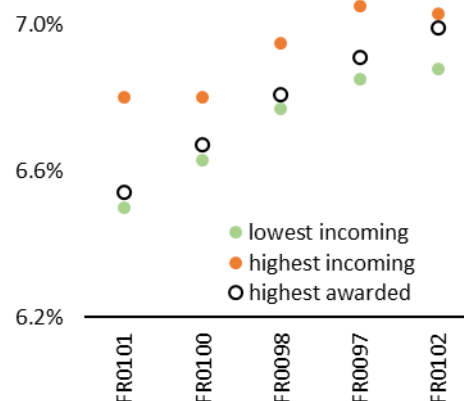
Source: DJPPR, OCBC Research

Interest Rates Focus

26 February 2024

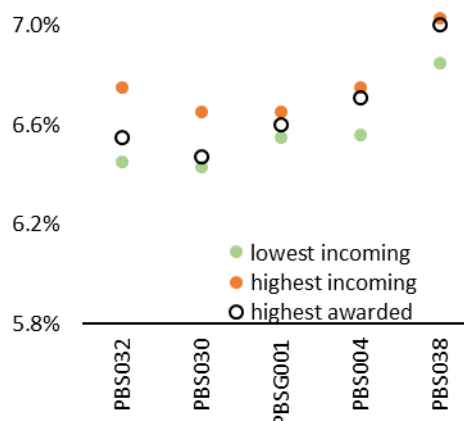
- Recent auctions.** Incoming bid amounts at the most recent conventional bonds and sukuk auctions were lower than those at earlier auctions; demand nevertheless should still be considered as strong. At the conventional bond auction on 12 February, MoF managed to issue as per target amount of USD24trn while cut-offs were mostly near the lowest incoming bid levels except that at FR102 (2054 bond). Most of the incoming bid again went to FR101 (2029 bond) followed by FR100 (2034 bond). At the sukuk auction on 20 February, cut-offs were near the highest incoming bid levels for PBS004 (2037 sukuk) and PBS038 (2049 sukuk), where the bid/cover ratios were relatively low at 1.25x and 1.11x respectively. Sentiment might have been mildly affected by the global market as market had earlier pared back rate cuts expectations at major central banks.
- Debt financing.** As of 12 February, gross LCY financing via government securities amounted to IDR168trn while FCY financing via government securities (the USD international bonds in January) amounted to IDR31.8trn. The sukuk auction on 20 February added another IDR12trn. 2024 state budget financing has been set at IDR522.8trn, compared to an estimated IDR347.6trn outcome for 2023. Debt financing is set at IDR648.1trn, with 75-85% of the financing needs being planned to be via local currency securities. Q1 issuance target of IDR240trn is in line with overall financing requirement.
- Investor flows.** Year-to-date, the central bank and non-bank domestic investors were major buyers of IndoGBs (including bills), having increased their holdings (excluding holdings under monetary operations) by IDR110trn and IDR27.5trn respectively as of 22 February; outstanding IndoGBs increased by 103trn in the same period. Holdings by banks fell by IDR34.4trn. Holdings by foreign investors were down by IDR5.9trn to IDR836trn or 14.56% of total outstanding as of 22 February, with day-to-day fluctuations. Foreign investors were seen adding to duration; their holdings of bonds of tenors above 10Y accounted for 25% of their total holdings latest (versus 17% in December); those of bonds of tenors above 5Y accounted for 70% of total (versus 59% in December). After the recent re-narrowing in IndoGB-UST yield differentials, when implied IDR rates are not low, a strong comeback of foreign inflows are not in sight yet.

12 Feb IndoGB Auction

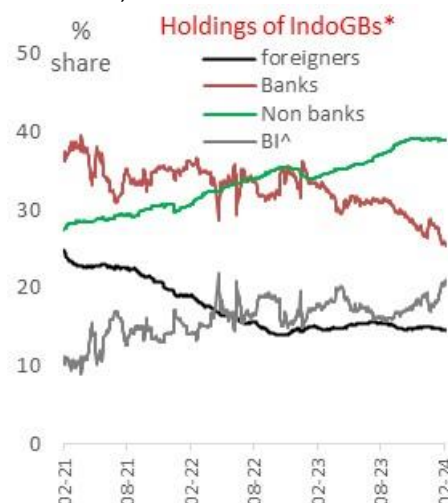


Source: DJPPR, OCBC Research

20 Feb IndoGB Auction (sukuk)



Source: DJPPR, OCBC Research



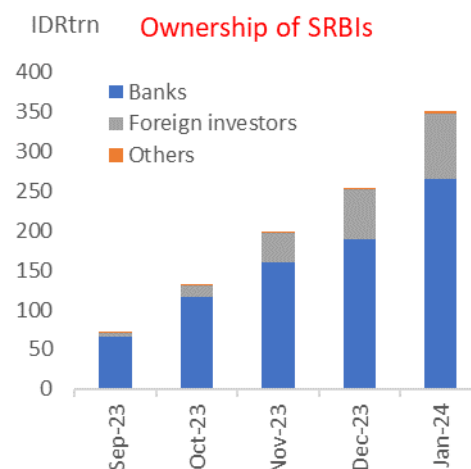
Source: Bloomberg, OCBC Research

^excluding holdings under monetary operations

Interest Rates Focus

26 February 2024

- SRBI.** SRBI rates have been edging lower since the start of December as expectation for further policy tightening faded. The rates at the auction on 23 February were 6.61444%, 6.69500% and 6.81640% for the 6M, 9M and 12M tenors, respectively. The 12M SRBI rate was still above the level shortly after the last BI rate hike in October. And overall, SRBI rates remain high compared to short-end bond yields, which have continued to attract foreign flows. Foreign investors held IDR83.93trn of SRBI as of end-January, 23.9% of total outstanding; this represented purchase of IDR21.3trn during January, following the IDR24.9trn in December.
- IndoGBs.** Notwithstanding the high SRBI rates, short-end IndoGBs have been supported thus far amid a lack of supply. Chasing short end yields lower is however not preferred at this juncture, before Bank Indonesia signals the easing cycle is forthcoming. Against the neutral bond supply outlook, and between supportive local demand and a lack of foreign demand, we are neutral IndoGBs. Our medium-term view remains for IndoGBs to lag USTs in rallies, helping to partially normalize yield differentials.

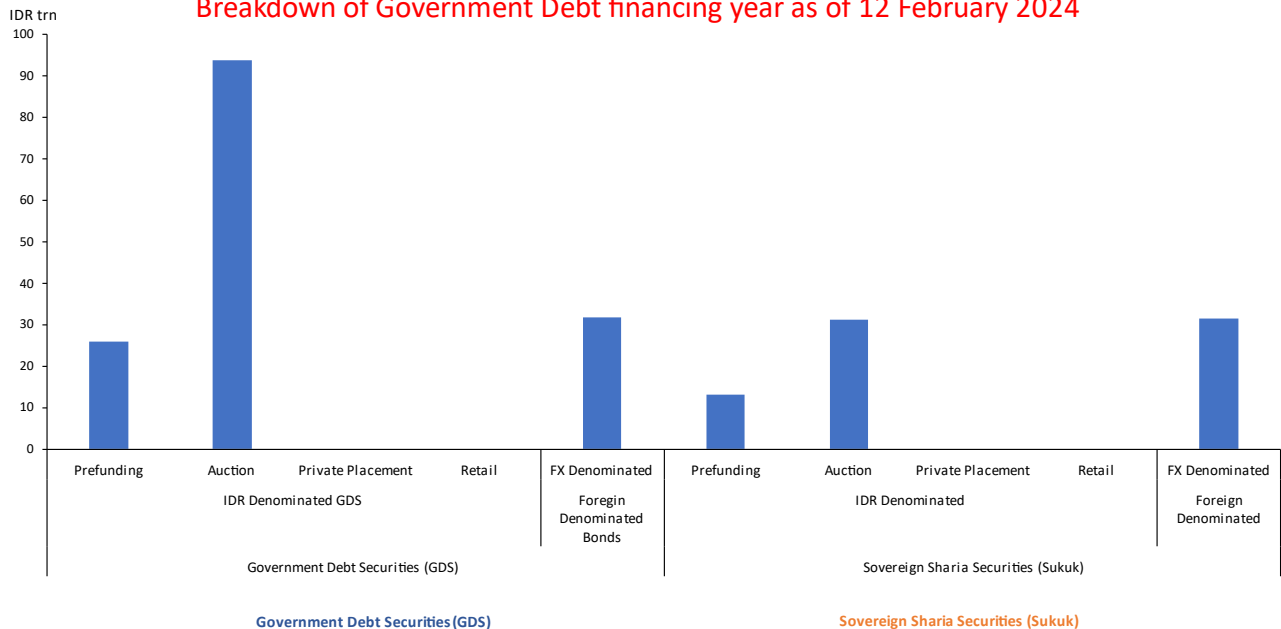


Source: Bank Indonesia, OCBC Research

Interest Rates Focus

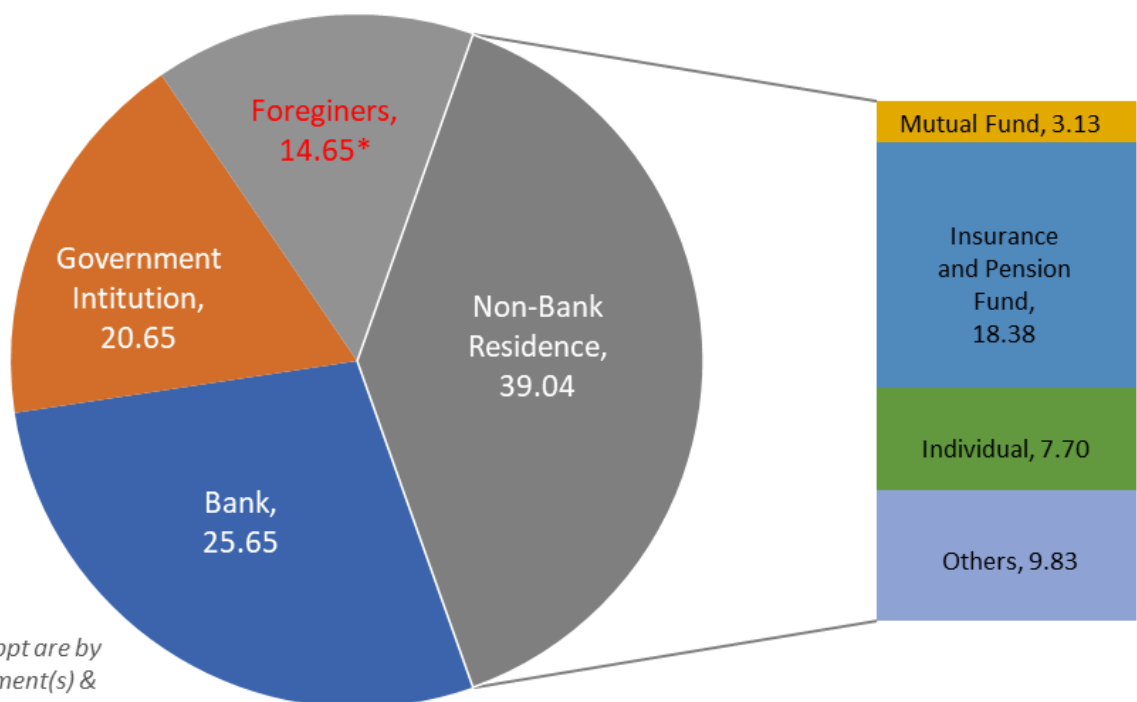
26 February 2024

Breakdown of Government Debt financing year as of 12 February 2024



Source: DJPPR, OCBC Research

Ownership of Tradable Domestic Government Securities as of 12 Feb 2024, %



Source: DJPPR, OCBC Research

Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

Interest Rates Focus

26 February 2024

Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Keung Ching (Cindy)

Hong Kong & Macau Economist

Cindyckung@ocbc.com

Herbert Wong

Hong Kong & Macau Economist

HerbertWong@ocbc.com

Lavanya Venkateswaran

Senior ASEAN Economist

LavanyaVenkateswaran@ocbc.com

Ahmad A Enver

ASEAN Economist

Ahmad.Enver@ocbc.com

Jonathan Ng

ASEAN Economist

JonathanNg4@ocbc.com

Ong Shu Yi

ESG Analyst

ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA

Rates Strategist

FrancesCheung@ocbc.com

Christopher Wong

FX Strategist

ChristopherWong@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo, CFA

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei, CFA

Credit Research Analyst

WongHongWei@ocbc.com

Chin Meng Tee, CFA

Credit Research Analyst

MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).