

## Interest Rates Focus

5 April 2023

### IndoGB Watch: recent auctions and Q2 supply

- IndoGBs underperformed USTs over the past month as UST rallied to a larger extent upon safe-haven flows amid a largely US-centric issue. Short-end IndoGB-UST yield differentials improved somewhat as a result but are still narrow. Domestically, Q2 bond supply came in on the low side, as there is no funding pressure given Indonesia's comfortable fiscal position thus far this year, while budget financing is ahead of schedule. The sanguine supply outlook however has not come with a huge surprise. Room for IndoGB yields to go lower is limited given still compressed yield differentials with USTs and continued operation twist. We maintain a flattening bias on the IndoGB curve.
- Bonds were issued at indicative target amount at each of the auctions in March and at the latest one on 4 April, in line with our expectation. Looking ahead, we continue to expect MoF to try to issue at around indicative target amounts when the market condition is constructive, with no pressure to upside issuances. On the other hand, MoF may still adjust issuance amounts lower to cap cut-offs if need be, as per the usual strategy.

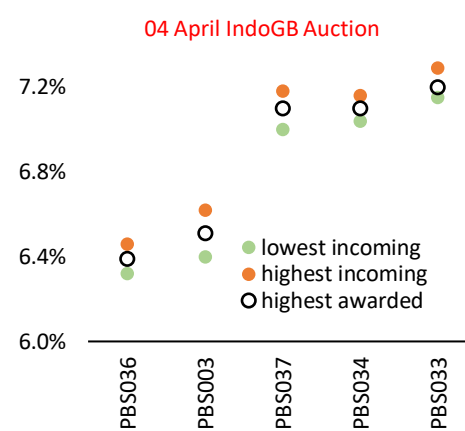
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### Recent auction results



Source: DJPPR, OCBC

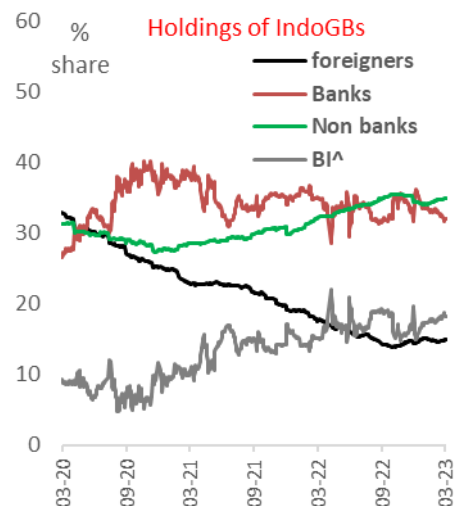
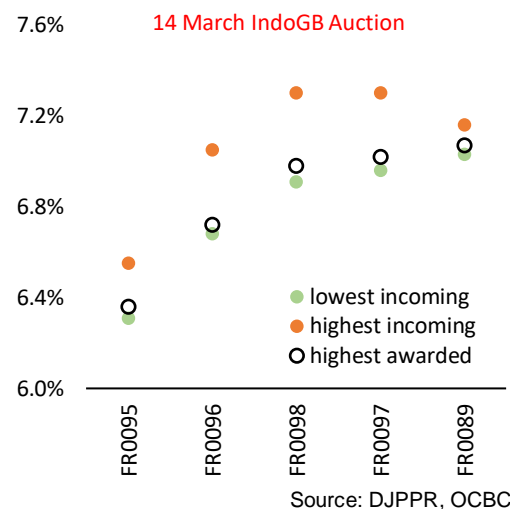
**Table 1. Issuance calendar**

Months	Auction Dates	SPN	ON								SPNS					PBS					Total incoming Bid IDRtrn	Total Awarded Bid IDRtrn	Quarterly Target/issued Amount IDRtrn		
January	03-Jan-23	3M	12M	5Y	10Y	15Y	20Y	30Y													28.32	19.20	221.2		
	10-Jan-23								6M	2Y	4Y		13Y	17Y	25Y						17.45	13.85			
	17-Jan-23	3M	12M	5Y	10Y	15Y	20Y	30Y													59.05	23.00			
	24-Jan-23								6M	2Y	4Y	7Y	13Y		25Y						28.55	14.15			
	31-Jan-23	3M	12M	5Y	8Y	10Y	15Y	20Y	30Y												67.06	23.00			
																						200.44		93.20	
February	07-Feb-23								6M	2Y	4Y		13Y	17Y	25Y						26.26	14.00			
	14-Feb-23	3M	12M	5Y	10Y	15Y	20Y	30Y													55.98	20.00			
	21-Feb-23								6M	2Y	4Y	7Y	13Y		25Y						30.45	12.00			
	28-Feb-23	3M	12M	5Y	10Y	15Y	20Y	30Y													45.97	20.00			
																						158.66		66.00	
March	07-Mar-23								6M	2Y	4Y		13Y	17Y	25Y						19.96	11.00			
	14-Mar-23	3M	12M	5Y	10Y	15Y	20Y	30Y													52.66	20.00			
	21-Mar-23								6M	2Y	4Y	7Y	13Y		25Y						23.51	11.00			
	28-Mar-23	3M	12M	5Y	10Y	15Y	20Y	30Y													29.34	20.00			
																						125.48		62.00	
																						484.58		221.20	
April	04-Apr-23								6M	2Y	4Y		13Y	17Y	25Y						24.77	90.00			
	11-Apr-23	3M	12M	5Y	10Y	15Y	20Y	30Y																	
May	09-May-23								6M	2Y	4Y	7Y	13Y		25Y										
	16-May-23	3M	9M		5Y	10Y	15Y	20Y	30Y																
	23-May-23								6M	2Y	4Y		13Y	17Y	25Y										
	29-May-23	3M	12M	5Y	8Y	10Y	15Y	20Y	30Y																
June	06-Jun-23								6M	2Y	4Y	7Y	13Y		25Y										
	13-Jun-23	3M	9M		5Y	10Y	15Y	20Y	30Y																
	20-Jun-23								6M	2Y	4Y		13Y	17Y	25Y										
	27-Jun-23	3M	12M	5Y	10Y	15Y	20Y	30Y																	

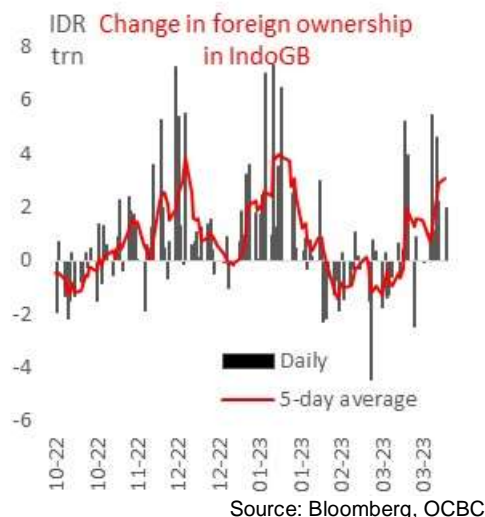
Source: DJPPR, OCBC

- Recent auctions.** The latest conventional bond sales on 28 March attracted incoming bids of IDR29.34trn only, versus IDR52.66trn and IDR45.97trn at the previous two conventional bond auctions in the month. Nevertheless, the cut-offs were well managed, with those for FR95 and FR96 roughly in the middle between highest incoming bid and the lowest incoming bid levels. The conventional bond auction on 14 March benefitted from the supportive bond market environment, with all the cut-offs coming in very near the lowest incoming bids without the need to issue below target amount. Most of the incoming bids again went to FR96 (the 10Y bond). The recent debt-switch also reflect interests from participants to switch into FR96.
- Debt financing.** As of 28 March, MoF managed to raise IDR222.96trn of funds, vs full-year budget financing need of IDR598.2trn and full-year debt financing need of 696.3trn. The recent retail sukuk bond sales raised another IDR21.5trn on 3 April. Meanwhile, MoF registered a budget surplus of IDR131.8trn during the first two months of the year. Financing activities are ahead of schedule, while the cash balance thus far can act as a buffer against volatile market conditions.
- Q2 supply.** The MoF target to issue IDR130trn of bonds via auctions in Q2. The amount likely means indicative target of IDR17trn for individual conventional bond auction and of IDR9trn for individual sukuk auction, as there are 5 auctions each for the respective bonds in the quarter. The amount is on the low side but did not come as a huge surprise given the comfortable fiscal position and budget financing thus far this year. There is no auction after the auction on 11 April and before the one on 9 May, which has been well noted.
- Investor flows.** Among local investors, banks reduced holdings to IDR1.75trn as of end March from IDR1.81trn at end February; non-bank investors increased holdings to IDR2.74trn from IDR2.68trn. Foreign investors made a comeback, with IndoGBs registering inflows of IDR14.2trn in March; Foreign holdings stood at IDR820.5trn, or 14.93% of outstanding, as of 3 April. Percentage of bonds held by foreign investors which are of tenors above 5Y to 10Y rose further to 44.03%, from 42.62% at end-February. The recent debt switch also reflected strong interest from market participants to switch into FR96 (the 10Y bond).
- BI FX deposit.** Demand for the FX deposit (TD Valas DHE) has thus far concentrated on the 1M tenor; the FX TD being relatively new and the highly volatile USD rates of late may be the reasons that exporters adopted a wait-and-see approach. We do however note some progress, with some offer at the 3M instrument on one of the days, and with interest being extended from tier 1 to tier 2 and 3 reflecting a broader participant base.

### Recent auction results



### Bond flows

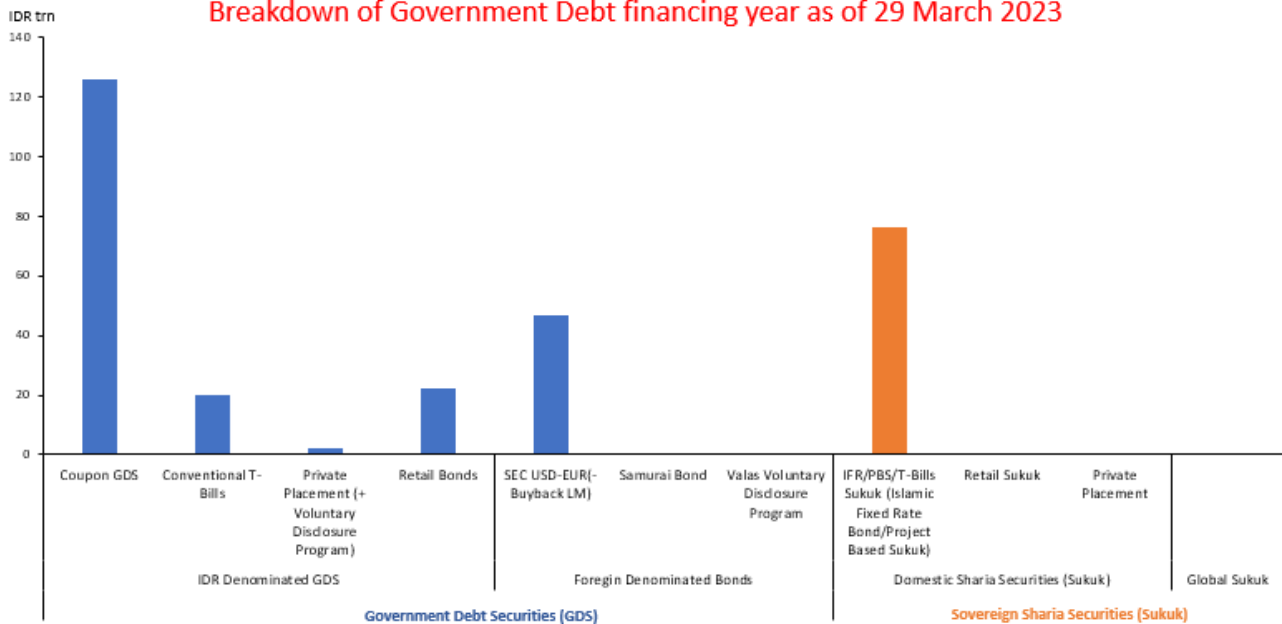


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### Debt financing

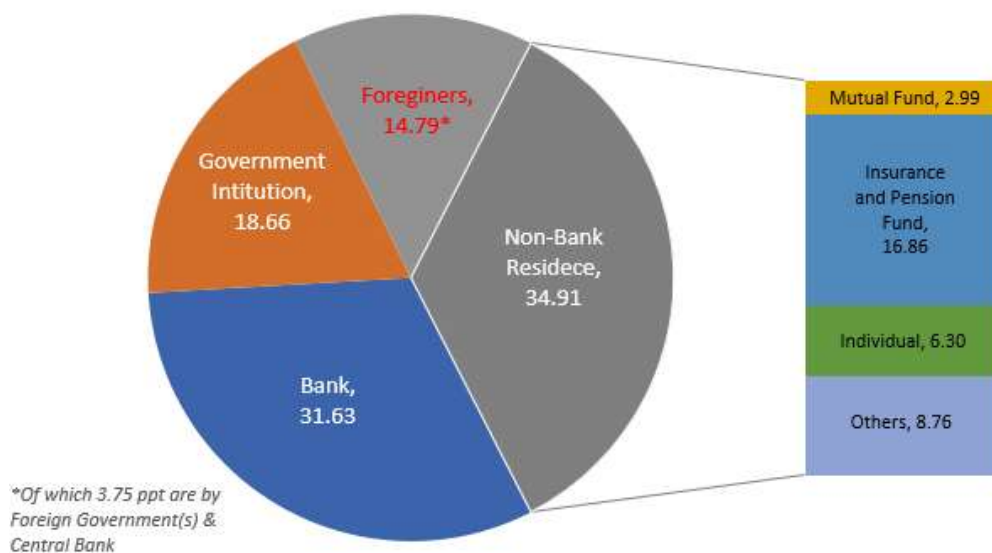
Breakdown of Government Debt financing year as of 29 March 2023



Source: DJPPR, OCBC

### Bond holders

Ownership of Tradable Domestic Government Securities as of 29 March 2023, %



Source: DJPPR, OCBC

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