

## Interest Rates Focus

10 November 2023

### IndoGB Watch

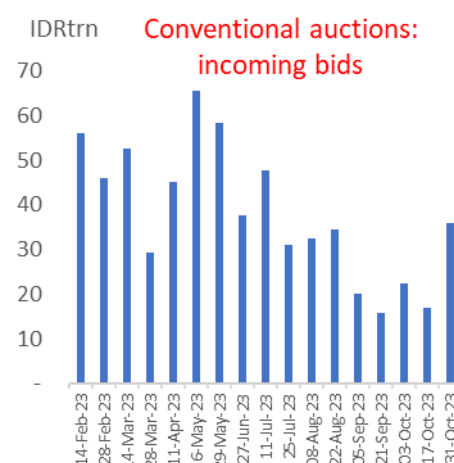
- IndoGBs underperformed USTs over the past month especially at the short end, as Bank Indonesia delivered a surprise 25bp policy repo rate hike, and thereafter the FOMC kept Fed funds rate unchanged. Since the BI policy rate hike, rates on SRBI have risen by a cumulative 48-60bps, reflecting expectation for some more tightening. The IndoGB curve flattened as short-end yields rose more. The recent UST rally has given IndoGBs some respite; longer-end IndoGB yields have mostly retraced nearer to levels before BI policy rate hike, while front-end yields stay higher.
- At this juncture, investors may choose to stay cautious in view of the risk of further policy tightening – OCBC economists expect a total of 50bp hikes. On a more positive note, short-end yield differentials with USTs have improved (widened), which might have contributed to the recent improvement in bond flows. IndoGBs saw outflows of IDR12.6trn in October vs the outflows of IDR23.3trn in September, and month-to-date (as of 7 November) inflows of IDR7.0trn. On balance, we have a mild upward bias to IndoGB yields as yield differentials are still narrow, the 10Y UST yield undershot our year-end target, and the high SRBI rates may have some spillover effect on bond yields.

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Source: DJPPR, OCBC

**Table 1. Issuance calendar**

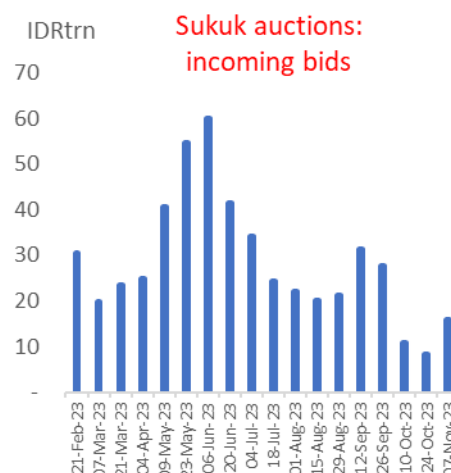
Months	Auction Dates	SPN		ON						SPNS					PBS					Total incoming Bid IDRtrn	Total Awarded Bid IDRtrn	Quarterly Target/Issued Amount IDRtrn								
July	04-Jul-23										6M	2Y	4Y	7Y	13Y						34.05	6.00	119.7							
	11-Jul-23	3M	9M		5Y		10Y	15Y	20Y	30Y											47.80	13.00								
	18-Jul-23										6M	2Y	4Y							13Y	17Y	25Y		24.32	6.00					
	25-Jul-23	3M		12M	5Y		10Y	15Y	20Y	30Y														31.00	13.00					
Total																													137.17	38.00
August	01-Aug-23										6M	2Y	4Y	7Y	13Y							22.05		6.00						
	08-Aug-23	3M	9M		5Y	8Y	10Y	15Y	20Y	30Y												32.54		9.85						
	15-Aug-23										6M	2Y	4Y							13Y	17Y	25Y		20.18	6.00					
	22-Aug-23	3M		12M	5Y		10Y	15Y	20Y	30Y														34.60	7.87					
Total																													130.66	35.72
September	05-Sep-23	3M	9M		5Y		10Y	15Y	20Y	30Y												20.10		13.20						
	12-Sep-23										6M	2Y	4Y							13Y	17Y	25Y		31.33	9.00					
	19-Sep-23	3M		12M	5Y		10Y	15Y	20Y	30Y													28.79	15.80						
	26-Sep-23										6M	2Y	4Y	7Y	13Y								27.78	8.00						
Total																												108.00	46.00	
Q3 Total																												375.83	119.72	
October	03-Oct-23	3M	9M		5Y		10Y	15Y	20Y	30Y												22.42	9.30							
	10-Oct-23										6M	2Y	4Y							13Y	17Y	25Y	10.75	5.00						
	17-Oct-23	3M		12M	5Y		10Y	15Y	20Y	30Y													16.99	10.20						
	24-Oct-23										6M	2Y	4Y	7Y	13Y								8.25	2.03						
Total																												35.87	19.30	
Total																												94.28	45.83	
November	07-Nov-23										6M	2Y	4Y							13Y	17Y	25Y	15.87	2.24						
	14-Nov-23	3M		12M	5Y		10Y	15Y	20Y	30Y																				
	21-Nov-23										6M	2Y	4Y	7Y	13Y															
Total																														
December	05-Dec-23										6M	2Y	4Y	7Y	13Y															
	12-Dec-23	3M		12M	5Y		10Y	15Y	20Y	30Y																				
	19-Dec-23										6M	2Y	4Y							13Y	25Y									
Total																														
Q4 Total																														

Source: DJPPR, OCBC \*Initial target

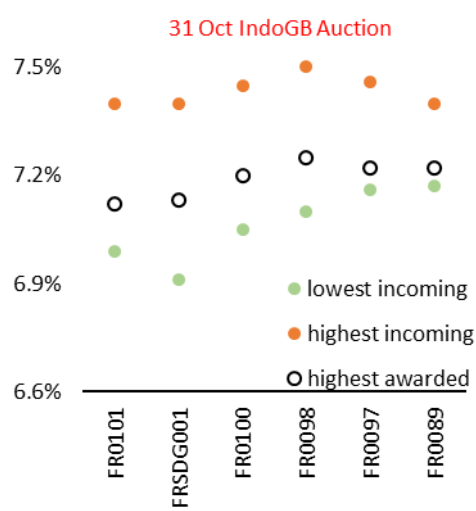
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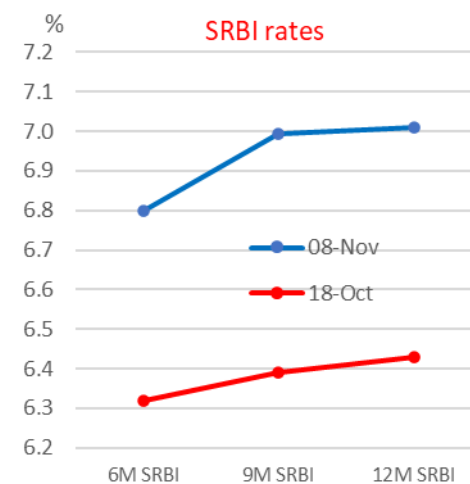
- Recent auctions.** Demand at auctions in September and October was generally soft, with incoming bid amounts on the low side especially at the sukuk auction on 24 October. Demand recovered somewhat at the recent two auctions. The conventional bond auction on 31 October garnered decent incoming bid of IDR35.87trn; but bid yield levels came in at wide ranges; and although MoF managed to pull cut-offs away from highest incoming bid levels, the cut-offs were still mostly higher than market levels. Still, MoF issued IDR19.3trn of bonds versus indicative target of IDR19trn, after below-target amount issuances at earlier auctions. At the sukuk auction on 7 November, however, only IDR2.24trn of bonds were awarded, despite incoming bid amount recovered mildly to IDR15.868trn. There was no allotment to PBS03 (2027 bond), PBS34 (2039 bond) or PBS33 (2047 bond). Cut-off for PBS36 was at the middle of the highest and lowest incoming bid levels; cut-off for PBS37 (2036 bond) was near the lowest incoming bid level. Quarter-to-date gross issuances amount to IDR48trn. There are three conventional bond auctions and three sukuk auctions left in the remainder of the year; uncertainty is high regarding individual sizes, as there appears to be flexibility on MoF side.
- Investor flows.** Non-bank domestic investors have been a major supporter of IndoGBs over recent months, with the shares of bonds held by insurance/pension funds and individual investors having edged higher. Compared to end-September, non-bank domestic investors' holdings increased by IDR39.5trn to IDR2977trn as of 7 November; banks' holdings of IndoGBs fell by IDR31.4trn to IDR1605trntrn; foreign investors' holdings edged down by IDR3.4trn to IDR820trn, or 14.8% of outstanding; Bank Indonesia holdings (excluding those under monetary operations) increased by IDR25.4trn to IDR956trn. In October, foreign outflows amounted to IDR12.6trn, smaller than the outflows of IDR23.3trn registered in September. Month-to-date (as of 7 November), IndoGBs saw inflows of IDR7.0trn.
- SRBI.** Since the policy rate hike, rates on SRBI have risen by a cumulative 48-60bps, reflecting expectation for some more tightening. The weighted awarded yields at the latest SRBI auctions on 3 November were 6.80%, 6.99% and 7.00% for the 6M, 9M and 12M tenors, respectively. The sizes at each auction have been falling, as we had earlier commented that the initial big size should not become the norm. Outstanding reverse repos has been falling upon the cessation of 6M to 12M RR operation, offsetting a large part of the increases in SRBI. Liquidity-wise the impact of SRBI may not be prominent, but arguably SRBI, rather than RR, is in competition with short-end bonds for demand; on balance, there has been some spillover of the high SRBI rates onto short-end IndoGB yields. At current level, 2Y IndoGB yield at around 6.7% is still lower than the 12M SRBI rate of 7.0%.



Source: DJPPR, OCBC Research



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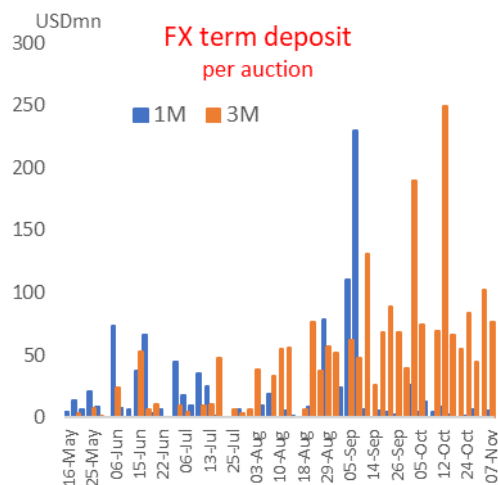


Source: Bank Indonesia, OCBC Research  
\*Weighted awarded rates

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- BI FX deposit.** There were some notable increases in demand for 3M FX term deposit (TD Valas DHE) given the 3-month holding period requirement. However, there is still no demand for 6M FX deposit. This suggests exporters may be unwilling to commit to keeping foreign currencies onshore for longer which may be partly due to the uncertain USD rates outlook and as such exporters avoided locking in the rates for a longer time horizon. The rates on BI FX term deposit have stayed comparable to onshore USD rates, while implied USD rates from FX swaps are higher. **New OMO FX instruments** – SVBI and SUVBI (the sukuk version) – will start on 21 November. These are foreign currency-denominated securities issued by BI with underlying assets in foreign currencies owned by BI. BI said the aim is to deepen the money market and to attract portfolio inflows.



Source: Bank Indonesia, OCBC  
\*data as of 7 November

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