

Selling more time

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Summary

- The improving demand conditions in the SBN market have allowed the government to start issuing more SBN over the past month, including an ultra-long IDR-denominated bond that may mark a shift in the government's debt issuance strategy.
- The government may look to issue more longer-dated bonds in the coming periods, given the reduced competition at the longer end of the global bond market.
- Lower refinancing risks and the marginal difference in coupon rates between medium- and long-term bonds increase the appeal for the government to add more duration to the SBN market.

- The global financial market suffered another turbulent week. Weak July 2024 US employment data (7.67 million actual vs. 8.1 million expected) has reignited recession fears, while investors have also downgraded the P/E multiple in the US stock market as the reported concentration risk regarding an AI company's revenue stream has further highlighted concerns over a slower pace of revenue growth in the AI sector in the upcoming quarters.
- The 4.25% decline in the S&P 500 index over the past week was overshadowed by the 5.97% week-on-week (WoW) decline in the Japanese stock market. Investors are fretting about Governor Ueda's signal that the Bank of Japan is monitoring growth and inflation data for potential rate hikes, a fear compounded by Chief Cabinet Secretary Hayashi's remarks that the government prefers to cushion economic shocks by increasing expenditures. JGB yields may rise again, meaning that the spectre of JPY carry trade unwinding could once again haunt the US (and global) market.
- Luckily, the Indonesian financial market continues to rise above the turbulent weather. The SRBI market may have suffered from the worst weekly capital outflows since its inception (-USD 0.48 billion) as BI moved to unwind its SRBI outstanding, but the combined USD 0.32 billion inflows into domestic stocks and sovereign bond markets helped fill the gap. The still-robust demand for SBN and the lower benchmark SBN yield (6.59% for the 10Y SBN, the lowest since February 28, 2024) seem to have emboldened the government to issue more SBN, as indicated by the uptick in SBN issuance over the past three months (*see Chart 1*).

Lengthening what is already long

- The government’s improving confidence in the SBN market is not only reflected in the total size of its issuance. The government has also added more duration to the market by issuing a 40-year IDR-denominated bond in the final week of August 2024, which will pay investors a 6.875% coupon until July 2064.
- The decision to issue the ultra-long bond is in sharp contrast to the government’s financing strategy in recent years (*see Chart 2*). Since the COVID-19 pandemic struck, Indonesian sovereign bond issuance has become increasingly concentrated on medium-term bonds (>3 to 7 years), while the issuance of long-term bonds (>10 years) has become more limited. This strategy mimics the activist treasury issuance (ATI) in the US, as the US government seeks to finance its growing deficit while simultaneously maintaining liquidity conditions crucial for supporting investments by removing duration risks from the financial market.
- The Indonesian government’s bond-issuing strategy has also largely succeeded in achieving these goals. For instance, the flattening yield curve helps to keep banks’ lending rates stable, leading to loan growth (especially for productive loans) consistently outpacing deposit growth since two or three years ago.
- Nonetheless, it should be noted the Indonesian government’s bond-issuing programme is not a perfect copy of the US Treasury Depart-

“Lower duration in the UST market means that the domestic bond market may need to continue offering premium yields to attract demand”

ment’s ATI. **Whereas UST issuance has shifted from the longer- to the shorter-end of the market, SBN issuance only shifted to the medium-end of the market** (typically between 3-7 years), given relative lack of liquidity at the shorter-end of Indonesia’s government bond market.

- Instead, the short-end is now mostly occupied by SRBI, which is issued by BI as purely a monetary instrument to bolster Rupiah rather than an instrument to fund the government. Thus, **in contrast to ATI in the US, the shift in SBN issuance may not fundamentally alter duration risk in the Indonesian bond market.**

And likewise, adding duration to the SBN market may not have drastic effect on investors’ perceptions.

- Thus, the government may seek to capitalise on the currently stable demand conditions for SBN by continuing to add supply at

the longer end of the SBN market, beyond the IDR 3 Tn issued in August 2024 (which accounts for 7.28% of total IDR bonds issued during the month). First, **a bull steepener event in the SBN market (where long-term bond yields rise due to higher supply while short-term yields may fall due to rate cuts) may further strengthen the demand for SBN**, given the currently depressed spread between the shorter- and longer-end of the market (*see Chart 3*).

- Focusing on the longer end of the sovereign bond market may also help improve the demand conditions for SBN. Depending on the outcome of the upcoming election, the US

government's policy to stimulate industrial investments may lead to the continuation of ATI, which could force the domestic bond market to offer higher yields to attract demand at the shorter end of the global bond market (as the economy has done by issuing SRBI). Therefore, **issuing longer-dated bonds may allow the domestic bond market to cater to the needs of long-term investors**, who have been priced out of options in the global bond market due to the shortening duration in the UST market. This argument is particularly relevant given the slowing demand for SBN from the insurance and pension fund sectors, as a higher supply of longer-dated bonds will allow portfolio managers to better match their assets with their firms' long-term liabilities.

- A longer duration in the SBN market may also benefit the issuer. Firstly, **a longer maturity spread could lower the refinancing risk faced by the government**, especially given the mercurial global financial conditions at the moment. Secondly, **the marginal difference between the coupon rate offered by FR0105 (40-year duration, 6.875%) and FR0103 (11-year duration, 6.75%)** also shows that further lengthening the already long SBN market duration may not significantly impact the government's debt servicing costs, which has been a growing problem recently as the ratio

of interest payments to the government's total revenue has continued to increase over the past three years.

- Apart from stacking arguments for more duration in the SBN market listed above, a simple case of peer pressure may also compel the Indonesian government to continue lengthening the duration in the SBN market (*see Chart 4*). **Unlike Indonesia, economies such as Malaysia have continued to borrow long in the past three years**, while the stabilising political situation in Thailand has also allowed the country to borrow longer in 2024. Indeed, excluding countries with a global reserve currency printer at their disposal, the ability to borrow long and in their own currency is a privilege only available to a select few, and it is interesting to see whether the Indonesian government will seek to benefit from this privilege in the upcoming periods.

“Robust demand for longer-dated bonds and lower refinancing risks may encourage the government to add more supply to the longer-end of the SBN market”

Chart 1

Opportunist prevails

Lower SBN yields amid the improving demand from foreign investors seem to have encouraged the government to issue more SBN.

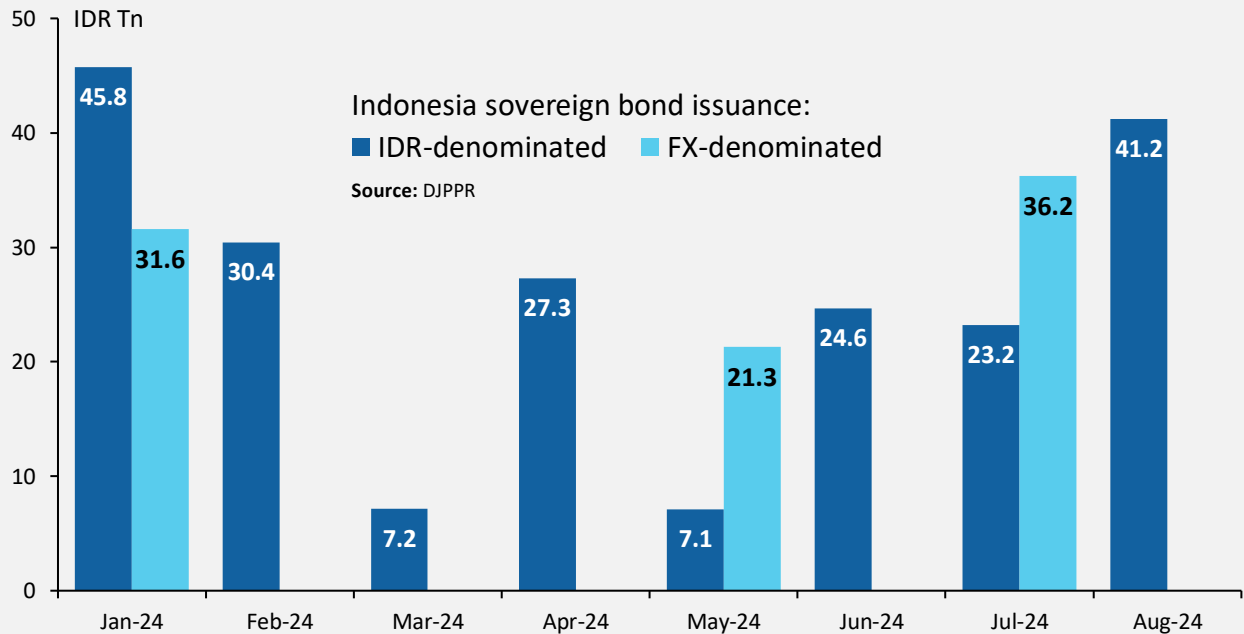


Chart 2

Two peaks

The share of medium-term bonds continues to rise, thus flattening the yield curve that keeps the lending rate in Indonesia low.

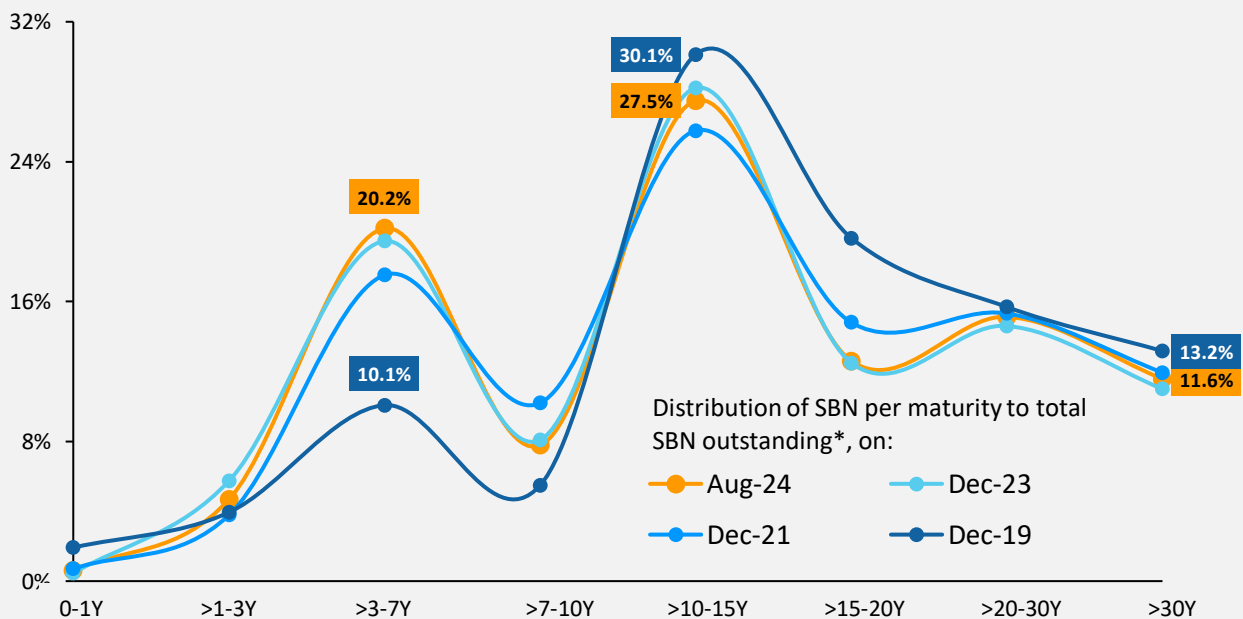
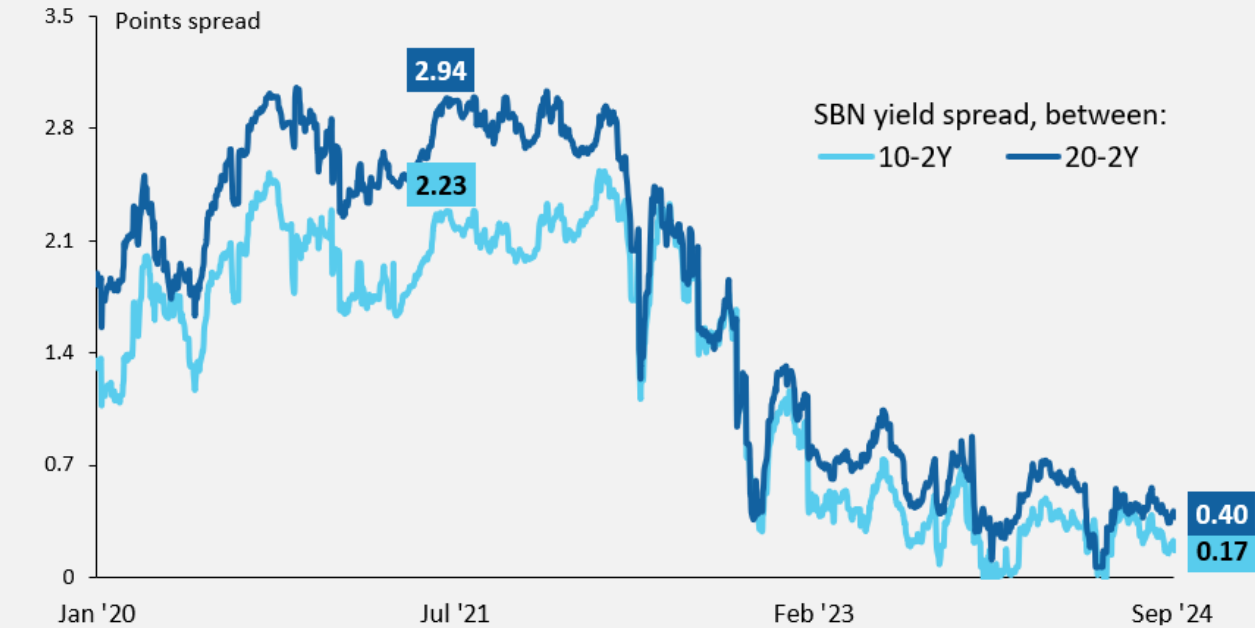


Chart 3

Going longer on a long road

The declining spread between long and ultra long bond yields may create an opportunity for the Indonesian government to add more duration to the SBN market.

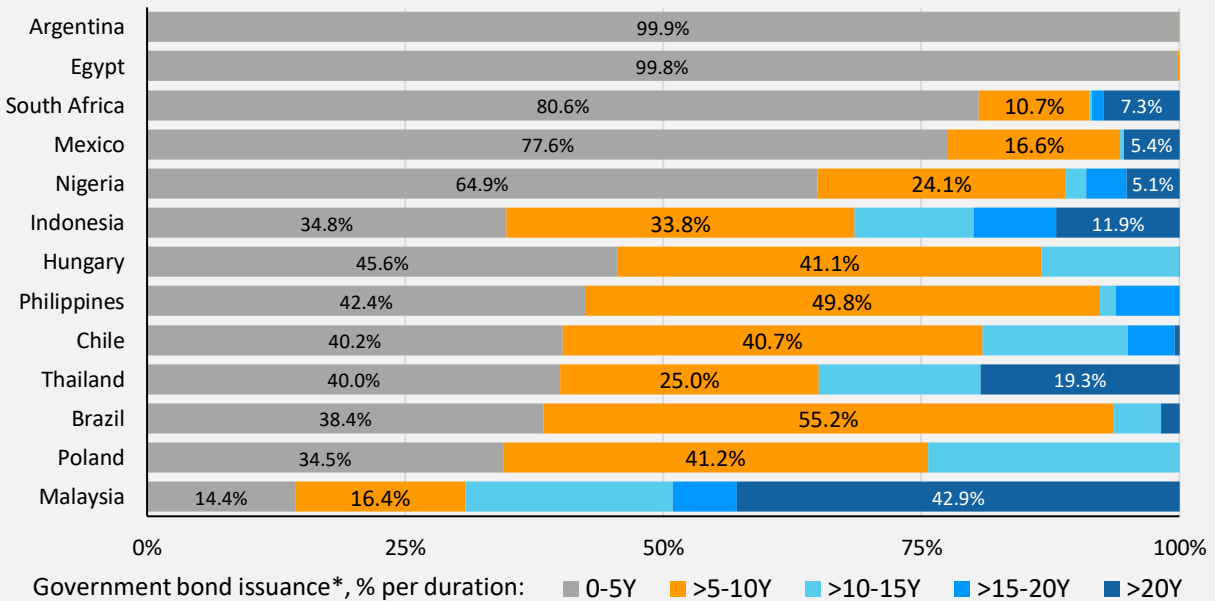


Source: Bloomberg

Chart 4

Shortest in the region

Unlike some of its neighbours, Indonesia continues to remove duration from its domestic sovereign bond market.



Government bond issuance*, % per duration: ■ 0-5Y ■ >5-10Y ■ >10-15Y ■ >15-20Y ■ >20Y
 *excluding FX bonds. Source: Bloomberg.

Economic Calendar				
		Actual	Previous	Forecast*
02 September 2024				
ID	CPI Inflation YoY, %	2.12	2.13	2.30
ID	S&P Global Manufacturing PMI	48.9	49.3	49
03 September 2024				
US	S&P Global Manufacturing PMI	47.9	49.6	4.8
04 September 2024				
US	JOLTs Job Openings, Mn	7.763	7.91	8.09
US	Balance Of Trade, Bn	-78.8	-73	-78.5
US	Redbook YoY, %	6.3	5	4.1
US	JOLTs Job Quits	3.277	3.214	3.1
05 September 2024				
EU	Retail Sales YoY, %	-0.1	-0.4	-0.1
06 September 2024				
ID	Foreign Exchange Reserves, Bn	150.2	145.4	-
US	Non Farm Payrolls	142	89	120
US	Unemployment Rate, %	4.2	4.3	4.3
07 September 2024				
CN	Foreign Exchange Reserves, Tn	3.288	3.256	3.3
09 September 2024				
CN	Inflation Rate YoY, %	0.6	0.5	0.5
10 September 2024				
CN	Balance of Trade, Bn		84.65	79.0
ID	Retail Sales YoY, %		2.7	3.0
11 September 2024				
US	Inflation Rate YoY, %		2.9	2.7
14 September 2024				
CN	Retail Sales YoY, %		2.7	
CN	Unemployment Rate		5.2	
16 September 2024				
EU	Balance of Trade		22.3	
17 September 2024				
ID	Balance of Trade		0.47	2.5
18 September 2024				
ID	Interest Rate Decision		6.25	

*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Sep	-1 mth	Chg (%)
US	5.50	Jul-23	2.60	Baltic Dry Index	1,941.0	1,685.0	15.2
UK	5.00	Aug-23	2.80	S&P GSCI Index	511.1	530.8	-3.7
EU	4.25	Jul-23	2.05	Oil (Brent, \$/brl)	71.1	76.5	-7.1
Japan	-0.10	Jan-16	-2.90	Coal (\$/MT)	141.0	149.0	-5.4
China (lending)	2.30	Aug-23	3.75	Gas (\$/MMBtu)	2.09	1.85	13.0
Korea	3.50	Jan-23	1.50	Gold (\$/oz.)	2,497.4	2,390.8	4.5
India	6.50	Feb-23	2.96	Copper (\$/MT)	8,875.5	8,804.0	0.8
Indonesia	6.25	Jul-24	4.13	Nickel (\$/MT)	15,637.1	16,128.2	-3.0
				CPO (\$/MT)	925.1	872.4	6.0
				Rubber (\$/kg)	1.84	1.70	8.2
Money Mkt Rates	6-Sep	-1 mth	Chg (bps)	External Sector	Jul	Jun	Chg (%)
SPN (3M)	6.42	6.56	-13.6	Export (\$ bn)	22.21	20.85	6.55
SUN (10Y)	6.60	6.80	-20.0	Import (\$ bn)	21.74	18.45	17.82
INDONIA (O/N, Rp)	6.31	6.25	6.1	Trade bal. (\$ bn)	0.47	2.39	-80.29
JIBOR 1M (Rp)	6.90	6.90	-0.1	Central bank reserves (\$ bn)*	145.4	140.2	3.74
Bank Rates (Rp)	Jun	May	Chg (bps)	Prompt Indicators	Jul	Jun	Apr
Lending (WC)	8.82	8.86	-3.79	Consumer confidence index (CCI)	123.4	123.3	127.7
Deposit 1M	4.70	4.68	2.60	Car sales (%YoY)	-7.9	-11.8	-17.4
Savings	0.67	0.67	0.02	Motorcycle sales (%YoY)	24.1	3.5	18.3
Currency/USD	6-Sep	-1 mth	Chg (%)	Manufacturing PMI	Aug	Jul	Chg (bps)
UK Pound	0.762	0.788	3.45	USA	47.9	49.6	-170
Euro	0.902	0.915	1.40	Eurozone	45.8	45.8	0
Japanese Yen	142.3	144.3	1.43	Japan	49.8	49.1	70
Chinese RMB	7.098	7.156	0.81	China	50.4	49.8	60
Indonesia Rupiah	15,365	16,165	5.21	Korea	51.9	51.4	50
				Indonesia	48.9	49.3	-40
Capital Mkt	6-Sep	-1 mth	Chg (%)				
JCI	7,721.8	7,129.2	8.31				
DJIA	40,345.4	38,997.7	3.46				
FTSE	8,181.5	8,026.7	1.93				
Nikkei 225	36,391.5	34,675.5	4.95				
Hang Seng	17,444.3	16,647.3	4.79				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	3,322.0	3,322.0	0.00				
Govt. Bond	852.3	813.1	39.24				
Corp. Bond	7.0	7.6	-0.62				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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