

Outlook 2019

WAVE OF CHANGE



Fixed Income Dealing Room

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Strength

- Inflation Stability
- Stable Economic Growth
- Less Budget Deficit Target

Weakness

- Δ Populist Policy in Election Year
- Δ Central Bank Hawkish Policy
- Δ Rupiah Depreciation

- Higher Commodity Price
- Lower Tension of Trade War
- Developing Countries Recovery

Opportunity

- Δ Slower Economic Growth
- Δ Higher World Interest rates
- Δ Volatility of European Economy
- Δ US Policy Uncertainty

Threats

Executive Summary

Economic Outlook

Domestic

Indonesia economic growth projection are 5.16%

Inflation stable at 3.21%

Rupiah would depreciate to average Rp 14.679 / US Dollar

BI would hike 7-DRR 3 times to 6.75%

Global

Fed Funds Rate would reached 3.25%

World economic growth would be stagnated at 3.7%

Bond Market Outlook

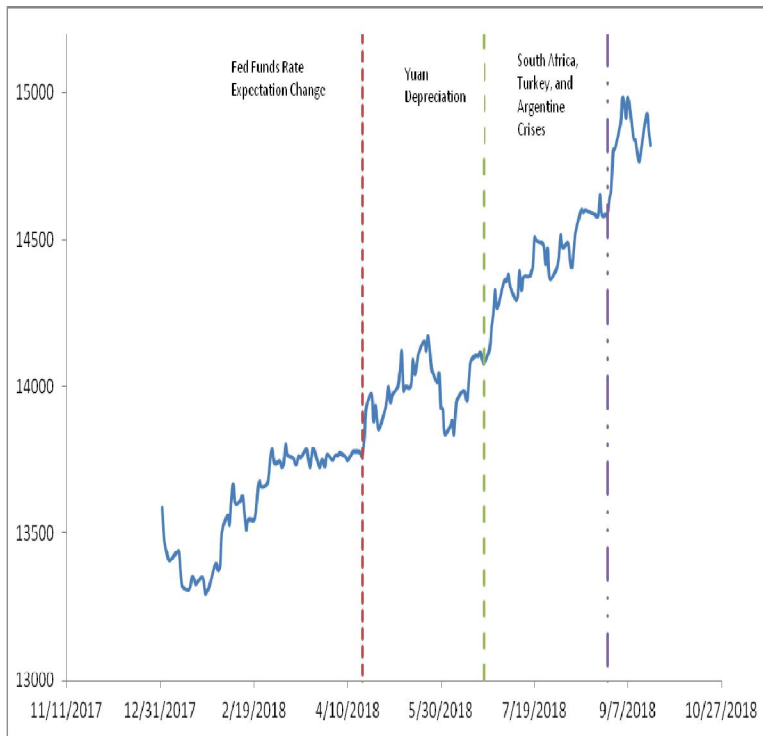
Indonesia 10-years bond benchmark 2019 (FR0078) price would be 99.03 – 103.54

SPN 3 months yield would be 5.13% - 5.90%

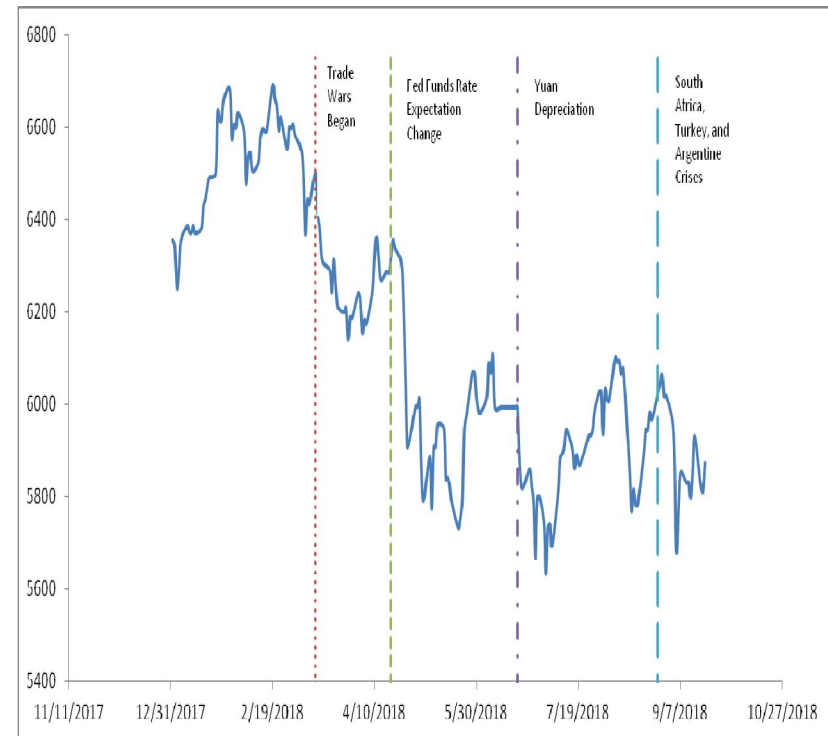
Kaleidoscope : 2018

Global Issues Impact to Indonesia

USD/IDR 2018



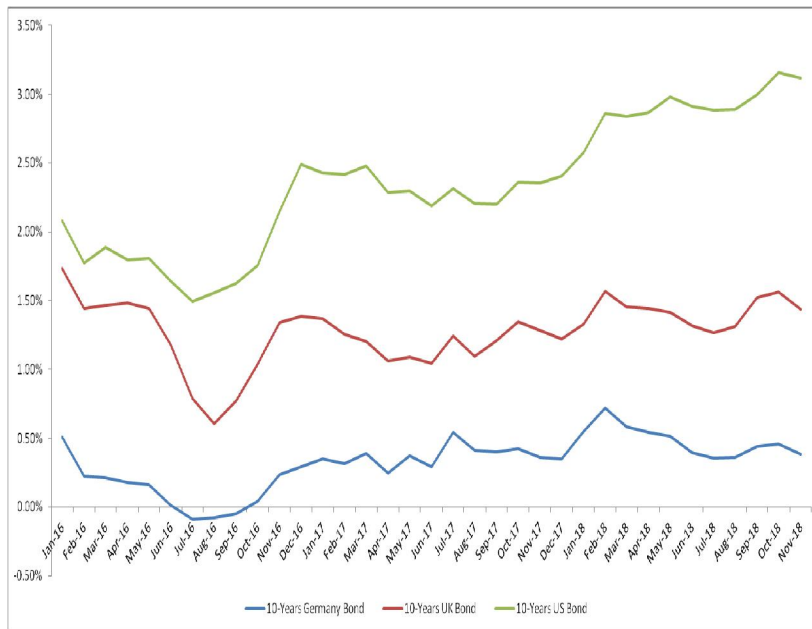
Jakarta Composite Index 2018



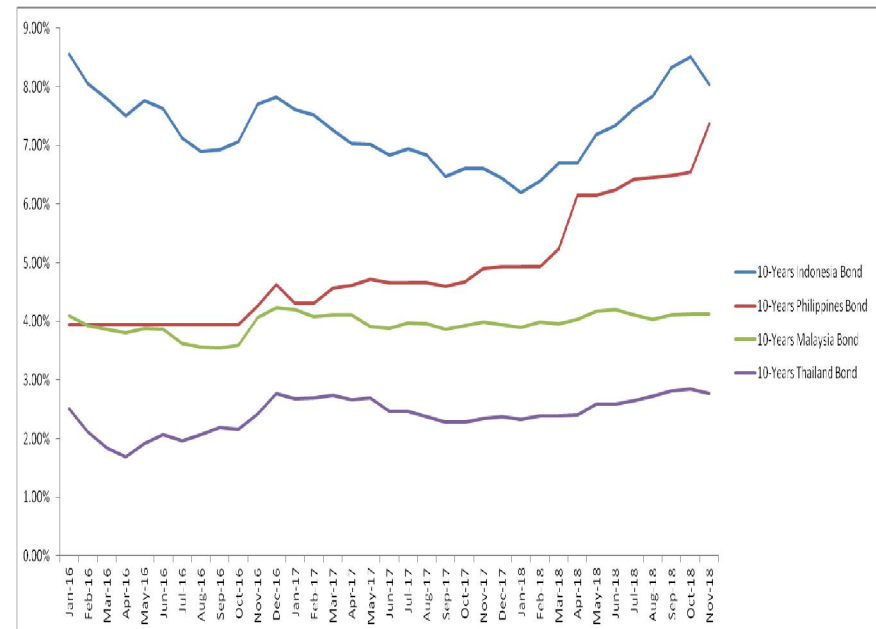
Trade war issues, The Fed monetary policy, and emerging markets crises pushed USD/IDR higher and JCI lower.

Global Bonds

Global Bonds Benchmark Yield



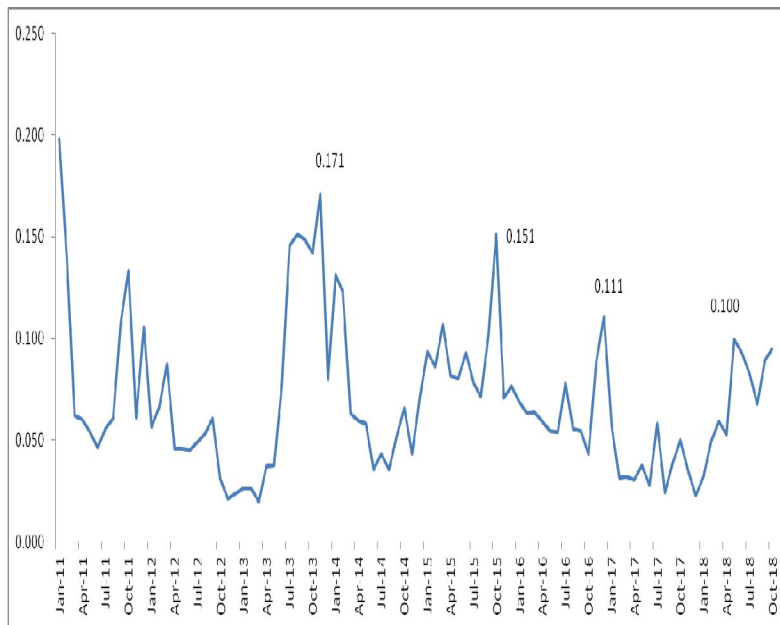
Indonesia and ASEAN Bonds



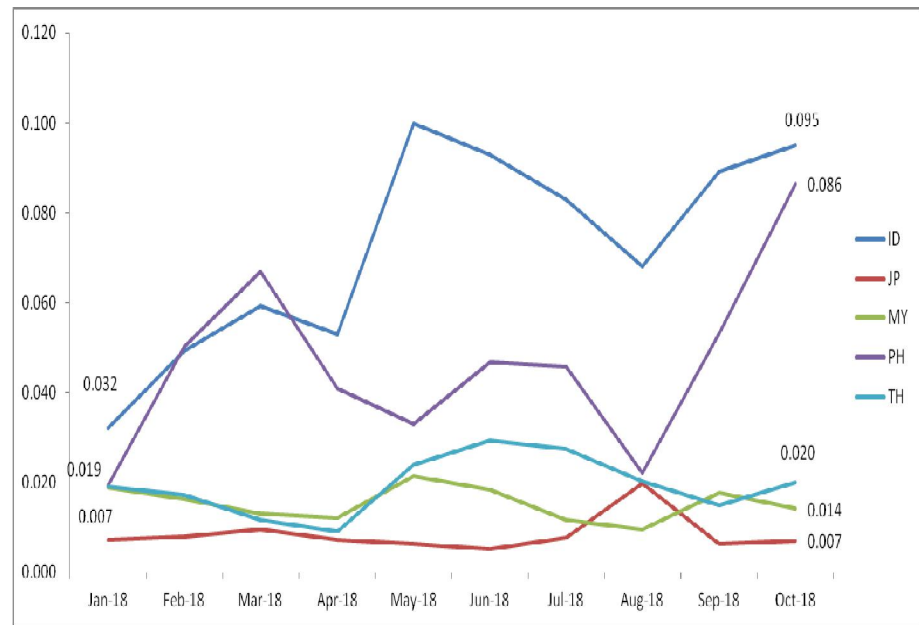
10-years US bond yield tend to move upward in 2018, while 10-years UK Bond yield and 10-years Germany bond yield tend to flatten. In ASEAN, 10-years US bond yield movement affected 10-years Indonesia bond yield and 10-years Philippines bond yield, which also moved upward while the other countries in ASEAN tend to flatten.

Bond Volatility

Indonesia Bond Volatility Index



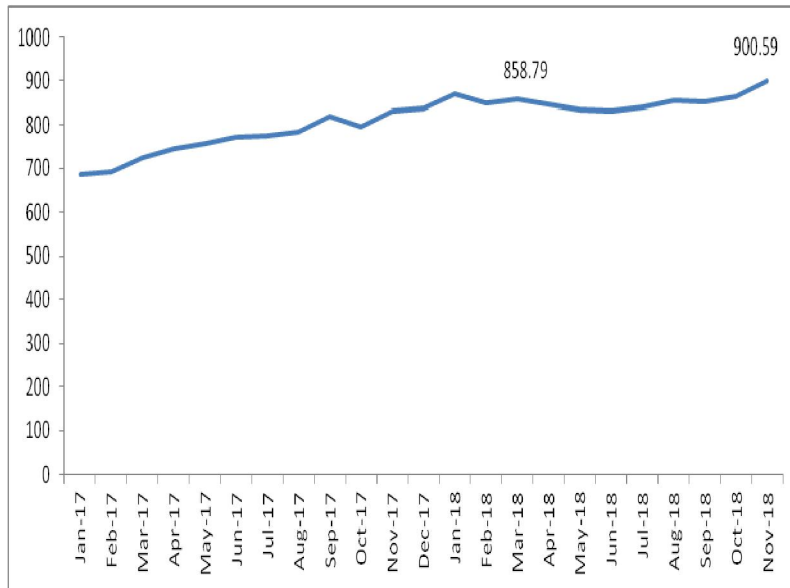
ASEAN Bond Volatility Index



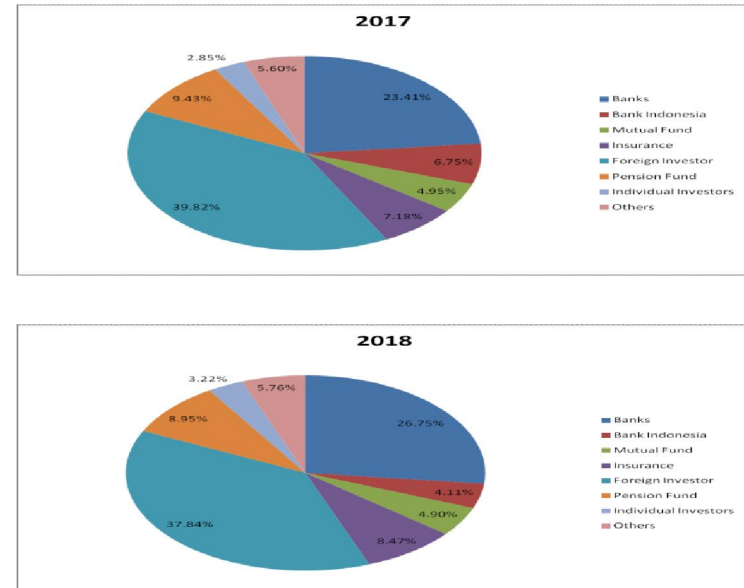
Bond volatility in 2018 was the highest in October since 2016. However, bond volatility in Indonesia was still higher compared to other ASEAN countries. Because of the volatility, Indonesia bond price were easily affected by US yield movement

Foreign Ownership in Government Bonds

Foreign Ownership in Government Bonds
(IDR Billion)



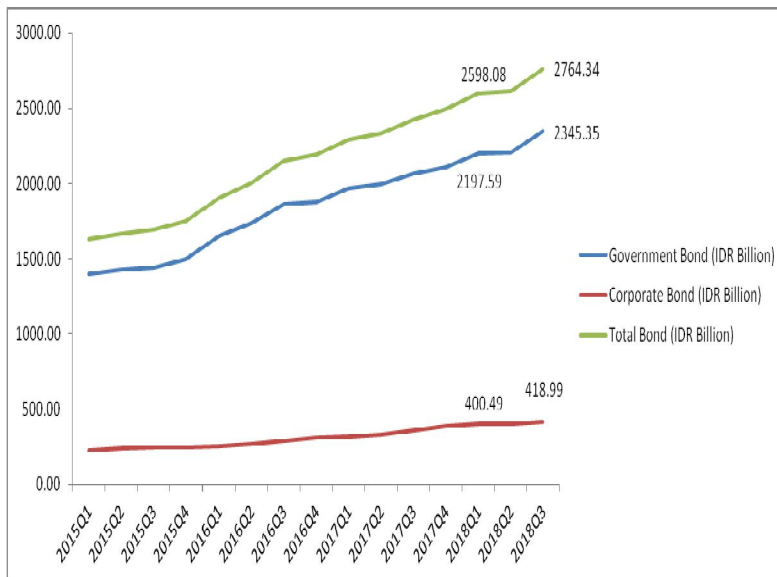
Foreign Ownership of Government Bonds
Proportion (%)



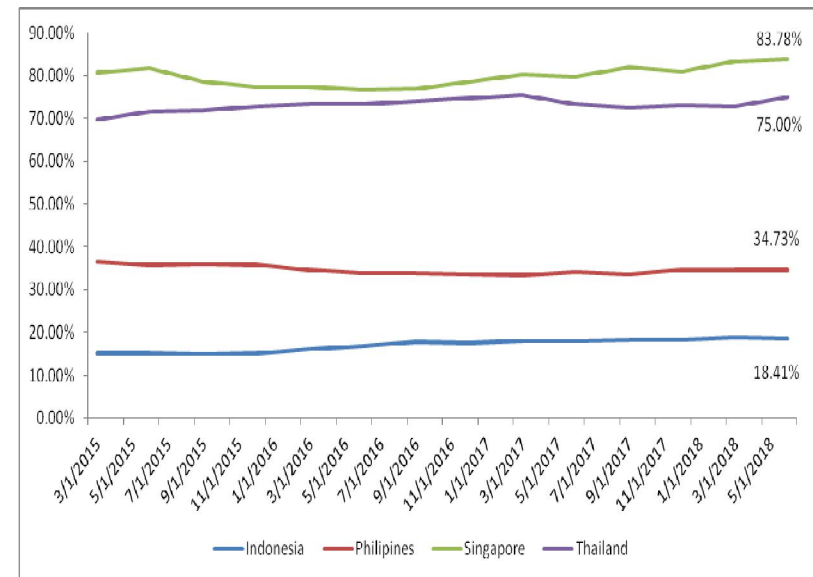
In 2018 bond market, foreign investors turned to net buy IDR 42 trillion for government bonds, highest recorded foreign ownership in government bonds. However, proportion foreign ownership in government bonds were lower than 2017, while proportion of bank ownership rose significantly.

Bond Market Size

Indonesia Bond Market Size (IDR Billion)



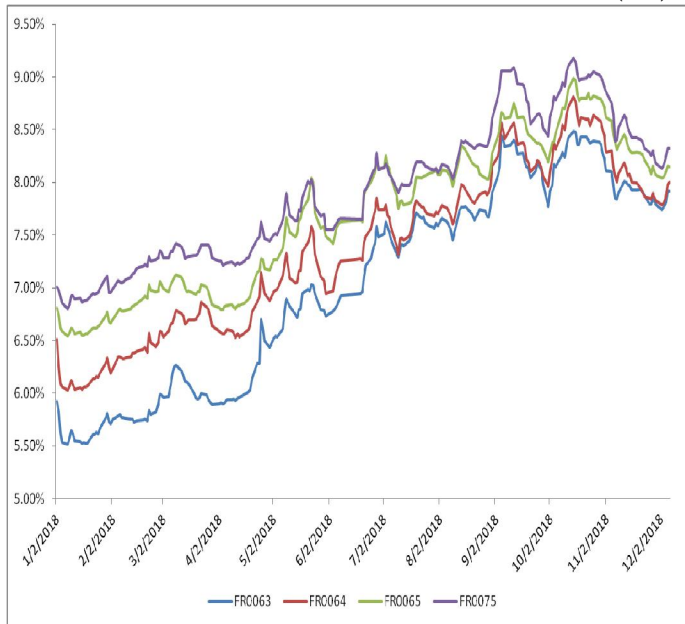
ASEAN Bond Market Size (%GDP)



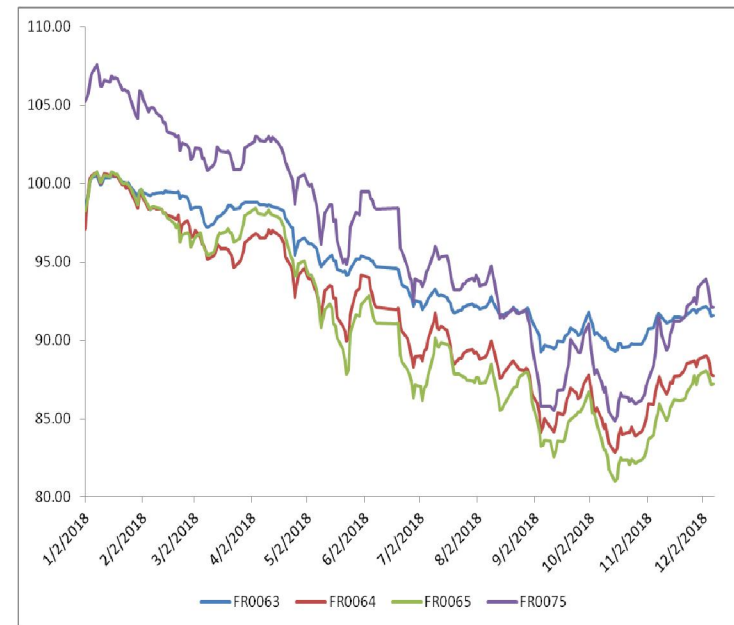
Until 3rd quarter of 2018, bond market size had grown 10.70%, which was mainly contributed by size increasing in government bond. However, in terms of market-to GDP proportion, Indonesia was still behind other ASEAN countries.

Bond Benchmark Yield and Price

Yield of Benchmark Bond in 2018(%)



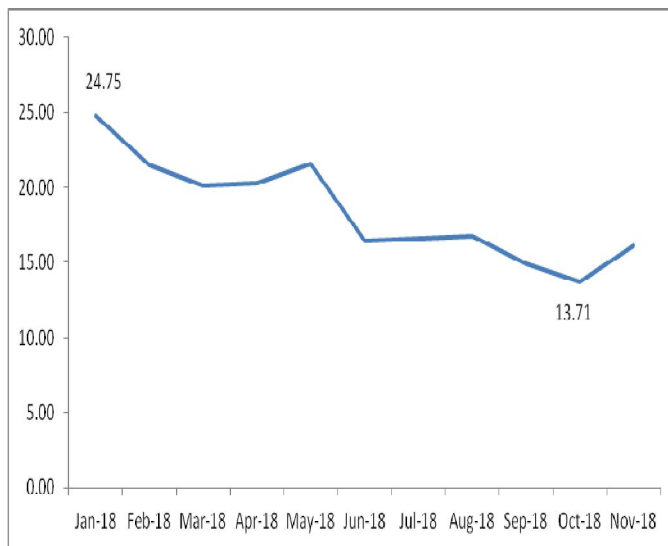
Price of Benchmark Bond in 2018(%)



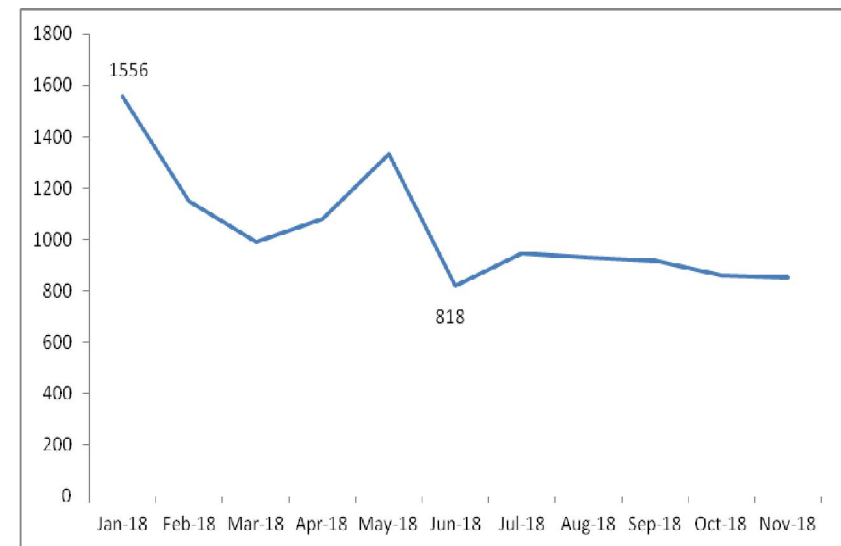
Until October, yield of all benchmark bond series were trending up, and as consequences, prices were tend to lower. This weakening was caused by global volatility and Indonesia current account deficit.

Bond Benchmark Yield and Price

Daily Average Volume of Bond Market
(IDR Trillion)



Daily Average Trade Frequency of Bond Market

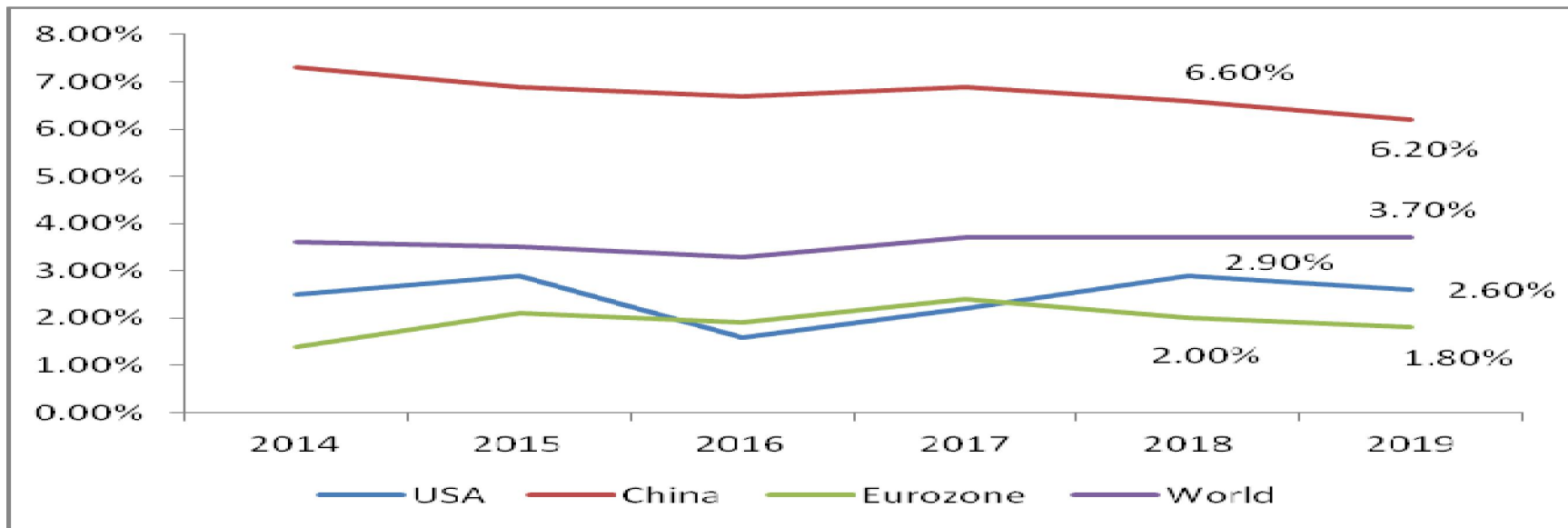


Until the end of November, the volume and frequency of bond market transaction had never reached its peak, like in January. Moreover, because trend of bond price tend to move downward, the amount of transaction in bond market also tend to move downward.

Outlook & Projection : 2019

World Economic Growth Projection

World Economic Growth 2014-2019

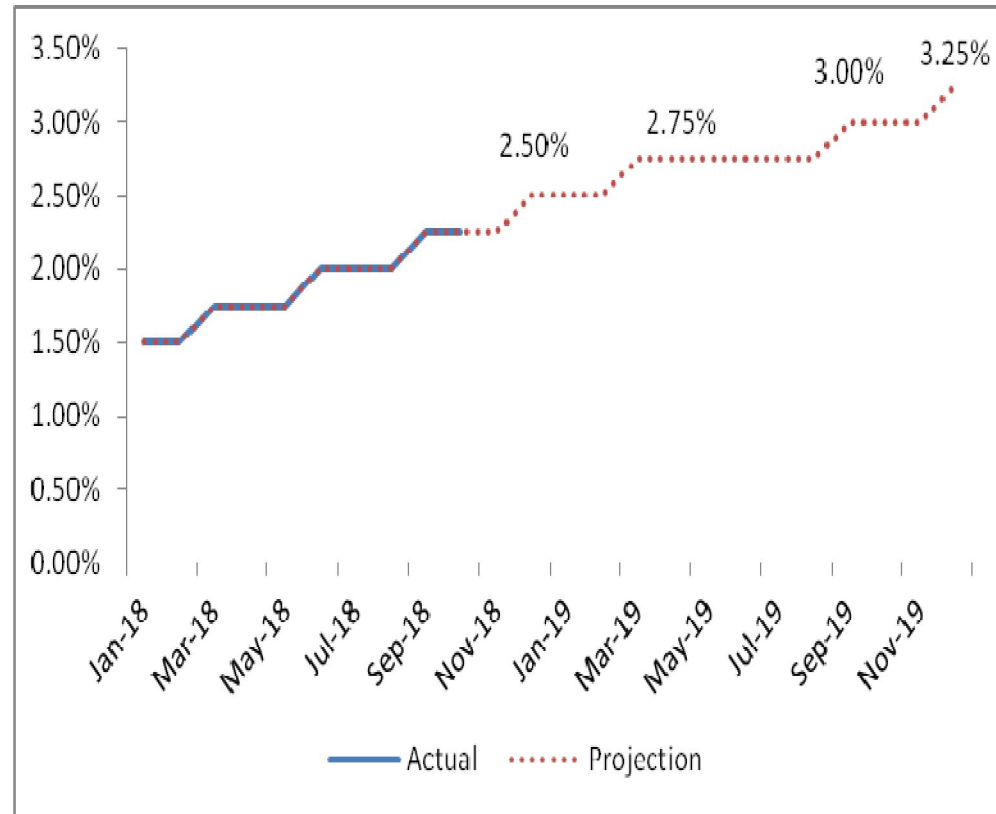


Global economic growth tend to slower in 2019, as negative impact of trade war would be still rolling.

The Fed Policy in 2019

The Fed planned to hike its rate 3 times in 2019. The Fed's plan would be implemented if US economic condition do not deviate too far from current condition.

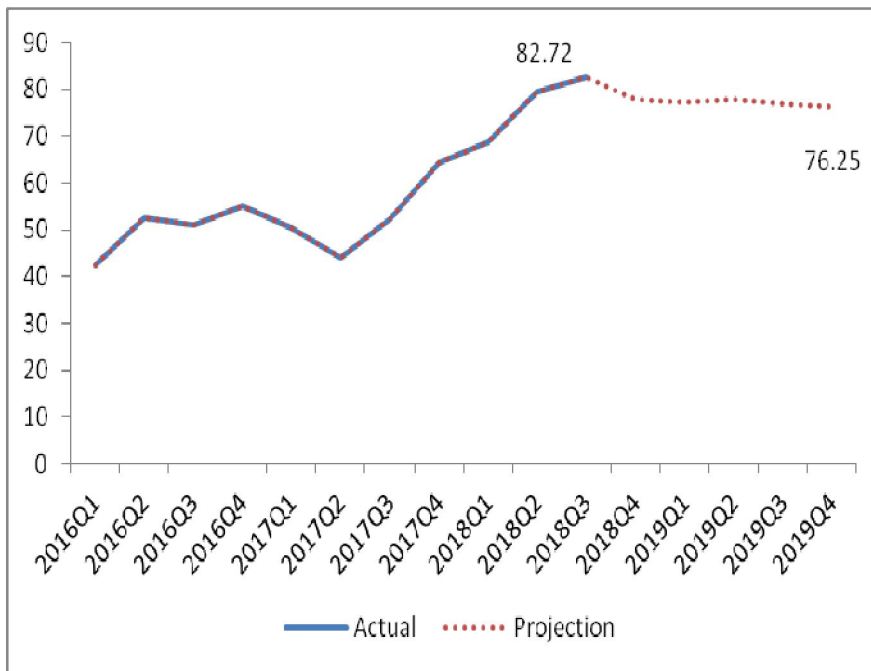
Projection of Fed Funds Rate 2019



Source: MCS Estimates & Reuters

Oil Price Projection

World Oil Price Projection 2019



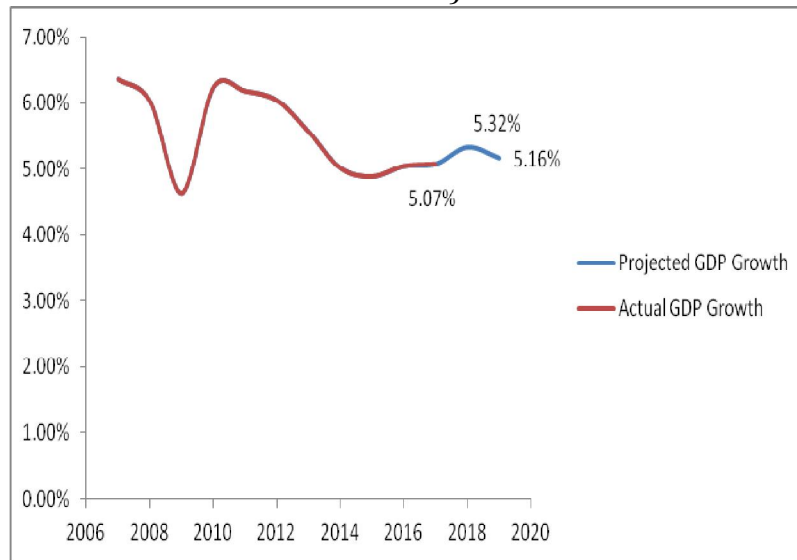
Source: Bloomberg

Oil price are projected slightly lower than current level amidst of OPEC high tension.

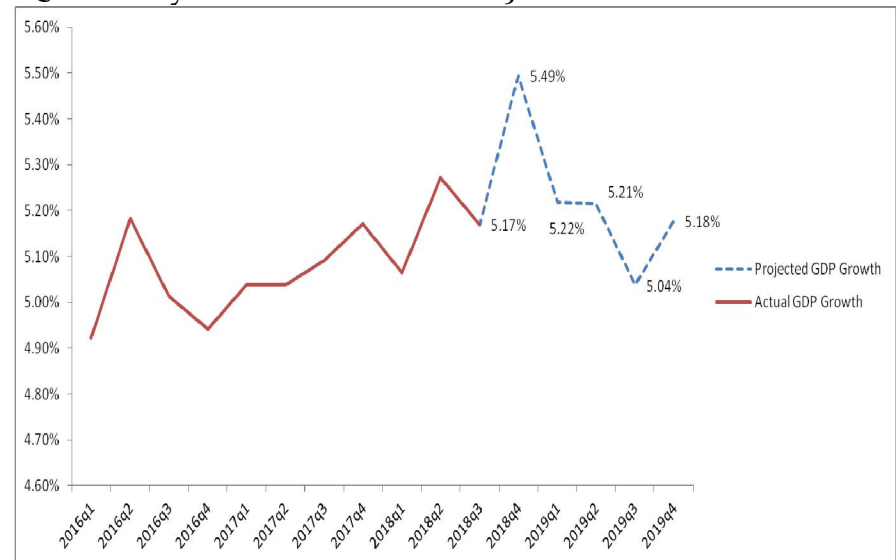
Indonesia Economic Growth Projection

Indonesia annual GDP 2019 are projected to be lower than this, due to lower investment. Consumer spending are tend to be slightly higher because of election year.

Annual GDP Growth Projection



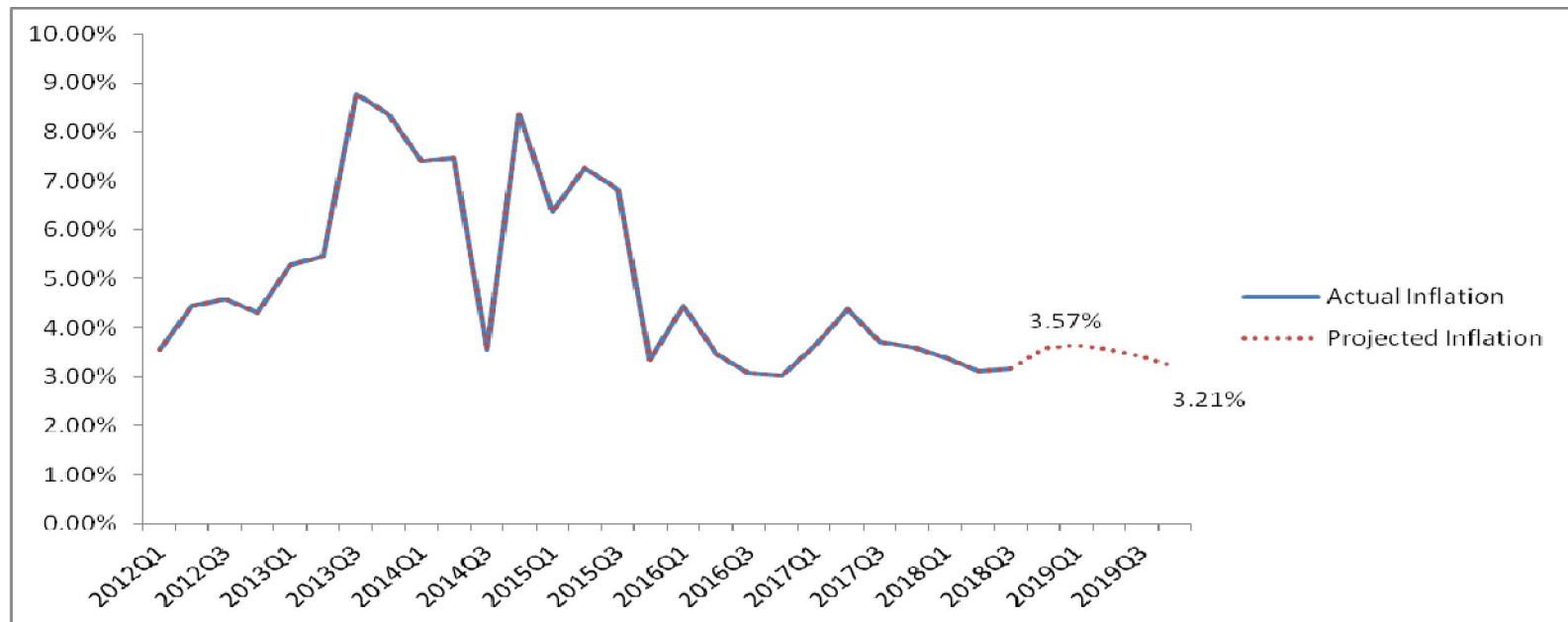
Quarterly GDP Growth Projection



Source: MCS Estimates & BPS

Indonesia Inflation Projection

Indonesia Inflation 2012 - 2019



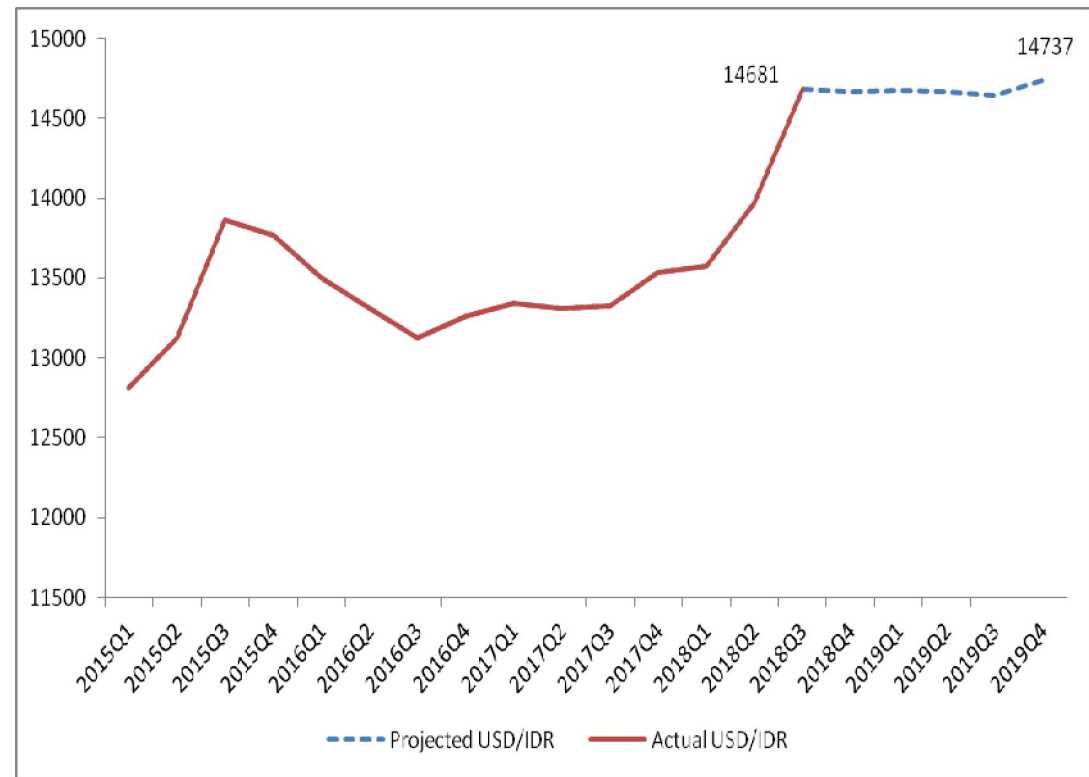
Inflation in 2019 are projected 3.21% , lower than 2018 projection, 3.57%. This level of inflation still in the Bank Indonesia target for 2018 and 2019, 3.5 ± 1 %.

Source: MCS Estimates & BPS

Indonesia Currency Projection

Average USD/IDR are projected to be depreciated to IDR 14,737/ USD Dollars in 4th Quarter. Overall, in 2019, Rupiah would be depreciated to IDR 14,679/US Dollars. Those depreciation mainly because of global pressure from The Fed monetary policy.

Quarterly Average USD/IDR 2015 - 2019



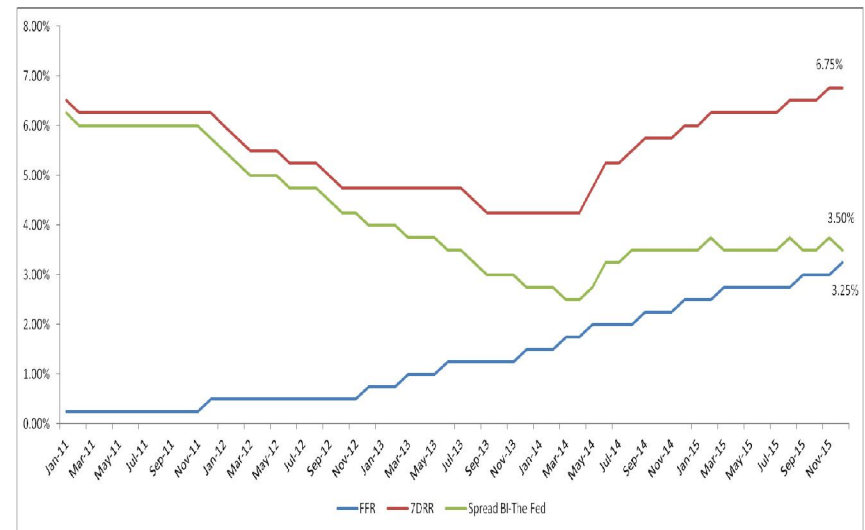
Source: MCS Estimates & Bloomberg

7-DRR Projection

Indonesia 7-DRR 2011-2019



Spread of 7-DRR and Fed Funds Rate



Bank Indonesia are likely to stay hawkish in 2019. They would try to follow The Fed direction to maintain currency.

Source: MCS Estimates

2019 State Budget

State Budget 2018 & 2019 (in Rp trillion)

Item	2018	2019	Change (%)
State Revenue	1903.03	2142.52	12.58%
Tax Revenue	1897.64	2142.09	12.88%
Non-Tax Revenue	1548.49	1781	15.02%
Grant	5383.2	435.3	-91.91%
State Expenditure	2217.25	2439.69	10.03%
Regional Transfer	763.62	823.35	7.82%
State Employee Expenditure	342.48	368.59	7.62%
Goods Expenditure	319.56	319.34	-0.07%
Capital Expenditure	193.69	211.86	9.38%
Debt Payment	249.41	275.42	10.43%
Subsidy	228.15	220.88	-3.19%
Grant Expenditure	1.46	1.94	32.88%
Social Aid	80.25	103.24	28.65%
Other	38.64	106.07	174.51%
Budget Deficit/Surplus	-314.22	-297.17	
Percentage Deficit/Surplus to GDP	2.12%	1.84%	

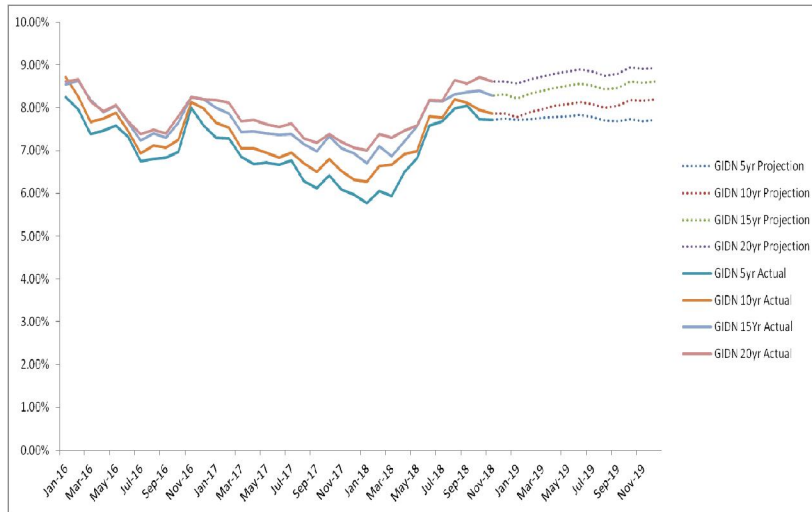
Infrastructure Budget 2018 & 2019
(in Rp trillion)

Item	2018	2019	Change (%)
Economic Infrastructure	396.5	404.6	2.04%
Social Infrastructure	8.9	10.7	20.22%
Other	5	5.2	4.00%
Total	410.4	420.5	2.46%

In the next year, budget deficit tend to more populist as social aid budget increase more than infrastructure expenditure and even capital expenditure.

Benchmark Bond Projection

Projected GIDN



2018 Benchmark Bond in 2019

Series	Coupon	Fair Yield	Fair Price
FR0063	5.625%	6.553% - 7.243%	95.22 – 97.22
FR0064	6.125%	7.587% - 8.277%	87.17 – 91.05
FR0065	6.625%	8.175% - 8.865%	82.64 – 87.52
FR0075	7.500%	8.495% - 9.185%	85.16 – 90.81

2019 Benchmark Bond* in 2019

Series	Coupon	Fair Yield	Fair Price
FR0077	8.125%	6.767% - 7.457%	102.44 – 105.06
FR0078	8.250%	7.710% - 8.400%	99.03 – 103.54
FR0068	8.375%	8.175% - 8.865%	96.06 – 101.64
FR0075	7.500%	8.495% - 9.185%	85.16 – 90.81

Fin.