

# Sukuk Auction Results

## Deflation Holds Interest Rate

### Tuesday's Government Sukuk Auction

	SPNS14042021	PBS027	PBS026	PBS025	PBS028
<b>Incoming Bid</b>	Rp4.92 Trn.	Rp2.73 Trn.	Rp2.91 Trn.	Rp8.12 Trn.	Rp7.15 Trn.
<b>Highest Incoming Bid Yield</b>	4.50%	5.25%	5.75%	8.12%	7.68%
<b>Lowest Incoming Bid Yield</b>	3.09%	4.53%	5.28%	7.09%	7.43%
<b>Weighted Average Yield</b>	3.13%	4.56%	5.34%	7.09%	7.47%
<b>Nominal Won</b>	Rp2.20 Trn.	Rp1.60 Trn.	Rp2.00 Trn.	Rp3.75 Trn.	Rp2.35 Trn.
<b>Bid-to-cover ratio</b>	2.24x	1.71x	1.46x	2.17x	3.05x

Source: DJPPR, NHKS Research

#### Deflation Maintains BI 7-DRRR at Level 4%

Bank Indonesia (BI) has set the BI Seven Days Reverse Repo Rate (BI 7-DRRR) at 4% for the October 2020 period, or has held the benchmark interest rate for 4 consecutive months. BI also maintained its Deposit Facility and Lending Facility rates at the level of 3.25% and 4.75%, respectively. BI's steps are still consistent, to encourage the recovery of the domestic economy affected by the COVID-19 outbreak. Meanwhile, the stability of the rupiah exchange rate and inflation remains low, a consideration for BI's decision. For the record, Indonesia experienced deflation during the 3Q20 period, July amounting to -0.10%; August -0.05%; and September -0.05%. This figure indicates that people's purchasing power was depressed during the period. Furthermore, the calendar year inflation rate is 0.89% YtD. Meanwhile, the annual inflation rate was recorded at 1.42% YoY.

#### Highest Return, Increases Interest in PBS025

PBS025 recorded incoming bids of up to IDR 8.13 trillion, or the highest in the 4Q20 Initial Sukuk auction on Tuesday (13/10). This 13-year medium tenor sukuk, has a return of up to 8.375%, or the most attractive compared to other series in the range of 6.50% (PBS027) to 7.75% (PBS028). Investors are interested in PBS025 returns, amidst BI's commitment to maintain a low interest rate trend. Overall, the government won IDR 11.9 trillion in this auction. This figure exceeds the initial target set at IDR 10 trillion. In the process, the government recorded 2.5x oversubscribed with incoming bids worth a total of IDR 25.85 trillion. In the previous sukuk auction, the government won only IDR 6.4 trillion, and conducted an additional auction the next day. NHKSI Research sees that the results of the Sukuk auction this Tuesday indicate an increase in investor interest after a decrease in two previous auctions. This investor interest is amidst BI's commitment to keep the BI 7-DRRR interest rate low at the 4% level.

#### Yield Level Approaching 7%, Raises Appetite in FR0087

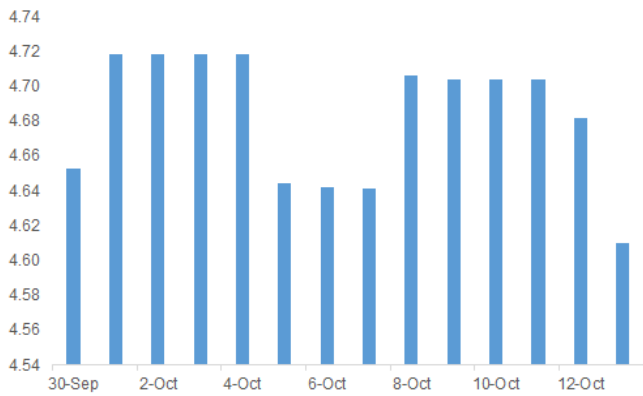
Meanwhile, in the initial 4Q20 SUN auction on Tuesday (6/10) last week, FR0087 posted an incoming bid of up to IDR 15.4 trillion. This figure accounts for more than 31% of the bid for this auction with a total value of IDR 49.4 trillion. Investors are interested in this 10-year benchmark candidate series, after posting a weighted average yield at the level of 6.81% or 2 bps higher than the auction last September. Meanwhile, the FR0087 yield offer was in the range of 6.79%-6.95% with the highest yield won reaching 6.84%. The expected yield level for this series is close to 7% in the secondary market, as the government has set a higher indicative target for the 4Q20 SBN auction compared to previous quarters. In addition, the yield spread between FR0087 and UST 10-year is more than 600 bps, making foreign investors also interested in this series.

**Arief Machrus**

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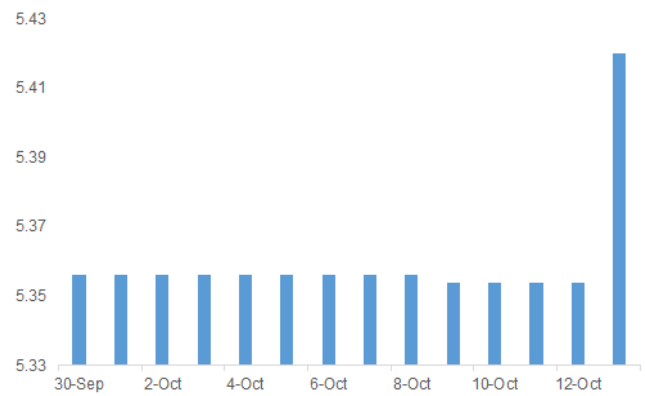
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**PBS027 Yield Movement | Sept. 30th - Oct. 13th. 2020**



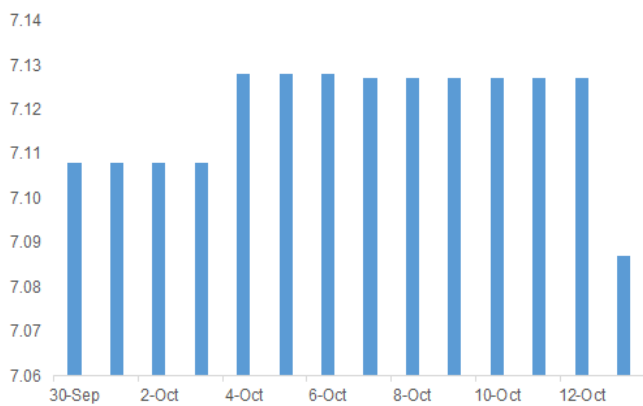
Source: Bloomberg, NHKS Research

**PBS026 Yield Movement | Sept. 30th - Oct. 13th. 2020**



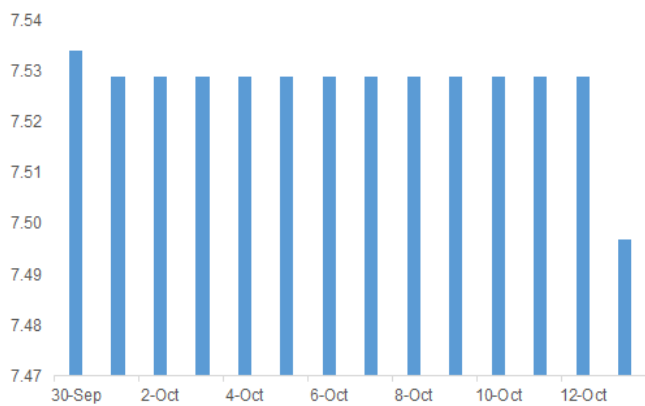
Source: Bloomberg, NHKS Research

**PBS025 Yield Movement | Sept. 30th - Oct. 13th. 2020**



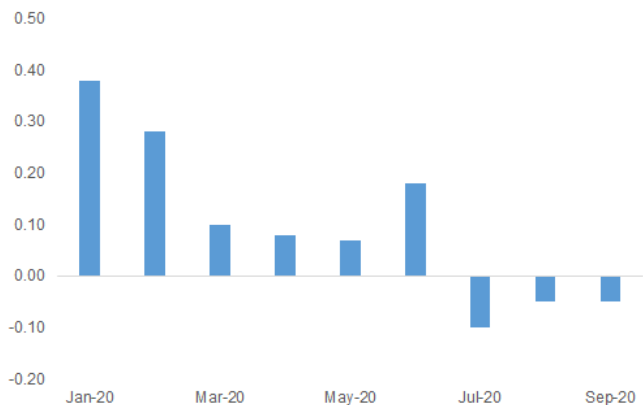
Source: Bloomberg, NHKS Research

**PBS028 Yield Movement | Sept. 30th - Oct. 13th. 2020**



Source: Bloomberg, NHKS Research

**CPI Movement | Sept. 30th - Oct. 13th. 2020**



Source: Bloomberg, NHKS research

**USD/IDR Movement | Sept. 30th - Oct. 13th. 2020**



Source: Bloomberg, NHKS research

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