



# **Retaining resilience 2019**

# Global Economy outlook

Table: Projections world economic growth outlook yoy

Projections World economic growth outlook	2017A	2018F	2019F
World Output	3.7%	3.7%	3.7%
United states	2.2%	2.9%	2.5%
United Kingdom	1.7%	1.4%	1.8%
European Union	2.5%	2.2%	2.0%
Turkey	7.4%	3.5%	0.4%
Japan	1.7%	1.1%	0.9%
China	6.9%	6.8%	6.2%
India	6.7%	7.3%	7.4%
ASEAN	5.3%	5.2%	5.1%

Source: IMF

## GLOBAL: Growth to 3.9%

According to the International Monetary Fund (IMF), global growth for 2018 and 2019 is estimated to remain steady at 3,7% which is the same as 2017. The estimation is revised 0,2% lower than the April estimate of 3,9%. This revision reflects; the trade disputes sparked by US President Donald Trump leading to a trade war with China and other countries; a reversal of capital flows to emerging market economies with weaker fundamentals, and higher political risk, leading to economic crises in Turkey and Venezuela. In the IMF's view, an intensification of trade tensions, and the associated rise in policy uncertainty, could dent business and financial market sentiment, trigger financial market volatility, and slow investment and trade.

# Global Economy outlook

## India: GDP to 7.4%

- A normalization in cash conditions following the demonetization of late 2016 and the fading of disruptions from the establishment of the Goods and Services Tax in 2017 should help the economy recover in FY 2018. Nevertheless, risks of fiscal slippage in the 2019 general elections, concerns over the banking sector in India, increasing global trade tensions and higher oil prices all cloud prospects.
- Based on the IMF forecasts, the economy is accelerating with 7,3% growth in 2018, from 6,7% last year. In 2019, GDP is seen growing at 7,4%.

## European Union: GDP to 2%

- Growth is expected to have slowed slightly in Germany, the Netherlands and Portugal in the third quarter. Incoming data point to a weak performance by Germany's external sector, while business confidence dropped in the Netherlands. On a bright note, activity is expected to have picked up in France, supported by lower taxes and a revival in investment. Italy and Spain are both seen as having grown steadily at Q2's pace, despite political uncertainty in both economies in the quarter.
- Aside from a disorderly Brexit, Germany's regional elections in October saw voters reject Chancellor Angela Merkel's coalition partners, illustrating the fragile government in the region's largest economy.
- Thus, based on the IMF forecasts, the eurozone economic growth is expected to fall from 2,5% last year to 2,2% this year. It shall fall again to 2% in the following year.

## United States: GDP to 2.5%

- The Federal Reserve would likely continue with its policy on gradual hikes of the Fed Fund Rate due to strong economic data in the U.S. The Fed has raised the interest rate three times this year and is expected to increase it further this year, two or three times next year and once in 2020.
- The IMF expects U.S. growth will be 2.9% this year, which is greater than 2,2% last year. However, it is expected to decline to 2,5% in the following year. It is believed that Trump's trade actions especially against China will be very disruptive to global growth.

## Japan: GDP to 0.9%

- Exports dropped 1,8%, the first decline in five quarters, as overseas demand for automobiles and technology products softened. Based on the IMF forecasts, growth in Japan is projected to fall from 1,7% last year to 1,1% this year. It shall again fall to 0,9% in the following year.
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## China: GDP to 6.2%

- Global and domestic sentiment is expected to impact China's growth. The brewing trade war between China and the U.S. due to President Donald Trump's imposition of tariffs on US\$250 billion of Chinese goods is the main downside risk to the country's economic outlook. Domestic threats such as a cooling property market and financial deleveraging, are also increasing.
- China's economy grew 6.5% year-over-year in the third quarter of 2018. It is lower than the 6.7% year-over-year in the previous quarter.
- Based on the IMF forecasts, economic growth will slow to 6,6% in 2018, from 6,9% last year. In 2019, growth will decline to 6,2%.

# Indonesia Economy outlook

Table: Indonesia economic data

Indonesia economic data yoy (%)	2017FY	2018F	2019F
GDP	5.1	5.2	5.3
CPI	3.8	3.4	3.7
Current Account Balance (% of GDP)	-1.7	-2.4	-2.3
Government budget balance	-2.5	-2.1	-1.8

Source: Bank of Indonesia, BPS, Ministry of Finance, World Bank Forecast

## INDONESIA: STABILITY OVER GROWTH, GDP growth to 5.3%

- Despite a volatile and uncertain global environment, the Government is targeting Indonesia's economic growth in 2019 to be 5.3% as growth extends to eastern Indonesia and other underdeveloped regions. Economic growth is expected to be stable in 2019F and 2018 full year.
- Economic growth will be supported by strong domestic spending and investment.
- Political uncertainty during the presidential election will be the highest risk for the Indonesian economy in 2019. After the election the economy is expected to improve, boosted by consumer confidence, private consumption, retail and motorcycle sales, strong labor market conditions, and lower borrowing rates.

# Indonesia Economy outlook

Table: Indonesia's Economic Data QoQ in 2017 - 2018

	2017				2018		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Household Spending	4.9	5.0	4.9	5.0	5.0	5.1	5.0
Government Spending	2.7	-1.9	3.5	3.8	2.7	5.3	6.3
Gross Fixed Capital Formation	4.8	5.3	7.1	7.3	8.0	5.9	7.0
GDP	5.0	5.0	5.1	5.2	5.1	5.3	5.2

Source: Bank of Indonesia, BPS, Ministry of Finance

Table: Indonesia's Export and Import YoY

Description	Trade Account (in US\$ Billion)					
	2014	2015	2016	2017	Sep-17	Sep-18
<b>Total Export</b>	<b>176.0</b>	<b>150.4</b>	<b>145.2</b>	<b>168.8</b>	<b>138.6</b>	<b>150.8</b>
Non-oil and gas	146.0	131.8	132.1	153.1	125.7	136.6
Oil and Gas	30.0	18.6	13.1	15.7	12.9	14.2
<b>Total Import</b>	<b>178.2</b>	<b>142.7</b>	<b>(135.6)</b>	<b>(156.9)</b>	<b>(126.7)</b>	<b>(156.4)</b>
Non-oil and gas	134.7	118.1	(116.9)	(132.6)	(107.2)	(131.4)
Oil and Gas	43.5	24.6	(18.7)	(24.3)	(19.5)	(25.0)
<b>Surplus (Deficit)</b>	<b>(2.2)</b>	<b>7.7</b>	<b>9.6</b>	<b>11.9</b>	<b>11.9</b>	<b>(5.6)</b>
Non-oil and gas	11.3	13.7	15.2	20.5	18.5	5.2
Oil and Gas	(13.5)	(6.0)	(5.6)	(8.6)	(6.6)	(10.8)

Source: BPS

# Indonesia Economy outlook

Table: Indonesia's Export and Import in 2018

2018 (US\$ billion)	January	February	March	April	May	June	July	August	September	October
<b>Total Export</b>	14.46	14.10	15.58	14.47	16.12	13.00	16.24	15.82	14.83	15.80
Non-oil and gas	13.17	12.71	14.24	13.28	14.55	11.28	14.81	14.43	13.62	14.32
Oil and Gas	1.29	1.39	1.34	1.19	1.57	1.72	1.43	1.39	1.21	1.48
<b>Total Import</b>	15.13	14.21	14.49	16.09	17.65	11.26	18.27	16.84	14.60	17.62
Non-oil and gas	12.99	11.95	12.23	13.77	14.83	9.14	15.66	13.79	12.32	14.71
Oil and Gas	2.14	2.26	2.26	2.32	2.82	2.12	2.61	3.05	2.28	2.91
<b>Surplus (Deficit)</b>	(0.67)	(0.11)	1.09	(1.62)	(1.53)	1.74	(2.03)	(1.02)	0.23	(1.82)
Non-oil and gas	0.18	0.76	2.01	(0.49)	(0.28)	2.14	(0.85)	0.64	1.30	(0.39)
Oil and Gas	(0.85)	(0.87)	(0.92)	(1.13)	(1.25)	(0.40)	(1.18)	(1.66)	(1.07)	(1.43)

Source: BPS

# Indonesia Economy outlook

## Deficit in CAD and Trade Balance

Currently, Indonesia's economy has two deficits, trade and current account deficits (CAD). Indonesia's CAD in 3Q2018 reached US\$ 8.8 billion (-3.37% of GDP), higher than the previous two quarters (1Q2018:-2.17%, 2Q2018:-3.02%), with the total CAD in 9M2018 reaching US\$ 22.42 billion.

While foreign capital inflows which reduce the deficit were US\$ 10.99 billion, lower than 9M2017 US\$ 22.4 billion. Foreign investors prefer to place their money in US markets which are stable and more attractive compared to emerging markets.

For the trade balance, In January - October 2018, Indonesia's exports reached US\$ 150.88 billion and grew +8.8% compared to the same period last year. Exports of non-oil and gas grew +5.73% compared to the same period in 2018. While imports reached US\$ 156.16 billion.

In October 2018, Indonesia experienced a deficit as oil and gas imports increased by 27.6% to US \$ 2.91 billion compared to September 2018. Non-oil and gas imports also increased 19.4% to US \$ 14.71 billion from US \$ 12.32 billion in September 2018.

The government's Financial Ministry Regulation No.110/2018 (Payment for delivery of goods and conditions in the field of import or business activities in other fields) and the implementing of mandatory B20 will help control the trade deficit. We estimate the trade deficit will be lower in the first half of 2019, because of the stronger IDR against the USD and lower crude oil prices.

# Indonesia Economy outlook

Table: Indonesia's Balance of Payments Summary in USD Millions YoY

ITEMS	2016		2017*			2018			
	Total	Q1	Q2	Q3	Q4	Total	Q1*	Q2*	Q3**
	In US\$ Billion								
<b>I. Current Account</b>	<b>-16,952</b>	<b>-2,215</b>	<b>-4,608</b>	<b>-4,594</b>	<b>-5,891</b>	<b>-17,307</b>	<b>-5,600</b>	<b>-7,977</b>	<b>-8,846</b>
<b>II. Capital Account</b>	<b>41</b>	<b>0</b>	<b>5</b>	<b>19</b>	<b>22</b>	<b>46</b>	<b>58</b>	<b>3</b>	<b>9</b>
- Receipts	41	0	5	19	22	46	58	3	9
- Payments	0	0	0	0	0	0	0	0	0
<b>III. Financial Account</b>	<b>29,306</b>	<b>6,748</b>	<b>5,344</b>	<b>10,312</b>	<b>6,952</b>	<b>29,356</b>	<b>2,303</b>	<b>4,530</b>	<b>4,164</b>
- Assets	15,920	-4,361	-8,051	-3,815	-2,009	-18,236	-4,911	-1,651	-6,025
- Liabilities	13,386	11,108	13,395	14,127	8,962	47,592	7,214	6,181	10,189
3. Financial Derivatives	-9	-72	25	-12	-69	-128	60	12	91
4. Other Investment	-5,817	-2,474	-7,182	-1,118	74	-10,700	251	1,680	228
<b>IV. Total (I + II + III)</b>	<b>12,394</b>	<b>4,533</b>	<b>741</b>	<b>5,737</b>	<b>1,084</b>	<b>12,095</b>	<b>-3,239</b>	<b>-3,444</b>	<b>-4,673</b>
<b>V. Net Error and Omissions</b>	<b>-305</b>	<b>-19</b>	<b>-2</b>	<b>-378</b>	<b>-110</b>	<b>-509</b>	<b>-616</b>	<b>-864</b>	<b>286</b>
<b>VI. Overall Balance (IV + V)</b>	<b>12,089</b>	<b>4,514</b>	<b>739</b>	<b>5,359</b>	<b>974</b>	<b>11,586</b>	<b>-3,855</b>	<b>-4,309</b>	<b>-4,386</b>
<b>VII. Reserves and Related Items</b>	<b>-12,089</b>	<b>-4,514</b>	<b>-739</b>	<b>-5,359</b>	<b>-974</b>	<b>-11,586</b>	<b>3,855</b>	<b>4,309</b>	<b>4,386</b>
Memorandum:									
- Reserve Assets Position	116,362	121,806	123,094	129,402	130,196	130,196	126,003	119,839	114,848
In Months of Imports & Official Debt Repayment	8.4	8.6	8.6	8.6	8.3	8.3	7.7	6.9	6.3
- Current Account (% GDP)	-1.82	-0.92	-1.82	-1.75	-2.28	-1.7	-2.17	-3.02	-3.37
* Provisional figures									
** Very provisional figures									

Source: Bank of Indonesia

# Indonesia Economy outlook

Table: Indonesia's Direct Investment in USD Millions YoY

ITEMS	2016	2017*					2018		
	Total	Q1	Q2	Q3	Q4	Total	Q1*	Q2*	Q3**
<b>Direct Investment</b>	<b>16,136</b>	<b>2,757</b>	<b>4,376</b>	<b>7,412</b>	<b>4,740</b>	<b>19,285</b>	<b>3,263</b>	<b>2,734</b>	<b>3,949</b>
<b>A. Assets</b>	<b>11,594</b>	<b>-451</b>	<b>-101</b>	<b>-1,042</b>	<b>-540</b>	<b>-2,134</b>	<b>-772</b>	<b>-1,212</b>	<b>-1,944</b>
1. Equity capital	10,676	-513	-265	-1,253	-698	-2,729	-787	-896	-1,662
2. Debt instruments	918	61	164	211	157	595	15	-317	-282
<b>B. Liabilities</b>	<b>4,542</b>	<b>3,208</b>	<b>4,476</b>	<b>8,454</b>	<b>5,280</b>	<b>21,419</b>	<b>4,035</b>	<b>3,946</b>	<b>5,894</b>
1. Equity capital	4,684	3,155	4,832	7,375	4,375	19,738	3,560	5,571	4,559
2. Debt instruments	-142	53	-355	1,079	905	1,681	475	-1,624	1,334
a. Inflow	50,638	11,426	11,295	13,977	12,706	49,404	13,418	12,337	12,388
b. Outflow	-50,780	-11,373	-11,650	-12,898	-11,801	-47,723	-12,943	-13,961	-11,054
<b>Memorandum:</b>									
<b>Direct investment based on directional principle</b>	<b>16,136</b>	<b>2,757</b>	<b>4,376</b>	<b>7,412</b>	<b>4,740</b>	<b>19,285</b>	<b>3,263</b>	<b>2,734</b>	<b>3,949</b>
<b>A. Direct investment abroad</b>	<b>12,215</b>	<b>-278</b>	<b>-972</b>	<b>-1,356</b>	<b>-37</b>	<b>-2,642</b>	<b>-630</b>	<b>-3,217</b>	<b>-1,999</b>
1. Equity capital	12,058	-465	-270	-1,266	-698	-2,698	-787	-892	-1,683
2. Debt instruments	156	187	-702	-90	661	56	158	-2,325	-317
<b>B. Direct investment in Indonesia</b>	<b>3,921</b>	<b>3,035</b>	<b>5,347</b>	<b>8,768</b>	<b>4,777</b>	<b>21,927</b>	<b>3,892</b>	<b>5,951</b>	<b>5,948</b>
1. Equity capital	3,301	3,107	4,836	7,388	4,375	19,706	3,560	5,567	4,580
2. Debt instruments	620	-72	511	1,380	401	2,220	333	385	1,369

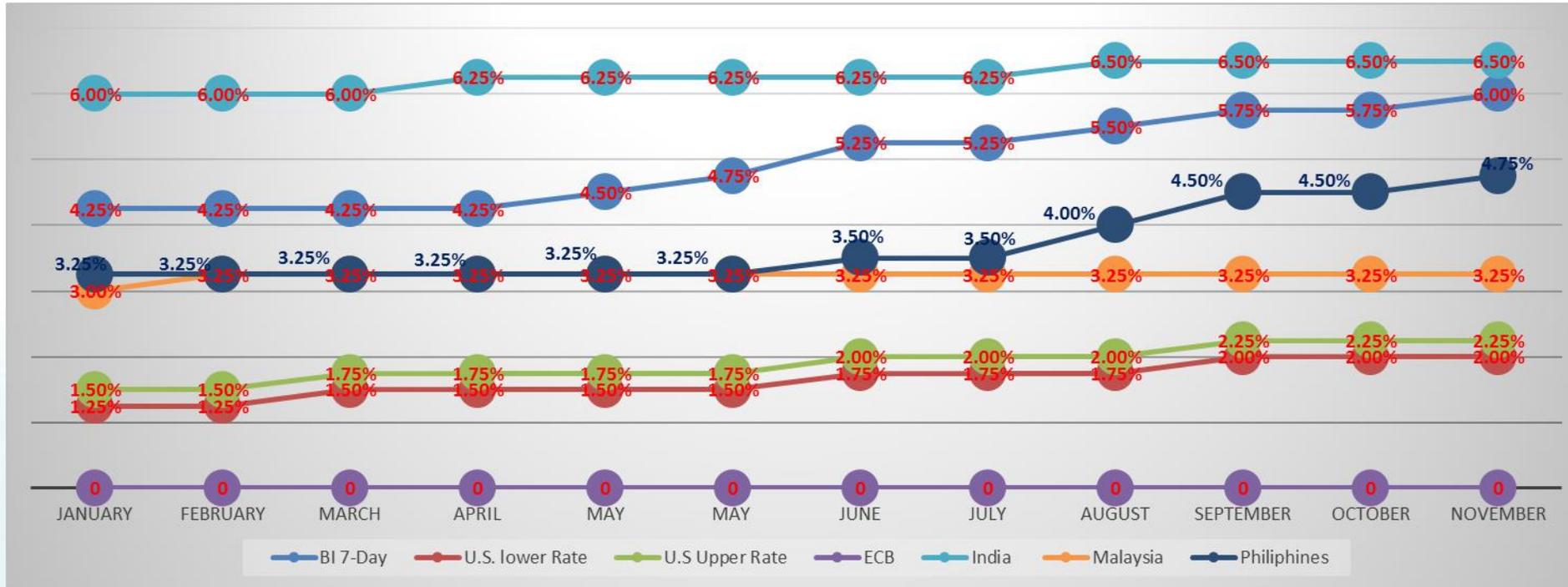
Notes:

\* Provisional figures

Source: Bank of Indonesia

# Indonesia Economy outlook

Chart: Global Benchmark Rates in 2018



Source: Bloomberg

## Bank Indonesia 7 Reverse Repo Rate – adjusting

- Within the Asia Region, Indonesia's Central Bank (BI) is one of the most aggressive central banks this year. BI raised its benchmark interest rate for a sixth time this year to help rein in a widening trade deficit and bolster the currency. India (2x), Malaysia (1x), and Philippines (4x) also raised their interest rates to support weakening currencies.
- The U.S. Federal Reserve increased their policy interest rate in March, June, September and there is one more hike expected in December. The European Central Bank placed its quantitative easing policy on hold.
- For 2019, the FED will raise its benchmark rate 3x in 2019. We are expecting the BI reverse repo rate to be adjusted based on the domestic and global situation.

# Indonesia Economy outlook

Chart: IDR Movement vs BI 7D RRR in 2018



Sources: Bloomberg

## Currency Exchange Rates, IDR to 14400

- The proactive policy from the Indonesian Central Bank has helped the Rupiah to strengthen in November after reaching IDR 15,270 in October 2018.
- The Government is targeting the Rupiah against US dollar to trade around IDR 14,400 per dollar in 2019. higher compared to 2018 IDR 13,973 and 2017 IDR 13,384.
- The stability and volatility of the Rupiah was impacted by the economic dynamics of developed countries, like monetary policy normalization in the United States and Europe, as well as domestic economic conditions:

# Indonesia's 2019 General Election outlook

## Indonesia's Election in 2019: Who's better?

Indonesia's general elections will be held on 17 April 2019. For the first time in history, the President and members of the People's Consultative Assembly will be elected on the same day. The final results will be announced between 17 and 23 September 2019. Final swearing-in of the president and vice president is scheduled for 20 October 2019.

There are two candidates in the presidential election. First, the incumbent Joko "Jokowi" Widodo who has chosen as vice presidential candidate, a senior cleric of a major Islamic organization, the Nahdlatul Ulama (NU), and head of the Indonesian Ulema Council (MUI), Ma'ruf Amin. Second is the opposition candidate, Prabowo Subianto who has chosen a vice presidential candidate from his own Gerindra Party: the former deputy governor of Jakarta, Sandiaga Uno.

Parliament parties in the current coalition backing president Jokowi are the Indonesian Democratic Party of Struggle (PDI-P), Golkar Party, NasDem, Hanura Party, the United Development Party (PPP) and the National Awakening Party (PKB); while non-parliament parties supporting Jokowi are the Crescent Star Party (PBB), the Indonesian Justice and Unity Party (PKPI), Perindo and the Indonesian Solidarity Party (PSI). On the other side, parliament parties in the current coalition backing Prabowo are Gerindra Party, the Prosperous Justice Party (PKS), the National Mandate Party (PAN) and the Demokrat Party; while non-parliament parties supporting Prabowo are the Berkarya Party and the Garuda Party.

President Jokowi's electability remains high compared with that of his rival, Prabowo, with the incumbent generally perceived as having more desirable qualities. Based on Indikator Politik Indonesia, nearly 60% of respondents said they would choose Jokowi as president, while 31.3% said they would pick Prabowo. Jokowi is generally seen as more favorable in terms of honesty, leadership and religiosity, compared with Prabowo, who only rated higher on perceived assertiveness and charisma. In terms of vice President candidates, most Indonesians believe Ma'ruf will help to narrow the political divide between Muslims in the country. Meanwhile, Sandiaga is popular among women and millennials.

Much remains to be seen about the vision and economic programs that both candidates bring to the table. In terms of popularity and experiences, Joko Widodo still remains a strong candidate to win the 2019 General Election. Whoever wins, as long as the government maintains peace, security and stability in the regions during the election process, it will benefit the markets.

# Indonesia's 2019 General Election outlook

## Coalition Parties supporting Jokowi-Amin:



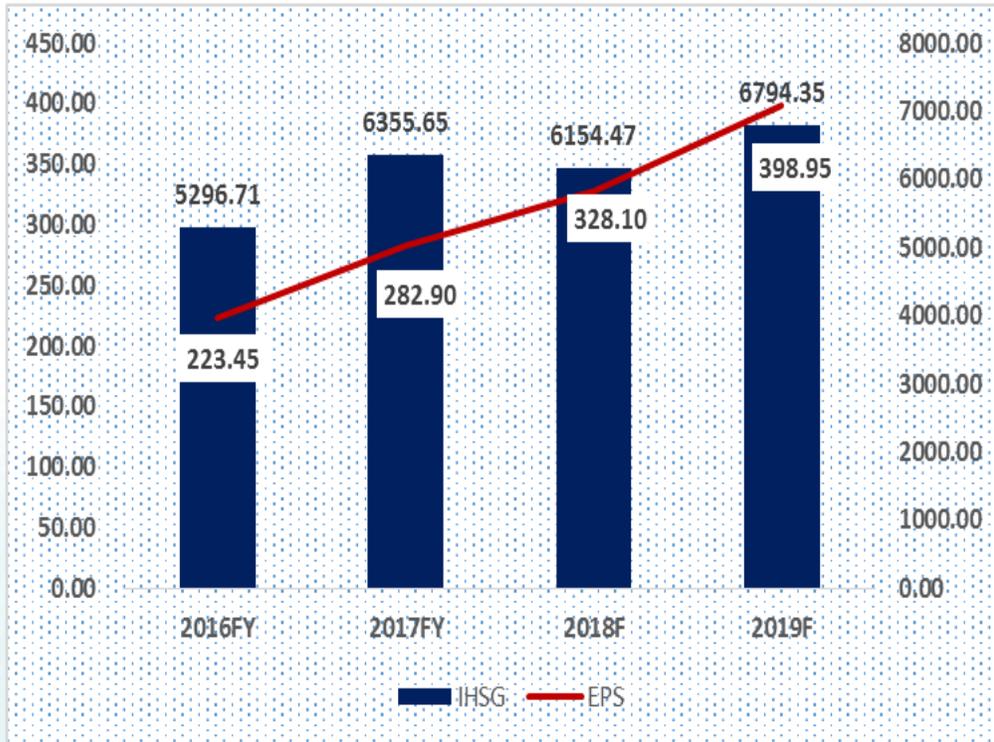
# Indonesia's 2019 General Election outlook

## Coalition Parties supporting Prabowo-Sandi:



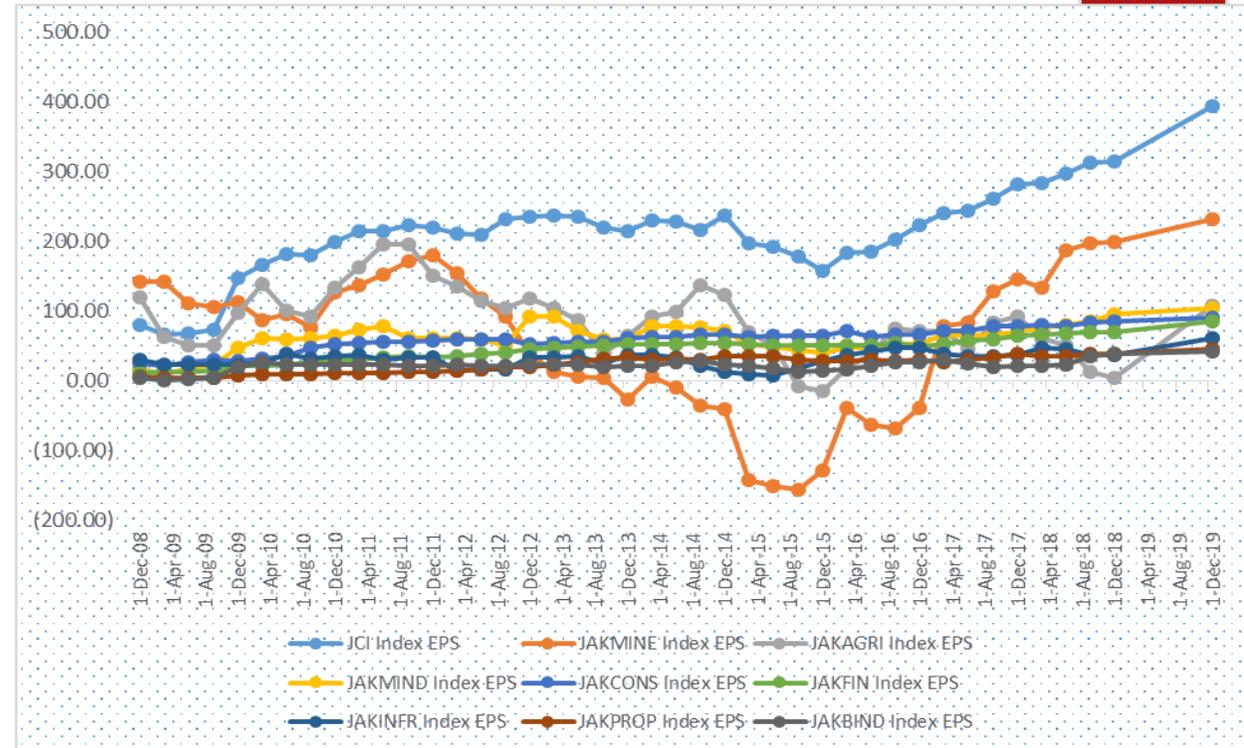
# JCI Fundamental outlook

Chart: IHSG and IHSG's EPS YoY



Source: Bloomberg, Binaartha

Chart: IHSG by Sectors YoY



Source: Bloomberg

## JCI Fundamental Outlook, to 6794

Based on historical index prices from Bloomberg and estimated earnings per share of IDR.398.95, we estimate the JCI index will move in the range of 6199.65 – 6794.35 or trade at 15.54x to 17.03 x PER. The upper index band is calculated based on +1 standard deviation. If it is +2 Standard deviations, it will reach 7215.73 and if -2 Standard Deviations then will move to 5530.20. We are using the highest and lowest possible index prices to anticipate the political situation during the election next year

## Top Picks

Based on EPS growth, our top sectors for 2019 are: Infrastructure, Finance, Agriculture and Mining. Top Pick shares are: ANTM, INCO, TINS, ADRO, PTBA, ITMG, DOID, UNTR, BBRI, BBTN, BMRI, BBNI, BBKA, SMGR, INTP, JSMR, PGAS, TLKM.

# Top Picks – some stock valuation

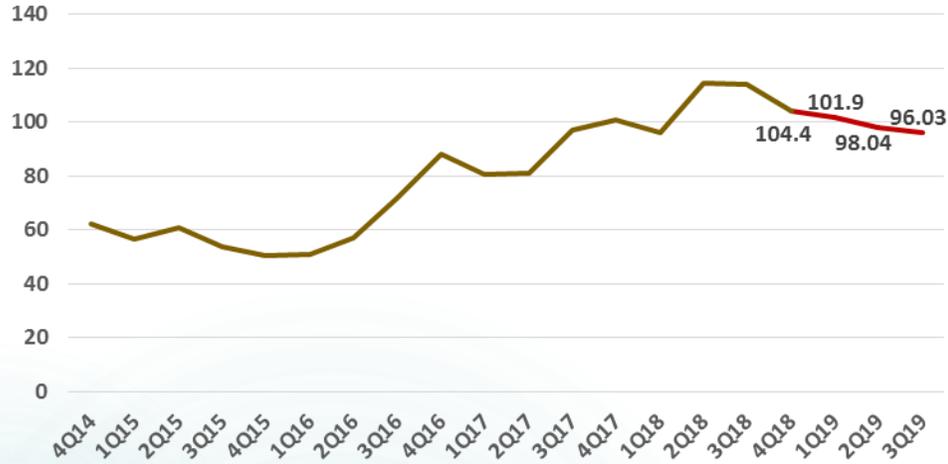
Table: Some top pick shares for 2019

Stock Ticker	Latest Price	Concencus Target price	Market Cap (IDR.triliun)	PER (X)	P/BV (X)	NPM (%)	Potential Upside (%)
ANTM IJ	735	1215	17,66	21.14	0.93	3.16	65%
INCO IJ	3180	4670	31.4	27.84	1.10	9.52	46%
DOID IJ	570	1390	4.95	4.91	1.43	7.77	144%
TINS IJ	730	1010	5.44	15.65	0.85	3.75	38%
ADRO IJ	1300	2310	31.99	6.62	0.64	11.72	77.7%
TLKM IJ	3750	4310	370.49	19.38	3.47	14.34	14.90%
JSMR IJ	4540	5360	32.88	13.78	1.73	6.46	18.10%
BBRI IJ	3660	3835	451.45	14.37	2.57	23.08	4.8%
BBTN IJ	2720	2985	28.7	9.65	1.24	12.41	10%
UNTR	29050	41475	108.8	8.93	1.99	14.84	42.8%

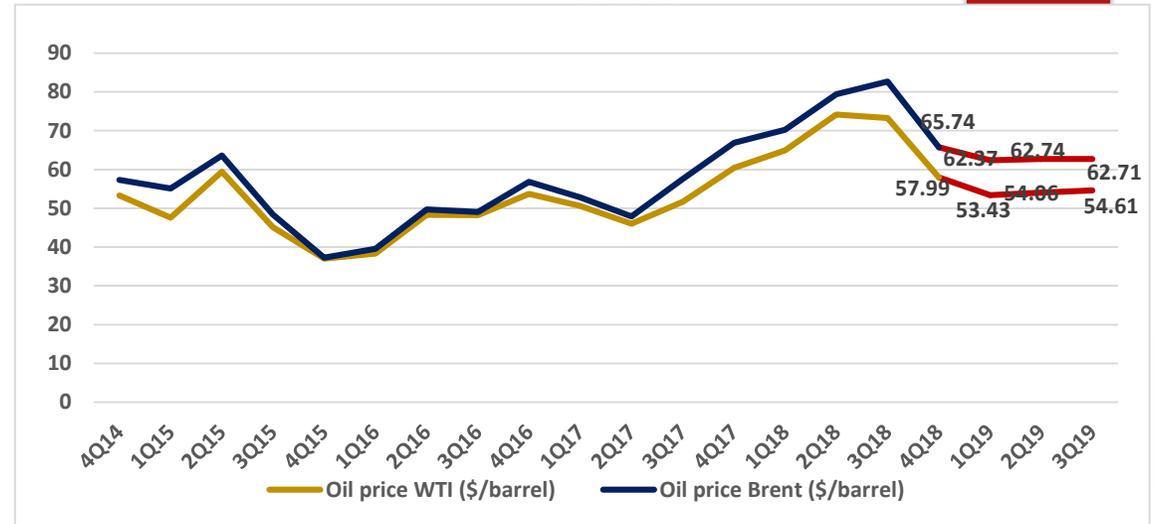
Sources: Bloomberg

# Commodity Outlook

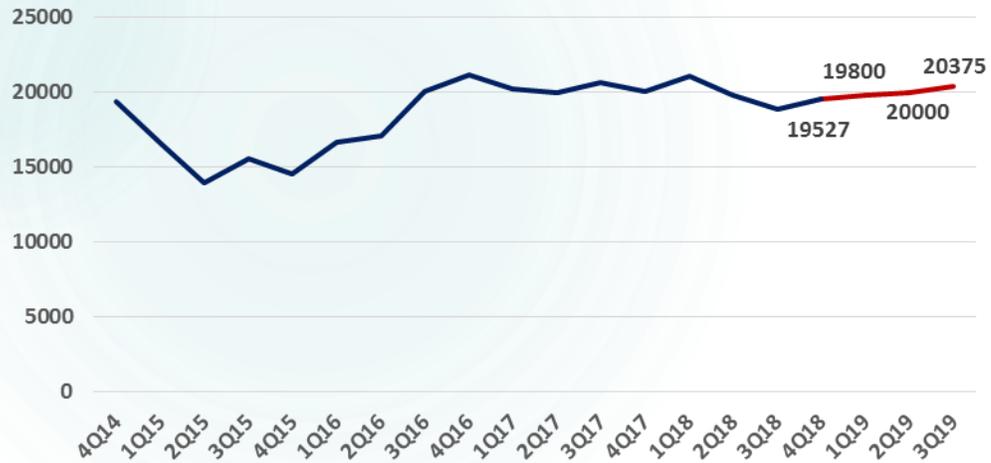
### Coal price Newcastle (\$/MT)



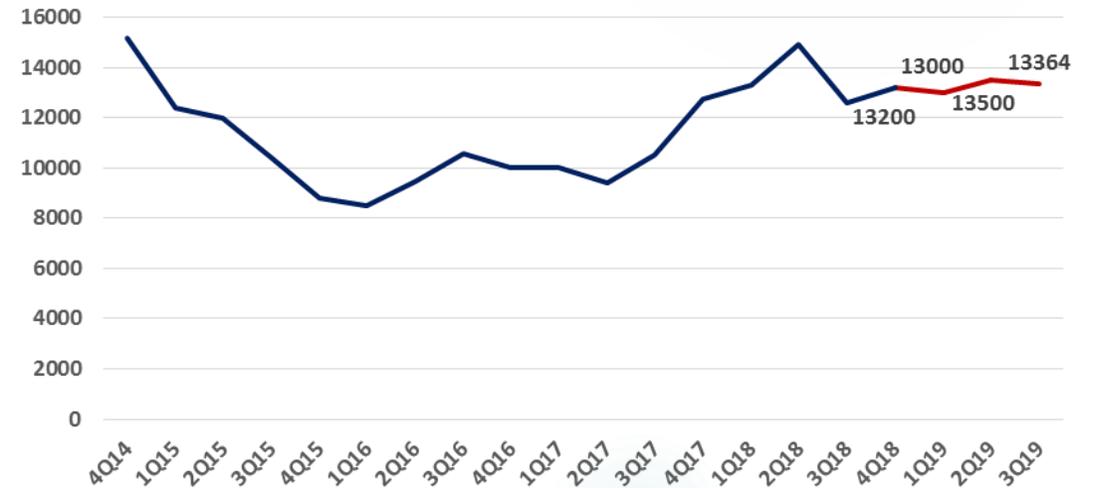
### Oil price WTI vs Brent (\$/barrel)



### Tin price (\$/MT)

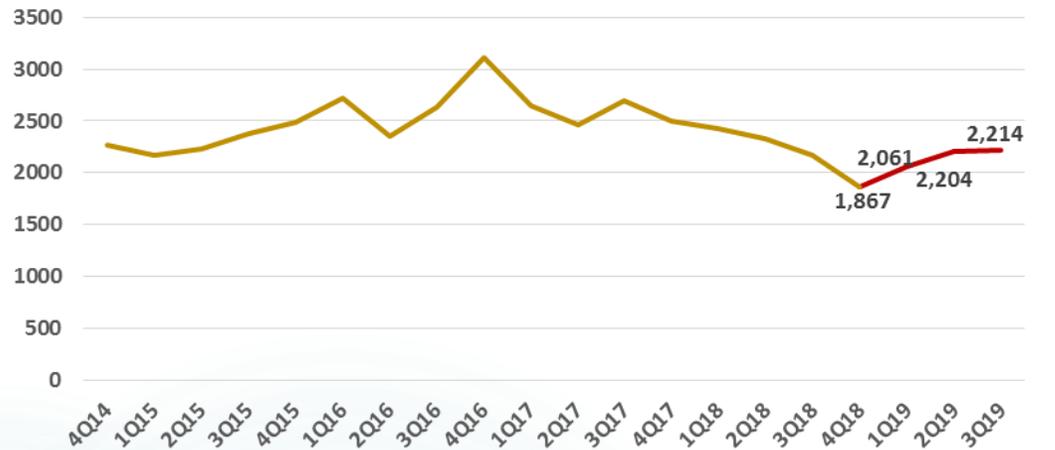


### Nickle price (\$/MT)



# Commodity Outlook

CPO price (MYR/MT)



Source: Bloomberg

## Tins outlook 2019, to 20400 \$/ton

Historically, Tin global demand is higher than supply. Deepen the recent slowdown in tin prices, we believe slowing production growth and heightened demand will spur prices in 2019F. We estimate 2019F tin prices to reach 20400 \$/ton

## Coal outlook 2019, to 86 -96 \$/MT

The latest update on the US-China trade war came during the G-20 summit, China and the US agreed not to increase tariffs for 90 days. It means the trade war is halted for a period until 1Q19. We assume this will create positive sentiment on China's economic growth as estimates were cut during the trade war. This sentiment will affect coal growth even though demand in 1Q is typically slow due to the Lunar New Year, excess inventory at power plants carried over to 2Q19 and potential weaker coal demand from China due to China's government-imposed import quotes for the year. But as China's own coal is not environmental friendly, and as about half of China's thermal-coal imports were from Indonesia in 1H or equivalent to about 30% of Indonesia exports, we believe potential growth for coal is still there, particularly from 2Q19 onwards. We forecast coal prices to reach \$ 86 -96 per ton in 2019F.

## Oil outlook 2019, to 65 / 72 \$/barrel

Oil prices are primarily driven by the supply-demand balance. After oil prices dipped below \$60 a barrel in November due to higher supply from the US which coincided with fears of slowing global growth, we believe oil prices will return to rising again in 2019 as OPEC has promised to keep production steady plus US sanctions against Iran and outages in Venezuela will lead to supply shortages. In addition, US oil production will rise more slowly in 2019 but remain resilient. We are predicting Brent crude oil prices will average \$72 in 2019 while West Texas Intermediate (WTI) crude oil prices will average \$65 a barrel.

## Nickle outlook 2019, to 14000 \$/ton

Nickel has been supported by stainless steel demand growth that exceeded 9% in 1H18 but concerns have emerged in recent months. The evolving trade war between the US and China has dampened prices but the recent more positive update has seen price rising again. In 2019, although we believe production increases in leading supplier Indonesia and a more recent announcement by the Philippine government that is giving a number of suspended mines the opportunity to recommence production if they address environmental concerns could all weigh on prices. But continued growth in stainless steel demand is forecast to extend a supply shortage in the global nickel market. We estimate Nickel prices will average \$14500 per ton in 2019F.

## CPO outlook 2019, to MYR 2200/MT

Future CPO prices will be affected mainly by stock issues as well as over supply. But hopefully, implementation of the Government's mandatory expansion to 20% biodiesel (B20) for non-PSO after September 2018 will begin to show positive results in the form of increased absorption of domestic palm oil (CPO) for biodiesel. With the increasing absorption of CPO inside the country, supply to the global market will be reduced and will improve CPO prices, we are targeting CPO prices 2019F to rise to 2200 MYR/MT

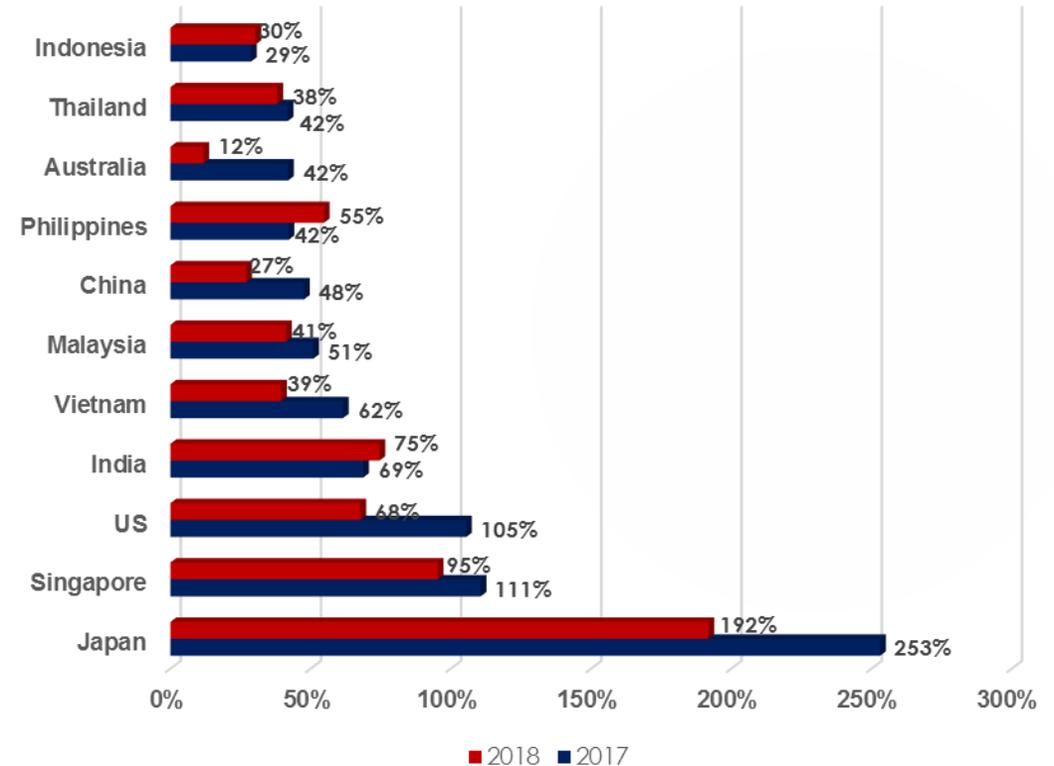
# Indonesia Bond Outlook

Table: Indonesia Sovereign rating trend by many international rating agency in yoy

Indonesia Sovereign Rating Trend yoy	Standards & Poor's	Fitch Ratings	Moody's Investor Service	Japan Credit Rating Agency	Rating & Investment Information Inc
2013	BB+	BBB-	Baa2	BBB-	BBB-
2014	BB+	BBB-	Baa2	BBB-	BBB-
2015	BB+	BBB-	Baa2	BBB-	BBB-
2016	BB+	BBB-	Baa2	BBB-	BBB-
2017	BBB-	BBB	Baa2	BBB-	BBB-
2018	BBB-	BBB	Baa2	BBB	BBB

Source: Bloomberg, Bank Indonesia

Chart: Deb-to-GDP ratio of several countries during 2017-2018

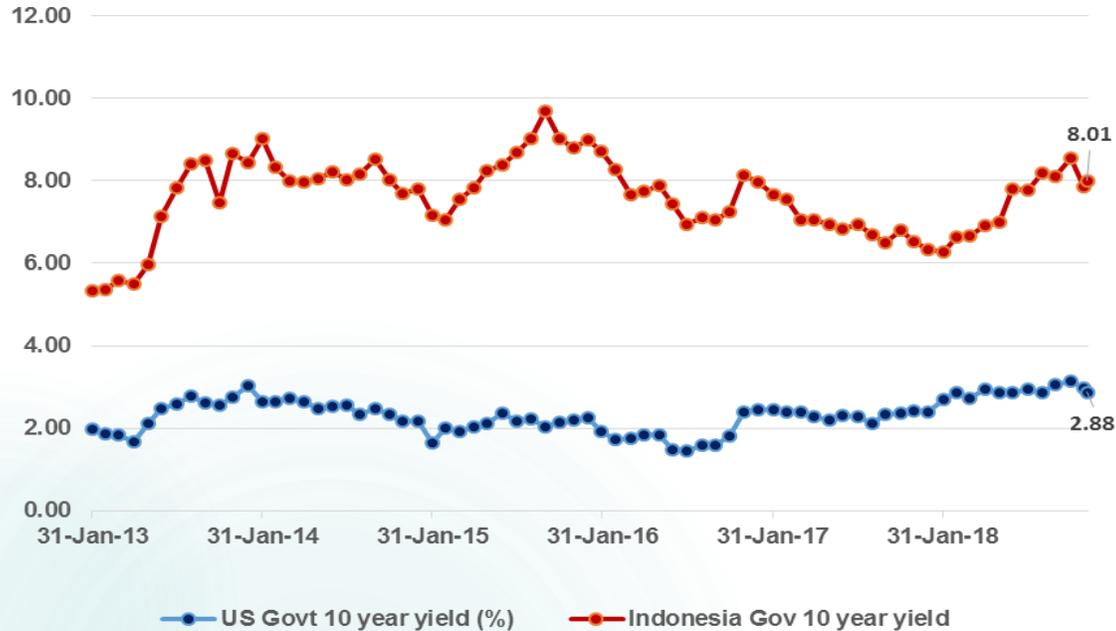


Source: IMF, world bank

In 2018, many International credit rating agencies maintained Indonesia's long term sovereign debt rating at "BBB" or a notch above investment grade with a stable outlook, on the back of Indonesia's economic resilience to global challenges. The debt rating has been affirmed as they see Indonesia will remain stable in the next couple of years following macroeconomic stability, and a debt-to-GDP ratio that is still low compared to other countries. We believe despite external challenges in 2019, Indonesia sovereign rating outlook will remain stable.

# Indonesia Bond Outlook

Chart: Indonesia Gov 10 year yield vs US Gov 10 year yield trend yoy

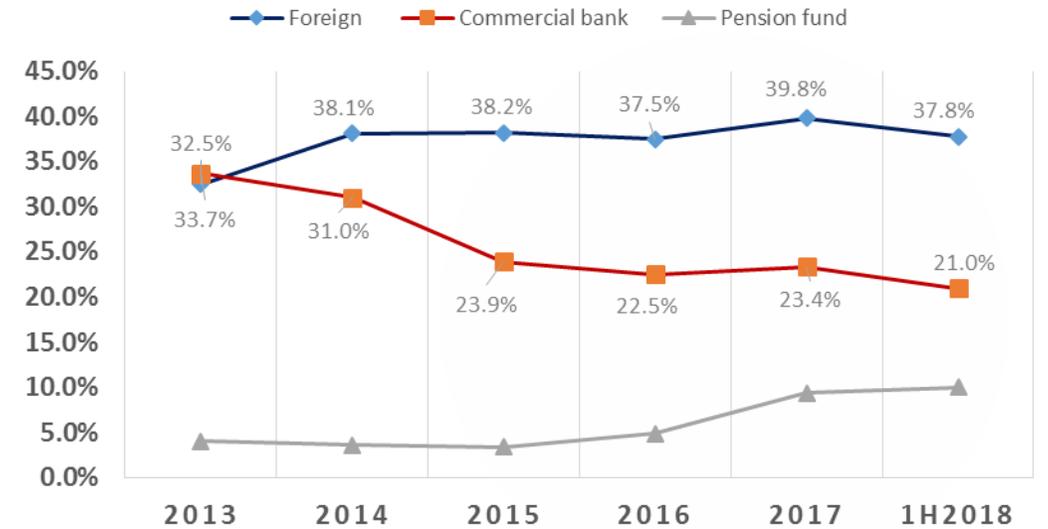


Source: Bloomberg and Bank of Indonesia,

According to our BI Governor, Rate hikes have made returns on assets in South East Asia more attractive and investors are starting to re-enter the government bond market. Despite this, volatility in the rupiah exchange rate cannot be ruled out in 2019, and with factors ranging from US interest rates to political issues global and domestic, we believe Bank Indonesia will remain prudent to maintain Rupiah stability. Assuming the Federal reserve raises rates 4 times in 2018 and another 3 times in 2019, we estimate US Gov bond 10 year yield would rise from current 2.875% to be above 3% and target 2019 to average 3.35%. As of Dec 7th, 2018, the Indonesia 10 year yield was at 8.01%. We estimate Indonesian 10 year yield in 2019 to average 8-9%.

Chart: Comparison of foreign vs 2 domestic, ownership of government bond

## OWNERSHIP OF GOV BOND

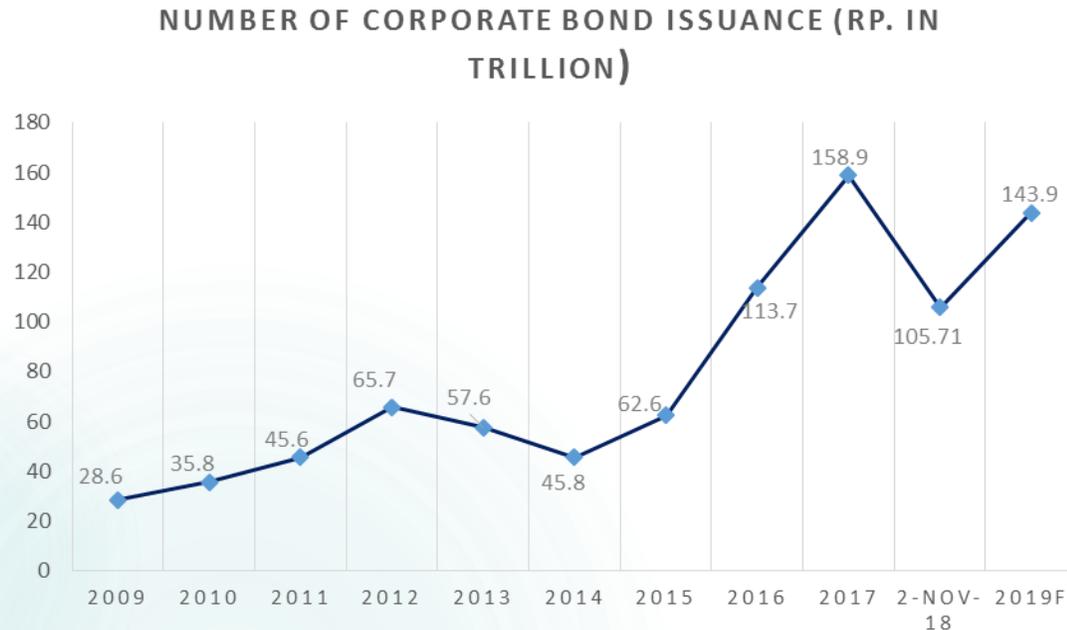


Source: Bank of Indonesia

To cover the 2019 government budget deficit of Rp. 297.2 trillion or 1.84% of gross domestic product, the government will issue new types of bonds in 2019, and re-issue retail bonds (SBR) bonds. The government is still formulating their financing strategy for next year, but plans to issue more SBN in rupiah and reduce the portion of foreign exchange SBN which usually averages 30%, so that domestic investors are more dominant. As for foreign exchange SBN, if the weakening of the rupiah exchange rate against the US dollar continues next year, the government plans to prioritize the issuance of euro and yen foreign currency SBN.

# Indonesia Bond Outlook

Chart: amount of corporate bond issuance yoy (Rp. In trillion)



Source: Bank of Indonesia

## Corporate bond market 2019

The issuance of corporate bonds next year is predicted to exceed 2018's level which dropped below 2017 due to the volatility of the rupiah, the uncertainty of global economy and rising interest rates. As of November 2, 2018, issuance reached 106 trillion. It is estimated that most issuance will be in 2H19 after the election results with a more conducive bond market, and a clearer global economic outlook. Next year, the finance sector has the most due / maturing bonds, especially in 2H19, when the risk of refinancing in this sector could lead to tighter liquidity. For 2019, it is estimated that around 70% of the total issuance will come from the ongoing public offering (PUB / Shelf registration). Shelf registration is an administrative facility from the Financial Services Authority (OJK) for companies that frequently and routinely issue corporate bonds, allowing for early registration to cut down on the administrative process.

# Thank You

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