BINAARTHA SEKURITAS

Market Outlook 2020

Braving through gravel paths

Global Economy outlook

Table: Projections world economy outlook yoy

Projections World economic growth outlook	2018A	2019F	2020F
World Output	3.6%	3.0%	3.4%
United states	2.9%	2.4%	2.1%
United Kingdom	1.4%	1.2%	1.4%
European Union	2.2%	1.5%	1.6%
Japan	0.8%	0.9%	0.5%
China	6.6%	6.1%	5.8%
India	6.8%	6.1%	7.0%
ASEAN-5	5.2%	4.8%	4.9%

Source: IMF

GLOBAL: Growth is projected to pick up to 3.4% in 2020.

According to the International Monetary Fund (IMF), global growth for 2019 is estimated to fall to 3.0% which is the weakest since 2009. This revision reflects: the negative effects of trade disputes sparked by US President Donald Trump leading to a trade war with China and other countries, a projected slowdown in China and the US; a slowdown in domestic demand in India; and the shadow cast by the possible impact of a no-deal Brexit on the United Kingdom and the European Union more broadly. Nevertheless, growth is projected to increase to 3.4% in 2020, reflecting primarily a projected improvement in economic performance, defusing trade tensions and reinvigorating multilateral cooperation.

Global Economy outlook

European Union: GDP is projected at 1.6%

EU's economic growth is expected to fall to 1.5% in 2019 due to weaker growth in foreign demand and a drawdown of inventories. This is particularly affecting the manufacturing sector, which is also experiencing structural shifts. Low inflation in the euro zone would also effect its slow growth.

Nevertheless, the robust fundamentals, a lower unemployment rate, the increase of domestically oriented sectors, the shift in employment towards service sectors, will help its growth projection to rise to 1.6% in the following year.

United States: GDP is projected to moderate at 2.1%

Growth in 2019 is expected to be 2.4%, moderating to 2.1% in 2020. This reflects an assumed shift in the fiscal stance from expansionary in 2019 to broadly neutral in 2020 as stimulus from the recently adopted two-year budget deal offsets the fading effects of the 2017 Tax Cuts and Jobs Act.

In order to support domestic consumption and with low inflation, the Fed has cut the interest rate two times this year and is expected to cut it one more time, and once again in 2020.

China: GDP is projected to fall at 5.8%

China's economic growth is slowing down, from 6.6% in 2018 to 6,1% and 5.8% in 2019 and 2020 respectively, as trade tensions, complex geopolitical forces and global uncertainties take effect.

The Chinese government must restructure its economy to expand in a more sustainable way, by focusing more on domestic consumption and relying less on debt to fuel growth.

United Kingdom: GDP is set to expand at 1.4%

Growth in 2019 is set to expand at 1.2% and 1.4% in 2020. This reflects the combination of a negative impact from weaker global growth, ongoing Brexit uncertainty and a positive impact from higher public spending announced in the recent Spending Review.

Japan: GDP is projected at 0.5%

Japan's economy is projected to grow by 0.9% in 2019 due to strong private consumption and public spending in the first half of 2019.

Nevertheless, the decline in private consumption following the October 2019 increase in the consumption tax rate will lower growth to 0.5% in the following year.

India: GDP is projected to rebound around 7.0%

India's economic growth for 2019 is expected to fall to 6.1% as non-bank financial lenders continue to struggle, thus restraining new loan extensions to consumers and businesses. In addition, weak public finances, domestic consumption, investments, manufacturing production and service sector production, plus tense relations with Pakistan and a limp global economy will also dampen prospects.

Nevertheless, government measures such as the recent corporate tax cuts will stimulate growth thus making it more attractive for manufacturing companies based in China, such as Apple, Foxconn and Wistron to invest in India, in order to avoid negative impacts from the US-China trade war. Therefore in 2020, growth in India should rebound to around 7.0%.

Global 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, Minis

INDONESIA: STABILITY OVER GROWTH

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 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 economic data

Indonesia economic data YoY	2018FY	2019F	2020F
GDP (%)	5.2	5.0	5.1
CPI (%)	3.2	3.1	3.5
Exchange Rate (IDR/USD)	14,247	14,250	14,400

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

INDONESIA: STABILITY ,GDP growth to 5.1%

While the government is targeting Indonesia's economic growth to be 5.3% in 2020 and 5.2% in 2019, we estimate the country's growth in 2020 to be 5.1%, slightly lower compared to the government's target and IMF's estimate of 5.2% in 2020. The economy will be boosted by private and government consumption and also robust investment growth especially after the elections. Inflation will be stable at 3.5% in line with a stable rupiah in a range of around 14,400.

Indonesia Economy outlook

Table: Indonesia's Economic Data QoQ in 2018 - 2019

	2018					2019		
	Q1	Q2	Q3	Q4	2018FY	Q1	Q2	Q3
Household Consumption	4.94	5.16	5.00	5.08	5.05	5.01	5.17	5.01
Government Consumption	2.71	5.20	6.27	4.56	4.80	5.21	8.23	0.98
Gross Fixed Capital Formatior	7.94	5.85	6.96	6.01	6.67	5.03	5.01	4.21
Export	5.94	7.65	8.08	4.33	6.48	(2.08)	(0.18)	0.02
Import	12.64	15.17	14.02	7.10	12.04	(7.75)	(6.73)	(8.61)
GDP	**5.06**	**5.27**	**5.17**	**5.18**	**5.17**	**5.07**	**5.05**	**5.02**

Source: BPS and Ministry of Finance

Slower consumption in Q3

In Q3 2019, household consumption was stable at 5.01 in line with stable inflation in Q3 of 3.39%. Consumption grew especially for the automotive sector and accessories, but was lower compared to Q2 after the momentum of Ramadan, Eid al Fitri and school holidays.

Meanwhile government consumption slowed compared to Q2, after the election activities in Q2, and a decrease in the realization of personnel expenditure, goods, and other expenditures.

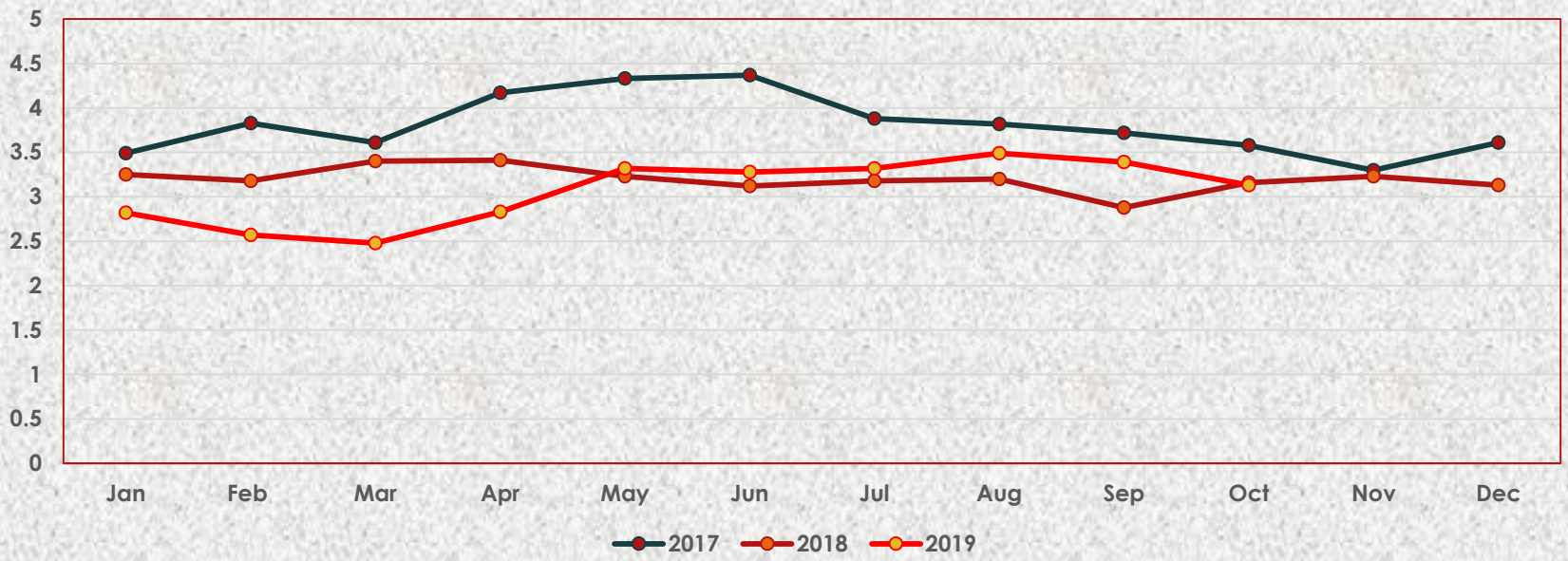
Gross fixed capital formation growth slowed compared to the 1st semester of 2019. Equipment machinery sales from imports grew slower, The decline in commodity prices effected the performance of investment in equipment machinery.

Non-oil & gas exports grew positively after being depressed in the H1 2019 with volume of fuel, vehicles and accessories, jewellery, steel, and pulp growing faster.

Imports slowed to negative growth, in line with the contraction of non-oil & gas imports, plastic commodities, vehicles and accessories.

Indonesia Economy outlook

Chart: Inflation YoY



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	3.49	3.83	3.61	4.17	4.33	4.37	3.88	3.82	3.72	3.58	3.3	3.61
2018	3.25	3.18	3.4	3.41	3.23	3.12	3.18	3.2	2.88	3.16	3.23	3.13
2019	2.82	2.57	2.48	2.83	3.32	3.28	3.32	3.49	3.39	3.13		

Inflation

We estimate that inflation in 2020 will reach 3.5%. This is in line with Bank Indonesia's prediction of 3.5%, and higher than the government target of 3.1%.
As of October 2019, inflation was lower compared to the period from May until September 2019 at 3.13%.

Indonesia Economy outlook

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

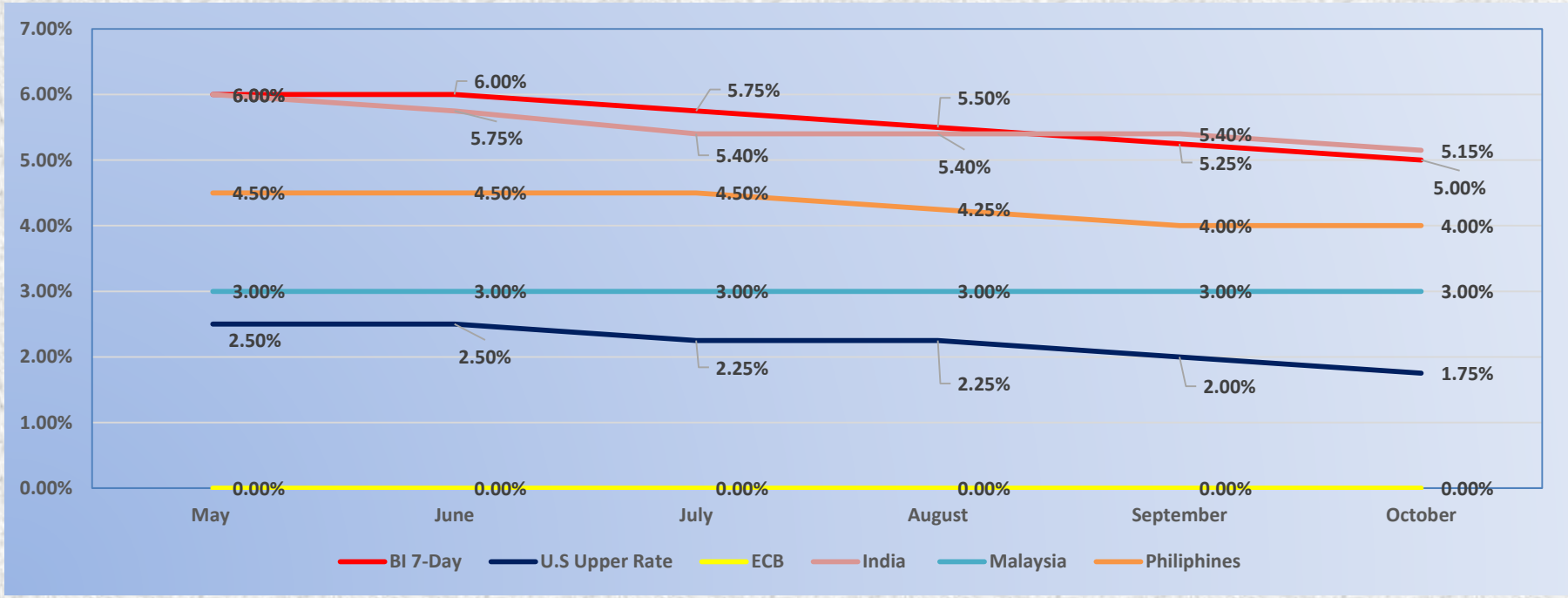
Components (Billion USD)	2017	2018					2019		
		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Current Account	**-16.2**	**-5.2**	**-7.9**	**-8.7**	**-9.2**	**-31**	**-7**	**-8.4**	**-7.6**
A. Goods	18.8	2.3	0.3	-0.5	-2.6	-0.4	1.2	0.2	1.3
Export	168.9	44.4	43.7	47.7	44.9	180.7	41.2	40.1	43.6
Import	-150.1	-42.1	-43.5	-48.2	-47.5	-181.2	-40	-39.9	-42.4
a. Non-Oil & Gas	25.3	4.4	3.2	3.4	0.1	11.2	2.9	3	2.7
b. Oil & Gas	-7.3	-2.4	-2.8	-3.6	-2.9	-11.6	-2.2	-3.2	-2.2
B. Services, Primary & Secondary Income	-35	-7.5	-8.2	-8.2	-6.6	-30.6	-8.2	-8.6	-8.92
Capital and Financial Account	**28.7**	**2.2**	**3.1**	**3.9**	**15.7**	**24.9**	**9.9**	**7.1**	**7.6**
A. Direct Investment	18.5	4.7	2.4	4.5	1.8	13.4	5.3	5.4	4.8
B. Portofolio Investment	21.1	-1.1	0.1	-0.1	10.5	9.3	5.4	4.5	4.8
C. Other Investment	-10.7	-1.5	0.6	3.6	2.1	-0.8	-2.8	-1.5	0.1
Total Balance	**11.6**	**-3.9**	**-4.3**	**-4.4**	**5.4**	**-7.1**	**2.4**	**-2**	**-0.05**
Memorandum									
Foreign Exchange Reserve	130.2	126	119.8	114.8	120.7	120.7	124.5	123.8	124..3
In month of import and payment for foreign debt by government	8.3	7.7	6.9	6.3	6.5	6.5	6.8	6.7	6.9
Current Account (%GDP)	**-1.6**	**-2**	**-3**	**-3.3**	**-3.6**	**-3**	**-2.6**	**-2.9**	**-2.7**

Deficit in CAD and Trade Balance

- Indonesia's CAD in Q3 2019 at -2.7% showed an improvement compared to 3Q2018's -3.3%. Export of goods in Q3 2019 was better compared to Q1 and Q2 but still decreased compared to Q3 2018. Meanwhile imports of goods in Q3 2019 was lower compared to Q1 and Q2.
- The Capital and Financial Account recorded a surplus as investment was a surplus after being negative in Q1 and Q2, but was still lower compared to Q3 2018.
- In 1H2019, direct investment increased along with the increase of transactions in the manufacturing and financial sectors. But there was a slowdown in Q3 2019.

Indonesia Economy outlook

Chart: Global Benchmark Rates in 2019



Source: Bloomberg

Bank Indonesia Reverse Repo Rate – Lower Interest rates

- All major countries in the region faced decreasing equity prices, due to rising trade tension.
- In the developing economic region (Indonesia, Philippines, India, etc), to support economic growth, these countries must lower interest rates and avoid excessive debt accumulation. Indonesia has lowered the benchmark interest rate four times in a year, following India's five times and the Philippines 2 times.
- The U.S. Federal Reserve (Fed) decreased their policy interest rate in July, September and October, while the European Central Bank placed its quantitative tightening policy on hold. For 2020, the Fed will likely pause future rate actions for a while or at least for the first half of 2020. But then the Fed has the potential to cut rates as the economy weakens.

Indonesia Economy outlook

Chart: IDR Movement vs BI 7D RRR in 2019

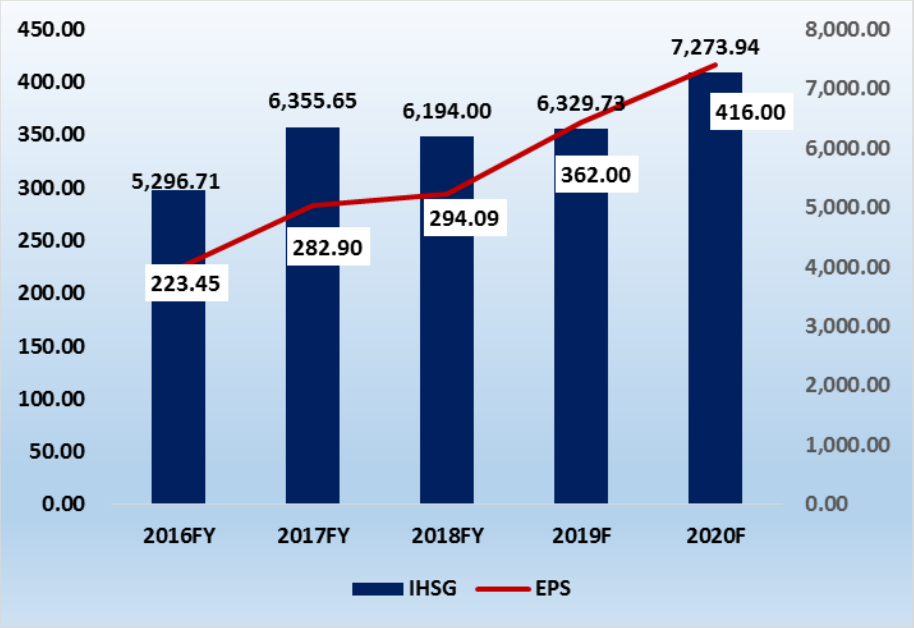
Source: Bloomberg

Currency Exchange Rates, IDR to 14400

- The proactive policy from the Indonesian Central Bank in line with the easing by the U.S. Federal Reserve and the dollar depreciation has helped rupiah to strengthen in July 2019.
- The Government is targeting the Rupiah against the US dollar to trade around IDR 14,400 per dollar in 2020.
- Robust capital flows also have supported the Rupiah which has stabilized at around 14,400.

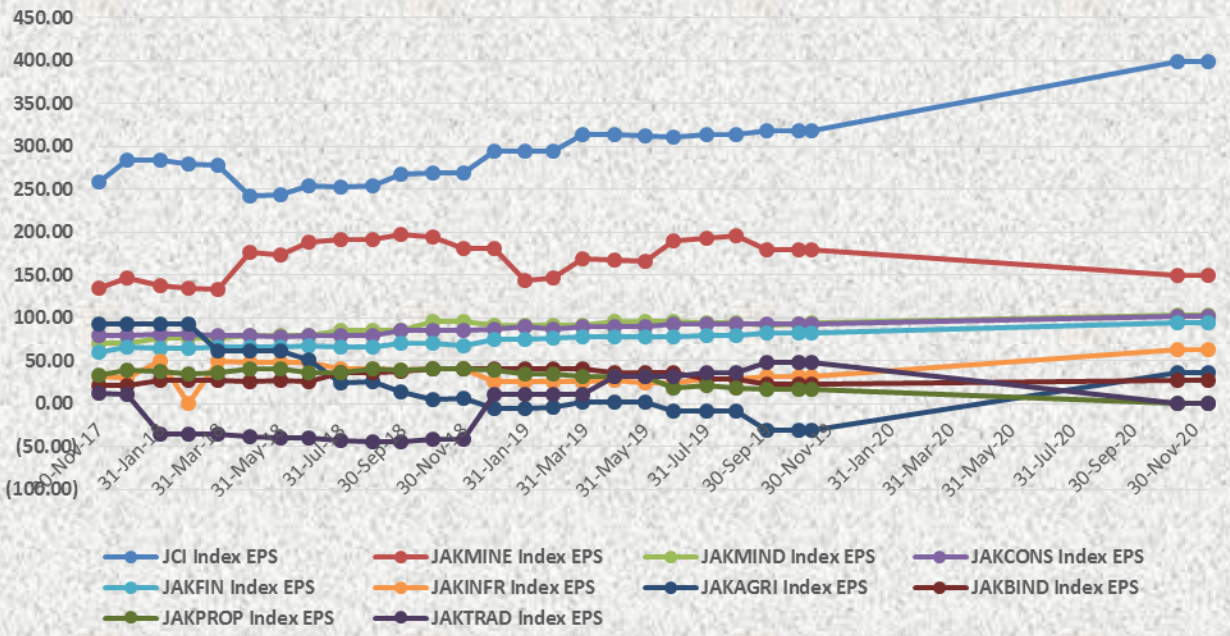
JCI Fundamental outlook

Chart: IHSG and IHSG's EPS YoY



Source: Bloomberg, Binaartha

Chart: IHSG by Sectors YoY



Source: Bloomberg

JCI Fundamental Outlook, 2019 and 2020

Based on historical index prices from Bloomberg and estimated earnings per share of IDR.362/share in 2019 and IDR.416/share in 2020, we revised and estimate JCI will be 6329.73 by end of 2019 and targeting 2020's index to 7273.94. We acknowledge that JCI is influenced by global and domestic factors including the uncertainty about trade war reconciliation, Brexit, geopolitics in US-Iran, Venezuela crisis and domestic sentiment coming from Indonesian 2019 general election. We believe in 2020, the index will remain influenced by geopolitics and trade war factor.

Top Picks

Based on the EPS growth data on Bloomberg, our top picks of sectors for 2020 are: infrastructure, finance, basic industry, miscellaneous industry, and consumer. We also believe nickel sector would be boosted by ore nickel ban implementation by early 2020. On individual shares, our top picks include: WIKA, WSKT, ADHI, PTPP, TLKM, PGAS, INDF, BBRI, BMRI, BBCA, BBNI, INTP, SMGR, JPFA, CPIN, HMSP, GGRM, SMRA, DMAS, WTON, WEGE, INCO.

Commodity Outlook

Chart: Coal prices YoY ($/MT)

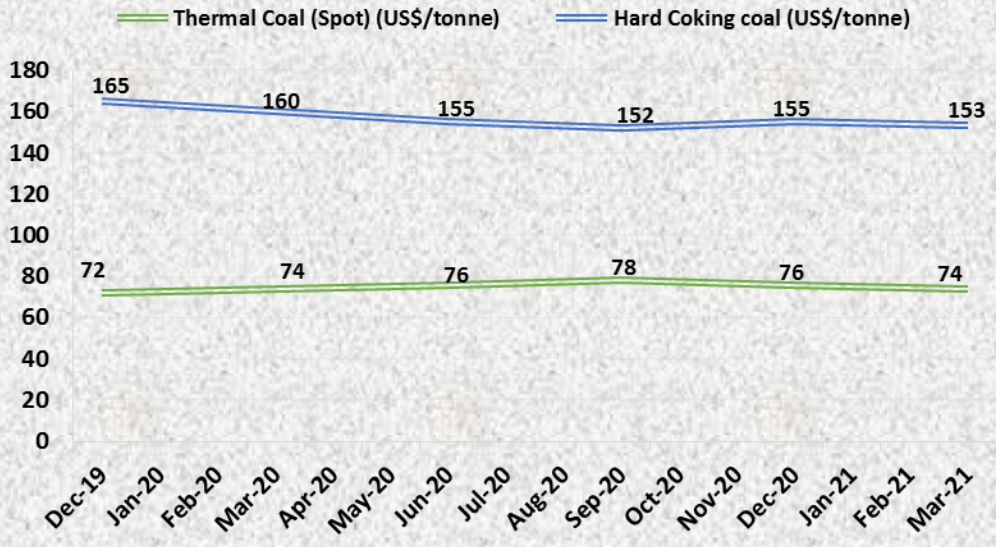


Chart: Oil prices yoy WTI vs Brent ($/barrel)

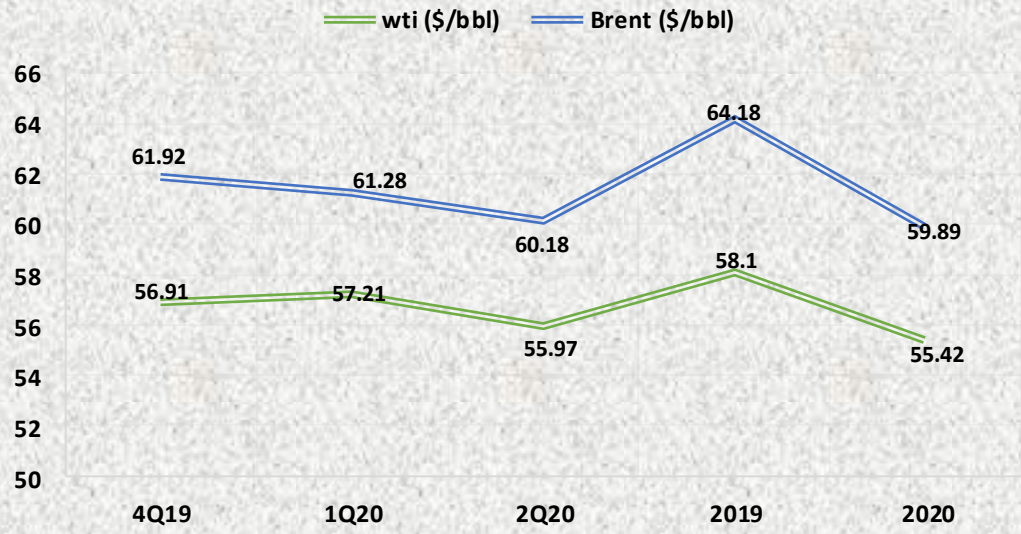


Chart: Tin prices yoy ($/MT)

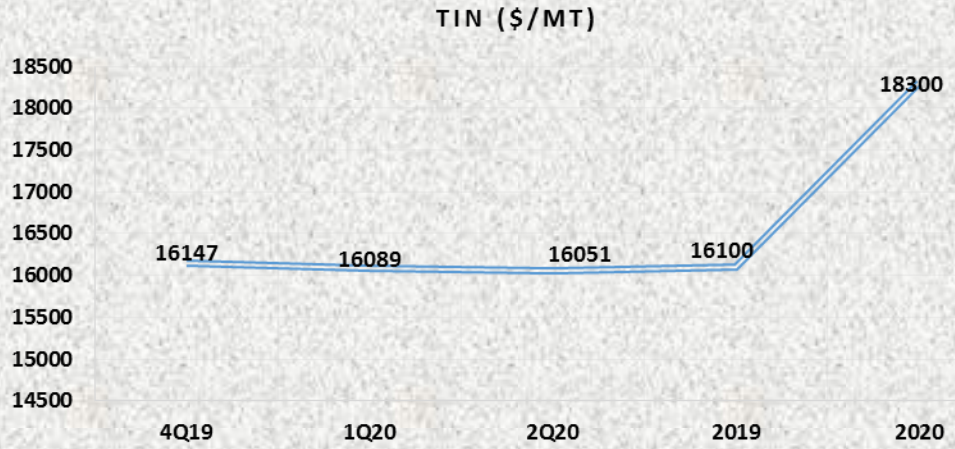
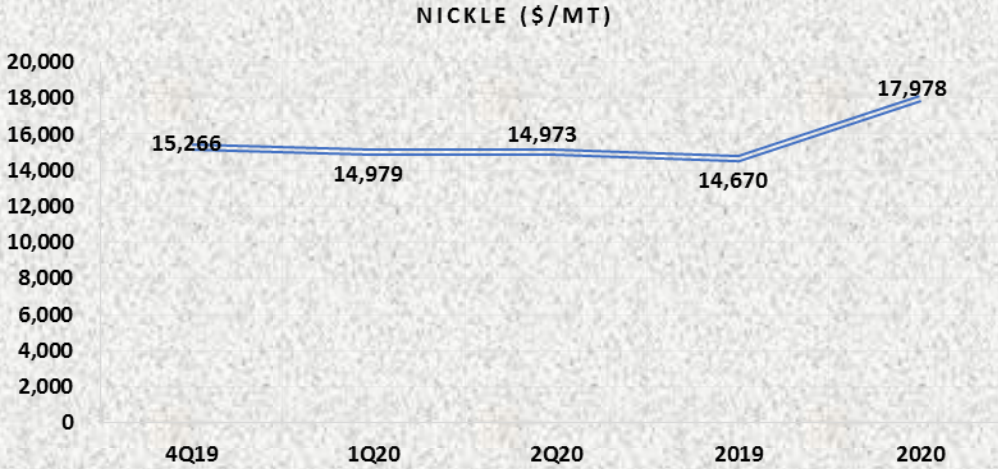


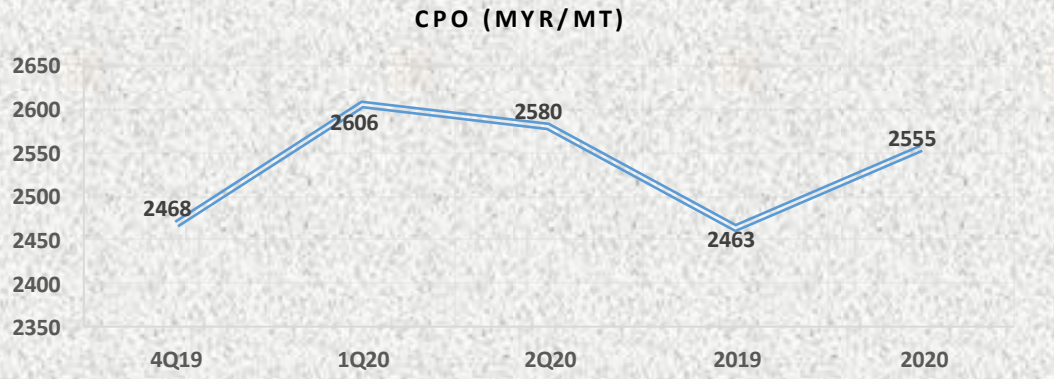
Chart: Nickle prices yoy ($/MT)



Source: Bloomberg

Commodity Outlook

Chart: CPO price YoY (MYR/MT)



Source: Bloomberg

CPO outlook 2020: Heading to MYR2,555/MT

We believe the outlook for the palm oil price is bullish as demand surpasses inventory. The main factors that will boost the price are China and India's record imports and Indonesia's rising appetite for biodiesel. India's monsoon should keep its palm oil demand strong and China imports should hold through 2020 as its pig herd recovers from the swine fever outbreak. As a result, palm oil prices may rally in the next 6 months.

Coal outlook 2020,: Thermal coal to USD76/MT

Downward pressure on coal price still continues, with spot prices for thermal coal dropping below USD70 in August 2019, while hard coking coal price fell below USD160. The pressure came as a result of the strict quota of Chinese coal imports for this year of a total 281.5 mn MT, which is similar to 2018. However China's 9M2019 coal imports have already surged 9.5% yoy to 250.57 mn MT. This means China's coal imports in 2019 will likely surpass the 2018 level. With continued quota implementation on Chinese coal imports in 2020 and India's plan to cut imports by at least one-third over the next five years, global demand will continue to suffer. Therefore we forecast coking coal price to fall to USD156/MT in 2020 and thermal coal prices to ease to USD76/MT in 2020.

Oil outlook 2020: WTI to USD55.42/bbl, Brent to USD59.89/bbl

Oil prices have been generally lower over this year amid the increasing risk of a global economic slowdown and thus global oil demand. We forecast a rise in global oil inventories in 2020 as we expect that OPEC countries will further cut supplies during the OPEC meeting on December 5th and 6th. On the other hand, the falling oil prices will somehow be limited as China as the world's biggest oil importer is showing mixed signs of higher oil demand. It is the slowdown in global growth that currently becomes our greatest concern for oil outlook. We are forecasting WTI prices to average USD55.42/bbl and Brent USD59.89/bbl in 2020.

Nickle outlook 2020: Going up to USD 17,978/Tonne

In 2020, the nickel market will potentially see the implementation of nickel export ban by the government of Indonesia starting from January 2020 which might result in a 200KT short fall in supply by 2021. The export ban is a part of efforts to boost nickel prices and promote investment in smelters thus bringing a push to the industry growth. In November 2019, BKPM and nickel companies agreed on three points, one of which is that the nickel pricing must follow the international price of around USD30/MT FOB (Free on Board). The pricing policy applies for exports with nickel content of less than 1.7%. The upcoming ban by Indonesia will have a severe impact on China's stainless steel industry as Indonesia has been its major supplier. Nickel prices have rallied continuously in 2019 as the stainless steel producers have started to build up inventories of raw materials considering the global shortage which might be witnessed after the ban comes into effect.

Tins outlook 2020: A rebound to 18,300/MT

Tin prices are down by 23% year to date in sharp contrast with last year when tin was the most resilient commodity. This is a result of a slowdown in global economic growth, particularly demand from the solder sector which accounts for 50% of global tin consumption. We believe that the weakness in tin demand from the solder sector had pushed global refined tin to a surplus of 3,000 tonnes in 1H19. Yet a rebound in tin prices is likely to happen in 2020 driven by production cut of 20,200 tonnes by 14 Chinese smelters China which started in September 2019. We also see a pick up in tin consumption in 2020 from the solder sector on a possible de-escalation of technology and trade tensions.

Sector Outlook

Manufacturing

During H1 2019, manufacturing growth was below expectation as it slowed to 3.70% due to contraction in gas refinery and transportation equipment industry as well as rubber, transportation equipment, machinery equipment, and metal goods industries. We believe in 2020, obstacles that have been hindering the improvement in manufacturing sector will remain, namely the trade war between the United States and China, which even though would be less intense, it would still affect Indonesia's export performance and manufacturing production. Secondly, there is a problem of integration between upstream and downstream industries which ultimately means that the added value of Indonesia's manufacturing industry has never been at its optimal level. Thirdly, the oil and gas processing industry continues to decline every year. As a result, the growth of the manufacturing industry has been below economic growth. Last year, the industry growth was 4.3%, which is lower than the economic growth of 5.2%. To increase the growth, the government plans to raise the investment in the manufacturing industry. The government' RKP (long term plan) has included a target of investment realization of IDR875.1 to 890.3 trillion in 2020 for the purpose.

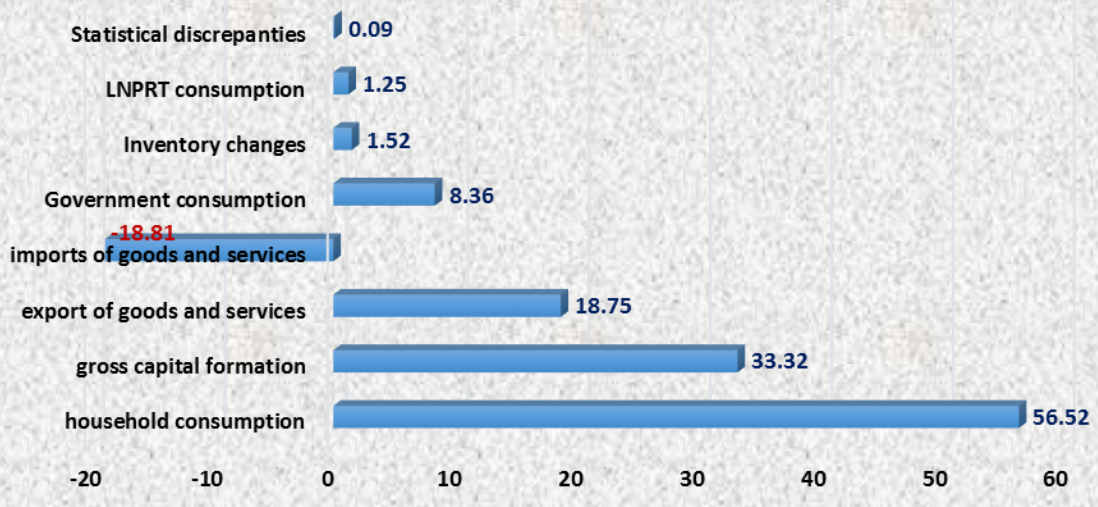
Infrastructure, Construction and Property

The continuation of infrastructure projects and the plan to move the capital city will bring a positive impact to the construction and property sectors. The budget for infrastructure development in 2020 is IDR423.3 trillion or 5.9% growth yoy. The budget is aimed at accelerating development of infrastructures which include 49 dams, 3 airports, internet connectivity development (Palapa ring), 18,758-km of bridges, 19,879-ha of irrigation, 238.8-km of railroads, 6,346-km of roads, clean water & sanitation and housing for low income families. The planned projects will give a positive boost to sentiment for the infrastructure, construction, and property sectors. The property sector will especially enjoy the policy of LTV and FTV relaxation with a leeway of 5% ratio for property credit and environment-friendly property, which will be imposed by Bank Indonesia (BI) starting on December 2nd. This could boost property growth in 2020 although not significantly. Still, we believe the sector will be in a better condition next year compared to 2019 during which the sector suffered a setback especially in H1 since customers delayed their investments and purchases to wait for the result of the election.

Consumer

We believe next year domestic consumption will remain the main driver of economic growth in addition to contributions from government spending, exports and investment. Based on BPS data, household consumption during Q3 2019 contributed IDR2,988.9 trillion or 56.52% of the national Gross Domestic Product (GDP) for the period and reached IDR4,067.8 trillion. Strong domestic consumption has helped to make Indonesia more resilient to the global economic slowdown and still able to grow at above 5%.

Chart: GPD structure accoridng to expenditure in 3Q19



Sector Outlook

Cigarettes

For the cigarette sector, the positive sentiment comes from the excise tax rate in 2020 which is based on the Minister of Finance Regulation (PMK) No. 152 / PMK.010 / 2019. The regulation authorizes an increase in tobacco excise from January 1st, 2020 of 21.55%. In the Draft of the 2020 State Budget, excise revenue is estimated to increase by 8.2% to reach IDR179.3 trillion, from the estimated revenue for this year of IDR165.8 trillion. For large companies like GGRM and HMSP, the increase in cigarette excise can be dealt by increasing the volume of cigarette production. We believe the increase in cigarette excise tax that will take effect next year will not have a major impact on inflation. Cigarettes do contribute to the inflation data but the monthly amount of 0.01% is tiny.

Telecommunication tower

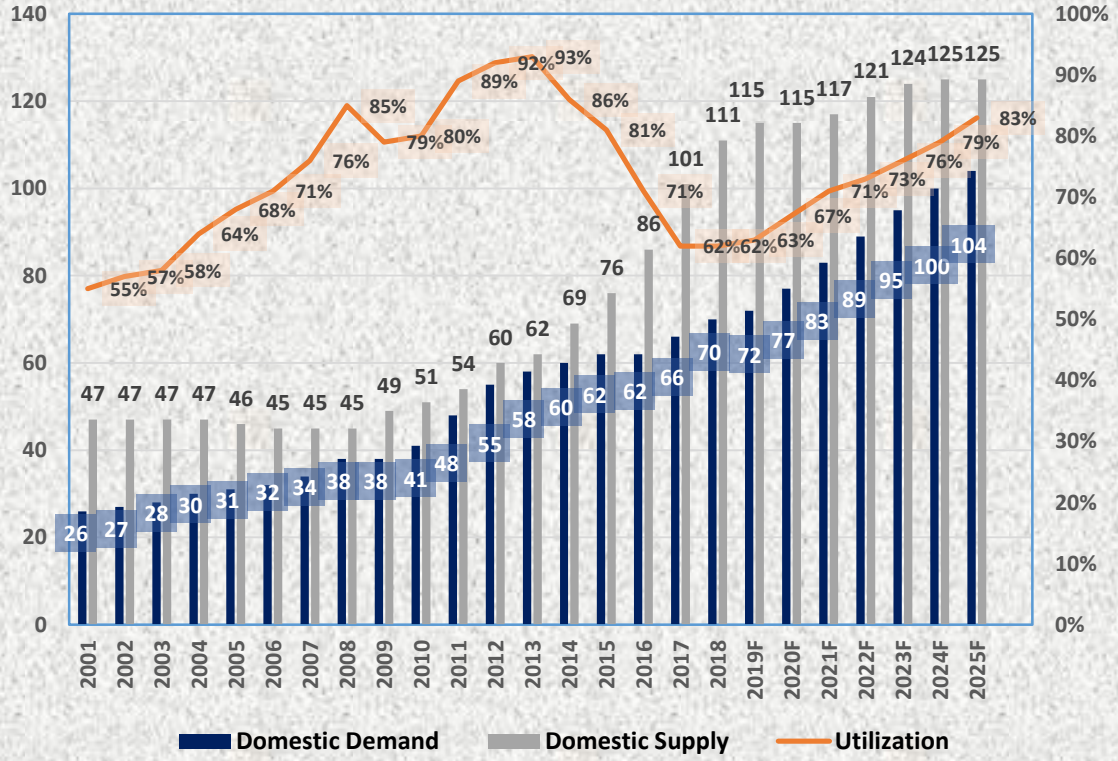
We are positive on the long term prospect of the telcos sector because of the growing data traffic as well as the number of BTS needed to maintain the network performance. In addition, we expect expansion of networks outside Java to address the coverage deficit. By 2020, the Government is targeting the addition of 4,000 BTS to increase the internet network and digital connectivity throughout Indonesia, particularly 4G BTS. This will also support the growing digital transformation in Indonesia.

Healthcare and pharmaceutical services

The healthcare and pharmaceutical services sectors have the potential to grow positively in 2020. This is driven by the government's plan to increase BPJS contributions by 100 percent in 2020. The Indonesian government has allocated IDR132.2 trillion for healthcare budget for 2020, which translates into an increase of 13% yoy. We believe there will be positive sentiment for these two sectors because of the domestic market demand that keeps increasing yoy.

Cement

For the Cement sector, oversupply of domestic cement will still continue next year and the impact will be in the form of lower ASPs. We estimate cement demand will increase in 2020 and growth is estimated to stay positive for the whole year. Property and infrastructure sectors will boost cement sales volume as infrastructure development will re-continue in 2020 amid positive sentiment from the capital city relocation to East Kalimatan. As of October 2019, cement domestic sales volume decreased -1.5% to 56.1 million tonnes.



Sector Outlook

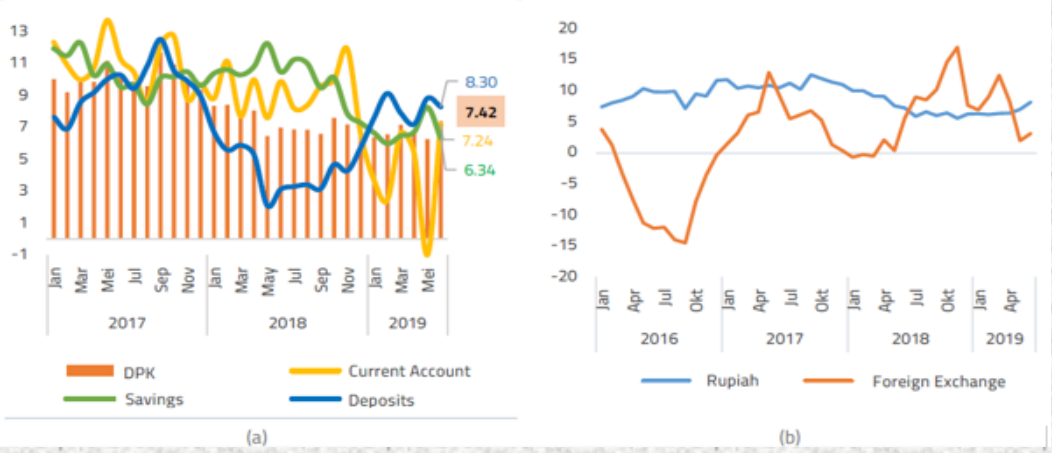
Banking

For banking sector, we believe 2020 will not be much different from 2019 although interest rate is projected to be lower to achieve the economic growth target provided that the level of inflation is not high. Financial sector stability until the end of 2Q19 is still maintained amid global economic uncertainty. The performance of the Indonesian banking industry has been observed to be stable with the support of solid asset growth and positive intermediation performance. Banking liquidity also improved along with the growth of deposits which continued the upward trend, although bank credit growth was relatively moderate. Deposit, DPK and credit remain showed an increase growth during 2019.

Based on BI data, during 1H19, Banking liquidity conditions improved in line with the upward trend in deposits in the second quarter of 2019, which grew by 7.42 percent (YoY). This figure is the highest in the last eight months, driven by increased growth in bank demand deposits and time deposits. DPK growth in BUKU I and BUKU II groups returned to positive, namely 2% and 7% (YoY) respectively. The trend to increase DPK growth was in line with the Government's disbursement of spending and global monetary conditions under the low interest regime which led to an influx of foreign capital. This was also supported by the distribution of TKDD from the Central Government to the Regional Government through BPD during the second quarter of 2019. Besides, increased growth in current accounts and long-term deposits also occurred along with the transmission of the BI benchmark interest rate increase of +75 bps in the period July 2018 - June 2019. The driving force for this increase was also efforts by banks to compete in attracting customer funds in the form of DPK by giving a higher interest rate. However, BI will still revise down this year's DPK growth target to 7-9 percent in line with slowing economic growth.

Banking credit growth (yoy) at the end of the second quarter of 2019 is still quite high although it has slowed down compared to the previous two quarters. At the same time, banks also tend to be selective and do more credit intensification given the high uncertainty in the financial sector and economic conditions. This is in line with the slowdown in Indonesian exports and international trade.

(a) Growth of Third Party Funds Source (%, yoy) and (b) Third Party Funds by Currency (%, yoy)



Credit Growth

Description	Nominal Credit (Rp trillion)			Credit Growth (% yoy)		
	Dec-18	Mar-19	Jun-19	Dec-18	Mar-19	Jun-19
Total credit	5,294.9	5,291.2	5,467.6	11.75	11.55	9.92
Based on Debtor Class						
Government	537.4	539.5	587.3	38.37	39.02	26.37
Private	4,751.9	4,747.3	4,868.8	9.49	9.18	8.18
Non Bank Financial Institution	196.2	184.1	193.2	8.41	-0.08	-1.30
Non Financial Institution	2,221.5	2,199.7	2,269.3	9.24	10.31	8.69
Individual	2,334.2	2,363.5	2,406.4	9.82	8.93	8.55
Others	5.5	4.5	11.6	-41.74	-37.19	30.33

Source: OJK's Indonesia Banking Statistics

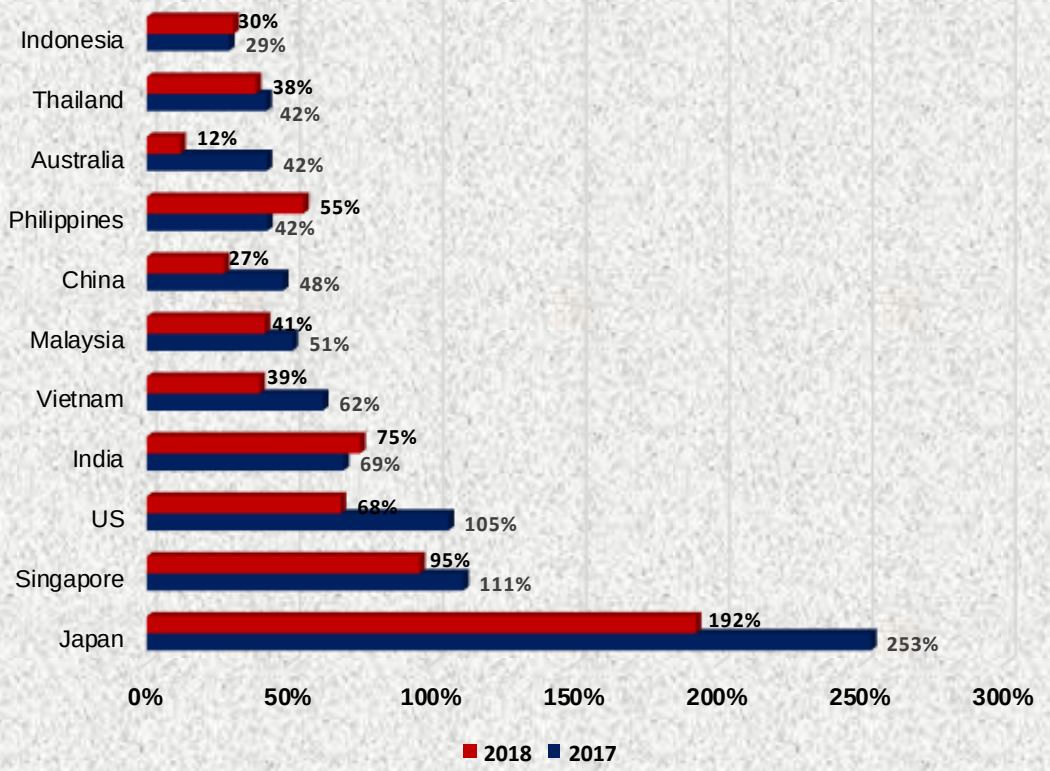
Indonesia Bond Outlook

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

Indonesia Sovereign Rating Trend yoy	Standars & 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
2019 (Nov)	BBB	BBB	Baa2	BBB	BBB

Source: Bloomberg

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

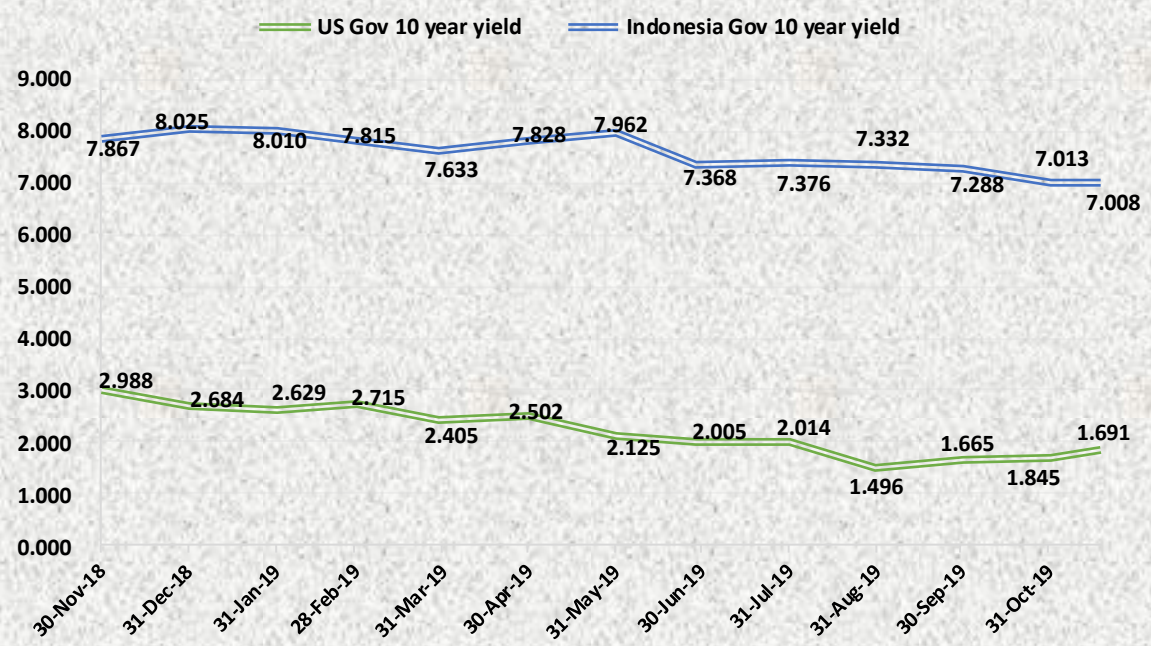


Source: IMF, world bank

In 2019, 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. Despite external challenges, Indonesia's sovereign rating will remain stable in 2020.

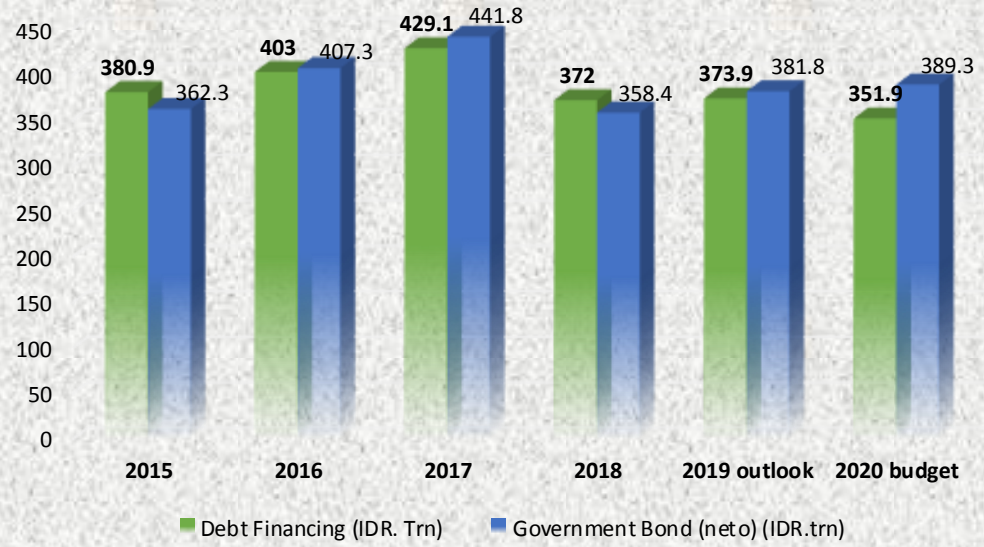
Indonesia Bond Outlook

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



Source: Bloomberg and Bank of Indonesia,

Chart: Indonesia's debt financing vs Government bond (In trillion Rupiah)



Source: Kemenkeu

According to our view, because of factors ranging from the decline in US interest rates to political issues both global and domestic , we believe Bank Indonesia will remain prudent to maintain Rupiah stability. The Federal reserve has cut rates 3 times in 2019. Indonesian also cut its interest rate 100 bps from January 2019 until October 2019 from 6% to 5%. Indonesian bond yields declined to 7.113% in Nov 2019 from 8.011% in January 2019. Meanwhile, the decline in US 10-year bond yield was influenced by geopolitics and a trade war that made foreign investors look for safe heaven securities. 10 year bond yields went down from 2.684% In Jan 2019 to 1.85% in Nov 2019. we believe government and central bank policies will increase foreign funds into the Indonesia bond market in 2020 resulting in lower yields.

To maintain the budget deficit at 1.76% of GDP, the 2020 debt financing allocation agreed by the Government is IDR351.9 trillion or a smaller -5.6% yoy growth compared to 2019's IDR373.9 trillion. On the other hand, Government bond issuance for 2020 is targeted at IDR389.3 trillion which is higher than 2019's IDR381.8 trillion. The government has not set a definite strategy for debt financing next year inline with the predicted economic and market conditions that are volatile. In addition, the Government has set a debt ratio target within the range of 29.4 – 30.1% of GDP and will maintain a macro balance by maintaining the composition of domestic and foreign debt and deepening the financial market by increasing domestic participation in the bond market.

Thank You

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