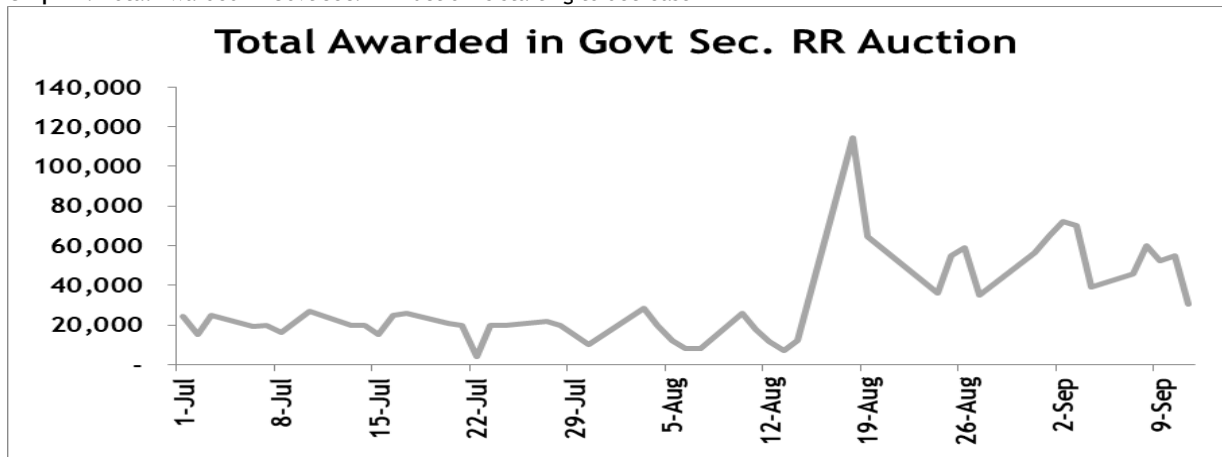


Conventional Bond Auction: Lower Incoming Bids Due to A Decrease in Excess Liquidity

As predicted, total incoming bids in the conventional bond auction which was held on Tuesday (08/09) showed weakened demand of Rp52.3tn (Vs. Rp74.6tn on average in a year), was lower than the previous auction which reached Rp78.4tn. The total awarded was Rp22tn (Vs. Rp20tn of initial target). Meanwhile, the bid to cover ratio lowered at 2.38x (Vs. 3.56x in the previous auction). The benchmark of next year, FR0086 (6Y) and FR0087 (11Y), resulted in the most demanded at Rp12.7tn and Rp12.2tn respectively, representing 48% of total incoming bids.

The lower incoming bids occurred as excess liquidity began to decrease. That is indicated by the increase of total awarded in the government securities reverse repo auction that was held by BI. This has happened since the reading of Indonesia’s budget balance in 2021 (14/08), which directs the burden sharing between the government and BI will take place until next year, recently planned to end in 2022. In July, the average of total awarded in RR auction came at Rp19.28tn per day, then in August increased to Rp41.24tn per day. In September (Ao. 11 September) the average of total awarded in RR auction accounted at Rp54.44tn per day, yet the trend is starting to show a decrease.

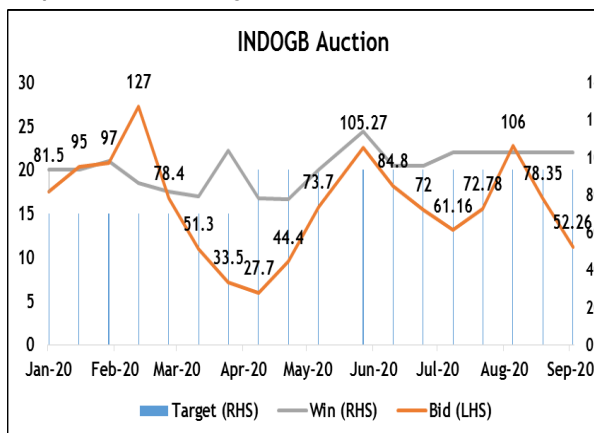
Graph 1. Total Awarded in Govt Sec. RR Auction is starting to decrease



Source: Bank Indonesia & MCS Research

The average yield awarded is in line with our forecast. Whilst, the weighted government cost of fund fell to 5.94% (Vs. 6.04% from the previous auction). Furthermore, The non-competitive awarded was slightly increased to Rp7.2tn (Vs. Rp7.01tn in the previous auction) or contributed to 32.73% of the total awarded. This indicates that BI’s participation in the auction has increased slightly. We will find out how much BI participated in the auction based on the DMO bond fund flow data ao. 10-Sep (the settlement date of conventional bond auction).

Graph 2. Total Incoming Bids Started to Weaken



Source: DMO & MCS Research

Table 1. Realization of Bond Issuance

	Realization (ao. 08-Sep)	
Government Securities (GS)	947.9	58.51%
Government Debt Securities (GDS)	687.09	58.67%
IDR Denominated GDS	464.52	
- Coupon GDS	336.54	
- Conventional T-bills	39.96	
- Private Placement	67.42	
- Retail Bonds	20.59	
Foreign Denominated Bonds	123.49	
Special instrument	99.08	
Sovereign Sharia Securities (Sukuk)	260.82	72.29%
Domestic Sovereign Sharia Securities	225.15	
- IFR/PBS/T-Bills Sukuk	151.72	
- Retail Sukuk	12.14	
- Private Placement	61.30	
Global Sukuk	35.66	

Source: DMO & MCS Research

Table 2. Conventional bond Auction Results Vs. Forecast

8-Sep	SPN3mo	SPN12mo	FR086	FR087	FR080	FR083	FR076
Total incoming bids (IDR tn)	2.6	7.58	12.68	12.21	7.88	4.35	4.96
Total awarded (IDR tn)	1	2	7.6	7.35	2.55	1.5	0
Bid to cover ratio	2.60	3.79	1.67	1.66	3.09	2.90	0.00
Wighted Average Yield	3.16%	3.40%	3.42%	6.74%	7.38%	7.42%	0.00%
Cut Off	3.20%	3.40%	5.44%	6.75%	7.39%	7.42%	0.00%
MCS Forecast	3.15-3.20%	3.35-3.40%	5.44-5.48%	6.74-6.77%	7.37-7.40%	7.41-7.43%	7.43-7.44%

Source: DMO & MCS Research

The Taking Profit Act by Banks Has Sent INDOGB's Yield Curve to A Steeper One

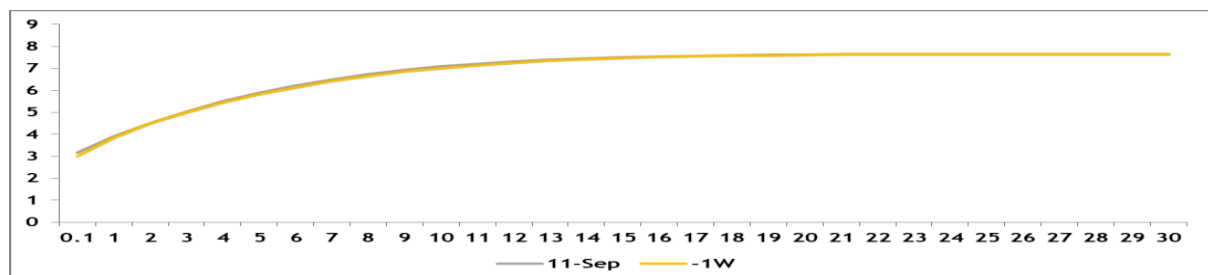
The average trading volume per day for government securities was lowered in the second week of September to Rp15.3tn (Vs. Rp17.9tn in the previous week). Trading frequency per day was down to 803x (Vs. 950x in the previous week). Based on DMO fund flow data with settlement date ao. 09-Sep, the banks as the biggest player in the government securities market has realized profit by recording net sell of -Rp18.83tn, while on the other hand, BI is playing a standby buyer role by recording net buy of +Rp17.88tn in a week. Furthermore, during a week INDOGB 3-yr yield up to 6 bps, while INDOGB 10-yr yield rises by 9 bps. The difference between the two shows that the INDOGB's yield curve has turned to a steeper one with a spread of 204 bps (Vs. 201 bps in the last week). That means there has been a rise in INDOGB prices in a week with low volatility in the market.

Table 3. The banks has realized profit by recording net sell in govt sec. of -Rp18.83tn in a week

Institution	Ao. 09-Sep		-1W		-1M	
	SUN	SBSN	SUN	SBSN	SUN	SBSN
Bank	957.17	292.48	975.53	292.95	706.82	278.71
	35%	47%				
Bank Indonesia	128.22	46.34	110.81	45.86	340.16	46.85
	5%	7%				
Mutual Fund	93.27	58.82	92.49	58.79	86.05	57.17
	3%	9%				
Insurance	209.57	70.81	209.61	70.74	206.53	68.41
	8%	11%				
Foreign Investor	918.51	25.30	918.87	25.41	917.27	27.38
	34%	4%				
Pension Fund	181.57	53.99	180.98	53.87	179.43	52.39
	7%	9%				
Individual	95.07	21.27	94.63	21.34	91.33	21.65
	4%	3%				
Others	134.05	58.26	134.51	58.30	133.76	56.20
	5%	9%				
Total	2,717.42	627.26	2,717.42	627.26	2,661.34	608.76
	100%	100%				

Source: DMO & MCS Research

Graph 3. Within a week the INDOGB's yield curve turned to a steeper one with low volatility



Source: DMO & MCS Research

Next Tuesday's Sukuk bond Auction

The government is going to hold another Sukuk auction on Tuesday (15/09), targeting Rp8tn for SPNS6Mo, SPN12Mo, 2.68-yr PBS027 (r: 6.500%), 4.10-yr PBS025 (r: 6.625%), 12.68-yr PBS026 (r: 8.375%), dan 26.11-yr PBS028 (r: 7.750%).

What to Watch in The Markets in The Week Ahead

The investor will be focused on: (1) The trade balance report (15/09) that consensus is expecting surplus on the trade balance in August will be lower at \$2.5bn (Vs. \$3.26bn in July), if the result is higher than expected, it will bring positive sentiment to the market as BI's room to slash the interest rate becomes more wide open. (2) The results of the Board of Governor Meeting September 2020 (17/09) that the market is expecting the benchmark interest rate will be stable at 4.00%.

Most Active Government Bonds

Ticker	Coupon Rate (%)	Maturity	Volume (bn)	Freq
FR0076	7.375	15-May-48	649.90	619
FR0087	6.500	15-Feb-31	10,464.92	488
FR0080	7.500	15-Jun-35	3,242.84	411
FR0082	7.000	15-Sep-30	13,196.58	378
FR0065	6.625	15-May-33	693.09	375

Most Active Government Sukuk

Ticker	Coupon Rate (%)	Maturity	Volume (bn)	Freq
PBS005	6.750	15-Apr-43	796.30	69
PBS002	5.450	15-Jan-22	1,931.00	31
PBS014	6.500	15-May-21	2,119.00	16
PBS012	8.875	15-Nov-31	334.92	11
PBS004	6.100	15-Feb-37	64.00	9

Most Active Corporate Bonds

Ticker	Rating	Coupon Rate (%)	Maturity	Volume (bn)	Freq
PPLN04CCN1	idAAA	7.900	08-Sep-30	117.50	244
PPLN04ECN1	idAAA	8.860	08-Sep-40	19.26	30
PPLN04DCN1	idAAA	8.650	08-Sep-35	14.35	28
PPLN04BCN1	idAAA	7.250	08-Sep-27	25.80	11
KAI02B	idAAA	8.200	13-Dec-26	97.10	9

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