

Eugene Leow
Rates Strategist



Please direct distribution queries to Violet Lee +65 68785281
violetleeyh@db.com

- *Indonesia government bonds should stay resilient despite Wuhan virus worries*
- *Cautious global sentiment extends the lower-for-longer narrative and should encourage carry plays*
- *Bank Indonesia has room to reduce IDR assets' volatility via DNDfS and intervention in the bond market*
- *Fundamentally, liquidity is flush and monetary policy should stay loose, supporting Indo govies*

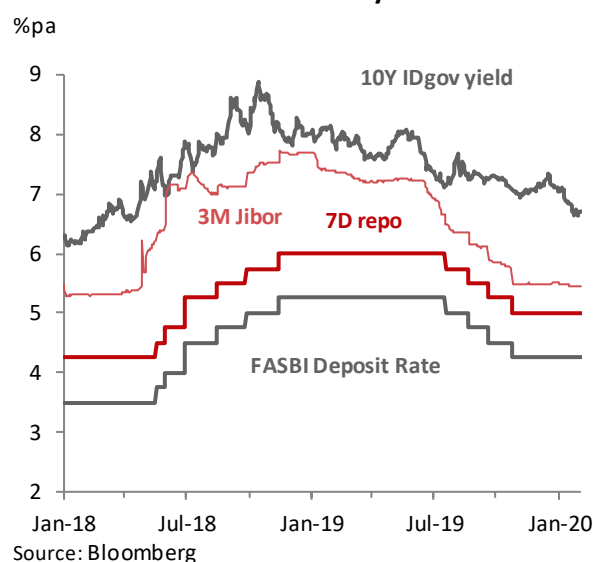
Resilient to the Wuhan virus

Indonesia government bonds will be resilient towards infection from the Wuhan virus.

Some shakiness in Indonesia assets was displayed when fears on the virus started to spread through the markets. The Jakarta Composite Index (JCI) was down by 5.2% since January 24. Comparatively, the current 10Y bond has barely budged over the same period. We think that the reassuring presence of Bank Indonesia (BI) in cushioning volatility and a

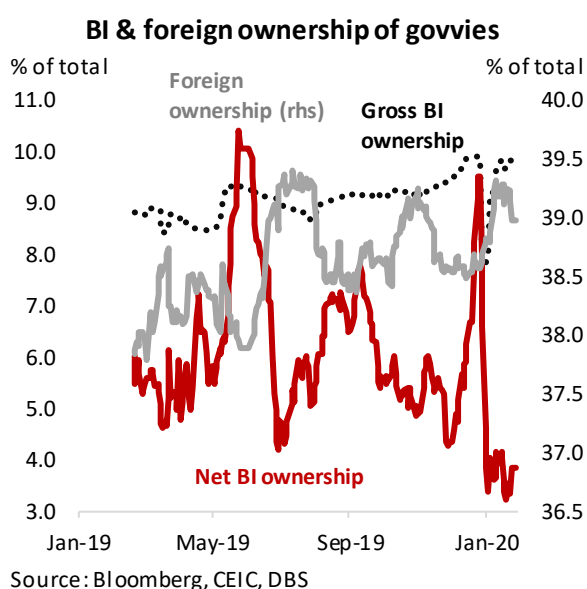
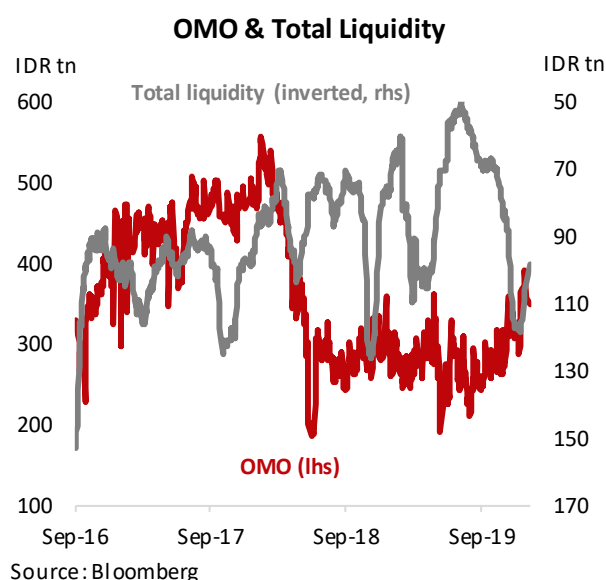
generally supportive macro backdrop for higher yielders will encourage investors to buy the dip.

IDR rates should stay anchored



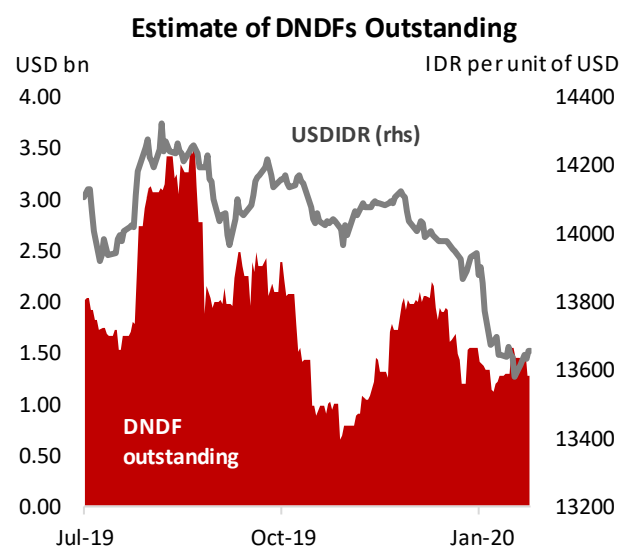
Liquidity has become flush over the past few months as investors warm up to emerging market assets (including Indonesia) amid a global cyclical rebound and a thaw in China-US trade tensions. Some of this is reflected in the surge in total liquidity and the corresponding modest rise in open market operations (OMOs). We think that the Wuhan virus worries will not derail these conditions. To be sure, tourism-related activities and possible supply chain logjams will drive global growth slower, but these should prove temporary.

There are two ways where Indonesia govies can get hit. Firstly, there is always a kneejerk response to sell EM assets when there is global risk aversion. If risk aversion persists, there could be contagion as EM funds reduce positions or look to lock in profits (especially after a sizable rally).



Secondly, if global growth gets dampened, commodity prices could get even more depressed, pressuring Indonesia's current account. Some of this is showing up across a range of commodities including oil, copper and palm oil prices. It would probably take an extended period of risk aversion and stalled global growth (without fiscal and monetary support) for either case to take place. We caution against extrapolating the Wuhan virus worries and the fall in commodity prices too far into the coming months.

Moreover, we think that **BI is in a good position to cushion moderate volatility in IDR assets**. The introduction of DNDFs last year offers BI a new tool to reduce excessive IDR weakness during times of risk aversion. The estimated amount of DNDFs outstanding is still low (around USD 1.5bn) as the rupiah strengthened over the past few months. At its peak in August last year, the amount of DNDFs outstanding stood at around USD 3.5bn. Similarly, net BI ownership (gross less repos) has fallen below 4% of government securities outstanding, from close to 8% in September. Historically, BI's ownership tends to be volatile, rising sharply during times of global risk aversion when foreign investors sell. At current levels, we think that BI has plenty of room to step up govvie buying if needed.



The combination of lower-for-even longer global backdrop, likely loose monetary policy from BI, flush liquidity and ample room for the authorities to act suggests that **the environment is still conducive for Indo govovies**. Wuhan virus worries could cause some jitters but should not derail the hunt for carry in Indonesia government bonds.

Group Research

Economics & Macro Strategy

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@db.com

Chang Wei Liang

Strategist

+65 6878-2072 weiliangchang@db.com

Ma Tieying, CFA

Economist - Japan, South Korea, & Taiwan

+65 6878-2408 matieying@db.com

Nathan Chow

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@db.com

Radhika Rao

Economist – Eurozone, India, & Thailand

+65 6878-5282 radhikarao@db.com

Masyita Crystallin, Ph.D.

Economist – Indonesia & Philippines

+62 21-2988-4003 masyita@db.com

Irvin Seah

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@db.com

Eugene Leow

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@db.com

Samuel Tse

Economist - China & Hong Kong

+852 3668-5694 samueltse@db.com

Chris Leung

Economist - China & Hong Kong

+852 3668-5694 chrisleung@db.com

Duncan Tan

FX and Rates Strategist - Asean

+65 6878-2140 duncantan@db.com

Philip Wee

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@db.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.
DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422