

# The Momentum of Yield Curve Normalization

30 November 2023

Research / Fikri C Permana

# Inverted Yield Curve Gradually Transitioning to Normal Yield Curve

## UST's YIELD CURVE

(as of 29 Nov '23)

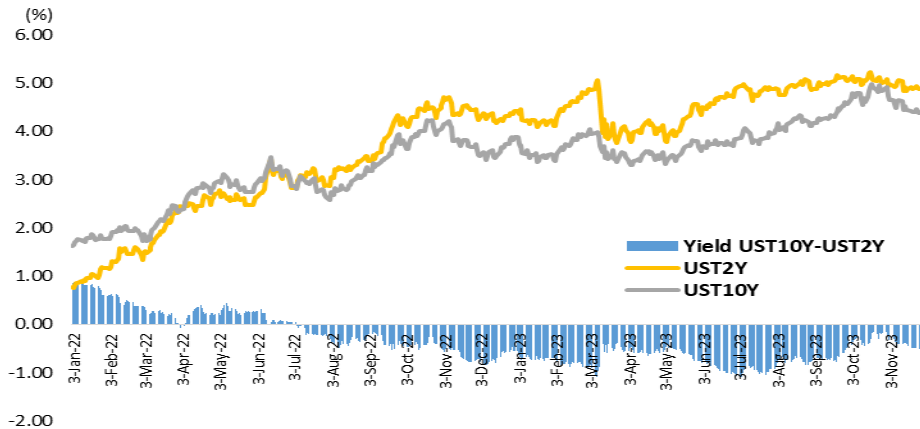


Sources : Bloomberg and KBVS Research-treated (2023)

- The recession concerns typically anticipated with an inverted yield curve between UST2Y and UST10Y, which began on 1 Apr '22, appear unlikely to materialize this year.
- This condition is anticipated to sustain a positive trajectory for global economic growth.
- Conversely, the less-hawkish (tend to dovish) stance recently exhibited by officials at The Fed is noteworthy:
  - Waller stated that *“current monetary settings are sufficiently restrictive and hinted at a potential rate cut in the upcoming months.”*
  - Goolsbee also highlighted significant progress in tackling inflation.
- Contributes to the heightened anticipation of a Fed rate cut in Mar or May '24.

Hence, we foresee the possibility of a yield curve normalization to commence in the year 2024.

## YIELD UST2Y VS UST10Y



Sources : Bloomberg and KBVS Research-treated (2023)

## CME FEDWATCH TOOL

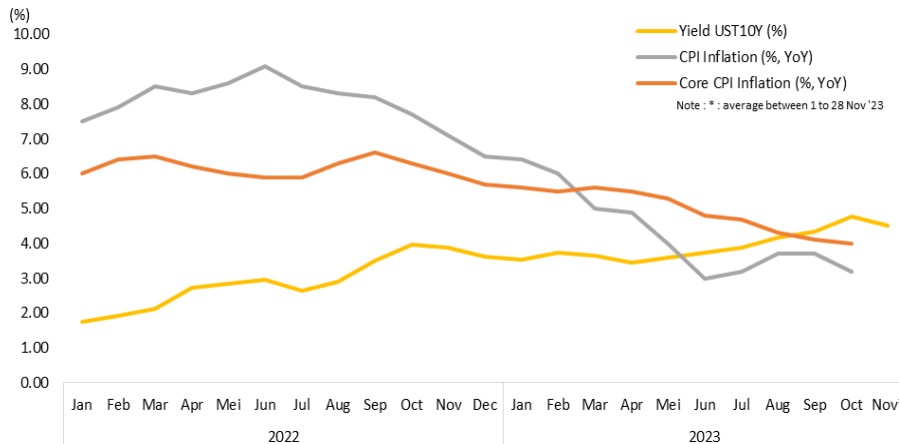
(as of 29 Nov '23)

MEETING DATE	FED RATE PROBABILITIES									
	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
13-Dec-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	97.1%	2.9%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	93.2%	2.8%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	48.6%	48.0%	1.4%
1-May-24	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	30.1%	48.2%	19.9%	0.6%
12-Jun-24	0.0%	0.0%	0.0%	0.0%	0.9%	23.0%	43.8%	26.9%	5.3%	0.1%
31-Jul-24	0.0%	0.0%	0.0%	0.7%	17.3%	38.4%	31.2%	10.9%	1.5%	0.0%
18-Sep-24	0.0%	0.0%	0.5%	13.7%	33.8%	32.8%	15.3%	3.5%	0.4%	0.0%
7-Nov-24	0.0%	0.3%	8.9%	26.5%	33.2%	21.6%	7.8%	1.5%	0.1%	0.0%
18-Dec-24	0.2%	6.4%	21.4%	31.2%	25.0%	11.8%	3.3%	0.5%	0.0%	0.0%

Sources : Bloomberg and KBVS Research-treated (2023)

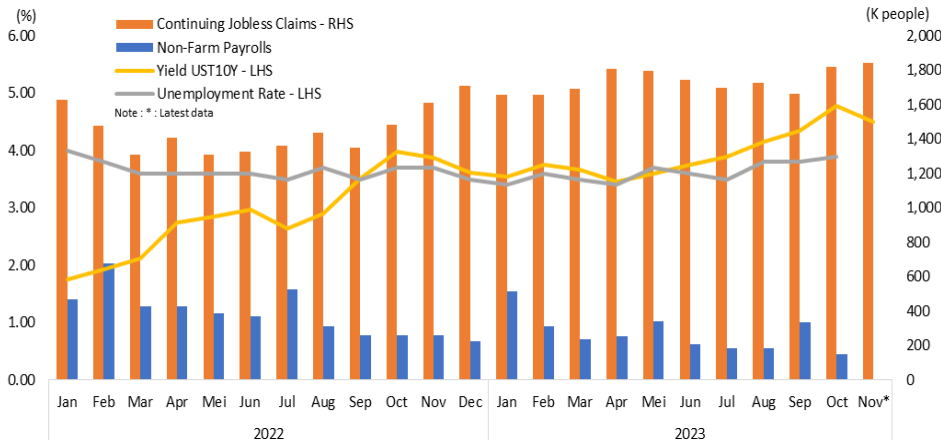
# (1) Perspective from the Real Sector

## YIELD UST10Y VS US's INFLATION



Sources : Bloomberg, BLS and KBVS Research-treated (2023)

## YIELD UST10Y VS US's LABOR MARKET

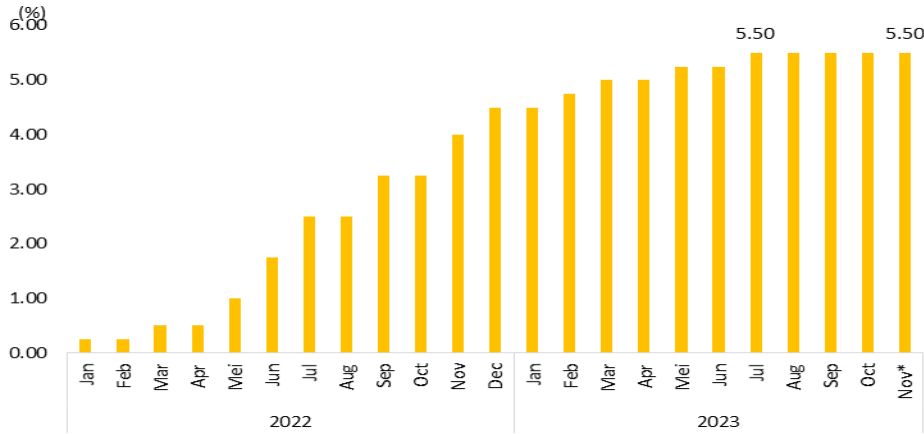


Sources : Bloomberg and KBVS Research-treated (2023)

- The CPI inflation and Core CPI inflation in the US, which peaked between late 1Q22 and early 3Q22, lead us to anticipate a continued decline in the US (and global) inflation rates.
- US Core PCE Price for 3Q23, a key inflation benchmark for the Fed, was revised downward to 2.3% YoY (Cons: 2.4% YoY, Prev: 3.7% YoY). Similarly, the PCE Price for the same period was also adjusted downward to 2.8% YoY (Cons: 2.9% YoY, Prev: 2.5% YoY).
- This expectation is further supported by the decreasing trends in the prices of both Brent and WTI crude oil, contributing to a downward trajectory in oil (and energy) prices.
- Consequently, we anticipate these trends to continue maintaining energy prices at lower levels, tending toward deflation.
- However, geopolitical risks persist as a primary concern in this scenario.
- Another focal point within the real sector is the emerging weakness in the US labor market. This is evident in:
  - Nonfarm payrolls declining from an average of 385K people in 2022 to 273K people in 2023.
  - Continuing jobless claims rising from 1.45 mn people in 2022 to 1.74 mn people in 2023.
  - Consequently, the unemployment rate has ascended from 3.5% (Dec '22) to 3.9% in Nov '23.
- As a result, there is a possibility of a decline in labor cost inflation.
- There are concerns regarding the high Fed Rate exerting pressure on labor absorption, exacerbating this situation

## (2) Investor Appetite in UST Primary Market

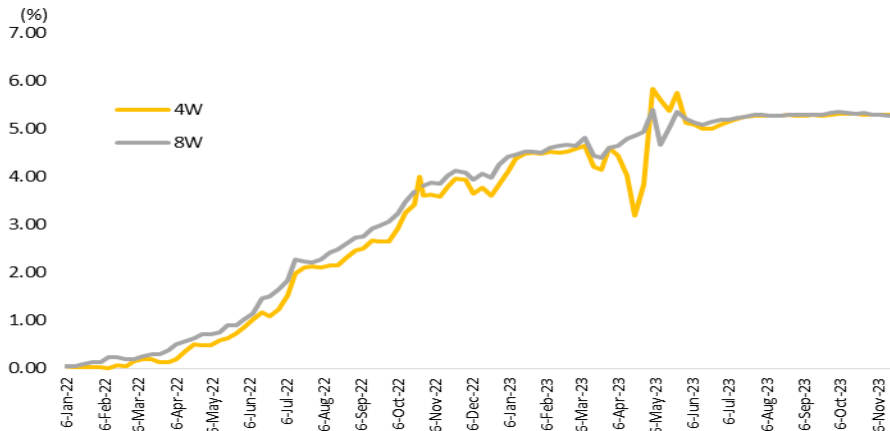
**FED RATE**



Sources : US Department of Treasury and KBVS Research-treated (2023)

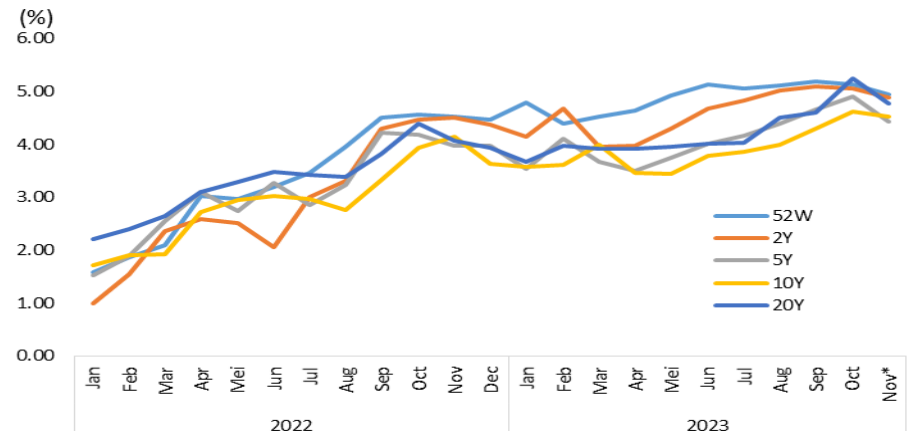
- The Fed's decision to hold the Fed Rate at 5.50% since the FOMC Meeting on 14 Jun '23, has led to stability in UST yields within the primary market.
- Reflected in the awarded yields for UST 4W and 8W, averaging between 5.24% and 5.26% since Jun '23, following a significant rise in May '23. Additionally, the awarded yields for 4W and 8W began decreasing below the 5.30% mark after the auctions held on 26 Oct and 2 Nov '23.
- Similar trends are observed across auctions for the 52W Bill and other UST Notes, where the awarded yields started declining after the auctions in Oct '23.
- Simultaneously, there has been an increase in incoming bids. For instance, at the 28 Nov '23 UST auction, the 42-day bill recorded incoming bids of USD204.1 bn, the 52W received bids totaling USD156.7 bn and the 7Y saw bids reaching USD95.3 bn.

**YIELD UST 4W & 8W BILL AUCTION RESULT**



Sources : US Department of Treasury and KBVS Research-treated (2023)

**YIELD UST 52W BILL AND NOTE AUCTION RESULT**

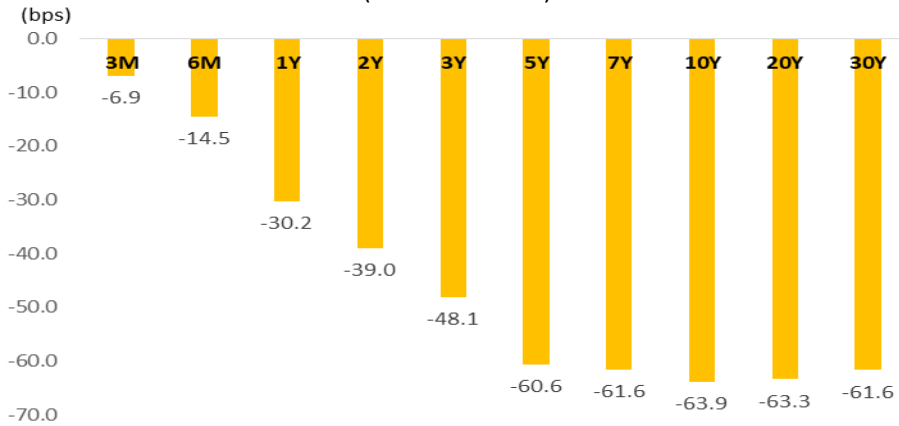


Sources : US Department of Treasury and KBVS Research-treated (2023)

# Normalization of Yield UST & SUN

## DEVELOPMENT OF YIELD UST SINCE 31 OCT '23

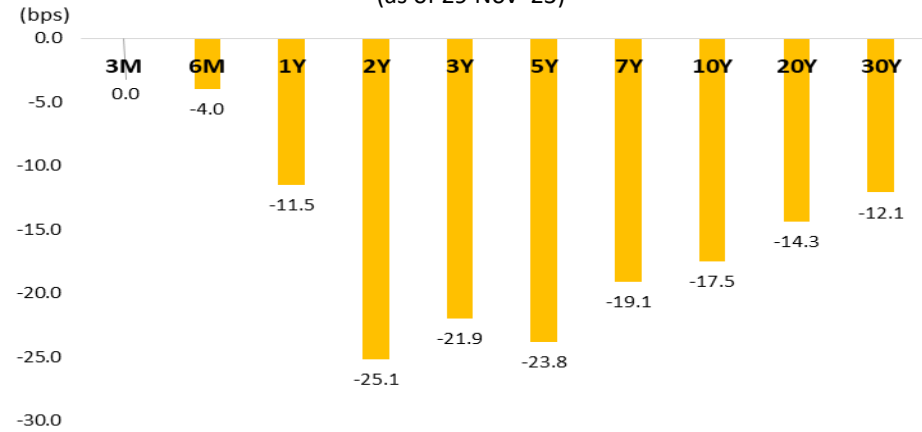
(as of 29 Nov '23)



Sources : Bloomberg and KBVS Research-treated (2023)

## DEVELOPMENT OF YIELD UST SINCE 24 NOV '23

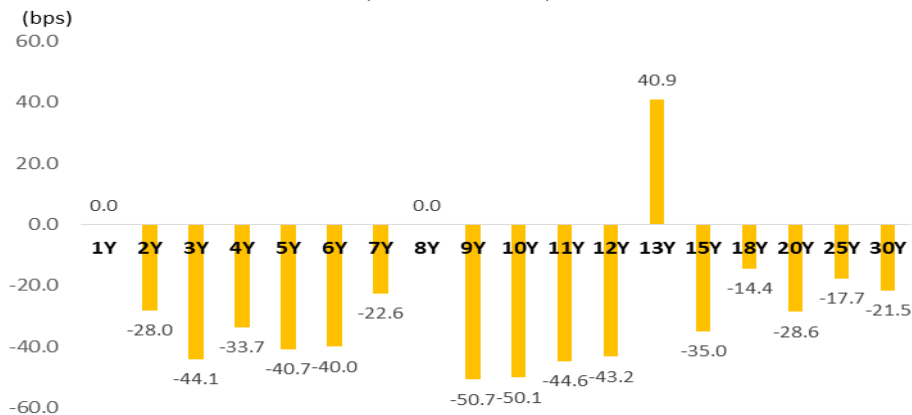
(as of 29 Nov '23)



Sources : Bloomberg and KBVS Research-treated (2023)

## DEVELOPMENT OF YIELD SUN SINCE 31 OCT '23

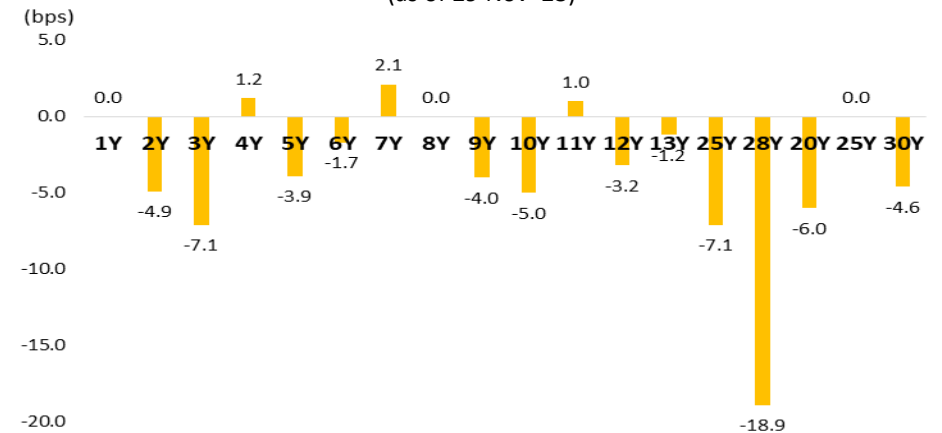
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Sources : Bloomberg and KBVS Research-treated (2023)

## DEVELOPMENT OF YIELD SUN SINCE 24 NOV '23

(as of 29 Nov '23)

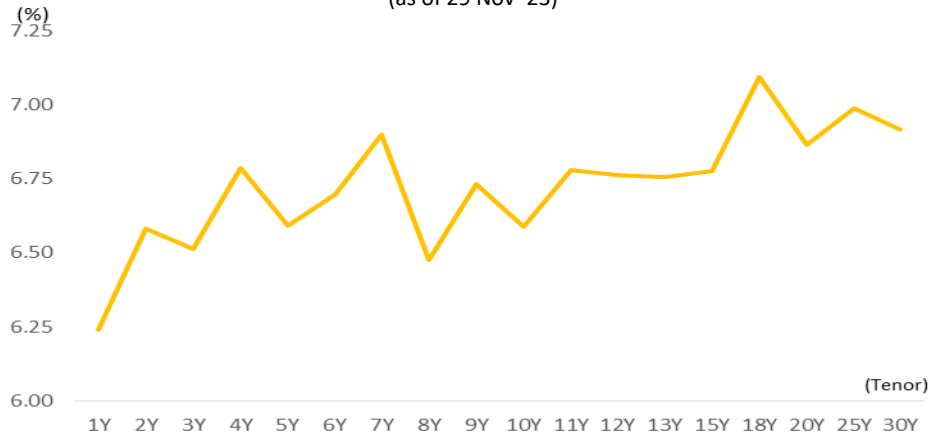


Sources : Bloomberg and KBVS Research-treated (2023)

# The Occurrence of a Normal Yield Curve is Anticipated in SUN (1)

## SUN's YIELD CURVE

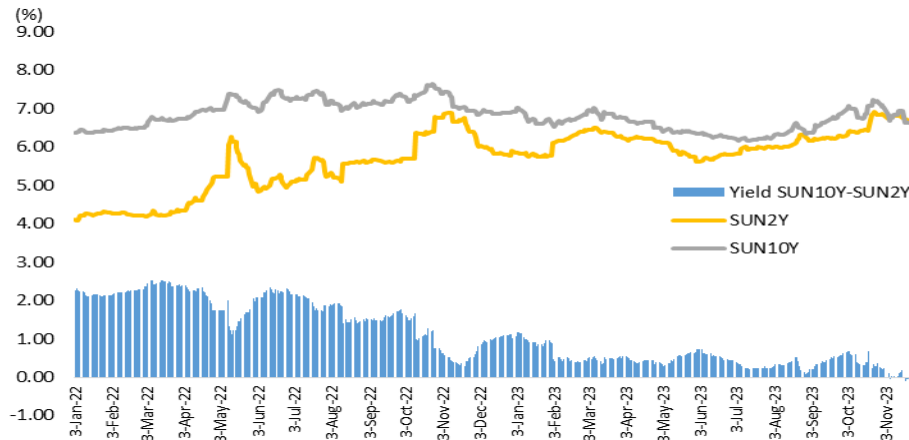
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Sources : Bloomberg and KBVS Research-treated (2023)

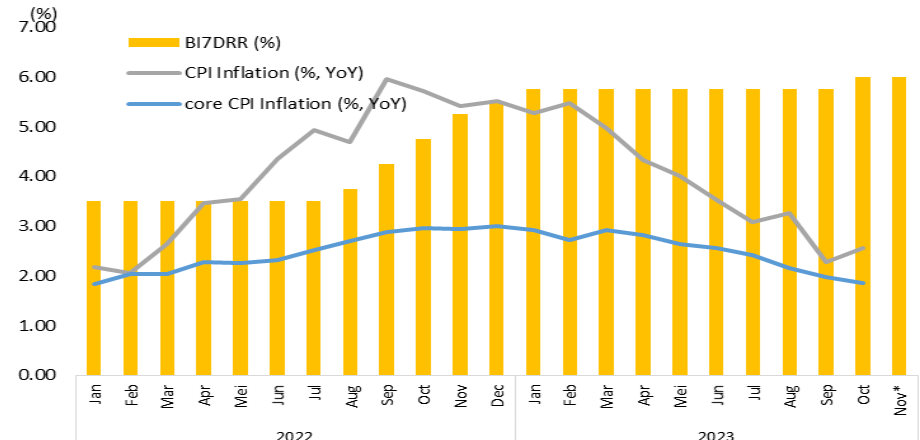
- Although an inverted yield curve between the 2Y and 10Y tenors has not occurred in Indonesia, factors such as burden sharing, operation twists, and shifts in investor appetite have shaped the SUN yield curve into a flat (tend to humped) shape, particularly within the 2-year to 15-year tenors.
- In addition to global conditions, several aspects are expected to support these expectations:
  - The need for an increase in the BI7DRR remains relatively limited, notably propelled by subdued inflationary pressures and a stabilizing Rupiah.
  - Favorable conditions in the realization of APBN and the likelihood of recording a fiscal deficit lower than the 2023 APBN target.

## YIELD SUN2Y VS SUN10Y



Sources : Bloomberg and KBVS Research-treated (2023)

## BI7DRR VS INFLATION



Sources : BI, BPS and KBVS Research-treated (2023)

# The Occurrence of a Normal Yield Curve is Anticipated in SUN (2)

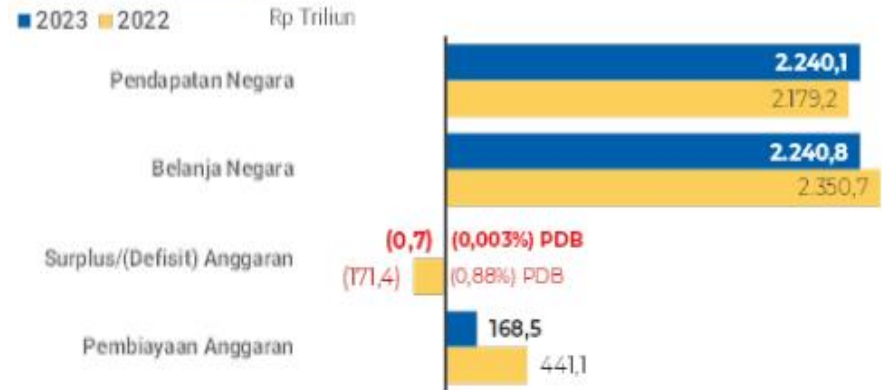
## RUPIAH EXCHANGE RATE



Sources : Bloomberg and KBVS Research-treated (2023)

APBN (triliun rupiah)	2022				2023			
	Perpres 98/2022	Realisasi s.d. 31 Oktober	% thd Perpres 98/2022	Growth (%)	APBN	Realisasi s.d. 31 Oktober	% thd APBN	Growth (%)
<b>A. Pendapatan Negara</b>	2.266,20	2.179,23	96,16	44,30	2.463,02	2.240,10	90,95	2,79
<b>I. Pendapatan Dalam Negeri</b>	2.265,62	2.178,61	96,16	44,40	2.462,62	2.238,73	90,91	2,76
1. Penerimaan Perpajakan	1.783,99	1.702,15	95,41	46,79	2.021,22	1.744,55	86,31	2,49
a. Pajak	1.484,96	1.446,54	97,41	51,66	1.718,03	1.523,70	88,69	5,33
b. Kepabeanan dan Cukai	299,03	255,61	85,48	24,22	303,19	220,85	72,84	(13,60)
2. PNBP	481,63	476,47	98,93	36,43	441,39	494,18	111,96	3,72
<b>II. Penerimaan Hibah</b>	0,58	0,61	105,39	(56,42)	0,41	1,37	334,54	124,15
<b>B. Belanja Negara</b>	3.106,43	2.350,67	75,67	14,17	3.061,18	2.240,77	73,20	(4,68)
<b>I. Belanja Pemerintah Pusat</b>	2.301,64	1.671,44	72,62	18,02	2.246,46	1.572,23	69,99	(5,94)
1. Belanja K/L	945,75	754,13	79,74	(9,49)	1.000,84	768,67	76,80	1,93
2. Belanja Non K/L	1.355,89	917,31	67,65	57,32	1.245,61	803,55	64,51	(12,40)
<b>II. Transfer Ke Daerah</b>	804,78	679,23	84,40	5,70	814,72	668,55	82,06	(1,57)
<b>C. Keseimbangan Primer</b>	(434,36)	144,42	(33,25)	154,14	(156,75)	365,37	(233,09)	152,99
<b>D. Surplus/(Defisit) Anggaran</b>	(840,23)	(171,45)	20,41	68,75	(598,15)	(0,67)	0,11	(99,61)
<b>% Surplus/(Defisit) thd PDB</b>	(4,50)	(0,88)			(2,84)	(0,003)		
<b>E. Pembiayaan Anggaran</b>	840,23	441,10	52,50	(27,49)	598,15	168,51	28,17	(61,80)

## Realisasi APBN s.d. 31 Okt 2022 - 2023



## Perkembangan Surplus/Defisit dan Keseimbangan Primer



Source : MoF-RI(2023)



 KB Valbury Sekuritas