SETIABUDI
Investment Management

Market update 3 December 2019

What happened last week and what to expect this week?

New Front to US Tariffs

The negative sentiment from the development of trade war still dampened the appetite for emerging assets, as the prospects of a trade agreement between the US and China remains uncertain. China was unhappy after President Trump signed the Hong Kong Human Rights and Democracy Act; a pro-democracy bill which supports Hong Kong's months of protests. In response, China threatened to retaliate if the U.S. persist with its intervention on Hong Kong's case.

Topping that certain issue on Hong Kong's bill intervention, the US commerce Secretary, Wilbur Ross, reminded that the US is still considering to implement the planned tariff increases on China on its 15th December deadline if there is no agreement between the two nation before that date. As a reminder, earlier Trump threatened to impose 15% levies on USD 160bn of Chinese imports on that date.

This week was opened with Trump's tweet saying that he would reinstate tariffs on Brazilian and Argentinian steel and aluminum imports to the US. The unexpected decision was due to the weakness in the Brazilian real and Argentine peso which impacted US farmers.

He also proposed levies on USD 2.4bn of France products as a punishment over tax on large American technology companies' revenues including Google, Apple Inc., Facebook Inc. and Amazon.com Inc. The US argues that such tax has unfairly targeted American companies based on Section 301 investigation, which was also used to China's intellectual property practices. The US also opened investigations into similar digital taxes by Austria, Italy and Turkey and the tariffs is planned to be imposed after a public comment period in early 2020.

Mutual Fund Suspension and Dissolution by OJK

Last month, the Jakarta Composite Index was much affected by several news emerged in the last two weeks of November with regards to a number of Mutual Funds and its respective Investment Manager companies. Foreign investors were less confident to enter the domestic stock market after the Financial Services Authority (OJK) suspended, and even dissolved several mutual fund products and tightened supervision of investment manager companies with significantly decreased product performance.

Indonesia economics index:

- **Inflation** in November swelled 0.14% MoM due to commodity price hikes as demand surged ahead of the year-end holiday season. YoY inflation in November was 3.0% or down from 3.13% YoY in October, which was lower than consensus of 3.06% YoY. November's figure was the lowest since April as prices rose softer for housing & utilities, transportation, communication & financial services, clothing, education, recreation & sport, and health. On the other hand, price increased more rapidly for food items and cigarette products. For 2019, inflation is projected to be maintained at the target set by BI at 2.5-4.5% YoY. Benign inflation will support the central bank's dovish stance and provides more room for further monetary easing to spur economic growth amid global economic uncertainty.

  There could be upside risks for 2020 inflation to reach BI's mid-range target of 3±1% for the year as BI's 100bps rate cuts in 2019 might start to push up consumers' purchasing power and thus driving up core inflation. Moreover, the government's plan to remove electricity subsidy for 900VA groups as well as increasing toll roads tariffs and BPJS could boost administered price inflation.

- The HIS Markit **Indonesia Manufacturing PMI** inched up to 48.2 in November 2019 from 47.7 in October after five consecutive months of decline. The November figure was the second-lowest reading since the end of 2015. As we know, reading above 50 indicates an expansion of the manufacturing sector compared to the previous month while below 50 represents a contraction. Manufacturing output shrank for a fifth month and at the second quickest pace since July 2017. New orders also fell for the fourth straight month. Furthermore, employment contracted for the fifth consecutive month. Lower sales also contributed to accumulation of inventories in finished goods. Both input and output prices fell at the fastest pace due to lower raw material costs, mainly textile and food. Nonetheless, the positive sentiment was from market expansions, promotional activities and product quality.

- Indonesia **loan growth** in October was the slowest since September 2016 where it was reported at 6.53% (vs 7.89% in September 2019 and 13.1% in October 2018). Loan growth has been relatively deteriorating since October 2018 as can be seen from the bar chart below.

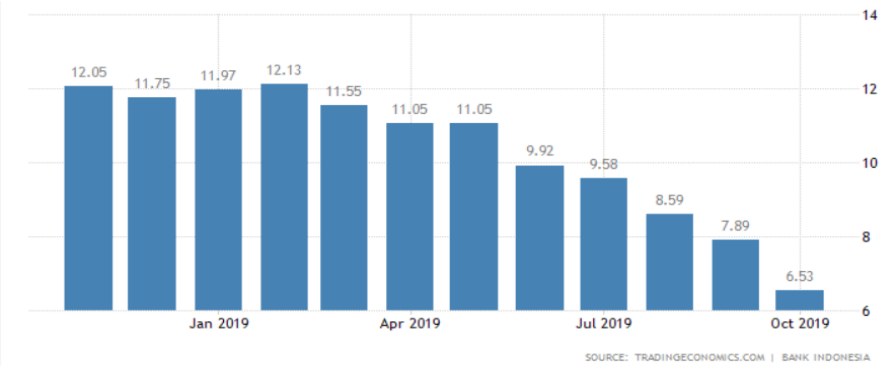

Figure 1. Indonesia Loan Growth up to October 2019 (Source: Trading Economics)

Economics data to be expected this week and next week:

- **Indonesia Consumer Confidence Index** for November period is expected on 5th December. Previously CCI has been declining since May 2019 from 128.2 to 118.4 in October 2019. October's reading was the weakest since February 2017 but still in the optimistic zone above 100. The drop was attributed to the decline in Current Economic Condition Index as income and job availability was lower. Expectation of Economic Condition Index also fell due to moderating business activity in the upcoming 6 months. The consensus forecasts November's reading might be stagnant at 118.

- **Foreign exchange reserve** in November to be released on 6th December. In October, it was up to USD 126.7bn from USD 124,3bn in September. The reserve level was equivalent to financing 7.4 months of imports or 7.1 months of imports and payment of government's external debt (above standard adequacy of 3 months of imports). The escalation was mainly triggered by government's global bond issuance, oil and gas foreign exchange receipts and other foreign exchange receipts, as well as relatively stable Rupiah exchange in October. The market forecasts November's reserve to inch down slightly to USD 126.3bn.

- **FED is expected to keep its rate next week**
  The Federal Reserve will conduct its monthly meeting on the 12th December. During their last month's meeting, they kept the target range for the federal funds rate at 1.5-1.75 percent. Thus, during 2019, the Fed has delivered three rate cut in July, September and October amid muted inflation pressure and concerns about the economic outlook. During their last meeting, the Fed considered the current rate to be appropriate and no further rate cuts is expected in the near future.

  The Fed is considering to introduce a rule that would let inflation to run above its 2% target next year as their last policy implemented this year have missed its inflation target. By doing so, the Fed is hoping to make up for the lost inflation by temporarily raise that target.

Market Indexes (25 November - 29 November 2019)

- During the period, JCI depreciated by 1.45% from 6,100 points on 22 November's closing to 6,012 points on 29 November's closing. YTD until today, JCI registered 1.06% loss after it closed at 6,195 points last year and closed at 6,130 today.
- During the period, in sectoral basis the index was dragged down by Mining sector which fell by approximately 5% and followed by Agriculture sector which was down by approximately 3%. Infrastructure, Trade, Property and Consumer sectors each registered approximately 2% loss. Only Basic Industry sector managed to remain plateau.
- YTD until today, the Basic Industry sector stood at the first place by gaining approximately 12%, followed by Property sector which gained approximately 11%, Finance sector which gained approximately 10% and Infrastructure sector which approximately gained 5%. The worst performing sector was still claimed by Consumer sector, Mining and Miscellaneous Industry sector, each losing approximately 20%, 18% and 17%, respectively. Agriculture sector managed to book less lost by declining as much as 12% only.

Figure 2. JCI last YTD as of 3 December 2019 (Source: Yahoo Finance)

- MSCI Asia ex-Japan was down by 0.21% or 0.15 points from 22 November 2019 closing to 29 November 2019 closing (YTD +6.12 points or +9.63% from 63.53 points at December 2018 closing).
- IDR depreciated during the same period by 0.11%, and yet still appreciated YTD by 1.91% to IDR 14,115/USD today from IDR 14,390/USD on its closing in 28 December 2018.

External factors, specifically on geopolitical issues which is centered at the U.S. as well as worries on the recession issues surrounding the global economies and central banks' responses to it are still stood as some of the main catalysts to watch out for which may move our index and currencies. From internally perspective, we are keeping our focus on Rupiah, Indonesia CAD and trade balance which all in all is a crucial factor in our investment strategy.

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