Market update 27 January 2020

What happened last week and what to expect this week?

- **<u>Coronavirus Outbreak</u>**

  The world is on the verge of global pandemic after SARS in 2003. Coronavirus outbreak was started from Wuhan Province and has spread through global scale including US, Japan, South Korea, European and South East Asia countries. The death toll rises to at least 80 and Wuhan has infected over 2,000 people.

Source: New York Times

The China large-cap ETF (NYSE:FXI) continues its week-long slide as fears over the virus intensify. According to preliminary data, coronavirus is already having a significant impact on the Chinese economy.

Source: Bloomberg

Data from Chinese New Year activity reveal the extent of the decline. On the first day of the holiday, there was a 41.6% decline in civil air travel, a 45.5% drop in rail travel and a 25% drop in road travel. The Chinese government is taking swift and aggressive actions to curtain the spread of the Wuhan Coronavirus. The government has restricted travel in 13 cities, affecting a total population of 35 million people. This is the largest intervention of its kind in history, and is raises a disturbing question.

The fear of Coronavirus is also felt on the stock market including U.S stock market. After recording a stellar performance at the beginning of 2020, Dow starts to fall as investors concern that the the virus could be a global epidemic. All of US major indices fell with DJIA fell around 1% in one trading day.

Figure 1. Dow Jones as of 27 January 2020 (Source: Yahoo Finance)

- **Strikes in US Embassy**
  While the market is still digesting Coronavirus outbreak, other global tension is started by Iran as they fired three rockets to US Embassy in Baghdad on Sunday. The official said one person was injured in the attack, but that the injury was minor and the individual had since returned to duty. We are yet to see the response from Donald Trump. However, gold price has inched up higher by 0.8% after the news and now close to their recent high at USD 1,600/ oz

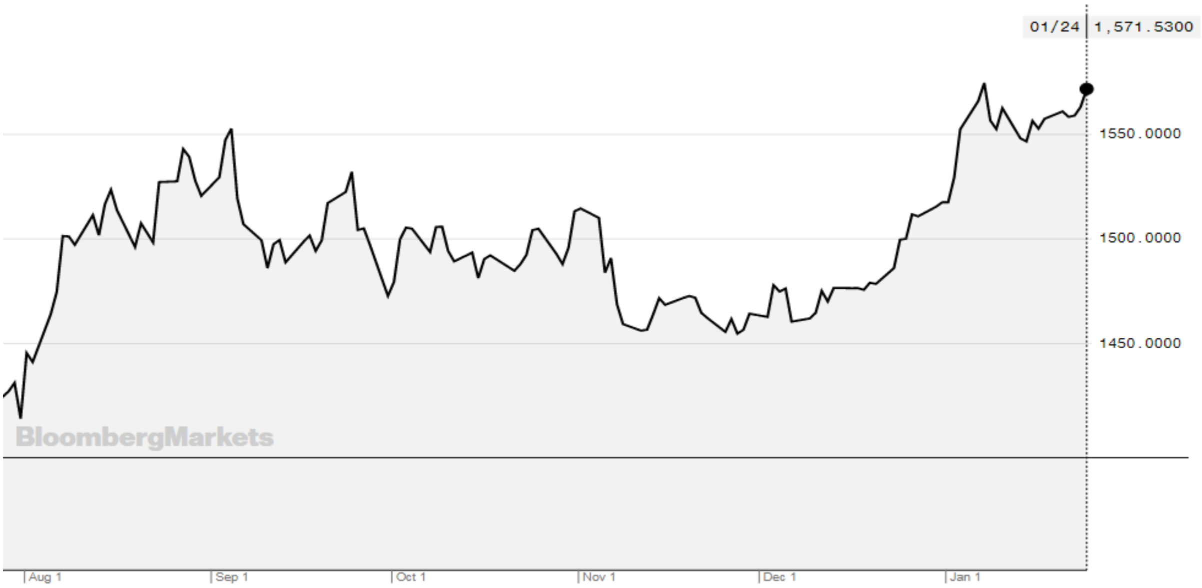

Figure 2. Gold Price as of 27 January 2020 (Source: Bloomberg)

Indonesia economics index:

- **Indonesia's trade balance** in December 2019 was reported a deficit of USD 0.03bn (from USD 1.07bn in December 2018 and surplus USD 1.4bn in November 2019). The figure was much better than market consensus at USD 0.47bn deficit. Exports rose by 1.28% mainly triggered by rise in non-O&G export by 5.78% while those of O&G products dropped by 31.93%. Imports dropped by 5.62% with 7.28% triggered by non-O&G while O&G rose by 5.33%. Full year, the trade deficit narrowed sharply to USD 3.2bn from USD 8.70bn in 2018. Despite the current weakness, we believe that trade balance will likely to improve in the medium term, particularly when the imposition of the biodiesel mandate early next year, the recovery of several commodity prices and IDR stabilization.

- Indonesia **loan growth** in December only grew by 6.08%, slowing from 7.05% in November. The figure was the lowest growth rate since November 2009. We think the impact from lower benchmark interest rate are yet to be reflected namely due to Presidential Election and rising trade war tension at the second half of 2019. Going forward we think, lending growth will start to accelerate in 2020.

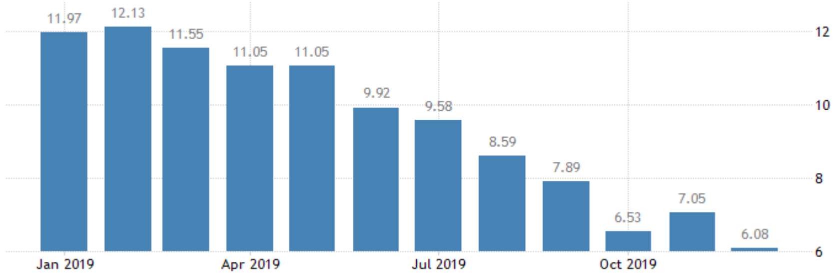

Figure 3. Indonesia Loan Growth up to December 2019 (Source: Trading Economics)

  - BI decided to held benchmark rate steady at 5% at the last meeting which has been highly anticipated by the consensus, 29 out of 34 economists surveyed by Bloomberg, with the rest calling for a 25-bps rate cut. BI decided not to follow several emerging countries such as Malaysia, Turkey and South Africa to cut interest rate. We think the monetary easing last year, 100 bps rate cut, are yet to fueled the economy since there will be impact lag from monetary policy to economic activity such as lending growth, which still remain sluggish until December 2019 (see chart above).
  - On 24 January 2020, Fitch Ratings (Fitch) affirmed Indonesia's Sovereign Credit Rating at **BBB** with **stable outlook**. Key factors that support the credit rating are a favorable medium-term growth outlook and a small government debt burden compared with BBB category peers. Nevertheless, Fitch explained several challenges including strong dependence on external financing, low government revenue and lagging structural indicators.

- The **Federal Reserve** will conduct its monthly meeting on the 30th January. 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.

Market Indexes (20 January – 24 January 2020)

- During the period, JCI appreciated by 1.1% from 6,310 on 20 January to 6,244 and up to the point of this writing, JCI depreciated further by 0.8% from previous day closing. In year-to-date basis, JCI by 1.72% due to domestic issue such as the closure of several mutual funds and fraud in local insurance companies. In addition, the global geopolitics tension and Coronavirus outbreak make things even worse.
- We see JCI is going to test the support level of 6,150 but we are pessimistic that this support level will be sustainable. Our strong support level is at around the level of 6,000.

Figure 4. JCI last YTD as of 21 January 2020 (Source: Yahoo Finance)

- IDR is relatively flat during the week with a slight appreciation of 0.2% to IDR 13,573/USD. In year-to-date basis, IDR has strengthen by 2% due to strong domestic factor in line with the Indonesia Bond Index which has appreciated by 0.59% in one month.

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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