

Market update 11 February 2020

**What happened last week and what to expect this week?**

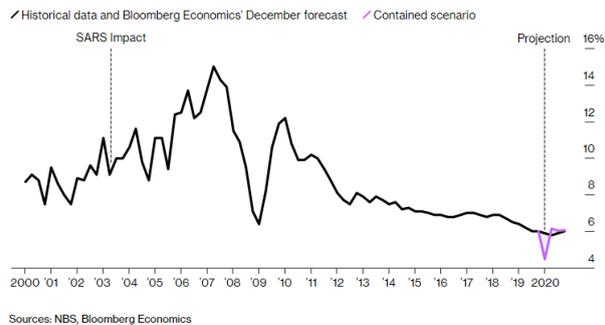
- **Coronavirus**

As China struggles to contain the deadly new coronavirus, it's becoming increasingly evident that the disruption to its economy will spill over to the rest of the world. Provinces accounting for almost 69% of Chinese GDP will remain closed for more than an extra week after the annual Lunar New Year holiday, shutting factories, shops and restaurants, leaving ships trapped at port, and slamming household spending. The death toll from the coronavirus exceeded 1,000. Hubei, the province at the center of the outbreak, reported its highest number of fatalities yet and removed top officials.

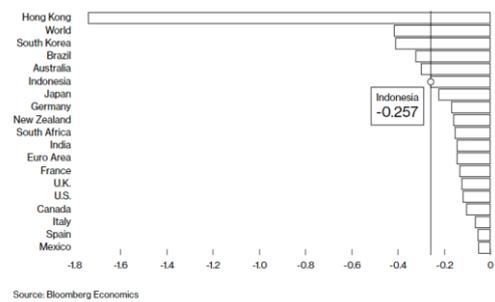
The Asian supply chain—which imports about 40% of its intermediate goods from China—has the biggest exposure, according to a Bloomberg Economics analysis based on the most recent detailed data released by the Organization for Economic Cooperation and Development. The U.S. imported about 10% of intermediate goods from Chinese factories.

According to Bloomberg analytics, China's first-quarter GDP growth may slip to 4.5% year-on-year, according to an analysis by Bloomberg economists. That would be a drop from 6% in the final quarter 2019, and the lowest since data began in 1992.

**Market Diagnosis**  
Year-on-year GDP



**Global Impact in a Contained Scenario**  
Percentage point deviation in year-on-year growth from Q1 2020



The Chinese economy now accounts for about 17% of global GDP and it's the largest trading partner for most of its neighbors. Hong Kong might be hit the hardest at the already struggling economy faces a 1.7% point downdraft in the first quarter. Indonesia faces a GDP growth reduction of 0.257% in the first quarter as China's is their largest trading partner.

- **US Trade Deficit**

The U.S. trade deficit fell for the first time in six years in 2019 as the White House's trade war with China curbed the import bill, keeping the economy on a moderate growth path despite a slowdown in consumer spending and weak business investment. The trade deficit dropped 1.7% to \$616.8 billion last year, declining for the first time since 2013. That represented 2.9% of GDP, down from 3.0% in 2018. Goods imports plunged 1.7% last year, also the first decrease in three years. The United States imported 2.4 billion barrels of crude oil, the fewest since 1992, as the country significantly reduced its dependence of foreign oil amid a surge in production and exploration. It also imported fewer capital and other goods

- **Safety first**

The Bank of Thailand cut its benchmark interest rate to a record low as the coronavirus outbreak, a stalled government budget and bad drought imperil economic growth. The central bank lowered the policy rate by 25 basis points to 1% on Wednesday in a unanimous decision, the third cut in its last five meetings. Fourteen of 29 analysts in a Bloomberg survey predicted the decision, with the rest expecting no change. The baht weakened by as much as 0.9% against the dollar to 31.264, before trading 0.5% lower at 31.129 per dollar.

**Indonesia economics index:**

- **Indonesia's Balance of Payments (BOP)** in the 4Q20 recorded surplus thereby reinforcing external resilience. The BOP surplus stood at USD 4.3bn in 4Q19, improving from the deficit of USD 46mn recorded in 3Q19. The performance of BOP was supported by an improvement in the capital and financial account surplus combined with a remained manageable current account deficit. For the **Current Account Deficit**, it was widen to 2.84% compared to 2.66% in the previous quarter.
- **Indonesia's forex reserve** at the end of December 2019 reached USD 129.2bn, up from USD 124.3bn at the end of September 2019. The capital and financial account surplus reached USD 12.4bn in the 4Q19, higher than USD 7.4bn in 3Q19. We expect the strong financial account performance to continue in 2020, due the following factors: 1) Indonesia's high yield and resilient currency returns would boost carry-trade appeal, luring foreign inflows into the bond market, and 2) diminishing post-election political uncertainty should improve the FDI outlook
- **Indonesia's consumer confidence index (CCI)** dropped to 121.7 in January from 126.4 in December 2019. Nevertheless, Bank Indonesia (BI) still confidence the consumer optimism occurs in all expenditure groups will improve in the future. The weakening of consumer optimism was caused by the decline in the index of current economic conditions by 3.5 points to 109.6 from the previous month and the index of expectations of economic conditions weakening 5.9 points to 133.7.

**Market Indexes (4 February - 11 February 2020)**

- During the period, JCI were relative flat and bouncing around 5,900 area with resistance at 6,000 and support at 5,800. We think the market still waiting for the update on the corona virus outbreak at the moment thus we do not expect any significant moment for the following week
- In YTD basis, JCI recorded negative return of 5.48% and become one of the worst stock market performer in the region. Before the corona virus outbreak, JCI has already hit by scandal of some insurance companies.



Figure 1. JCI last 1 year as of 11 February 2020 (Source: Yahoo Finance)

- IDR strengthen by 0.33% to 13,665/USD during the week but we think there will be no significant movement for this week. In YTD basis, rupiah recorded a gain of 1.57% against USD.

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. Additionally, the latest black swan, that is the coronavirus, has also become the market's focus. 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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