

Market update 25 February 2020

What happened last week and what to expect this week?

- **Covid-19**

After investors seems to forget about the Covid-19 last week, the outbreak came back to the headline on Monday as stock indexes all over the world saw a huge sell off and followed by the declining U.S. Treasury yield to 1.37%, approaching the 2016 record low.

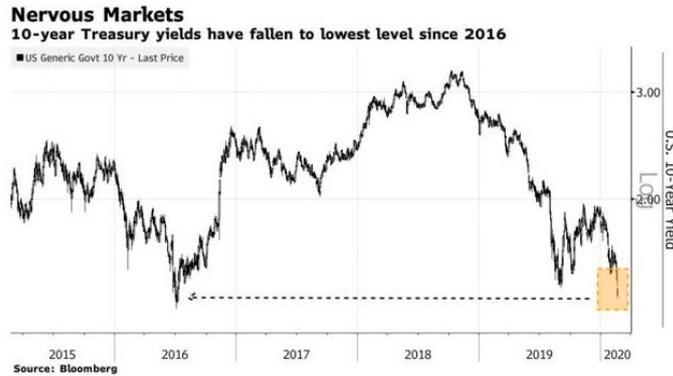


Figure 1. 10-year Treasury Yield (Source: Bloomberg)

Stocks in Japan saw sharp declines on Tuesday morning following an overnight plunge on Wall Street amid fears of the economic hit that could result from the ongoing Covid-19 outbreak that is spreading beyond China. The spread of the Covid-19 outbreak to regions from Italy to South Korea sparked concerns about a pandemic, with the number of cases worldwide **topping 80,000**. Global stocks tumbled after **Italy reported at least six deaths and more than 200 confirmed cases**. China's death toll rose to 2,663, an increase of 71. Total Covid-19 cases on the mainland climbed to 77,658 as Hubei province reported 499 additional infections.

Nikkei 225 plunged 3.97% in early trade, before easing to losses of 2.98% as shares of index heavyweight Fast Retailing dropped 4.04%. The Kospi was down 3.87% to close at 2,079.04 as shares of automaker Hyundai Motor plunged 4.3% while the Kosdaq fell 4.3% to end its trading day at 639.29. The Korean won weakened to 1,219.22 per dollar following levels below 1200 seen last week.

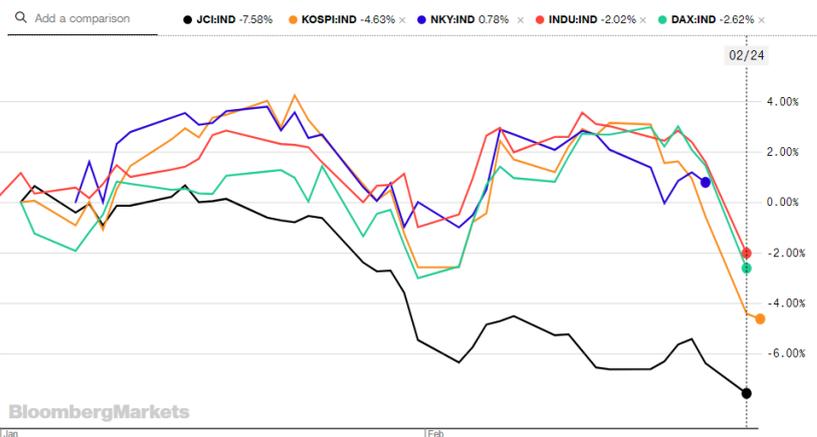


Figure 2. JCI, KOSPI, NIKKEI, DOW and DAX (Source: Bloomberg)

- **Malaysian politics**

Malaysia's PM, Mahathir Mohamad abruptly submitted his resignation to the king on Monday and his party exited the ruling coalition. The monarch accepted it, appointed him as interim prime minister until a new leader emerges and dismissed the cabinet on his advice, according to a statement from chief cabinet secretary Mohd Zuki Ali.

The political intrigue could bring fresh tumult to Malaysia, and deter investors looking for stability at a time when the global Covid-19 epidemic and trade wars are hurting growth. Malaysia's benchmark stock index entered a bear market for the first time in 12 years, while the ringgit slumped to the lowest in almost six months.



Figure 3. KLCI last 1 year (Source: Bloomberg)

- **Indonesia benchmark interest rate**

Last week, BI cut the benchmark 7-Day Reverse Repo Rate by 25-bps to 4.75%, as it joined regional central banks from China to Malaysia to Thailand that already eased monetary policies in 2020. We see that BI decision to cut interest rate was in response of Covid-19 outbreak that has serious impact on the economic growth namely; 1) tighter liquidity and more volatile financial markets, 2) reduction in tourism FX earnings amounting to USD1.3bn, 3) lower bilateral trade value with China, with estimated drops in exports and imports by USD300mn and USD700mn, respectively, and 4) postponement of about USD400mn of FDI realization from Chinese companies in Indonesia.

At the same time BI reduce deposit facility and lending facility rates by 25 bps to 4.75% and 5.50%, respectively. Bank Indonesia (BI) lowering the country's economic growth outlook from 5.1-5.5% YoY to 5.0-5.4% YoY in 2020, weighed by Covid-19. In 1Q19, the central bank sees Indonesia's GDP growth at 4.9% YoY, lowered than in the same period last year at 5.1% YoY

Market Indexes (17 February – 22 February 2020)

- During the period, JCI depreciated by 1.36% to 5,784. In YTD basis, JCI fell by around 7.8% due to concern about Covid-19 and numerous scandal on local insurance companies. We think there is still a pressure on JCI as we will test the support level of around 5,600. A slight rebound last week was proven not resilience since JCI was not able to breach the 6,000 level.



Figure 4. JCI last 1 year as of 25 February 2020 (Source: Yahoo Finance)

- IDR depreciated by 1.74% by weekly basis to IDR 13,900/USD and in YTD basis it depreciated by 0.15%.

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 Covid-19, 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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