

Market update 5 February 2020

What happened last week and what to expect this week?

- **Coronavirus**

Based on Johns Hopkins University CSSE’s site which tracks the Coronavirus, as of 5 February 2PM, Jakarta time, there has been 24,551 total confirmed case of Coronavirus across the globe. 24,338 case were in Mainland China, while the remaining 213 cases were spread out across the globe as follows:

25 Thailand	10 Macau	2 Philippines
24 Singapore	10 Malaysia	2 UK
22 Japan	8 Vietnam	1 Nepal
18 Hong Kong	8 France	1 Cambodia
16 South Korea	4 United Arab Emirates	1 Belgium
13 Australia	4 Canada	1 Spain
12 Germany	3 India	1 Finland
11 US	2 Italy	1 Sweden
11 Taiwan	2 Russia	1 Sri Lanka

By far, 493 deaths has been reported with 479 deaths in Hubei mainland China. The remaining 12 deaths are in China Mainland too while 1 death was reported in Hong Kong and another 1 in Philippines. The death toll surpassed that of the SARS virus which lasted from 2002 to 2003. Nonetheless, 910 people has been reported to recover from the virus. You may access the realtime data on the link below:

<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

China’s central bank unexpectedly lowered the 7-day reverse repo rate by 10bps to 2.4% and slashed the 14-day rate to 2.55% in order to spurr the Chinese economy amid the coronavirus outbreak. The central bank also planned to cut its key lending rate and banks’ reserve requirement ratios, and inject 1.2T Yuan (USD 173.8bn) worth of liquidity via reverse repo operations amid a rapidly spreading coronavirus outbreak.

- **Finally the Great Britain has exited the European Union (Brexit)**

Last month, the United Kingdom has officially left the European Union, after 47 turbulent years. An 11-month transition period has begun and the UK will largely stick with EU rules. The big changes will begin when the transition period ends. In other words, the UK stays in the EU’s custom union and single market for now under the same trade rules and free movement of goods and services. Freedom of movement for people stays the same and the EU’s top court still has jurisdiction. However, there will be no British voices in the European Parliament and British ministers at EU meetings. The 3.5 million EU nationals in the UK have until June 2021 to apply for an EU Settlement Scheme, but if there is no deal on future ties the deadline is pushed to the end of this year. On the other hand, 1.3 million UK citizens in the EU may need to apply for residence status. After the transition period, the UK is planning a point-based immigration system. UK citizens will be able to visit EU for up to 90 days at a time, but they will need a visa waiver. In short, on the right is the pivotal timeline for the transition period. The UK want a free trade agreement that sets out the terms of trade, employment

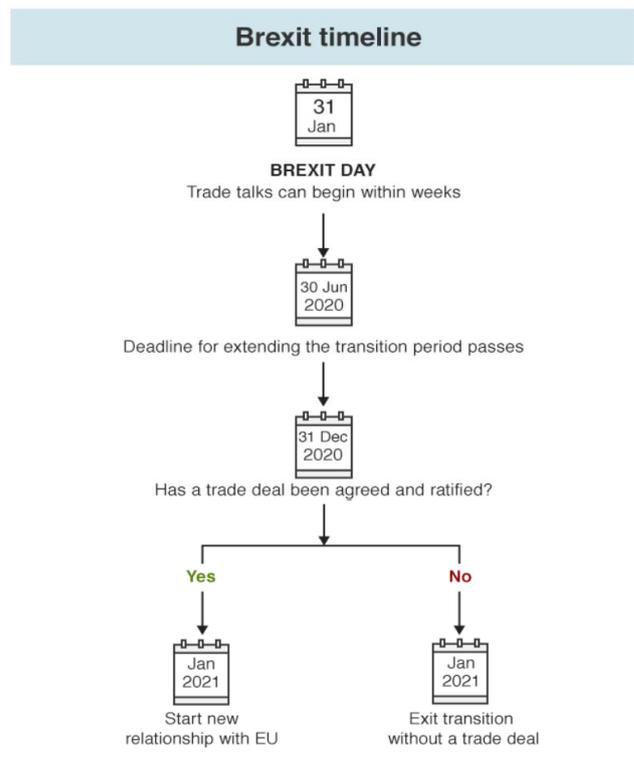


Figure 1: Brexit Transition Timeline (Source: BBC)

standards and environmental rules and other issues between the UK and the EU. The new arrangements on security, travel and immigration will need to be agreed too. The UK was among the big players in the EU and one of the biggest contributors after Germany and France. It paid an average contribution of USD 10.2bn a year into EU.

- **FED's January meeting**

The FED did not surprise the market by keeping its benchmark rate at 1.50 – 1.75% range. During their meeting, they stated that they are focusing on combating potential “Japanification” i.e. weak growth and tepid inflation of the US economy. This might mean that the FED is unlikely to hike rates for the foreseeable future and rate cut might be more likely. The FED also announced that they might gradually reduce asset purchases and would adopt yield capping on US treasuries.

Indonesia economics index:

- **Indonesia's annual inflation** in January declined to 2.68% from 2.72% in December, well below market forecast of 2.86%. The January figure was the lowest since March 2019. The main upward pressure came from food prices, drinks and tobacco, housing and utilities, personal care and other services. While cost dropped for information, communication, and financial services.
- **Indonesia's GDP growth** in 4Q19 eased to 4.97% from 5.02% in the previous three-month period, and compared to market consensus of 5.04%. The figure was the weakest pace of expansion since 4Q16 as investment, household consumption and government spending all grew at a slower pace. Net external demand contributed positively to the GDP growth as exports fell by 0.39% while imports dropped at a faster pace at 8.05%. Considering full year 2019, the economy expanded by 5.02% YoY compared to 5.17% growth in 2018.
- The **HIS Markit Indonesia Manufacturing PMI** in January inched down to 49.3 from 49.5 in December, the seventh straight month of contraction.

Economics data to be expected this week and next week:

- **Indonesia's Consumer Confidence Index** for January period is expected on 6th February. Previously CCI reading in December inched up to 126.4 from 124.2 in November. The December CCI was the strongest reading since June with all main sub-indices rising, which are economic outlook, current economic conditions, job availability compared to six months ago, job availability expectations, current income and income expectations for the next six months. Market consensus forecasts January reading to be down to 126.
- **Indonesia's Foreign exchange reserve** in January to be released on 7th February. In December, it was up significantly to USD 129,183mn from USD 126,633mn in November. The market forecasts October reserve to inch down to USD 126.800mn.
- **Indonesia's Current Account position** in 4Q19 to be released on 10th February. CAD in 3Q19 was reported at USD 7.68bn or 2.66% of GDP, higher than the deficit level of consensus at USD 5.9bn yet lower than 3Q18 level at USD 8.5bn or equivalent to 2.7% of GDP and 2Q19 level at USD 8.2bn or equivalent to 2.9% of GDP. The trend was mainly due to lower oil and gas trade deficit in 3Q19 compared to the previous quarter as oil import was lower. Meanwhile, trade surplus in non-oil and gas remained stable. Primary income deficit, the main contributor to the CAD was down slightly due to smaller dividends repatriation and service interest payments on external debt during year-end. Market consensus expect 4Q19 CAD to be at USD 9.0bn.

Market Indexes (27 January - 31 January 2020)

- During the period, JCI depreciated by 4.87% from 6,133 points on 24 January's closing to 5,940 points on 31 January's closing. YTD until today, JCI registered 5.10% loss after it closed at 6,300 points last year and closed at 5,979 points today.
- During the period, in sectoral basis the index was dragged down mainly by Basic Industry sector which were down by approximately 9%, followed by Miscellaneous Industry which were down by approximately 8%. Other sectors were also down by approximately 3% to 5% each. YTD until today, all sectors were also in negative territory with Agriculture sector leading the loss followed by Property sector. Both recorded approximately 11% of loss each. Infrastructure sector, Mining and Miscellaneous sector recorded approximately 8% of loss each. Finance sector recorded the least decline of approximately 1%.



Figure 2. JCI last 1 year as of 5 February 2020 (Source: Yahoo Finance)

- MSCI Asia ex-Japan was down by 5.88% or 4.30 points from 24 January 2020 closing to 31 January 2020 closing (YTD to 4 February -1.78 points or -2.42% from 73.50 points at December 2019 closing).
- IDR depreciated during the same period by 0.53%, but still appreciated YTD to 4 February by 1.09% to IDR 13,715/USD today from IDR 13,866/USD on its closing in 30 December 2019.

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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