SETIABUDI
Investment Management

Market update 10 March 2020

What happened last week and what to expect this week?

<u>Coronavirus/COVID-19</u>

Based on Johns Hopkins University CSSE's site which tracks the Coronavirus, as of 10 March 17:53, Jakarta time, there has been 114,578 total confirmed case of Coronavirus across the globe with 64,041 reported to recover and 4,028 death. Compared to 18 February, Mainland China number of case went up to 80,756 cases vs 72,438 cases. The main concern is the number of case which surged outside China with Italy reported 9,172 cases, South Korea reported 7,513 cases, Iran 7,161 cases, France 1,412 cases, Spain 1,235 cases and Germany 1,225 cases. Italy has become the first nation to restrict movement and public gathering throughout the entire contry to halt the outbreak. We are also keeping an eye on the case on the US which has reached 755 cases. On 6th March, the World Health Organization (WHO) raised its risk assessment relating to COVID-19 to very high from high. The WHO will likely deem COVID-19 as global pandemic once sustained person-to-person spread takes hold outside China as the outbreak has met two of the three main criteria for pandemic; which are a new virus and capable of person-to-person spread.

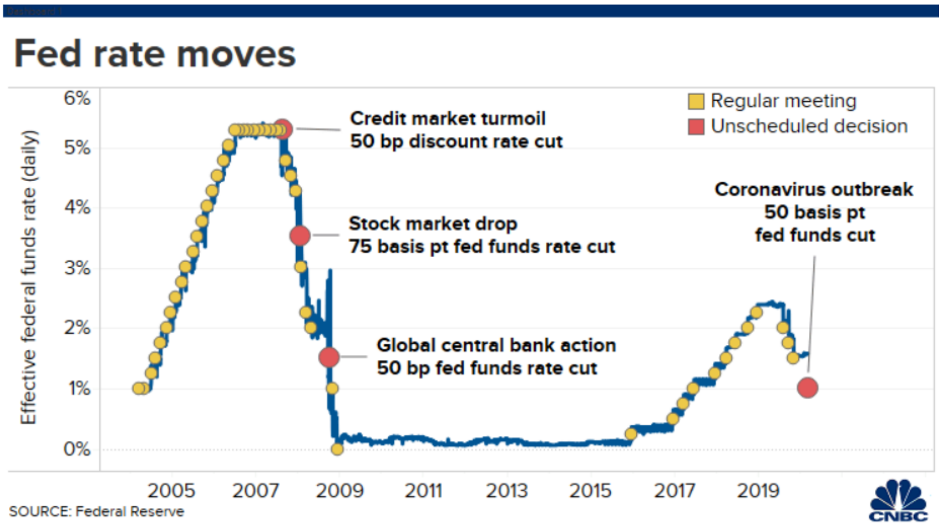
These escalation of cases outside China has triggered global financial market to sell-offs as global stock market tumbles, bond yields went up and investors turning to safe heaven assets. The spread of coronavirus has accelerated in the U.S., and investors who once downplayed down the virus are now re-assessing risks. If the number of cases in the US and other countries escalates even further, the global economy might be even more compromised.

Indonesia reported its first two cases on 2nd March, the number then went up to six last week and tripled yesterday 9th March bringing the figure to 19 cases in Indonesia. Just this evening, Indonesia's government announced additional 8 cases within the country, thus bringing total number of cases in in Indonesia to 27 cases. The Indonesia's stock market has dropped to as low as 5,136 points on 9th March (-6.6% during the day!). On 9th March evening after the stock market closed, OJK stepped in and allows companies to buyback their shares without conducting Shareholder General Meeting. The number of shares that can be repurchased can be more than 10% of the paid up capital and at most 20% of the paid up capital, provided that at least the outstanding shares are 7.5% of the paid up capital. Afraid that this policy was not enough, IDX also implemented an asymmetric auto rejection where share price can only fall by a maximum of 10% in 1 day. When any share touches 10% decline, it will be hit by auto rejection. While the upper auto reject is still the same as the previous provisions, which is 20% to 35% in accordance to share price fraction. Today the index finally recovered from yesterday's loss and appreciated by more than 1.5% as the regional indexes mostly are also in green.

You may access the realtime data on the COVID-19 through the link below:

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

The Federal Reserve will conduct its monthly meeting on the 19th March. During their last month's meeting in February, they kept the target range for the federal funds rate at 1.5-1.75 percent. However, earlier on the 3rd of March, they delivered an emergency rate cut by 50 bps, bringing the federal funds rate to 1-1.25 percent level. The move comes amid increasing unease over the economic effects from the novel coronavirus spread, in particular after the number of coronavirus in the US escalates, which might compromise its economy. The move was the first aggressive cut since December 2008, during the financial crisis as can be seen on the chart below.



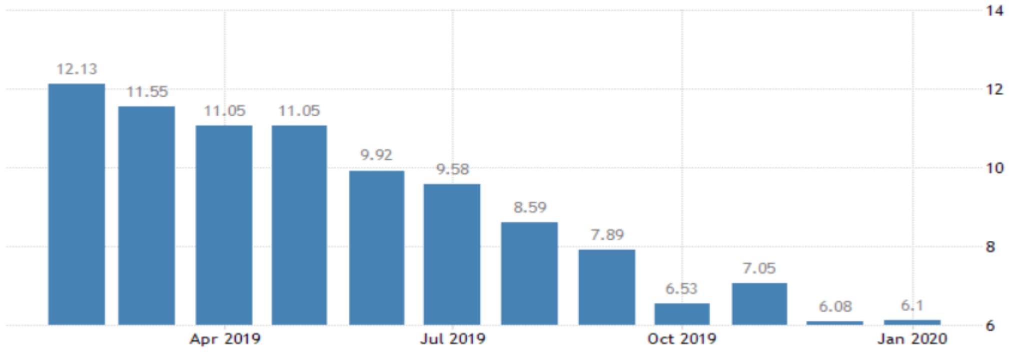
After Fed's move, S&P 500 Index dropped by 2.8%, while the US 10-year treasury fell below 1% for the first time ever, even reaching 0.34% at the time of oil price collapse on 9 March as can be seen on the chart below.

FED's rate cut came in the same morning that G7 officials offered unspecified measures to help impacted countries and a day after the International Monetary Fund made a similar commitment. The IMF announced a USD 50bn aid package to combat the impact of the COVID-19. The fund is available immediately and is for low-income and emerging market countries. The fund is interest-free and countries that want to participate do not have to have prior cooperation program with IMF.

Bank Indonesia will conduct its monthly meeting on 19th March, the same day as the FED's. It is arguable that the central bank would cut the **7 Days Reverse Repo Rate** again after its cut previous month by 25 bps, and following FED's 50bps emergency rate cut this early March outside its monthly FOMC meeting. The steps taken by the central banks were due to the coronavirus outbreak impacting the global economies, currently China potentially receive the biggest slap, and its spreading pace to the other countries, the US in particular. Nonetheless, we view that BI should tighten instead of easing during this risk-off environment, especially not when IDR's volatility is at the current level.

Indonesia Economics Data Released

- Indonesia **loan growth** in January was at 6.1%. Loan growth has been deteriorating since October 2018 and reaching a weak 6.08% in December 2019. Indonesia loan growth in December was the slowest since November 2009.



Source: Tradingeconomics

- The HIS Markit **Indonesia Manufacturing PMI** skyrocketed to 51.9 in February 2020 from 49.3 in January. As we know, reading above 50 indicates an expansion of the manufacturing sector compared to the previous month while below 50 represents a contraction. The latest reading marked the first growth in factory activity since June last year, as new orders grew the most in over 5 years, mainly led by domestic demand, while exports continued to fall. Output expanded for the third month, rising at the steepest pace since May 2019; and employment grew for the first time in eight months. Nonetheless, vendor performance deteriorated the most in nearly three years, mainly affected by heavy rain and the coronavirus outbreak. On the price front, input price inflation picked up to a nine-month high, amid shortages at mainland Chinese suppliers and local distributors, plus higher raw material prices such as food products, paper and basic metals.

- **Indonesia's annual inflation** in February went up to 2.98% from 2.68% in January, well above market forecast of 2.86%. The February figure was the highest inflation rate since November 2019, pushed up by by food, drinks and tobacco. Meanwhile price softened for housing and utilities, personal care and other services, recreation, sport, culture, furnishing, education, food services & restaurant, transportation, information, communication and financial services. Annual core inflation fell to 2.76% from 2.88%, the lowest since June 2018, below forecasts of 2.85%. In a monthly basis, CPI rose by 0.28%, the lowest since November 2019 (vs 0.39% in January 2020).

  Volatile food prices surged by 1.27% MoM and 6.68% YoY, the highest print in more than three years. Inflation in volatile food prices was also boosted by the increasing price of red chilli. There were upticks in the prices of garlic (0.09% contribution), one of the commodities that Indonesia imported from China and thus affected by the COVID-19 outbreak. In 2019, imports of garlic accounted for 1.22% of USD44.58bn of total imports from China. It is imperative for the government to maintain food supply as the nation embraces Ramadhan and Ied Al-Fitr in the second quarter, which are normally preceded by rising food prices. On the other hand, lower fuel prices caused MoM deflation in administered prices. We also expect less pressure from transportation inflation as the government and airlines has discounted their ticket prices to stimulate the tourism sector amid the COVID-19 outbreaks.

- **Indonesia's Consumer Confidence Index** for February period was reported to be down to 117.7, lower than previous month at 121.7. All main sub-indices deteriorated: 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.

- **Indonesia's Foreign exchange reserve** in February was recorded at USD 130.4bn, down from 131.7bn in January driven by the COVID-19 outbreaks. This figure was lower than market forecast at USD 131.2bn. The decline was quite limited considering the severity of the situation and the reserve remain ample overall. The reserve level was equivalent to financing 7.7 months of imports or 7.4 months of imports and servicing government's external debt (above standard adequacy of 3 months of imports). The decrement was mainly linked to outflows in government bonds and stocks due to COVID-19 fear. Foreign investors sold a net IDR 30.8trn (USD 2.17bn) of Indonesian assets, IDR 26.2trn of which was in government bonds and IDR 4.1trn in stocks. The first decline of official reserve assets since November was influenced by the government's external debt.

Indonesia's Economic Data to be Released

- **Indonesia Trade Balance** in January 2020 was reported a deficit of USD 0.86bn (from USD 1.1bn in January 2019 and deficit USD 0.03bn in December 2019). The figure was much higher than market consensus at USD 0.38bn deficit. Exports dropped by 3.71% YoY and 7.16% MoM mainly toe to O&G exports which declined 28.73% MoM as well as non O&G exports which were down 5.33% MoM. Imports dropped by 4.78% YoY and 1.60% MoM with O&G imports down by 6.85% MoM and non O&G were down by 0.69%. We are expecting February's figure to be released on 16 March.

Market Indexes (1 March 2020 - 10 March 2020)

- During the period, JCI depreciated by 4.26% from 5,452 points on 28 February's closing to 5,220 points on 10 March's closing. YTD until today, JCI registered 11.33% loss after it closed at 6,300 points last year and closed at 5,220 points today.
- During the period, all sector booked negative return with Property sector booked the most substantial loss of approximately 7%, followed by Miscellaneous Industry and Finance Sector, each booked approximately 6% of loss, Agri business booked approximately 5% loss. Consumer sector booked the least loss of approximately 1% only.
  YTD until today, all sectors were also in negative territory with Agriculture sector leading the loss (-28%) followed by Basic industry sector (-26%), Miscellaneous sector (-24%), Property (-21%), Infrastructure sector (-18%), Mining (-17%), Trade (-16%), Consumer sector (-16%) and Finance sector (-13%).

JCI last 5 year as of 10 March 2020 (Source: Yahoo Finance)

- MSCI Asia ex-Japan was down by 5.19% or 3.55 points from 28 February 2020 closing to 9 March 2020 closing (YTD to 9 March -8.71 points or -11.85% from 73.50 points at December 2019 closing).
- IDR appreciated during the same period by 0.14%, but still depreciated YTD to 10 March by 3.12% to IDR 14,298/USD today from IDR 13,866/USD on its closing in 30 December 2019.

Coronavirus progression as well as worries on the recession issues surrounding the global economies and due to the outbreaks as well as 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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