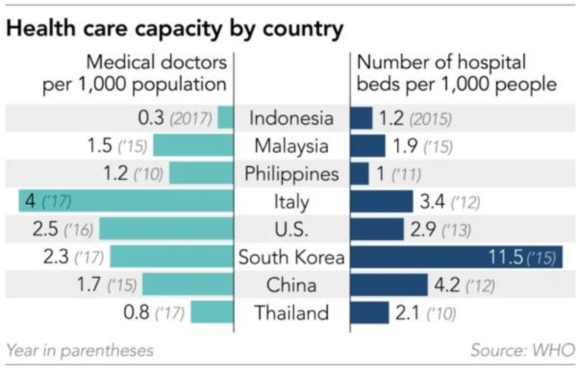
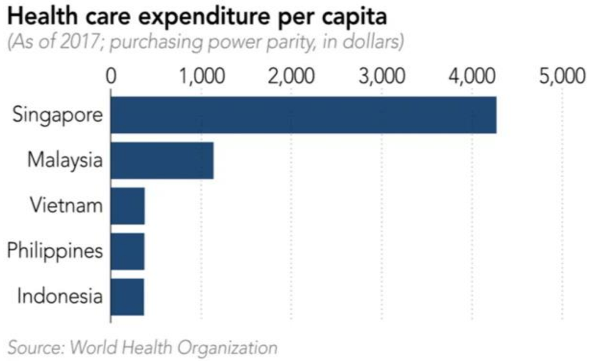
Market update 14 April 2020

What happened last week and what to expect this week?

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

Having been in the lockdown for almost a month with no endsight, Indonesia's economic data might hit the wost quarter since financial crisis at th second quarter of 2020. Indonesia is clearly not ready to face a pandemic with high infection rate at this scale.

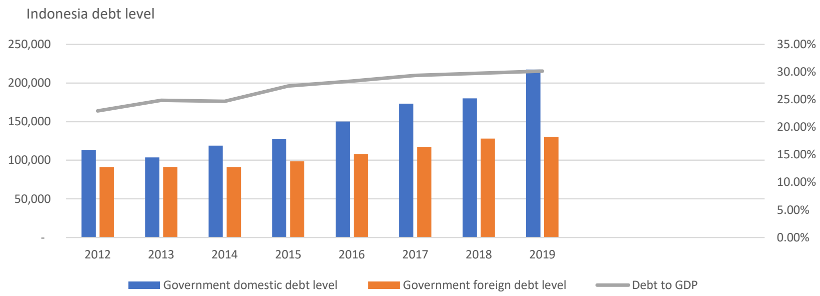




The lockdown is undoutly hurting the consumption expenditure, the heart of Indonesia economy, since the population will hesitate to spend their disposable income on 'non-essential' items. And now the questions are how vulnurable our fundamental economic data to the down turn? We try to break some components which we think that is the key points of our macroeconomic data.

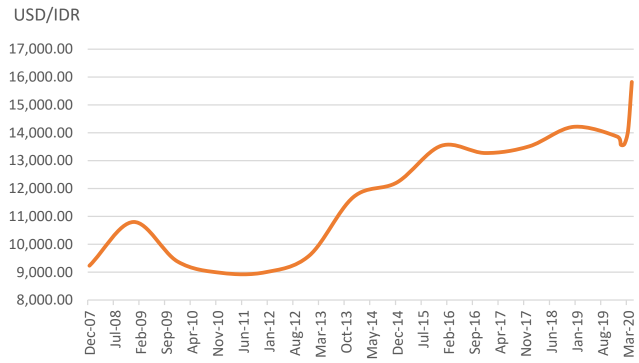
1. Debt to GDP and foreign debt

Debt, both in local and foreign currency, are accelerating fast to finance the infrastructure program during President Jokowi era however it remain manageable at around 30% of GDP. For the past 8 years, government debt in local and foreign currency have risen by annual rate of 8.5% and 4.6%, respectively. However, Covid-19 pandemic will put the development on hold thus delaying future cash flow inflow and rise the cost of financing. In addition, the Government might borrow more to finance the social assistance to prevent economic downturn.



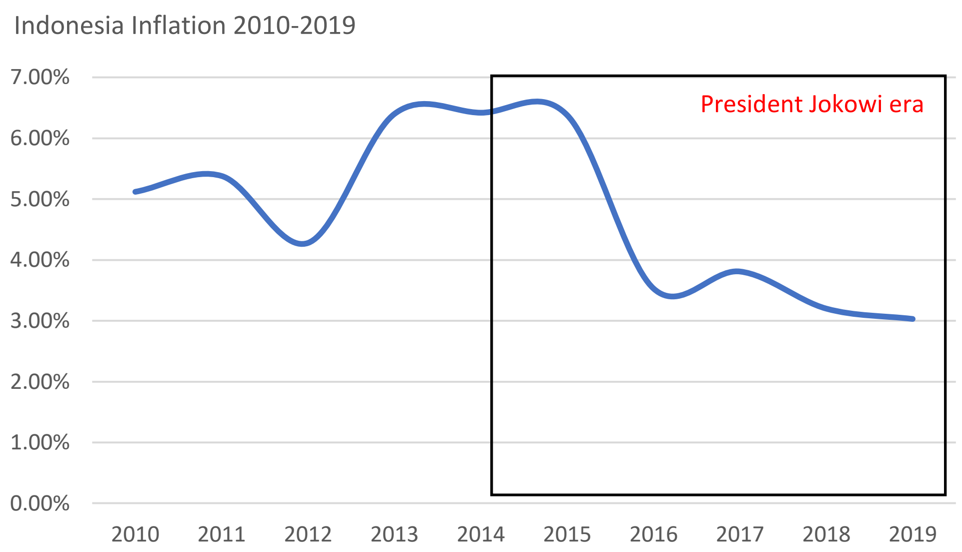
2. Currency

Rupiah has depreciated by around 15% ytd or 24% in 5 years to around IDR17,000/USD and the last time rupiah reached that point was back in 1998 during Asian Financia Crisis. Before the pandemic, rupiah was one of the best emerging country's currencies performer since political uncertainty from presidential election has been resolved. However, Covid-19 put rupiah in reverse since Indonesia has both current acocunt and fiscal deficit which make investory worry of the currency power.



3. Real interest rate

We are yet to see negative real interest rate since inflation is remain under control. We think the current Government's official has been extremely well in managing inflation. Ever since Mr. Joko Widodo took the office, we see inflation is hovering around 3-4%. However, we might see a huge challenge for the government to maintain inflation amidst of the current situation because a sharp decline on rupiah and scarcity of raw material could trigger the inflation.

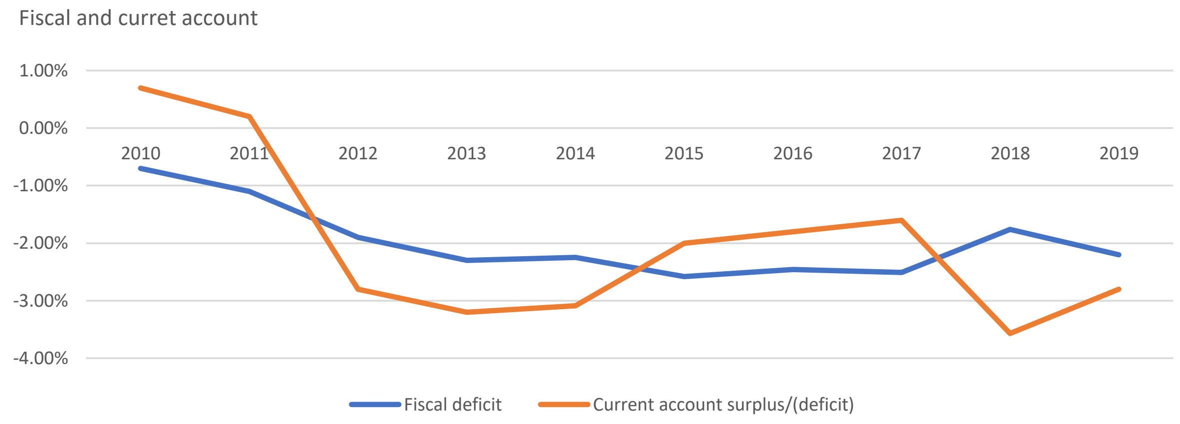


4. Fiscal and current account deficit

As a country with 'twin deficit', currency will play a pivotal role especially with large level of debt in foreign currency (around 40%).

Fiscal deficit: for the past 5 years, we see the Government is able to maintain their budget deficit at below 3%. However, the pandemic forced the government give extra stimulus and it is expected that fiscal deficit to widen at around 5% of GDP. Currently the government has allocate state budget of around 0.8% of GDP to stimulate purchasing power. The key challenge for the world is how long does it take to find the vaccine because once the stimulus package is running out, government would need to issue another measures. Fiscal stimulus is less problematic for developed countries since their currency has a fiscal muscle. However for emerging countries, fiscal stimulus will run a risk of currency depreciation which will lead to lower purchasing power then inflation so the goverment will need to issues more money to maintain purchasing power.

Current account deficit: we think there will be a slight improvement in the current account since trade balance is expected to turn surplus because of 1) less imports as consumer purchasing power weaken and 2) depreciation of rupiah will make exports product more competitive. However, lower demand from trade partner and the possibility of longer shipping time (less people working) could dampen the exports volume. In the first quarter, we expect Indonesia to record trade surplus of around USD 1 billion.

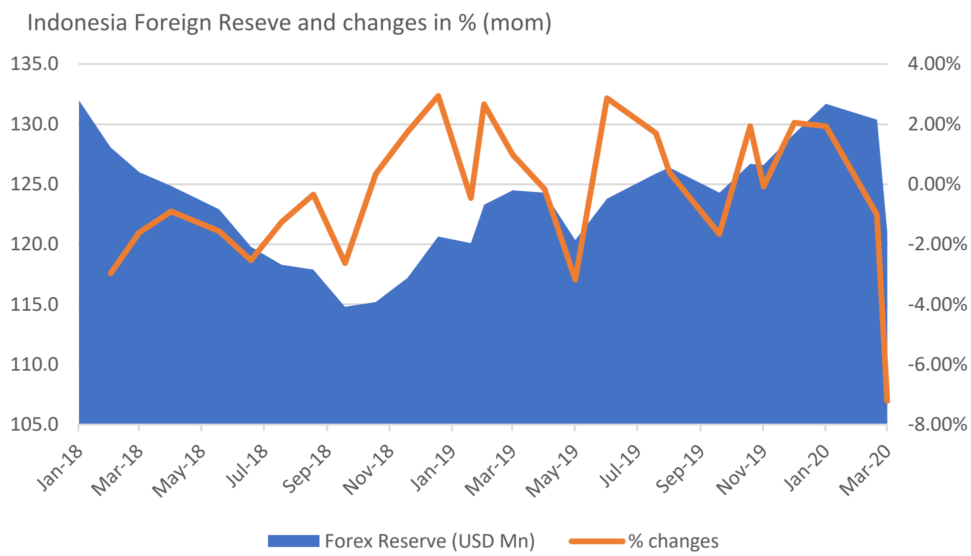


Country	Fiscal Policy	Monetary Policy
Indonesia	IDR 130 trillion or around 0.8% of GDP.	Cut interest rate from 5% to 4.75%
Malaysia	MYR 20 billion or around 1.4% of GDP	Cut interest rate from 3% to 2.5%
Singapore	SGD 6.4 billion or around 1.3% of GDP	n.a.
Philippines	PHP 27.1 billion or around 0.3% of GDP	Cut interest rate from 4% to 3.75%
Thailand	THB 100 billion or around 0.9% of GDP	Cut interest rate from 1.25% to 1%
India	INR 500 billion or around 0.35% of GDP	n.a.
China	USD 15.9 billion or around 0.14% of GDP	Cut one year prime rate from 4.15% to 4%
Japan	USD 50 billion or around 0.3% of GDP	n.a.
USA	USD 2 trillion or around 10% of GDP	Cut benchmark rate from 1.5% to 0%

Fiscal and monetary policy response from countries around the world

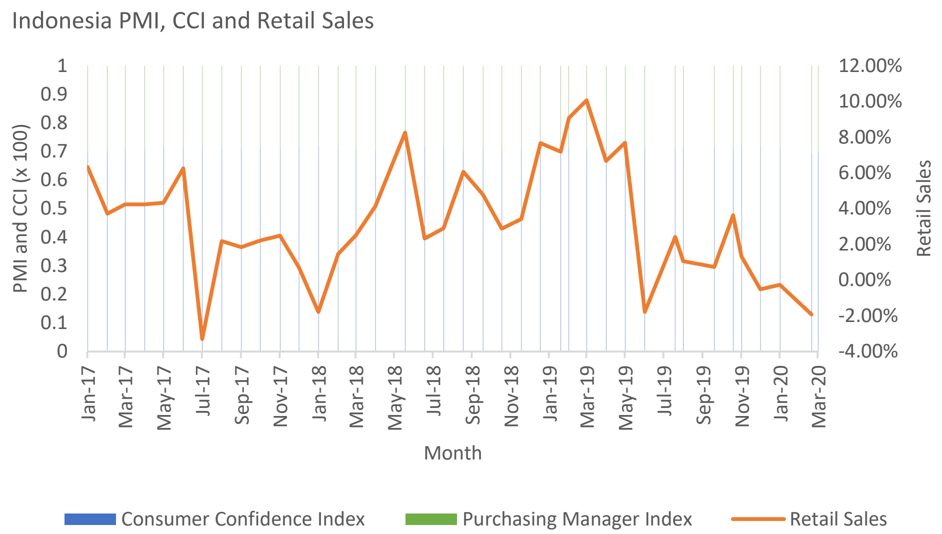
5. Foreign reserve

We see in Mar-20, BI foreign reserve fell significantly to USD 121 million and it is the biggest monthly changes (-7.2% mom) for the past 3 years. We think the central bank was intervening both currency and bond market to prevent further depreciation. However, we think it bear a risk that Indonesia will not be able to cover their imports payment. We think we might see depleting foreign currency reserve since the government is trying to maintain inflation.



6. Consumer purchasing power

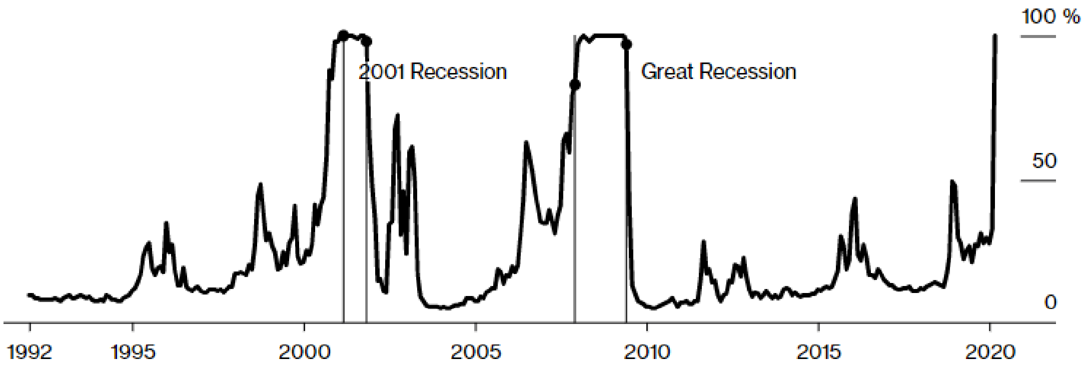
We see all indicators of purchasing power are deteriorating due to economic uncertainty.
PMI has been consistently below 50 (treshold of expansion or contraction) since July 2019 but there was one period where it spiked to above 50 at Feb-20. We think it is because companies are frontloading their production to anticipate the lockdown.
Consumer confidence index fell to 113.8 in Mar-20, the lowest level since 2017.
We are yet to receive the retail sales figuer for Mar-20, but we believe the number will be ugly since a lot of stores are in closure.



Recession Prediction

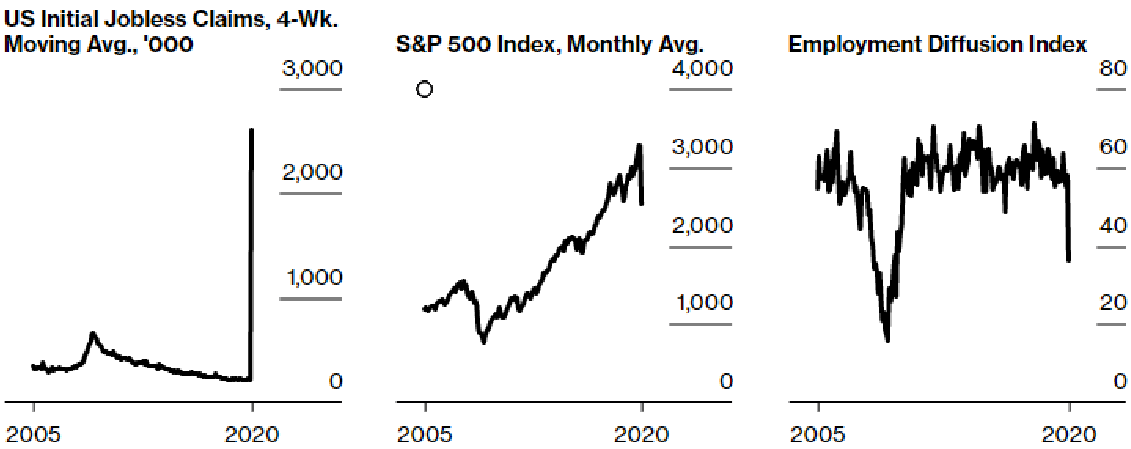
Bloomberg Economics created a model last year to determine America’s recession odds. The chance of a recession now stands **at 100%**, confirming an end to the nation’s longest-running expansion.
The surge in the recession probability mainly reflects the shocking jobless claims figures, but plummeting stock prices for much of the month also played a role. The model's reading on the odds for February came in at 33%. At the time of the prior report, Bloomberg Economics took account of early financial market data for March, putting the odds at 53%.

Recession is Here
Probability of U.S. recession within 12 months



Source: Bloomberg Economics

Recessions are usually accompanied by a swift increase in the unemployment rate. The jobless rate differs greatly between downturns depending on the breadth and severity of the recession. While unemployment peaked at 10% in 2009, and rose even higher in the early 1980s, other downturns have brought still-painful but smaller increases in the jobless rate. Many economists predict the unemployment rate will jump into the mid-teens or higher in the coming months, as millions of Americans join the ranks of the unemployed.



Note: An Employment Diffusion Index lower than 50 means more industries are reducing employment than increasing employment
Sources: Labor Department, Bloomberg Economics

SETIABUDI
Investment Management

Market Indexes (8 April 2020 - 14 April 2020)

- JCI had recorded return of -25.29% ytd at 4,706 at PE ratio of around 13.5 which is below its 5 year mean (16). We see the current level is attractive however given the huge large fund outflow we will remain cautious of the equity market. Compare to its peers, JCI is among the most undemanding valuation of emerging market. Turkey has a single digit PE ratio however the political condition and its currency is much more unstable compare to Indonesia.

Index	YTD Performance	P/E Ratio
Indonesia	-25.29%	13.43
India	-24.60%	18.3
Philippines	-29.49%	11.6
Malaysia	-13.78%	15.2
Thailand	-21.87%	14.11
Brazil	-32.01%	14.64
Turkey	-17.26%	7.25

Stock market performance and its PE ratio

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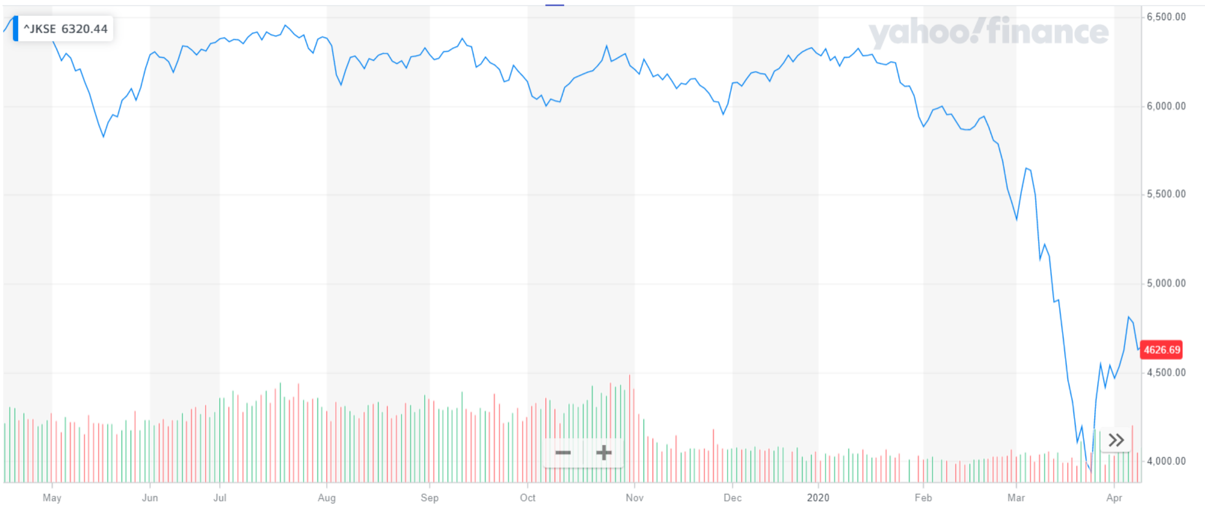

JCI last 1 year as of 14 April 2020 (Source: Yahoo Finance)

- Currently the resistance level is around 5,000 and it is the physiological rounding number. However, if we are able to breach this resistance then it could become our strong support. We think there will be a slight upside this week given the positive development of Covid-19 at the US. However, condition in Indonesia is remain worrisome given the slow progress of handling the pandemic.
- IDR was strengthen for the week as it appreciate by 3.37% to 15,630/USD in response to the issuance of Global Bond amounted USD 4.3 billion equivalent to around IDR 68.8 trillion.

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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