

Market update 28 April 2020

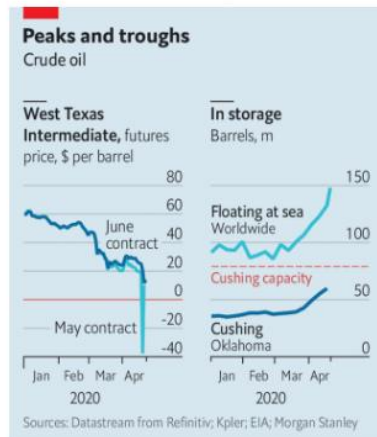
What happened last week and what to expect this week?

Oil market

The May contract for wti, though idiosyncratic in some ways, exemplifies the disaster scenario. The contract's last day of trading was April 21st. The price plunged on April 20th, as traders realised they owned crude to be delivered to Cushing, Oklahoma, in May, but that Cushing would probably have no available tanks to store it.

The pressure on the global market is less extreme, but not entirely dissimilar. On April 12th opec and its allies promised to restrain output by 9.7m barrels a day in May and June, their biggest ever cut. The accord was too late, though, to deal with the implosion of demand in April. The International Energy Agency expects oil demand to sink by 29m barrels a day this month, compared with April 2019, equivalent to a third of global supply.

Market-driven declines in production are more likely, particularly after the nightmare of the May wti contract. But so far companies' declared cuts have been too tepid: they are often loth to stop production, as restarting a well can be costly. Bernstein therefore expects global supply to exceed demand in the second quarter by more than 13m barrels a day.



The Economist

In the meantime, storage across America is filling up rapidly, and could reach tank tops in June. On April 22nd the country's Energy Information Administration reported that crude inventories had reached 519m barrels, close to the record of 535m set in 2017. Brent crude is seaborne and therefore less vulnerable to transport and storage problems than landlocked wti. But it too faces constraints. The volume of oil stored on ships has jumped by 70% since the beginning of March, according to Kpler, a market-data firm. And even more oil is borne on ships still steaming towards onshore crude tanks, which Reid l'Anson of Kpler estimates are already about 85% full.

India lockdown

Unemployment has shot up shockingly, from 8% at the beginning of March to 26% in mid-April, according to the Centre for Monitoring the Indian Economy, a research group. Nomura, an investment bank, has reduced its expectations for gdp growth from a limp 4.5% to a painful -0.5%. One estimate suggests an extra 100m people could fall below the World Bank's poverty line of \$3.20 a day.

Indonesia's credit outlook

S&P Global Ratings has revised Indonesia's credit rating outlook to "negative" from "stable" but maintained the rating at BBB. The company projects economic shock due to the coronavirus to push Indonesia's fiscal deficit to 4.7% of GDP in 2020, before reverting to 3.0% of GDP in 2022. S&P also sees Indonesia's economy growing only by 1.8% this year, lowest since the 1999 Asian Financial Crisis.

Indonesia's loan growth

The country's banking industry recorded 5.93% YoY loan growth in February, the lowest expansion since November 2009. The figure is lower than the 6.1% YoY in January. The non-performing loan (NPL) rate jumped to nearly 2.8%, the highest since May last year. On the other hand, Infrastructure (+0.28%) became the only sector that closed in the positive territory.

Market Indexes (20 April 2020 - 28 April 2020)

- During the period, JCI were relatively flat and closing the week with -0.83%. We see investors are still unwilling to make investment on risky assets and on the other hand flattening curve of covid-19 in developed countries give market optimism that the worst is around the corner.



JCI last 1 year as of 28 April 2020 (Source: Yahoo Finance)

- IDR were relatively flat as well as it traded at range of 15,400 – 15,500 per USD. We see that the pro-active government from both fiscal and monetary policy give a strong confidence in the market.

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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