Market update 5 May 2020

What happened last week and what to expect this week?

Coronavirus/COVID-19

Based on Johns Hopkins University CSSE's site which tracks the Coronavirus, as of 5 May 11:32 PM, there has been 3,584k total confirmed case of Coronavirus across the globe with 1,180k cases reported in the US, followed by 218k in Spain, 211k in Italy, 191k cases in the UK, 169k in France and 166k cases in Germany. Total Deaths from across the globe is reported at 251k. Several countries have indicated their plans to reopen their economy.

Indonesia reported its first two cases on 2nd March, as of today, the number of confirmed case in the country has reached 12,071 cases with total recovery and death amounting to 2,197 cases and 872 cases, respectively.

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

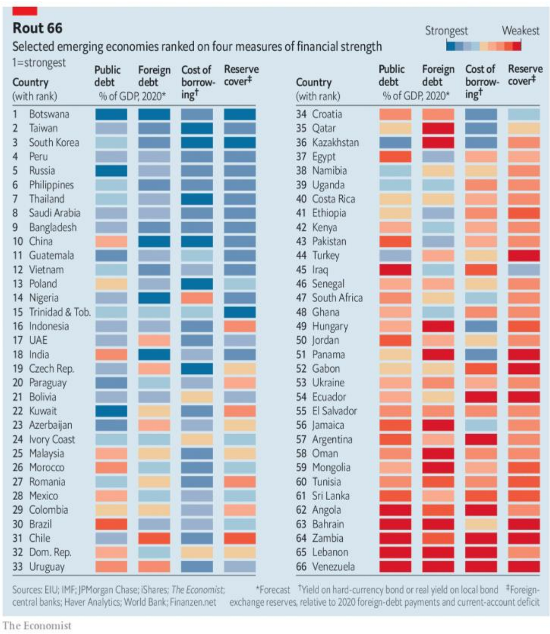
https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

The US economics update

US GDP in 1Q 2020 contracted by 4.8% annualized rate marked the biggest decline since 2008. In the FED's policy statement last month, the FED left its benchmark rate unchanged at 0%-0.25% range and repeated a vow to use its full range of tools to shore up the economy amid what it now considers as "considerable risks" over the medium term, perhaps a year or more. The commitment representes a pledge to hold rates near zero and keep them there until full employment returns and inflation gets back to around the FED's 2% target.

Trump stated that his administration is crafting retaliatory measures against China as a punishment for the alleged coronavirus outbreak, once again sparking tariff fears that rattled markets through-out much of the last two years. He made it clear that his concern on China's role in the origin and spread of the COVID-18 were taking priority for now over his efforts to build on an initial trade agreement with China. He also threatened to rip up last year's so called "phase 1" trade deal if China failed to buy the promised volumes of US goods.

Problems in emerging market



The total government debt tracked by The Economist in the emerging countries reach USD 17 trillion or around 24% of total global government bond. Based on the **ratio of debt to GDP, cost of borrowing and foreign reserve coverage**, Indonesia stands on the 16th among 66 nationalities. The relatively low level of debt to GDP give an extra cushion for Indonesia against capital outflow. Since January foreign investors have withdrawn about $100bn from emerging-market bonds and shares, according to the Institute of International Finance (iif), a banking association. (three times 2008). However, we need to be aware of the level of foreign reserve since it can only cover around 6 months of imports.

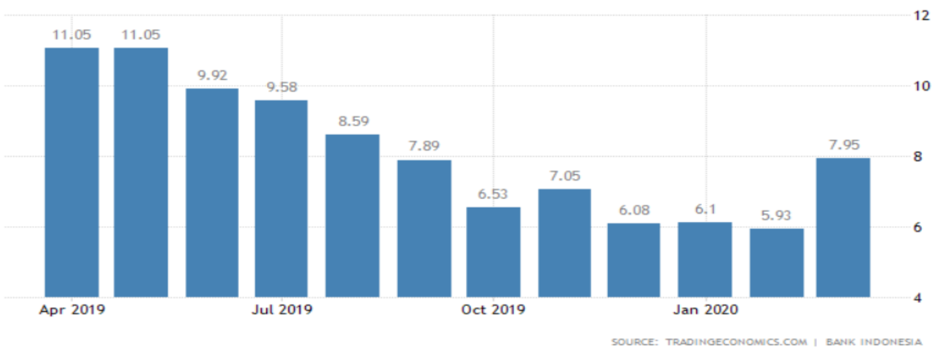
GDP in developing countries, measured at purchasing-power parity, will be 6.6% smaller in 2020 than the IMF had forecast in October.

Indonesia's Economic Data

- **Indonesia's GDP Growth** in 1Q20 eased to 2.97% YoY (-2.4% QoQ) from 4.97% YoY in the previous three-month period, and compared to market consensus of 4%. The figure was the weakest pace of expansion since 4Q 2001 as the COVID-19 pandemic ravaged business activity and demand. Household consumption and investment slowed down to 2.84% versus 4.97% in 4Q. Fixed investment also growing at a slower pace at 1.70% versus 4.06% in 4Q. On the other hand, government spending expanded to 3.74% compared to 0.48% as monetary authority has stepped up to cushion the economy by launching record stimulus of IDR 405tn. Export rose 0.24% while import dropped by 2.19%. In sectoral basis, growth is seen more on the IT-based businesses, F&B, chemical and pharmacy sectors, as expected, while the sectors which have been negatively impacted the greatest are tourism related sectors including accommodation and restaurants.

- **Indonesia's Inflation Rate** in April 2020 declined to 2.67% from 3% in March 2020, the lowest since March 2019 and slightly below market consensus of 2.77%. This decline is considered unusual in Ramadhan month. Prices rose at a softer pace for housing & utilities, food, drinks, tobacco, food services & restaurants, recreation, sport & culture, furnishings and education. However, cost fell for transportation and information, communication & financial services. Meanwhile, despite the sharply lower global fuel price, retail subsidized fuel price remain little changed. Government decision not to lower retail fuel price would likely keep inflation declining at a steadier pace. Annual core inflation edged down to 2.85% from 2.87%, below forecast at 2.9%.

- **Indonesia's Loan Growth** in March 2020 was released and surprised the market as it finally grew by 7.95% YoY after growing at a softer phase on the previous months. The highest loan growth improvement since September 2019 was mainly attributed to a strong FX credit growth of 16.84%**.** Loan growth has been deteriorating since October 2018 and reaching a weak 5.93% in February 2020. NPL ratio is reported to be relatively stable at 2.77% (vs 2.79% in February 2020). However, we believe that the slowing down in credit growth and asset quality concern has not really been captured in 1Q20 figure. We believe 2Q20 figure will be more crucial and better represents the impact of COVID-19 to the banking sector.



- **Indonesia's PMI** plunged to 27.5 in April 2020 from 45.3 in March, pointing to the steepest contraction on record (contracting by 16 points) because measures to contain the coronavirus pandemic led to factory closures and slumping demand. Output, new orders and employment all fell the most since the survey began in April 2011. Export sales dropped severely. Input buying sank to the greatest extent in the survey's history. Survey data showed the most severe lengthening of delivery times since the series began due to a combination of supplier factory shutdowns and transportation restrictions. On the price front, input costs rose solidly as a result of the weaker rupiah and supply shortages. At the same time, greater cost burdens pushed firms to raise prices charged for the first time in eight months, though only fractionally. PMI also noted many companies has taken work termination to relive their burden. Indonesian manufacturers are reporting 1) increases in excess capacity, and 2) declines in order backlogs. There are also reports of employment reduction that may compress demand outlook. From the supply side, companies are reporting material shortages, transportation restrictions, and increasing delivery times, on top of higher cost burdens from IDR depreciation.

Based on our screening, the contraction is still better than the contraction that is happening in several other Asian countries. Myanmar's PMI in April contracted by 16.3 points from 45.3 points in March. Malaysia's PMI in April contracted by 17.1 points from 48.8 points in March. What's worse is India's PMI which contracted by 24.4 points from 51.8 point in March to 27.4 points in April. Consensus expects US's PMI which will be released this week to drop to 36.8 vs 52.5 in March, below its all-time low of 37.3 during the 2008 financial crisis. However, as we know, PMI figure under 50 indicates that industries manufacturing activity is contracting.

Indonesia's Economic Data to be expected

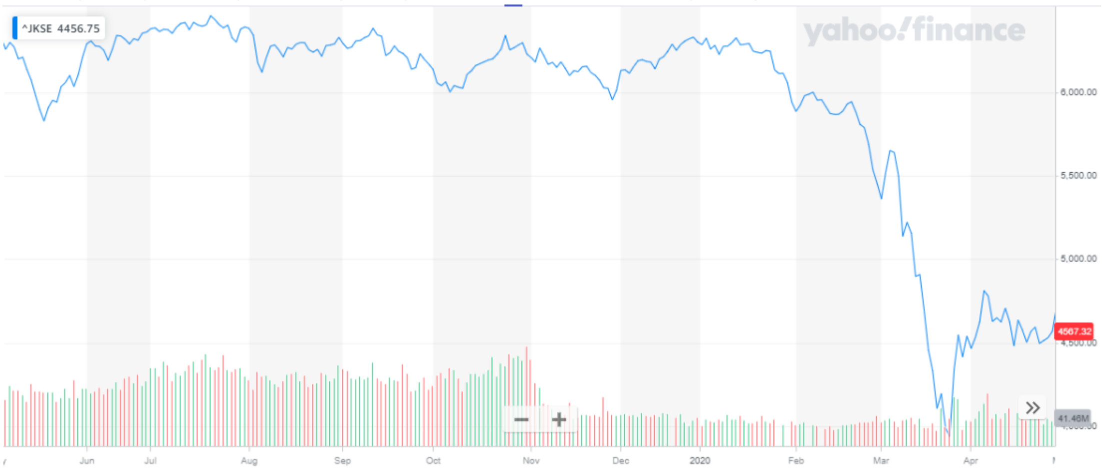
- Indonesia's CCI for April will be published on 5th May. Previously CCI has been declining since December 2019 from 126.4 to 113.8 last month. Last month's reading was the weakest since September 2016. The drop was attributed to the decline in Economic Outlook, Current Economic Condition, Job Availability compared to six months ago, Job Availability Expectation, and Income Expectation for the next six months. Meanwhile Current Income remained unchanged. The consensus forecasts April's reading to drop even further to 109. If the current condition remains, June's reading is expected to even reach 96 points.
- Indonesia's foreign exchange reserve in April will be released this week. Indonesia's forex reserve in March was recorded at USD 121bn, down from 130.4bn in February. This figure was the least reserve since May 2019. The decrement was mainly triggered by government stepping in to rescue the IDR which has been black-and-blue. We believe that the reserve balance might go down even further as BI will take the necessary steps to stabilize Indonesia's currency. The government last month issued 3 USD denominated bonds with total issuance of USD 4.3bn. Market consensus estimates that April's reserve will be at approximately USD 130bn.

- Indonesia's Current Account for the first quarter will be released next week. Indonesia's current account deficit decreased to USD 8.12 billion in the December 2019 from USD 9.51 billion in the corresponding month of the previous year, equivalent to 2.84% of the country's GDP. Considering 2019 as a whole, the country's current account deficit fell to USD 30.42 billion from USD 30.63 billion in 2018. In 1Q 2019, Indonesia's Current Account registered USD 4.94bn deficit. Market consensus expects this quarter's figure to be at USD 5.5bn deficit.

- Indonesia's trade balance in April will be released next week. The figure in March 2020 was reported a surplus of USD 0.74bn (from USD 0.67bn in March 2019) vs consensus estimate of USD 0.76bn. The figure was the second straight month of surplus in trade balance as exports dropped less than imports. Exports declined 0.2% YoY mainly due to lower sales of O&G which dropped by 34.15% while non O&G rose by 6.39%. Imports dropped by 0.75% YoY mainly due to the decrease in non O&G purchase by 5.8% while O&G purchase increased by 12.18%. YTD the trade balance posted a surplus of USD 2.62b, shifting from USD 0.06bn gap in the same period in 2019.

Market Indexes (27 April 2020 - 1 May 2020)

- During the period, JCI appreciated by 4.90% from 4,496 points on 24 April's closing to 4,716 points on 30 April's closing. Today JCI closed at 4,630. YTD until today, JCI registered 26.51% loss after it closed at 6,300 points last year and closed at 4,630 points today.
- During the period, most sectors booked positive return with Infrastructure sector booked the most substantial gain of approximately 9%, followed by Basic Industry sector which also registered approximately 9% gain, then followed by Consumer sector registered 6% gain. Miscellaneous Industry and Agri business also registered gain of approximately 5% each. Property sector was the only sector in negative territory booking approximately 1% loss. Mining, Trade and Finance sectors managed to record 2-3% gain each.
  YTD until today, all sectors were still in negative territory with Miscellaneous sector leading the loss (-43%) followed by Property sector (-41%), Agriculture sector (-37%), Finance sector (-31%), Basic Industry (-26%), Miscellaneous industry (-23%), Infrastructure sector (-23%), Trade (-23%), Mining sector (-22%) and Consumer sector (-12%).



JCI last 1 year as of 5 May 2020 (Source: Yahoo Finance)

- MSCI Asia ex-Japan was down by 1.51% or 0.95 points from 24 April 2020 closing to 1 May 2020 closing (YTD to 4 May -10.99 points or -14.95% from 73.50 points at December 2019 closing).
- IDR appreciated during the same period by 3.36% to 30 April 2020 to IDR 14,882/USD level. It is relatively weakened today to 15,080/USD level, but still depreciated YTD to by 8.76% 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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PT. Setiabudi Investment Management
Atrium Setiabudi Lt.5 Suite 501A
Jl. H.R. Rasuna Said Kav.62 Jakarta 12920

Tel: (62-21) 5210670, Fax: (62-21) 5210671
www.setiabudiinvest.com