SETIABUDI Investment Management

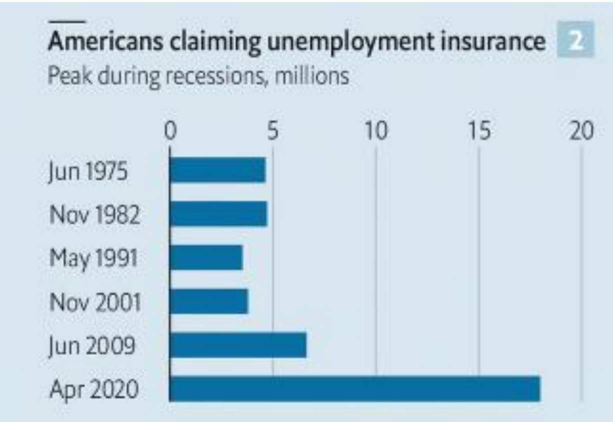
Market update 11 May 2020

What happened last week and what to expect this week?

U.S indices V-Recovery

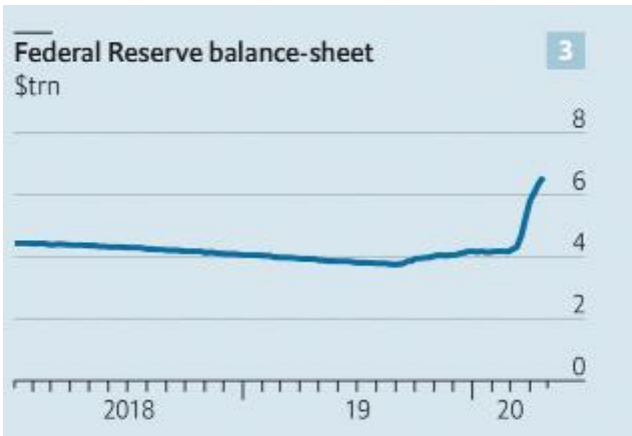
Share prices in America have followed a dramatic v-shape recently. A brutal sell off has given way to a lively recovery. Yet a v-shaped path for the economy—a brief recession, followed by a swift recovery—seems unlikely. The scale of job losses suggests the economy is in a hole too deep to climb out of quickly. Claims for unemployment insurance have dwarfed peaks in previous recessions and reached the highest level since The Great Depression.

America's unemployment rate rose to around 10% after the global financial crisis and to 25% during the Depression. Recent forecasts, though beset by uncertainty, put the probable peak rate in 2020 somewhere between those figures. Modelling based on recent filings for benefits suggests that the unemployment rate in mid-April may have been around 16%, according to Ernie Tedeschi of Evercore ISI, a consultancy. Congressional Budget Office (CBO) paints a similar, sobering picture. The CBO reckons that unemployment will rise to 14% in the second quarter of this year, and peak in the third quarter at around 16% then drop by 4.3% point in the fourth quarter.



Source: The Economist

America's have risen faster than Europe's. The industry make-up of each market explains much of this. Europe's bourses are weighed down by cyclical industries—banks, carmakers and energy companies. America's has a bigger tilt toward technology companies, the relative winners of the covid-19 crash. In addition, it was also because of The Fed's effort to backstop economy since they bought bonds on unprecedented scale expanding its balance sheet

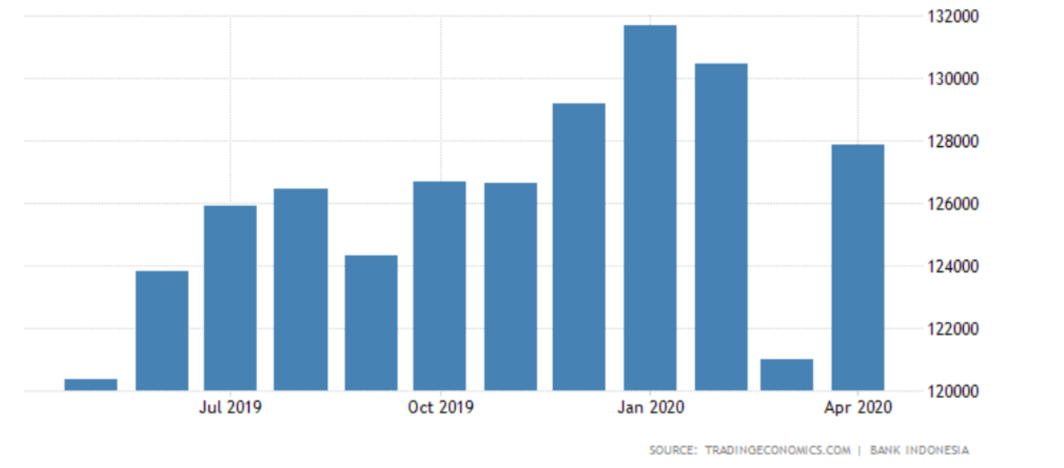


Source: The Economist

Indonesia's Economic Data

- **Indonesia Consumer Confidence Index (CCI)** fell to 84.4 in April, its lowest level since 2008 with consumers turning pessimistic for the first time since five years ago.

- **Indonesia's Foreign Reserve** in April 2020 were up by USD 6.91 billion to USD 127.9 billion backed by the issuance of USD bonds. The government sold dollar-denominated bonds worth $4.3 billion in early April to finance its widening budget deficit and fund its fight against COVID-19, which has impacted the economy. The bond includes the longest-dated dollar bond ever issued by an Asian nation of 50-year tenure. The current level is estimated to be sufficient to cover 7.5 months of imports and interest expense. The international standard is covering 3 months of imports.



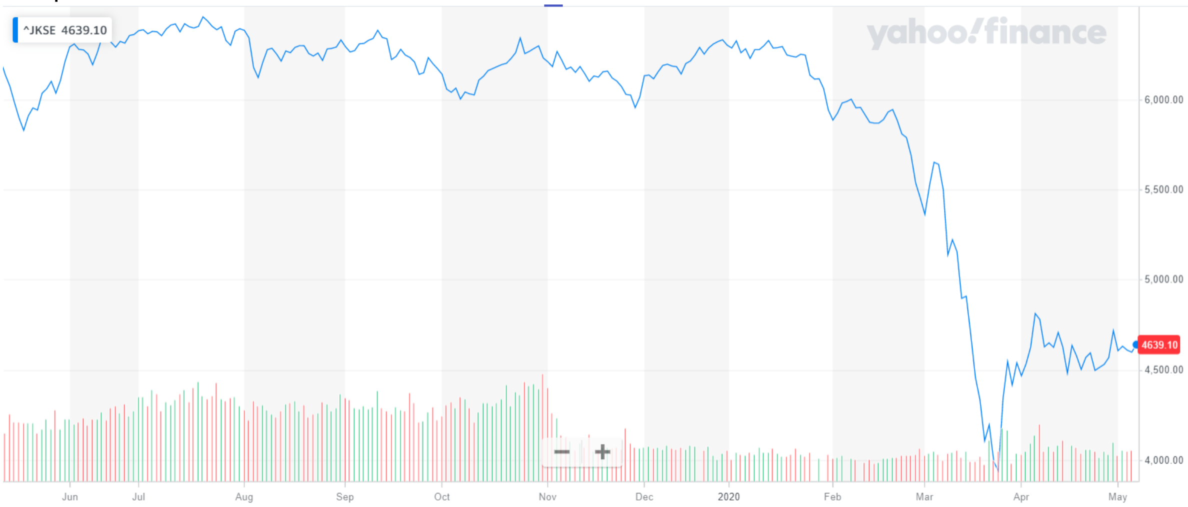
Indonesia's Economic Data to be expected

- 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 (4 May 2020 - 11 May 2020)

- During the period, JCI depreciated by 1.64% to 4,640 points on 11 May 2020. In YTD basis, JCI went down by 26.36% due to global economic slowdown. We think JCI will remain traded at the tight range at around 4,600 – 4,700 without significant progress on Covid-19. We are still worried for the upcoming second wave of Covid-19 in countries that have been stopped the infection like South Korea and China. In addition, a premature easing on lockdown might steepen the curve back.



JCI last 1 year as of 11 May 2020 (Source: Yahoo Finance)

- Relationship between U.S and China is going south since both parties keep pointing finger at each other of who should be responsible for the pandemic. It might worsen the global economy since both parties might pull out from the 'Phase one' trade deal at the beginning of January.
- During the same period, IDR appreciated by 1.36% IDR 14,895/USD level due to higher Indonesia's foreign reserve. We also think IDR will remain steady at around 14,800 – 15,200/USD until end of May.

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