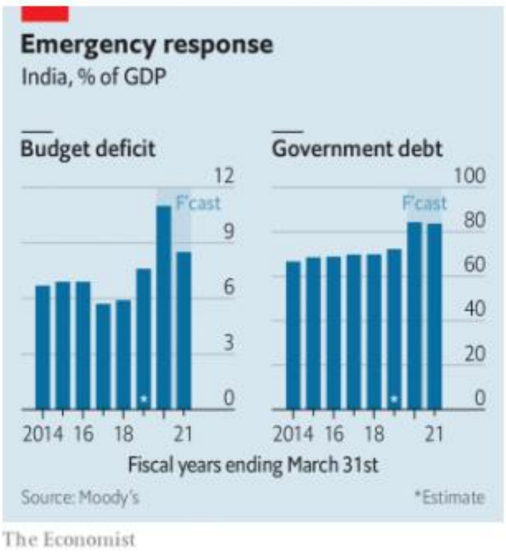
Market update 23 June 2020

What happened last week and what to expect this week?

India's Rating

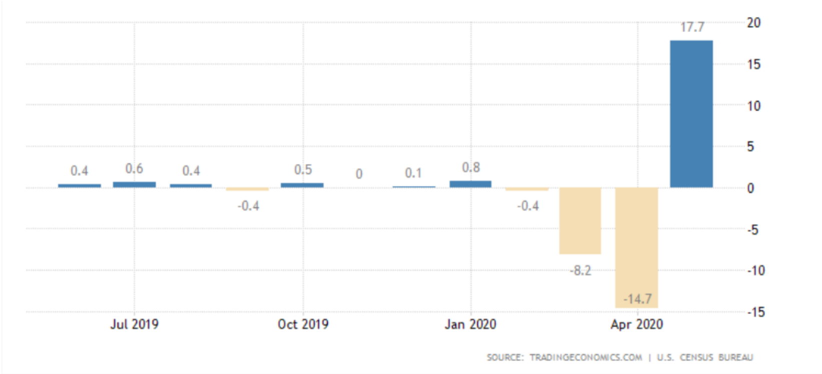
India's lockdown has failed to stop the virus but it has successfully halt the economy. According to the Centre for Monitoring Indian Economy (CMIE). The number of employed people fell from the average of 400m last year to 282m. **India's carmakers did not make a single sale to retailers in April**. A gauge of services activity based on a survey of **purchasing managers (PMI) fell to 5.4**, the lowest ever recorded for either services or manufacturing anywhere, according to ihs Markit, which conducts the surveys in over 40 countries.

Employment, car sales and services improved in May: a step back from the "abyss", as CMIE put it. But **GDP will still shrink by 4%** in the year ending March 2021, according to Moody's, a rating agency. It was no surprise, then, that it **cut India's credit rating on June 1st for the first time since 1998**. The **government's debt**, Moody's pointed out, is **30% higher than in a typical economy with the same rating**. The crisis, Moody's said, merely "amplified" vulnerabilities stemming from the government's inability to clean up a troubled banking system, improve poor infrastructure or revise rules that constrict the markets for labour, land and products. The cut brought Moody's rating down to the lowest tier of investment grade, the same as Fitch and s&p. It also had knock-on effects. Because the sovereign rating puts a cap on the country's corporate credit scores, Moody's also swiftly lowered the rating on 37 Indian companies. These included many of the country's most successful private firms, such as Reliance Industries, Tata Consultancy Services and hdfc Bank. The next downgrade will be "junk" status. Moody's forecast of -4% growth (and s&p's of -5%)



No chance of further lockdown

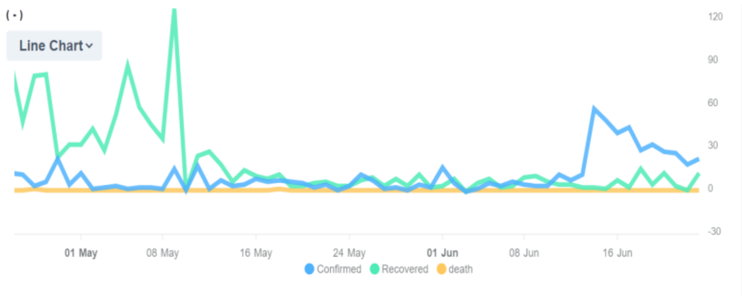
U.S retails sales jumped 17.7% mom in May 2020 beating consensus expecation at recovery of 8%. Retail sales recovers from a record -14.7% in the preceding month. It is the biggest rise on record as Americans went back to work and many stores reopened after the coronavirus lockdown. Biggest increases were seen in stores with clothing (188%); furniture (89.7%); sporting goods, hobby, musical instrument, & book stores (88.2%); electronics and appliances (50.5%); motor vehicles (44.1%); food services and drinking places (29.1%); miscellaneous stores (13.6%); and gasoline stations (12.8 %). Still, compared to the same month in 2019, retail sales fell 6.%.



Donald Trump mention that he will not allow any further lockdown as it will hampered the economic recovery. However, a premature 'New Normal' will risk another escalation on the number of infected cases.

Second wave in China

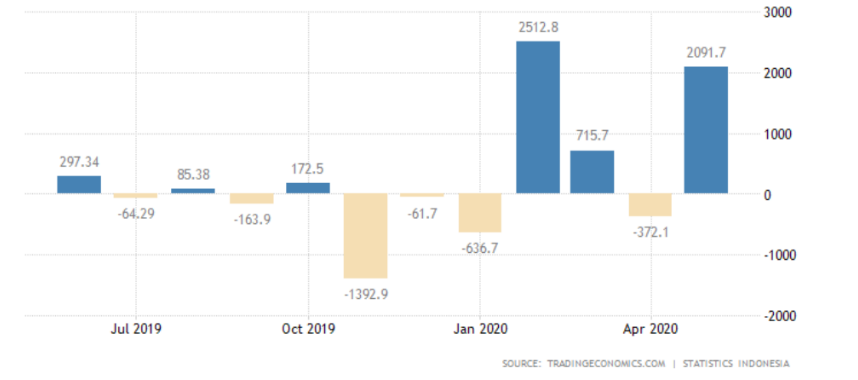
In the last eight days, Beijing has recorded almost 200 new cases of coronavirus, linked to a sprawling wholesale market in the city's south-east. That market and two others have been shut and at least 33 neighbourhoods have been put under varying levels of lockdown. Schools and sports and entertainment venues have been closed. Officials have ordered all residents to avoid non-essential travel outside of the capital, and suspended hundreds of flights and all long-distance buses. Other cities and provinces have begun to impose quarantine measures on travellers from Beijing. The city had lowered its Covid emergency response level on 6 June, only to raise it again 10 days later, and residents have reacted with a mixture of frustration and anxiety. Roads that were crowded as offices and businesses reopened are emptier again.



<u>**Indonesia's Economic Data**</u>

- **Trade balance**. A trade surplus was a regular occurrence during Eid month, with exports remaining stable while imports dropped due to fewer working days and inactivity of the manufacturing sector. Exports stood at USD10.53bn (-13.40% m-m, -28.95% y-y) with the annual drop being the steepest since February 2009 (-32.35%). The fall in exports was mainly due to declining commodity prices such as rubber/HS 40 (-51.72% y-y) and mineral fuels/HS 27 (-40.57%). Meanwhile, shipments of palm oil/HS 15 to India, China and the US were recorded at -7.72% y-y, despite CPO prices increasing by 9.17% y-y.

  Imports stood at USD8.44bn (32.65% m-m or 42.20% y-y), with the drop being the steepest since April 2009 (-42.41%). Imports declined across-the-board for capital goods and raw materials, while consumption goods also fell due to the frontloading of overseas purchases in April, in anticipation of the Ramadan and Eid festivities. Declines were reported in imports of manufacturing products such as iron and steel/HS 72 (-48.18% y-y), plastics/HS 39 (- 40.44%), and mechanical appliances/HS 84 (-40.17%), as the economy was affected by large-scale social restrictions (PSBB) to contain Covid-19, which eventually led to lessening economic activities last month.

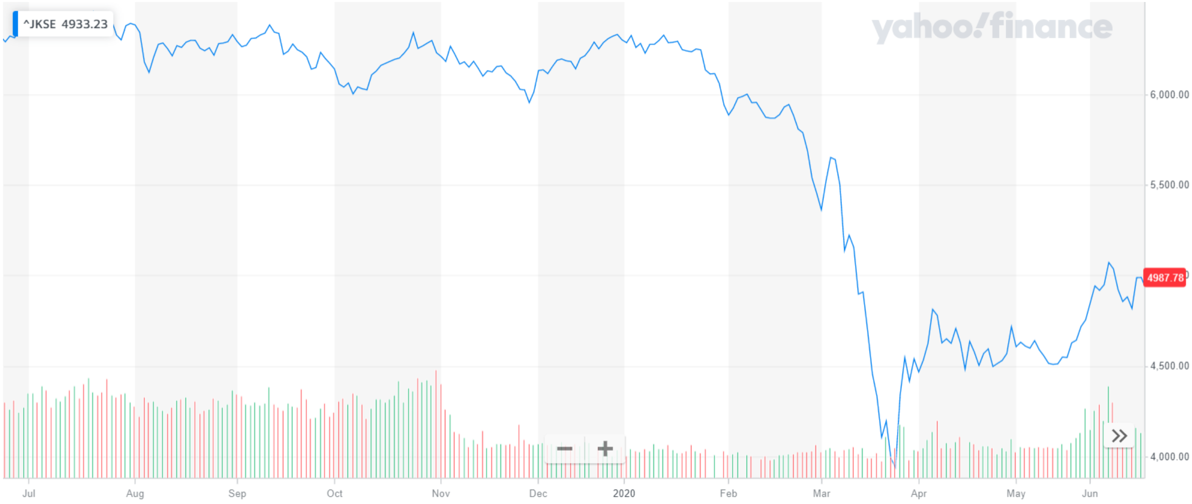


- **Budget deficit.** As of May-20, Indonesia's budget deficit reached 179.6 trillion rupiah or aboyt 1.1% of GDP. The deficit was mainly attributed to the contraction in government revenue which decline by 9% to 664.3 trillion rupiah while spending only fell by 1.4% to 843.9 trillion rupiah. We might see budget deficit stretched to 6% of GDP this year as the government is providing social assitance to support household in the midst of this pandemic.

- **BI Benchmark rate.** BI decided to cut interest rate by 25 bps to 4.25% on 19 June 2020 to support the economic slowdown and provide liquidity to the market. BI mention that they still have extra room to provide further interest rate cut.

Market Indexes (15 June 2020 - 19 June 2020)

- During the period, JCI depreciated by 1.2% to 4,922 points on 23 June 2020 due to lack of catalyst in the recent weeks. The market might be waiting for second quarter economic data which will due in the upcoming weeks. In YTD basis, JCI went down by 21.9% due to economic slowdown caused by the pandemic. We think JCI will remain traded at the tight range at around 4,800 – 5,000 which are inline within our year end lower band target.



JCI last 1 year as of 23 June 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 depreciated by 0.82% to IDR 14,204/USD level since in a month period IDR had rallied by around 5% and we think there is some profit taking activities from investor side. The strong rally of rupiah was supported by the prudent debt management compare to the other emerging countries and unlimited support from the Fed to keep the money flowing which in result providing more dollar to the street.

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