

Market update 20 July 2020

What happened last week and what to expect this week?

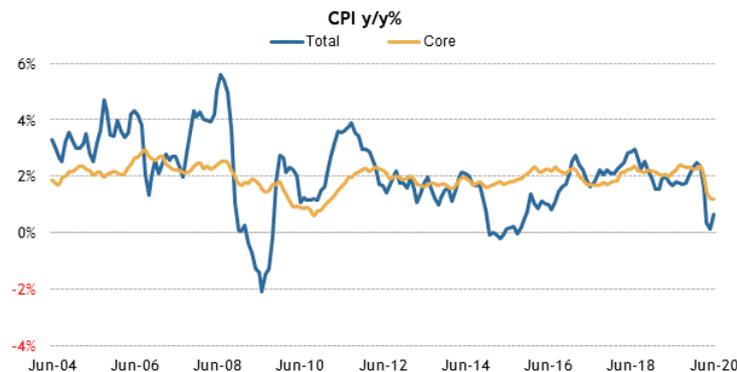
S&P 500 Valuation

Stock prices have ended up catching down with real-world economic indicators each cycle eventually. Oh, and profit margins too. As shown in this other bothersome picture from Crescat Capital since 1989, estimated S&P 500 profit margins (in red) also have a signal to share about stock prices (white line) in the months ahead. And it's not bullish.



U.S Economic Data

The Consumer Price Index declined 0.6% in June, while the core rate (excludes food and energy) rose 0.2%, which was the first increase since February. More than half of the increase last month was due to rising energy prices, as gasoline rose 12.3%. Food prices also rose a significant 0.6%. The CPI is up just 0.6% from a year ago, and the core rate is up 1.2%.

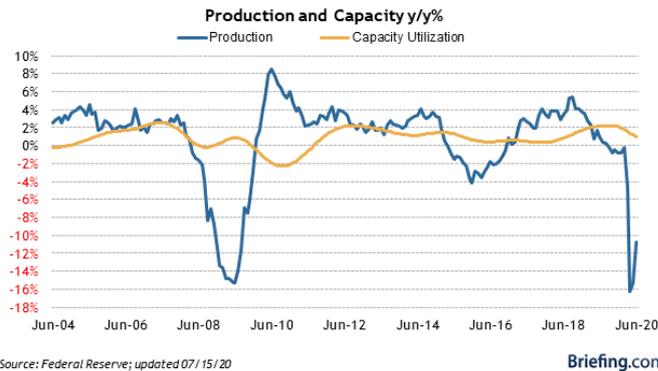


Source: Bureau of Labor Statistics; updated 07/14/20

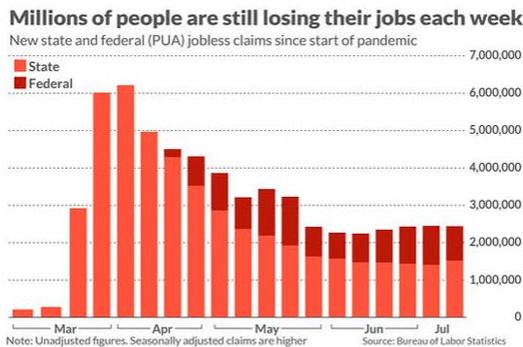
Briefing.com

Industrial production increased 5.4% in June, and the capacity utilization rate rose to 68.6%, which is 11.2% below its average. Production is down 10.8% on a year-over-year basis. Even though auto output rallied 105% in June, it is still 25% below levels from the beginning of the year. Manufacturing

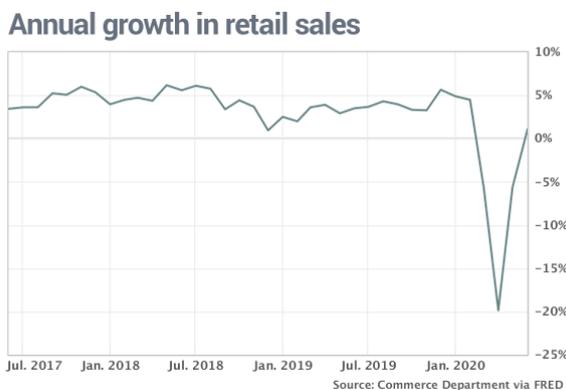
output increased 7.2% overall, while mining output fell 2.9%, and utility output rose 4.2%. The bad news is that this was for June. These numbers are likely to deteriorate in July with the resurgence of the virus.



The number of Americans filing for unemployment claims through state programs on an adjusted basis was 10,000 shy of the week before at 1.3 million. It was the 17th week in a row that claims exceeded one million. Another 928,488 filed claims under the Pandemic Unemployment Assistance program, bringing the total to 2.43 million on an unadjusted basis. Total claims have been flat to rising over the past five weeks. I think it is possible that claims could start rising again as state economies halt the process of reopening or reverse course, which I warned about when several were reopening too soon more than a month ago.

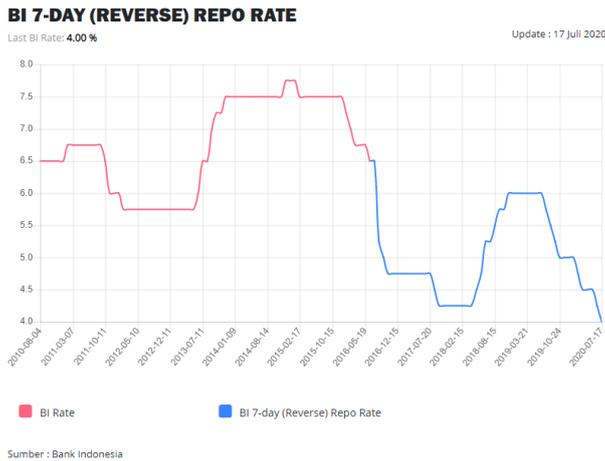


Retail sales continued to recover in June, rising 7.5% from the month before to inch into positive territory on a year-over-year basis. Sales at auto dealers rose 8.2%, while gasoline sales rose 15.3%, but that was due largely to price increases



Indonesia's Economic Data

- BI 7-D Repo rate.** Within a month BI decided to cut benchmark rate by 50 bps to 4% (lowest ever!). I think BI decision to cut the interest is supported by surplus in the trade balance (USD 2.9 billion in second quarter) and relatively low inflation (average of 2.3% in second quarter). The government would like to stimulate the economy by providing lower cost of borrowing therefore companies will expand and consumers will spend as we can see that both lending growth and retail sales have fallen sharply.



- Trade balance.** Indonesia recorded a trade surplus in June of USD 1.27 billion. Exports rose 14.3% mom or 2.3% yoy to USD 12 billion while imports increased by 27.5% mom or -6.4% yoy to USD 10.8 billion. Overall trade balance in second quarter was surplus of USD 2.9 billion. Exports figures are encouraging since it might be the sign of global economic recovery. We need to monitor next month figures since some countries are imposing another lockdown.



Market Indexes (20 July 2020)

- JCI stood at around 5,050 level after unable to breach the 5,100 level. In a year, JCI had depreciated by 20.8%. We see JCI will pull back to the closes support at 5,000 and it might go sideways as the market is waiting for second quarter result. At current level, we think JCI is quite demanding at forward PER of 17.



JCI last 1 year as of 20 July 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.
- In ytd basis IDR depreciated by 6.8% to IDR 14,820/USD. We see rupiah fell down significantly within the last one month since BI decided to cut the benchmark rate by 50 bps. However, we think the pressure is only within short-term period since the Fed will keep the money flowing to the street.

--- End of report ---

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