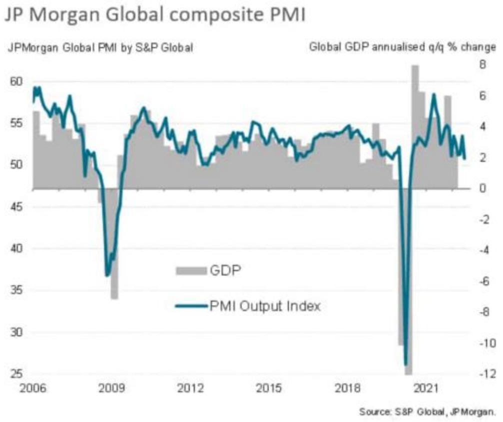
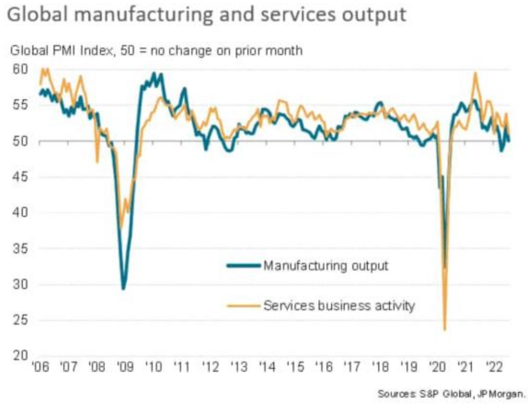
Market Update – August 2022

Global News

Global Growth at 2-Year Low in July As Developed World Slips Into Contraction

- The headline PMI, covering output of both manufacturing and services, fell sharply from 53.5 in June to 50.8 in July. The latest reading signals only marginal growth and is the weakest since the recovery from the initial pandemic lockdowns began two years ago.
- At its current level, the PMI is indicative of annualized global GDP growth of just 2%.
- Both manufacturing and services registered lower output.



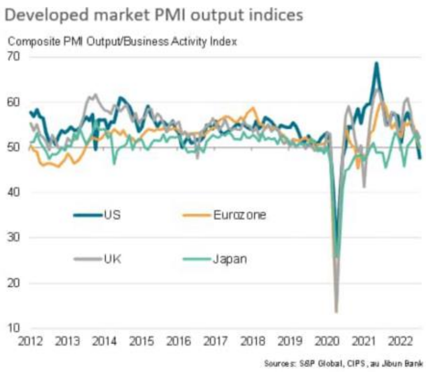


- The most resilient performances in July were again reported in the emerging markets. Growth slowed slightly in mainland China, but remained among the highest seen over the past decade thanks to **sustained manufacturing growth and resurgent demand for services** as the economy continued to reopen from Omicron-related containment measures.

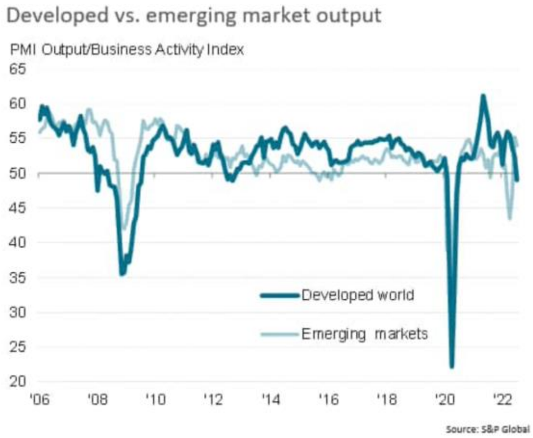
- Similarly, **strong service sector expansions helped drive solid growth in India and Brazil**, though July saw a loss of growth momentum in both cases as the stimulus from the reopening of these economies showed signs of moderating.

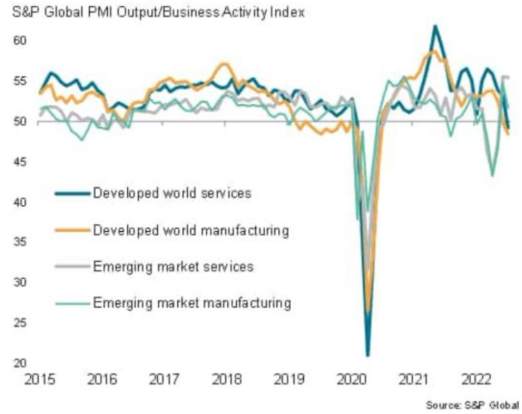
- **India** notably enjoyed an **additional boost from an accelerating manufacturing sector**. Faster **service sector** growth also helped keep **Russia in expansion** territory during July, with overall growth hitting a 13-month high despite a further steep downturn in manufacturing, linked to war-related sanctions and slumping exports.

- In the major developed world economies, output fell in the US for the first time in two years, and likewise slipped into decline in the Eurozone.



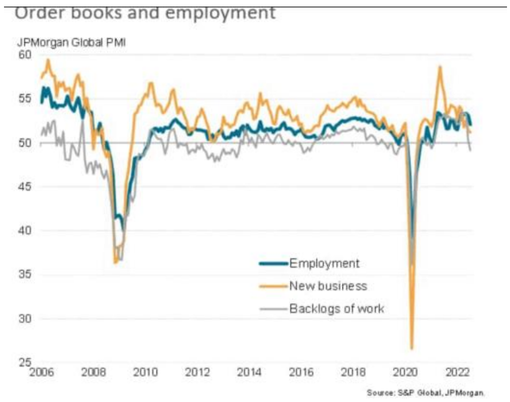
- There is a significant difference between developed world and emerging markets.





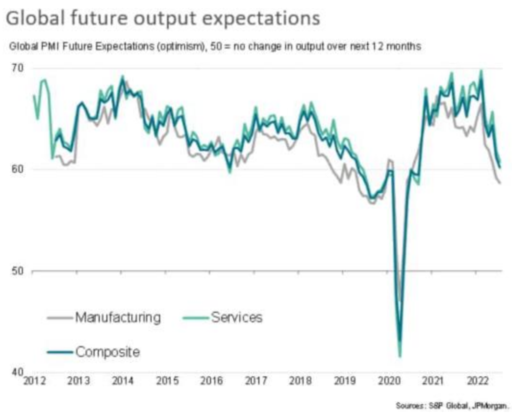
- Demand growth meanwhile continued to deteriorate in July. New orders placed for goods fell globally for the first time in two years, registering one of the worst demand downturns seen over the past decade (albeit still only modest), while new business placed at service providers grew at the joint-second weakest rate since January 2021. The resulting overall rise in demand signaled was the softest for two years.

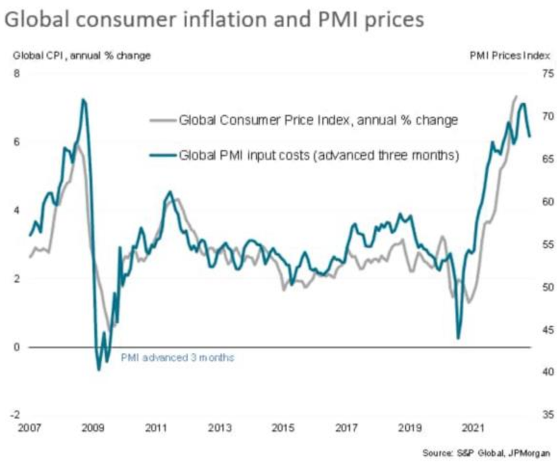
- The pull-back in demand growth meant firms ate into previously-placed orders to keep workforces busy, resulting in the first drop in backlogs of work for nearly a year-and-a-half.



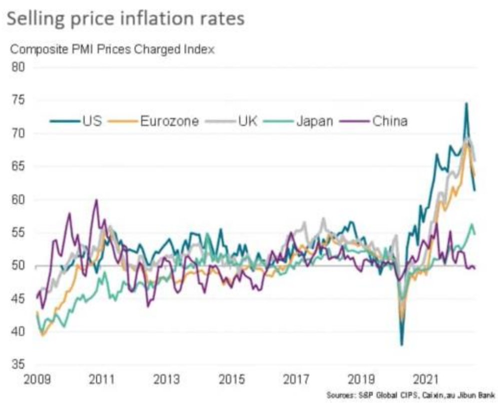
- Firms' expectations about their output in the coming 12 months fell globally to a 22-month low in July, worsening from peaks seen back in February to a 22-month low in services and a 26-month low in manufacturing.

- July PMI surveys input cost inflation shows a slowing rate globally for a second month in a row to reach a five-month low.





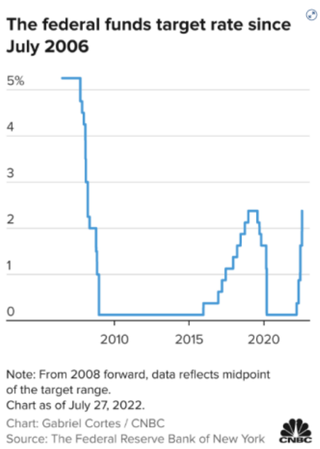
- More detail picture of falling cost and price charged.
- Global consumer price inflation is projected to ease from 7.3% in 2022 to 4.2% in 2023 and 2.7% in 2024.



- The reduced rate of input cost inflation in part derives from an easing of global supply chain constraints. On average, supplier delivery times continued to lengthen in July though the incidence of delays fell to the lowest since November 2020.
- The reduced number of supply delays can in turn be linked to lower demand for raw materials from manufacturers, which has been fueled by a downturn in new orders received by factories.

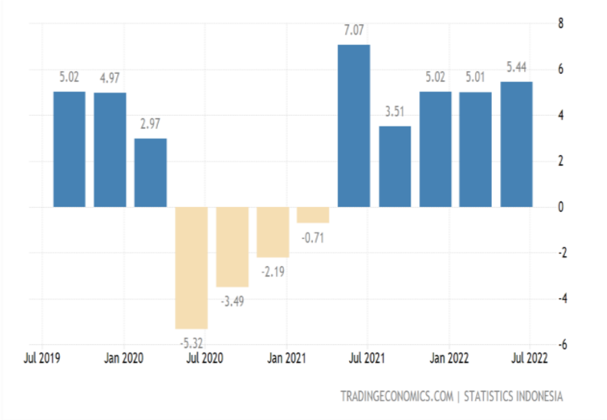
U.S Economy

- U.S registered 8.5% inflation rate in July 2022, below consensus expectation at 8.7%.
- The data is well received by the market participants as it might signal that inflation has peaked and will turn the Fed to become less Hawkish. Some analyst even suggest that the Fed will turn back to monetary easing as early as 2023.
- In 2023, the Fed had raised its benchmark rate to 2.25% - 2.5%. In July, the Fed raised its second consecutive 0.75% interest rate hike to tame the inflation. Previously, the Fed has started to raise interest rates in March and May by 25 bps and 50 bps, respectively.



US Treasury Yield

- U.S Treasury yield is still highly volatile for the past month due to less clear The Fed guidance. 10-year treasury rate went to as low as 2.5% at the beginning of August before raising back to around 2.9%. However, less than expected U.S inflation put pressure on the yield and drove it down back to 2.8%.
- Mr. Powell explained that The Fed decision will be more data driven and it signalled a less clear guidance for the market.
- Currently, US 10-Year Breakeven Inflation rate stood at around 2.47% and 10-Year Treasury Yield at around 2.83% taking 10-Year TIPS to 0.36%.

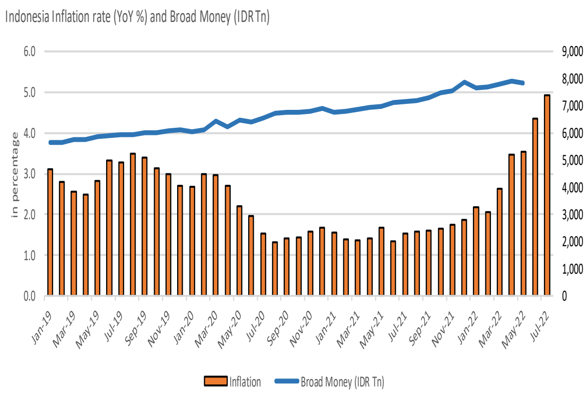


Indonesia Macro Updates

Indonesia GDP

- In 2Q22, the GDP growth came in above expectations at 5.44% y-y and 3.72% q-q (vs. 5.17%/3.47% of consensus) due to pent-up demand consumption and solid export continuation. Household consumption growth went back to its normal level at 5.51% (4.34% in 1Q22) with spending for transport, accommodation and clothing surged during the festive period.
- Solid household consumption was the main source of growth, up 5.5%, driven by festive demand (Idul Fitri), supportive fiscal policy (direct cash assistance), and the people’s increasing mobility & stronger consumer confidence.
- Exports recorded impressive growth at 9.14% q-q/19.74% y-y thanks to rising commodity prices in 2Q22 with trade surplus widening to USD15.5bn (+148% y-y). Meanwhile, investment is a bit lagging at 3.07% y-y (vs. 4.1% in 1Q21) partly due to slower building-construction activities and government spending contracted -5.24% y-y on lower personnel and capex realization.
- Government spending shrank -5.2% YoY (vs SSI projection: 8% YoY) continuing the trend from the previous quarter.

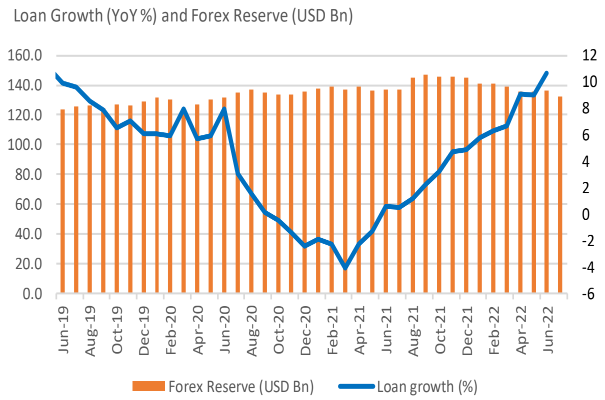
Indonesia Inflation and Broad Money



- The CPI rose by 0.64% MoM in Jul-202, which was driven by food and transportation. The CPI figure raised the annual inflation to 4.94% YoY (the highest since Oct-2015) from 4.35% YoY in Jun-2022.
- Furthermore, core inflation continued to pick up to 2.86% YoY from 2.63% YoY in the corresponding period.
- Broad money is relatively stable at around 7,900 trillion in Jun-22.

Indonesia loan growth and foreign exchange reserve

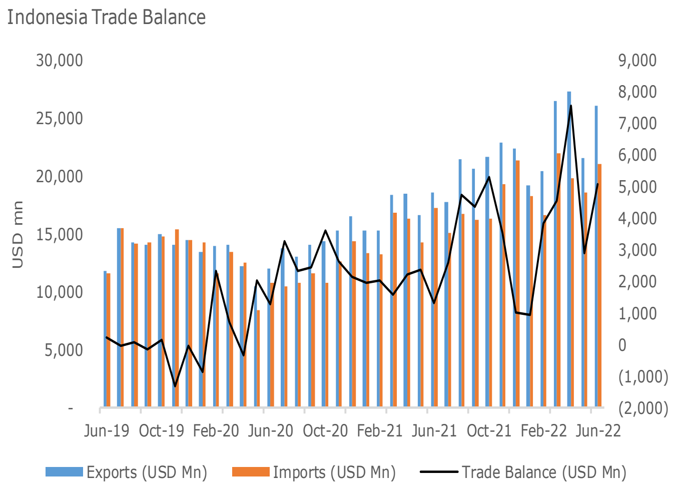
- Foreign reserve fell by 3% mom to USD 132.2 billion in Jul-22 due to the hawkish stance by The Fed and at the same time BI decide to held its benchmark rate firm. We think foreign reserve will be steady at around this level due to: 1) inflation has peaked in the U.S which will lead to less aggressive interest rate hike by the Fed and 2) lower oil prices.



- Loan growth continued its positive momentum at 10.66% yoy in Jun-22. This is the first time of double digit lending growth since 2019.
- Going forward, we think lending growth will start to slow down due to: 1) higher interest rate, 2) lower consumer purchasing power lead to lower capex, 3) high base impact from second half of 2021.

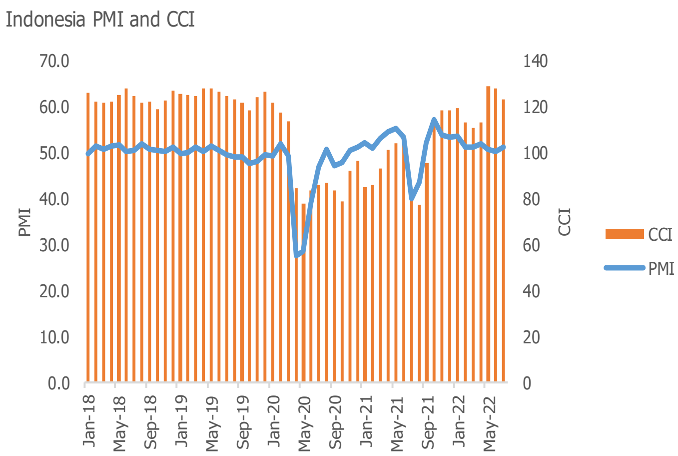
Indonesia trade balance

- Trade surplus reached USD 5.1bn in Jun-2022 from USD 2.9bn in the previous month.
- Export rose by 41% YoY in Jun-2022 from 27% YoY in May2022, mainly due to palm oil export. After the ban was lifted, palm oil export accelerated by 79% YoY from -69% YoY in the corresponding period. Coal export was also solid amid Indonesia's higher reference price for coal/HBA. Destination-wise, export to India surged the most (269% YoY), owing to the country's higher energy demand
- On the other hand, import growth slowed to 22% YoY in Jun-2022 (vs. 31% YoY in May-2022). Raw material and capital goods imports decelerated to 26% YoY and 15% YoY, respectively, from 34% YoY and 29% YoY in the same period as a consequence of demand normalization post-Lebaran.



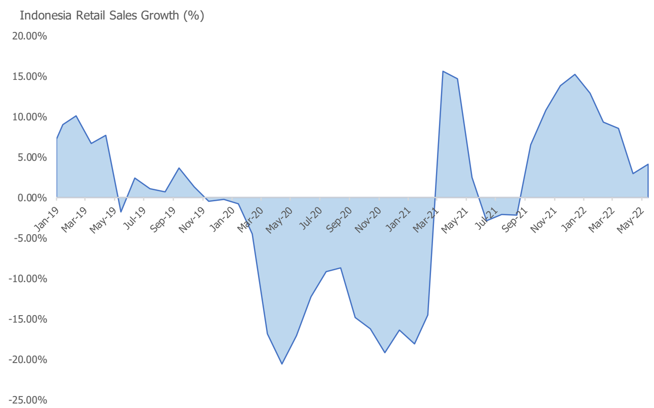
Indonesia PMI and CCI

- Indonesia PMI able to maintain its expansionary mode in July at 51.3 after it almost fell to contraction territory in Jun-22 at 50.2.
- CCI, however, fell to 123.2 from 128.2, at the previous month. We think consumers might be worried from possibility of global recession, higher energy prices and inflation.



Indonesia retail sales

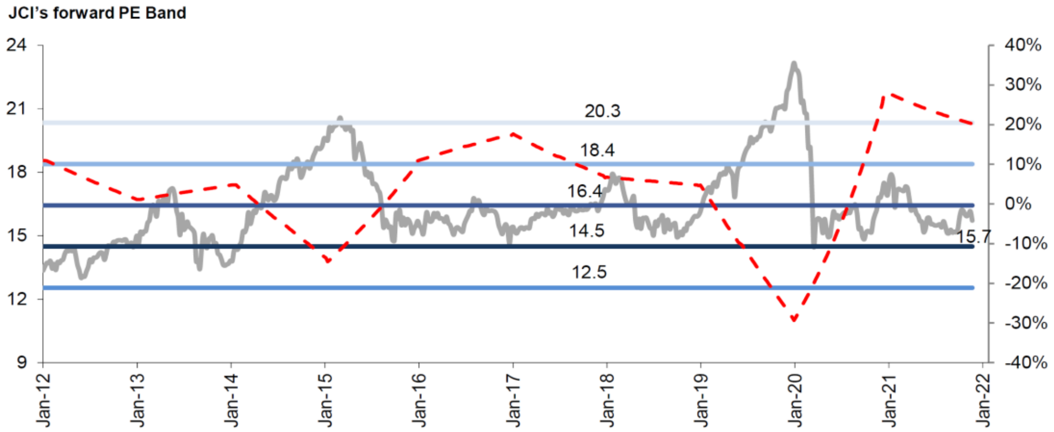
- In Jun-22, retail sales were at 4.1%, slightly higher compare to the previous month at 2.9%.



<u>JCI Target</u>

- As of 12 August 2022, JCI recorded gain of 8.3% on ytd basis and total foreign inflow of IDR 4.5 trillion.
- Consensus expect an increase of 20.1% on EPS to 423 in 2022.
- Our base case scenario will be JCI at +0.5 SD (upgrade from 0 SD). We are optimist due to: 1) resilience on macroeconomic data (loan growth, PMI, CCI, etc), 2) consumers will be able to absorb higher inflation rate, 3) higher commodity prices will support rupiah from volatility of forex, 4) capital inflow from foreign investors and 5) IPO from our tech unicorn.
- We might downgrade our JCI to + 0 SD if inflation persistently above our expectation as it will increase the risk of higher BI benchmark rate.

Case	JCI Target	Assumption
Base	7,400	Consensus EPS FY21: 423 Forward PE (+0.5 SD): 17.5
Good	7,783	Consensus EPS FY21: 423 Forward PE (+1 SD): 18.4
Bad	6,134	Consensus EPS FY21: 423 Forward PE (- 1 SD): 14.5



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