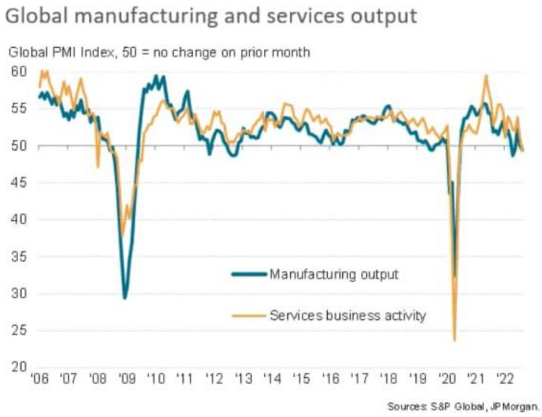
Market Update – September 2022

Global News

Global Economy Slides into Contraction, Price Pressures Ease to 1.5-Year Low

- The headline PMI, measuring output of both manufacturing and services, fell from 50.8 in July to 49.3 in August, dropping below the 50.0 no change level for the first time since June 2020. If lockdown months are excluded, the latest reading was the lowest since June 2009, during the global financial crisis.

- More encouragingly, price pressures have abated, with the rate of inflation of firms' costs having now cooled for the third month in a row to reach the lowest for one and a half years.

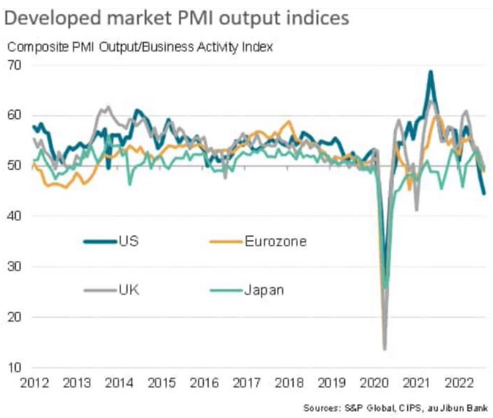


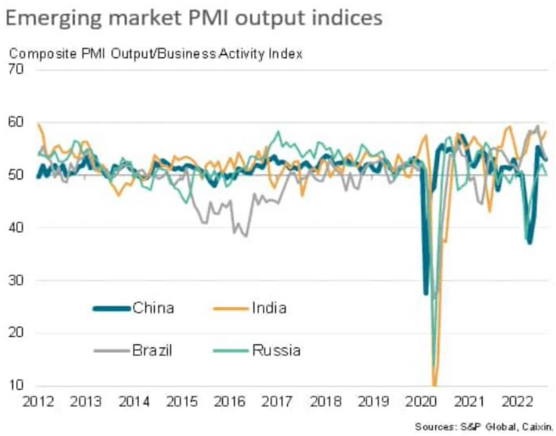
Downturns in all major developed economies

- For the first time since early 2020, all four largest developed economies reported falling output. While the Eurozone, UK, and Japan all slipped into minor downturns, a steeper contraction was recorded in the US.

Growth varied in emerging markets

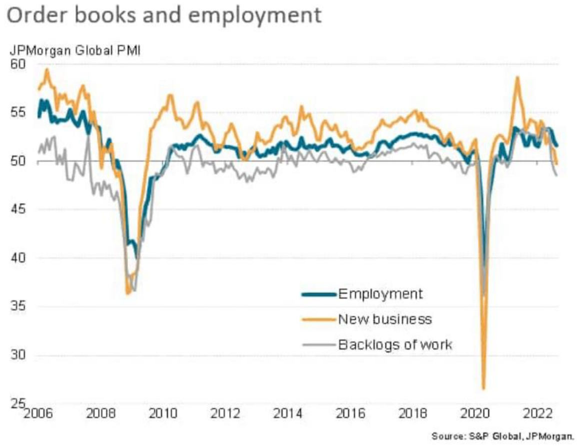
- Growth trends meanwhile varied among the major emerging markets. While India reported strong and accelerating growth, enjoying one of its fastest expansions seen over the past decade, more moderate gains were seen in Brazil and mainland China, as in both cases robust service sector gains were offset by near-stalled manufacturing economies.





Falling demand

- The main cause of deteriorating output trends was a weakening of the demand environment. New orders for manufactured goods fell globally in August, accompanied by a near-stalling of demand for services.
- Not only did inflows of new orders fall during August, but backlogs of work also declined, as the reduced influx of new work meant operating capacity levels were only maintained via the depletion of work placed in prior months. Lower backlogs are usually followed by a slowdown in hiring as firms take a more cautious approach to staffing levels. August saw global jobs growth slacken to the weakest since January as a result.

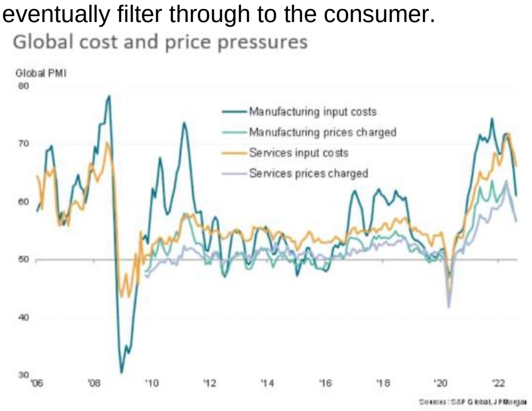


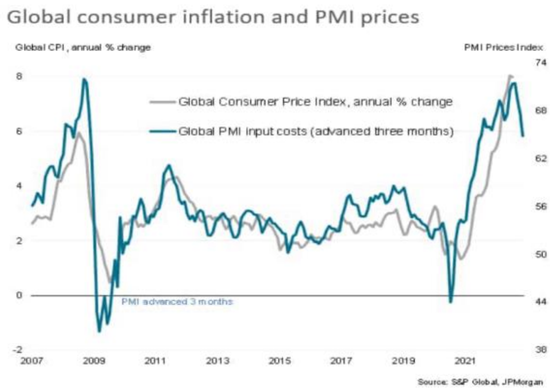
Employment Growth

- Employment growth slowed in all other major economies with the exception of India, which saw faster jobs growth.

Input cost

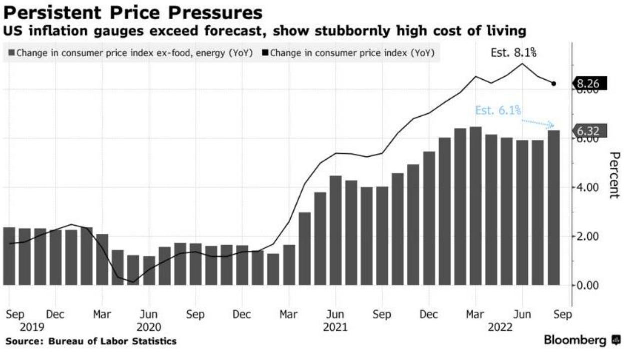
- Global input cost inflation has in fact now eased for three successive months to run at the lowest since March 2021, albeit remaining elevated by historical standards.
- Lower input cost growth is also feeding through to lower inflation rates for goods and services selling prices.
- The August PMI surveys, therefore, suggest that global consumer price inflation should start to moderate in the months ahead, as lower cost pressures feed through to lower wholesale prices and eventually filter through to the consumer.

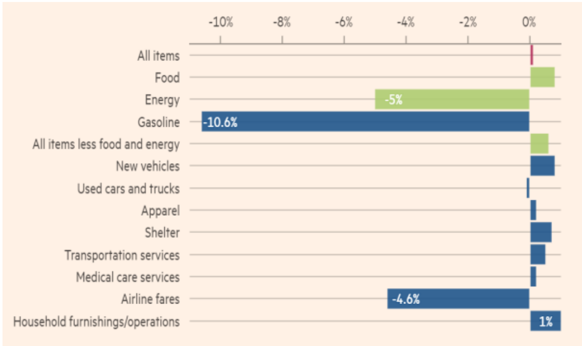




U.S Inflation

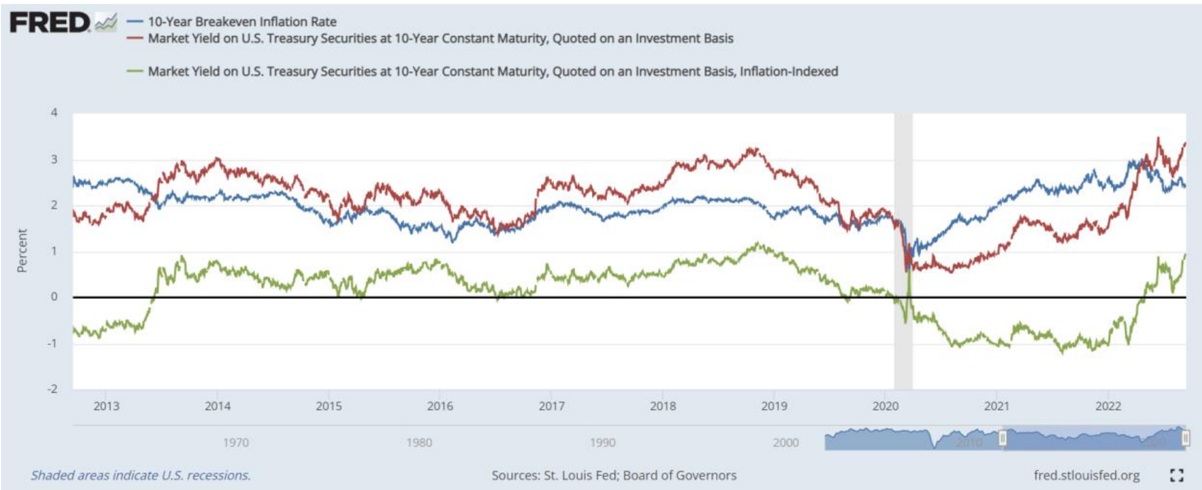
- The consumer price index increased 0.1% from July, after no change in the prior month, Labor Department data showed Tuesday. From a year earlier, prices climbed 8.3%, a slight deceleration (8.5% in June), largely due to recent declines in gasoline prices.
- Excluding the volatile food and energy categories, the so-called core CPI climbed 0.6% from July, double the median estimate in a Bloomberg survey of economists. The core measure rose 6.3% from a year ago, the first acceleration in six months and near a four-decade high, the Labor Department's report showed.
- The odds for a 100 basis point rate hike jumped more than 20% after the consumer price index showed an increase from July. With hopes of a "Fed pivot" firmly dashed, the S&P 500 Index tumbled as much as 3.2%. Nomura economists changed their forecast for the Fed's September meeting from a 75 to 100 basis points, writing that "a more aggressive path of interest rate hikes will be needed to combat increasingly entrenched inflation."





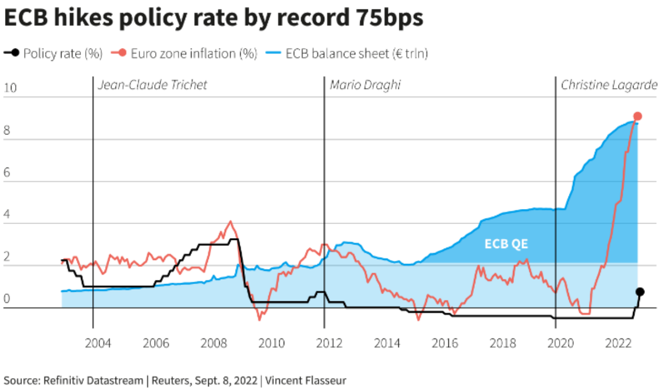
US Treasury Yield

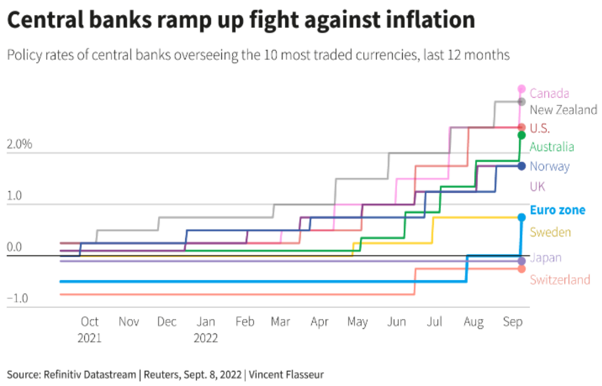
- 10-year treasury rate jumped after the higher than expected inflation on Aug-22. Currently 10-year treasury yield stood at 3.42%, US 10-Year Breakeven Inflation rate at around 2.48% TIPS to 0.94%.



ECB Rate Hike

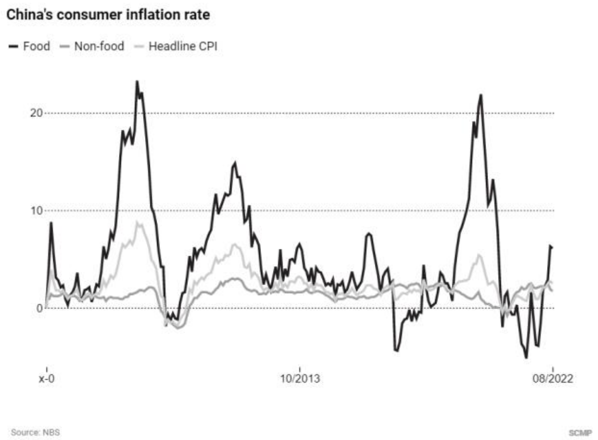
- The European Central Bank raised its key interest rates by an **unprecedented 75 basis points** on Thursday and promised further hikes, prioritizing the fight against inflation even as the bloc is likely heading towards a winter recession and gas rationing. The **ECB raised its deposit rate to 0.75% from zero and lifted its main refinancing rate to 1.25%**, the highest level for both since 2011
- With **inflation at a half-century high (9.1% in August)** and approaching double-digit territory, policymakers are worried that rapid price growth is getting entrenched, melting away household savings, thwarting investment and setting off a hard-to-break wage-price spiral.





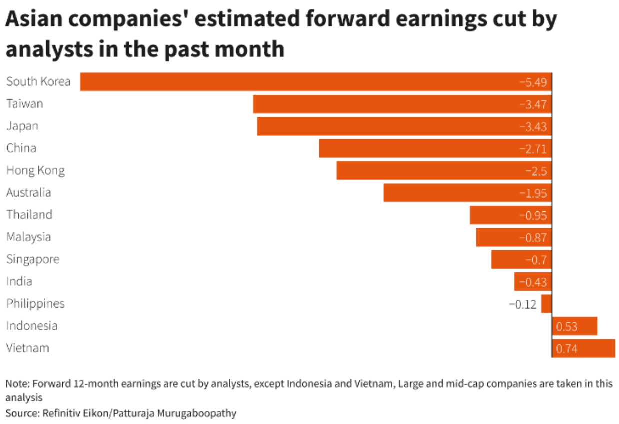
China's CPI

- China's **annual inflation unexpectedly fell to 2.5% yoy in August 2022 from July's 2-year high of 2.7%**, less than market forecasts of 2.8%. Prices of both food and non-food eased amid strict COVID curbs and adverse weather.
- Lower growth in the CPI came as food prices rose 6.1% and non-food items at 1.7% y-y in August (prev: 6.3% and 1.9% respectively). The CPI inflation is expected to remain below the PBOC's 3% ceiling as a sustained downward trend in price due to falling prices in global crude oil and non-ferrous metals continue



Asia's earnings cut by Analyst

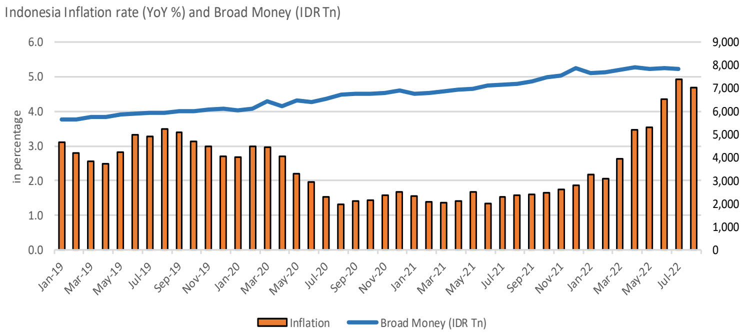
- According to Refinitiv data, Asia's large and mid-cap companies' forward 12-month earnings estimates have been cut by 2.8% over the past month. In the past three months, the estimates have been cut by 5%, the data showed.
- South Korean and Taiwanese companies led the earnings downgrades in the region over the past month, as they faced cuts of 5.5% and 3.5%, respectively.
- On the other hand, **Vietnam's and Indonesia's earnings forecasts were raised by 0.7% and 0.5%**, respectively.



Indonesia Macro Updates

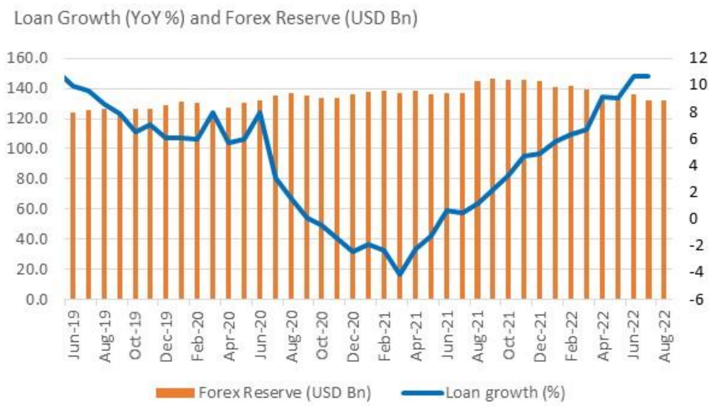
Indonesia Inflation

- The Central Statistics Agency (BPS) recorded a deflation of 0.21% mom in August 2022, which was the deepest deflation since September 2019 at -0.27%.
- On a year-on-year basis, inflation recorded at 4.69%, below consensus number of 4.9% yoy
- The dominant expenditure group contributed to the deflation in August 2022: Food and Tobacco -1.80% mom, transportation -0.08% mom, reduction in air freight rates due to lower avtur price and cooking oil prices -0.06% mom due to lower CPO price
- Core inflation came slightly above consensus at 3.04% y-y and 0.38% m-m, still under the range of BI's upper bound inflation target, mostly due to prices of short-term housing rents and school and university tuition fees as schools reopened.
- Currently, the government remains in discussion to hike fuel prices with the policy's details expected to be announced in the coming days. Consensus expects that headline inflation will rise to be at 6.5-7.4% while core inflation will hover around 4.5%. As a result, BI could raise interest rate by another 75-100 basis point until the end of 2022.



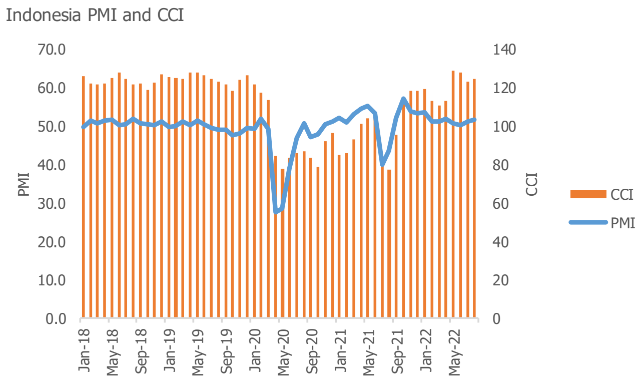
Indonesia loan growth and foreign exchange reserve

- Foreign reserve was steady at USD 132.2 billion in Aug-22. This foreign exchange reserve position is equivalent to financing 6.1 months of imports or 6.6 months of imports and servicing government external debt, and is above the international adequacy standard of around 3 months of imports
- Loan growth continued its positive momentum at 10.71% yoy in Jul-22. The second consecutive double digit growth
- 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



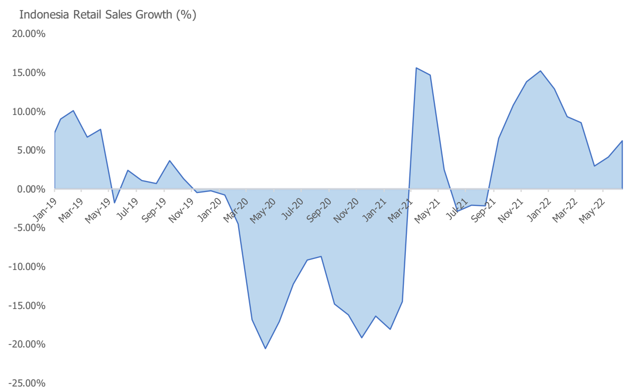
Indonesia trade balance

- Indonesia's trade surplus increased to a four-month high of USD 5.76 billion in August of 2022 from USD 4.75 billion in the same month of the previous year, above market expectations of USD 4.09 billion surplus.
- Exports rose 30.15% over a year earlier to an all-time high of USD 27.91 billion.
- Meanwhile, imports grew by 32.81% to a record peak of USD 22.15 billion, amid robust domestic demand following further loosening of COVID-19 measures.
- The IMF projected the global trade volume to ease to 4% in 2022 from 10% in 2021. At the same time, we think imports growth rate will also ease but at the lower pace compared to exports since EM is proven to have more resilient household consumptions.



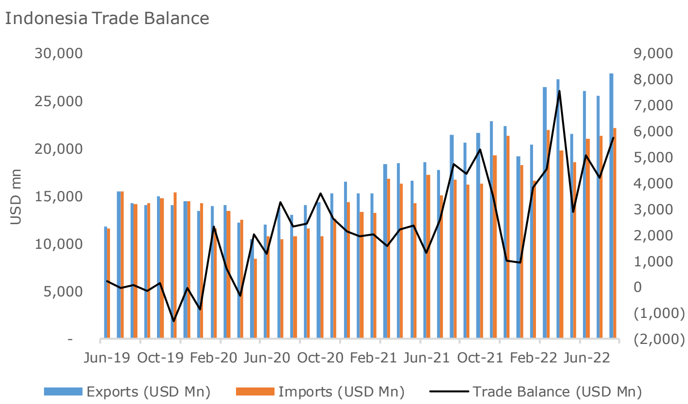
Indonesia PMI and CCI

- Indonesia's Purchasing Manager Index (PMI) posted another increase to 51.7 in August, up from 51.3 in the previous month. The manufacturing sector has grown exponentially as the total production and new orders both expanded. The number of output increased as the economy continues to recover, however, as of August, domestic demand still dominates new orders as export orders have not yet regained.
- CCI also increased slightly to 124.7 from 123.2. However, these figures have not taken into account the recent removal of fuel subsidy.



Indonesia retail sales

- Retail sales in Indonesia grew by 6.2 percent year-on-year in July 2022, faster than a 4.1 percent rise a month earlier. This was the strongest increase in retail trade since April, as consumption recovered further as the economy fully reemerged from COVID disruptions. Sales picked up strongly for automotive parts & accessories (33.4% vs 3.4% in June), fuels (67.2% vs 18.6%), and cultural & recreational goods (21.3% vs 5.4%), on the back of a sharp rebound in sales of clothing (59.4% vs -3.8%).



Government Budget 2023

- The Government has announced their draft budget for 2023 and would like to push budget deficit back to pre-pandemic level at 3% of GDP
- Revenue is expected to be flat, growing by 0.3% in 2023 (vs. 21.2% YoY in 2022 outlook) due to the normalization of this year's one-off events (commodity and VDP).
- The total expenditure is expected to decline by - 4.0% next year as the national recovery stimulus (PEN) will end, followed by lower energy compensation.
- On the macro assumption, the government forecasts the GDP growth to remain solid at 5.3% next year, with inflation easing to 3.3% from 4.0-4.8% in 2022

IDRtn	2022 Outlook	2023 Budget	% Growth
Government Revenue	2,436	2,443	0.3%
Tax	1,924	2,017	4.8%
Non-Tax	511	426	-16.6%
Grant	1	0	-60.0%
Government Expenditure	3,169	3,042	-4.0%
Central Government	2,370	2,230	-5.9%
Regional Transfer	799	812	1.6%
Primary Balance	(328.00)	(157.00)	-52.1%
Fiscal Surplus (Deficit)	(733.00)	(599.00)	-18.3%
% of GDP	-3.92%	-2.85%	

Revenue

IDRtn	2022 Outlook	2023 Budget	% Growth
Tax revenue			
Oil and gas income tax	65	61	-5.5%
Non - oil and gas	830	874	5.3%
VAT /PPN	681	740	8.7%
PBB	21	25	19.0%
Others	11	15	36.4%
Excise	224	245	9.4%
International trade	93	56	-39.8%
Total	**1,925**	**2,016**	**4.7%**
Non Tax revenue			
Natural Resoruces	219	189	-13.5%
SOEs Profit	40	44	8.9%
Other non tax	149	110	-26.2%
Public service agency	103	83	-19.4%
Total	**511**	**426**	-16.6%
Total Revenue	**2,436**	**2,442**	**0.3%**

Expenses

IDRtn	2022 Outlook	2023 Budget	% Growth
Personnel Expenditure	416.60	443.00	6.3%
Material Expenditure	406.00	379.00	-6.7%
Capital Expenditure	232.80	199.00	-14.5%
Interest Payment	403.90	441.00	9.2%
Energy Subsidy	208.90	210.70	0.9%
Non-energy Subsidy	75.70	86.50	14.3%
Grants Expenditure	5.00	0.00	-100.0%
Social Assistance	143.70	148.60	3.4%
Other Expenditure	477.50	321.90	-32.6%
Total	**2,370.10**	**2,229.70**	**-5.9%**

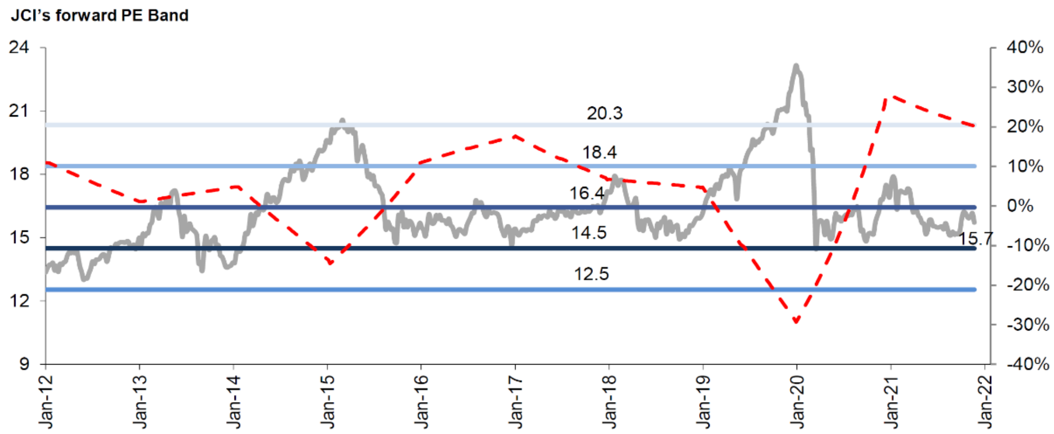
Budget Realization

State Budget Assumption	2018	2019	2020	2021	2022	2023
	Realization	*Realization*	*Realization*	*Realization*	*Govt Outlook*	*Budget Draft*
Economic growth (%)	5.2	5.0	-2.1	3.7	5.1 - 5.4	5.3
Inflation (% yoy)	3.1	2.7	1.7	1.9	4.0 - 4.8	3.3
Exchange Rate (Rp/USD)	14,247	14,141	14,577	14,307	14500 - 14900	14,750
SPN 3 months (%)	5.0	5.6	3.2			
10 year government bonds yield (%)				6.34	6.85 - 8.42	7.85
Oil price (USD/barrel)	67.5	62.4	40	55 - 65	95 - 105	90
Oil lifting (thousands barrels/day)	778	746	707	660	625 - 630	660
Gas lifting (thousands barrel/day)	1,145	1,060	983	982	956 - 964	1,050

JCI Target

- As of 14 September 2022, JCI recorded gain of 10.8% on ytd basis and total foreign inflow of IDR 74 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, and 4) capital inflow from foreign investors
- Our main risk will be: 1) the war between Ukraine and Russia might spread out to other regions, 2) weakening Euro economy might hurt global economic growth and 3) domestically, the recent removal of fuel subsidy could rise political tension in the country and inflation could be higher than expected

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



-- End of report ---