

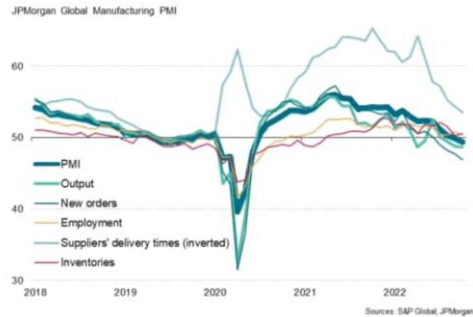
Market Update – November 2022

Global News

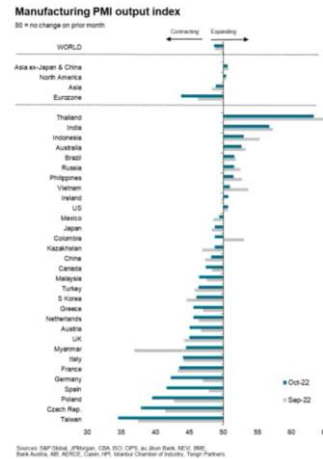
Tightening Financial Conditions Will Slow Global Economic Growth and Inflation

Global real GDP growth is expected to slow from 5.8% in 2021 to 2.8% in 2022 and 2.0% in 2023. The 2023 growth rate is revised down 0.3 percentage points from last month's forecast, reflecting weaker outlooks for the world's largest economies - the Eurozone, mainland China, Japan, and United States.

JPMorgan Global Manufacturing PMI and its five components



Manufacturing output by major economy

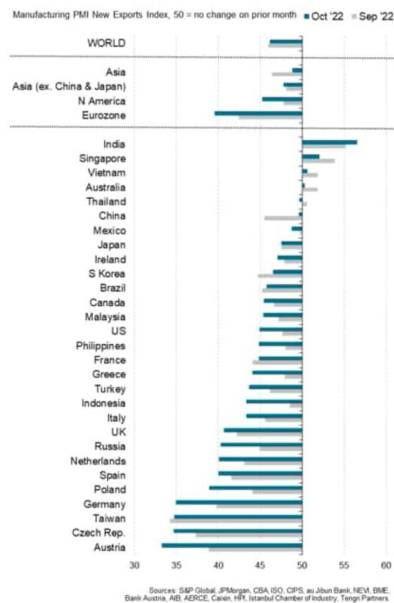


Exports and Inflation Rate are Expected to Fall

The weak demand picture was underpinned by deteriorating global trade conditions at the start of the fourth quarter. The global PMI's new export orders index, which provides an advance guide to official trade statistics, remained at a level that was among the weakest in the survey history, even after picking up slightly from September's 27-month low.

Some improvements on the supply side provided slight relief for global goods producers in terms of prices. Both input cost and output price inflation eased marginally at the start of the fourth quarter.

Export rankings



Manufacturing input costs and output prices

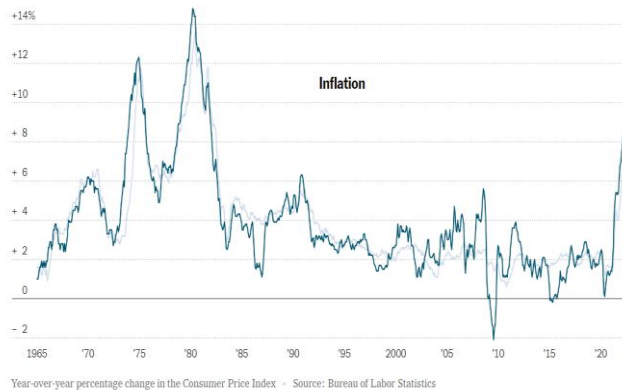


U.S Inflation Is Easing

After a persistently high rate of inflation, inflation rate is finally eased as the U.S annualized rate rose by 7.7% in October 2022, the lowest since January. Consensus expected an 8% inflation rate.

The market reacted positively as all major U.S indices increased significantly, S&P and Nasdaq rose by 5.5% and 7.4%, respectively. It was the best day since 2010.

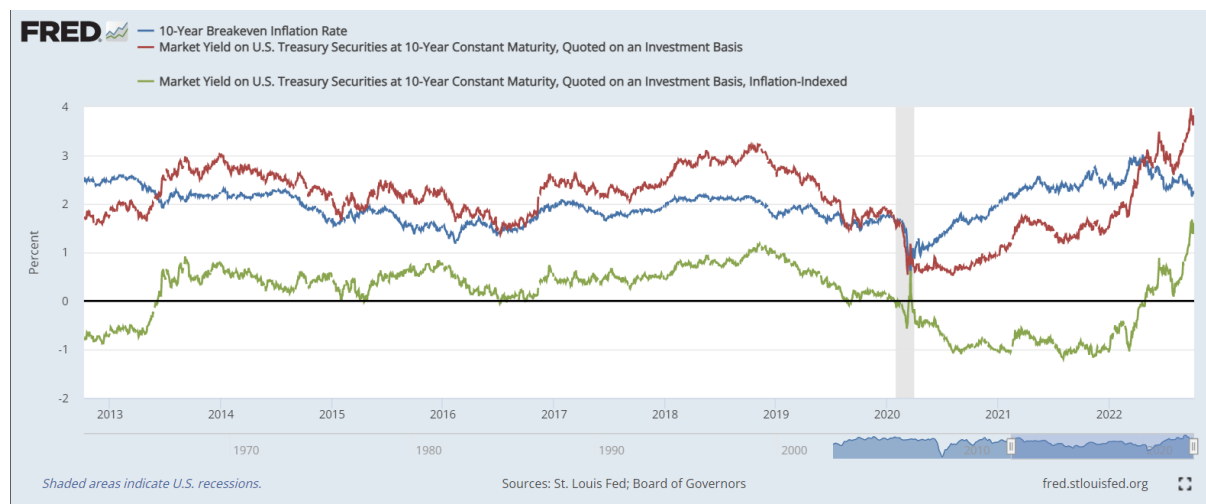
We think right now the consensus expect the Fed to take less hawkish stance and begin its monetary easing earlier than planned. However, we think that it is too early to call that inflation has peaked because it is still only one data point. On the other hand, the other data such as PMI, global trade flow, rising unemployment are supporting that inflation might hit its peak.



US Treasury Yield

Following the inflation news, bond market also went up significantly, putting pressure on the yield. 10-Year U.S Treasury yield fell from 4.1% to 3.9%.

Currently 10-year treasury yield stood at 3.9%, US 10-Year Breakeven Inflation rate at around 2.29% TIPS to 1.61%. The breakeven inflation (blue line), shows that inflation seems to hit its peak already and the Fed might be too aggressive in hiking their benchmark rate. As a result, there is a possibility that the Fed will pivot sooner than the expectation.



The Fed's Projection

Despite the lower than expected inflation rate in October, we still think that the Fed will continue its interest rate hike in December by 50 basis point, taking the benchmark rate to 4.25%-4.5%, in line with their projections.

The Fed expects to hike another 25 basis point 2023 but we think there is a possibility that it might not be materialized if the inflation rate had reached its peak.

Variable*	Median ¹				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation ⁴	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5

Indonesia Macro

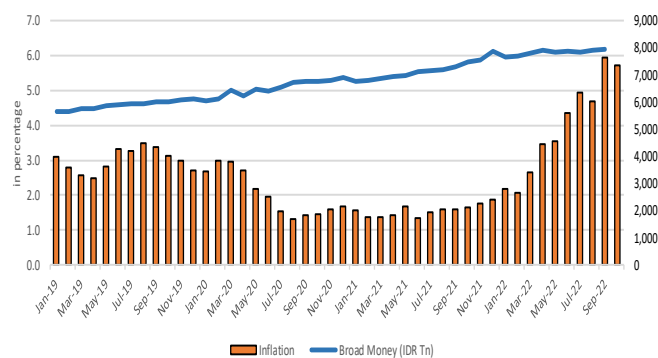
Indonesia Inflation

Indonesia unexpectedly record a deflation in Oct-22, -0.1% mom due to lower food prices. On yearly basis, inflation eased to 5.71% from 5.95% the previous month.

Core inflation continued to raise to 3.31% yoy from 3.21% yoy in Sep-22.

We think the impact from higher fuel prices will still have impacts for until end of year of 2022. The upcoming holiday season might also contribute to higher inflation and taking full year inflation to around 6.5%-6.7% yoy.

Indonesia Inflation rate (YoY %) and Broad Money (IDR Tn)



Indonesia loan growth and foreign exchange reserve

Foreign reserve fell to USD 130.2 billion in Oct-22 from USD 130.8 billion, a month before.

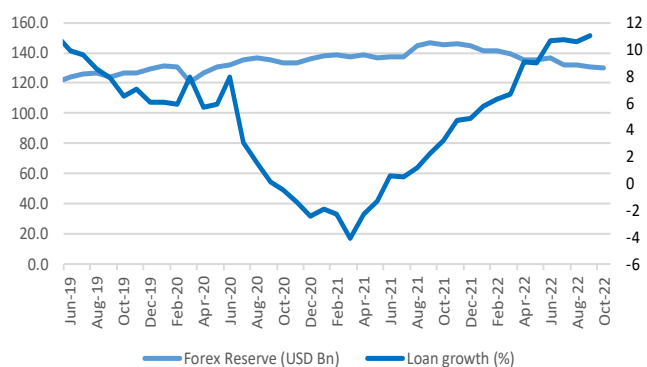
This figure was the lowest amount since May 2020, which was mainly influenced by the payment of the government's external debt and the need for rupiah stabilization in line with the mounting global financial market uncertainty.

The reserve is equivalent to 5.6 months of imports and servicing government's external debt and remained adequate, supported by the stabilized and solid domestic economic outlook.

Loan growth continued its positive momentum at 11% yoy in Sep-22. The fourth 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.

Loan Growth (YoY %) and Forex Reserve (USD Bn)



Indonesia trade balance

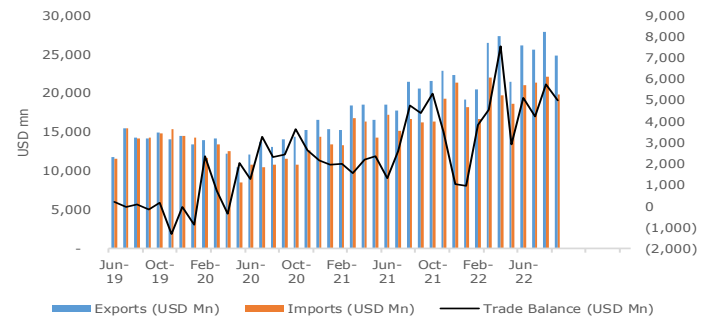
Indonesia's trade surplus in Sep-22 was lower compare to the previous month at USD 5 bn.

Exports was below consensus at USD 24.8 bn after beating market expectations in the past 3-months, declined 10.9% m-m and grew 20.3% y-y (consensus: 28.6% yoy). The lower exports are due to lower commodity prices and the volume as well showing a weakening sign on the trading partners.

Import came in far below consensus at USD19.8bn and grew 22.0% y-y (vs. 33.4% y-y) while declining monthly at 10.6% m-m in September.

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 Trade Balance

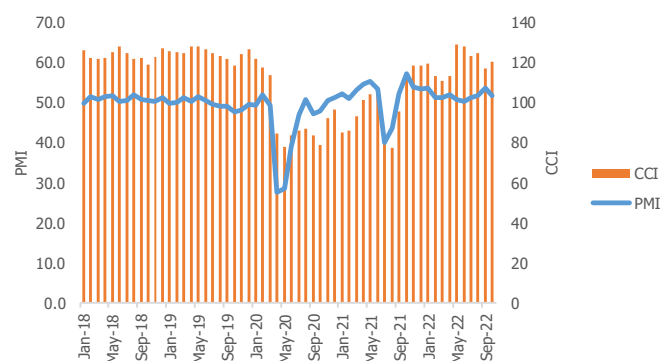


Indonesia PMI and CCI

Indonesia's Purchasing Manager Index (PMI) posted another increase to 51.8 in October, down from 53.7 in the previous month.

CCI however increased slightly to 120.3 in Oct-22 from 117.2, the month before.

Indonesia PMI and CCI



JCI Target

As of 11 November 2022, JCI recorded gain of 5.8% on ytd basis and total foreign inflow of IDR 81 trillion.

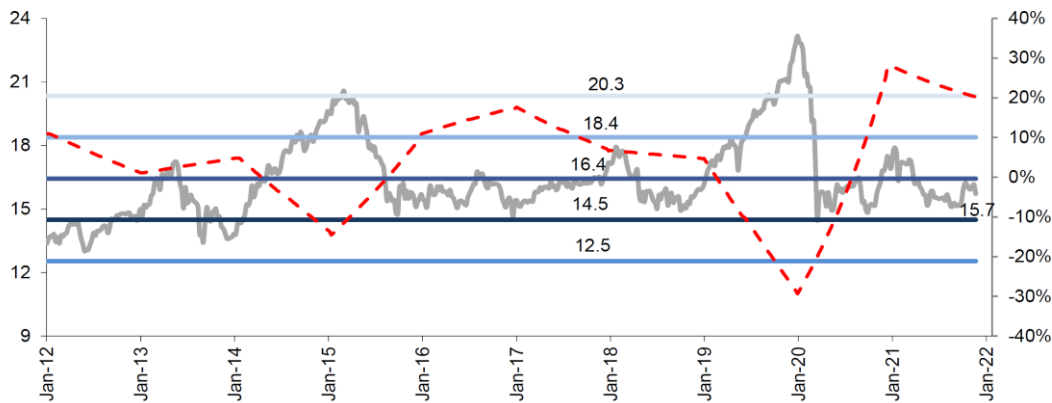
As we are approaching our year ended in 2022, we decide to downgrade our 'base scenario' target to 0 SD and 'good scenario' to 0.5 SD (previously base scenario). However, at the same time, we also upgrade our 'bad scenario' to -0.5 SD.

Our decision to downgrade both 'base and good scenario' are due to numerous headwind such as: 1) persistence higher inflation rate and energy prices resulting higher interest rate globally, 2) the prolonged geopolitical issues between Ukraine-Russia, U.S – Taiwan – China, and 3) crisis in most of the developed markets especially in EU.

On the other hand, we have also seen a strong macroeconomics data in Indonesia supported by our local consumptions. As a result, we decide that the impact from unfavourable global macroeconomics data will be less severe in Indonesia and its neighbour.

Case	JCI Target	Assumption
Base	7,200	Consensus EPS FY21: 423 Forward PE (+0 SD): 17
Good	7,400	Consensus EPS FY21: 423 Forward PE (+0.5 SD): 17.5
Bad	7,000	Consensus EPS FY21: 423 Forward PE (-0.5 SD): 16.5

JCI's forward PE Band



--- End of report ---

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