

Market Update – January 2024

Global Macroeconomics

Key Global Risk Factors in 2024

- Global economic prospects post high interest rates environment
- US economics uncertainty (will it be hotter than expected / soft landing / hard landing?) and FED's respond to it
- Geopolitical conflicts (Middle East, Ukraine vs Russia)
- Election year for several countries (US, Indonesia, Taiwan, India, Russia)
- Climate change and prolonged El Nino
- Ungoverned AI

} *Inflationary*

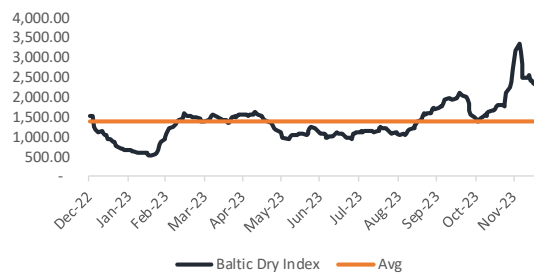
Red Sea Crisis

Reported Incidents in the Red Sea and Gulf of Aden, 25 November 2023 - 1 January 2024

- Seizure ● Boarding ● Physical damage ● Suspicious approach
- Sighting of suspicious vessel, drone or explosion



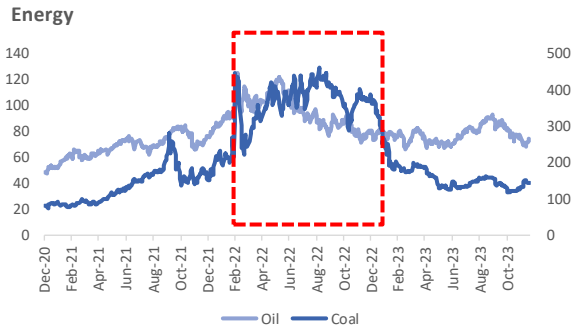
Baltic Dry Index



Source : Guardian, Setiabudi Investment

- Geopolitical risks in the Middle East will escalate further, involving more parties in the conflict. This may result in direct war between Lebanon and Israel, with Syria and Yemen, close allies of Iran and Lebanon, potentially joining to attack Israel and its allies in the Middle East.
- This escalation poses notable implications for the economic and financial landscape, such as the halt of shipments throughout the route from world's largest shipping firms. Shipping companies have a binary choice:
 - Face the risk of travelling through the Red Sea
 - Increase insurance costs or divert their vessels.
 - Diverting ships around Africa poses risk of delays.
- We see **the worst outcome could affect oil prices and sea transportation costs (Baltic Dry Index increase +15.2% from the incident 19 Nov 2023 to end of 2023)**.
- 12% global trade passes through the Red Sea, including 30% of global container traffic. We see the longer red sea crisis have an impact on energy price surge and may spill over to overall commodity prices which leads to higher inflation, and more uncertainty on interest rates direction.

2023 Energy Prices Movements

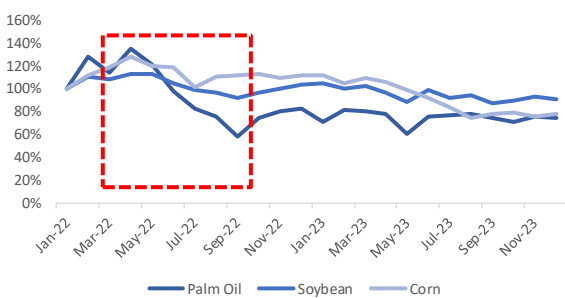


Crude Oil and Coal Prices

The increase in crude oil production by non-OPEC countries and uncertainty in demand outlook for the commodity brought down the price of the commodity during the year.

The global coal market has been turbulent in last three years. Demand dropped sharply during Covid pandemic, only to leap during the post-Covid rebound and following Russia's invasion of Ukraine.

Vegetable Oil



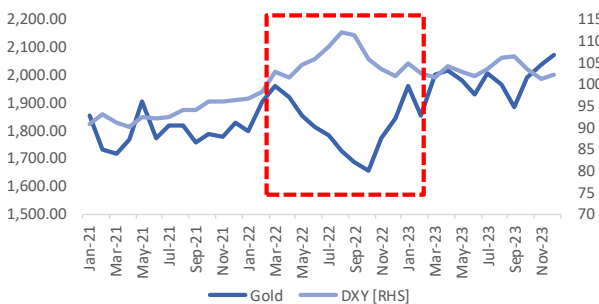
Vegetable Oil Prices

Vegetable Oil decline inline with demand weakness from China and Europe has been winding down its palm oil imports in the last two years. Phasing out of palm oil imports will continue into 2024 as its anti-deforestation regulations get implemented.

However, demand from India and MENA region grew in 2023 as CPO's significant discount against soybean oil and sunflower oil.

Source : Investing.com, Setiabudi Investment

Gold vs DXY

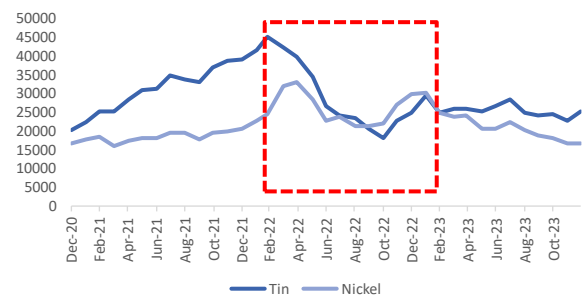


Gold Price and DXY

Gold increase +12.5% in 2023 amid volatility in US dollar. Its decline in 2H 2023 positively strengthened Gold towards the end of 2023.

Gold movement in line with moderating Inflation in most global economies and investors increasingly anticipate the Fed will cut interest rates in the first half of 2024.

Industrial Commodities



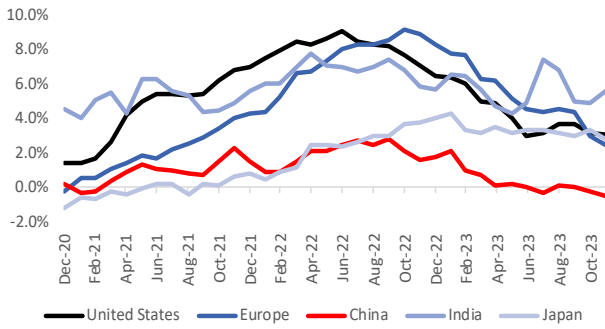
Industrial Commodities Prices

Tin increase +0.8% while Nickel dropped -44.7% in 2023. Industrial commodities market has witnessed divergent price movements in last 2 years.

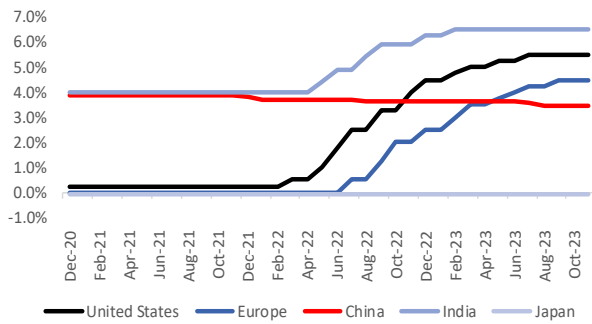
After Tin and Nickel prices shot up following Russia's aggression against Ukraine, we saw a consistent downward trend, which pushed prices to their lowest levels since the first quarter of 2021. The reasons for this are lower-than-expected demand for EV mainly in China and a large oversupply of the raw material due to strong 31% increase in Indonesian output in January-July 2023.

Source : Investing.com, Setiabudi Investment

Inflation



Interest Rate



Source :Bloomberg, Setiabudi Investment

Inflation Slightly Down in 2023

Inflation in Emerging and Develop Countries continuously moderating in 2023.

On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible.

On the downside, declining economics activity in China could hold back global recovery, geopolitical conflicts could escalate and tighten global financing costs which in turn could worsen debt distress.

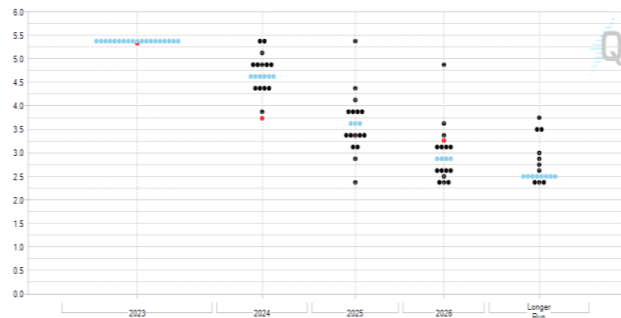
Interest Rate Trend in Last 3 Years

Central Bank in developed and emerging countries rising interest rate significantly in 2022 and 2023 as a respond to rising inflation as an impact of rising commodity prices.

On the other hand, China kept rate unchanged in 1st half 2023 and cut rate in 2nd half 2023 from 3.65% to 3.45%, as its weak economic recovery elevated the need for monetary support.

The Bank of Japan (BoJ) maintained its key short-term rate at -0.1% in 2023. BoJ said that it will patiently continue with monetary easing amid extremely high uncertainties. It also mentioned that policymakers will respond to development in economic activity, prices and financial conditions.

Fed Dot Plot



Fed Kept Key Interest Rate Unchanged at 22-year High Mark

Fed decided to keep the key overnight interest rates unchanged at 5.25% - 5.50% in their December meeting, the highest level in the past 22 years with the last increase was in July 2023.

Fed Watch Tool shows higher possibility of rate cuts in 2024 with first cut expected in March 2024.

Bond market has priced in rate cuts while The Fed hasn't delivered the rate cut.

Fed Watch Meeting Probabilities

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024					0.0%	0.0%	0.0%	0.0%	18.6%	81.4%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	16.4%	73.9%	9.8%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	16.8%	73.4%	9.7%	0.0%
6/12/2024	0.0%	0.0%	0.0%	0.0%	1.7%	22.1%	67.5%	8.8%	0.0%	0.0%
7/31/2024	0.0%	0.0%	0.0%	1.5%	20.2%	63.3%	14.1%	0.8%	0.0%	0.0%
9/18/2024	0.0%	0.0%	1.4%	18.2%	58.6%	19.5%	2.3%	0.1%	0.0%	0.0%
11/7/2024	0.0%	0.9%	12.0%	43.9%	33.8%	8.5%	0.9%	0.0%	0.0%	0.0%
12/18/2024	0.7%	9.6%	37.0%	35.9%	14.0%	2.5%	0.2%	0.0%	0.0%	0.0%

Source : Fed, CME

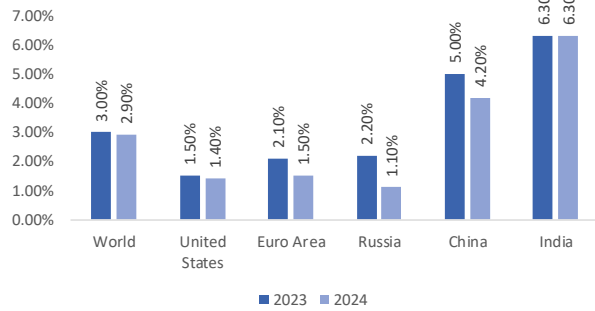
Fed Watch Meeting Probability

For their next meeting in 31 Jan 2024, 81.4% of correspondent believe that rate would remain at 5.25 – 5.50% while 18.6% see a 25 bps down.

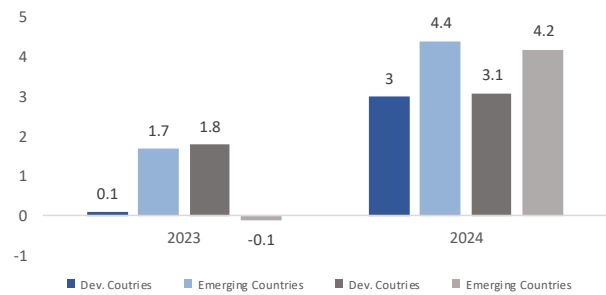
We view that there is still a slight possibility of the FED increasing its benchmark rate in the first quarter of 2024 should inflation persistently sticky, US labor data and GDP still strong and geopolitical uncertainty is still on the table. Nonetheless, we believe that FED is about to pivot, possibly starting as early as in the second half of 2024.

GDP Growth and World Trade Volume Forecast

IMF GDP Forecast



World Trade Volume



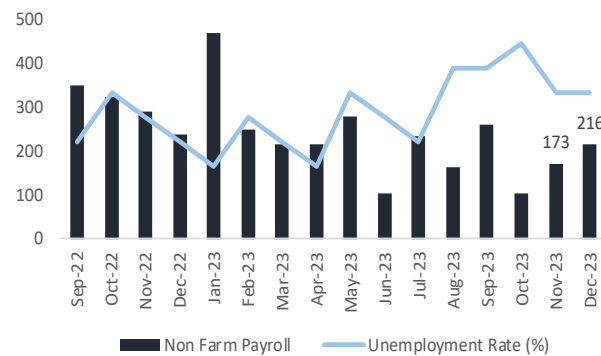
Source : IMF, Setiabudi Investment

World GDP growth is projected to fall from 3.0% in 2023 vs 2.9% in 2024. Economic slowdown occurs in both developed and developing countries.

World Trade Volume forecast on export growth is estimated to be better in 2024 than 2023. However, imports are expected to slow both in develop and emerging countries.

Conflict between Russia vs Ukraine will have negative pressure on Russia's economic growth in 2024.

US Labour Data



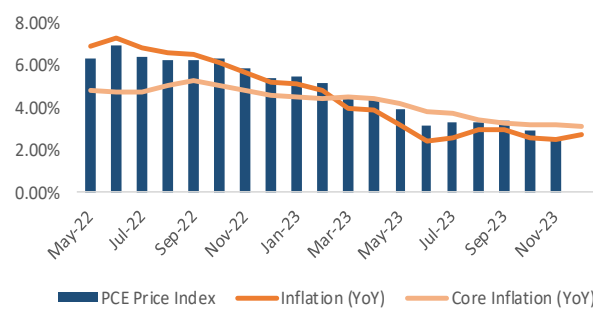
US Labour Data

US Official Nonfarm Payroll added 216k jobs in Dec 2023 vs 173k jobs in Nov 2023.

The total job gain for 2023 reached 2.7 million, the smallest annual gain since 2019 when excluding the pandemic year of 2020. It corresponds to an average monthly gain of 225K.

US Unemployment Rate were flat 3.7% in Dec 2023 vs 3.7% in Nov 2023.

US PCE vs Inflation



US Inflation

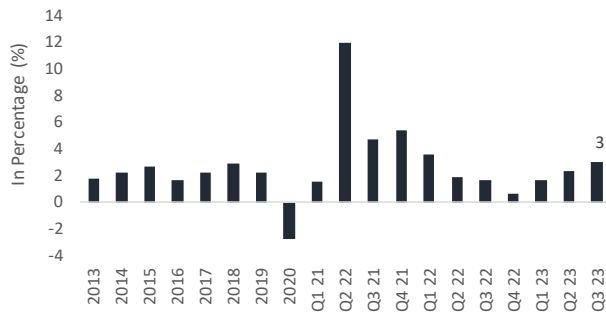
US inflation increase by 3.4% YoY in Dec 2023 vs 3.1% YoY in Nov 2023.

Core inflation which excludes volatile items such as food and energy were relatively flat 3.9% YoY in Dec 2023 vs 4.0% YoY in Nov 2023.

The increment on US Inflation in Dec comes from prices increased at a softer pace for food (2.7% vs 2.9%), shelter (6.2% vs 6.5%), new vehicles (1% vs 1.3%), apparel (1% vs 1.1%), medical care commodities (4.7% vs 5%) and transportation services (9.7% vs 10.1%) and continued to decline for used cars and trucks (-1.3% vs -3.8%) and energy prices (-2% vs -5.4%).

Source : Tradingeconomics, Setiabudi Investment

US GDP Annual Growth

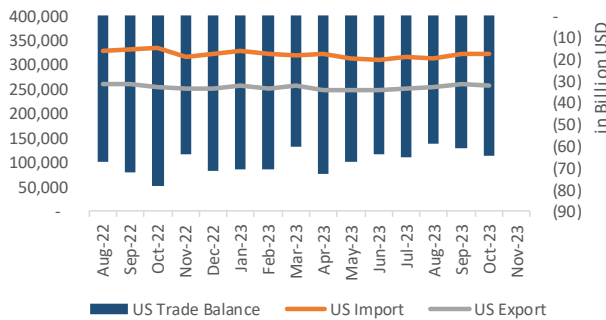


US GDP Strong Pace in Third Quarter

US economy expanded at a remarkably strong pace in the third quarter by 3.0% YoY in Q3 2023 vs 2.4% YoY in Q2 2023,

On an annual basis, the US economy grew by 4.9% in Q3 2023.

US Balance Trade



US Trade Deficit Widened in Oct

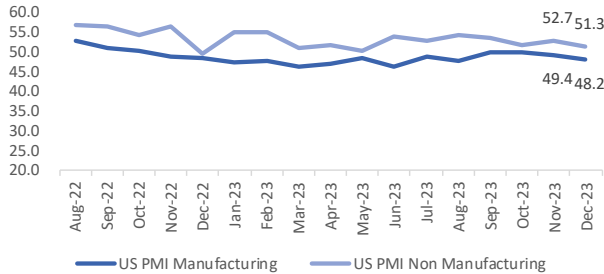
US Trade Deficit widened to USD 64 billion in October 2023 vs USD 61 billion in Sept 2023.

Export growth -1.00% MoM and Import +0.15% MoM.

Export growth +1.3% YoY and Import -3.2% YoY.

Source : Tradingeconomics, Setiabudi Investment

US PMI



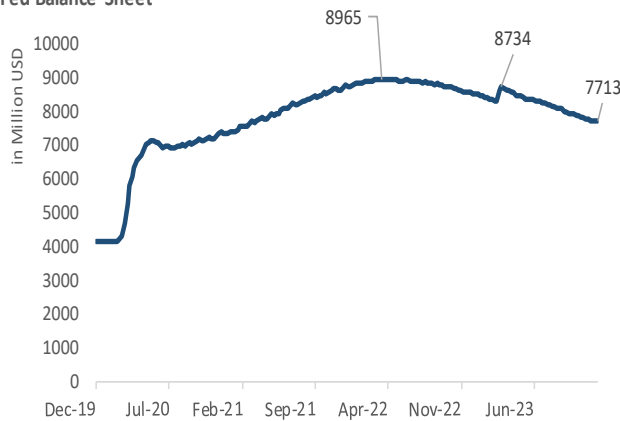
US PMI Declined in Dec

US PMI Manufacturing down to 48.2 in Dec 2023 vs 49.4 in Nov 2023

US PMI Non Manufacturing down to 51.3 in Dec 2023 vs 52.7 in Nov 2023.

Source : Tradingeconomics, Setiabudi Investment

Fed Balance Sheet



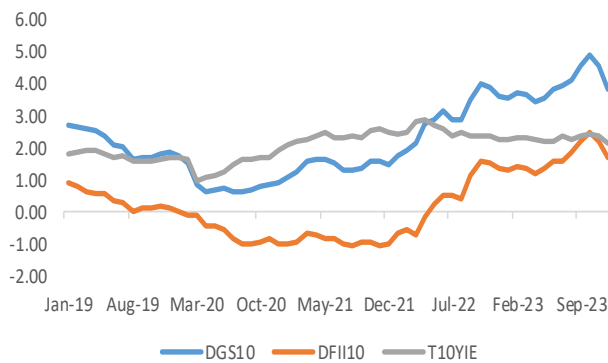
FED's Balance Sheet

FED's balance sheet has went down to USD 7.7bn as of 29 Dec 2023 from its peak at USD 8.96bn as of 13 April 2022.

Fed forecasts the balance sheet to decline to USD 5.9 trillion in 2025 as reserves fall to about 8% of nominal GDP and reverse repos are eliminated.

Based on our estimate, since the last uptick in March 2023, FED's Balance Sheet has been going down by an average of 1.5% in monthly basis, which we project it will reach its target of USD 5.9tn by May or Jun 2025.

Federal Reserve Economics Data



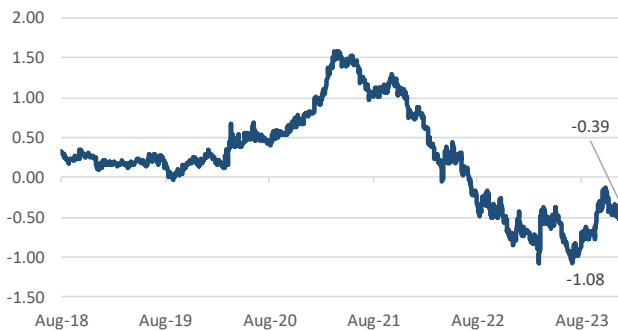
Fed Data

10-year treasury yield stood at 3.86%, US 10-Year Breakeven Inflation rate at around 2.16%, Treasury Inflation-Indexes Securities (TIPS) 1.70% as of Dec 29, 2023.

We see the 10-Year Breakeven Inflation rate has been relatively sticky and harder to go down.

Source : US Berau of Labor Statistic, Federal Reserves, Setiabudi Investment

Yield Curve Between 2 Y vs 10 Y



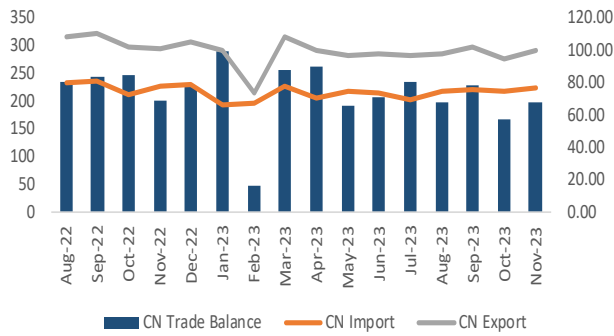
Source : FRED, Setiabudi Investment

Inverted yield curve between 2-year and 10-year

Spread between 10-year and 2-year Treasury yield widened since October 2023 (the lowest spread at -0.13%).

10-Year U.S Treasury yield is at 3.86% on 29 Dec 2023 while 2-Year Treasury yield was at 4.25%, resulting in a -0.39%.

CN Balance Trade



China Trade Balance

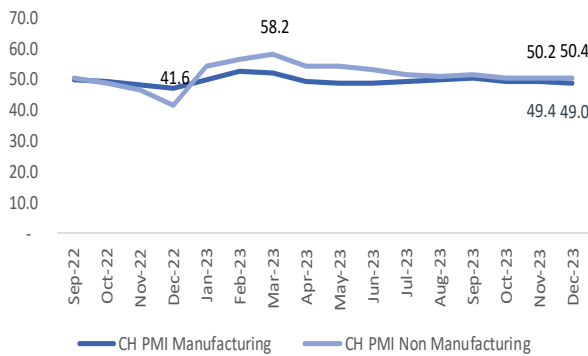
China's trade surplus increased to USD 68 billion in Nov 2023 vs USD 57 billion in Oct 2023.

Import improved by 2.5% MoM, export up to 6.2% MoM.

Import down 1.3% YoY and export down by 1.0% YoY.

China's economy rebound from the pandemic has been very slow in the past few months, dragged down by property market slump and lackluster consumer spending.

CH PMI



China PMI Manufacturing & Non Manufacturing

In Dec 2023, PMI manufacturing was 49.0 vs 49.4 in Nov 2023.

PMI non-manufacturing was 50.4 in Dec 2023 vs 50.2 in Nov 2023.

We see a slowdown in China's manufacturing and non-manufacturing performance inline with declining demand from both domestic and foreign countries.

Seasonal impacts will gradually subside, but the problems of insufficient domestic demand and weak expectations may form a vicious cycle for a protracted period of time.

Source : NBS of China, Setiabudi Investment

CN Inflation

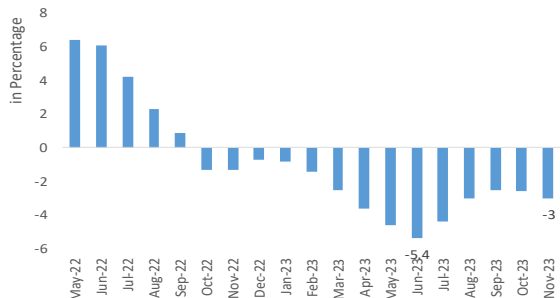


Slower China Inflation in November

China's inflation down by -0.5% YoY in Nov 2023 vs -0.2% YoY in Oct 2023.

In monthly basis, inflation -0.5% MoM in Nov 2023 vs -0.1% MoM in Oct 2023.

CH PPI (%)



Producer Price Index fell in November

China's producer prices dropped -3.0% YoY in Nov 2023 vs -2.6% in Oct 2023.

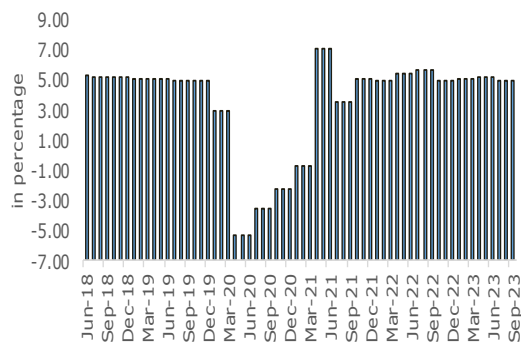
A decrease in mining and quarrying (-7.3% vs -6.2%), raw materials (-3.2% vs -2.3%) and processing (-3.1% vs -3.0%). Additionally, prices of consumer goods declined further (-1.2% vs -0.9%) mainly due to food prices (-1.7% vs -1.2%) and durable consumer goods (-2.2% vs -2.0%).

Source : Tradingeconomics, Setiabudi Investment

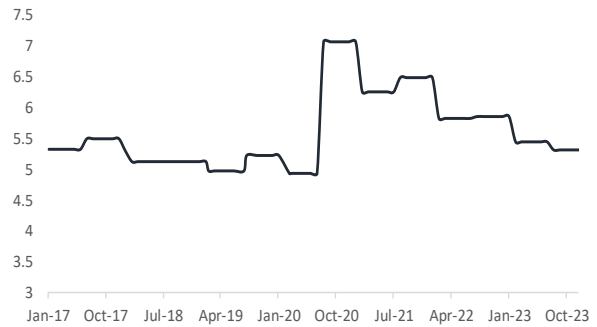
Indonesia Macroeconomics

GDP Growth & Unemployment Rate

GDP YoY Growth



Unemployment Rate (%)



Source: BPS, Setiabudi Investment

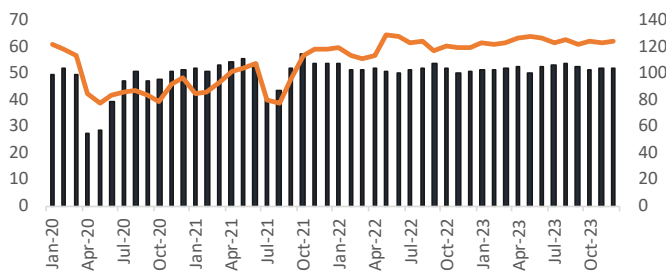
Indonesia's economy advanced by 4.94% YoY in Q3 of 2023 vs 5.17% YoY in Q2 2023. Weaker growth due to easing household consumption and declines in government spending and exports, amid moderating commodity prices.

Indonesia's post-pandemic recovery received a boost from a commodities-led export boom last year, but analysts expect momentum to cool as prices for its top products, like palm oil and coal and its global demand weakens with interest rate hikes in many countries.

Refer to BNIS report the impact of China's moderation to Indonesia for every 1% point decline in China's GDP is a decline of Indonesia GDP by 0.11-0.17% through trade and investment channels. While preparing for such impact, we believe it will also be crucial for Indonesia to diversify its economic partnerships with other countries to reduce concentration risk and volatility.

Indonesia's unemployment rate dropped to 5.32% in Q3 2023 from 5.45% in Q1 2023, the lowest rate since Q3 2020.

Indonesia PMI and CCI

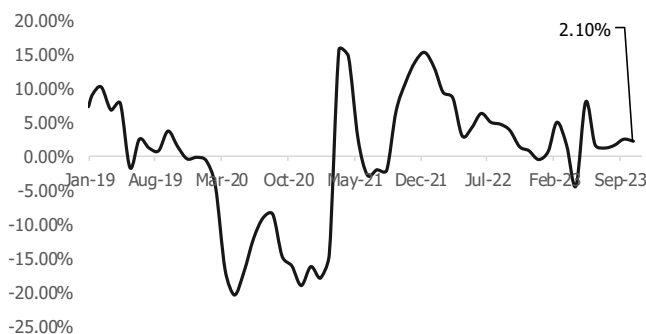


PMI and CCI Rising amid Global Uncertainty

Indonesia PMI increased to 52.2 in Dec 2023 vs 51.7 in Nov 2023.

Indonesia's consumer confidence increased to 123.8 in Dec 2023 vs 123.6 in Nov 2023. Improved confidence led by lower-income segment. This rise was likely helped by the mid-December distribution of El Nino cash transfers and higher election spending during the campaign period starting at the end of November.

Indonesia Retail Sales YoY



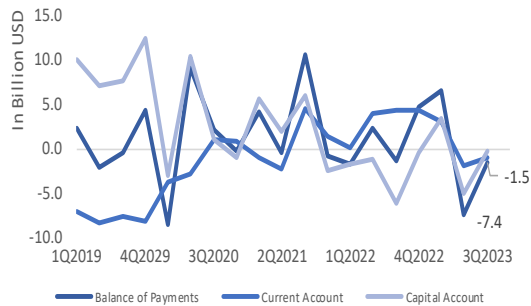
Indonesia Retail Sales Grew in Nov 2023

Retail sales in Indonesia grew +2.1% YoY in Nov 2023 vs +2.4% in Oct 2023. The increase in retail sales growth was driven by higher sales in food and beverages, tobacco, and automotive fuels during the year-end period

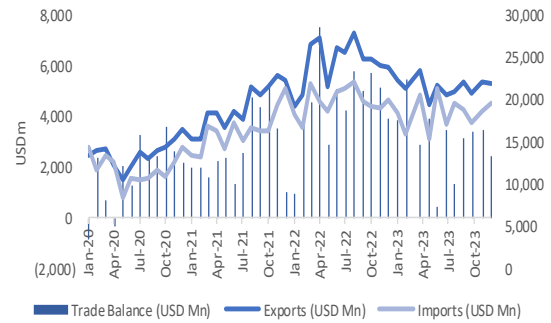
Source: Bank Indonesia, Setiabudi Investment

Improved BOP in 3Q2023 and BOP in November Amidst Global Economic Uncertainty

ID Balance of Payments



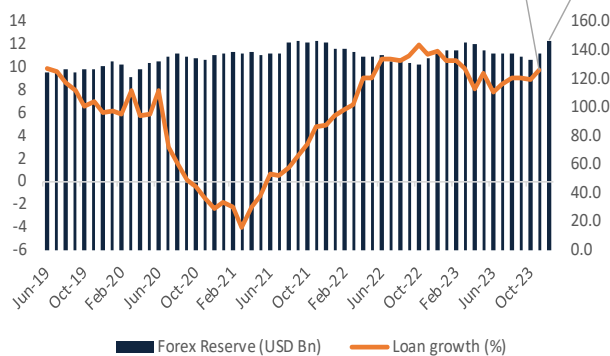
ID Trade Balance



Source: BPS, Bank Indonesia, Setiabudi Investment

- Indonesia's BOP inclined to USD 1.5bn deficit in Q3 of 2023 vs USD 7.4bn deficit in Q2 2023 due to improving current account deficit and capital account deficit.
- Reserve assets remained at USD 134.9bn which equivalent to 6.0 months of imports and servicing government external debt.
- The current account recorded a USD 0.9bn deficit in Q3 2023 vs USD 2.2bn deficit in Q2 2023 underpinned by a solid goods and services trade balance.
- The capital account recorded a USD 0.3bn deficit in Q3 2023 vs USD 4.8bn deficit in Q2 2023.
- Indonesia's trade surplus increase to USD 2.4 billion in Nov 2023 vs USD 3.4 billion in October 2023.
- Exports dropped by -8.80% YoY in Nov 2023 vs -10.69% YoY in Oct 2023, amid moderating commodity prices and demand from global economics slowdown. Sales of non-oil and gas exports fell by -9.76% YoY. Meantime, sales of oil and gas surged by +16.43%YoY, with crude oil and oil products jumping by +123.32% YoY and +39.85% YoY.
- Imports increase +3.30% YoY in Nov 2023 vs -2.24% YoY in Oct 2023. This was the first increase in purchases since May, as domestic demand recovered after the government launched cash transfers over the El Nino phenomenon.

ID Loan Growth YoY and Forex Reserve



Loan and Foreign Reserves Grew

Lending grew by +9.7% YoY in Nov 2023 vs +8.99% in Oct 2023. Sharia financing grew by +14.12% YoY, while credit growth for MSMEs reached +8.46 % YoY.

Nonetheless, we see 2024 will be challenging for lending growth due to; (1) high base impact (2) global economic slowdown which lead to softer commodity prices thus reducing the demand for loan, mining sector lead the lending growth grew by 51% in 2022 and (3) the perception that the current interest rate level is at its peak; and lending starts to pick up once (1) BI starts to cut its benchmark rate (2) election is over

Foreign exchange reserves in Indonesia increasing to USD 138.1 billion in Nov 2023 vs USD 133.1 billion in Oct 2023.

Presidential Candidate Electability Trend Update

We see business sectors that are expected to benefit from the upcoming political year are consumer, telco, finance, manufacturing sector.

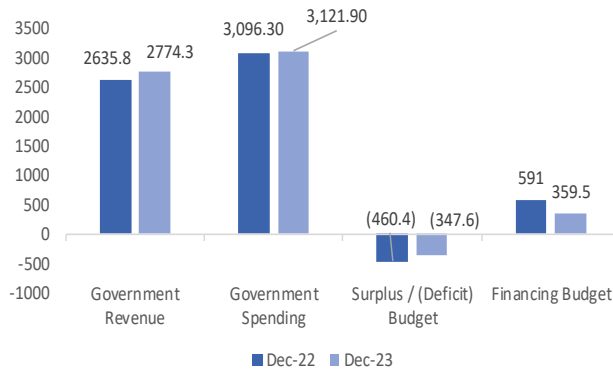
Based on Kadin Historical data, in the last 10 years, the circulation of election campaign funds always benefit service sectors such as media and communication, hotel & hospitality, consulting, travel and transportation.

Presidential Candidate Electability Trends (Dec 2023 by LSI)



Source: Bank Indonesia, LSI, Setiabudi Investment

Government Budget Progress



Source: MoF, Setiabudi Investment

Government Budget Progress

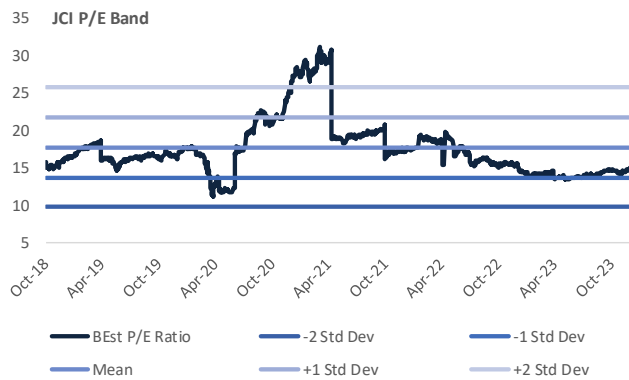
As of December 2023, Government revenue has reached 113.6% of 2023 budget, grew +5.25% YoY from IDR 2.635 trillion in Dec 2022 to IDR 2.774 trillion in Dec 2023.

Government expenditure reaches 102.6% of the government budget in 2023. On an annual basis, it slightly grew by +0.83% from IDR 3.096 trillion in Dec 2022 to IDR 3.121 trillion in Dec 2023.

Deficit budget decrease from IDR 460 trillion in Dec 2022 to IDR 347 trillion in Dec 2023.

Financing budget decrease from IDR 591 trillion in Dec 2022 to IDR 359 trillion in Dec 2023.

Indonesia Equity Market



Source: Bloomberg, Setiabudi Investment

Foreign Investor in Equity



JCI YTD Review

- Our JCI target range for 2023 at 6,800 – 7,100, JCI close at 7,272 slightly above our target with +6.2% appreciation in 2023.
- JCI rose in December mainly due to a handful of new comers in big market cap companies.
- Throughout 2023, foreign investors recorded a net sell of IDR 5.9 trillion as of Dec 29, 2023.
- JCI traded at 15.41x P/E, still below 5 years average mean P/E standard deviation.
- For 2024, our target for JCI would be in the range of 7,500-7,700 with growth assumption of 5-10%.

Positive Factors

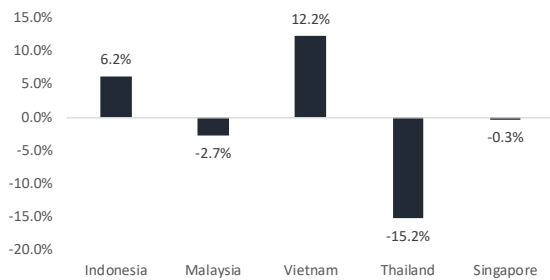
- Resiliency on domestic consumption in election year
- Declining US inflation
- Rupiah stability
- Expectation of lower benchmark rates in 2024 and beyond

Negative Factors

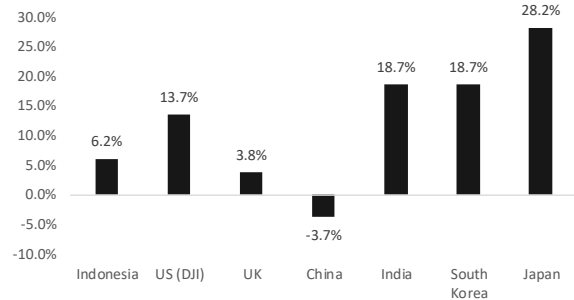
- Uncertainty within political year
- Geopolitical conflicts
- Economic uncertainty in developed countries
- China slowing economic growth
- Weak commodities prices

Overall Equity Performances in 2023

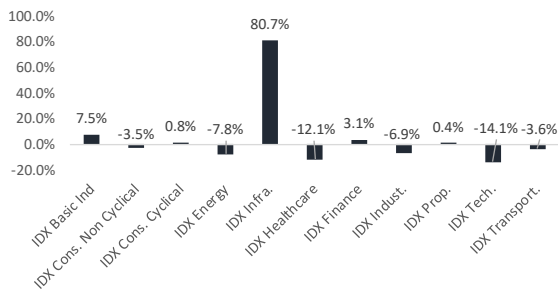
ASEAN 2023 YTD Performance



Equity 2023 YTD Performance

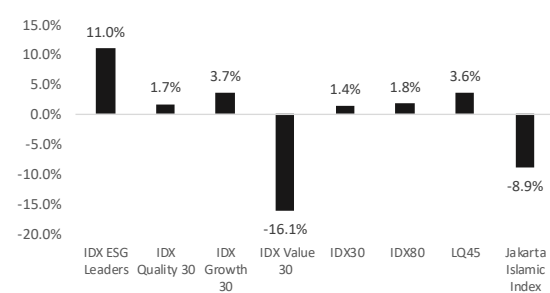


Sector YTD Performance



Source: IDX, Setiabudi Investment

Indeks YTD Performance



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