

Market Update – May 2025

Global Macroeconomics

US – China Tariffs Negotiation

As of mid-May 2025, the United States and China have entered a 90-day tariff truce, significantly reducing the steep tariffs that had escalated their trade tensions earlier this year.

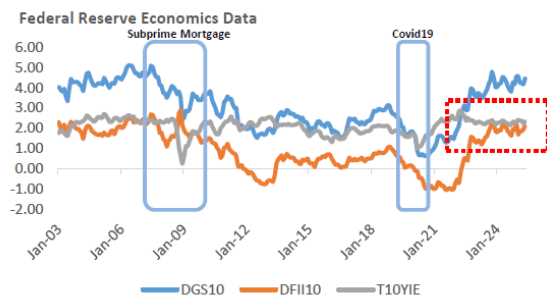
US reduced from 145% to 30% on Chinese imports, while China's lowered from 125% to 10% on U.S. goods. The reductions are temporary, lasting 90 days starting from May 12, 2025. To de-escalate trade tensions and provide a window for further negotiations.

We estimate in two scenarios for short-term and long-term, if US – China deal and if they do not deal for global and Indonesia economy impact :

US – China Reach a Trade Deal		
	Global Impact	Indonesia Impact
Short-term	<ul style="list-style-type: none"> - Markets rally (stocks, EM FX, commodities) - Trade volumes recover - Global risk sentiment improves 	<ul style="list-style-type: none"> - Rupiah strengthens to USD - Bond yields fall (capital inflow) - Commodities price declining, negative effect on export value
Long-term	<ul style="list-style-type: none"> - Stabilization of supply chains - Predictable global trade environment - Stronger global growth outlook 	<ul style="list-style-type: none"> - More stable demand from China - Opportunity to deepen trade with both powers - Positive inflow for riil sector investment

US – China Fail to Reach a Deal		
	Global Impact	Indonesia Impact
Short-term	<ul style="list-style-type: none"> - Market volatility spikes - Safe haven flows to USD, gold - Pressure on global trade, especially tech and manufacturing 	<ul style="list-style-type: none"> - Rupiah under pressure - Outflows from bonds and stocks - Pressure on exports to China and global markets
Long-term	<ul style="list-style-type: none"> - Fragmentation of global supply chains - Deglobalization accelerates - Inflationary pressure from tariffs and protectionism 	<ul style="list-style-type: none"> - Higher import costs (especially tech, machinery) - Weaker investment appetite - Policy dilemma: stimulus vs inflation control

Source : Setiabudi Investment Management



Source : Fed, Setiabudi Investment Management

Fed Economics Data

- 10-year treasury yield stood at 4.45%, US 10-Year Breakeven Inflation rate at around 2.11%, Treasury Inflation-Indexes Securities (TIPS) 2.34% as of 16 May, 2025.
- We see the 10-Year Breakeven Inflation rate has been relatively sticky and slower to go down.

Fed Watch Meeting Probabilities

CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES										
MEETING DATE	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	
6/18/2025				0.0%	0.0%	0.0%	0.0%	8.3%	91.7%	
7/30/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	34.2%	63.3%	
9/17/2025	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	19.3%	49.5%	29.8%	
10/29/2025	0.0%	0.0%	0.0%	0.0%	0.7%	10.2%	34.1%	39.8%	15.2%	
12/10/2025	0.0%	0.0%	0.0%	0.4%	6.4%	24.7%	37.6%	24.8%	5.9%	
1/28/2026	0.0%	0.0%	0.1%	2.4%	12.5%	29.0%	33.4%	18.6%	4.0%	
3/18/2026	0.0%	0.1%	1.1%	6.8%	19.7%	30.9%	27.0%	12.2%	2.3%	
4/29/2026	0.0%	0.3%	2.2%	9.3%	21.9%	30.1%	24.1%	10.3%	1.8%	
6/17/2026	0.1%	0.9%	4.4%	13.1%	24.4%	28.3%	19.9%	7.7%	1.3%	
7/29/2026	0.2%	1.4%	5.8%	14.9%	25.0%	27.0%	18.0%	6.7%	1.1%	
9/16/2026	0.4%	2.3%	7.5%	16.8%	25.4%	25.2%	15.8%	5.6%	0.9%	
10/28/2026	0.6%	2.6%	8.1%	17.4%	25.4%	24.6%	15.1%	5.3%	0.8%	
12/9/2026	0.6%	2.6%	8.1%	17.3%	25.2%	24.6%	15.3%	5.4%	0.9%	

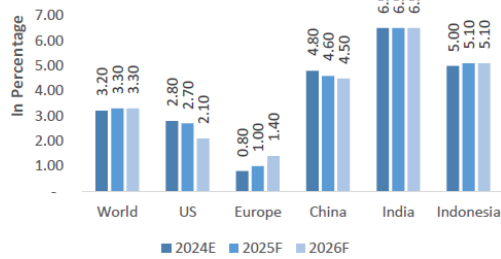
Source : Reuters, CME, Setiabudi Investment Management

Fed Watch Meeting Probability

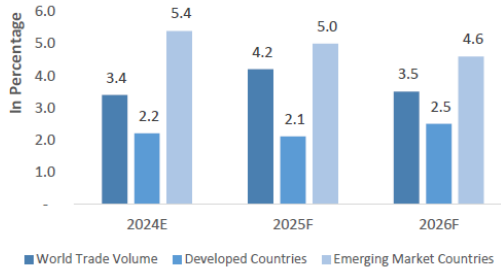
- For their next meeting in 18 Jun 2025, 91.7% of correspondents believe that rate will stay, while 8.3% expect it to go down by 25 bps in Jun 2025 meeting.

The median FOMC has projected rate cuts by 50 bps in 2025. Fed may settle around 4.0% - 4.25% by the end of 2025.

IMF Economic Projections



World Trade Volume

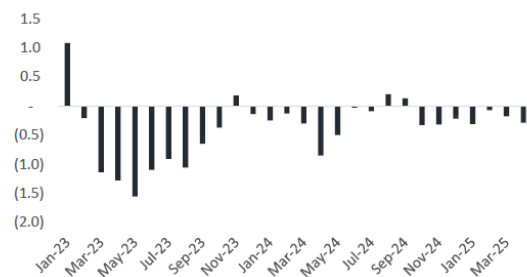


Source : IMF (Jan 2025 Forecast), Setiabudi Investment Management

Global PMI Manufacturing



Global Supply Chain Pressure



Source : Tradingeconomics, Setiabudi Investment Management

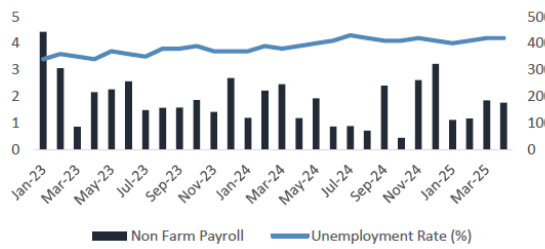
GDP Growth and World Trade Volume Forecast

- In Jan 2025, IMF update global growth to remain steady at 3.3% for both 2025 and 2026. IMF cautions that renewed inflationary pressures could disrupt monetary policy adjustments, potentially impacting fiscal sustainability and financial stability.
- The gradual cooling of labor markets is expected to keep demand pressures at bay. Combined with the expected decline in energy prices, headline inflation is projected to continue its descent toward central bank targets.
- World trade volume estimates downward slightly for 2025F and 2026F. The sharp increase in trade policy uncertainty, which is likely to hurt investment disproportionately among trade-intensive firms.

Global PMI and Supply Chain Pressure Index

- Global PMI declining to 50.8 in April 2025 vs 52.1 in March 2025, above monthly average of 51.0.
- Global economic expansion regained some momentum in March amid improvements in the service sector, business optimism fell and cost pressures intensified ahead of additional tariff announcements in April.
- Global Supply Chain Pressure Index drop to -0.29 in April 2025 vs -0.18 in March 2025. Rising geopolitical tensions, particularly between the US, Europe, and China, contributed to a fragmented global trade environment
- We see the declining supply chain pressure to negative area in Q1 2025 negatively impact on manufacturing growth.

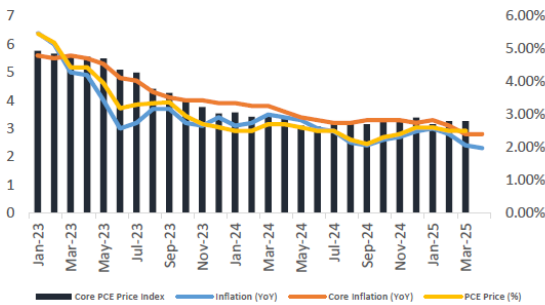
US Labour Data



US Labour Data

- US Official Nonfarm Payroll added 177k in April 2025 vs 185k in March 2025.
- Job growth was primarily seen in sectors such as health care +51,000, transportation and warehousing +29,000, financial activities +14,000, and social assistance +8,000, while federal government employment experienced a decline -9,000.
- US Unemployment Rate flat at +4.2% in April 2025 and March 2025.

US Inflation vs PCE

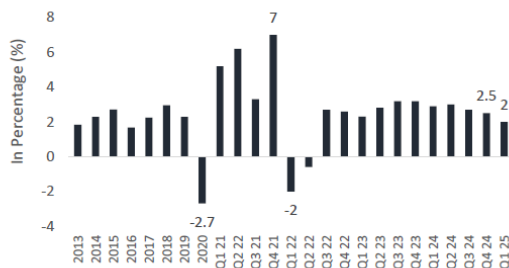


US Inflation and PCE

- US inflation grew at slower pace at +2.3% YoY in April 2025 vs +2.4% YoY in March 2025.
- Core inflation which excludes volatile items such as food and energy growth were flat at +2.8% YoY in April vs March 2025.

Source : Tradingeconomics, Setiabudi Investment Management

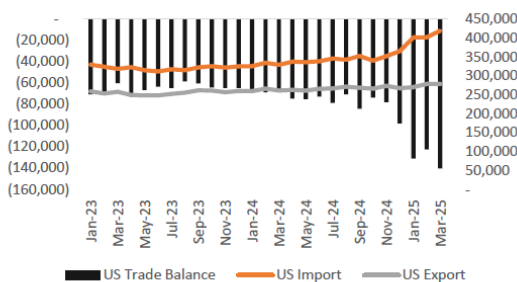
US GDP Annual Growth



US GDP

- US economy grew at slower pace of +2.0% YoY in Q1 2025 vs +2.5% YoY in Q4 2024.
- The slowdown was largely driven by a 13.4% surge in imports, as businesses and consumers rushed to stockpile goods ahead of expected tariff hikes under the Trump administration.

US Trade Balance

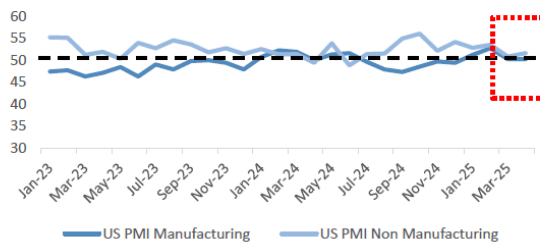


US Trade Balance

- US Trade deficit widen to USD 140 billion in March 2025 vs USD 122 billion in February 2025.
- In monthly basis, export flat +0% MoM in March 2025 vs +3.1% MoM in February 2025. Import grew at +4.4% MoM in March 2025 vs +0% MoM in February 2025. In annual basis, export grew +6.8% YoY and import grew +27.5% YoY.
- The US trade deficit widened sharply with the EU, Ireland and Vietnam but narrowed with China, Switzerland and Canada.

Source : Tradingeconomics, Setiabudi Investment Management

US PMI Manufacturing



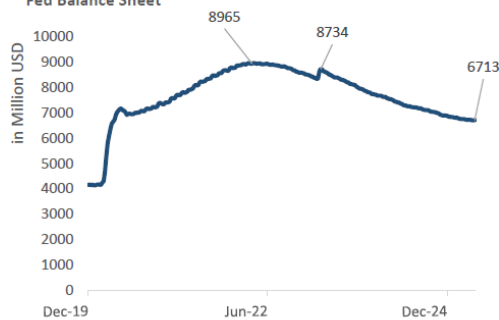
Source : Tradingeconomics, Setiabudi Investment Management

US PMI Manufacturing & Non Manufacturing

- US PMI Manufacturing flat at 50.2 in April 2025 vs March 2025.
- Manufacturing PMI signaled a slight improvement in operating conditions, it marked the weakest expansion of the year so far. Production declined for the first time since December, following February's sharpest output growth in nearly three years, largely driven by efforts to front-run tariffs.
- US PMI Non Manufacturing increase to 51.6 in April 2025 vs 50.8 in March 2025.

The declining PMI manufacturing and PMI non manufacturing in 1st quarter of 2025 could be negative signal for US economic growth. We see US Tariff adjustment are a part of uncertainty for business, sticky inflation and high interest rates are obstacle on manufacturing productivity.

Fed Balance Sheet

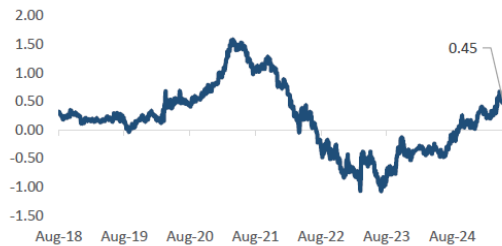


Source : Federal Reserves, Setiabudi Investment Management

FED's Balance Sheet

- FED's balance sheet went down to USD 6.7 tn as of 14 May 2025 from its peak at USD 8.96 tn as of 13 April 2022.
- Fed forecasted 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 April 2023, FED's Balance Sheet has been going down by an average of 0.5% in monthly basis (or USD 60-80 billion per month), which we project it will reach its target of USD 5.9tn by Oct 2025 with the current speed.
- Nonetheless, the FED is planning to slow its QT efforts starting from July, reducing the monthly sale of US treasuries to USD 30 billion per month. In turn, the QT will still push yield up, but not as aggressively as before.

Yield Curve Between 2 Y vs 10 Y

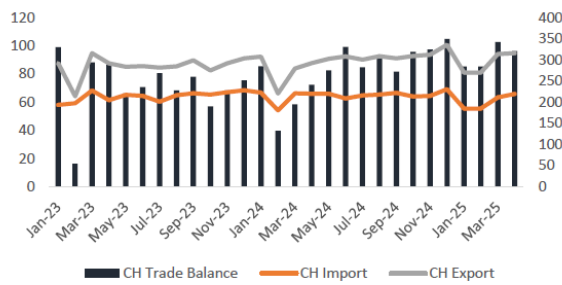


Source : Federal Reserve, Setiabudi Investment Management

Yield curve between 2-year and 10-year

- The spread between 10-year and 2-year treasury was back in positive territory after an inversion over the past two years.
- 10-Year U.S Treasury yield is at 4.44% on 16 April 2025 while 2-Year Treasury yield was at 3.99%, resulting in a +0.45% spread.

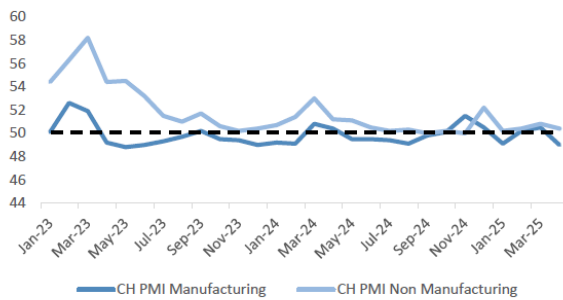
CH Trade Balance



China Trade Balance

- China's trade surplus declining to USD 96.2 billion in Apr 2025 vs USD 102.64 billion in Mar 2025.
- Import increase to USD 219.5 in Apr 2025 vs USD 211.2 billion in Mar 2025.
- Export increase to USD 315.7 billion in Apr 2025 vs USD 313.9 billion in Mar 2025.
- **The trade surplus with the US narrowed to USD 20.46 billion in April from USD 27.58 billion in March as exports plunged 21% YoY while imports fell 13.8%.**

CH PMI Manufacturing

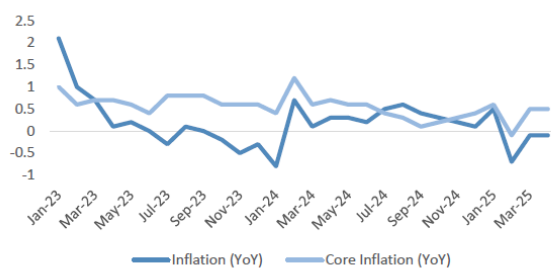


China PMI Manufacturing & Non Manufacturing

- PMI manufacturing declining to 49 in April 2025 vs 50.5 in March 2025.
- PMI non-manufacturing declining to 50.4 in April 2025 vs 50.8 in March 2025.
- We see first contraction in factory activity despite Beijing's stimulus measures aimed at supporting economic recovery amid growing concerns over the impact of the ongoing China-U.S. tariff standoff.

Source : NBS of China, Setiabudi Investment Management

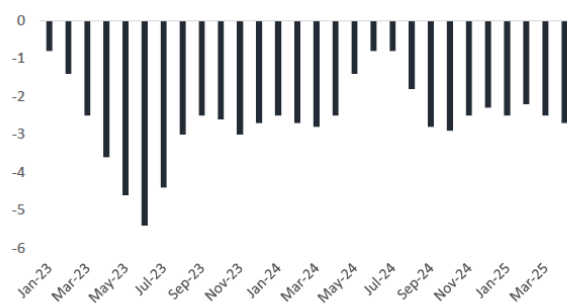
CH Inflation



China Inflation

- China's recorded deflation flat at -0.1% in April vs March 2025.
- Core consumer price flat at +0.5% YoY in April vs March 2025.
- Consumer inflation weighed by the combined effects of ongoing trade tensions with the US, weak domestic demand, and persistent employment uncertainty.

CH PPI Change (%)



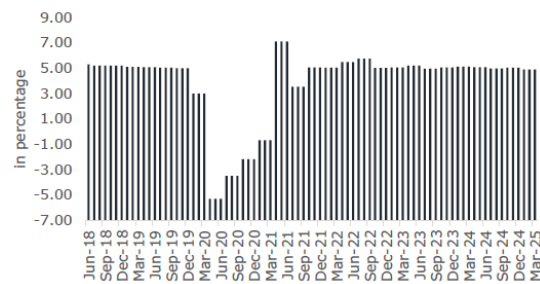
China PPI

- China's producer prices fell -2.7% YoY in April 2025 vs -2.5% YoY in March 2025. PPI drop driven by rising external risks from escalating trade tensions with US and persistently weak domestic demand.
- Cost of production materials fell further (-3.1% in April vs -2.8% in March), with sharper drops in mining (-9.4% in April vs -8.3% in March), raw materials (-3.6% in April vs -2.4% in March), and processing (-2.3% in April vs -2.6% in March).

Source : Tradingeconomics, Setiabudi Investment Management

Indonesia Macroeconomics

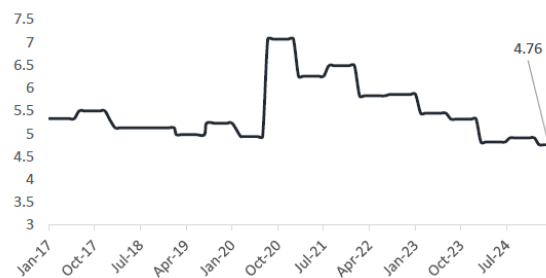
GDP YoY Growth



Indonesia GDP

- Indonesia's economy grew at slow pace to 4.87% YoY in Q1 2025 vs +5.02% YoY in Q4 2024.
- The decline driven by slower government spending -1.38% YoY vs +4.17% YoY in Q4 due to a tighter budget, alongside softer rises in private consumption +4.89% YoY vs +4.98% YoY and fixed investment +2.12% YoY vs +5.03% YoY.
- For 2025, the GDP growth target remains at 5.2%. However, the central bank recently cut its growth forecast for this year to 4.7%-5.5% from 4.8%-5.6%, citing US tariff disruptions.

Unemployment Rate (%)

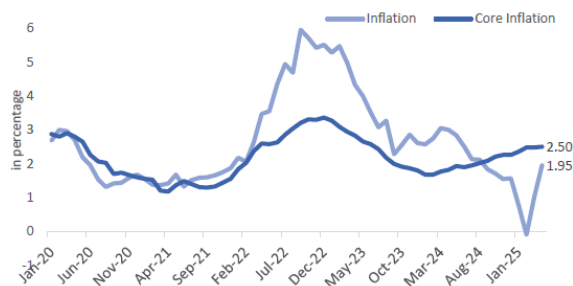


Indonesia Unemployment Rate

- Indonesia's unemployment rate declined to 4.76% in Q1 2025 vs 4.91% in Q4 2024.
- The number of unemployed persons edged up by 1.11% from a year earlier to 7.28 million. At the same time, the number of employed increased by 2.52% to 145.77 million, mostly in wholesale & retail trade, repair and maintenance of cars and motorcycles. Meanwhile, the labor force participation rate increased to 70.60% from 69.80% in the prior year.

Source: BPS, Setiabudi Investment Management

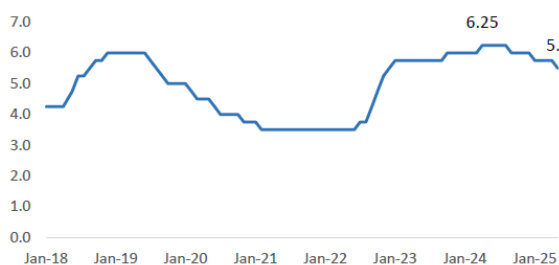
ID Inflation Rate YoY



Indonesia Inflation

- Indonesia's recorded annual inflation +1.95% YoY in April 2025 vs +1.03% YoY in March 2025. We see an inflation amid a recovery in spending during the fasting month and ahead of the Eid al-Fitr festivities.
- Core Inflation grew to +2.5% YoY in April 2025 vs +2.48% YoY in March 2025. This uptick in core inflation indicates a modest rise in underlying price pressures, excluding volatile food and administered prices. Contributing factors include increased costs in the food, beverage, and tobacco sectors, as well as higher administered prices such as electricity tariffs and transportation fares during the Eid al-Fitr holiday period.

ID Interest Rate

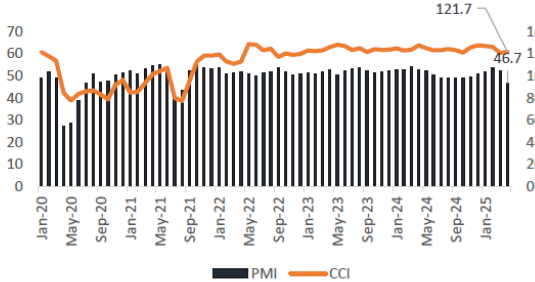


Indonesia Interest Rate

- Bank Indonesia cut 25 bps to 5.50% in May 2025 from 5.75% in April 2025. This decision aligned with the central bank's commitment to maintaining inflation within the target range of 2.5±1% for 2025 and 2026, stabilizing the Rupiah, and supporting economic growth amid global uncertainty.
- We see that BI is under pressure to boost domestic growth, central bank is now being pressured by markets expecting lower interest rates amid global economic slow down. Rupiah temporary strengthening and inflation within BI target are to be consider for reducing interest rates this time.

Source: BPS, Bank Indonesia, Setiabudi Investment Management

ID PMI and CCI

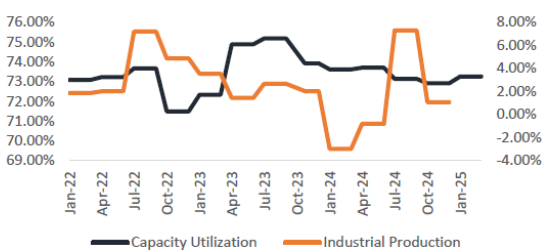


Indonesia PMI and CCI

- Indonesia PMI decline to 46.7 in April 2025 vs 52.4 in March 2025.
- Indonesia's consumer confidence declining to 121.7 in April 2025 vs 121.1 in March 2025.

We see the declining in manufacture inline with slowing pace of growth for consumer confidence. Uncertainty in business and geopolitics affect most businesses to hold back expansion. On the other hand, factory utilities have also been held back in line with the slowdown in people's purchasing power.

ID Industry Productivity

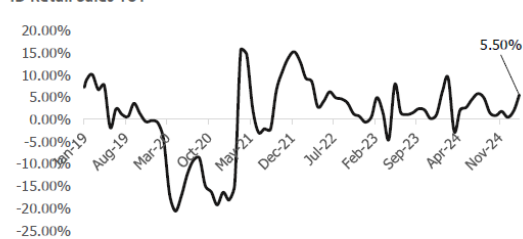


Indonesia Factory Capacity Utilization and Industrial Production

- Indonesia factory capacity utilization at 73.25% in Q1 2025 vs 72.91% in Q4 2024. We see the declining factory capacity utilization from peak at 75.17% in Q3 2023 in line with global economic downturns.
- Indonesia industrial production grew at slow pace to +1.06% in Q4 2024 vs +7.28% in Q3 2024.

Source: Bank Indonesia, Setiabudi Investment Management

ID Retail Sales YoY



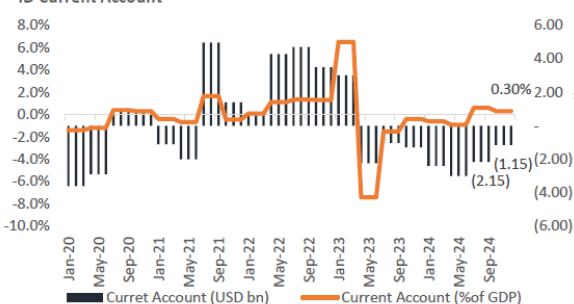
Indonesia Retail Sales

- Retail sales grew +5.5% YoY in March 2025 vs +2.0% YoY in February 2025.
- Retail sales driven by stronger sales of clothing +12.4% YoY in March vs 4.9% YoY in February, cultural and recreational goods +9.2% YoY in March vs 7.5% YoY in February, and food (+6.8% YoY in March vs +1.8% in February, amid the Ramadan fasting month and ahead of the Eid al-Fitr celebration.
- Retail sales are projected to fall by 2.2% in April.

We see growth at slower pace of retail sales in early 2025 and weaker than expected consumer demand. We think growth slows influenced by slower middle-class expansion, cautious spending habits, and economic uncertainties. While government cash transfer programs helped sustain retail activity throughout the year, they were not enough to drive a stronger rebound.

Source: Bank Indonesia, Setiabudi Investment Management

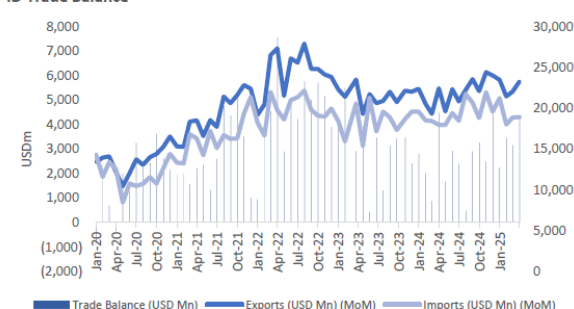
ID Current Account



Indonesia Current Account

- Indonesia's CA deficit USD 1.15 billion in Q4 2024 or -0.3% of GDP.
- Primary income shortfall inched lower to USD 9.01 billion from USD 9.26 billion a year ago, while the services account deficit widened to USD 5.19 billion from USD 4.77 billion. Meanwhile, the trade surplus remained little changed at USD 11.34 billion, compared to USD 11.39 billion a year earlier, while the secondary income surplus rose to USD 1.72 billion from the prior USD 1.25 billion.
- For the full year 2024, current account deficit widened sharply to USD 8.86 billion (0.6% of GDP) from USD 2.04 billion (0.1% of GDP) in 2023, due to a decline in the trade surplus amid subdued foreign demand, while domestic demand remained strong. However, the figure stayed within the central bank's outlook range of 0.1% to 0.9%

ID Trade Balance

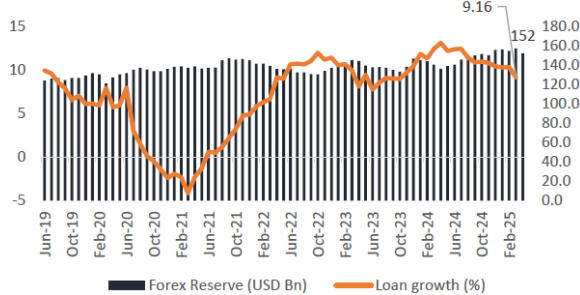


Indonesia Trade Balance

- Indonesia's trade surplus widen to USD 4.3 billion in March 2025 vs USD 3.1 billion in February 2025.
- Exports grew by +3.16% YoY in March 2025 vs +14.05% YoY in February 2025. We see an increment on export value by non oil & gas export metal ore commodities, slag and ash then iron and steel and electrical machinery and equipment and parts.
- Imports grew by +5.34% YoY in March 2025 vs +2.3% YoY in February 2025. Imports was driven by an increase in non-oil and gas imports with a contribution to the increase in total imports of 6.45% YoY.

Source: BPS, Bank Indonesia, Setiabudi Investment Management

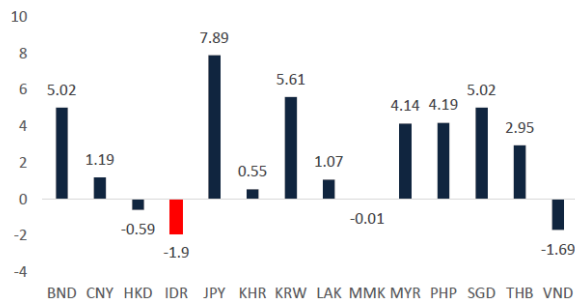
ID Loan Growth YoY and Forex Reserve



Indonesia Loan and Foreign Reserves

- Lending grew at by +9.16% YoY in March 2025 vs +10.3% YoY in February 2025.
- Nonetheless, we see 2025 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 and (3) Potential reinstatement of loan restructuring policies (4) new regulation for export earnings retention aims to bolster foreign exchange reserves but may influence banks' foreign currency liquidity management.
- Foreign exchange reserves in Indonesia declining to USD 152 billion April 2025 vs USD 157 billion in March 2025.

USD vs Asian Currency 2025 YTD

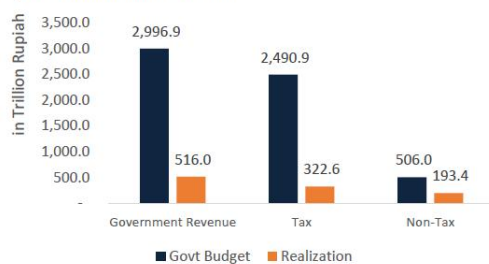


Source: Bank Indonesia, Asian Bond Online (as of 15 May 2025), Setiabudi Investment Management

Government Revenue Fall Effect on Indonesia Economy



Q1 2025 Government Revenue



Source: MoF, Setiabudi Investment Management

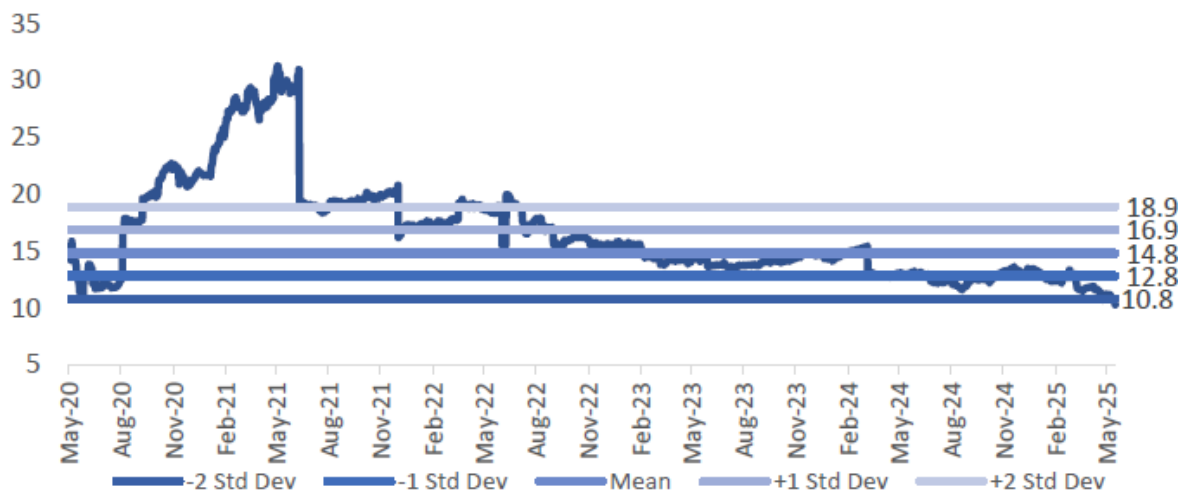
An Effect on Tax and Non Tax Revenue Fall

- Fall in Indonesia's tax revenue have significant macroeconomic implications, especially considering tax is the main source of government income.
- Danantara policy could affect government income from dividends revenue. SOE dividends are a key contributor to non-tax revenue (PNBP), especially when tax revenues underperform. In the 2025 State Budget (APBN), the government targets over Rp 85 trillion in dividend income, led by strong sectors like mining (PTBA, MIND ID), banking (Bank Mandiri, BRI), and energy (Pertamina, PLN).
- Investors may see declining tax collection as a sign of weakening economic activity or poor tax compliance. It could lead to capital outflows and rupiah depreciation if fiscal credibility is questioned.
- Continuation of tax incentives for downstream industries, EV sectors, and MSMEs also slightly reduced tax intake in the short term as the government prioritized investment over revenue.
- Persistent revenue underperformance may affect Indonesia's sovereign credit rating, increasing borrowing costs.

Tax revenue fall in Q1 2025 due to weaker global commodity prices, reduced export values, and slower domestic consumption. The fall in tax revenue poses challenges for fiscal space, potentially limiting government spending and delaying strategic projects unless offset by non-tax income or revised spending priorities.

Indonesia Equity Market

JCI P/E Band



Investment Thesis

Positive Factors

- BI monetary policy remains supportive of economic and investment growth. As inflation pressures moderate, BI may maintain accommodative or neutral policies, which could lower borrowing costs and boost business investments.
- Indonesia equity market has been discounted significantly and offers a very attractive valuation for investor.

Negative Factors

- Political uncertainty could affect investor sentiment in 1st year of new government.
- Rupiah is sensitive to global capital flows. Any significant capital outflows due to external shocks or domestic uncertainties could lead to currency depreciation.
- Government debt is rising, partly due to infrastructure financing and social programs.
- Fluctuating commodity prices

--- End of report ---

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