

DEAR INVESTOR,

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FUND MANAGER'S LETTER
AUGUST 1ST WEEK, 2023



Macroeconomics No Recession Yet

Since the middle of 2022, many analysts have been predicting that US will stumble into a recession this year. However, we are now past the middle point of the year and there seems to be little sign that a recession is overdue. Last week, 2Q US GDP (advanced estimate) came in at 2.4% (quarter on quarter seasonally adjusted annual rate), led by growth in fixed investment. Consumer spending was still strong, growing at 1.6%, while structures and equipment grew by 9.7% and 10.8%. While Fed tightening has softened interest-sensitive sectors like housing and manufacturing, we view that it so far has failed to tame consumer spending and labor demand, which are supported by excess savings

and the rebound in services sectors.

In China, the Politburo meeting brought some statements that were encouraging. It acknowledged challenges in economic growth and pledged more countercyclical efforts to enhance domestic demand. Some of the mentioned areas were : 1) Demand-side property easing : the meeting dropped the wording “housing is for living not for speculation” which was mentioned in the April meeting. It also mentioned the need to fine-tune housing policy. 2) Infrastructure : it urged stronger government investment with faster issuance of local government special bonds. 3) Monetary easing : it

pledged better use of aggregate policy tools. 4)
Consumption incentives : focus will be on auto,
electronics, and home appliances.



US GDP Growth Quarter-on-Quarter Annual Rate | Source: Bloomberg

Equity

Another Positive Week

JCI recorded another positive week, ending up 0.28% driven by basic materials which increased 2.3%, energy 1.7%, and industrials 0.7%. Commodities were boosted by positive sentiment of still strong US GDP growth and many policy support announcement from China government. Brent oil ended the week up 4.8% and copper was up 2.5%. Lagging sectors in JCI were tech -2.2%, property -2.0%, and healthcare -1.5%.

Indonesian stocks' second quarter earnings have started to come out and were generally good. Of the big 4 banks, three have reported and two of them posted good results. BBKA booked loan growth of

8.8% yoy driven by consumer, commercial, and sme loans, with their 2Q net profit surging 18.6% yoy supported by higher NIM and lower provision expenses. BMRI booked loan growth of 11.8% yoy driven by commercial, subsidiaries, micro, and consumer, with 2Q net profit growth of 24.5% yoy. BBNI's results were not as good though still satisfactory, their net profit in 2Q grew 5% yoy, loan growth was 4.9% driven by consumer and corporate. Meanwhile, ASII reported core earnings growth of 15% yoy, driven by earnings growth in automotive and financial services segment. ASII's automotive segment was quite strong, with 31% net profit growth as 4W and 2W sales were robust.

Fixed Income Another Hike

The Fed raised its policy rate for another 25bps to 5.25%-5.50% (prev: 5.00%-2.25%) in the July meeting, as generally expected. There would be possibility for another 25-bps hike in September, while the market is not yet pricing one more +25bps for 2023. The Fed Fund Future is currently at 5.41% and 2024 at 4.33%, with 10yr US Treasury at 4.00%, and Dollar Index 101.77. Like the US, ECB also hiked interest rates by 25bps on Thursday, the ninth hike in a row, saying inflation is still anticipated to be too high for too long, despite the recent slowdown. Bank of Japan shocked the market by allowing greater flexibility in monetary policy and will be buying 10yr JGB at 1.00%. JPY appreciated most during the



Earnings Growth of Selected Big Cap Companies in 2023 | Source: Bloomberg

week, while most of yields in government market edged higher.

Ahead of FED's meeting, Bank Indonesia (BI) decided to hold its policy rate at 5.75% as broadly expected. The policy focus is directed to support Rupiah's stabilization to address imported inflation and mitigate the impact of global financial market uncertainties. In addition to that, BI will also implement the Macroprudential Liquidity Incentive Policy (KLM) for Conventional Commercial Banks and Sharia Commercial Banks/Business Units starting October 1, 2023. The maximum total incentive will be increased from 2.8% to 4.0%. BI

estimates that this maximum total incentive increase will provide the banking system with an additional IDR 47.9 trillion in liquidity.

IndoGB ended lower last Friday, tracking UST yield. The 10-year benchmark series traded at 6.28%, highest since end of June and also 9 bps higher from average awarded in the last government bond auction. In weekly basis, Government Bond Total Return Index registered decline by 0.13%, but still in positive territory of 0.43% MTD. However, market sentiment improved a bit in the following trading day in Monday, where we saw solid demand specifically for 10-years benchmark (FR0096) and

other off the run benchmark series (FR0083 & FR0092)) with the yield fell by 4-5 bps compared to Friday closing.

Meanwhile, Indonesia's July inflation will be released on Tuesday (1/8), and the market consensus expects both headline and core inflation to continue lowering to 3.11% and 2.5% from 3.52% and 2.58% in June, respectively.

Last week, Rating and Investment Information Inc. (R&I) on the press release mentioned that The Indonesian economy has been showing strong performance even amid uncertainties of the global

economic environment. With the inflation rate that has fallen within the central bank's target range in 2023, price stability is being restored. The government has achieved its target level of fiscal deficit a year earlier than originally planned and the government debt ratio stays on a downward trajectory. The stability of the financial system is maintained, and the economy has resilience to external shocks. In addition to pursuing prudent fiscal and monetary policies, the government has made progress in addressing structural challenges of the economy.

Based on the above recognition, R&I has affirmed

the Foreign Currency Issuer Rating of BBB+ and changed the Rating Outlook to Positive from Stable. The rating could be upgraded if the policy directions are likely to continue under the new president to be elected in the 2024 election and the steady economy and fiscal improvement will be maintained.



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