

DEAR INVESTOR,

Narendro Anindyo, CFA
Head of Equity & Research
Rifan Firmansyah
Head of Fixed Income

FUND MANAGER'S LETTER
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Macroeconomics Higher For Longer

Speaking at The Fed's economic symposium in Kansas City, Fed Chair Jerome Powell made it clear the US central bank is prepared to raise interest rates further if needed, noting that a resilient economy comes with risks that inflation could reaccelerate. At the end of last week, market shifted to pricing in another hike in Fed's November meeting. Powell said at upcoming meetings Fed will assess their progress based on data and evolving outlook and risks. He added that strong growth and a resurgence of strength in the labor market could require a strong response.

Powell noted that inflation in the non-housing

services category of inflation, which accounts for over half of the core PCE index and includes a broad range of services, such as health care, food services, transportation, and accommodations, has moved sideways. Inflation measured over the past three and six months has declined, however, which is encouraging. The reason for the modest decline of non-housing services inflation so far is that many of these services were less affected by global supply chain bottlenecks and are generally thought to be less interest sensitive than other sectors such as housing or durable goods. Production of these services is also relatively labor intensive, and the labor market remains tight. Given the size of this

sector, some further progress here will be essential to restoring price stability.



US PCE Core Services Less Inflation YoY | Source: Bloomberg

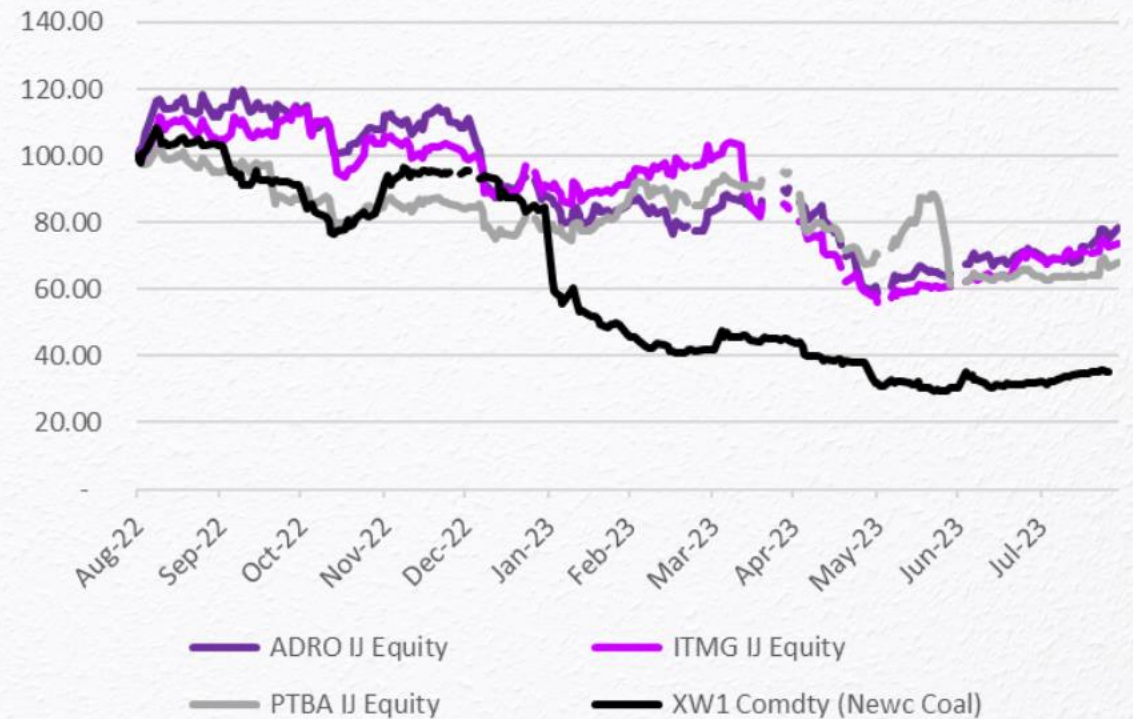
Equity Hit By Yields

JCI increased 0.5% last week, driven by commodities-related sectors such as basic materials which increased 5.5% driven by AMMN and BRPT, and also energy which increased 1.6%. Transportation & logistics also were strong, increasing 3.3% driven by GIAA. Lagging sectors were tech which declined -2.6%, industrials -0.97%, and properties -0.94%. Tech and property are two sectors that we view as sensitive to global and domestic bond yields, and given that US and Indo 10 year yields have increased around 30 bps month-to-date, the two sectors are relatively under pressure, especially tech.

Coal-related stocks continued to perform last week (ADRO +2%, ITMG +2.3%, PTBA 4.3%) as Newcastle Coal price declined slightly (-0.1%). Europe natural gas price (Dutch TTF) corrected -8% last week after reaching the highest point in the last two months. Positive sentiment on nat gas is helped by workers at LNG export facilities in Australia that prepared for strikes. The disruption risks impacting 10% of world LNG flows.

Two big state-owned banks posted satisfactory performance in July. BBNI reported bank only Net Profit of IDR 12.1 tn in 7M23, up 14% yoy. Net

interest income growth was offset by increases in opex and decline in non-interest income. Loan growth was 7% yoy. Meanwhile BMRI reported bank only Net Profit of IDR 27.4 tn in 7M23, up 26% yoy.



Coal Stocks vs Newcastle Coal Price (indexed) | Source: Bloomberg

Fixed Income Signs of Rebound

Bond market closed rebound last week after touched the lowest level early of last week. However, it still posted weekly losses with Indobex Government Total Return Index reported -0.34% or -0.68% since beginning of the month. In YTD basis, Indonesia government still provide positive return of 6.5%.

Sign of positive improvement may be seen as the 10-year yield continues to rebound to below 6.5% from its highest level at around 6.7%. Currently, the spread to US Treasury 10-year is at 224 bps, down from 240 bps, and still lower compared its historical level.

From the primary market, although demand a bit increased to IDR 34.6 tn the government also continued to reduce its issuance to only IDR 7.8 tn. Therefore, we continue to maintain our view that the supply risk would be much lower for the rest of this year.

The flow data as of 23 Aug 2023, it shows us that, since beginning of the month, Onshore Bank, BI and Foreigners reported net sell of IDR 8.2 tn, IDR 9.3 tn and IDR 8.1 tn, respectively. Meanwhile, Insurance & Pension Funds as well as Mutual Fund are still reported at net buy of IDR 4.7 tn and IDR 3.7 tn.



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