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FUND MANAGER'S LETTER
JULY 2ND WEEK, 2023

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Macroeconomics
Strong Labor Market

The US labor market is still showing strength, supporting The Fed's hawkish comments and aligning market's and Fed's expectations that FFR will still be hiked another 50 bps this year. On Thursday, data from ADP Research Institute showed that US companies added almost 500,000 jobs last month, highest in over a year. By sectors, leisure and hospitality added the most jobs, or 232,000 followed by construction at 97,000 trade, transportation, and utilities at 90,000 and education & health services at 74,000. While sectors that shed the most jobs were manufacturing at -42,000 information at -30,000 and financial activities at -16,000. On Friday, Bureau of Labor Statistics reported US nonfarm payrolls increased 209,000 which is the smallest advance since end of 2020. However, the unemployment rate fell to 3.6% and average hourly earnings increased 0.4% MoM (higher than expectations of 0.3% MoM). Labor participation for people aged 25-54 climbed to a 21-year high.

Japan's second estimate for 1Q23 GDP growth (qoq annualized) was revised up sharply to 2.7%, from 1.6% in the first estimate. Strong numbers were seen in consumption and capex, while net goods exports were weak. For FY23, analysts now estimate that Japan can grow 1.2%, above its potential growth rate (0.3% according to BOJ).

China Caixin Services PMI declined to 53.9 in June from 57.1 in May. Although still healthy, this shows a marked deceleration. China's CPI inflation was 0% yoy in June, the lowest rate in more than 2 years.

ADP Private Nonfarm Payroll | Source: Bloomberg

Equity
Cyclicals Finally Moving

The JCI increased 0.8% on the week ending July 7. Energy led with an advance of 4.6% WoW, consumer cyclicals advanced 4.5% WoW, basic materials increased 3.3% WoW, and industrials increased 2.3% WoW. Sectors that lag were tech which declined -0.8% WoW, healthcare -0.3% WoW, and financials -0.2% WoW. Advances in global cyclicals sectors such as energy and basic materials (some are related to commodities) and domestic cyclicals (consumer cyclicals, industrials) were distinct from the trend in the past few months.

Property companies recorded softer presales in 2Q23 compared to 1Q23, but this was already expected as Ramadhan and festive seasonally result in slower launches. CTRA recorded IDR 1.6 tn presales (-19% YoY), and resulting in 6M23 presales of IDR 5.1 tn (+27% YoY). PWON recorded IDR 302 bn presales in 2Q23 (-29% yoy), resulting in 6M23 presales of IDR 600 bn (-25% YoY).

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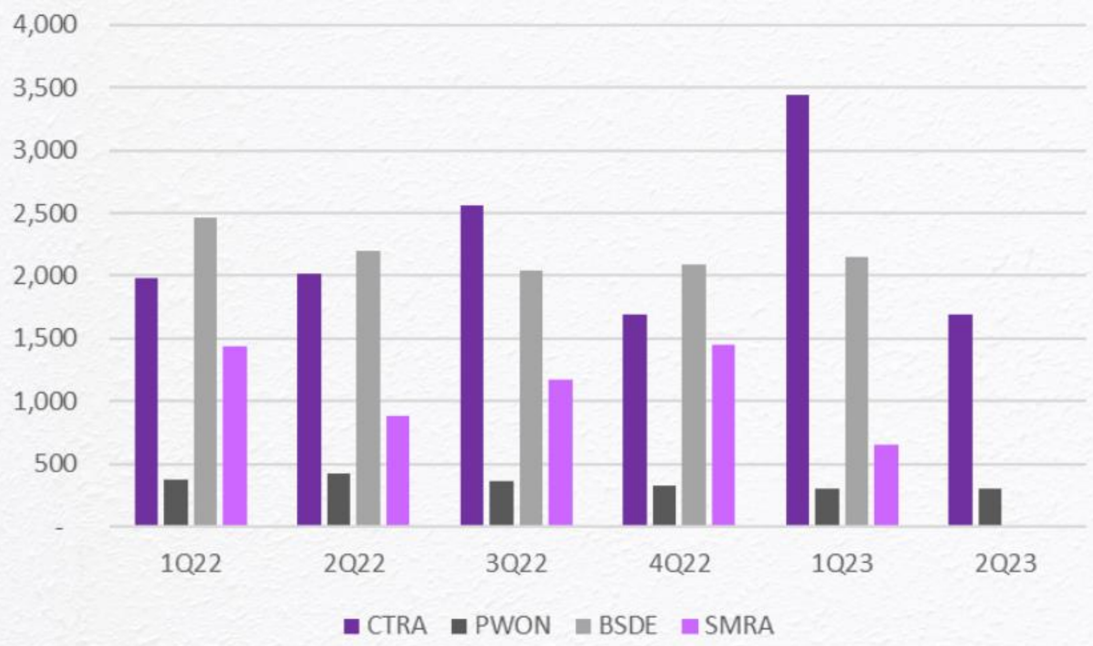
Fixed Income
Solid Backdrop



Property Companies' Pre Sales Trend | Source: Companies

IndoGB yields closed a bit higher last Friday after strong rally in the last couple of trading weeks, mainly due to higher UST yields where the 10 year UST yield moved to above 4% post FOMC minutes released which mentioned majority of FED's members suggesting would eventually need to tighten its policy even further. However, IndoGB is still considered resilient given a high volatility in global bond market, specifically in the US. This is reflected by the yield spread of Indonesia 10-year bond to UST 10-year continued to be narrowed and went down to anew record low to below 220 bps compared to a week earlier at 240 bps and also much lower compared to historical pre-pandemic period at 500 bps.

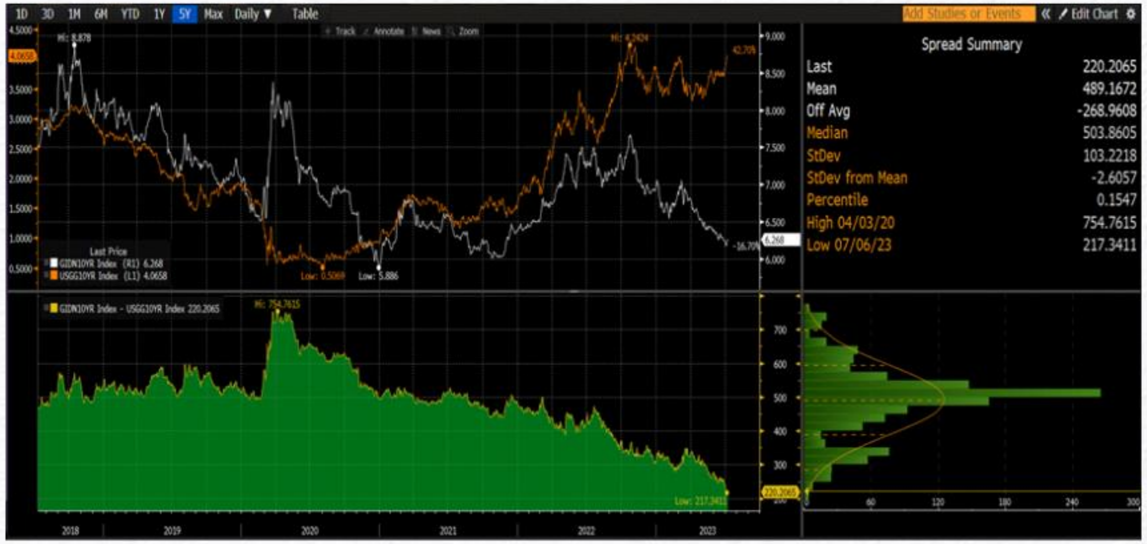
Solid Indonesia macro backdrop is a major supporting factor to domestic bond market. One of the keys is decelerating in inflationary pressure where June-23's headline CPI reported at 3.5% YoY from 4% YoY in May-23 while core inflation also has been declining to 2.58% YoY in June-23 for the sixth consecutive month.

From the fiscal side, the MoF revised its 2023 budget deficit quite significantly to -2.28% of GDP from initial target -2.84% of GDP or around IDR 112 tn of reduction in budget deficit. Total revenue target was raised by 7% to IDR 2,637 tn while total expenditure was set higher by 2% to IDR 3,123 tn. During the first half of this year, fiscal realization was still in surplus territory of IDR 153 tn.

The government also just announced its bond issuance target from regular auction for the third quarter of this year, which is set at IDR 141 tn. We expect that the liquidity will remain ample as total government bond to be mature in the same period of this year at around IDR 167 tn.

In addition to that, global rating agency, S&P

maintains Indonesia's rating at BBB with stable outlook. The rating is made based on the expectation of a steady GDP growth of 5% through 2026 with 2023's GDP outlook is predicted at 4.8%. The government's effort to reduce its budget deficit to below 3% is another big factor.



US 10 Year Yields, Indo 10 Year Yields, and Indo-US 10 Year Yield Spread | Source: Bloomberg

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