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FUND MANAGER'S LETTER
JULY 4TH WEEK, 2023



Macroeconomics

More Government Support For China

After releasing their weak GDP report early last week (China's Q2 year-on-year GDP growth was 6.3%, below consensus of 7.1%), the Chinese government has been busy announcing measures to support their economic recovery. Three measures were announced last week : 1) an 11-point package aimed at unleashing the potential of household consumption, which include support to buy new smart home appliances and credit support for purchases of household goods; 2) guidelines on boosting the growth of the private economy, which include highlights on the rule of law and equal treatment of private and state-owned companies; 3) measures to help boost sales of automobiles and

electronics, which include encouraging regions to increase annual car purchase quotas and efforts to support sales of second-hand vehicles.

Indonesia announced USD 3.5 bn June trade surplus. The figure was bigger than expectations of USD 1.4bn. Both exports and imports decreased, by 21% yoy and 18% yoy respectively. We view that the weakness of China's economy contributed to Indonesia's weak exports. For imports, normalization effect from last year's high base is the reason.

Equity Earnings Season Begins

JCI rose 0.16% in the week ending July 21. The energy sector led with a 2.7% increase, followed by consumer cyclicals 1.2%, property 1.0%, and basic materials 0.7%. The lagging sectors were technology -2.7%, healthcare -0.8%, and industrials -0.6%. The energy sector continued its increase as oil prices rose 1.5% last week, and have increased 8% in the last 3 weeks.

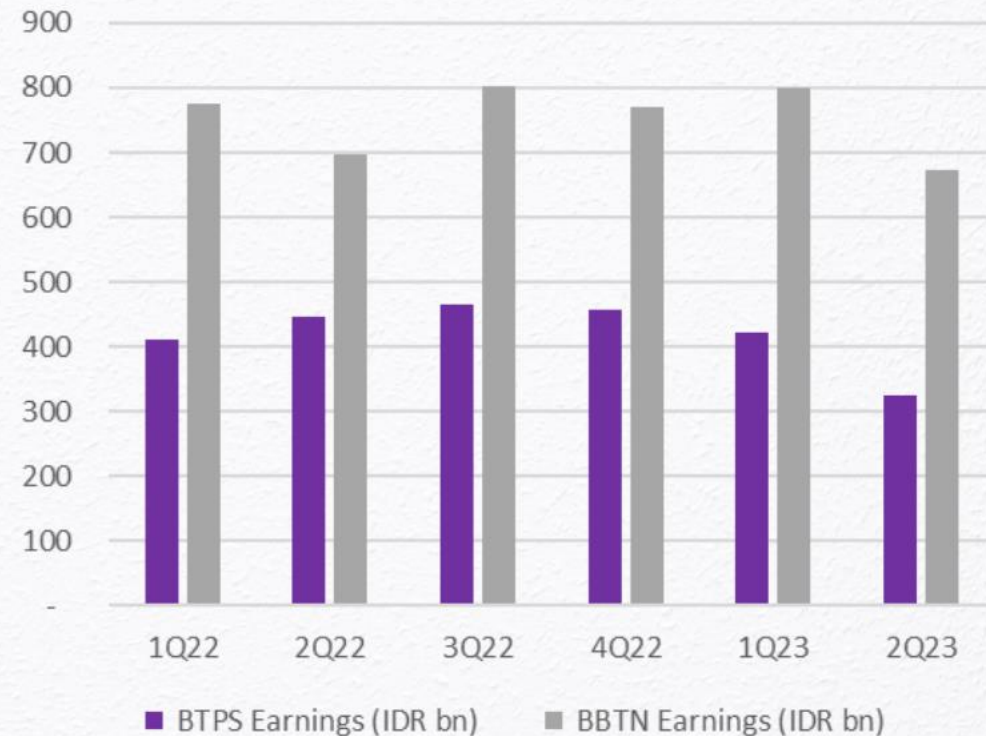
Indonesian stocks' second quarter earnings season officially begun. BTPS announced net profit that declined -26% yoy. Provisioning was still high for the sharia bank that focused on productive poor loans. Another bank, BBTN reported earnings in 2Q that



China's GDP Growth YoY | Source: Bloomberg

was also slightly disappointing. Net profit declined -3.4% yoy as net interest income declined -19%, with NIM at 3.6% (from 4.7% in 2Q22).

BSDE announced their 2Q pre-sales achievement, which was above expectations. BSDE booked IDR 2.6 tn pre-sales in 2Q, which increased 20% from 2Q22. The strong sales was supported by Nava Park and other residential projects.



BTPS and BBTN Earnings Trend | Source: Bloomberg

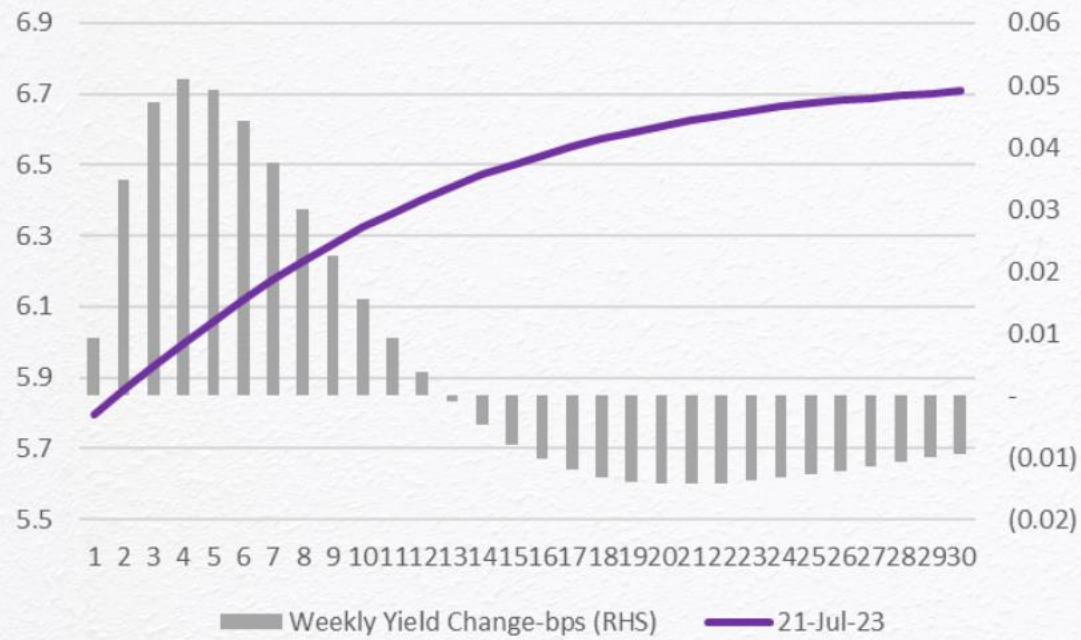
Fixed Income Range Bound

IndoGB moved a bit flattish last week following shorter trading days and less catalyst in the market. The 10-year benchmark yield tends to move sideways with a limited range at 6.23% to 6.17%. In the past week, IndoGB yield curve was flattening a bit more as the yields on the belly and short end of government bond series went up while the long end fell slightly by around 1 bps.

Demand of government bonds is considered remaining strong, including from retail as indicated by the last book-building for ORI023 which attracted demand of IDR 28.9 tn, much higher compared to previous SR015 and SR017 with total incoming demand of IDR 27 tn and 26.9 tn, respectively.

In addition to that, demand from offshore also remains solid. Based on the last updated DMO bond flow data as of 20 July 2023, it was reported that foreign continued to accumulate IndoGB by IDR 4.9 tn since beginning of the month or IDR 89.5 tn YTD.

With Indonesia trade balance remaining in surplus territory of USD 3.46 bn in June 2023 (higher than consensus estimate of USD 1.35 bn) and marked total trade surplus of nearly USD 20 bn since beginning of this year, it should provide additional buffer for Rupiah. Therefore, we continue to expect more inflow from offshore accounts and further support for domestic bond market.



IndoGB Yield Curve – 21 Juli 2023 | Source: Bloomberg



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