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FUND MANAGER'S LETTER
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Macroeconomics

Hope Soft Landing

The labor market in the US, which is now one of the most closely watched indicators on the market, continues to confuse many people. And in our view, if in doubt, the Fed is likely to quit, rather than continue to tighten interest rates and risk a deep recession. On Friday, a report showed that US nonfarm payrolls increased by 339,000 last month after April's 294,000. That's a strong number. However, the unemployment rate rose to 3.7%, and average hourly earnings (wages) grew 0.33% mom, slower than the previous month (0.39%). The more optimistic camp interprets this data set as a sign of a soft landing meaning the labor market is still strong but wage growth (and eventually inflation) is slowing in China, the Caixin manufacturing PMI survey showed improvement, increasing to 50.9 from 49.5 in April. The official manufacturing PMI, meanwhile, fell to 48.8. The difference may be due to the different types of samples, the Caixin report is based on 650 private and state-owned manufacturers while the official PMI is based on 3200 companies. The Caixin report also showed manufacturers remained pessimistic about the outlook, with business confidence dropping to its lowest level in seven months.

Indonesia's annual inflation rate fell to 4% in May, dropping to the upper end of the central bank's target range earlier than expected, while consensus expects a 4.2% figure. Several groups that recorded low inflation were clothing (0.08% yoy), health products (0.07% yoy), recreation (0.05% yoy), and information and communication (-0.01% yoy).

US Nonfarm Payrolls | Source: Bloomberg

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Equity
China Blues

JCI fell -0.8% in the week ended May 31. The biggest declines occurred in the industrial sector (-3.1% WoW), basic materials (-2.7% WoW), property (-2.5% WoW), and energy (-2.3% WoW). , while the positive sectors are technology (+11.2% WoW), and infrastructure (+0.03% WoW). Foreign investors recorded an inflow of USD 93 million this week.

The JCI was hit by negative sentiment about the prospects for China's economic recovery, factory activity in China has slumped to its weakest level since the country ended its zero-Covid policy in December (official manufacturing PMI fell to 48.8).

Following the news, Asian markets fell, as of May 31, the Hang Seng experienced a 1.7% decline, the Nikkei declined 1.1%, and MSCI Asia Pacific declined 1.2%. There were also concerns about local government debt levels, but the official Xinhua news agency published a report saying the government's finances were generally healthy. We see that the Chinese government's track record in managing the amount of debt in its domestic economy is quite good, with the predictions of the debt crisis of many pessimistic parties that have not yet come true. If China's economy continues to sluggish, we view that the Government can support it with some monetary, fiscal or regulatory stimulus.

Fixed Income
Solid Request

JCI vs MSCI China Ytd (in %) | Source: Bloomberg

Ahead of the long holiday, the Indonesian government bond market continues to show positive performance, marked by a weekly increase for 12 consecutive weeks in line with a decline in yields of around 3 to 9 bps across all tenors. The yield curve tends to be slightly flatter as yields on 9-12 year tenors fall by 8-9 bps. Meanwhile, the 10-year benchmark yield closed at 6.36%, which is the lowest level since December 2021. From last week's conventional bond auction, the government received a fairly solid incoming bid of IDR 58 trillion, higher than the average the average bid that has entered since the beginning of the year is around Rp 50 trillion

Compared to the previous auction, the incoming bid slightly decreased due to the decrease in foreign participation to IDR 5.1 trillion from IDR 14.1 trillion in the previous auction. However, based on DJPPR data, foreign support is still quite strong and recorded net inflows of IDR 7 trillion in May and IDR 67.8 trillion since the beginning of the year.

From the global market, volatility is likely to still occur as concerns increase over the potential for pressure to increase crude oil prices after the Saudi. decided to implement a crude production cut of 1 million bpd in July, which could be extended further. In response, UST yields increased again with the 10-year yield rising to 3.7% after previously falling to 3.6%. However, we expect the local bond market to remain supported due to a lack of supply and solid demand.

Indo Goverment Yield Curve (as of 5 Jun 23) | Source: Bloomberg

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