

DEAR INVESTOR,

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

FUND MANAGER'S LETTER
JUNE 2ND WEEK, 2023



Macroeconomics

Expecting The First Cut From The East

This week global market participants are expecting the first major global central bank to cut rates in 2023, and it will come from People's Bank of China, which is expected to lower their 1 year interest rate on their medium term lending facility to 2.65% from 2.75%. This expectation comes amidst continued bad economic data that come out in June so far (May data). The latest to surprise market was China's CPI and PPI data for May, which showed that deflation is a risk for China, even when US and Europe are still grappling with high inflation. China's CPI in May increased just 0.2% yoy and China's PPI decreased -4.6% yoy, the steepest drop in seven years.

The Fed is expected to hold rates on this week's FOMC meeting, although US CPI data which will come out on June 13th, before Fed meets on 13-14th will influence the decision. Internally, disagreement on the FOMC is increasing. Some prefer to see how a 500 basis points of rate hikes to date are cooling the economy. Some are convinced rates aren't yet restrictive enough and inflation is not coming down fast enough.

Indonesia's foreign exchange reserves dropped by USD 4.9 bn to USD 139 bn in May, due to government debt payment and FX liquidity needs in the banking sector. The reserves level was equal to

6.1 times of monthly imports. Rupiah strengthen 1.0% last week, inline with DXY which weakened 0.4%.



China PBOC Medium Term Lending Facility One Year Rate | Source: Bloomberg

Equity Bright Start To The Month

The JCI increased +0.9% on the week ending June 9. The leading sectors were transportation & logistics (+5.5% WoW), properties (+5.3% WoW), and Infrastructures (+3.9% WoW). Lagging sectors were technology (-3.1% WoW), basic materials (+0.8% WoW), and consumer staples (+1.6%). Foreign investors recorded outflow of USD 14 mn on the week.

After a down month in May, JCI got off to a strong start in June. Investors looked forward to potential end of monetary tightening in US, and some are speculating that Indonesia can pivot to easing faster. Several of the sectors that led the index last

...

week were interest rate sensitives such as properties and infrastructures. Energy sector also bounced back as OPEC provided another supply cut.



IDX Property Index vs Indo Govt 10 Year Yield | Source: Bloomberg

Fixed Income Another Gain

IndoGB was closed at another weekly gain. IndoBeX Government Total Gross Return, which broadly used as a benchmark for the government bond indicator performance rose by 0.34% MTD in June-23 and 5.9% since beginning of this year. The 10-year fell to nearly 6.3% or declined by more than 60 bps, providing spread to UST 10-year yield at around 256 bps, much lower compared to 1-year average at around 490 bps and pre-pandemic level at 500 bps.

In the past week, based on IBPA yield curve movement, the short tenor relative outperformed as reflected by 1- and 2-years composite yields, which fell the most by around 8 and 5 bps, respectively.

Meanwhile, 9-17 years yield dropped by 3 bps and the longer tenor above 17 years yield only declined by 1-2 bps. Therefore, the yield curve seems to be more steepened, specifically in the 1-5 years maturity bucket.

Bank Indonesia reported that total foreign inflows to domestic government bond market of IDR 4.8 tn in the first week of June-23. In addition to that, total foreign inflows since the beginning of the year amounted to IDR 73 tn. The next big thing is the FED policy decision. Market participants seem already priced-in that the FED will hold its interest rate with a probability of 72%. Last week, there was also some

opportunities from corporates primary offering, with detail as in Figure 3.

Company	Rating	Tenor	Indicative Coupon	Benchmark	Premium (Discount)
Lontar Papyrus	A	370 days	6.50% - 6.75%	5.59%	0.91% - 1.16%
		3 years	10.25% - 10.50%	5.54%	4.71% - 4.96%
		5 years	10.75% - 11.00%	5.91%	4.84% - 5.09%
Moratelindo	A+	3 years	9.25% - 10.00%	5.54%	3.71% - 4.46%
		5 years	10.25% - 11.00%	5.91%	4.34% - 5.09%
Mandiri Tunas Finance	AAA	3 years	5.80% - 6.60%	5.54%	0.26% - 1.06%
		5 years	6.10% - 6.95%	5.91%	0.19% - 1.04%
Oto Multiartha	AA+	370 days	5.75% - 6.35%	5.59%	0.16% - 0.76%
		3 years	6.35% - 7.25%	5.54%	0.81% - 1.71%
		5 years	6.50% - 7.50%	5.91%	0.59% - 1.59%
Astra Sedaya Finance	AAA	370 days	5.50% - 6.15%	5.59%	-0.09% - 0.56%
		3 years	5.75% - 6.75%	5.54%	0.21% - 1.21%
Toyota Astra Finance	AAA	370 days	5.50% - 6.15%	5.59%	-0.09% - 0.56%
		3 years	5.75% - 6.70%	5.54%	0.21% - 1.16%
		5 years	5.95% - 7.00%	5.91%	0.04% - 1.09%

Latest Corporates Primary Offering | Source: Companies, Various Sources



Follow us!

 **avrist.investasi**

www.avrist-am.com