

# DEAR INVESTOR,

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FUND MANAGER'S LETTER  
JUNE 3RD WEEK, 2023





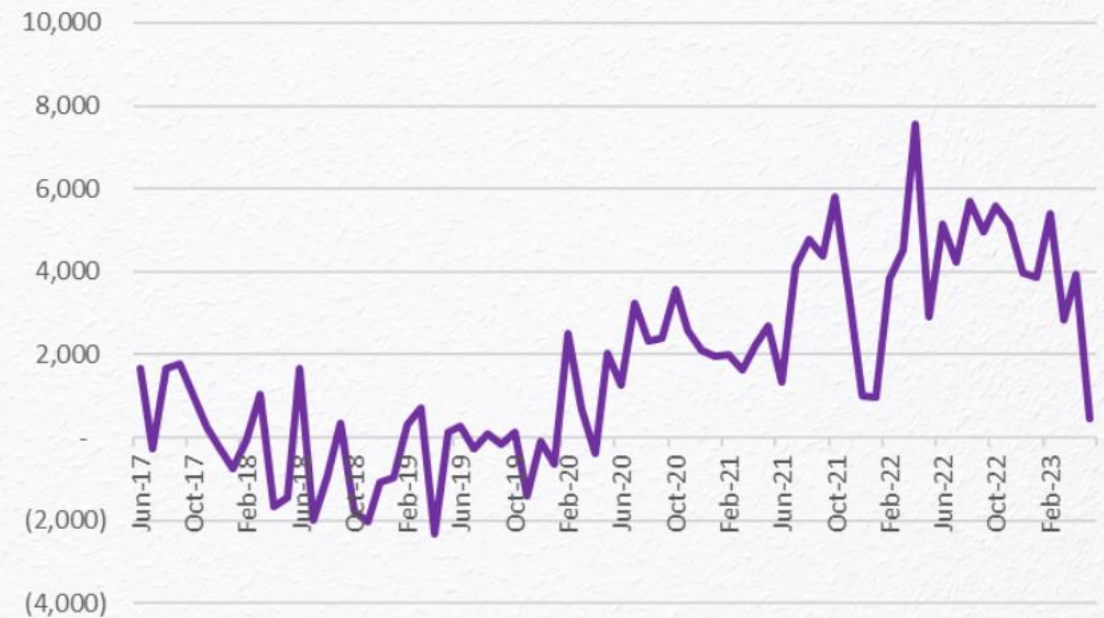
## **Macroeconomics Not Done Yet**

The Fed reminded everyone that they are not done yet in the fight against inflation. The dot plot was shifted higher, with the median now penciling in two more rate hikes this year. This “hawkish pause” surprised markets and deliver concerns of more severe recession should The Fed turns out to be behind the curve again and hike too much into a slowing economy. Our view is that The Fed would rather be cautious and not declaring victory against inflation too soon, hence the pause and the hawkish dot plot, however should data in the next month show that inflation is still on a downtrend (particulary core inflation), they might decide to pause again.

Data reported on June 13th showed that US Headline CPI slowed further to 4.05% yoy in May, below consensus of 4.1% yoy. US core CPI rose 5.33% yoy in May, above consensus expectations of 5.2% yoy. However, the composition of the report was encouraging, with shelter categories, which are considered sticky, sustaining slow down to around 0.5% mom (rent and OER, shelter is 34% of CPI).



Indonesia's trade surplus declined to USD 440 mn in May, the lowest level in 37 months. The value of exports, which increased only 1% yoy, were affected by declining prices of coal, CPO, and steel. Imports increased 14.3% yoy, which might be a sign of domestic consumption recovery.



Indonesia Monthly Trade Balance | Source: Bloomberg



## Equity

### Signs of Life For Commodities

The JCI increased +0.1% on the week ending June 16. The leading sectors were basic materials (+1.7% WoW), tech (+1.7% WoW), and energy (+1.7% WoW). Lagging sectors were properties (-2.1% WoW), consumer cyclicals (-0.8% WoW), and consumer staples (-0.6%). Foreign investors recorded outflow of USD 176 mn on the week.

Having been battered year to date, commodities-related sectors such as basic materials and energy enjoyed a good week. The reason was hopes of more stimulus from China's government to kickstart the world's second-largest economy's recovery which has been disappointing. On Jun 13, the PBOC

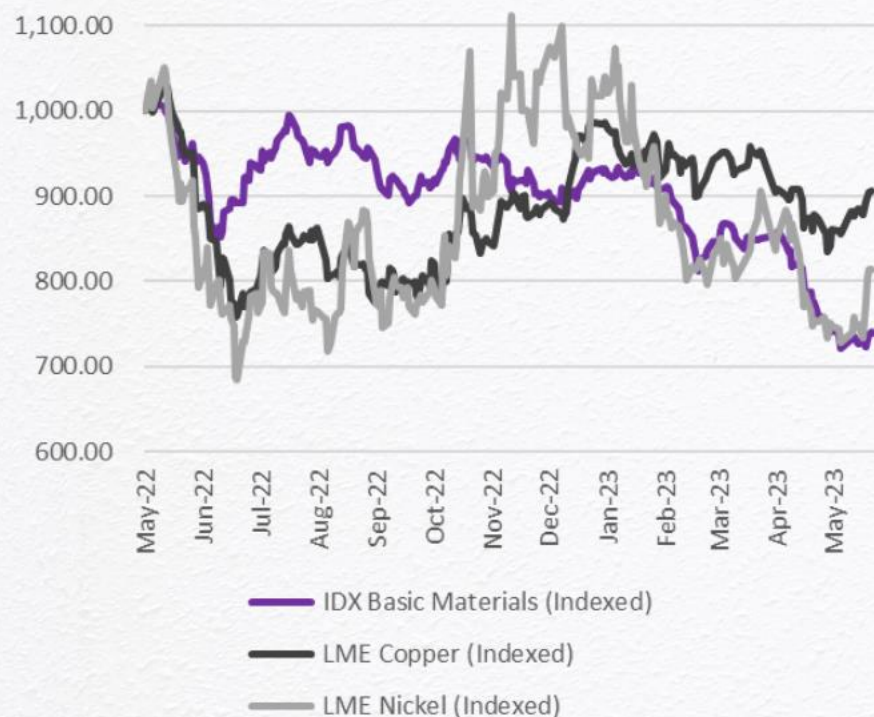
cut the OMO rates by 10bps, and 1-year MLF rate by the same magnitude, for the first time since Aug 2022. The markets interpret this as a sign that the authorities are starting to shift to pro-growth mode, and will be injecting more stimulus to the economy as it is needed. Some China-sensitive commodities such as copper and nickel rallied last week. LME copper increased 2.3% WoW and LME nickel increased 8.8% WoW.



## Fixed Income Still Immune

Last week, the FED decided to keep its policy rate unchanged at 5.00%-5.25%, marking the first pause following 10 consecutive hikes since last year. This was actually inline with market expectations. However, the projected terminal fed fund rate is now set higher at 5.6% compared to 5.1% projected in March, indicating the possibility of two more hikes this year. Just after the statement, the market became a bit more volatile with the 10-year US Treasury jumped back to around 3.8% and the US 2-year and 10-year yield curve inverted further to 93 bps.

However, the impact of the last FED's policy meeting



Copper, Nickel Prices and IDX Basic Materials Sector | Source: Bloomberg



is minimal to domestic bond market. IndoGB posted another strong weekly gain with IndoBeX Government Total Gross Return increased by 0.53% or 6.5% since beginning of the year. In the last conventional government bond auction, the government decided to only issue IDR 15 tn with the cut off yield around 10 bps lower than secondary market, although incoming bid improved to IDR 76 tn from 58 tn in the previous auction. As a result, market sentiment went up significantly and the 10 years benchmark yield dropped to 6.2%, the lowest since 1st week Dec 2021. Currently, the yield spread to UST stays stable at below 260 bps, much lower than pre-pandemic average.

Looking on the flow update, as of 16 July 2023, offshore accounts keep adding its exposure in IndoGB with total net inflow of IDR 13.7 tn MTD, resulting to net inflow nearly to IDR 80 tn since beginning of the year as IndoGB yields remain attractive given strong fundamentals economy. In addition to that, domestic liquidity proxy also remains ample, indicated by strong demand from local accounts, including individual.



We continue to maintain our positive view of domestic bond market and buying the dip given some factors, including low supply risk, lower inflation pressure, relatively stable currency & attractive valuation compared to peers' country, which can bring more inflows and still ample liquidity.



**Foreign Inflow Into Indonesian Bonds Ytd | Source: Bloomberg**





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