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Asset Management

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FUND MANAGER'S LETTER
OCTOBER 2ND WEEK, 2023

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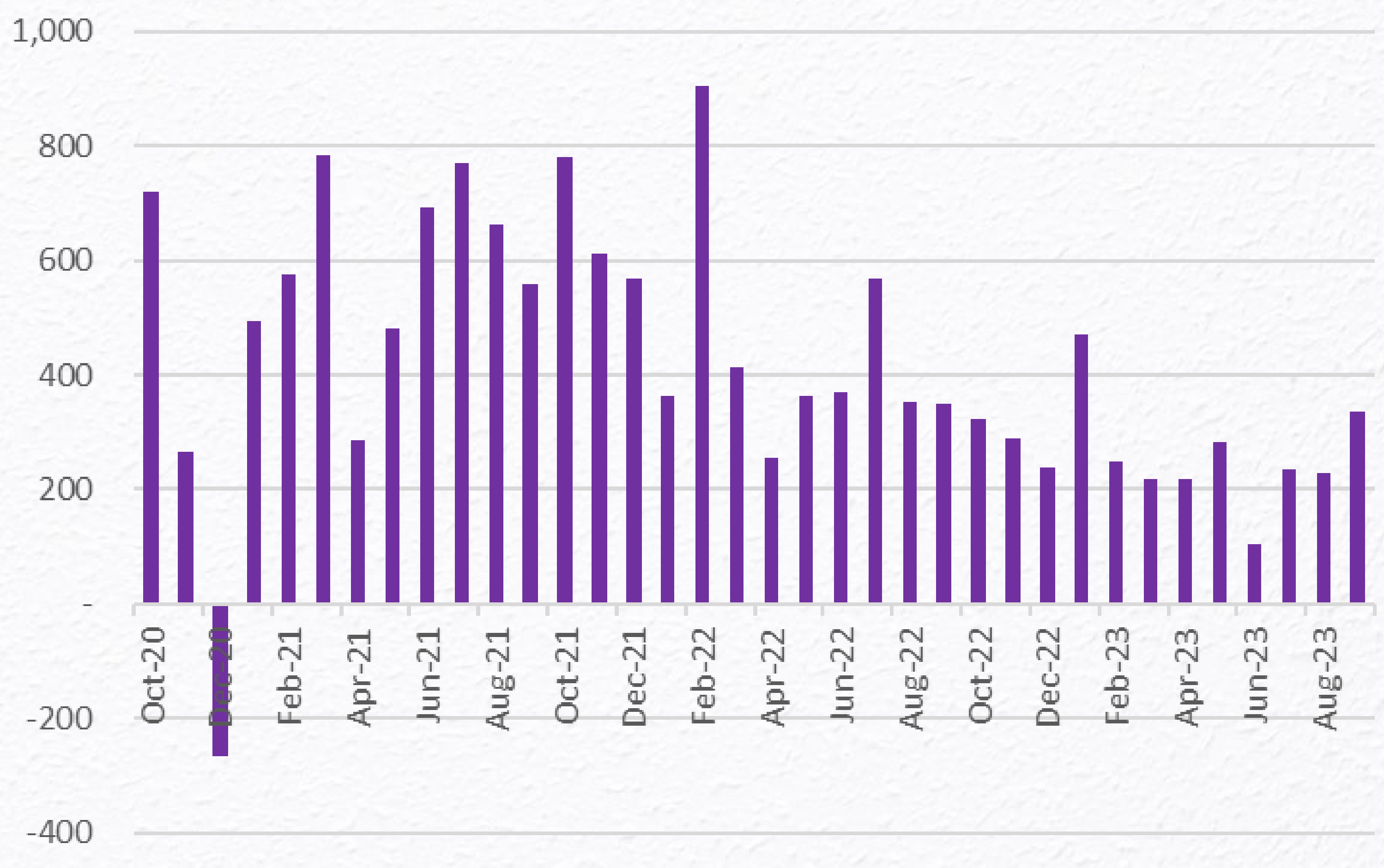
Macroeconomics
Another Strong Jobs Number

Resilient economic data in the United States has led to an increase in Treasury yields to multi-year highs. This has, in turn, made the US dollar (USD) more attractive to investors. The rising Treasury yields are seen as a sign of confidence in the US economy. The strong economic dynamics in the US are putting pressure on emerging markets. This pressure could be due to factors like rising Treasury yields and the attractiveness of the USD, which can lead to capital outflows from EMs.

Non-farm payroll gains in the U.S. exceeded expectations, coming in at +337,000 jobs. This suggests that the job market is experiencing solid growth, which is a positive sign for the economy. Despite the strong job gains, the unemployment rate remained stable. This means that as more jobs are added to the economy, there are still enough people entering the labor force to maintain the unemployment rate at its current level. The gap between available jobs and the number of workers seeking employment has decreased from a peak of 6 million to around 2.6 million. This indicates a tightening labor market.

In China, the data for domestic tourism during the

National Day golden week showed mixed results compared to previous holidays in 2023, such as the Dragon Boat Festival and Labor Day. While the number of domestic visitors and tourism revenue slightly exceeded 2019 levels, they fell below the authorities' earlier projections.



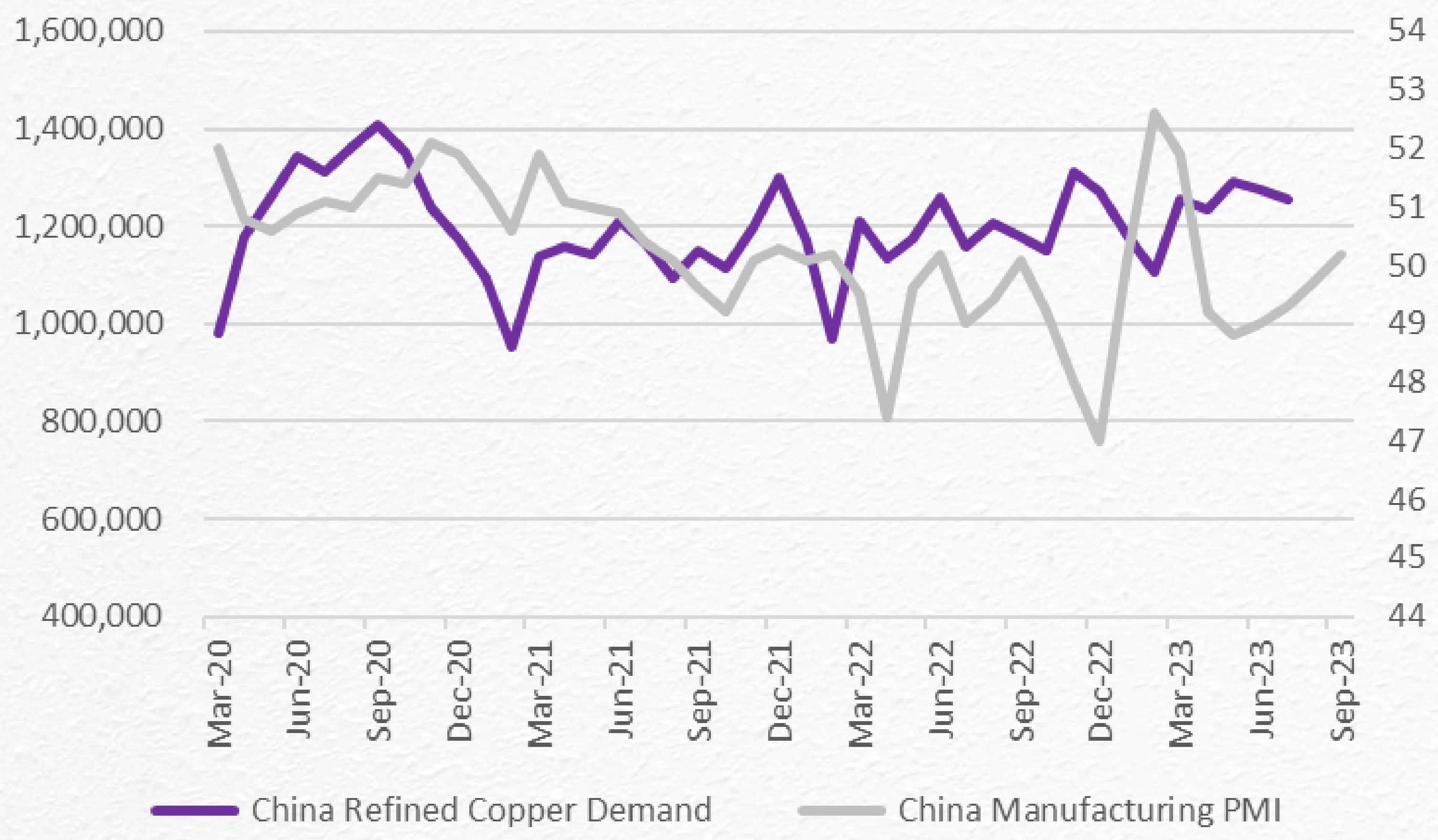
US Monthly Nonfarm Payroll | Source: Bloomberg

Equity
Volatile Commodities-Related Sectors

JCI ended the week with a loss of -0.7%, dragged down by energy sectors (-5.8%), industrials (-3.5%), and basic materials (-3.0%). The two commodities related sectors of energy and basic materials are proving to be quite volatile of late, especially since the underlying commodities such as crude oil and copper are also volatile. Last week brent crude oil price declined -11% to end the week at 84.5, as gasoline demand data in the US shows some decline.

The Chinese economy is facing challenges such as a property market crisis, deflationary pressures, weak exports, and a declining yuan. These issues are causing concerns in global markets as China is the world's largest consumer of commodities. Despite the challenges, China's demand for major commodities like copper, iron ore, and oil has continued to grow at robust rates in 2023. Copper demand has increased by 8%, iron ore by 7%, and oil by 6%. This strong demand is notable given the broader economic issues facing China. The growth of the services sector in China has been particularly beneficial for mobility-linked commodities like oil and environmentally friendly raw materials like copper and aluminum. This reflects the evolving nature of China's economy.

Fixed Income
Under Pressure



China Manufacturing PMI vs China Copper Demand | Source: Bloomberg

Pressure on global bond market continued as US Treasury yield keep elevating to the new highest multi-year level, which almost touch 4.9% before its down to around 4.7% last week. IndoGB also further impacted with the yields move 12-30 bps higher compared to a week earlier, sending IndoGB 10-year benchmark yield close at 7%, 10 bps higher than its position on 29 Sept-23. As a result, Indobex Government Total Return Index registered another weekly loss -0.95%, however, still booked positive return of 4.94% since beginning of the year.

The latest DMO bond flow data was as of 6-Oct, where holding of foreign accounts were reported fell to 14.8% with total MTD outflow IDR 4.9 tn. So far this year, foreign still reported inflow of IDR 60 tn. Onshore banks also continue to reduce its position of IDR 1.43 tn, suggesting that liquidity in banking sector has been tightening. In total, since beginning of the year, banking already sold IndoGB (including maturing bond series), around IDR 57 tn. Meanwhile, strong support still came from Insurance and Pension Funds, which remain accumulating IndoGB by IDR 3.19 tn MTD and IDR 140 tn YTD to lock the current yield, which considered quite attractive.

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