DEAR INVESTOR,

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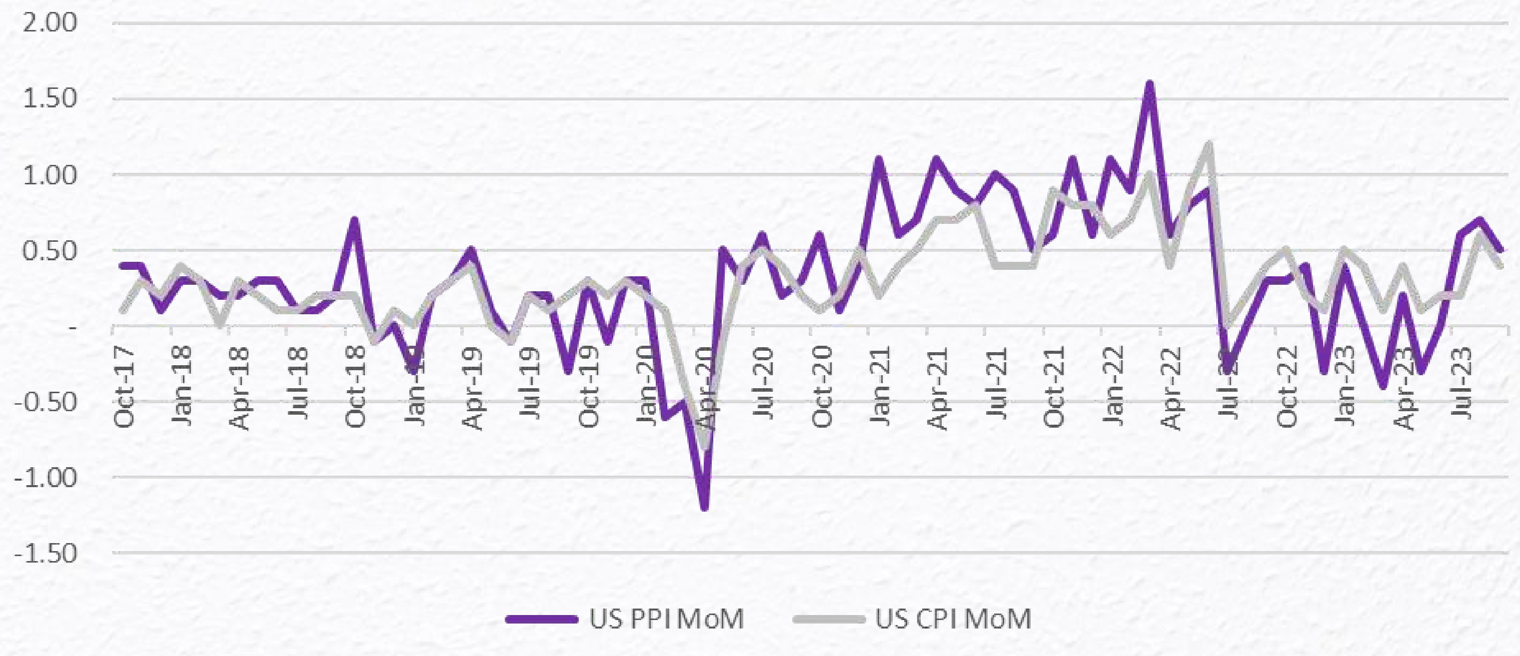
FUND MANAGER'S LETTER
OCTOBER 3RD WEEK, 2023

Macroeconomics
Turbulent Times

The war in the Middle East has captured the market's attention this past week. There are uncertainties on whether the conflict escalates, how other countries might get involved, and the effects on the global economy and markets. One possible outcome is oil supply disruption, either from security disruptions in the Strait of Hormuz, or increased Iranian sanctions.

The US Producer Price Index (PPI) for September came in at +0.5% month-over-month (MoM), which exceeded the consensus forecast of +0.3%. The Consumer Price Index (CPI) for the same month showed a +0.4% increase MoM, slightly above the expected +0.3%. Core CPI remained in line with expectations at +0.3% MoM. An acceleration in shelter inflation was observed, core services ex housing also accelerated on the month. In short, inflation continues to be characterized by stubbornly high services inflation and easing goods prices. Though over the past week, dovish "Fedspeak" suggests that the Federal Reserve has been expressing a cautious or accommodative stance on monetary policy, possibly in response to the ongoing economic challenges, the fact is the US economy remain above the Fed's inflation target.

After experiencing a worrying decline earlier in the year, it appears that China's economy is stabilizing. Several factors are contributing to the stabilization of China's economic growth. These include policy stimulus measures and a recovery in exports. The easing of financial conditions in China seems to be having a more significant impact than initially anticipated. Total social financing (TSF) increased by a stronger-than-expected Y4.1tn last month. TSF typically includes various forms of credit and financing available in the economy.



US CPI and PPI | Source: Bloomberg

Equity
Digesting Middle East Crisis

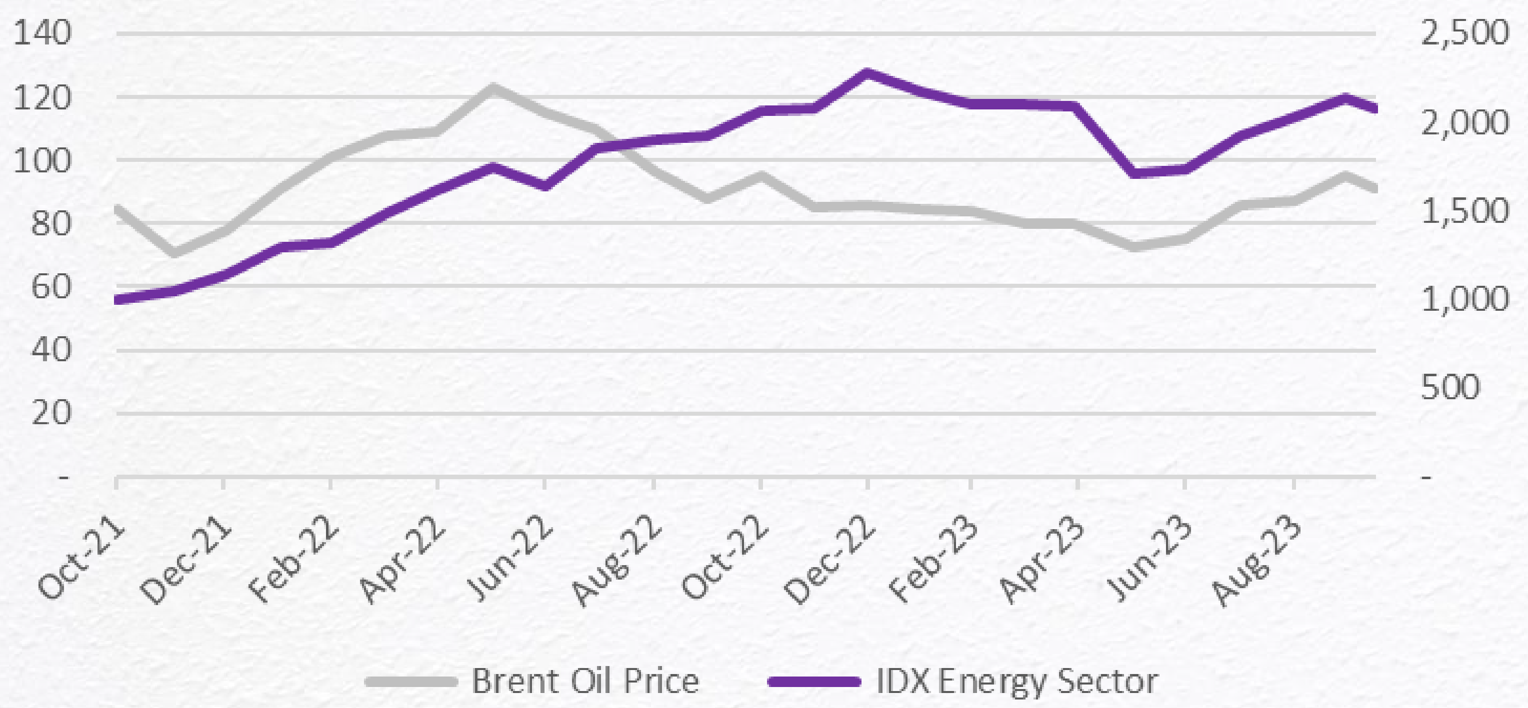
JCI ended the week with a 0.56% WoW gain. Infra led with a gain of 18% driven by the newly listed Barito Renewables. Energy gained 2.9% following oil price increase, and consumer cyclicals increased 1.3%. The laggards were tech which declined -5.7%, healthcare -3.4%, and consumer staples -2.1%.

Major commodities experienced price increases during the week. Crude oil prices were in the spotlight due to concerns related to the Middle East, resulting in a 7.4% increase. Precious metals like Gold and Silver saw gains of 2.9% and 2.6%, respectively. Base metals like Copper and Nickel also saw price increases.

Our view is that the JCI is likely to continue to be range-bound as global market participants digest the effects of the war in Middle East and its likely scenarios. Domestic catalysts are also still few, with the election campaign upon us but any positive impact from increase in government spending and possibly domestic consumption of the mass market will likely be neutralized by pressure on IDR and wait-and-see attitudes of the business and investor community.

Asset Management

Fixed Income
Easing Pressure



Brent Oil Price vs IDX Energy | Source: Bloomberg

Pressure on the domestic bond market eased last week and registered the first weekly gain for the first time after five consecutive weeks of loss. Indobex Government Total Return index, advanced by +0.77% compared to previous week as the yields across the curve fell by around 8-15 bps, where the 10-year benchmark yield closed at 6.77% last Friday, went down 23 bps since beginning of the last week.

In the global space, despite ongoing concern on the bearish US inflation data, the current geopolitical conflict in the Middle East could potentially trigger “flight to safety”, which can help US Treasury yield to move lower as reflected buying in global bond markets on last Friday, where the UST and Bund 10Y yields fell by 9 and 5 bps respectively.

From domestic, today there's announcement of trade balance data for Sept, which suggests a higher-than-estimated trade surplus of USD 3.4 bn amidst weak imports, which give some buffers to Rupiah. Imports plunged to USD 17 bn in Sep-23, marking an 8.2% mom decline. Consequently, the quarterly import data for 3Q23 recorded an 11.9% yoy contraction. This decline was predominantly led by non-oil and gas imports, with capital goods imports taking the brunt. The decrease in capital goods imports can be attributed to subdued external demand, resulting in limited expansion of industrial production capacity.

Next to watch is on BI's benchmark policy rate decision on 19-Oct. BI is broadly expected to keep on hold its policy rate at 5.75%. So far this month, 16 central banks globally have already done their regular policy rate meetings with 10 countries decided to hold (Australia, Kenya, New Zealand, Iceland, Albania, Uganda, Romania, India, Serbia, and Singapore), while 5 countries decided to cut (Poland, Sri Lanka, Uruguay, Kazakhstan, and Peru) and only one country (Argentina) decided to hike.

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