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FUND MANAGER'S LETTER
OCTOBER 4TH WEEK, 2023

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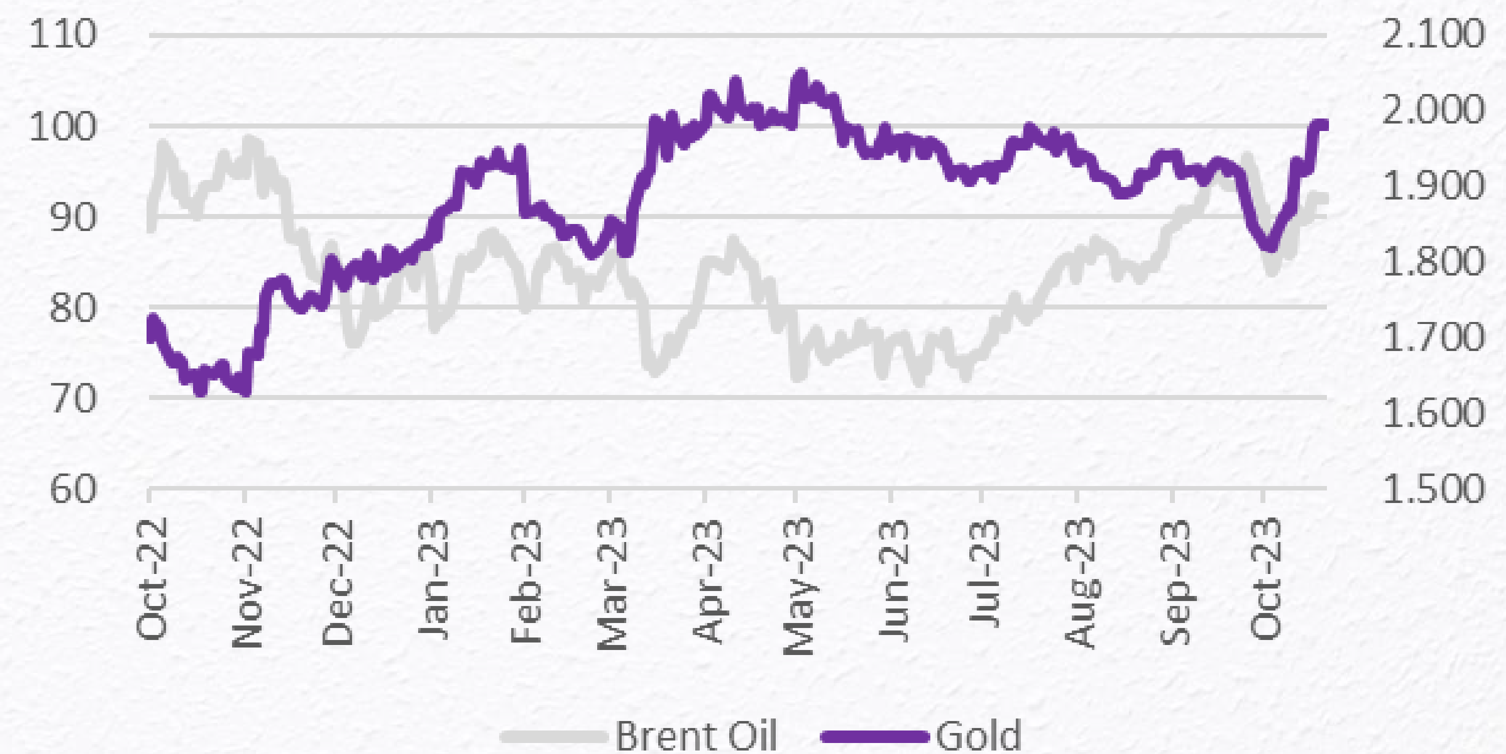
Macroeconomics
Between Middle East Tension and High Rates

The rapid increase in U.S. Treasury yields, such as the 10-year and 30-year (almost +50 bps and over +60 bps in just over a week) can be attributed to a variety of factors. These may include expectations of interest rate hikes by the Federal Reserve, concerns about rising inflation, and changes in economic outlook. The extent to which this trend will continue depends on various factors, including economic data, central bank actions, and global events. The strength of the U.S. dollar, meanwhile, has tapered a bit, and can be influenced by a multitude of factors, including interest rates, economic data, and geopolitical events. While rising yields may typically lead to a stronger dollar, other factors, such as market sentiment and concerns about global economic growth, can offset this effect.

It seems like the market narrative for the week can be summarized in two key observations, first is geopolitical Stress. Geopolitical tensions have led to certain expected market reactions: 1) Gold Up: Geopolitical uncertainty often drives investors towards safe-haven assets like gold, causing its price to rise. 2) Oil Up: Geopolitical events or concerns can disrupt the global oil supply, leading to higher oil prices. 3) Volatility Up (Volatility Index): Increased uncertainty and risk can result in higher

market volatility, as reflected in the VIX (Volatility Index) or "vol."

The second main narrative last week is US Interest Rates: Despite the geopolitical stress, U.S. interest rates have risen to higher levels, particularly on steeper yield curves. This suggests that other factors, such as economic data or central bank actions, are driving the increase in interest rates. In a widely anticipated speech delivered to the Economic Club of New York, Powell evaded committing to a specific policy path. The comments come the same day initial jobless claims hit their lowest weekly level since early in 2023, indicating that the labor market is still tight and could exert upward pressure on inflation.



Brent Oil vs Gold | Source: Bloomberg

Equity
Stay In The Red

JCI posted another loss last week, declining -1.1%, with transportation, tech, property, and consumer cyclicals posting the biggest losses of -5.5%, -3.7%, -3.6%, and -3.0%. Infra, healthcare, and energy led with gains of 13%, 2.9%, and 0.4%.

With IDR under attack (depreciated another 1.2% last week), and 10 year bond yields back to above 7%, it is hard for equities to maintain its resilience. Foreign investors sold most of the big bank stocks last week, along with ASII and GOTO. The surprise rate hike from Bank Indonesia also did not help sentiments, particularly towards banks, even though we view that cost of fund trend may be matched with rising loan yields for big banks. Consumer staples were doing better, led by UNVR, CMRY, and MYOR.

Commodities names did relatively well with names such as BYAN, ADRO, MEDC, BRMS, MBMA, INCO were among the top gainers last week. Our view is that commodity-related stocks will remain volatile whilst the geopolitical tension in the Middle East is still relatively uncertain, but this group of stocks might be a good hedge for that particular event risk, as oil price tend to rise in such situation, and other energy names might follow, particularly as we are approaching winter in northern hemisphere.

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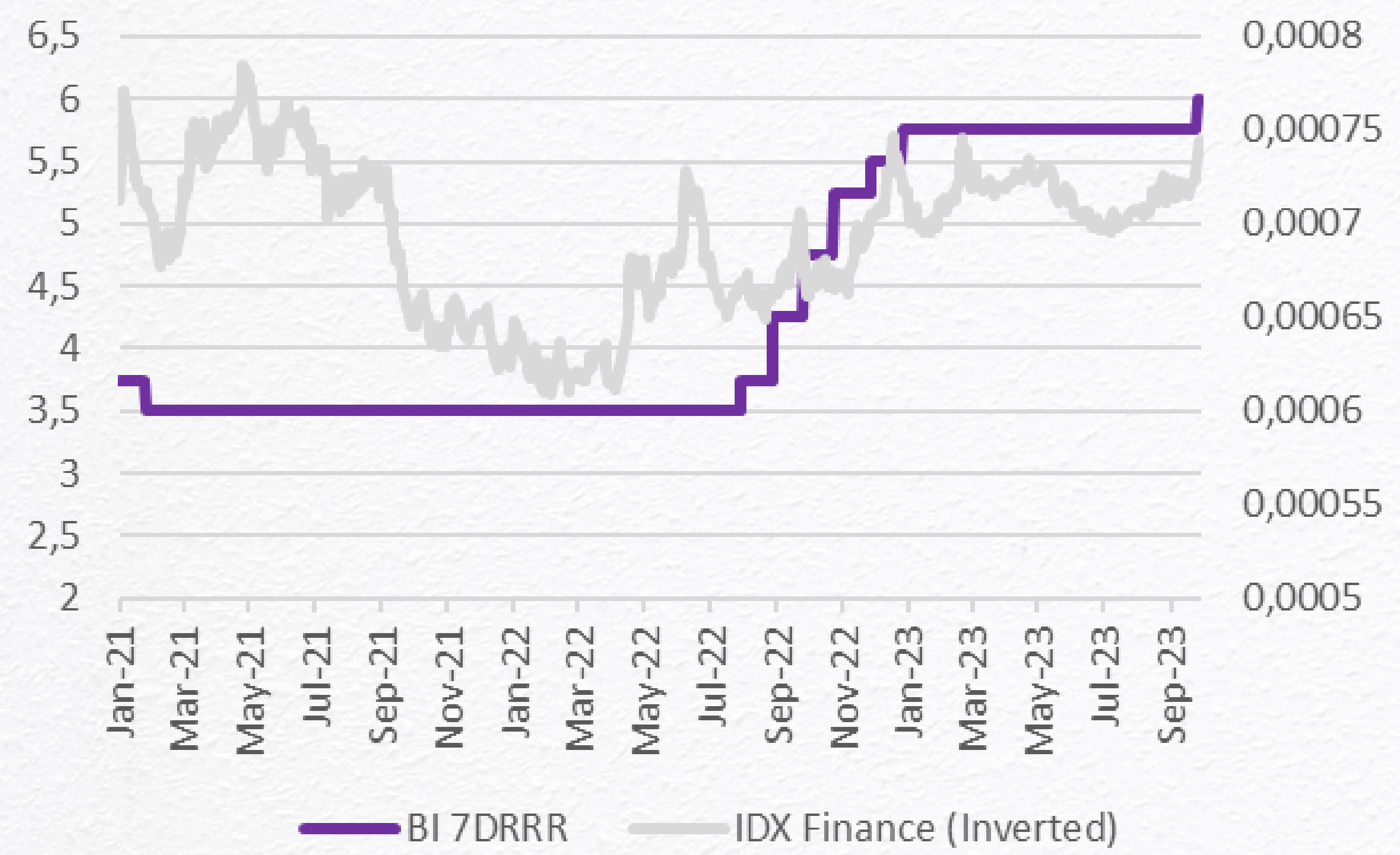

BI 7DRRR vs IDXFIN (Inverted) | Source: Bloomberg

Fixed Income
Another Sell-Off

After registering weekly gain in the second week of this month, pressure in the domestic bond market has been escalating since last week on the back of surge in UST yield. The uncertainty in the global landscape has also put rupiah in the red zone and depreciated to more than 15.600/USD, which triggered the Central Bank of Indonesia to surprisingly hiked its policy rate by 25 bps to 6.00%, the first time since December last year. As a result, sell off in IndoGB unavoidable and the yields rose by around 13-21 bps compared to a week earlier. It seems that the trend of higher yields may continue in the near term. However, the yield spread to UST remains quite well-managed with the current level at around 210 compared to the 5-year historical average at 470 bps.

In term of supply, up to second week of October-23, total gross issuance accounted to IDR 650 tn. The average issuance from regular auction of conventional bond series in the 3Q23 down to IDR 12 tn vs IDR 15 tn in 2Q23 and IDR 20.7 tn in 1Q23. There might be a chance that the state budget deficit realization at below 2% for this year, hence, the supply risk for the rest of this year could remain manageable.

Meanwhile, from the latest flow data from MoF as

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of 18 Oct 2023, we can see that foreigners have been reducing its position in IndoGB around IDR 10.3 tn since beginning of this month, but still net buy of IDR 50.5 tn in YTD basis.

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