avrist
Asset Management

DEAR INVESTOR,

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

FUND MANAGER'S LETTER
SEPTEMBER 2ND WEEK, 2023

www.**avrist-am.**com

Macroeconomics
Stagflation Fears Are Back

Last week have revived fears of stagflation amongst global market participants, after spending much of this year hoping (and so far still not proven wrong) that soft landing can be achieved, with US inflation gradually coming down whilst labor market and other economic data remaining resilient. That narrative was beginning to be questioned, the main culprit was oil price which has rallied 25% from end of June (Brent crude up from 72 to 90). Rising oil price is expected to revive energy parts of the CPI basket and may shatter hopes of rapid monetary easing by The Fed in 2024.

Economic relations between US and China continue to worsen, as Chinese government have decided to ban the use of iPhone for officials at central government agencies, and will reportedly expand the ban to government-backed agencies and state companies. Chinese Yuan in offshore trading declined to its lowest record last week, as policymakers cut the daily reference rate, signaling they are quite comfortable with the currency's depreciation. Dollar Index continued to strengthen last week, and bringing their rally from July's low point to 4.7%. The US Dollar Index, which now stands at its highest level in six months, has been buoyed by a slew of positive economic data from the United States in recent weeks, while the outlook of the economies of China and Europe do not seem good.

US Dollar Index | Source: Bloomberg

Equity
Rotation To Global Cyclicals

JCI declined -0.8% last week, after another failed attempt to close above 7000 for the week. Domestic consumption driven sectors were seeing significant profit taking, while basic materials and energy which were driven more by commodities (what we deem global cyclicals), led the index with 2.7% and 2.3% gain respectively. Property, consumer staples, and financials were the main laggards with -2.6%; -2.3%; and -1.5% losses respectively. Commodities prices were generally higher last week, with Crude oil up 1.6%, TTF Natural Gas +3.4%, and Newcastle Coal was flat, while metals were down, Nickel -2.9%,Copper -2.2%.

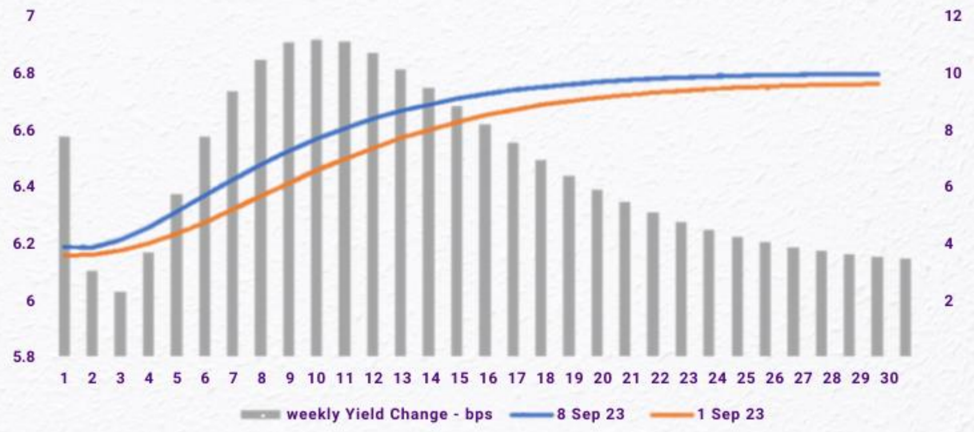
Foreign investors net sold the three big bank stocks (BBCA, BBRI, BMRI) last week. Expectations for higher for longer interest rates in developed markets have hit sentiment on interest-rate sensitive sectors. Property stocks also got hit last week. Our view is that Indonesian big banks are not that sensitive to interest rates and NIM trend will be driven more by each specific bank’s strategy to maintain and grow their CASA. Election related spending in the fourth quarter might also ease liquidity conditions. Property stocks also did not depend much on benchmark rates in our view, as mortgage is still one of the preferred credit segment for several big banks and demand remain healthy.

IDX Sectors Return Quarter To Date | Source: Bloomberg

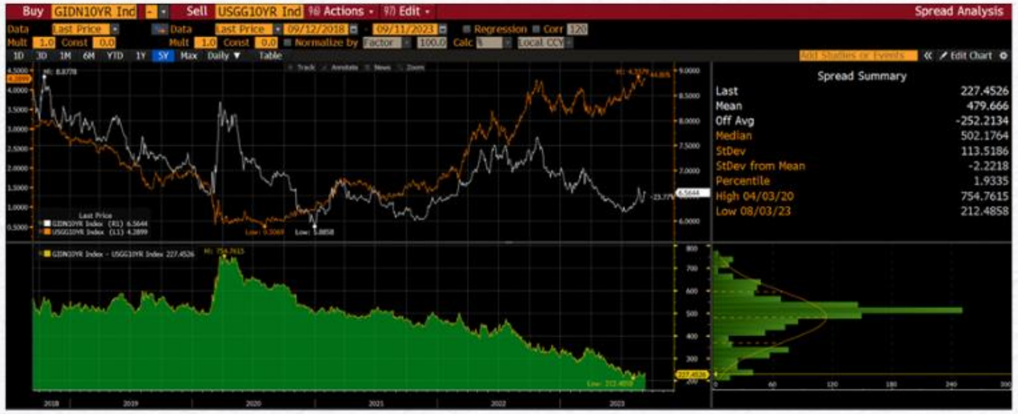
Fixed Income
Risk Off Mode

Global bond market turned into risk-off mode following to concern over global disinflation efforts after Saudi Arabia decided to extend its 1 million barrel per day voluntary oil production cut until the end of the year, which announced last Wednesday. Crude oil price increased and brent touch USD 90/barrel, the highest since mid-November last year. In addition to that, jobless claims in the US reported at 216.000, below consensus estimates at 233.000 and previous week at 229.000, indicating that labor market in the US remain relatively sticky. The US Treasury yield 10-year moved back to nearly 4.3% after touching 4.1% a week earlier.

IndoGB, although its relatively well-sheltered but also got impacted, and the benchmark 10-year yield rose to above 6.5%. Even so, yield spread to US Treasury 10-year relatively stable at 220-230 bps. Overall, IndoGB yield curve increased by 3-11 bps where the belly part (7-12 year) relative underperformed against other maturity bucket. Indobex Government Total Return Index registered another weekly loss by -0.36% vs +0.83% a week earlier.



IDX Sectors Return Quarter To Date | Source: IPBA



Yield Spead: IndoGB 10-Year vs US Treasury 10-year | Source: Bloomberg

From the supply side, in the last conventional government bond auction, the government received an incoming bid of IDR 20 tn, lower compared to previous auction IDR 34.6 tn. Meanwhile, the government decided to issue IDR 13.2 tn, higher than IDR 7.8 tn previously. YTD, the government has already issued gross supply of IDR 567.8 tn. The average size issued for conventional bond in regular auction has been declining from IDR 20 tn in 1Q23 to IDR 15 tn in 2Q23 and IDR 11.3 tn in 3Q23 (up to 5 Sept-23). Therefore, we remain manage our view that government bond supply risk would be limited for the rest of this year thanks to solid fiscal performance and will be further support domestic bond market going forward.

avrist
Asset Management

Follow us!

avrist.investasi

www.avrist-am.com