

DEAR INVESTOR,

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FUND MANAGER'S LETTER
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Macroeconomics

Reacceleration of Inflation

Global markets have been watching US disinflation process closely, but last week's August CPI and Core CPI report have thrown some doubts that the disinflation process will progress as expected. US headline CPI rose 3.7% yoy in August, or 0.6% mom. Core CPI rose 4.3% yoy, or 0.3% mom. The month on month trend of headline CPI is back to reacceleration phase, after three straight months of below 0.2% inflation. The core number also accelerated after two months of below 0.2% inflation. In terms of the two main components, core goods prices declined 0.1% in August while core services prices increased 0.4%. The core goods index has now declined in three straight month.

Meanwhile, The core services index has been much firmer lately.

The takeaways from August's data, in our view, is that without a slowdown of growth and higher unemployment, a return to 2% yoy core inflation as trend is still far away. Is the fed funds rate tight enough? It all depends on whether one sees recession as being imminent or not. Our view is that there is not enough data points that suggest a US recession is imminent.

Indonesia's trade surplus in August was bigger than expected. It came in at USD 3.1 bn. Export grew

5.4% mom and imports decline -3.5% mom. There are several possible causes to the decline in imports. One was that July was a high base due to backloaded imports after a long holiday in June. Another is that investment environment is weakening ahead of the election period.



US Month on Month CPI | Source: Bloomberg

Equity

Continued Foreign Outflow

JCI rose 0.8% last week, driven by basic materials sector which increased 6% and energy 1.9%. Property and consumer cyclicals were the laggards with declines of -1.3% and -1.0% respectively. Basic materials sector was boosted by the increases in TPIA and BRPT (Barito Group of companies) as the Group plans to list Barito renewables and the renewables sector has been one of the latest trendy sectors lately. The energy sector was still in an uptrend as oil price continues its advance.

Foreigners continue their outflow from Indonesian stocks, with big banks such as BBCA, BBRI, and BBNI being sold, also GOTO and several commodity

names such as MDKA, UNTR, and ADRO. The upward pressure in US Treasury yield, as well as uptrend of US Dollar Index, have put pressure on USDIDR which last week closed at 15,353, another 0.18% depreciation, after depreciation 0.56% the previous week. Lack of catalysts in our big cap stocks also contributed to lack of interest in our market. Domestic investors are still there but without foreign inflow the trend seems to be sector rotation and not a general upward trend for the index. Thankfully we expect the election campaign period will bring a support to domestic liquidity, with government expenditure expected to increase 40-50% if 2H23 from 1H23.



Foreign Inflow Year to Date | Source: Bloomberg

Fixed Income Risk Off Mode Continue

Global bond market continued to be in risk-off mode as the investors seem to be more cautious on the FED's rate view due to the trend of crude oil prices hike, which may trigger reassessment the narrative of disinflationary progress. The US Treasury 10-year ended up higher and touched the new multi-years high at 4.3%.

All the emerging bond markets, including IndoGB, were also impacted as the yields rose by 4-12 basis points where the 9 to 15 years bucket maturity underperformed the most and the yield curve tends to further a bit steepen. The IndoGB 10-year benchmark closed at 6.68%. However, the yield

spread to US Treasury has been managed well at 220-230 bps. In addition to that, Indonesia CDS 5-year down to 80 from 91 in the mid of Aug-23, indicating that risk perception to Indonesia remain relatively stable.

Domestic macro is also considered to remain solid. August's trade data shows a surplus at USD 3.1 bn, larger than consensus estimate at USD 1.55 bn and USD 1.31 bn in previous month. This resulting to YTD trade surplus of USD 24.3 bn vs 34.8 bn in the same period last year and give some buffer to IDR in the mid of strong dollar environments. MTD, IDR depreciated by around 0.95%, but it still much better

compared to Thai Baht -2%, Malaysia Ringgit -1.17% and Singapore Dollar -0.97%. YTD, IDR still in outperformed against other Asia's currency, appreciated by 1.2%.

By end of last week, BI for the first time, BI introduced SRBI-Sekuritas Rupiah Bank Indonesia 6, 9, and 12 months. BI received incoming bids of IDR 29.86tn, and decided to issued IDR 24.46tn, much higher than its initial target of only IDR 7tn. It will be interesting to see the impact (1) The possibility of banking shifting from deposit facilities to the SRBI; (2) the shift of depositors to the SRBI, and this may increase future deposit interest rates; and (3) the

shift of demand from government bonds to the SRBI, especially in terms of short tenors as the yields are currently much lower than SRBI yields.



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