

DEAR INVESTOR,

by Avrist Asset Management Team

FUND MANAGER'S LETTER
JANUARY 5TH WEEK, 2024



Bond & Economy

Bond Stood Firm Despite Rupiah Weakness

Bond market remained firm last week, despite rupiah depreciation. The rupiah currency breached above IDR 15,800/USD last week, marking as the weakest level since Oct 23. The rupiah weakness, however, did not pose significant impact into bond market. Yield on 10-year government bond stayed firm at 6.65% (+2 bps WoW). The short tenor bond also was seen relatively unchanged. The yield on 2-year tenor bond stood at 6.24% (+2 bps WoW). Bond resilience was supported by the continued increase of local investors base. Last week, domestic banking sector become the biggest buyer of government bond totaling IDR 7.9 trillion followed by Bank Indonesia with IDR 2 trillion of net purchase. BI

has been actively buying bonds to ease pressure on the rupiah currency. BI is currently the biggest holders of government bond, owning a gross total of IDR 1,368 trillion which represent 24% of total bond outstanding. Meanwhile, foreign investors holding was unchanged last week, at 15% of total outstanding. Foreign investors are likely to wait and see before adding their bond position, especially awaiting this week's US Fed policy meeting for any signal regarding interest rate expectation.

On the macro news, the BKPM announced last week that investment realization reached IDR 1,418 trillion in 2023, an increase of 17.5% compared to previous

year. Foreign direct investment (FDI) reached IDR 744 trillion, grew by 13.7% yoy compared to 44.2% yoy in 2022. FDI is expected to decrease this year, as investors might opt to wait and see amidst policy uncertainty ahead of election and rising geopolitical risk. To boost foreign investment, the government targets to attract 1000 investors from golden visa policy this year. This policy will grant extended stay for foreign investors who invest some amount of money in the country. Government will grant 5-10 year stay permit for those who establish the company in Indonesia with investment ranging at USD 2.5 million-USD 5 billion. Golden visa also applies for individual investors opted to invest only,

with investment ranging at USD 350K -USD 700K for a stay permit of 5-10 years.

Equity

JCI Dragged Down by Rupiah Depreciation.

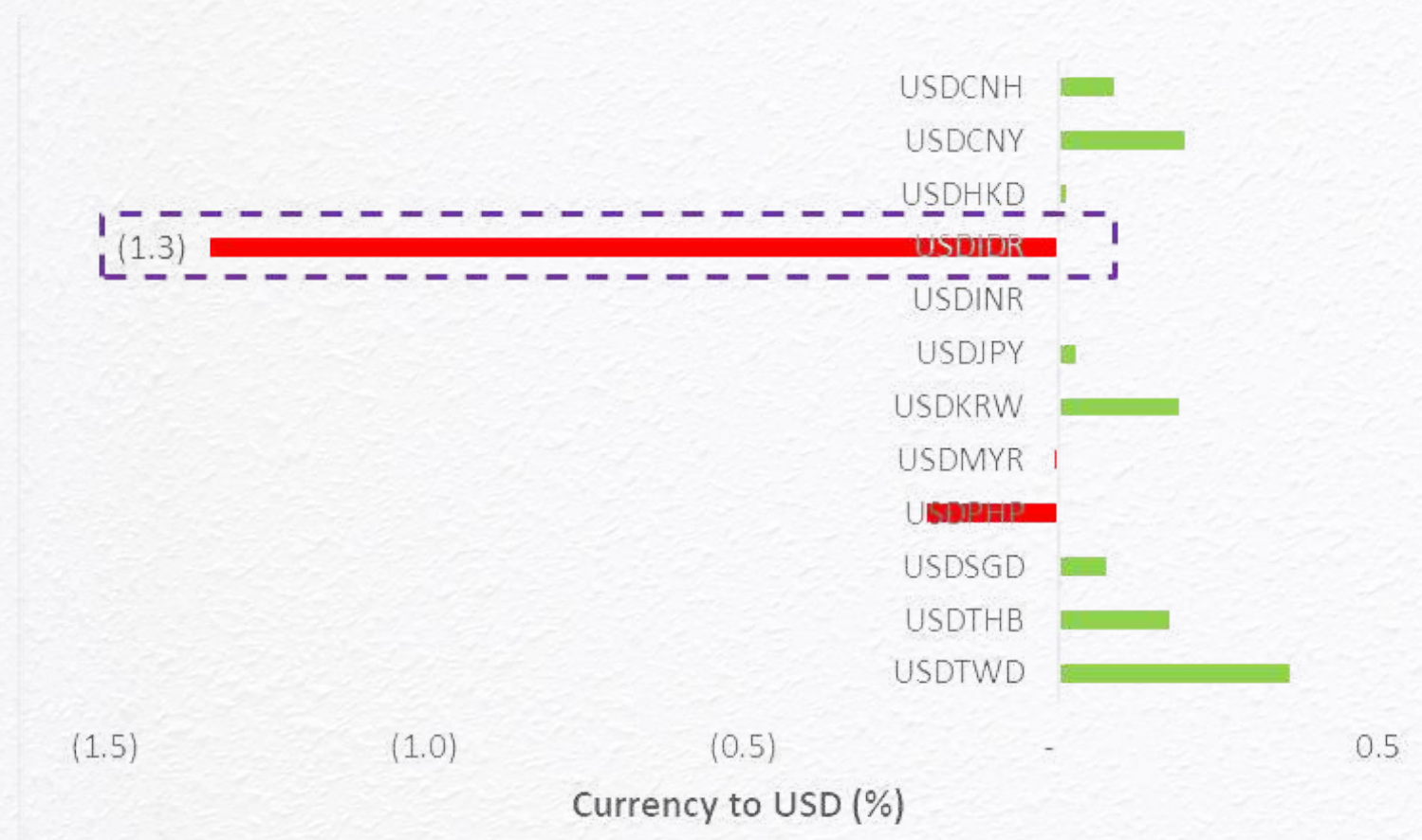
The Jakarta Composite Index (JCI) continued to decline, it fell by -1.25% (WoW) to 7.137 on the week ending January 26, 2024. The decline was led by the industrial (-2.52%), technology (-3.66%), and transportation & logistics (-5.94%) sectors. At the company level, the three largest banks in Indonesia, namely BBRI, BBCA, and BMRI, were the biggest contributors to the JCI's decline in the fourth week of January 2024. The three banks fell by -5.65%, -3.36%, and -3.45% (WoW) respectively. This is the third consecutive week of decline for the JCI since the second week of January 2024. As a result, the JCI has fallen by -1.87% YTD. In our view, JCI's downward trend is likely to continue in the short

term, influenced by the weakening of the rupiah and external factors such as the US economic conditions and Fed's stance on monetary policy in the upcoming meeting.

The Indonesian rupiah has weakened significantly, particularly in the fourth week of January 2024. The rupiah has depreciated from 15.612 to 15.820 per USD, or by 1.31% (WoW) as of January 26, 2024. This decline clearly shows the rupiah's depreciation trend against the dollar since the beginning of the year, as the rupiah has depreciated by 2.75% YTD. The rupiah's depreciation is due to the continued strength of the US economy, which has reignited

uncertainty about the potential for the Fed to cut rates. According to data from Bloomberg, the US economy grew by +3.3% (YoY) in the 4Q23, far exceeding market expectations of +2.0%. Additionally, US inflation (CPI) in December 2023 was 3.4% (YoY), above market expectations of +3.2% and still well above the Fed's target of 2.0%. Although the market has been expecting the Fed to cut interest rates this year, we believe that this is unlikely to happen in the first half given the continued strength of the US economy and inflation. As of January 26, 2024, the US dollar index was still in a relatively strong position, at 103.43 points. In addition to external factors, the weakening of the

rupiah is also being influenced by domestic factors. We believe that the rumors of potential resignation of Indonesian Finance Minister is also a contributing factor to the weakening of the rupiah against the US dollar.



The rupiah was the worst performer among several Asian currencies (WoW) | Source: Bloomberg



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