

Macro Strategy Weekly

Lionel Priyadi

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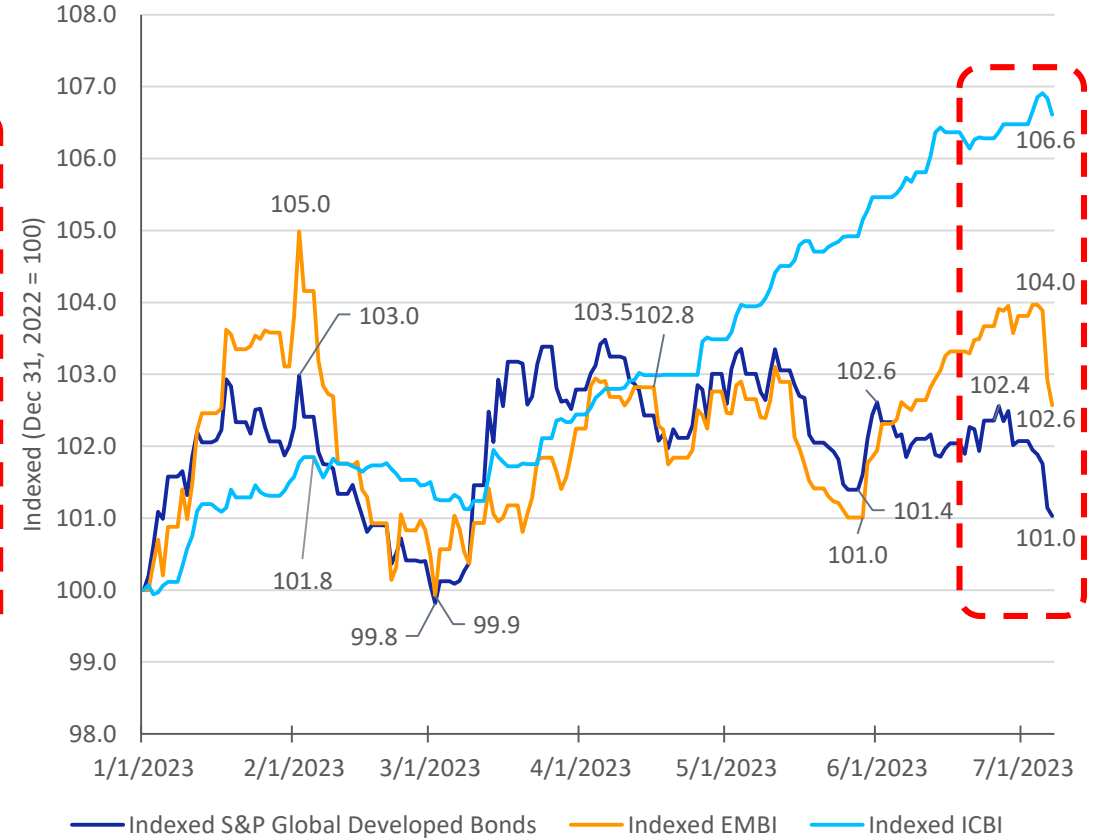
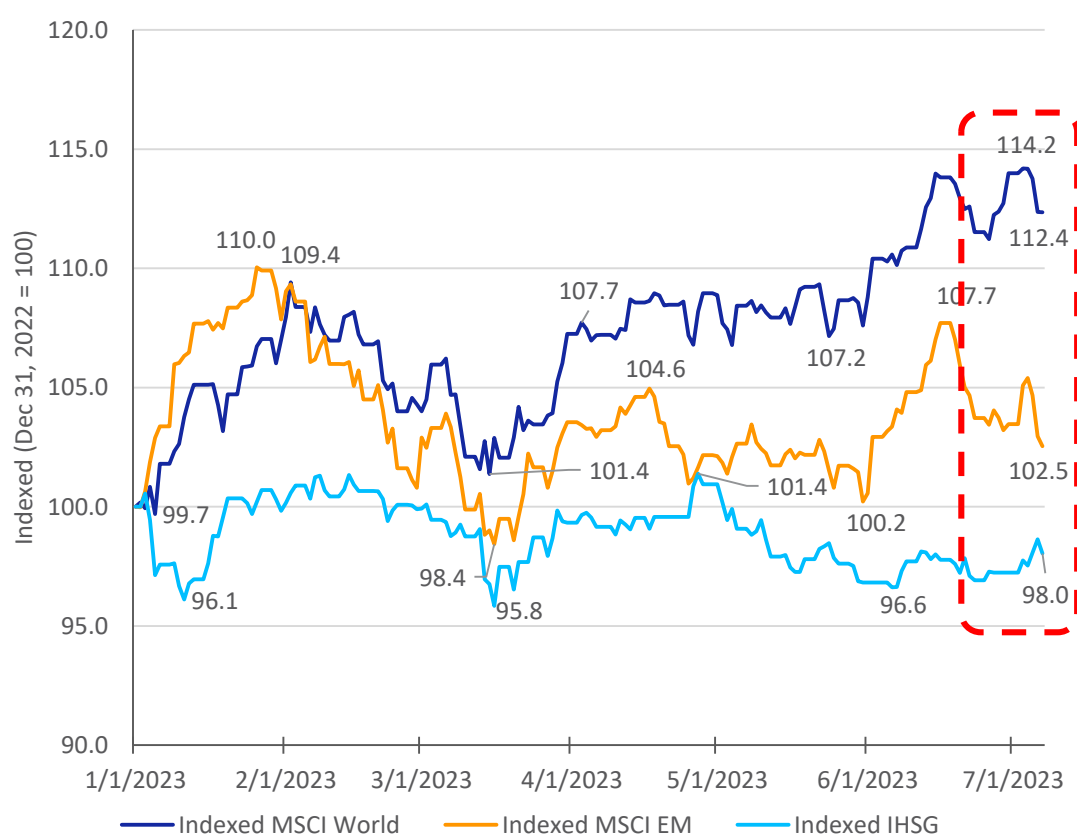


Two-Week Recap

June 26 – July 9, 2023

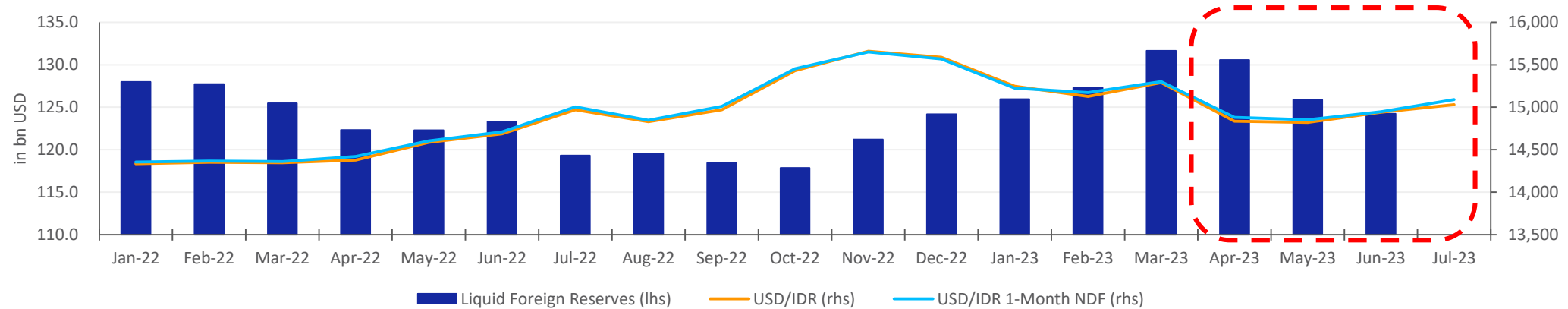
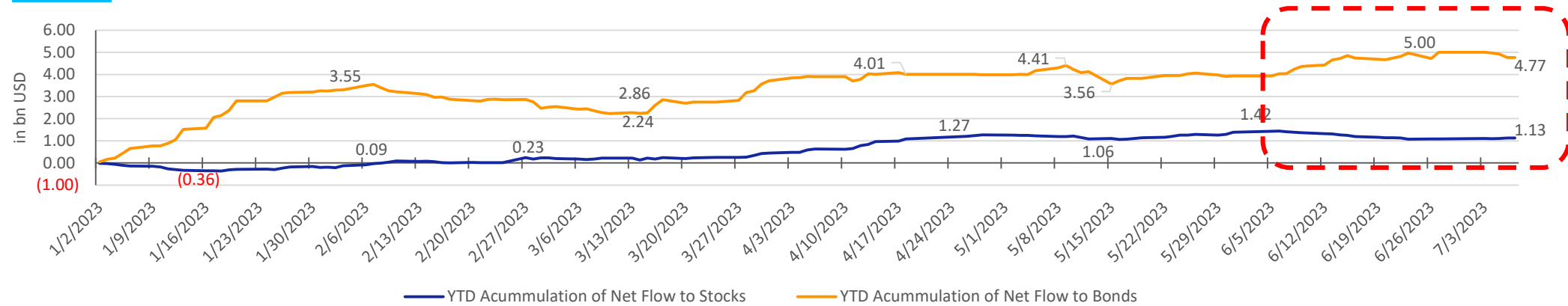
Global stock and bond markets saw massive selling pressure over the past 2 weeks

Though selling pressure in the Indonesian stock and bond markets was relatively more moderate



Source: IDX, Bloomberg, SSI Research

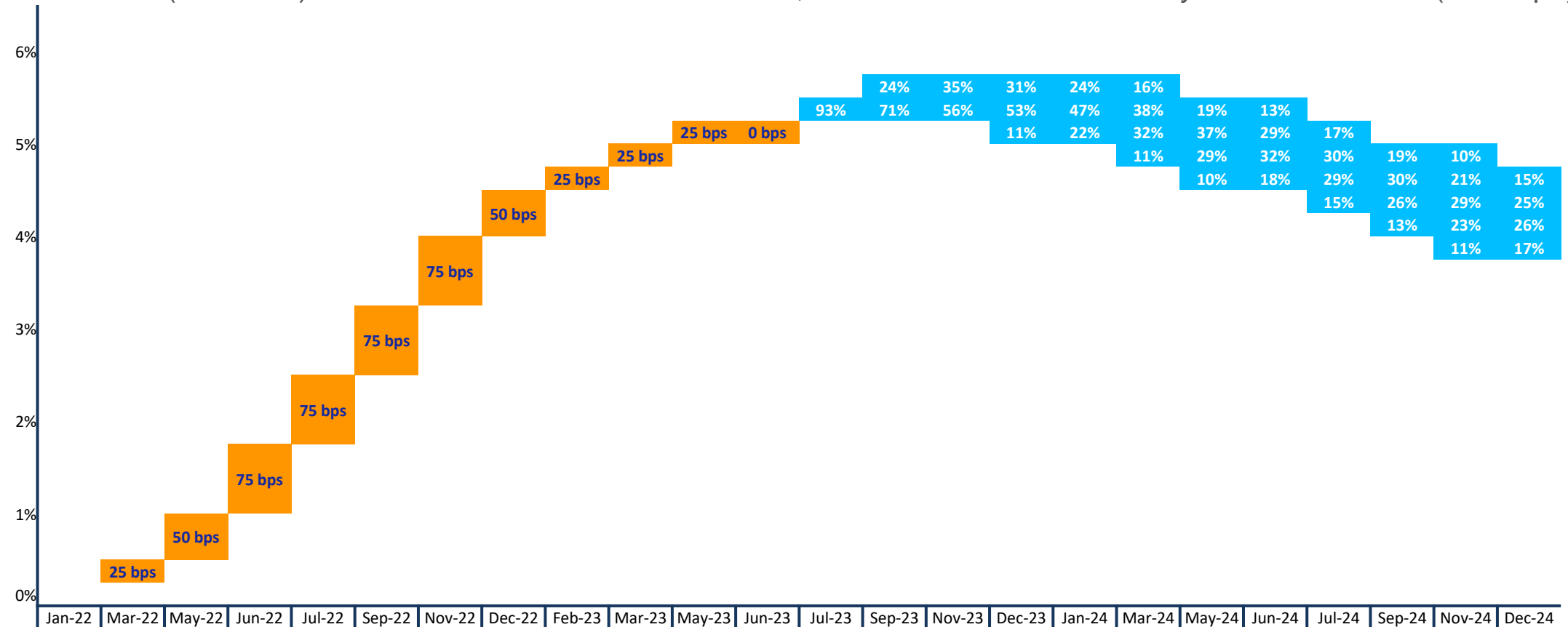
There were corrections in foreign capital inflows into stock and bond markets, though the year-to-date trend has not changed amid rupiah depreciation (despite Bank Indonesia's currency intervention)



Source: Bank Indonesia, BPS, Bloomberg, SSI Research

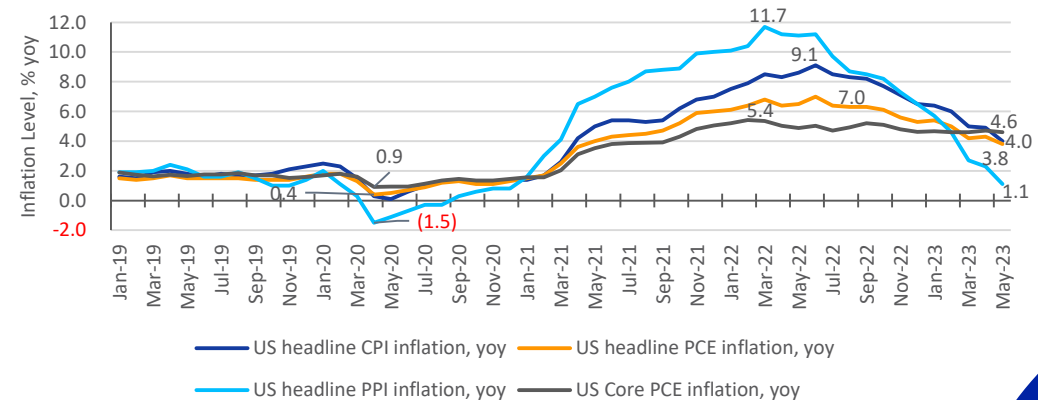
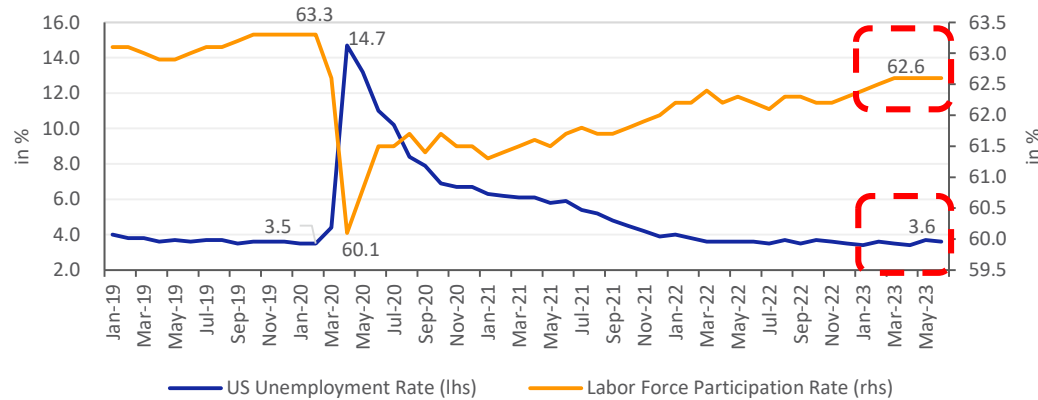
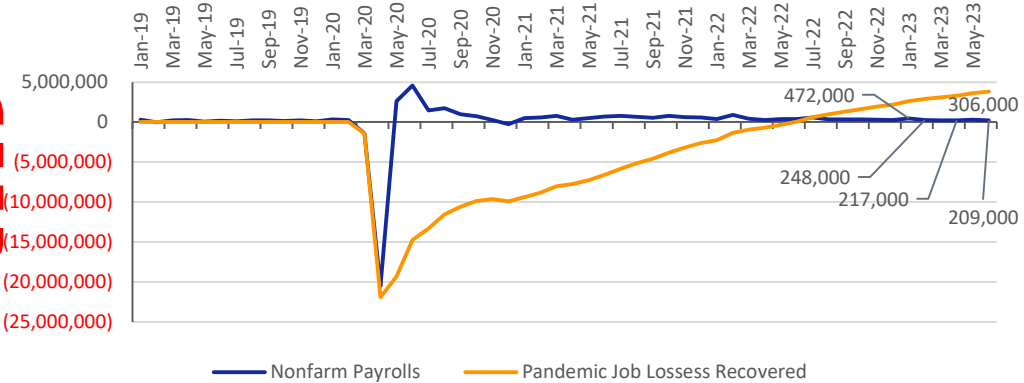
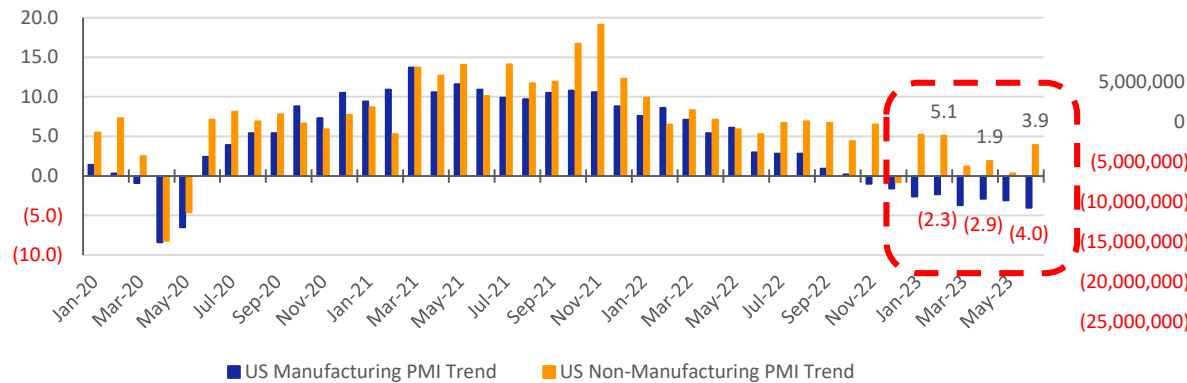
The selling pressure was mainly caused by changes in market expectations of the Fed's terminal rate hikes and rate cut cycle

Most analysts expect FFR to peak at 5.5% (current: 5.25%), with 35% of market analysts project another rate hike in November (to 5.75%) and rate cuts to be started in 2Q24, with a final rate of 4.25% by the end of FY24 (-125 bps).



Source: CME Group, Federal Reserve, SSI Research

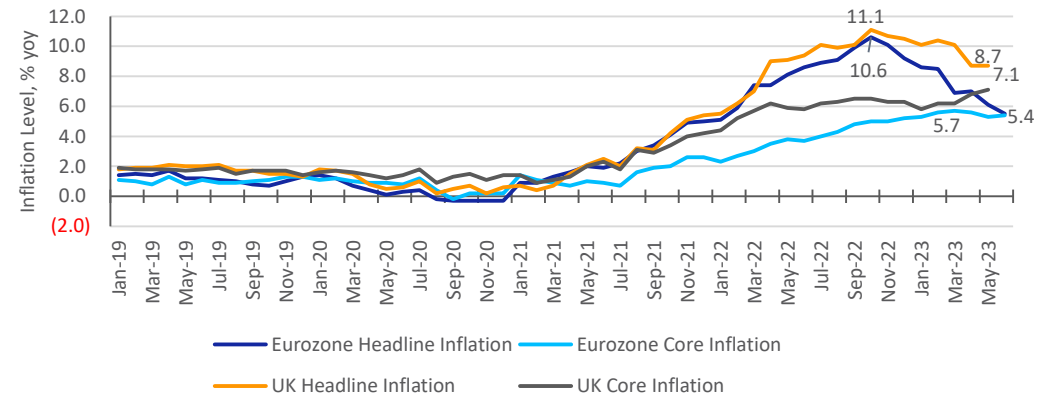
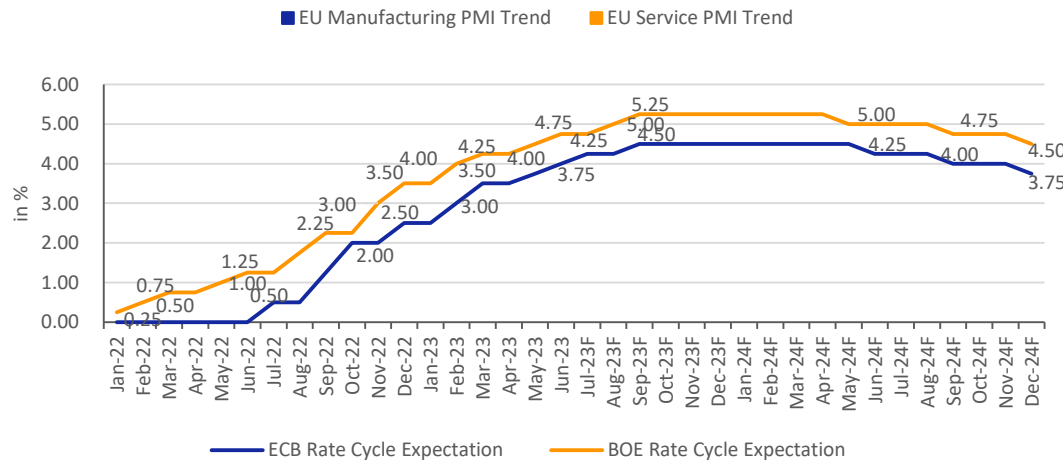
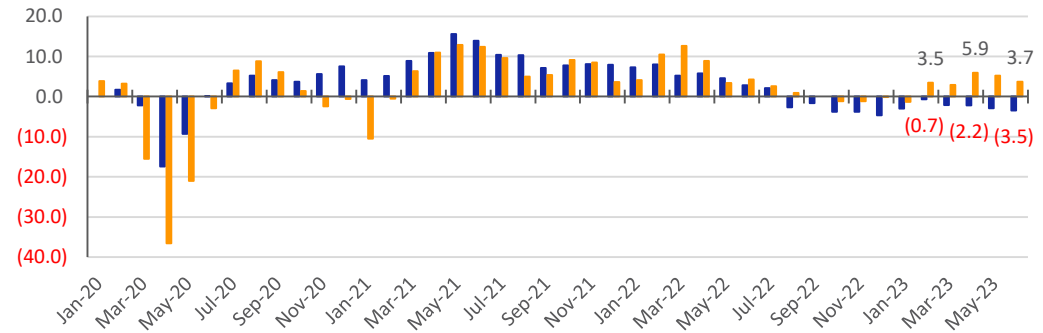
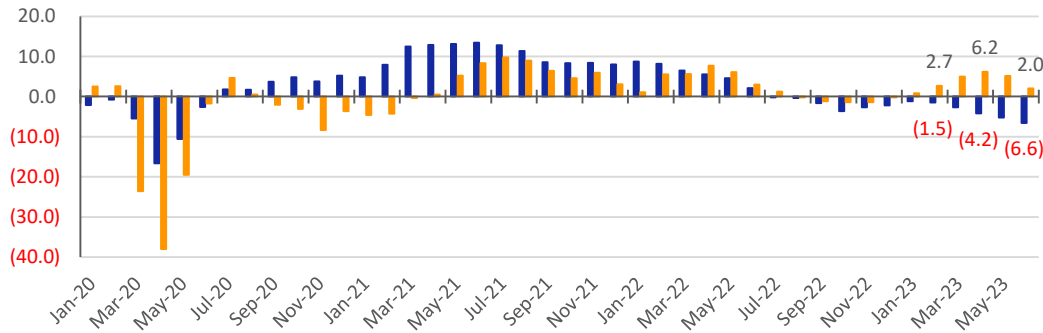
Changes in market expectations was mainly caused by the resilience of the US economy, particularly the labor market (supported by services sector expansion)



Source: BEA, BLS, S&P, Bloomberg, SSI Research

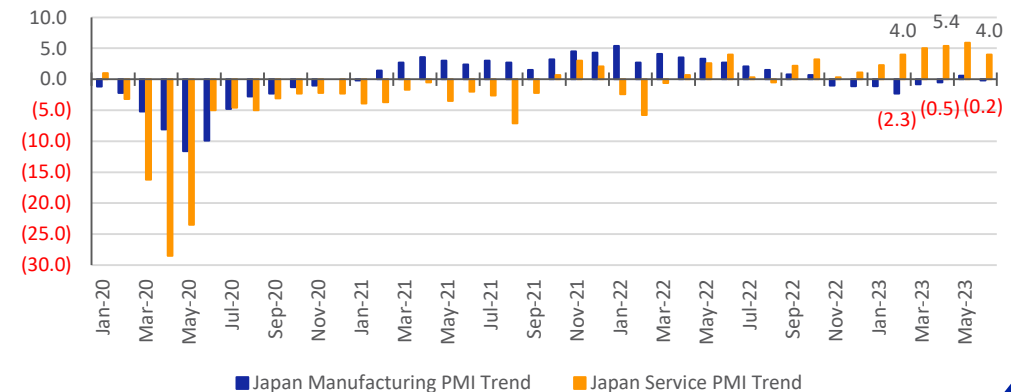
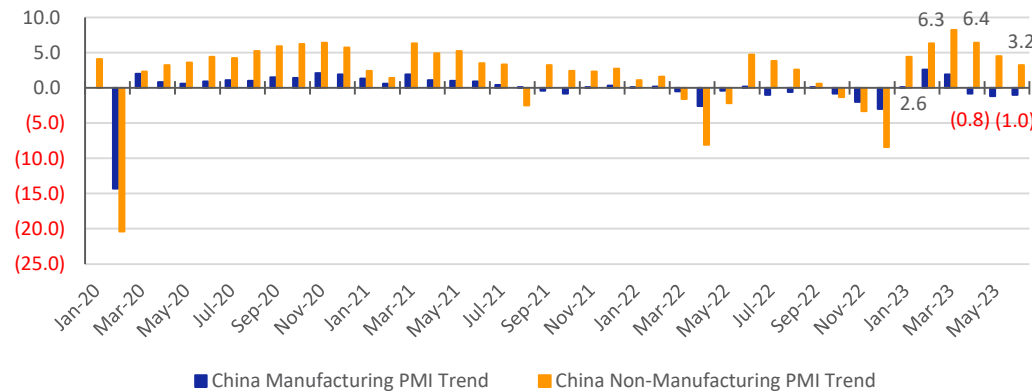
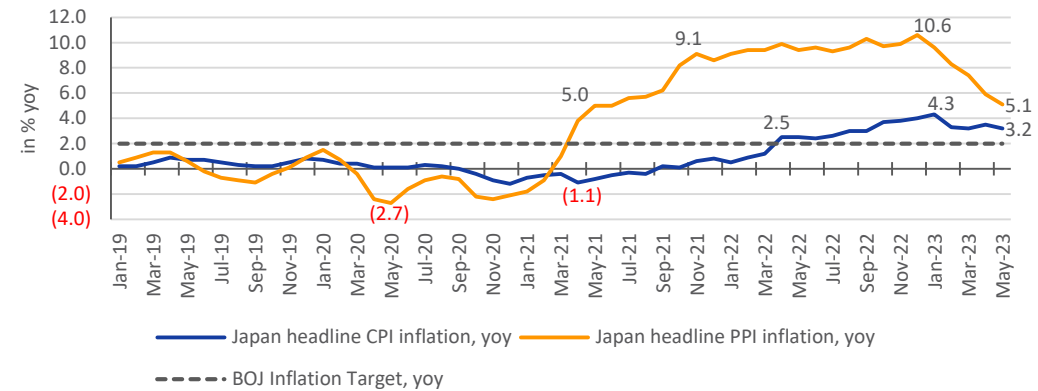
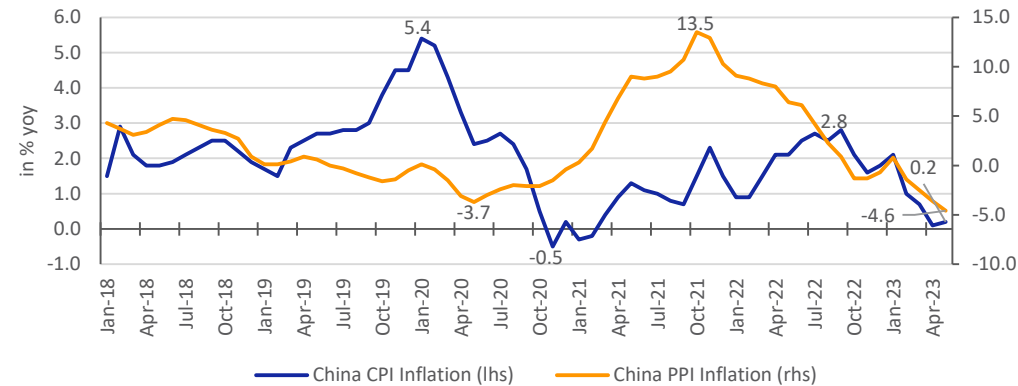
Market players also expect terminal rate hikes in Europe, mainly due to slow disinflation

Services sector expansion in the Eurozone and the UK also strengthened the case for terminal rate hikes



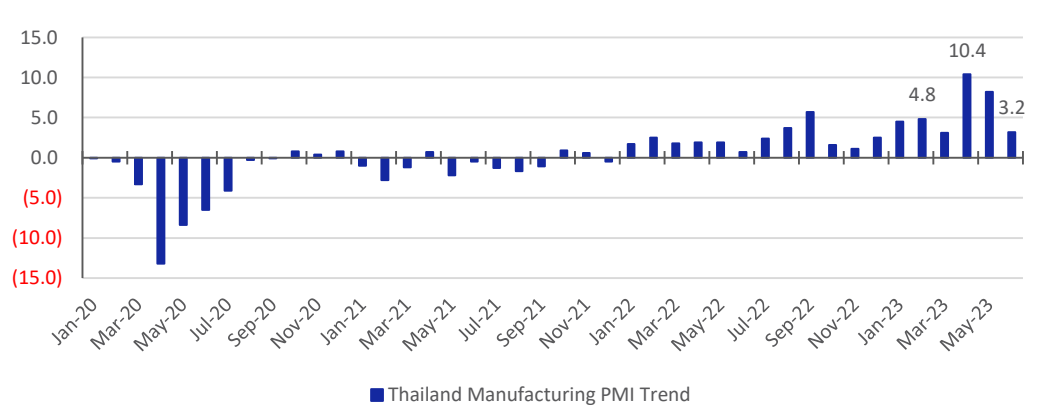
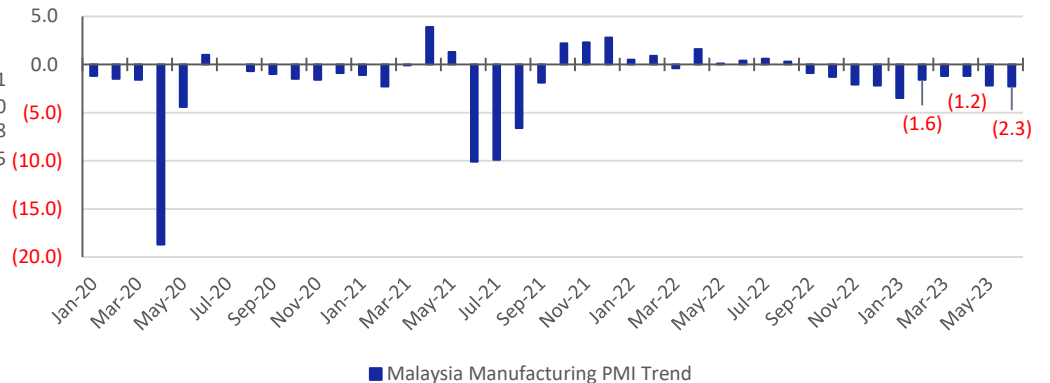
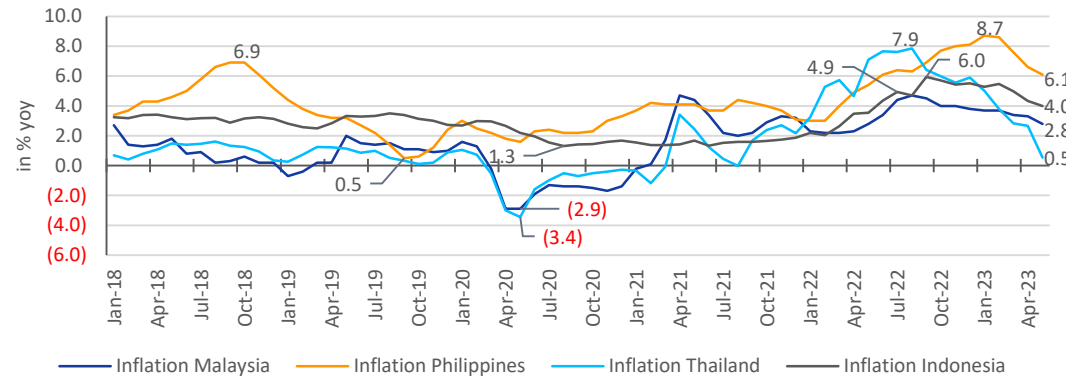
Source: ECB, BOE, Eurostat ONS, S&P, Bloomberg, SSI Research

Meanwhile, monetary policy in North East Asia is expected to remain expansionary thanks to low inflation



Source: BEA, BLS, S&P, Bloomberg, SSI Research

Strong disinflation in ASEAN may encourage ASEAN central banks to start their rate cuts before the Fed begins its own



Source: S&P, Bloomberg, SSI Research

What's Our View?

We expect the changes in market expectations to end this week with the release of June US CPI inflation data

- We believe that the Fed will insist to raise its FFR by 25 bps to 5.5% in July, even though CPI inflation is expected to slow down significantly in June (cons: 3.1% yoy).
- As a result, Bank Indonesia might postpone its rate cuts until September or October 2023, with the possibility of 1X25 or 2X25 bps rate cuts.
- We project USD/IDR to depreciate to IDR 15,100-15,300 per USD this week.
- The INDOGB 10Y yield might also fall under pressure to 6.3-6.5%
- We reiterate our recommendation for investors to reallocate their portfolio from long-term (10Y & 15Y) to short-term instruments (2Y).

This Week

July 10 – 16, 2023

Ones to Watch



July 10, 2023

BI's consumer confidence index (May: 128.3)



July 10, 2023

China's CPI (May: & Cons Jun: 0.2% yoy) and PPI inflation (May: -4.6% yoy; Cons Jun: -5% yoy)



July 11, 2023

BI's real sales index (Apr: 242.9 & BI Forc May: 234.2)



July 12, 2023

US headline (May: 4% yoy; Cons Jun: 3.1% yoy) and core CPI inflation (May: 5.3% yoy; Cons Jun: 5% yoy)



July 14, 2023

US headline PPI inflation (May: 1.1% yoy; Cons Jun: 0.4% yoy)



July 14, 2023

University of Michigan's consumer sentiment survey (Jun: 64.4; Cons Jul: 65.5)



Thank You

Your Lifelong **Investment Partner**

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