

# Macro Strategy Weekly

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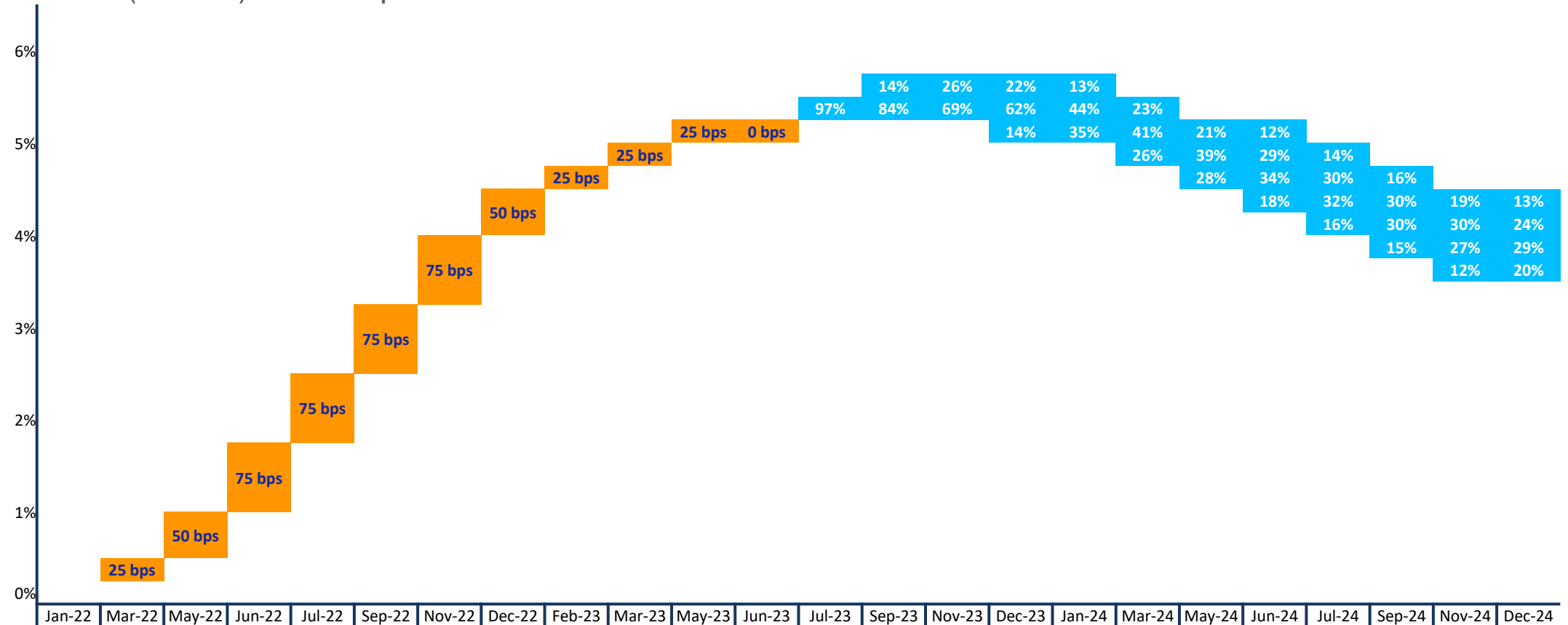


# Last Week's Recap

## July 10 – 16, 2023

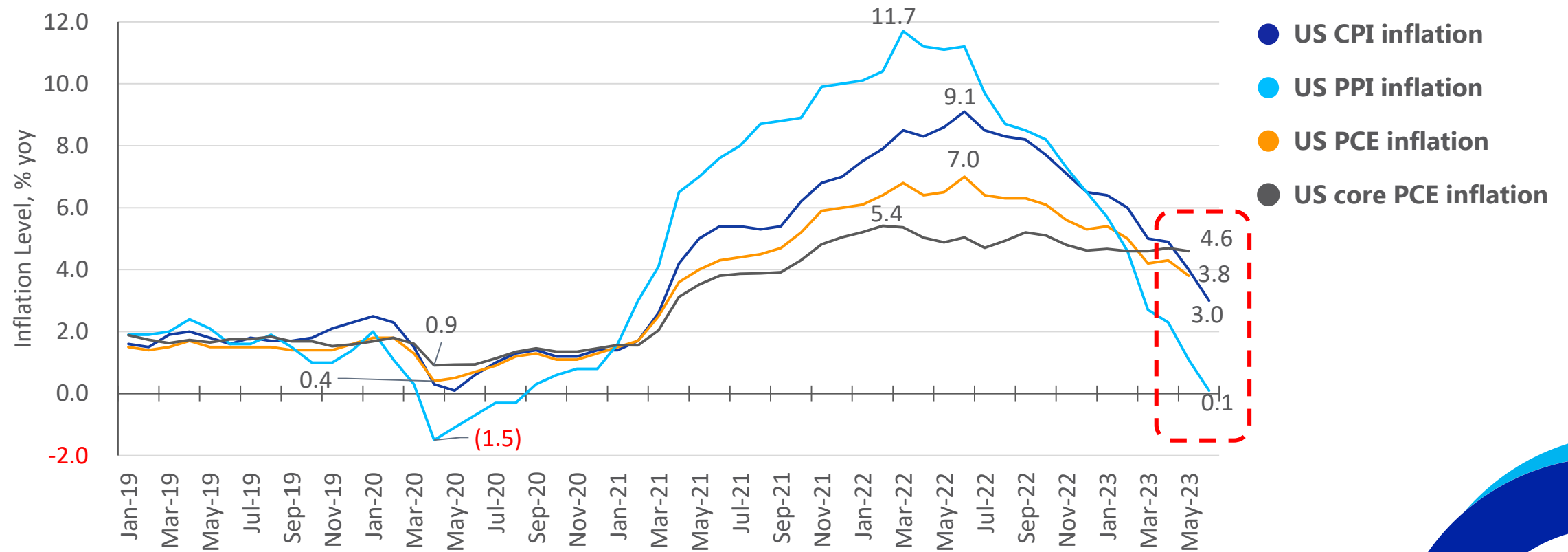
# The market expects the Fed's rate hike in July (to 5.5%) to be the last one in the current cycle

Market players expect the Fed to start its rate cut cycle in 1Q24, with projected total rate cut (in 2024) of -150 bps



Source: CME Group, Federal Research, SSI Research

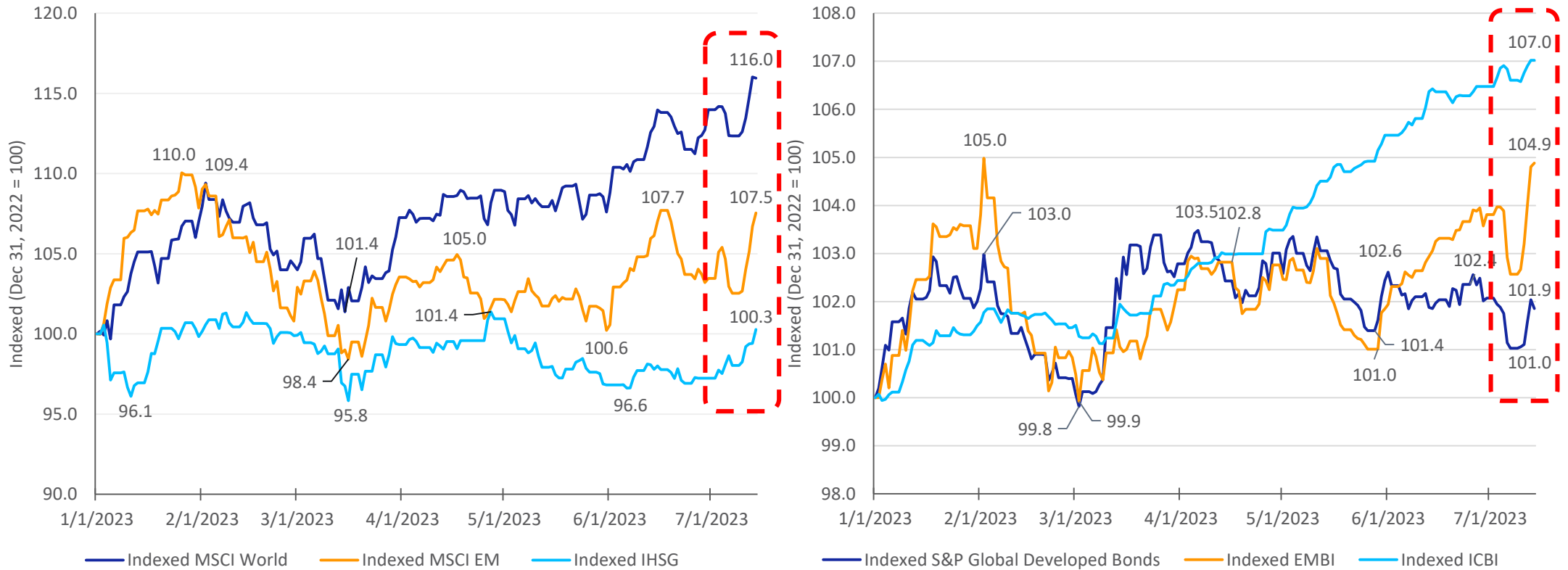
## Those expectations are based on faster-than-expected disinflation in June



Source: BEA, BLS, Bloomberg, SSI Research

## Market optimism led to bullish rally on global bond and stock markets

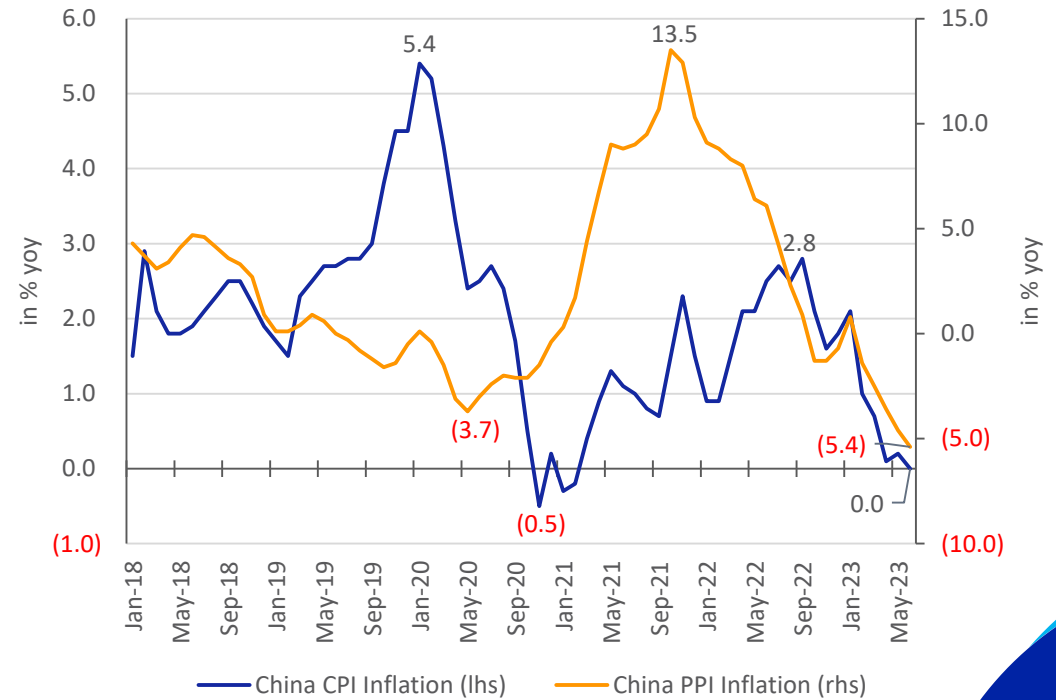
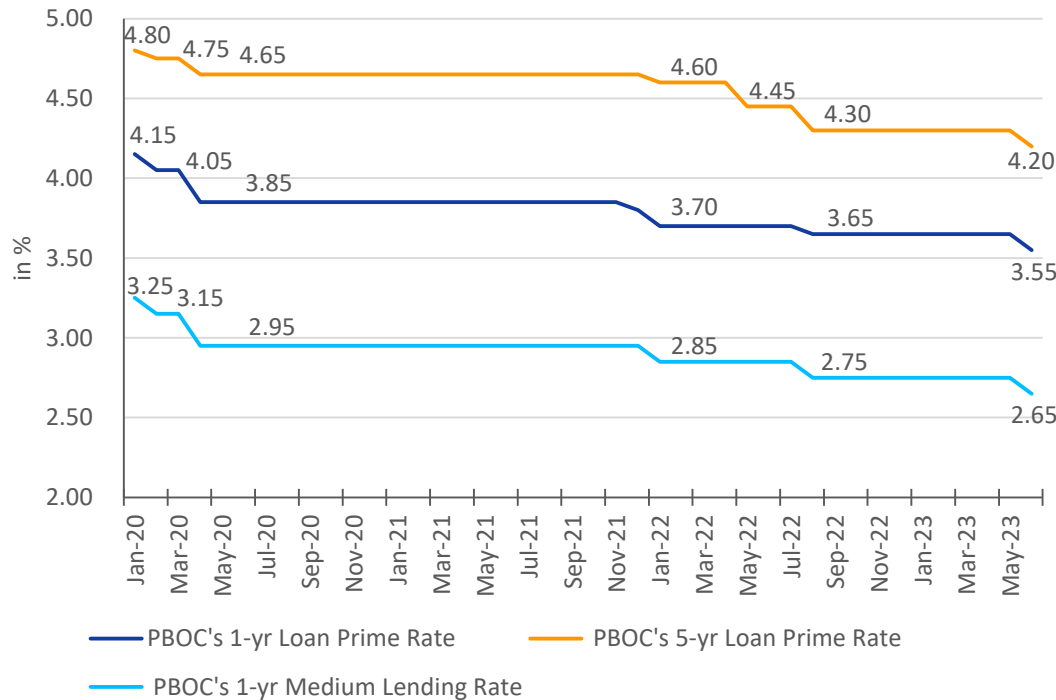
JCI also experienced the same impact, though the impact on the domestic bond market was not as significant, mainly due to attractive capital gain potential from other emerging market bonds



Source: MSCI, S&P, IDX, Bloomberg, SSI Research

# One of those 'more attractive' markets is China, which had started cutting its policy rates in June

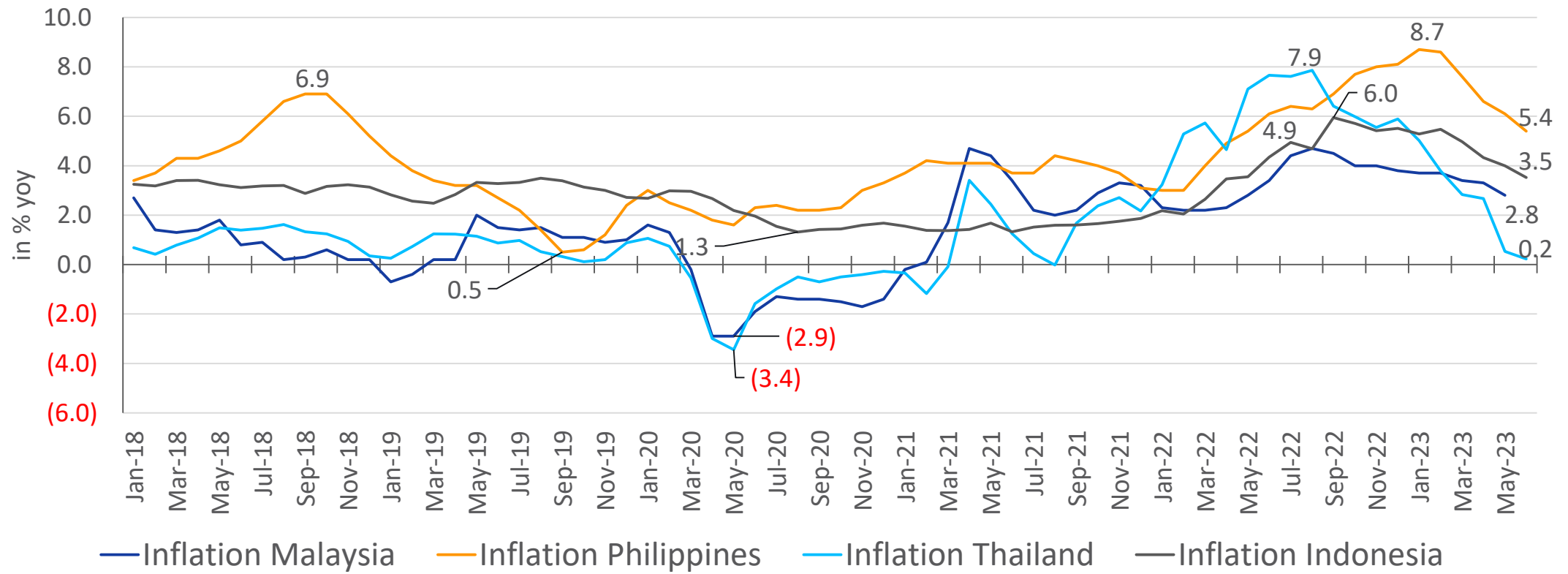
Mainly due to strong deflationary pressure, both on producer and consumer sides



Source: PBOC, NBSC, Bloomberg, SSI Research

## Emerging markets in ASEAN, including Indonesia, might follow China's lead and start their own rate cut soon

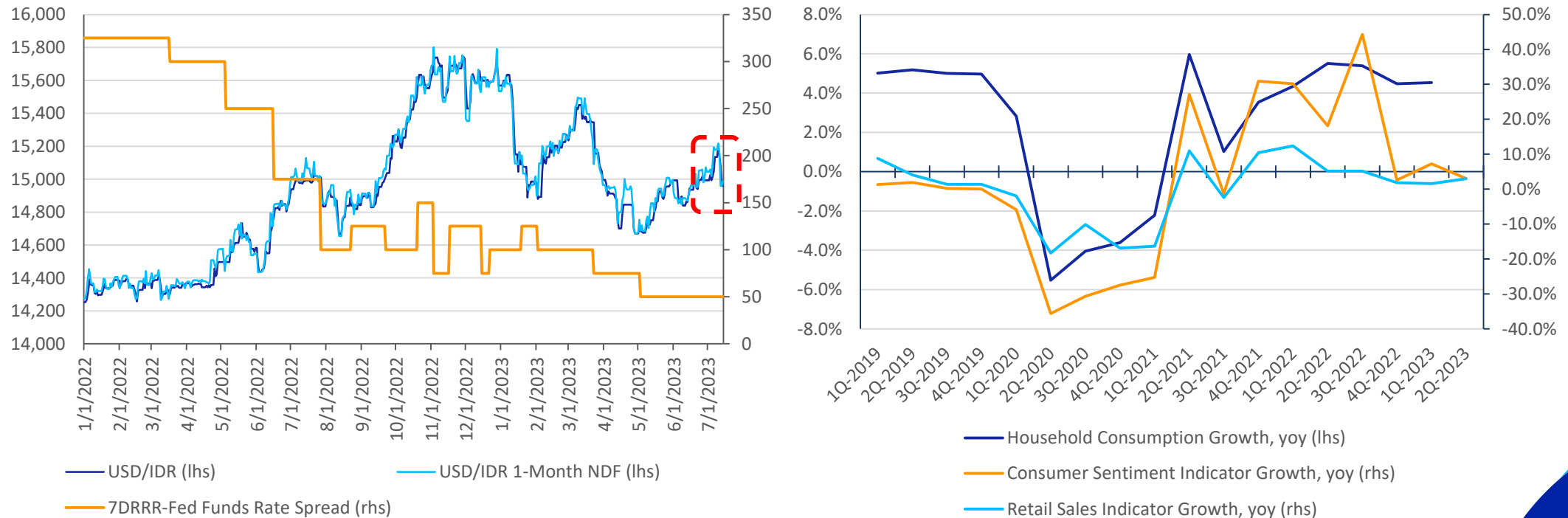
Considering the fact that inflation rate in those countries (except the Philippines) has dropped to within their inflation target range (2-4%) or even lower (Thailand)



Source: BPS, DOSM, NSO, PSA, Bloomberg, SSI Research

# Apart from inflation, there are three other factors that might affect BI rate cuts

a) Rupiah depreciation pressure has eased down following the release of US inflation data, b) Domestic consumption growth slowdown...

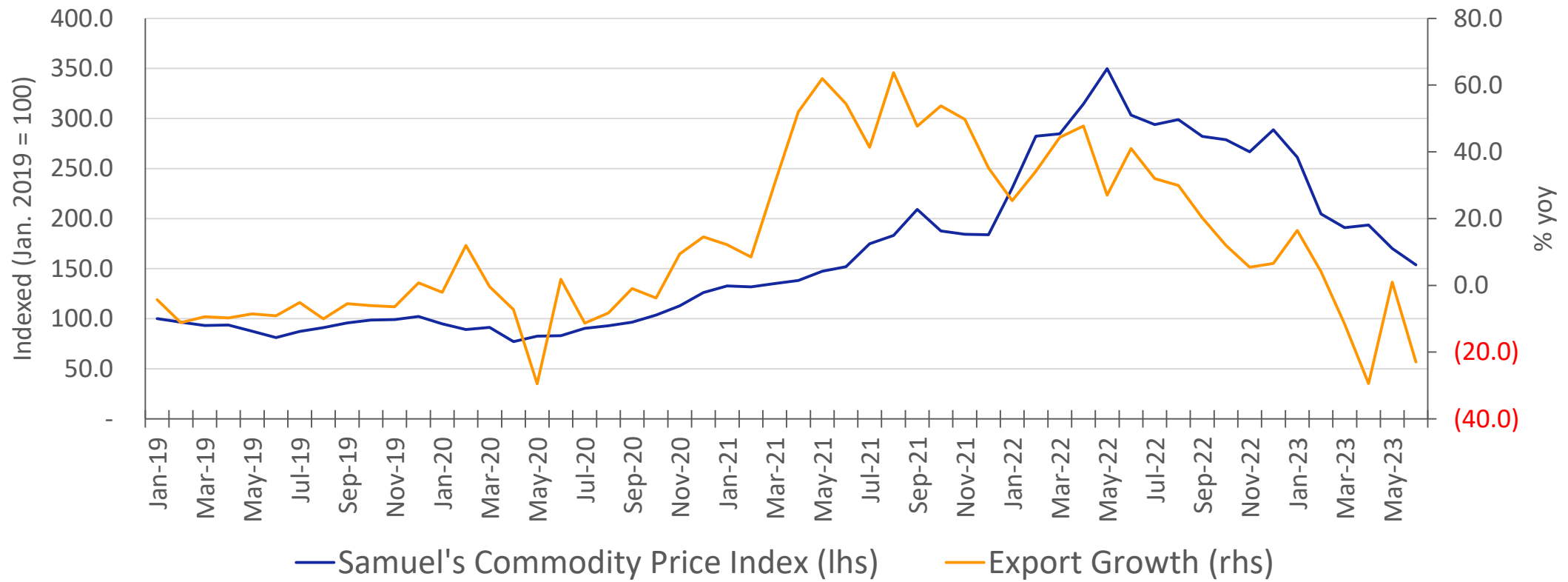


Source: Bank Indonesia, Federal Reserve, BOE, SSI Research



## ... and c) The possibility for more double-digit export contractions

Estimates were based on the pure price effect of main commodity prices (coal, CPO, nickel and Brent crude oil)



Source: BPS, Bloomberg, SSI Research

## What's Our View?

Foreign investors are shifting their attention to emerging market bonds following the release of the US CPI inflation data

- Among all emerging markets, we believe that East and Southeast Asia will start their rate cuts sooner
- In our opinion, Indonesia is the most likely to cut its policy rate among ASEAN countries, considering the fact that rupiah exchange rate has stabilized after the announcement of US CPI inflation data for June
- We expect Bank Indonesia to pay more attention to the potential slowdown in domestic consumption and exports in 2Q23 when making its rate cut decisions
- We expect USD/IDR to appreciate this week to IDR 14,700-14,900 per USD
- According to our estimates, the INDOGB 10Y yield will stabilize at 6.1-6.3%
- We reiterate our recommendation to overweight on INDOGB 2Y

# This Week

## July 17 – 23, 2023

## Ones to Watch



July 17, 2023

Indonesia's export (May: 1% yoy; Cons Jun: -17.5% yoy; SSI: -23% yoy), import (May: 14.4% yoy; Cons Jun: -4% yoy; SSI: -1.2% yoy) and trade balance (May: USD 0.4bn; Cons Jun: USD 1.1bn; SSI: USD -0.6bn)



July 17, 2023

PBOC's one-year medium-term lending facility rate (May & Cons Jun: 2.65% or unchanged)



July 17, 2023

China's GDP growth (1Q23: 4.5% yoy; 2Q23: 7.1% yoy)



July 19, 2023

UK headline (May: 8.7% yoy; Cons Jun: 8.2% yoy) and core CPI inflation (May: & Cons Jun: 7.1% yoy)



July 20, 2023

PBOC's 1-year (May: & Cons Jun: 4.2% atau tidak berubah) and 5-year loan prime rate (May: & Cons Jun: 3.55% atau tidak berubah)



July 21, 2023

Japan's headline (May: 3.2% yoy & Cons Jun: 3.3% yoy) and core CPI inflation (May: 4.3% yoy; Cons Jun: 4.2% yoy)



# Thank You

## Your Lifelong **Investment Partner**

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