SAMUEL SEKURITAS INDONESIA

Macro Strategy and Fixed Income Weekly

Lionel Priyadi

Your Lifelong
Investment Partner

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Last Week's Recap
July 31 – August 7, 2023

Lionel Priyadi

Global Macroeconomic Fundamentals

What's Our View?

We believe that global market, especially bond market, will remain volatile, even with the warmly welcomed ISM PMI and US labor market data

• In our opinion, this week's market volatility will be driven by the US CPI and PPI inflation data for July, following the release of mixed US labor market data

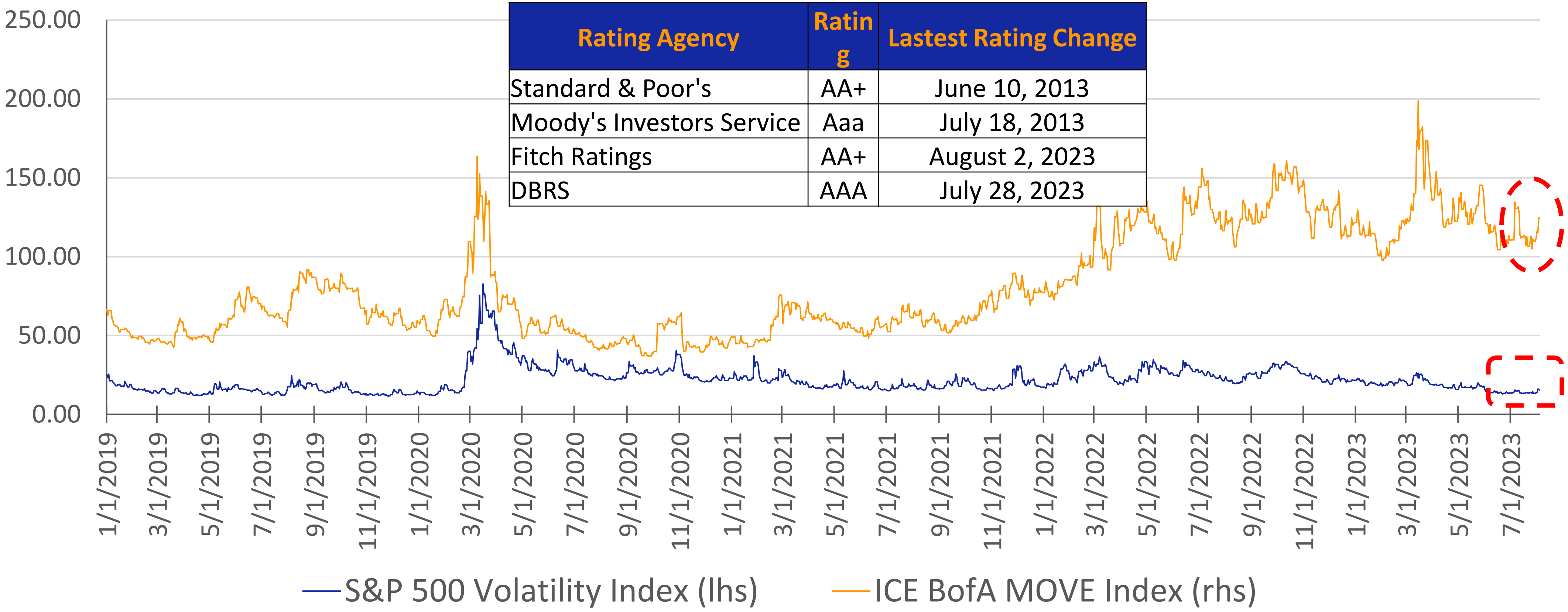
• Investors will pay great attention to US inflation to justify the 'soft landing, shallow recession' scenario in 4Q23

• We believe that the scenario will be justified if monthly CPI inflation comes in at or below 0.2% mom (2.43% SAAR)

Last week’s focus: US long term debt rating downgrade

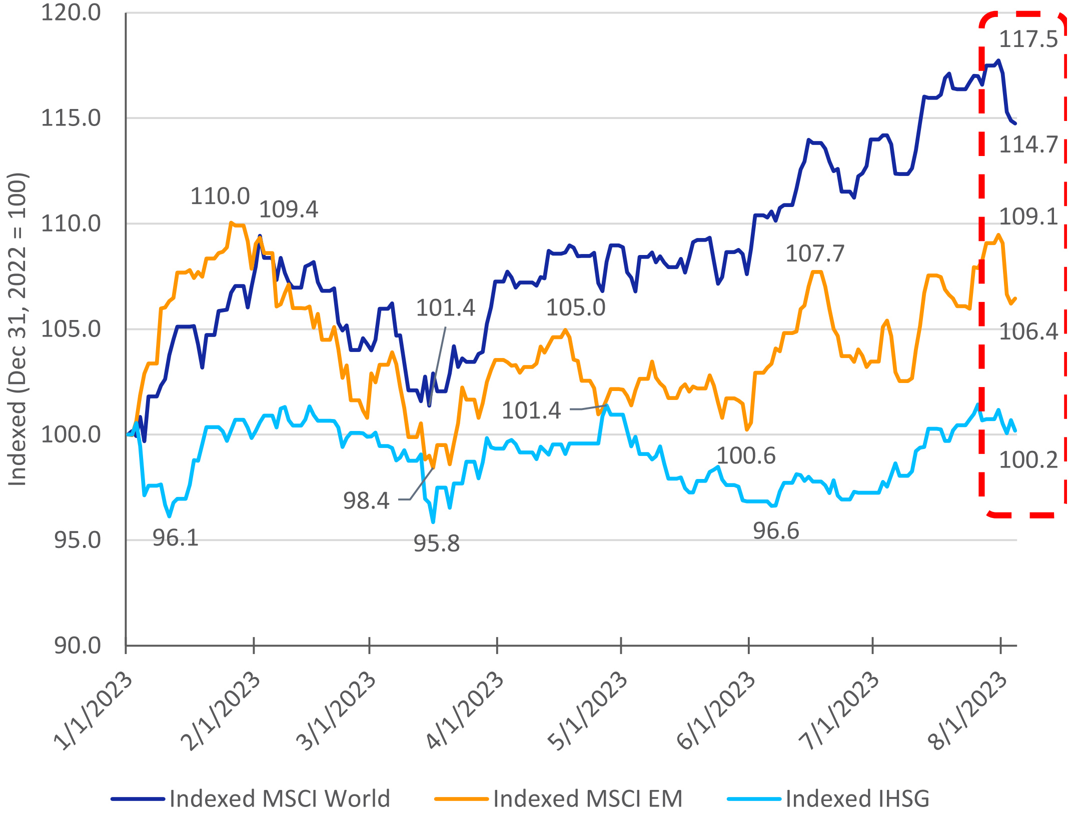
Fitch's decision increased global bond market volatility, though it had no impact on stock market volatility

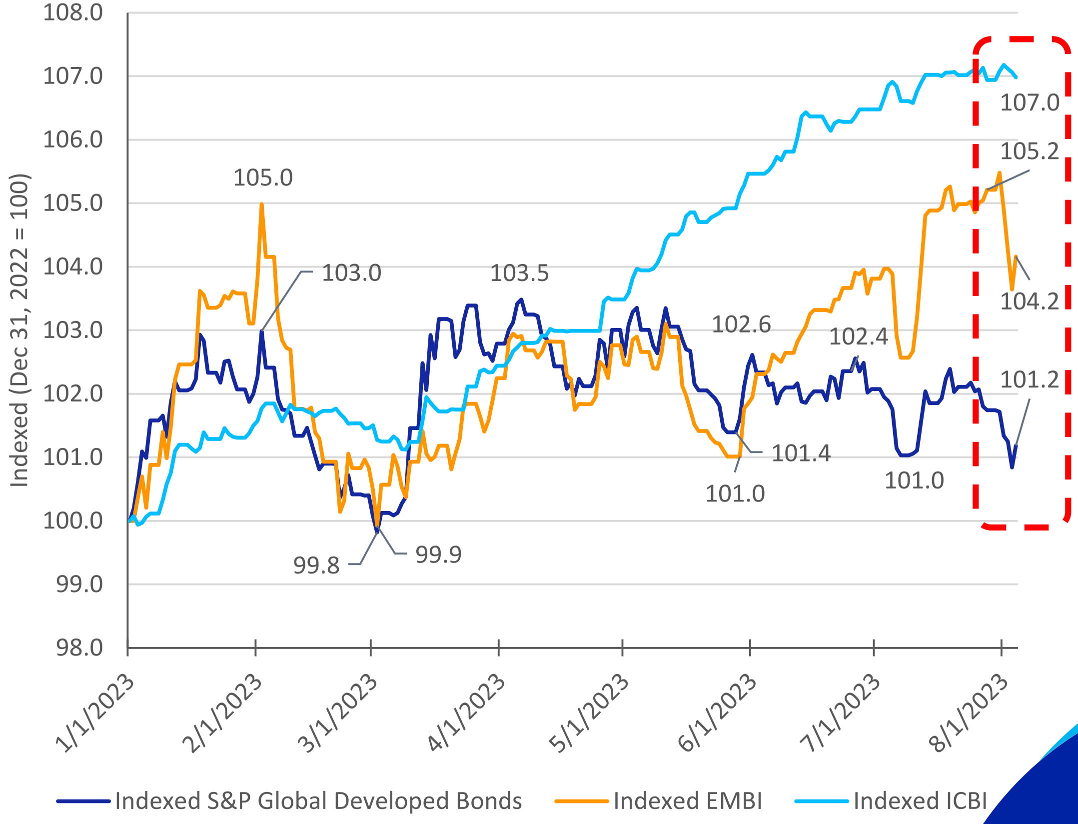
Rating Agency	Rating	Lastest Rating Change
Standard & Poor's	AA+	June 10, 2013
Moody's Investors Service	Aaa	July 18, 2013
Fitch Ratings	AA+	August 2, 2023
DBRS	AAA	July 28, 2023



Source: Bloomberg, SSI Research

Even so, stock market investors chose to increase their risk aversion, just like bond market investors

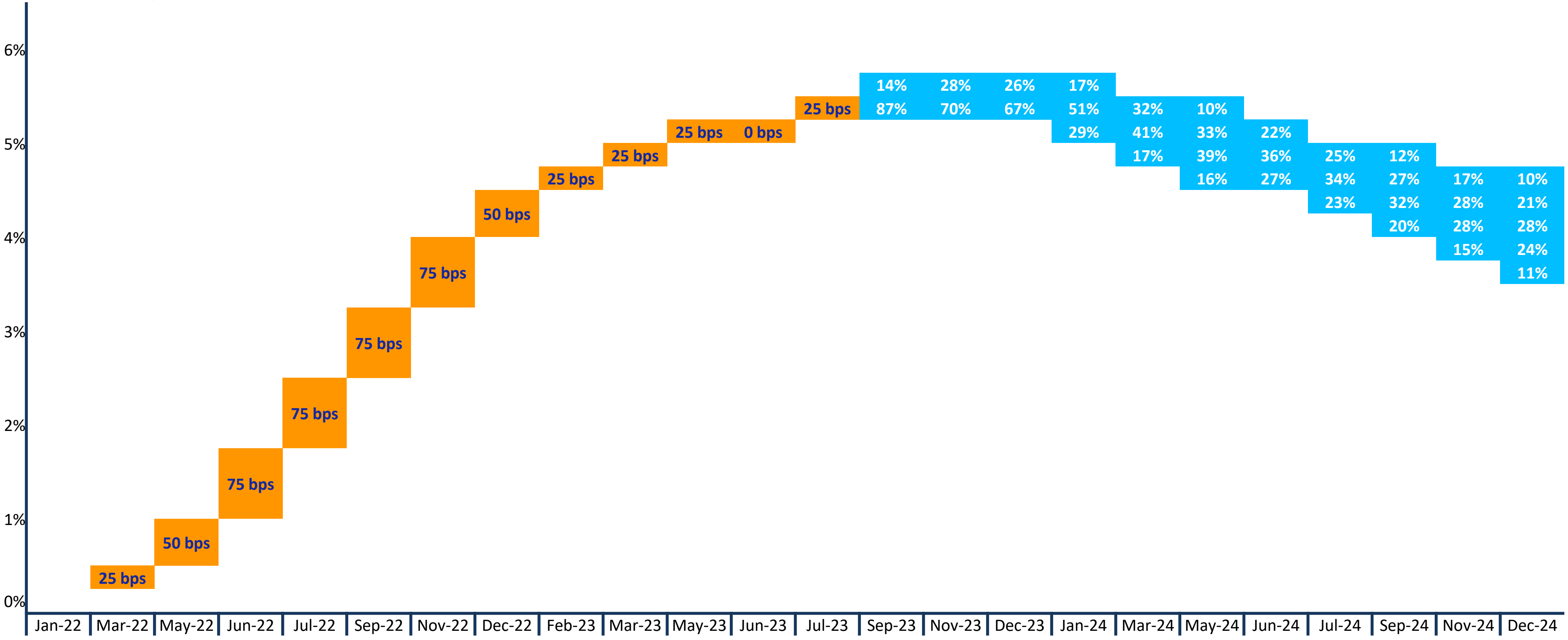




Source: Bloomberg, SSI Research

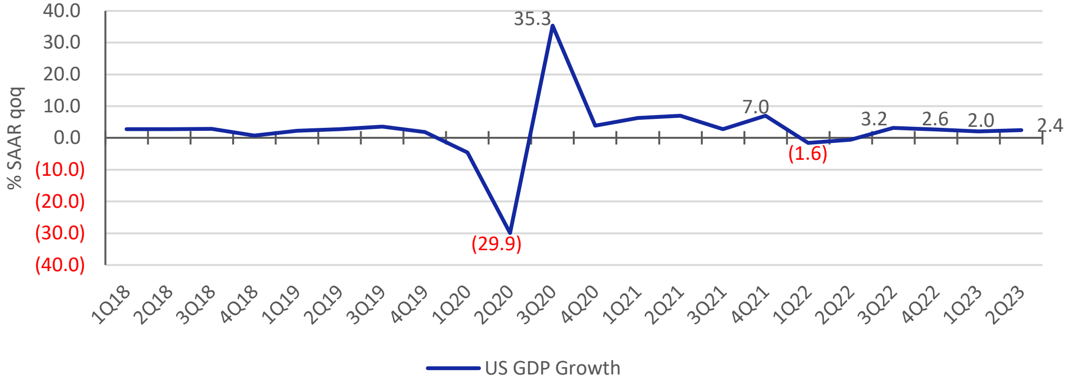
The risk aversion is not related to the Fed's interest rate policy direction

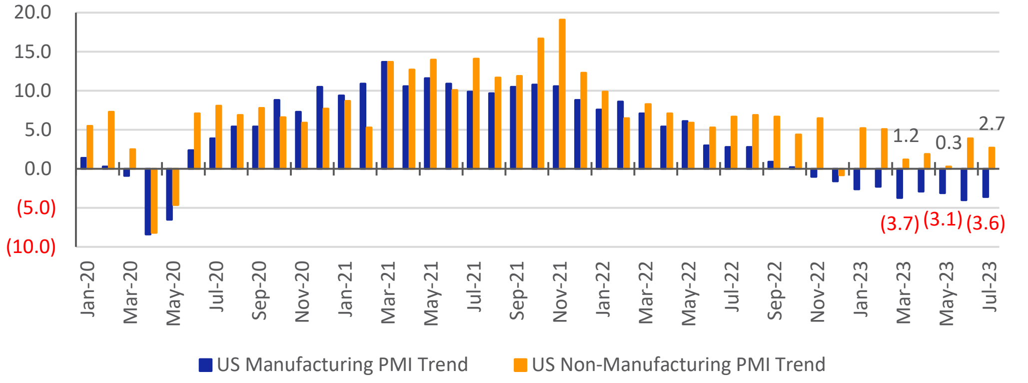
Fitch's downgrade does not affect market expectations of the Fed's rate policy cycle

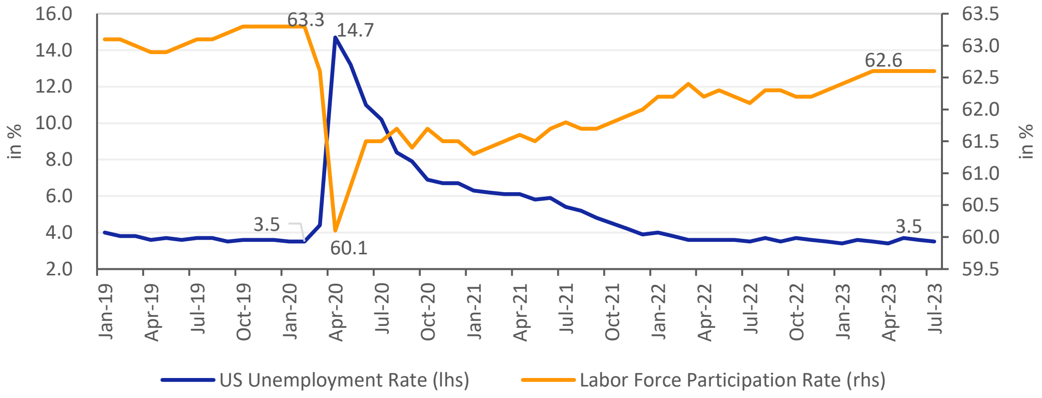


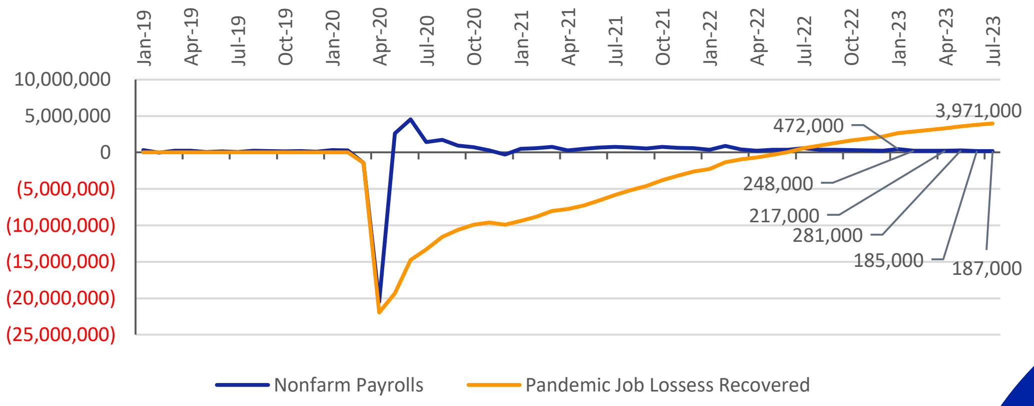
Source: CME Group, Federal Reserve, SSI Research

Market expectations of the Fed's benchmark interest rate policy are currently based on ‘ soft landing, shallow recession’ scenario in 4Q23, which still needs to be confirmed with the US CPI & PPI inflation data, which will be released later this week.





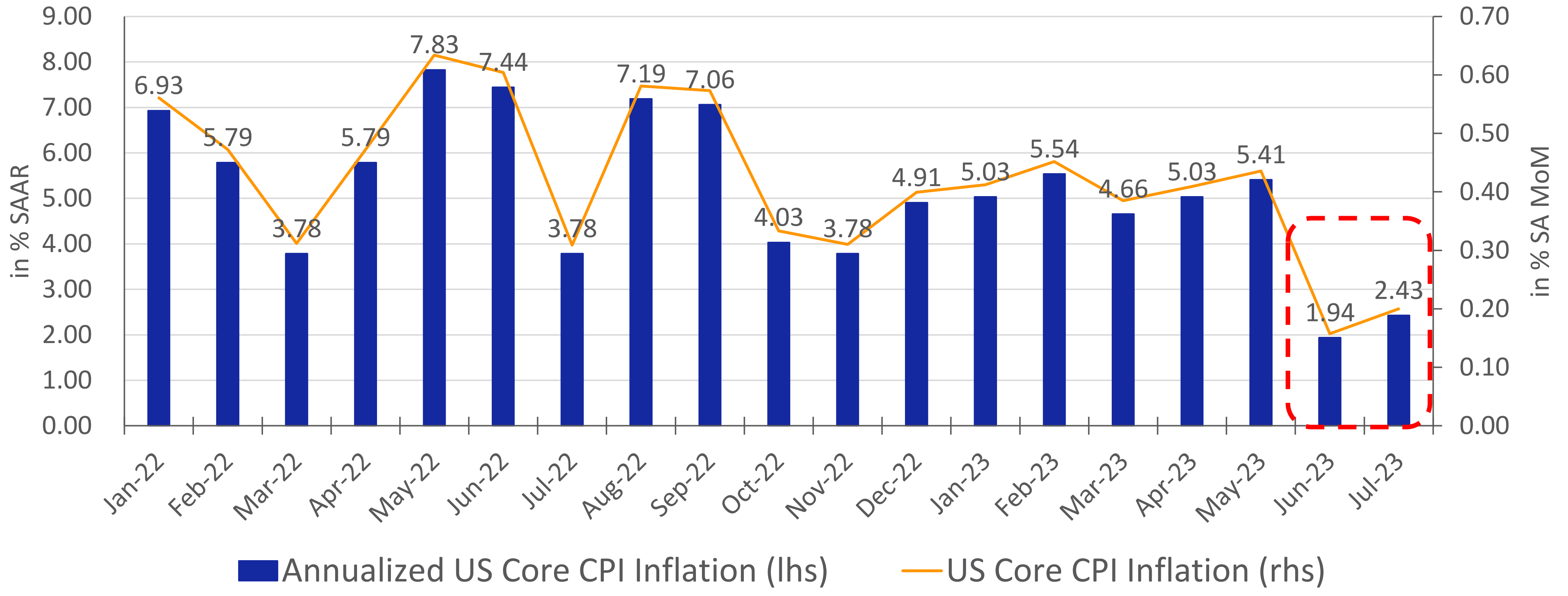




Source: BEA, BLS, S&P, Bloomberg, SSI Research

This week's focus: US monthly CPI inflation

If US monthly CPI inflation enters a new trend and comes in at 0.2% mom (2.43% SAAR), investors' confidence in the "no second Fed rate hike in 2H23" scenario will get stronger



Source: Bloomberg, SSI Research

Domestic Macroeconomic Fundamentals

What's Our View?

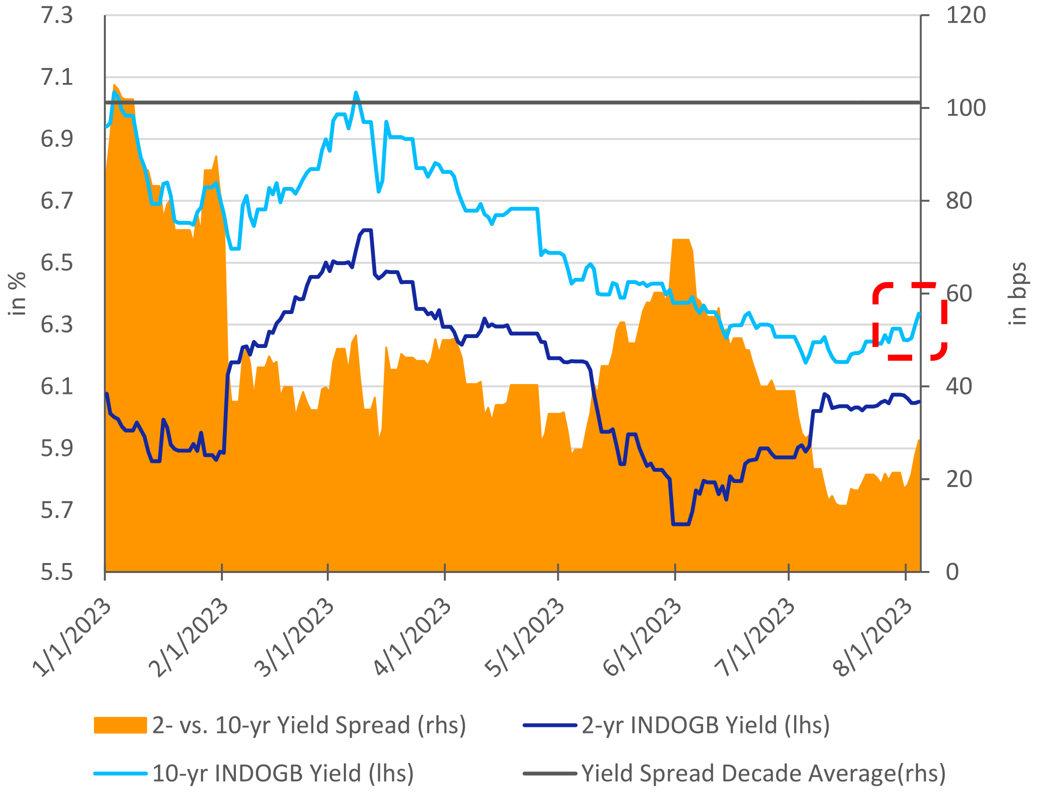
Domestic bond market conditions have improved amid increasing volatility and risk aversion in the global bond market, and we expect conditions to improve further this week.

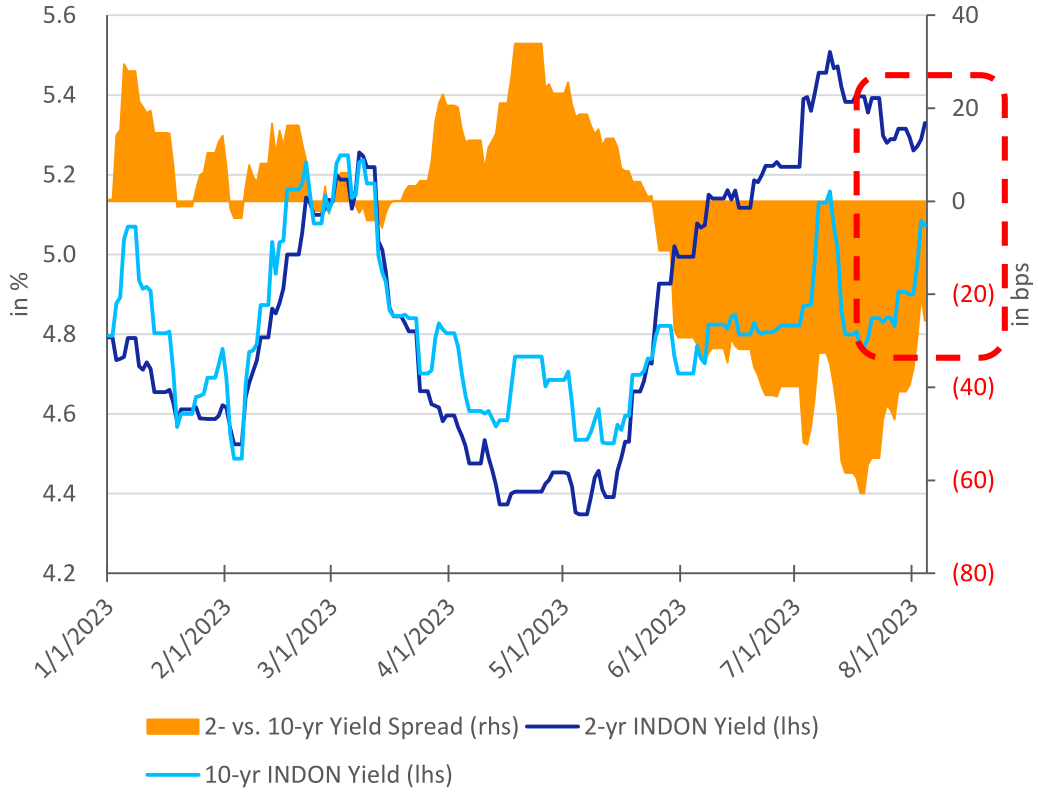
- We noticed that INDOGB and INDON 10Y yields went up last week
- As a result, INDOGB market showed signs of another trend reversal (to bullish steepening)
- Meanwhile. INDON market showed signs of yield curve flattening (from inverted yield curve)
- We expect these conditions to continue until INDOGB 10Y yield > JIBOR 1M (6.4%)
- However, these developments do not necessarily change our position; we still believe that BI needs to start a rate cut cycle to maintain the upside potential of the domestic bond market and the momentum of foreign capital inflows

Trend reversal in INDOGB and INDON markets

INDOGB → Returns to bullish steepening

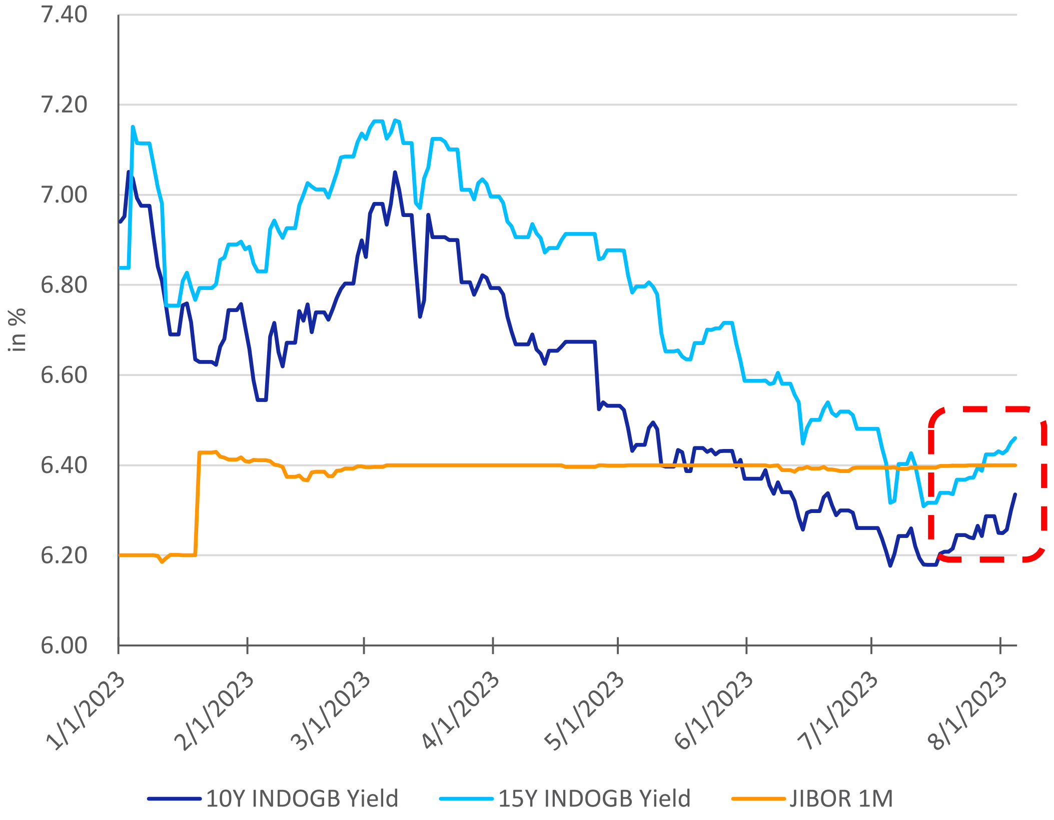
INDON → From inverted yield curve to yield curve flattening

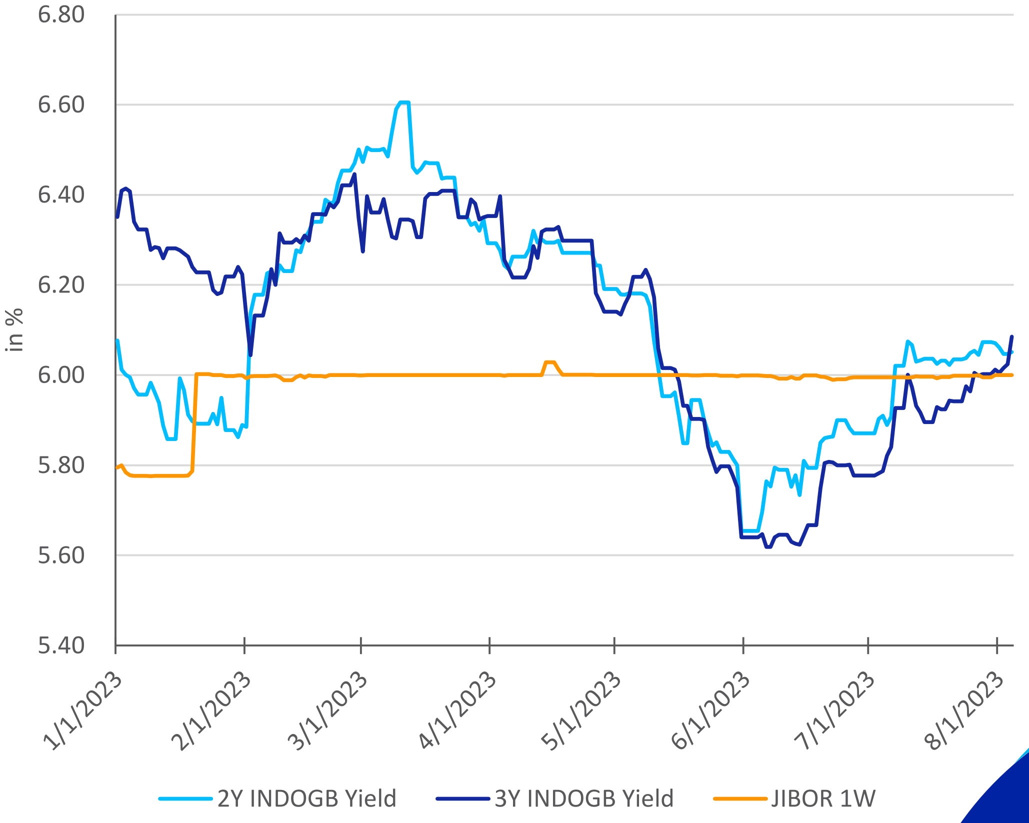




Source: IDX, MOF, Bloomberg, SSI Research

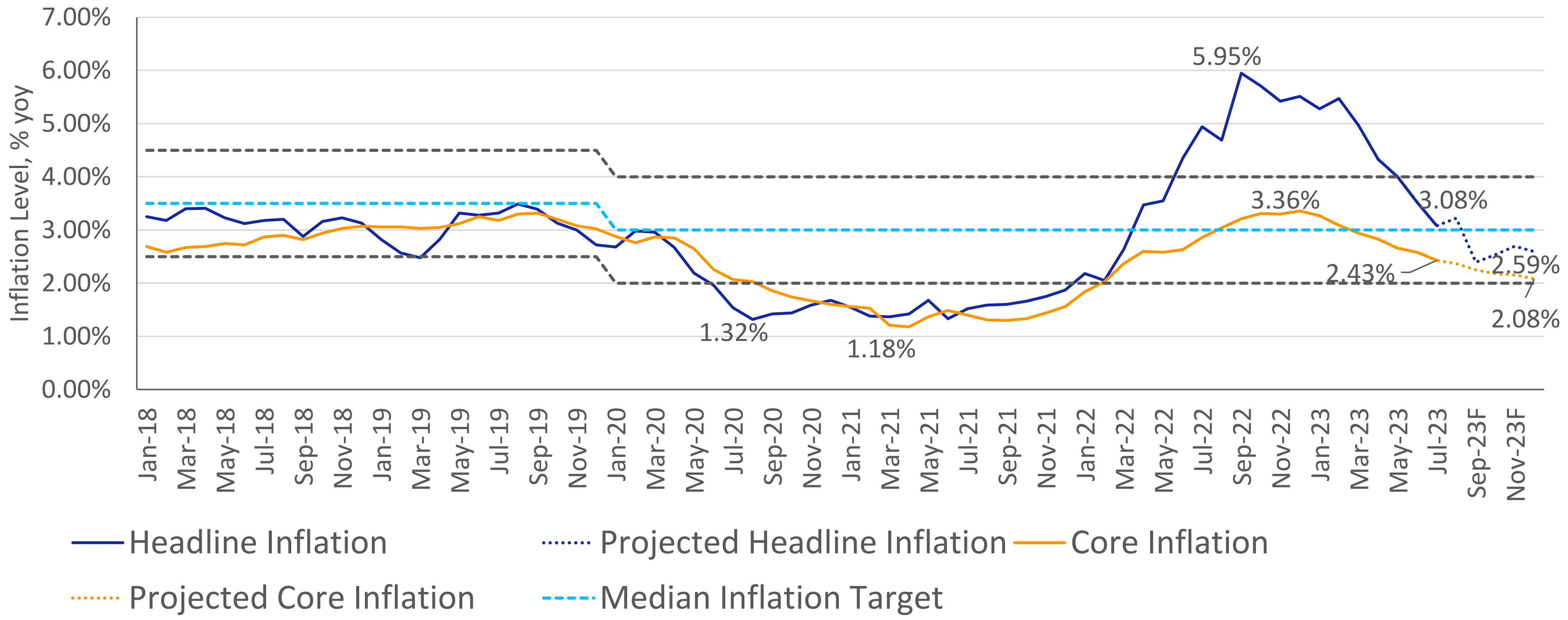
We expect to see more corrections until INDOGB 10Y yield > JIBOR 1M floor limit





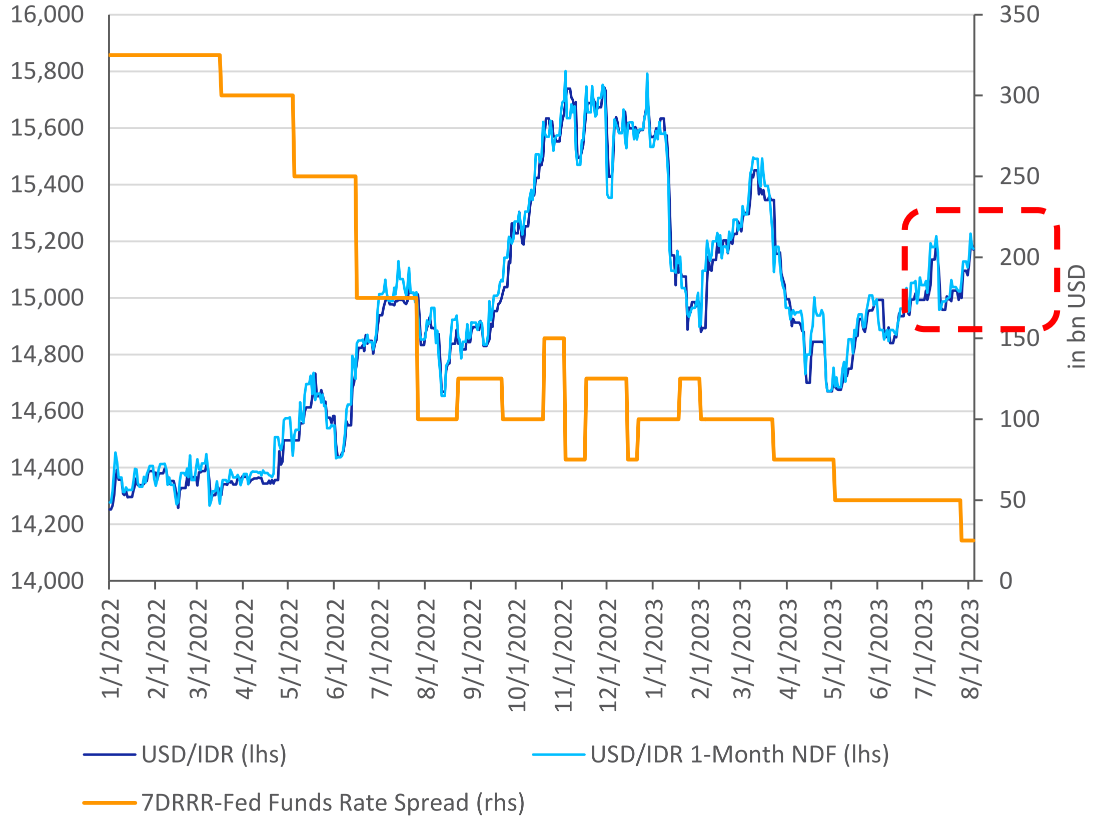
Source: IDX, MOF, Bloomberg, SSI Research

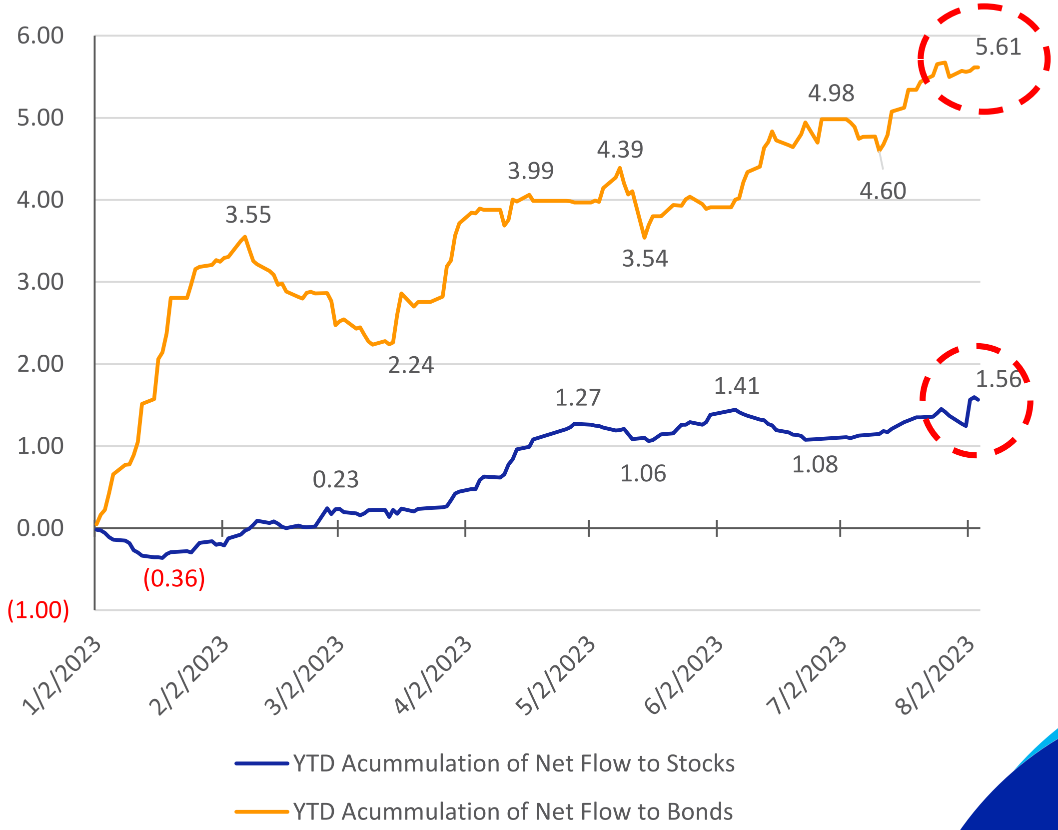
Even with the INDOGB 10Y yield corrections, BI rate cuts are still needed to maintain the upside potential, especially with the increasingly supportive inflation atmosphere



Source: BPS, BI, Bloomberg, SSI Research

Unfortunately, rupiah depreciation still continues, even with the return of foreign capital inflow





Source: IDX, MOF, Bloomberg, SSI Research

This Week
August 7 – 13, 2023

Ones to Watch

August 7, 2023

Net foreign asset (Jun: IDR 1,927.9tn) and Bank Indonesia's foreign exchange reserves (Jun: USD 137.5bn)

August 7, 2023

Indonesia's GDP growth (1Q23: 5% yoy; Cons: 5% yoy; SSI: 4.6% yoy)

August 8, 2023

Bank Indonesia's consumer confidence index (Jun: 127.1)

August 9, 2023

Bank Indonesia's real sales index (May: 234.2 & BI Forc Jun: 223.2)

August 10, 2023

US headline (Jun: 3% yoy; Cons: 3.4% yoy) and core CPI inflation (Jun: & Cons: 4.8% yoy)

August 11, 2023

US headline PPI inflation (Jun: 0.1% yoy; Cons: 0.7% yoy)

Thank You

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Investment Partner

Lionel Priyadi
PT Samuel Sekuritas Indonesia
Menara Imperium, 21st Floor, Jl. HR. Rasuna Said Kav. 1
Jakarta 12980, Indonesia
Tel. +62 21 2854 8100 | www.samuel.co.id

samuelsekuritasindonesia
samuelsekuritas
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