

# Macro Strategy and Fixed Income Weekly

Lionel Priyadi

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# Last Week's Recap

## August 21-27, 2023

# Global Macroeconomic Fundamentals

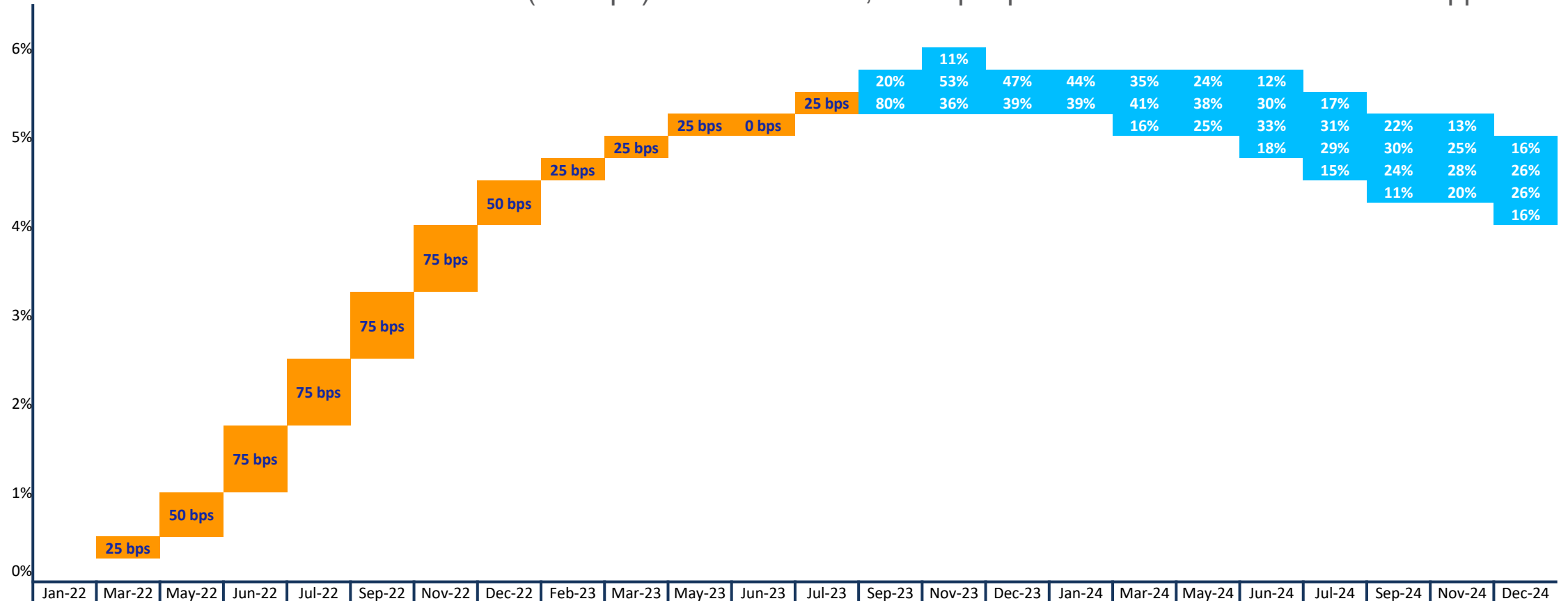
## What's Our View?

We expect global markets to remain under pressure over the next couple of weeks, due to changes in market expectations following Powell's hawkish Jackson Hole speech

- We notice that market players are divided into two Fed rate scenarios: a) the Fed will raise its FFR by 25 bps to 5.75% in 4Q23, which will trigger an economic recession, which will prompt the Fed to start its rate cut in 1Q24 (Scenario 1), b) the Fed will keep its FFR at 5.5% and start its rate cut in June 2024 (Scenario 2).
- At the moment, more people believe that Scenario 1 will happen. However, it will depend on the PCE inflation data for July, which will be released on Thursday (8/31) and the US labor market data for August, which will be released on Friday (9/1).
- We believe that global markets will remain volatile and turbulent next week, as both sides continue to form their expectations.

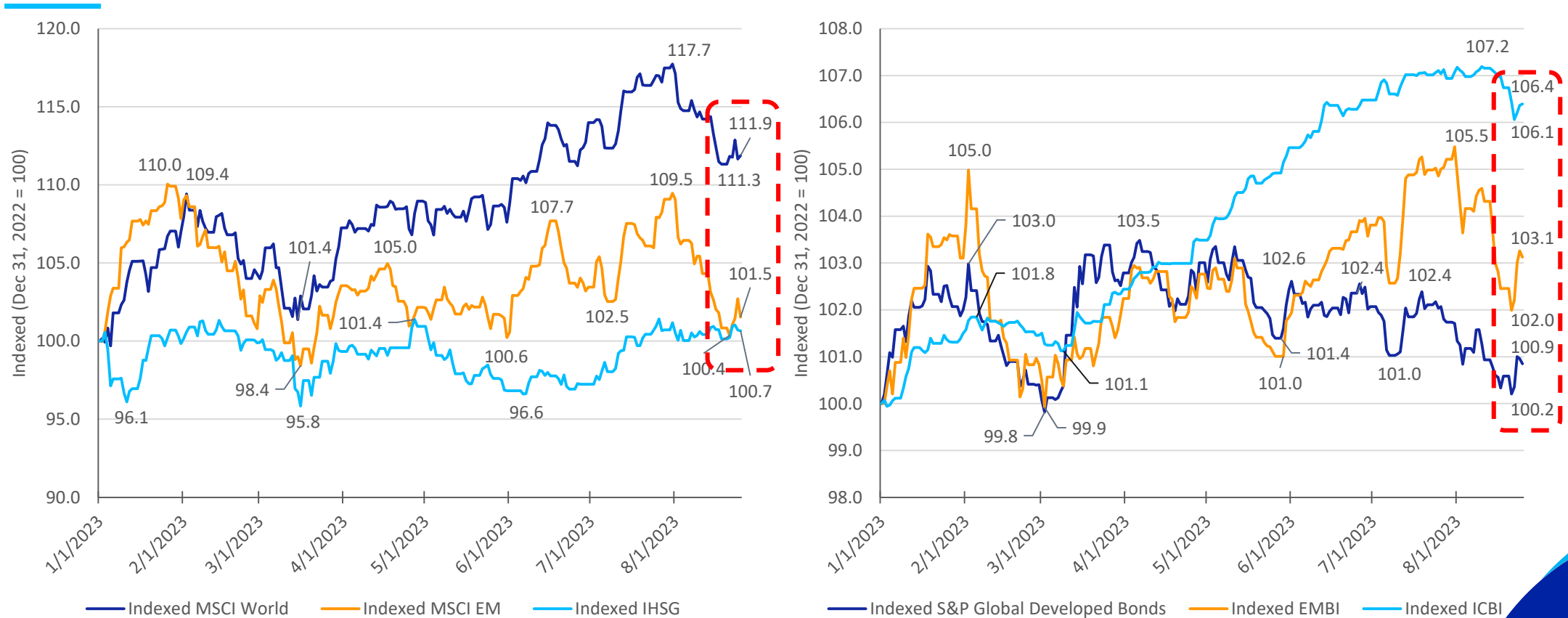
## Last Week's Focus: Powell's hawkish speech

**Scenario 1:** The Fed will raise its FFR by 25 bps to 5.75% in 4Q23, which will trigger an economic recession, which will prompt the Fed to start its rate cut in 1Q24 to 4.75% (-100 bps); **Scenario 2:** Fed will keep its FFR at 5.5% and start its rate cut in June 2024 to 4.25% (125 bps). At this moment, more people believe that Scenario 1 will happen.



Source: CME Group, Federal Reserve, SSI Research

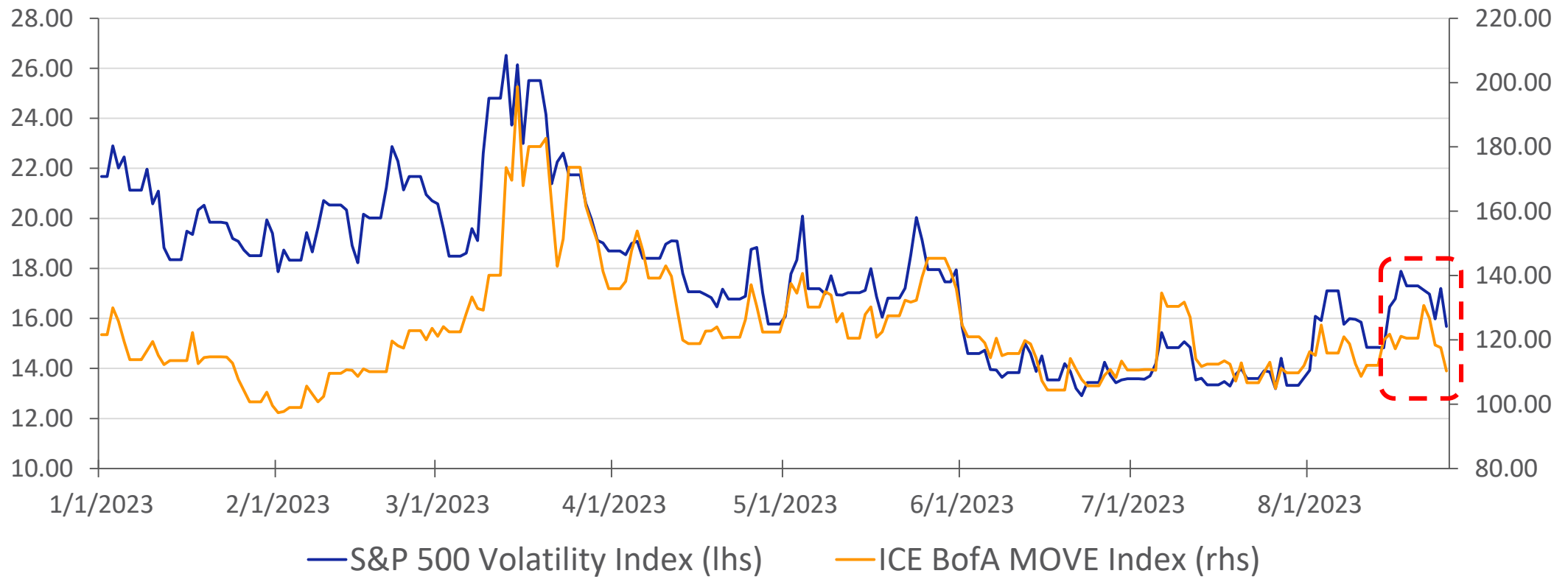
# Powell's hawkish Jackson Hole speech halted the rebound in global bond and stock markets



Source: Bloomberg, SSI Research

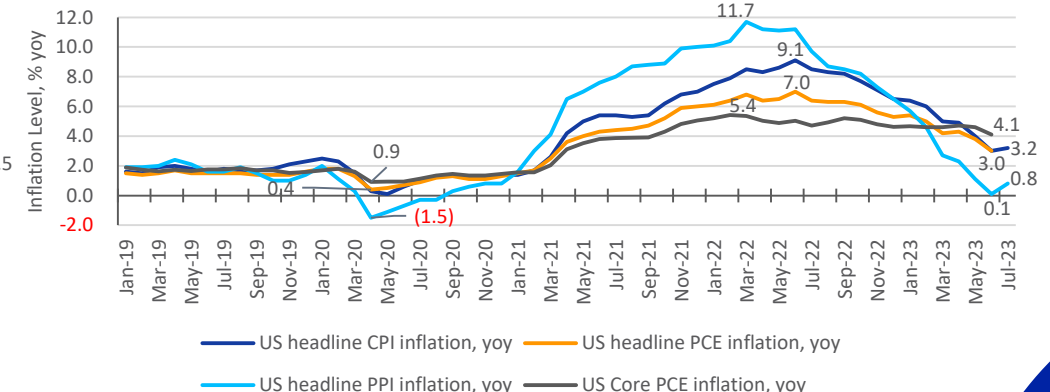
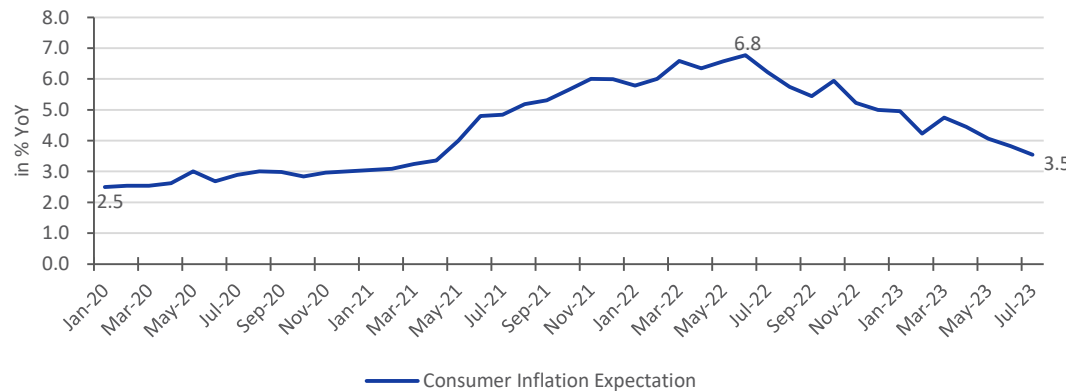
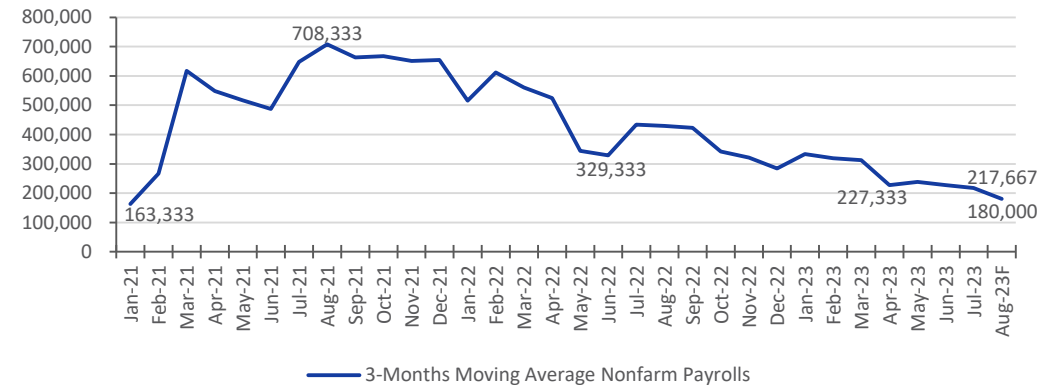
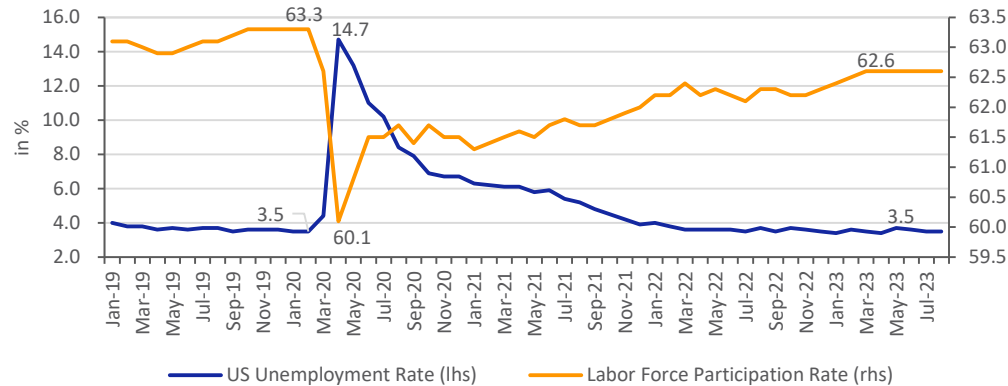
## More volatility in global bond and stock markets

Global market volatility, which has started to subside, might spike again due to changes in market expectations caused by Powell's hawkish Jackson Hole speech



Source: Bloomberg, SSI Research

# This week's focus: July PCE inflation data and August labor market data will play a huge role in forming market players' Fed rate expectations



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



# Domestic Macroeconomic Fundamentals

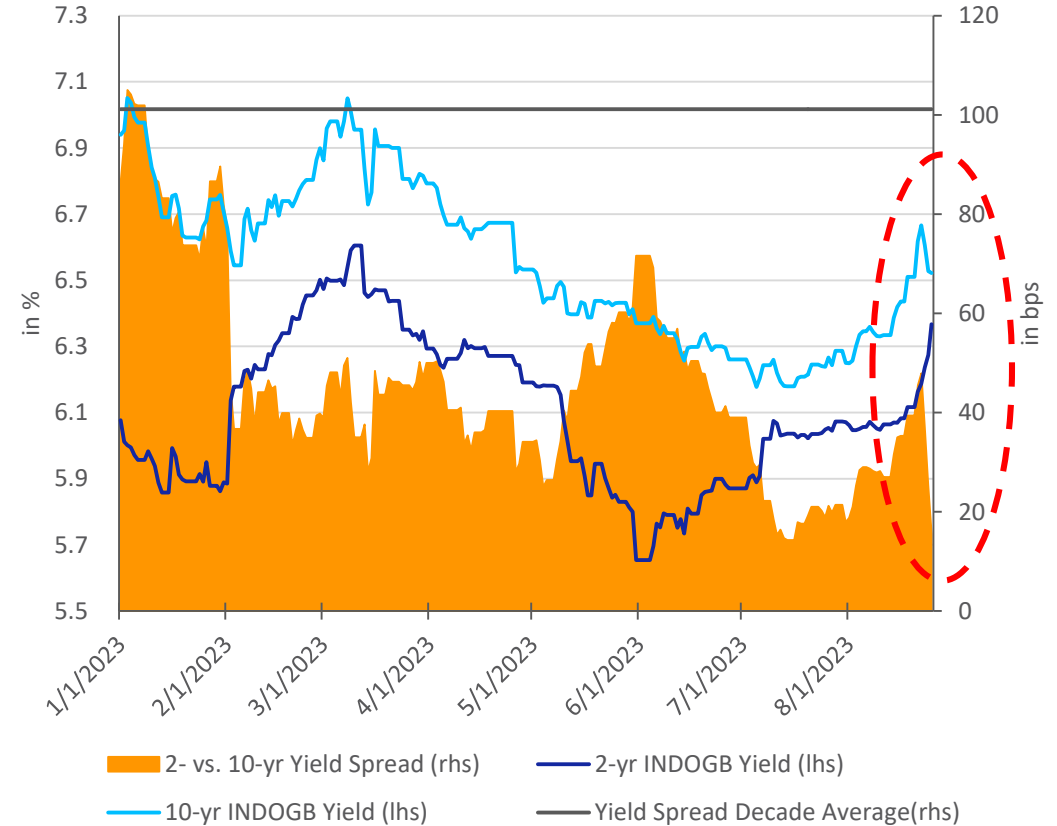
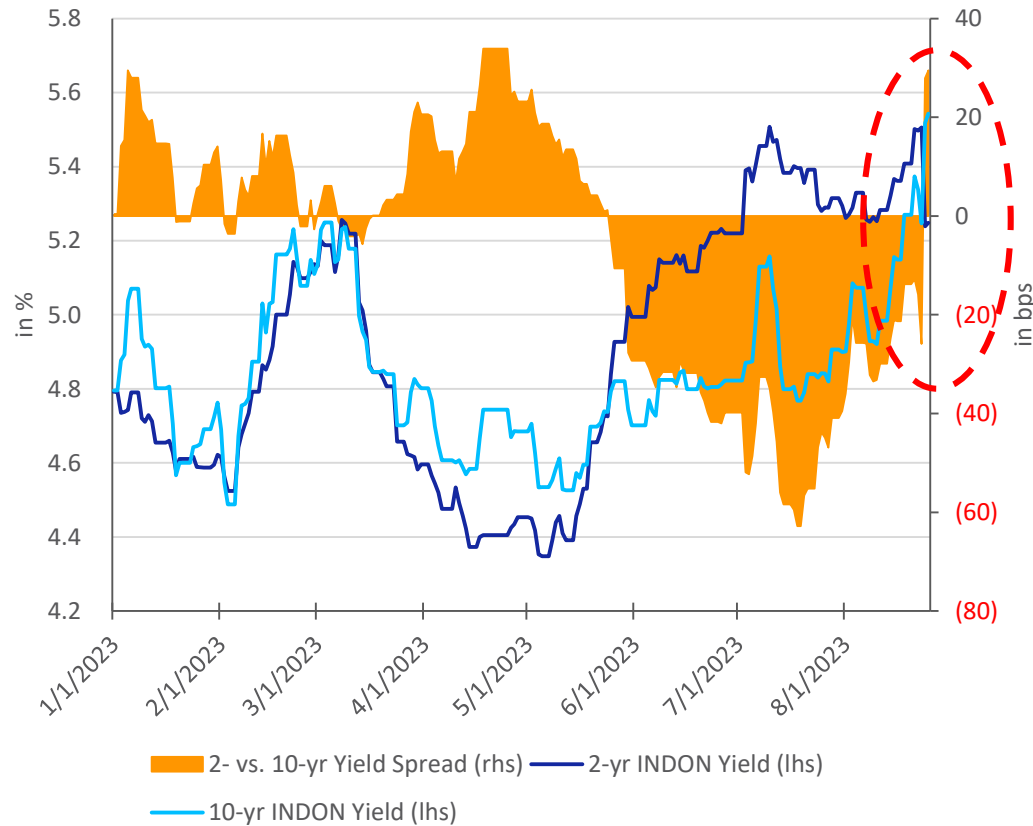
## What's Our View?

We advise domestic bond investors to maintain a defensive position, with INDON and INDOGB 2Y as solid options and stock market investors to take advantage of the 'election bonanza'

- We believe INDON 2Y might be an attractive option, especially after Bank Indonesia's decision to stop its operation twist starting from September 15 and replace it with SRBI (Sekuritas Rupiah Bank Indonesia), which is more market mechanism-based, triggering the switch from INDON 10Y to 2Y.
- We believe that the distortionary effect of BI intervention on INDOGB 10Y Vs. 2Y yield spread will continue until September 15th,
- SRBI is projected to replace the reserve repo SUN, which has a liquidity of IDR 480-500tn.
- 'Election bonanza' is a pattern of the JCI's movement, which always moves up as election day draws near.

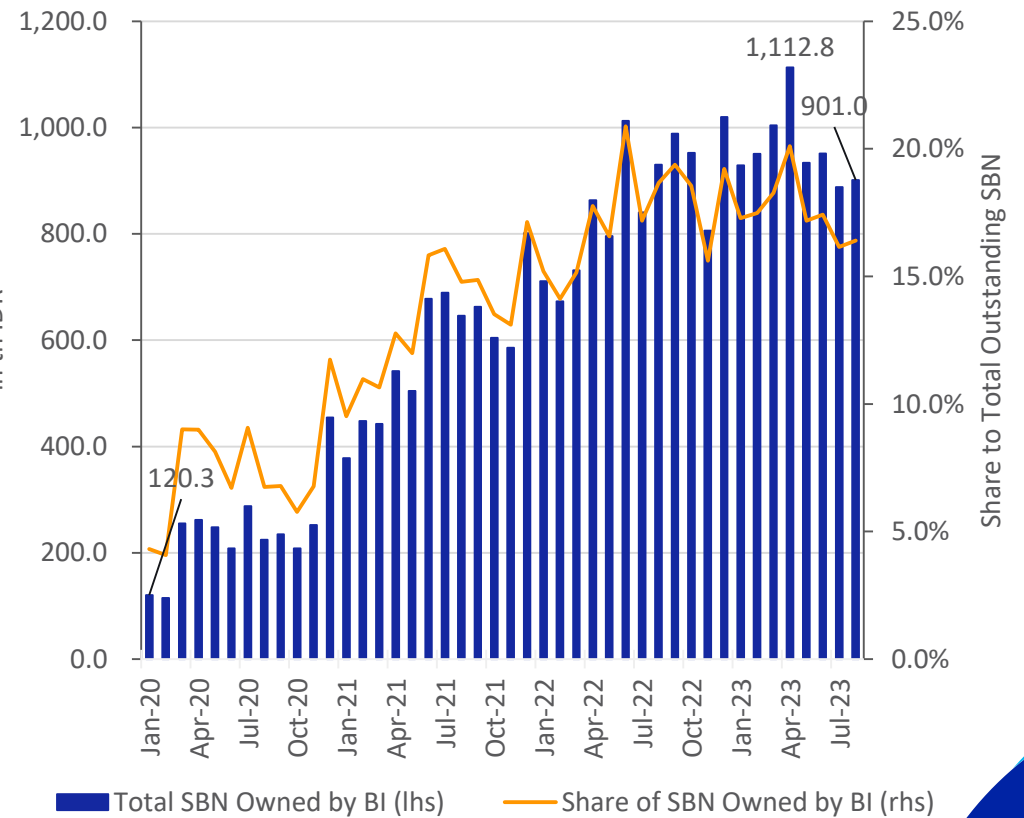
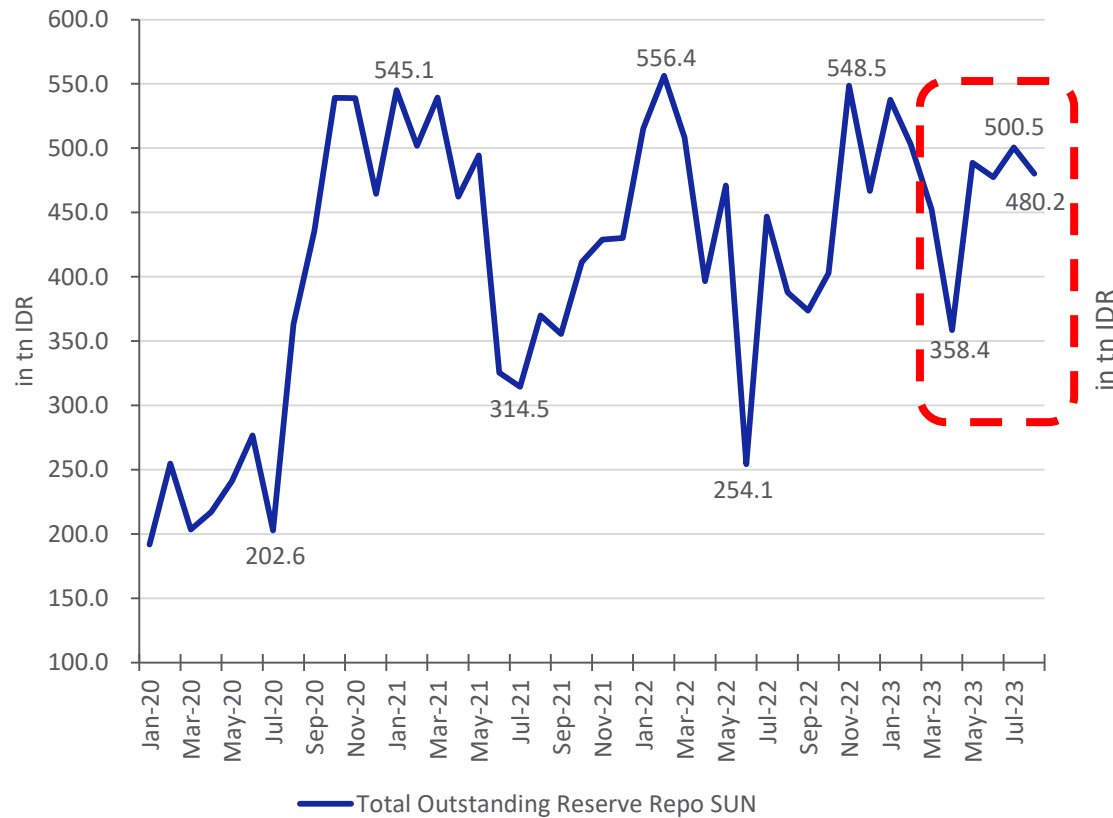
# The inverted yield curve on the INDON market ended after the SRBI announcement, indicating the start of bullish sentiment toward domestic bonds

However, the distortionary effect on the INDOGB market has not completely gone, since BI still continues its 'operation twist' to maintain Rupiah stability



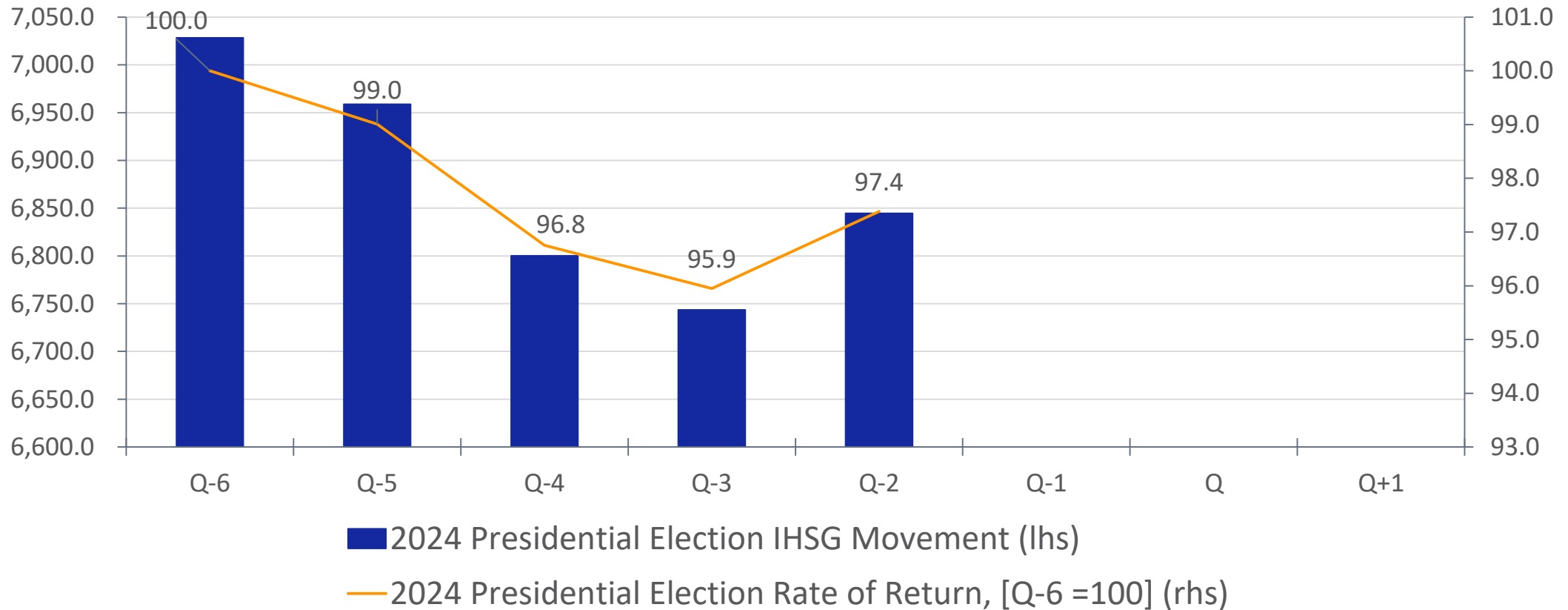
Source: IDX, MOF, Bloomberg, SSI Research

SRBI is projected to replace reverse repo SUN, which has an outstanding value of IDR 480-500tn and IDR 900tn worth of BI's SBN (16.4% of the total SBN outstanding) as underlying asset



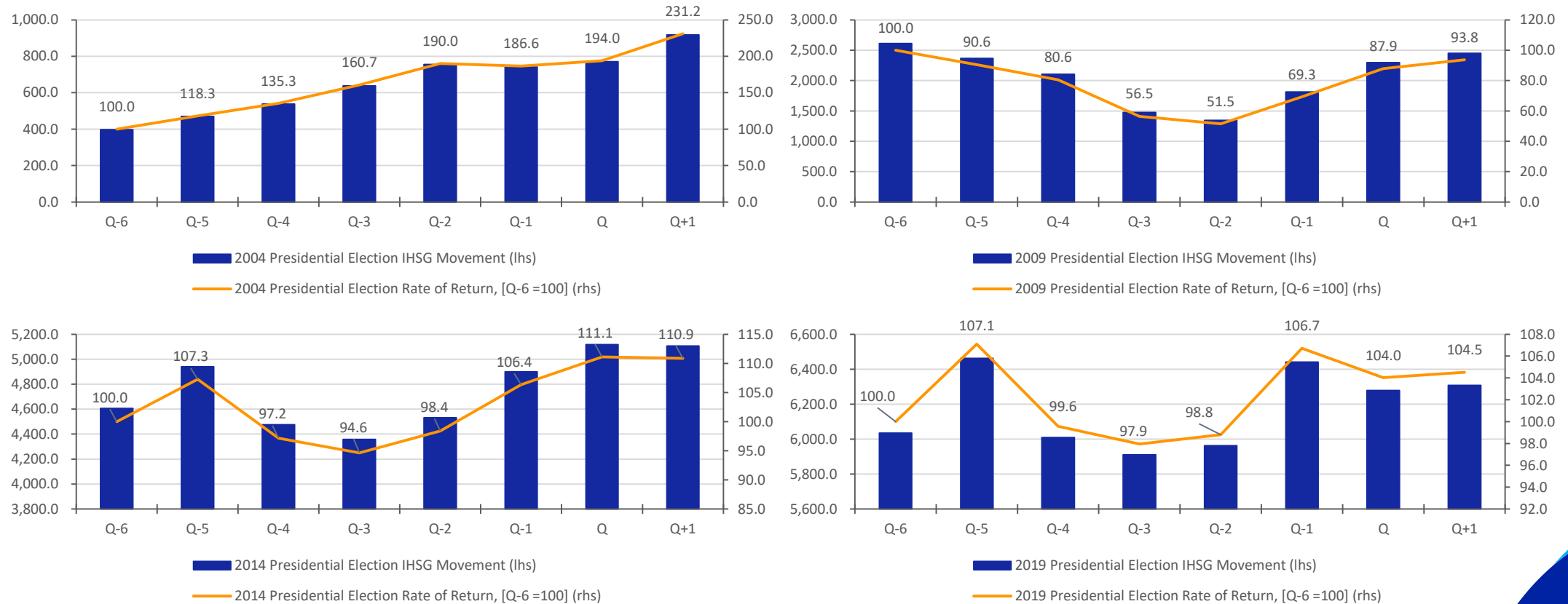
Source: BI, SSI Research

## Adopt a long-term strategy for JCI by taking advantage of election bonanza



Source: IDX, Bloomberg, SSI Research

Election bonanza' is a pattern of the JCI's movement, which always experience a bullish rally as election day (Q) draws near; this has occurred multiple times since the 2004 election



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

# This Week

## August 28 – September 3, 2023

## Ones to Watch



August 31, 2023

China's official manufacturing PMI (Jul: 49.3; Cons: 49.1)



August 31, 2023

China's official services PMI (Jul: 51.5; Cons: 51.1)



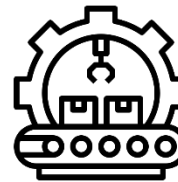
August 31, 2023

US headline (Jul: 3% yoy; Cons: 3.3% yoy) and core PCE inflation (Jul: 4.1% yoy; Cons: 4.2% yoy); Eurozone headline (Jul: 5.3% yoy; Cons: 5.1% yoy) and core CPI inflation (Jul: 5.5% yoy; Cons: 5.3% yoy)



September 1, 2023

Indonesia's headline (Jul: 3.1% yoy; Cons: 3.3% yoy; SSI: 3.2% yoy) and core CPI inflation (Jul: 2.4% yoy; Cons: 2.2% yoy; SSI: 2.3% yoy)



September 1, 2023

Indonesia's S&P manufacturing PMI (Jul: 53.3), US ISM (Jul: 46.4; Cons: 47), and Caixin China (Jul: & Cons: 49.2)



September 1, 2023

US nonfarm payroll (Jul: 187,000; Cons: 168,000), unemployment rate (Jul: & Cons: 3.5%), and workforce participation rate (Jul: & Cons: 62.6%)





# Thank You

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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](http://www.samuel.co.id)

 [samuelsekurasindonesia](https://www.instagram.com/samuelsekurasindonesia)

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