

Macro Strategy and Fixed Income Weekly

Lionel Priyadi

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Last Week's Recap

August 28 – September 3, 2023

Global Macro Fundamentals

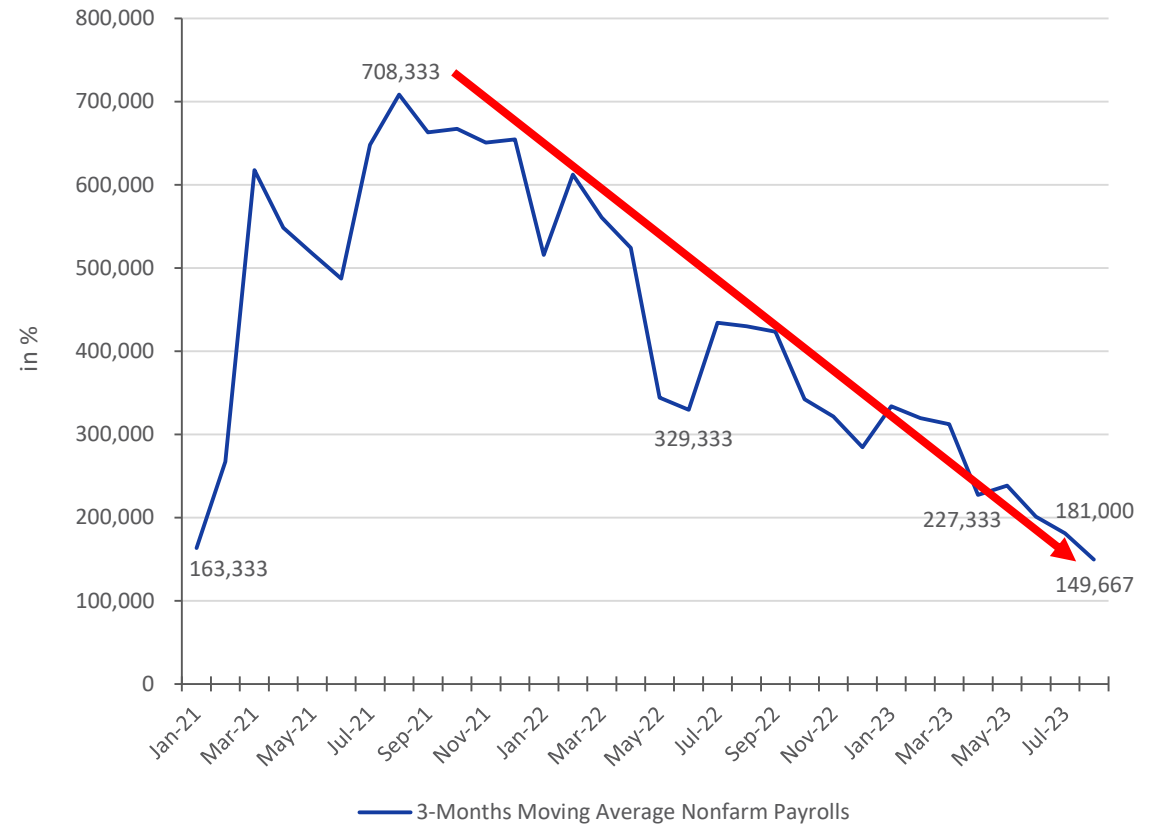
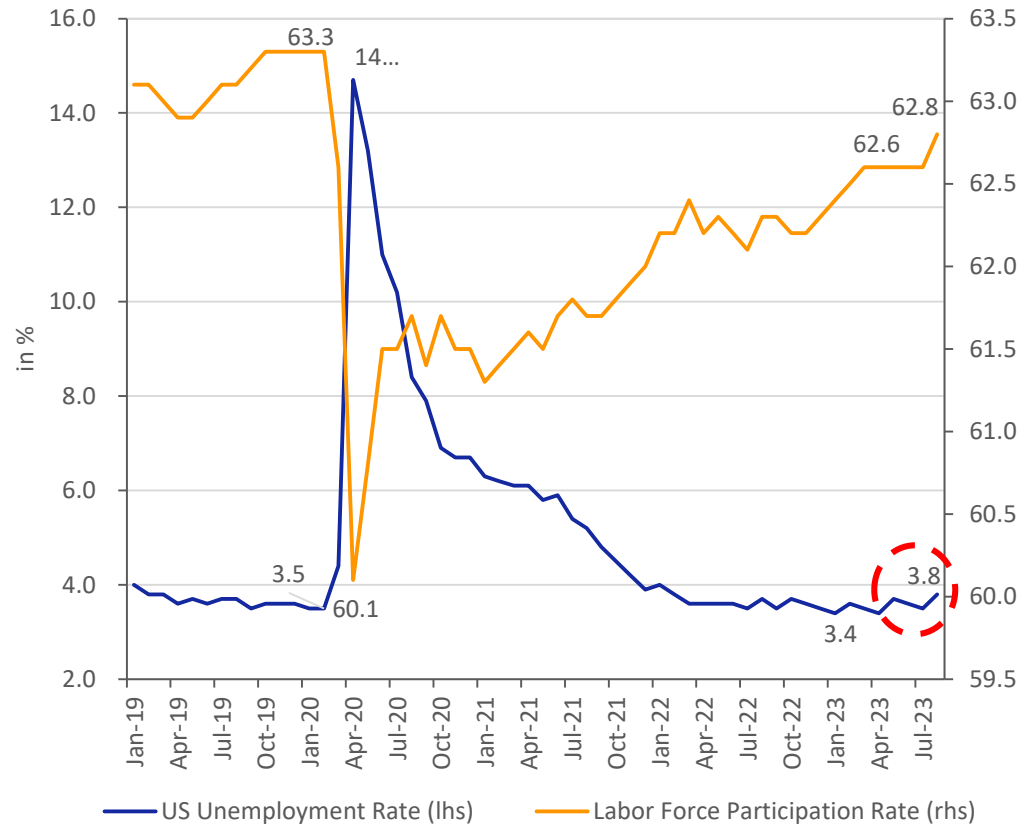
What's Our View?

We expect global stock and bond markets to continue their rebound this week, after the release of US inflation and labor market data

- We believe that another Fed rate hike in 4Q23 is highly unlikely, given the slowdown in labor market expansion and ongoing disinflation.
- Even so, we still need more labor market data to determine whether the Fed's rate cut cycle will kick off in 2Q24 (May 2024), 3Q24 (July 2024) or 1Q24 (March 2024) .
- However, emerging market players still have to wait for the release of China's CPI and PPI inflation data this week (China is currently trapped in a deflationary spiral).

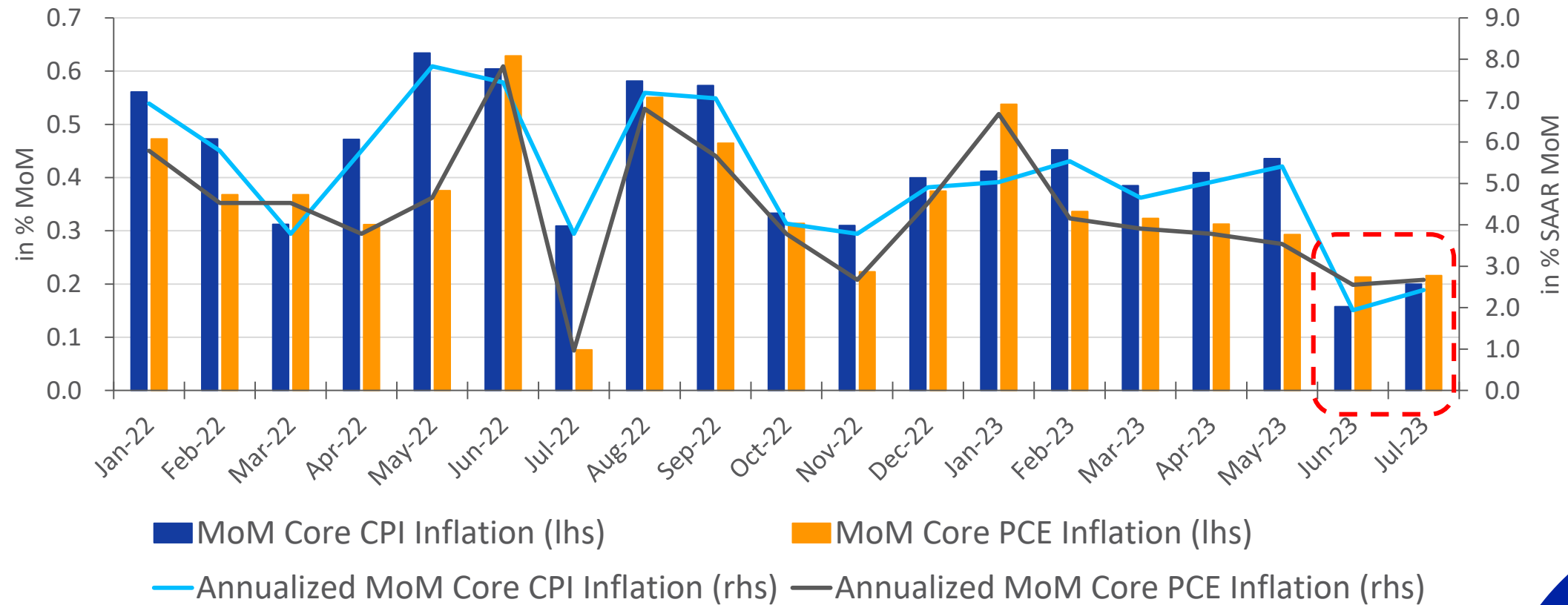
Last Week's Focus: The US' July PCE inflation and August labor market data

US labor market expansion slowed down further in August, even slower than in January 2021, with the unemployment rate coming in at 3.8%, close to the Fed's projection (4.1%)



Source: BLS, Bloomberg, SSI Research

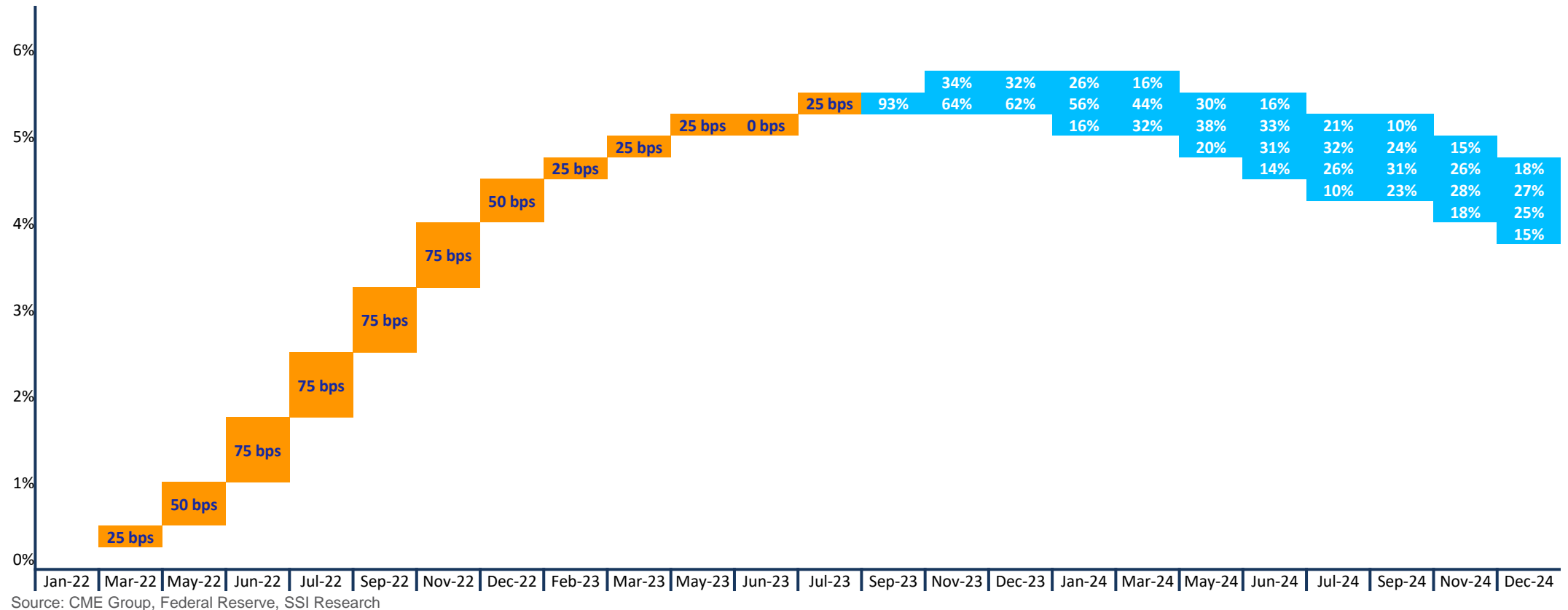
US disinflationary momentum is still quite strong, especially in the MoM PCE inflation



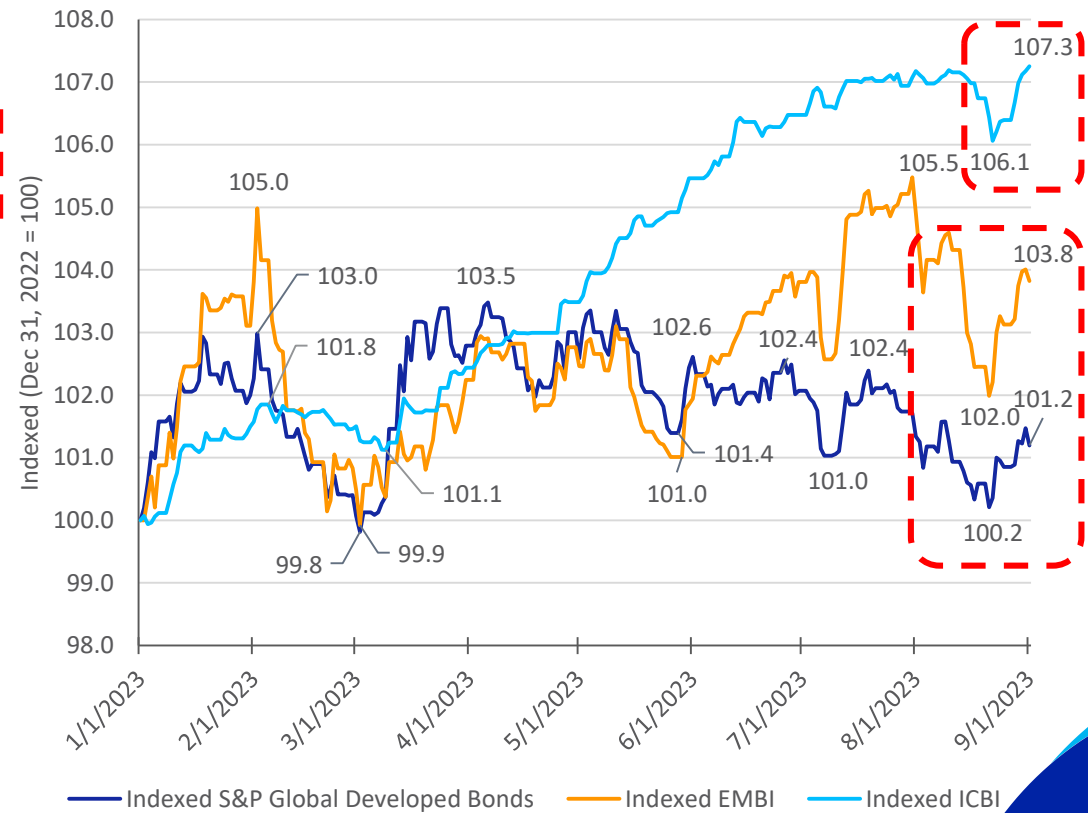
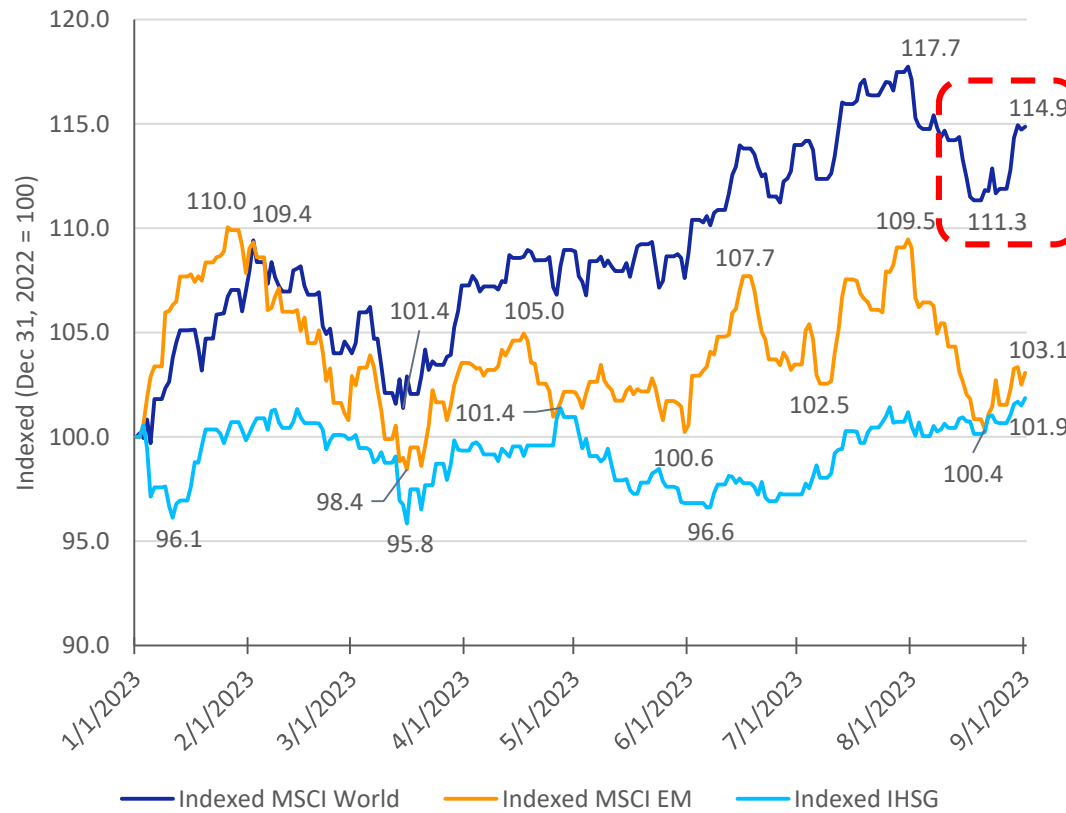
Source: BEA, BLS, Bloomberg, SSI Research

These data further convinced market players that the Fed won't raise its benchmark interest rate in 4Q23

However, market players now expect the Fed's rate cut cycle to start in 2Q24 (May 2024) or 3Q24 (July 2024) due to the Fed officials' hawkish rhetoric.



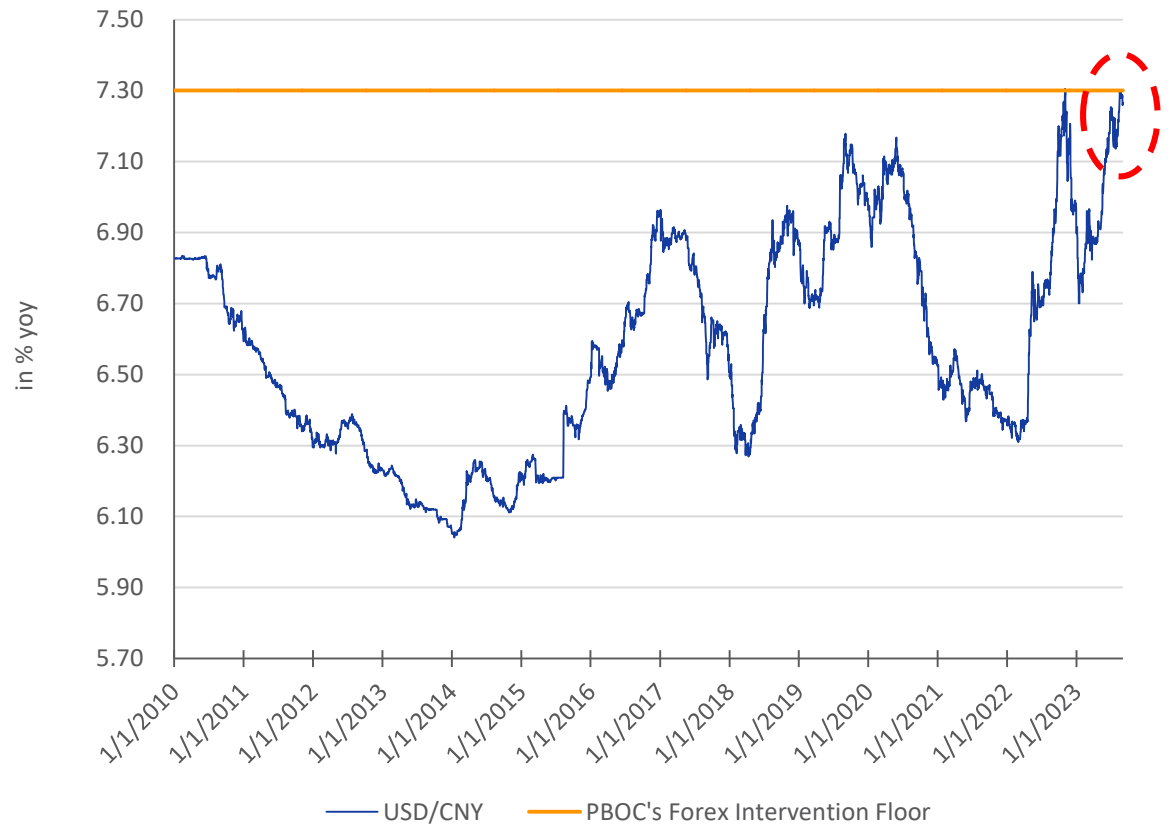
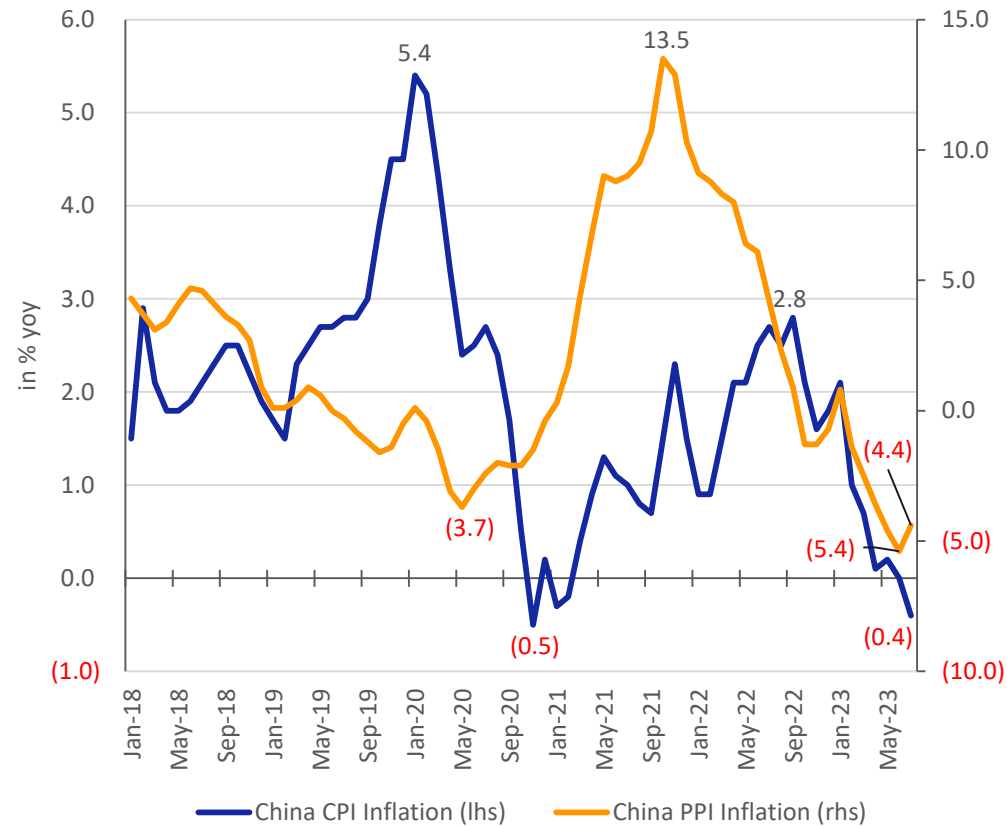
We expect global stock and bond markets to continue their rebound this week, after the release of positive US inflation and labor market data



Source: Bloomberg, SSI Research

This Week's Focus: China's deflation, will it stop soon?

Market players argue that the Chinese government is not serious enough to fight deflation, putting more pressure on the CNY



Source: BLS, Bloomberg, SSI Research

Domestic Macro Fundamentals

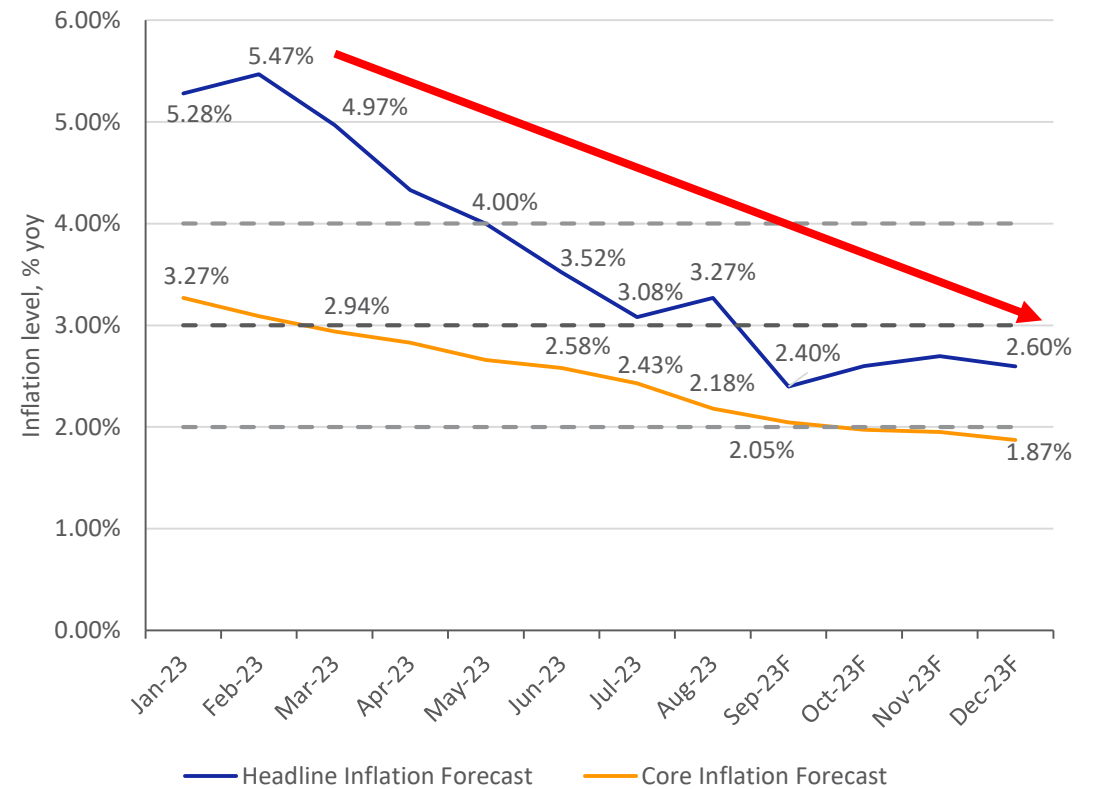
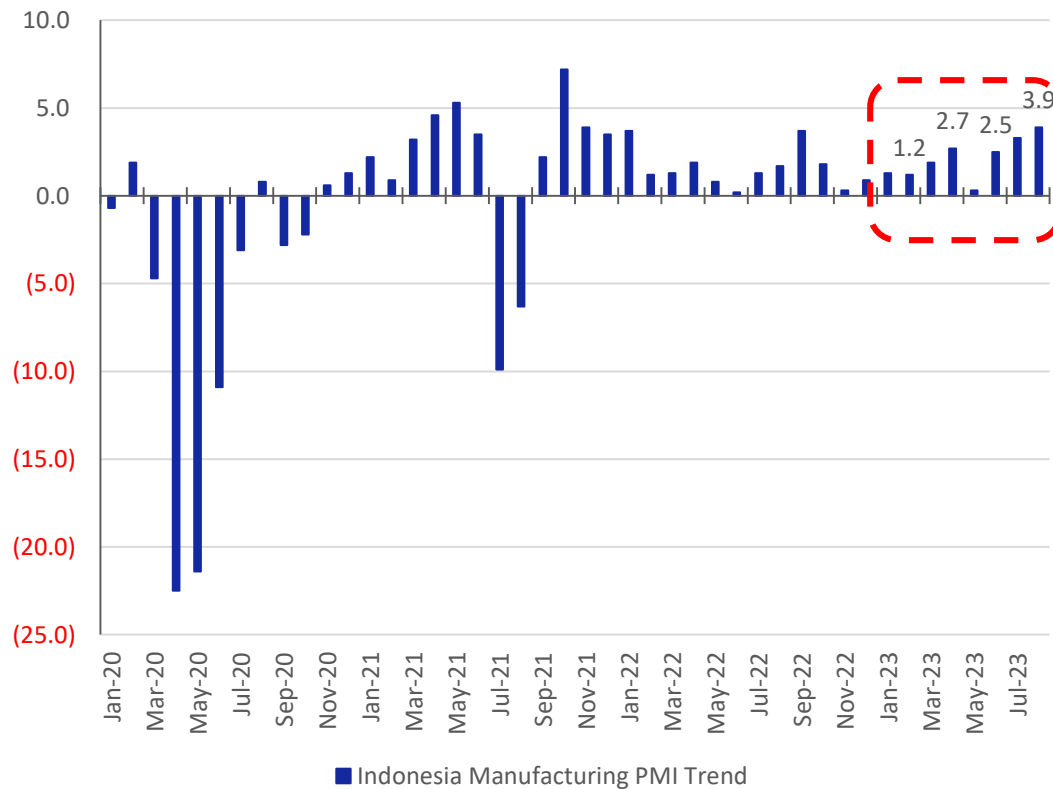
What's Our View?

In our opinion, both JCI and domestic bond market will remain resilient amidst strong global risk-off sentiment, supported by positive sentiments toward Indonesia's macro fundamentals

- We noticed that the positive sentiments were supported by latest CPI inflation data and manufacturing PMI data, which indicate the ongoing expansion of the sector.
- We see that the positive sentiments act as a cushion for the selling sentiment among foreign investors, which has been going on since the second week of August.
- We maintain our recommendation to **overweight on INDON and INDOGB 2Y** and **buy on IHSG** ahead of the 2024 election.

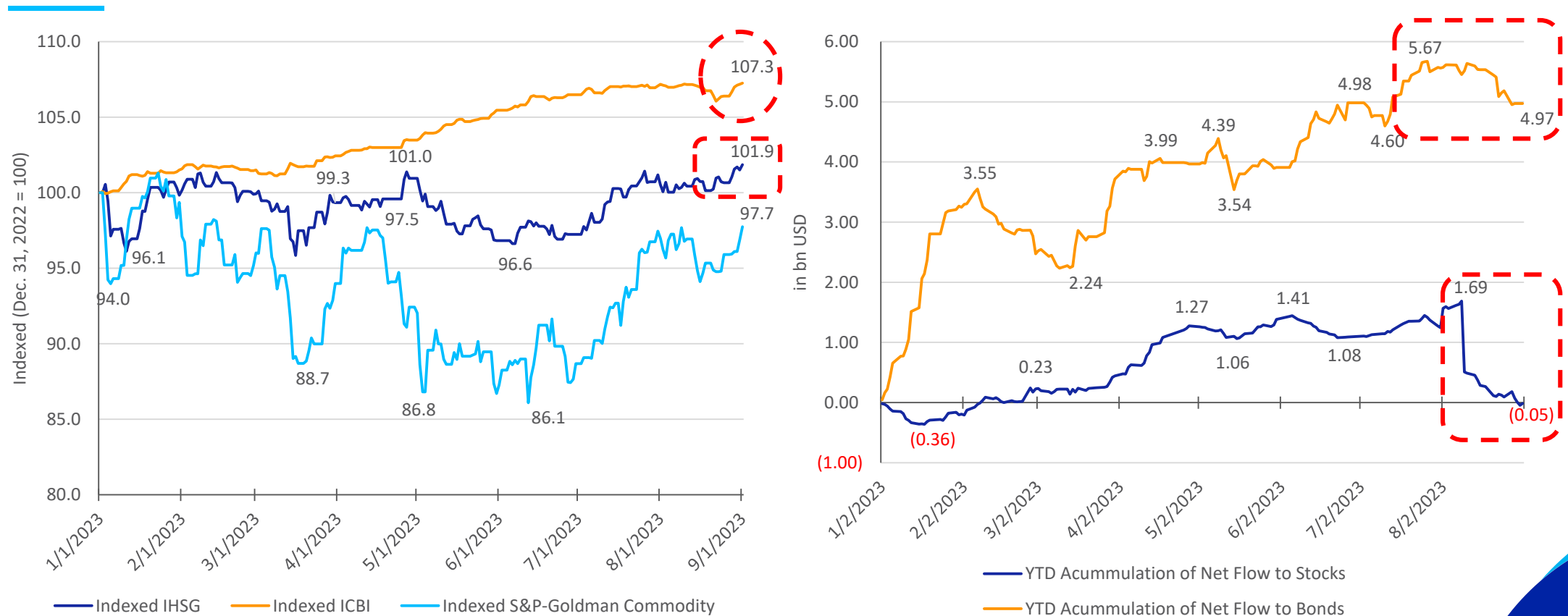
Manufacturing expansion in August was followed by another slowdown in CPI inflation to 2.5-3%

Core CPI inflation might fall lower than the lower limit of Bank Indonesia's target of 2%



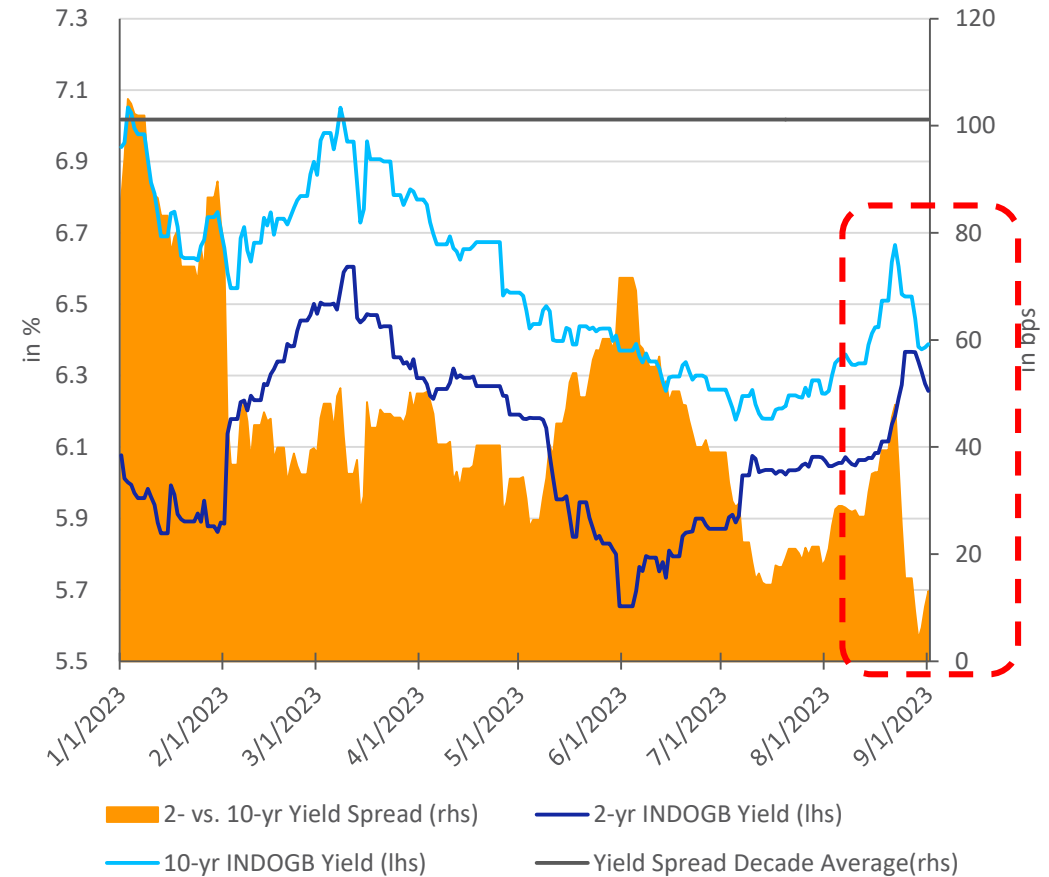
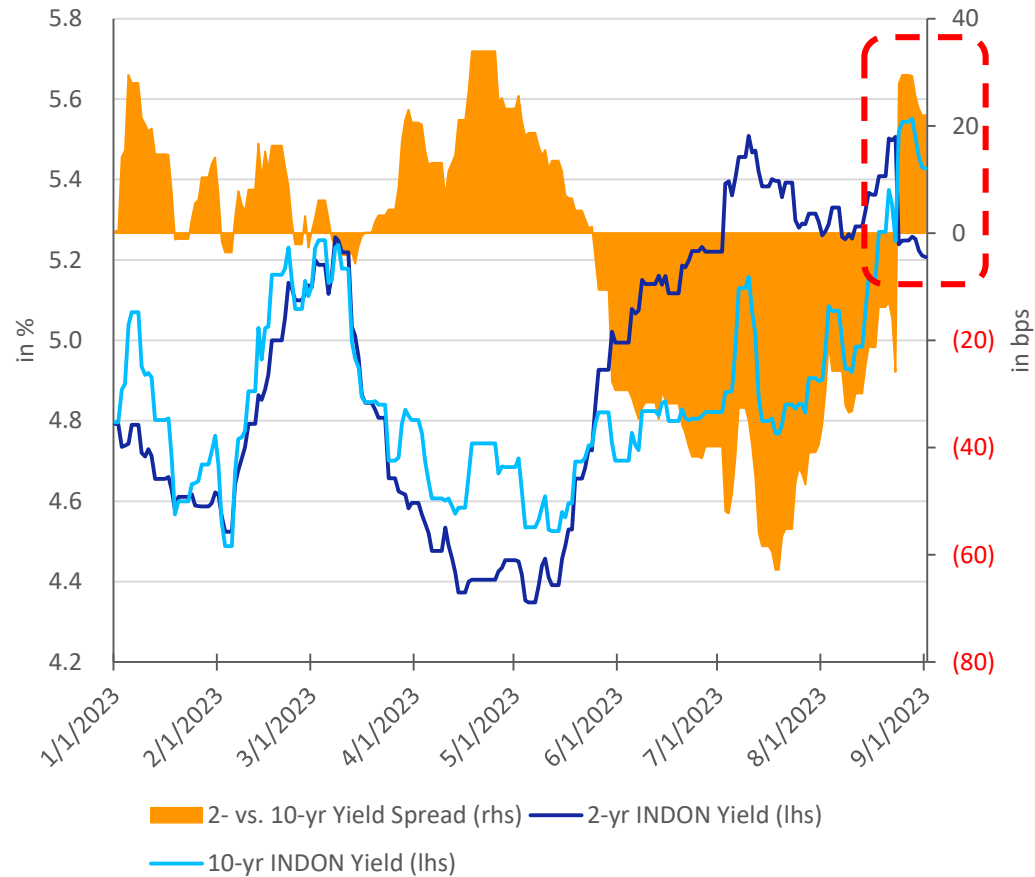
Source: S&P Global, BPS, SSI Research

Strong domestic macroeconomic fundamentals boost domestic investors' optimism about the prospects of the JCI and the domestic bond market, even amidst heavy foreign capital outflow



Source: BI,, SSI Research

Maintain overweight on INDON & INDOGB 2Y



Source: IDX, Bloomberg, SSI Research

This Week

September 4-10, 2023

Ones to Watch



September 5, 2023

China's Caixin Services PMI (Jul: 54.1; Cons: 53.5)



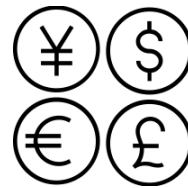
September 5, 2023

Eurozone's headline PPI inflation (Jul: -3.4% yoy; Cons: -7.6% yoy)



September 6, 2023

US ISM Services PMI (Jul: 52.7; Cons: 52.5)



September 7, 2023

Bank Indonesia's foreign exchange reserves (Jul: USD 137.7bn) and net foreign investment (Jul: IDR 1,940.7tn)



September 8, 2023

Indonesia's Consumer Confidence Index (Jul: 123.5)



September 9, 2023

China's headline CPI (Jul: -0.3% yoy; Cons: 0.2% yoy) and PPI inflation (Jul: -4.4% yoy; Cons: -2.8% yoy)



Thank You

Your Lifelong **Investment Partner**

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