

Macro Strategy and Fixed Income Weekly

Lionel Priyadi

Your Lifelong
Investment Partner

www.samuel.co.id



Last Week's Recap

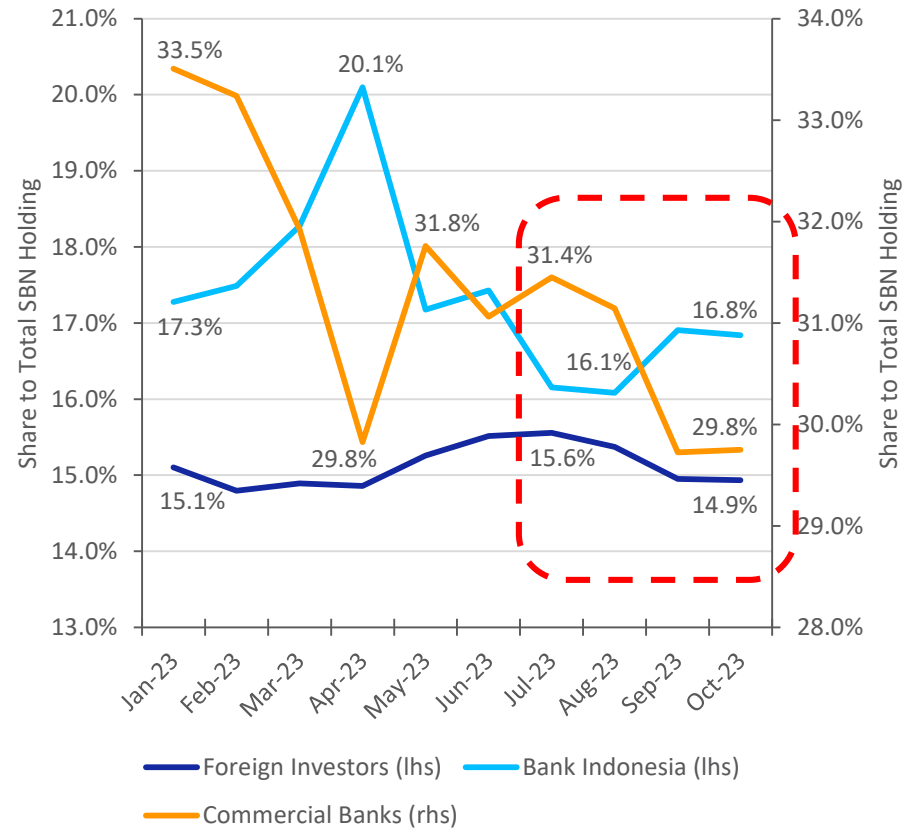
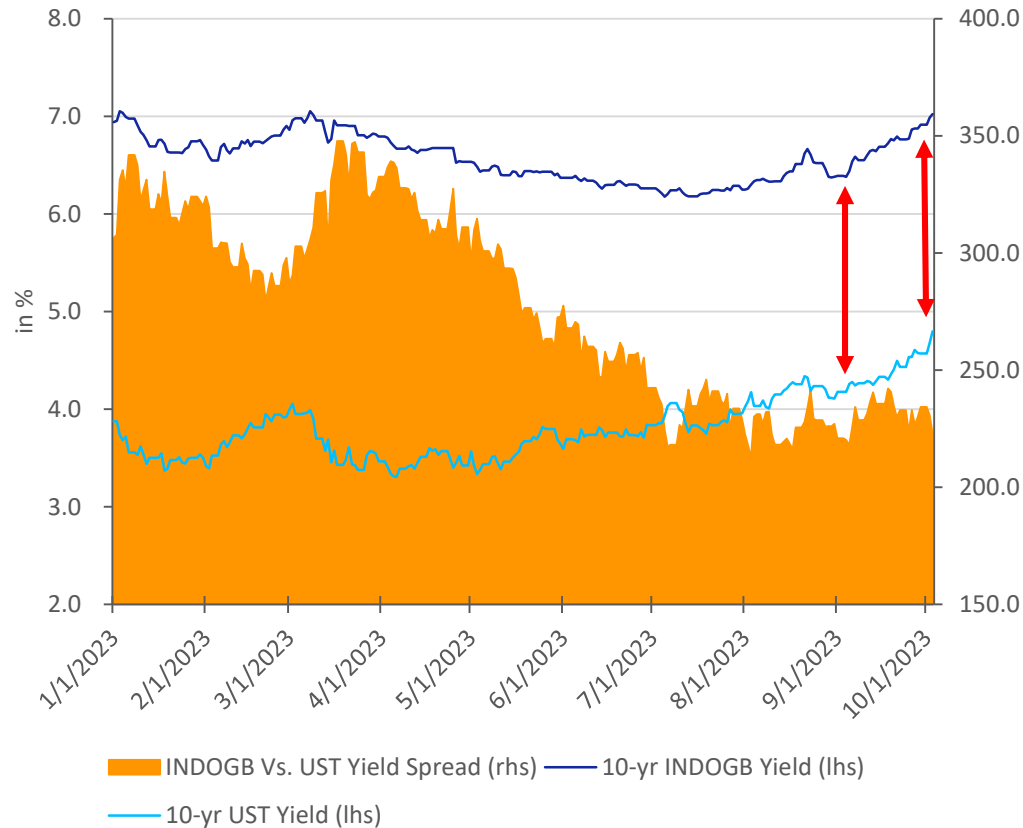
September 30 – October 6, 2023

What's Our View?

- We project the INDOGB 10Y yield will continue to decline this week, with a yield target of 7.2% (bullish scenario; INDOGB 10Y vs. UST 10T yield spread at 220 bps and UST 10Y yield reaching 5%) due to the resilient economic expansion in the US.
- We predict BI will start considering raising its benchmark interest rate by 25 bps to 6% in 4Q23 if Rupiah depreciates toward IDR 16,000 per USD and foreign exchange reserves decline by USD 8bn to USD 127bn in the next two months.
- In our opinion, the much higher-than-expected increase in nonfarm payroll in September (Sep: 336,000; Aug: .227,000; Cons: 170,000) raised the probability of a Fed rate hike in December (1X25 bps to 5.75%), as well as the probability of UST 10Y yield reaching 5% or more.
- Investors' attention will be focused on US CPI inflation data for September, which will be released next Thursday (10/12), with consensus expecting headline and core CPI inflation to fall to 3.6% and 4.1% yoy (Aug: 3.7% and 4.3% yoy), which will confirm the possibility of a Fed rate hike in December.

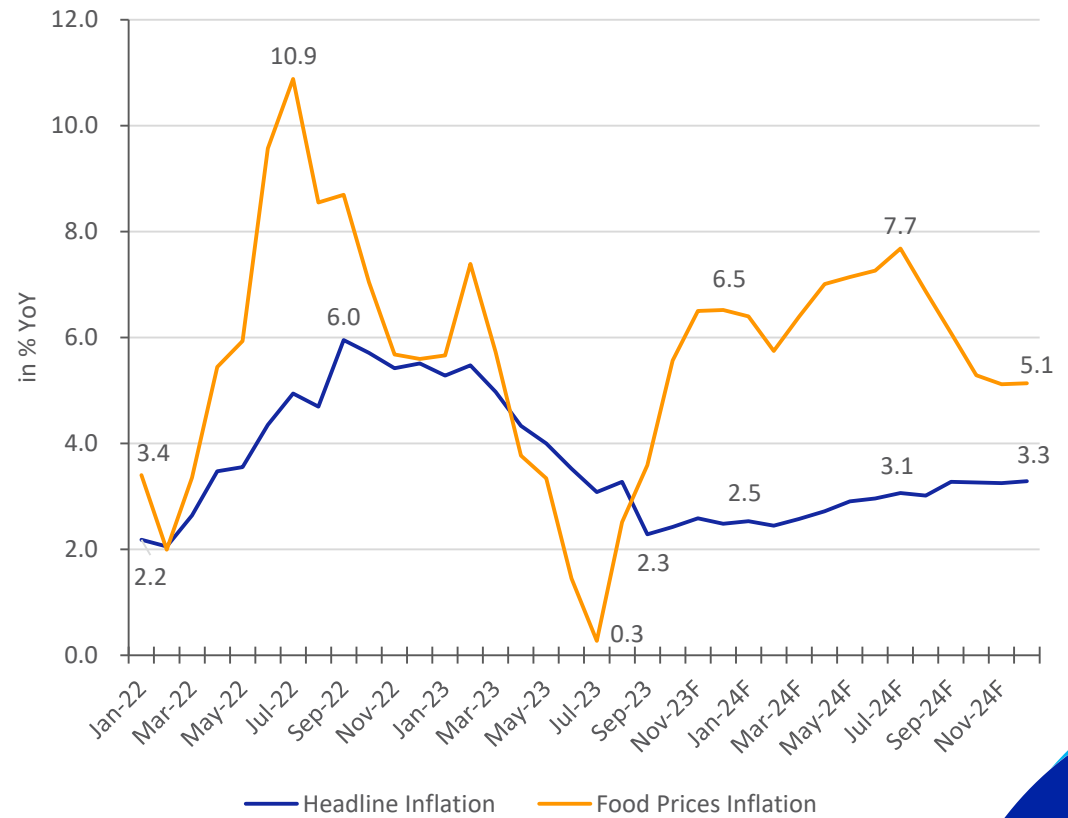
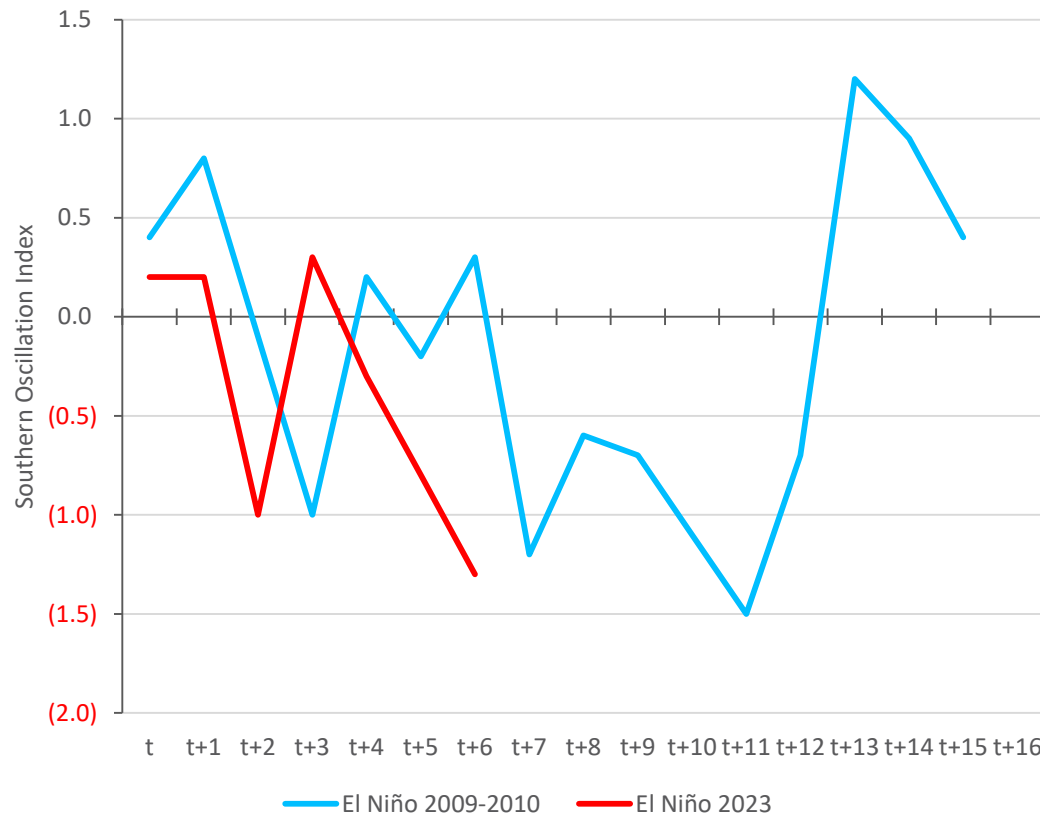
Indonesia Update: INDOGB 10Y yield went up, mainly due to the UST sell-off, which brought the UST 10Y yield to 4.8%

Commercial banks and foreign investors sold off their SBN throughout September and October, and BI intervened to prevent a sharper yield hike.



Source: DJPPR, Bloomberg, SSI Research

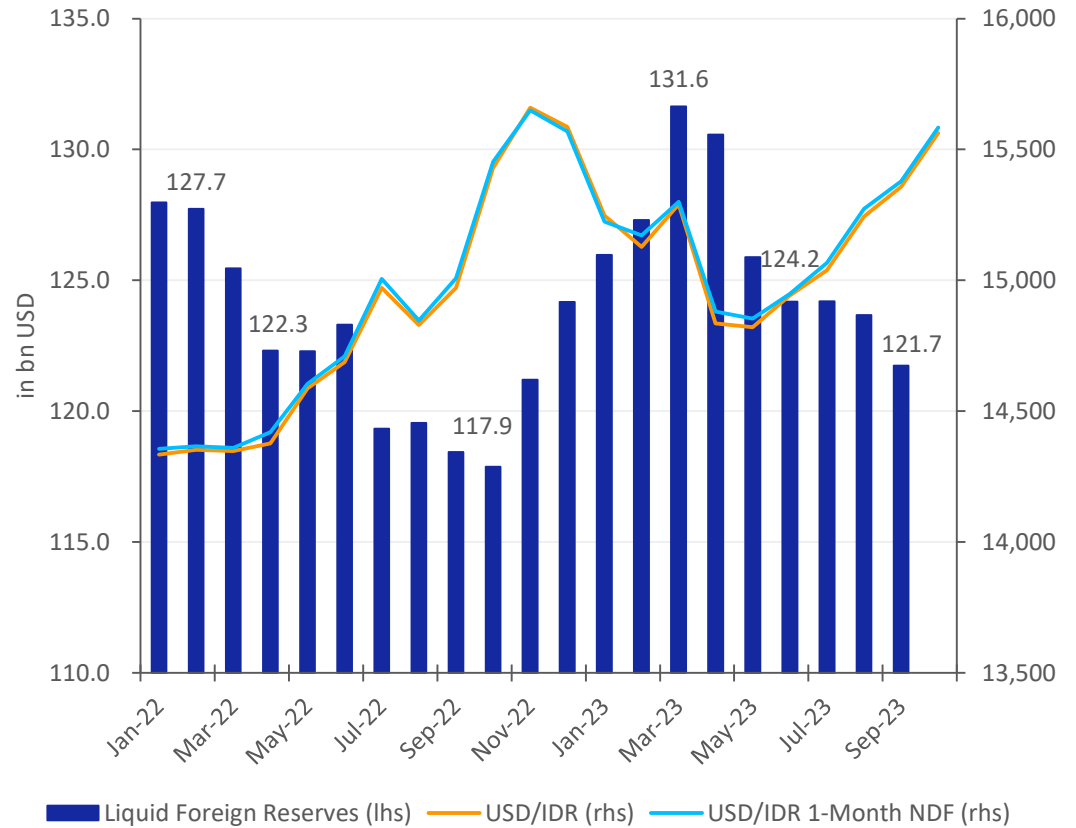
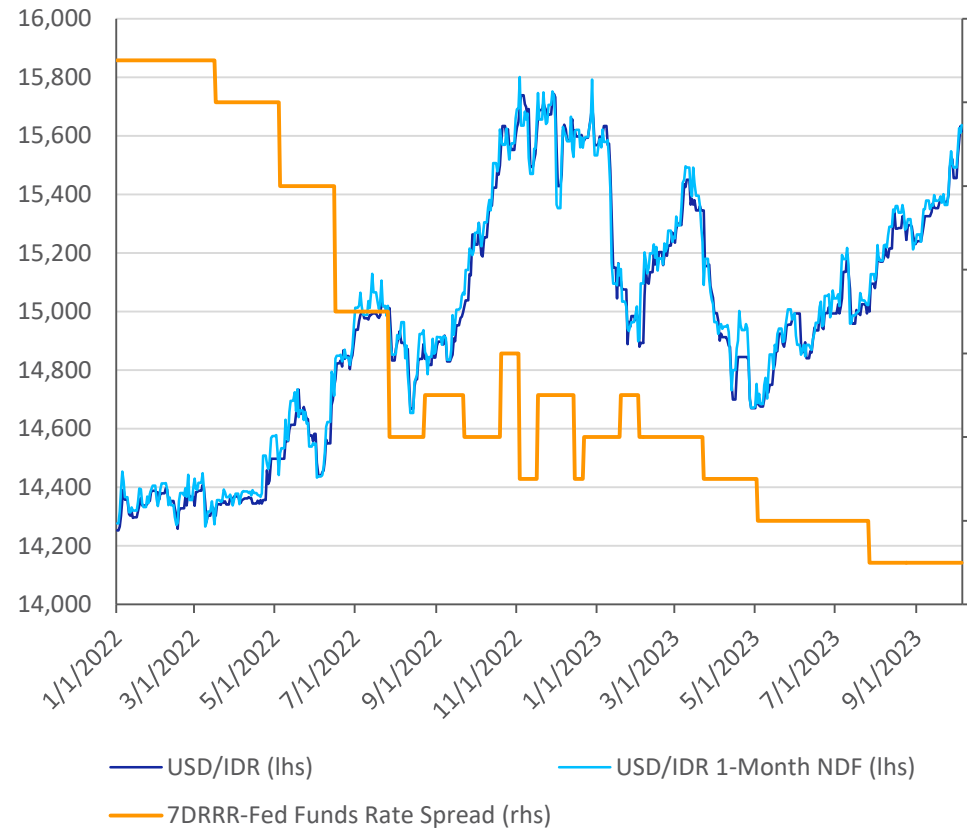
Indonesia Update: As the threat of El Niño becomes more and more real, we project food price inflation to reach 6.5% yoy at the end of 2023 and peak at 7.7% yoy in July 2024



Source: BI, SSI Research

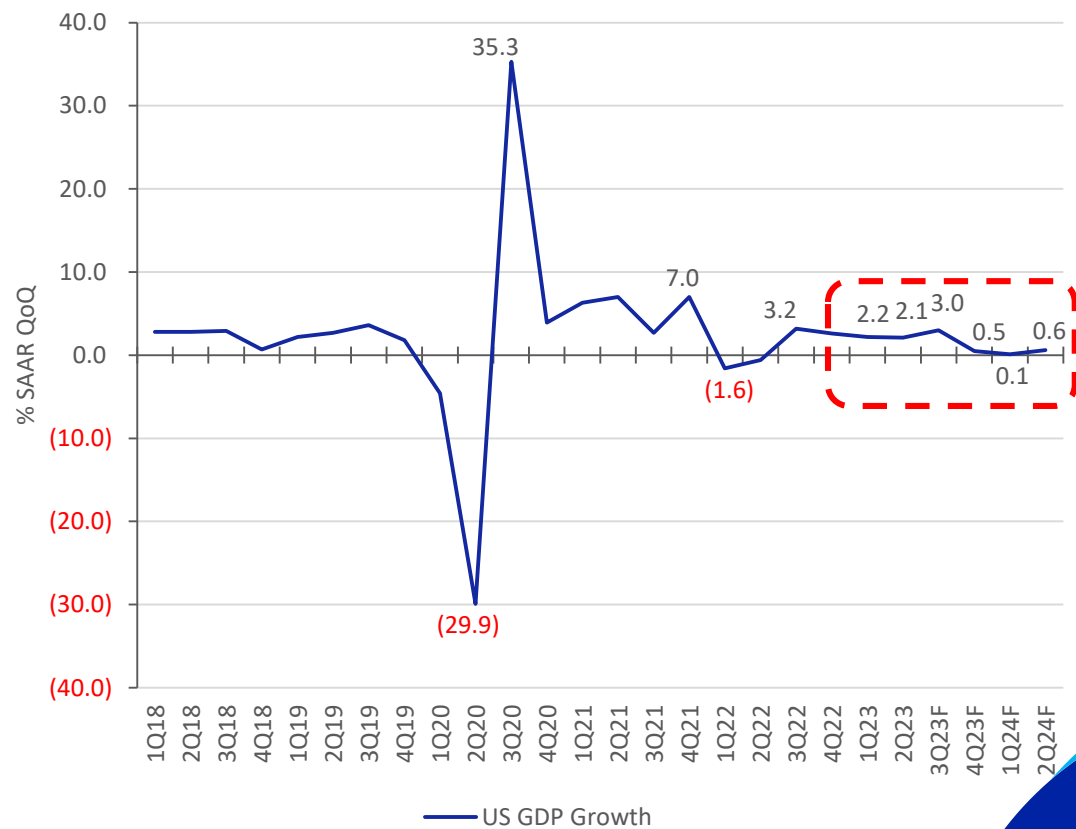
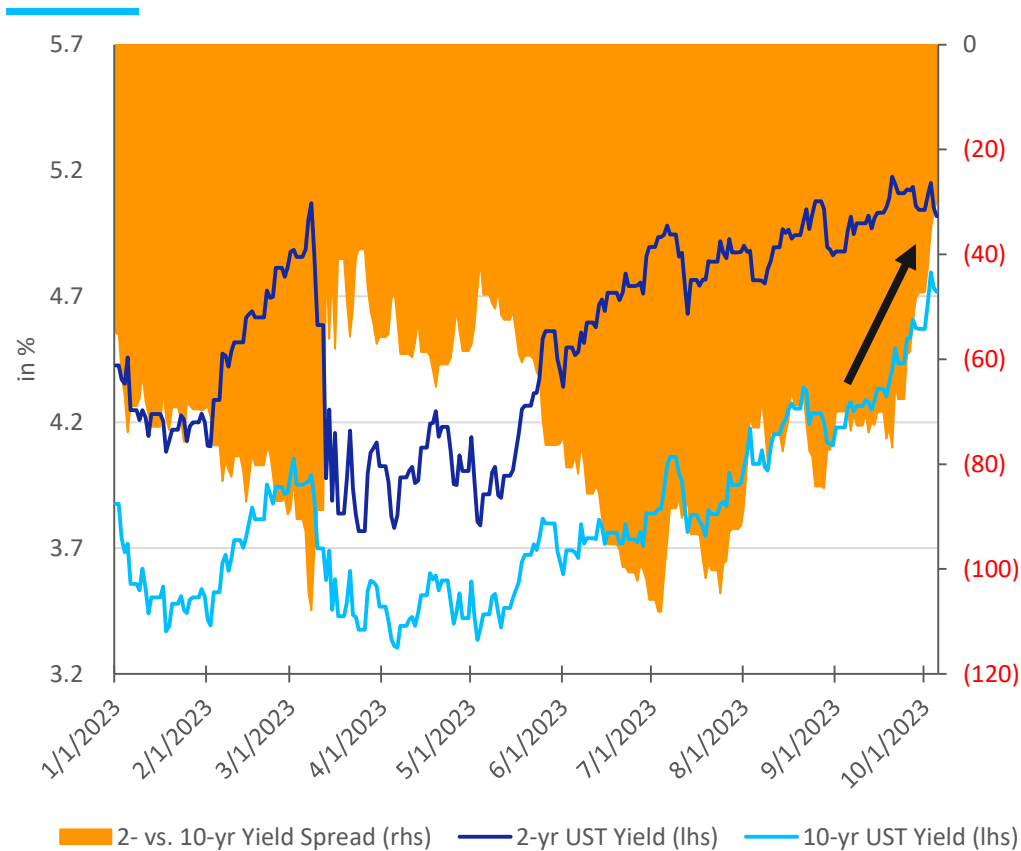
Indonesia Update: Pressure on Rupiah due to capital outflow, particularly from the SBN market

BI might consider a benchmark interest rate hike as a last resort if Rupiah continues to depreciate towards IDR 16,000 per USD and liquid foreign exchange reserves fall by USD 8bn to USD 113bn in the next two months



Source: BI, Bloomberg, SSI Research

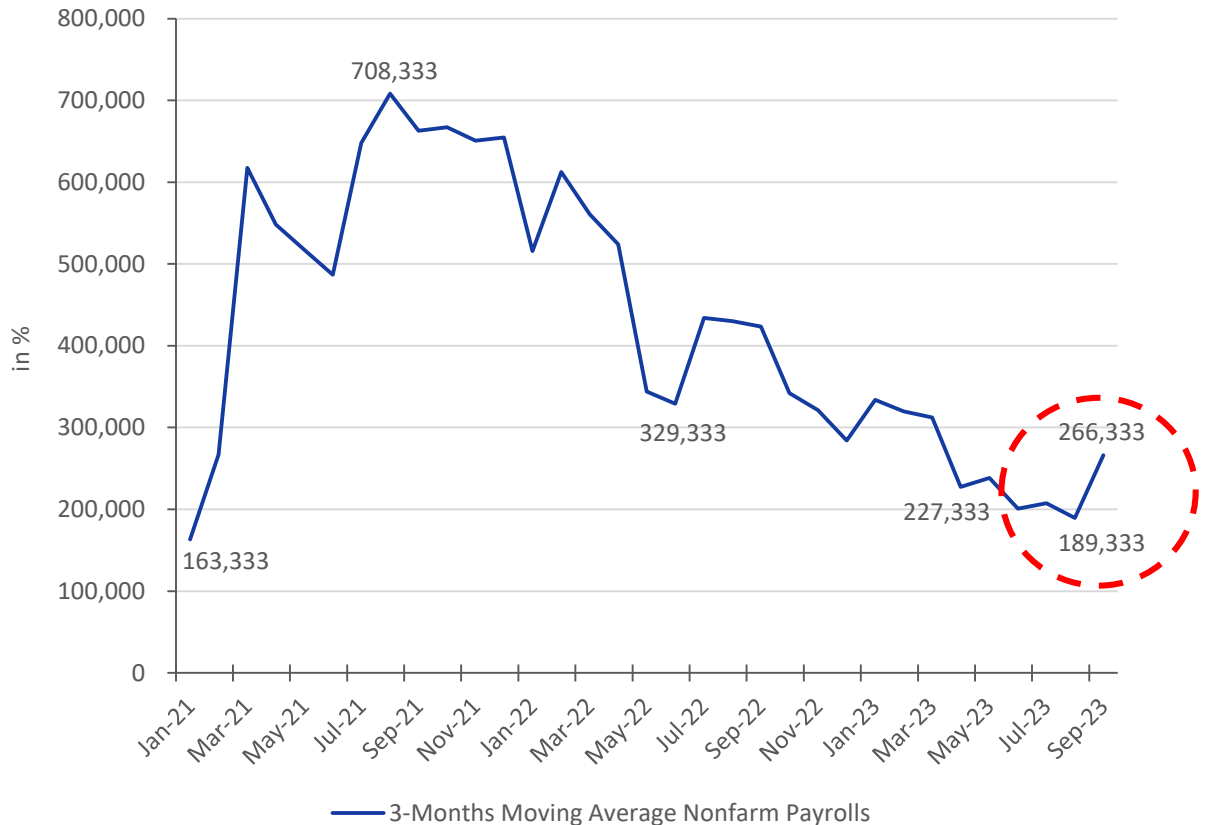
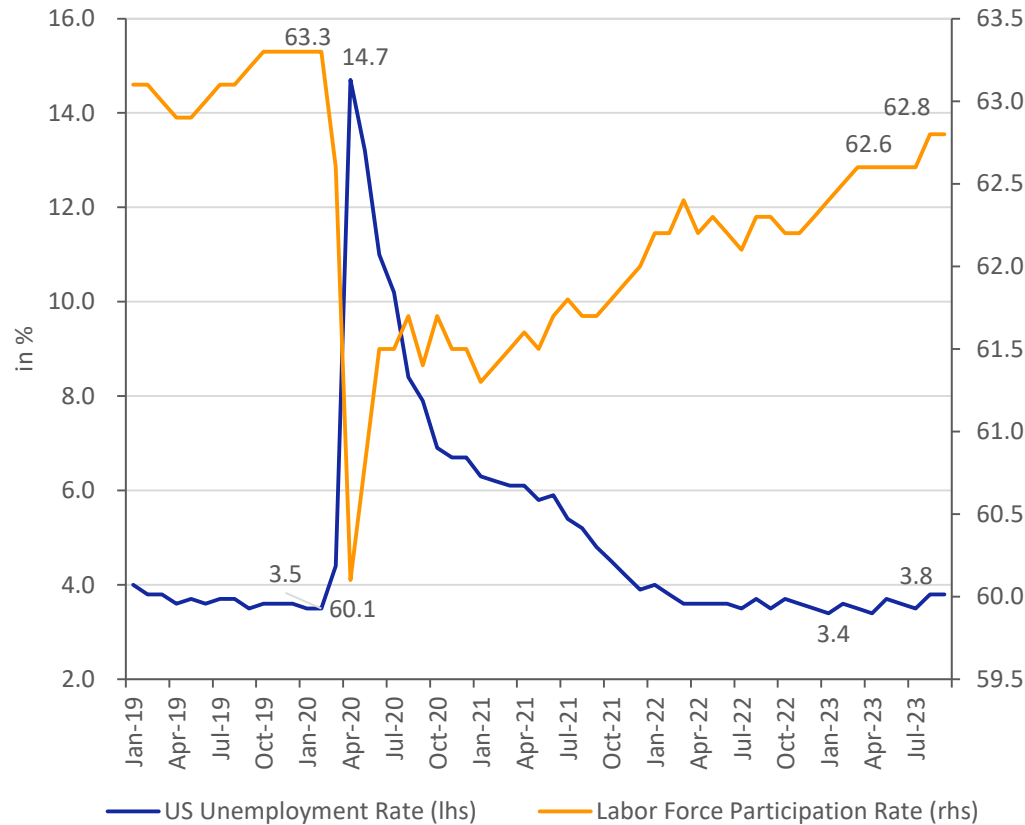
US Update: The UST market is experiencing bear steepening (inverted yield curve towards flattening with an increase in UST 10Y yield to a target of 5%) as expectations of a soft landing solidified



Source: BEA, Bloomberg, SSI Research

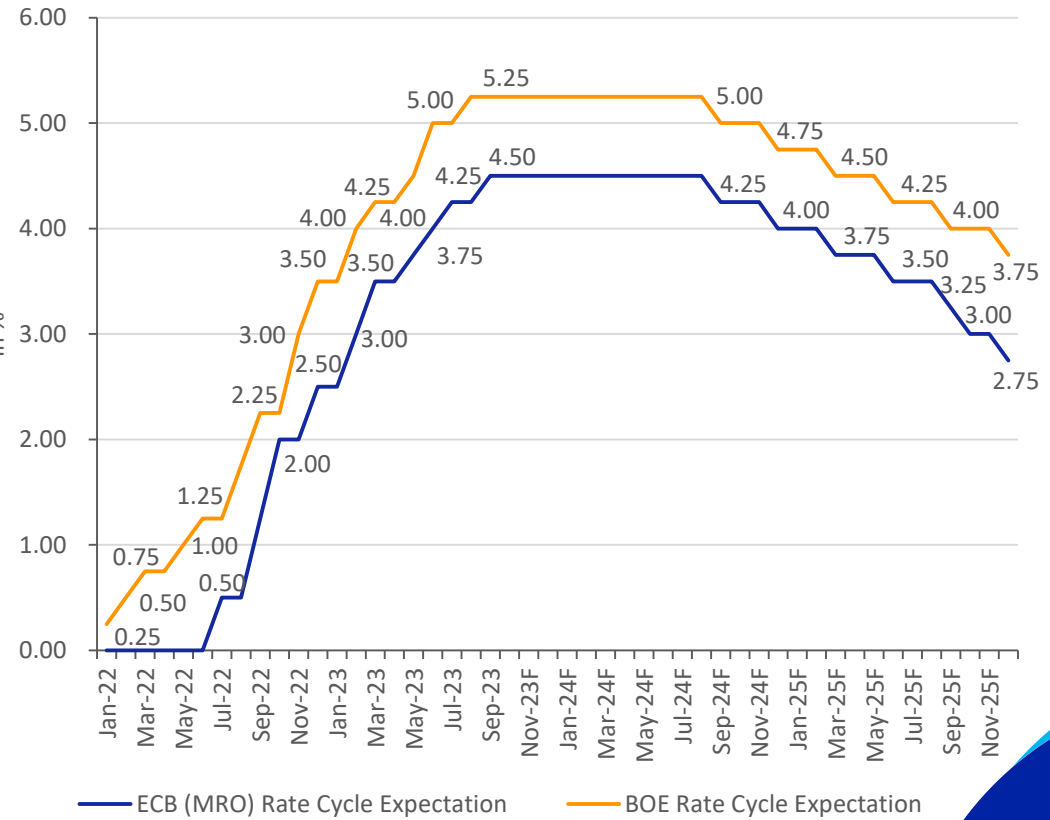
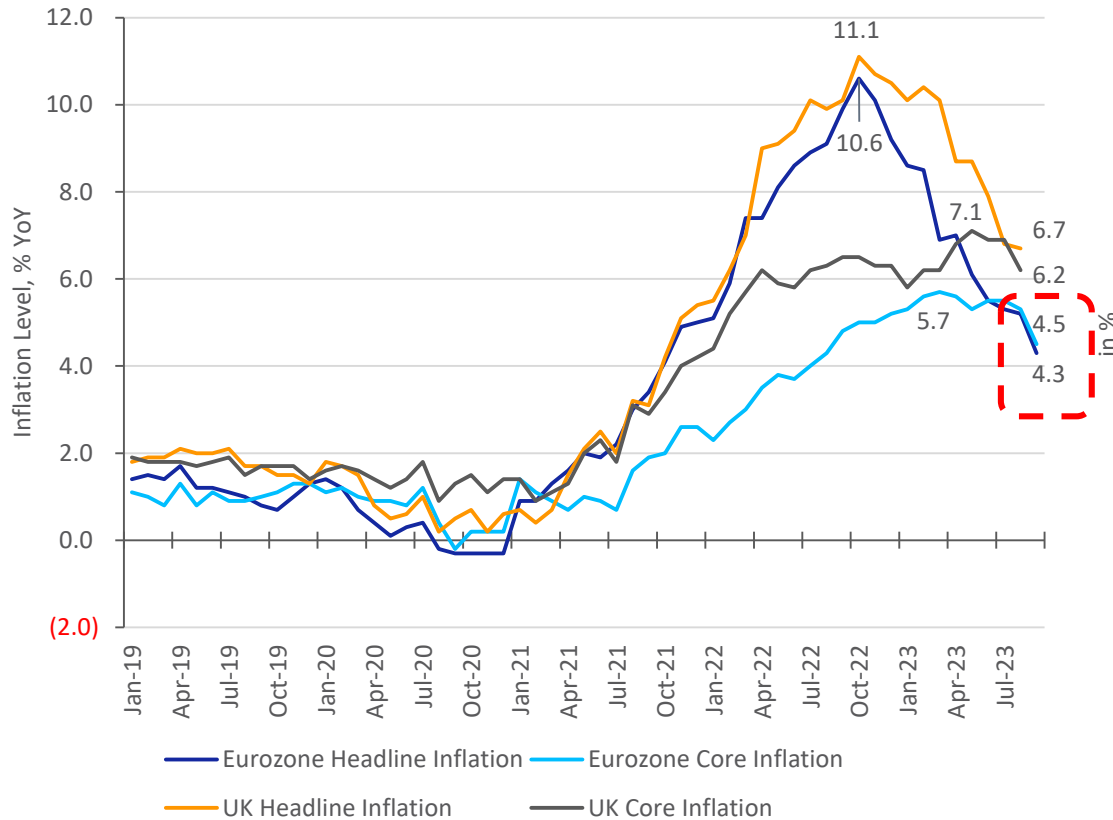
US Update: US labor market data for September boosts the probability of a soft landing

Demand for labor went up in September, as reflected in the increase in the 3-month average of non-farm payroll



Source: BLS, Bloomberg, SSI Research

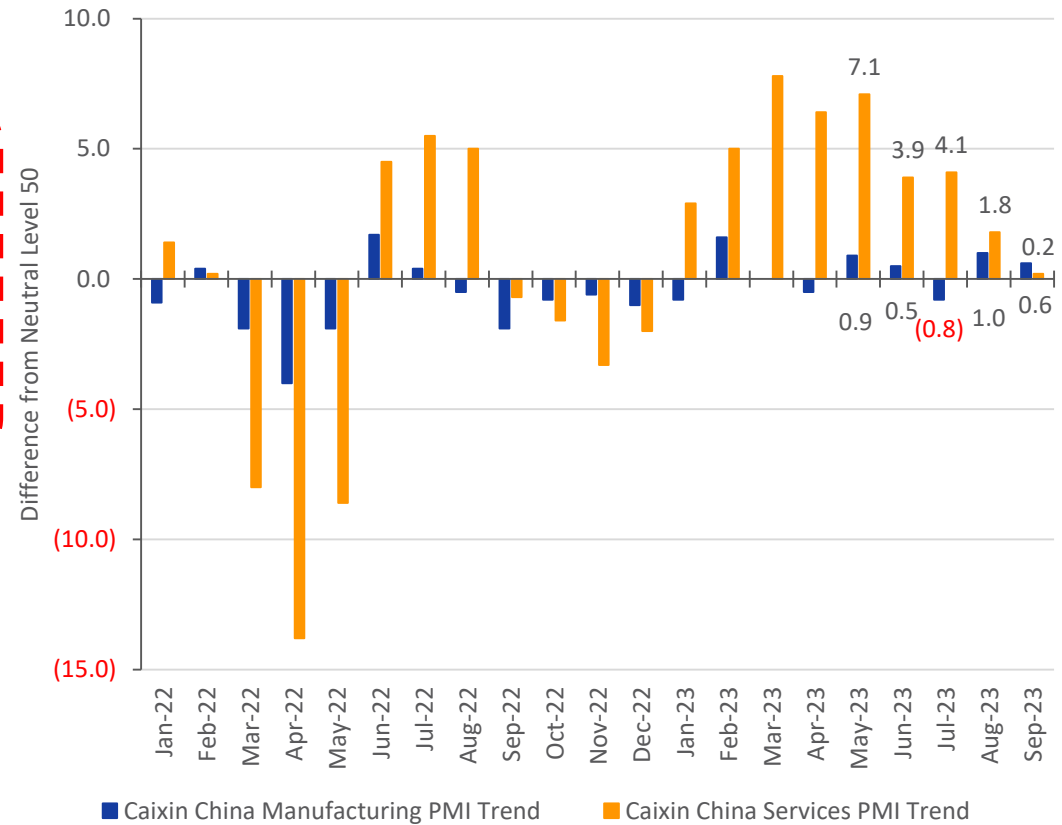
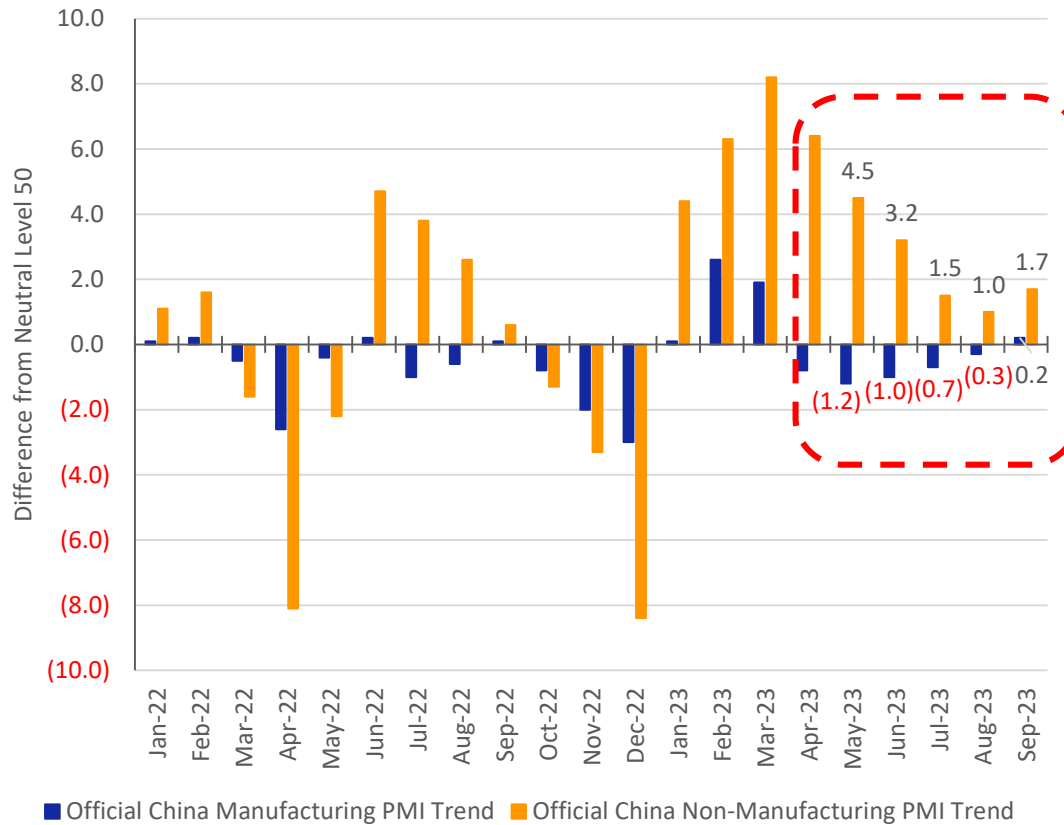
Europe Update: The decline in Eurozone's headline (4.3% yoy) and core CPI inflation (4.5% yoy) strengthens the basis for the ECB's policy to stop the MRO rate hike at 4.5%



Source: S&P, Bloomberg, SSI Research

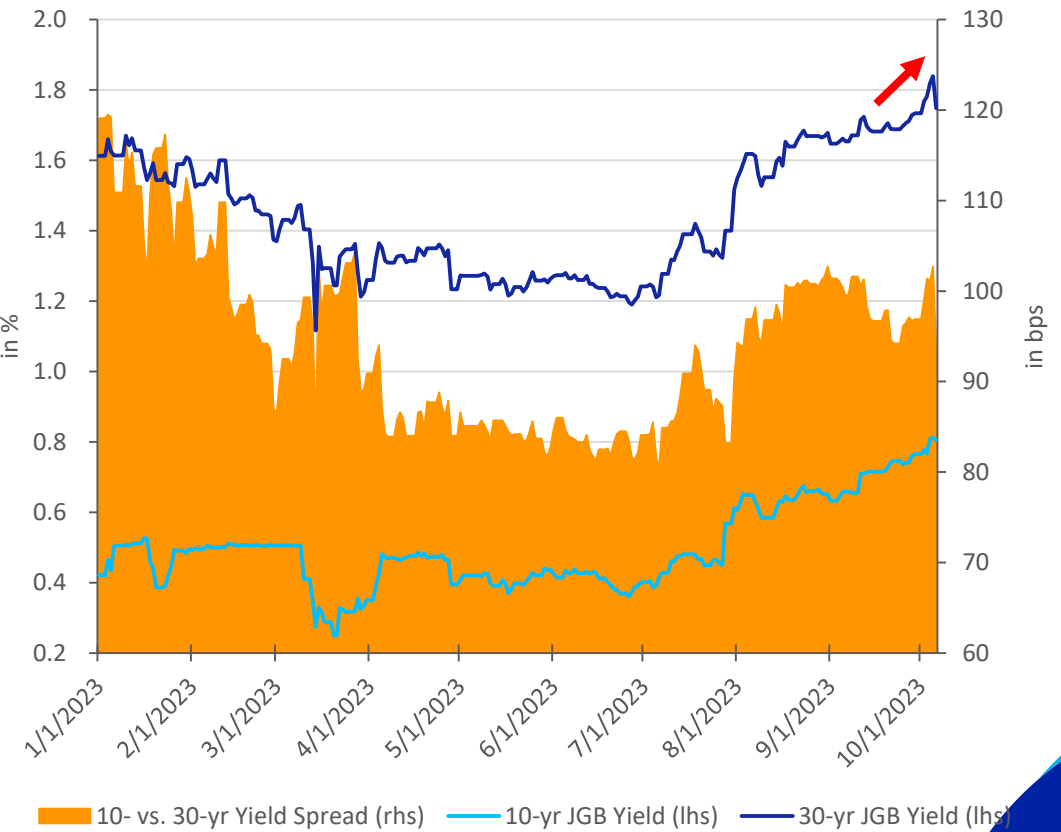
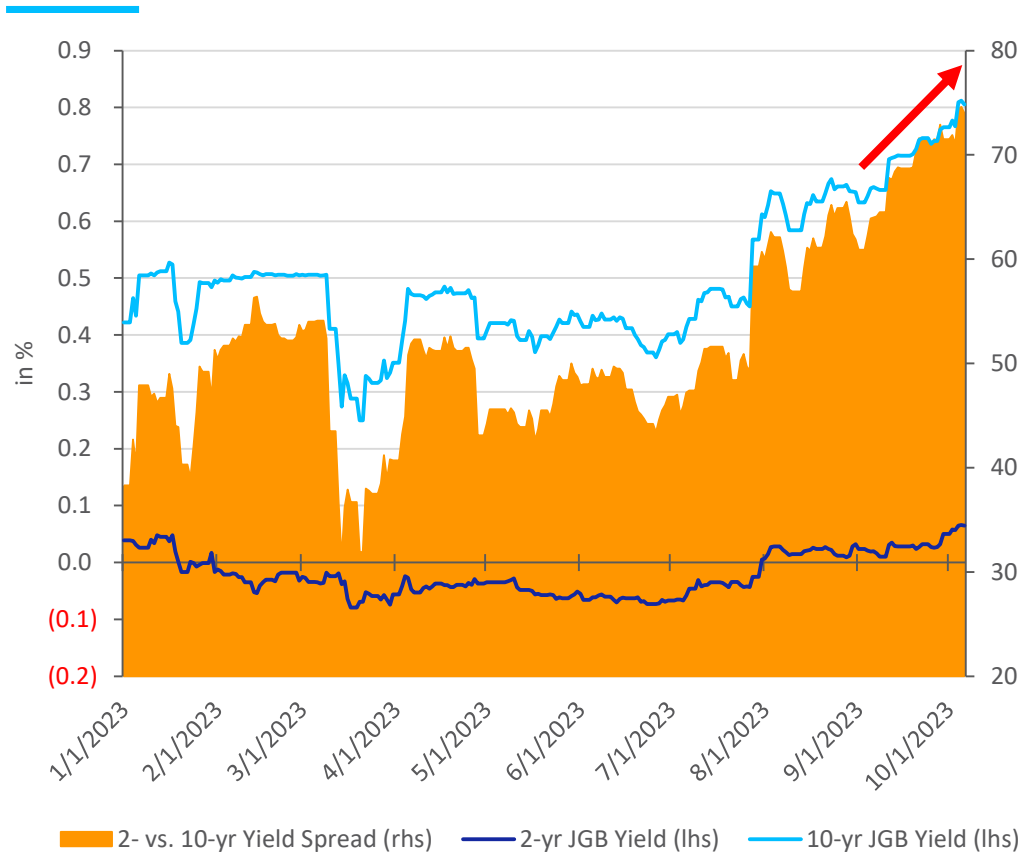
China Update: China's economic activity is still mainly supported by the services sector

While the manufacturing sector is starting to show signs of recovery



Source: Caixin, NBOSC, Bloomberg, SSI Research

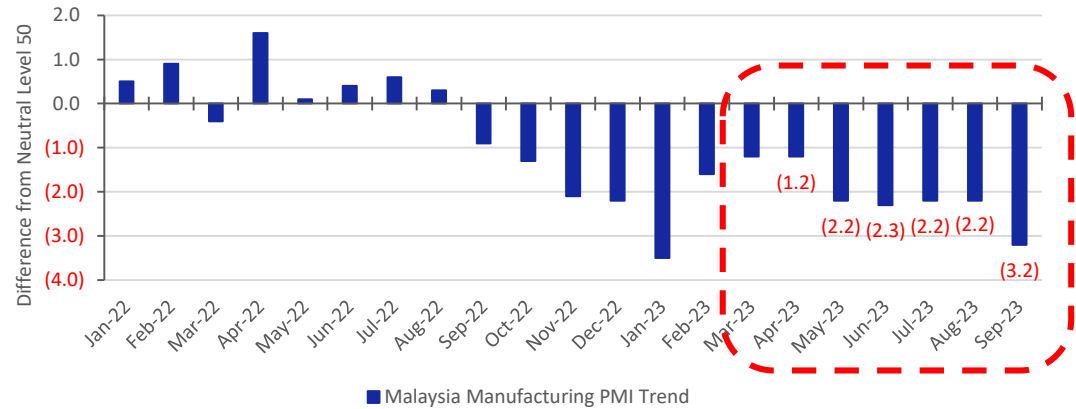
Japan Update: JGB also felt some pressure from the UST sell-off, which caused the JGB 10Y yield to rise to its 10-year high of 0.812% (2Y= 0.066%; 30Y= 1.839%)



Source: Bloomberg, SSI Research

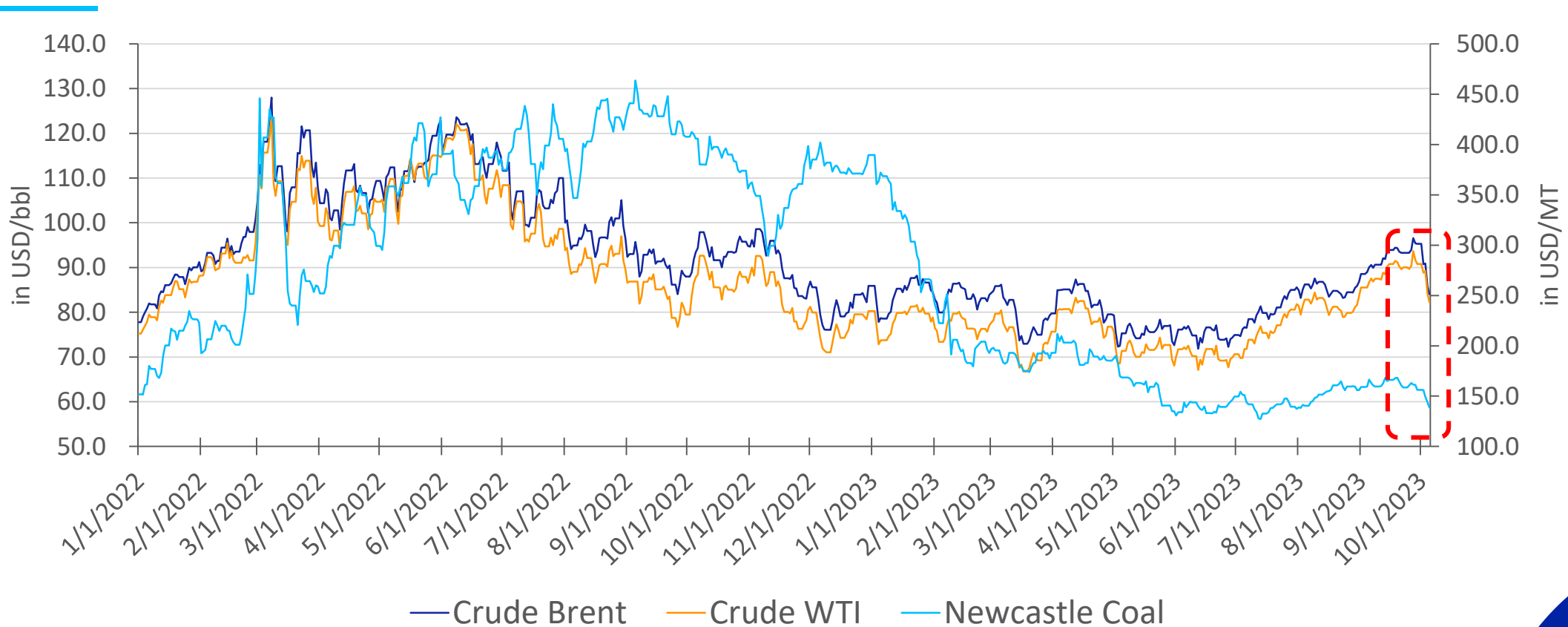
ASEAN Update: Manufacturing activity in Malaysia and Thailand saw another contraction, mainly due to China's weak economy

Meanwhile, manufacturing activity in the Philippines continues to expand, while Indonesia's manufacturing sector was not affected by external factors at all



Source: S&P, Bloomberg, SSI Research

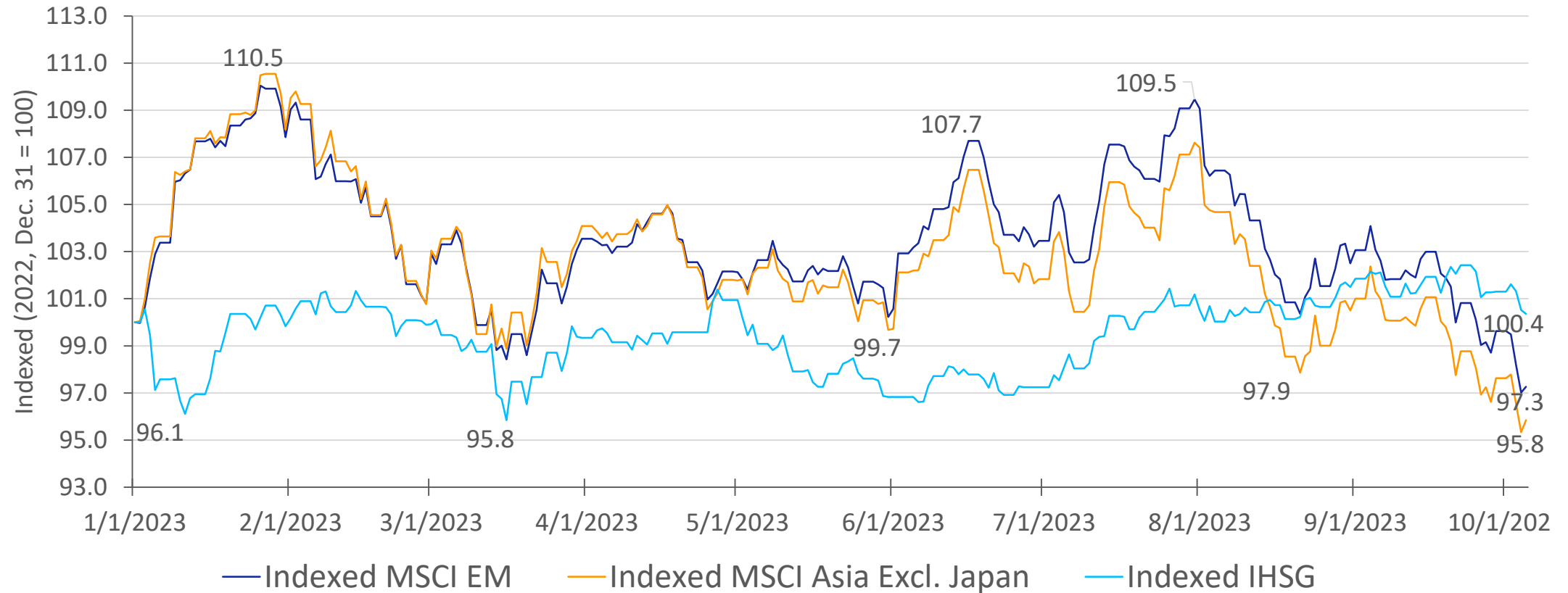
Global Commodity Update: Global energy prices were pressured by the UST sell-off (Brent -12.9%, WTI: -12.1%, Newcastle Coal: -14.8%), after peaking in the previous week



Source: Bloomberg, SSI Research

Global Stock Market Update: Stock indices in Asia, except Japan, and emerging markets, plunged towards their lowest point in 2023

Mainly due to the UST sell-off; JCI's correction was more moderate compared to its peers



Source: MSCI, IDX, Bloomberg, SSI Research

This Week

October 7 – 13, 2023

Ones to Watch



October 9, 2023

Bank Indonesia's consumer confidence index (Aug: 125.2)



October 10, 2023

Bank Indonesia's real sales index (Jul: 203.3; BI Forc. Aug: 204.4)



October 11, 2023

US headline PPI inflation (Aug: 1.6% yoy; Cons: 1.7% yoy)



October 12, 2023

US headline (Aug: 3.7% yoy; Cons: 3.6% yoy) and core CPI inflation (Aug: 4.3% yoy; 4.1% yoy)



October 13, 2023

China's CPI (Aug: 0.1% yoy; Cons: 0.2% yoy) and PPI inflation (Aug: -3% yoy; Cons: -2.4% yoy)



October 13, 2023

University of Michigan's US Consumer Sentiment Index (Sep: 68.1; Cons: 67.5)



Thank You

Your Lifelong **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

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

 [samuelsekurasitas](https://twitter.com/samuelsekurasitas)

 [SamuelSekurasitasIndonesia](https://www.youtube.com/SamuelSekurasitasIndonesia)