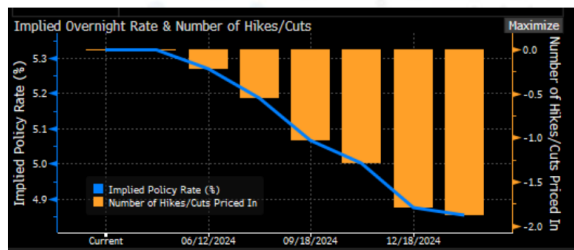


Persistent US inflation, heightened geopolitical conflict

During Eid-Al Fitr holiday in Indonesia (April 8-15), global indices retreated where S&P was -2.7%, MSCI Asia ex-Japan was -1.5%, and MSCI Europe was -0.5% due to combination of persistent US inflation and heightened geopolitical conflict in the Middle East. This build-up in selling pressure brought JCI to weaken more than 2% during market open in April 16th, 2024, first day trading post week-long Eid Al Fitr holiday, in-line with historical data that shows JCI usually declined post long holiday.

US equity benchmark S&P retreated by -2.7% during holiday due to persistent inflation pressure that pushed long-term Treasury yields higher. Headline and core CPI was 0.4% MoM, higher than market expectation of 0.3% MoM in March. The upside surprise was concentrated in core service prices, including medical care services, lodging away from home, auto insurance and rents. FedSpeak suggested officials would prefer to downplay hawkish surprises, signaling that some components that drove the strong CPI might be temporary or driven by residual seasonality. Probability of a June rate cut dropped to 21%. Despite strong inflation data making June rate cut unlikely, officials still appear eager to ease this year.

Region: United States »		Instrument: Overnight Index Swaps »				
Target Rate	5.50	Pricing Date	04/16/2024			
Effective Rate	5.33	Cur. Imp. O/N Rate	5.324			
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.	
05/01/2024	-0.005	-0.5%	-0.001	5.323	0.250	
06/12/2024	-0.219	-21.4%	-0.055	5.270	0.250	
07/31/2024	-0.553	-33.5%	-0.138	5.186	0.250	
09/18/2024	-1.029	-47.6%	-0.257	5.067	0.250	
11/07/2024	-1.297	-26.8%	-0.324	5.000	0.250	
12/18/2024	-1.800	-50.2%	-0.450	4.875	0.250	
01/29/2025	-1.882	-8.2%	-0.470	4.854	0.250	



Source: Bloomberg as of April 16

Geopolitical tension rose after Iran's direct attack on Israel soil. Iran has attacked Israel in retaliation for a strike against its embassy earlier in April. On Sunday afternoon, ~99% of Iran's drones and missiles were intercepted by Israel and its Western allies, however a military base suffered slight damage. According to local news report, a senior official of Israel has warned 'unprecedented response' to Iran's extensive attack. Iran has also said that it "would not hesitate to take further necessary defensive measures" against any military aggression. US dollar strengthened where DXY rose by 2.1% during holiday, causing Rupiah depreciation to currently trading at Rp16,169/USD. Oil prices rose on the news to ~USD92/bbl but retracted back to USD90/bbl, with estimated sensitivity of a 10% change in oil price is ~0.8% to Indonesia CPI, and ~0.1% to Indonesia CAD. Escalation of geopolitical risk could add risk premium to financial markets/asset prices, hence further development would be key to watch for.

Equity comment: We had increased our cash level at the end of march as we took profit on big banks and several bottom-up stocks that had performed well in 1Q24. Uncertainty on Fed monetary policy, geopolitics risk and weakening Rupiah spur volatility in the market. We will use this opportunity to slowly build up quality stocks which have solid fundamental. Amid current uncertainty in the market, we still prefer Infrastructure and consumer staple sectors which present more visible earnings outlook in our view.

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