

FLASH NOTES

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Market Outlook 2020 Window of opportunity

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We see **window opportunity** for the market to do well in 2020, both driven by external and internal factors. On external, latest leading indicators showed activities may already stabilize and/or gradual pick-up. Hence, **modest global economy recovery seems likely to happen, driven by easing trade tension and monetary policy**. Our base case is stable trade tension and/or ceasefire, as US enter election year to reduce volatility/uncertainty.

Risk: trade tension, late cycle economy, high debt level, US election/geopolitics.

Similarly, China's economic data also showed bottoming and/or gradual recovery, driven by combination of investment, consumption and export. With this thesis, **Emerging Market (EM) is expected to do well** and may outperform Developed Market (DM) if USD tend to depreciate/weaken.

For the domestic, we all know that the growth had been slow. But, **there are some indicators showed that it already bottoming**, i.e. FDI, industrial data, commodity prices, etc. Hence, GDP growth in 2020 may improve to 5.1-5.2% from 5.0-5.1% in 2019. There will be inflation pressure in 2020, mostly coming from administered price and cigarette, but still below 4%.

We see gradual progress on government policy/reform after election, but **the most important thing to watch for the economy and market is omnibus law**. We note that political factor may matter more than economic factor to pass the law. Hence, market prefer wait and see on this issue, so any real progress may provide upside risk to the market.

Conclusion

We remain positive to the market going into 2020, but our preference become more balance between equity and bond (previously bond > equity). BI may still cut interest rate from this level (5.0%), despite the room seems limited. We also see there is supply risk on the bond market. On equity, our JCI target is 6,750-7,100 by YE20, with earning growth expectation of 7-9%.

Macro and market forecast

	2016	2017	2018	2019E	2020E
BI rate *	6.50%	N/A	N/A	N/A	N/A
7-day reverse repo	4.75%	4.25%	6.00%	4.75%	4.25-4.50%
GDP	5.0%	5.1%	5.2%	5.0-5.1%	5.1-5.2%
Oil price/brl	US\$57.9	US\$62.6	US\$53.8	US\$55 - 65	US\$50 - 60
CPI	3.02%	3.61%	3.13%	3.0-3.3%	3.2-3.7%
CAD	1.7%	1.7%	3.0%	2.5-2.9%	2.5-2.8%
USD/IDR	13,473	13,555	14,390	13,900-14,300	13,500-14,500
JCI	5,297	6,356	6,194	6,300-6,500	6,750-7,100
EPS growth	4%	12%	8%	3-5%	7-9%
10-y bond	7.97%	6.32%	8.02%	6.8-7.2%	6.5-6.9%

* change to 7-day reverse repo, starting Aug'16

Source: Bloomberg, BPAM