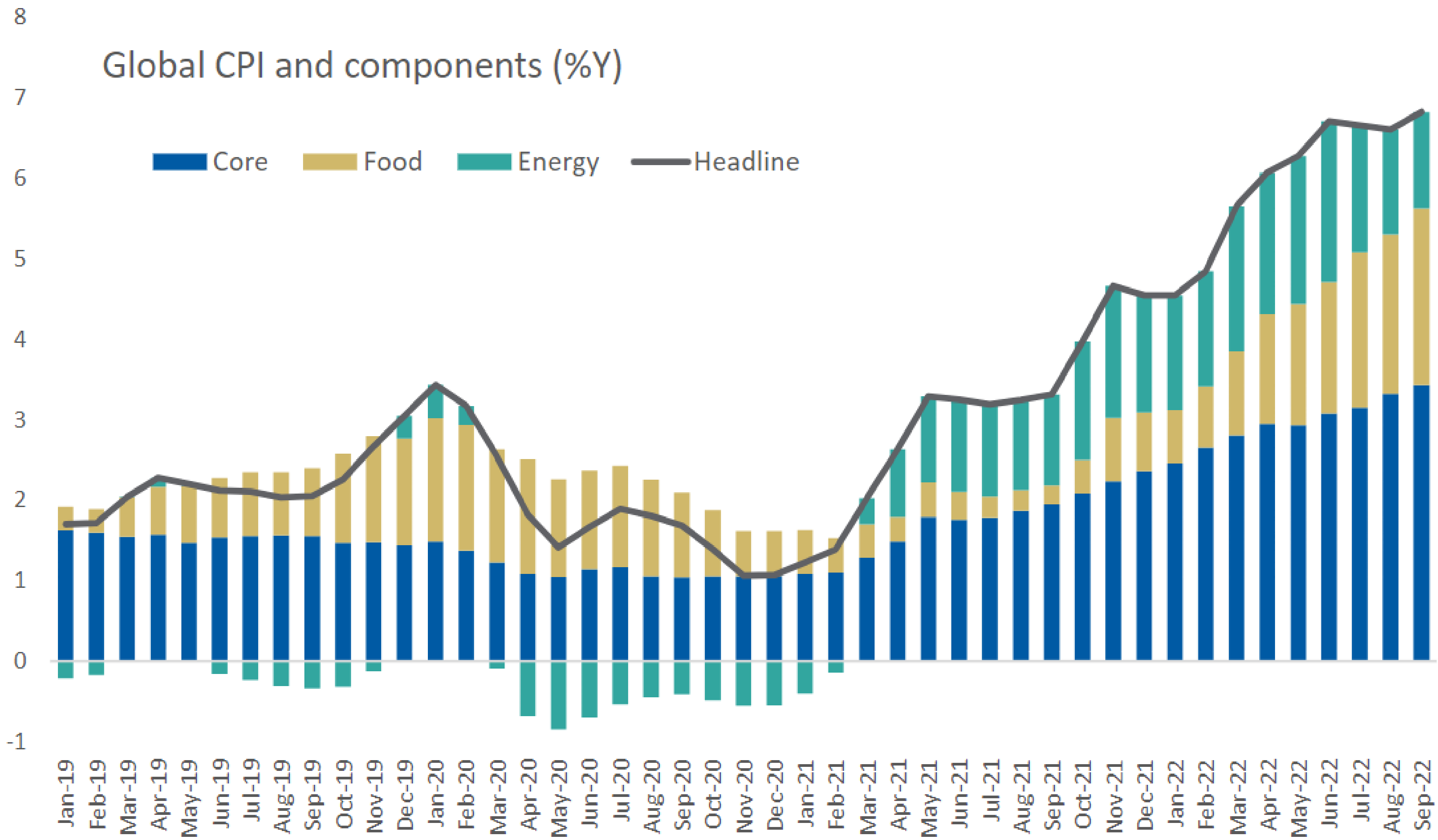
MARKET OUTLOOK 2023

PT Batavia Prosperindo Aset Manajemen

Jakarta, Jan 2023

2022 review

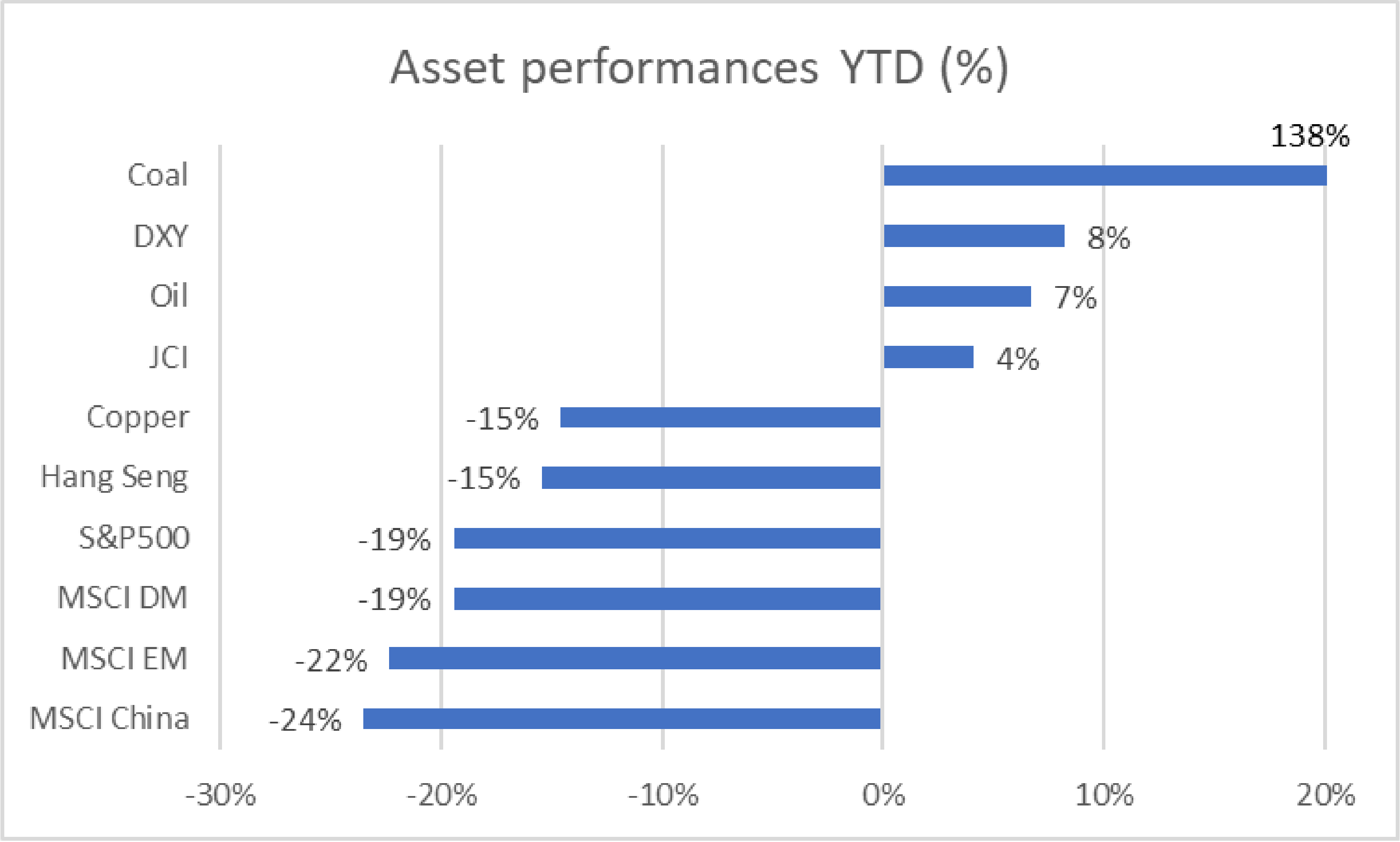
1. Inflation and rate overshoot



Source : Haver Analytics, Morgan Stanley Research

2022 review

2. A tough year



Source : Bloomberg, BPAM

BATAVIA PROSPERINDO

What to expect in 2023?

Certificate Number: ID07/1010

Every Cloud Has a Silver Lining

What to expect in 2023?

Certificate Number: ID07/1010

1. **Global economy – slowing macro backdrop**
2. Emerging market – leading the way up
3. Domestic – sustaining steady expansion

A ‘global recession’ of sorts

Global growth to be historically weak in 2023

Source : UBS, Haver

- Fading reopening tailwinds, labor supply shortages, monetary tightening and inflation are pulling down growth.

DM growth to slowdown

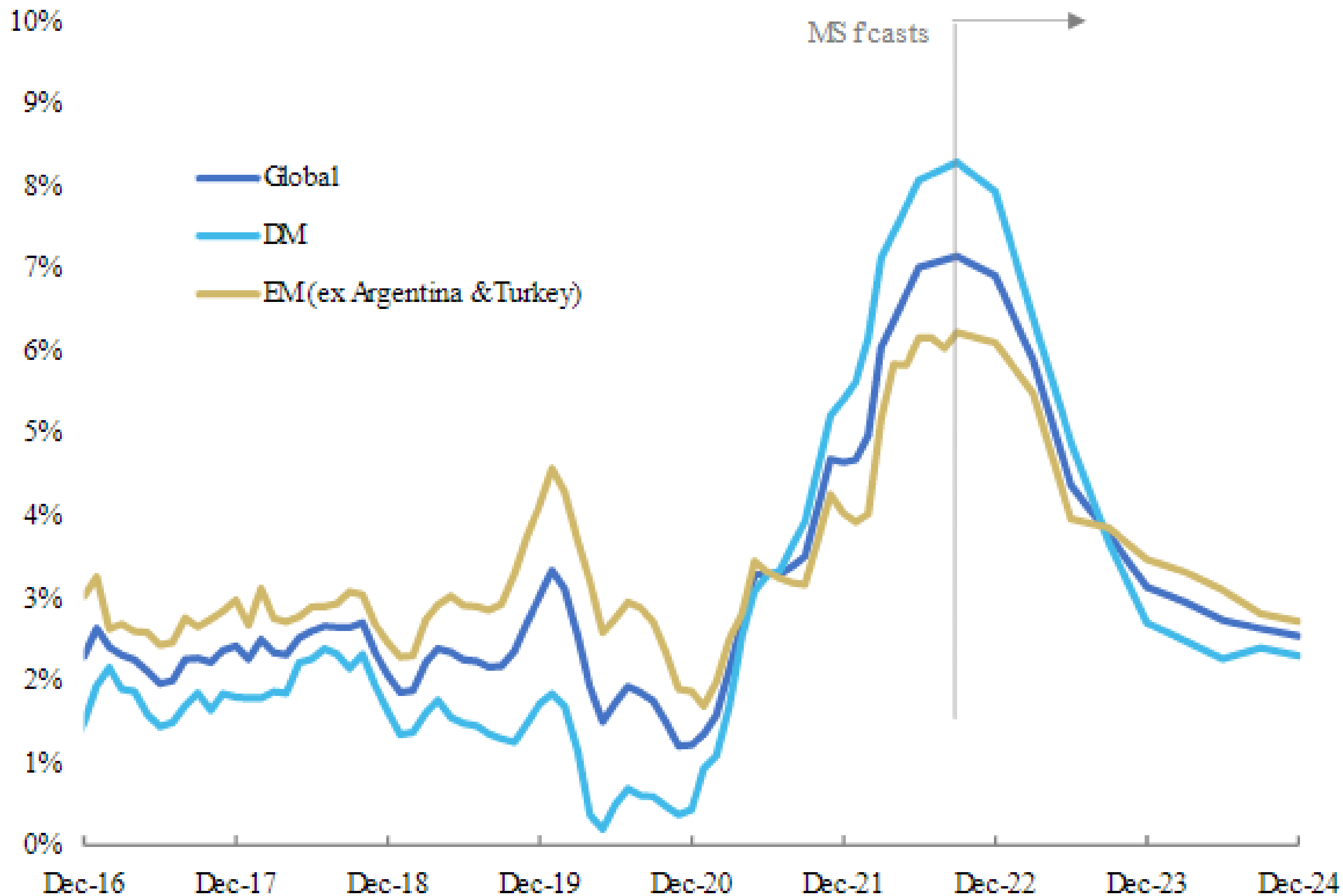
Global economic growth and forecast (YoY, %)

GDP (%Y)	2022	2023E MS	2023E Cons	2024E MS	2024E Cons
Global	**3.0**	**2.2**	**2.4**	**2.7**	**3.0**
G10	**2.6**	**0.3**	**0.3**	**1.1**	**1.5**
US	1.9	0.5	0.2	0.9	1.5
Euro Area	3.3	-0.2	-0.1	0.9	1.6
Japan	1.5	1.2	1.3	1.6	1.1
UK	4.4	-1.5	-0.8	0.5	0.9
EM	**3.3**	**3.7**	**3.9**	**3.9**	**4.1**
China	3.2	5.0	4.9	4.4	4.8
India	6.8	6.2	7.0	6.4	5.9
Brazil	2.8	1.2	0.6	1.5	1.7

Source : Bloomberg, Haver Analytics, Morgan Stanley Research forecasts

Global inflation to decelerate

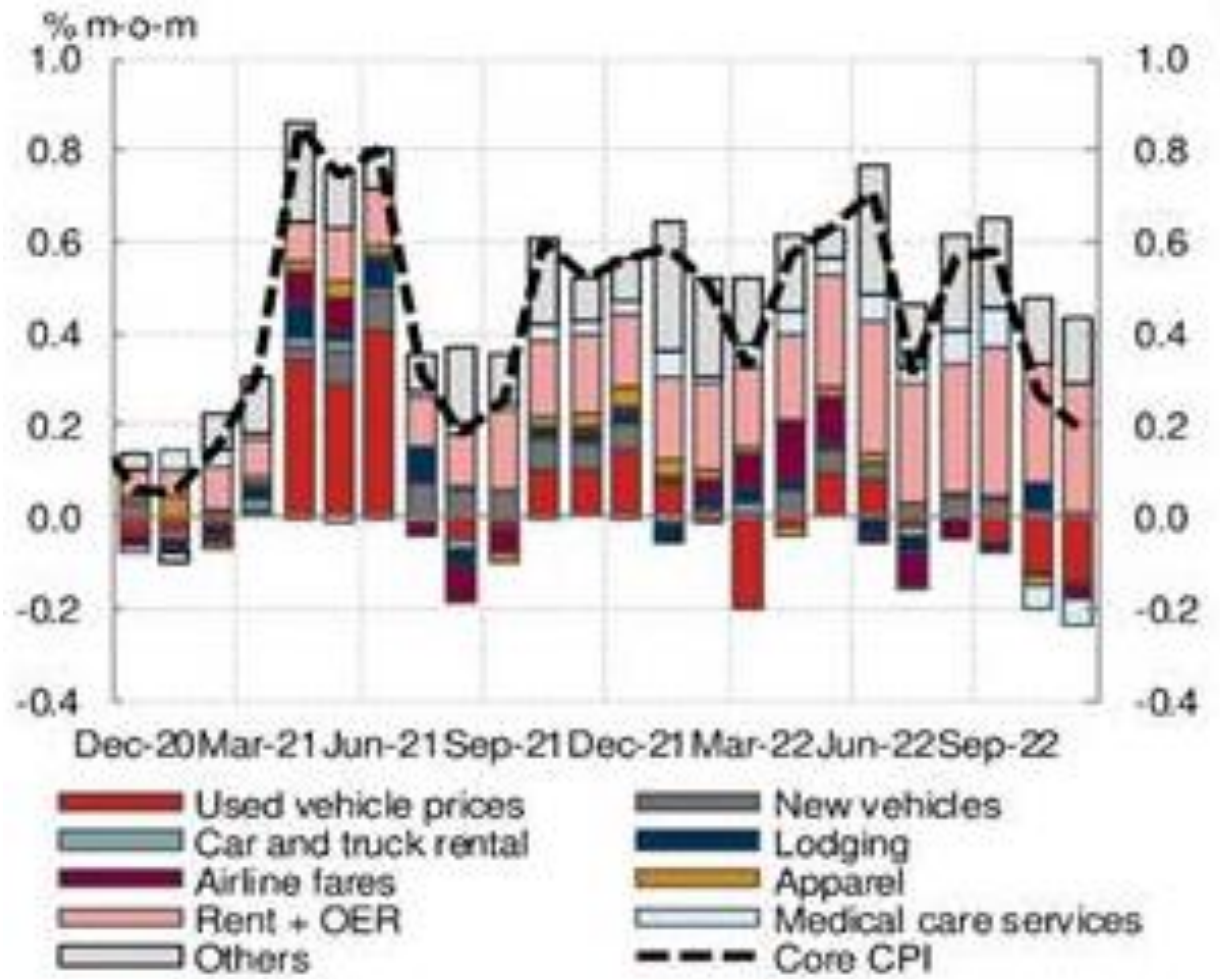
Global – CPI inflation YoY%



Source : Bureau of Economic Analysis, Morgan Stanley

Shelter inflation is key in US

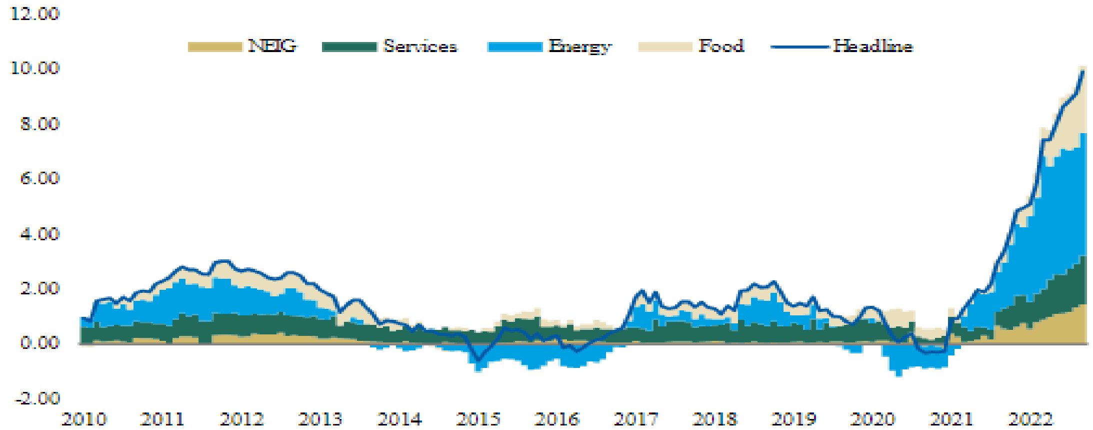
Core CPI came in below expectation but shelter inflation remains sticky



Source : BLS, Haver, Nomura

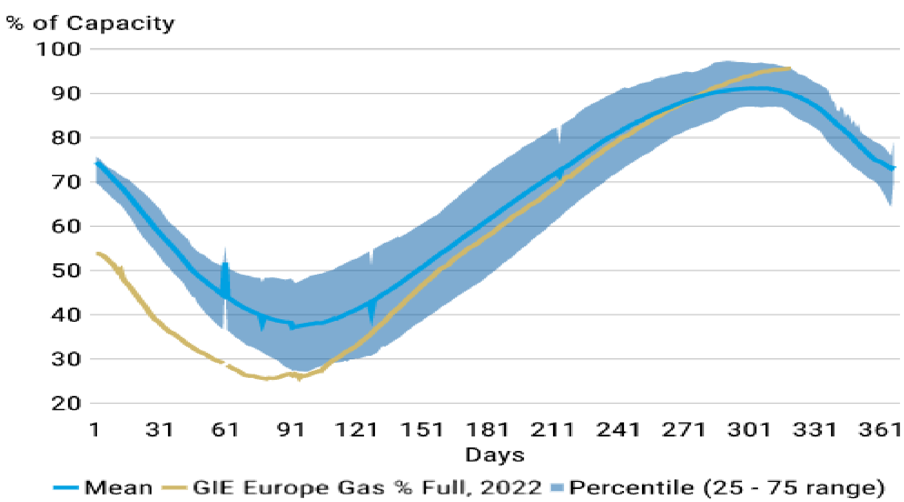
Energy price is critical for Europe

EA inflation contributors



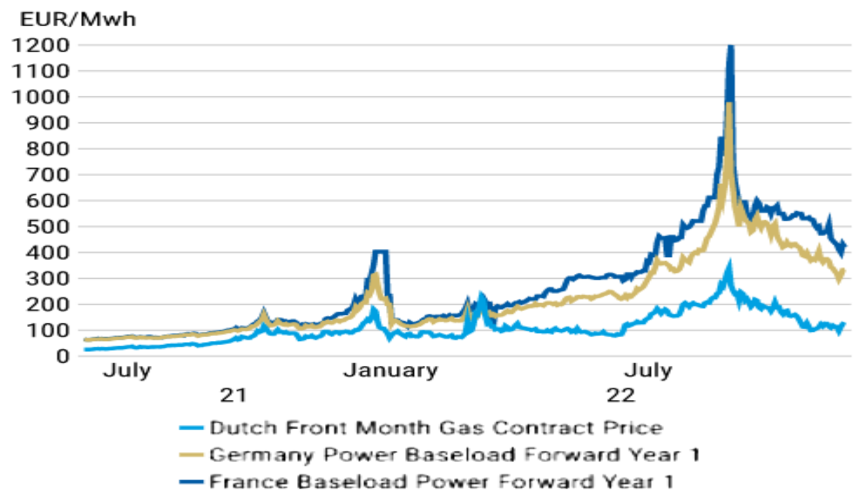
Source : BLS, Morgan Stanley Research

Gas storage still rising



Source : Bloomberg, Macrobond, Morgan Stanley Research

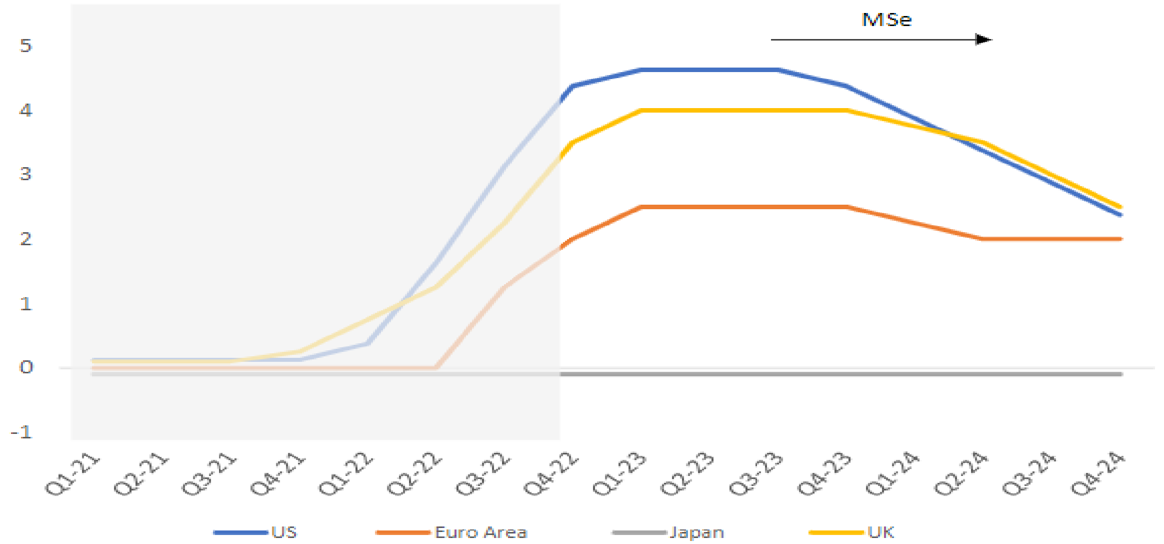
Electricity and gas prices keep falling



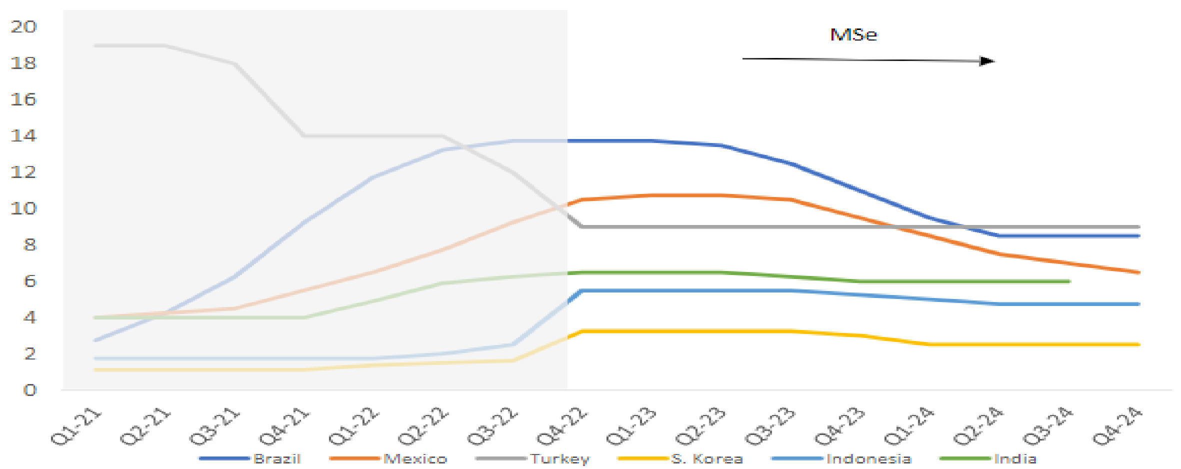
Source : Bloomberg, Macrobond, Morgan Stanley Research

Policy pause as inflation ease

DM policy path %



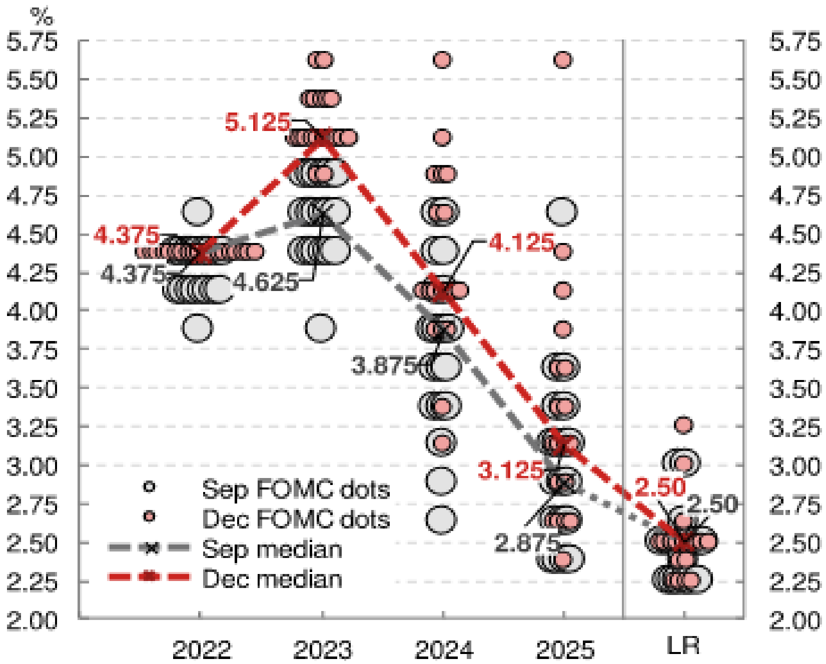
EM policy path %



Source : Haver Analytics, Morgan Stanley Research Forecasts

December's FOMC: hawkish

The updated 'dot plot'



Source : Federal Reserve, Nomura

December summary of economic projections

		2022	2023	2024	2025	LR
Real GDP gr.	**Dec**	**0.5**	**0.5**	**1.6**	**1.8**	**1.8**
	Sep	*0.2*	*1.2*	*1.7*	*1.8*	*1.8*
Unemp. rate	**Dec**	**3.7**	**4.6**	**4.6**	**4.5**	**4.0**
	Sep	*3.8*	*4.4*	*4.4*	*4.3*	*4.0*
PCE inflation	**Dec**	**5.6**	**3.1**	**2.5**	**2.1**	**2.0**
	Sep	*5.4*	*2.8*	*2.3*	*2.0*	*2.0*
Core PCE infl.	**Dec**	**4.8**	**3.5**	**2.5**	**2.1**	
	Sep	*4.5*	*3.1*	*2.3*	*2.1*	
Projected appropriate policy path: Median						
	Dec	**4.375**	**5.125**	**4.125**	**3.125**	**2.500**
	Sep	*4.375*	*4.625*	*3.875*	*2.875*	*2.500*

- Benchmark rate revise up by 50 bps (to 5.125%) for YE23 and 25 bps for YE24/25.
- Meanwhile, Fed revise up inflation and lower GDP growth forecast.

What to watch?

- Fed’s policy and direct/indirect impact
- China’s reopening plan
- Commodity prices
- Geopolitics

What to expect in 2023?

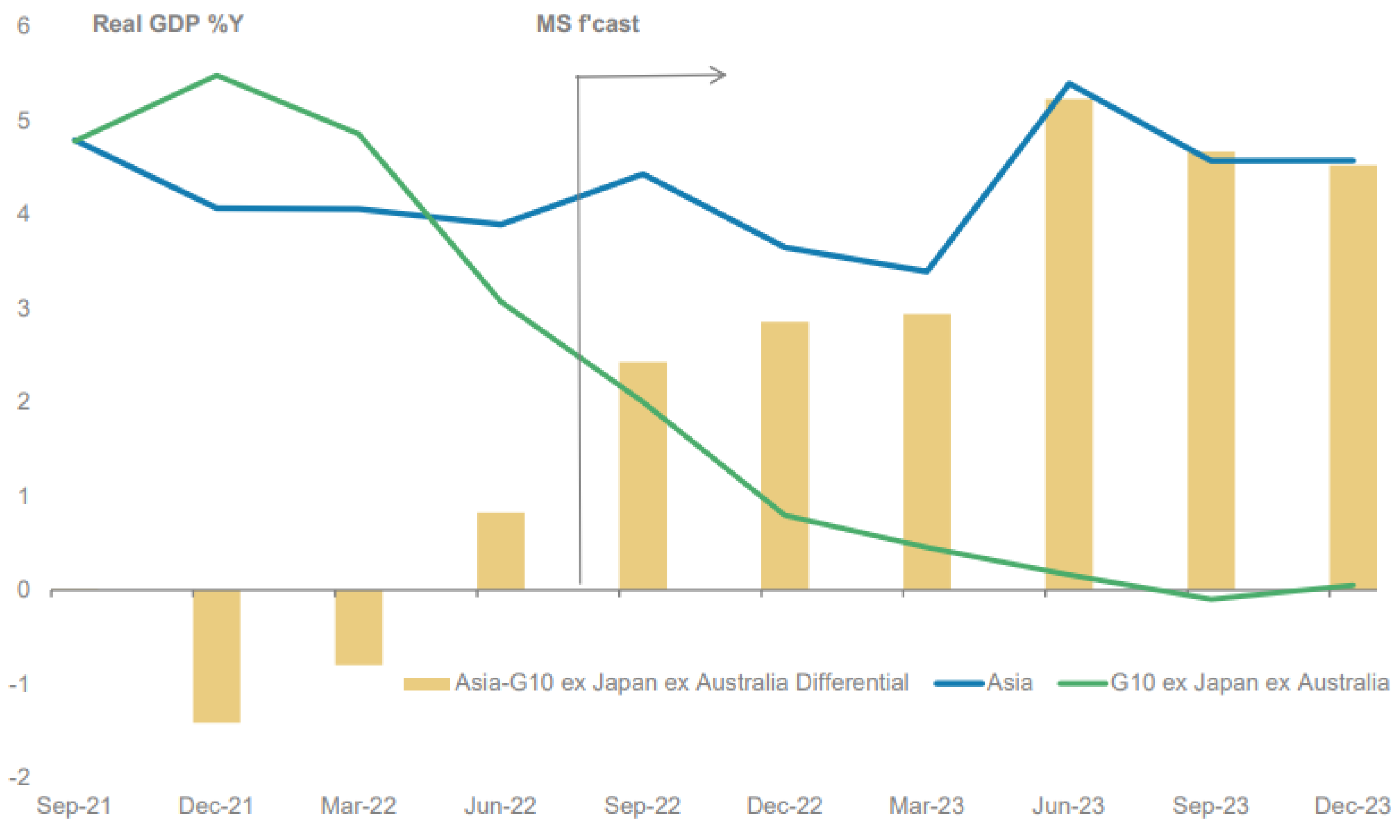
1. Global economy – slowing macro backdrop

2. **Emerging market – leading the way up**

3. Domestic – sustaining steady expansion

EM to recover faster than DM

EM vs DM GDP forecast

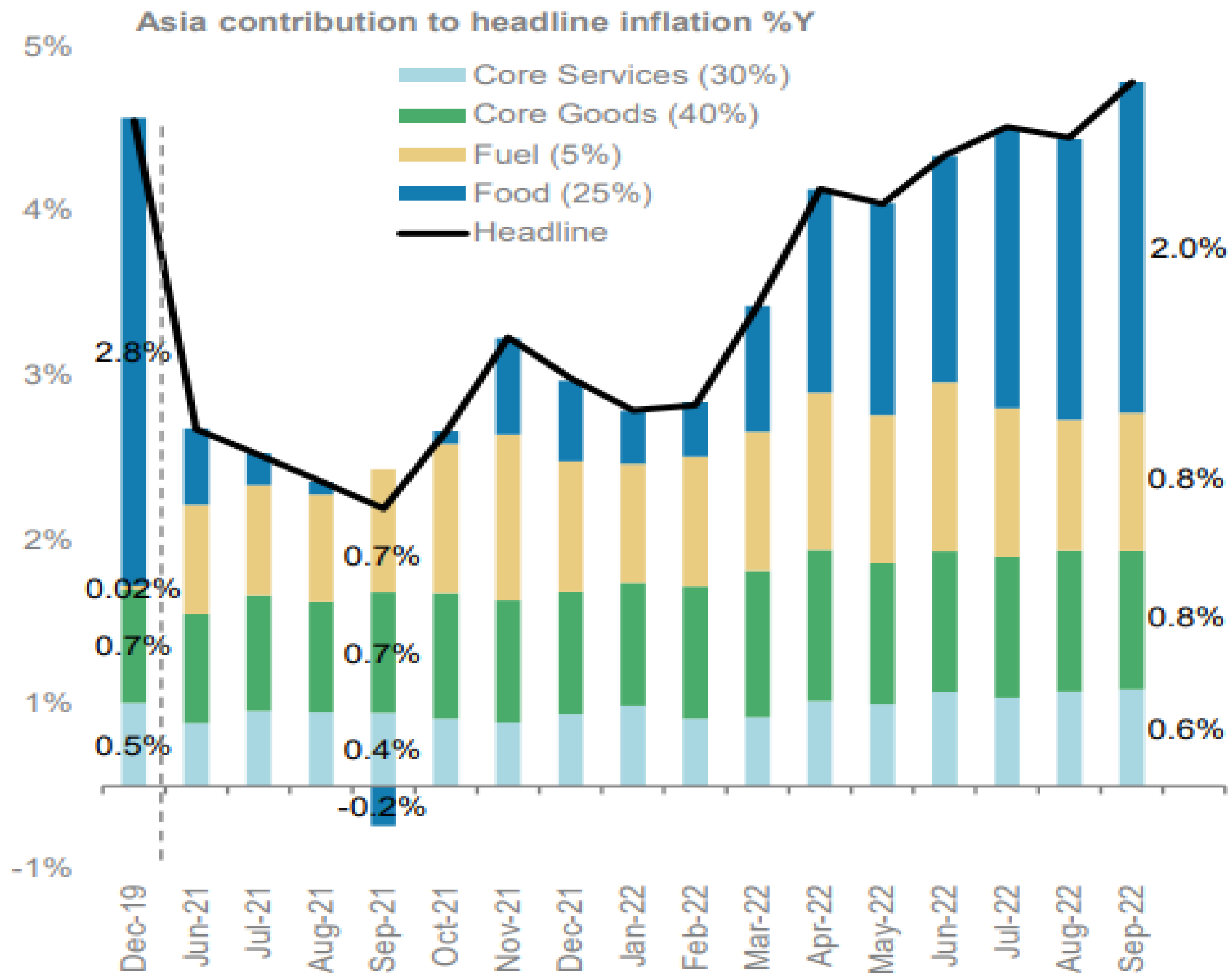


Source : CEIC, Morgan Stanley Research forecasts

- Global growth should trough in 1Q23 and recovery would be led by EM due to lower inflation, less restrictive monetary policy and robust domestic demand.

Inflation is more cost-push

Food followed by fuel and core goods have been larger contributors to Asia's inflation than core services



Source : Haver, CEIC, Morgan Stanley Research

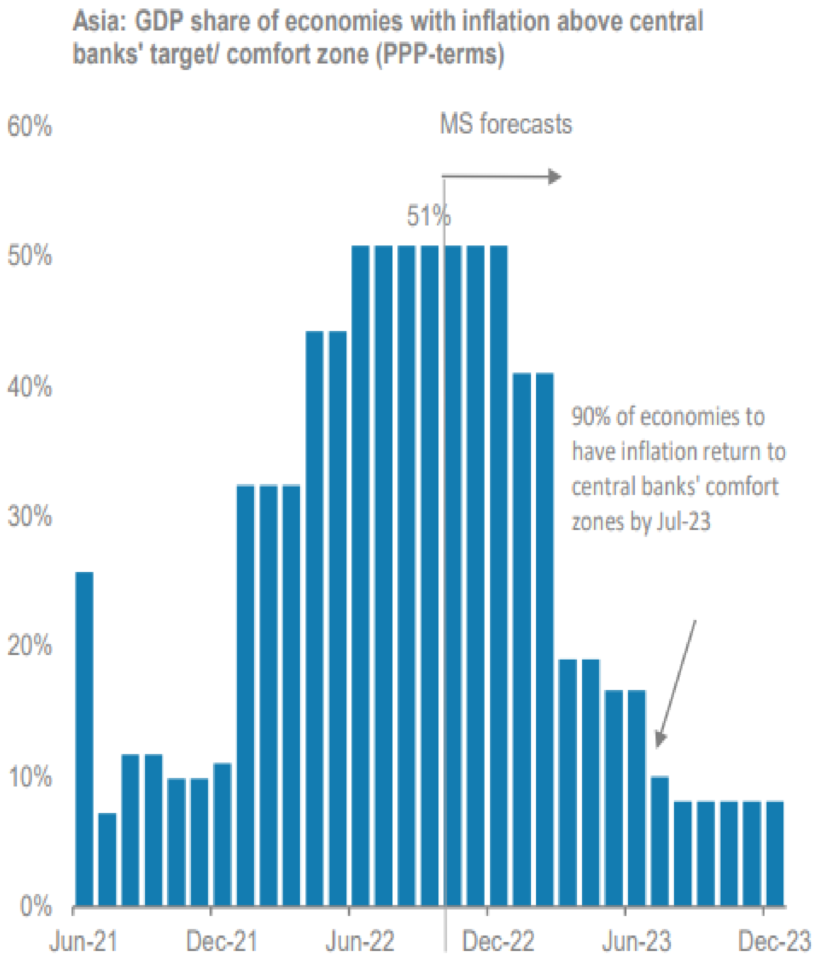
Labor market is not that tight

Asia's aggregate wage growth remains below its pre-Covid trend

Source : Haver, CEIC, Morgan Stanley Research

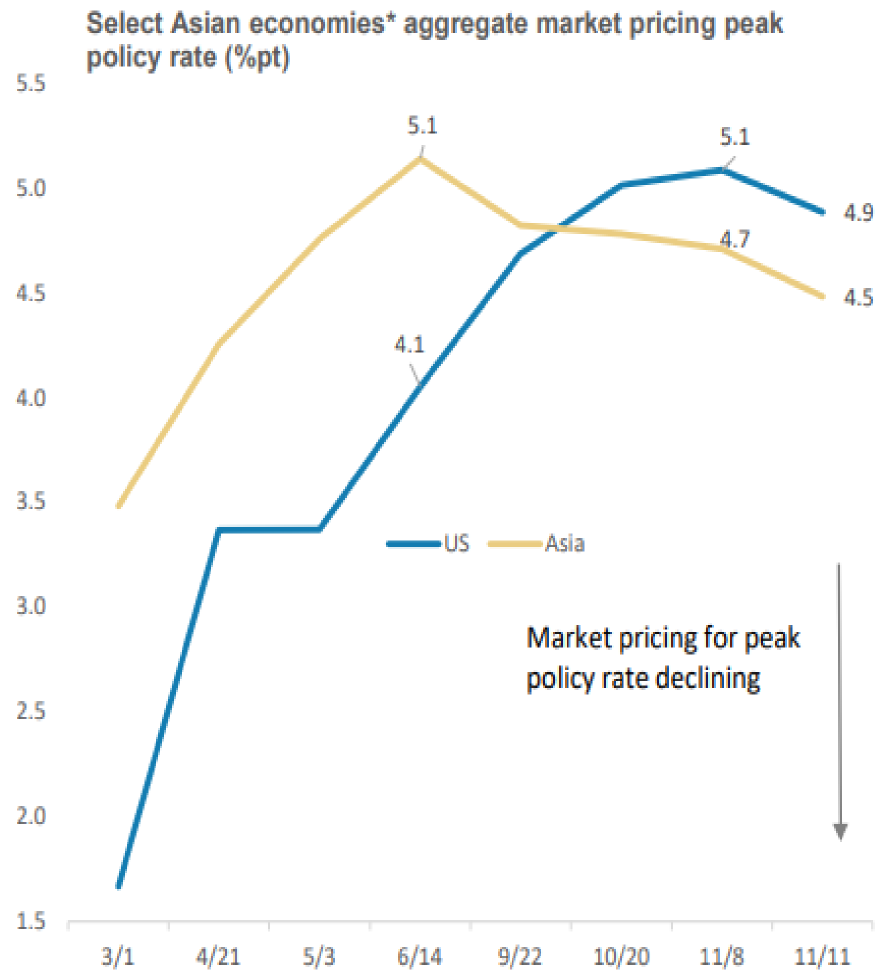
Policy rate to normalize faster

Inflation to be back within central banks' comfort zone for 90% of the region



Source : Haver, CEIC, Morgan Stanley Research forecast

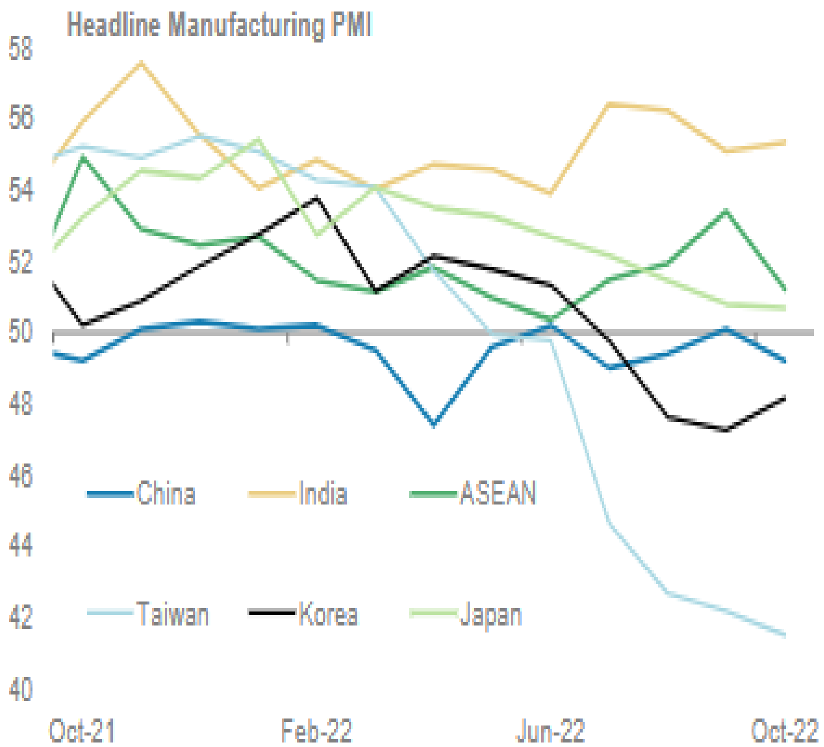
Market pricing for Asian policy rate has declined steadily



Source : Bloomberg, Morgan Stanley Research

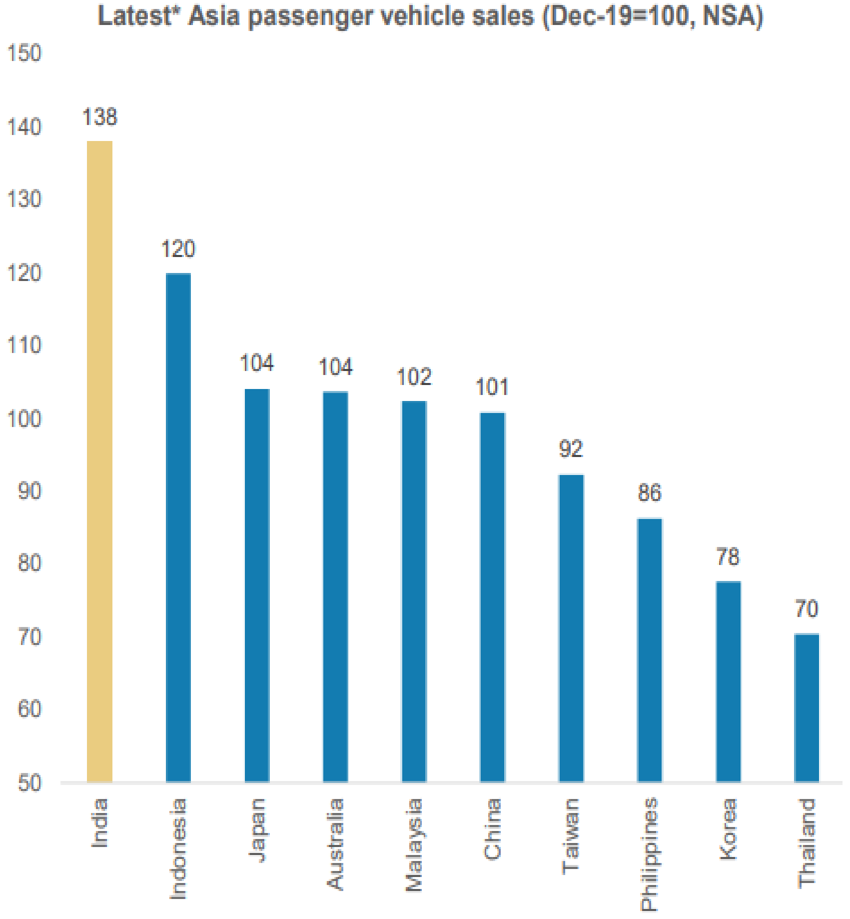
Strong domestic demand

<u>Headline PMI remains in expansionary area for domestic oriented economies</u>



Source : Markit, Haver Analytics, IMF, national sources, Morgan Stanley Research

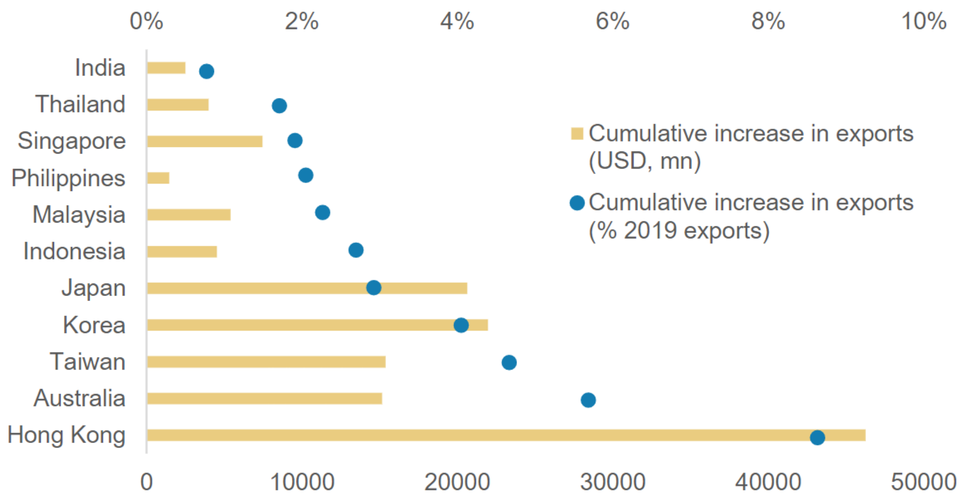
<u>Auto sales recovery reflects strong consumption trend</u>



Source : CMIE, CEIC, RBI, Morgan Stanley Research

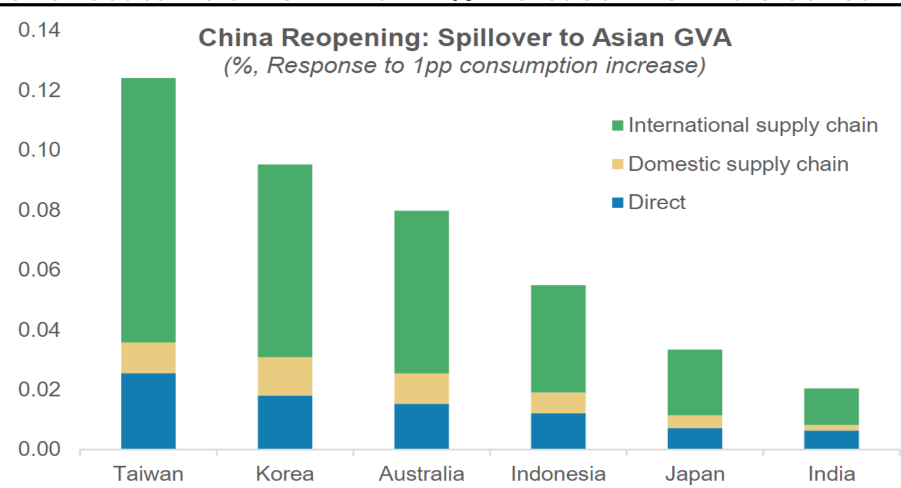
Growth boost from China reopening

Spillover effect to Asian goods export



Source : Markit, Haver Analytics, IMF, national sources, Morgan Stanley Research

Spillover effect to Asian GVA from 1% increase in China's consumption



Source : WIOD, Morgan Stanley Research

Easing financial conditions

Expect a stepdown in US 10Y and reversal in dollar strength

Source : Bloomberg, Morgan Stanley Research forecast

- As Fed hike peaks, US bond yields and dollar is expected to retreat through 2023.

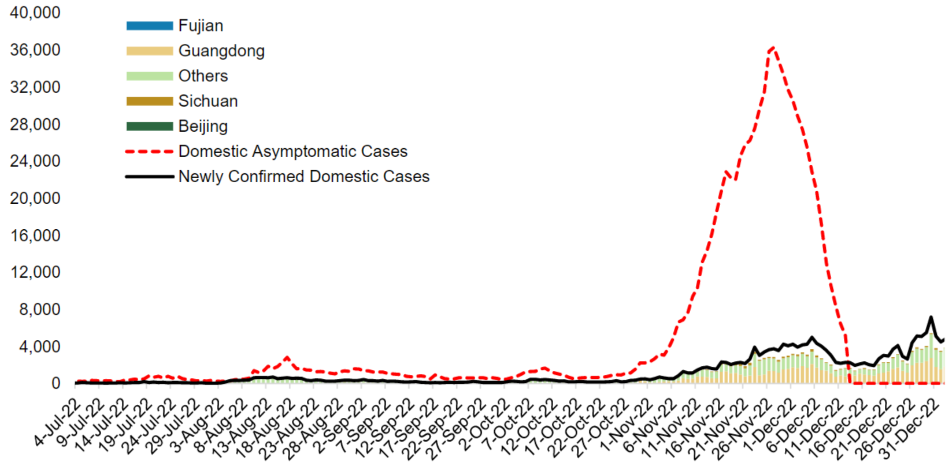
Valuation is attractive

Shiller P/E valuations: EM is the cheapest

Source : WIOD, Morgan Stanley Research

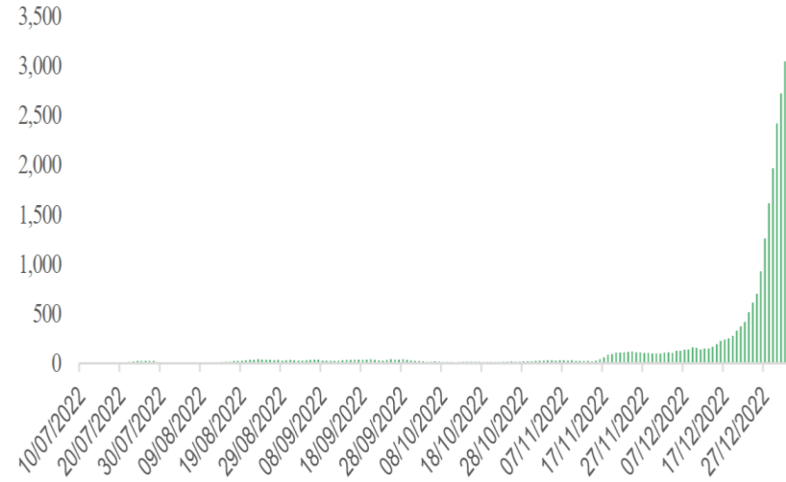
China's Covid cases update

Domestic confirmed cases in China

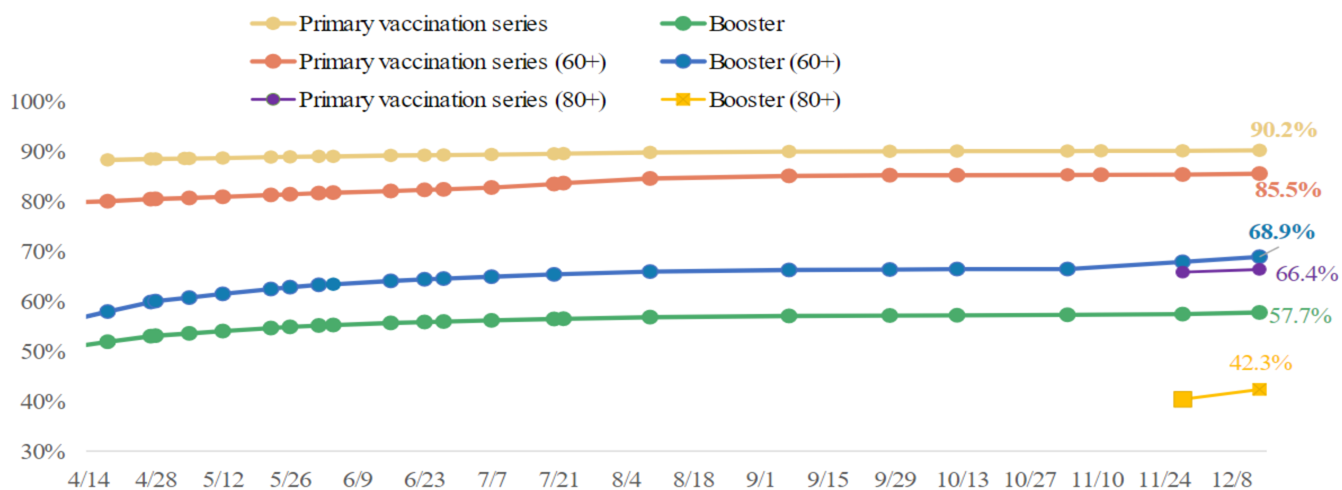


Note: The NHC has discontinued reporting of asymptomatic cases as of 14-Dec since asymptomatic individuals no longer required to undergo testing.

Number of existing severe cases in China



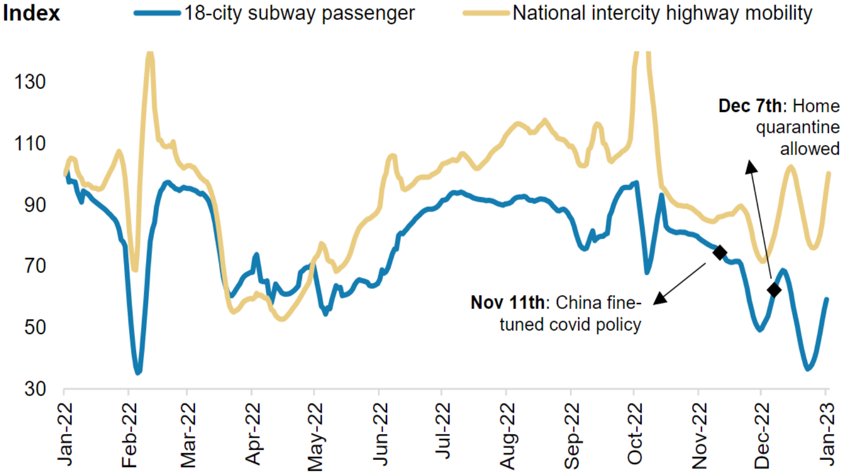
Vaccination status in China



Source : NHC, CEIC, Morgan Stanley Research.

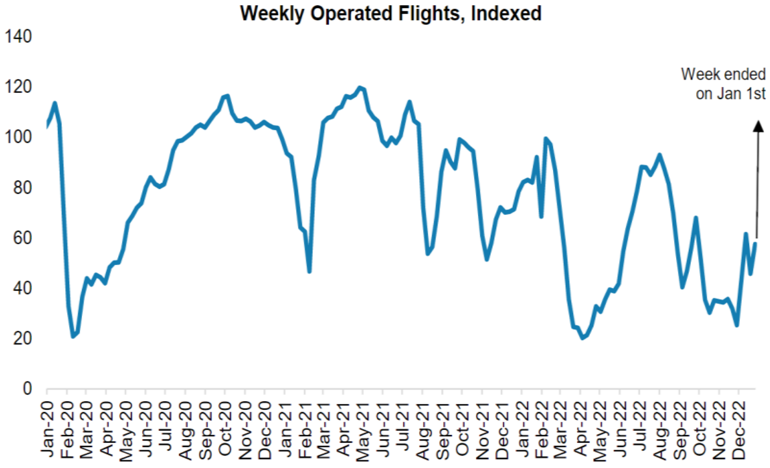
Mobility has improved

Nationwide mobility indicators improved



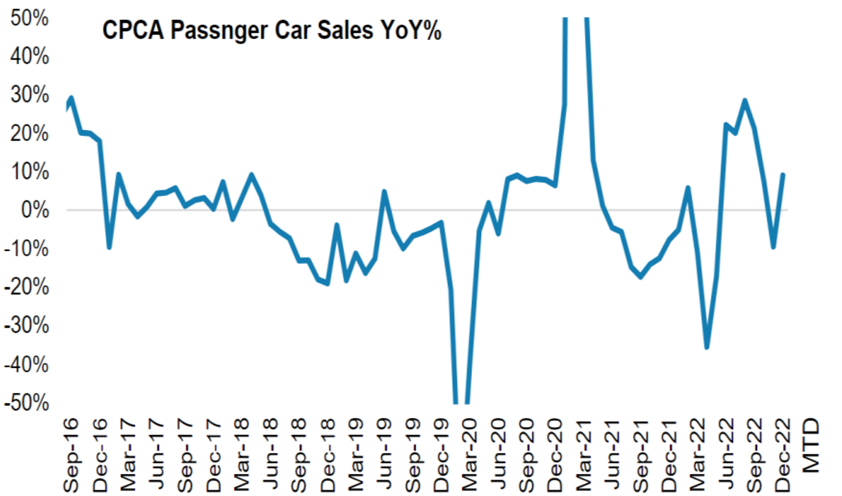
Source: Government websites, local news, Morgan Stanley Research

National operated flights ticked up



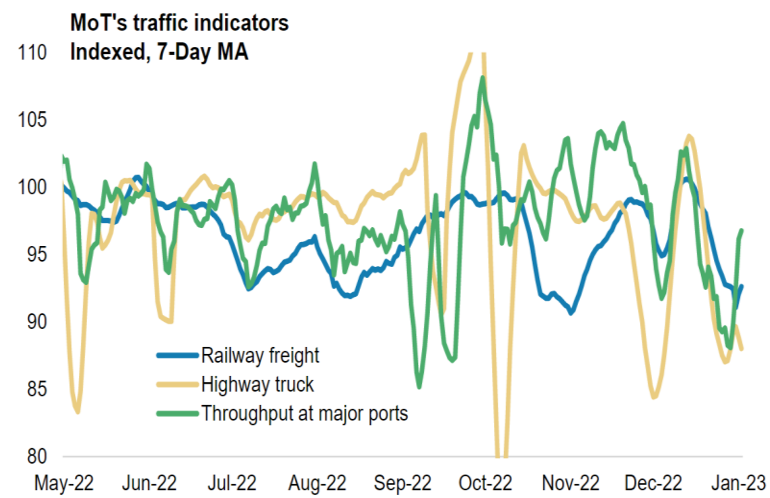
Source: Wind, Morgan Stanley Research

Passenger car sales growth rebounded



Source : CPCA, Morgan Stanley Research.

Key logistics indicators



Source : CEIC, Morgan Stanley Research.

What to expect in 2023?

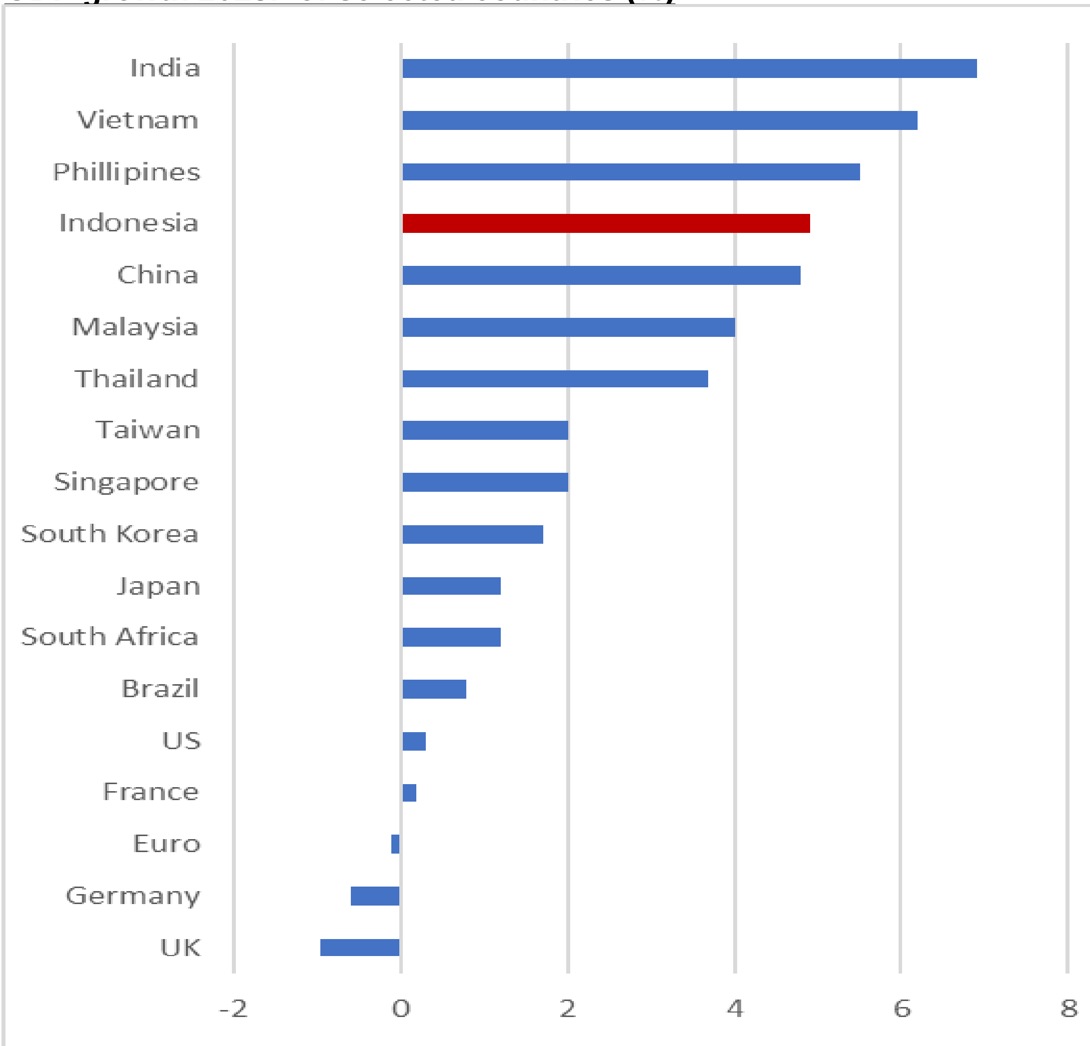
1. Global economy – slowing macro backdrop

2. Emerging market – leading the way up

3. **Domestic – sustaining steady expansion**

One of the highest GDP growth

GDP growth 2023F of selected countries (%)



Source : Bloomberg consensus

Healthy fiscal condition

Fiscal budget – 11M realization, 2022 target and 2023F projection

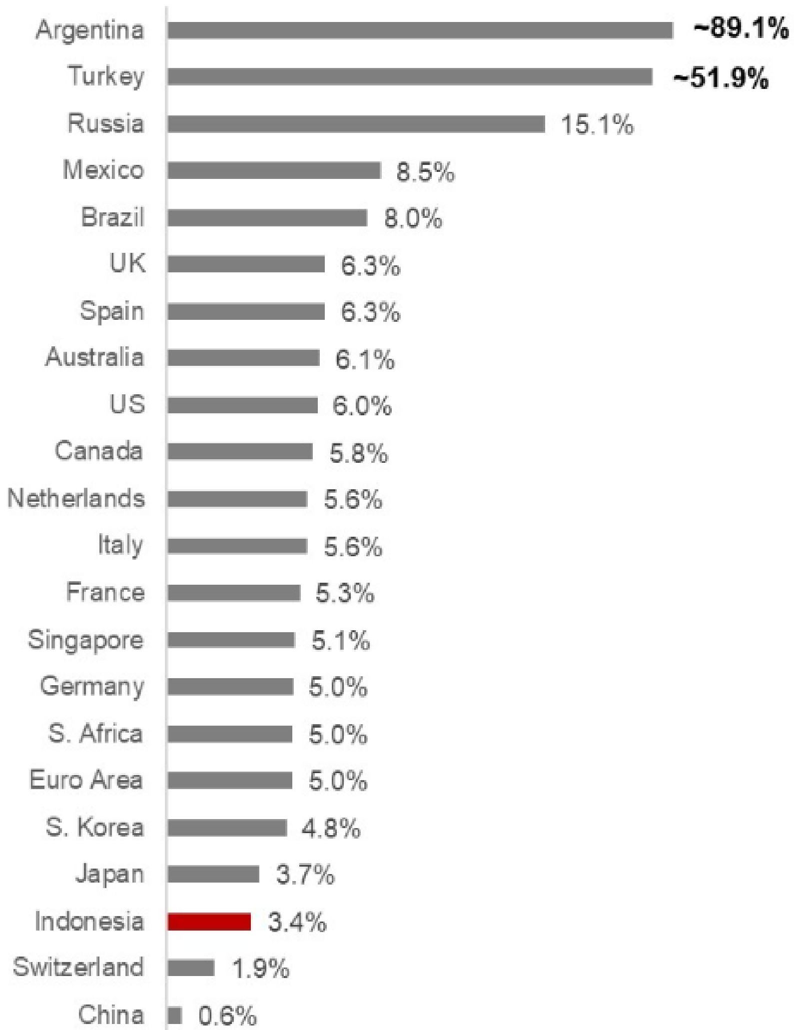
	ytd Nov21	*ytd Nov22*	Initial FY22F	Revised FY22F	FY23G	*% yoy*	Assumptions
Revenue	**1,699**	**2,378**	**1,846**	**2,437**	**2,444**	0%	
Tax	1,315	1,849	1,510	1,925	2,017	5%	Half of nominal GDP
Non tax	385	529	336	512	427	-17%	
Expense	**2,310**	**2,614**	**2,714**	**3,169**	**3,042**	-4%	
Energy subsidy	103	148	153	502	337	-33%	Full year at $90/bbl
Covid + reserves	530	569	669	669	na.	na.	Less allocation for covid
Others	1,678	1,897	1,893	1,998	2,705	35%	In-line with nominal GDP
Balance	**(611)**	**(237)**	**(868)**	**(732)**	**(598)**	-18%	
Deficit % GDP	*-3.3%*	*-1.3%*	*-4.85%*	*-3.9%*	*-2.85%*	13%	
GDP Rptrn			*17,897*	*18,769*	*20,986*	12%	
GDP Rptrn			*17,897*	18,769	20,986	12%	

Source : MoF, Verdhana Research

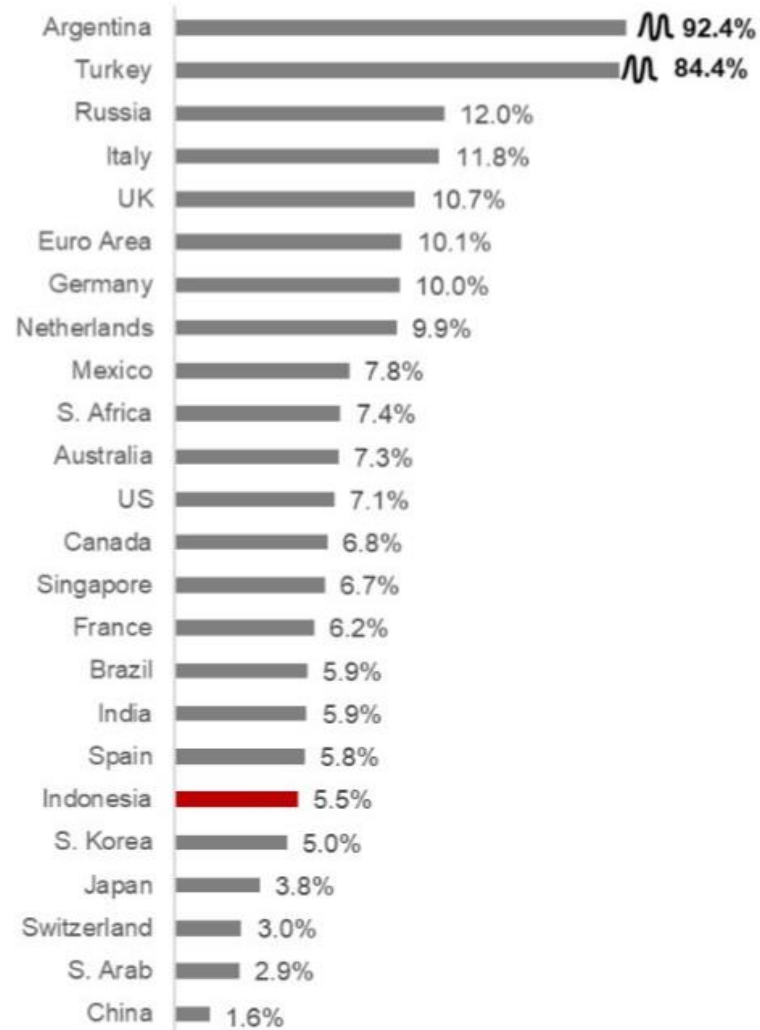
- Revenue has exceeded initial target, suggesting government deficit in 2022 can be < 4% of GDP. Meanwhile, next year's deficit expected to be below -3% even with fuel subsidy.

One of the lowest inflation

Core CPI YoY% as of Dec-22



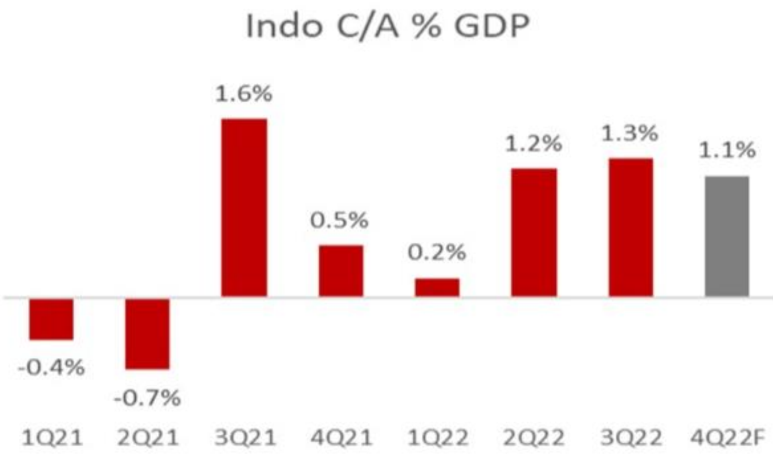
Headline CPI YoY% as of Dec-22



Source : Bloomberg, Verdhana Research

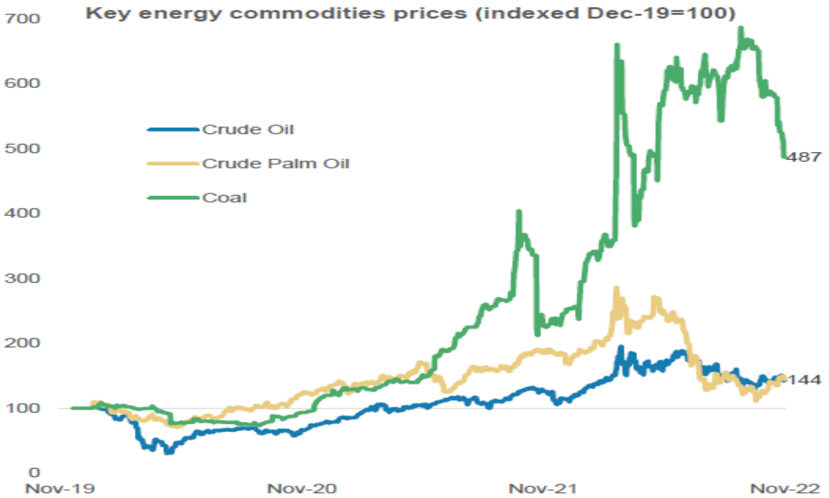
Current account remain firm

Current account surplus supported by higher commodity prices and mineral downstreaming



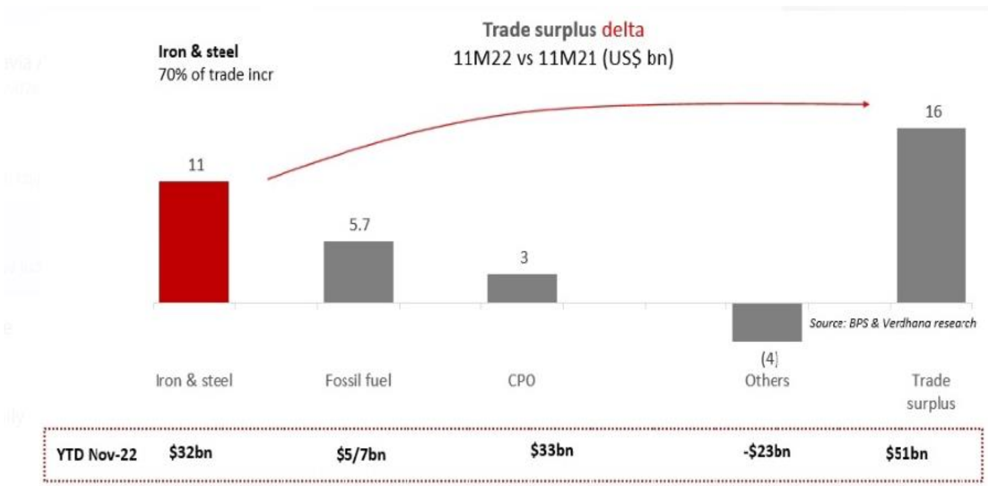
Source : Verdhana Research

Commodity prices likely to be higher than pre-Covid



Source : Bloomberg, CEIC, Morgan Stanley Research

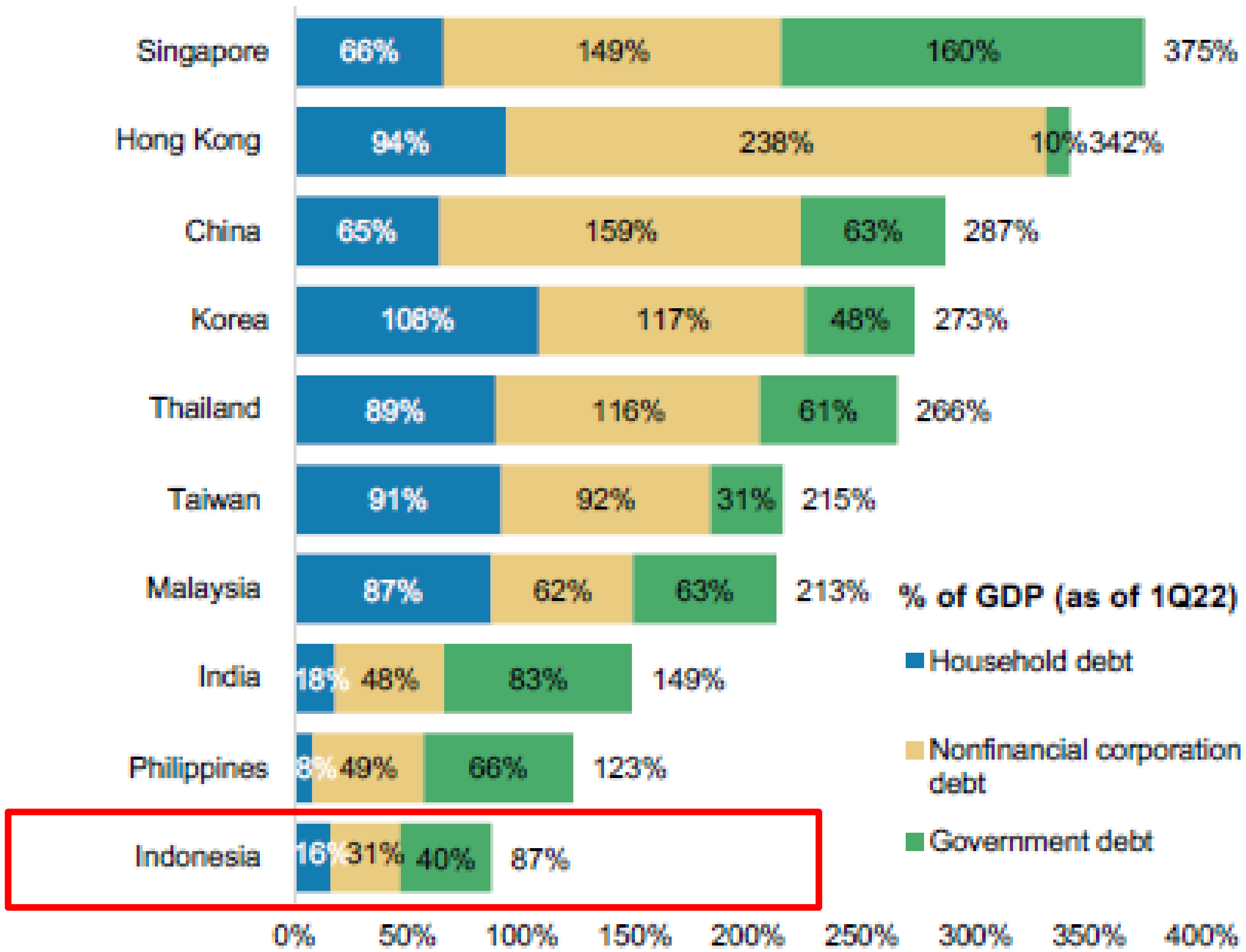
Trade surplus delta mainly comes from mineral downstreaming



Source : Verdhana Research

Relatively low leverage

Selected Asian country's total debt to GDP (%)



Source: CEIC, Morgan Stanley

Equity Strategy

Market View:

1. We expect strong domestic economy growth in 2023, relative to DM market.
2. Possibility of lesser monetary tightening in 2023 on the back of lower economy growth couple with lower inflation.
3. We expect stronger economy growth for China in 2023. the magnitude of the recovery will depend on how fast zero covid policy lifted.
4. Russia – Ukraine conflict will impact to commodity and energy market.
5. Currently market trade at 15.2x (@6851) 12-month rolling PE (mean 15x). Market is currently trading at 0.2x above its mean.

Strategy:

1. We maintain our equity weighting with a range of 85% - 93%.
2. We maintain Big Cap exposure and add some bottom-up stock to generate alpha.
3. We prefer Infra and Big Banks sectors.

Fixed Income Strategy

Market View:

1. We are of the view that the bond market will have a better year in 2023 as we approach the end of tightening cycle. Inflation is trending down, and we expect global policy rate to pause as recession pressure increases.
2. Global growth is expected to slow, with higher risks towards developed market rather than emerging market. In turn, we expect fiscal policy to be expansionary and monetary policy to tilt towards easing in 2H23.
3. Domestically, GDP growth still expected to be resilient due to 2023 being closer to election period where consumption is expected to be strong. Note that the 2024 would mark the first time Indonesia will hold three elections. Fiscal position expected to be back to normal, with plenty of excess funding available to be used
4. First quarter 2023 data would be an important point, to see whether the inflation and labor market is moving lower as expected.

Risk: a) Geopolitical risk; b) tighter than expected labor market and more persistent inflation; c) Higher recessionary pressure in emerging markets

Strategy:

1. IndoGBs near term outlook: US inflation continued its slowing growth, followed by lower rate hike by the Fed in December, further strengthening peak rate thesis in 1Q23. Risks will come from Fed terminal rate and employment data to determine policy rate pause.
2. Given the view above, we maintain duration range of 85% - 105%
3. With 2023 expected to be a better year for bonds, we increase our bond portion towards 90-95%

Macro and Market Assumption

	2019	2020	2021	2022	2023E
7-day RR	5.00%	3.75%	3.50%	5.50%	5.75 - 6.0%
GDP	5.0%	-2.1%	3.7%	4.8 - 5.3% *	4.50 - 5.25%
Oil price/brl	US$66.0	US$51.8	US$77.78	US$80.26	US$80 -90
CPI	2.72%	1.68%	1.87%	5.51%	3.5 - 4.0%
Cur. acc. (% of GDP)	-2.7%	-0.4%	0.3%	0.5 - 1.0% *	(-0.5) - (-1)%
USD/IDR	13,866	14,050	14,250	15,568	15,300 - 16,000
JCI	6,300	5,979	6,581	6,851	7,550 - 7,800
EPS growth	5%	-23%	25%	7 - 10% * ^	7 - 12%
10-y bond	7.06%	5.89%	6.38%	6.94%	7.0 - 7.5%

* estimate

^ inclusion of GOTO

Source : Bloomberg, BPAM (9 January 2022)

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