

FLASH NOTES

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Riding the wave

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Equity market volatility have increased in 2Q19 with a rebound in June 2019 offsetting the sharp correction in May 2019. The recovery is mainly driven by easing escalation between US & China and expectation on pro-growth policies from Fed, China and ECB.

While investors welcome the resumption of trade talk, but it's still too early to say that a deal could be achieved soon, due to few critical issues (i.e. geopolitics, technology, IP protection, etc). But, the prolonged uncertainties may (already) drag the confidence/sentiment and the economy.

Fed also turned more dovish compare to early 2019, despite recent statement tend to tone down the market expectation. Meanwhile, China and ECB are expected to announce pro-growth policies in the near term.

What to expect in 3Q19?

Series of upcoming stimulus... Despite weaker global growth trajectory (global Purchasing Manager Index/PMI reached lowest level since 2015-2016), financial market condition remains favorable for now. This is mostly driven by investor expectation that various stimulus/easing cycle will be back in full swing, such as Fed cutting rate in July, China launches monetary and fiscal stimulus, ECB cutting rate and restarting another Quantitative Easing (QE), etc.

... provide window of opportunity. The stimulus may provide window of opportunity to support the asset prices, including Emerging Market. As we are in late cycle of economy expansion, there is raising concern whether future pro-growth policies are still ample to tackle the possible economy downturn/recession amid relatively low level of interest rate and historical big the size of central bank's balance sheet. Without any shock, financial asset should continue to do well.

How about us?

It's a matter of time. Similar to global economy, we may see monetary and fiscal stimulus in domestic market. Like other Emerging Market (EM) countries, Indonesia have room to cut benchmark rate, on the back of 1) slowing US growth and easing policy from Fed, 2) stable USD, 3) moderate external headwind, and 4) weak domestic growth and high domestic real interest rate.

Showing good gesture. From fiscal side, there is early discussion to lower corporate income tax (now 25%), closer to regional. Other than tax, government also show good gesture to bring back the reform agenda and encourage investment (i.e. revision on labor law, synchronize regulation, etc). This may provide positive surprise to the market.

Keep calm and carry on. On the domestic politics, the tension has eased significantly as Constitutional Court had decided to reject the opposition's election appeal. There is a possibility that Jokowi may include more political parties in his coalition, hence the government may have stronger support in the parliament. Crucial minister positions will be watched carefully, although it will be pure speculation until the official announcement.

Currently, we maintain our macro and market assumptions (please see below).

Macro and market forecast

	2016	2017	2018	2019E
BI rate *	6.50%	N/A	N/A	N/A
7-day reverse repo	4.75%	4.25%	6.00%	5.50%-6.00%
GDP	5.0%	5.1%	5.2%	5.1-5.2%
Oil price/bbl	US\$57.9	US\$62.6	US\$53.8	US\$60 - 75
CPI	3.02%	3.61%	3.13%	3.0-4.0%
CAD	1.7%	1.7%	3.0%	2.5-2.9%
USD/IDR	13,473	13,555	14,390	13,800-14,800
JCI	5,297	6,356	6,194	6,800-7,000
EPS growth	4%	12%	8%	7-10%
10-y bond	7.97%	6.32%	8.02%	7.3-7.7%

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

Source: Bloomberg, BPAM