

Strong US jobs, home sales & PMI data suggest faster economic recovery

US stock markets whipsawed to big gains this week, closing the second quarter as best quarterly performances, on optimism of a faster economic recovery and vaccine discovery amidst resurgence of new virus cases, which led to reopening rollbacks in some states. The week started with US pending home sales surging 44.3% m-m in May (after a 33.8% plunge in April), continued with a better than expected manufacturing PMI data for China, US and Euro Area, and ended with a strong US non-farm payrolls data showing addition of 4.8m jobs in June (vs. consensus of 3.0m). As a result, US unemployment rate fell to 11.1%, from 13.3% in May (April: 14.7%). Stock markets globally also reacted positively to announcement of positive clinical trial results of one of four coronavirus vaccine candidates developed by Pfizer and BioNTech. These positive news overcome worries over resurgence of US new virus cases back to record high levels.

JCI also gained, albeit lagging global markets, as foreign investors remained as net sellers in equity and bond markets (outflows of Rp1.38Tn and Rp4.05Tn, respectively), despite Indonesia's improving manufacturing PMI to 39.1 in June (May: 28.6). Investors' perception of a US\$40Bn debt monetisation plan, arising from Bank Indonesia's sharing of the government's pandemic fiscal response, may have raised concerns over BI's independence. Basic industries and mining sectors were the biggest gainers this week, reversing their underperformances in the prior week, while property sector continued to lag the market.

The Week Ahead – Indonesia Consumer Confidence, US Non-Manuf. PMI

The key economic calendar to watch out for next week are Indonesia Consumer Confidence (Mon 10:00), EU Retail Sales (Mon 16:00), US Non-Manufacturing PMI (Mon 21:00), Indonesia Foreign Exchange Reserves (Tue 10:00), Germany Industrial Production (Tue 13:00), China Inflation Rate (Thu 08:30), and US Initial Jobless Claims (Thu 19:30).

Investment Conclusion

Equity markets globally have recovered strongly, pricing in V-shaped recoveries in economic growth and equity earnings in 2021, as the worst of the economic fallout from the pandemic seems largely over despite fears over a second wave of infections. Although Indonesia's coronavirus outbreak is still in early stage, we believe the risk is already priced in as JCI trailing P/E valuation has fallen to around its 20-yr average, while global markets valuation have returned to near pre-pandemic highs at 1SD above their long-term averages. We view Indonesia market valuation is still attractive, regardless of GDP and earnings growth in 2020, as the government plans to reopen economy, despite high uncertainty on the banking sector arising from the extent of NPLs that need to be restructured (at 23% of banking system loans). We believe JCI will continue to recover and narrow its valuation gap to global markets (our target is 5,300) with catalysts from vaccine discovery, signs of coronavirus infections slowing, and resumption of economic activities in Indonesia.

Recommendation

We have been recommending investors to stay defensive since last year with our broad-based ETFs RLQ45 & XIIT to minimize volatility and our satellite ETFs XISR (Sri Kehati) and XIPI (Pefindo I-Grade), both of which have overweight positions in BBCA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a market rebound, our pick is our ETF XIIML (MSCI Indonesia Large Cap), whose constituents of 15 large cap stocks mostly owned by foreign investors have been among most impacted by foreign selling and thus should benefit from a recovery. XIIML shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBCA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBCA and consumer stocks, thus are viewed as more risky at current market condition. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 15.8x and 15.1x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 and XIIT (at 18.4x), and XIIML (at 18.6x), and thus have more upside potential if Indonesia's stock market recovers on sustainable basis. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	25,827.36	3.25%	-9.50%
S&P 500	3,130.01	4.02%	-3.12%
Nasdaq	10,207.63	4.62%	13.76%
FTSE 100	6,157.30	-0.03%	-18.36%
DAX	12,528.18	3.63%	-5.44%
Nikkei 225	22,306.48	-0.91%	-5.71%
Hang Seng	25,373.12	3.35%	-9.99%
Shanghai	3,152.81	5.81%	3.37%
EIDO	18.15	-0.06%	-29.27%

JCI Sector Indices	Last	1W	YTD
JAKBIND	750.46	5.25%	-23.28%
JAKMINE	1268.50	2.82%	-18.09%
JAKFIN	1073.30	2.47%	-20.77%
JCI	4973.79	1.42%	-21.05%
JAKCONS	1815.48	0.86%	-11.55%
JAKTRAD	605.60	0.68%	-21.33%
JAKAGRI	1035.20	0.14%	-32.09%
JAKMIND	874.938	-1.12%	-28.51%
JAKINFR	897.58	-1.47%	-21.10%
JAKPROP	321.16	-2.07%	-36.26%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.15	-1 bps	-142 bps
UST 10Y Yield	0.67	3 bps	-125 bps
Ind GB 10Y Yield	7.24	4 bps	18 bps
USDIDR	14,450	230	584
CDS Indo 5Y	121.19	-12.93	58.95

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.38 Tn	-32.79 Tn
Government Bond Market (Rp)	-4.05 Tn	-126.87 Tn

Commodities	Last	1W	YTD
WTI	40.32	4.75%	-33.97%
Brent	42.80	4.34%	-35.15%
CPO (Malaysia)	2,362.00	-0.25%	-20.90%
Coal (New Castle)	52.45	-1.96%	-22.53%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	819.03	1.89%	-21.75%
XIIT	IDX30	441.91	1.71%	-21.89%
XJI	JII	552.11	1.52%	-21.70%
XISI	SMInfra18	261.44	1.86%	-23.59%
XISR	Sri Kehati	319.07	1.50%	-21.61%
XIHD	IDXHIDIV20	389.39	1.54%	-22.74%
XIPI	Pefindo I-Grade	137.29	1.75%	-23.48%
XIIML	MSCI Indo Large Cap	219.80	1.84%	-
XIID	IDX30	423.47	1.62%	-
XIIC	Consumer Related	903.31	1.44%	-20.30%
XIIF	Rate Sensitive	451.03	0.64%	-28.86%
XISC	BUMN Stocks	523.24	0.85%	-27.52%
XISB	Sovereign Bonds	408.94	-0.12%	-0.66%
<i>Conventional</i>				
RDMP	Equity	892.73	1.02%	-23.41%
RPCF	Balanced	2,485.30	0.75%	-16.59%
RDPUI	Money Market	1,252.03	0.07%	2.37%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Fund	Fund Characteristics (% of Portfolio)					P/E (x) 2020F	Dividend Yield 2019
		Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash		
1	RLQ45	31.2	46.8	15.5	5.3	1.2	18.4	3.5
2	XIIT	28.8	50.2	14.2	5.7	1.1	18.4	3.6
3	XISC	21.9	34.3	26.4	12.3	5.2	15.1	4.8
4	XISR	30.2	61.1	4.2	3.7	0.8	18.6	3.3
5	XIIF	16.4	50.8	30.2	0.0	2.6	19.0	3.2
6	XISI	49.4	14.2	23.5	11.7	1.2	15.8	4.4
7	XIPI	22.6	59.1	16.1	1.1	1.1	20.8	2.8
8	XIIC	47.9	36.3	10.4	0.0	5.4	18.8	3.4
9	XIHD	36.8	45.9	6.9	9.0	1.3	17.2	4.0
10	XIJI	54.4	12.2	22.7	9.7	1.0	18.2	3.5
11	XIML	26.4	65.7	4.3	2.7	0.9	18.6	3.6
12	XIID	29.0	49.6	14.5	5.7	1.2	18.4	3.6
Index								
	IDX80	31.9	38.8	21.1	8.2	0.0	16.1	2.7
	JCI	33.7	36.4	22.7	7.0	0.0	16.5	2.4

Remarks:

*Red: Overweight to IDX80; Black: Neutral to IDX80; Green: Underweight to IDX80

Characteristic Classification :

*Defensive : Consumer Goods, Media, Telecommunication, and Infrastructure

*Rate Sensitive : Banks and Auto

*Dom. Cyclical : Cement, Property, Construction, Animal Feeds, and Retail Trade

*Commodities : Coal Mining, Metals & Oil Mining, Plantation and Misc. Industries

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