

Encouraging PMI & labor data and new stimulus hopes drove markets up

Manufacturing expansions in China, Europe and US set a positive tone for stock markets globally at the start of the week. This was reinforced by better-than-expected US payrolls data, stimulus hopes and surging tech stocks, all of which have driven S&P500 to near its February peak and Nasdaq to an all time high. July Manufacturing PMI surveys in China (Caixin: 52.7), Euro Area (Markit: 51.8), and US (ISM: 54.2) were all better than expected, as also for US Factory Orders (6.2% MoM in June), showing fastest pace of industrial activity since early 2019. Meanwhile, US jobless claims fell to 1.18m (from 1.43m), and non-farm payrolls added 1.76m jobs, also beating estimates, thus lowering unemployment rate to 10.2% (from 11.1%). However, rising US-China tensions capped equity gains in European and Asian markets.

Indonesia's JCI ended flattish (-0.11%), after its strong rebound to follow global markets despite its weaker than expected 2Q GDP, with the trend of foreign outflows sustained in equity (Rp2.81Tn) and bond markets (Rp2.86Tn). Leading the stock market are commodity, auto and consumer stocks, while banks, basic industries, and telecommunication were laggards, particularly for property and construction sectors, which were biggest underperformers, continuing the trend of the past few weeks.

The Week Ahead – Indonesia CA, Industrial Production for EU, China, US

The key economic calendar to watch out next week include Indonesia Current Account (Mon 10:00) and Retail Sales (Tue 10:00), UK GDP Growth (Wed 13:00), EU Industrial Production (Wed 16:00), US Inflation Rate (Wed 19:30), US Initial Jobless Claims (Thu 19:30), China Industrial Production & Retail Sales (Fri 09:00), EU GDP Growth (Fri 16:00), US Retail Sales (Fri 19:30) and Industrial Production (Fri 20:15).

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 just above 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 attractive, regardless of GDP and earnings growth in 2020. Given a high correlation factor of 0.80 between JCI and S&P500 indices in 2020 (vs. 0.19 in 2018-2019), we believe JCI will continue to recover, driven by global catalysts such as vaccine discovery, whose prospect may become clearer as we get nearer to end of the year, given large number (> 150) of vaccine projects in development globally. We believe our 2020 JCI target of 5,300 is conservative (with 5,600 as our bullish case target for the year).

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 BBKA, which is considered as a defensive stock at times of market uncertainty. For investors looking to benefit from a potential 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 the most impacted by foreign selling and thus may benefit from a recovery. XIIML shares similarity with XISR and XIPI in terms of overweight in banking sector, including in BBKA.

Meanwhile, XISI (SM-Infra18) and XISC (SOEs) focused on SOEs in infrastructure and financial sectors, lacked defensive constituents such as BBKA and consumer stocks, and thus may be viewed as more risky at current market conditions. However, these two ETFs also have lowest valuation among of our ETF universe, with 2020F P/E of 16.7x and 15.9x, respectively, which are lower than valuation of our broad-based ETFs RLQ45 (at 19.4x), XIIT (at 19.6x), and XIIML (at 19.3x), and thus may have more upside potential if Indonesia's stock market recovers on a sustainable basis. Please refer to our ETF Fund Guide in page 2.

Global Stock Indices	Last	1W	YTD
DJIA	27,433.48	3.80%	-3.87%
S&P 500	3,351.28	2.45%	3.73%
Nasdaq	11,010.98	2.47%	22.72%
FTSE 100	6,032.18	2.28%	-20.02%
DAX	12,674.88	2.94%	-4.33%
Nikkei 225	22,329.94	2.86%	-5.61%
Hang Seng	24,531.62	-0.26%	-12.98%
Shanghai	3,354.04	1.33%	9.96%
EIDO	18.81	0.37%	-26.70%

JCI Sector Indices	Last	1W	YTD
JAKMINE	1,420.04	3.64%	-8.30%
JAKAGRI	1,182.13	2.23%	-22.46%
JAKTRAD	635.02	1.93%	-17.51%
JAKMIND	936.52	1.60%	-23.48%
JAKCONS	1,901.38	0.81%	-7.37%
JCI	5,143.89	-0.11%	-18.34%
JAKBIND	750.03	-0.27%	-23.32%
JAKFIN	1,123.70	-0.99%	-17.05%
JAKINFR	891.40	-1.40%	-21.64%
JAKPROP	287.70	-4.26%	-42.90%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.13	2 bps	-144 bps
UST 10Y Yield	0.57	3 bps	-135 bps
Ind GB 10Y Yield	6.79	-4 bps	-28 bps
USDIDR	14,625	25	759
CDS Indo 5Y	108.87	-7.10	46.63

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-2.81Tn	-38.87Tn
Government Bond Market (Rp)	-2.86Tn	-118.93Tn

Commodities	Last	1W	YTD
WTI	41.60	3.30%	-31.87%
Brent	44.40	2.02%	-32.73%
CPO (Malaysia)	2,765.00	3.29%	-7.40%
Coal (New Castle)	51.20	-2.85%	-24.37%

Funds and ETFs		Last	1W	YTD
ETF	Theme			
RLQ45	LQ45	856.02	0.18%	-18.22%
XIIT	IDX30	464.08	0.44%	-17.97%
XIJI	JII	573.10	1.14%	-18.72%
XISI	SMInfra18	273.16	0.94%	-20.17%
XISR	Sri Kehati	335.16	-0.09%	-17.65%
XIHD	IDXHIDIV20	407.61	-0.27%	-19.12%
XIPI	Pefindo I-Grade	140.92	-0.55%	-21.46%
XIIML	MSCI Indo Large Cap	231.18	-0.05%	-
XIID	IDX30	443.24	0.35%	-
XIIC	Consumer Related	935.26	0.59%	-17.48%
XIIF	Rate Sensitive	448.95	-1.67%	-29.19%
XISC	BUMN Stocks	534.49	0.30%	-25.96%
XISB	Sovereign Bonds	421.11	0.19%	2.30%
<i>Conventional</i>				
RDMP	Equity	924.13	0.53%	-20.72%
RPCF	Balanced	2,562.10	0.06%	-14.01%
RDP2	Money Market	1,256.50	0.08%	2.74%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

	Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield
		Defensive	Rate-Sensitive	Dom. Cyclicals	Commodities	Cash	2020F	2019
1	RLQ45	30.9	47.4	13.3	6.3	2.0	19.4	3.3
2	XIIT	30.2	51.3	11.5	6.8	0.3	19.6	3.3
3	XISC	20.5	34.6	23.9	14.7	6.3	15.9	4.7
4	XISR	28.8	62.0	3.8	4.9	0.4	19.8	3.2
5	XIIF	13.5	53.6	29.7	-	3.2	18.7	3.1
6	XISI	46.7	14.6	22.4	15.8	0.5	16.7	4.2
7	XIPI	21.4	61.4	15.5	1.4	0.3	21.4	2.7
8	XIIC	47.1	37.5	10.1	-	5.3	19.9	3.3
9	XIHD	35.3	47.5	6.6	10.1	0.5	19.0	3.7
10	XIJI	49.4	12.2	24.8	13.0	0.7	20.3	3.1
11	XIIML	25.0	66.7	4.2	3.8	0.3	19.3	3.5
12	XIID	30.4	51.1	11.1	6.7	0.7	19.2	3.4
Index								
	IDX80	31.9	38.8	21.1	8.2		17.6	2.7
	JCI	32.6	37.3	21.8	8.3		17.9	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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