

US headline CPI inflation jumped 0.6% MoM driven by rising fuel prices

Global stock market returns were mixed this week, after retreating in the prior week, as oil prices climbed for the third consecutive week and surpassed US\$90 per barrel for the first time since last November. The price of US crude (WTI) has risen by 15% in the past three weeks to US\$91 per barrel amid renewed oil supply concerns. The impact of higher energy prices was already evident in the August consumer prices inflation, which climbed 0.6% MoM vs. 0.2% rise in the June-July period, of which higher gasoline prices accounted for over half of the increase. As such, the annual headline inflation rate accelerated for a second month to 3.7% in August, from 3.0% in June, above consensus expectations of 3.6%. However, excluding food and energy, core inflation rate still decelerated to 4.3% (July: 4.7%), matching market expectations, despite a higher inflation of 0.3% MoM in August (July: 0.2%). The subsequently released producer prices inflation showed a similar trend as PPI jumped 0.7% MoM in August, its highest level since June 2022, exceeding market expectations of a 0.4% rise, but core PPI inflation was still in line with expectations. On the back of this inflation data, 10-yr UST yields rise again to 4.34% (+8bps) while the 2-yr yields climbed back above 5.0% level. Elsewhere, after a recent negative trend for China's economic data, its industrial production and retail sales grew more than expected to 4.5% and 4.6% YoY, respectively, in August (July: 3.7% and 2.5%, respectively). In the week ahead, investors focus will be on Fed meeting, which is widely expected to hold rate steady after an increase of 25bps rise to 5.25-5.50% range in July.

In Indonesia, JCI gained 0.84% amid fund outflows from both equity and bond markets. Equity sector performances were mixed with basic materials and coal mining sectors gaining the most, while property, consumer cyclicals, healthcare and technology stocks corrected the most this week.

The Week Ahead – Fed Rate Decision, FOMC Projections, BI Rate Decision

The key economic data to focus next week are Fed Interest Rate Decision and FOMC Economic Projections (Thu 01:00), BI Interest Rate Decision (Thu 14:30), US Initial Jobless Claims (Thu 19:30), US Existing Home Sales (Thu 21:00), US S&P Global Manufacturing & Services PMI (Fri 20:45).

Investment Conclusion

Fed's aggressive rate hikes has been a key risk for global markets since 2022 and investor concerns have shifted from inflation to growth to inflation again amid surprisingly resilient US economy. However, with the Fed Fund's rate close to peaking and a Fed pivot to easing now expected in early 2024 (pushed back from Q4 2023), we see positive catalysts for JCI to achieve our 7,400 target given Indonesia's stable economy, financial markets and currency expectations, as reflected in the more than halving of IDR currency risk premiums (vs. USD). Indonesia's equity market has lagged global markets in 2023, partly because it remained stable and outperformed in 2022 when the developed equity markets corrected due to Fed's aggressive rate hikes and its impact on economic growth. Our JCI target of 7,400 is based on our forward P/E target of 13x, which is still in line with the market's long-term mean forward P/E valuation.

Recommendation

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45, XIIT (IDX30), XIPI (Pefindo i-Grade), and ESG ETF XISR (Sri Kehati). However, performances of RLQ45 and XIIT during 2022 have been dragged by their exposures to major technology stocks. Meanwhile, our semi-broad funds XIPI and XISR have been our preferred ETF picks since 2022, due to their overweight of banking sector, and more importantly, these two ETFs have no exposure to technology stocks, which we view as posing considerable risk to fund performances at time of rising interest rates globally. Our two other top ETF picks are XIHD (High Dividend), for its focus on high yielding stocks, and XIIML (MSCI Indonesia Large Cap), for its constituent of mainly blue-chip stocks.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	34,618.24	0.12%	4.44%
S&P 500	4,450.32	-0.16%	15.91%
Nasdaq	13,708.33	-0.39%	30.97%
FTSE 100	7,711.38	3.12%	3.48%
DAX	15,893.53	0.97%	14.15%
Nikkei 225	33,533.10	2.84%	28.51%
Hang Seng	18,182.89	-0.11%	-8.08%
Shanghai	3,117.74	0.03%	0.92%
MSCI World	2,960.98	0.41%	13.77%
MSCI Emerging Markets	984.99	1.14%	2.99%

JCI Sector Indices	Last	1W	YTD
Property & Real Estate	722.27	-1.27%	1.55%
Consumer Cyclicals	884.56	-1.05%	3.96%
Transportation	1,837.08	0.43%	10.54%
Industrials	1,183.94	0.34%	0.82%
Technology	4,406.44	-0.74%	-14.64%
Infrastructures	917.42	0.16%	5.62%
Financials	1,388.62	-0.43%	-1.86%
Consumer Non-Cyclicals	743.59	1.12%	3.77%
Healthcare	1,460.65	-0.76%	-6.67%
JCI	6,982.79	0.84%	1.93%
Energy	2,153.14	1.90%	-5.55%
Basic Materials	1,332.22	6.01%	9.55%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	5.04	5 bps	61 bps
UST 10Y Yield	4.34	8 bps	46 bps
Ind GB 10Y Yield	6.69	13 bps	-25 bps
USDIDR	15,367.00	-14.7	-201.00
CDS Indo 5Y	77.92	-3.38	-19.04

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	-1.83Tn	+8.98Tn
Government Bond Market (Rp)	-5.66Tn	+77.70Tn

Commodities	Last	1W	YTD
WTI	91.13	4.39%	13.54%
Brent	94.07	4.20%	9.50%
CPO (Malaysia)	3,785.00	-1.17%	-2.17%
Coal (New Castle)	160.50	1.81%	-60.29%

Funds and ETFs	Last	1W	YTD	
ETF	Theme			
RLQ45	LQ45	1,088.81	1.00%	6.90%
XIIT	IDX30	565.88	0.62%	6.56%
XIUI	JII	646.43	2.40%	-0.20%
XISI	SMInfra18	387.14	1.34%	12.09%
XISR	SriKehati	482.92	-0.07%	9.18%
XIHD	IDXHIDIV20	664.16	-0.18%	9.79%
XIPI	Pefindo I-Grade	229.42	1.72%	10.87%
XIIML	MSCI Indo Large Cap	295.94	-0.40%	6.29%
XIID	IDX30	545.95	0.57%	5.39%
XIFE	FTSE ESG Indonesia	117.77	0.01%	3.76%
XIIC	Consumer Related	1,034.08	0.27%	3.95%
XIIF	Rate Sensitive	537.59	0.03%	4.59%
XISC	BUMN Stocks	734.99	-0.48%	2.95%
XISB	Sovereign Bonds	486.81	-1.13%	5.50%

Conventional	Last	1W	YTD	
RDMP	Equity	911.54	0.35%	6.06%
RPCF	Balanced	2,659.31	0.04%	4.90%
RDPCDA	Balanced	991.79	-0.02%	N/A
RDPCDB	Balanced	990.27	-0.06%	N/A
RDPO 2	Fixed Income	1,087.01	0.10%	3.71%
RDPU 2	Money Market	1,426.80	0.08%	3.02%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2023F	2023F	
1 RLQ45	23.3	53.2	12.6	10.5	0.46	14.6	4.0	1.14
2 XIIT	22.8	55.7	9.4	11.8	0.24	13.9	4.2	1.07
3 XISC	23.2	42.6	7.1	15.8	11.32	12.1	5.3	1.33
4 XISR	25.9	62.8	4.4	6.6	0.32	13.4	4.6	1.11
5 XIIF	23.0	56.5	9.5	7.6	3.38	13.3	4.7	1.29
6 XISI	43.2	25.4	16.2	14.9	0.33	11.8	5.3	1.04
7 XIPI	18.3	65.3	10.9	4.5	0.98	16.3	3.9	1.18
8 XIIC	32.0	36.4	21.0	1.6	8.99	15.0	4.0	1.18
9 XIHD	20.4	61.1	2.6	15.5	0.37	11.6	5.0	1.12
10 XIJI	35.1	15.7	21.8	27.2	0.33	12.2	3.9	1.10
11 XIML	18.3	78.8	0.0	2.5	0.37	13.5	4.7	1.11
12 XIID	22.9	55.8	9.4	11.8	0.13	15.5	4.3	1.07
13 XIFE	24.1	60.0	7.4	7.9	0.60	13.9	4.3	1.14
Index								
IDX80	32.4	41.4	13.7	12.5		12.8	4.6	
JCI	27.8	38.0	14.8	15.6		12.8	45.9	

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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