

May 2020

***Investment During COVID19 Situation***



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# Summary of Market Performance market ytd

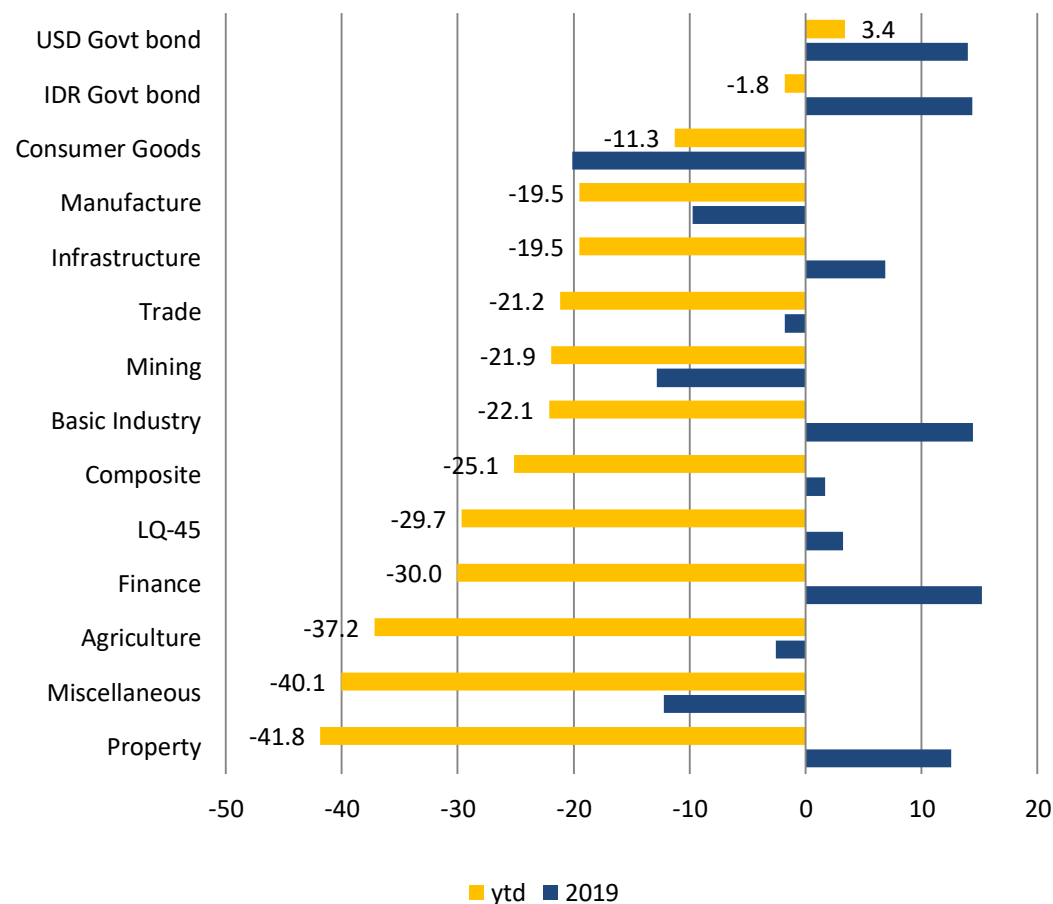
	Cur.	Change (%)	ytd (%)
Dollar Index	99.78	(0.2)	3.5
EURUSD	1.09	0.3	(3.0)
USDJPY	107.54	(0.4)	(1.0)
GBPUSD	1.25	0.3	(5.7)
USDIDR	15,465	(1.1)	11.5
1M IDR NDF	15,705	(0.9)	13.3

<b>Rates</b>			
	Cur.	Change (bps)	ytd (bps)
Fed Fund Rate	0.25	0	(150.0)
10yr US t-bills	0.64	1.5	(127.6)
10yr Bund	-0.47	0.2	(28.7)
10yr JGB	0.03	1.0	3.8
LIBOR ON	0.07	0.0	(147.6)
LIBOR 1M	0.72	0.0	(104.4)
BI 7D RRR	4.50	0.0	(50.0)
FASBI	3.75	0.0	(50.0)
10yr ID govt	7.91	(10.0)	84.7
5yr ID govt	7.33	(12.6)	89.0
3yr ID govt	6.88	(5.4)	58.8
10yr INDON	3.24	(10.5)	34.5
5yr INDON	3.31	(7.7)	82.1
3yr INDON	3.15	(5.8)	75.0
JIBOR ON	5.90	0.0	0.0
JIBOR 1M	4.80	(0.1)	(64.0)

<b>Prices</b>			
	Prices	Change (%)	ytd (%)
5yr ID CDS	196.05	(2.7)	189.5
JCI	4634.82	3.4	(26.4)
IDMA	93.98	0.3	(7.7)
FR68	101.78	0.8	(5.2)
FR77	103.20	0.6	(3.2)
FR78	101.77	0.6	(6.5)
FR79	100.57	0.2	(6.2)
ORI13	99.96	0.0	0.0
ORI14	100.45	0.0	0.2
SR-08	100.01	0.0	0.0
SR-09	100.06	0.0	(0.4)
INDON 04/25/22 (USD)	101.65	0.2	(1.6)
INDON 07/08/21 (EUR)	101.05	0.2	(3.1)
INDON 06/08/22 (JPY)	100.35	0.0	(0.5)
INDON 01/11/28 (USD)	100.99	0.5	(3.4)

## Ytd return comparison across sector

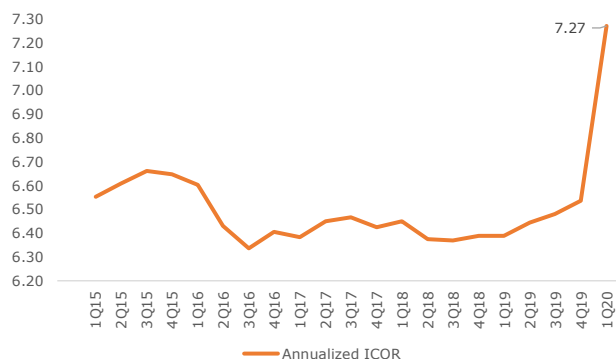
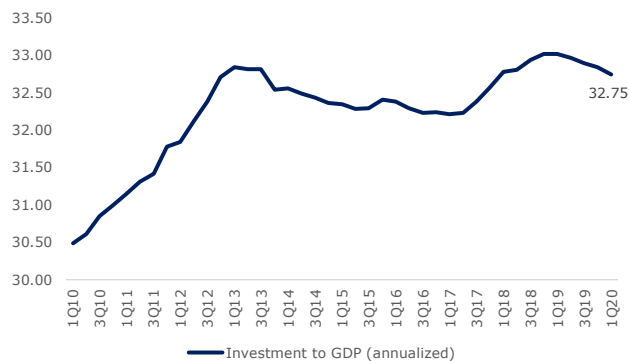
(%)



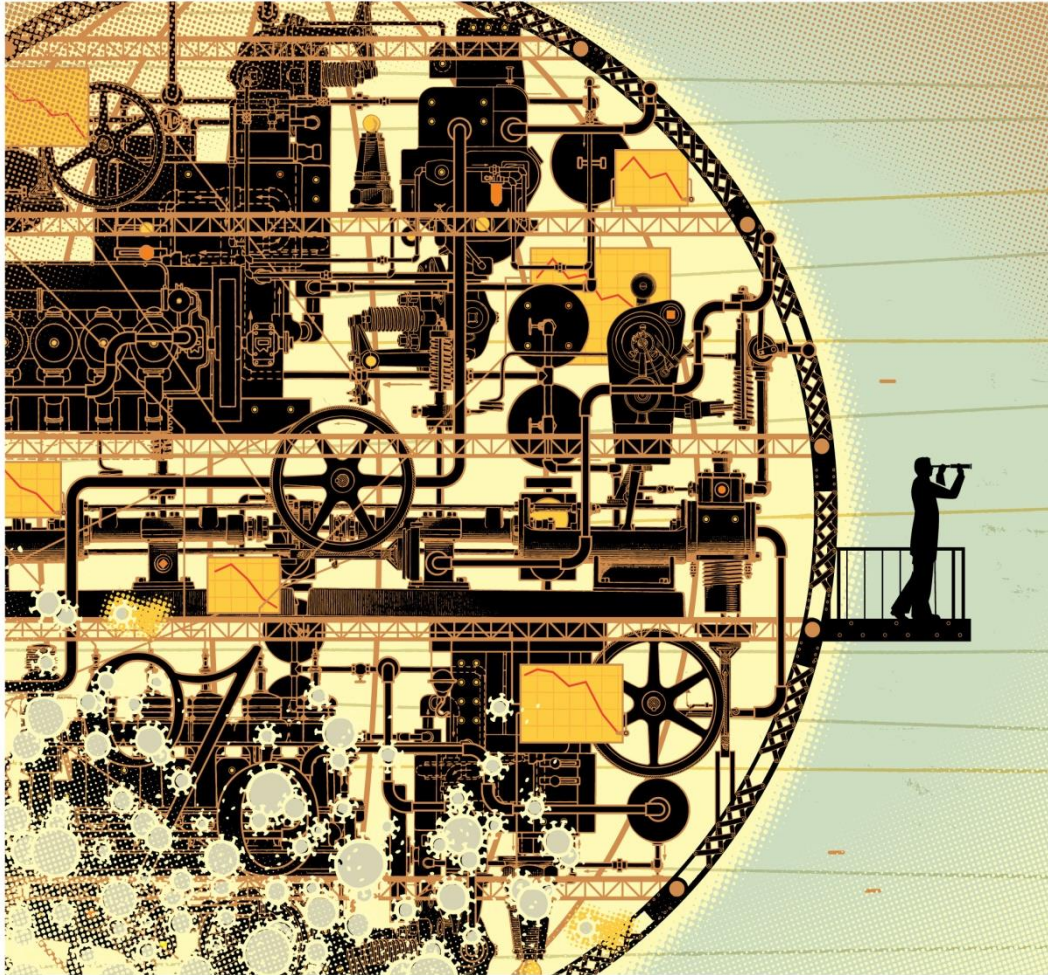
Source: Bloomberg

# Lowest growth since 2001 on Covid-19 situation

Indonesia GDP data	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Nominal GDP y-y (USD)	6.94	4.29	0.00	-0.39	3.49	5.41	9.47	11.22	2.95
Nominal GDP y-y (IDR)	8.77	9.47	9.65	8.83	7.76	7.55	5.86	5.78	3.67
Real GDP y-y	5.06	5.27	5.17	5.18	5.07	5.05	5.02	4.97	2.97
Consumption y-y	4.96	5.17	5.00	5.08	5.02	5.18	5.01	4.97	2.84
Investment y-y	7.92	5.81	6.92	6.01	5.03	4.55	4.21	4.06	1.70
Govt Exp y-y	2.71	5.21	6.26	4.56	5.22	8.23	0.98	0.48	3.74
Export y-y	5.84	7.48	8.34	4.59	-1.58	-1.73	0.10	-0.39	0.24
Import y-y	12.46	14.94	13.77	7.11	-7.47	-6.84	-8.30	-8.05	-2.19



- 1Q20 GDP growth is recorded at 2.97% y-y (prev: 4.97% y-y) due to significant slowdown in consumption at 2.84% y-y (prev: 4.97% y-y) and investment at 1.7% y-y (prev: 4.06% y-y). This is the lowest growth since 1999.
- Financial industry along with public health and social works industry remain dominant at 10.67% y-y (prev: 8.49% y-y), and 10.39% y-y (prev: 7.82 y-y), respectively, under current significant slowdown in GDP growth.
- Transportation sector growth extremely decline to 1.27% y-y (prev: 7.55% y-y) due to drop in mobility caused by lockdown (PSBB) policy.
- Indonesia ICOR in 1Q20 continue to rise to 7.27 (prev: 6.54%), coupled with the drop in annualized Indonesia national investment to GDP at 32.75% (prev: 32.85%). Higher ICOR implies lower efficiency in the national investment.
- Deflationary pressure is intensified with GDP deflator is at 0.67% y-y (prev: 0.77%y-y). Continued PSBB and low activity should bring negative GDP growth in 2Q20. Growth course in 3Q and 4Q will be depend on fiscal stimulus.



## Financial Market is a Discounting Machine

*It does not react to the current situation of the economy, but they react on the expected situation for 6 – 12 months ahead.*

Hence, to forecast the performance of financial market and having solid investment thesis, we need to understand two things :

1. What things already priced in for 6-12 months basis
2. What is likely to change in 6-12 months basis

# Indonesian Stock market always move ahead the Economic Data

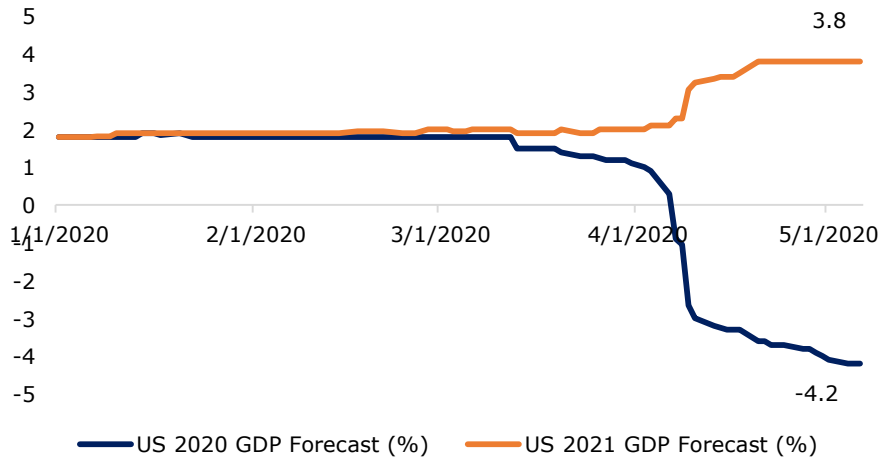


Source: Bloomberg, Trimegah Research

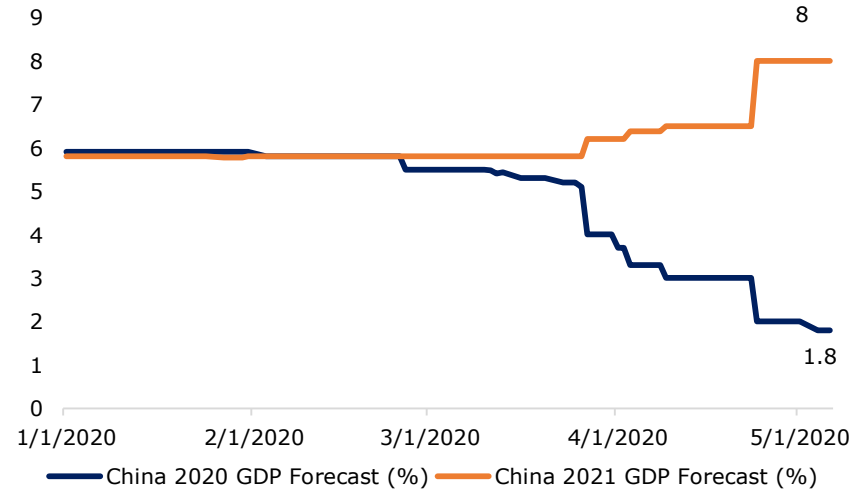


# What already priced in from global growth front

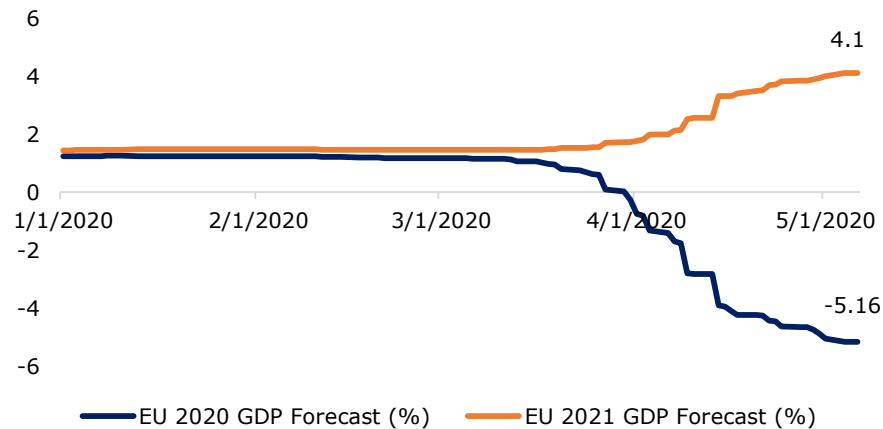
## US GDP growth expectation



## China GDP growth expectation



## EU GDP growth expectation



	GDP Growth (%)		GDP Growth (%)		
	1Q20	cons. 2Q20	1Q20	cons. 2Q20	
1 Argentina*	-2.8	-9.0	11 Japan*	-2.0	-4.5
2 Australia*	1.1	-6.7	12 Mexico	-1.6	-7.7
3 Brazil*	0.1	-7.2	13 Russia*	1.5	-8.5
4 Canada	-	-	14 Saudi Arabia**	-2.0	-2.0
5 China	-6.8	1.3	15 South Africa*	-1.1	-11.6
6 France	-5.4	-12.0	16 South Korea	1.3	-0.2
7 Germany*	-1.9	-9.8	17 Turkey*	4.3	-7.4
8 India*	2.7	-5.0	18 UK*	-0.9	-11.4
9 Indonesia	3.0	-3.0	19 US	0.3	-7.0
10 Italy	-4.8	-13.5	20 EU*	-1.3	-9.1

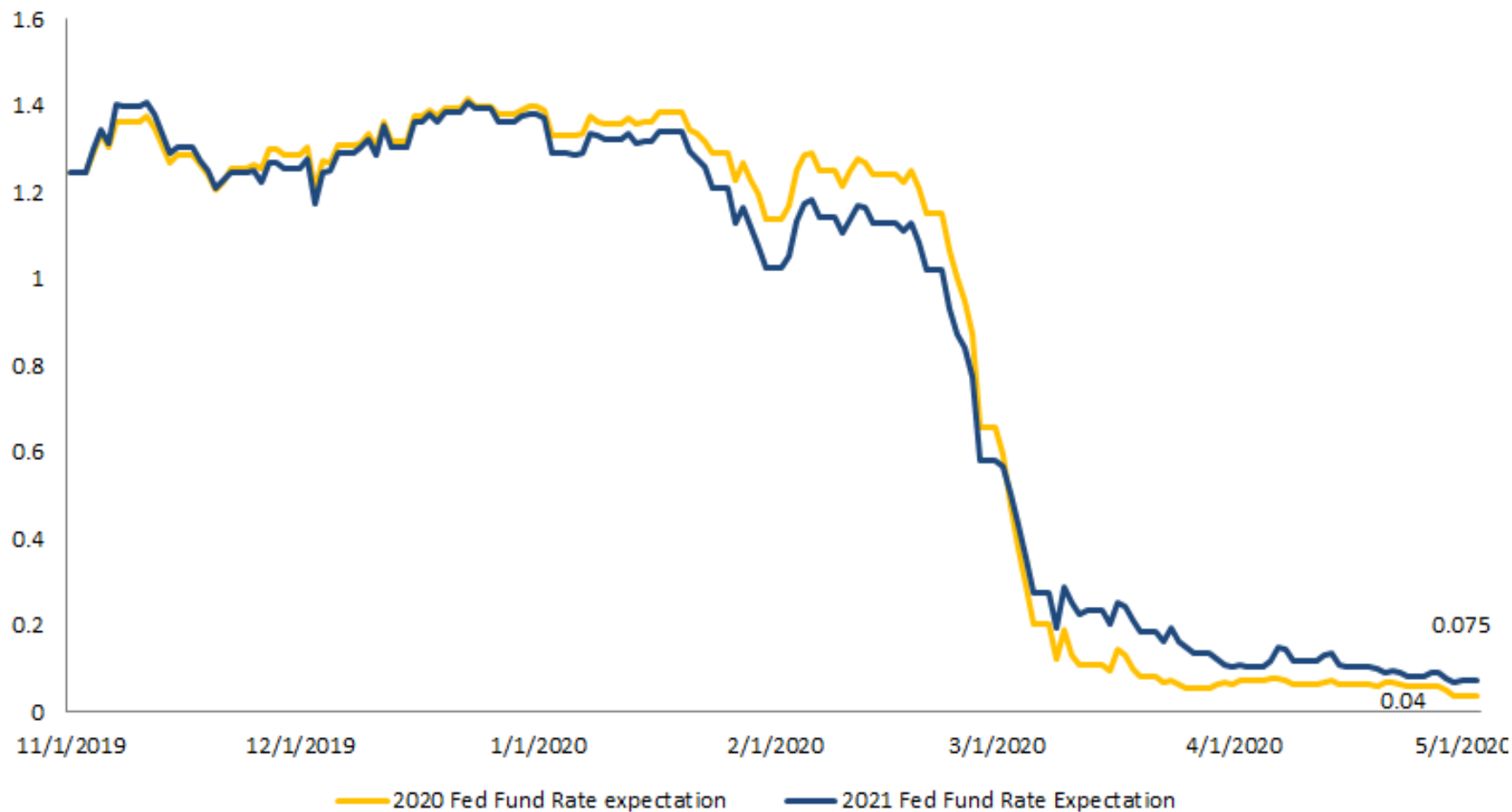
\*consensus number, not yet publish 1Q20 GDP results

\*\* only disclose consensus of FY GDP growth

Source: Bloomberg, Trimegah Research

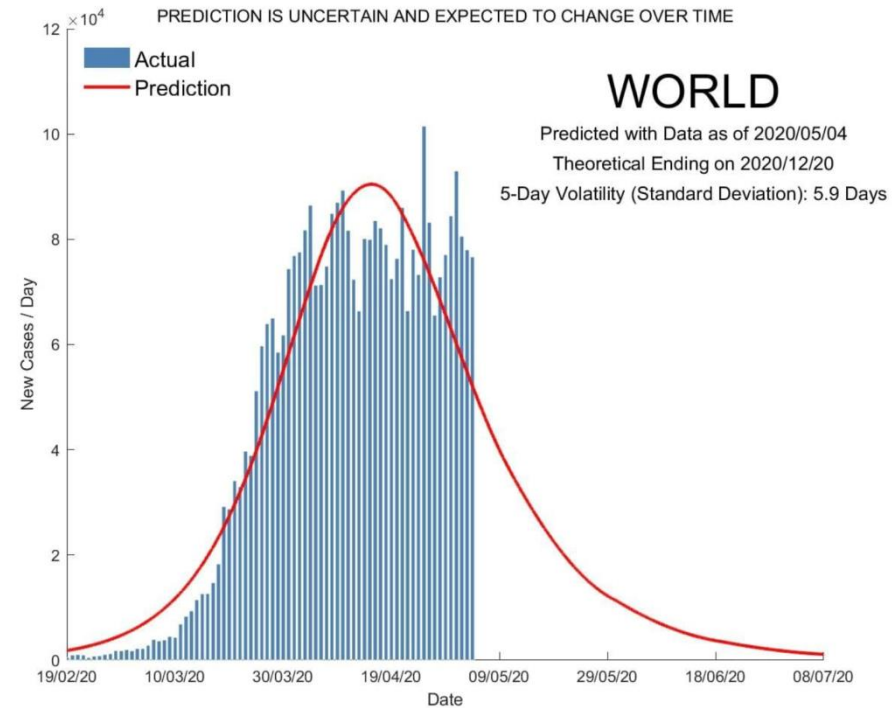
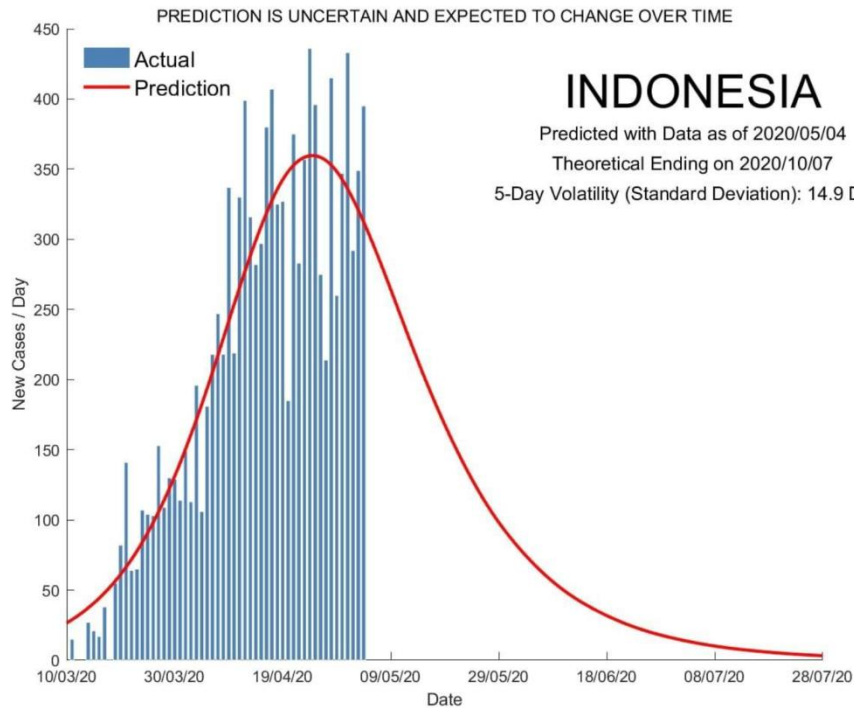


# What already priced in from interest rate front



Source: Bloomberg, Trimegah Research

# What already Priced in from COVID19 point of view

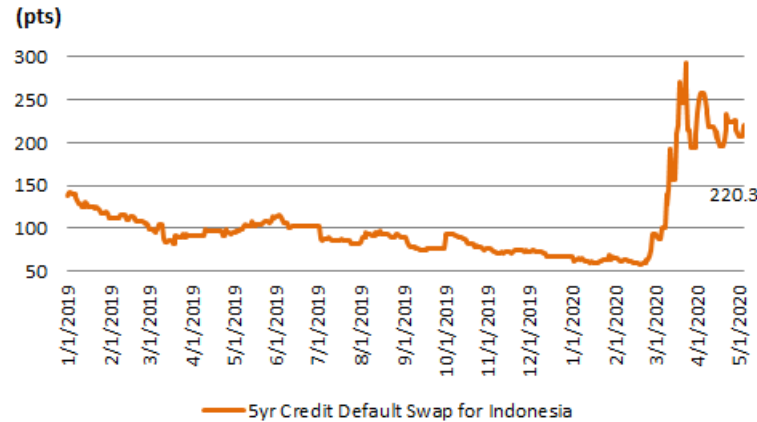


Source: SUTD Data-Driven Innovation Lab

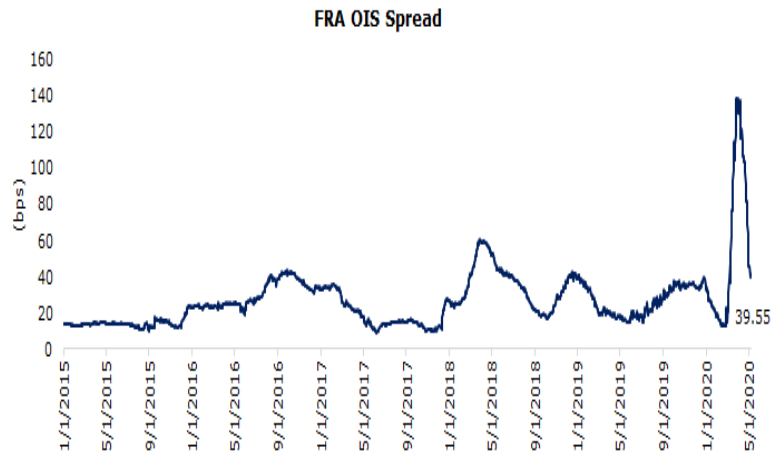


# Recent situation in global and domestic risk perception

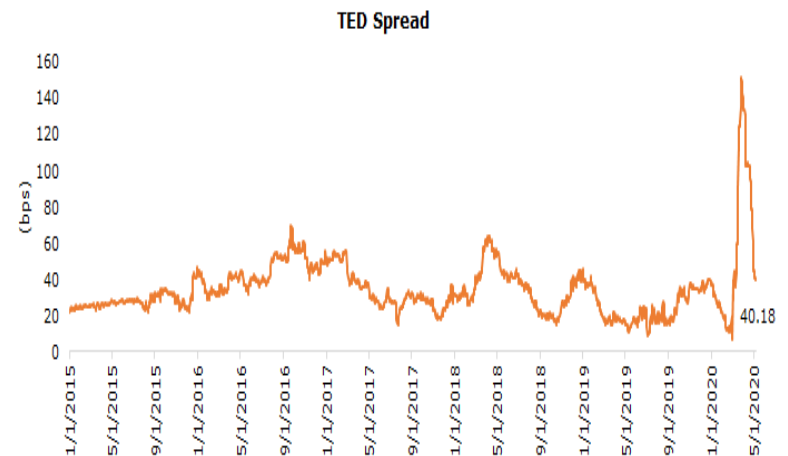
## Indonesia's Credit Default Swap



## FRA-OIS Spread



## TED Spread



Source: Bloomberg

## Situation already Priced In:

1. Global Recession,
2. COVID to close most of the economy until midst of 2020,
3. Global Central Bank (The Fed, ECB, BoJ and PBoC to conduct further monetary easing), and to help the economy and further interest rate cut,
4. Pressure on emerging market FX, especially IDR to intensify,
5. Government to widen fiscal deficit and to provide fiscal stimulus everywhere in the world,
6. We are likely to have some economic recovery in 2021,

## What situation is not yet priced for the next 6-12 months ahead :

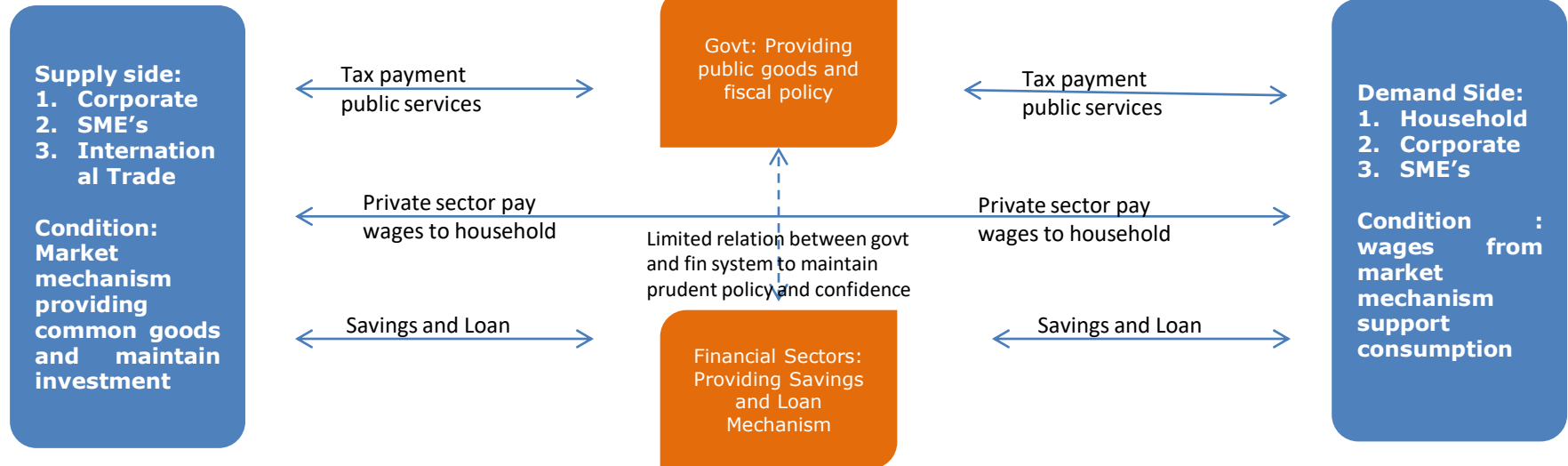
1. **Possibly shallower growth recovery in after 2020,**
2. Possibly permanent damage in world global supply chain,
3. Supply of capital flows to emerging market could be lower, and we could have different path to economic recovery,
4. Indonesia Current Account could record very small deficit (or even surplus) due to slowing economy,

## **Possible Tail Risk Event not to be excluded from set of possible outcome:**

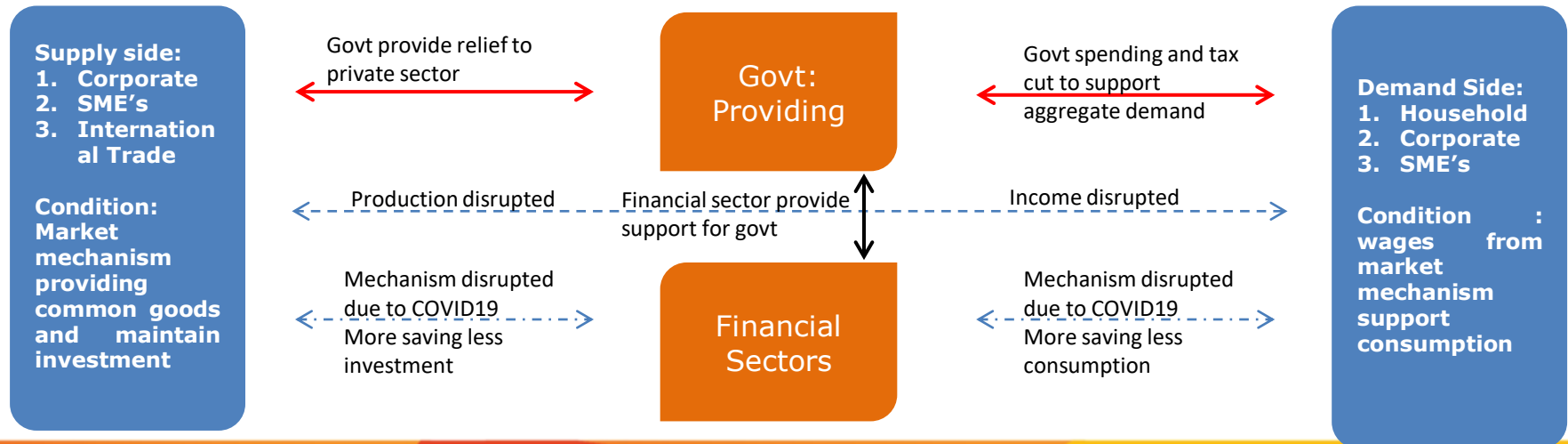
*Jump in Bankruptcy, both in US, China, Indonesia or other countries if COVID19 situation is not improving*

# Framework of thinking regarding current situation

## Normal Situation



## Current Situation



# Summary of Government Action to Limit COVID19 impact

## Fiscal Side

### Health Safety (Rp75tn)

1. BPJS subsidies
2. Medical Personal Incentive
3. Purchase of Medical Equipment
4. Referral Hospitals

### Social Safety (Rp110tn)

1. PKH
2. Support on Staples
3. Pre-employment card
4. Labor Program
5. Electricity disc.
6. Housing incentives
7. Holiday bonus
8. Price stabilization

### Economic Safety (Rp 70.1tn)

1. Tax cut
2. Simplification on international trade
3. KUR relaxation

### National Recovery (Rp150tn)

1. Lieu Law No. 1, 2020
2. Tax cut
3. Simplification on international trade
4. KUR relaxation
5. BI, OJK and capital market policy

## Expected impact of stimulus :

The stimulus will not bring back growth trajectory back to its old good situation, but more on preventing market mechanism failure, and shield our real sector and financial sector from the possible defaults.

On limiting moral hazards impact during this policy running, we suggest government to provide more stimulus for demand side instead of supply side.

## Monetary & Financial

### Monetary:

1. Maintaining loosening stance
2. Increasing triple intervention intensity
3. Lowering RR
4. Extend SBN Tenure

### Financial side (OJK):

1. Improved Coordination among KSSK members
2. Provide the necessary authority (4 institution) to prevent crisis through forward looking guidance.
3. FX management for residence
4. Increase public confidence without causing moral hazards

# Different Stimulus to yield different result

## Scenario 1

**More Stimulus for supply side instead of demand side**



**Corporate sector receive more benefit from incentives, omnibus law and tax cut.**



**Limited demand side support, CA balance improved, inflation to remain low, Lower long-run interest rate**



**Aggregate demand problem to limit growth prospect, highly dependence on global demand, permanent increase in fiscal deficit to support growth**

## Scenario 2

**More Stimulus for demand side instead of supply side**



**Household receive more money, corporate sales growth improve, no change in Omnibus Law**



**CA Deficit problem remain but global investor to support Indonesian demand, interest rate to remain cyclical, inflation to be higher**



**Aggregate demand is back, govt could withdraw its aggressive fiscal deficit back to below 3% of GDP**

## Possible situation post COVID 19 in corporates:

1. Higher investment in IT related,
2. Supply Chain diversification going outside China,
3. Just In Time Inventory will be no longer relevant, cash in hand will be raised,
4. Leverage tend to be lower,
5. Tourism and hospitality industry to lost its appeal,
6. Agriculture likely to rose as food security becoming a big issue,

## Possible situation post COVID 19 for Consumers :

1. Tendency to save raised,
2. Demand for durable goods order will be lower,
3. Demand for basic necessities, especially healthcare will be raised

**Question : Should govt permanently increase fiscal deficit going ahead ?**

## Return by Sector in US stock market ytd as an indication of who will benefit or get harmless in this current economic situation

Sectors	Ytd return
Information Technology	-0.10%
Health Care	-0.92%
Communication Services	-7.71%
Consumer Discretionary	-8.20%
Consumer Staples	-9.24%
S&P 500	-11.16%
Utilities	-14.02%
Basic Materials	-19.14%
Real Estate	-21.51%
Industrials	-24.78%
Financials	-30.85%
Energy	-40.79%

The situation will be bullish for Telco business, healthcare and tech company, while bearish for real estate, commodities and tourism



# Investment Lesson: Banking Always Win

## Years Banks Composition in JCI

2000

40%

2007

30%

2012

30%

2015

40%

2019

40%

May 01, 2020 - 07:30 PM EDT

## Big banks are growing due to coronavirus — that's an ominous sign



GETTY

BY JEREMY KRESS, OPINION CONTRIBUTOR

Collectively, the ten largest U.S. banks expanded by more than \$1.2 trillion in the first quarter of 2020. JPMorgan alone grew by nearly 20 percent, becoming the United States' first bank with [\\$3 trillion in assets](#). The bank took in \$273 billion in new deposits in just three months. That's equivalent to JPMorgan acquiring PNC Bank - the country's seventh largest depository institution.

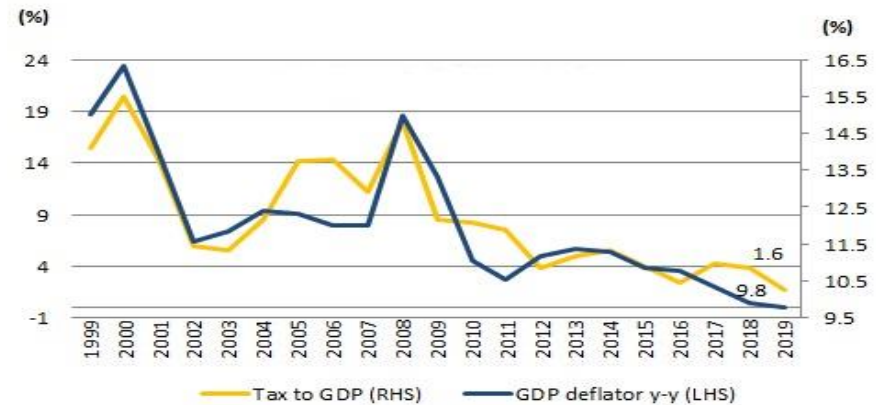
This dramatic growth stems from two dynamics related to the coronavirus pandemic. First, as companies have drawn on their pre-existing lines of credit and the Federal Reserve has flooded the markets with waves of liquidity, firms and investors have deposited massive sums of cash in their bank accounts. This influx of funds has been referred to as a "[reverse run on the banks](#)."

Source: The Hill

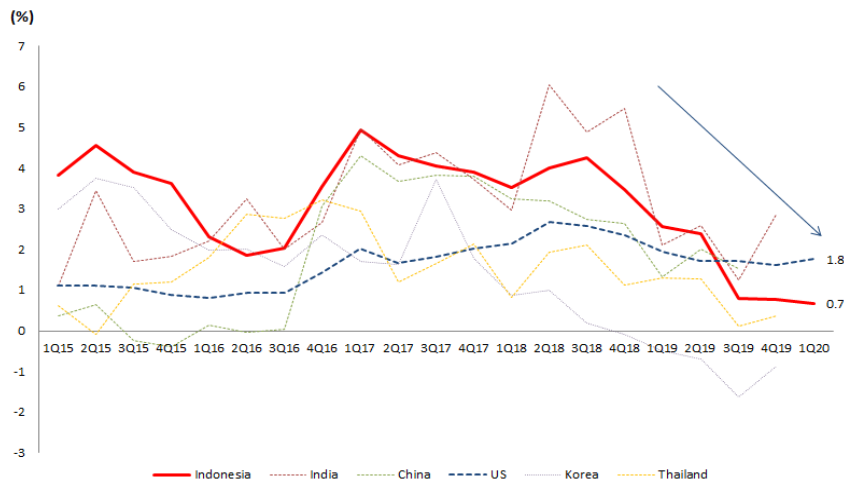
# All we need is inflation to fixed current situation

- Contrary to common believe, we see inflation is an important factor to win this COVID19 challenge. Good dose of inflation is good to improve the prospect of both company sales and govt tax revenue. Absence of inflation is proven as one of the reason why Indonesia is losing its tax base.
- Going ahead, we need more inflationary policy both from central bank and fiscal authority.
- Failed to bring back inflation would have serious impact on the prospect of sovereign rating, as agencies oftenly cited about strong growth as current Indonesia's rating rationale.

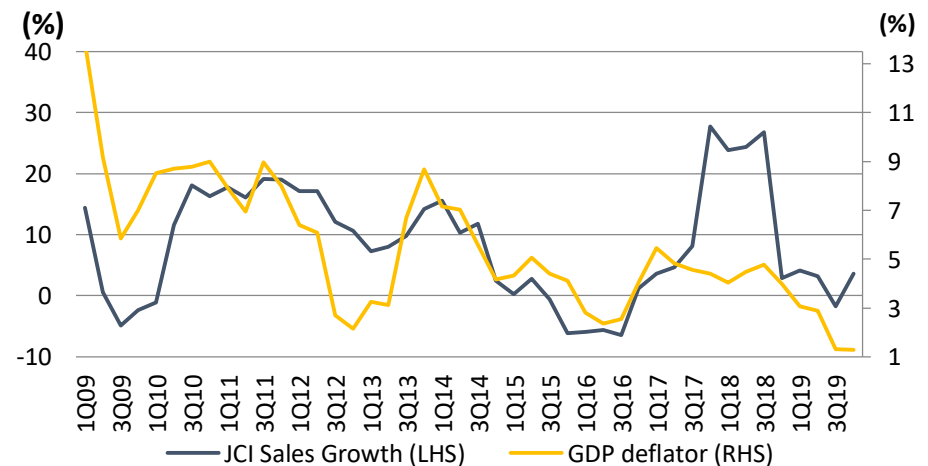
### GDP deflator and Tax to GDP Ratio Relation



### GDP deflator of several nations



### JCI Sales Growth and GDP deflator



Source: CEIC, Trimegah Research

## Value Added Driven Economy



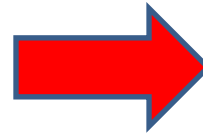
### Rostow Structural Growth Theory

Economy is driven by value added, superior technology, growth should be gradual

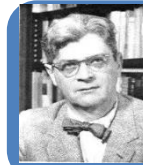
Wages of workers should be high as mass-consumption is driver of the economy,

FDI goes to nation who could produce high value products ,

**Global Overdemand, Undersupply, High GDP Growth, Inflation.**  
**Profit come from selling expensive products**



## Race to the Bottom



### Alexander Gerschenkron Backwardness Theory

Economy is driven by capital accumulation and cost leadership, growth should be fast at the beginning,

Wages may not high as it hinders competitiveness, demand depend on export abroad,

FDI goes to the most efficient nation,

**Global Oversupply, Underdemand, low GDP growth, Deflation .**  
**Profit created by cost cutting**

Changing landscape from this two paradigm in COVID 19 situation will shape how we see investment and economy going ahead

# Deflation in East Indische (1928-1936)

## Plantation Workers Income

Years	Wages ('000 Gulden)	Land Rent ('000 Gulden)	Sugar Cane Fee ('000 Gulden)
1928	106,268	22,868	5,008
1929	101,827	23,915	3,918
1930	97,866	25,044	2,986
1931	93,978	25,026	2,207
1932	53,077	21,703	911
1933	21,866	11,854	384
1934	9,712	6,526	189
1935	7,270	3,989	233
1936	7,517	3,183	244

## Salary by Profession

	Prior to Crisis	Post Crisis
Mandor Wages	f 18	f 7.5
Koeli in plantation wages	40 - 45 sen	10 - 14 sen
Koeli in factory wages	25-35 sen	10 sen

## Price of Important Commodities

f	1928	1929	1930	1931	1932	1933	1934	1935	1936
Padi Bulu / Pikul	4.79	4.90	4.39	2.38	2.11	1.62	1.71	1.83	1.65
100 of Coconuts	6.50	6.00	6.00	4.00	2.00	2.00	1.50	1.00	2.50
Cassava / Pikul	1.22	1.45	1.66	0.79	0.51	0.48	0.53	0.70	0.60
100 of Corn	0.66	0.75	0.62	0.37	0.30	0.23	0.27	0.26	0.22

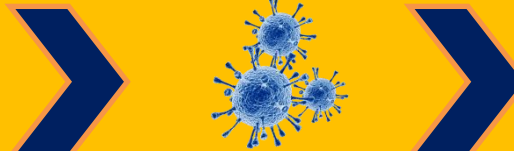
Source: *Het Volkscredietwezen in de Depressie, 1943* (Sumitro Djojohadikusumo)

# What COVID19 bring to our world

## Before

Foreign investment and acquisitions are welcome by countries; less government scrutiny over foreign investment proposals

## Covid-19 Outbreak



FDI flows could drop by  
-30% to -40%

## After

Countries are increasingly on guard against the risk of opportunistic foreign acquisitions and investment. Main concern?  
**China**

## Recent examples



### India

Modified FDI law to allow greater government supervision and approval of transactions to prevent opportunistic takeovers. China is the main concern.

### Australia

Temporary changes to its foreign investment framework to protect national interest

### Spain

Increase the scope of sensitive investment area (which needs government approval) to increase government scrutiny

### Germany

Temporary changes to its foreign investment framework to protect national interest

### Italy

Implementing "Golden Powers Law" for prime minister to rules foreign investment and protect companies in important sectors

### Canada

Protect local businesses from foreign investment, especially those involved with public health and supply of critical goods

# Change in food supply management is interesting thing to watch (1)

**Romania**



Ban grain exports to non-EU countries until at least mid-May

**Uzbekistan**



Increase agricultural production and ensure efficient water management food storage and price control

**Kenya**



Mandate coordinated food distribution following food distribution chaos that left two people dead

**US**



Temporary closure of food processing plants in response to infections among workforces

**Kazakhstan**



Lower the export quota of wheat to 200,000 tonnes, from the usual export level at 350,000 tonnes, and flour to 70,000 tonnes, from the usual 123,500 tonnes. During March 25, 2020 until 15 April 2020, Kazakhstan temporarily halt food export activities



# Change in food supply management is interesting thing to watch (2)

## Vietnam



Vietnam has resume its rice export activities since April 11 after banning rice export in March 2020. However the export quota for April and May is expected to decrease by 40% y-y to 800,000 tonnes.

## India



India's Rice Exporters Association (REA) announced it would halt new rice contracts. According to the cabinet meeting (4/28) results, there will be ban on export of edible commodities for two weeks. The ban decision will be reviewed after two weeks.

## Cambodia



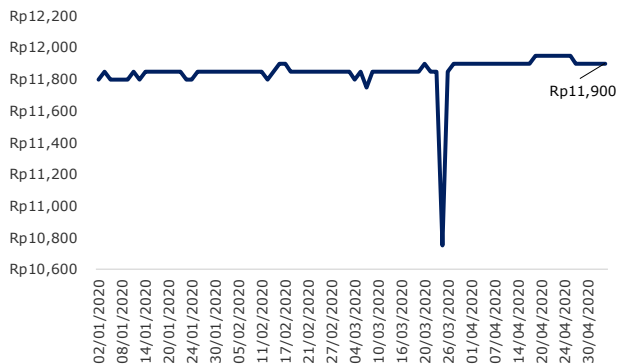
Ban rice exports starting April, 5. The country also ban export of fishes

According to the Food and Agriculture Organization (FAO):

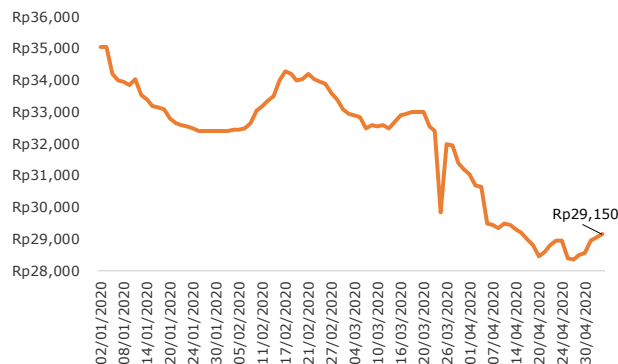
1. Stock-to-use ratio of world cereal stocks is at 30.7%
2. Wheat Production at 763mn tons with sufficient inventories
3. Localized supply chain issues of limited duration and magnitude are unlikely to significantly affect global food markets

# Recent price movement of important foods during ramadhan periods

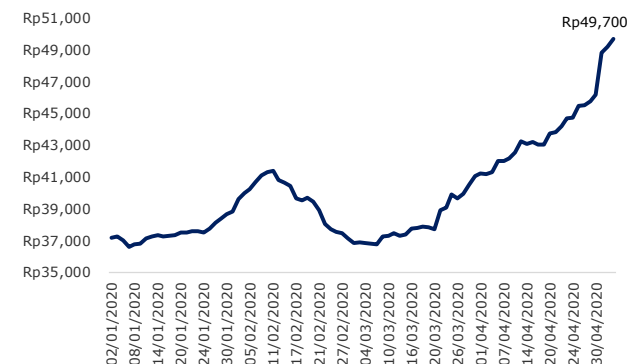
## Rice Price



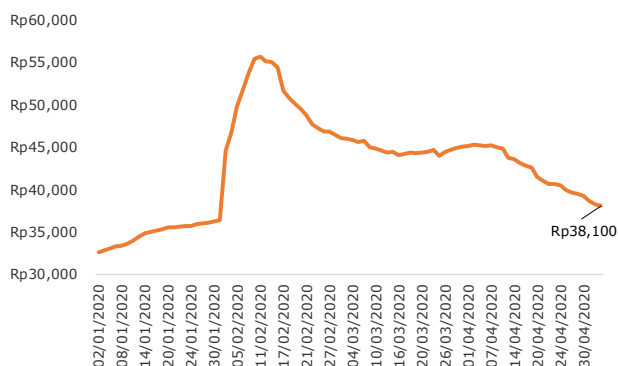
## Chicken Price



## Shallot Price



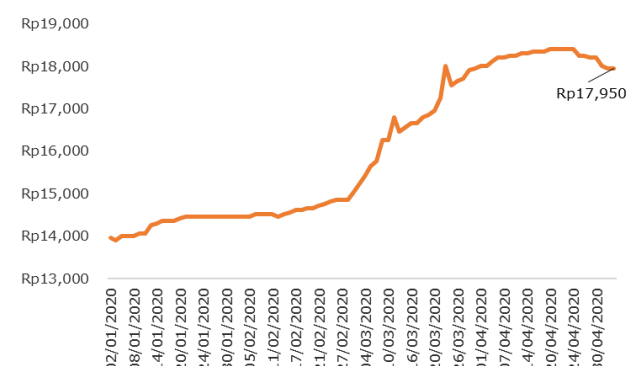
## Garlic Price



## Egg Price



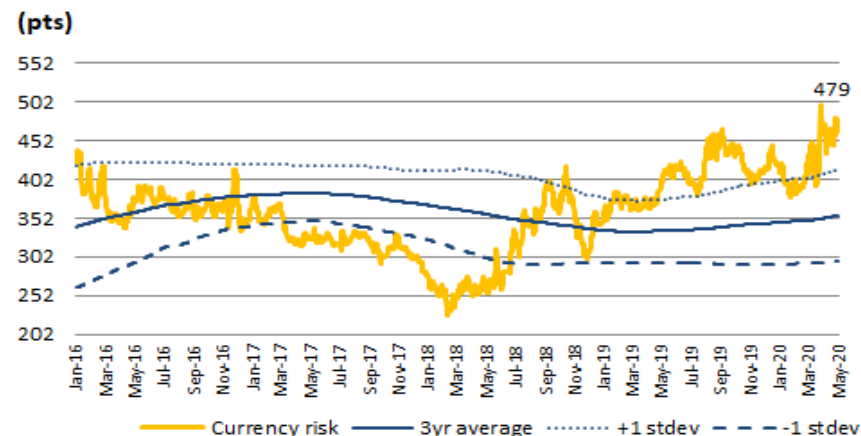
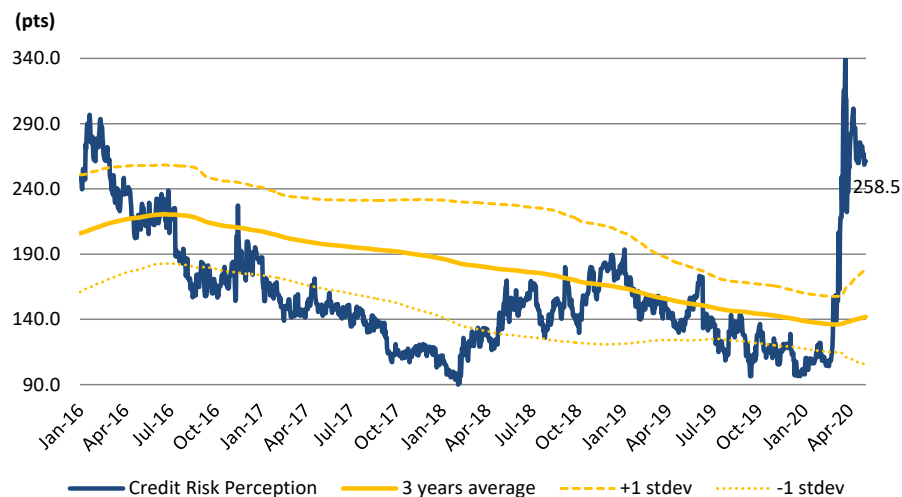
## Sugar Price



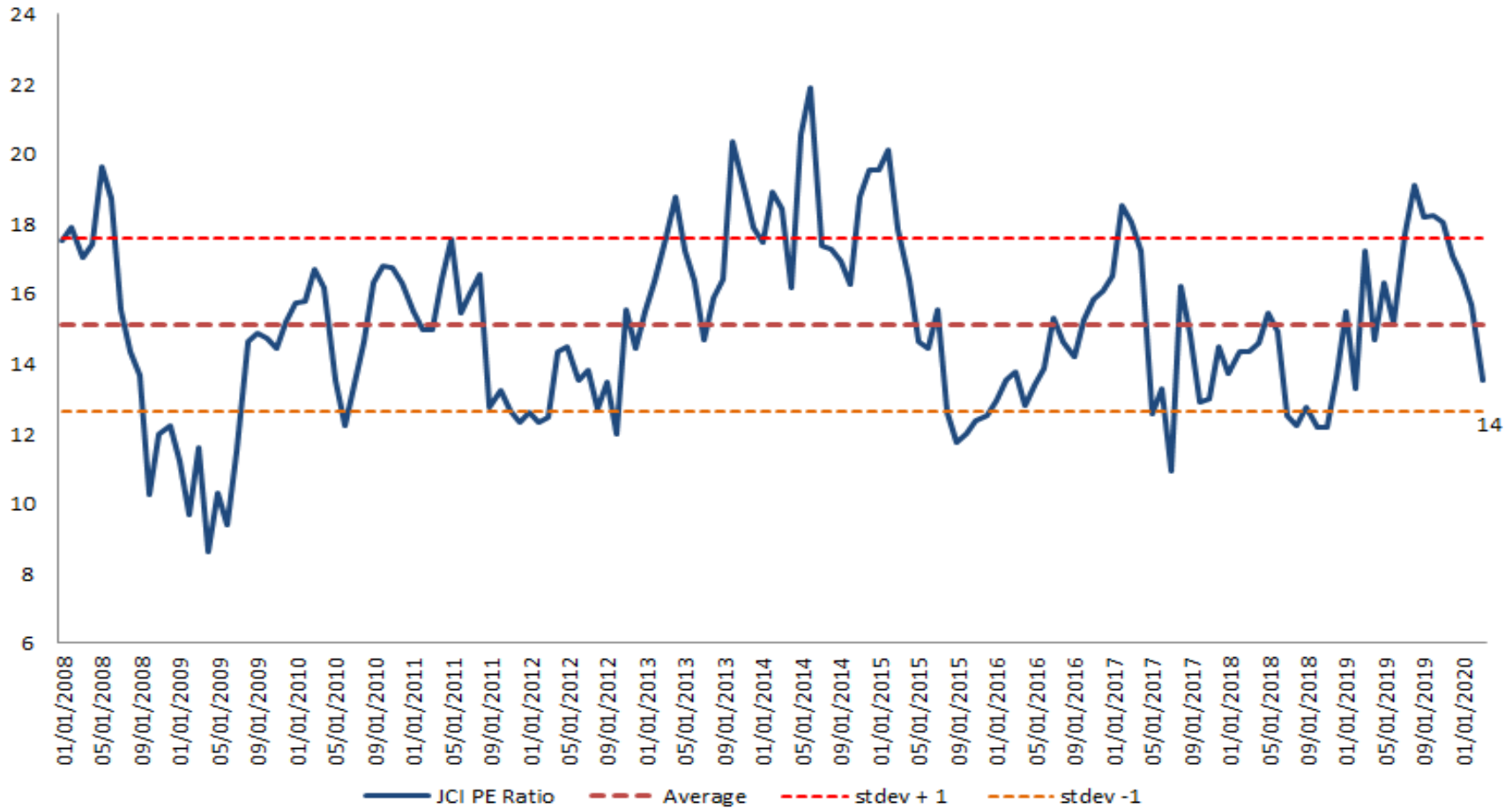
# Market Perception in Indonesia gov't bond market

	Risk-free	Credit Risk	Currency Risk
2013	3.03	2.44	2.99
2014	2.17	1.91	3.72
2015	2.27	2.48	4.24
2016	2.44	1.87	3.65
2017	2.41	1.12	2.79
2018	2.68	1.86	3.48
2019	1.92	0.98	4.17
2020	0.61	2.61	4.65

	Δ Risk-free	Δ Credit Risk	Δ Currency Risk
	1.27	1.25	0.74
	-0.86	-0.53	0.73
	0.10	0.58	0.52
	0.17	-0.61	-0.59
	-0.04	-0.75	-0.86
	0.28	0.73	0.69
	-0.77	-0.88	0.68
	-1.31	1.63	0.49

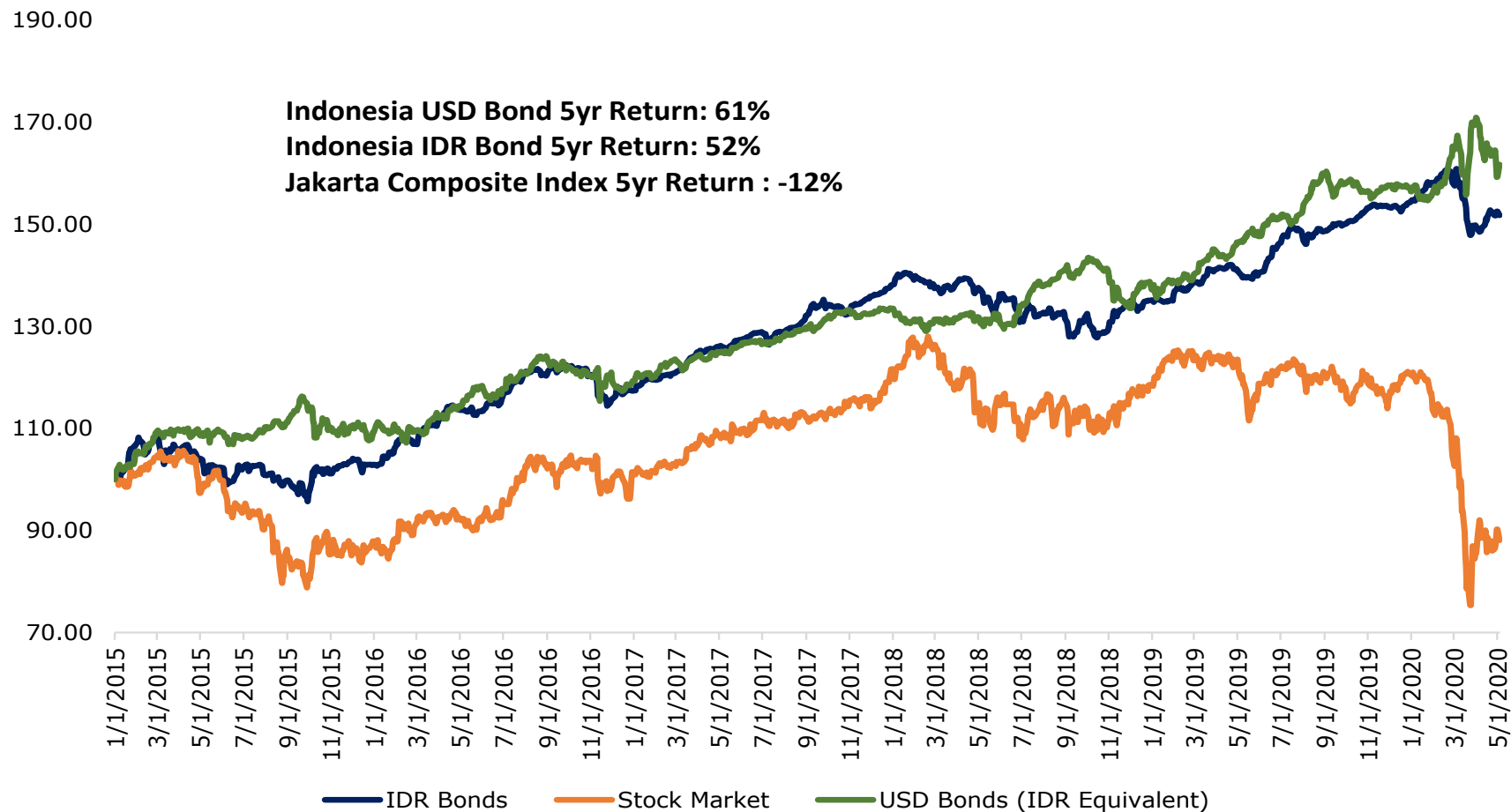


# Market perception in Indonesia Stock market



Source: Bloomberg, Trimegah's Research

# What if no fundamental change in Indonesian economy



Source: Bloomberg, Trimegah's Research

- Sectors which is related with improving Efficiency and High Technology will be benefited from current environment.
- If this efficiency trend continue, source of profit less likely to come from higher sales growth. Lower cost will be the main driver.
- Interest rate likely to stay low as long as we are not moving back to inflationary environment.
- In overall, in deflationary environment, Bond Market tend to Outperform Stock Market.



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Neutral	: Share price is expected to trade within the range of 0%-10% over the next 12 months
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Not Rated	: The company is not within Trimegah research coverage