

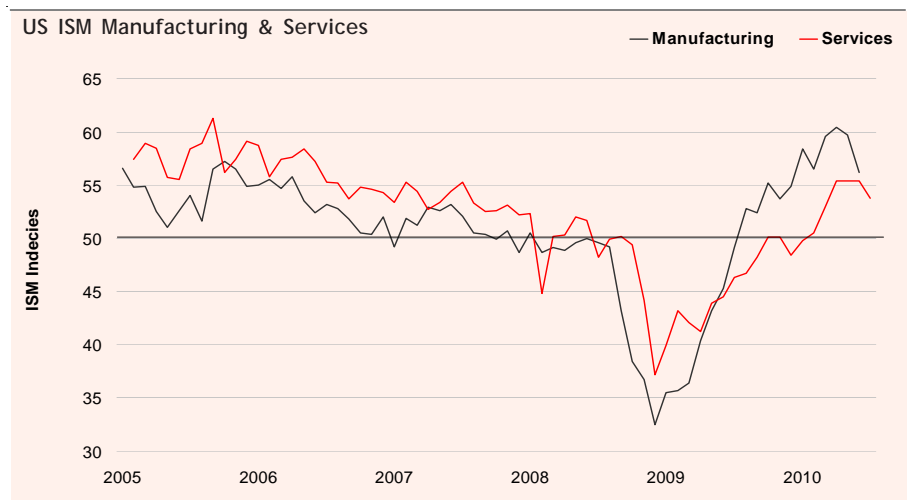
Summary:

- ❑ **US** Both ISM Disappoints
- ❑ **EU** Spain Banking Stress Test
- ❑ **EU & CN** Passing Tests So Far
- ❑ **CN** 1.3bn Richer People
- ❑ **IN** Protesting Fuel Hikes
- ❑ **ID** Inflation Dilemma

The fundamental concerns from Europe and China still lingers and that JCI has lagged regional peers in this correction. ST volatility may persist as we await clarity from these issues. Fundamental reasons such as diminishing sovereign risk and resilient economic growth has justified such JCI Index out performance and will continue to do so into the future. Continue to buy on weakness for LT investors.

US Both ISM Disappoints

Both the US ISM manufacturing and ISM Services slowed for the month of June. As such, Jun ISM Manufacturing slows to 56.2, from 59.7 in May & 59.0 expected. Jun ISM Services also slows to 53.8, from 55.4 for the last few months & 55.0 expected. While the slow down has been expected as discussed in my previous Thoughts, the key over 3Q10 is whether these two numbers dips below 50.0 - the division line between expansion and contraction in output expectations. My base case is still for these numbers to hover slightly above 50.0 i.e. US output from both sectors will slow in growth, and not show negative QoQ number or show readings below 50.0.



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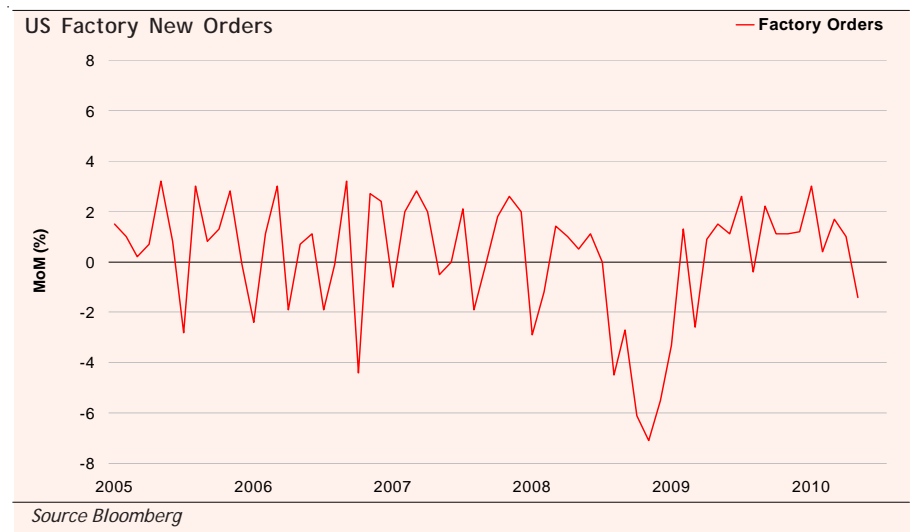
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A good indicator to gauge how US manufacturing may pan out is the US Factory Orders. As such, the reading recorded the first MoM decline in May. The next two months will be crucial readings to watch, if the May decline is the start of a new trend, or just a mere outlier in the volatile reading.



EU Spain Banking Stress Test

Spain will publish results on all of its stress tests on all of its savings banks as Spain prepares to sell seized lender CajaSur in an auction next week. CajaSur was seized in May due to solvency issues. At that time, four other Cajas were forced to merge to dilute weaker and stronger Cajas to avoid a Spanish banking catastrophe. Bank of Spain estimates that the cost of recapitalizing and restructuring the savings bank is about EUR15bn, or about 1.5% of Spain Economy. Spain can tap funds from a state-backed rescue fund (FROB) and industry financed deposit guarantee funds. Under a worse case scenario, Spain can opt to tap EU's ERU440bn facility created on May 10 to support EU members and currency.

EU & CN Passing Tests So Far

Spain managed to raise EUR6.0bn yesterday at 4.85%, slightly higher than the 4.66% traded for existing Spain's 10yr benchmark debt. Meanwhile, CN's Bank of Agri's will raise USD19.2bn in its Shanghai and Hong Kong IPO, near to the USD20bn target and way above the USD11bn rumored. As such, at HKD3.20/shr, the stock is effectively offered at about 1.65x P/BV, not bad considering that current HK-listed majors are trading between 1.54x to 2.10x, and that Bank of Agri has one of the lowest CAR and profitability. The news drove the Shanghai Index from its 15 month low of 2319.

How Chinese banks stocks behave from here on is an important thing to watch. The overhang from BoAgri IPO is over. News of Chinese banks needing to raise funds through debt or rights issue should be more or less out and priced in. The view here is that Chinese banks and property continue to be an indicator I would watch as to what market is expecting for the outcome of China. Nervousness in the markets today will not go away until there is a clear direction as to how and when Chinese tightening will stop and that this reversal in policy should somewhat remove concerns over the demand side of the current fragile global economy and hence catalyze the next bull rally. As we know, China is the only major economy left that may be able to contribute or offset the output decline expected from the developed world over the next few years.

CN 1.3bn Richer People

At least 9 provinces in China raised minimum wages by at least 33% on 1st July to curb labor unrests. Henan, China's most populous province, for instance, raised minimum wage by 33% from RMB450/mth to RMB600/mth. Beijing raised minimum salary by 20% from RMB800/mth to RMB960/mth. Shanghai (Financial hub) raised minimum wage 17% to RMB1120 and Guangdong (Export hub) 21% to RMB1030.

I first heard the idea of raising Chinese wages from Premier Wen Jia Bao over Bloomberg, as an alternative instead of focusing on the much debated policy to "peg" the USDCNY exchange rate to maintain competitiveness. He believed the policy improves domestic demand, would increase imports and decrease exports and better achieve the objectives of global economic rebalancing to shift demand from the troubled developed nations to Asia.

The implications here are wide. 1.3bn richer people can consume a lot of things. Such figure just dwarfs the 250mn army of Indonesian consumers that I am so proud of. Demand for basic goods may just come in time to offset that resulting from the deliberate slowdown of the property sector. Such a trend should continue to benefit basic producers like Indonesia (coal = power, CPO = food).

The other angle that I have started to push is the implications to Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) in Indonesia due to the move. As such, to tap the large demand and now relatively cheaper labour here, many manufacturing powerhouse have announced long term plans to set up larger, more sophisticated operations here in Indonesia. As such, following its 100% rise of wages in its China facilities, Foxconn (the world's largest electronic manufacturing services company) has announced plans to relocate some of its facilities to Indonesia. Nissan Auto is the latest one to plan to double production capacity in Indonesia from 50k units to 100k units by 2013. UNVR plans to double capacity by 2015. And the list goes on...

As such, if the macro back drop is such, then the case for Indonesia growing at 7% is very visible. The only missing part of the Indonesian GDP formula ($GDP = C + I + G + X - M$) is "G", our government, and her ability to untie jurisdiction dead knots to facilitate infrastructure developments and support this growth.

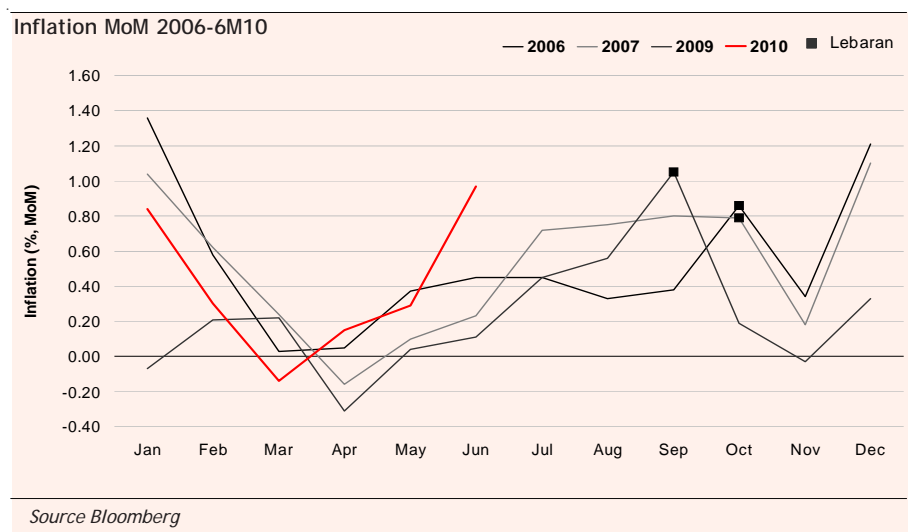
IN Protesting Fuel Hikes

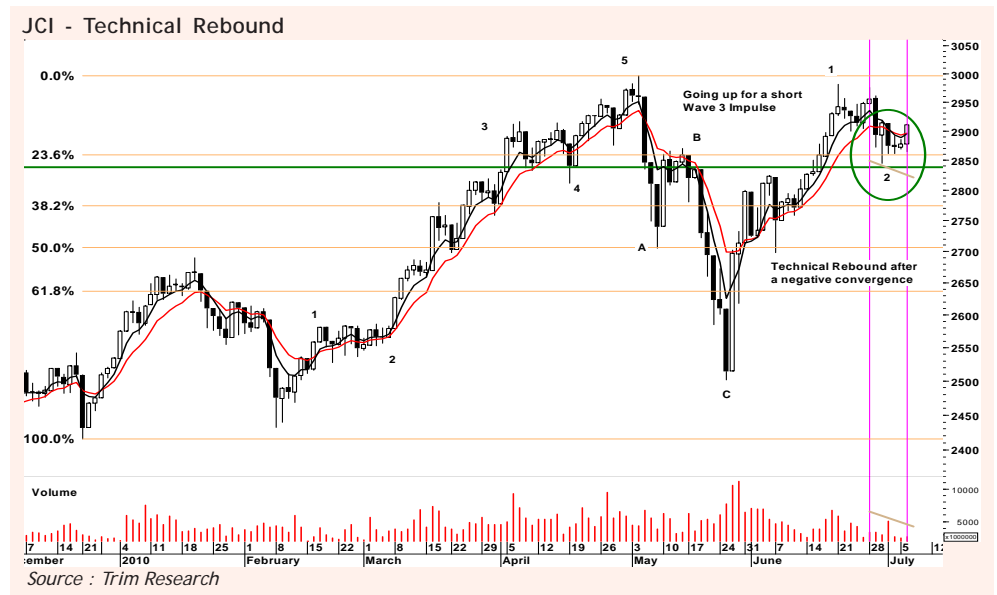
India announced to fully liberalize its gasoline and partially diesel prices to cut fuel subsidies / expenditures. The news was announced on 26th May and there were reports of riots and protests on the street early this week. The Indian markets continued to be under pressure on the move as markets anticipate higher inflation. As such, the Reserve Bank of India made an unscheduled announcement to increase reserve repo rates from 3.75% to 4.00% and repo rates from 5.25% to 5.50% in an attempt to curb inflation expectations.

ID Inflation Dilemma

The reason why the Indian move is of worthy mention is because of the parallel that Indonesia has with India. As such, Jun Inflation reading came in at 5.1% MoM, driven by volatile food. Core inflation only came in at 4.0% for the same period. The street has been speaking of Indonesia not meeting inflation target of 5.3% for 2010. As such, the ID government is also facing the same dilemma when comes to National Budgeting as fuel subsidies to near Rp100tr for 2010. As such, the ID government is acting fast to implement measures to target use of subsidized fuel more effectively; as such first of such announcements is that private cars above 2000cc will be prohibited from using subsidized fuel.

The second issue here is that with the upcoming "Lebaran" festive holidays in Sep'10, where inflation typically picks up. Government is working hard to coordinate the availability of goods and services during this period in the hope to curb inflation, so as to minimize the necessity to move on BI rate due to the still foggy global growth outlook. As such, the next 4 months will be the first test case for the new finance minister and his team at BI since their inauguration since May'10.





Market Strategy

ST Observed from the chart above, the JCI pullback to 2,860 on 30th Jun'10 may have completed our wave 2 corrective phase, retracing 23.6% of the May'10 - Jun'10 advance. Negative convergence between price and volume seems to support this view. Positive turn from the oversold slow stochastic reading also indicates the positive price action may follow suit, entering wave count no 3 with a minimum target of 3,115. This positive price action can be achieved as the index rides its newly formed uptrend channel, targeting our alternative ST technical view introduced in TRIM Macro Thoughts on 23rd June, CNY Tricks due to the formation of an "inverted head and shoulders pattern".

The next few days will be crucial for the JCI index, as failing to hold on to these short term gains will mean that our wave count no 2 is not completed yet, and hence continue to read 2850 as the next chart support.

LT Market liquidity and sentiment seems to have done somewhat better than expected over the two liquidity and sentiment test cases discussed above, and has catalyzed the short-term rise in assets over the past week. The big test for Indonesia is still its April high of 2996.

Nevertheless, the fundamental concerns from Europe and China still lingers and that JCI has lagged regional peers in this correction. ST volatility may persist as we await clarity from these issues. Fundamental reasons such as diminishing sovereign risk and resilient economic growth has justified such JCI Index out performance and will continue to do so into the future. Continue to buy on Weakness for LT investors.

Happy Investing

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