Trim Macro Thoughts

CNY Tricks

Summary:

- **US** Manufacturing and Housing Weakness
- **EU** Downgrades on Spain GDP & BNP
- **CN** CNY & Commodities
- **ID** First Signs of Capital Control
- **ID** Moody Upgrades
- **ID** Market Strategy

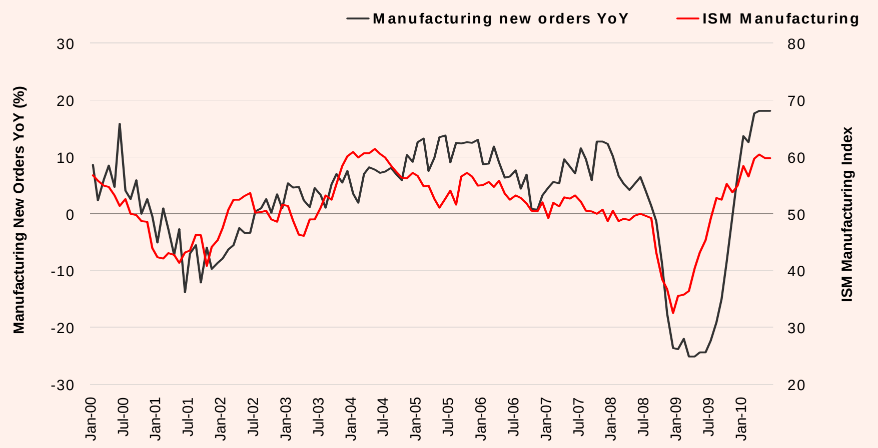
CNY has moved by 2Q10, as expected. The move should be viewed as a immediate term sentiment positive, but fundamentally negative as the move is actually part of the tightening policies intended by China at the bigger picture level. CNY appreciation is a long-term policy tool necessary to re-balance global growth and trade and is a LT fundamental positive.

Still buy on weakness for LT Indonesian Investors given our LT confidence in Indonesian Economy.

US Manufacturing and Housing Weakness

First signs of manufacturing weakness appeared in Philadelphia's FED Jun manufacturing reading, which came in at 8.0, way below expectations of 21.3 and last May reading of 21.4. What I will really keep an eye on for the manufacturing sector is ISM New Orders June reading expected to be released early July. The bet here is still for the sector to fail in terms of expectations and that market sentiment will turn as US is the last major economy, and manufacturing the last subsector to have proven resilience to the EU sovereign debt crisis so far.

US Manufacturing New Order YoY vs. ISM Manufacturing



Source Bloomberg

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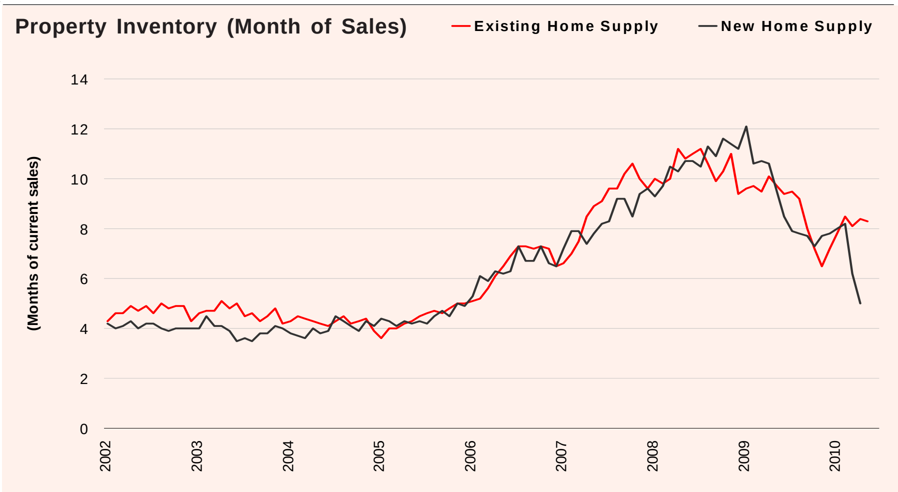
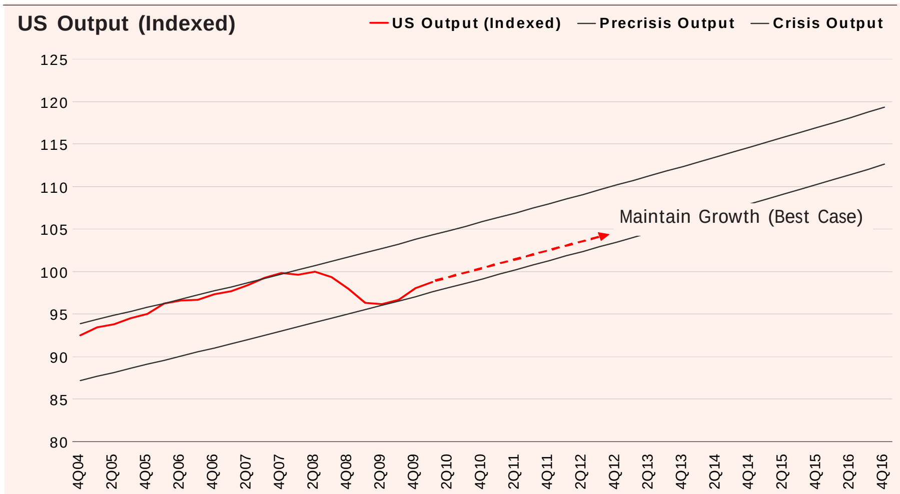
Worth mentioning, is the housing weakness that followed after tax breaks of USD8000 was removed in May, reflecting weak underlying real demand. As such, despite all sorts of tax breaks and support from both Freddy and Fannie since the crisis, home inventories are still at "abnormal" levels of 8 months of sales, relative to historical average of 4-6 months. Leading indicators such as mortgage applications are all down MoM. Why I like the property sector is because it is a very "heavy" sector of the economy. In a bull market, it is the last to run. In a bear market, it is the first to fall. Watching the property sector can be a good tell sign as to how things will pan out in the medium term.



Source Bloomberg

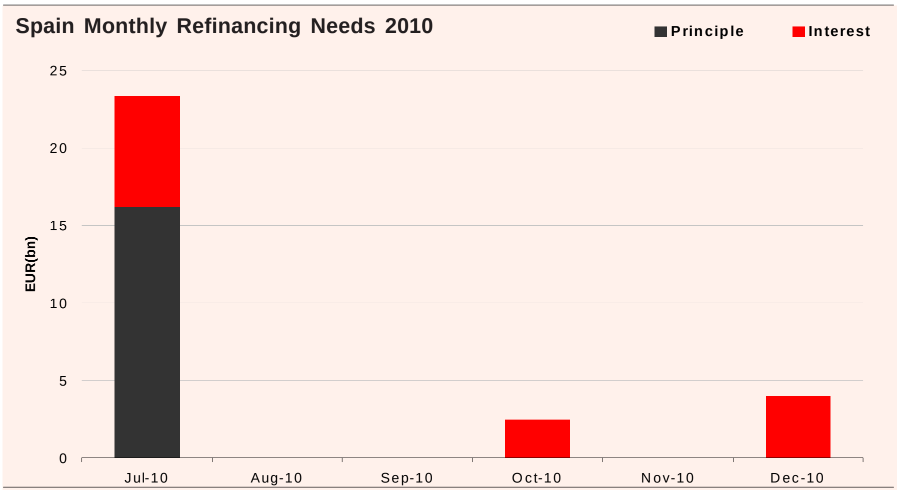
If real demand is, as expected, weak because US consumers are not re-leveraging because of a lack of visibility in terms of employment and earnings; then the argument case for US to slow from here becomes stronger by the day. Not going back into a negative QoQ growth will be a base-case view right now; and US being able to maintain growth at current levels despite no secondary stimulus package will be a best-case one from here.



Source Bloomberg

EU Downgrades on Spain GDP & BNP

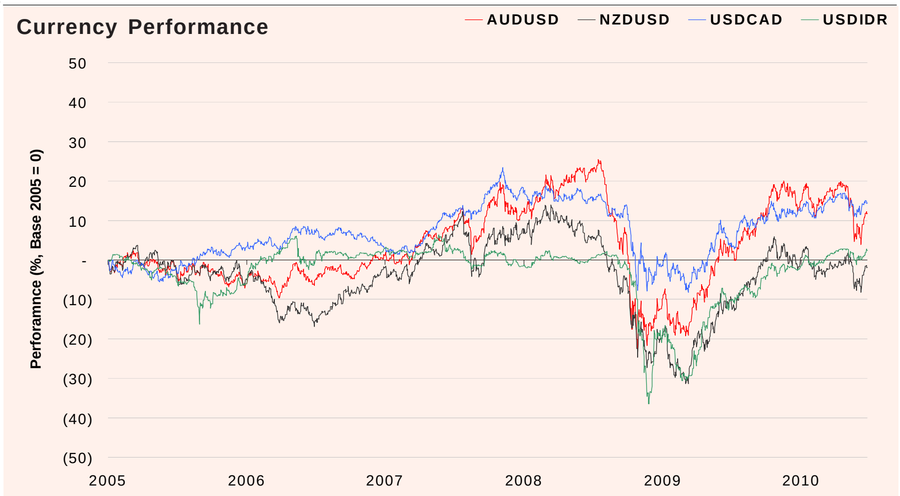
Market was happy that Spain managed to sell EUR4.3bn of 10yr Bonds at 4.9% early last week, a full 90bps higher than 20th May (3 - 4 weeks ago?). The key stress test for Euroland remains that in Jul'10, when Spain has to refinance EUR25bn of bonds. Keep in mind that S&P 500 has just downgraded Spain's average growth outlook through 2016 from 1.0% to 0.7%. The news has also led Moody's to downgrade BNP Paribas outlook on Tuesday night (21st Night). Mind you this downgrade was the news that killed the short-lived euphoria from CN's decision to move to a managed float announced during the weekend.



Source Bloomberg

CN CNY & Commodities

Perhaps the most exciting news is BOC's decision to move CNY into a managed float status from a peg reintroduced since the financial crisis started in 2008. First, demand for commodities from corporate China can potentially improve, because with a 2% - 3% stronger currency, raw materials will be are 2% - 3% cheaper. For those commodities exporter like Australia, New Zealand, Canada and Indonesia, this is potentially refreshing news in the midst of deteriorating macro. As such, AUDUSD revisits their high levels of above 0.8859 recently, after crashing to as low as 0.8067 from a recent high of 0.9389 in recent months.



Source Bloomberg

ID First Signs of Capital Control

While CN is moving to open its doors with regards to their managed-floating currency, our own seems to be moving in a different direction. Mid last week, news of Bank Indonesia announced several policies regarding foreign ownership in SBI (Sertifikat Bank Indonesia) and is detailed as follows.

Policy	Now	Then	Implementation
Ownership of SBI (minimal duration)	1month	Not regulated	7th July 2010
SBI duration	1,3,6,9,12	1,3,6 Months	Aug - Sept 2010 Months
Interbank Call Money	± 100bps	± 50bps	17th Jun 2010
Bank Max Ownership (Reference to Balance Sheet)	Max 20% of BS Max 20% of Equity	Max 20% of BS	1st Jul 2010
Term Deposit Rupiah	30 days	14days	7th July 2010
SBN Tri-party Repo	Allowed	Not Allowed	2011

Source: Bisnis Indonesia, TRIM Research

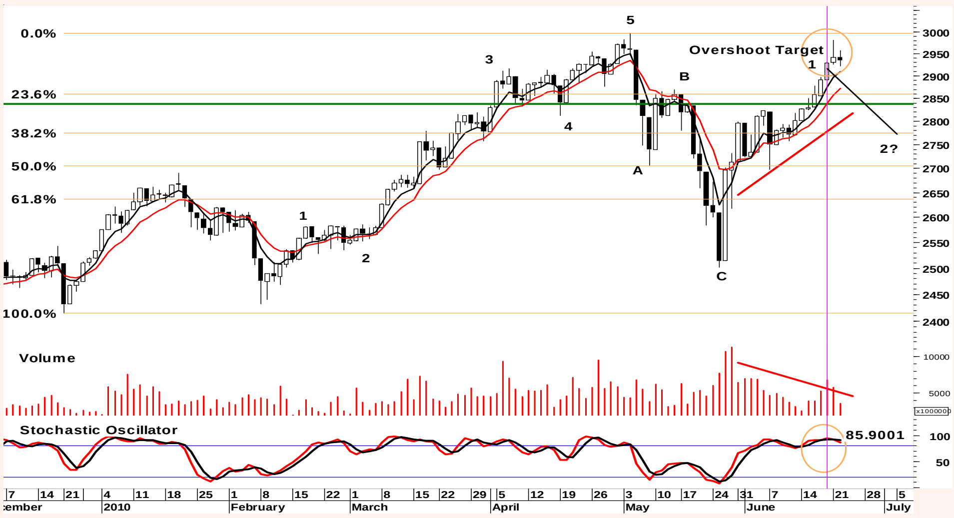
ID Moody Upgrades

What is more proud and fun to boast about in our country's Rating Upgrade by Moody from Ba2 (Stable) to Ba2 (Positive), right in the midst when everyone is downgrading everybody else? The news reinforces my personal view of the under-appreciation of the Indonesian economy. This 60% consumer driven economy will grow at a base case rate of 4.5%. With a little help from stable macro, commodities exports, 6.0% should be attainable. If Government reforms continues and that public (Infrastructure) and private (FDI, DDI) sector investment can kick off, plus multiplier from employment and so on, attaining 7.0% GDP growth and Investment grade status from these rating agencies should not be a problem. Our low debt to GDP levels will be able to fund this economic re-flation, at least for the next 5-7 years.

Market Strategy

ST JCI has overshot our ST technical target of 2851.8 and is now trading at 2996.4, carried by positive regional / global bourse. We maintain the view that we should be completing this upward first wave move and should enter the corrective 2nd wave in the next few days.

Base Case Technical View



Source : Trim Research

There has been an alternative view proposed amongst market players right now that JCI index has formed an inverted head and shoulders pattern, which potentially can carry the Index to breach Fibonacci ratio of 123.6% at 3115.8. We disagree with the view, as the current relief rally has occurred with declining volume. A "dead cross" has also been formed in the fast moving oscillator, indicating that 2880.5 should be the intermediate peak for JCI.

Alternative Case Technical View

Source : Trim Research

We strongly recommend traders to de-cumulate positions from here on, and await wave 2 corrective target at 38.2% Fibonacci level at around 2750 - 2800.

LT The macro development in US is not encouraging. EU is definitely slowing down. CNY appreciation should be viewed as a immediate term sentiment positive, but fundamentally negative as the move is actually part of the tightening policies intended by China at the bigger picture level. CNY appreciation is a long-term policy tool necessary to re-balance global growth and trade and is a LT fundamental positive.

These recent macro developments still do not change our LT fundamental outlook on Indonesia, given our economic structure and health that will continue to produce a resilient and consistent GDP growth based lined at 4.5%. Buy on Weakness for long term Indonesian Investor.

Happy Investing

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