

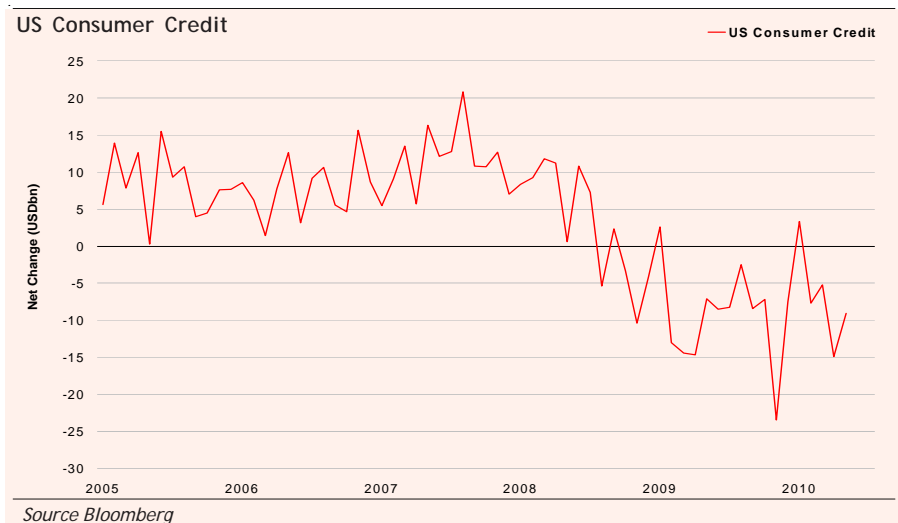
Summary:

- ❑ **US** Strong Retail Sales & 2Q10 Earnings
- ❑ **EU** Banking Stress Test
- ❑ **CN** Property Sector & Market
- ❑ **ID** Less Poor, More Consumption
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Market has rallied in the past week driven by news of good US retail sales. European concerns seem to have eased too. Solid start for 2Q10 corporate earnings may continue to lift market sentiment. However, leading indicators showed signs of peaking in Jun'10; giving 3Q10 & 4Q10 data more meaning than 2Q10 data for future projections. Continue to expect volatility going into 2H10 and buy Indonesian assets on weakness.

US Strong Retail Sales & 2Q10 Earnings

A retail trade group reported that sales grew at the fastest pace since 2006, and may average 4% for 5M10. The news sent indices up late last week. The key data point that I follow such as advanced retail sales (to be released today) and consumer credit are still showing signs of weakness. As such, Bloomberg surveys show that advanced retail sales is still expected to contract in Jun at -0.1%, though from an improved last reading of -1.1% in May. Apr'10 Consumer credit was also revised down from +USD1.0bn to -USD14.9bn. May'10 consumer credit contracted -USD9.1bn, much lower than the -USD2.3bn that the street is looking for.



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Markets rallied further yesterday on 2Q10 results from Alcoa and Intel. As such, Alcoa is predicting 12% growth in demand volume in 2010, vs. 10% initially expected. Alcoa also reported 13 cents/shr of earnings vs. the street's 11cents/shr. Intel and BMW also reported better than expected earnings; however reading in between the lines will reveal that the earnings growth are very much Asian and margins driven.

I am cautious about markets getting excited over such results. Asian demand is not the same as global demand. The developed west still accounts for more than 55% of the Global GDP. As such, INTEL derives 2x more revenue from Asia Pac region than US or EU combined. Sales from US & EU combined has been flat over the last 5 years while that from Asia Pac has increased by more than 40% during the same period.

USDbn	2006	2007	2008	2009	*FY10	1Q10	2Q10	QoQ (%)
Asia Pac	21.3	23.4	12.0	22.7	28.6	7.0	7.3	4.4
America	7.5	7.7	7.4	7.1	8.2	1.9	2.2	14.0
Europe	6.6	7.3	7.1	5.3	5.4	1.4	1.3	-7.8
Total	35.4	38.3	26.6	35.1	42.1	10.3	10.8	
% to total								
Asia Pac	60.2%	60.9%	45.2%	64.7%	67.8%	67.9%	67.8%	
America	21.2%	20.1%	28.0%	20.3%	19.4%	18.5%	20.2%	
Europe	18.6%	18.9%	26.8%	15.0%	12.8%	13.6%	12.0%	

**FY10 are annualised 1H10 numbers*
Source: Bloomberg

As such, financial results and corporate behavior of companies who earn all their money in domestic EU and US that is worth watching, if we want to get a better gauge of how 55% of the world economy is fairing. The reason why corporate earnings is important is because it will be a good leading indicator to how much companies will start to hire, raise wages and invest so that the economic multiplier can work as per normal and that recovery can be sustained. At this point, the risk is still for a disappointment.

EU Banking Stress Test

The next key event to watch in July after the World Cup is the markets response on 23rd July when European Officials release their banking system stress test results. I am not too well versed in this field, but what I want to know from the banking stress test is how credible their findings will be.

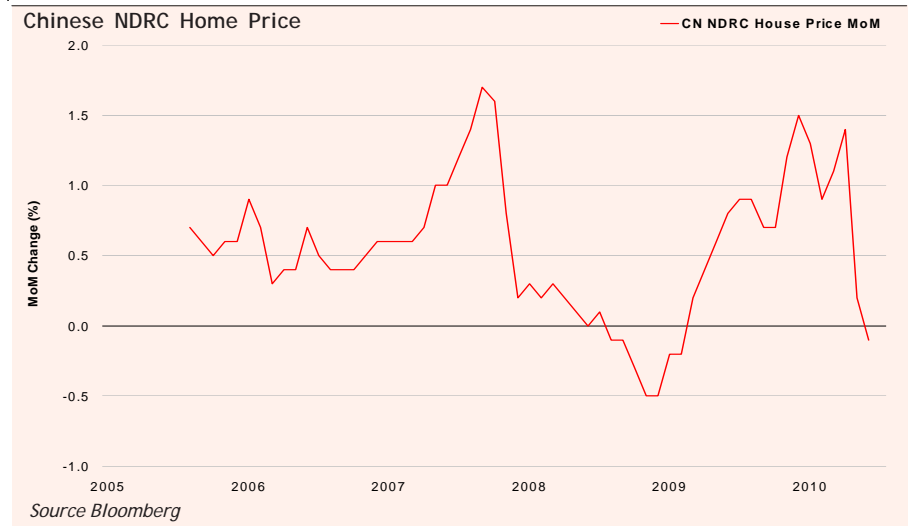
So the few things I will be paying attention with regard to the bank's operations after the European diet programme is implemented will be (1) how severe are their assumptions? GDP, unemployment, wage cuts (especially civil servants) which results in how much of NPL, bank asset deterioration, etc.

On top of that, the next questions will be with regard to the banking system capital structure. As ratings agencies cut country's debt ratings, how it will impact bank's risk adjusted capital adequacy ratios. For PIIGS countries, what is the worse case scenario assumption they use? How much and when default or haircut is assumed?

And at the end of it all, how much is the capital needed to be raised to re-capitalize these EU banks? From where these EU banks are going to raise these funds? US had the TARP in place to back US banks if they needed more capital when they conducted their own stress test back in early 2009.

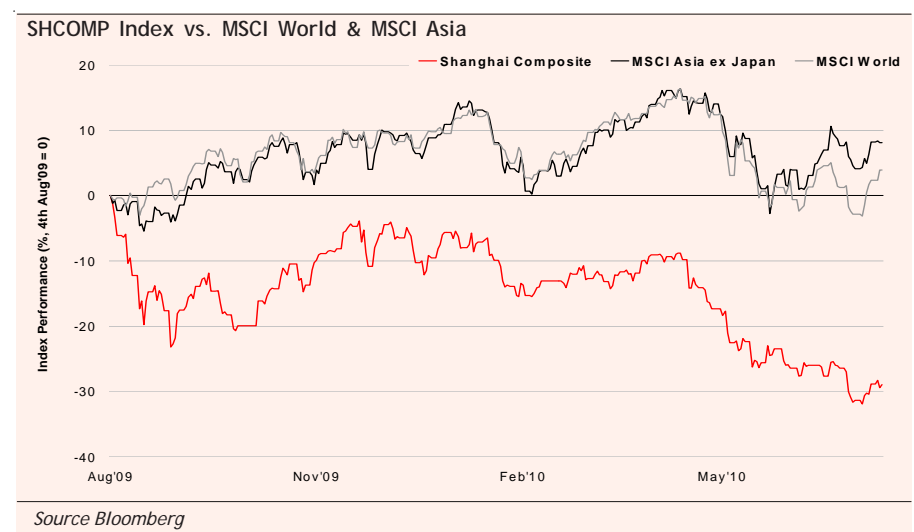
CN Property Sector & Market

Finally the first sign of Chinese housing price weakness has come. As such Chinese NDRC house price index fell -0.1% MoM, the first MoM decline since the Chinese government started clamping down on its property "bubble" since 3Q09. As such, house prices rose "only" 11.4% YoY in Jun, vs. that of 12.4% in May and 12.8% in Apr.



This is good news in a sense that this will give government 'excuse' to stop tightening and wait for data for the next month or two before deciding to further tighten to bring prices down further. As such, the street talk is that Chinese government will only stop tightening when house prices have declined at least 15% to 20% from recent peaks. As such, besides raising mortgage rates and increasing home supplies, the "killer" policy of imposing property tax has yet been implemented. Reports from Bloomberg seem to suggest that leaders will not hesitate to push this button if things don't improve soon.

There is an impatient feeling lately to want to start making a bet on the Shanghai Composite Index. The 32% relative underperformance relative to MSCI World and 37% to MSCI Asia since its peak in 4th Aug'09 has seems to suggest that a lot has been priced in. The fact that stock market typically moves on average six months before fundamentals do, adds on to this pressure. The reason why this bet is important is still the view that Asian bourses will still remain directionless, at least some clarity or visibility is out with regards to the end of Chinese tightening policies.



ID Less Poor, More Consumption

Statistics Indonesia (BPS) announced that ID poverty rates as of Mar'10 has declined further YoY. As such, total poor in the country declined from 32.5mn (14% of population) to 31.0mn (13% of population). The 1.50mn decline is contributed from reduction of 690k poor in the rural areas and another 810k poor in the urban areas.

Indonesia's Poor					
(mn people)			% Make Up		
As of	Mar'09	Mar'10	Decrease	Mar'09	Mar'10
Urban	11.910	11.100	0.810	36.6	35.8
Rural	20.620	19.930	0.690	63.4	64.2
Total	32.530	31.030	1.500	100.0	100.0

Source: Bloomberg

Macro improvement is not only limited to consumption amongst the lower income group. Nielsen Indonesia in its report reported that private consumption for fast moving goods grew 9.0% YoY to Rp44tr during 5M10; and expects the figure to climb further to Rp115tr by the end of the year. This is 10% YoY growth from last year. Premium car sales also grew 41% YoY during 1H10.

The above news further reflect my Indonesian investment thesis where its 4.5% minimum growth assumption can be buffered by a strong domestic demand driven by improving employment and wage conditions at the mass-market level and credit-driven cyclical sub-sector. With low GDP per capita, low consumer leverage and improving growth outlook, risks to this thesis remain low, at least for the foreseeable future.

ID Land Clearing Investment

The Indonesian Investment story gained further traction this week, with Taiwan committing to invest in labor-intensive sectors into Indonesia. Textile, footwear, electronics, F&B and aquaculture are those highlighted.

Public Sector Investment (Infrastructure) also gained some traction this week, as parliament made a public committed to review land acquisition law with regards to public use. The Indonesia Toll Road Association will be deeply involved in this revision, as it will be the sub-sector that has the fastest potential gain most from an update in the law. Currently there are 24 toll roads totaling no less than 950km that is under review in this programme.

Currently, project owners have to give landowners 120 days before taking the negotiation to court. Project owners also have to clear at least 75% of its land requirements before government steps in to help negotiate the remaining disputed 25%. Regulators are currently trying to shorten the time and lower the percentage level for government intervention (to 51%) to speed up land clearing process.

This development is worth keeping watch because as mentioned before, the biggest hurdle to the Indonesian infrastructure story, which is essential to take us beyond 6.0% growth, has been and still is the government's ability to coordinate its execution. Entitlement to land ownership amongst all is the most problematic legal hurdle to cross; and that land is needed to build any form of infrastructure; from toll roads, train tracks to ports and even electrical, water and sewage pipes.

Market Strategy



ST Positive convergence between JCI and its MACD reading, as highlighted in the chart above, is still expected to sustain JCI rally since 2,850, breaking its 2,996 4th May 2010 high, to test its new resistances at 3,050 - 3,100. Nevertheless, despite possible strong market action, we urge market participants to take profit and capital out of the betting table, as Stochastic Indicator is already entering overbought area.

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Happy Investing

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