

Trim Macro Thoughts

July Count Down

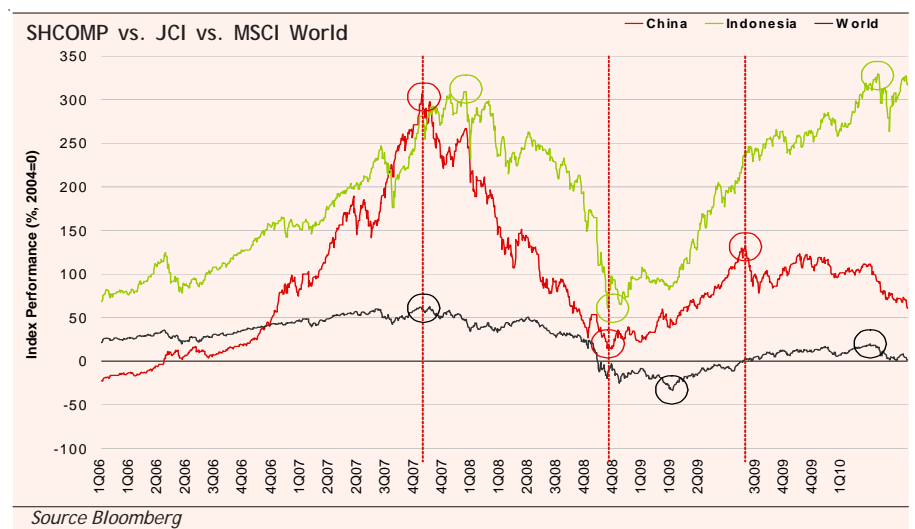
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Recent economic data has confirmed our earlier Western "L" & Asian "V" recovery track path. Global growth sustainability is the big "Next", given the EU fiscal diet programme and CN deliberate intentions to slow its property sector. The investment thesis for Indonesia remains strong and direct fundamental impact will be minimal. Liquidity and sentiment factors, however, can be negative for Indonesian assets in the intermediate term.

July Count Down

The first time I had a personal count down was in Mar'09; at that time regional markets are still forming new lows due to the uncertainty in results from the policy responses implemented in view of 2008 Financial crisis. I could still remember that China and Indonesia already bottomed out 6 months ahead this period. The bulls already observed a capitulation in the markets. Oil and copper were obvious in this regard. The bears are still waiting for S&P 500 to reach... well... 500, another 20% to go for the bears. S&P 500 bottomed out at 666 on the 6th Mar'09 (06/03/09). Nice number eh?



The second count down is this Jul'10, exactly tomorrow. China has led the regional indices and peaked out at 3478 on 04/08/09. Almost ten months later, today, it is still trading 30% below that peak, well forming a downtrend. Regional Indices are recovering from the recent April / May Greek correction. The bulls say the June rally will form a new high, and continue the big uptrend. The bears say the June rally will not form a higher high, and that we will end our uptrend established since Mar'09, and officially enter a period of "technical correction".

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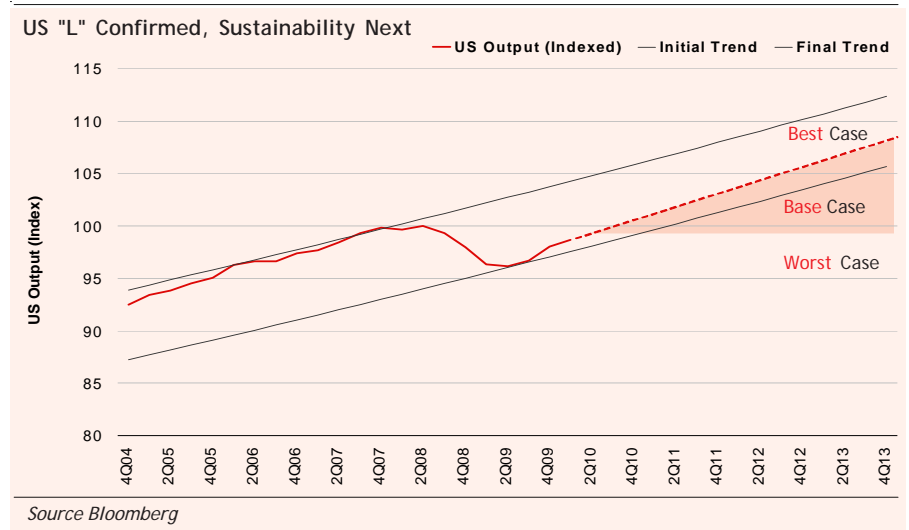
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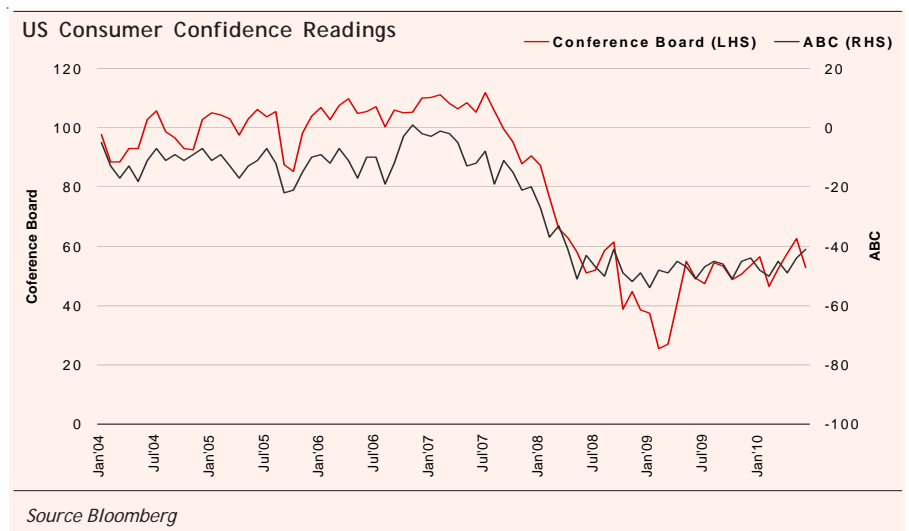
US 1Q10 GDP Revised Down.

With the last US 1Q10 GDP revision from 3.6% in Apr'10 to 3.0% in May'10 and now finally revised to 2.7% in Jun'10, the US recovery outcome is confirmed as that of "L". Output is structurally lost due to broken property, banking and consumer sectors; and these in my opinion has not been convincingly fixed yet. Housing inventories are still at abnormal levels, and prices are peaking. Western banks have deleveraged, but are still "sick" compared to healthy Asian peers.



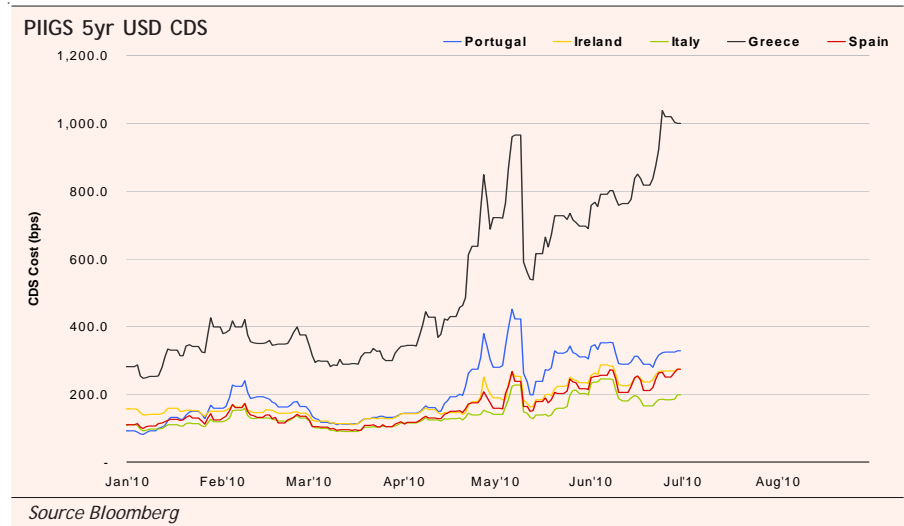
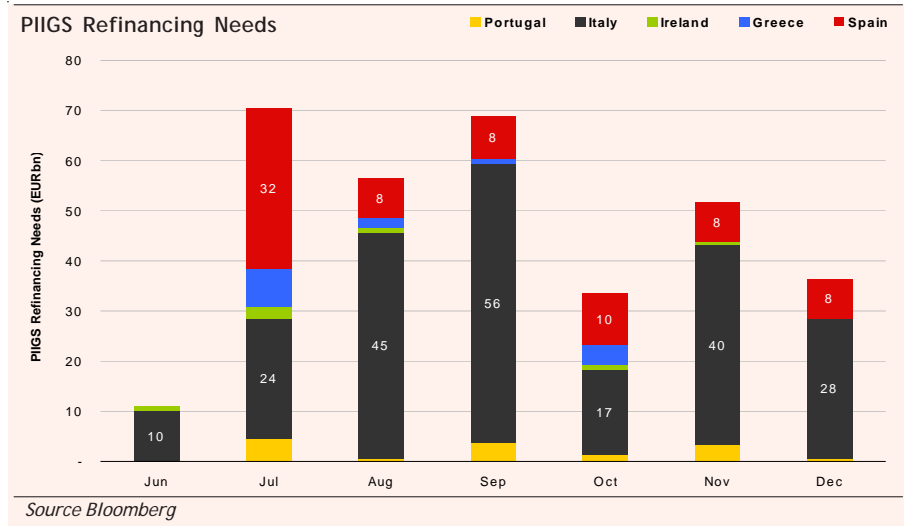
US Consumers Confidence Falls on Jobs

The Conference Board US confidence indexed slumped to 52.9 in Jun, much lower than from 63.3 in May and 62.5 expected reading. The lower confidence is due to a lack of visibility in jobs and earnings growth, as well as concerns over global growth due to events developing from Europe and China. The survey exactly reflects my thoughts on US consumers who is a huge contributor to US and global growth prior to this crisis. This is a huge gap to fill. As such, the key here is to see US consumers re-leverage in the next six months to off set the GDP decline from EU and CN. The bet here is still not for this to happen because jobs and income growth, as reported by this survey, is still not recovering normally. Also note that the recent adds in jobs is distorted by Census hiring to conduct the US census survey done every ten years.



EU July Liquidity Test Case 1

There are 2 liquidity & sentiment test cases coming up in July & 3Q10. First is Spain's need to refinance EUR30bn of its debt in Jul'10. On top of that, total refinancing needs from PIIGS will be about Rp196bn in 3Q10. As discussed before, PIIGS CDS will be an important leading indicator to observe. As such, 5yr USD CDS for all PIIGS members has rose in the back of a volatile week.



CN July Liquidity Test Case 2

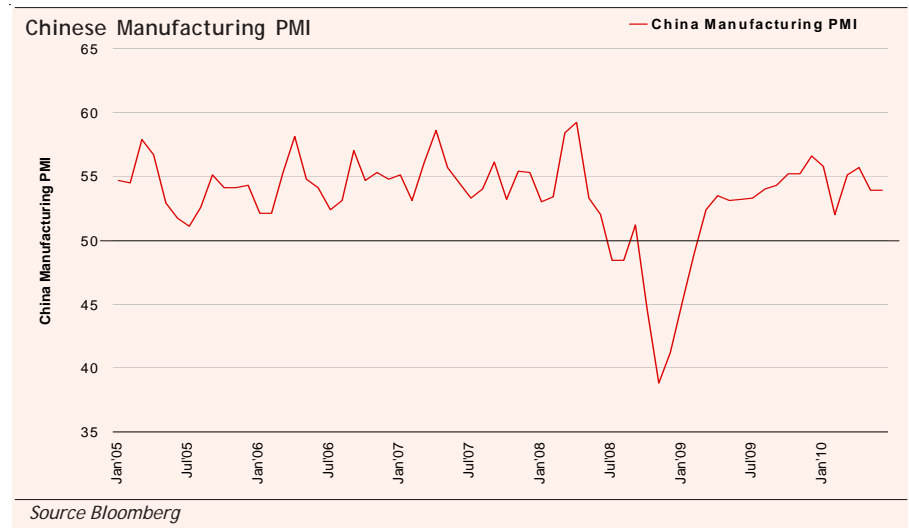
Second is China's Bank of Agriculture's IPO. As such, officials did guide that the target IPO proceeds to be USD30bn about 2-3 weeks ago. People familiar with the project reported that this number has shrunk to about USD20bn in IPO proceeds expectations. The most bearish report expects only about USD11bn. This will be a good gauge for appetite in Chinese banking stocks, as Bank Agriculture has the lowest total risk-weighted Capital Adequacy Ratio amongst other large HK listed peers.

Major HK Listed Chinese Banks	Mkt Cap (HKDbn)	As of 30 Jun'10		As of 4Q09
		2010 Bloomberg Consensus P/E (x)	P/BV(x)	CAR (%)
ICBC	1,648	10.7	2.2	12.36
Bank of China	1,000	9.1	1.5	11.14
Bank of Communications	425	10.1	1.9	12
China Construction Bank	1,471	9.9	2.1	11.7
China Merchant Bank	338	14.0	2.7	10.45
Agricultural Bank of China	--	--	--	10.07

Source: Bloomberg, Pricewaterhousecoopers, Wall Street Journal

CN Watch Chinese PMI on 1st Jul (Tomorrow)

With regard to the Chinese tightening policy, Conference Board released a market wrecking news last night, saying that there was an error in compiling expected floor area to be constructed and hence has led to a revision of its Apr Chinese Economic Leading Indicator Index released on 15th June from 1.7% to 0.3%. The news sent Chinese Index to tumble 4.3%. S&P500 and ESTX 50 were down 3.1% and 4.2% respectively the same trading day.



I am more interested in the sell off. 3% - 4% of selling is not common in the last few months. Why? I believe tomorrow's Chinese PMI numbers will give a good reading as to how much Chinese has slowed. What will be more of interest to me is how markets will react to this number tomorrow.

ID KEN Starts Work

Written on 29th July, Bisnis Indonesia, (Komite Ekonomi Nasional) KEN Chief Chairul Tandjung said that Rp100tr energy subsidy bill is the biggest and easiest target for the National Budget to work on, so that these funds can be channeled to funding infrastructure projects. The second part of this issue is to collaborate with the funding institutions to facilitate project funding. As such, it is already confirmed that private passenger cars with >2000cc engine will not be allowed to use subsidized fuel starting late 2010 / early 2011.

The view here is that the move is fundamentally LT good news. However, the core issue with infrastructure projects in Indonesia has never been funding. It is *legal certainty* and *land clearing* issues that has been the biggest obstacles to inviting investments into the sector. If these issues are not resolved, then there is no point in working on the funding part of these projects.

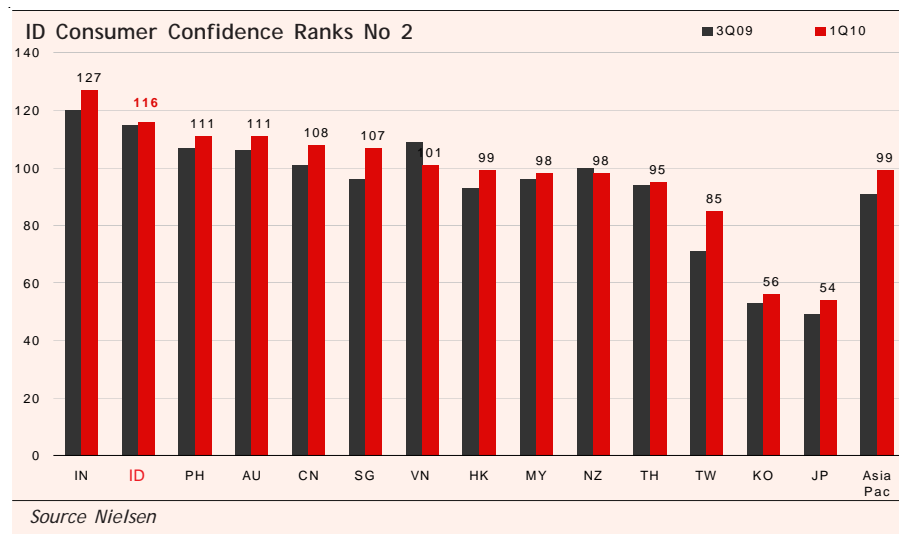
The risk here is that subsidies act as an indirect stimulant to the economy. People spend less on fuel, so they can use the extra cash on other goods and services. If too much subsidies are removed while the government re-injection into the economy through these infrastructure projects do not materialize, then a net negative may occur on Indonesian demand as a whole.

This risk is small, however, the execution risk in this regard is worth watching; because if successful, a transfer from subsidies to infrastructure spending will produce a larger multiplier effect on the economy.

ID Consumer Confidence Ranks No 2 in Asia Pac

I was quite excited with the Nielsen survey reported today. As such, Indonesian Consumers ranked number 2 in the Asia Pac region, only after India, amongst 14 other countries in the list. The base case assumption of 4.5% for Indonesia GDP growth is one that is purely consumption driven. The 250mn army of consumers grows at 1.3% a year. Unemployment rate has steadily declined even during 2008 financial crisis. Minimum wage has out-grown inflation rates quite steadily during this period.

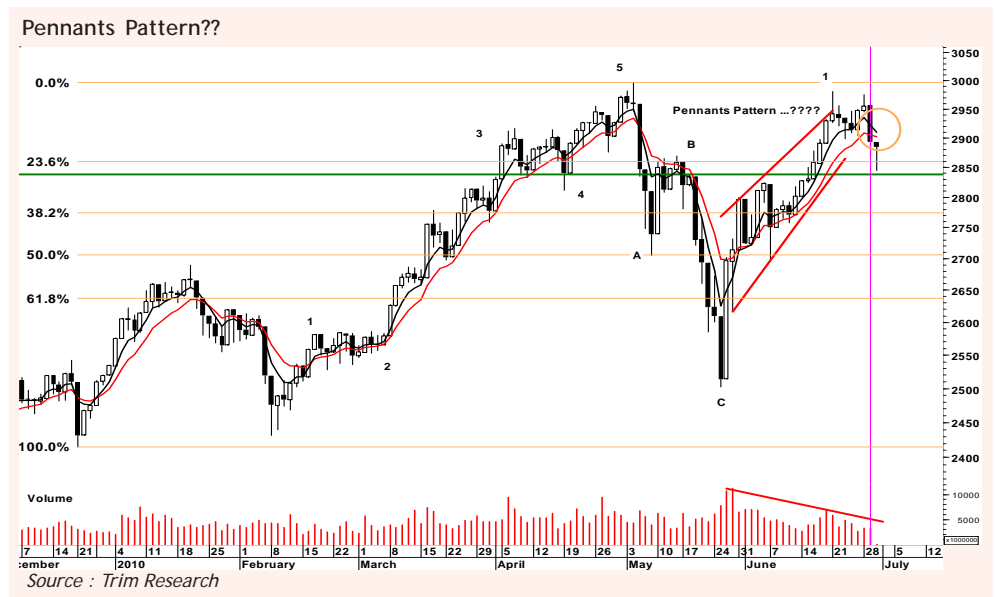
As such, if this is the macro backdrop, the case to invest in Indonesia long term remains as strong, since the global macro investment theme seem to remains where the west cannot drive global growth and Asian domestic demand will be need to do it. Indonesia consumers will be in the lime light for a while to come.



Market Strategy

ST We continue to maintain our view that JCI should start its 2nd wave correction, targeting Fibonacci ratio level 38.2% at around 2,750 - 2,800. As reflected in the chart below the fast moving oscillator has been trending down along, with trading volume that continue to decline, entering a negative territory. JCI performance over the last two weeks was also not exciting, netting -1,2% over the period.





We also see indications of a *pennants formation* - convergence of two trend lines forming a steep price uptrend coupled with downward volume trend throughout this formation. Since "volume precedes price", this *pennants formation* also supports our view that JCI is heading downward to its 2nd wave correction target of 2,750 - 2,800.

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July & 3Q10 liquidity test cases should result in short term negative news flows and market volatility over the next few months. This should be a good entry point for long term Indonesia Investors. Continue to Buy on Weakness.

Happy Investing

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