TRIMEGAH SECURITIES

July 21, 2010

Trim Macro Thoughts

Confused Confidence

Summary:

- US Confused Confidence
- US 2Q10 Earnings Not Exciting
- EU Bank Stress Test Leaks
- CN Reliable Supporter
- ID Inflation Worries

Economic data in the past week is disappointing; 2Q10 regional earnings have been unexciting and not of the quality we are looking for. EU banking stress test to be released on 23rd July will be the ST regional focus. Macro risks still seem ample. ID food inflation, interest rates response from MoF and how the government can coordinate to pull off inflationary pressures in late 3Q09 (fasting period/Ramadhan) will be the MT domestic focus. Continue expect macro to drive market volatility and create opportunity to buy Indonesia on weakness sometimes in 2H10.

US Confused Confidence

US economic data has disappointed in many fronts this week. For a starter, weak consumer confidence numbers drove markets down 3.0% on Friday night. Weekly employment and US housing numbers released during the past week also disappointed expectations.

US Jun Data	Actual	Consensus	Last
Manufacturing			
Empire Manufacturing	5.1	18.0	19.6
Philadelphia Fed	5.1	10.0	8.0
Consumers			
U. of Michigan Consumer Confidence	66.5	74	76
Initial Jobless Claims	429k	445k	458k
Housing			
NABH Housing Index	14	16	17
Housing Starts	549k	577k	593k

Source: Bloomberg

I would like to bring our attention to a diagram I have prepared for my 1Q10 TRIM Strategy Report, where I sort of summarize the flow of events that is required to sustain an economic expansion. Increased demand (from stimulus during recession) should lead to production activities, which should spill, into improved employment factors such as higher wages, unemployment rates. The consumer and private sector capital expenditure should then take over (demand created from stimulus) and continue the economic cycle.

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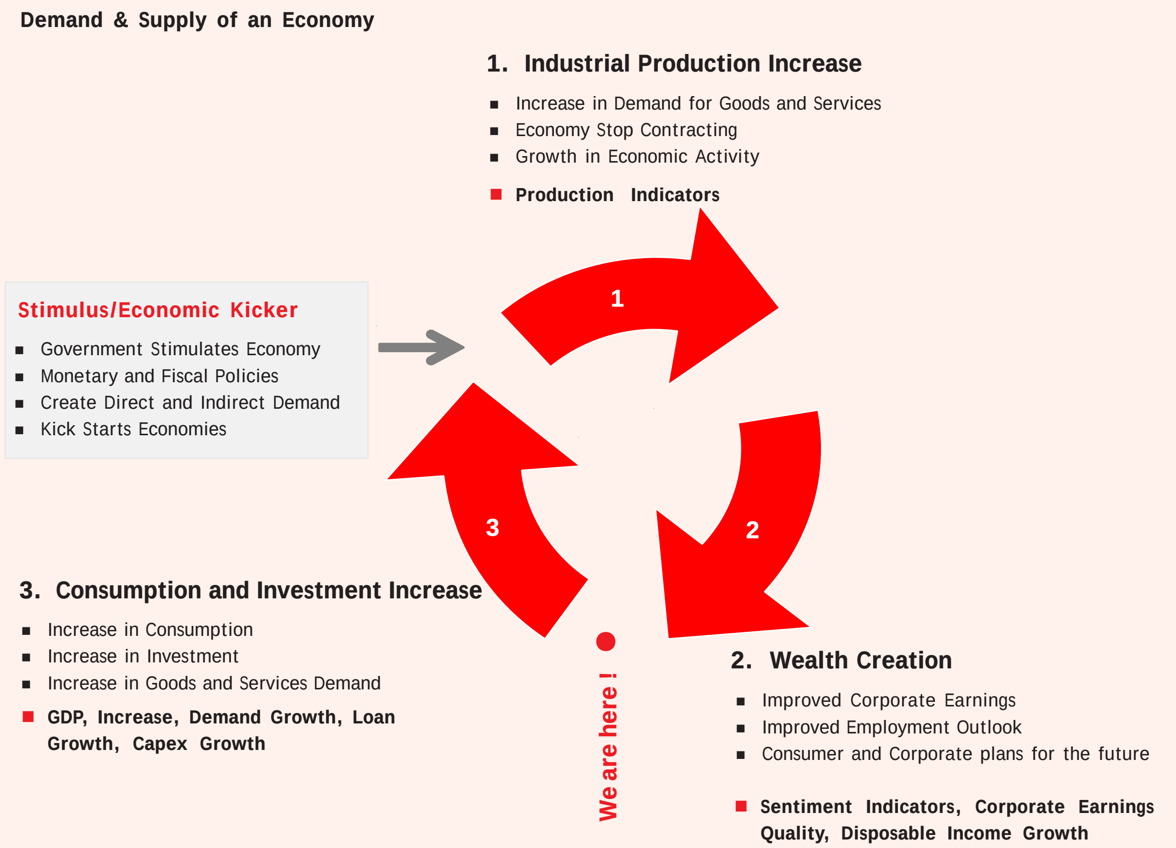
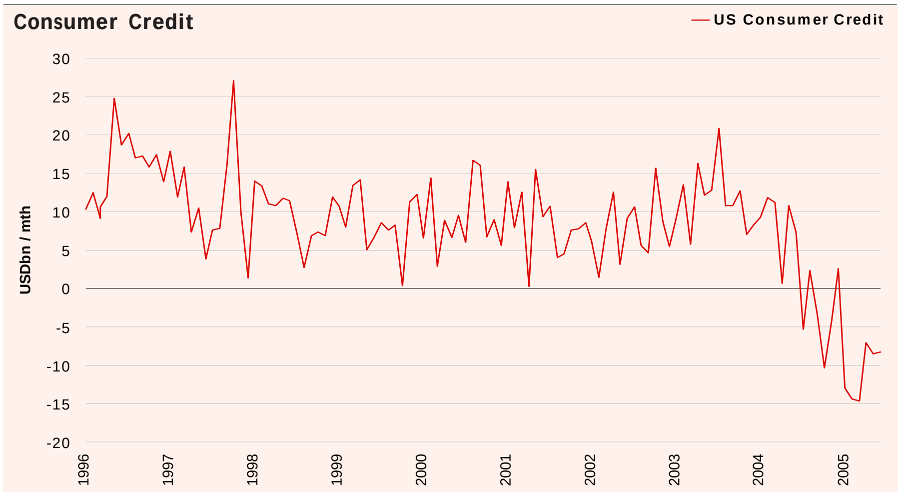


Source : Trim Research

The reason why consumer confidence numbers and unemployment numbers are of great importance right now, is because the government has stimulated, and production indicators (ISM manufacturing and services) has improved since the crisis. Private sector capital expenditure in selected sector such as IT has also picked up. The only factors lagging in this economic diagram are the consumers. I have in fact been waiting for consumer factors to show signs of bottoming since 1Q10, and have yet to be confident that US consumers will be coming back in a convincing way. As such indicators such as consumer credit should be next to pick up to double confirm the continuity of consumption trends.



Source Bloomberg

The risk here is that Jun data seem to suggest that production indicators (ISM manufacturing and services) are peaking. The significant drop in consumer confidence adds to the risk that this supply-demand wealth transmission of the US economy may break down. What is also worrying is that US CPI may be establishing a trend towards a sustained negative reading. The Japanese style deflationary end game for US seems to be a real threat at this point.

US 2Q10 Earnings Not Exciting

Just to tie in 2Q10 earnings so far. The view here is that the feel from earnings released since mid July has been somewhat less exciting than previous quarters. There are more that underperformed expectations, albeit much higher ones since recovery during the crisis. Consumption focused companies such as Yum! Food and Johson&Johnson are worried about earnings outlook due to limited improvement in unemployment trends and hence spending habits. Banks are also under pressure, with BoA, Citi, and Goldman reporting disappointing top line. IBM, These are signs that the demand side of the economy is not exciting. Corporate America may lose confidence and limit employment and wage growth going forward.

Profit margins are good, but warrant concern because this means that corporate are holding on to the dollar they earned and are not spending. That means they do not see potential and that is why they are still in cost cutting mode or not aggressively grabbing market share. Either way supports the thesis that I am proposing above.

EU Bank Stress Test Leaks

Just a reminder, this stress test results will be released on 23 July, this coming Friday.

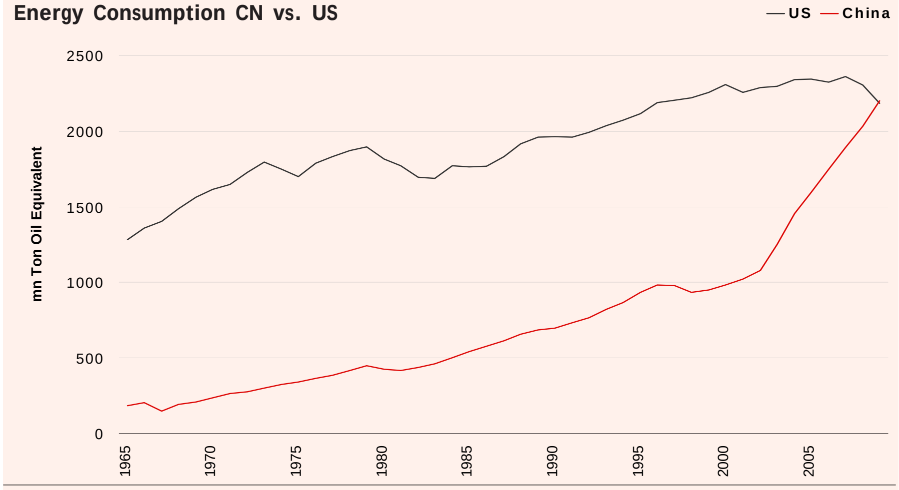
There were some leaks from Bloomberg and CNBC last night regarding the European Stress Test. The leak says that the test aims to find out the amount of bank losses based on three scenarios; (1) a benchmark set for 2011, (2) an adverse scenario and (3) a sovereign debt crisis. It is highlighted that in scenario (3), banks does not assume that a European entity will default, but instead assume rising government bond yields will spur defaults in the private sector. The banks are also required to submit the amount of capital required to maintain a minimum of Tier 1 capital of 6%, which defines a healthy bank.

The other leak with regards to this news is that Hypo Real Estate Holding AG, a Munich based commercial property lender bailed out by the German government during the last financial crisis may be the only German institution (out of 14) to fail the bank stress test. The good news is that the German government has already taken this bank into conservatorship. Hypo Real Estate Holding AG has EUR360bn of assets, of which EUR72bn are in debt of Greece, Italy and Spain, the highest amongst European banks.

Details are still sketchy. My take on the leak is that scenario (3) seems to suggest that EU will support its members all the way to prevent a default. Because not assuming a hair cut for some sovereign debt (such as Greece) is somewhat being too confident. Creditability of this stress test should be put in question.

CN Reliable Supporter

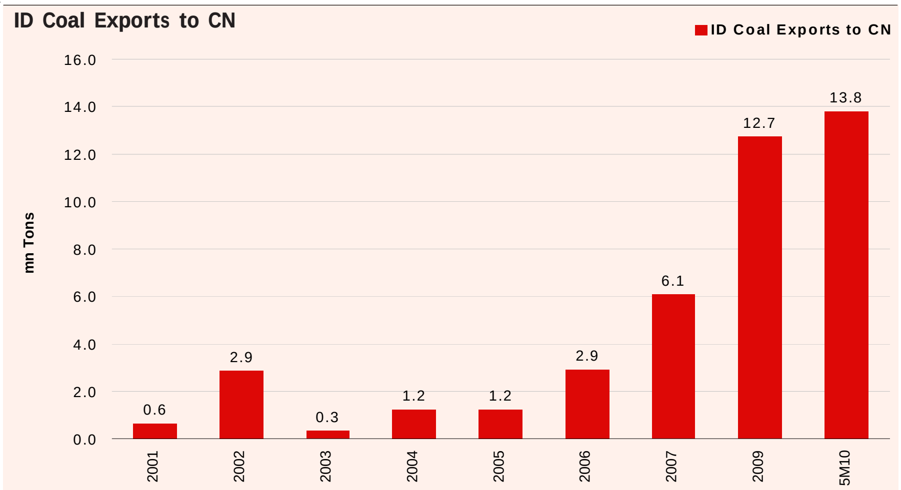
If the picture is so bleak in the West, then the good news is that that is not the case in Asia. CN announced slower than expected 2Q10 GDP growth at 10.3% vs. 10.5% expected and 11.9% last reading. Going into 2H10, expect growth to slow further. I would think 9.0% would be the magic number to note for this one. The truth is that I feel a slower than expected GDP growth reading may be good news in the context of China and its underperformed Index since its government is in deliberate tightening mode. As such, Shanghai Composite Index strengthen 2,3% WoW since the data was released. Banks and property counters also did well. The development will be exciting if this trend continues as it will be a sign that policy risk for the Chinese property sector is over and that Shanghai can rerate quite steadily ahead from here. This reversal in sentiment in the Chinese market driven by banks and properties will remove one of the biggest drags on the regional markets and can come in time to negate any potential negative shocks that may emerge from the West.



Source: CEIC Data

The other message to take from this GDP reading is that China is still growing at a really fast rate. At 10% real growth rate, China is doubling in size every 7.5 years. As such, according to a report by International Energy Agency (IEA), China officially took over US as the largest energy consumer in the world, consuming 2.35mn TOE (ton of oil equivalent) of energy in 2009, 4.0% higher than that is US at 2.25mn TOE. Ten years ago, China consumed only half of what US consumed. Energy needs for a developing powerhouse like China is enormous.

As such, coal exports from Indonesia also rose from 0.6mn tons in 2001 to 13.8mn tons during 5M10 and 12.7mn tons in 2009. Indonesia currently supplies 10% of total China imports, and that this export contributes about 8% of Indonesia's total export.



Source: Ministry of Energy and Mineral Resources

ID Inflation Worries

News of Industries lobbying to reverse the 10% to 15% increase in basic electricity tariff (Tariff Dasar Listrik, TDL) emerged during the news. This is because of a rule that forces industries to pay a lot of if they use exceed their maximum subscribed voltage during certain times of the day. As such, the effective rise for electricity bills for various industries rose in the range of 30% to 40%. As such, the government has committed to cap the maximum rise in electricity bills to industries at 18%, although implementation is still being worked out.

Industries across the board have threatened to raise selling prices in response to this unexpected electricity hike. Electricity currently accounts between 10%-20% of costs and can reach as high as 60% for the entertainment industry. As such, assuming 30%-40% increase in electricity tariff, goods and services on average will need to be raised by 3.0% to 5.0% to breakeven in terms of passing on the increased costs to customers. This threatens our inflation.

Electricity Contribution To Cost

Industry	Electricity contribution in cost structure (%)	Increase on selling price (%)
Cement	25	5
Electronic	10	0.9-1.8
Modern retail	10-15	Depend on supplier
F&B	5.0-15	Unchanged
Textile	10-15	3.0-5.0
Automotive	10	Unchanged
Plastic	15-20	2.0
Shoes	10-15	5.0-7.0
Entertainment	60	Various

Source: Investor Daily

On top of industrial goods, soft commodities have also been not working in the favor of inflation watcher. As such, red chilies almost doubled to Rp50,000/kg in recent times. Soft commodities in CRB index such as coffee, sugar and wheat rose in the range on 10%-20% in 3Q10 so far. With the festive season coming into play entering the Rahmadan period, December Holidays and Chinese New Year in 1Q11, the price outlook for "softs" seems quite supportive. What is of worry is food driven inflation in Indonesia.

Soft Commodities Price Change

	06/31/2010	Today	growth
CPO Malaysia	2425	2507	3.4%
CPO Rotterdam	795	815	2.5%
Soybean	948.5	1012.25	6.7%
Wheat	464.75	576.5	24.0%
Corn	354.25	375.5	6.0%
Rice	9.43	9.985	5.9%

Source: Bloomberg

The finance ministry, and Logistics Authority (Bulog) are prepared to intervene and conduct open market operations to keep price rise for the fasten season coming this August capped at 10%. As mentioned before this will be the new finance minister's first test case. Keeping interest rates low is key to sustaining the credit driven consumption growth story that is key to near Indonesia's GDP growth towards 6.0%. Any increase in inflation expectations threatens the continuity of this growth story.

Market Strategy

ST As expected earlier, JCI has broken its resistance at 3,000. The next key technical resistances are at 3,011/3,015. Failure to take these resistances will make JCI vulnerable to corrections considering that the index is already trading in overbought areas, reflected on both its slow and fast moving oscillator. If that happens, the next psychological support will be at 2950. As such, we continue to recommend investors to take profits and capital out of the trading table; and perhaps tactically switch into banks that has corrected earlier such as BBCA, BBRI, BMRI and BDMN.

JCI Nearing its Peak Level

Source : Trim Research

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Happy Investing

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