TRIMEGAH SECURITIES

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Trim Macro Thoughts

Mixed Signals

Summary:

- US Only Manufacturing Left
- EU When is the bomb going to explode?
- CN properties prices & exports up
- ID From DEN to KEN, Private Sector Investment
- ID Market Strategy

We expect ST correction in the coming weeks as JCI enters overbought territory. Price-volume divergence also affirms this ST wave count. We believe markets to remain volatile in the coming months, as regional data will finally determine the rate of global slowdown we will be facing. Liquidity and sentiment is the bigger risk to Indonesia during this period.

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

US Only Manufacturing Left

US retail sales and housing released in the past week reaffirmed our view that hopes of re-leveraging of the US consumer sector still seem not probable at this point. As such, retail sales (including auto) fell by 1.2% vs. expectations of 0.2% and 0.4% Apr reading. Bloomberg reports that consumers chose to keep their money in their pocket instead of spending, despite improved income and consumer sentiment. US NAHB housing market index also fell from 22 for May reading to 17 for Jun vs. 21 expected. Unemployment is the huge culprit here, as unemployment lingers at a 26 year high. It has been discussed several times in our Thoughts that real improvement in employment would be a reliable leading indicator for how US consumers pan out in the coming months. As such, 9.7% unemployment rate released was “pseudo” in a sense that it was workers leaving the work force that led to the decline, rather than faster increased employment with an increasing work force as we would expect in a “normal” unemployment recovery.

On that front, with US services sector recovery pace reaching a ceiling with ISM Services reporting 55.4 reading for the last 3 months; US manufacturing sector is the only sector left standing. As such, US empire manufacturing numbers are still climbing MoM albeit lower than expectations. If this is the bigger picture, then hopes for jobs remain glim with ISM manufacturing representing only 10% of the US economy. ISM manufacturing new orders are still climbing up till May reading so far, meaning that hopes that US manufacturing can continue to plough on despite what is happening in Europe. Or Not? Job contributions from 10% of the economy would be insignificant. Also, pay from the sector is typically lower than those of services. Even if unemployment do improve, we remain skeptical US consumers can consume in a big way like that past.

US data	Month	Actual	Cons	Last
US Retail Sales	May	-1.2	0.2	0.4
US U. of Michigan Confidence	Jun	75.5	74.5	73.6
US NAHB Housing Market Index	Jun	17	21	22

Source: Bloomberg, Trim Research

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EU When is the bomb going to explode?

News of Greece facing sovereign debt crisis started in December, but it never really hit the markets until end of April / early May when Greece has to refinance EUR20bn (USD26bn, 8% of Greece 2009 Nominal GDP) during the same period. If the history repeats itself, then it will be useful to know who needs how much financing in the coming months and years. As such, I have attached the excel sheet to illustrate the point discussed here.

Refinancing Needs for various countries

% to GDP	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Portugal	0.0%	**2.9%**	0.3%	2.1%	0.0%	2.0%	0.4%
Italy	0.7%	1.5%	**2.3%**	**3.4%**	1.0%	2.4%	1.3%
Ireland	0.6%	1.5%	0.5%	0.0%	0.0%	0.2%	0.0%
Greece	0.0%	1.9%	0.0%	0.1%	1.2%	0.0%	0.0%
Spain	0.8%	**2.4%**	0.8%	0.7%	0.8%	0.7%	0.5%

% to GDP	2010	2011	2012	2013	2014	2015
Portugal	7.6%	**10.3%**	5.4%	5.7%	8.6%	6.9%
Italy	12.7%	**13.7%**	**12.0%**	7.1%	6.0%	6.3%
Ireland	2.8%	3.7%	3.7%	3.8%	6.8%	0.1%
Greece	3.2%	**13.6%**	**13.7%**	**11.6%**	**13.7%**	**17.9%**
Spain	6.6%	9.4%	6.0%	5.5%	4.6%	2.8%

% to GDP	2010	2011	2012	2013	2014	2015
US	**15.7%**	7.1%	6.9%	4.6%	4.4%	2.8%
UK	3.1%	2.4%	2.5%	2.3%	2.6%	2.9%
JP	**37.0%**	**23.9%**	**17.2%**	**12.8%**	**15.5%**	**11.6%**
ID	0.4%	1.2%	1.3%	1.1%	1.2%	1.0%

Source Bloomberg, Trim Research

Important to note that borrowings for European corporate are also rising; as such Markit iTrax Europe Index CDS, an index tracking 125 Investment grade European companies in 6 sectors (namely consumer, energy, auto, finance, industrial and TMT) has rises to 128bps from a low of 65bps in Jan10; i.e. the bonds guys are already expecting the EU austerity "DIET" programme will have a negative impact on earnings, and hence increasing the cost of insuring against default for these companies.

Markit itrax Europe 5yr CDS Index

Source Bloomberg

Our view remains that July / Aug period remains the time most probable for markets to potentially face negative headwinds especially for liquidity and sentiment factors. Europe has quite a good size of refinancing to do during the period. EU officially started their austerity “DIET: programme in 2Q10, from which 3Q10 monthly data and 2Q10 quarterly data will be released during the period and can be used as a gauge on how things may pan out for the intermediate term. EURUSD would have tumbled for more than six months and any impact to US and CN exports would be visible by then. CN 2Q10 GDP figure will be released and will be useful to gauge if there is a need for policy adjustment with regard to its overheating property sector.

CN properties prices & exports up

In that regard, Chinese released its monthly property price data mid last week. As such, May property prices are up 12.4% YoY in May, vs. 12.8% YoY in April. On a MoM basis, property prices are up 0.2%, still an increase for the overall index despite tightening measures started implementation since Aug’09. On the other hand, value transacted has already declined. Sales in Beijing, Shanghai and Shenzhen has already fallen 70% MoM in May. The same reading has fallen 14% MoM nationwide. I am just wondering the real GDP contribution of such numbers. GDP measures output, not how much price increases and if transaction falls so much, and considering fix asset investment growth was the engine that Chinese government was counting on for Chinese growth in 2010, then I hope the fall in GDP figures going into the next few quarters will be able to maintain above 9.5% as my base case and 8.0% as my worst case assumption for China. The guess here is that I think CN will still wait for prices to correct about 15% to 20% from peak (healthy correction) before reversing its tight stance on its property sector and hence the risk of a policy mistake where Chinese remains too tight in a slowing macro leads to a worse than expected slowdown, causing an overshoot on the downside for risk assets on a whole.

Chinese exports a huge factor that drove regional indexes up nearing last weekend was up 48.3% YoY, the highest reading since the crisis started in 2008. The exports figure is the key indicator for our Chinese Yuan policy assumption. The base case here still remains that China will compromise and allow some CNY appreciation by the next G20 meeting sometime early 3Q10. However, with uncertainty in the global macro picture, there are rumors that China may delay the move or allow CNY appreciation at an insignificant pace. The view here is remains that the CNY strength is essential long term to rebalance the global economy.

ID From DEN to KEN, Private Sector Investments

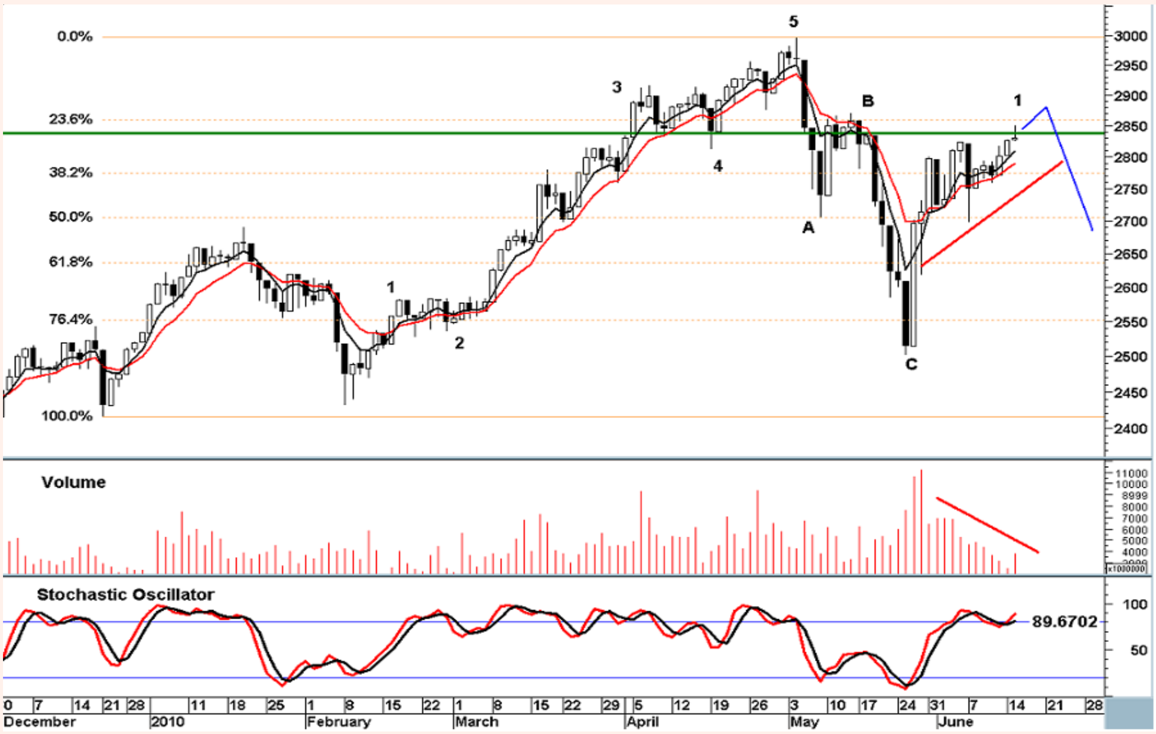
Late Indonesia President Abdurrahman Wahid (Gusdur) introduced the National Economic Members (Dewan Ekonomi Nasional, DEN) to look into and propose solutions are areas with regard to economic policies. This morning the news paper reported that current president SBY has set up a similar membership but in a form of higher order (and hopefully increased effectiveness), the National Economics Committee (Komite Ekonomi Nasional, KEN). The main task of KEN will be to study, review the effectiveness of Indonesia’s economic policies. Important to note is the mandate for the team to help ensure the reduction of unemployment and poverty in Indonesia. Another good progress in Minister of Finance’s comments reported this morning discussing the possibility of a tax holiday for certain selected sectors to promote investments. These are good news and reiterate my bullish economic outlook for Indonesia. Themed credit driven consumption, Indonesia should be able to maintain its growth above 4.5% consumption driven growth, followed by a possibility of >6.0% growth is interest rates & inflation stay low and that private sector investments kick in.

I had an opportunity to visit an electronics assembler this week. The company is based in batam and is Indonesia’s largest OEM electronics assemply and manufacturing. We had an opportunity to discuss the impact of FOXCONN raising wages by 100% for their Chinese workers, of which some had been reported to commit suicide due to underpaid and overworked conditions. Our conclusions is that the news is long term positive for Indonesia. Due to the one child policy, Chinese middle class has worked hard to afford theri one child good education and now, is encouraging their one child to take up white collar jobs rather than lower paying blue collar ones. This positive as supply for low cost labour for China has become tight across the Country. The CEO added that their Chinese operations are also facing the same problem. FOXCONN & Honda’s decision in the past weeks to raise waages are starting to create uncompetitiveness for Chinese labour intensive, low cost value add manufacturing sectors. As such, many shoe, textile, and such sector owners has started shifting production facilities back to ASEAN, including Indonesia.

Market Strategy

ST As indicated in the chart above JCI may still have an opportunity to test its resistance level, and reach our ST upwave target at Fibonacci ratio of 23.6% of 2,859.81 levels. JCI should reverse direction after completing this corrective wave C, the last wave cycle and break key resistance zones forming an upward-trend in the past 2 weeks. However caution must be taken-place going forward as we see potential correction in our ST base case technical view. Our stochastic is nearing its peak area / overbought at 89.6702, confirmed also by a negative volume divergence as the price woes upward in the past two weeks. Hence we recommend investors to start reducing equity positions if JCI reach the area of 2,858.73 - 2,880.45. We believe profit taking may start in the next few trading days, starting wave 2 corrective phase. We recommend ST traders to start accumulating at the downside target trading range of 2,730.76 – 2,786.09. Some selected technical picks are BBCA, BBRI, AALI and BBNI.

Short Term JCI Technical View



Source : Trim Research

LT The biggest medium term risks remains that from Europe, which we expect to be caused by a refinancing challenge post to PIIGS (esp. Spain) in July / Aug. The direct fundamental impact to Indonesia should be minimal; however liquidity and sentiment will be the more important test case for Indonesian Assets in this regard. We still do not know how fund flows will be, whether investors shun risky assets totally like end 2008, or they will relocate more funds to emerging Asia and Indonesia which has relative fundamental strength compared to the developed west. Never the less, we still believe LT investors should continue to buy Indonesia on Weakness in the coming quarters.

Happy Investing,

Trimegah Research

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