TRIMEGAH SECURITIES

September 29, 2010

TRIM Macro Thoughts

Fat Tails

Summary:

- **US Two Fat Tails in The Private Sector**
- **EU Government Sector Fat Tail**
- **ID Breaking The Barrier**

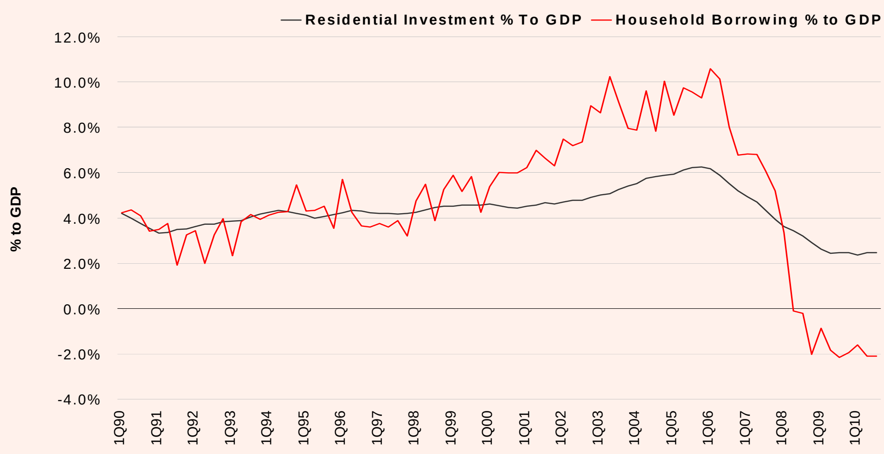
Fat tails remain in the global economy, and investors have to remain cautious investing in risk; in particular considering JCI's 20% Outperformance to Asia, and 60% Outperformance to the World since 2009. With slower growth expected in the developed nations for some years to come, this "new normal" puts Indonesia in a very favorable light amongst global investors and provides room for JCI to reach further highs in years to come. Buy on Weakness going into 4Q10 citing confirmation of an adequate global slowdown.

US Two Fat Tails in The Private Sector

S&P500 rallied 10% in Sep'10 in the back of two primary thoughts: (1) that the economic data rolling out are not as bad as one entering a double dip would be and, that (2) policy makers will do whatever it takes to sustain the recovery. ISM numbers, productivity data, economic data are showing signs of stabilization after peaking and declining through May - Aug 2010. Mr. Bernanke, in his FOMC statements this year has changed his comments on the US economy from "strong recovery and the need to normalize stimulus" in 1Q10, to "recovery too slow due to damage from the financial crisis, and a need to buy another USD1.0tr of treasuries" currently to further support the ailing economy.

Two issues remains for the US economy. (1) The still weak housing sector which results for both existing and new homes sales are at the worst in history. (2) The weak employment outlook and wealthy loss leading to a deleveraging consumer sector. As such, total household new borrowing and investment in residential total 17% to total GDP in 1Q06. Currently this figure has shrunk to merely 0.4% of GDP. This is the reason why the bulls have an argument; that contributions from both sectors are already at such depressed levels, it will be difficult to see these sectors bring US into another recession.

Consumer Credit & Residential Investment



Source Bloomberg

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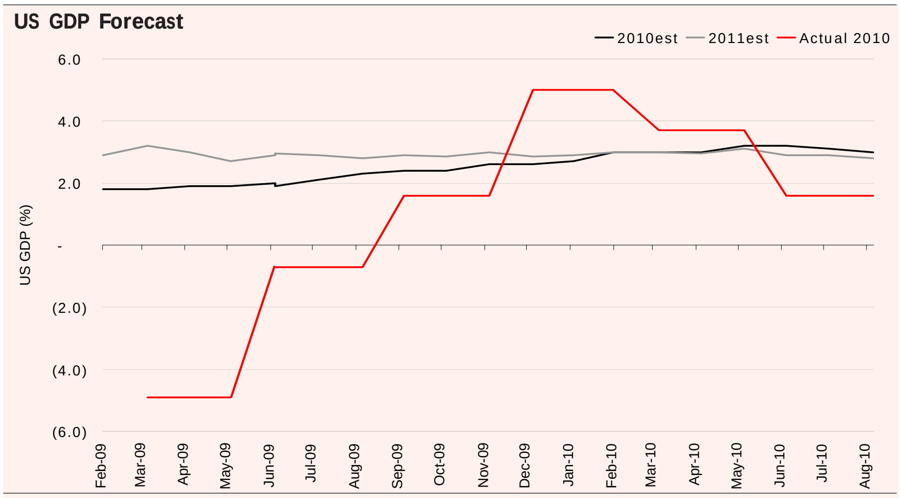
Nevertheless, as argued before, the risk here is not from the real sector itself, but rather the transfer mechanism through the banking sector. Below trend GDP growth will result in persistently high unemployment. The street has been downgrading 2011 growth outlook from 3.1% in May'10, to 2.8% today. I believe there is still downside to this figure considering that all the 3.0% recorded in 2010 is one that has been aided by government stimulus and that there is a low base effect during 1H09. Most important of all, 2Q10 GDP is at a meager 1.6% QoQ annualized and potentially may be downgraded further to 1.2%. Also considering that US economic data deteriorated further after 2Q10, after the government stimuli expires and their effects wane in the economy.



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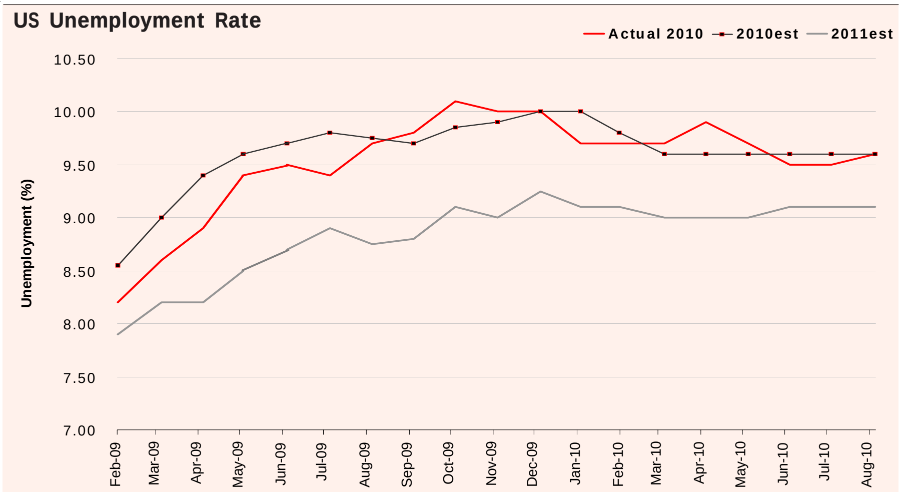
If there is downside risk to the US GDP forecast, then there are downside risks for unemployment forecasts as well. As such, the street has been downgrading both 2010 and 2011 unemployment outlook, as the view I have long hold about the "jobless" recovery the US economy will face in this recovery. End 2010 unemployment estimate was upgraded from 8.0% to about 9.6% today. End 2011 unemployment estimate currently holds at 9.2%. Even if the employments are successfully reduced, we should read in between the lines and understand where the jobs are generated. As such, part time figures are up in US vs. that of full time employment; and this will impact average earnings and output of workers in US at the aggregate level.



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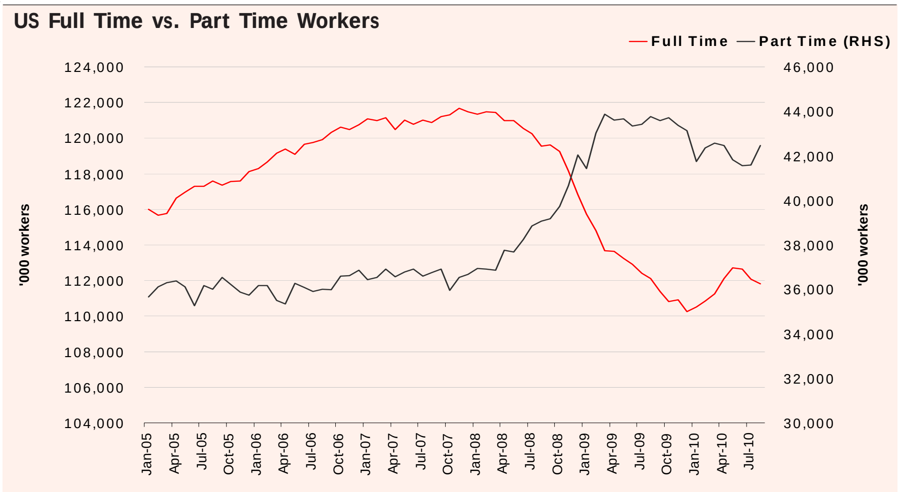

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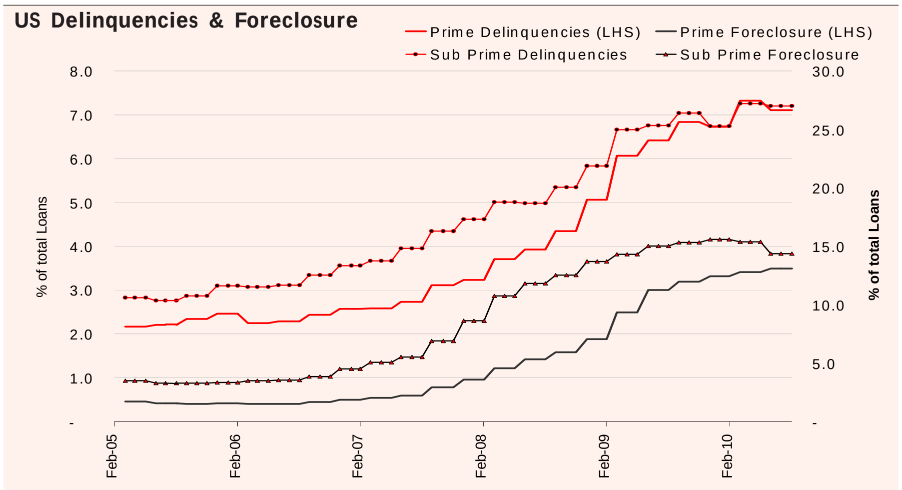
Weak employment outlook and the consumer disability to generate income at the aggregate level post risks to banks with exposures through mortgages & other consumer loans. As such delinquencies and foreclosures for all categories of mortgages has risen since the crisis began in 2008 and remains elevated. As discussed before this poses risks to bank's balance sheet. Hence, housing prices will be a key indicator to whether a liquidity tightening can happen due to a capital deficient banking sector as a result of falling housing prices of homes foreclosed and not yet sold. As such S&P CaseShiller Home Price Index has fallen 33% from its peak and has recovered 7% in absolute terms, and 14% of the total loss in price since it bottomed in 1Q09. If this is the case, then a fall of house price >10% from now should caution worry.



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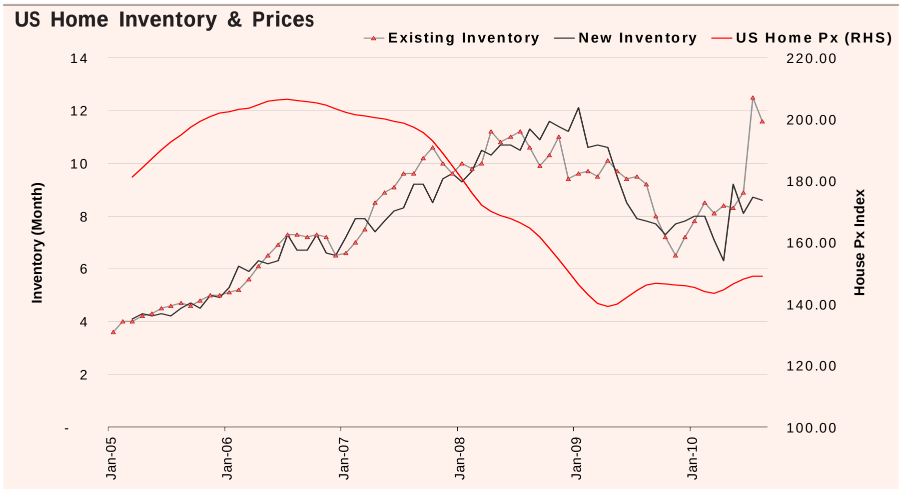

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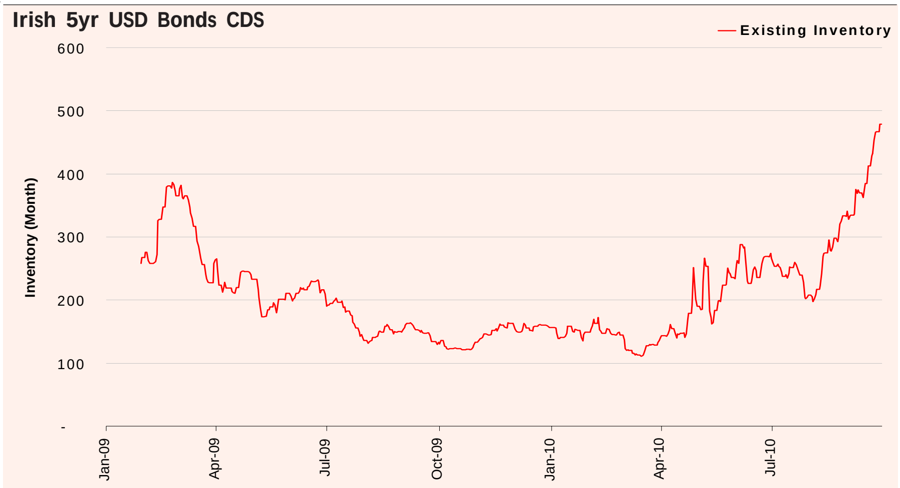
EU Government Sector Fat Tail

The fat tail in the European economy are the impact of the austerity programmes that were implemented beginning 2Q10, which impact should be able to be accessed in 2H10, paying special attention to 4Q10 numbers assuming that such austerity programmes take time to plan and implement. Apart from the potential failure of such programme implementation given its high political costs as well as a large percentage of structural deficits due to social benefits and European reliance on government for growth across the continent, increasing costs of borrowing is threatening the success of the European diet programme. As such, Irish 5yr USD CDS, insurance for Irish government bonds against default rose to the highest level (519bps) since 2008 financial crisis, when Irish Central Bank Governor commented that he is unsure if bondholders of Anglo Irish Bank Corp will be "made whole". A rising interest cost in the Euro area do not help in their efforts to reduce deficits, as nations will need to pay more interests to lenders.



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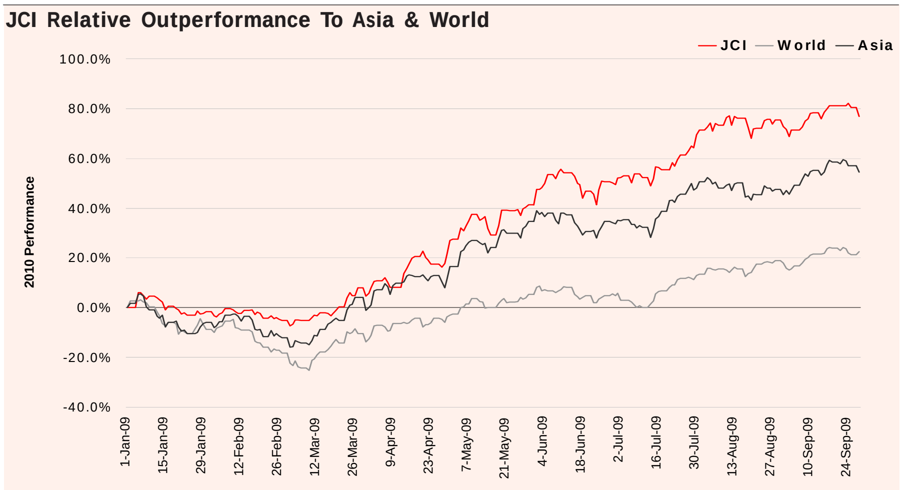
ID Breaking The Barrier

As described in my previous thoughts, ICBP IPO breaks the conventions on which ID stands and everything that is in the past 5 years have to be revised up. Real GDP averaged 5.7% in the past 5 years and is expected average >6.0% in the next 5. Prices inflate at a 9.9% CAGR in the past 5years and is expected to average <7.0% in the next 5 years. The structural macro improvement in Indonesia has led may to speculate that it will attain its investment grade status next year. The largest hindrance remains the infrastructure story and this potentially can be unlocked when the parliament passes a bill to allow government to purchase land at a formulated price from the land owner for the purpose of social & infrastructure purposes.

The infrastructure story shifts historical subsidies, into infrastructure spending, achieving a higher multiplier effect from the direct spending. This is EPSg positive for the Indonesian index. Secondly, the removal of infrastructure bottleneck and will subdue LT inflation expectations within the economy. This is weighted average cost of capital (WACC / Discount rate) positive for the JCI index. The spark contrast between the world economy, where growth is scarce, to that of the Indonesian economy, where growth is accelerating, further justify Indonesia's premium valuation. It is no wonder why JCI is one of the few index standing to convincingly breaking new highs in the last few months. The theory of relativity hence explains: the worse, global economy becomes, the better Indonesia will seem to be and the more expensive Indonesia will become. Easy money printed by the anemic developed nations have found their way into Asia and particularly Indonesia. The macro setting is the blue sky scenario for Indonesian assets.

Apart from our equities, which broke new highs, our government bonds also have been doing the same. As such ID 10yr IDR government bond yields are at an all time high. Such is the quantitative justification why equities is running so well, as the implied risk free rate analysts use in their respective models have fallen from 20% during the crisis to about 7.7% right now. From a foreigner's perspective this still has room to go, as a USD/EUR/JPY cost of borrowing, added with a CDS and respective IDR forex swaps will still mean that there is still room for 50bps - 100bps arbitrage to be made. As such, if 10year government bond yields go down to 6.5%, a figure near our current inflation rate, and about 200bps above our core inflation rate, then equities still have room to go. Such a scenario will easily result in another 30% upside from re-rating alone for the JCI, implying a target trading range of 3900 - 4300 from the current 3000 - 3300, 10% government bonds / risk free rate assumptions.

Source Bloomberg



Source Bloomberg

Market Strategy

JCI - Uptrend In-tag

Source : Trim Research

ST JCI breaks its new high again, reaching 3524.32 on Tuesday, followed by some profit taking action late afternoon trading to close at 3472.71. The move led JCI to accumulate MTD return totaling 10.8% for the month of September, with a volatility measure of 14.4%. Foreign funds remain a key index driver, totaling Rp5.8tr for the month alone. The strong Index momentum continues to justify a bullish medium term, targeting 3,800 as our 251.8% retracement projection target, with 3,300 remaining as the medium to longer term support / stop loss level.

Foreign Fund Flow

Date	Price	Date	Price
1-Sep-10	122.12	17-Sep-10	314.54
2-Sep-10	(382.76)	20-Sep-10	66.32
3-Sep-10	182.34	21-Sep-10	113.57
6-Sep-10	1,052.77	22-Sep-10	230.55
7-Sep-10	439.87	23-Sep-10	(173.24)
15-Sep-10	2,181.01	24-Sep-10	555.16
16-Sep-10	827.98	27-Sep-10	185.57
		28-Sep-10	74.40
		Total	**1,366.87**

Source: Bloomberg

In the short term, JCI may continue to face pressure due to profit taking, seeing 3415 as the immediate strong support. The view is supported by a bearish candle stick signal, and stochastic oscillator (5d) that has entered overbought area of 86.194.

LT Fat tails remain in the global economy, and investors have to remain cautious investing in risk; in particular considering JCI's 20% Outperformance to Asia, and 60% Outperformance to the World since 2009. With slower growth expected in the developed nations for some years to come, this "new normal" puts Indonesia in a very favorable light amongst global investors and provides room for JCI to reach further highs in years to come. Buy on Weakness going into 4Q10 citing confirmation of an adequate global slowdown.

Happy Investing,

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