

U.S. – Iran Tension. On the third day of 2020, President Trump ordered an airstrike that killed the Iranian general who led the Revolutionary Guard Corps' elite Quds force. Following the attack, crude oil futures quickly escalated to USD 64/barrel before making its way to USD 66/barrel while Brent also advanced to USD 72/barrel, few days after the airstrike took place. Nevertheless, tension eased temporarily as Iran's missile attack on Iraqi air base left no casualties and investors shifted focus toward rising U.S. inventories. As of Friday (1/10), crude oil futures and Brent stood at USD 59/barrel (dn 6.4% WoW) and USD 65/barrel (dn 5.3% WoW) respectively.

U.S. – China to ink phase one trade deal on 15 January, 2020. Vice Premier Liu He will be sent as China's representative to Washington. U.S. and Chinese officials have said that the agreement will include agricultural purchases, IP protection, foreign currency manipulation controls, and others. Existing tariffs have been lowered by the U.S. from 15% to 7.5% as part of the deal. If the trade deal is signed, we expect Trump to make claims that it's a victory for the U.S. and take credit for it in order to boost his election chances. However, we would like to highlight that history has shown how things can change at the last minute when it comes to trade war talks. Moreover, even if the deal is signed, it might not be enough to fully restore business confidence and investments as risk persists that issues might escalate in the future.

CPO stockpiles in Malaysia plummeted to lowest level in over 2 years in Dec-19, maintaining the recent bullish sentiment on the industry. MPOB reported its reserves plunged to 2.01mn tons in Dec-19, fell by 11% from earlier month. This level also dropped below its 5-year historical average of 2.2mn tons and was much lower than 3.2mn tons position in Dec-18 (-37.6% YoY). Drop in reserves was on the back of weakness in production and stronger exports. Production was posted at 1.33mn tons in Dec-19 (-13.3% MoM; -26.2% YoY) bringing total 2019 production at 19.9mn tons, only grew slightly by 1.8% YoY. On the demand side, export was noted at 1.4mn tons in Dec-19, leading to 18.5mn tons for FY19 (+12% YoY) due to robust demand coming from both China and India throughout the year.

Separate data on exports also boosted sentiment for CPO price in this early year. According to the data published by Intertek and AmSpec Agri, CPO shipments for the period of 1 - 10 January have surged by 29.8% and 24% from the same period a month earlier, which we conclude may be on the robust CPO demand approaching the Chinese New Year held by end of this month. In addition to the data, India's move to restrict refined palm oil including olein imports this week could also boost more CPO purchases in the later months. We are of the view that CPO production will remain weak in the upcoming readings (seasonality plus impact of lack of fertilizers application during low CPO price started to kick in) that should maintain stockpiles level in the near-term. Consequently, we expect CPO price to stay high above MYR 3,000/ton in the near-term, supporting the bullish signal on the overall sector.

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Indonesia plans to cut coal production to support prices.

Bloomberg reported that Indonesia's government is ordering local coal miners to slash output in 2020 after record production in previous year. The government has set production target of 550 mn tons in FY20, down by 9% from FY19's achievement at 610 mn tons. Note that, FY19's production surpassed government target of 530 mn tons and rose by 9.5% from FY18's numbers at 557 mn tons. Following the news, coal stocks under our coverage rallied by 2-7% in a day. Succession of production cut will greatly improve supply balance given muted demand growth and higher local output from China. Nonetheless, we remain cautious on the sector as we lack confidence in the enforcement of the regulation, given past fail track records that always exceed government's target.

Indonesia government aims to lower industrial gas price to USD 6 per MMBTU.

Local news have reported that government plans to unveil a new gas pricing policy for industrial customers to lower energy costs for manufacturers. President Joko Widodo has asked his cabinet to lower gas price to USD 6 per MMBTU. Few options currently being discussed are 1) Government will reduce state revenue from gas sales of USD 2.2 per MMBTU. 2) Adopting DMO regulation to increase local supplies. 3) Open doors for gas import. Main beneficiaries of such regulation are industrial sectors such as ceramics, chemicals, glass, and etc. Meanwhile, impact on PGAS remains unclear as no details has been given on the pricing scheme. Management currently is discussing with government the possible scenarios to lower gas price and still estimating the impact of the regulation toward company's performance. We advice investors to be cautious as volatility to remain until further detail has been given.

2019 state budget realization recorded a deficit of 2.2% of GDP.

The budget deficit was higher than initial target of 1.84% GDP as state revenue reached IDR 1,957.2tn or 90.4% of 2019 state budget, whereas the government spending arrived at IDR 2,310.2tn or 93.9% of the budget. The deficit in state revenue was mainly driven by lower-than-expected tax revenue which only reached IDR 1,545.3tn or 86.5% of 2019 estimate (+1.7% growth yoy). One of the lowest realizations was value-added tax (VAT) collection, which fell to IDR 532.9tn or 81.3% of 2019's estimate. While recording 107.1% realization, non-tax revenue posted a negative yearly growth (-1.0% yoy) as several assumptions such as Rupiah, oil lifting, and oil price fell short of government's early estimate. Government spending, on the other hand, was expansive throughout 2019 as the state aimed to improve welfare, public service, and infrastructures. Tapping into 2020, we expect higher excise tax and BPJS premium to help in improving state revenue, while the government is likely to remain expansive as it targets budget deficit to be at 1.76% level.

2019 State Budget Realization

(in IDR Bn)	12M18				12M19			
	APBNP	Realisasi	% thd APBNP	Growth	APBNP	Realisasi	% thd APBNP	Growth
Pendapatan Negara	1,894.7	1,943.7	102.6%	16.6%	2,165.1	1,957.2	90.4%	0.7%
Penerimaan Perpajakan	1,618.1	1,518.8	93.9%	13.0%	1,786.4	1,545.3	86.5%	1.7%
Penerimaan Negara Bukan Pajak	275.4	409.3	148.6%	31.5%	378.3	405.0	107.1%	-1.1%
Penerimaan Hibah	1.2	15.6	1300.5%	33.8%	0.4	6.8	1562.1%	-56.4%
Belanja Negara	2,220.7	2,213.2	99.7%	10.3%	2,461.1	2,310.3	93.9%	4.4%
Belanja Pemerintah Pusat	1,454.5	1,455.4	100.1%	15.0%	1,634.3	1,499.0	91.7%	3.0%
Belanja K/L	847.4	846.6	99.9%	10.6%	855.4	876.4	102.4%	3.5%
Belanja Non K/L	607.1	608.8	100.3%	21.7%	778.9	622.6	79.9%	2.3%
Transfer ke Daerah dan Dana Desa	766.2	757.8	98.9%	2.1%	826.8	811.3	98.1%	7.1%
Keseimbangan Primer	(87.3)	(11.5)	13.2%	-90.8%	(20.1)	(77.5)	385.3%	574.5%
Surplus / (Defisit) Anggaran	(325.9)	(269.5)	82.7%	-21.0%	(296.0)	(353.1)	119.3%	31.0%
% Surplus / (Defisit) Anggaran terhadap PDB	(2.19)	(1.82)			(1.84)	(2.20)		

Source: Ministry of Finance, Sinarmas Investment Research

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