The Journal

13 May 2019

sekuritas sinarmas

Research Team
+62 21 392 5550 ext. 611
research@sinarmassekuritas.co.id

Not the endgame for US-China trade war. It had been a tough week for the global market as US-China trade development last week lead to a no deal and US raised tariffs on Chinese goods. Simply put, the US has increased tariffs on Chinese targeted exports worth USD 200 billion from 10% to 25% at 12.01 a.m. ET on Friday (10/5). China stated that it would retaliate, though has not given further details. Moreover, Trump's administration also told China that the country has a month to seal a trade deal or face additional 25% tariffs on a further USD 325 billion in exports, or equals to all of its exports to the US.

However, President Donald Trump said US-China relations remain very strong and talks between Washington and Beijing will continue. On the other hand, China's vice prime minister Liu He said that in order to reach an agreement the US must remove all extra tariffs, set targets for Chinese purchases of goods in line with real demand, and ensure that the text of deal is balanced to ensure the dignity of both nations. Finally, as trade negotiation between the world's two largest economy is heading to a critical point in the following month, we believe that the overall market will remain volatile, following the positive or negative development on the trade talks, hence a cautiously optimistic stance is needed.

Indonesia's current account deficit shrunk to smallest in a year boosting balance of payments to a surplus. CAD came in at USD 6.97bn in the March quarter 2019 from a USD 5.20bn gap a year earlier. This reading equals to 2.6% of the country's GDP versus 3.6% of GDP in 4Q18. The services account recorded a deficit that increased to USD 1.8bn from USD 1.6bn a year ago and that of primary income was up to USD 8.1bn from USD 7.4bn. Moreover, the gap of secondary income rose to USD 1.9bn from USD 1.4bn. Meanwhile, the surplus of goods account dipped to USD1.1bn from USD 2.3bn, with exports falling 8.6% and imports dropping 6.1%. As a comparison, in 2018, Indonesia posted a USD 31.1bn CAD, equivalent to 2.98% of the GDP, which was almost twice the USD 16.2bn gap seen in 2017. Furthermore, CAD in Indonesia averaged USD 931.3mn from 1981 until 2018. This resulted in BOP to record a USD 2.4bn surplus compared with USD 5.4bn in 4Q18. Looking back at 2018, the widening CAD was a major factor that drove foreign investors out of the country's financial markets along with the weakening IDR. Thus, any improvement in CAD will be positive for the country's equity market and currency. However, current trade war issues are pressuring the rupiah as the dollar is considered a safe haven.

Weaker than expected economic growth. Indonesia's real GDP growth softened to 5.07% in 1Q19 from 5.18% in the previous quarter. The results were below market consensus of 5.18%. This was considered as the weakest growth rate in one year as both private consumption and fixed investment rose at softer pace. Net export contribution which grew by 1.2% in 1Q19 was offset by falling inventory (-0.3% YoY). Furthermore, investment growth eased to 5.0% YoY in 1Q19 (+6.0% YoY in 4Q18), weighed down by high base effects in machineries, vehicles and other equipment as firms may have taken a wait-and-see approach ahead of the election. Household consumption growth also eased slightly (+5.0% yoy vs. +5.1% yoy in 4Q18) as spending on transport weakened. All in all, despite lower than expected, 1Q19 GDP growth was the strongest compared to the same quarter in the past four years.

Another month of waning Malaysia's palm oil stockpiles. MPOB registered a slump in its Apr-19 stockpiles to 2.73mn tons, dived by 6.5% MoM, quite in-line with consensus' expectation. Lower stockpiles were amidst stable production level of 1.65mn tons (-1.2% MoM) while exports were robust at 1.65mn tons (+1.8% MoM). Palm oil exports from several key destinations such as China and India were recorded strong. China's exports were seen at 201.0ths tons (+14.9% MoM), bringing YTD exports to 772.3ths tons (+49.3% YoY). Rising exports from China were on less soybeans demand due to the African swine fever, higher commitment for CPO exports, as well as the impact of US-China trade war. India on the other hand, also posted higher CPO exports at 524.1ths tons (+53.6% MoM) in Apr-19, leading to YTD numbers at 1.63mn tons (+41.7% YoY). We see the recovery in India's demand was resulted from the lower CPO import tax since early year. Furthermore, exports coming from Indonesia remained solid in the period, which may indicate smooth execution of B20 mandate. We reiterate our view that production will remain moderate until mid-year with persisting solid demand following Eid-Al-Fitr period, consequently stockpiles to be expected maintainable in the near-term. Despite the supportive CPO stockpiles, CPO price did not experience any significant movement as we believe the unfinished and rising tension from US-China trade war have put some pressure on CPO price in these recent days.

Soft cement demand at the beginning of 2Q19. Cement industry recorded an April 2019 domestic sales volume of 4.8 mn tons, or plunged by 10.2% compared to a prior year. Significant decrease was experienced generally in all regions. Both bag and bulk cement declined by 8.9% and 13.7% YoY respectively. This leads to a 20.5 mn tons YTD sales volume, or lower by 2.9% YoY. The weak sales performance was due to minimum construction activities both in the infrastructure projects and real estate sector prior to the election period. General election and Easter which fell in the month also caused lower working days. For company specific, Indocement (INTP) reported domestic sales volume of 1.3 mn tons, or lower by 8% YoY. INTP's bag and bulk sales volume each slipped by 5.3% and 15.4%. Despite the soft sales volume, INTP maintained its market share stable at 26.2% level. Overall, 1Q19 was quite a challenging period for the sector given the completion of major infra projects and lower investment appetite considering the election year. The pressure lingered to 2Q19 as seasonally cement sales tends to be lower during Ramadan month. Going ahead, we expect cement sales to recover in 2H19 as construction activities resume and election results have been clear.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.