

US 2Y-10Y yield curve inversion. On 14 August 2019, the 10-year Treasury dipped below the 2-year rate, causing an inversion that has previously successfully signaled a recession. The last time the yield curve inverted like this was in 2005. However, it was an intraday inversion. Usually it matters more when it inverts over a several weeks or months. For example, in 1998 the yield curve inverted for 27 days. Moreover, there's usually a long and variable lag between initial inversion and the start of recessions. On average there is a 22 months lag, ranging from 10 to 36 months for the last five recessions. Markets panicked due to the inversion as the Dow industrials slumped 800.49 points, or 3%, to 25479.42. Weak data out of Germany and China also sparked fears of potential recession. Despite weak global data and the inverted yield curve, note that the Dow Jones gained an average of 2.53% three months after the yield curve first inverted between 1978 and 2005; 4.87% on average after six months of the inversions; and a year afterward, the index gained an average of 13.48%. We advise investors to be more conservative amidst weak manufacturing data globally despite robust consumption as global tensions are still high.

Government State Budget proposal. Government is budgeting state income and government spending to grow by 9.4% and 8.0% YoY respectively, implying a budget deficit at IDR 307.2 tn (-1.2% YoY, -1.76% of FY20F GDP). In the face of global slowdown, the government is forecasting economy to grow by 5.3% next year, while CPI remain stable at 3.1%. Government also set oil price assumptions at USD 65 per barrel with oil lifting decline slightly to 734k barrels per day (-2.7% YoY). Jokowi is aiming to lower unemployment rate to 4.8%-5.1% next year and slash poverty level to 8.5%-9.0% from 9.4% as of Mar-19. To achieve that, government is allocating IDR 107.6 tn for social assistance program (+8.1% YoY) and IDR 72 tn for village fund (+3.2% YoY). However, note that subsidy budget is lowered to IDR 199.7 tn (-6.0% YoY) next year. On infrastructure, government is allocating a total of IDR 419.2 tn budget for infrastructure, 4.9% YoY increase compared to 2019's outlook. Lastly, education and health budget is set to increase by 5.7% and 13.0% in FY20F. Overall, we see government is currently focusing more on developing human capital through education, healthcare and infrastructure.

Government aims total excise tax to increase by 8% YoY in 2020. According to the 2020 budget note, Government of Indonesia aims total excise tax at IDR 179.3tn, increasing by 8.2% YoY from IDR 165.7tn, whereas IDR 171.9tn (~95.5% to total excise tax) coming from tobacco products. However, assuming a 2-weeks payment shift, we come out with ~11% YoY increase for tobacco excise tax. We are of the view that the number is still within the historical average hike of 10-11% YoY and also lower than expectation (market may expect for higher hike considering the absence in 2019), hence we are NEUTRAL on it. More details on excise tax hike per stick per category should come out in Oct-19. We also see that excise tax should not be a major issue as tobacco companies will be able to pass the hike on consumers. **At current, we are having a BUY call for GGRM (52-week TP of IDR 92,800) and ADD call for HMSP (52-week TP of IDR 3,640).**

Better than expected July trade deficit. BPS announced Indonesia's July trade balance, which recorded a deficit of USD 63 mn, much better than consensus' figure at USD 420 mn. Taking a look at details, exports

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were recorded at USD 15.5 bn, or declining by 5.12% YoY. While oil and gas (O&G) exports grew by 13.4% YoY supported by higher volume (+10.04% YoY), sluggish non (O&G) weighing down the exports figure with 6.88% YoY decline. We see that weak prices of the country's key exports: oil, CPO, and coal become the main reasons on the declining exports figure. On the other side, imports were recorded at USD 15.5 bn, declining by 15.21% YoY. The drop was experienced across all segments of imports: consumption, raw materials, and capital goods which decreased by 10.22%, 9.55%, and 5.71% respectively. YTD trade was recorded at USD 1.9 bn, improving from USD 3.2 bn in the same period last year. Overall, we view a better trend on Indonesia's trade figure compared to last year's, supported by relatively stronger Rupiah. However, soft key commodity prices might continue to give a pressure to the country's exports.

State Budget Comparison

(in IDR Tn)	2019		2020	
	APBN	Outlook	RAPBN	Growth
Pendapatan Negara	2,165.1	2,030.7	2,221.6	9.4%
Pendapatan Dalam Negeri	2,164.7	2,029.4	2,221.1	9.4%
Penerimaan Perpajakan	1,786.4	1,643.1	1,861.8	13.3%
Penerimaan Negara Bukan Pajak	378.3	386.3	359.3	-7.0%
Penerimaan Hibah	0.4	1.3	0.5	-61.5%
Belanja Negara	2,461.1	2,341.5	2,528.8	8.0%
Belanja Pemerintah Pusat	1,634.3	1,527.1	1,670.0	9.4%
Belanja K/L	855.4	854.9	884.6	3.5%
Belanja Non K/L	778.9	672.2	785.4	16.8%
Transfer ke Daerah dan Dana Desa	826.8	814.4	858.8	5.5%
Transfer ke Daerah	756.8	744.6	786.8	5.7%
Dana Desa	70.0	69.8	72.0	3.2%
Keseimbangan Primer	(20.1)	(34.7)	(12.0)	-65.4%
Surplus / (Defisit) Anggaran	(296.0)	(310.8)	(307.2)	-1.2%
% Surplus / (Defisit) Anggaran terhadap PDB	(1.84)	(1.93)	(1.76)	

Source: Ministry of Finance, Sinarmas Investment Research

Macro Assumptions

Indicator	2018	Outlook 2019	RAPBN 2020
Economic Growth (% YoY)	5.2	5.2	5.3
Inflation (% YoY)	3.13	3.10	3.10
Rupiah Currency (Rp/USD)	14,247	14,250	14,400
Oil Price (USD/barrel)	67.5	63.0	65.0
Oil Lifting (thousand barrels per day)	778	754	734
Gas Lifting (thousand barrels per day)	1,145	1,072	1,191

Source: Ministry of Finance, Sinarmas Investment Research

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