

Escalation of tension. China is going to raise tariffs to as high as 25% on more than 5,000 U.S. goods, worth of USD 60bn, while duties on some other goods will be raised to 20%. This decision was following President Donald Trump's act to increase duties on USD 200bn Chinese products to 25% (previously at 10%) as both sides have struggled to reach a deal. Not ending here, U.S. is now looking forward to put 25% tariffs from USD 325bn Chinese goods which are remained untaxed. On Monday, 13 May 2019, Trump had argued that the tariffs are "very bad for China" and stated that China should not retaliate as it will only get worse. Trump also claimed that there is no reason for the U.S consumers to pay the tariffs as it can be completely avoided if they buy from a non-tariffed country or from U.S. The next agenda to note is the potential meeting of Trump and Xi during the G-20 summit held next month in Japan (according to Trump's top economic advisor, Larry Kudlow). All in all, the widening conflict between U.S. and China that leads to tariffs retaliation would further threaten to damage the global economy and pressurize financial market.

Largest monthly trade deficit readings since 2013. Indonesia recorded trade deficit figure for April 2019 period which stood at USD 2.5bn (vs USD -0.5bn cons). This occurred as a significant contrast to previous two months trade surplus of USD 670mn and 330 mn respectively. Looking at exports and imports numbers, Indonesian exports noted a 10.8% MoM/13.1% YoY drop. Oil and gas exports plunged considerably by 34.95% MoM/37.06% YoY due to significant decline in exports volume, while non oil and gas was down by 8.68% MoM/10.98% YoY. On the other hand, imports were seen increasing on monthly basis by 12.25% though decreasing annually by 6.58%. Imports for all segments of goods: consumption, raw materials, and capital were posted higher on monthly basis with 24%, 12%, and 7% MoM hikes respectively. The higher MoM imports was also derived from rising needs for consumption and raw materials goods following Lebaran period. The April deficit brings the YTD trade balance into deficit of USD 2.56bn. The oil and gas trade balance amounted to YTD deficit of USD 2.77bn, whereas the nonoil and gas trade recorded USD 204.7mn YTD surplus. We view that the deficit readings would likely to continue for the next few months given the challenging outlook for coal and CPO prices. This should lead to negative sentiment to the overall market.

Bank Indonesia (BI) keeps 7-DRRR unchanged, with cautious neutral data-dependent stance. The seven-day reverse repo rate was left unchanged at 6%. Lending and deposit rates were also kept at 6.75% and 5.25% respectively. BI governor, Perry Warjiyo highlighted that the decision was taken in order to maintain Indonesia's external stability amid global uncertainty. Other than that, BI now expects the CAD to be recorded in a range of 2.5-3% of GDP this year, a change from its previous outlook of 2,5% percent of GDP, as US and China trade war would affect global trades including Indonesia's exports. On the economy, BI expects growth will be below the midpoint of its 5%-5,4% 2019 GDP forecast. As BI accommodates cautious neutral, and data dependent policy stance, BI said that they will continue to monitor

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the global condition in considering the room for accommodative monetary policy through macro-prudential measures rather than changing the policy rate directly, which is also in-line with low inflation and the need to boost the domestic economy. Overall, we believe this policy is a better option considering Rupiah volatility in the worsening global outlook.

MSCI May 2019 Semi-Annual Index Rebalancing. MSCI announced changes to its index on 14 May 2019 (GMT) after U.S. close. The changes will be implemented as of the close of 28 May 2019. For the MSCI Global Standard Index, they have added BRPT; and deleted TBIG. For the MSCI Global Small Cap Index, they have added FIRE, BTPN, TAMU, DMAS, TBIG; and deleted SIMP. Meanwhile, there is no changes in the MSCI Micro Cap Index. We expect there will be constant flow on these names as active funds will adjust their weight on the stocks listed above, while passive funds will make adjustment on the closing of trading session on 28 May 2019. Note that the next MSCI quarterly Index Reviews will be announced on 12 August 2019 and will be effective on 2 September 2019.

Global MSCI addition/deletion

MSCI Global Standard Index	
Addition (+)	Deletion (-)
BRPT	TBIG
MSCI Global Small Cap Index	
Addition (+)	Deletion (-)
FIRE	SIMP
BTPN	
TAMU	
DMAS	
TBIG	

Source: MSCI, Sinarmas Investment Research

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