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Trade war talks are crumbling down as Trump threatens to raise tariffs. Trump tweeted that he is going to raise the 10% tariffs on USD 200bn goods from China to 25% this Friday, 10 May 2019. This was an unexpected move and resulted in China being reported by the Wall Street Journal that they are considering to cancel its trade talks with the US this week. This caught the market off-guard as trade talks news have recently pointed to progress and equities have been rising in the States. We expect this negative news to result in a correction in equities and advise investors to be cautious.

Trump's Tweet regarding Trade Talk

Source: Twitter, Sinarmas Investment Research

Fed kept policy rate unchanged during FOMC meeting held last week. Chairman Powell, during the FOMC press conference, stated that after reviewing economic and financial development in the US and around the world, the Fed concluded to leave the interest rate unchanged. Economic data since last meeting in March 2019 has been broadly inline with expectations. Economic growth and job creations have been stronger than anticipated while inflation has been somewhat weaker. Hence, Fed committee believes that the current policy rate is appropriate. On inflation side, the Fed stressed while inflation came in at 1.5% and is still below the 2% objective, it tends to fluctuate stemmed by energy prices. Core inflation, however, unexpectedly fell, though Powell highlighted that the dip is more of a transitory factor. Another key highlight from the meeting, while policy rate was kept unchanged, the Fed cut the IOER (Interest on Excess Reserves) by 5bps to better control the rate objective. Chairman Powell, however, emphasized no plan on easing despite the excess reserves cut which should not be interpreted as the beginning of easing cycle.

US jobs data: unemployment rate was better than forecast. The US recorded a 49-year-low unemployment level of 3.6% in April 2019 (vs estimates of 3.8%), with professional and business services leading the job creation. The participation rate, however, decreased to 62.8% from 63% in the prior month which indicates lower number of people in the labor force. Monthly data release also showed that payrolls climbed by 263k, far higher than early expectation of 189k. On the other hand, average hourly earnings growth remained unchanged at 3.2%, below projections. We view that the figures should support The Fed's expectation to keep rate at current level as economy seems to remain solid.

Purchasing Manufacturing Index (PMI) readings:
US. The US recorded a lower than expected PMI figure. The publishing institute, ISM, in its latest report revealed that the economic activity in the manufacturing sector expanded at a slower pace of 52.8 in April 2019 compared to the prior month's of 55.3. It portrays an expanding business activities, though at the softest levels since the fourth quarter of 2016.

China. China's PMI was recorded at 50.1 based on data from the National Bureau of Statistics, slightly lower than consensus forecast of 50.5. Meanwhile Caixin/Markit factory PMI for April came in at 50.1, softer than March's reading of 50.5 and consensus' forecast of 50.5. PMI readings above 50 indicate expansion and vice versa. A possible explanation regarding what happened was that companies ramped up production in March to utilize the value-added tax cuts that went into effect early April. However, China's economic stimulus might take several more months to show its effect.

Indonesia. Indonesia's PMI came in lower at 50.4 versus March's high of 51.2, but still signifies manufacturing expansion. IHS Markit, the institution that released the data, claimed that domestic demand was slowing down while export escalated for the first time in 1.5 years. One major event that can affect both countries' future manufacturing growth is U.S. - China trade talks that are still ongoing. Any positive outcome will help boost China's economy, and ultimately the global economy considering how interconnected economic environment is today.

Lingering risks on USDIDR. Despite being in a promising level since the beginning of the year, USDIDR in recent weeks has turned quite volatile, currently posted at IDR 14,266 (as of 3rd May 2019). Furthermore, USDIDR 12-month non-deliverable forward (NDF) has broken back its IDR 15,000 level since the end of Apr-19, raising a concern on IDR movement in the upcoming periods. One of the reasons behind the recent IDR volatility is the strengthening dollar index (DXY) which has been in upward trend since last year and currently stands at ~98 level. The strong DXY level is mainly on the back of better-than-expected US economy figures (GDP growth, employment data, etc.) amid global slowdown. This is coupled with the uncertainty arising from EU slowdown and the unaccomplished Brexit deal that may deteriorate Euro currency. Note that Euro covers more than 50% proportion of DXY basket. **In all, we maintain our cautious stance on USDIDR, expecting to see some volatility in the near to medium term.**

Indonesia's CPI rose in April 2019 with food prices leading the raise. Indonesia Statistics Bureau (BPS) reported that the monthly inflation in April 2019 increased to 0,44%, higher than market's estimates due to quite significant increase in food prices ahead of fasting month of Ramadan. The inflation level was higher than 0.11% level recorded in March, bringing year-to-date (YTD) inflation to 0,8% and year-on-year (YoY) inflation to 2,83%. Food commodities contributed 0,31% to the monthly inflation rate, while transportation contributed 0,05% to the inflation rate, mainly due to higher air fares. Overall, 2,83% YoY inflation remained between the Bank Indonesia's

(BI) 2.5-4.5% target range. Whereas, we expect higher inflation going onwards considering Lebaran celebration and possible utilities prices hike.

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