

Economic & Market Outlook 2016

Preparing For A Lift-Off

Reliance
Securities

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Advanced economies

- *Recovery is progressing at modest pace*
 - *Accommodative monetary policy*
 - *Softer commodity prices*
 - *Support aggregate demand*
 - *Put downward pressure on headline inflation*
- *Subdued medium term growth outlook*
 - *Near Secular Stagnation*
 - *Crisis legacies (Country-specific)*
 - *Public & private debt overhang, lower investment, weak financial sector*
 - *High Unemployment and Demographic transition*
 - *Slowdown in EM implies weaker exports*

Developing economies

I. Downturn in commodity prices

- *Oil price*
 - *Higher future output following the nuclear deal with Iran*
 - *Weaker global demand*
- *Metal prices*
 - *Growth realignment in China*
 - *Slowdown in commodity intensive investment and manufacturing activity*
 - *Oversupply following mining investment boom*

II. Post-crisis ongoing economic adjustment

- *Pressure on emerging markets' currencies*
 - *countries with weakening growth prospects and worsening terms of trade*
- *Reversal of Capital Flow*
- *Financial Market volatility*
 - *Depreciation of the renminbi*
 - *Sharp correction in equity prices*

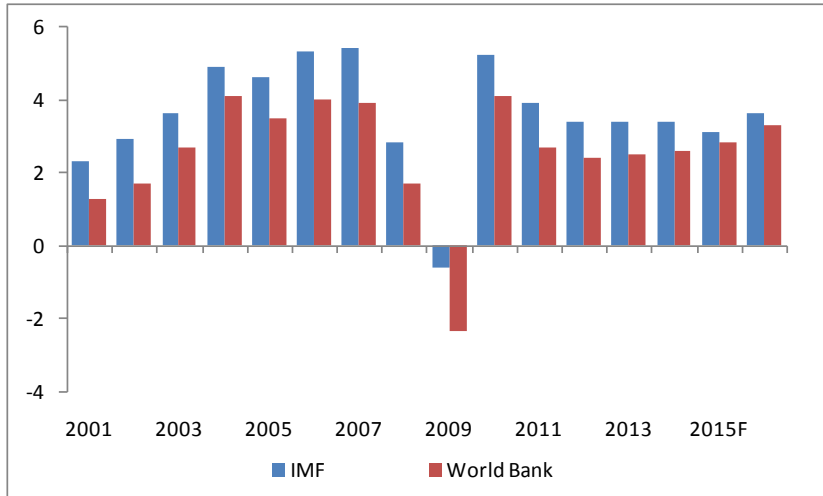
Emerging Markets near-term outlook

- *Remain vulnerable*
 - *Further declines in commodity prices*
 - *Sharp appreciation of the USD*
 - *Further strain corporate balance sheets*
 - *Spillover from a hard landing in China*

Our Forecast

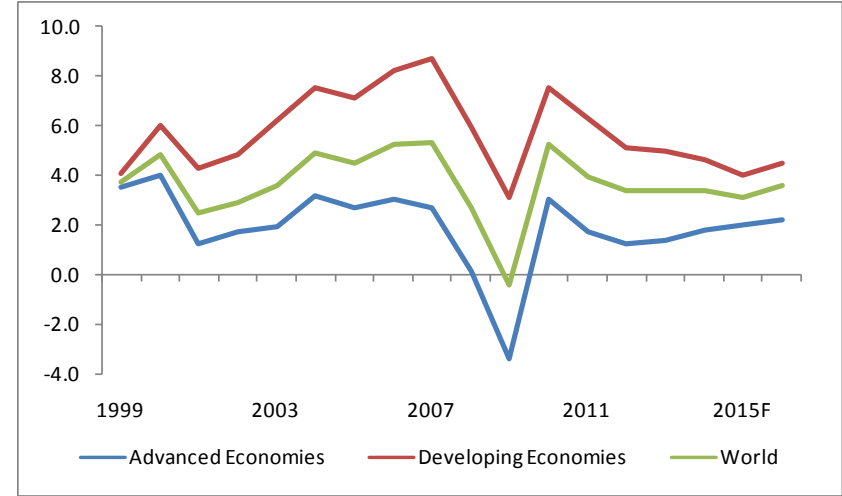
- *Global economic growth ticks up marginally in 2016*
 - *Firm growth in Euro area and India*
 - *Stable growth momentum in U.S., Japan and China*
 - *Weak growth momentum in Russia and Brazil*

World Real GDP (%)



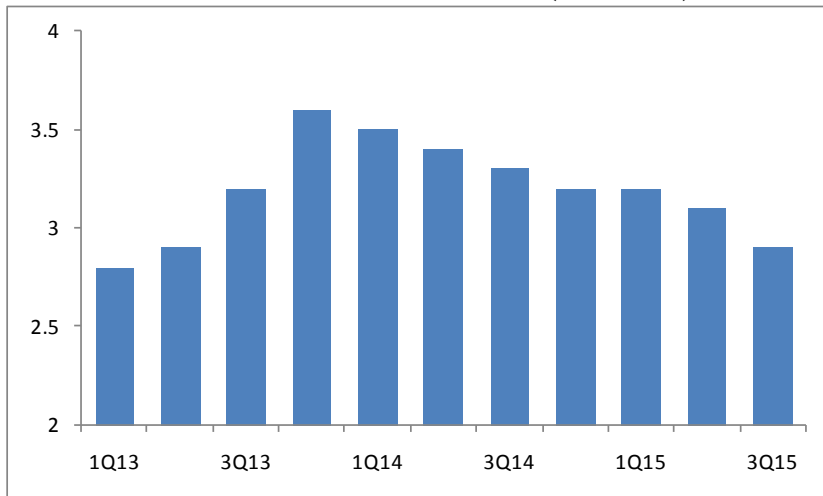
Source: WB, IMF

Growth in Advanced & Developing Economies



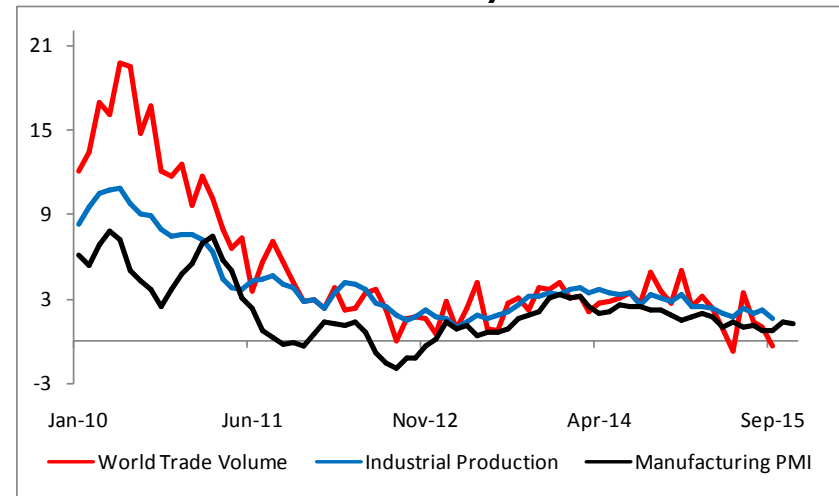
Source: WEO IMF

G-20 Real GDP Growth (% YOY)



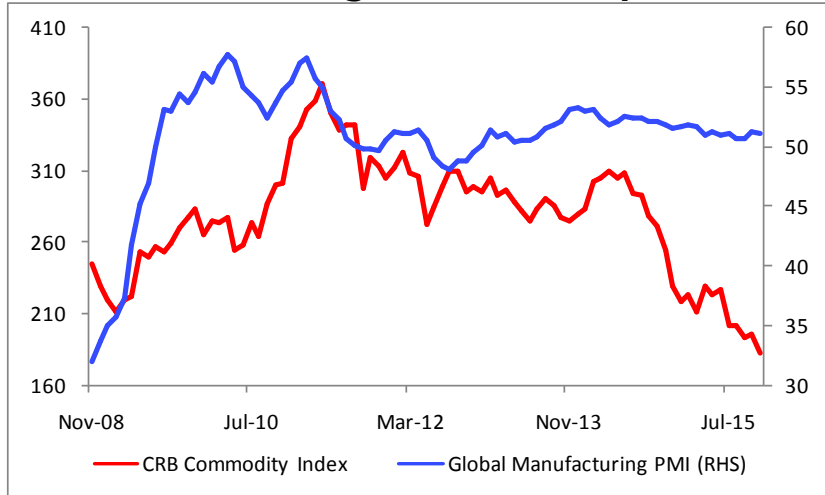
Source: OECD

Global Activity Indicators



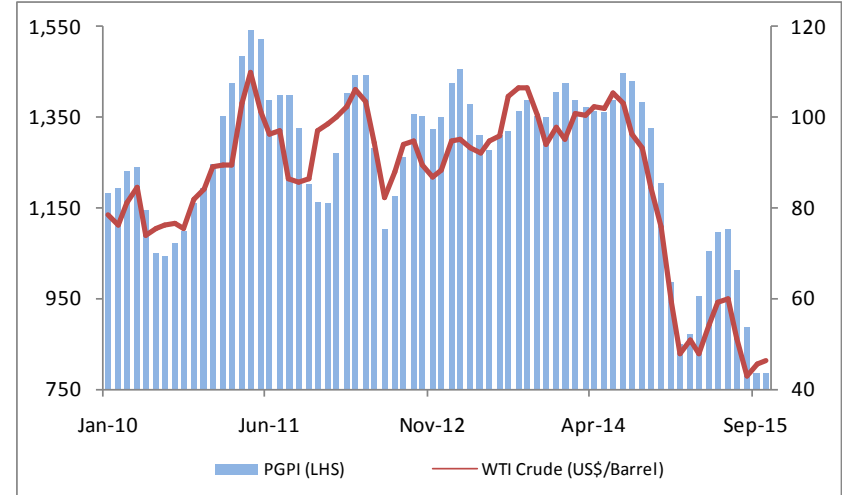
Source: CPB, Markit

Manufacturing & Commodity Price

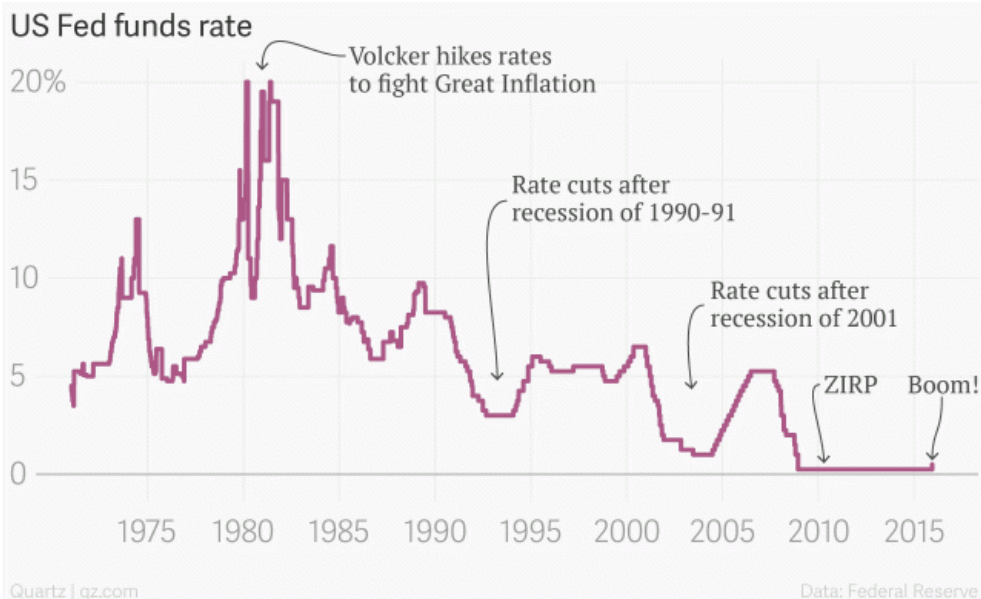


Source: Markit, Bloomberg

Platts Global Petrochemical Index & Oil Price



Source: Bloomberg, platts.com

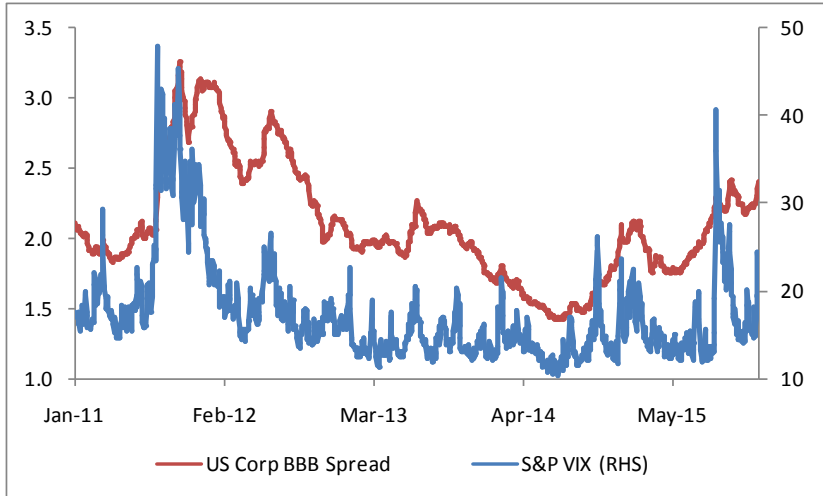


Quartz | qz.com

Data: Federal Reserve

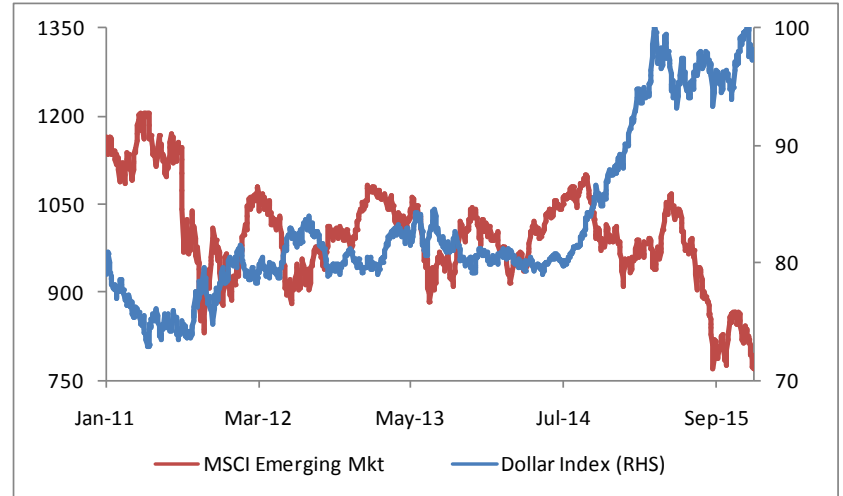
Risk Aversion

Volatility in Financial Markets



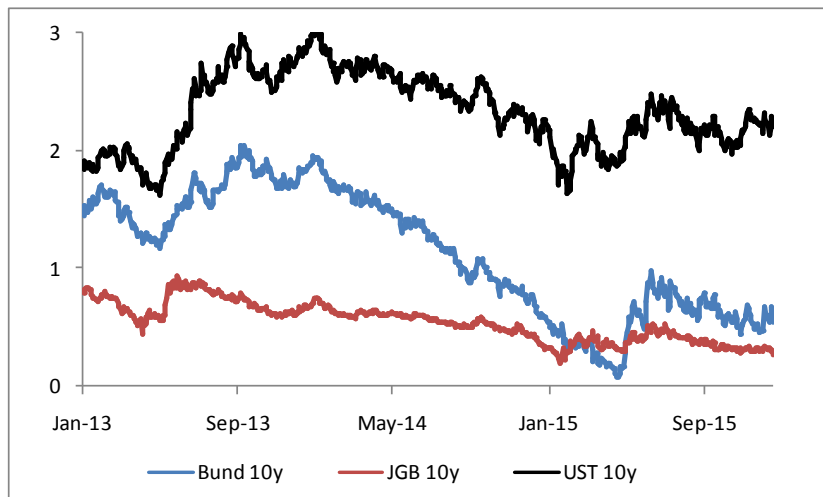
Source: Bloomberg, FRED

Dollar Index And MSCI EM



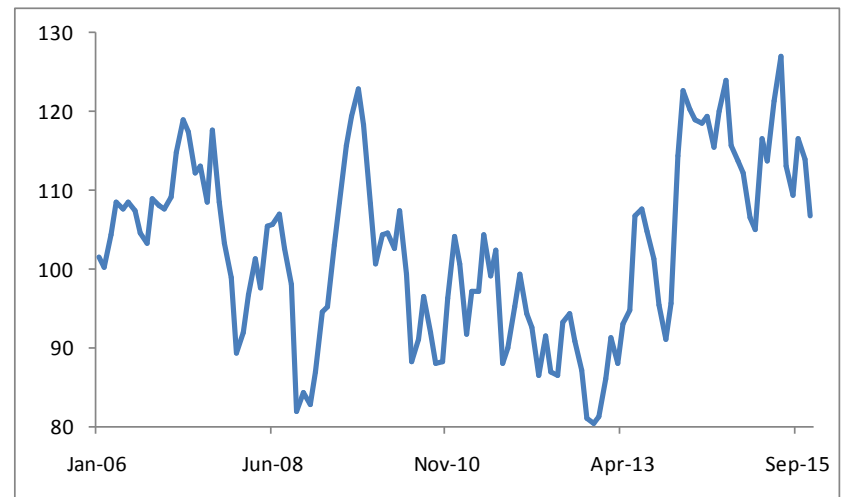
Source: Bloomberg, MSCI

G3 Bond Yields (%)



Source: Bloomberg

Global Investor Confidence Index



Source: State Street

The end of growth moderation

- *GDP grew 4.7% in 3Q15, same pace in 1Q15 and 2Q15.*
- *Sign of stabilization*
- *Supported by increase in public sector spending*

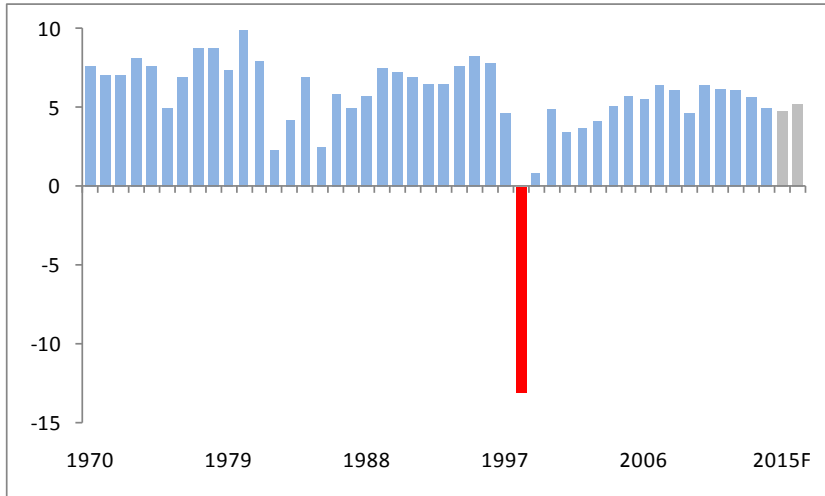
Output Gap is still negative

- *The economy is producing less than potential*
 - *Real GDP < potential GDP*
- *Capital & machinery are under-utilized (Spare capacity)*
 - *Production capacity utilization: 75.4% (3Q15), 79.8% in 4Q14*
- *Excess supply of labor*
- *Downward pressure on inflation*

Poverty reduction efforts stall as growth sputters

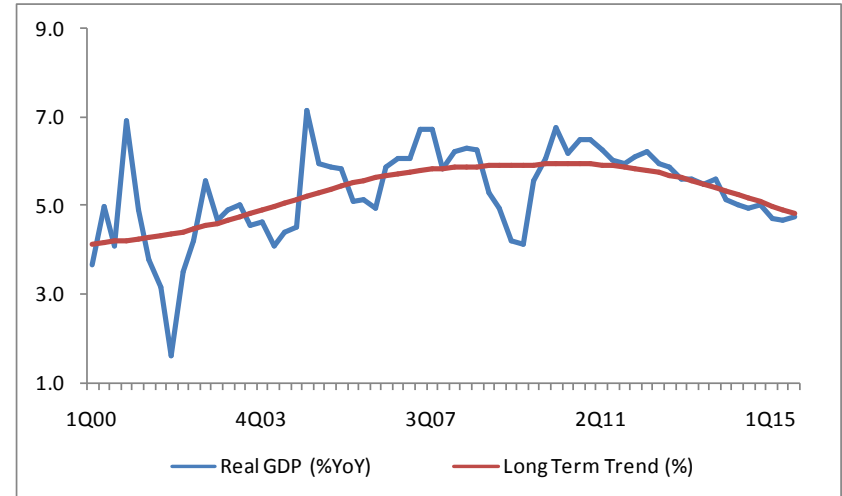
- *Wider inequality in distribution of income*
 - *Gini Coefficient (Ratio) stood at 0.413 in 2013*
- *Spike in both Poverty Rate and Open Unemployment Rate*

Annual Real GDP Growth (%)



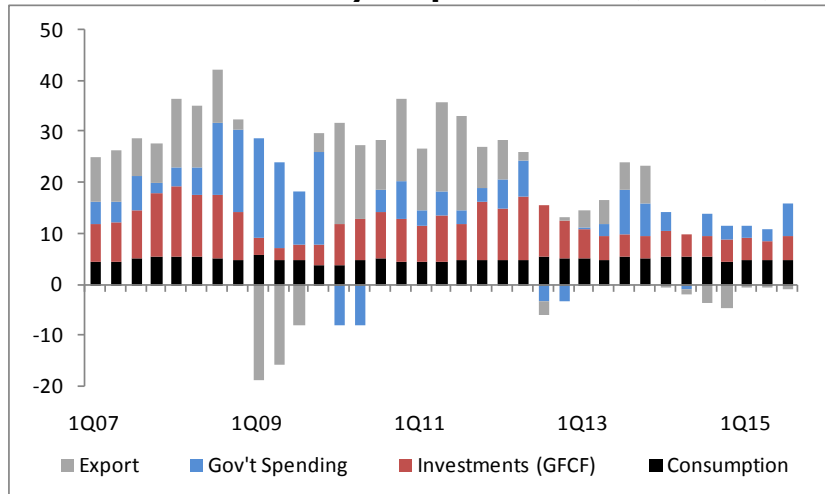
Source: BPS, Reliance Estimate

Quarterly GDP & Its Long-Term Trend)



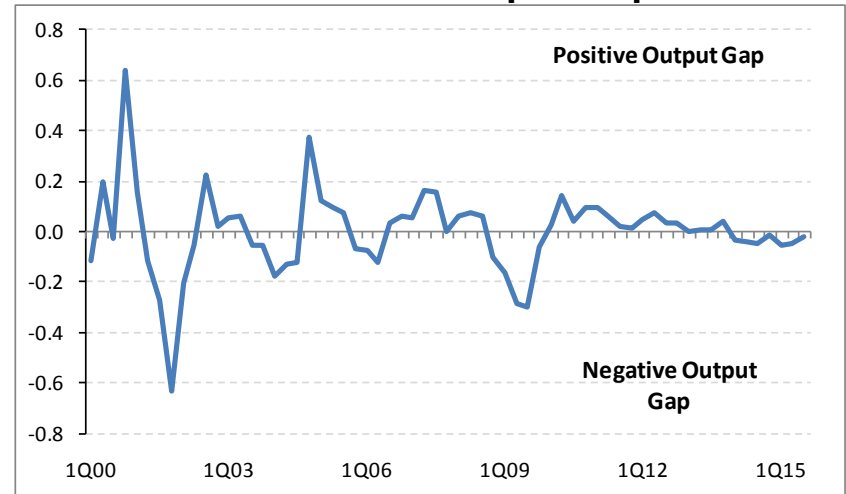
Source: BPS, Reliance Calculation

GDP Growth By Expenditure (% YOY)



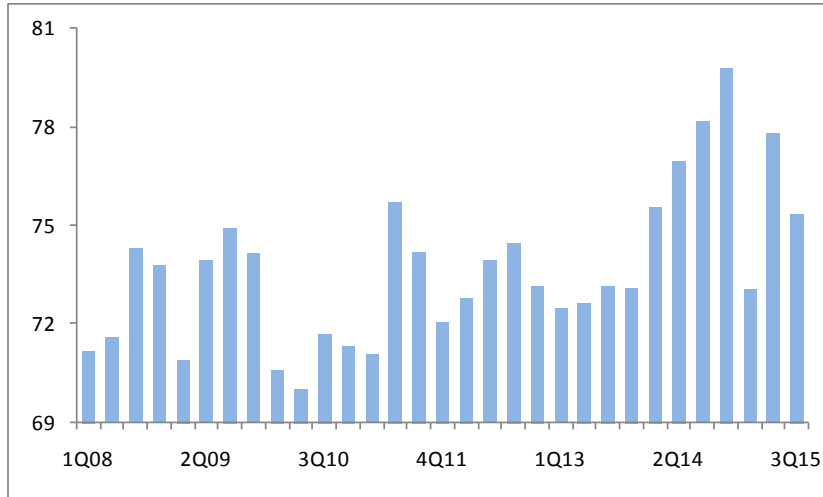
Source: BPS

Indonesia's Output Gap



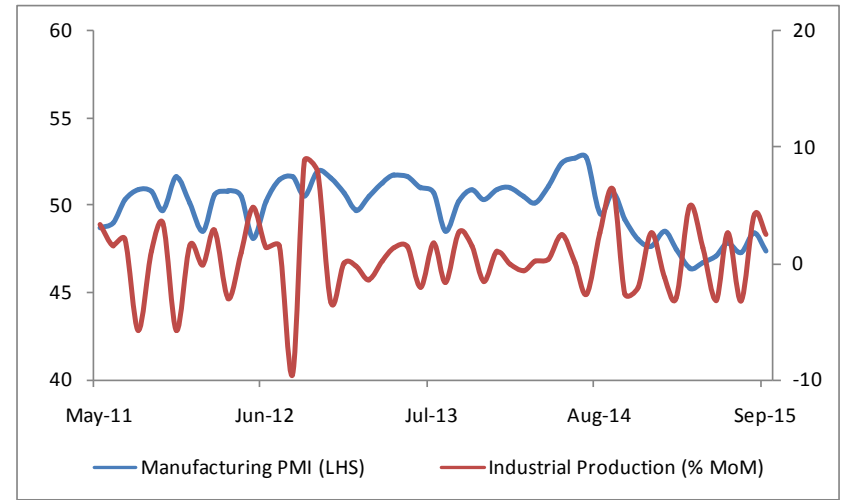
Source: Reliance Calculation

Production Capacity Utilization (%)



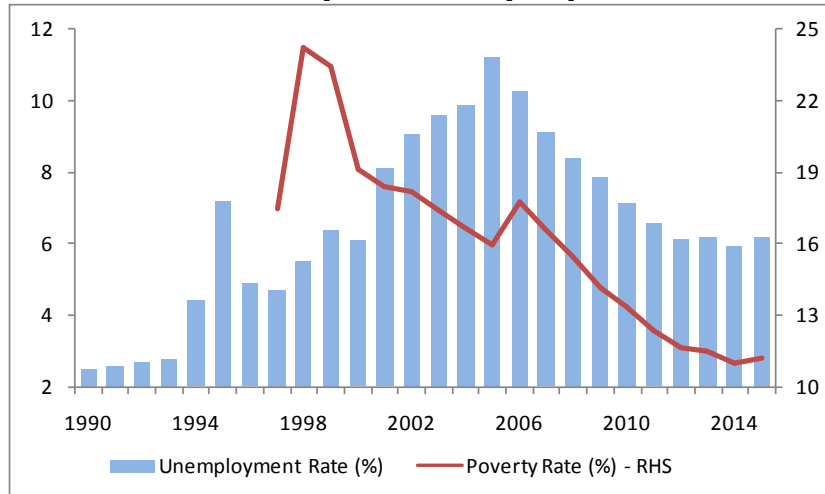
Source: Bank Indonesia

Manufacturing PMI & Industrial Production



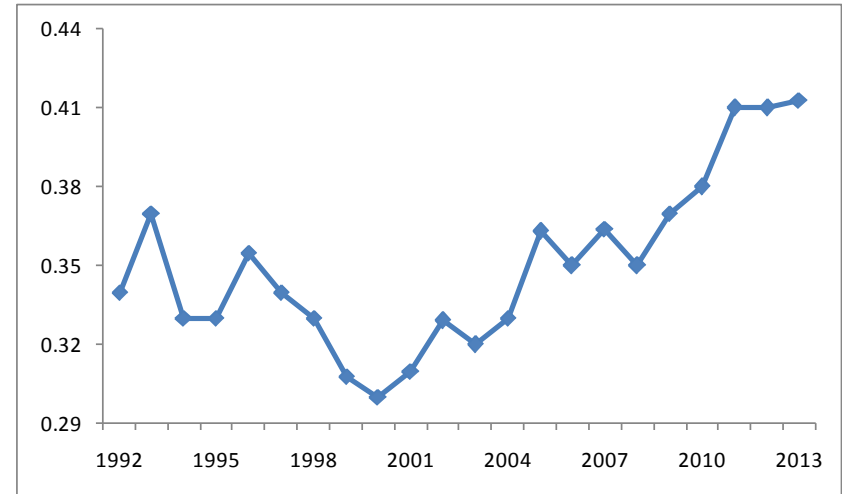
Source: BPS, Markit

Poverty & Unemployment



Source: BPS

Gini Coefficient



Source: BPS

Private Consumption

- *Grew 5.0% (YOY) in 3Q15*
- *The same moderate pace recorded in the two previous quarters*
- *In line with the 2007-2014 average*

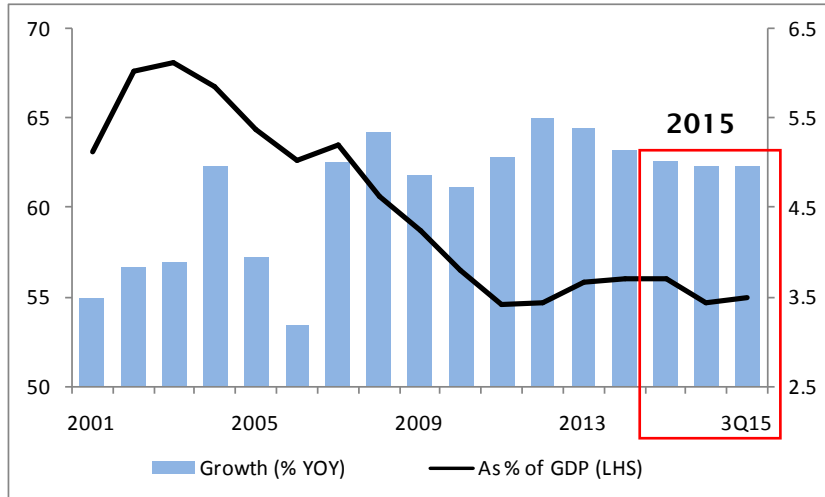
Consumer Confidence Dips Sharply

- *A negative feedback loop between*
 - *A weaker exchange rate,*
 - *Falling commodity prices (hence lower rural incomes)*
 - *Pessimism over the medium-term outlook for the economy*
- *BI's Consumer Confidence Index*
 - *Fall 16.4 pts (-13.7% YOY) in November 2015*
- *ANZ-Roy Morgan Indonesia Consumer Confidence*
 - *Down 17.2 pts (-10.7% YOY) in November 2015*

Purchases of major household items are held back

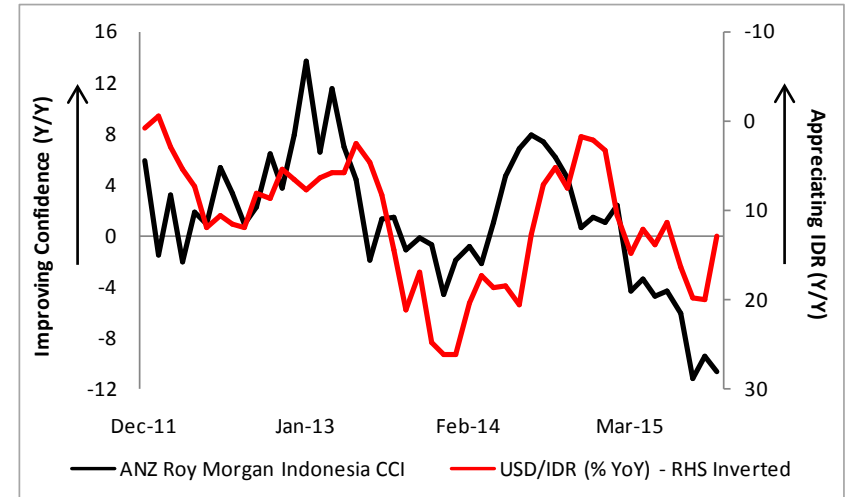
- *Residential property price index up 5.5% (YOY), the slowest since 3Q12*
- *Domestic car sales fell 16.75% (YOY) in 11M2015*
- *The Technical Consumer Goods market in 3Q15*
 - *Generated 7.2% (YOY) fewer sales*
 - *Dragged down by IT (-21.6%), Telecommunication (-6.6%) and Consumer Electronics (-4.6%)*
- *The Fast Moving Consumer Goods (FMCG) in November 2015*
 - *The sector continues showing negative trend amid subdued inflation and stabilizing USD/IDR*
 - *Positive growth in value is driven by increasing price per unit*

Private Consumption



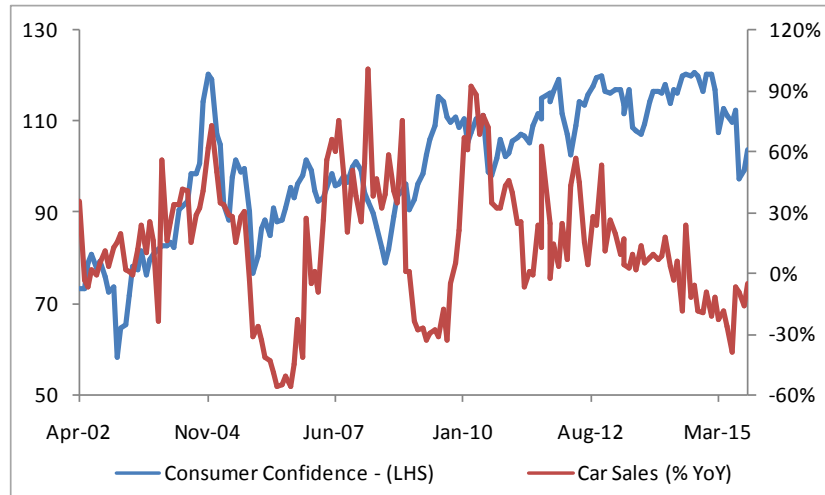
Source: BI

Consumer Confidence & USD/IDR



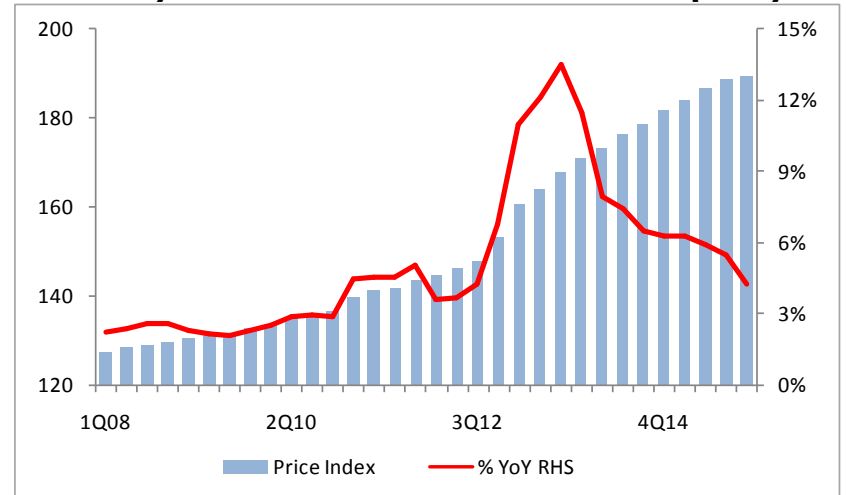
Source: ANZ-Roy Morgan, BI

CCI & Domestic Car Sales



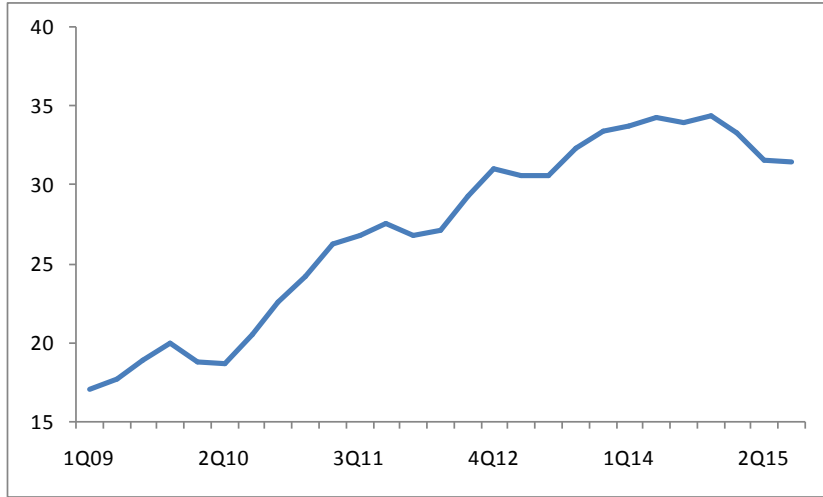
Source: BI, GAIKINDO

Primary Market for Residential Property



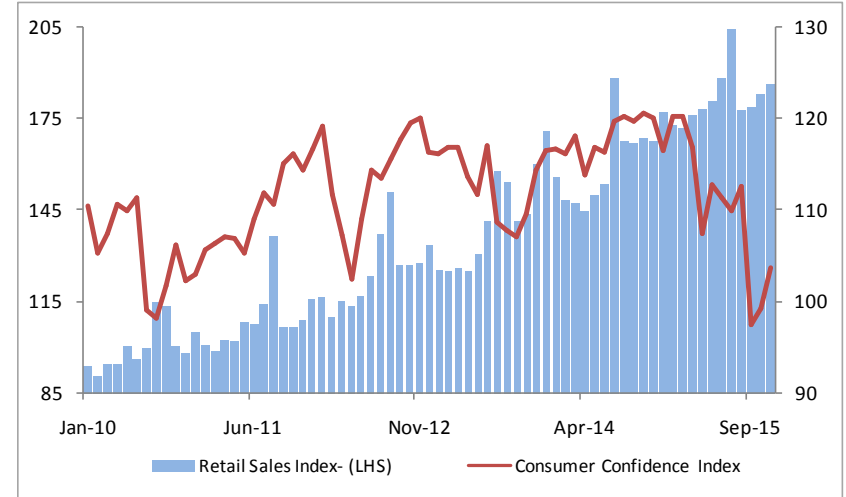
Source: BI

Gfk TEMAX Indonesia



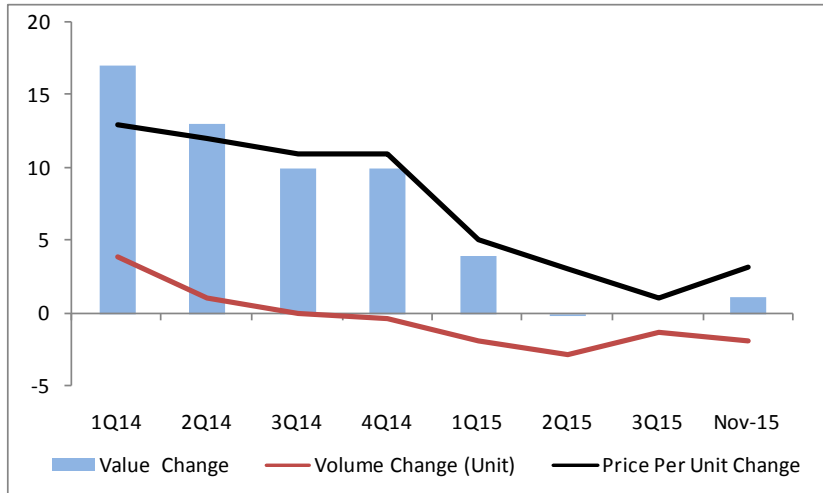
Source: Gfk

Consumer Confidence & Retail Sales Index (% YOY)



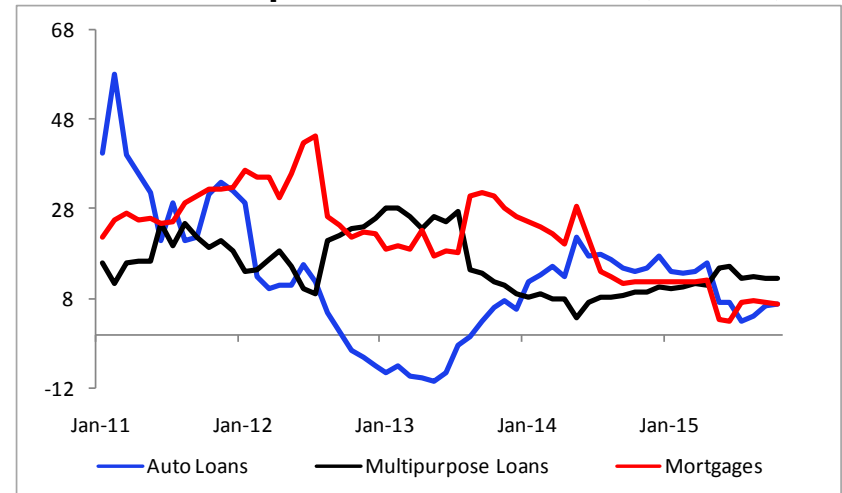
Source: Gfk

Indonesia FMCG Trend



Source: Kantar World Panel

Consumption Loan Growth (% YOY)



Source: OJK

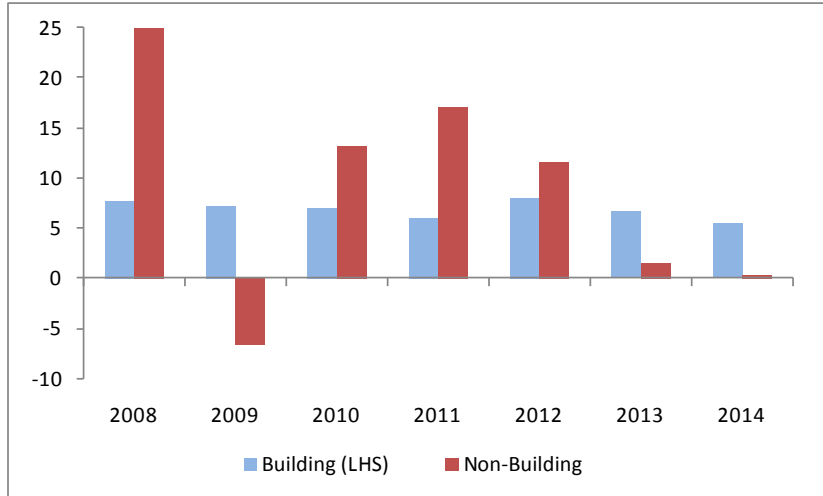
Gross Fixed Capital Formation (GFCF) in 3Q15

- *Grew 4.62% (YOY) and contributed 32.3% of GDP, underpinned by*
- *Strong building-related investment*
 - *6.25% (YOY) in 3Q15 vs 4.52% (YOY) in 3Q14*
 - *Construction sector grew 6.82% (YOY) rebounding from 5.35% (YOY) in 2Q15, the slowest pace since 1Q13*
- *Spending on machinery & equipment*
 - *2.53% (YOY) after registering negative growth in 1Q14 – 2Q15*
- *Government's infrastructure spending binge is expected to be the main driver for growth*

Direct Investment

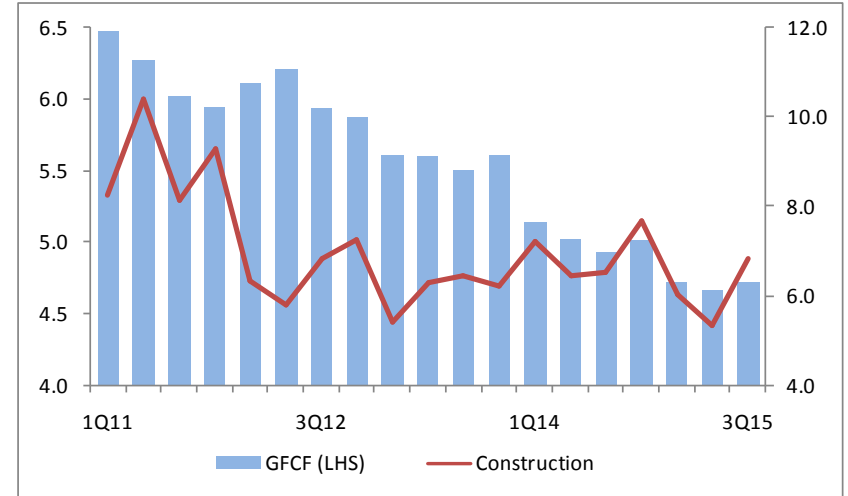
- *The realization of Direct Investment grew 16.72% (YOY) in 9M2015*
- *Foreign Direct Investment (FDI) was up 16.9% (YOY)*
 - *79% to start new projects and 21% to expand existing projects*
 - *Singapore, Malaysia and Japan are the top 3 foreign investors*
- *Domestic Direct Investment (DDI) increased 16.4% (YOY)*
 - *61.4% to start new projects and 38.6% to expand existing projects*

Gross Fixed Capital Formation (%)



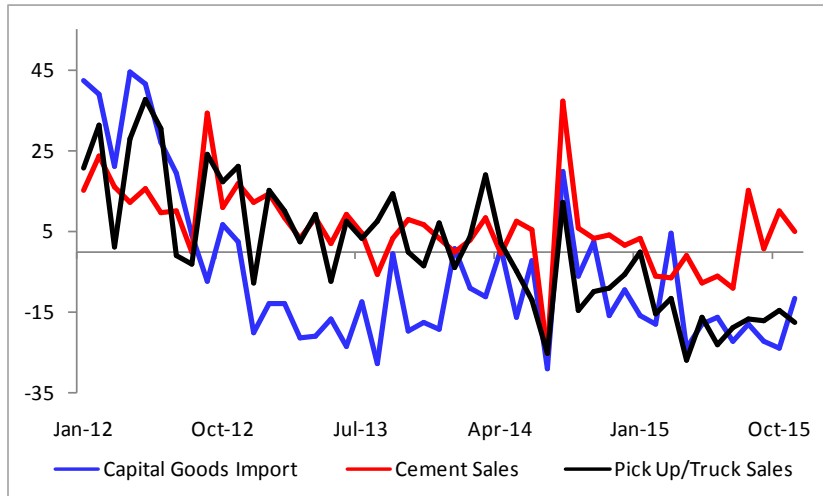
Source: BPS

GFCF (% YOY) & Construction Sector (% YOY)



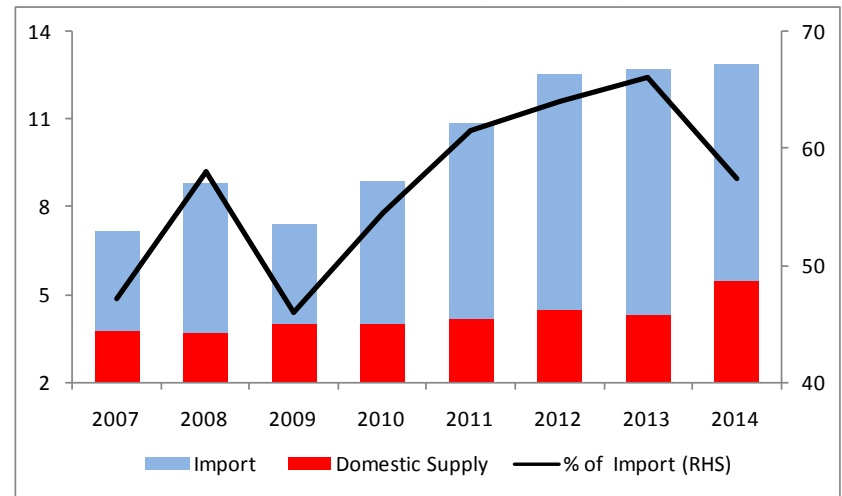
Source: BPS

Investment Indicator



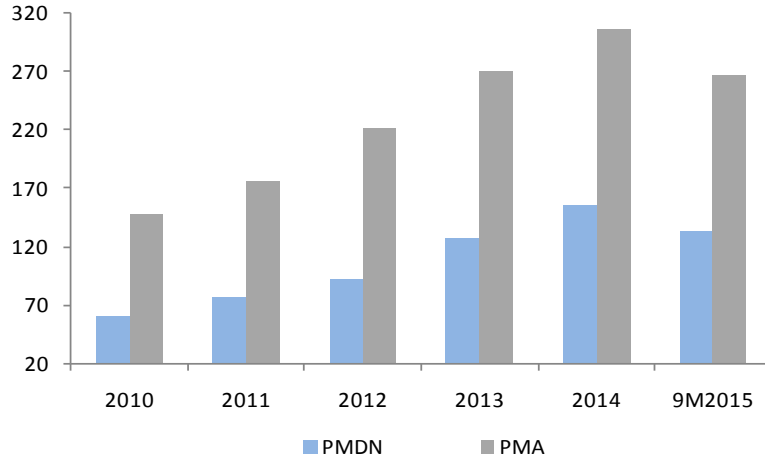
Source: BPS, Gaikindo, ASI

Steel Demand (mil ton)



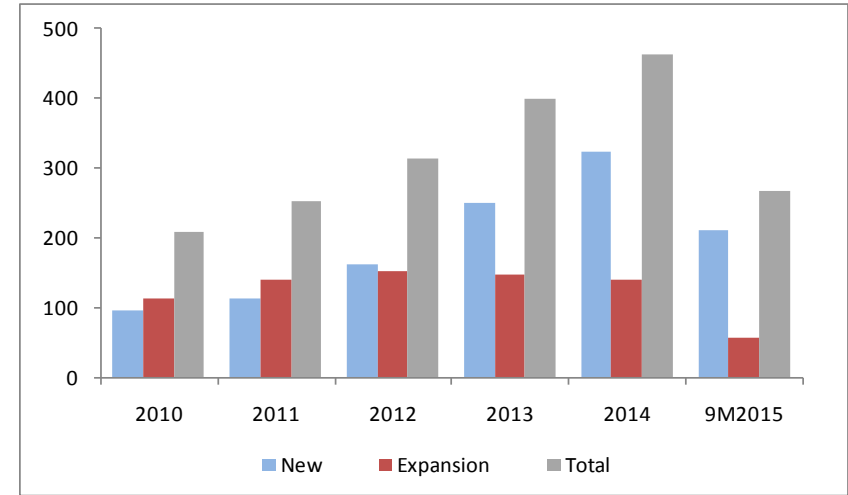
Source: BPS, Krakatau Steel

Direct Investment Realization (IDR Tn)



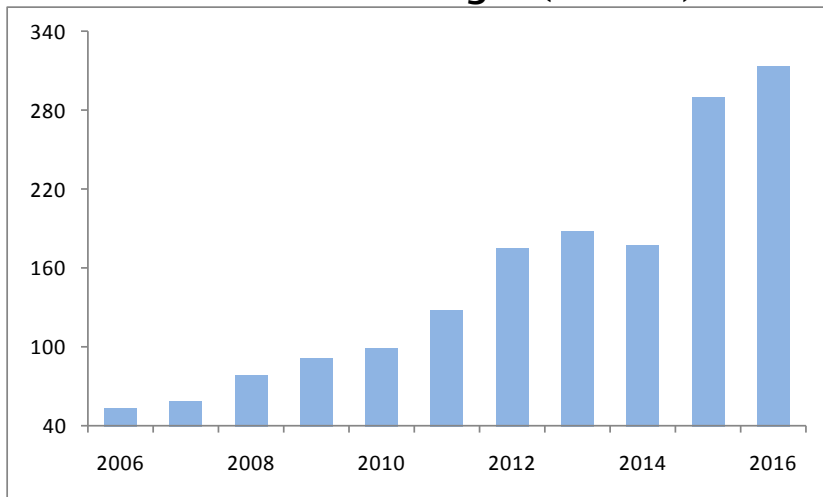
Source: BKPM

Investments Based on Type of Project (IDR Tn)



Source: BKPM

Infrastructure Budget (IDR Tn)



Source: MOF

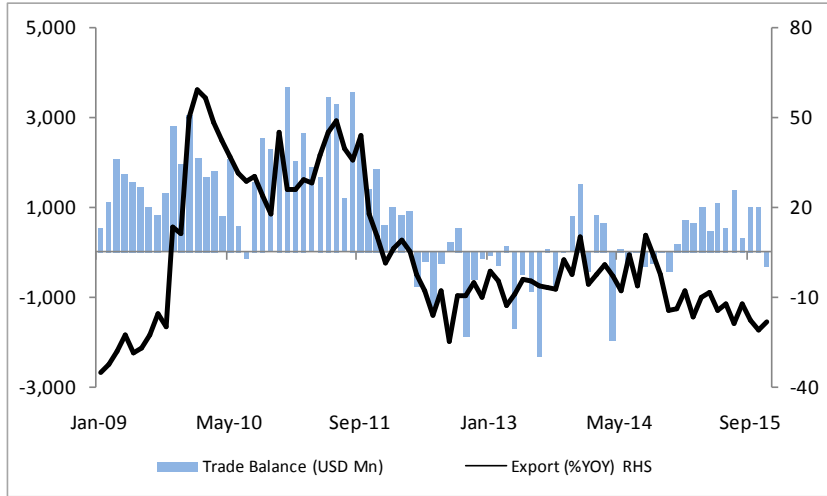
Trade balance 11M2015

- *Surplus \$7.8 billions, compared to \$1.9 billion deficit in 11M2014*
- *Exports fell 14.32% (YOY)*
 - *Oil & Gas -37.75% (YOY)*
 - *Non-Oil & Gas -9.43% (YOY)*
 - *Main export destination USA (11.55%), China (9.93%) and Japan (9.83%)*
- *Imports declined 20.24% (YOY)*
 - *Oil & Gas -43.06% (YOY)*
 - *Non-Oil & Gas -12.84% (YOY)*
 - *Consumption Goods -15.17% (YOY), Capital Goods -17.06% (YOY), Intermediate Goods -21.39% (YOY)*
 - *Imports originated from China (24.54%), Japan (11.35%) and Singapore (7.58%)*

Terms of Trade

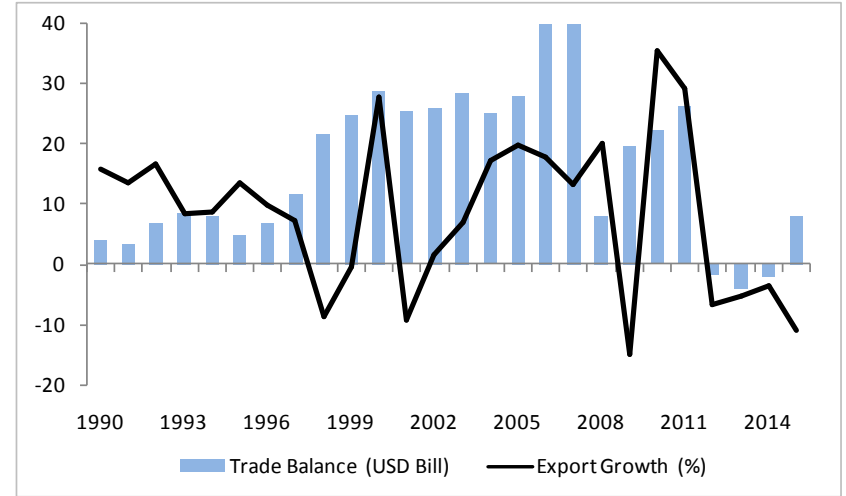
- *Still unfavorable (< 100)*
 - *The price of imports has risen faster relative to the price of exports, thanks to weaker IDR*

Monthly Trade Balance



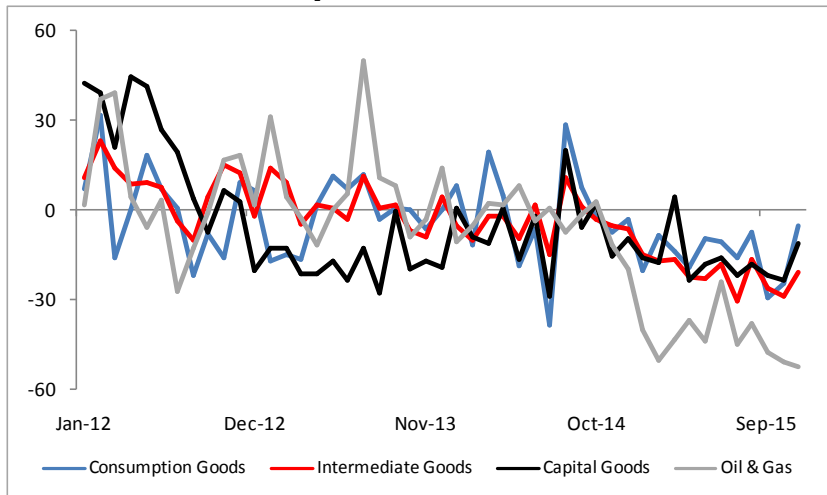
Source: BPS

Annual Trade Balance



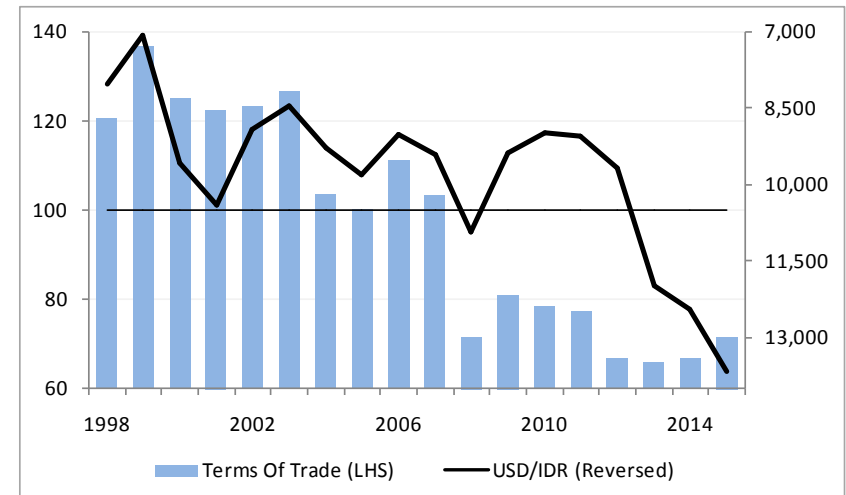
Source: BPS

Imports (% YOY)



Source: BPS

Terms of Trade



Source: Reliance Securities calculation

Improved external balance in 3Q15

- *Current Account (CA)*
 - *Deficit stood at US\$4.0 billion (1.86% of GDP)*
 - *A decline from US\$7.0 billion (3.02% of GDP) in 3Q14*
 - *And US\$4.2 billion (1.95% of GDP) in 2Q15*
- *Capital & Financial Account*
 - *Holding on tightly to depleted surplus of US\$1.15 billion (3Q15)*
 - *Much lower than US\$14.73 billion surplus in 3Q14*
 - *Or US\$2.25 billion surplus in 2Q15*
 - *Deficit in Net Portfolio Investment*
 - *Net foreign sell in capital market*

FX Reserve

- *Reached US\$100.2 billion in November 2015, equal to 6.8 months of import and debt repayment*
- *Down from US\$111.9 billion in December 2014*
- *BI Intervention to stabilize USD/IDR*
- *Debt repayment by corporations*

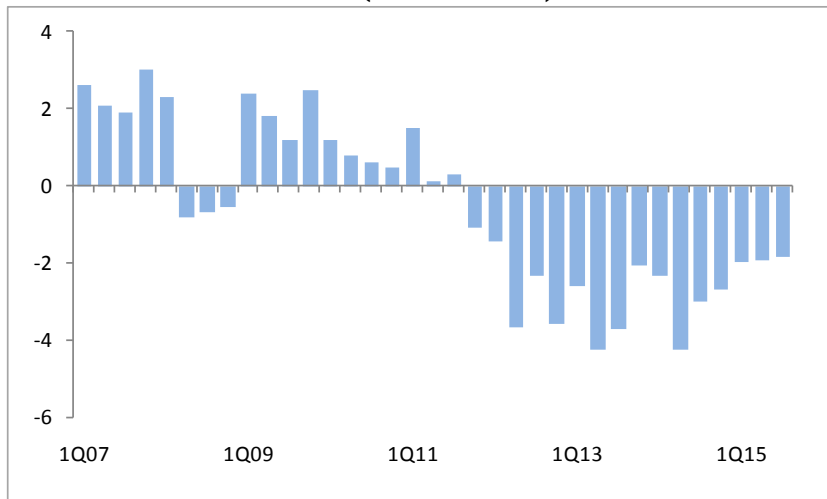
External debt Coverage Ratio

- *Fell back to < 100%, 97.8% in 3Q15*
 - *Fell back below 100%*
 - *97.8% in 3Q15 compare to 106.6% (1Q15) and 102.1% (2Q15)*
 - *A country with low external debt coverage (IR/STED) ratio*
 - *more vulnerable to speculative attacks or external shocks due to limited availability of FX*
 - *An economic crisis will tend to be more severe if this ratio is low*

USD/IDR

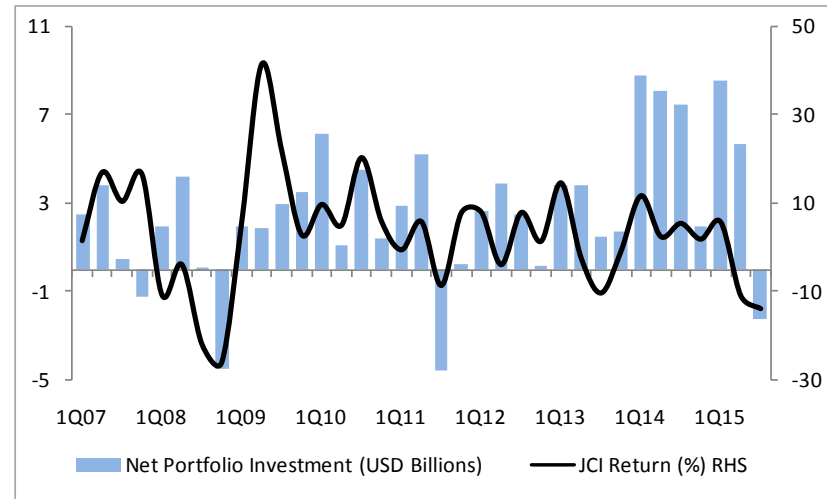
- *The USD/IDR volatility steadily has steadily crept up since August 2015 before skyrocketed in October 2015*
- *Down from US\$111.9 billion in December 2014*
- *USD?IDR Real Effective Exchange Rate (REER) in November 2015 was marginally above its long term historical average*
- *In 2015, IDR performance is the second worst in Asia*

CAD (% of GDP)



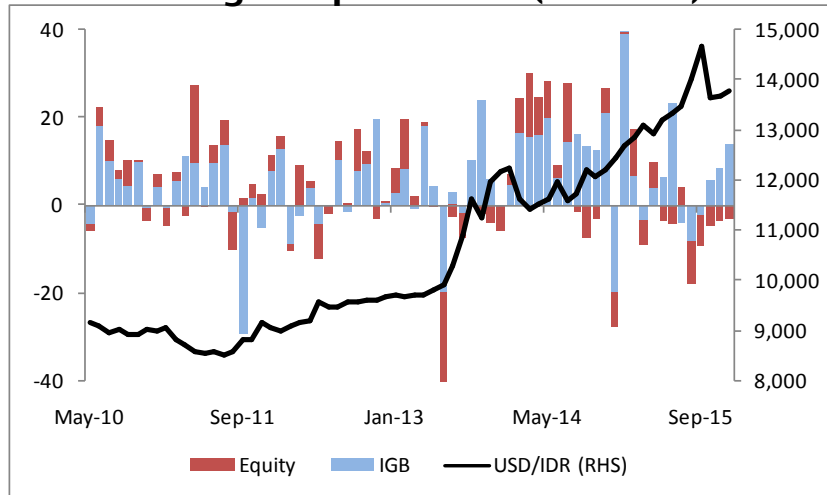
Source: BI

Net Portfolio Investment



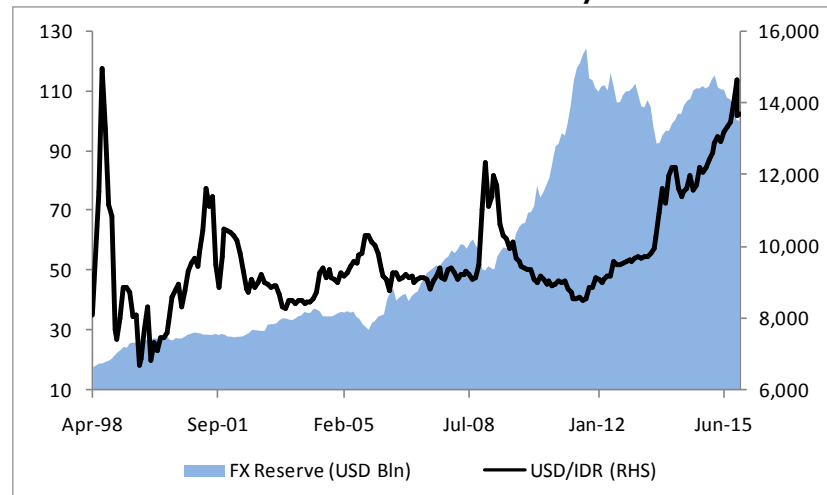
Source: BI, IDX

Foreign Capital Flow (IDR Trn)



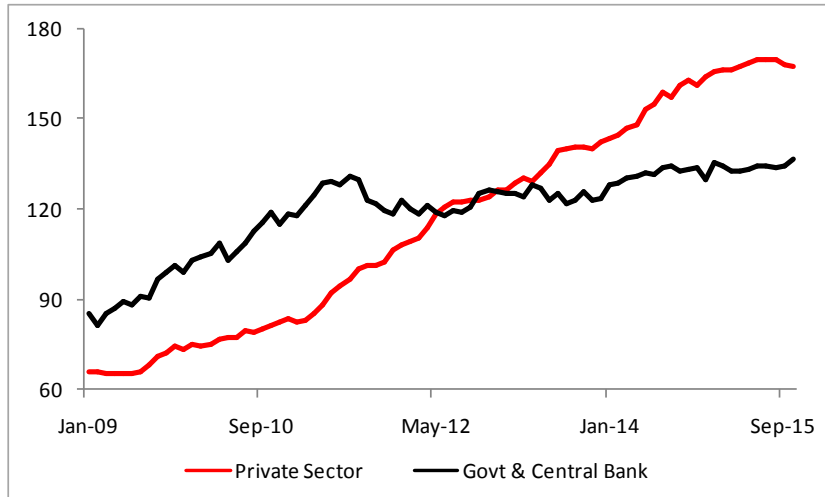
Source: BI, IDX, DJPPR

FX Reserve & USD/IDR



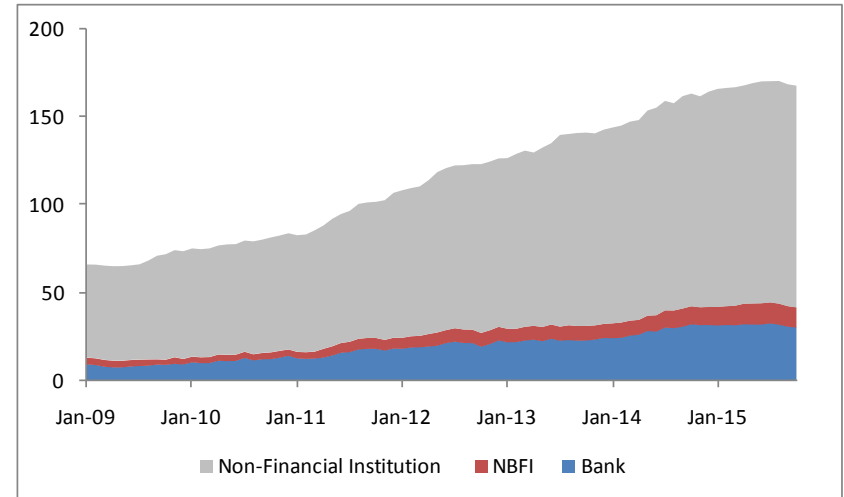
Source: BI

External Debts (USD Bln)



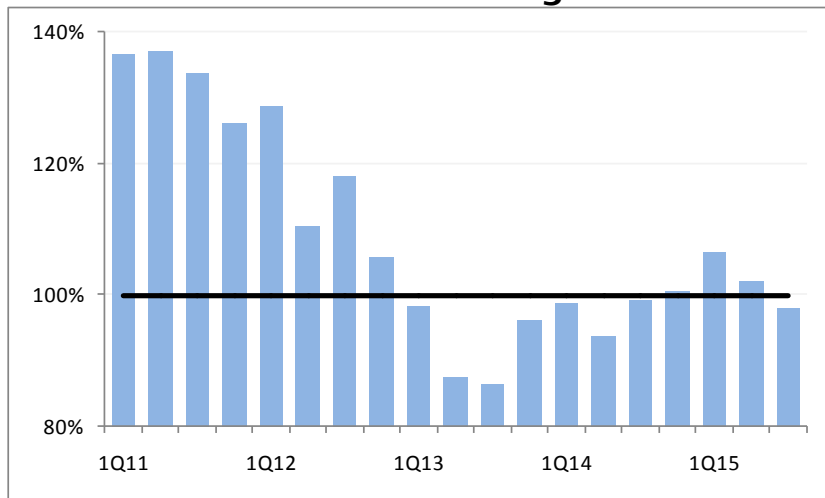
Source: BI

Private Sector External Debt (USD Bn)



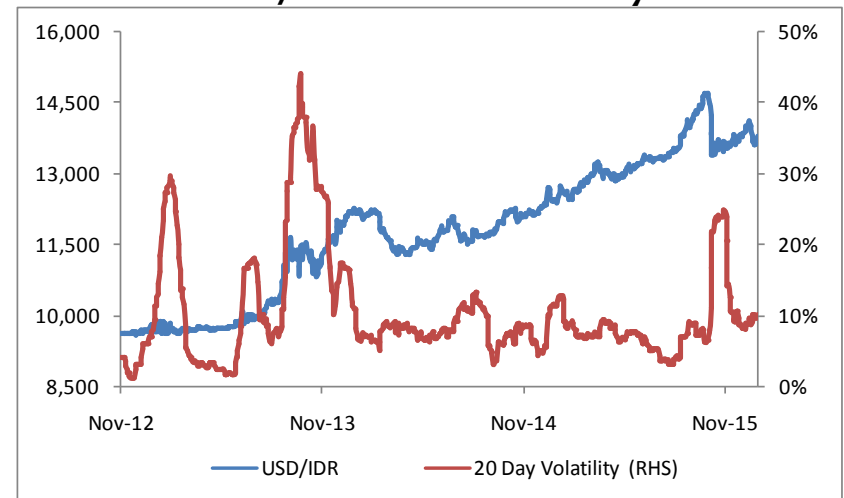
Source: BI

External Debt Coverage Ratio



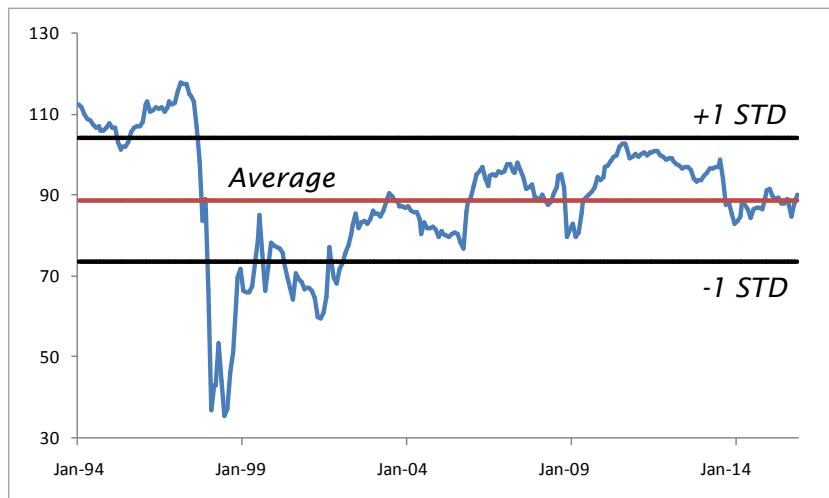
Source: BI, Reliance Securities Calculation

USD/IDR & Its Volatility



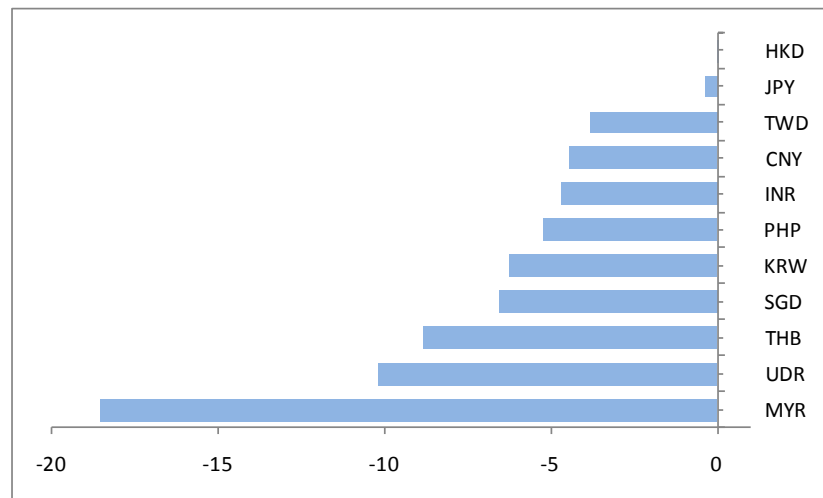
Source: BI, Reliance Securities Calculation

IDR Real Effective Exchange Rate (REER)



Source: BI, Reliance Securities Calculation

Asia Currencies Spot Return (%) 2015



Source: Bloomberg

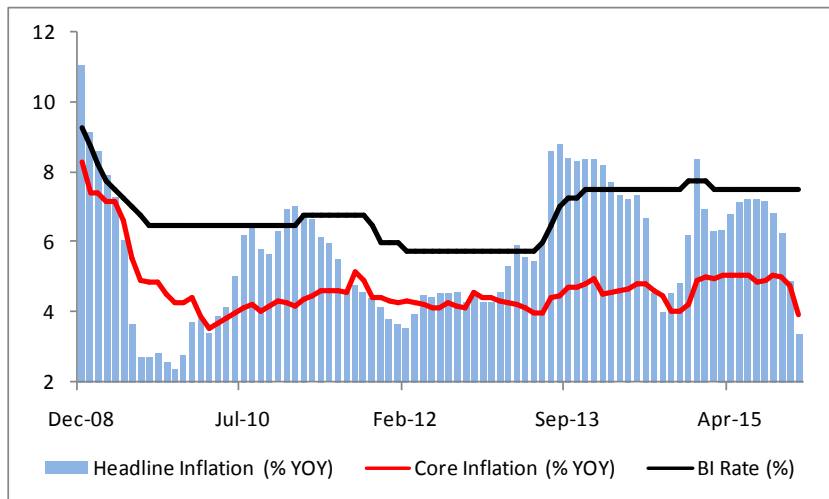
Headline Inflation

- *Eased to 3.35% in 2015 after hitting 8.38% (2013) and 8.36% (2014)*
- *The lowest since 2010*
- *Within the government target of 4% ± 1%*
- *Core CPI recorded at 3.95%*
- *We predict full-year inflation to be between 4.51% - 4.74% in 2016*

Monetary Policy

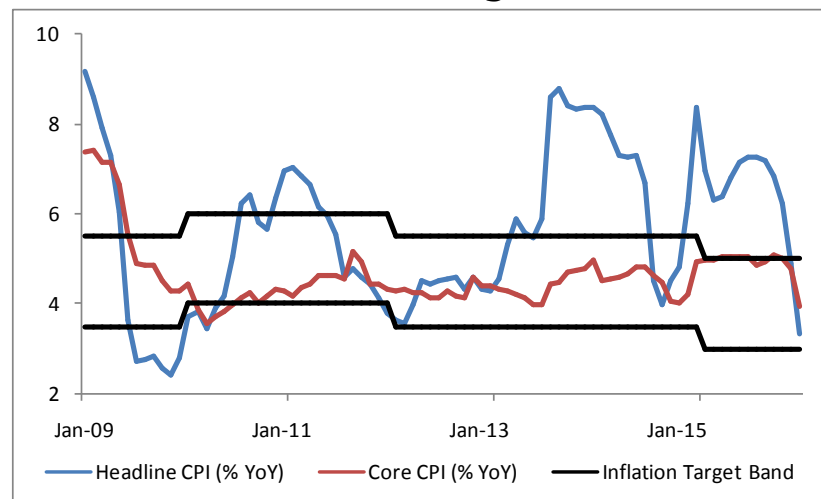
- *We strongly believe that Bank Indonesia (BI) would keep BI Rate steady at 7.5% for the time being (1Q16) and adopts easing bias on the back of preserved macroeconomic stability*
 - *CAD remain below 2% of GDP in 2015 and 1Q16*
 - *Well-anchored inflation expectation*
 - *No exogenous shocks to the global economy*
 - *Financial market gyration post FFR rise*

Policy Rate & Inflation Rate



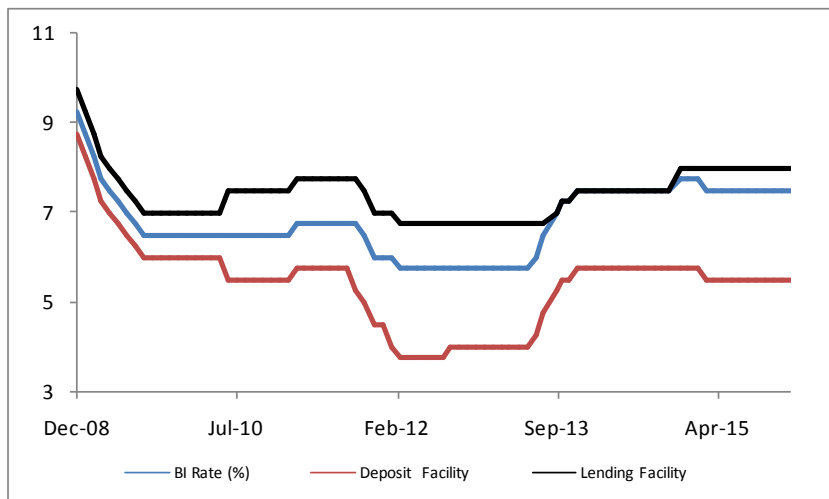
Source: BI

Inflation Target Band



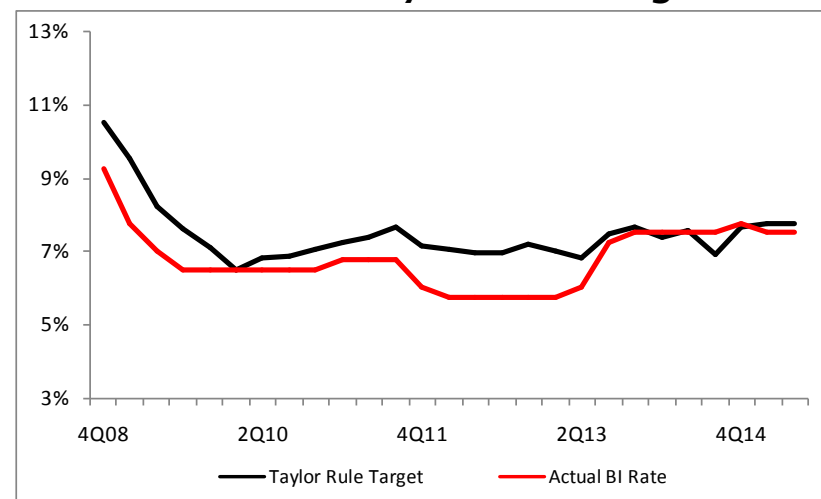
Source: BI

Interest Rate Corridor



Source: BI

BI Rate & Its Taylor Rule Target

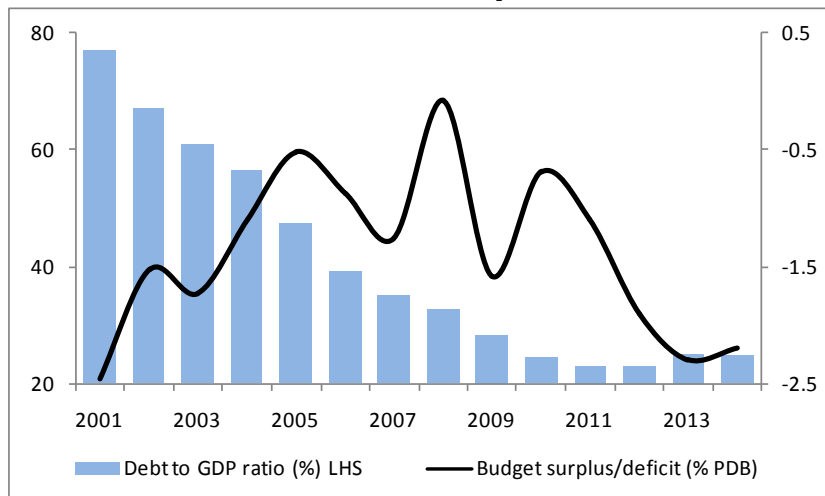


Source: BI, Reliance Securities Calculation

Fiscal consolidation to continue in State Budget 2016

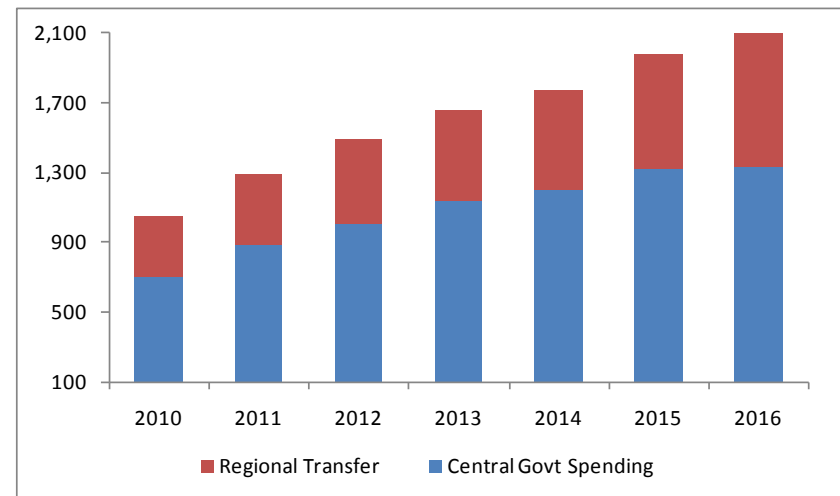
- *Optimization of tax revenue*
 - *without disturbing investment/business climate or dampening aggregate demand*
- *Efficient, productive and high quality spending*
 - *Further reduction in energy subsidies*
 - *Higher spending on infrastructure, health and social assistance*
 - *Decentralized fiscal (bigger transfer to local governments)*
 - *Dana Alokasi Khusus (DAK)*
 - *Dana Desa*

Fiscal Sustainability Indicator



Source: MOF

Decentralized Fiscal (IDR Tn)

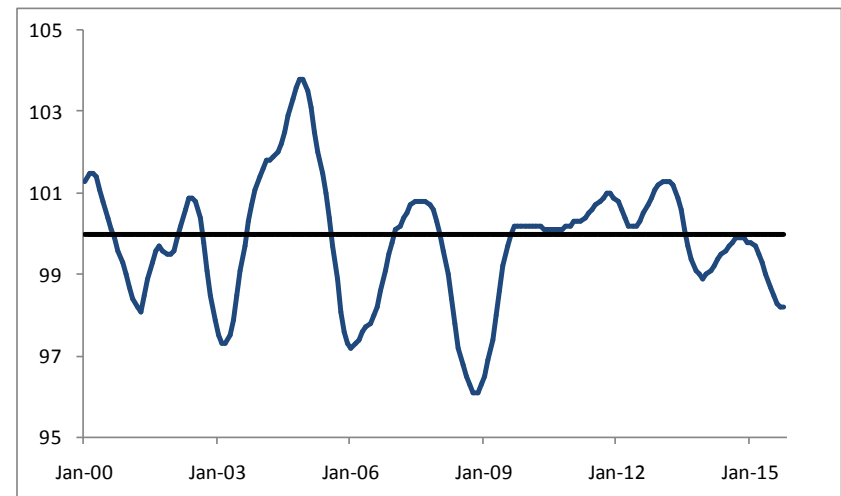


Source: MOF

- *Indonesia's GDP is to grow 4.8% in 2015*
- *The rate of economic expansion is projected to be in the range of 5.0%-5.2% in 2016*
- *Public sector spending along with stimulus induced business investments are expected to boost growth in 2016.*
- *Downside risk: Weaker tax revenue collection and slower budget execution or disbursement*

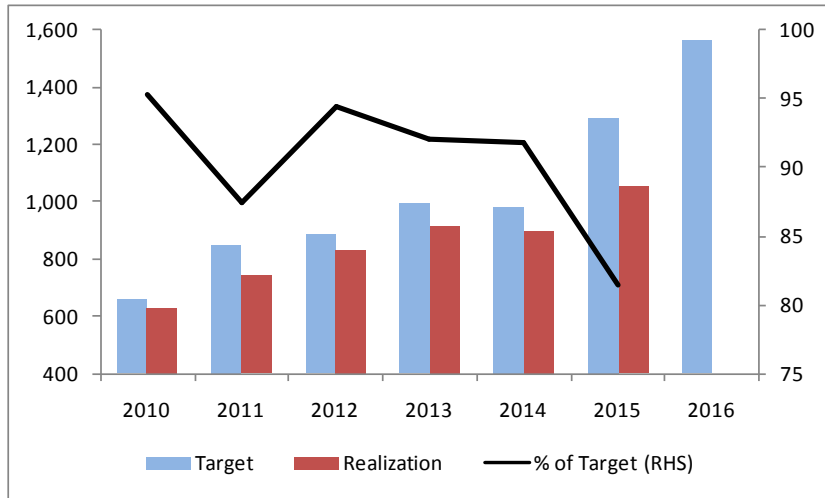
	2015	2016
GOI	4.9-5.2	5.3
BI	4.7-5.1	5.2-5.6
ADB	4.9	5.4
WB	4.7	5.3
IMF	4.7	5.5
LPS	5.0	5.3-5.5
OECD	5.3	5.9
Reliance	4.8	5.0-5.2

OECD Indonesia Composite Leading Indicator (CLI)



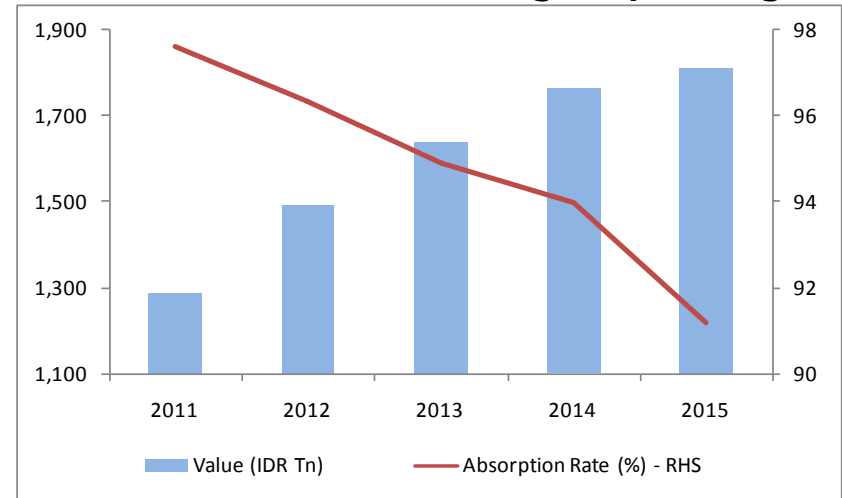
Source: OECD

Tax Revenue Collection (IDR Tn)



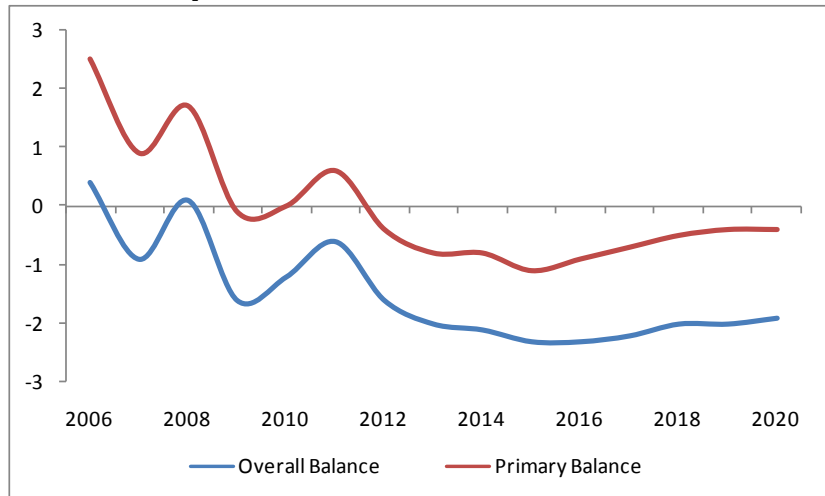
Source: MOF

Realization of State Budget Spending



Source: MOF

Primary Balance (% of Potential GDP)



Source: IMF GFSR

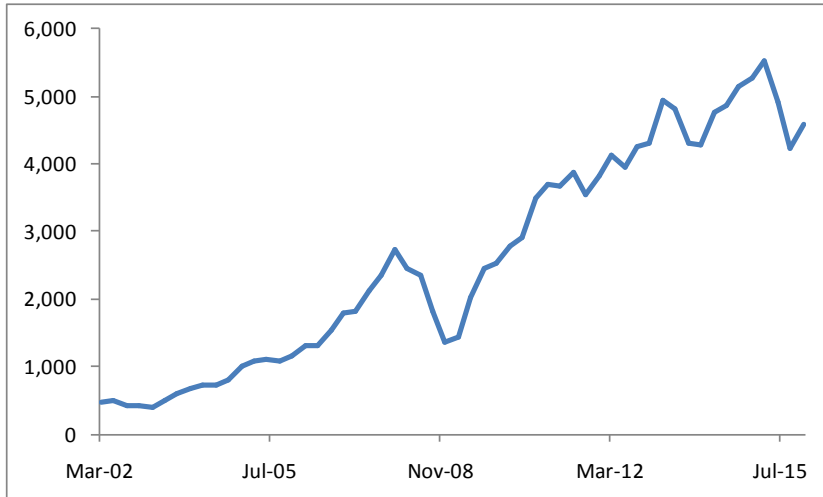
Equity Market

- *The Jakarta Composite Index (JCI) : 4,593 (-633.94 points, -12.81%)*
- *Severely oversold driven by de-rating of JCI's P/E multiple*
 - *Traded at low 12.55x PER in December 2015 (sharply below its 4 year historical average)*
- *Could experience modest rebound in 2016*
 - *Pervasive belief in the imminence of a economic recovery*
 - *Resilient domestic demand is offsetting the external weakness*
 - *Robust infrastructure-related investments*
- *The blue chip index LQ45 : 792.03 (-106.55 points, -11.86%)*

Bond Market

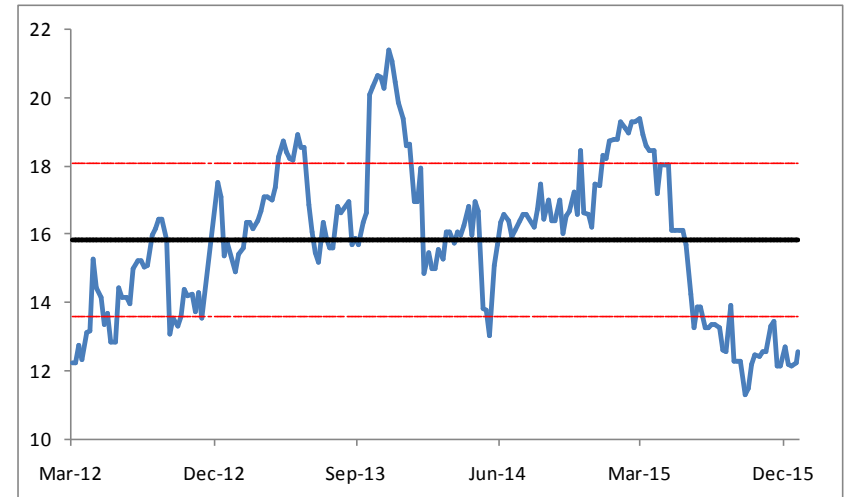
- *Indonesia Composite Bond Index (ICBI) generated 4.2% return*
 - *Government Bond Index: +3.30%*
 - *Corporate Bond Index: +9.86%*
 - *Islamic Bond (Sukuk) Index: -12.13%*

Jakarta Composite Index (JCI)



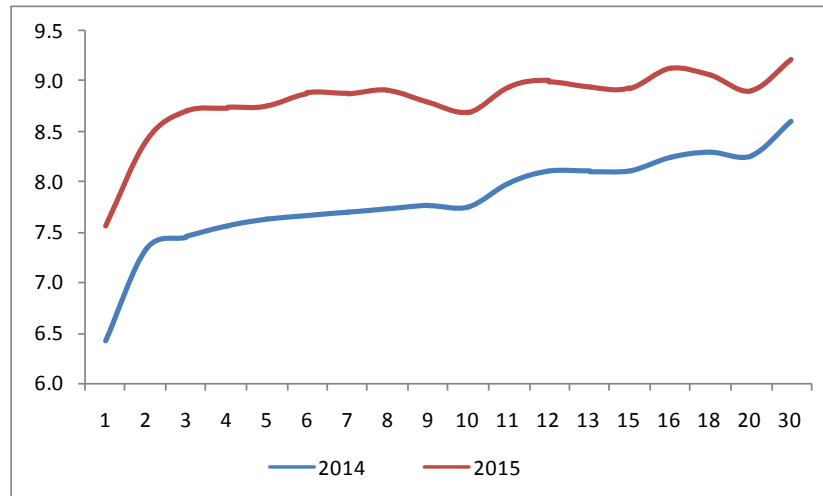
Source: IDX

JCI Historical P/E Band



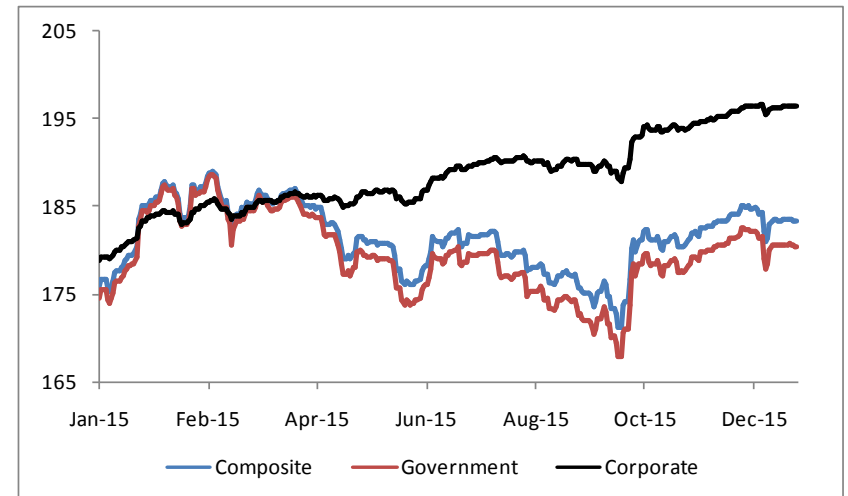
Source: IDX

IGB Yield Curve (%)



Source: Bloomberg

Indonesia Bond Indexes (INDOBEX)



Source: IBPA

Forecast for 2016

- *Despite short-term temporary pull back, JCI's long secular bull market remains intact*
- *The JCI is expected to rise **+12.56% - 27.46%** to **5171 - 5875***

We are positive on these sectors and stocks

- *Consumer Staples: MYOR, GGRM, ULTJ and JPFA*
- *Industrials: AKRA, PTPP, ADHI, ISSP*
- *Telecommunications: TLKM, SUPR*

We are neutral on these sectors and stocks

- *Financials: BBTN*
- *Consumer Discretionary: ACES*
- *Materials: INTP*
- *Information Technology: MLPT*

We are avoiding these sectors: Energy, Health Care and Utilities

The End Of Presentation

Thank You