

Economic Update

Further easing

- **BI lowered the 7DRRR to 5% after the meeting**
- **Low annual inflation supported the central bank's decision**
- **Growth is challenging due to budget cut and global concerns**
- **Domestic optimism derives from surge in tax amnesty performance**

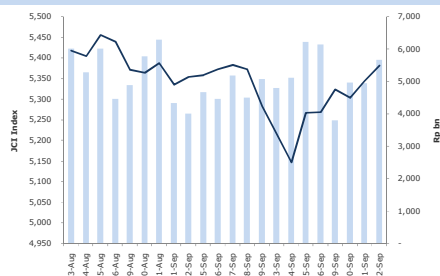
Lower reference rate. The central bank decided to lower the 7-day (reverse) repo rate, or 7DRRR, by 25bps to 5% after the bank held a meeting of its board of governors (BoG). Along with the 7DRRR, the central bank also lowered its lending and deposit facility rates by 25 bps each to 4.25% and 5.75%, following the rule of a 75bps cap above and below the reference rate. The move was highly anticipated by the market considering domestic developments and sluggish global economy.

Low inflation. We believe the central bank's decision was, among others, based on the low prices registered throughout the year and notably in the last few months. A monthly deflation of 0.02% mom took place in Aug16, and inflation was as low as 2.8% yoy in Aug16 with core inflation breaking a new range to settle at 3.3% yoy in the same month (Fig 1.). To note, average inflation in Jan-Jul16 was 3.8% yoy, and core inflation had always been in the range of 3.4-3.6% yoy before Aug16. We had emphasised the price peculiarity this year when inflation figures posted during the religious months of *Ramadhan* and *Eid al-Fitr* (Jun-Jul16) were below their usual levels. We attributed this to the country taking advantage of lower energy prices, which subsequently affected food and transport prices (or caused volatile prices, in general). The low inflation, among other things, set the stage for our recommendation to lower the 7DRRR as soon as it became the new rate regime – BI had previously used the BI rate as reference rate (read: *Tapering volatility*).

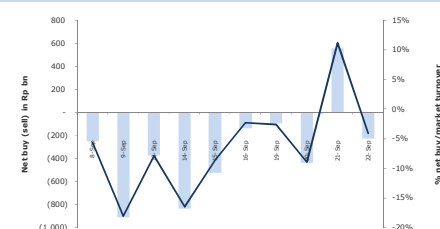
Lacklustre growth expectation. Despite supply-driven lower prices domestically, concerns continue regarding weaker growth, based on the Indonesian government's budget cut and weak global economy. On September 3rd, the government announced its intention to cut the budget further by Rp133.8tn after considering the difficulty of working with tax revenue that was slated to underperform by Rp219tn (-14.2% vs. target). Weaker growth has been expected since then, in anticipation of the spillover effect of lower government spending. Just before BI's BoG meeting concluded, two important central bank meetings worldwide took place, Bank of Japan and FOMC, both of which decided to maintain interest rates and additionally for Japan to continue with its quantitative easing. We believe these decisions, along with the Fed's prediction of lower FY16 growth at 1.8% (vs 2% in Jun16) provide a strong sense that the global economy will continue at its current pace, reinforcing the need for BI to lower the rate and help stimulate domestic demand. We believe there remains room for BI to undertake another cut this year, should these concerns continue.

Good performance of tax amnesty realisation. A hint of domestic optimism currently derives from the remarkable boost in tax amnesty implementation that took place within the last two weeks (Fig 2.). Asset declaration and redemption funds collected increased by more than Rp800tn and Rp30tn from their positions two weeks ago. Asset declaration has reached 35% of the target and redemption fund 21%. Repatriation fund, however, remains weak at 8% of target. Leaving repatriation out, the realised figures have been above expectations, which were pessimistic during the first weeks of implementation.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,380	0.7%	26.8%	17.1%
LQ45	931	1.0%	31.5%	17.5%
DJI	18,392	0.5%	13.0%	5.6%
SET	1,506	1.3%	9.5%	16.9%
HSI	23,760	0.4%	11.5%	8.4%
NKY	16,808	1.9%	-7.0%	-11.9%
FTSE	6,911	1.1%	14.6%	10.7%
FSSTI	2,846	-0.2%	0.0%	-1.3%
EIDO	27	0.7%	51.7%	27.6%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	46.2	2.3%	0.7%
CPO/tonne	661.4	1.8%	24.8%
Soy/bushel	9.6	0.1%	12.6%
Rubber/kg	1.7	0.4%	17.8%
Nickel/tonne	10,616	3.1%	9.9%
Tins/tonne	19,496	1.0%	30.7%
Copper/tonne	4,835	2.0%	-5.0%
Gold/try.oz (Spot)	1,337	0.3%	18.3%
Coal/tonne	71.5	-1.6%	23.9%
Corn/bushel	3.1	-1.0%	-14.2%
Wheat/bushel*	133.6	-14.7%	-32.9%

* : 1 month change

Source : Bloomberg

News & Analysis

Corporates

MPMX: PT Mitra Pinasthika Mustika (MPMX IJ; Rp670; Buy) welcomes Sojitz Corporation to MPMAuto through mandatory convertible bonds with the issuance of 6 year 1% coupon in the amount to US\$37mn. MPMAuto will use the proceeds for strategic initiatives including network expansion and/or potential inorganic acquisitions to boost its 4W distribution business. (Kontan)

Comment: We believe the strategic initiative to include Sojitz Corporation will improve MPMAuto performance. We are turning positive with the current new CEO Mr. Rudy Halim, as to bringing new growth catalyst in MPMX.

UNTR: United Tractors (UNTR IJ; Rp17,975; Buy) will distribute interim dividend of Rp143 per share (yield: 0.8%) with cum dividend date on 3 October. (Bisnis Indonesia)

Comment: We believe UNTR's cash flow will remain strong. Thus, we maintain our 2017 dividend payout ratio of ~50%, translating to FY17F dividend yield of 3.6%. UNTR remains our top pick in the mining sector with 20% upside to our TP of Rp21,500. Buy.

WIKA: Wijaya Karya (WIKA IJ; Rp2,740; Buy) will raise capital through a right issue of up to 4.04bn new shares with offering price of Rp1,525-Rp2,505 and expected capital raising of around Rp6.15tn, including State Capital Injection (PMN) of Rp4tn. The cum-right date is on 5 Oct with every holder of 80,000 shares will get 31,936 to 52,459 rights. Right issue proceed will be used to finance the construction of several mega projects including Soreang – Pasir Koja, Balikpapan – Samarinda, and Manado – Bitung toll roads, Banten 2 x 1GW steam power plant, Aceh 2 x 200MW steam power plant, and several other projects. (Investor Daily, Company)

Markets & Sector

Household consumption: Household consumption is forecasted to grow by 5% until the end of 2016. The increase is more apparent in F&B categories due to relatively low inflation this year. (Bisnis Indonesia)

Comment: The pickup in household consumption will be positive for F&B companies such as Unilever (UNVR IJ; Rp44,800; Hold), especially after slower revenue growth in its food and refreshment division during 2Q16. Other companies including Kino Indonesia (KINO IJ; Rp5,225; Buy) and Mayora (MYOR IJ; Rp1,475; Not Rated) will get the benefit as well.

Economic

Tax amnesty: The government has relaxed the regulation to join tax amnesty until Dec16, a move expected by many businessmen willing to partake in the program but remain facing administrative challenge. Through this measure, amnesty proposal can be submitted even before documents are completed. (Kontan)

Comment: We believe the measure is greeted positively by potential TA proposers.

Oil and gas tax: The government said it will eliminate taxes on oil and gas exploration this week in an attempt to boost investment. Oil and gas director general Wiratmaja Puja said the government was aiming to remove all taxes on exploration, including a value-added tax on imported goods and land tax.

Comment: We expect to see exploration activities increasing after the deregulation to make up for the revenue loss, from the perspective of the government. In general, the tax removal is a relevant measure to be taken in an otherwise slowing sector.

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INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

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