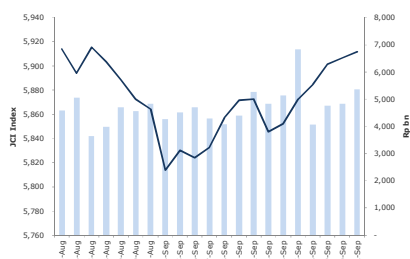
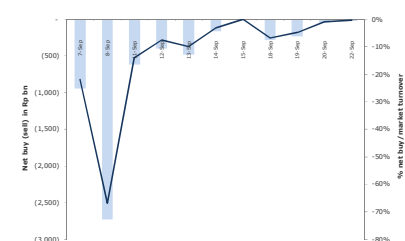


## Supporting recovery momentum

JCI Index



Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,912	0.1%	9.7%	11.6%
LQ45	983	0.0%	5.4%	11.2%
DJI	22,350	0.0%	22.4%	13.1%
SET	1,659	-0.7%	11.1%	7.5%
HSI	27,881	-0.8%	17.7%	26.7%
NKY	20,296	-0.3%	21.1%	6.8%
FTSE	7,311	0.6%	5.8%	2.3%
FSSTI	3,220	0.2%	12.7%	11.8%
EIDO	27	0.4%	2.7%	11.7%

## Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	50.3	0.2%	9.0%
CPO/tonne	653.3	-1.2%	0.4%
Soy/bushel	9.6	1.4%	-0.1%
Rubber/kg	1.8	-1.6%	2.1%
Nickel/tonne	10,342	-5.4%	-2.6%
Tins/tonne	20,745	0.8%	6.4%
Copper/tonne	6,416	-0.4%	32.7%
Gold/try.oz (Spot)	1,297	0.5%	-3.0%
Coal/tonne	97.2	-0.1%	35.9%
Corn/bushel	3.2	0.9%	2.9%
Wheat/bushel*	146.5	5.8%	-7.0%

\* : 1 month change

Source : Bloomberg

- **BI lowered 7DRRR for the second time this year to 4.25%**
- **Inflation has been skimpy throughout 2017, core inflation lowest in Aug17**
- **The Fed has laid out plan to reduce balance sheet, to start in Oct17**
- **We expect central bank to be vigilant of global liquidity hereafter**

**7DRRR lowered.** Another rate cut of 25bps took place in Aug17, 7-days (reverse) repo rate now stands at 4.25%, with adjustment in lending and deposit facility rates to 5% and 3.5%, respectively. The decision came a little unanticipated according to consensus, but in line with our expectation which had seen another rate cut was to materialise after weak Aug17's inflation reading. A set of domestic macroeconomic developments such as trade balance improvement and the rupiah appreciation as well as the need to increase credit expansion support the decision.

**Skimpy core & headline inflations.** We believe inflation has been relatively tamed throughout the year and notably last month, where headline deflation was -0.07% mom (3.82% yoy) and core inflation 2.98% yoy, a second consecutive record low of five years. Some trends were behind the price decline but some others were not, which possibly support the weakening purchasing power thesis for *middle-lower income households* and the portent where this trend will persist throughout the remaining months. Real interest now stands around 2.5% and would justify the recent cut, given consideration from other foreign uncertainties.

**The Fed's balance sheet reduction plan.** We think the Federal Reserve's balance sheet reduction plan, which has now been clearer, should *in general* be positive to Indonesian market, as the market should by now knows what to expect and when; albeit some risks outside of the reduction plan still need to be anticipated. The Fed's US\$4.5tn balance sheet reduction plan includes: (1) Implementation of a capping for reinvestment, which will be valid if portfolio payments exceed US\$6bn (for treasury bonds) and US\$4bn for mortgage-backed securities, (2) Steady lifting to the capping until US\$30bn for treasuries and US\$20bn for MBS, (3) Application of the reinvestment capping starting on October 13<sup>th</sup> and 31<sup>st</sup> for each MBS and treasuries. Along with that, there is increased expectation that the Fed will raise rate this Dec17, after the expectation had gone down previously due to weak inflation readings. Implications of these to our market should include more well-informed expectation on the timing and modes of normalization; possible US\$ appreciation in medium run; and if the Fed turns to firmly be more hawkish, expectation of higher interest rate and bond yields domestically in the medium run (now at ~6.4% for the 10-y). Yet, a possible setback to the plan may emerge from change of composition in the Fed's board of governors.

**BI to be watchful on global liquidity.** Going forward, we believe global liquidity should be under the central bank's surveillance list, given The Fed's plan, along with discussion in the European Central Bank (ECB) to end its stimulus programme in Oct17. BI now seems to pay more attention on improved global economy, which should eventually be followed with monetary tightening. To note, there seems to be sufficient liquidity in broad money circulation, with growth of 9.4% yoy. Foreign attraction to domestic bond market as seen in capital inflow has surged by over Rp150tn ytd, Indonesian bond yield of 10-y has gone down by at least 150bps ytd. Despite the past two FFR increases had not affected domestic bond market, we view the Fed's normalization plan in the context of global liquidity availability would be dominant external consideration for BI in the close future. We expect the prevailing rate to sustain until year end.

## News & Analysis

### Corporates

**BBRI:** An official at the Ministry of Cooperatives & SME stated the government, through its financial sector committee KKSK, is in process of revising KUR regulation and lower its lending rate to 7% (from 9%). Up to Aug 2017, KUR disbursements reached 61tn or 55.6% of the full year target of Rp110tn for 2017, with Bank Rakyat (BBRI IJ; Rp15,675; Hold) contributing the most with Rp46.8tn of loans. (Investor Daily).

*Comment: BBRI share price rose 4.3% last Friday as the market anticipated BI policy rate cut. However, we expect share price to correct on the back of this news although such a plan has been considered since 2016. The uncertainty arises from whether the government would increase its interest rate subsidy if it decides to lower KUR loans to 7% (from 9%) or if banks would have to cope with lower NIMs from KUR loans. We reiterate our Hold on BBRI and prefer Mandiri (BMRI IJ; Rp6,600; Buy).*

**CTRA:** Ciputra Development (CTRA IJ; Rp1,155; Buy) issued medium term notes (MTN) of S\$150mn in 20 sept 2017. The notes will have interest of 4.85% p.a and will mature in 2021. The proceeds will be used to refinance previous MTN issued in 2015 and working capital. Note company still able to issue another note of S\$50mn in the future. (Bisnis Indonesia)

**INDY:** Indika Energy (INDY IJ; Rp1,970; Not Rated) to finalize the acquisition of 40% Kideco shares from Samtan Co. Ltd. and 5% Kideco shares from Muji Inti Utama (Dato' Low). Post the acquisition INDY will be the controlling shareholder of Kideco. The transaction of \$677.5mn will be financed partly from the upcoming US dollar denominated bonds of \$600mn which will be issued by INDY. (Kontan)

**META:** Nusantara Infrastruktur (META IJ; Rp172; Not Rated) gave minimal disclosures of its ownership transfer. Investors still questioning the identity of PT Matahari Kapital Indonesia who bought 43% of META's shares worth Rp1.8tn. Matahari Kapital will not conduct tender offer as there is no change of control from this transaction. (Kontan)

**TOTL:** Total Bangun Persada (TOTL IJ; Rp 740; Not Rated) reported total new contract of Rp3.14tn in 9M17, which is 78.5% from FY17 target of Rp4tn. Company currently is participating in multiple project tender worth Rp7tn, which consist of offices (43%), shopping malls (27%), apartments (16%), and hotels (14%). Company is guiding for revenue of Rp3.1tn and net profit of Rp250bn in FY17. (Bisnis Indonesia)

### Markets & Sector

**Automotive sector:** Total motorcycle export was 267.3k units (+42.2% yoy) supported by strong volume from Asta Honda Motor, a subsidiary of Astra International (ASII IJ, Rp , Buy) and non-listed Yamaha Motor Manufacturing Indonesia. We estimate that about 66% was contributed by Yamaha with Honda taking the large part of the remaining volume. (Bisnis Indonesia)

*Comment: Export is still a small part of the total production capacity. AHM has a production capacity of 4.5mn units p.a. and Yamaha is estimated to have a production capacity 3.0mn units p.a. Nevertheless, we see growing importance for Indonesian motor manufacturing to become regional or global production base.*

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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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The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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