

Macroeconomic Review.

The Indonesian economy in 2018 was accompanied by nine important events, including: Trade War between America and China, The Fed rate hike, Simultaneous Regional Head Elections, General Election in 2019, Terrorism Acts, Lebaran, Asean Games, World Bank Meeting Forum and Increase in Bank of Indonesia's interest rate. Of course, these important events are expected to have certain impacts on Indonesia's economic performance and will have certain impacts on the growth of investment returns in Indonesia. But before discussing the 9 events above and how they impact the economy and investment in Indonesia, investors need to know the economic performance of Indonesia since the beginning of 2018.

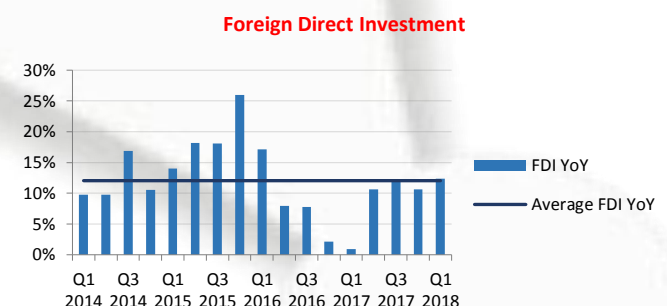
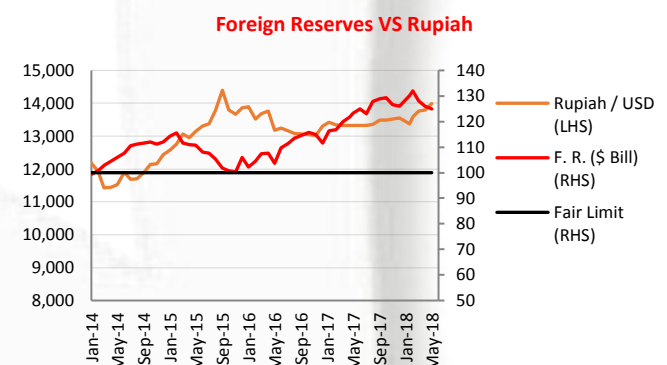
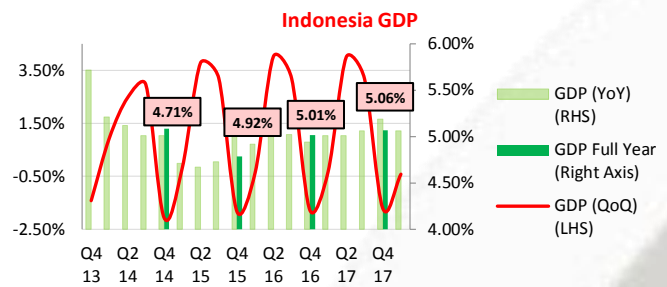
The GDP growth was 5.06% YoY in Q1 2018, higher than in Q1 2017 which is recorded at 5.01% YoY. The GDP Growth in Q1 2018 is the highest Q1 growth since 2015, which in Q1 2015 only grew by 4.71% YoY, while in Q1 2016 only grew by 4.92% YoY.

The Export Growth in April 2018 was 9.01% YoY, higher than the previous month at 6.14% YoY, but the Import growth was much higher by 34.68% YoY, resulting in a Trade Balance deficit of USD -1.62 billion. The high growth of imports was supported by imports of consumption goods, raw materials and capital goods which YTD increased by 26.09% YoY, 21.86% YoY and 31.04% YoY respectively.

The Inflation rate was remained stable at 3.41% YoY and 1.09% YTD, still below the Bank Indonesia's target of $3.5\% \pm 1\%$. The government is quite good at managing inflation so that since 2014, the inflation rate has been reduced to a low level.

The Foreign Exchange Reserves in April 2018 recorded a decrease of USD 1.1 billion to USD 124.9 billion compared to the previous month which was recorded at USD 126.0 billion. The decline was relatively small given the rupiah-denominated rate of -1.39% based on the average of Bank Indonesia's middle rates during April and May. The erosion of foreign exchange reserves is caused by the government's foreign debt payments and the intervention of the weakening Rupiah.

Foreign direct investment in Q1 2018 grew by 12.40% YoY, higher than in Q1 2017 which was recorded at 10.60% YoY and still above the average growth since Q1 2014 which was recorded at 12.04% YoY. Stable growth of Foreign Direct Investment can not be separated from the government policy that facilitates the processing of investment licenses in Indonesia, cutting down the licensing bureaucracy so that the time required becomes shorter. Indonesia has also earned Investment Grade ratings from Moody's, S & P and Fitch. In addition, the World Bank raised the rating of Ease of Doing Business in Indonesia by 15 ranks to rank 91.



Significant Events and Their Impacts to Indonesia's Economic Performance of 2018.

As we can see in the year of 2018, the Indonesian economy is experiencing several events and challenges, such as Trade War between America and China, The Fed's interest rate hike, Simultaneous Regional Head Elections 2018, General Election 2019, Terrorism Act, Lebaran, Asean Games, World Bank Meeting Forum and the Increase of Bank of Indonesia's interest rate. However, with the positive and stable condition of Indonesia's economic fundamentals, it will translate the challenge into an opportunity to invest in Indonesia. Some of the above events that have occurred such as Trade War, Fed Rate Increase and Terrorism Act have caused the Composite Stock Price Index (IHSG) to be corrected, which since its highest position at the level of 6,693 has weakened by -12.77% and as of May 15 2018 was recorded at the level of 5,838. Since the beginning of the year JCI has weakened by -8.14%. As for Yield of Government Bonds with tenor of 10 years has been at the level of 7.08% compared to the end of 2017 which is at the level of 6.31%.

The question that arises is whether the Trade War, the movement of The Fed's Interest Rate and Terrorism Act really affect Indonesia's macro economic performance? The question will be discussed in the following discussion:

 Trade War between America and China.

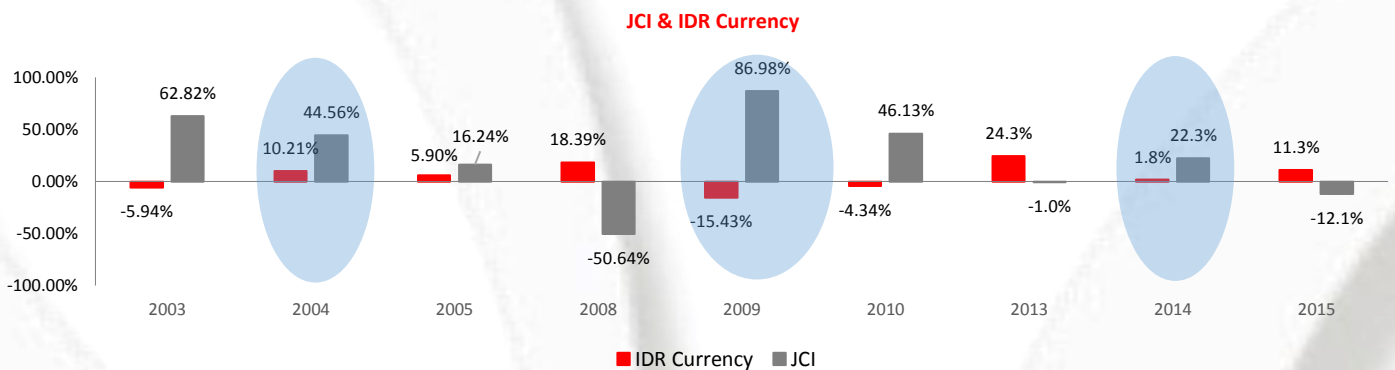
Statistically, the Trade War between the United States of America and China tend to provide fresh air to Indonesia's export performance. In April, our export to America grew by 5.15% YoY to USD 1.43 Billion and to China grew by 15.92% YoY to USD 1.82 Billion. China, America and Japan are still the largest export destinations for Indonesia.

 The Fed Rate Hike.

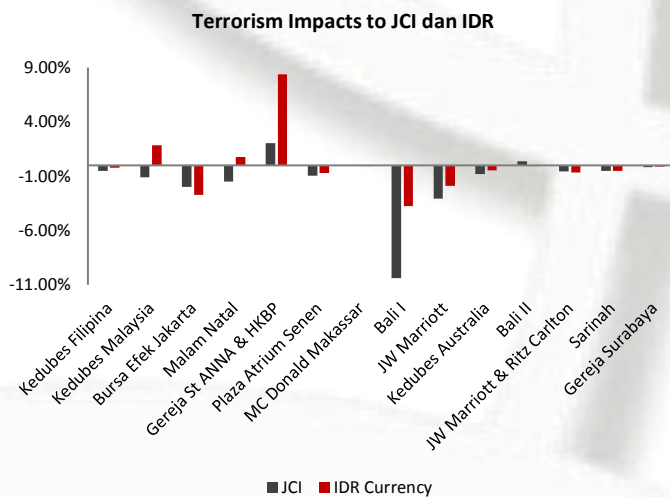


The graph above shows that historically, Fed rate hike does not have a significant impact on the movement of JCI, Yield Government Bonds and Rupiah. Actually, it is not a new thing for the Fed to raise its benchmark interest rate as it used to be when the Fed raised its benchmark interest rate in 2004 - 2006 from 1% to 5.25%, the Jakarta Composite Index rose by 145.42%, the yield on government bonds with 10 year decreased from 11.58% to 10.175% and the Rupiah weakened by -5.03%.

On the increase in the Fed's interest rate from 2015 to the present from 0.25% to 1.75%, the JCI increased by 38.22%, the yield on 10-year government bonds decreased from 9.69% to 7.09% and the rupiah stagnated at 14,037 - 14,653.

 2018 Simultaneous Regional Head Elections & 2019 General Election.

Historically in the general election year, JCI always recorded a positive performance, where in 2004, 2009 and 2014, JCI recorded growth of respectively - 44.56%, 86.98% and 22.30%. Rupiah experienced a varied performance which in 2014 weakened by - 10.21%, in 2009 rose by + 15.43% and in 2014 only weakened by -1.8%.

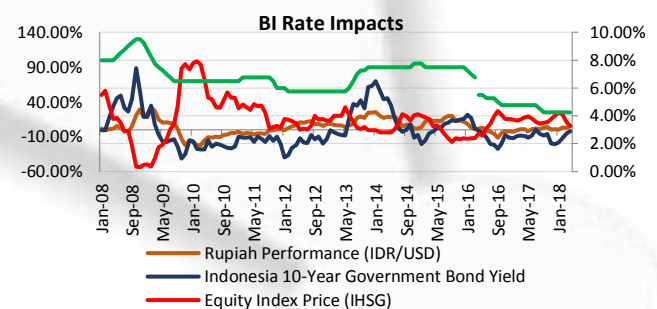
 Terrorism Acts.

Date	Location	JCI (1 Day)	IDR Currency (1 Day)
01-Aug-00	Kedubes Filipina	-0.51%	-0.22%
27-Aug-00	Kedubes Malaysia	-1.08%	1.85%
13-Sep-00	Bursa Efek Jakarta	-1.99%	-2.72%
24-Dec-00	Malam Natal	-1.47%	0.78%
22-Jul-01	Gereja St ANNA & HKBP	2.02%	8.38%
23-Sep-01	Plaza Atrium Senen	-0.97%	-0.69%
05-Dec-02	MC Donald Makassar	0.00%	-0.02%
12-Oct-02	Bali I	-10.36%	-3.75%
05-Aug-03	JW Marriott	-3.06%	-1.88%
09-Sep-04	Kedubes Australia	-0.82%	-0.46%
01-Oct-05	Bali II	0.38%	-0.05%
17-Jul-09	JW Marriott & Ritz Carlton	-0.55%	-0.67%
14-Jan-16	Sarinah	-0.53%	-0.52%
12-May-18	Gereja Surabaya	-0.16%	-0.09%

Based on terrorism incidents that have occurred in Indonesia since 2000 from 14 events, only Bali Bombing event I that had a significant negative impact on JCI and Rupiah by -10.36% and -3.75% respectively. On average, the impact of daily weakening from the JCI if the act of terrorism occurs only by -1.36% and the impact of the weakening of the rupiah is only -0.01%.

 Bank of Indonesia Interest Rate Hike.

Statistically, the increase of Bank Indonesia interest rate always contradicts the performance of JCI, Yield of Government Bonds and Rupiah. When the interest rate of Bank Indonesia is increased, the JCI tends to weaken, the yield of Government Bonds tends to increase and the Rupiah weakens. So with the future sentiment related to Bank Indonesia's plan to raise the maximum interest rate by 50 bps to 4.75% in response to the weakening rupiah, we see it will be a negative sentiment for the performance of JCI and Government Bonds.



 Lebaran, Asean Games & World Bank Meeting Forum.

Related to the moment of Lebaran, Asean Games and World Bank Meeting Forum, we see these three sentiments will give a positive catalyst for Indonesia's GDP growth in 2018. The Consumption and Tourism Sector is expected to grow in 2018 thanks to the above three sentiments. Asean Games and World Bank Meeting Forum will be an event for Indonesia to introduce tourist areas that can attract the eyes of the world to visit and enjoy Indonesia's nature, so as to increase foreign reserve for Indonesia.

Statistically, during Lebaran moment, stock trading volume tends to be low so that on average from 2000 until 2017, JCI growth is only as + 1.84% in Ramadhan or Idul Fitri and the Rupiah tends to strengthen by + 0.80%.

 Conclusion.

After we have reviewed the risks and challenges of 2018 through the events that have occurred or will occur, we conclude that related to various positive or negative impacts that these events may have on Indonesia's economy, ultimately the fundamental conditions of Indonesia's economic will be able to minimize the risk of domestic and global risks that occur so that the risks and challenges are successfully passed and still provide positive growth in GDP and various investment instruments in Indonesia.

Equity Index Price (JCI)

Since 2000 to present, JCI has experienced significant growth of 824.70% or 12.44% p.a based on CAGR. Various events have been experienced and various crises have occurred, but JCI still able to rise and provide a fairly positive return. At the time of economic contraction such as in 2008, 2013 and 2015, JCI has decreased respectively by -58.91%, -23.35% and -25.28%, but it only happened 3 times in the past 18 years.

The events that took place in the first quarter of 2018 did not signify that the Indonesian economy will experience a contractionary cycle as Indonesia's economic data at that time showed positive results: +5.06% YoY GDP growth, +3.41% YoY inflation, USD Foreign Exchange Reserves of 124.9 Billion and Foreign Direct Investment grew by +12.40% YoY. In addition, in the first quarter of 2018, listed companies in the LQ45 Index gained revenue growth of +15.96% YoY and net profit growth of +11.68% YoY.

Currently, JCI valuations are at Best P/E of 14.94x or in the standard deviation area of -1 which signals that the current JCI valuation is re-attractive. Nevertheless, we are still seeing a potential decline to 5,700 with the sentiment of Bank Indonesia interest rate hike. By looking at the closing of the JCI on May 16, 2018 at the level of 5,841.46, the potential risk of the decline is estimated at -2.42%, while the potential opportunity of the JCI increase based on our target of 7,000 is + 19.83%. So after considering the risk to reward ratio that has been elaborated in this study where the potential opportunity is greater than the potential risk, we see now is the right time to make accumulated purchases of both stocks and/or equity-based mutual-funds.

OUR INVESTMENT TEAM

Putu Wahyu Suryawan
Fund Manager

Rudy Fenji
Junior Fund Manager

Desti Karlita
Investment Dealer

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PT. VICTORIA MANAJEMEN INVESTASI
Senayan City, Panin Tower 8th Floor
Jl. Asia Afrika Lot 19, Jakarta 10270, Indonesia
Telp : 021 7278 1861
Fax : 021 7278 1860
Email : cs@vmi.co.id