

## Inflation is Under Control : Lowered Cost Of Funds Amid The Eid Al-Fitr Cycle

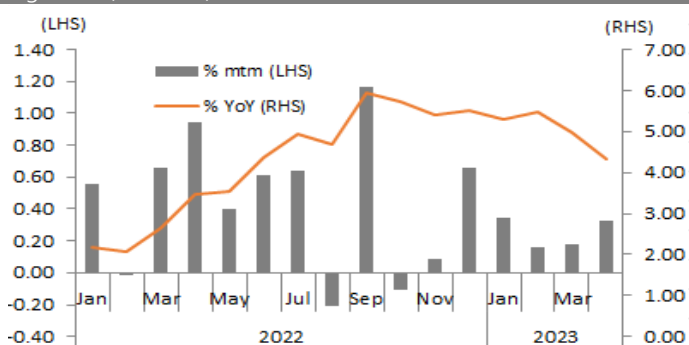
In-line with our expectation, CPI inflation in April '23 decreased to 4.33% YoY (Cons: 4.39% YoY, KBVS: 4.50% YoY, Prev: 4.97% YoY). This was accompanied by a decrease in core inflation to 2.83% YoY (Cons: 2.89% YoY, KBVS: 2.90% YoY, Prev: 2.94% YoY). Based on expenditure groups, all groups experienced inflation, except for the information, communication, and financial services group, which experienced deflation of 0.02% (MoM) or 0.25% (YoY). We believe that this condition was also driven by the decrease in bank funding costs in Apr '23, triggered by a decrease in 3M, 6M, and 12M JIBOR tenors by 0.58bps, 1.60bps, and 1.42bps compared to the previous month. However, the increase in food prices – particularly rice, chicken meat, chicken eggs, fresh fish, tomatoes, live chicken, garlic, oranges, papayas, kretek filtered cigarettes, white cigarettes, air transportation tariffs, intercity transportation tariffs, train fares, and gold jewelry – was offset by a decrease in bird's eye chili and red chili prices, which helped to maintain inflation stability during the Ramadhan and Eid al-Fitr cycles.

Meanwhile, the wholesale price index (WPI) also decreased to 0.13% MoM or 4.56% YoY (Prev: 0.27% MoM or 5.44% YoY). This was driven by a 0.21% MoM deflation in the agricultural sector, although the mining & quarrying and industrial sectors experienced 0.44% MoM and 0.20% MoM inflation, respectively. On the other hand, out of 37 component commodities of the building materials group, 7 of them experienced a monthly price decline (including diesel fuel -1.25% MoM and rebar -0.32% MoM), 4 remained stable, while the rest continued to experience price increases.

Furthermore, we expect the trend of decreasing inflation to continue, and we anticipate our target CPI inflation to be at 3.2% - 3.6% (yoy) by the end of 2023, despite the challenge of El Nino which is expected to happen around Aug '23. We hope that this will also be supported by the international trade price index (-0.79% mom in Apr '23) – especially the decrease in energy prices – which is expected to continue due to the projected increase in global temperature by 1.08°C to 1.32°C in 2023.

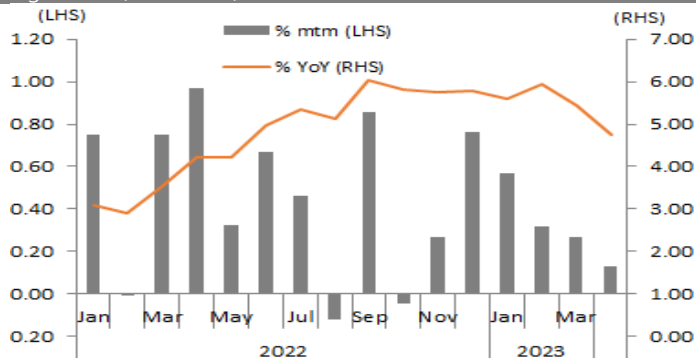
Therefore, we believe that this will significantly reduce the risk of future inflation and we expect it to encourage BI to lower the BI7DRRR in 3Q23. In addition, we expect this condition to stimulate better credit demand in the second half of 2023, as the cost of bank funds begins to decline, and subsequently have a positive impact on economic growth, which we hope will be between 5.0% yoy and 5.3% yoy at the end of 2023.

Fig 1. CPI (Headline) Inflation



Sources: Bloomberg, KBVS Research – treated (2023)

Fig 2. WPI (Wholesale) Inflation



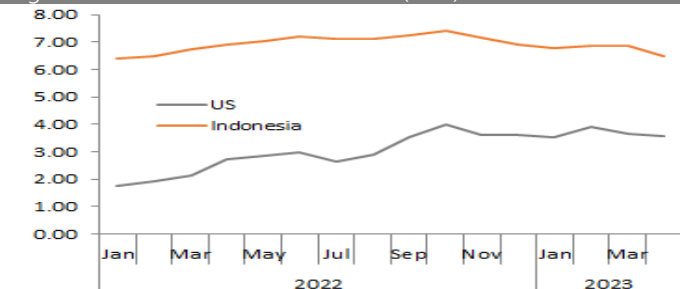
Sources: Bloomberg, KBVS Research – treated (2023)

Fig 3. Real Yield US vs Indonesia (in bps)



Sources: Bloomberg, KBVS Research – treated (2023)

Fig 4. Yield of 10Yr Government Bond (in %)



Sources: Bloomberg, KBVS Research – treated (2023)

# INDONESIA MACRO UPDATE

2 May 2023

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Indicators	Index		Inflation	
	Latest	M-1	MtM	YoY
Consumer Price Index (CPI)	114.74	114.36	0.33%	4.33%
Food, Beverages, and Tobacco	120.59	120.18	0.34%	4.58%
Clothing and Footwear	109.65	108.99	0.61%	1.80%
Housing, Water, Electricity, and Household Fuels	107.79	107.71	0.07%	2.53%
Equipment, Tools, and Routine Household Maintenance	114.89	114.63	0.23%	3.27%
Health	113.75	113.46	0.26%	2.60%
Transport	120.60	119.60	0.84%	11.96%
Communication and Financial Services	99.58	99.60	-0.02%	-0.25%
Recreation, Sport and Culture	108.78	108.73	0.05%	2.38%
Education Services	112.61	112.61	0.00%	2.75%
Food and Beverages Services/Restaurants	116.70	116.30	0.34%	3.79%
Personal Care and Other Services	123.05	122.22	0.68%	4.67%
Core inflation	112.19	111.91	0.25%	2.83%
Administered Price	119.87	119.05	0.69%	10.32%
Volatile Food	119.28	118.94	0.29%	3.74%
Wholesale Price Index (WPI)	115.36	115.21	0.13%	4.56%
Agriculture	107.29	107.52	-0.21%	3.48%
Mining and Quarrying	125.79	125.24	0.44%	9.93%
Manufacturing	117.22	116.98	0.21%	4.74%
Farmer Exchange Rate	110.58	110.85	-0.24%	2.07%
Farmers Price Received Index	128.64	128.79	-0.12%	8.80%
Farmers Price Paid Index	116.33	116.55	-0.19%	3.95%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, mtm)
		31/3/2023	7/4/2023	14/4/2023	21/4/2023	30/4/2023	
I	Rice	12,650	12,650	12,700	12,750	12,600	-0.40%
1	Lower Quality Rice I	11,400	11,350	11,350	11,400	11,300	-0.88%
2	Lower Quality Rice II	11,150	11,150	11,150	11,100	11,100	-0.45%
3	Medium Quality Rice I	12,850	12,900	13,000	13,000	12,900	0.39%
4	Medium Quality Rice II	12,600	12,600	12,600	12,700	12,550	-0.40%
5	Super Quality Rice I	14,150	14,100	14,150	14,250	14,000	-1.06%
6	Super Quality Rice II	13,400	13,350	13,450	13,450	13,250	-1.12%
II	Chicken meat	32,600	31,950	32,750	34,500	35,300	8.28%
1	Fresh Race Chicken Meat	32,600	31,950	32,750	34,500	35,300	8.28%
III	Beef	129,800	129,600	130,400	134,200	131,200	1.08%
1	Quality 1 Beef	133,850	133,600	134,400	138,400	134,950	0.82%
2	Quality 2 Beef	125,350	125,250	126,050	129,750	127,200	1.48%
IV	Chicken eggs	29,150	28,650	28,600	28,600	28,500	-2.23%
1	Fresh Chicken Eggs	29,150	28,650	28,600	28,600	28,500	-2.23%
V	Red onion	35,250	34,550	34,600	35,450	39,500	12.06%
1	Medium Shallot	35,250	34,550	34,600	35,450	39,500	12.06%
VI	Garlic	32,150	32,000	31,850	32,150	33,900	5.44%
1	Medium Size Garlic	32,150	32,000	31,850	32,150	33,900	5.44%
VII	Red chili pepper	38,850	36,300	36,450	44,500	35,800	-7.85%
1	Large Red Chili	38,400	35,900	36,950	46,350	36,400	-5.21%
2	Curly Red Chili	39,250	36,600	36,000	42,900	35,250	-10.19%
VIII	Cayenne pepper	45,700	41,100	38,850	39,950	33,650	-26.37%
1	Green Cayenne Pepper	38,000	35,500	35,600	36,000	31,100	-18.16%
2	Red Cayenne Pepper	54,050	47,150	42,450	44,300	36,300	-32.84%
IX	Cooking oil	17,950	17,950	18,050	18,050	18,100	0.84%
1	Bulk Cooking Oil	14,500	14,650	14,650	14,700	14,900	2.76%
2	Branded Packaging Cooking Oil 1	20,200	20,200	20,300	20,300	20,400	0.99%
3	Branded Packaging Cooking Oil 2	18,900	18,750	18,950	18,900	18,800	-0.53%
X	Sugar	14,350	14,300	14,400	14,400	14,350	0.00%
1	Premium Quality Sugar	14,550	14,550	14,650	14,750	14,600	0.34%
2	Local Sugar	14,150	14,100	14,200	14,150	14,150	0.00%

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