

## Softened Inflation Leaving Less Room for Rate Hike ; SBN More Attractive

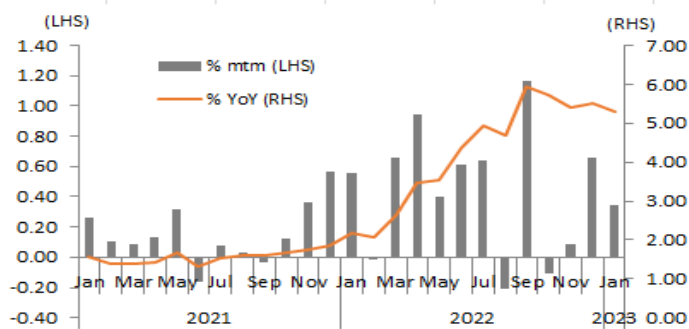
Jan '23 consumer (CPI) inflation softened to +0.34% (mom) or +5.28% (yoy), from +0.66% (mom) or +5.51% (yoy) in Dec '22, largely in line with KBVS expectations of +0.41% (mom)/+5.36% (yoy). We hope this will lead into possibility of an initial BI7DRRR ease in the next two months. However, the continued inflation pressure in the food group – especially Rice (+0.24%, mom); Red Chili and Shallots (each +0.17%, mom); and Fresh Fish (+0.10%, mom) – during the last two months due to unfavourable weather, should be solved soon in order to maintain the inflation expectation within the BI's target range of 3% ( $\pm 1\%$ , yoy). Meanwhile, the 10% excise tax hike on cigarettes that took effect since 1 Jan '23 has driven the inflation of Filter Cigarettes +0.17% (mom) and White Cigarettes +0.06% (mom) this month. On the other hand, a potential decrease in subsidized fuel prices in the near future, as global energy prices fall thus will bring mobility cost to a lower level, will help to reduce the inflation of the Transportation group in near futures, which reached -0.15% (mom) in Jan '23.

We anticipate that the decline in the future CPI price index will be derived from the decrease in the wholesale price index (WPI), which in Jan '23 already soften to +0.57% (mom) or +5.59% (yoy), from +0.76% (mom) or +5.78% (yoy) in Dec '22. Moreover, the decline is supported by the Agriculture Group which dropped from +2.48% (mom) to +1.54% (mom), as well as the Industrial Group which dropped from +0.39% (mom) to +0.34% (mom) this January. Thus, the inflationary concerns stemming from the Mining and Quarrying Group, which increased from +0.75% (mom) to +1.34% (mom) this January, can be better offset.

The softened inflation trend of both CPI and WPI has pushed Indonesia's real yield widen to 151.20 bps in Jan '23, from 140.50 bps in Dec '22. Even with the note that the 10Yr SBN yield has decreased from 6.92% to 6.79% on average during the same period. Therefore, we still see SBN as attractive to investors, especially foreign ones - indicated by the increasing foreign ownership of tradeable SBN at IDR48.85 tn in the SBN market in Jan '23; which we expect to continue - especially seeing the stable Rupiah at IDR15,264/USD and the average 5Yr CDS at 90.12 in the period.

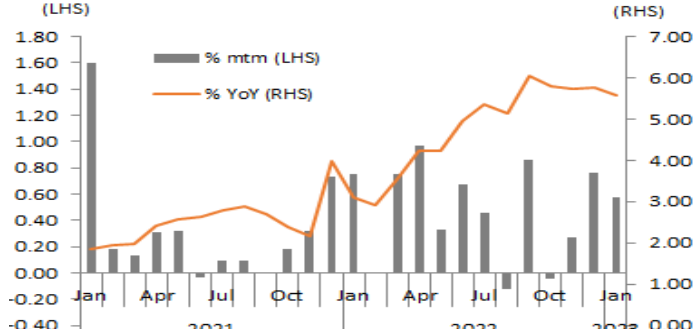
We anticipate that inflation in Feb '23 will remain subdued, in line with the weather conditions and the possibility of rice harvest in the seven main provinces. However, the possibility of an increase in demand for imported consumer goods, particularly in the lead up to Ramadhan which will take place in mid-March 2023, needs to be anticipated.

Fig 1. CPI (Headline) Inflation



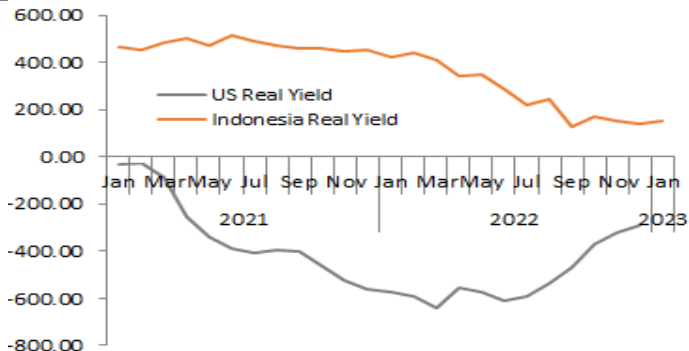
Sources: BPS, KBVS Research – treated 2023

Fig 2. WPI (Wholesale) Inflation



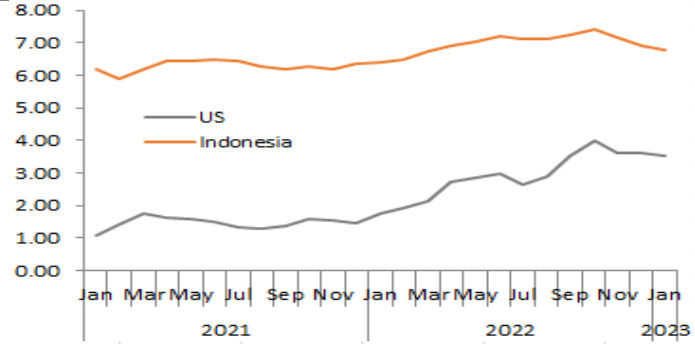
Sources: BPS, KBVS Research – treated 2023

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

1 February 2023

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Indicators	Index			Inflation	
	Latest	M-1	MtM	YoY	
Consumer Price Index (CPI)	113.98	113.59	0.34%	5.28%	
Food, Beverages, and Tobacco	119.19	117.82	1.16%	5.82%	
Clothing and Footwear	108.59	108.48	0.10%	1.07%	
Housing, Water, Electricity, and Household Fuels	107.92	107.54	0.35%	3.62%	
Equipment, Tools, and Routine Household Maintenance	114.17	113.90	0.24%	4.28%	
Health	113.20	112.75	0.40%	3.04%	
Transport	119.22	120.61	-1.15%	13.91%	
Communication and Financial Services	99.65	99.64	0.01%	-0.22%	
Recreation, Sport and Culture	108.53	108.26	0.25%	2.87%	
Education Services	112.58	112.45	0.12%	2.80%	
Food and Beverages Services/Restaurants	115.82	115.44	0.33%	4.46%	
Personal Care and Other Services	121.58	120.72	0.71%	6.01%	
Core inflation	111.58	111.21	0.33%	3.27%	
Administered Price	118.74	119.40	-0.55%	12.28%	
Volatile Food	118.27	116.64	1.40%	5.71%	
Wholesale Price Index (WPI)	114.53	113.88	0.57%	5.59%	
Agriculture	107.24	105.61	1.54%	4.15%	
Mining and Quarrying	124.65	122.99	1.35%	12.23%	
Manufacturing	116.21	115.81	0.35%	5.86%	
Farmer Exchange Rate	109.84	109.00	0.77%	1.38%	
Farmers Price Received Index	126.98	125.23	1.40%	7.40%	
Farmers Price Paid Index	115.61	114.89	0.63%	5.31%	

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, mtm)
		31/12/2022	11/1/2023	18/1/2023	25/1/2023	31/1/2023	
I	Rice	12,200	12,250	12,300	12,400	12,150	-0.41%
1	Lower Quality Rice I	10,950	11,050	11,100	11,200	10,900	-0.46%
2	Lower Quality Rice II	10,800	10,850	10,950	11,050	10,700	-0.93%
3	Medium Quality Rice I	12,350	12,450	12,500	12,550	12,300	-0.40%
4	Medium Quality Rice II	12,100	12,250	12,300	12,400	12,100	0.00%
5	Super Quality Rice I	13,500	13,550	13,600	13,650	13,400	-0.74%
6	Super Quality Rice II	13,000	13,050	13,100	13,200	12,950	-0.38%
II	Chicken meat	36,300	33,550	32,800	32,450	35,500	-2.20%
1	Fresh Race Chicken Meat	36,300	33,550	32,800	32,450	35,500	-2.20%
III	Beef	130,050	129,450	129,450	129,250	129,300	-0.58%
1	Quality 1 Beef	134,900	133,600	133,600	133,400	133,500	-1.04%
2	Quality 2 Beef	124,750	124,900	124,950	124,750	124,750	0.00%
IV	Chicken eggs	30,000	28,950	28,700	28,450	29,450	-1.83%
1	Fresh Chicken Eggs	30,000	28,950	28,700	28,450	29,450	-1.83%
V	Red onion	36,450	39,050	39,750	40,650	36,900	1.23%
1	Medium Shallot	36,450	39,050	39,750	40,650	36,900	1.23%
VI	Garlic	27,300	27,950	27,950	28,300	27,150	-0.55%
1	Medium Size Garlic	27,300	27,950	27,950	28,300	27,150	-0.55%
VII	Red chili pepper	36,000	38,000	37,750	37,850	38,200	6.11%
1	Large Red Chili	33,550	36,750	36,250	35,350	35,300	5.22%
2	Curly Red Chili	38,100	39,050	39,050	40,000	40,700	6.82%
VIII	Cayenne pepper	50,400	49,700	48,200	46,700	58,350	15.77%
1	Green Cayenne Pepper	46,100	46,150	43,750	42,150	51,950	12.69%
2	Red Cayenne Pepper	55,100	53,600	53,100	51,700	65,300	18.51%
IX	Cooking oil	17,900	17,900	17,900	17,900	17,800	-0.56%
1	Bulk Cooking Oil	14,650	14,750	14,850	14,900	14,550	-0.68%
2	Branded Packaging Cooking Oil 1	20,250	20,150	20,100	20,100	20,150	-0.49%
3	Branded Packaging Cooking Oil 2	18,550	18,500	18,450	18,400	18,400	-0.81%
X	Sugar	14,350	14,200	14,250	14,250	14,250	-0.70%
1	Premium Quality Sugar	14,600	14,450	14,450	14,450	14,450	-1.03%
2	Local Sugar	14,100	14,050	14,050	14,050	14,050	-0.35%

Sources: BPS, KBVS Research - treated (2023)

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