

Lower Inflation Negates Capital Outflow Concern

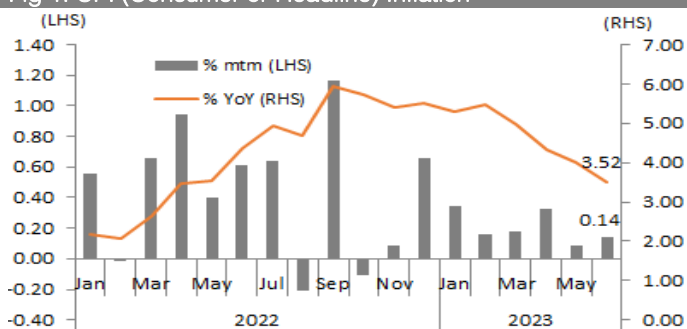
The reduction in prices of non-subsidized fuel ranging from 6.77% to 9.33% in early Jun '23 has driven deflation in the energy component by 0.59% MoM and deflation in the administered price components by 0.02% MoM, subsequently leading to a decrease in annual headline (or CPI) inflation. **The inflation in Jun '23 reached 0.14% MoM or 3.52% YoY (Cons: 0.27% MoM or 3.62% YoY; KBVS: 0.42% MoM or 3.81% YoY; Prev: 0.09% MoM or 4.00% YoY).** However, inflationary risk is still apparent in the volatile price component, particularly driven by inflation in the Food group (e.g; a 0.06% MoM inflation in Chicken Meat, a 0.04% MoM inflation in Air Transport Tariffs, a 0.02% inflation in Chicken Eggs), and the Housing group (specifically a 0.01% MoM inflation in House Rentals).

In the Wholesale Price Index's (WPI) side, the 3.89% MoM deflation in the commodity of Diesel has also contributed to a 0.41% MoM deflation in the Building/Construction Materials group. This, in turn, resulted in a deflation of 0.19% MoM in the Mining and Quarrying sector and a deflation of 0.01% MoM in the Manufacturing sector, subsequently contributing to **the decrease in inflation in the WPI of Jun '23 to 3.87% YoY (prev: 4.43% YoY).**

On the other hand, **the increase in prices in the Food group by 0.43% MoM in the CPI's side and a 0.78% MoM increase in the Agricultural group in the PPI's side had a positive impact on the 0.19% increase in Farmers' Income in the same month.** This is mainly driven by a 2.22% MoM increase in the income of Horticulture Farmers (especially in Chili and Tomato commodities) and a 1.96% MoM increase in the income of Livestock Farmers (especially in Beef and Chicken Meat commodities).

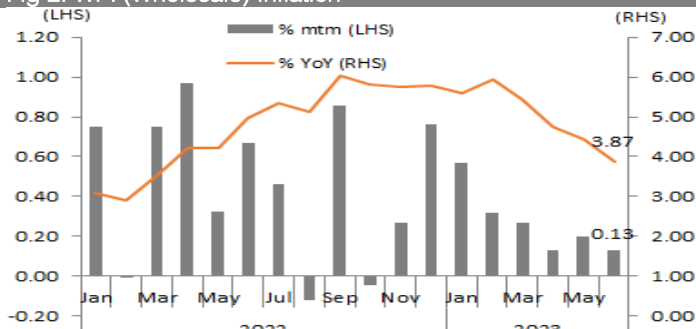
Furthermore, the decline in inflation has widened the 10Y SUN real yield to 281 bps (prev: 244 bps). Consequently, **we believe the concern regarding capital outflow due to the narrowing interest rate differential between BI7DRRR and the Fed Rate, will ease as well as concerns over increasing CDS and Rupiah volatility.** Moreover, the SBN market is still supported by a budget surplus of IDR204.3 tn or 0.97% of GDP until May '23, so **we expect net foreign flows into the SBN market, which have reached ID80.43 tn (ytd, as of 26 Jun '23), to continue.** In the meantime, the Nikkei Manufacturing PMI for Indonesia in Jun '23 has also increased to 52.5 (prev: 50.3), which is expected to attract foreign investors' appetite in the JCI, which has only reached IDR 14.25tn (ytd, as of 26 Jun '23). Therefore, **we anticipate that these factors will provide more leeway for a faster reduction in BI7DRRR compared to other major global central banks, ceteris paribus.**

Fig 1. CPI (Consumer or Headline) Inflation



Sources: Bloomberg, KBVS Research - treated (2023)

Fig 2. WPI (Wholesale) Inflation



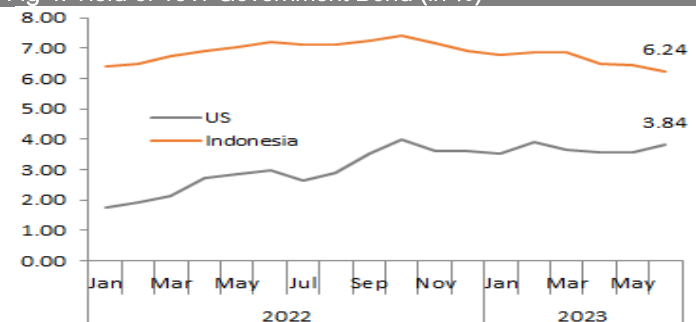
Sources: Bloomberg, KBVS Research - treated (2023)

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)

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	115.00	114.84	0.14%	3.52%
Food, Beverages, and Tobacco	121.64	121.17	0.39%	2.85%
Clothing and Footwear	109.24	109.15	0.08%	1.47%
Housing, Water, Electricity, and Household Fuels	107.95	107.84	0.10%	2.49%
Equipment, Tools, and Routine Household Maintenance	115.21	115.12	0.08%	2.57%
Health	114.14	113.88	0.23%	2.58%
Transport	119.81	119.93	-0.10%	10.18%
Communication and Financial Services	99.59	99.59	0.00%	-0.23%
Recreation, Sport and Culture	109.02	108.89	0.12%	2.17%
Education Services	112.63	112.62	0.01%	2.75%
Food and Beverages Services/Restaurants	117.13	116.87	0.22%	3.27%
Personal Care and Other Services	123.17	123.22	-0.04%	4.27%
Core inflation	112.39	112.26	0.12%	2.58%
Administered Price	119.55	119.57	-0.02%	9.21%
Volatile Food	120.40	119.87	0.44%	1.20%
Wholesale Price Index (WPI)	115.74	115.59	0.13%	3.87%
Agriculture	108.75	107.91	0.78%	2.77%
Mining and Quarrying	125.42	125.66	-0.19%	8.17%
Manufacturing	117.35	117.36	-0.01%	4.08%
Farmer Exchange Rate	110.41	110.20	0.19%	4.74%
Farmers Price Received Index	129.15	128.61	0.42%	9.55%
Farmers Price Paid Index	116.98	116.71	0.23%	4.60%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity Price in Traditional Market	Price (Rp per Kg)					Monthly Price Change (% ptp)
		31 May '23	07 Jun '23	14 Jun '23	21 Jun '23	31 Jun '23	
I	Rice	13,500	13,500	13,500	13,550	13,550	0.37%
1	Lower Quality Rice I	12,400	12,400	12,450	12,450	12,450	0.40%
2	Lower Quality Rice II	12,050	12,050	12,050	12,050	12,050	0.00%
3	Medium Quality Rice I	13,550	13,550	13,600	13,550	13,550	0.00%
4	Medium Quality Rice II	13,300	13,300	13,350	13,350	13,350	0.38%
5	Super Quality Rice I	14,850	14,900	14,900	14,900	14,900	0.34%
6	Super Quality Rice II	14,300	14,300	14,350	14,350	14,350	0.35%
II	Chicken meat	39,000	39,450	39,800	39,750	40,250	3.21%
1	Fresh Race Chicken Meat	39,000	39,450	39,800	39,750	40,250	3.21%
III	Beef	135,100	135,300	135,050	135,000	135,350	0.19%
1	Quality 1 Beef	138,750	138,850	138,600	138,600	138,950	0.14%
2	Quality 2 Beef	129,750	129,900	129,600	129,650	129,650	-0.08%
IV	Chicken eggs	31,950	31,850	31,750	31,650	31,700	-0.78%
1	Fresh Chicken Eggs	31,950	31,850	31,750	31,650	31,700	-0.78%
V	Red onion	40,650	40,050	40,400	40,750	41,100	1.11%
1	Medium Shallot	40,650	40,050	40,400	40,750	41,100	1.11%
VI	Garlic	38,950	39,150	39,400	39,550	39,500	1.41%
1	Medium Size Garlic	38,950	39,150	39,400	39,550	39,500	1.41%
VII	Red chili pepper	43,850	43,600	42,750	42,700	47,750	8.89%
1	Large Red Chili	46,900	46,050	44,750	44,500	49,450	5.44%
2	Curly Red Chili	42,950	42,800	42,300	42,450	47,300	10.13%
VIII	Cayenne pepper	42,150	43,650	43,400	43,300	46,300	9.85%
1	Green Cayenne Pepper	37,750	38,950	38,750	38,600	40,450	7.15%
2	Red Cayenne Pepper	45,450	47,100	46,800	46,250	49,900	9.79%
IX	Cooking oil	19,500	19,450	19,400	19,300	19,250	-1.28%
1	Bulk Cooking Oil	15,800	15,800	15,750	15,600	15,550	-1.58%
2	Branded Packaging Cooking Oil 1	21,650	21,650	21,600	21,550	21,500	-0.69%
3	Branded Packaging Cooking Oil 2	20,150	20,100	20,050	20,000	19,950	-0.99%
X	Sugar	15,250	15,300	15,300	15,350	15,300	0.33%
1	Premium Quality Sugar	16,000	16,000	16,050	16,050	16,050	0.31%
2	Local Sugar	14,700	14,700	14,750	14,750	14,750	0.34%

Sources: BPS, KBVS Research - treated (2023)

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