

Inflation Under Controlled, Bi7DRR Terminal Reached

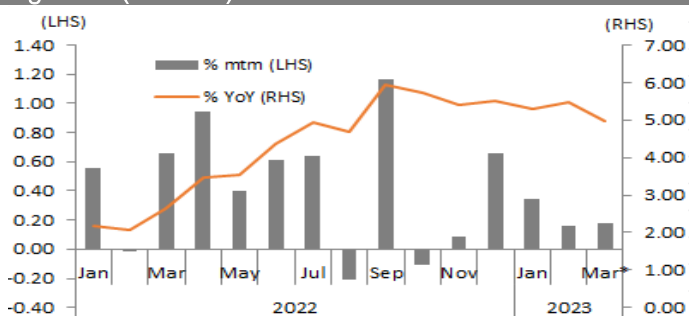
In line with our estimates but lower than consensus', Mar'23 headline (consumer price index - CPI) inflation eased to 0.18% mom or 4.97% yoy (Cons': 0.29% mom or 5.20% yoy, KBVS: 0.13% mom or 4.92% yoy), from 5.47% yoy in Feb '23. Rising airfares (+0.17% yoy), house contracts (+0.13% yoy) and rising rice prices (+0.35% yoy) were the main drivers of inflation this month. Meanwhile, based on its components, the highest inflation came from administered price inflation, which reflected the increase in subsidised fuel since Sep '22 as well as the increase in cigarette excise tax per 1 Jan '23 (as per PMK No. 191 Year 2022). Meanwhile, the information, communication, and financial services group experienced deflation of 0.03% (mom) or deflation of 0.23% (yoy), which was mainly driven by deflation in the information and communication equipment sub-group of 1.23% (yoy).

Wholesale price index (WPI) inflation fell 0.27% mom or at 5.44% yoy in Mar '23 (Prev: 0.32% mom or 5.93% yoy). In line with CPI inflation, higher commodity prices of clove cigarettes with filter and rice, in addition to palm oil, ginger, garlic and non-subsidised petrol were the biggest drivers of price increases on a monthly basis. We view this as the impact of weather anomaly that occurred in late February to mid-March, in addition to the demand push at the end of month along with Ramadhan season. Meanwhile, the prices of diesel (-3.69% mom); cement (-0.46% mom); rebar (-0.41% mom); and building foundation stone (-0.16% mom) highlighted the demand risk from construction and housing sector in early 2023.

The manageable inflation in Mar '23 increased the real yield to 189.0bps (Prev: 141.0bps) and is expected to further attracts foreign capital appetite towards domestic financial market. In addition, with core inflation already at 2.94% yoy (Prev: 3.09% yoy), we expect that it will provide room for BI to maintain BI7DRRR at current level, henceforth opening the possibility of BI7DRRR cut by the end of 3Q23. With precaution, this condition can be supported by the stability of Rupiah, which we expect to ranged between IDR14,900 and IDR15,500 per USD during 2023.

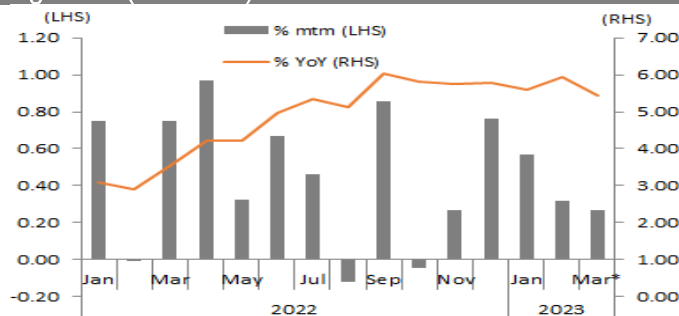
Going forward, we are of the view that this condition will push 2023 year-end headline inflation to be between 3.2% - 3.6% (yoy) and contribute to economic growth to be between 4.9% - 5.5% (yoy). However, we are hoping that the government could address: 1) the distribution and logistic risks towards ledul Fitri amid the opening of domestic mobility; 2) risk of weather anomalies that will result in the volatility of horticultural commodity prices (volatile foods components) throughout the year and; 3) coordination among economic authorities both in maintaining the possibility of global geopolitical transmission as well as domestic political tension towards election in 2024. However, we expect above conditions to be supported by monthly trade surplus that will still occur around USD3.0 bn.

Fig 1. CPI (Headline) Inflation



Sources: Bloomberg, KBVS Research - treated (2023)

Fig 2. WPI (Wholesale) Inflation



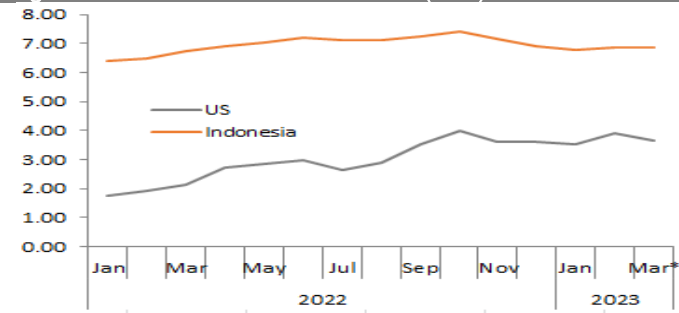
Sources: Bloomberg, KBVS Research - treated (2023)

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

3 April 2023

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Indicators	Index			Inflation	
	Latest	M-1	MtM	YoY	
Consumer Price Index (CPI)	114.36	114.16	0.18%	4.97%	
Food, Beverages, and Tobacco	120.18	119.76	0.35%	6.05%	
Clothing and Footwear	108.99	108.81	0.17%	1.18%	
Housing, Water, Electricity, and Household Fuels	107.71	107.99	-0.26%	2.74%	
Equipment, Tools, and Routine Household Maintenance	114.63	114.39	0.21%	3.72%	
Health	113.46	113.46	0.00%	2.65%	
Transport	119.60	118.96	0.54%	13.72%	
Communication and Financial Services	99.60	99.63	-0.03%	-0.23%	
Recreation, Sport and Culture	108.73	108.61	0.11%	2.54%	
Education Services	112.61	112.61	0.00%	2.75%	
Food and Beverages Services/Restaurants	116.30	116.02	0.24%	4.00%	
Personal Care and Other Services	122.22	121.88	0.28%	4.74%	
Core inflation	111.91	111.73	0.16%	2.94%	
Administered Price	119.05	118.91	0.12%	11.56%	
Volatile Food	118.94	118.60	0.29%	5.83%	
Wholesale Price Index (WPI)	115.21	114.89	0.28%	5.44%	
Agriculture	107.52	106.99	0.50%	4.03%	
Mining and Quarrying	125.24	124.59	0.52%	11.02%	
Manufacturing	116.98	116.72	0.22%	5.69%	
Farmer Exchange Rate	110.85	110.53	0.29%	2.32%	
Farmers Price Received Index	128.79	128.12	0.52%	8.93%	
Farmers Price Paid Index	116.55	115.91	0.55%	5.30%	

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (% , mtm)
		28/2/2023	7/3/2023	14/3/2023	21/3/2023	31/3/2023	
I	Rice	12,650	12,550	12,550	12,650	12,650	0.00%
1	Lower Quality Rice I	11,400	11,350	11,300	11,350	11,400	0.00%
2	Lower Quality Rice II	11,150	11,050	11,050	11,150	11,150	0.00%
3	Medium Quality Rice I	12,850	12,700	12,750	12,800	12,850	0.00%
4	Medium Quality Rice II	12,650	12,500	12,500	12,600	12,600	-0.40%
5	Super Quality Rice I	14,050	14,000	14,050	14,100	14,150	0.71%
6	Super Quality Rice II	13,400	13,350	13,400	13,400	13,400	0.00%
II	Chicken meat	32,250	32,000	32,850	33,850	32,600	1.09%
1	Fresh Race Chicken Meat	32,250	32,000	32,850	33,850	32,600	1.09%
III	Beef	129,100	129,100	129,150	130,300	129,800	0.54%
1	Quality 1 Beef	133,100	133,050	133,150	134,600	133,850	0.56%
2	Quality 2 Beef	124,800	124,800	124,850	125,650	125,350	0.44%
IV	Chicken eggs	27,350	27,400	28,050	29,350	29,150	6.58%
1	Fresh Chicken Eggs	27,350	27,400	28,050	29,350	29,150	6.58%
V	Red onion	36,400	36,450	36,150	35,900	35,250	-3.16%
1	Medium Shallot	36,400	36,450	36,150	35,900	35,250	-3.16%
VI	Garlic	30,350	31,450	32,350	32,750	32,150	5.93%
1	Medium Size Garlic	30,350	31,450	32,350	32,750	32,150	5.93%
VII	Red chili pepper	42,400	42,450	43,850	45,550	38,850	-8.37%
1	Large Red Chili	40,600	40,650	42,700	44,450	38,400	-5.42%
2	Curly Red Chili	43,900	44,050	44,900	46,500	39,250	-10.59%
VIII	Cayenne pepper	51,350	54,200	56,400	56,550	45,700	-11.00%
1	Green Cayenne Pepper	43,450	42,850	43,100	42,200	38,000	-12.54%
2	Red Cayenne Pepper	60,000	66,500	70,850	72,150	54,050	-9.92%
IX	Cooking oil	17,900	17,900	17,900	18,000	17,950	0.28%
1	Bulk Cooking Oil	14,600	14,550	14,500	14,550	14,500	-0.68%
2	Branded Packaging Cooking Oil 1	20,100	20,200	20,200	20,250	20,200	0.50%
3	Branded Packaging Cooking Oil 2	18,700	18,700	18,750	18,900	18,900	1.07%
X	Sugar	14,300	14,300	14,300	14,300	14,350	0.35%
1	Premium Quality Sugar	14,450	14,500	14,500	14,500	14,550	0.69%
2	Local Sugar	14,100	14,100	14,100	14,100	14,150	0.35%

Sources: BPS, KBVS Research - treated (2023)

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