

Rising ST Inflation: Supply Shock and Limited Room for A Dovish BI

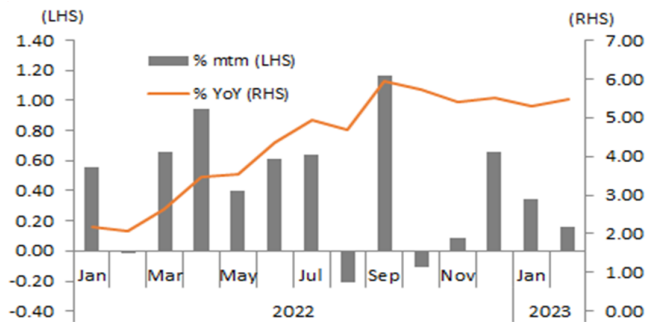
In line with our estimation, Feb '23 headline (consumer price index - CPI) inflation rose to 5.47% yoy (Cons': 5.44% yoy, KBVS: 5.68% yoy), up from 5.28% yoy in Jan '23. This was attributed to heavy rainfall and flooding in three major agricultural provinces – West Java, Central Java and East Java – causing a supply shock and a subsequent rise in the prices of several food items. For example, red chilli saw an increase of 12.17% (mom), cayenne pepper 10.08% (mom), garlic 7.24% (mom) and rice 2.02% (mom) – see Table 2, page 2. Additionally, crop failure was not only reported in Java, but also in other regions such as Kabupaten Kotabaru – the highest regional inflation at 7.88% (yoy) – this was further exacerbated by crop failure in supporting regions, such as Kabupaten Tabalong. Moreover, the increase in non-subsidy fuel prices on 1 and 6 Feb '23 seemed to also influence the increase in household fuel prices by 0.22% (mom), while the decrease in global energy prices, which had an impact on the decrease in avtur prices, decreased air transport tariffs in the same period.

The increase in CPI inflation was also driven by an increase in the wholesale price index (WPI) from 5.59% (yoy) in Jan '23 to 5.93% (yoy) in Feb '23. Price increases were derived from commodities such as garlic, rice, kretek cigarettes with filters, and bottled drinking water. On the other hand, the decline in global commodity prices - reflected by the Bloomberg Commodity Index, which fell 4.19% (mom) - coupled with a depreciation of the Rupiah-USD exchange rate of 1.90% (mom) in Feb '23 drove a decrease in international trade prices, both exports -0.29% (mom) and imports -1.13% (mom).

The increase in Feb '23 inflation has caused Indonesia's real yield (SUN10Yr - inflation spread) shrunk to 141.0 bps, from 151.2 bps in the previous month. Moreover, with higher expected terminal Fed Rates, reaching 5.50% on 28 Feb '23, compared to 5.25% on 2 Feb '23, there has been an outflow of IDR6.07 tn from SBN, compared to the inflow of IDR49.7 tn during Jan '23. Therefore, we still see the possibility of short-term outflows from SBN, due to the volatility caused by more hawkish expectation in Fed Rates and BI7DRRR.

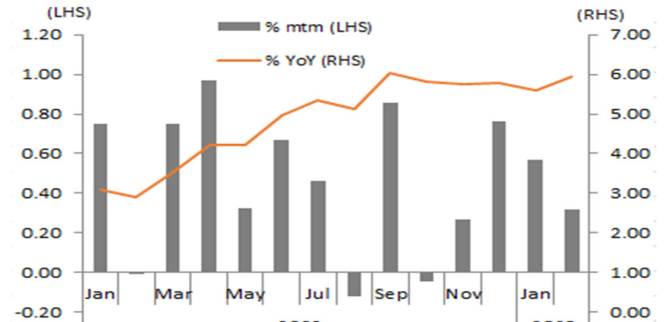
We expect Mar '23 inflation to still be affected by the weather's impact on the supply of food commodities and Ramadhan (scheduled to start in 3rd week of Mar). However, we anticipate that inflation can be supported by the stability of the Rupiah and the stability of international trade prices (both exports and imports).

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)

Indicators	Index		Inflation	
	Latest	M-1	MtM	YoY
Consumer Price Index (CPI)	114.16	113.98	0.16%	5.47%
Food, Beverages, and Tobacco	119.76	119.19	0.48%	6.33%
Clothing and Footwear	108.81	108.59	0.20%	1.28%
Housing, Water, Electricity, and Household Fuels	107.99	107.92	0.06%	3.69%
Equipment, Tools, and Routine Household Maintenance	114.39	114.17	0.19%	4.48%
Health	113.46	113.20	0.23%	3.28%
Transport	118.96	119.22	-0.22%	13.66%
Communication and Financial Services	99.63	99.65	-0.02%	-0.24%
Recreation, Sport and Culture	108.61	108.53	0.07%	2.95%
Education Services	112.61	112.58	0.03%	2.83%
Food and Beverages Services/Restaurants	116.02	115.82	0.17%	4.64%
Personal Care and Other Services	121.88	121.58	0.25%	6.27%
Core inflation	111.73	111.58	0.13%	3.41%
Administered Price	118.91	118.74	0.14%	12.44%
Volatile Food	118.60	118.27	0.28%	6.01%
Wholesale Price Index (WPI)	114.89	114.53	0.31%	5.93%
Agriculture	106.99	107.24	-0.23%	3.90%
Mining and Quarrying	124.59	124.65	-0.05%	12.17%
Manufacturing	116.72	116.21	0.44%	6.32%
Farmer Exchange Rate	110.00	109.84	0.15%	1.53%
Farmers Price Received Index	127.21	126.98	0.18%	7.60%
Farmers Price Paid Index	115.65	115.61	0.03%	5.35%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (% , mtm)
		31/1/2023	7/2/2023	14/2/2023	21/2/2023	28/2/2023	
I	Rice	12,400	12,500	12,600	12,650	12,650	2.02%
1	Lower Quality Rice I	11,200	11,250	11,350	11,400	11,400	1.79%
2	Lower Quality Rice II	11,050	11,100	11,200	11,250	11,150	0.90%
3	Medium Quality Rice I	12,550	12,650	12,750	12,850	12,850	2.39%
4	Medium Quality Rice II	12,400	12,500	12,600	12,700	12,650	2.02%
5	Super Quality Rice I	13,650	13,800	13,950	14,050	14,050	2.93%
6	Super Quality Rice II	13,200	13,200	13,350	13,400	13,400	1.52%
II	Chicken meat	32,150	32,550	32,850	32,500	32,250	0.31%
1	Fresh Race Chicken Meat	32,150	32,550	32,850	32,500	32,250	0.31%
III	Beef	129,400	129,550	129,400	129,500	129,100	-0.23%
1	Quality 1 Beef	133,600	133,550	133,550	133,500	133,100	-0.37%
2	Quality 2 Beef	124,800	125,250	124,900	125,200	124,800	0.00%
IV	Chicken eggs	28,450	28,150	28,050	27,750	27,350	-3.87%
1	Fresh Chicken Eggs	28,450	28,150	28,050	27,750	27,350	-3.87%
V	Red onion	40,650	41,500	39,800	37,550	36,400	-10.46%
1	Medium Shallot	40,650	41,500	39,800	37,550	36,400	-10.46%
VI	Garlic	28,300	28,700	28,700	29,500	30,350	7.24%
1	Medium Size Garlic	28,300	28,700	28,700	29,500	30,350	7.24%
VII	Red chili pepper	37,800	39,850	39,850	43,950	42,400	12.17%
1	Large Red Chili	35,300	37,200	37,400	41,900	40,600	15.01%
2	Curly Red Chili	39,950	42,150	41,950	45,650	43,900	9.89%
VIII	Cayenne pepper	46,650	48,550	49,850	52,400	51,350	10.08%
1	Green Cayenne Pepper	42,000	42,600	43,550	44,750	43,450	3.45%
2	Red Cayenne Pepper	51,750	55,050	56,650	60,700	60,000	15.94%
IX	Cooking oil	17,900	17,900	18,000	18,000	17,900	0.00%
1	Bulk Cooking Oil	14,900	14,900	14,900	14,750	14,600	-2.01%
2	Branded Packaging Cooking Oil 1	20,150	20,000	20,150	20,200	20,100	-0.25%
3	Branded Packaging Cooking Oil 2	18,400	18,500	18,650	18,800	18,700	1.63%
X	Sugar	14,250	14,250	14,250	14,250	14,300	0.35%
1	Premium Quality Sugar	14,450	14,450	14,450	14,400	14,450	0.00%
2	Local Sugar	14,050	14,050	14,050	14,100	14,100	0.36%

Sources: BPS, KBVS Research - treated (2023)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will be related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

KB Valbury Sekuritas

Headquarters

Sahid Sudirman Center Lantai 41 Unit AC
Jl. Jenderal Sudirman No. 86
Kelurahan Karet Tengsin, Kecamatan Tanah Abang
Jakarta Pusat 10220, Indonesia
T +62 21 250 98 300
F +62 21 255 33 778

Branch Office

Jakarta - Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta 11620
T +62 21 - 29451577

Jakarta - Puri Indah

Rukan Grand Aries Niaga
Blok E.1 No. 1 V Jl. Taman Aries, Kembangan,
Jakarta 14450
T +62 21 - 22542390
F +62 21 - 29264310

Jakarta - Pluit

Jl. Pluit Putra Raya No. 2
Jakarta 14240
T +62 21 - 29264300
F +62 21 - 22542391

Bandung

Jl. HOS Cokroaminoto No. 82
Bandung 40171
T +62 22 - 87255888
T +62 22 - 87255800
F +62 22 - 87255811

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T +62 24 - 3521888
T +62 24 - 8501122
F +62 24 - 8507450

Yogyakarta

Jl. Magelang KM 5.5 no. 75
Yogyakarta 55284
T +62 274 - 4469500
T +62 274 - 623111
F +62 274 - 623222

Galeri Investasi

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18 Cengkareng,
Jakarta Barat 11820
T +62 21 52392181

Semarang

Jl. MT Haryono 637 Semarang
T +62 24 8415195

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118

Surabaya

Pakuwon Center Tunjungan Plaza Lantai 21
Jl. Embong Malang No.1
Surabaya 60261
T +62 31 - 2955777
T +62 31 - 2955788
F +62 31 - 2955716

Solo

Jl. Ronggo Warsito no. 34
Solo 57118
T +62 271 632888
F +62 271 656988

Malang

Jl. Pahlawan Trip no. 7
Malang 65112
T +62 341 - 585888
F +62 341 - 560056

Denpasar

Komplek Ibis Styles Hotel
Jl. Teuku Umar No. 177
Denpasar Bali 80114
T +62 361 - 255888
T +62 361 - 225229
F +62 361 - 225339

Banjarmasin

Jl. Gatot Subroto No.33 Kel. Kebun Bunga
Kec. Banjarmasin Timur
Kalimantan Selatan 70235
T +62 511 - 3265918
F +62 511 - 3253432

Manado

Kawasan Megamas, Ruko Megaprofit
Blok IF2 No. 38 Manado. 95254
T +62 431 7917 836
F +62 431 880 2129

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Salatiga

Jl. Diponegoro No. 68, Rt. 007 Rw. 011,
Kel. Salatiga, Kec. Sidorejo 50711
T +62 298 313007

Medan

Komplek Jati Junction No. P5-5A
Jl. Perintis Kemerdekaan
Medan 20218
T +62 61 - 88816222
F 62 61 - 88816333

Pekanbaru

Jl. Tuanku Tambusai
Komplek CNN Blok A No.3 Pekanbaru 28291
T +62 761 - 839393
Galeri Investasi

Padang

Jl. Kampung Nias II no. 10,
Kel. Belakang Pondok,
Kec. Padang Selatan
T +62 751 8955747

Palembang

Komp. PTC Mall Blok I No. 7 Jl. R. Sukanto
Kel. 8 Ilir Kec. Ilir Timur II
Palembang 30114
T 07115700281

Makassar

Kompleks RUKO Citraland City Losari Makassar,
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard
Kel. Maccini Sombala, Kec. Tamalate
Makassar, Sulawesi Selatan 90111
T +62 411 6000818

Galeri Investasi BEI - KBVS

Yogyakarta
Universitas Kristen Duta Wacana
T +62 274 - 544032

Manado
Universitas Prisma Manado
T 0431 8800850

Jakarta
Universitas Gunadarma
T +62 21 - 8727541