

Lower Inflation Opens Up Room for Bi7DRRR Pivot

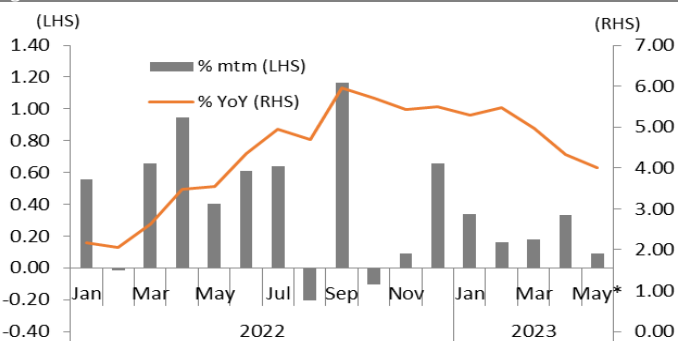
The inflation (core and headline) in May '23 was lower than expected. Specifically, the headline inflation was recorded at 0.09% mom or 4.00% yoy (Cons: 4.23% yoy, KBVS: 4.25% yoy, Prev: 4.33% yoy), while the core inflation was low at 0.06% mom or 2.66% yoy. This condition was accompanied by a deflation of 0.25% mom in the Administered Price component, particularly air transport tariffs and intercity transport tariffs. This also contributed to stagnant energy inflation (0.00% mom), as well as a modest food inflation recorded at 0.50% mom. Based on expenditure groups, these conditions were reflected in the deflation observed in the Transportation group, as well as the Clothing&Footwear group, which experienced deflation of 0.56% mom and 0.46% mom, respectively.

The same condition is also evident in the Wholesale Price Index (WPI) inflation, which experienced a decrease in inflation to 4.43% yoy (Prev: 4.56% yoy) in May '23. The monthly price increases observed in commodities such as Broiler Chickens, Eggs, Garlic, Shallots, Broiler Chicken Meat, and Marble/Granite were offset by deflation in various construction material groups (e.g., Plywood, Diesel Fuel, Lubricating Oil, Asphalt, PVC Pipes, Roofing Materials, Cement, Gypsum, Wire and Similar Products, Zinc-based Building Materials, Ready-to-use Aluminum Products). This is reflected in the deflation of 0.23% mom; 0.20% mom; and 0.14% mom in the Public Works Building for Roads, Bridges & Ports group; Other Buildings group; then Buildings&Installations for Electricity, Gas, Drinking Water&Communication group, respectively.

Unfortunately, the decrease in inflation rates (both CPI and WPI) was accompanied by a decline in farmers' exchange rates, particularly the Received Price Index by Farmers. Furthermore, the decline originated from the Exchange Rate for Smallholder Plantation Farmers (specifically due to the decrease in prices of palm oil and rubber commodities) and the Exchange Rate for Fishermen and Fish Cultivators - both for Fishermen and Fish Cultivators (specifically due to the decrease in prices of seaweed and milkfish commodities).

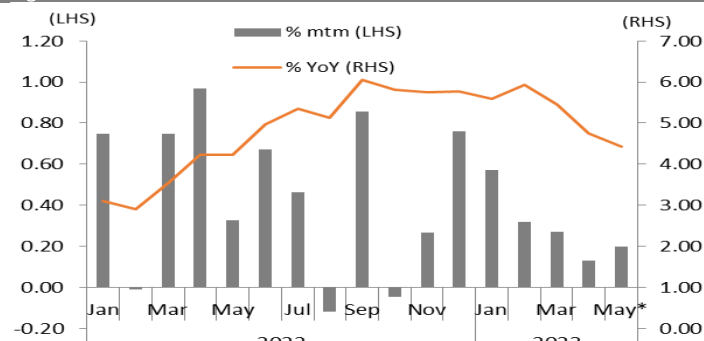
In addition, Indonesia's Manufacturing PMI declined to 50.3 (Prev: 52.7) in the same month, marking the lowest level since Nov '22. Therefore, we anticipate that it could be one of the factors contributing to a pivot in the Bi7DRRR in the upcoming quarter in order to maintain purchasing power and stimulate growth in the real sector. Furthermore, the Rupiah has remained relatively stable at IDR 14823.8 per USD, and the 10-year SUN yield stands at 6.44% during the same period. Although we expect the Fed Rate to remain at a high level until the end of 2023.

Fig 1. CPI (Consumer or Headline) Inflation



Sources: Bloomberg, KBVS Research – treated (2023)

Fig 2. WPI (Wholesale) Inflation



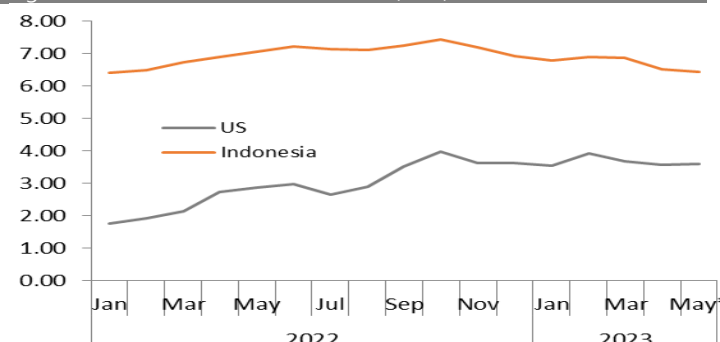
Sources: Bloomberg, KBVS Research – treated (2023)

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)

INDONESIA MACRO UPDATE

06 June 2023

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Indicators	Index		Inflation	
	Latest	M-1	MtM	YoY
Consumer Price Index (CPI)	114.84	114.74	0.09%	4.00%
Food, Beverages, and Tobacco	121.17	120.59	0.48%	4.27%
Clothing and Footwear	109.15	109.65	-0.46%	1.54%
Housing, Water, Electricity, and Household Fuels	107.84	107.79	0.05%	2.48%
Equipment, Tools, and Routine Household Maintenance	115.12	114.89	0.20%	3.03%
Health	113.88	113.75	0.11%	2.52%
Transport	119.93	120.60	-0.56%	10.62%
Communication and Financial Services	99.59	99.58	0.01%	-0.27%
Recreation, Sport and Culture	108.89	108.78	0.10%	2.18%
Education Services	112.62	112.61	0.01%	2.75%
Food and Beverages Services/Restaurants	116.87	116.70	0.15%	3.38%
Personal Care and Other Services	123.22	123.05	0.14%	4.48%
Core inflation	112.26	112.19	0.06%	2.66%
Administered Price	119.57	119.87	-0.25%	9.52%
Volatile Food	119.87	119.28	0.49%	3.28%
Wholesale Price Index (WPI)	115.59	115.36	0.20%	4.43%
Agriculture	107.91	107.29	0.58%	3.97%
Mining and Quarrying	125.66	125.79	-0.10%	9.75%
Manufacturing	117.36	117.22	0.12%	4.48%
Farmer Exchange Rate	110.20	110.58	-0.34%	4.54%
Farmers Price Received Index	128.61	128.64	-0.02%	9.09%
Farmers Price Paid Index	116.71	116.33	0.33%	4.35%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity Price in Traditional Market	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		28 Apr '23	08 May '23	15 May '23	22 May '23	31 May '23	
I	Rice	140,300	139,150	138,850	138,850	138,650	0.75%
1	Lower Quality Rice I	131,150	130,350	130,200	130,000	129,750	1.22%
2	Lower Quality Rice II	30,050	30,200	31,150	31,800	31,900	0.84%
3	Medium Quality Rice I	30,050	30,200	31,150	31,800	31,900	0.74%
4	Medium Quality Rice II	39,900	42,050	42,900	42,200	40,450	0.38%
5	Super Quality Rice I	39,900	42,050	42,900	42,200	40,450	0.68%
6	Super Quality Rice II	35,300	36,650	38,200	38,500	39,100	0.35%
II	Chicken meat	35,300	36,650	38,200	38,500	39,100	4.98%
1	Fresh Race Chicken Meat	44,200	39,300	41,900	43,100	43,700	4.98%
III	Beef	46,600	41,350	43,750	46,150	46,600	-1.17%
1	Quality 1 Beef	43,450	38,950	41,550	42,400	42,750	-1.18%
2	Quality 2 Beef	41,600	39,950	40,900	41,850	42,750	-1.07%
IV	Chicken eggs	39,800	36,250	35,850	36,500	37,900	6.16%
1	Fresh Chicken Eggs	42,550	42,650	44,550	46,350	46,150	6.16%
V	Red onion	19,500	19,450	19,450	19,450	19,450	1.38%
1	Medium Shallot	15,650	15,700	15,750	15,800	15,800	1.38%
VI	Garlic	21,750	21,750	21,700	21,650	21,650	10.76%
1	Medium Size Garlic	20,100	20,050	20,050	20,050	20,150	10.76%
VII	Red chili pepper	15,150	15,150	15,200	15,250	15,250	-1.13%
1	Large Red Chili	15,950	15,850	15,950	16,000	16,000	0.00%
2	Curly Red Chili	14,500	14,550	14,600	14,650	14,700	-1.61%
VIII	Cayenne pepper	140,300	139,150	138,850	138,850	138,650	2.76%
1	Green Cayenne Pepper	131,150	130,350	130,200	130,000	129,750	-4.77%
2	Red Cayenne Pepper	30,050	30,200	31,150	31,800	31,900	8.46%
IX	Cooking oil	30,050	30,200	31,150	31,800	31,900	-0.26%
1	Bulk Cooking Oil	39,900	42,050	42,900	42,200	40,450	0.96%
2	Branded Packaging Cooking Oil 1	39,900	42,050	42,900	42,200	40,450	-0.46%
3	Branded Packaging Cooking Oil 2	35,300	36,650	38,200	38,500	39,100	0.25%
X	Sugar	35,300	36,650	38,200	38,500	39,100	0.66%
1	Premium Quality Sugar	44,200	39,300	41,900	43,100	43,700	0.31%
2	Local Sugar	46,600	41,350	43,750	46,150	46,600	1.38%

Sources: BPS, KBVS Research - treated (2023)

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