

## Double Supply Shocks Drive May Inflation Higher

**Indonesia's headline inflation accelerated to 0.28% MoM** (Cons: 0.14%, KBVS: -0.40%, Prev: 0.13%) **or 3.08% YoY** (Cons: 2.40%, KBVS: 2.40%, Prev: 2.42%) **in May '26, approaching the upper bound of BI's 1.5–3.5% target range on a combination of volatile food supply shock and rupiah pass-through.** This marks the highest YoY growth since Feb '26 (3.05% YoY) and a notable reversal from May '25 deflation of -0.37% MoM, underscoring the severity of the supply-side disruption that unfolded across the month. **The acceleration was driven by three concurrent forces: a late-month volatile food supply shock, pre-Idul Adha seasonal demand pickup, and ongoing pass-through from non-subsidized fuel and avtur price increases.**

**A notable development in May '26 was the sharp increase in chili prices, particularly during the second half of the month.** Red chili pepper prices rose +47.41% MoM on a point-to-point basis, from IDR47,250/kg at end-April to IDR69,650/kg by end-May, with the bulk of the increase concentrated from the third week of May onwards (+27.9% jump in just ten days). Similarly, cayenne pepper surged +29.52% MoM, climbing from IDR53,700/kg to IDR69,550/kg by month-end, with red cayenne specifically up +36.23% MoM. This timing aligns directly with BMKG's May '26 climate assessment, which confirmed that approximately 184 seasonal zones, spanning the northern coast of Java, Central Java, Yogyakarta, and the majority of East Java, entered the dry season in May, compounded by an El Niño strengthening signal that is projected to intensify through 2H26F, pushing rainfall well below normal in key horticultural producing areas. **The combination of accelerated dry season onset, harvest transition in major producing belts, localized crop failure across key rice and horticultural regions** in Indramayu–Cirebon, the Pantura corridor of Central Java (including Brebes, Tegal, Demak, Grobogan), and East Java production areas (including Lamongan, Bojonegoro, and Jember), **alongside rising agricultural input costs, created a supply gap** that the distribution network was unable to absorb, transmitting directly into consumer prices at month-end.

**Food, Beverages & Tobacco was the largest YoY growth contributor (4.94% YoY), led by fresh fish, rice, and broiler chicken on an annual basis, while red chili and cooking oil dominated the monthly push.** Personal Care & Other Services posted the highest group-level YoY reading at 10.35%, almost entirely reflecting the cumulative rally in global gold prices over the past year (0.63% YoY), on a monthly basis, however, the group deflated -0.74% MoM as gold prices extended their three-consecutive-month correction through May. Transport rose 2.30% YoY and 0.61% MoM, driven by air fares and the pass-through from the non-subsidized fuel price adjustment on 4 May '26.

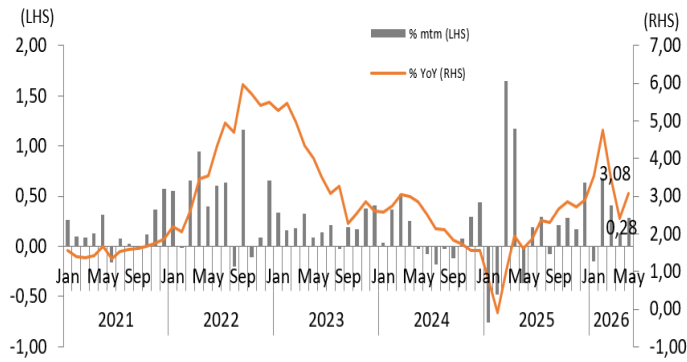
**Core inflation at 2.59% YoY** (Cons: 2.50%, Prev: 2.44%) **was the single largest component contributor to headline at 1.66%, with key commodities including gold jewelry, cooking oil, prepared meals, university tuition, rent, and automobiles driving the annual reading, a combination of rupiah pass-through on imported goods and sticky domestic services costs that tend to be slow to reverse.** On a monthly basis, core also led all components at 0.22% MoM, driven by cooking oil, mobile phones, laptops, lubricants, prepared meals, and vehicle maintenance costs. With the core index rising consistently from 106.59 in May '25 to 109.35 in May '26 and sequential momentum holding at 0.22% MoM, the two-consecutive-month uptick (Apr: 2.44% YoY → May: 2.59% YoY) is the most important underlying signal in this print for BI's policy assessment.

### Monetary Policy and Market Implications

**The May '26 CPI outcome effectively closes the door on a near-term BI rate cut and raises the probability of a prolonged hold, with a tail risk of a rate adjustment later in '26F should external pressures intensify.** While the upside surprise was largely driven by supply-side factors, particularly volatile food and administered price pass-through, BI is still likely to monitor the recent inflation trend closely, given that inflation has remained around the mid-point of the target range in three out of the first five months of '26, with the YoY trajectory continuing to edge higher. **We maintain our view that BI will hold the BI-Rate at 5.50% at the June '26 RDG (18–19 Jun '26), as the supply-driven nature of the shock does not warrant an immediate policy rate response.**

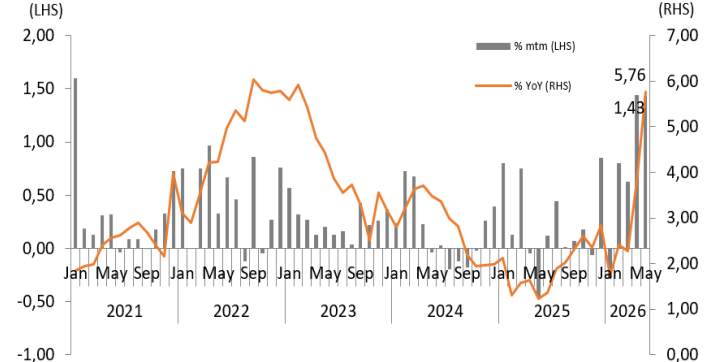
**Looking ahead, the key risk to the inflation trajectory is whether the El Niño-driven dry season extends into Jun–Jul '26 as BMKG's seasonal outlook currently suggests, which would sustain volatile food pressure at elevated levels, particularly ahead of Idul Adha on approximately 7 Jun '26 which may add another demand-side impulse to horticultural prices in the June print.** If headline CPI prints in the +3.2–3.5% YoY range in Jun–Jul '26, BI would likely adopt an explicit hawkish hold posture. A secondary risk is the rupiah channel: ongoing IDR depreciation has amplified the pass-through from global commodity prices into domestic food supply chains, fertilizers, animal feed, logistics fuel, making the supply-side shock more persistent than a purely weather-driven episode would imply. Global crude oil averaging around USD93/bbl ytd and an elevated avtur cost structure add further upside risk to the administered price component in the coming months.

**Fig 1. CPI (Consumer or Headline) Inflation**



Sources: BPS, KBVS Research – treated (2026)

**Fig 2. WPI (Wholesale) Inflation**



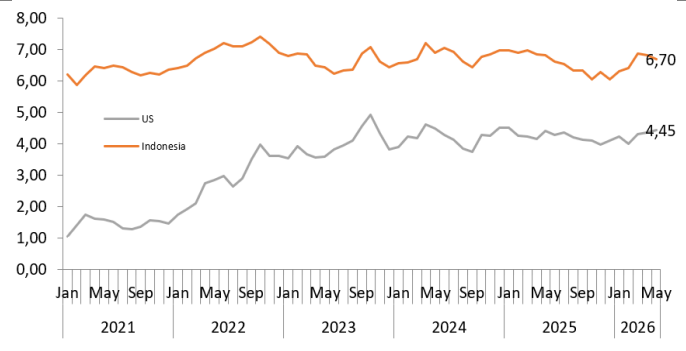
Sources: BPS, KBVS Research – treated (2026)

**Fig 3. Real Yield US vs Indonesia (in bps)**



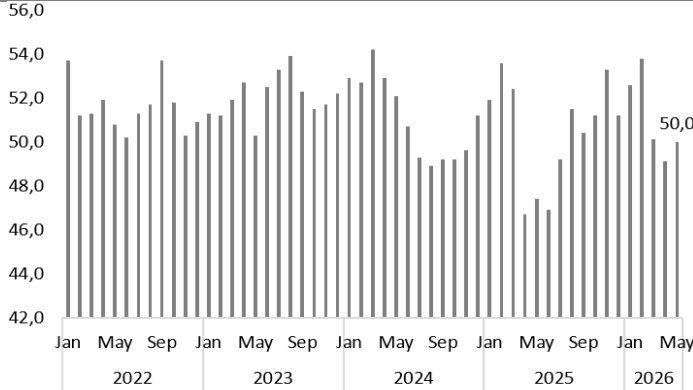
Sources: Bloomberg, KBVS Research – treated (2026)

**Fig 4. Yield of 10Yr Government Bond (in %)**



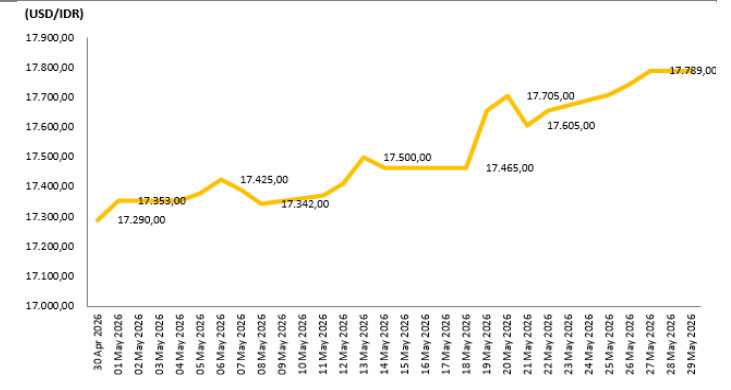
Sources: BI, KBVS Research – treated (2026)

**Fig 5. PMI Manufacturing (index)**



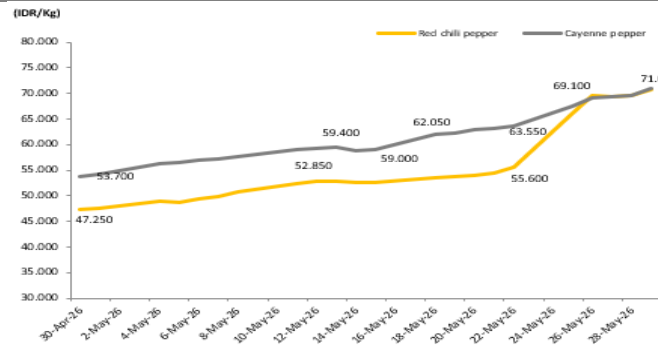
Sources: Market Economics, KBVS Research – treated (2026)

**Fig 6. USD/IDR (IDR per USD)**



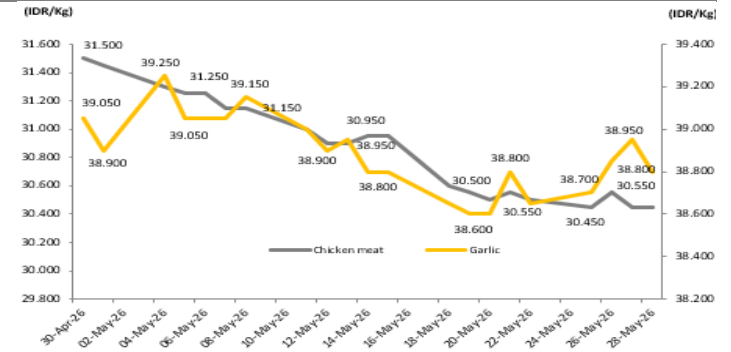
Sources: Bloomberg, KBVS Research – treated (2026)

**Fig 7. Red Chili Pepper & Cayenne Pepper Price**



Sources: BI, KBVS Research – treated (2026)

**Fig 8. Cooking Oil & Sugar Price**



Sources: BI, KBVS Research – treated (2026)

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
<b>Consumer Price Index (CPI)</b>	<b>111,40</b>	<b>111,09</b>	<b>0,28%</b>	<b>3,08%</b>
Food, Beverages, and Tobacco	117,51	117,05	0,39%	4,94%
Clothing and Footwear	104,82	104,74	0,08%	0,84%
Housing, Water, Electricity, and Household Fuels	104,93	104,64	0,28%	1,00%
Equipment, Tools, and Routine Household Maintenance	105,09	104,73	0,34%	0,98%
Health	107,38	107,15	0,21%	1,70%
Transport	112,42	111,74	0,61%	2,30%
Info, Comm. and Financial Services	100,26	99,81	0,45%	0,97%
Recreation, Sport and Culture	106,23	106,03	0,19%	1,30%
Education Services	106,29	106,28	0,01%	1,15%
Food and Beverages Services/Restaurants	109,98	109,54	0,40%	2,24%
Personal Care and Other Services	132,00	132,98	-0,74%	10,35%
Core inflation	109,35	109,11	0,22%	2,59%
Administered Price	112,21	111,63	0,52%	2,07%
Volatile Food	118,88	118,62	0,22%	6,24%
<b>Wholesale Price Index (WPI)</b>	<b>110,63</b>	<b>109,07</b>	<b>1,43%</b>	<b>5,76%</b>
Agriculture	114,28	113,31	0,86%	7,73%
Mining and Quarrying	110,29	103,34	6,73%	8,92%
Manufacturing	110,78	110,06	0,65%	3,72%
<b>Farmer Exchange Rate</b>	<b>127,73</b>	<b>125,24</b>	<b>1,99%</b>	<b>5,51%</b>
Farmers Price Received Index	163,16	159,14	2,53%	8,64%
Farmers Price Paid Index	127,74	127,07	0,53%	2,96%

Sources: BPS, KBVS Research - treated (2026)

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		30/04/2026	07/05/2026	14/05/2026	21/05/2026	31/05/2026	
<b>I</b>	<b>Rice</b>	<b>15,950</b>	<b>15,950</b>	<b>16,000</b>	<b>16,000</b>	<b>16,000</b>	<b>0,31%</b>
1	Lower Quality Rice I	14,550	14,550	14,550	14,600	14,650	0,69%
2	Lower Quality Rice II	14,550	14,550	14,550	14,450	14,450	-0,69%
3	Medium Quality Rice I	16,100	16,150	16,150	16,150	16,200	0,62%
4	Medium Quality Rice II	16,000	15,950	16,000	16,000	16,050	0,31%
5	Super Quality Rice I	17,350	17,400	17,400	17,450	17,450	0,58%
6	Super Quality Rice II	16,900	16,900	16,950	16,950	17,000	0,59%
<b>II</b>	<b>Chicken meat</b>	<b>38,700</b>	<b>39,050</b>	<b>38,700</b>	<b>38,600</b>	<b>39,250</b>	<b>1,42%</b>
1	Fresh Race Chicken Meat	38,700	39,050	38,700	38,600	39,250	1,42%
<b>III</b>	<b>Beef</b>	<b>144,650</b>	<b>144,150</b>	<b>144,150</b>	<b>144,700</b>	<b>148,350</b>	<b>2,56%</b>
1	Quality 1 Beef	148,000	147,700	147,750	148,250	151,750	2,53%
2	Quality 2 Beef	139,950	139,200	139,000	139,500	142,300	1,68%
<b>IV</b>	<b>Chicken eggs</b>	<b>31,500</b>	<b>31,150</b>	<b>30,950</b>	<b>30,550</b>	<b>30,450</b>	<b>-3,33%</b>
1	Fresh Chicken Eggs	31,500	31,150	30,950	30,550	30,450	-3,33%
<b>V</b>	<b>Red onion</b>	<b>45,700</b>	<b>46,600</b>	<b>47,350</b>	<b>48,100</b>	<b>50,050</b>	<b>9,52%</b>
1	Medium Shallot	45,700	46,600	47,350	48,100	50,050	9,52%
<b>VI</b>	<b>Garlic</b>	<b>39,050</b>	<b>39,050</b>	<b>38,800</b>	<b>38,800</b>	<b>38,800</b>	<b>-0,64%</b>
1	Medium Size Garlic	39,050	39,050	38,800	38,800	38,800	-0,64%
<b>VII</b>	<b>Red chili pepper</b>	<b>47,250</b>	<b>49,850</b>	<b>52,550</b>	<b>54,450</b>	<b>69,650</b>	<b>47,41%</b>
1	Large Red Chili	49,200	51,500	54,650	56,250	72,550	47,46%
2	Curly Red Chili	46,600	49,350	51,650	53,800	68,400	46,78%
<b>VIII</b>	<b>Cayenne pepper</b>	<b>53,700</b>	<b>57,200</b>	<b>58,900</b>	<b>63,250</b>	<b>69,550</b>	<b>29,52%</b>
1	Green Cayenne Pepper	48,500	49,300	50,400	53,950	59,000	21,65%
2	Red Cayenne Pepper	58,650	64,800	67,950	72,950	79,900	36,23%
<b>IX</b>	<b>Cooking oil</b>	<b>22,600</b>	<b>22,650</b>	<b>22,700</b>	<b>22,700</b>	<b>22,850</b>	<b>1,11%</b>
1	Bulk Cooking Oil	20,550	20,600	20,550	20,600	20,600	0,24%
2	Branded Packaging Cooking Oil 1	23,800	23,850	23,950	23,900	24,000	0,84%
3	Branded Packaging Cooking Oil 2	22,850	23,000	23,100	23,100	23,250	1,75%
<b>X</b>	<b>Sugar</b>	<b>19,650</b>	<b>19,600</b>	<b>19,650</b>	<b>19,550</b>	<b>19,600</b>	<b>-0,25%</b>
1	Premium Quality Sugar	20,250	20,200	20,250	20,200	20,350	0,49%
2	Local Sugar	19,200	19,200	19,200	19,150	19,150	-0,26%

Sources: BI, KBVS Research - treated (2026)

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