

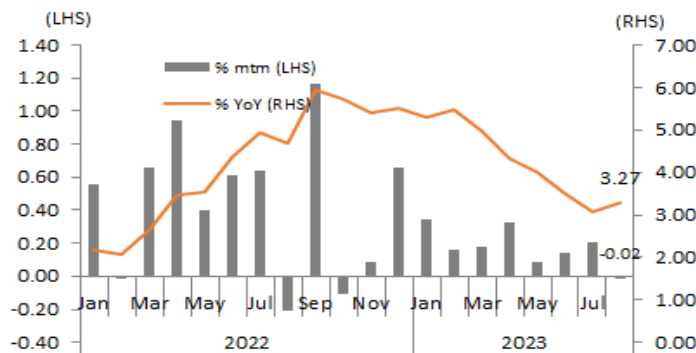
MoM Deflation In Aug '23 Driven By Volatile Food, While Rupiah Remain Stable

As expected, Indonesia recorded a monthly deflation in Aug '23 with CPI slightly down by -0.02% mom (Cons: +0.05% mom; KBVS: -0.11% mom; Prev: +0.21% mom), while on an annual basis, the inflation rose by 3.27% yoy (Cons: 3.34% yoy; KBVS: 3.18% yoy; Prev: 3.08% yoy). The deflationary trend was primarily driven by the volatile food group, which declined by -0.09% mom or 2.42% yoy. This trend was also reflected in the expenditure category of Food, Beverages, and Tobacco, which declined by -0.07% mom or 0.92% yoy. Notably, this was driven by commodities such as Red Onions (-17.39% mom), Cayenne Pepper (-11.10% mom), and Chicken Eggs (-7.03% mom) between 31 Jul and 31 Aug '23. However, despite these decreases, the hike in rice prices, driven by global price increases as well as a potential 1.2mn ton rice production decrease amid crop failures in several harvest centers due to El Niño in Aug and Sep '23, is a concern that could lead to inflationary further pressure in Sep '23. Note that, the upward trend in rice prices has driven Aug '23 core inflation to +0.08% mom or 2.18% yoy.

Meanwhile, the Wholesale Price Index (IHPB) experienced inflation of +0.04% mom or 3.72% yoy. This was driven by the increases in the prices of carrots, palm oil, rice, diesel fuel, and processed tobacco although most agricultural commodities experienced the decreases prices. Consequently, the Agricultural sector experienced -0.02% mom or +0.95% yoy inflation; Mining and Quarrying -0.01% mom or +0.04% yoy, while the Industrial sector saw +0.07% mom or +2.73% yoy inflation. Additionally, price increases in Sand; Building Foundation Stones; Crushed Stone; Cement; Diesel; and Asphalt led to +0.08% mom or +2.13% yoy inflation in the Indonesian Construction sector in Aug '23.

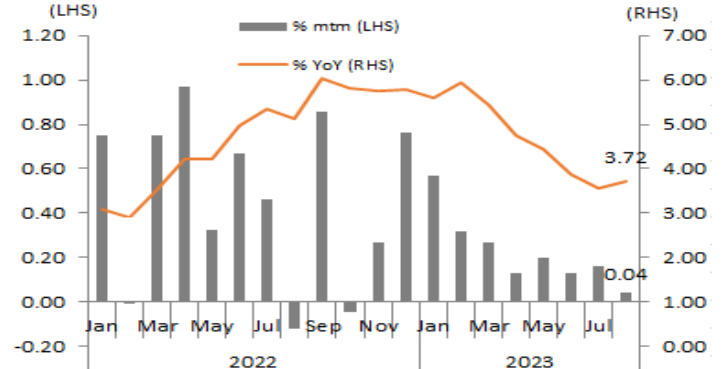
Furthermore, the Rupiah depreciation coupled with the global energy price hike, contributed to international trade inflation in Aug '23 at 0.25% mom. This raises concerns about potential imported inflation, particularly through domestic energy price inflation. Therefore, the injection of liquidity through the effective implementation of Natural Resource Export Earnings (DHE SDA) and the issuance of Bank Indonesia Rupiah Securities (SRBI) instruments is not only seen as essential to maintaining Rupiah stability but also to curb imported inflation. Furthermore, the cumulative inflation impact of the subsidized fuel price hike last year is expected to be neutralized. However, with the ongoing El Niño and the potential crop failures, coupled with the non-subsidized fuel price increase on 1 Sep '23, there is a possibility of rising core inflation in Sep '23, albeit still within the Bank Indonesia's target range. Thus, we believe the room for a reduction in the BI7DRR interest rate remains open until the end of 2023.

Fig 1. CPI (Consumer or Headline) Inflation



Sources: Bloomberg, KBVS Research – treated (2023)

Fig 2. WPI (Wholesale) Inflation



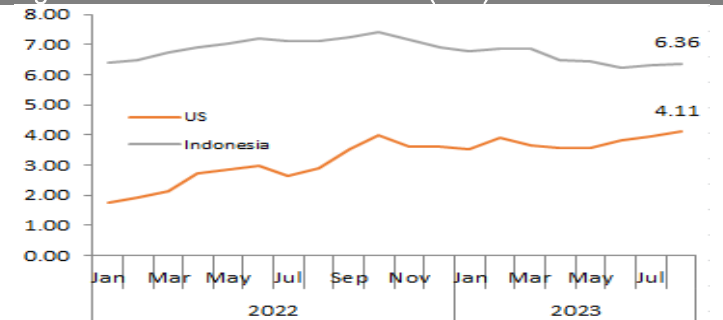
Sources: Bloomberg, KBVS Research – treated (2023)

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)

Indicators	Index		Inflation	
	Latest	M-1	Mom	Yoy
Consumer Price Index (CPI)	115.22	115.24	-0.02%	3.27%
Food, Beverages, and Tobacco	121.61	121.91	-0.25%	3.51%
Clothing and Footwear	109.14	109.44	-0.27%	1.12%
Housing, Water, Electricity, and Household Fuels	107.92	107.97	-0.05%	1.40%
Equipment, Tools, and Routine Household Maintenance	115.38	115.27	0.10%	2.21%
Health	114.48	114.36	0.10%	2.69%
Transport	120.48	120.50	-0.02%	9.55%
Info, Comm. and Financial Services	99.56	99.57	-0.01%	-0.22%
Recreation, Sport and Culture	109.29	109.21	0.07%	1.88%
Education Services	114.34	113.37	0.86%	2.07%
Food and Beverages Services/Restaurants	117.47	117.30	0.14%	2.88%
Personal Care and Other Services	123.26	123.16	0.08%	3.76%
Core inflation	112.69	112.54	0.13%	2.18%
Administered Price	120.05	120.08	-0.02%	8.05%
Volatile Food	119.99	120.61	-0.51%	2.42%
Wholesale Price Index (WPI)	115.97	115.93	0.03%	3.72%
Agriculture	109.08	109.22	-0.13%	5.18%
Mining and Quarrying	123.32	124.70	-1.11%	5.10%
Manufacturing	117.47	117.47	0.00%	3.29%
Farmer Exchange Rate	111.85	110.64	1.09%	6.11%
Farmers Price Received Index	130.99	129.58	1.09%	11.11%
Farmers Price Paid Index	117.11	117.12	-0.01%	4.71%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity Price in Traditional Market	Price (Rp per Kg)					Monthly Price Change (% ptp)
		31/07/23	07/08/23	14/08/23	21/08/23	31/08/23	
I	Rice	13,550	13,550	13,550	13,650	13,500	-0.37%
1	Lower Quality Rice I	12,450	12,450	12,550	12,550	12,450	0.00%
2	Lower Quality Rice II	12,150	12,100	12,150	12,200	12,100	-0.41%
3	Medium Quality Rice I	13,550	13,600	13,650	13,750	13,600	0.37%
4	Medium Quality Rice II	13,350	13,350	13,400	13,500	13,350	0.00%
5	Super Quality Rice I	14,900	14,900	14,950	15,000	14,850	-0.34%
6	Super Quality Rice II	14,350	14,400	14,400	14,450	14,300	-0.35%
II	Chicken meat	35,900	35,550	36,450	36,300	34,900	-2.79%
1	Fresh Race Chicken Meat	35,900	35,550	36,450	36,300	34,900	-2.79%
III	Beef	135,050	135,100	134,750	135,000	133,050	-1.48%
1	Quality 1 Beef	138,750	138,800	138,450	138,600	136,500	-1.62%
2	Quality 2 Beef	129,550	129,600	129,150	129,600	128,150	-1.08%
IV	Chicken eggs	32,000	31,850	31,650	31,150	29,750	-7.03%
1	Fresh Chicken Eggs	32,000	31,850	31,650	31,150	29,750	-7.03%
V	Red onion	34,800	33,100	32,100	31,000	28,750	-17.39%
1	Medium Shallot	34,800	33,100	32,100	31,000	28,750	-17.39%
VI	Garlic	42,350	41,750	41,300	40,750	39,600	-6.49%
1	Medium Size Garlic	42,350	41,750	41,300	40,750	39,600	-6.49%
VII	Red chili pepper	41,600	42,550	43,900	46,000	45,400	9.13%
1	Large Red Chili	41,450	42,350	41,950	43,850	44,550	7.48%
2	Curly Red Chili	41,900	42,700	44,600	46,950	45,650	8.95%
VIII	Cayenne pepper	45,500	47,850	47,700	46,750	40,450	-11.10%
1	Green Cayenne Pepper	41,250	41,550	40,550	40,700	36,200	-12.24%
2	Red Cayenne Pepper	47,800	52,400	53,500	51,550	43,100	-9.83%
IX	Cooking oil	19,150	19,150	19,100	19,100	18,800	-1.83%
1	Bulk Cooking Oil	15,500	15,450	15,400	15,400	15,250	-1.61%
2	Branded Packaging Cooking Oil 1	21,400	21,350	21,300	21,250	21,000	-1.87%
3	Branded Packaging Cooking Oil 2	19,800	19,800	19,850	19,750	19,450	-1.77%
X	Sugar	15,400	15,400	15,400	15,400	15,300	-0.65%
1	Premium Quality Sugar	16,100	16,150	16,150	16,150	16,000	-0.62%
2	Local Sugar	14,800	14,850	14,850	14,850	14,750	-0.34%

Sources: BPS, KBVS Research - treated (2023)

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