

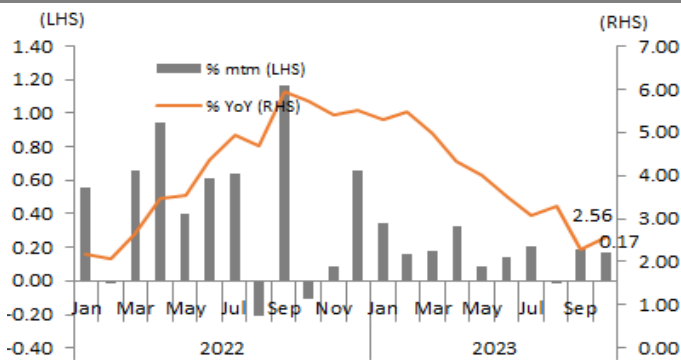
## The El Niño and Rupiah Depreciation Have Begun to Drive Oct '23 Inflation

The increase in rice and chili prices, adjustments in non-subsidized fuel prices as well as air transport tariff adjustments have been the primary drivers of inflation in Oct '23, pushing it to 0.17% MoM or 2.56% YoY (Cons: 2.60% YoY, KBVS: 2.59% YoY, Prev: 2.28% YoY). The impact of El Niño, resulting in crop failures, especially in greater Java region has been a major factor driving the increase in the prices of volatile food commodities, along with price hikes in oranges and green mustard. Additionally, a 1.90% MoM increase in rent and housing contracts, coupled with a 0.10% MoM increase in the prices of domestic gold and jewelry due to the rise in global gold prices, along with the Rupiah's depreciation (see Fig. 6, 7 and 8, page 2), has contributed to the core inflation rate for the same month, reaching 0.09% MoM or 1.91% YoY (Cons: 2.00% YoY, Prev: 2.00% YoY). Meanwhile, the Rupiah's depreciation also resulted in a 1.66% MoM increase in Pertamina's domestic flight aviation fuel price per liter, despite a -2.31% MoM drop in Brent Oil futures, coupled with the increase in non-subsidized fuel prices between 1 Oct and 31 Oct '23, has also driven energy component inflation to 0.04% MoM, and government-regulated price inflation to 0.46% MoM in the same month.

As of today, Indonesia's Nikkei Manufacturing PMI in Oct '23 remains within the expansionary zone at 51.5 (Prev: 52.3) – see Fig. 5, page 2. This marks the 26th consecutive month of expansion in factory activity but represents the slowest pace of growth since May '23. This slowdown can be attributed to weaker new order growth and a reduction in export sales, even as output experienced its weakest growth in four months. These conditions align with the overall weakening trend in the Manufacturing PMI of key trading partners, such as China, which registered 49.5 (Cons: 50.8, Prev: 50.6) and India at 55.5 (Cons: 57.7, Prev: 57.5) in the same period. Furthermore, slowdown in domestic production growth has consequently led to the first decline in employment levels since Jun '22.

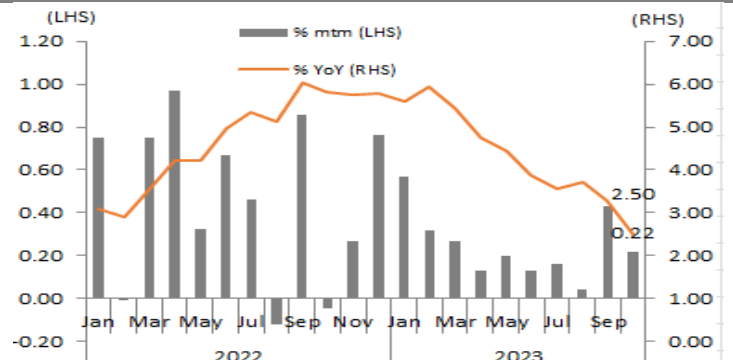
Looking ahead, we anticipate that the increase in prices of volatile foods, particularly rice, chili peppers, and red peppers, is primarily due to the risk of El Niño, which is expected to persist until February '24. Furthermore, there is a risk of core inflation pressure, especially in rental prices, gold jewelry, and imported goods, driven by an increase in the cost of funds following the rise in the Bi7DRR on last RDG BI (19 Oct'23), and the ongoing trend of Rupiah depreciation. These factors have the potential to lead to an increase in inflation in the Nov and Dec '23. This outlook aligns with BPS's expectations of a -10.92% YoY decrease in national rice production during 4Q23 compared to the same period in the previous year. However, we anticipate that the decline in prices of livestock and fisheries commodities may act as a mitigating factor to offset the rise in other commodity prices. As a result, we project that year-end 2023 inflation will likely hovers around 2.72% YoY.

Fig 1. CPI (Consumer or Headline) Inflation



Sources: Bloomberg, KBVS Research - treated (2023)

Fig 2. WPI (Wholesale) Inflation



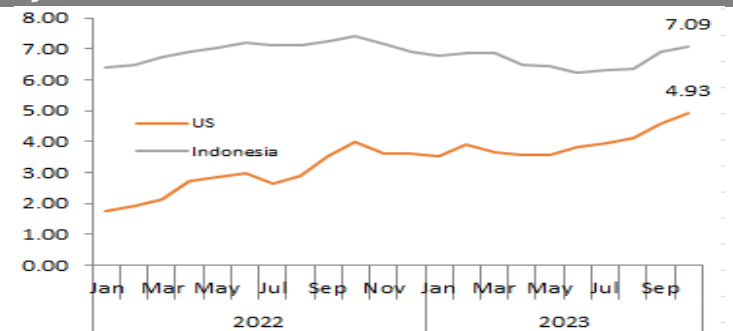
Sources: Bloomberg, KBVS Research - treated (2023)

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



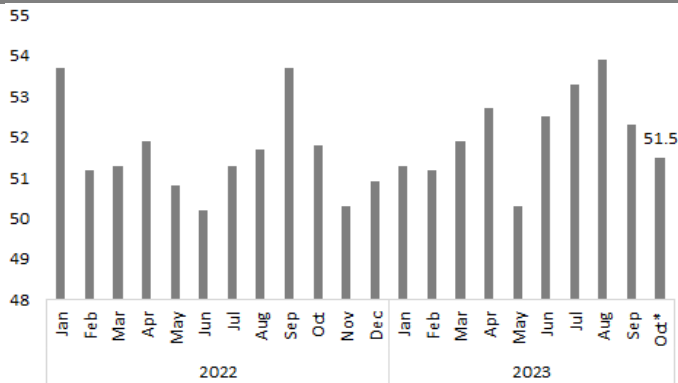
Sources: Bloomberg, KBVS Research - treated (2023)

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



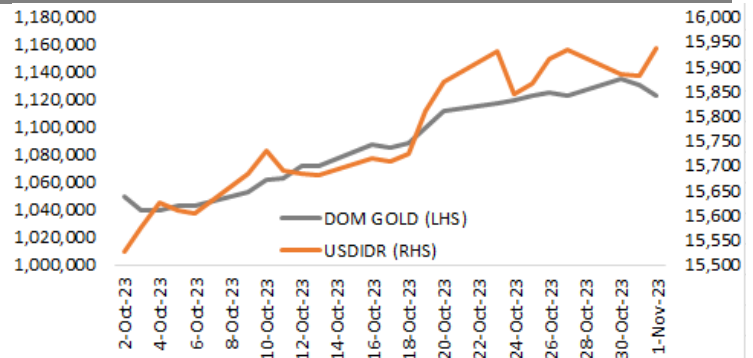
Sources: Bloomberg, KBVS Research - treated (2023)

Fig 5. PMI Manufacturing



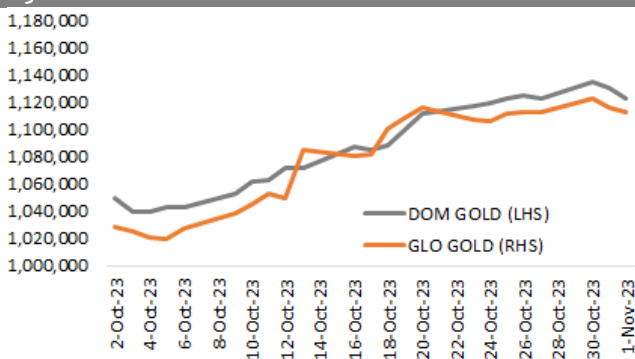
Sources: Market Economics, KBVS Research - treated (2023)

Fig 6. Domestic Gold Price Vs USD/IDR



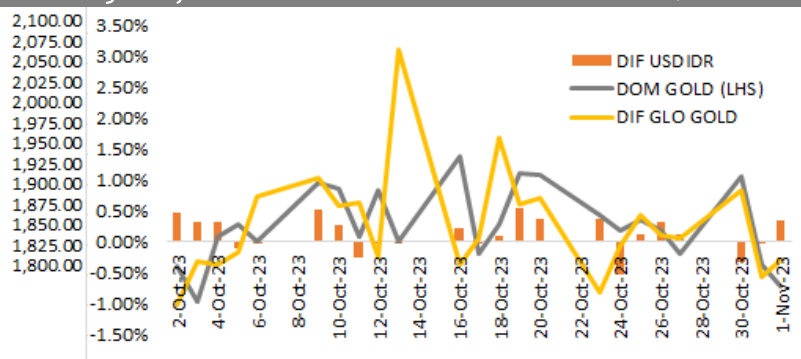
Sources: Investing, ANTM, KBVS Research - treated (2023)

Fig 7. Price of Domestic Gold Vs Global Gold



Sources: Investing, ANTM, KBVS Research - treated (2023)

Fig 8. Daily Movement of Domestic And Global Gold Price Vs USD/IDR



Sources: Investing, KBVS Research - treated (2023)

Table 1. CPI, WPI & Farmer Exchange Rate as of 2 October 2023

Indicators	Index		Inflation	
	Latest	M-1	Mom	Yoy
<b>Consumer Price Index (CPI)</b>	<b>115.64</b>	<b>115.44</b>	<b>0.17%</b>	<b>2.56%</b>
Food, Beverages, and Tobacco	122.27	122.03	0.20%	5.41%
Clothing and Footwear	109.17	109.21	-0.04%	0.85%
Housing, Water, Electricity, and Household Fuels	108.03	107.94	0.08%	1.16%
Equipment, Tools, and Routine Household Maintenance	115.62	115.50	0.10%	1.89%
Health	114.65	114.52	0.11%	2.04%
Transport	121.50	120.83	0.55%	1.20%
Info, Comm. and Financial Services	99.79	99.81	-0.02%	0.11%
Recreation, Sport and Culture	109.39	109.30	0.08%	1.50%
Education Services	114.66	114.58	0.07%	1.99%
Food and Beverages Services/Restaurants	117.71	117.59	0.10%	2.21%
Personal Care and Other Services	123.79	123.50	0.23%	3.67%
Core inflation	112.92	112.83	0.08%	1.91%
Administered Price	120.88	120.33	0.46%	2.12%
Volatile Food	120.68	120.43	0.21%	5.54%
<b>Wholesale Price Index (WPI)</b>	<b>112.72</b>	<b>116.47</b>	<b>-3.22%</b>	<b>-3.44%</b>
Agriculture	102.62	109.41	-6.21%	-6.51%
Mining and Quarrying	121.63	124.60	1.03%	-1.54%
Manufacturing	115.09	118.11	0.46%	-2.76%
<b>Farmer Exchange Rate</b>	<b>115.78</b>	<b>114.14</b>	<b>1.44%</b>	<b>9.84%</b>
Farmer's Price Received Index	136.19	133.96	1.66%	15.52%
Farmer's Price Paid Index	117.64	117.36	0.24%	5.19%

Sources: BPS, KBVS Research - treated (2023)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		30/09/2023	06/10/ 2023	12/10/ 2023	19/10/ 2023	31/10/2023	
<b>I</b>	<b>Rice</b>	<b>14,400</b>	<b>14,550</b>	<b>14,600</b>	<b>14,650</b>	<b>14,650</b>	<b>1.74%</b>
1	Lower Quality Rice I	13,250	13,450	13,450	13,500	13,500	1.89%
2	Lower Quality Rice II	13,000	13,200	13,250	13,400	13,400	3.08%
3	Medium Quality Rice I	14,400	14,550	14,650	14,700	14,700	2.08%
4	Medium Quality Rice II	14,200	14,350	14,400	14,450	14,450	1.76%
5	Super Quality Rice I	15,750	15,900	15,950	15,950	15,950	1.27%
6	Super Quality Rice II	15,150	15,300	15,350	15,400	15,450	1.98%
<b>II</b>	<b>Chicken meat</b>	<b>35,800</b>	<b>36,200</b>	<b>36,500</b>	<b>36,250</b>	<b>35,600</b>	<b>-0.56%</b>
1	Fresh Race Chicken Meat	35,800	36,200	36,500	36,250	35,650	-0.42%
<b>III</b>	<b>Beef</b>	<b>134,750</b>	<b>134,800</b>	<b>134,650</b>	<b>134,850</b>	<b>134,150</b>	<b>-0.45%</b>
1	Quality 1 Beef	138,350	138,450	138,400	138,350	138,000	-0.25%
2	Quality 2 Beef	129,300	129,450	129,050	129,500	129,150	-0.12%
<b>IV</b>	<b>Chicken eggs</b>	<b>29,450</b>	<b>29,200</b>	<b>28,950</b>	<b>28,850</b>	<b>28,700</b>	<b>-2.55%</b>
1	Fresh Chicken Eggs	29,450	29,200	28,950	28,850	28,650	-2.72%
<b>V</b>	<b>Red onion</b>	<b>26,950</b>	<b>27,100</b>	<b>27,000</b>	<b>26,750</b>	<b>26,950</b>	<b>0.00%</b>
1	Medium Shallot	26,950	27,150	27,000	26,750	26,850	-0.37%
<b>VI</b>	<b>Garlic</b>	<b>38,600</b>	<b>38,400</b>	<b>38,500</b>	<b>38,350</b>	<b>38,050</b>	<b>-1.42%</b>
1	Medium Size Garlic	38,600	38,400	38,500	38,350	38,000	-1.55%
<b>VII</b>	<b>Red chili pepper</b>	<b>42,500</b>	<b>45,200</b>	<b>45,200</b>	<b>46,650</b>	<b>53,000</b>	<b>24.71%</b>
1	Large Red Chili	41,500	44,150	43,450	44,400	47,950	15.54%
2	Curly Red Chili	42,450	45,300	45,900	47,550	55,550	30.86%
<b>VIII</b>	<b>Cayenne pepper</b>	<b>42,400</b>	<b>50,800</b>	<b>53,700</b>	<b>57,000</b>	<b>64,450</b>	<b>52.00%</b>
1	Green Cayenne Pepper	40,150	44,800	46,150	48,650	54,650	36.11%
2	Red Cayenne Pepper	42,550	54,550	58,900	64,850	73,700	73.21%
<b>IX</b>	<b>Cooking oil</b>	<b>18,950</b>	<b>18,900</b>	<b>18,850</b>	<b>18,800</b>	<b>18,800</b>	<b>-0.79%</b>
1	Bulk Cooking Oil	15,300	15,300	15,250	15,250	15,250	-0.33%
2	Branded Packaging Cooking Oil 1	21,100	21,000	21,000	20,950	20,950	-0.71%
3	Branded Packaging Cooking Oil 2	19,600	19,550	19,500	19,400	19,450	-0.77%
<b>X</b>	<b>Sugar</b>	<b>15,850</b>	<b>16,050</b>	<b>16,100</b>	<b>16,200</b>	<b>16,400</b>	<b>3.47%</b>
1	Premium Quality Sugar	16,400	16,500	16,500	16,600	16,700	1.83%
2	Local Sugar	15,400	15,650	15,700	15,850	16,050	4.22%

Sources: BPS, KBVS Research - treated (2023)

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## KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan 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 – Sudirman

Sahid Sudirman Center 41<sup>st</sup> Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Karet Tengsin,  
Tanah Abang, Jakarta Pusat 10220  
T. (021) 25098300/301

#### Bandung

Jl. HOS Cokroaminato No. 82  
Bandung 40171  
T. (022) 87255800

#### Palembang

Komplek PTC Mall Blok I No. 7  
Jl. R. Sukanto  
Palembang 30114  
T. (0711) 5700281

#### Semarang

Candi Plaza Building Lt. Dasar  
Jl. Sultan Agung No. 90-90A  
Semarang 50252  
T. (024) 8501122

#### Jakarta – Kelapa Gading

Rukan Plaza Pasifik  
Jl. Raya Boulevard Barat Blok A1 No. 10  
Jakarta Utara 11620  
T. (021) 29451577

#### Malang

Jl. Pahlawan Trip No. 7  
Malang 65112  
T. (0341) 585888

#### Surabaya

Pelawon Center Lt 21  
Jl. Embong Malang No.1  
Surabaya 60261  
T. (031) 2955788

#### Makassar

Komplek RUKO Citraland City Losari  
Business Park, Blok B2 No. 09  
Jl. Citraland Boulevard Makassar 90111  
T. (0241) 16000818

#### Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV  
Jl. Taman Aries, Kembangan  
Jakarta Barat 11620  
T. (021) 22542390

#### Banjarmasin

Jl. Gatot Subroto No. 33  
Banjarmasin 70235  
T. (0511) – 3265918

#### Padang

Jl. Kampung Nias II No. 10,  
Padang 25211  
T. (0751) 8955747

#### Medan

Komplek Jati Junction No. PS-5A  
Jl. Perintis Kemerdekaan  
Medan 20218  
T. (061) 88816222

#### Jakarta – Pluit

Jl. Pluit Putra Raya No. 2  
Jakarta Utara 14450  
T. (021) 6692119

#### Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN  
Blok A No. 3 Pekanbaru 28291  
T. (0761) 839993

#### Yogyakarta

Jl. Magelang KM 5.5 No. 75  
Yogyakarta 55000  
T. (0274) 623111

#### Denpasar

Jl. Teuku Umar No. 177  
Komplek Ibis Styles Hotel  
Denpasar Bali 80114  
T. (0361) 225229

### Investment Gallery

#### Jakarta

Citra Garden 6 Ruko Sixth Avenue  
Blok J.1 A/18, Cengkareng  
Jakarta Barat 11820  
T. (021) 522392181

#### Semarang

Jl. MT Haryono 637  
Semarang 50242  
T. (024) 8415195

#### Salatiga

Jl. Diponegoro No. 68  
Salatiga 50711  
T. (0298) 313007

#### Solo

Jl. Ronggowarsito No. 34  
Surakarta 57118  
T. (0271) 6726306