

## Easing Inflation: SBN Become More Attractive Amid GDP Growth Expansion Potential

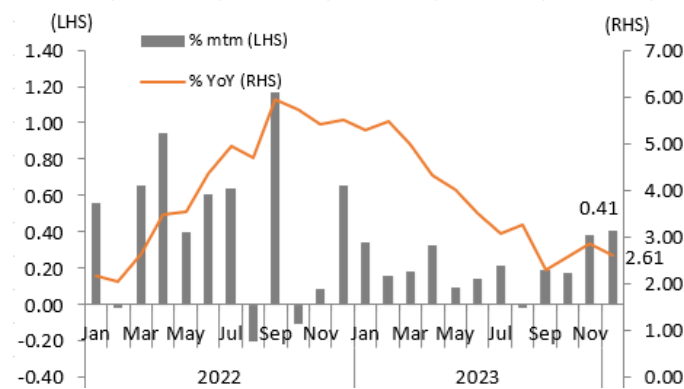
As anticipated, the inflation rate for Dec '23 reached 0.41% MoM or 2.61% YoY (Cons: 2.74% YoY, KBVS: 2.70% YoY, Prev: 2.86% YoY). This aligns with the ongoing inflation from volatile food components at 1.42% MoM atau 6.73% YoY, specifically attributed to commodities such as chili peppers, shallots, tomatoes, bird's eye chili peppers, rice, and chicken eggs (see *Table 2, p.2*). This condition is in line with the weather patterns, particularly the ongoing El Niño phenomenon that commenced in Jun '23 and is likely to persist until Apr '24. Meanwhile, the core component experienced only 0.14% MoM or 1.80% YoY inflation, and similarly, the Administered Price Component recorded inflation of 0.39% MoM or 1.72% YoY. This also reflects the inflation in the Food Group, which showed an inflation rate of 1.28% MoM or 6.37% YoY in Dec '23 (see *Table 1, p.2*). Conversely, the Energy group in Dec '23 experienced deflation at -0.07% MoM or -0.38% YoY due to the decline in Non-Subsidized Fuel prices over the last two months (Nov and Dec '23), with decreases ranging between -4.64% *Point-to-Point*, PtP (for Pertamina type), -6.88% PtP (Pertamax Green 95), -7.53% PtP (Pertamax Turbo), -9.50% PtP (Pertamina Dex), and -9.59% PtP (Dexlite) in the last two months. **We expect this trend to continue, as further decreases in Non-Subsidized Fuel prices are anticipated from 1 Jan '24, ranging between -1.12% MoM (Pertamax) to -6.79% MoM (Pertamina Dex).**

These conditions have led the SUN10Y real yield standing at 396.80 bps in Dec '23. Furthermore, with the average SUN10Y-UST10Y yield spread widening to 256.90 bps in Dec '23 - the highest in the last 6 months -, **we anticipate this to continue incentivizing a net influx of foreign capital into tradable SBN in 2024**, following a recorded value of IDR80.44 tn during 2023.

Meanwhile, the S&P Global Indonesia Manufacturing PMI in Dec '23 continued to strengthen at 52.2 (Prev: 51.7), see *Fig.5, p.2*, indicating that factory activity in Indonesia has been in the expansion zone for 28 consecutive months. Moreover, in Dec '23 alone, the increase in PMI was primarily driven by Output Growth, which hit a four-month peak, and New Orders rose the most since Sep '23. **We anticipate these favorable conditions to persist as reflected in the release of the Caixin China Manufacturing PMI in Dec '23, as the major trading partner of Indonesia, which improved to 50.8 (Prev: 50.7).**

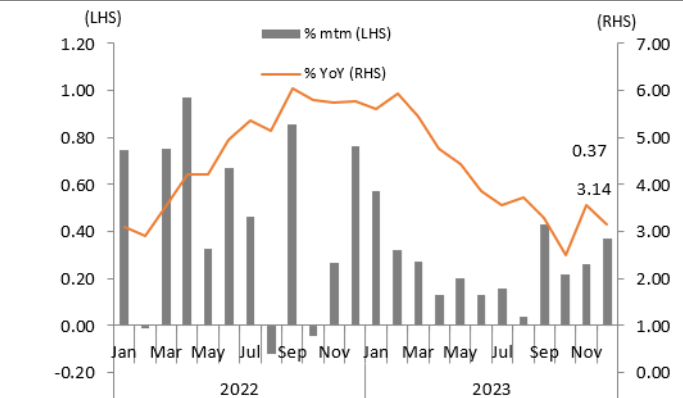
Furthermore, the anticipated low inflation is expected to strengthen the potential for economic growth in 4Q23, with the KBVS's forecast for GDP Growth Rate at 5.15% YoY. This aligns with the realization of the APBN at the end of 2023, reaching a deficit of IDR347.6 tn or 1.65% of GDP, primarily driven by the government's expansive spending realization in 4Q23, amounting to IDR1154.0 tn or 36.96% of the total government spending realization in 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)

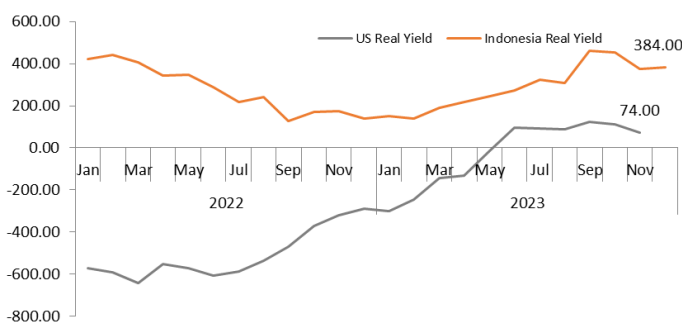
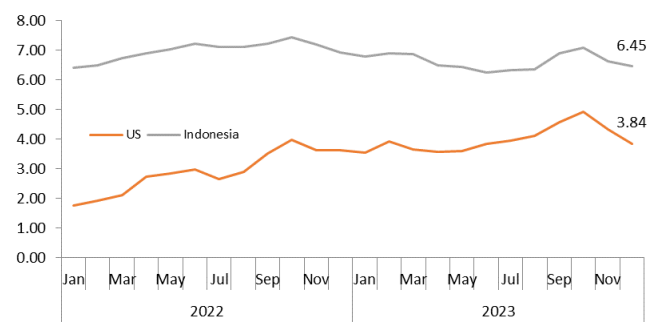


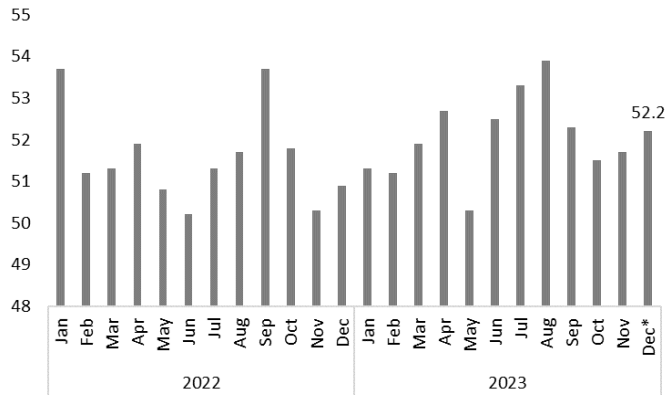
Fig 4. Yield of 10Yr Government Bond (in %)



Sources: Bloomberg, KBVS Research - treated (2023)

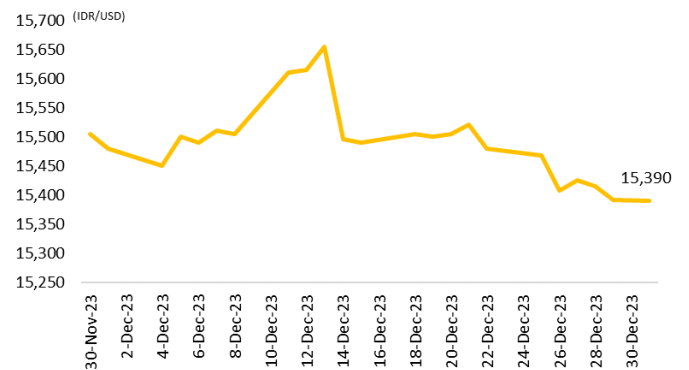
Sources: Bloomberg, KBVS Research - treated (2023)

Fig 5. PMI Manufacturing



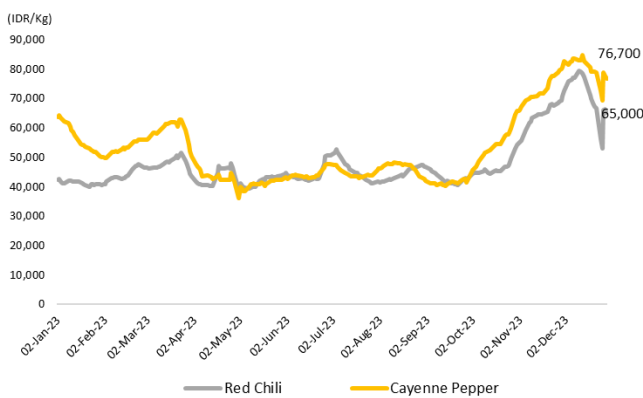
Sources: Market Economics, KBVS Research - treated (2023)

Fig 6. USD/IDR



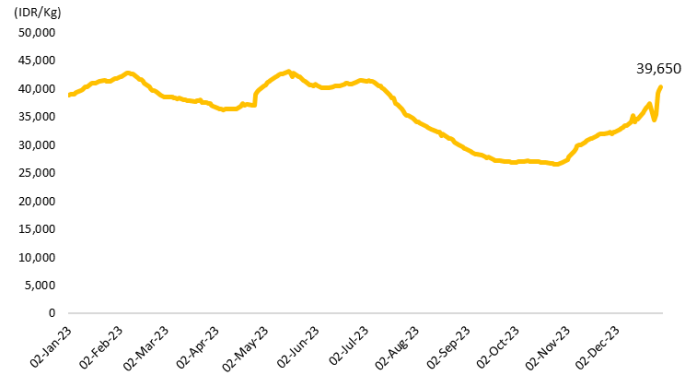
Sources: Investing, KBVS Research - treated (2023)

Fig 7. Chillies Price



Sources: BI, KBVS Research - treated (2023)

Fig 8. Red Onion Price



Sources: BI - treated (2023)

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

Indicators	Index		Inflation	
	Latest	M-1	Mom	Yoy
<b>Consumer Price Index (CPI)</b>	<b>116.56</b>	<b>116.08</b>	<b>0.41%</b>	<b>2.61%</b>
Food, Beverages, and Tobacco	125.10	123.78	1.07%	6.18%
Clothing and Footwear	109.33	109.13	0.18%	0.78%
Housing, Water, Electricity, and Household Fuels	108.08	108.07	0.01%	0.50%
Equipment, Tools, and Routine Household Maintenance	115.69	115.58	0.10%	1.57%
Health	114.94	114.89	0.04%	1.94%
Transport	122.14	121.59	0.45%	1.27%
Info, Comm. and Financial Services	99.84	99.77	0.07%	0.20%
Recreation, Sport and Culture	110.09	109.50	0.54%	1.69%
Education Services	114.67	114.67	0.00%	1.97%
Food and Beverages Services/Restaurants	117.83	117.79	0.03%	2.07%
Personal Care and Other Services	125.01	124.44	0.46%	3.55%
Core inflation	113.21	113.05	0.14%	1.80%
Administered Price	121.45	120.98	0.39%	1.72%
Volatile Food	124.49	122.75	1.42%	6.73%
<b>Wholesale Price Index (WPI)</b>	<b>117.46</b>	<b>117.03</b>	<b>0.37%</b>	<b>3.14%</b>
Agriculture	112.69	110.95	1.57%	6.70%
Mining and Quarrying	124.07	123.75	1.03%	0.88%
Manufacturing	118.56	118.45	0.46%	2.37%
<b>Farmer Exchange Rate</b>	<b>117.76</b>	<b>116.73</b>	<b>0.88%</b>	<b>11.22%</b>
Farmer's Price Received Index	139.91	138.75	0.84%	14.69%
Farmer's Price Paid Index	118.81	118.33	0.41%	3.12%

Sources: BPS, KBVS Research - treated (2023)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		30/11/2023	07/ 12/2023	14/ 12/ 2023	21/ 12/ 2023	28/ 12/ 2023	
<b>I</b>	<b>Rice</b>	<b>14,650</b>	<b>14,650</b>	<b>14,700</b>	<b>14,650</b>	<b>14,700</b>	<b>0.34%</b>
1	Lower Quality Rice I	13,550	13,500	13,600	13,550	13,650	0.74%
2	Lower Quality Rice II	13,450	13,400	13,450	13,350	13,400	-0.37%
3	Medium Quality Rice I	14,700	14,700	14,750	14,700	14,750	0.34%
4	Medium Quality Rice II	14,450	14,500	14,550	14,500	14,550	0.69%
5	Super Quality Rice I	15,900	15,950	16,000	16,000	16,050	0.94%
6	Super Quality Rice II	15,450	15,450	15,550	15,500	15,550	0.65%
<b>II</b>	<b>Chicken meat</b>	<b>34,750</b>	<b>35,350</b>	<b>35,650</b>	<b>35,750</b>	<b>36,850</b>	<b>6.04%</b>
1	Fresh Race Chicken Meat	34,750	35,350	35,650	35,750	36,850	6.04%
<b>III</b>	<b>Beef</b>	<b>134,250</b>	<b>134,100</b>	<b>134,650</b>	<b>134,100</b>	<b>134,800</b>	<b>0.41%</b>
1	Quality 1 Beef	138,200	137,650	138,150	137,650	138,350	0.11%
2	Quality 2 Beef	128,350	128,600	129,300	128,600	129,450	0.86%
<b>IV</b>	<b>Chicken eggs</b>	<b>29,200</b>	<b>29,150</b>	<b>29,200</b>	<b>29,400</b>	<b>29,350</b>	<b>0.51%</b>
1	Fresh Chicken Eggs	29,200	29,150	29,200	29,400	29,350	0.51%
<b>V</b>	<b>Red onion</b>	<b>32,200</b>	<b>33,350</b>	<b>34,500</b>	<b>36,950</b>	<b>39,650</b>	<b>23.14%</b>
1	Medium Shallot	32,200	33,350	34,500	36,950	39,650	23.14%
<b>VI</b>	<b>Garlic</b>	<b>37,400</b>	<b>37,850</b>	<b>38,550</b>	<b>39,350</b>	<b>40,400</b>	<b>8.02%</b>
1	Medium Size Garlic	37,400	37,850	38,550	39,350	40,400	8.02%
<b>VII</b>	<b>Red chili pepper</b>	<b>70,600</b>	<b>77,100</b>	<b>77,350</b>	<b>67,200</b>	<b>66,300</b>	<b>-6.09%</b>
1	Large Red Chili	70,550	77,300	77,650	69,050	68,700	-2.62%
2	Curly Red Chili	70,550	76,500	77,150	65,850	64,750	-8.22%
<b>VIII</b>	<b>Cayenne pepper</b>	<b>80,600</b>	<b>83,350</b>	<b>82,750</b>	<b>78,950</b>	<b>77,500</b>	<b>-3.85%</b>
1	Green Cayenne Pepper	66,050	66,950	63,300	59,600	57,550	-12.87%
2	Red Cayenne Pepper	92,900	96,600	100,250	94,150	94,350	1.56%
<b>IX</b>	<b>Cooking oil</b>	<b>18,850</b>	<b>18,800</b>	<b>18,750</b>	<b>18,800</b>	<b>18,750</b>	<b>-0.53%</b>
1	Bulk Cooking Oil	15,300	15,400	15,350	15,400	15,350	0.33%
2	Branded Packaging Cooking Oil 1	20,900	20,850	20,800	20,800	20,750	-0.72%
3	Branded Packaging Cooking Oil 2	19,550	19,450	19,400	19,450	19,350	-1.02%
<b>X</b>	<b>Sugar</b>	<b>17,500</b>	<b>17,650</b>	<b>17,700</b>	<b>17,750</b>	<b>17,750</b>	<b>1.43%</b>
1	Premium Quality Sugar	17,600	17,850	17,850	18,000	18,000	2.27%
2	Local Sugar	17,350	17,450	17,550	17,550	17,550	1.15%

Sources: BPS, KBVS Research - treated (2023)

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