

Continued Deflation, a Positive Signal for BI Rate Reduction

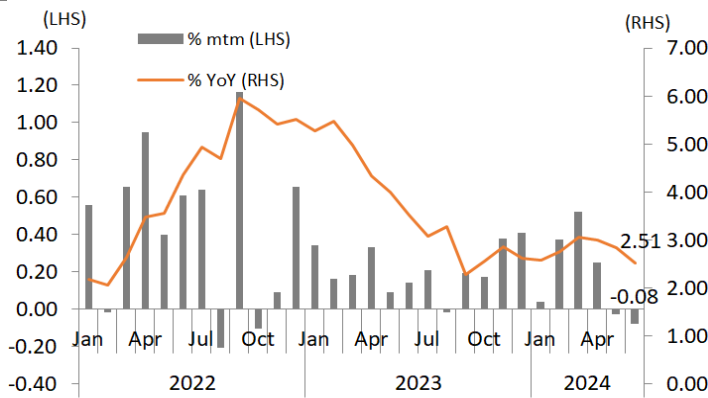
As expected, the headline CPI continued its deflationary trend for the second consecutive month, registering at **-0.08% MoM** in Jun '24 (Cons: 0.06% MoM, KBVS: -0.06% MoM, Prev: -0.03% MoM). This brought the annual rate to 2.51% YoY (Cons: 2.70% YoY, KBVS: 2.64% YoY, Prev: 2.84% YoY), the lowest level in the past nine months. This decline brings headline inflation closer to Bank Indonesia's mid-target of 2.5% ($\pm 1\%$), which **we hope will provide additional leverage to encourage a reduction in the BI Rate as the Fed also experiences a decline**. Core inflation has also decreased to 1.90% YoY (Cons: 1.94% YoY, KBVS: 1.54% YoY, Prev: 1.93% YoY), consistent with the decline in the prices of spices, particularly red onion and garlic, as well as the stabilization of domestic rice prices.

At the same time, the S&P Global Indonesia Manufacturing PMI in Jun '2024 fell to 50.7 (Prev: 52.1), the lowest level since May '23. This raises concerns about signs of economic weakening, coinciding with the deflationary trend. However, it is important to note that the PMI is a monthly survey-based data collected from senior executives in the private sector, and the PMI threshold of 50 each month, which distinguishes contraction from expansion, should be kept in mind. Additionally, China's PMI, as Indonesia's main trading partner, increased again to 51.8 (Cons: 51.5, Prev: 51.7).

Furthermore, the farmers' exchange rate turned positive in Jun '24, at 1.77% MoM (Prev: -0.06% MoM). This indicates an increase in the purchasing power of farmers in rural areas and also shows an improvement in the terms of trade for agricultural products with goods and services consumed or for production costs. On the other hand, it should be noted that in the last two months, Idul Adha and the start of the new academic year have been factors that may have held back the increase in domestic consumption and inflation, alongside investment conditions and the pressured Rupiah in the past month, which also impacted input prices as seen in the PMI survey results.

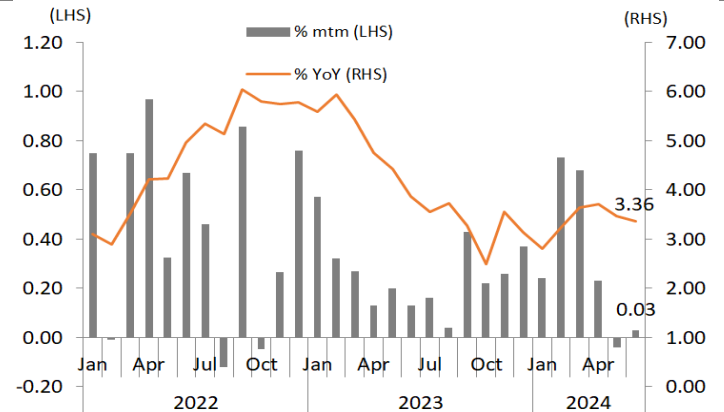
In Jul '24, we anticipate that inflation will remain stable. This is considering the ongoing rice harvest season in several areas and the start of the planting season with the onset of rain. Additionally, world oil prices are expected to continue their stable trend, further encouraging a reduction in domestic oil prices, as seen in some private oil company effective Jul 1st, '24. However, we are concerned that fears of disasters in some areas if the rainy season is accompanied by heavy rainfall and the depreciation of the Rupiah may drive imported inflation in raw and auxiliary materials, which could become apparent in the same month.

Fig 1. CPI (Consumer or Headline) Inflation



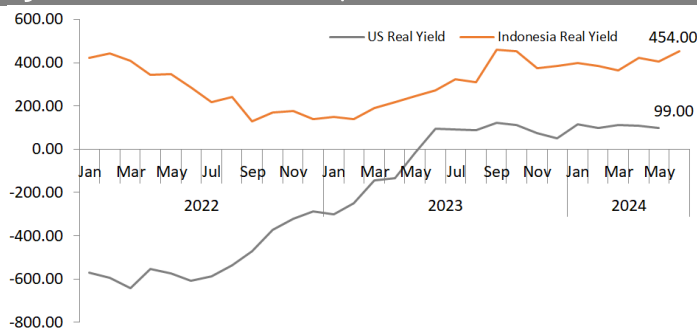
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 2. WPI (Wholesale) Inflation



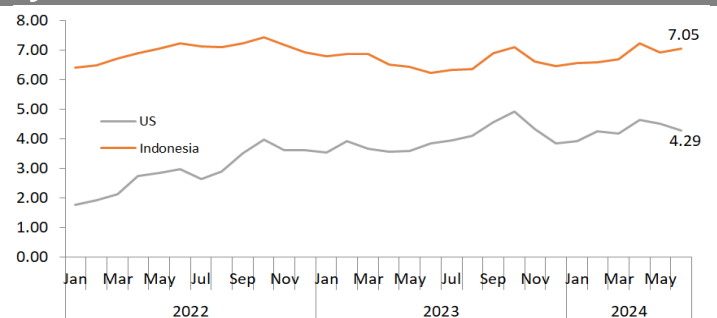
Sources: BPS, KBVS Research - treated (2024)

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



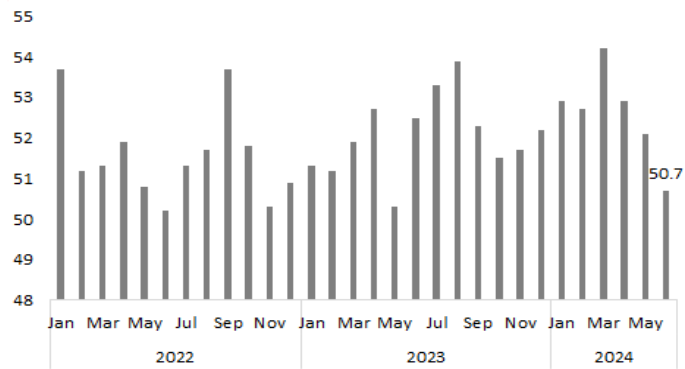
Sources: Bloomberg, KBVS Research - treated (2024)

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



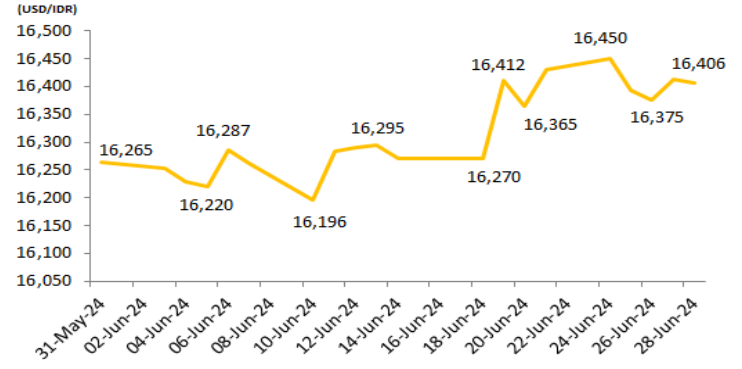
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 5. PMI Manufacturing



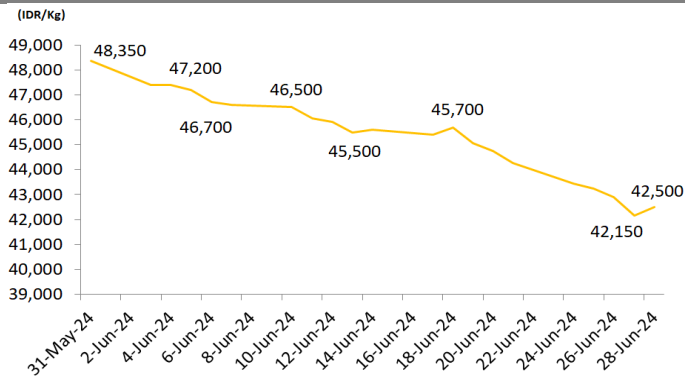
Sources: Market Economics, KBVS Research – treated (2024)

Fig 6. USD/IDR



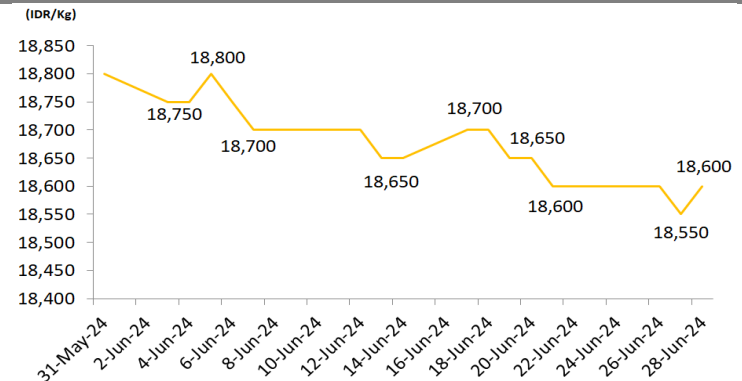
Sources: Bloomberg, KBVS Research – treated (2024)

Fig 7. Red Onion Price



Sources: BI, KBVS Research – treated (2024)

Fig 8. Sugar Price



Sources: BI – treated (2024)

Table 1. CPI, WPI & Farmer Exchange Rate June'24

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	106.28	106.37	-0.08%	2.51%
Food, Beverages, and Tobacco	110.30	110.84	-0.49%	4.95%
Clothing and Footwear	102.96	102.94	0.02%	1.09%
Housing, Water, Electricity, and Household Fuels	102.35	102.31	0.04%	0.47%
Equipment, Tools, and Routine Household Maintenance	103.47	103.25	0.21%	0.95%
Health	103.77	103.72	0.05%	1.89%
Transport	109.81	109.69	0.11%	1.61%
Info, Comm. and Financial Services	99.56	99.58	-0.02%	-0.18%
Recreation, Sport and Culture	103.68	103.59	0.09%	1.50%
Education Services	103.15	103.14	0.01%	1.69%
Food and Beverages Services/Restaurants	105.59	105.49	0.09%	2.31%
Personal Care and Other Services	109.80	109.50	0.27%	5.24%
Core inflation	106.28	106.37	-0.08%	2.51%
Administered Price	104.19	104.09	0.10%	1.90%
Volatile Food	108.58	108.45	0.12%	1.68%
Wholesale Price Index (WPI)	119.63	119.60	0.03%	3.36%
Agriculture	116.79	116.95	-0.14%	7.39%
Mining and Quarrying	126.64	127.54	-0.71%	0.97%
Manufacturing	120.25	120.17	0.07%	2.47%
Farmer Exchange Rate	118.77	116.71	1.77%	7.57%
Farmers Price Received Index	144.17	141.55	1.85%	11.63%
Farmers Price Paid Index	121.38	121.28	0.08%	3.76%

Sources: BPS, KBVS Research – treated (2024)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		31/ 05/ 2024	07/ 06/2024	14/ 06/ 2024	21/ 06/ 2024	30/ 06/ 2024	
I	Rice	15,350	15,350	15,350	15,300	15,350	0.00%
1	Lower Quality Rice I	14,200	14,200	14,050	13,950	14,000	-1.41%
2	Lower Quality Rice II	13,850	13,850	13,850	13,750	13,800	-0.36%
3	Medium Quality Rice I	15,400	15,400	15,400	15,350	15,400	0.00%
4	Medium Quality Rice II	15,200	15,200	15,350	15,300	15,350	0.99%
5	Super Quality Rice I	16,800	16,800	16,800	16,750	16,850	0.30%
6	Super Quality Rice II	16,350	16,350	16,350	16,300	16,300	-0.31%
II	Chicken meat	38,400	37,250	37,700	37,750	37,550	-2.21%
1	Fresh Race Chicken Meat	38,400	37,250	37,700	37,600	37,550	-2.21%
III	Beef	135,050	135,500	135,100	135,850	135,500	0.33%
1	Quality 1 Beef	138,450	139,000	138,550	139,050	138,950	0.36%
2	Quality 2 Beef	129,750	130,200	129,800	130,450	130,250	0.39%
IV	Chicken eggs	31,000	30,800	30,750	30,600	30,550	-1.45%
1	Fresh Chicken Eggs	31,000	30,800	30,750	30,600	30,550	-1.45%
V	Red onion	48,350	46,600	45,600	44,250	42,500	-12.10%
1	Medium Shallot	48,350	46,600	45,600	44,250	42,500	-12.10%
VI	Garlic	45,900	45,350	44,650	44,400	43,900	-4.36%
1	Medium Size Garlic	45,900	45,350	44,650	44,350	43,900	-4.36%
VII	Red chili pepper	52,450	54,700	63,250	67,450	54,700	4.29%
1	Large Red Chili	53,400	54,600	62,700	65,500	54,950	2.90%
2	Curly Red Chili	51,950	54,850	63,600	66,700	54,100	4.14%
VIII	Cayenne pepper	50,800	51,350	56,450	57,600	52,250	2.85%
1	Green Cayenne Pepper	45,800	45,950	50,800	51,650	50,000	9.17%
2	Red Cayenne Pepper	52,650	54,200	59,550	57,650	51,850	-1.52%
IX	Cooking oil	19,100	19,100	19,150	19,050	19,150	0.26%
1	Bulk Cooking Oil	16,550	16,600	16,650	16,600	16,650	0.60%
2	Branded Packaging Cooking Oil 1	20,750	20,700	20,650	20,600	20,700	-0.24%
3	Branded Packaging Cooking Oil 2	19,450	19,450	19,450	19,400	19,500	0.26%
X	Sugar	18,800	18,700	18,650	18,600	18,600	-1.06%
1	Premium Quality Sugar	19,250	19,200	19,150	19,150	19,150	-0.52%
2	Local Sugar	18,450	18,300	18,300	18,150	18,150	-1.63%

Sources: BI, KBVS Research - treated (2024)

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