

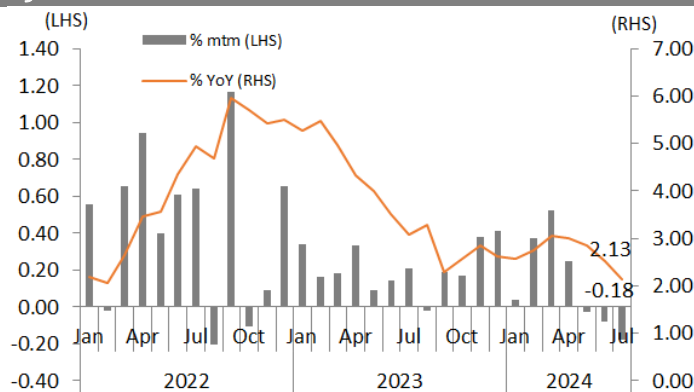
Three Consecutive Months of Deflation, but BI Rate Reduction Still Awaits Rupiah Stability

As anticipated, deflation occurred again for the third consecutive month, with Jul '24 at -0.18% MoM or 2.13% YoY (Cons: 0.02% MoM or 2.37% YoY, KBVS: -0.11% MoM or 2.35% YoY, Prev: -0.08% MoM or 2.51% YoY). Based on component groups (see Table 1, p.3), the headline deflation in Jul '24 was driven by a -0.32% MoM deflation in the Volatile Components, particularly due to the price decreases in Red Onion (-26.94% MoM), Red Chili Pepper (-8.78% MoM), Chicken Meat (-6.13% MoM), and Garlic (-3.30% MoM) (see Table 2, p.3). Conversely, the Core Inflation component group experienced inflation of $+0.12\%$ MoM or 1.95% YoY (Prev: 1.90% YoY), and the Administered Prices component group also saw inflation of $+0.02\%$ MoM or 1.47% YoY (Prev: 1.68% YoY). Additionally, the deflationary conditions were also observed alongside: a) decreasing global geopolitical tensions leading to a drop in global oil and other energy prices, b) dovish sentiments from major central banks lowering global funding costs, and c) the Rupiah appreciating by 0.49% against the USD on average in Jul '24 (see Fig.6, p.2).

However, we are concerned that three consecutive months of deflation could also signal of: a) a *wait-and-see* attitude, and/or b) a decline in consumer purchasing power, and/or c) a shift in consumption patterns, particularly evident in the middle class in Indonesia. The *wait-and-see* attitude and weakening purchasing power are reflected in the -0.97% drop in motorcycle sales during 1H24 compared to 1H23, as well as the -19.43% decline in car sales over the same period. Meanwhile, the shift in consumption patterns is indicated by the increase in residential property sales (see Fig.7, p.2), particularly in Small Type properties, which grew by $+2.41\%$ YoY in 1Q24, the highest growth rate since 2022. This shift is also reflected in the real retail sales index data (see Fig.8, p.2), showing a positive growth trend in the Food, Beverages, and Tobacco category, which are Primary Needs, over the past two years; while the Tertiary Needs categories, such as Information&Communication Equipment then Cultural&Recreation Goods, tend to show negative growth over the same period. Thus, we also see the possibility of needing to readjust inflation measurements, following the use of the 2022 Cost of Living Survey (or 2022 base year CPI=100) since Jan '24. Meanwhile, the purchasing power of farmers, used as an indicator of the purchasing power of the lower-middle class, as measured by the farmer's exchange rate (see Table 1, p.3), still showed an increase of 0.70% MoM (Prev: 1.77% MoM) compared to the previous month.

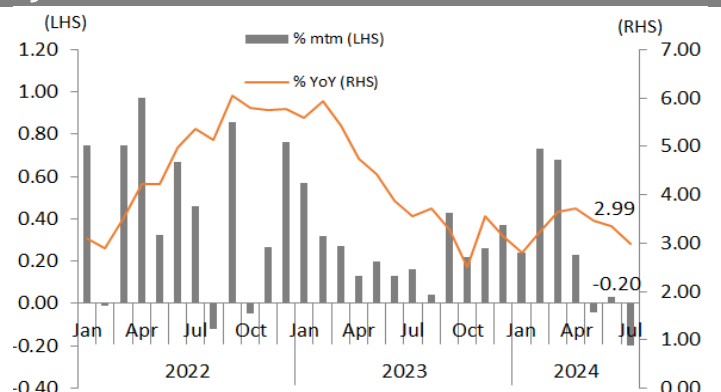
On the other hand, the decline in inflation naturally pushed the real yield of the 10Y SUN to 479.0 bps in Jul '24 (Prev: 454.0 bps), the highest level since Jul '21. At the same time, within the Inflation Targeting Framework, the decline in inflation should serve as a basis for lowering the BI Rate soon. However, considering BI's intermediate target of the Rupiah exchange rate and the transmission mechanism of the Rupiah to monetary policy, with the Rupiah's volatility as reflected by the standard deviation still at 0.7% in Jul '24 (Prev: 0.8%), we see the potential for a BI Rate cut becoming viable when the DXY is at a lower level, which we expect will be triggered by a 25 bps Fed Rate cut at the upcoming FOMC meeting in 18 Sep '24.

Fig 1. CPI (Consumer or Headline) Inflation



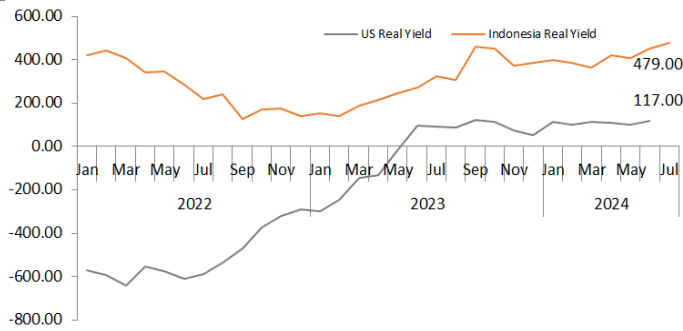
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 2. WPI (Wholesale) Inflation



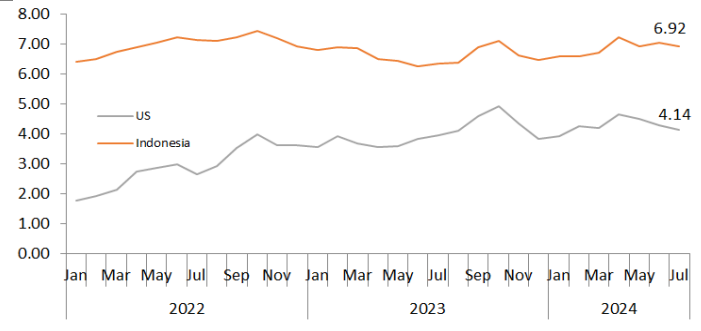
Sources: BPS, KBVS Research - treated (2024)

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



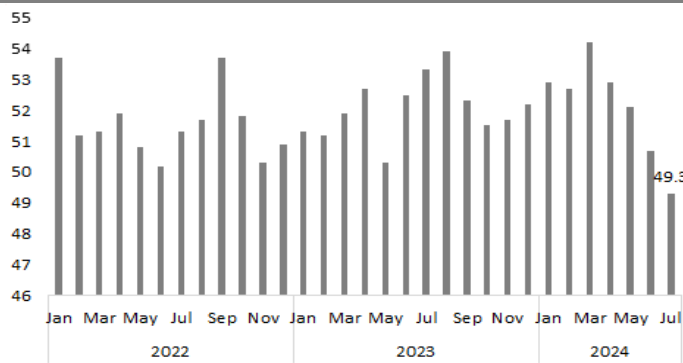
Sources: Bloomberg, KBVS Research - treated (2024)

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



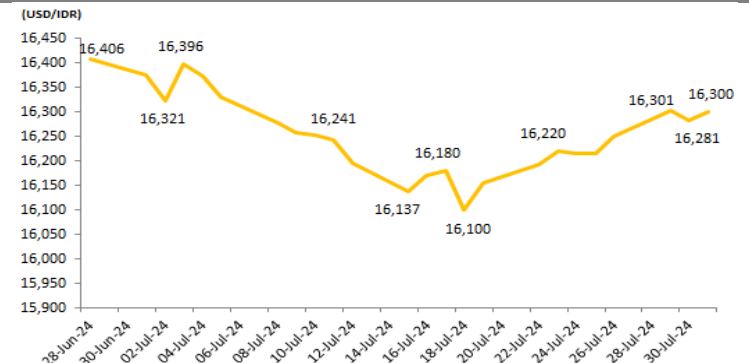
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 5. PMI Manufacturing



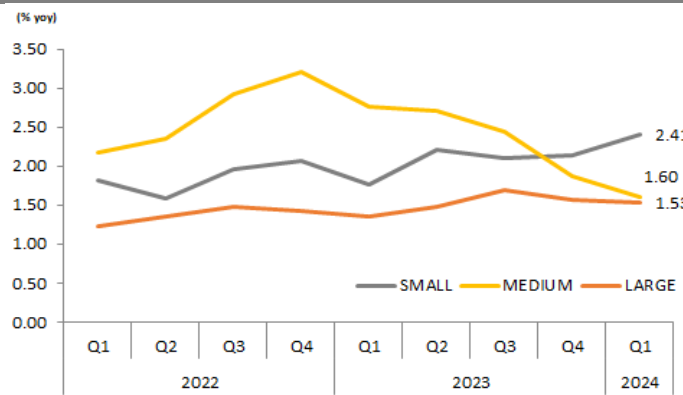
Sources: Market Economics, KBVS Research - treated (2024)

Fig 6. USD/IDR



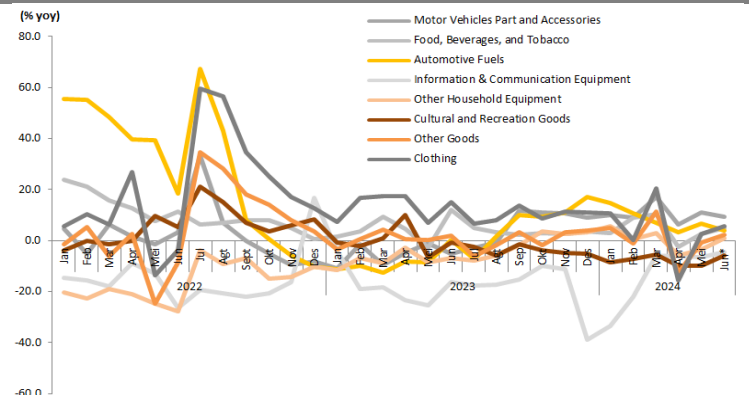
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 7. Residential Property Prices



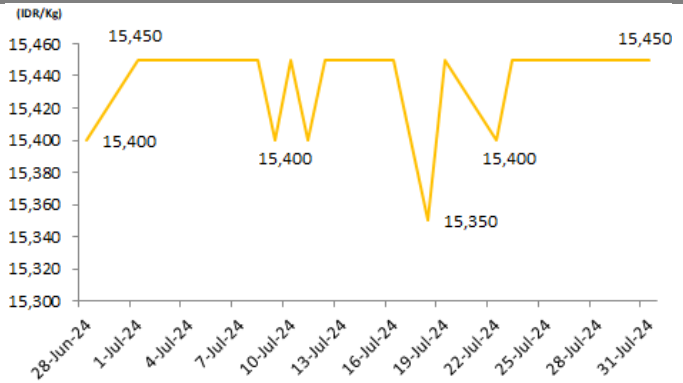
Sources: BI, KBVS Research - treated (2024)

Fig 8. Retail Price Survey



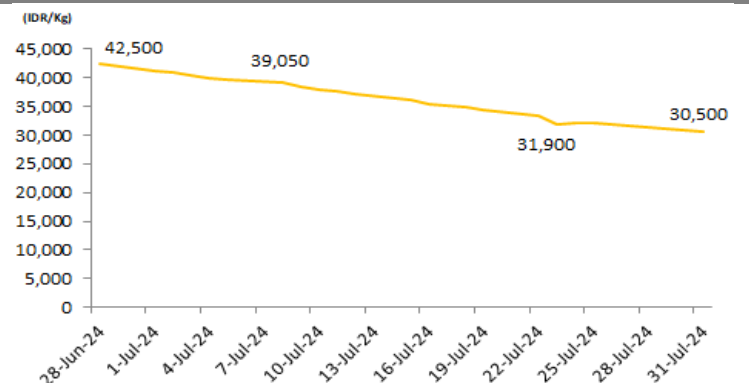
Sources: BI - treated (2024)

Fig 9. Medium Quality 1 Rice Price



Sources: BI, KBVS Research - treated (2024)

Fig 10. Red Onion Price



Sources: BI - treated (2024)

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

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	106.09	106.28	-0.18%	2.13%
Food, Beverages, and Tobacco	109.23	110.30	-0.97%	3.66%
Clothing and Footwear	103.07	102.96	0.11%	0.99%
Housing, Water, Electricity, and Household Fuels	102.40	102.35	0.05%	0.50%
Equipment, Tools, and Routine Household Maintenance	103.59	103.47	0.12%	1.05%
Health	103.85	103.77	0.08%	1.77%
Transport	109.84	109.81	0.03%	1.22%
Info, Comm. and Financial Services	99.56	99.56	0.00%	-0.16%
Recreation, Sport and Culture	103.98	103.68	0.29%	1.49%
Education Services	103.86	103.15	0.69%	1.90%
Food and Beverages Services/Restaurants	105.76	105.59	0.16%	2.28%
Personal Care and Other Services	110.18	109.80	0.35%	5.59%
Core inflation	104.38	104.19	0.18%	1.95%
Administered Price	108.70	108.58	0.11%	1.47%
Volatile Food	109.97	112.12	-1.92%	3.63%
Wholesale Price Index (WPI)	119.39	119.63	-0.20%	2.98%
Agriculture	114.78	116.79	-1.72%	5.09%
Mining and Quarrying	126.52	126.64	-0.09%	1.46%
Manufacturing	120.44	120.25	0.16%	2.53%
Farmer Exchange Rate	119.61	118.77	0.71%	8.11%
Farmers Price Received Index	144.61	144.17	0.31%	11.60%
Farmers Price Paid Index	120.91	121.38	-0.39%	3.24%

Sources: BPS, KBVS Research - treated (2024)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (% , ptp)
		30/ 06/ 2024	08/ 07/2024	15/ 06/ 2024	22/ 06/ 2024	31/ 06/ 2024	
I	Rice	15,350	15,350	15,350	15,350	15,350	0.00%
1	Lower Quality Rice I	14,000	14,050	14,100	14,100	14,100	-1.41%
2	Lower Quality Rice II	13,800	13,800	13,850	13,850	13,850	-0.36%
3	Medium Quality Rice I	15,400	15,450	15,450	15,400	15,450	0.00%
4	Medium Quality Rice II	15,350	15,350	15,350	15,350	15,350	0.99%
5	Super Quality Rice I	16,850	16,900	16,850	16,850	16,850	0.30%
6	Super Quality Rice II	16,300	16,300	16,300	16,250	16,300	-0.31%
II	Chicken meat	37,550	36,700	36,000	35,750	35,250	-2.21%
1	Fresh Race Chicken Meat	37,550	36,700	36,000	35,750	35,250	-2.21%
III	Beef	135,500	135,450	135,300	134,850	135,300	0.33%
1	Quality 1 Beef	138,950	138,900	138,850	138,300	138,850	0.36%
2	Quality 2 Beef	130,250	130,250	130,050	129,650	130,050	0.39%
IV	Chicken eggs	30,550	30,350	30,250	30,100	30,100	-1.45%
1	Fresh Chicken Eggs	30,550	30,350	30,250	30,100	30,100	-1.45%
V	Red onion	42,500	39,050	36,050	33,350	31,050	-12.10%
1	Medium Shallot	42,500	39,050	36,050	33,350	31,050	-12.10%
VI	Garlic	43,900	43,150	42,500	42,550	42,450	-4.36%
1	Medium Size Garlic	43,900	43,150	42,500	42,550	42,450	-4.36%
VII	Red chili pepper	54,700	52,400	50,750	51,000	49,900	4.29%
1	Large Red Chili	54,950	52,700	50,350	50,200	49,000	2.90%
2	Curly Red Chili	54,100	52,300	51,200	51,650	50,850	4.14%
VIII	Cayenne pepper	52,250	56,000	58,850	64,500	68,050	2.85%
1	Green Cayenne Pepper	50,000	51,550	52,000	55,250	57,600	9.17%
2	Red Cayenne Pepper	51,850	58,100	63,900	71,700	76,800	-1.52%
IX	Cooking oil	19,150	19,150	19,150	19,200	19,200	0.26%
1	Bulk Cooking Oil	16,650	16,650	16,700	16,750	16,750	0.60%
2	Branded Packaging Cooking Oil 1	20,700	20,700	20,700	20,700	20,800	-0.24%
3	Branded Packaging Cooking Oil 2	19,500	19,500	19,500	19,450	19,500	0.26%
X	Sugar	18,600	18,550	18,500	18,500	18,450	-1.06%
1	Premium Quality Sugar	19,150	19,200	19,200	19,200	19,200	-0.52%
2	Local Sugar	18,150	18,050	18,000	18,000	17,900	-1.63%

Sources: BI, KBVS Research - treated (2024)

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