

Risk-Off Sentiment Dampens the Appeal of Real Yields

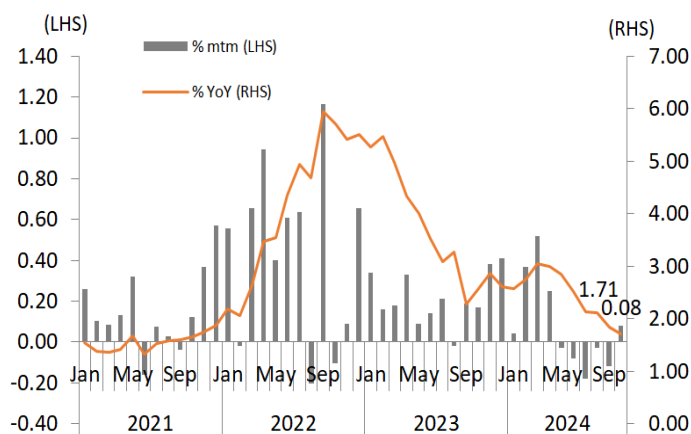
In Oct '24, inflation was recorded at 0.08% MoM and 1.71% YoY (Cons: 0.03% MoM, 1.66% YoY; KBVS: 0.00% MoM, 1.63% YoY; Prev: -0.12% MoM, 1.84% YoY). This was in line with ongoing declines in the prices across all categories of rice, red chili (both large and curly red chili), and bird's eye chili (both green and red varieties). However, this trend was partially offset by rising prices of red onions, garlic, and chicken – see Table 2, page 3.

Meanwhile, the Nikkei Manufacturing PMI for Indonesia in Oct '24 remained at 49.2 (Prev: 49.2), marking the fourth consecutive month of contraction in factory activity. This trend raises concerns about a potential weakening in both supply and domestic demand, which could temper economic growth expectations as we enter early Q4 2024. As such, the timely implementation of programs like free meal initiatives, continued social assistance, and structural and administrative reforms are anticipated to drive an increase in disposable income and stimulate investment, supporting business attractiveness, job creation, and ultimately stronger long-term purchasing power.

With BI rate cut of 25 bps in Sep '24 and expectations of further reductions, domestic funding costs and inflation within the financial sector are expected to remain subdued. In the real sector, while La Nina challenges and potential restrictions on subsidized fuel purchases pose risks of driving domestic inflation higher, we anticipate that inflation will remain near the lower end of BI's midpoint target (2.5% ± 1%).

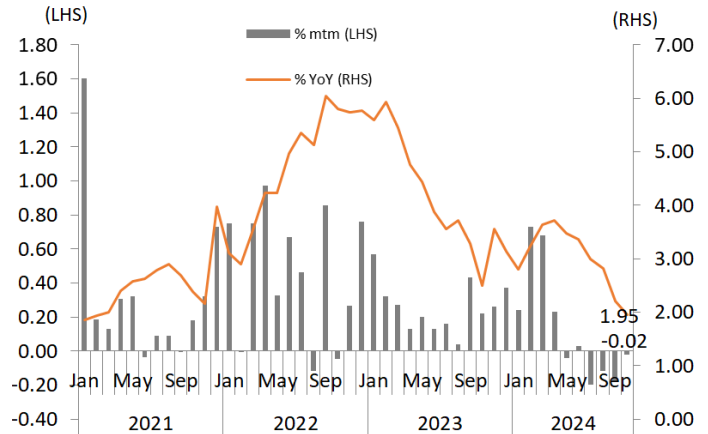
Additionally, geopolitical tensions involving Israel-Iran and Russia-Ukraine, Indonesia's possible entry into BRICS, and the upcoming US presidential election are likely to continue fueling global market caution and a risk-off sentiment. This outlook, combined with a real yield on Indonesia's 10-year government bonds (SUN10Y) currently at 506.00 bps, compared to 190 bps in the US, indicates limited foreign interest in SBN, alongside ongoing challenges in stabilizing the Rupiah. Given these conditions, we expect Bank Indonesia to proceed with cautious rate cuts, closely following the Federal Reserve's rate adjustments in the near term.

Fig 1. CPI (Consumer or Headline) Inflation



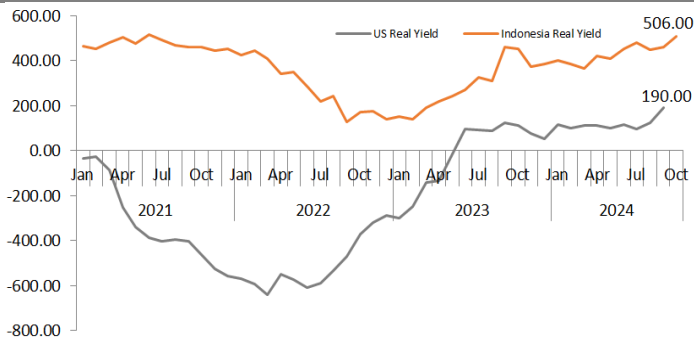
Sources: Bloomberg, KBVS Research – treated (2024)

Fig 2. WPI (Wholesale) Inflation



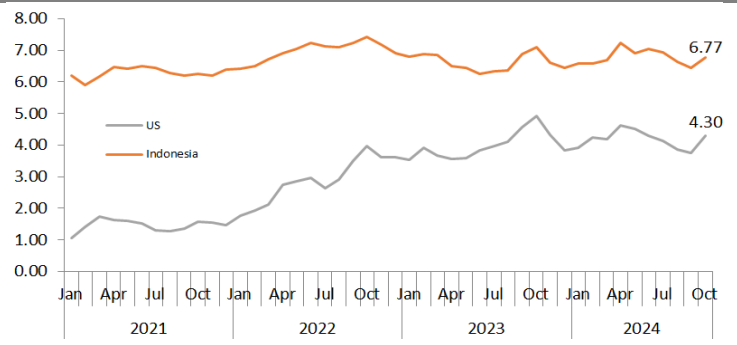
Sources: BPS, KBVS Research – treated (2024)

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



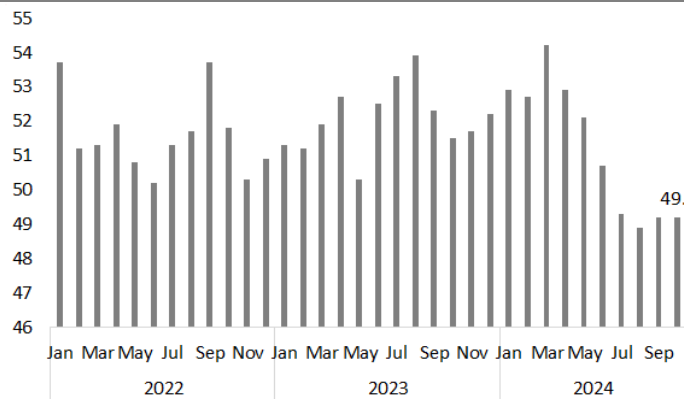
Sources: Bloomberg, KBVS Research - treated (2024)

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



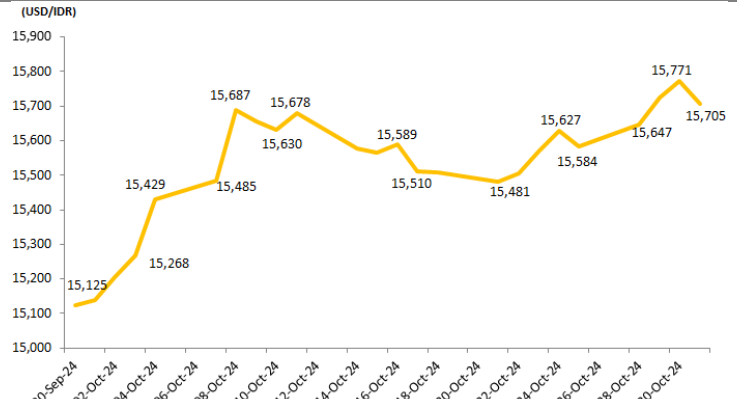
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 5. PMI Manufacturing



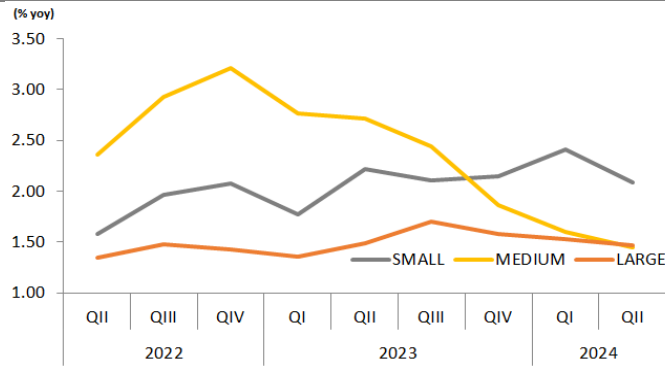
Sources: Market Economics, KBVS Research - treated (2024)

Fig 6. USD/IDR



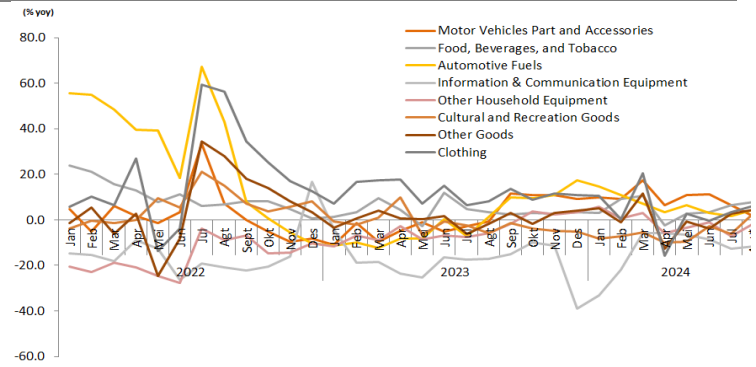
Sources: Bloomberg, KBVS Research - treated (2024)

Fig 7. Residential Property Prices



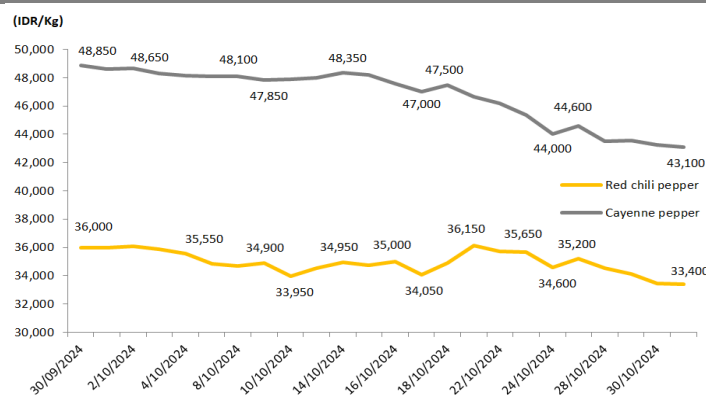
Sources: BI, KBVS Research - treated (2024)

Fig 8. Retail Price Survey



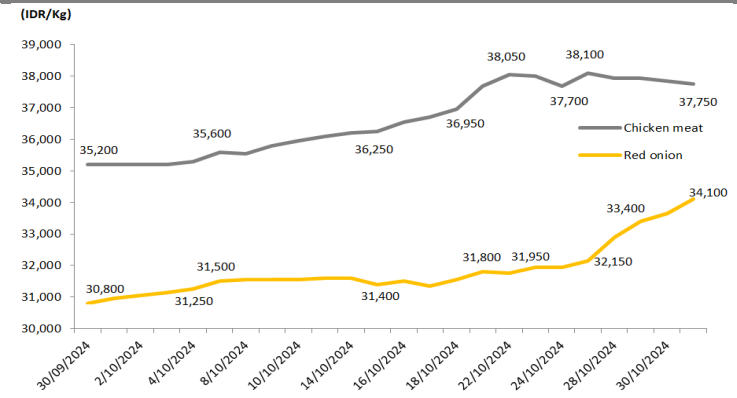
Sources: BI - treated (2024)

Fig 9. Cayenne Pepper & Red Chili Pepper Price



Sources: BI KBVS Research - treated (2024)

Fig 10. Red Onion & Chicken Eggs Price



Sources: BI, KBVS Research - treated (2024)

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

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	106.01	105.93	0.08%	1.71%
Food, Beverages, and Tobacco	108.12	108.02	0.09%	2.35%
Clothing and Footwear	103.26	103.21	0.05%	1.20%
Housing, Water, Electricity, and Household Fuels	102.55	102.47	0.08%	0.60%
Equipment, Tools, and Routine Household Maintenance	103.81	103.75	0.06%	1.08%
Health	104.12	103.96	0.15%	1.71%
Transport	109.33	109.90	-0.52%	-0.08%
Info, Comm. and Financial Services	99.50	99.53	-0.03%	-0.28%
Recreation, Sport and Culture	104.12	104.07	0.05%	1.53%
Education Services	104.87	104.83	0.04%	1.90%
Food and Beverages Services/Restaurants	106.28	106.02	0.25%	2.36%
Personal Care and Other Services	112.20	111.15	0.94%	7.06%
Core inflation	104.99	104.76	0.22%	2.21%
Administered Price	108.64	108.91	-0.25%	0.77%
Volatile Food	107.04	107.16	-0.11%	0.89%
Wholesale Price Index (WPI)	119.01	119.03	-0.02%	1.95%
Agriculture	111.69	111.75	-0.05%	1.76%
Mining and Quarrying	126.25	125.70	0.44%	2.20%
Manufacturing	120.72	120.74	-0.02%	1.99%
Farmer Exchange Rate	120.70	120.30	0.33%	4.25%
Farmers Price Received Index	145.56	145.01	0.38%	6.88%
Farmers Price Paid Index	120.59	120.54	0.04%	2.51%

Sources: BPS, KBVS Research - treated (2024)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		30/ 09/ 2024	07/ 10/2024	14/ 10/2024	21/ 10/ 2024	31/ 10/ 2024	
I	Rice	15,300	15,300	15,300	15,300	15,300	0.00%
1	Lower Quality Rice I	14,050	14,050	14,050	14,050	14,050	0.00%
2	Lower Quality Rice II	13,850	13,850	13,800	13,800	13,800	-0.36%
3	Medium Quality Rice I	15,400	15,400	15,350	15,350	15,350	-0.32%
4	Medium Quality Rice II	15,350	15,300	15,300	15,300	15,300	-0.33%
5	Super Quality Rice I	16,750	16,750	16,750	16,700	16,700	-0.30%
6	Super Quality Rice II	16,300	16,300	16,250	16,250	16,250	-0.31%
II	Chicken meat	35,200	35,600	36,200	37,700	37,950	7.81%
1	Fresh Race Chicken Meat	35,200	35,600	36,200	37,700	37,950	7.81%
III	Beef	135,450	135,350	135,350	135,250	135,300	-0.11%
1	Quality 1 Beef	138,950	138,850	138,900	138,950	138,850	-0.07%
2	Quality 2 Beef	130,300	130,150	130,100	130,000	130,000	-0.23%
IV	Chicken eggs	29,650	29,550	29,550	29,600	29,450	-0.67%
1	Fresh Chicken Eggs	29,650	29,550	29,550	29,500	29,450	-0.67%
V	Red onion	30,800	31,500	31,600	31,800	32,900	6.82%
1	Medium Shallot	30,800	31,500	31,600	31,700	32,900	6.82%
VI	Garlic	42,150	42,200	42,200	42,100	42,050	-0.24%
1	Medium Size Garlic	42,150	42,200	42,200	42,050	42,050	-0.24%
VII	Red chili pepper	36,000	34,850	34,950	36,150	34,550	-4.03%
1	Large Red Chili	35,450	33,850	34,050	35,050	34,300	-3.24%
2	Curly Red Chili	36,350	35,150	35,050	35,750	34,400	-5.36%
VIII	Cayenne pepper	48,850	48,100	48,350	46,650	43,500	-10.95%
1	Green Cayenne Pepper	44,750	42,550	42,000	41,600	39,500	-11.73%
2	Red Cayenne Pepper	50,450	51,350	52,600	50,100	46,650	-7.53%
IX	Cooking oil	19,400	19,500	19,550	19,650	19,650	1.29%
1	Bulk Cooking Oil	17,250	17,400	17,550	17,600	17,700	2.61%
2	Branded Packaging Cooking Oil 1	20,750	20,850	20,900	21,000	21,000	1.20%
3	Branded Packaging Cooking Oil 2	19,600	19,700	19,750	19,800	19,850	1.28%
X	Sugar	18,500	18,500	18,500	18,500	18,500	0.00%
1	Premium Quality Sugar	19,250	19,250	19,250	19,200	19,200	-0.26%
2	Local Sugar	17,900	17,900	17,900	17,950	17,950	0.28%

Sources: BI, KBVS Research - treated (2024)

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