

August Deflation Opens Room for Further BI Rate Cuts

Defying expectations, Indonesia recorded deflation of -0.08% MoM or 2.31% YoY in Aug '25 (Cons: $+0.09\%$ MoM or 2.49% YoY; KBVS: $+0.17\%$ MoM or 2.57% YoY; Prev: $+0.30\%$ MoM or 2.37% YoY), following monthly increases in June and July. By component, the monthly deflation was primarily driven by a decline in Administered Prices (-0.61% MoM or $+4.47\%$ YoY) and a smaller contraction in Volatile Foods (-0.08% MoM or $+1.00\%$ YoY). Meanwhile, Core Inflation remained positive, rising 0.06% MoM or 2.17% YoY (Previous: 2.32% YoY).

According to BPS, the commodities contributing most to the August deflation (MoM) included tomatoes, bird's eye chili (Cabe Rawit), garlic, kale, chicken eggs, spinach, pork, airfares, gasoline, and senior high school tuition fees. Conversely, commodities contributing to inflation were shallots, rice, fresh fish, red chili, cucumber, machine-made kretek cigarettes (SKM), sea transport fares, academy/university tuition, elementary school fees, and gold jewelry. Meanwhile, using daily food price data from the National Strategic Food Price Information Center (PHIPS), based on average prices in traditional markets during the first ten days of each month, we found that only 3 out of 10 food groups saw a monthly price decline: sugar (-0.75% MoM), garlic (-1.07% MoM), and bird's eye chili (-11.83% MoM). On the other hand, 7 food groups recorded increases: beef ($+0.13\%$ MoM), cooking oil ($+0.48\%$ MoM), chicken meat ($+0.57\%$ MoM), chicken eggs ($+1.16\%$ MoM), red chili ($+1.29\%$ MoM), rice ($+1.39\%$ MoM), and shallots ($+20.97\%$ MoM).

By region, BPS reported monthly deflation in 26 provinces and 99 regencies/cities, while 12 provinces and 54 regencies/cities experienced inflation. The deepest deflation occurred in North Maluku Province (-1.90% MoM) and South Minahasa Regency (-2.46% MoM). Meanwhile, the highest inflation was recorded in North Sumatra Province ($+1.37\%$ MoM) and Labuhanbatu Regency ($+2.09\%$ MoM).

With both headline and core inflation still within Bank Indonesia's target range (2.5% YoY, $\pm 1\%$), we believe there is room for further BI Rate cuts, especially amid the increasingly dovish stance of the Federal Reserve and other major central banks. Such a move is expected to build positive sentiment in the domestic financial market, alongside prospects of lower government bond yields—particularly at the short end—and reduced funding and capital costs for equity issuers that rely heavily on capital markets. It could also boost consumer demand for durable goods, particularly automobiles, motorcycles, and housing.

That said, ongoing demonstrations across Indonesia highlight the need to maintain a conducive environment. Mitigating negative sentiment in the economy and financial markets will be essential in safeguarding positive expectations for both the real sector and financial markets going forward.

Fig 1. CPI (Consumer or Headline) Inflation

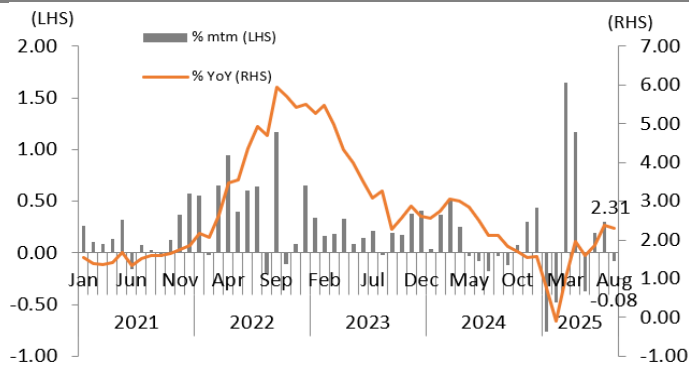


Fig 2. WPI (Wholesale) Inflation

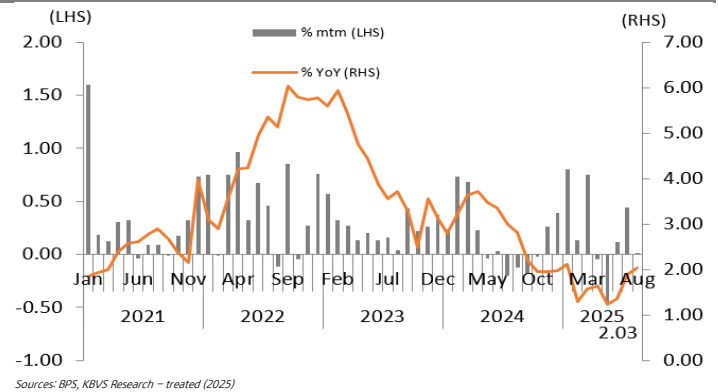


Fig 3. Real Yield US vs Indonesia (in bps)

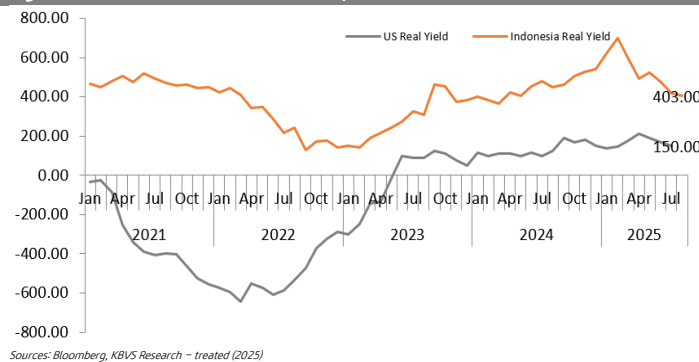


Fig 4. Yield of 10Yr Government Bond (in %)

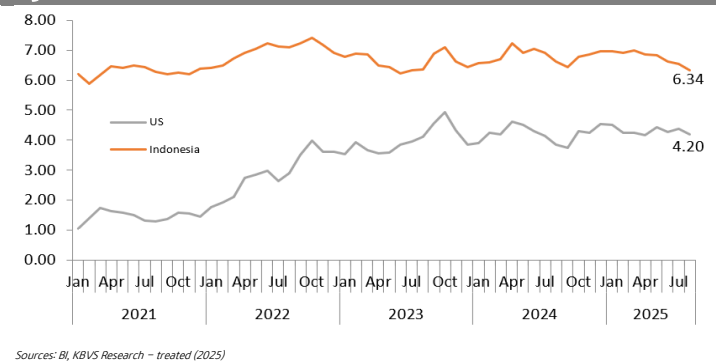


Fig 5. PMI Manufacturing

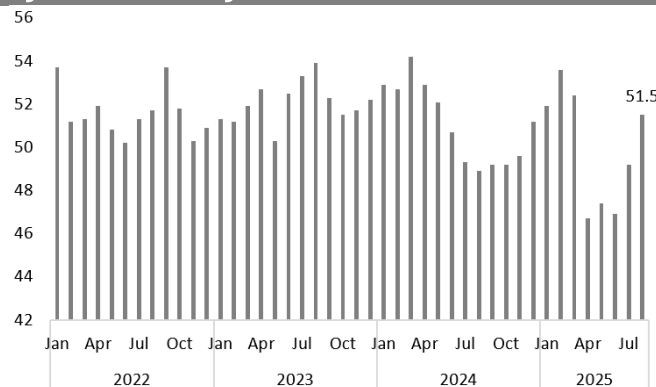


Fig 6. USD/IDR

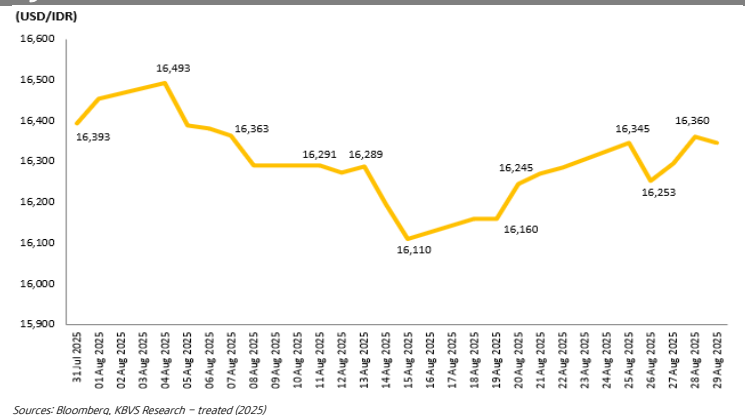


Fig 7. Red Onion & Cayenne Pepper Price

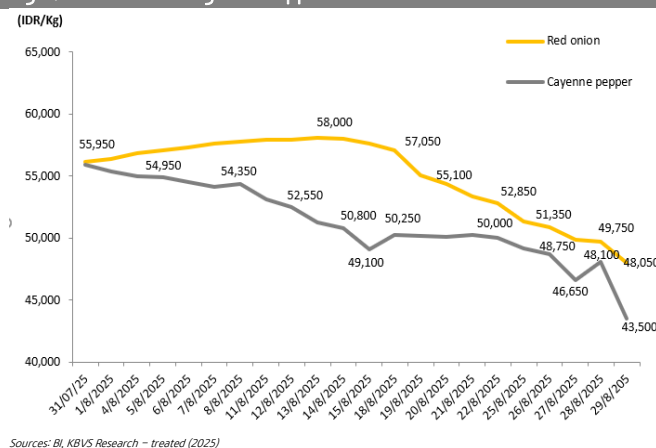


Fig 8. Chicken Meat & Cooking Oil Price

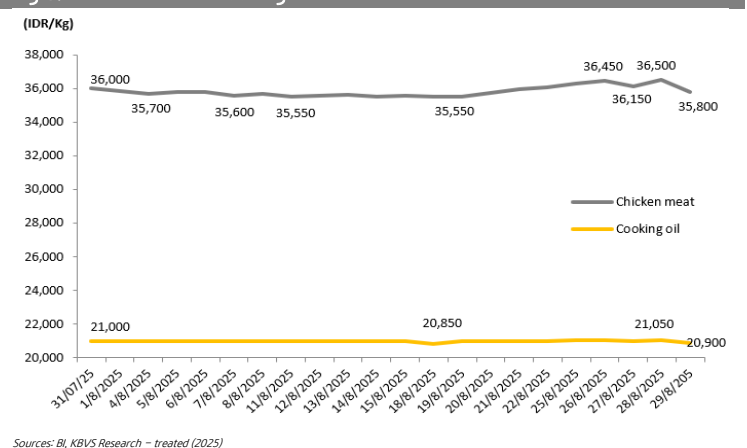


Table 1. CPI, WPI & Farmer Exchange Rate Aug '25

Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
Consumer Price Index (CPI)	108.51	108.60	-0.08%	2.31%
Food, Beverages, and Tobacco	113.00	113.33	-0.29%	3.99%
Clothing and Footwear	104.00	104.10	-0.10%	0.81%
Housing, Water, Electricity, and Household Fuels	104.12	104.09	0.03%	1.65%
Equipment, Tools, and Routine Household Maintenance	104.07	104.13	-0.06%	0.42%
Health	105.91	105.86	0.05%	1.91%
Transport	109.76	109.97	-0.19%	-0.29%
Info, Comm. and Financial Services	99.21	99.25	-0.04%	-0.33%
Recreation, Sport and Culture	105.16	105.07	0.09%	1.10%
Education Services	106.03	105.89	0.13%	1.43%
Food and Beverages Services/Restaurants	107.84	107.73	0.10%	1.85%
Personal Care and Other Services	120.32	120.10	0.18%	8.66%
Core inflation	106.86	106.06	0.75%	2.17%
Administered Price	110.04	110.13	-0.08%	1.00%
Volatile Food	113.47	114.17	-0.61%	4.47%
Wholesale Price Index (WPI)	105.20	105.19	0.01%	2.03%
Agriculture	107.77	108.15	-0.35%	4.14%
Mining and Quarrying	99.53	100.14	-0.61%	-1.69%
Manufacturing	107.25	107.32	-0.07%	2.06%
Farmer Exchange Rate	123.57	122.64	0.76%	3.10%
Farmers Price Received Index	153.95	152.67	0.84%	6.37%
Farmers Price Paid Index	124.58	124.48	0.08%	3.16%

Sources: BPS, KBVS Research – treated (2025)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		31/ 07/ 2025	07/ 08/2025	14/ 08/2025	21/ 08/ 2025	31/ 08/ 2025	
I	Rice	15,950	15,950	15,950	15,950	15,950	0.00%
1	Lower Quality Rice I	14,650	14,700	14,700	14,700	14,650	0.00%
2	Lower Quality Rice II	14,500	14,550	14,500	14,500	14,400	-0.69%
3	Medium Quality Rice I	16,050	16,050	16,050	16,050	16,050	0.00%
4	Medium Quality Rice II	15,900	15,900	15,900	15,900	15,900	0.00%
5	Super Quality Rice I	17,250	17,300	17,300	17,300	17,250	0.00%
6	Super Quality Rice II	16,750	16,750	16,750	16,800	16,750	0.00%
II	Chicken meat	36,000	35,600	35,550	35,950	36,500	1.39%
1	Fresh Race Chicken Meat	36,000	35,600	35,550	35,950	36,500	1.39%
III	Beef	136,950	136,900	136,600	136,900	136,600	-0.26%
1	Quality 1 Beef	140,150	140,100	139,600	140,050	139,650	-0.36%
2	Quality 2 Beef	132,300	132,300	132,250	132,250	131,950	-0.26%
IV	Chicken eggs	30,400	30,400	30,300	30,200	30,150	-0.82%
1	Fresh Chicken Eggs	30,400	30,400	30,300	30,200	30,150	-0.82%
V	Red onion	56,150	57,600	58,000	53,350	49,750	-11.40%
1	Medium Shallot	56,150	57,600	58,000	53,350	49,750	-11.40%
VI	Garlic	41,200	40,800	40,600	40,300	39,950	-3.03%
1	Medium Size Garlic	41,200	40,800	40,600	40,300	39,950	-3.03%
VII	Red chili pepper	46,900	47,900	46,750	45,750	43,700	-6.82%
1	Large Red Chili	47,750	48,200	47,100	46,350	44,300	-7.23%
2	Curly Red Chili	47,100	47,950	46,400	45,600	43,600	-7.43%
VIII	Cayenne pepper	55,950	54,150	50,800	50,250	48,100	-14.03%
1	Green Cayenne Pepper	49,050	47,400	45,750	45,300	44,150	-9.99%
2	Red Cayenne Pepper	60,950	58,150	53,450	52,650	49,350	-19.03%
IX	Cooking oil	21,000	21,000	21,000	21,000	21,050	0.24%
1	Bulk Cooking Oil	18,550	18,550	18,550	18,600	18,650	0.54%
2	Branded Packaging Cooking Oil 1	22,450	22,400	22,450	22,450	22,450	0.00%
3	Branded Packaging Cooking Oil 2	21,450	21,450	21,450	21,450	21,450	0.00%
X	Sugar	19,000	18,950	18,950	18,950	18,950	-0.26%
1	Premium Quality Sugar	19,800	19,800	19,800	19,850	19,800	0.00%
2	Local Sugar	18,350	18,300	18,250	18,250	18,250	-0.54%

Sources: BI, KBVS Research – treated (2025)

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