

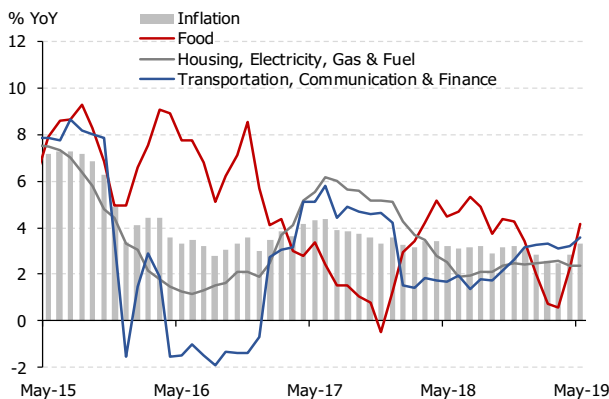
Indonesia Consumer Price Index

Expands in May on higher food and transportation prices

OVERVIEW

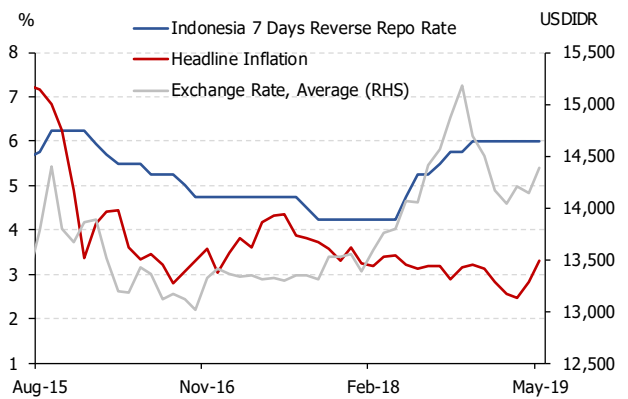
- Indonesia's headline inflation rose to 3.3% YoY in May** (Apr: +2.8%) a tad higher than the consensus estimate of 3.2% but remained within Bank Indonesia's (BI) inflation target range of 2.5-4.5%. On a MoM basis, the index expanded by 0.7% (Apr: +0.4%). Meanwhile, core inflation which excludes government-controlled fuel and volatile food prices was unchanged at 3.1% YoY.
- The month's higher CPI growth was mainly due to higher food and transport prices.** Food prices rose to 4.1% YoY (Apr: +2.3%) a six-month high, reflecting a higher demand during the fasting month as food prices typically spike up ahead of Eid-ul-Fitr celebration to mark the end of Ramadhan. Similarly, process food, beverages, and tobacco expanded by 3.8% YoY (Apr: +3.5%). Off equal significance, transportation, communication, and finance index increased by 3.6% YoY (Apr: +3.2%) mainly due to a 4.5% YoY (Apr: +4.0%) rise in transportation price.
- Mix inflation trend in the regional economies.** Within South East Asia, Thailand's inflation moderated to 1.1% YoY (Apr: +1.2%) driven by an increase in food index while remaining within Bank of Thailand's inflation target range of 1.0-4.0%. Meanwhile, Vietnam's headline inflation was unchanged at 2.9% YoY for two consecutive months. Among the advanced economy, US Fed's preferred inflation gauge, personal consumption expenditure (PCE) prices edged up by 1.5% YoY in April (Mar: +1.4%) which would suggest that the Federal Reserve would hold back from cutting interest rate anytime soon. In Eurozone, inflation eased more than expected to 1.2% YoY (Apr: +1.7%) with core inflation continue to ease to 0.8%, putting pressure on the European Central Bank (ECB) on the need for more monetary stimulus.
- BI to stay put on policy rates.** While the central bank had ample room to reverse its sequential rate hikes last year, a sustained rise in inflation and depreciation in Rupiah may further hinder any need for BI to cut its policy rate this year. Alas, this would fall in line with market and our expectation that the policy rate would remain at 6.00%. Meanwhile, we forecast Indonesia's inflation to likely hit the lower end of our target growth range of 3.1-3.6% (2018: 3.2%) this year against consensus' 3.5% premise on slower growth outlook for this year in particular to the weak external demand as well as the possibility of any future changes in the government's policy related to the fuel and food subsidy.

Graph 1: CPI by Main Categories



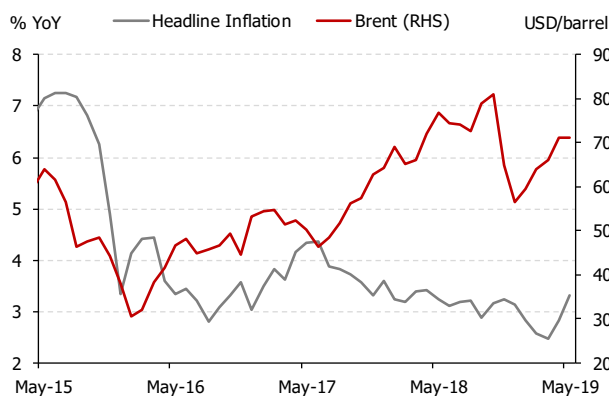
Source: BPS, CEIC, Kenanga Research

Graph 2: Inflation vs. Policy Rate



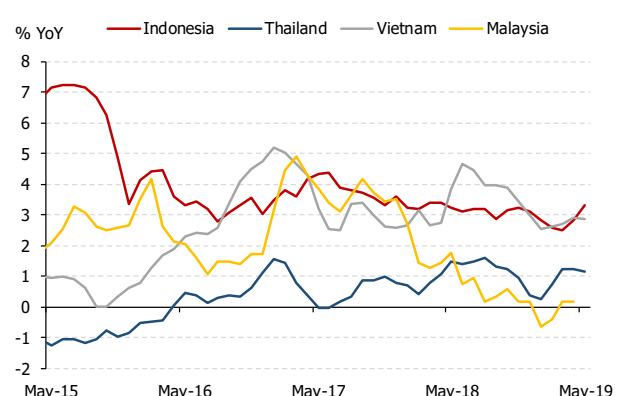
Source: BPS, CEIC, Kenanga Research

Graph 3: CPI vs. Crude Oil Prices



Source: BPS, CEIC, Kenanga Research

Graph 4: Regional Inflation



Source: BPS, CEIC, Kenanga Research

11 June 2019

Table 1: Indonesia Consumer Price Index Growth Trend (% YoY)

Base 2012=100	weight	2017	2018	May-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
CPI	100.0	3.8	3.2	3.2	3.2	3.1	2.8	2.6	2.5	2.8	3.3
Housing, Water, Electricity, Gas, & Fuel	25.4	5.0	2.7	2.5	2.5	2.4	2.5	2.5	2.6	2.4	2.4
Transportation, Communication, & Finance	19.2	4.4	1.9	1.7	2.6	3.2	3.3	3.3	3.1	3.2	3.6
Foods	18.9	2.1	4.2	4.5	4.2	3.4	2.0	0.7	0.6	2.3	4.1
Processed Foods, Beverages, Tobacco	16.2	4.6	4.1	4.1	4.0	3.9	3.7	3.6	3.6	3.5	3.8
Education, Recreation, & Sport	8.5	2.9	3.4	3.4	3.1	3.2	3.2	3.3	3.3	3.3	3.2
Clothing	7.3	2.9	3.7	4.0	3.6	3.6	3.6	3.5	3.3	3.2	3.3
Health	4.7	3.6	3.0	2.9	3.1	3.1	3.1	3.2	3.1	3.1	3.1
Core Inflation		3.1	2.8	2.7	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Administered Price		8.0	3.6	3.6	3.1	3.4	3.4	3.4	3.3	3.2	3.4
Volatile		1.8	4.2	4.3	4.3	3.4	1.8	0.3	0.2	2.1	4.1
Energy		9.9	4.2	3.9	3.3	2.9	2.3	1.6	1.1	0.6	0.5

Source: BPS, CEIC, Kenanga Research

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