

## Jun '23 Inflation Push Driven by School Holidays Season

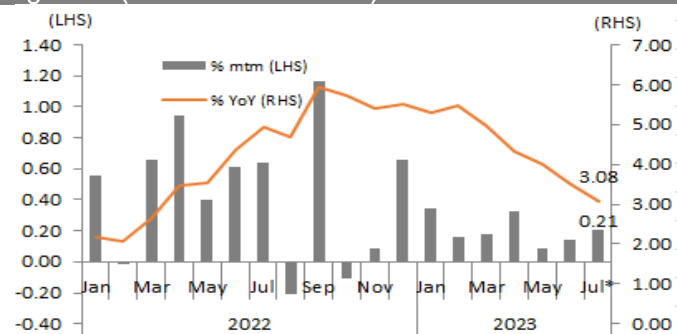
Jun '23 Headline Inflation increased to 0.21% MoM, but came lower than our expectation (Cons: 0.22% MoM; KBVS: 0.48% MoM; Prev: 0.14% MoM), while on an annual basis, it eased to 3.08% YoY (Cons: 3.10% YoY; KBVS: 3.36% YoY; Prev: 3.52% YoY). The lower-than-expected headline inflation was driven by Core Inflation that eased to 2.43% YoY (Cons: 2.52% YoY; KBVS: 2.55% YoY; Prev: 2.58% YoY) and Volatile Foods which experienced deflation of 0.03% YoY, despite Administered Prices surged 8.42% YoY. Jun '21 figure was primarily driven by inflationary pressures in the Education group (due to the school holidays and the new academic year, leading to an increase in school fees); the Transportation group (particularly air transportation tariffs); and the Food and Beverage group (including Broiler Chicken, Red Chili, Garlic, Chicken Eggs, and Potatoes).

The school holiday season also boosted the number of domestic tourist travels in Indonesia, reaching 77.58Mn and 73.77Mn trips in May and Jun '23. This seems to be in line with the government's decision to transition into the endemic phase of Covid-19 since Wednesday (21 Jun '23). Various tourism promotions appear to have a positive impact, with domestic tourist destinations becoming more diverse, reflected in the increase of domestic tourist travels to West Nusa Tenggara by 158.84% (ctc, Jan-Jun), East Kalimantan +73.72% (ctc); North Kalimantan +47.55% (ctc); Bali +44.78% (ctc), and Papua +31.92% (ctc). This is also supported by an increase in the number of foreign tourist visits, particularly from the Middle East (+246.92% YoY); non-ASEAN Asia (+122.88% YoY); and the Americas (+110.16% YoY).

The improvement in the domestic economy is also evident in the continuous expansion of manufacturing activity for the 23<sup>rd</sup> consecutive month. In Jul '23, Indonesia's Nikkei Manufacturing PMI increased to 53.3 (Prev: 52.5), indicating higher levels of production, employment, and export sales. This was accompanied by the record high output in the past 10 months, a notable increase in new orders, and a rise in export sales; all of which contributed to the overall improvement. Employment also continued to grow for the 6th consecutive month, although at a slower pace compared to the rapid increase in business spending. Vendor performance showed improvement despite slightly shorter lead times. However, there was an upturn in costs, primarily due to an increase in input price inflation caused by rising raw material expenses.

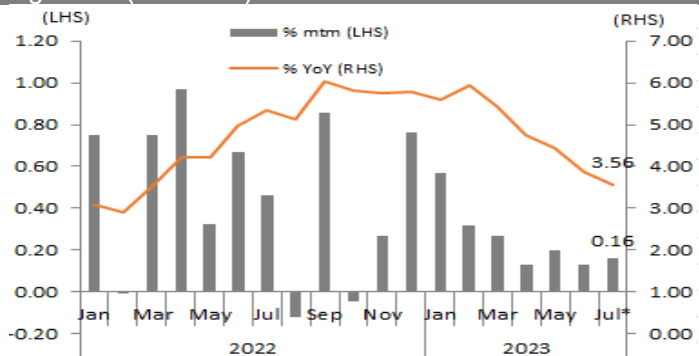
We anticipate favorable developments in the real sector and annual inflation will continue to ease, allowing for a potential reduction in the Bi7DRRR in the next couple of months, *ceteris paribus*. This is projected to be achievable if the implementation of DHE (Foreign Exchange Export Proceeds) on 1 Aug '23, proves to be effective with an expected minimal addition of USD3.0 Bn to foreign exchange reserves every month. With these expectations, we project that the Rupiah will close at IDR15,043 per USD by the end of 2023.

Fig 1. CPI (Consumer or Headline) Inflation



Sources: Bloomberg, KBVS Research - treated (2023)

Fig 2. WPI (Wholesale) Inflation



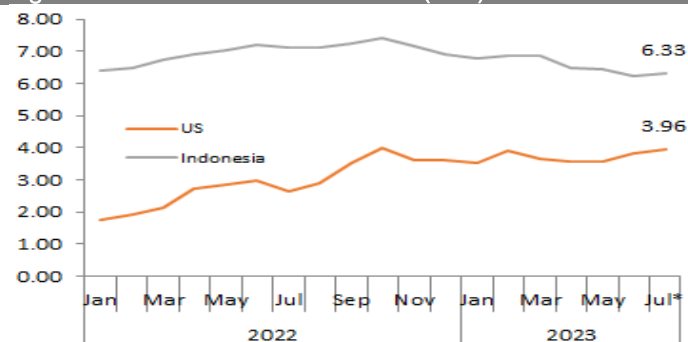
Sources: Bloomberg, KBVS Research - treated (2023)

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



Sources: Bloomberg, KBVS Research - treated (2023)

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



Sources: Bloomberg, KBVS Research - treated (2023)

# INDONESIA MACRO UPDATE

2 August 2023

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Indicators	Index		Inflation	
	Latest	M-1	MoM	YoY
<b>Consumer Price Index (CPI)</b>	<b>115.24</b>	<b>115.00</b>	<b>0.21%</b>	<b>3.08%</b>
Food, Beverages, and Tobacco	121.91	121.64	0.22%	1.90%
Clothing and Footwear	109.44	109.24	0.18%	1.42%
Housing, Water, Electricity, and Household Fuels	107.97	107.95	0.02%	2.03%
Equipment, Tools, and Routine Household Maintenance	115.27	115.21	0.05%	2.37%
Health	114.36	114.14	0.19%	2.69%
Transport	120.50	119.81	0.58%	9.58%
Info, Comm. and Financial Services	99.57	99.59	-0.02%	-0.24%
Recreation, Sport and Culture	109.21	109.02	0.17%	2.02%
Education Services	113.37	112.63	0.66%	3.07%
Food and Beverages Services/Restaurants	117.30	117.13	0.15%	3.08%
Personal Care and Other Services	123.16	123.17	-0.01%	3.98%
Core inflation	112.54	112.39	0.13%	2.43%
Administered Price	120.08	119.55	0.44%	8.42%
Volatile Food	120.61	120.40	0.17%	-0.03%
<b>Wholesale Price Index (WPI)</b>	<b>115.93</b>	<b>115.74</b>	<b>0.16%</b>	<b>3.56%</b>
Agriculture	109.22	108.75	0.43%	2.61%
Mining and Quarrying	124.70	125.42	-0.57%	6.42%
Manufacturing	117.47	117.35	0.10%	3.74%
<b>Farmer Exchange Rate</b>	<b>110.64</b>	<b>110.41</b>	<b>0.21%</b>	<b>4.96%</b>
Farmers Price Received Index	129.58	129.15	0.33%	9.92%
Farmers Price Paid Index	117.12	116.98	0.12%	4.72%

Sources: BPS, KBVS Research - treated (2023)

No.	Commodity Price in Traditional Market	Price (Rp per Kg)					Monthly Price Change (%, ptp)
		30/06/ 2023	07/07/ 2023	14/07/ 2023	21/06/ 2023	31/06/ 2023	
<b>I</b>	<b>Rice</b>	<b>13,550</b>	<b>13,550</b>	<b>13,550</b>	<b>13,550</b>	<b>13,550</b>	<b>0.00%</b>
1	Lower Quality Rice I	12,450	12,500	12,500	12,450	12,450	0.00%
2	Lower Quality Rice II	12,050	12,050	12,050	12,100	12,150	0.83%
3	Medium Quality Rice I	13,550	13,600	13,550	13,550	13,550	0.00%
4	Medium Quality Rice II	13,350	13,350	13,350	13,350	13,350	0.00%
5	Super Quality Rice I	14,900	14,900	14,900	14,950	14,900	0.00%
6	Super Quality Rice II	14,350	14,350	14,350	14,350	14,350	0.00%
<b>II</b>	<b>Chicken meat</b>	<b>40,250</b>	<b>40,100</b>	<b>39,250</b>	<b>38,350</b>	<b>35,900</b>	<b>-10.81%</b>
1	Fresh Race Chicken Meat	40,250	40,100	39,250	38,350	35,900	-10.81%
<b>III</b>	<b>Beef</b>	<b>135,350</b>	<b>135,000</b>	<b>134,600</b>	<b>135,050</b>	<b>135,050</b>	<b>-0.22%</b>
1	Quality 1 Beef	138,950	138,600	138,100	138,700	138,750	-0.14%
2	Quality 2 Beef	129,650	129,550	129,200	129,550	129,550	-0.08%
<b>IV</b>	<b>Chicken eggs</b>	<b>31,700</b>	<b>31,750</b>	<b>31,850</b>	<b>31,950</b>	<b>32,000</b>	<b>0.95%</b>
1	Fresh Chicken Eggs	31,700	31,750	31,850	31,950	32,000	0.95%
<b>V</b>	<b>Red onion</b>	<b>41,100</b>	<b>41,200</b>	<b>39,700</b>	<b>37,150</b>	<b>34,800</b>	<b>-15.33%</b>
1	Medium Shallot	41,100	41,200	39,700	37,150	34,800	-15.33%
<b>VI</b>	<b>Garlic</b>	<b>39,500</b>	<b>42,350</b>	<b>43,050</b>	<b>42,900</b>	<b>42,350</b>	<b>7.22%</b>
1	Medium Size Garlic	39,500	42,350	43,050	42,900	42,350	7.22%
<b>VII</b>	<b>Red chili pepper</b>	<b>47,750</b>	<b>50,100</b>	<b>45,550</b>	<b>43,550</b>	<b>41,600</b>	<b>-12.88%</b>
1	Large Red Chili	49,450	49,900	46,550	43,750	41,450	-16.18%
2	Curly Red Chili	47,300	49,650	44,900	43,700	41,900	-11.42%
<b>VIII</b>	<b>Cayenne pepper</b>	<b>46,300</b>	<b>45,500</b>	<b>43,400</b>	<b>43,200</b>	<b>45,500</b>	<b>-1.73%</b>
1	Green Cayenne Pepper	40,450	41,300	40,400	40,550	41,250	1.98%
2	Red Cayenne Pepper	49,900	47,050	44,250	44,400	47,800	-4.21%
<b>IX</b>	<b>Cooking oil</b>	<b>19,250</b>	<b>19,200</b>	<b>19,200</b>	<b>19,200</b>	<b>19,150</b>	<b>-0.52%</b>
1	Bulk Cooking Oil	15,550	15,500	15,550	15,500	15,500	-0.32%
2	Branded Packaging Cooking Oil 1	21,500	21,450	21,450	21,400	21,400	-0.47%
3	Branded Packaging Cooking Oil 2	19,950	19,950	19,850	19,850	19,800	-0.75%
<b>X</b>	<b>Sugar</b>	<b>15,300</b>	<b>15,300</b>	<b>15,350</b>	<b>15,350</b>	<b>15,400</b>	<b>0.65%</b>
1	Premium Quality Sugar	16,050	16,050	16,100	16,100	16,100	0.31%
2	Local Sugar	14,750	14,750	14,750	14,800	14,800	0.34%

Sources: BPS, KBVS Research - treated (2023)

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