

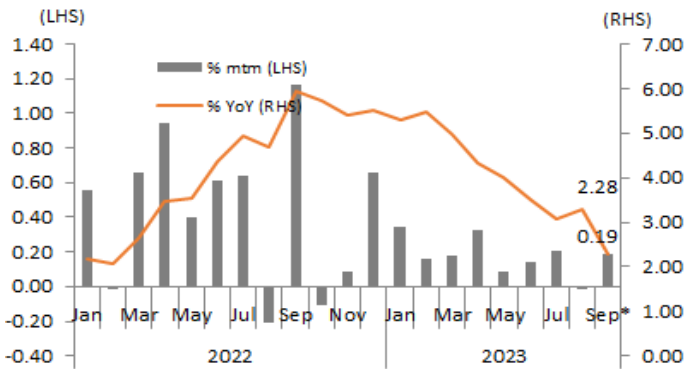
Softer Headline Inflation Provides Room For BI7DRR Cut

The cessation of the annual inflation high-base effect since Sep '22 amid the subsidized fuel price increase, has propelled a significant decline in Sep '23 headline inflation to 2.28% YoY (Cons: 2.20% YoY; KBVS: 2.13% YoY; Prev: 3.27% YoY). This is also reflected in the increase in monthly headline inflation to 0.19% MoM (Cons: 0.14% MoM, Prev: -0.02% MoM), driven by the rise in inflation in the volatile foods group in Sep '23 to 0.37% MoM (prev: -0.51% MoM), primarily fueled by an average national rice price increase of 6.67% PtP (between 31 Aug and 30 Sep '23). The lower production in the seven main rice-producing provinces, driven not only by El Nino, but also by other factors such as the increase in fertilizer prices and the labor scarcity, has contributed to the rise in rice prices. This is reflected in the increase of the Production Cost and Addition of Capital Goods Index (BPPBM) for the Food Crops category by 0.15% MoM (Prev: 0.08% MoM). Furthermore, this has also led to a more favorable Received Price Index by Farmers (it) for the Rice Crops group in the same month, with a notable improvement at 5.31% MoM (Prev: 2.13% MoM).

The rice prices hike is also followed by increases in the prices of beef, mobile phone tariffs, tuition fees, non-subsidized fuel, and filtered clove cigarettes. This condition represents a cyclical price increase originating from the farm level, reflected in the Farmer Exchange Rate (NTP), where the NTP for the Food Crops group rose by 4.54% MoM, Plantation Farmers by 1.62% MoM then leading to a 0.30% MoM (Prev: -0.13% MoM) inflation in the Wholesale Price Index (IHPB) for the Agriculture group. Conversely, consumer price declines for Red Chili Pepper, Red Onion, Garlic, and Chicken Eggs (see table 2, p.2) were driven by a decrease in NTP for the Horticulture (-3.34% MoM), Livestock (-1.07% MoM), and Fisheries (-0.39% MoM) groups.

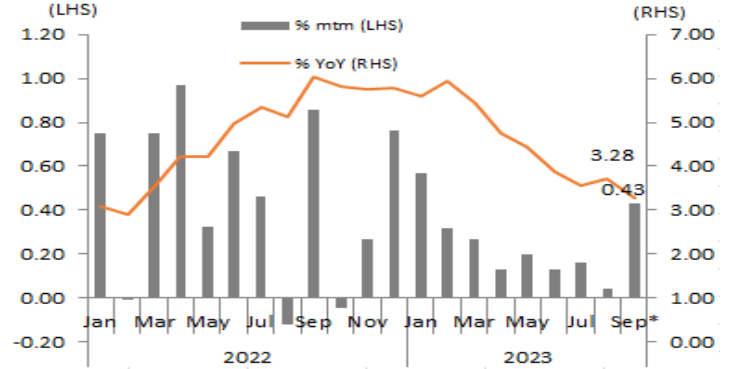
In Oct '23, with the global oil price trend still at elevated levels, coupled with the non-subsidized fuel price increase on 1 Oct '23, and the risk of declining food supply due to the ongoing El Nino effect until Nov '23, we are concerned that it may continue to drive an increase in year-end inflation close to 2.83% YoY. Nevertheless, despite the possibility of a Fed Rate hike, this headline inflation level still provides room for a reduction in the BI7DRR by year-end, contingent upon a stable Rupiah, as well as consistent capital inflows and yields on SUN during the same period.

Fig 1. CPI (Consumer or Headline) Inflation



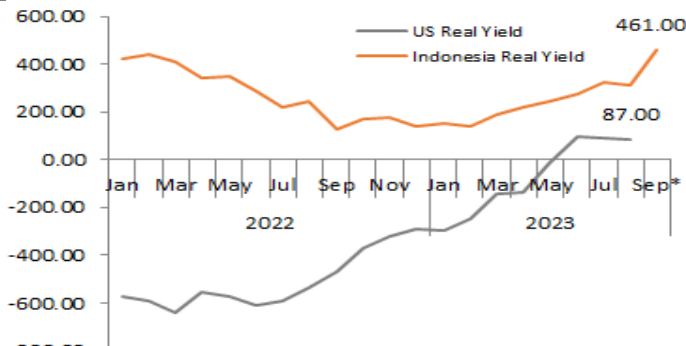
Sources: Bloomberg, KBVS Research - treated (2023)

Fig 2. WPI (Wholesale) Inflation



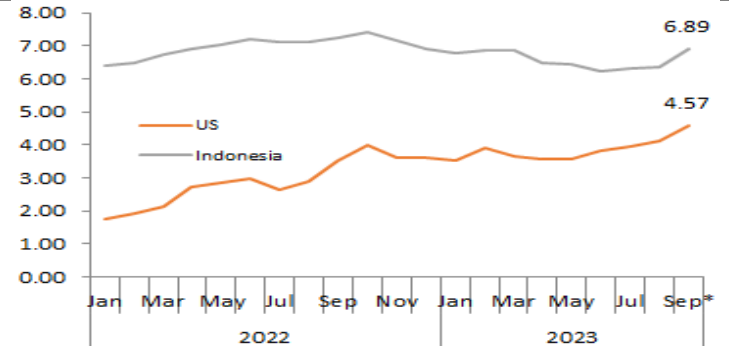
Sources: Bloomberg, KBVS Research - treated (2023)

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)

Table 1. CPI, WPI & Farmer Exchange Rate as of 2 October 2023

Indicators	Index		Inflation	
	Latest	M-1	Mom	Yoy
Consumer Price Index (CPI)	115.44	115.22	0.19%	2.28%
Food, Beverages, and Tobacco	122.03	121.61	0.35%	4.17%
Clothing and Footwear	109.21	109.14	0.06%	0.98%
Housing, Water, Electricity, and Household Fuels	107.94	107.92	0.02%	1.26%
Equipment, Tools, and Routine Household Maintenance	115.50	115.38	0.10%	1.97%
Health	114.52	114.48	0.03%	2.14%
Transport	120.83	120.48	0.29%	0.99%
Info, Comm. and Financial Services	99.81	99.56	0.25%	0.06%
Recreation, Sport and Culture	109.30	109.29	0.01%	1.58%
Education Services	114.58	114.34	0.21%	2.08%
Food and Beverages Services/Restaurants	117.59	117.47	0.10%	2.40%
Personal Care and Other Services	123.50	123.26	0.19%	3.68%
Core inflation	112.83	112.69	0.12%	2.00%
Administered Price	120.33	120.05	0.23%	1.99%
Volatile Food	120.43	119.99	0.37%	3.62%
Wholesale Price Index (WPI)	116.47	115.97	0.43%	3.28%
Agriculture	109.41	109.08	0.30%	5.30%
Mining and Quarrying	124.60	123.32	1.03%	3.89%
Manufacturing	118.11	117.58	0.46%	2.83%
Farmer Exchange Rate	114.14	111.85	2.05%	8.28%
Farmer's Price Received Index	133.96	130.99	2.27%	13.63%
Farmer's Price Paid Index	117.36	117.11	0.21%	4.94%

Sources: BPS, KBVS Research - treated (2023)

Table 2. Commodity Price In Traditional Market

No.	Commodity	Price (Rp per Kg)					Monthly Price Change (% ptp)
		31/08/2023	08/09/2023	15/09/2023	22/09/2023	30/09/2023	
I	Rice	13,500	13,950	14,100	14,250	14,400	6.67%
1	Lower Quality Rice I	12,450	12,800	12,950	13,100	13,250	6.43%
2	Lower Quality Rice II	12,100	12,550	12,750	12,900	13,000	7.44%
3	Medium Quality Rice I	13,600	14,050	14,150	14,300	14,400	5.88%
4	Medium Quality Rice II	13,350	13,800	13,950	14,100	14,200	6.37%
5	Super Quality Rice I	14,850	15,350	15,500	15,650	15,750	6.06%
6	Super Quality Rice II	14,300	14,750	14,900	15,050	15,150	5.94%
II	Chicken meat	34,900	35,350	35,450	35,200	35,800	2.58%
1	Fresh Race Chicken Meat	34,900	35,350	35,450	35,200	35,800	2.58%
III	Beef	133,050	135,050	134,850	134,900	134,750	1.28%
1	Quality 1 Beef	136,500	138,700	138,600	138,600	138,350	1.36%
2	Quality 2 Beef	128,150	129,600	129,100	129,450	129,300	0.90%
IV	Chicken eggs	29,750	30,300	30,050	29,750	29,450	-1.01%
1	Fresh Chicken Eggs	29,750	30,300	30,050	29,750	29,450	-1.01%
V	Red onion	28,750	28,550	27,950	27,250	26,950	-6.26%
1	Medium Shallot	28,750	28,550	27,950	27,250	26,950	-6.26%
VI	Garlic	39,600	39,900	39,400	38,950	38,600	-2.53%
1	Medium Size Garlic	39,600	39,900	39,400	38,950	38,600	-2.53%
VII	Red chili pepper	45,400	44,950	42,200	40,850	42,500	-6.39%
1	Large Red Chili	44,550	44,200	42,250	40,800	41,500	-6.85%
2	Curly Red Chili	45,650	44,800	42,050	40,800	42,450	-7.01%
VIII	Cayenne pepper	40,450	40,950	40,650	41,450	42,400	4.82%
1	Green Cayenne Pepper	36,200	38,750	38,900	39,150	40,150	10.91%
2	Red Cayenne Pepper	43,100	41,100	40,400	41,150	42,550	-1.28%
IX	Cooking oil	18,800	19,000	19,000	19,000	18,950	0.80%
1	Bulk Cooking Oil	15,250	15,350	15,350	15,300	15,300	0.33%
2	Branded Packaging Cooking Oil 1	21,000	21,150	21,150	21,150	21,100	0.48%
3	Branded Packaging Cooking Oil 2	19,450	19,650	19,650	19,650	19,600	0.77%
X	Sugar	15,300	15,450	15,500	15,650	15,850	3.59%
1	Premium Quality Sugar	16,000	16,150	16,200	16,250	16,400	2.50%
2	Local Sugar	14,750	14,900	14,950	15,150	15,400	4.41%

Sources: BPS, KBVS Research - treated (2023)

Disclaimer

This report is prepared by PT KB Valbury Sekuritas, a member of the Indonesia Stock Exchange, or its subsidiaries or its affiliates ("KBVS"). All the material presented in this report is under copyright to KBVS. None of the parts of this material, nor its contents, may be copied, photocopied, or duplicated in any form or by any means or altered in any way, or transmitted to, or distributed to any other party without the prior written consent of KBVS.

The research presented in this report is based on the information obtained by KBVS from sources believed to be reliable, however KBVS do not make representations as to their accuracy, completeness or correctness. KBVS accepts no liability for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from the use of the material presented in this report and further communication given or relied in relation to this document. The material in this report is not to be construed as an offer or a solicitation of an offer to buy or sell any securities or financial products. This report is not to be relied upon in substitution for the exercise of independent judgement. Past performance and no representation or warranty, express or implied, is made regarding future performance. Information, valuations, opinions, forecasts and estimates contained in this report reflects a judgement at its original date of publication by KBVS and are subject to change without notice, its accuracy is not guaranteed or it may be incomplete.

The Research Analyst(s) primarily responsible for the content of this research report, in part or as a whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The Analyst also certifies that no part of his/her compensation was, is or will be related to specific recommendation views expressed in this report. It also certifies that the views and recommendations expressed in this report do not and will not take into account client circumstances, objectives, needs and no intentions involved as a use for recommendations for sale or buy any securities or financial instruments.

KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
T. +62 21 – 250 98 300
F. +62 21 – 255 33 778

Branch Office

Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Karet Tengsin,
Tanah Abang, Jakarta Pusat 10220
T. (021) 25098300/301

Bandung

Jl. HOS Cokroaminato No. 82
Bandung 40171
T. (022) 87255800

Palembang

Komplek PTC Mall Blok I No. 7
Jl. R. Sukanto
Palembang 30114
T. (0711) 5700281

Semarang

Candi Plaza Building Lt. Dasar
Jl. Sultan Agung No. 90-90A
Semarang 50252
T. (024) 8501122

Jakarta – Kelapa Gading

Rukan Plaza Pasifik
Jl. Raya Boulevard Barat Blok A1 No. 10
Jakarta Utara 11620
T. (021) 29451577

Malang

Jl. Pahlawan Trip No. 7
Malang 65112
T. (0341) 585888

Surabaya

Pelawon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 2955788

Makassar

Komplek RUKO Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0241) 16000818

Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV
Jl. Taman Aries, Kembangan
Jakarta Barat 11620
T. (021) 22542390

Banjarmasin

Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) – 3265918

Padang

Jl. Kampung Nias II No. 10,
Padang 25211
T. (0751) 8955747

Medan

Komplek Jati Junction No. PS-5A
Jl. Perintis Kemerdekaan
Medan 20218
T. (061) 88816222

Jakarta – Pluit

Jl. Pluit Putra Raya No. 2
Jakarta Utara 14450
T. (021) 6692119

Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839993

Yogyakarta

Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 623111

Denpasar

Jl. Teuku Umar No. 177
Komplek Ibis Styles Hotel
Denpasar Bali 80114
T. (0361) 225229

Investment Gallery

Jakarta

Citra Garden 6 Ruko Sixth Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 522392181

Semarang

Jl. MT Haryono 637
Semarang 50242
T. (024) 8415195

Salatiga

Jl. Diponegara No. 68
Salatiga 50711
T. (0298) 313007

Solo

Jl. Ronggowarsito No. 34
Surakarta 57118
T. (0271) 6726306