

CPI:

## Expecting the Unexpected

Suryaputra Wijaksana Barra Kuku Mamia

Economist/Analyst

Senior Economist

03 October 2022

### Executive Summary

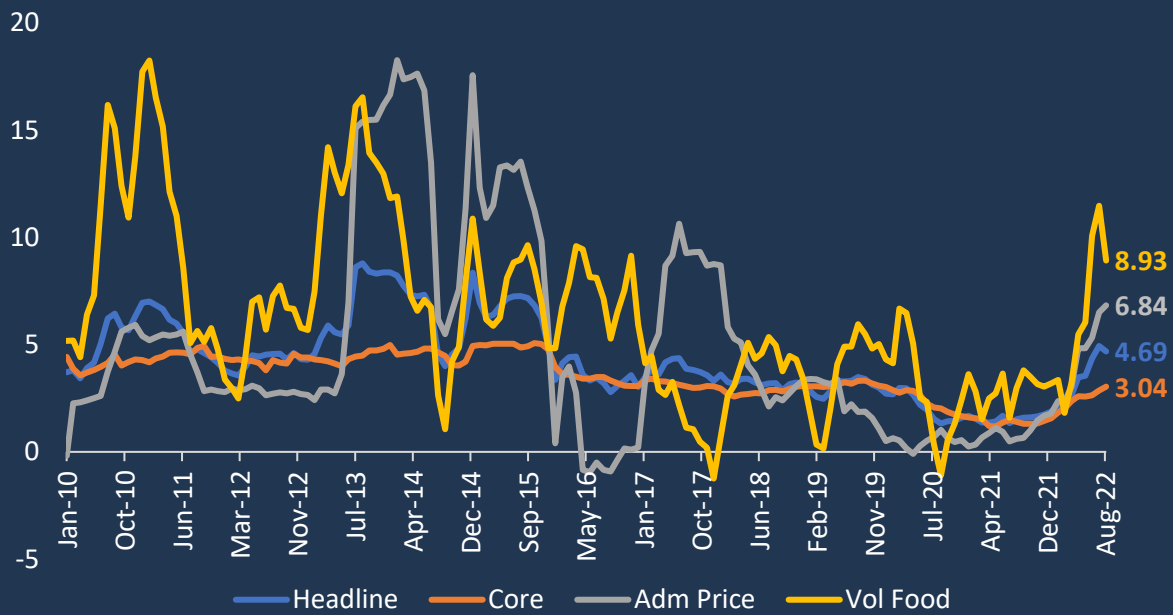
- The consumer price index rise by 5.95% YoY (1.17% MoM) in September 2022, lower than consensus expectations of 6.00% YoY, driven by retail fuel price hike but alleviated by deflation in most food stuffs
- La Nina anomaly across the Pacific boost rainfall, contributing to increased crop yields. On the other hand it also disrupts the supply of coal, further boosting coal prices which benefit Indonesia's trade surplus. Furthermore, Fed rate hikes result in stronger USD, potentially triggering higher imported inflation and spouts of Rupiah depreciation.
- BI policy would be aimed at alleviating Rupiah depreciation rather than inflation per se as food related inflation will remain low. However the risk of wage-price spiral could push BI to increase its policy rate by 75 – 100 bps by the end of the year.
- However the real unpredictability lies in the global factors (the Fed, money markets and geopolitical developments) and the key tradeoff is between low rates and strong Rupiah. BI is likely to keep a balance between the two goals and further interventions in the FX and bond markets are expected.

- Indonesia's consumer price index (CPI) leapt by 5.95% YoY (1.17% MoM) in September 2022, only slightly lower than consensus of 6.00% YoY. The increase was obviously the result of fuel price hikes earlier in the month, which manifested itself especially in higher transportation costs (8.88% YoY, 1.08% MoM). The risk, however, is mitigated by food deflation – continuing from August – which saw the prices of most foodstuffs declining with the notable exception of rice. Meanwhile, core inflation continues to creep up to 3.21% YoY, in line with our expectations that fuel price hike would “leak” to some extent towards core items.
- The continuing La Nina temperature anomaly across the Pacific, which is expected to persist into 2023, boosts rainfall and therefore crop yields in the Asia-Pacific region (Indonesia included), even as it causes mediocre yield for crops that are mostly grown in the Western hemisphere (such as corn and wheat). The high precipitation also contributes to disruption in coal mines across Australia and Indonesia, further pushing up coal prices amid high demand from Europe. As such, La Nina has proven to be a boon for Indonesia by lowering inflation and bolstering the current account surplus, even if it is a net negative for the rest of the globe.
- However, this does not mean a smooth ride going forward – far from it. The Fed's attempt at bringing down inflation by hiking rates has had the effect of strengthening the USD, and the

pace of such appreciation has only accelerated in September. Even Rupiah, one of the best-performing Asian currencies this year thanks to the aforementioned CA surplus, were not immune to the pressure, with USD/IDR breaching 15,300 recently. As such, whatever disinflation the US has successfully wrought – e.g. through the lowering of oil prices – has not been enjoyed by most other countries, and imported inflation at double-digit rates may remain a problem for the foreseeable future.

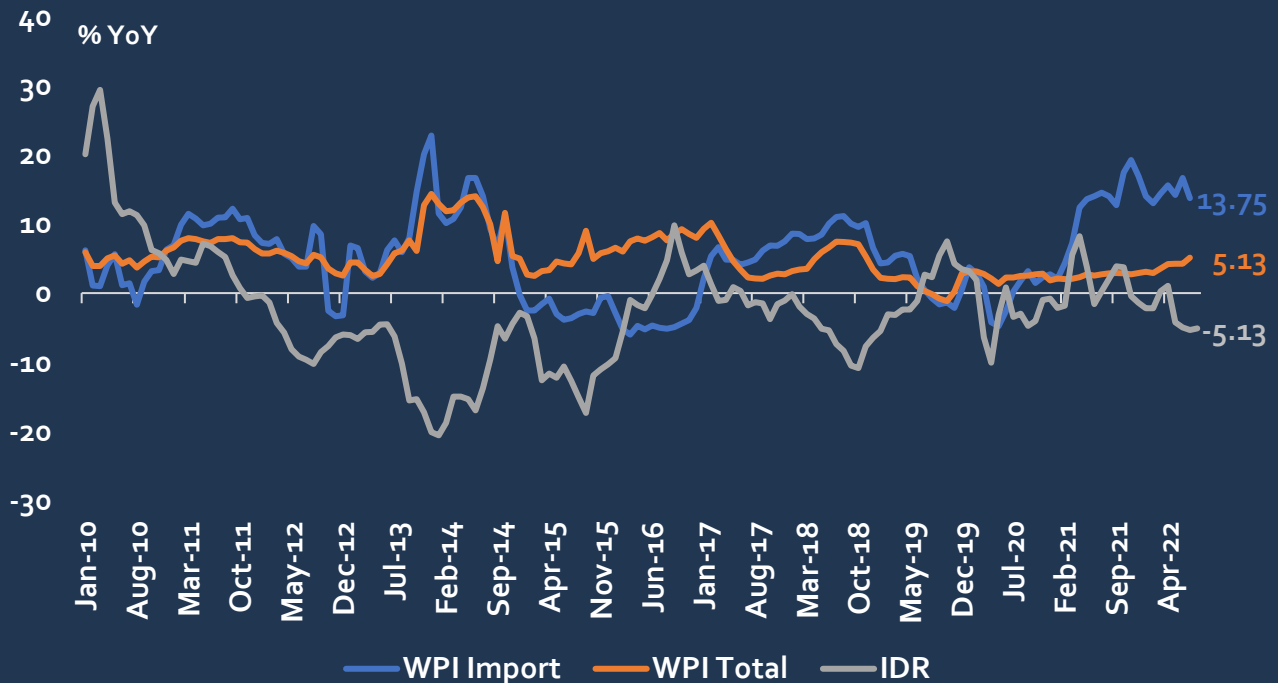
- In this situation, then, the focus of BI policy will be aimed squarely at alleviating the USD pressure, rather than trying to curb inflation per se. The food deflation gives policymakers leeway in continuing to pursue growth without sparking too high of an inflation, although we should remember that the full impact of the fuel price hike has not been borne out by the current inflation numbers. There is likely to be second- or even third-round effects, as the higher cost of transport is passed on retail prices, and especially as higher inflation translates into demand for higher wages next year. Such potential wage-price spiral is why the inflationary effects might only be fully priced-in either at the end of this year or early next year.
- Still, this increase in inflation (perhaps to 7+0.5% YoY) is mostly expected by BI, and would require nothing extraordinary relative to previous rate hike cycles when it typically raise rates by 150-175 bps. The real unpredictability lies in the global factors – especially pertaining to the Fed, global money markets, and geopolitical developments – and the key tradeoff is between maintaining low rates or strong Rupiah. We expect BI to try and keep a reasonable balance between the two, and in the meantime further interventions in the FX (spot/forward) and bond markets plus tightening in the export proceeds regulations are to be expected.

**Chart 1. Higher inflation in September due to government-administered fuel price hikes but alleviated by recent drop in food price**



Source: BPS

**Chart 2. Rupiah depreciation push whole price index for imported goods higher**



Source: BI, Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Sep	-1 mth	Chg (%)
US	3.25	Sep-22	-5.05	Baltic Dry Index	1,760.0	1,017.0	73.1
UK	2.25	Sep-22	-7.65	S&P GSCI Index	607.8	676.1	-10.1
EU	1.25	Sep-22	-8.75	Oil (Brent, \$/bbl)	88.0	99.3	-11.4
Japan	-0.10	Jan-16	-3.10	Coal (\$/MT)	417.7	399.5	4.6
China (lending)	4.35	Oct-15	1.85	Gas (\$/MMBtu)	6.40	9.10	-29.7
Korea	2.50	Aug-22	-3.20	Gold (\$/oz.)	1,660.6	1,724.0	-3.7
India	5.90	Sep-22	-1.10	Copper (\$/MT)	7,683.3	7,893.0	-2.7
Indonesia	4.25	Sep-22	-1.70	Nickel (\$/MT)	21,012.0	21,273.0	-1.2
Money Mkt Rates	30-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	713.7	900.0	-20.7
				Rubber (\$/kg)	1.32	1.37	-3.6
SPN (1M)	3.73	2.18	154.7	External Sector	Aug	Jul	Chg (%)
SUN (10Y)	7.35	7.10	24.6	Export (\$ bn)	27.91	25.56	9.2
INDONIA (O/N, Rp)	3.84	3.15	69.3	Import (\$ bn)	22.15	21.35	3.8
JIBOR 1M (Rp)	4.87	4.08	79.6	Trade bal. (\$ bn)	5.76	4.22	
Bank Rates (Rp)	May	Apr	Chg (bps)	Central bank reserves (\$ bn)*	132.2	132.2	0.02
Lending (WC)	8.48	8.49	-1.13	Prompt Indicators	Aug	Jul	Jun
Deposit 1M	2.79	2.84	-4.96	Consumer confidence index (CCI)	124.7	123.2	128.2
Savings	0.64	0.62	1.17	Car sales (%YoY)	16.4	29.4	8.5
Currency/USD	30-Sep	-1 mth	Chg (%)	Motorcycle sales (%YoY)	11.6	-13.3	-30.9
UK Pound	0.895	0.858	-4.17	Cement sales (%YoY)	#N/A	#N/A	-41.1
Euro	1.020	0.999	-2.13				
Japanese Yen	144.7	138.8	-4.11				
Chinese RMB	7.116	6.911	-2.88				
Indonesia Rupiah	15,228	14,843	-2.53				
Capital Mkt	30-Sep	-1 mth	Chg (%)	Manufacturing PMI	Sep	Aug	Chg (bps)
JCI	7,040.8	7,159.5	-1.66	USA	#N/A	52.8	0
DJIA	28,725.5	31,790.9	-9.64	Eurozone	48.4	49.6	-120
FTSE	6,893.8	7,361.6	-6.35	Japan	50.8	51.5	-70
Nikkei 225	25,937.2	28,195.6	-8.01	China	48.1	49.5	-140
Hang Seng	17,222.8	19,949.0	-13.67	Korea	47.6	47.6	0
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)	Indonesia	53.7	51.7	200
Stock	2,526.7	2,541.6	-14.84				
Govt. Bond	735.9	759.5	-23.59				
Corp. Bond	15.5	15.2	0.24				

Source: Bloomberg, BI, BPS

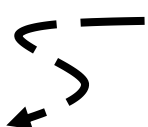
Notes:

^Data for January 2022

\*Data from earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, >50 indicates economic expansion, <50 otherwise



Scan for the link to our report depository or click:

<https://s.id/1fMOq>

## Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	7.1
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.75
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,293
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

\*\* Estimation of Rupiah's fundamental exchange rate

### Economic, Banking & Industry Research Team

**David E.Sumual**

*Chief Economist*

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

**Agus Salim Hardjodinoto**

*Head Industry and Regional Research*

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Barra Kukuh Mamia**

*Senior Economist*

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Victor George Petrus Matindas**

*Senior Economist*

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Gabriella Yolivia**

*Industry Analyst*

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Suryaputra Wijaksana**

*Economist / Analyst*

suryaputra\_wijaksana@bca.co.id

+6221 2358 8000 Ext: 1065752

**Keely Julia Hasim**

*Economist / Analyst*

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**Lazuardin Thariq Hamzah**

*Economist / Analyst*

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Arief Darmawan**

*Research Assistant*

arief\_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

#### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: [arief\\_darmawan@bca.co.id](mailto:arief_darmawan@bca.co.id)