

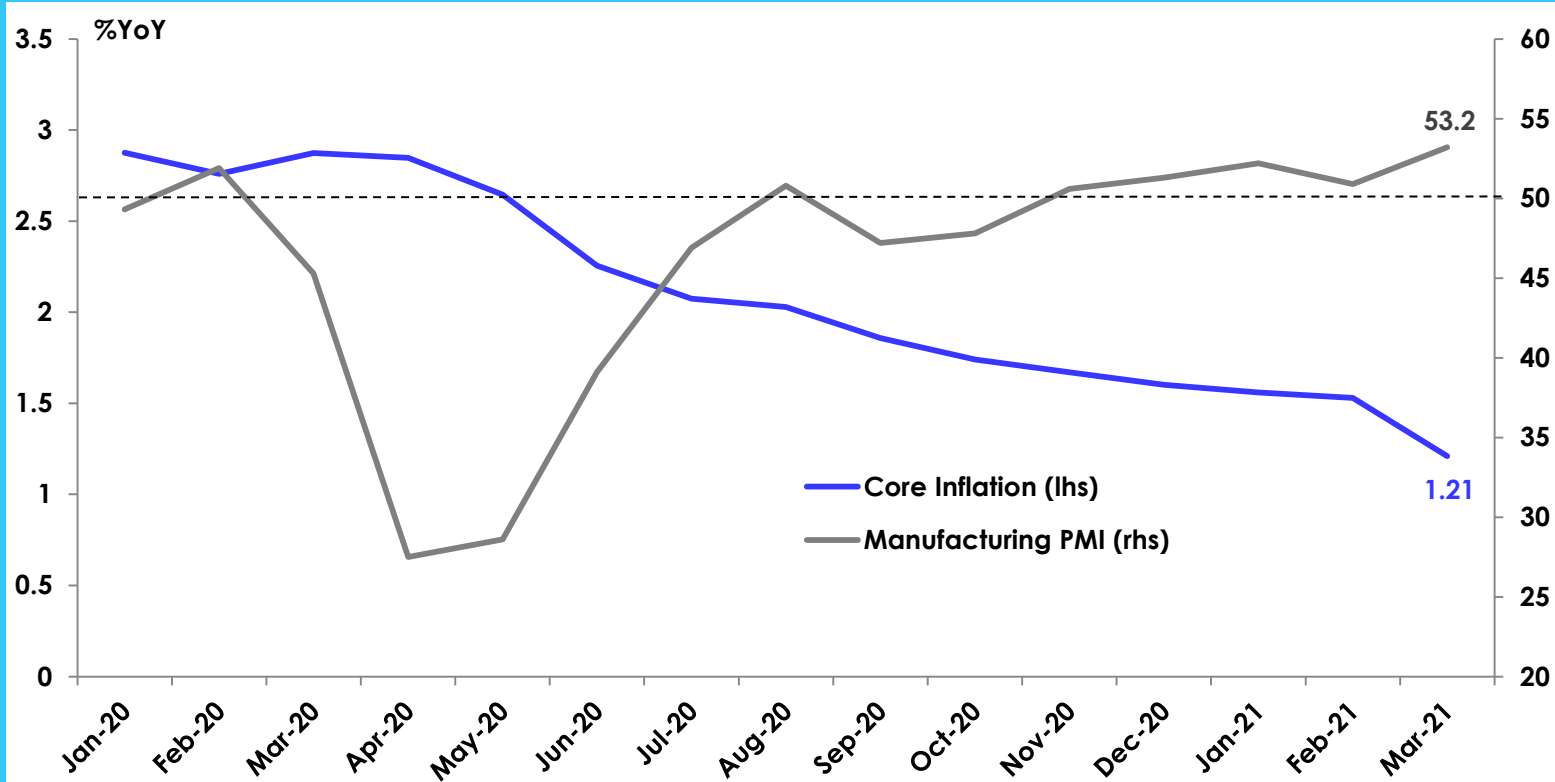
Inflation: A mixed picture

Executive Summary:

- **Indonesia's Consumer Price Index (CPI) increased by 0.08% MoM (+1.37% YoY) last month**, largely driven by rising food prices, likely a precursor to the fast approaching month of Ramadan.
- **Overall, Indonesia's economic outlook remains in flux:** although core inflation recorded a significant slump last month, manufacturing PMI figures also recorded its largest expansion since the pandemic began.
- **Inflation appears to be more muted in Indonesia relative to several other countries.** While this may prove a boon for capital inflows, it should be noted that the correlation between moderate inflation and the exchange rate remains unclear. Additionally, the risk of supply constraints also means that low inflation will not always be a given.

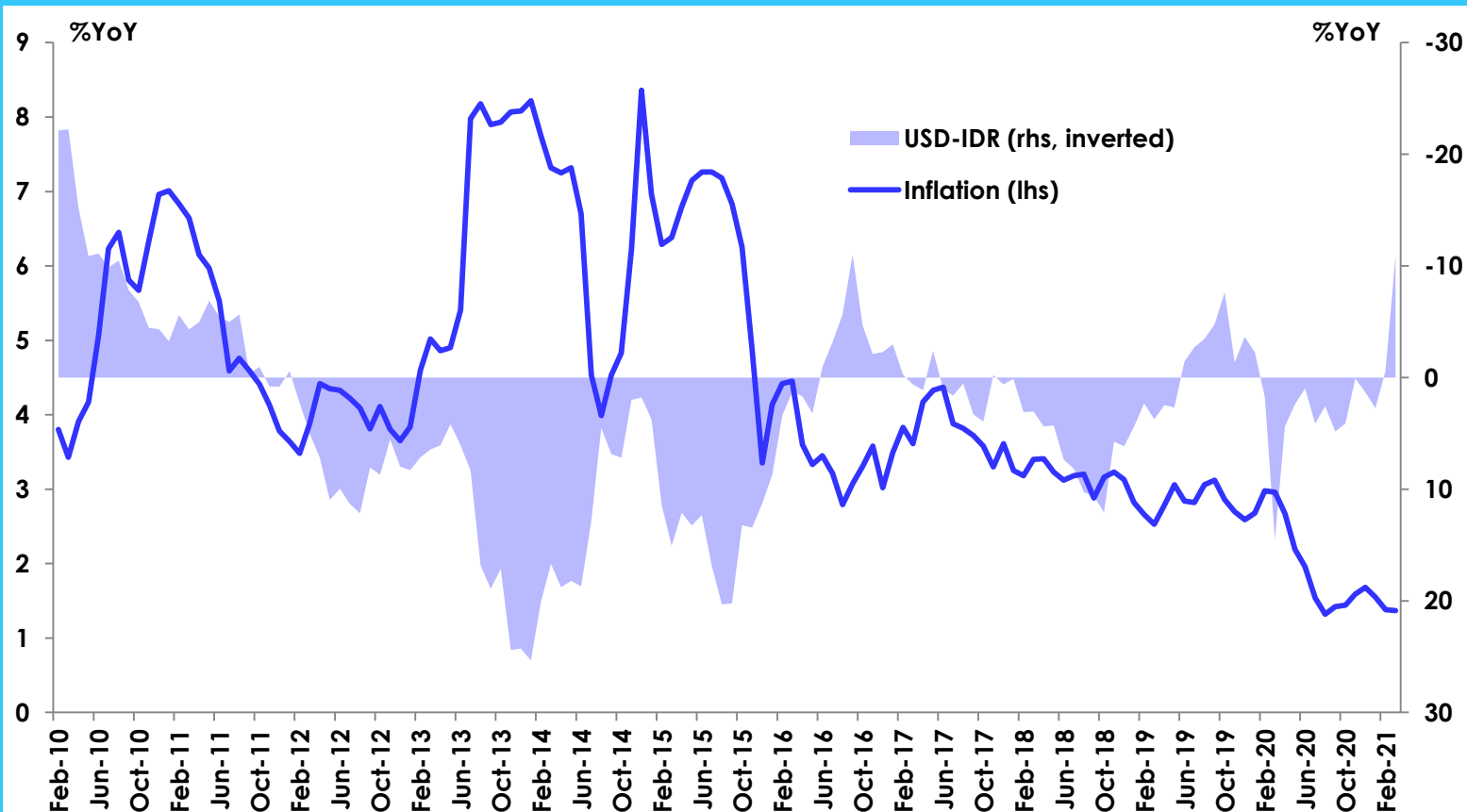
- **Indonesia's Consumer Price Index (CPI) increased by 0.08% MoM (+1.37% YoY) last month**, somewhat below the expectations of most analysts. The lion's share of last month's inflationary pressures appear to be driven by rising food prices, likely a precursor to the fast approaching month of Ramadan.
 - **These rather tepid numbers seem to confirm our suspicions that domestic economic conditions remain mixed**, despite the remarkable rebound in imports recorded two months ago. Of particular concern in this regard is the trajectory of core inflation, which appeared to be already bottoming out in February, but registered a relatively sharp decline last month.
 - While this may point to a renewed weakness in domestic demand; much like how things were in February, other indicators appear to be telling the opposite story. PMI figures for instance, indicate that manufacturing activity expanded the most last month since the start of the pandemic, though this too may reflect business expectations of renewed demand in the lead up to Lebaran (**Chart 1**). The sustained improvement in transportation-related inflation over the past few months also suggests a continued improvement in general mobility. **Altogether, these mixed signals paint a picture of a domestic economy still experiencing the painful birth pangs of a fragile recovery, though alight with heady expectations of the significant relief that Ramadan is expected to bring.**
 - Aside from demand dynamics however, the underlying supply dynamics driving inflation has also taken increasing relevance in the recent months. **While Indonesia's relatively muted inflation does point**
- an altogether disappointing picture of domestic demand, it also stands in sharp contrast to the inflationary spikes emerging elsewhere (Chart 3).** Oil price is a big component of this. Although oil prices last month are more than double its figures last year, this has barely made a mark on Indonesia's inflation figures, in large part due to the government's price controls. Another big component here is the price of foodstuffs. Overall, Indonesia's relatively measured inflation figures attest to the government's successful efforts in maintaining food inflation within reasonable bounds.
- With inflation relatively muted in Indonesia relative to other countries – particularly the US – one may expect a positive boost to foreign capital inflows as foreign real interest rates are whittled down at a faster pace than Indonesia's. While this will certainly be of some benefit, certain caveats remain. For one, the correlation between the exchange rate and moderate levels of inflation remains unclear (**Chart 2**). **Broader capital market sentiment, increasingly underpinned by expectations of Fed policy, appears to be a much more potent force in guiding foreign capital flows.**
 - **Additionally, we must not be too quick to assume that Indonesia's currently tepid price movements will continue to be a given either.** Price controls impose a fiscal cost, one which will only grow should supply constraints become increasingly pronounced. OPEC has shown little signs of reversing their production cuts in its upcoming meeting, and supply bottlenecks have already emerged in certain areas, particularly semiconductors and shipping equipment. The risk, as always, is of demand returning with a much quicker bang than expected. Under such a scenario, a spike in inflation cannot be ruled out entirely.

Chart 1. An economic picture in flux: although core inflation weakened substantially, manufacturing activity also recorded a significant expansion



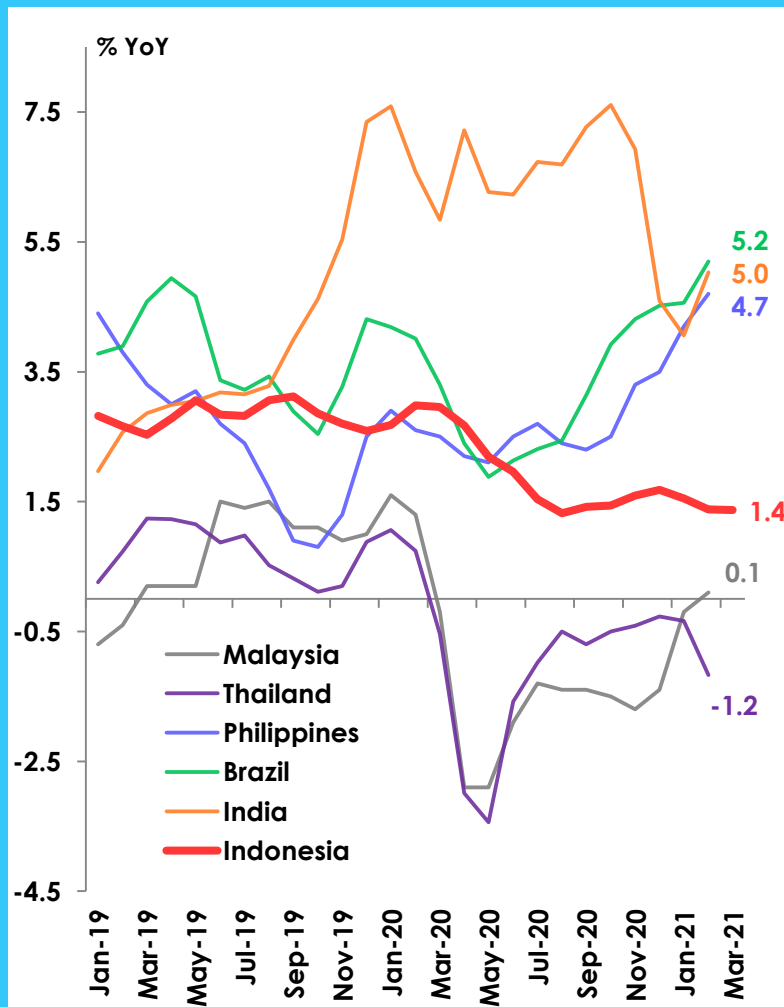
Source: BPS, Bloomberg

Chart 2. Outside of the large inflationary spikes of 2013-2015, the correlation between inflation and the exchange rate remains unclear

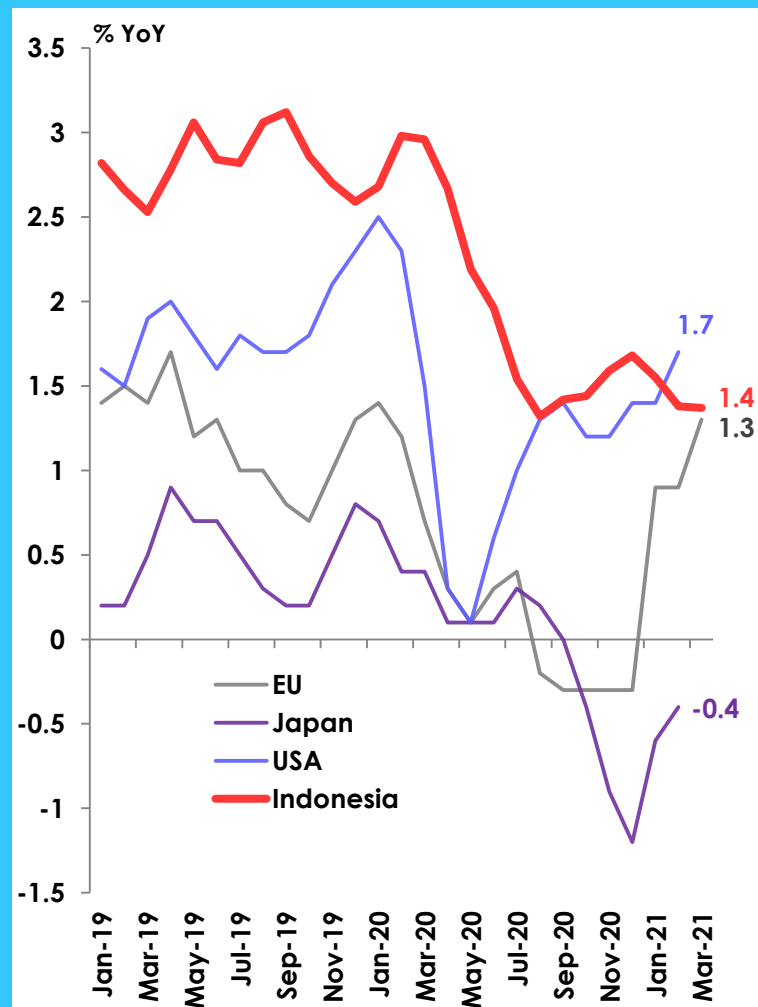


Source: Bloomberg (last update: Mar 2021)

Chart 3. Indonesia appears to have been spared from the inflationary spikes observed in several other countries



Source: Bloomberg



Source: Bloomberg

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.8
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	31-Mar	-1 mth	Chg (%)
US	0.25	Mar-20	-1.45	Baltic Dry Index	2,046.0	1,675.0	22.1
UK	0.10	Mar-20	-0.30	S&P GSCI Index	467.4	477.0	-2.0
EU	0.00	Mar-16	-1.30	Oil (Brent, \$/bbl)	63.5	66.1	-3.9
Japan	-0.10	Jan-16	0.30	Coal (\$/MT)	90.5	81.2	11.5
China (lending)	4.35	Oct-15	4.55	Gas (\$/MMBtu)	2.49	2.63	-5.3
Korea	0.50	May-20	-0.60	Gold (\$/oz.)	1,707.7	1,734.0	-1.5
India	4.00	May-20	-1.03	Copper (\$/MT)	8,787.8	9,139.3	-3.8
Indonesia	3.50	Mar-21	2.13	Nickel (\$/MT)	16,022.0	18,532.0	-13.5
Money Mkt Rates	31-Mar	-1 mth	Chg (bps)	CPO (\$/MT)	961.5	982.8	-2.2
				Rubber (\$/kg)	1.63	1.81	-9.9
Bank Rates (Rp)	Dec	Nov	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1M)	2.57	2.43	14.2	Export (\$ bn)	15.27	15.29	-0.2
SUN (10Y)	6.76	6.58	18.0	Import (\$ bn)	13.26	13.33	-0.5
INDONIA (O/N, Rp)	2.79	2.80	-0.8	Trade bal. (\$ bn)	2.00	1.96	1.9
JIBOR 1M (Rp)	3.56	3.56	-0.1	Central bank reserves (\$ bn)	138.8	138.0	0.58
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Feb	Jan	Dec
Lending (WC)	9.21	9.32	-10.54	Consumer confidence index (CCI)	85.8	84.9	96.5
Deposit 1M	4.22	4.45	-23.28	Car sales (%YoY)	-38.2	-34.2	-34.4
Savings	0.86	0.87	-0.66	Motorcycle sales (%YoY)	-30.8	-14.7	-45.1
Currency/USD	31-Mar	-1 mth	Chg (%)	Cement sales (%YoY)	0.7	-5.9	-12.6
UK Pound	0.726	0.718	-1.08	Capital Mkt	31-Mar	-1 mth	Chg (%)
Euro	0.853	0.828	-2.86	JCI	5,985.5	6,241.8	-4.11
Japanese Yen	110.7	106.6	-3.75	DJIA	32,981.6	30,932.4	6.62
Chinese RMB	6.553	6.474	-1.21	FTSE	6,713.6	6,483.4	3.55
Indonesia Rupiah	14,525	14,235	-2.00	Nikkei 225	29,178.8	28,966.0	0.73
Capital Mkt	31-Mar	-1 mth	Chg (%)	Hang Seng	28,378.4	28,980.2	-2.08
				Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)
				Stock	1,930.8	1,811.4	119.42
				Govt. Bond	950.6	971.4	-20.81
				Corp. Bond	28.9	28.4	0.52

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Economic, Banking & Industry Research Team**David E. Sumual**

Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinoto

Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia

Economist / Analyst
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas

Industry Analyst
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia

Economist / Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Derrick Gozal

Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir

Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki

Research Assistant
ahmad_rizki@bca.co.id
+6221 2358 8000 Ext: 20378

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 - DKP**

20th 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 redistributed 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: ahmad_rizki@bca.co.id