

## Keeping some distance from the spectre of food inflation

25 September 2023

Lazuardin Thariq Hamzah  
[lazuardin\\_hamzah@bca.co.id](mailto:lazuardin_hamzah@bca.co.id)

Barra Kukul Mamia  
[barra\\_mamia@bca.co.id](mailto:barra_mamia@bca.co.id)

### Summary

- Indonesian customers are being hit with more expensive rice prices as concerns over rice supplies intensify. However, cheaper prices for other food commodities such as spices and poultry lead to only a modest increase in the average Indonesian's food spending budget.
- Despite the only modest increase in overall food prices, stringent interventions to stabilise rice prices remain crucial given its outsized role in dictating Indonesia's aggregate consumption growth.
- The risk of a more substantial CA deficit stemming from rising rice and oil imports along with the prevailing strong USD environment may limit or delay BI's signalling for policy easing.

- As we discussed in the previous report on the September 2023 FOMC and BI meeting, the strong dollar environment coupled with the worsening oil supply outlook has been increasing the pressure on Indonesia's capital flows and the Rupiah. Foreign investors in the domestic bond market have recorded net sales to the tune of USD 637.1 Mn so far in the month, while Indonesia's stock market recorded USD 112.6 Mn in foreign capital outflows.
- The Rupiah also lost around 0.88% of its value compared to the USD since the start of the month, bringing the currency to its weakest level (IDR 15,375/USD) since Q1 2023. However, in contrast to the downward trend in the Rupiah's exchange rate last year, the currency's value now seems to be less responsive to changes in foreign capital flows during the ongoing depreciation cycle (*see Chart 1*), indicating that other factors, such as the currently weakening sentiment on Asian currencies, should be at play in undermining the Rupiah's value.
- The Rupiah is hardly the only thing in Indonesia currently facing some heat. It feels that the outside temperature in Jakarta has also been heating up lately, indicating the intensification of the El Niño climate pattern in recent times. Warming temperatures have also heated discussions on inflation beyond economists' desks, as mainstream Indonesian households have started to take note of the 3.26% increase in rice prices so far in September 2023.
- Concerns about inflation in Indonesia amidst the surging rice prices contrast with the oil-driven inflationary talks more common in the

global economy. Despite the recent increase in global oil prices and circulating rumours regarding the introduction of Peralite's replacement, Indonesians could rest easy knowing that the current political landscape leaves little room for the government to once again adjust domestic fuel prices.

- Just like the hitherto sanguine attitude towards the stability of domestic fuel prices, concerns regarding rising food prices may also prove to be overblown, at least in the near term. We track the value of a basket of food commodities to measure how much a typical Indonesian house-hold might spend on food. Despite the upward trend in rice prices, the price of the average Indonesian household food basket has not changed much compared to the start of El Niño, as indicated by the modest 0.4% increase in our food price index compared to the end of June 2023 (*see Chart 2*). The double-digit growth in prices of some staple food commodities, such as rice (12.65% YTD) and garlic (33.96% YTD), has been offset by declines in prices of some spices and proteins, with domestically-produced bird's eye chilli (-40.62% YTD) and poultry (-6.51% YTD) leading the decline in prices as of 21 September 2023.
- Nevertheless, despite intensifying concerns regarding the upward movement in rice prices and, subsequently, the return of inflationary pressure in Indonesia, we see the ongoing disinflationary trend continue in Indonesia. This reading, of course, is hardly

*"the price of the average Indonesian household food basket has not changed much compared to the start of El Niño"*

controversial. After all, the Indonesian economy would finally shake off the effect of last year's upward adjustment in subsidised fuel prices in the calculation of the next month's CPI number. The surging rice imports also suggest the government's now-ample rice stockpile (*see Chart 3*), which should play a significant role in stabilising domestic prices throughout the rest of 2023.

- We should note, however, that the distribution of the food spending index is skewed towards rice prices, which explains around 40.4% of the index. As such, the basket of food represented in the index might reflect the consumption of a typical middle-income or lower-middle-income family, a growing segment in Indonesia's demography, while rice may account for a lower share of food spending budget on the better-off household.
- Meanwhile, the food basket of a less-advantaged household, still a significant part of Indonesia's population, may put more weight on rice, meaning that even a slight change in rice prices may translate greatly to their level of disposable income. As such, the stabilisation of rice prices in the domestic market may increasingly dictate Indonesia's aggregate demand growth in the forthcoming period, especially if Indonesia's consumption growth continues to be driven by the lower-income segment, as indicated by the BCA consumer spending index.
- We should also consider that El Niño is a climate pattern which may last for a lengthy

period, with one episode of El Niño lasting from the summer of 1986 through the early spring of 1988. Concerns about rice supplies and food inflation, then, may continue to colour the Indonesian economy in the coming period, potentially forcing the Indonesian government to continue jousting against other rice-importing countries – especially if the drier weather starts to hit domestic production. Fortunately, the Indonesian government appears to lead the pack in the competition for global rice supplies. For instance, the Indonesian government have doubled the rice import deal with Cambodia to 250,000 Tonnes per year for four years, which should fulfil around 35.6% of Indonesia’s annual rice import target in 2023.

- However, as competition for imports intensifies, Indonesia’s strategy to stockpile imported prices may result in higher import costs for the Indonesian government (via Bulog<sup>1</sup>) and its private partners, which may translate negatively to Indonesia’s CA balance (especially given the risk of rising oil prices). The worsening outlook for CA balance, to put it simply, may add to the downward pressure which may continue facing the Indonesian Rupiah in the upcoming periods, further limiting the room for BI to start contemplating a looser monetary policy.
- This reading, however, does not mean that BI should restart its rate-tightening campaign

shortly. After all, despite the worsening CA outlook and the depreciation pressure currently facing the Rupiah, multiple indicators such as 12M non-deliverable forward (NDF) and CDS on Indonesian bonds continue to project markets’ expectations for a stable Rupiah.

- Lastly, the central bank’s non-interest policy tool also works quite smoothly in absorbing IDR liquidity so far, including the new SRBI which insofar proven to be a hit in the market. The government’s stronger export proceeds (DHE) regulation also helps to stabilise the Rupiah through its impact on domestic FX liquidity condition, as indicated by the increase in banks’ FX placements with BI the low of USD 12.38 Bn in July 2023 to USD 18.23 Bn in September 2023. Hence, absent a major shock to the Rupiah, we still anticipate that BI’s next interest rate move would be a rather dovish one, although the loosening room and the timeframe might be more limited and further delayed given the current climate of strong dollars and re-surfing fuel and bio-fuel (food) prices.

***“The Indonesian government appears to lead the pack in the competition for global rice supplies”***

---

<sup>1</sup> *Badan urusan logistik*, the state-controlled logistical agency

Chart 1

**Different season, different story**

The Rupiah appears to be less responsive to changes in foreign capital stocks during the ongoing depreciation cycle despite the rather strong correlation during the previous depreciation cycle

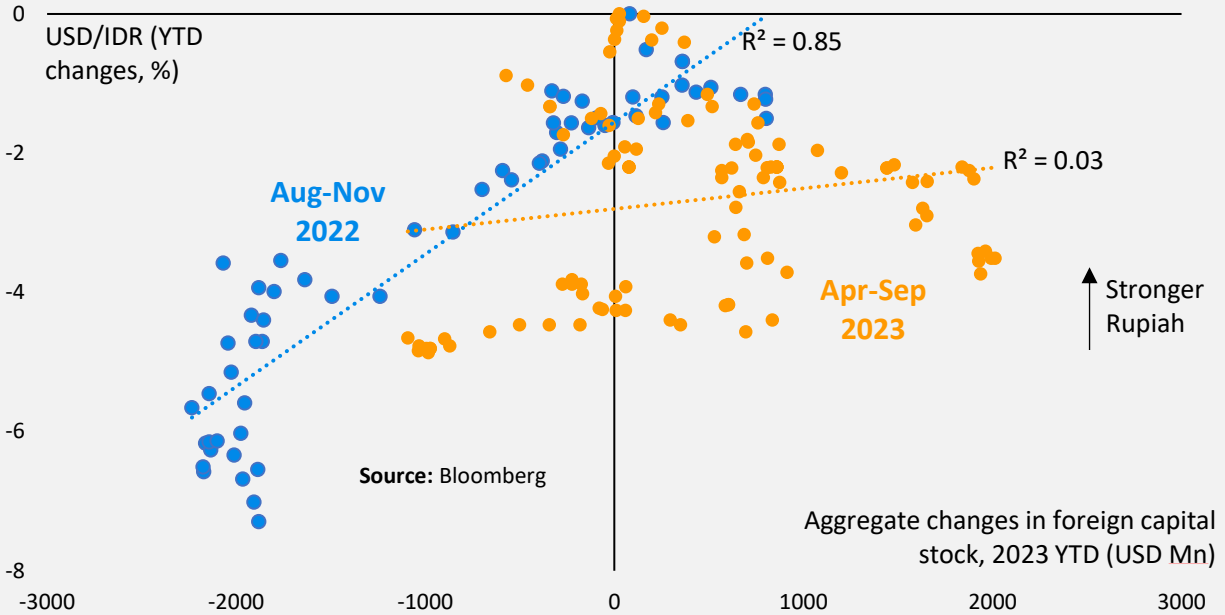


Chart 2

**Modest increase**

Indonesian households continue to benefit from lower food prices compared to last year as the increase in rice prices is offset by normalising spices and poultry prices.

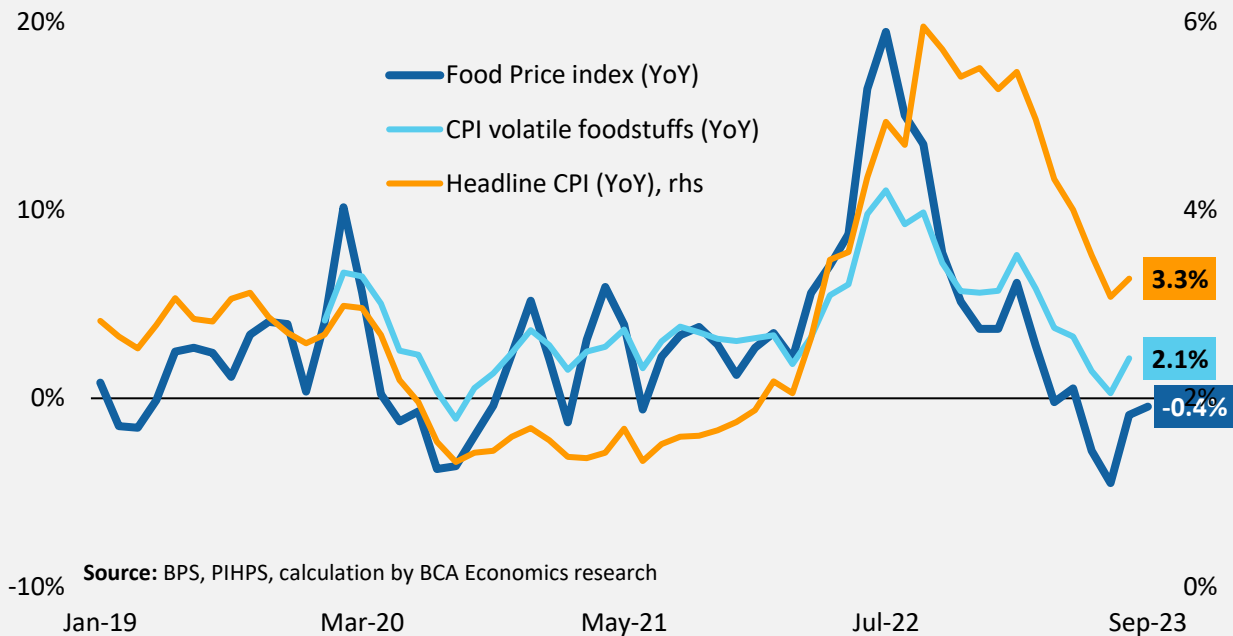
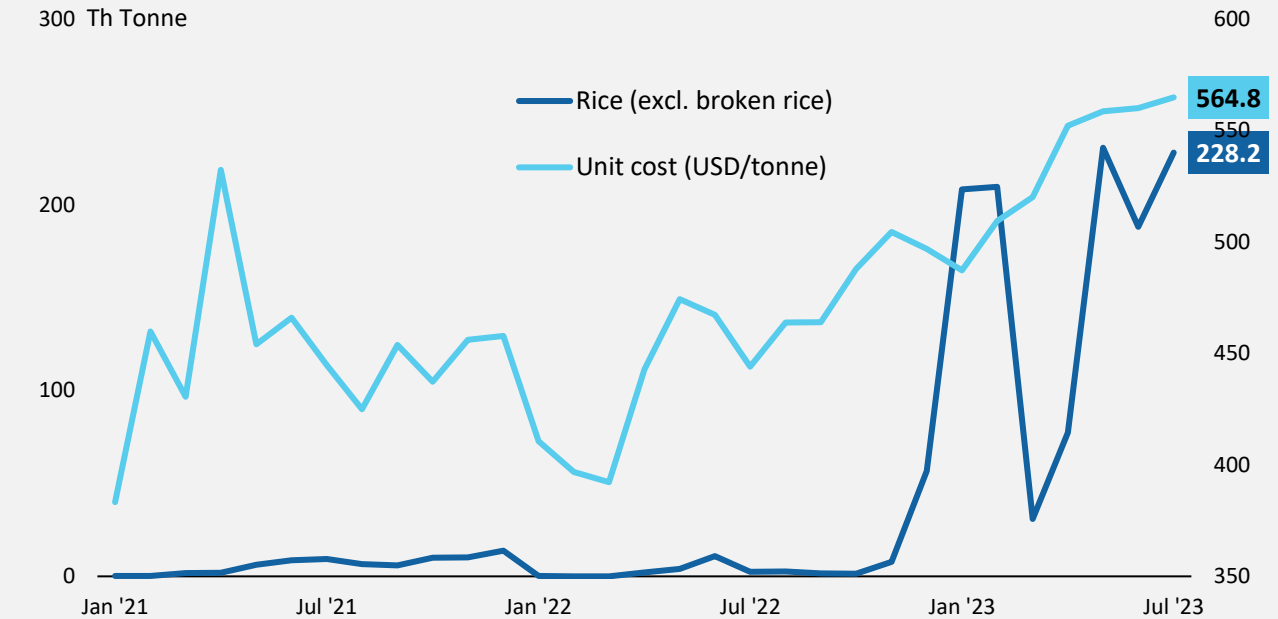


Chart 3

**£100 Mn rice not named Declan**

Indonesia’s rice imports are exploding despite higher prices in 2023 as the government is jousting against other rice-importing countries to secure supply amidst the El Nino risk



Source: BPS

Economic Calendar				
		Actual	Previous	Forecast*
<b>1 September 2023</b>				
ID	S&P Manufacturing PMI	53.9	53.3	53
<b>ID</b>	<b>Inflation Rate YoY</b>	<b>3.27%</b>	<b>3.08%</b>	<b>3.0%</b>
CN	Caixin Manufacturing PMI	51	49.2	49.3
US	S&P Manufacturing PMI	47.9	49	47
US	Non-Farm Payroll ('000)	187	157	180
<b>6 September 2023</b>				
US	Balance of Trade (USD Bn)	-65.0	-65.5	-68.1
<b>7 September 2023</b>				
CN	Balance of Trade (USD Bn)	68.4	80.6	81
<b>ID</b>	<b>Foreign Exchange Reserves (USD Bn)</b>	<b>137.1</b>	<b>137.7</b>	<b>134.0</b>
CN	Foreign Exchange Reserves (USD Tn)	3.16	3.20	3.20
<b>8 September 2023</b>				
ID	Consumer Confidence	125.2	123.5	121
<b>9 September 2023</b>				
CN	Inflation rate YoY	0.1%	-0.3%	-0.4%
<b>11 September 2023</b>				
ID	Motorbike Sales YoY	1.8%	45.6%	-
ID	Car Sales YoY	-	-6.8%	-
ID	Retail Sales YoY	1.6%	7.9%	-
<b>13 September 2023</b>				
US	Inflation rate YoY	3.7%	3.2%	3.5%
<b>14 September 2023</b>				
EA	ECB Interest Rate Decision	4.5%	4.25%	4.25%
<b>15 September 2023</b>				
<b>ID</b>	<b>Balance of Trade (USD Bn)</b>	<b>3.12</b>	<b>1.29</b>	<b>1.6</b>
CN	Retail Sales YoY	4.6%	2.5%	2.2%
EA	Balance of Trade (Eur Bn)	6.5	18.5	20
<b>21 September 2023</b>				
<b>US</b>	<b>Fed Interest Rate Decision</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>
<b>ID</b>	<b>Interest Rate Decision</b>	<b>5.75</b>	<b>5.75%</b>	<b>5.75%</b>
<b>22 September 2023</b>				
ID	M2 Money Supply YoY	5.9%	6.4%	-

\*Forecasts of some indicators are simply based on market consensus  
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

### Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	22-Sep	-1 mth	Chg (%)
US	5.50	Sep-23	1.80	Baltic Dry Index	1,593.0	1,194.0	33.4
UK	5.25	Sep-23	-1.45	S&P GSCI Index	611.2	578.1	5.7
EU	4.50	Sep-23	-0.70	Oil (Brent, \$/brl)	93.3	84.0	11.0
Japan	-0.10	Jan-16	-3.30	Coal (\$/MT)	162.4	169.1	-4.0
China (lending)	2.50	Sep-23	4.25	Gas (\$/MMBtu)	2.63	2.58	1.9
Korea	3.50	Aug-23	0.10	Gold (\$/oz.)	1,925.2	1,897.5	1.5
India	6.50	Aug-23	-0.33	Copper (\$/MT)	8,161.7	8,330.7	-2.0
Indonesia	5.75	Sep-23	2.48	Nickel (\$/MT)	19,173.0	20,263.0	-5.4
Money Mkt Rates	22-Sep	-1 mth	Chg (bps)				
SPN (1M)	6.17	5.65	51.9	CPO (\$/MT)	775.2	831.1	-6.7
SUN (10Y)	6.74	6.64	9.7	Rubber (\$/kg)	1.41	1.28	10.2
INDONIA (O/N, Rp)	5.53	5.65	-12.0	External Sector	Aug	Jul	Chg (%)
JIBOR 1M (Rp)	6.40	6.40	0.0	Export (\$ bn)	22.00	20.86	5.47
Bank Rates (Rp)	Jun	May	Chg (bps)	Import (\$ bn)	18.88	19.57	-3.53
Lending (WC)	8.93	8.93	0.00	Trade bal. (\$ bn)	3.12	1.29	141.85
Deposit 1M	4.19	4.19	0.10	Central bank reserves (\$ bn)*	137.1	137.7	-0.42
Savings	0.67	0.67	-0.20	Prompt Indicators	Aug	Jul	Jun
Currency/USD	22-Sep	-1 mth	Chg (%)	Consumer confidence index (CCI)	125.2	123.5	127.1
UK Pound	0.817	0.785	-3.86	Car sales (%YoY)	-8.3	-6.7	4.7
Euro	0.939	0.922	-1.78	Motorcycle sales (%YoY)	1.8	45.6	66.6
Japanese Yen	148.4	145.9	-1.67	Manufacturing PMI	Aug	Jul	Chg (bps)
Chinese RMB	7.299	7.294	-0.07	USA	47.6	46.4	120
Indonesia Rupiah	15,375	15,315	-0.39	Eurozone	43.5	42.7	80
Capital Mkt	22-Sep	-1 mth	Chg (%)	Japan	49.6	49.6	0
JCI	7,016.8	6,916.5	1.45	China	51.0	49.2	180
DJIA	33,963.8	34,288.8	-0.95	Korea	48.9	49.4	-50
FTSE	7,683.9	7,270.8	5.68	Indonesia	53.9	53.3	60
Nikkei 225	32,402.4	31,856.7	1.71				
Hang Seng	18,057.5	17,791.0	1.50				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	2,869.7	2,892.9	-23.21				
Govt. Bond	846.3	855.2	-8.89				
Corp. Bond	11.1	11.3	-0.20				

Source: Bloomberg, BI, BPS

Notes:

^Data for January 2022

\*Data from an 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/BCA\\_REI](https://s.id/BCA_REI)

## Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.2
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

\*Estimated number

\*\* Estimation of the 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

**Victor George Petrus Matindas**

Senior Economist

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Keely Julia Hasim**

Economist / Analyst

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**M Rifat Juniardo S**

Economist / Analyst

rifat\_juniardo@bca.co.id

+6221 2358 8000 Ext: -

**Agus Salim Hardjodjoto**

Head of Industry and Regional

Research

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

Industry Analyst

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Elbert Timothy Lasiman**

Economist / Analyst

Elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

**Firman Yosep Tember**

Research Assistant

firman\_tember@bca.co.id

+6221 2358 8000 Ext: 20378

**Barra Kukuh Mamia**

Senior Economist

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Lazuardin Thariq Hamzah**

Economist / Analyst

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Thieris Nora Kusuma**

Economist / Analyst

thieris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

**Aldi Rizaldi**

Research Assistant

aldi\_yanto@bca.co.id

+6221 2358 8000 Ext: -

### 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: 20378 or fax to: (62-21) 2358 8343 or email: [firman\\_tember@bca.co.id](mailto:firman_tember@bca.co.id)