

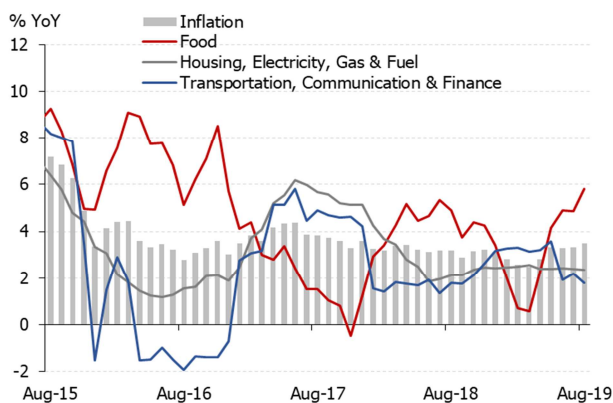
Indonesia Consumer Price Index

Inflation accelerates in August on higher food prices and education fees

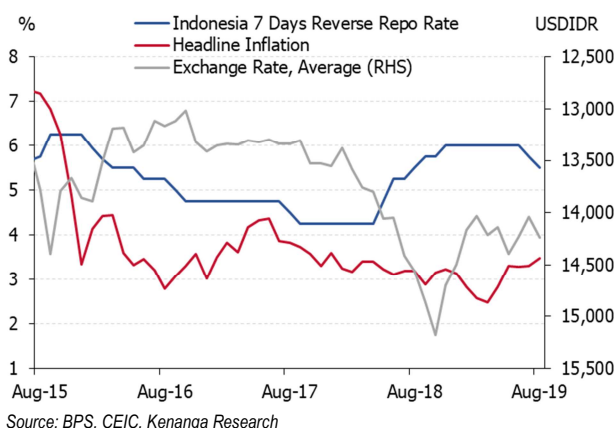
OVERVIEW

- Indonesia's headline inflation rose by 3.49% YoY** in August (Jul: 3.32%), below consensus' estimate of 3.54% and well within Bank Indonesia's (BI) inflation target range of 2.5-4.5%. On a MoM basis, the index grew at a slower pace of 0.1% (Jul: +0.3%). Meanwhile, core inflation, which excludes government-controlled and volatile food prices edged up by 3.3% YoY (Jul: +3.2%). Year-to-date, inflation grew by 3.0% YoY versus 3.2% in the same period of last year, indicating stable and controlled inflation.
- August's inflation was attributed to an increase in prices of food, and education, recreation & sports indices.** The food index increased sharply by 5.8% YoY (Jul: +4.8%), primarily due to higher price of spices which jumped 37.0% YoY (Jul: +26.9%) on weather disruptions brought about by severe drought in some of its provinces. This is reflected by higher volatile good index (inflation predominantly influenced by shocks in the food stuffs category) during the month, which rose by 6.0% YoY (Jul: +4.9%). Meanwhile, the index of education, recreation and sport grew by 3.5% YoY (Jul: +3.3%) mainly driven by education which expanded by 4.2% YoY (Jul: 3.7%) as most schools and universities began a new academic year during the month.
- Mixed inflation trend across regions.** Among the advanced economy, US Fed's preferred inflation gauge, personal consumption expenditure (PCE) prices rose 1.8% YoY in July (Jun: 1.6%) due to higher cost of energy products and a range of other goods. Meanwhile, inflation in the Eurozone remained at 1.0% in August, increasing pressure on the European Central Bank to reboot its economic stimulus. Within Asia, Thailand's July inflation moderated to 0.52% YoY (Jul: +0.98%), its slowest pace in seven months and well below the Bank of Thailand target range of 1-4%.
- Overall, we hold our inflation forecast for this year at 3.1% (2018: 3.2%)** against consensus' 3.5% on the back of slower growth outlook arising from external risk factors. On the interest rate outlook, we expect greater external risk in particular due to the prolonged US-China trade war and growth slowdown in major economies, prompting many central banks to ease their monetary policy aggressively in the upcoming months. We believe, Bank of Indonesia has room for more accommodative measures given the low and controlled inflation as well as a steady Rupiah. Of note, the central bank will decide its key interest rate on 19th September.

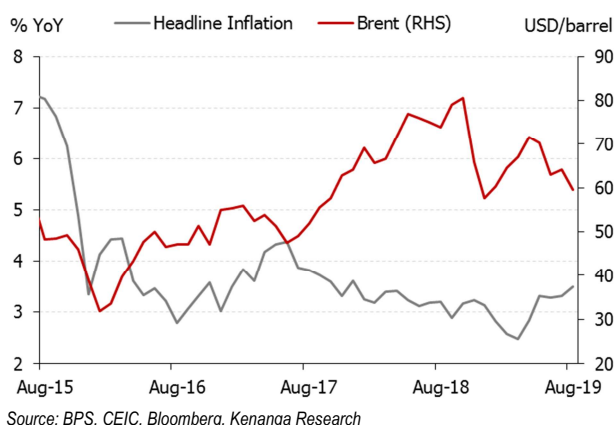
Graph 1: CPI by Main Categories



Graph 2: Inflation vs. Policy Rate



Graph 3: CPI vs. Crude Oil Prices



Graph 4: Regional Inflation Growth Trend

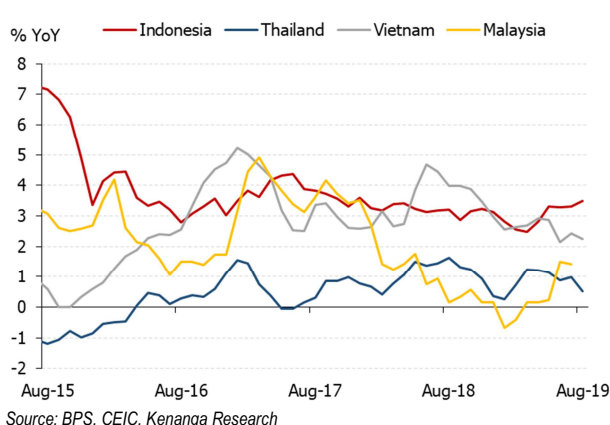


Table 1: Indonesia Consumer Price Index Growth Trend (% YoY)

Base 2012=100	weight	2017	2018	Aug-18	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
CPI	100.0	3.8	3.2	3.2	2.6	2.5	2.8	3.3	3.3	3.3	3.5
Housing, Water, Electricity, Gas, & Fuel	25.4	5.0	2.7	2.1	2.5	2.6	2.4	2.4	2.4	2.4	2.4
Transportation, Communication, & Finance	19.2	4.4	1.9	1.8	3.3	3.1	3.2	3.6	1.9	2.2	1.8
Foods	18.9	2.1	4.2	4.9	0.7	0.6	2.3	4.1	4.9	4.8	5.8
Processed Foods, Beverages, Tobacco	16.2	4.6	4.1	4.1	3.6	3.6	3.5	3.8	4.0	3.8	3.7
Education, Recreation, & Sport	8.5	2.9	3.4	3.8	3.3	3.3	3.3	3.2	3.2	3.3	3.5
Clothing	7.3	2.9	3.7	3.4	3.5	3.3	3.2	3.3	3.8	4.2	5.2
Health	4.7	3.6	3.0	2.9	3.2	3.1	3.1	3.1	3.0	2.9	3.3
Core Inflation		3.1	2.8	2.9	3.1	3.0	3.1	3.1	3.3	3.2	3.3
Administered Price		8.0	3.6	2.5	3.4	3.3	3.2	3.4	1.9	2.2	1.9
Volatile		1.8	4.2	5.0	0.3	0.2	2.1	4.1	4.9	4.9	6.0
Energy		9.9	4.2	2.6	1.6	1.1	0.6	0.5	0.6	-0.1	-0.1

Source: BPS, CEIC, Kenanga Research

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