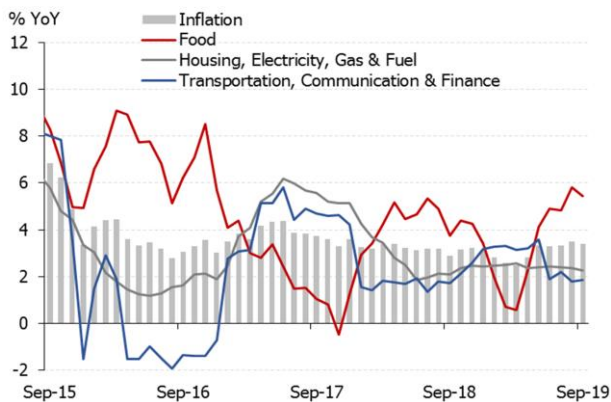


Indonesia Consumer Price Index

Inflation slows in September on lower food prices

- Indonesia's headline inflation grew at a slower rate of 3.39% YoY in September** (Aug: 3.49%), below consensus' estimate of 3.52% but well within Bank Indonesia's (BI) inflation target range of 2.5-4.5%. On a MoM basis, the index fell by 0.3% (Aug: +0.1%). Meanwhile, core inflation, which excludes government-controlled and volatile food prices was unchanged at 3.3% YoY. Year-to-date, inflation grew by 3.1% YoY versus 3.2% in the same period of last year, below midpoint of BI target range.
- The main drag to September's inflation is the food index** which recorded a slower pace of 5.4% YoY (Aug: +5.8%). This is reflected by lower volatile good index (inflation predominantly influenced by shocks in the food stuffs category), which slowed to 5.5% YoY (Aug: +6.0%). Of note, a sustained increase in price was registered in processed food, beverages & tobacco (3.7%), and health (3.3%). Meanwhile **the main contributor to September's inflation growth was higher prices in clothing (5.6%; Aug: 5.2%), and transportation, communication & finance (1.9%; Aug: 1.8%).**
- Mixed inflation trend across regions.** Among the advanced economy, US Fed's preferred inflation gauge, core personal consumption expenditure (PCE) prices rose 1.8% YoY in August (Jul: 1.7%) in line with market expectation but stayed below the Fed's target rate of 2.0%. Meanwhile, inflation in the Eurozone slows to 0.9% YoY in September (Aug: 1.0%), though core inflation was up by 1.0% YoY from 0.9% in August. Within Asia, Thailand's September inflation moderated to 0.32% YoY (Aug: +0.52%), an eight-month low and well below the Bank of Thailand's target range of 1.0-4.0%. Similarly, inflation in Vietnam moderated to 2.0% YoY (Aug: 2.3%) prompting its central bank to cut rates by 25 basis points in September to spur growth.
- Overall, we expect inflation to stay within BI's target range and maintain our inflation forecast for this year at 3.1% (2018: 3.2%)** against consensus' 3.5% due to slower growth outlook arising from weak external sector amid prolonged trade feud. This may influence the central bank to lean towards monetary policy ease by cutting more rates in its upcoming MPC meeting as BI has embarked on an aggressive rate cuts in recent months. Looking forward, we believe BI has room for more rate cuts given the prospect of low and controlled inflation as well as a steady Rupiah.

Graph 1: CPI by Main Categories



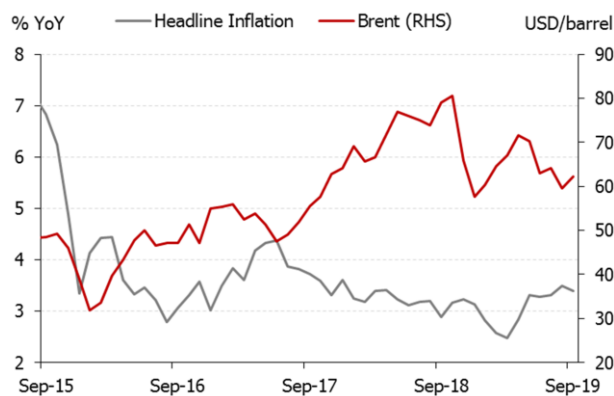
Source: BPS, CEIC, Kenanga Research

Graph 2: Inflation vs. Policy Rate



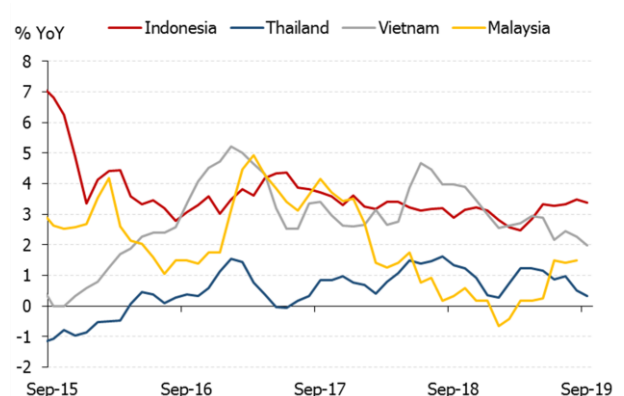
Source: BPS, CEIC, Kenanga Research

Graph 3: CPI vs. Crude Oil Prices



Source: BPS, CEIC, Bloomberg, Kenanga Research

Graph 4: Regional Inflation Growth Trend



Source: BPS, CEIC, Kenanga Research

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

Base 2012=100	weight	2017	2018	Sep-18	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
CPI	100.0	3.8	3.2	2.9	2.5	2.8	3.3	3.3	3.3	3.5	3.4
Housing, Water, Electricity, Gas, & Fuel	25.4	5.0	2.7	2.1	2.6	2.4	2.4	2.4	2.4	2.4	2.3
Transportation, Communication, & Finance	19.2	4.4	1.9	1.7	3.1	3.2	3.6	1.9	2.2	1.8	1.9
Foods	18.9	2.1	4.2	3.7	0.6	2.3	4.1	4.9	4.8	5.8	5.4
Processed Foods, Beverages, Tobacco	16.2	4.6	4.1	4.0	3.6	3.5	3.8	4.0	3.8	3.7	3.7
Education, Recreation, & Sport	8.5	2.9	3.4	3.3	3.3	3.3	3.2	3.2	3.3	3.5	3.4
Clothing	7.3	2.9	3.7	3.2	3.3	3.2	3.3	3.8	4.2	5.2	5.6
Health	4.7	3.6	3.0	3.2	3.1	3.1	3.1	3.0	2.9	3.3	3.3
Core Inflation		3.1	2.8	2.8	3.0	3.1	3.1	3.3	3.2	3.3	3.3
Administered Price		8.0	3.6	2.4	3.3	3.2	3.4	1.9	2.2	1.9	1.9
Volatile		1.8	4.2	3.8	0.2	2.1	4.1	4.9	4.9	6.0	5.5
Energy		9.9	4.2	2.6	1.1	0.6	0.5	0.6	-0.1	-0.1	-0.1

Source: BPS, CEIC, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapan
Economist
saifuddin.sapan@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my