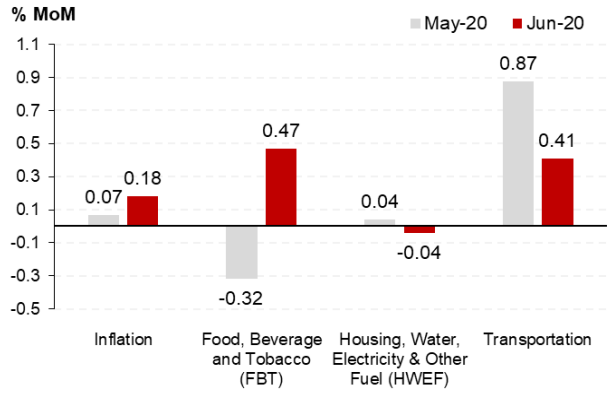
Indonesia Consumer Price Index

June inflation lowest in 20 years on weak consumer demand, COVID-19 to blame

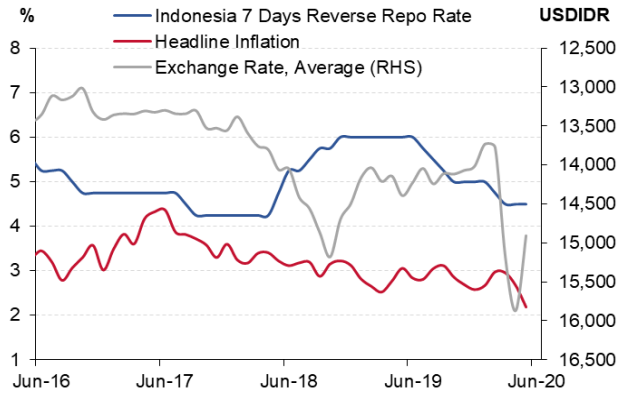
- **Headline inflation slowed for the fourth straight month, sliding to 1.96% YoY in June (consensus: 1.84%; May: 2.19%), lowest since June 2000 and below the Bank Indonesia's (BI) inflation target band of 2.0-4.0%**
  - MoM: increased by 0.18% (May: 0.07%), highest in four months.
  - Core inflation: eased to 2.26% YoY (May: 2.65%), lowest ever recorded.
- **Broad-based slowdown on weak consumer demand following the impact of COVID-19 pandemic**
  - Food, beverage, and tobacco (3.03% YoY: May: 3.37%): moderated for the fourth straight month as consumer spending weakened despite easing lockdown and being the celebration of Eid al-Fitr, which usually would push inflation upward.
  - Transportation (-0.95% YoY; May: -1.37%): fell for the fifth straight month, albeit lesser than the previous month.
- **Mixed inflationary trend across the region**
  - VN: inflation expanded to 3.17% in June (May: 2.40%), proving its ability to lead the economic recovery in the region.
  - SG: inflation fell to -0.8% in May (Apr: -0.7%), marking its third straight month of deflation on falling transport prices.
- **We revised the 2020 CPI forecast lower to 2.3% from 2.7% previously (2019: 2.72%)**
  - The house expects the rate of inflation to remain subdued in the coming months, given the sluggish inflationary pressure in June despite the festive month and the easing of the lockdown. The dismal growth outlook, relatively lower fuel prices, and rising concerns about the possibility of second wave infection of COVID-19 further support our expectations.
  - On the monetary front, BI is expected to lean towards further monetary easing at its next MPC meeting on 16 July. Facing a mild inflationary pressure, we believe BI has ample policy space to reduce its benchmark interest rate to further support economic growth.

Graph 1: CPI by Main Categories



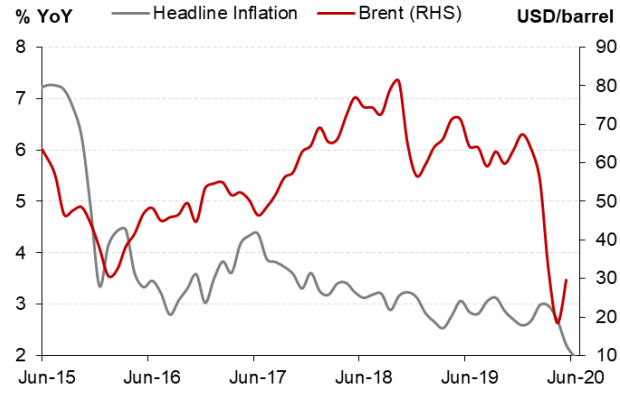
Source: BPS, CEIC, Kenanga Research

Graph 2: Inflation vs. Policy Rate



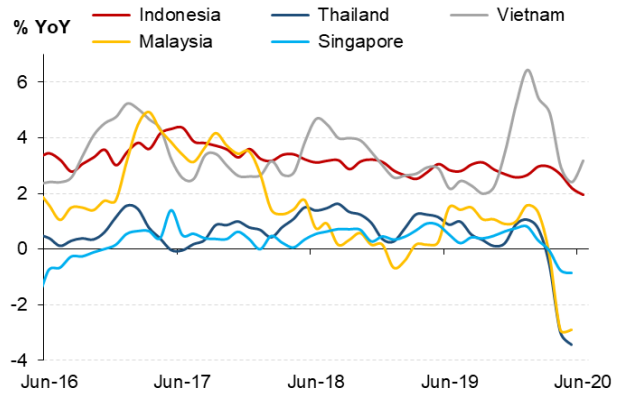
Source: BPS, CEIC, Kenanga Research

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 2018=100	*weight*	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
CPI	***100.00***	**2.68**	**2.98**	**2.96**	**2.67**	**2.19**	**1.96**
Food, Beverage and Tobacco (FBT)	*25.01*	4.30	6.02	6.15	5.28	3.37	3.03
Housing, Water, Electricity & Other Fuel (HWEF)	*20.45*	1.60	1.38	1.32	1.22	1.24	1.12
Transportation	*12.38*	0.05	-0.31	-1.09	-1.78	-1.37	-0.95
Food and Beverage Provision/Restaurant	*8.67*	3.96	3.79	4.01	3.99	3.62	2.96
Household Equipment & Routine Maintenance (HHE)	*5.97*	2.81	2.71	2.62	2.49	2.25	1.66
Personal Care and Other Services (PCS)	*5.89*	4.71	4.64	5.40	6.49	6.46	5.66
Information, Comm & Financial Service (ICFS)	*5.83*	-0.11	-0.06	-0.12	-0.37	-0.29	-0.30
Education	*5.62*	3.81	3.77	3.77	3.75	3.68	3.66
Clothing and Footwear (CF)	*5.41*	2.42	2.45	2.44	2.26	1.95	1.27
Health	*2.62*	3.87	3.99	4.04	4.08	4.13	4.16
Recreation, Sports, and Culture (RSC)	*2.15*	1.80	1.73	1.61	1.56	1.48	1.42
Core		2.88	2.76	2.87	2.85	2.65	2.26
Administered		0.64	0.54	0.16	-0.09	0.28	0.52
Volatile		4.13	6.68	6.48	5.04	2.52	2.32
Energy		-1.12	-1.06	-0.80	-0.52	-0.45	-0.54

Source: BPS, CEIC, Kenanga Research

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