

Slowdown in Headline but Core picks up

Monday, July 01, 2019

Highlights

- Headline inflation slowed to 3.28% yoy for June (May: 3.32% yoy) whilst core inflation slightly picked up to 3.25% yoy (May: 3.12% yoy).
- The slowdown was mainly driven by lower price increases for the transport category given the government's effort to push down the cost of air travel.
- Headline inflation is likely to continue trending within Bank Indonesia's (BI) target range of 2.5% - 4.5% and we see July headline inflation at 3.25% yoy.
- Headline inflation is therefore no constraint to monetary policy easing and we are expecting a 25bps benchmark rate cut within 3Q 2019.

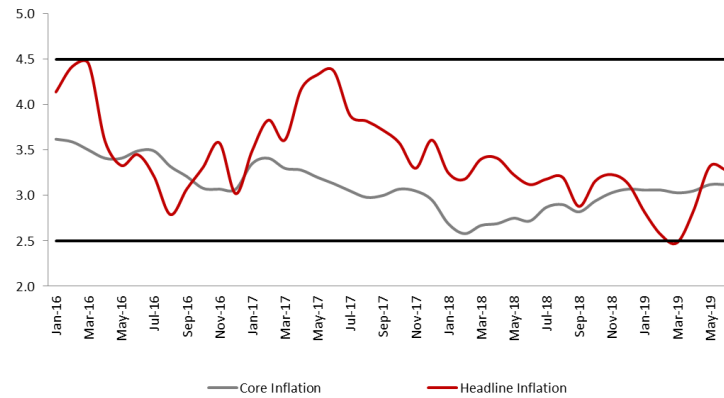
Treasury Research
Tel: 6530-8384

Headline inflation slowed to 3.28% yoy for the month of June from May at 3.32% yoy. On sequential terms, it also decelerated to 0.55% mom from 0.68% mom in May. Core inflation meanwhile only just slightly picked up to 3.25% yoy from 3.12% yoy.

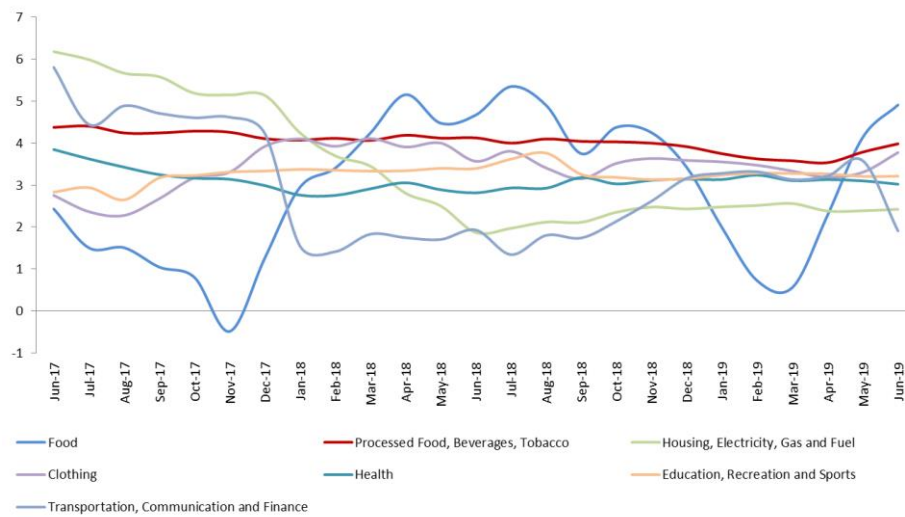
The slowdown in headline inflation was mainly due to lower price increases for the transport category at 1.91% yoy (May: 3.58% yoy). The slowdown can be explained by the higher base at the same period last year for the category and also possibly partially due to the government's effort to try to push down domestic airfares. The government had lowered the price ceilings for domestic economic class airfares by 12% to 16% effective from 15th May 2019. Month on month wise, the category saw a slight fall in price of 0.14%. **Meanwhile, food prices rose at a faster pace of 4.91% yoy (May: 4.14% yoy) amid the Eid festive season.** All the other remaining categories, with the exception of health, saw some increase too.

Overall, headline inflation remains comfortably within Bank Indonesia's (BI) target range of 2.5% - 4.5% and hence, it is no constraint for monetary policy easing. Going forward, we expect this to continue with headline inflation to possibly come out at 3.25% yoy for July amid continued increases in food prices. **We therefore see it likely that BI will cut the benchmark rate by 25bps within 3Q 2019.**

Alan Lau
Tel: 6530-5949
AlanLau@ocbc.com

Chart 1: Headline and Core Inflation, % yoy

Source: CEIC, Bloomberg and OCBC

Chart 2: Growth of Components, % yoy

Source: CEIC, Bloomberg and OCBC

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).