

Dots & Plots

1 July 2022

Wellian Wiranto

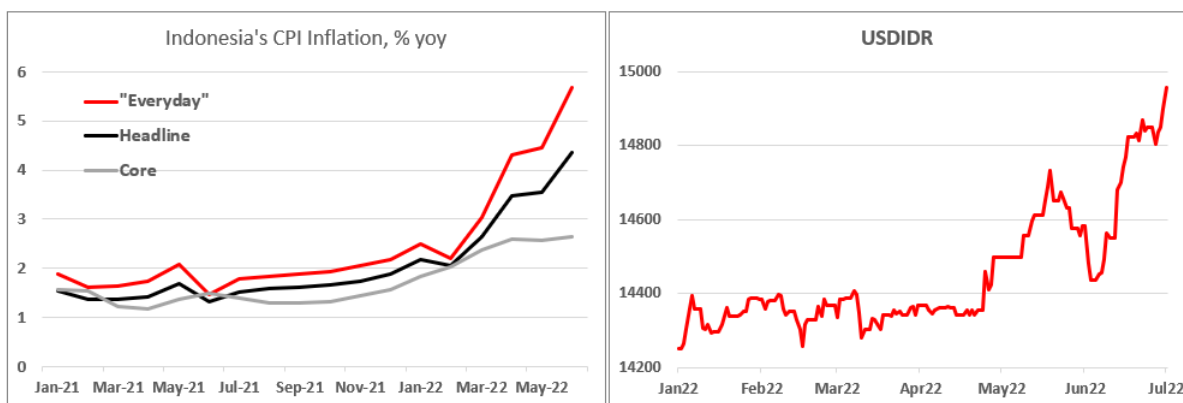
+65 6530 6818

WellianWiranto@ocbc.com

Another Uptick

Indonesia's inflation spike to add to rate hike impetus

- The headline inflation for Indonesia in June came in at 4.35% yoy, higher than estimates, higher than May's 3.55%, and marking the fastest pace since June 2017. Not surprisingly, the spike has been driven by food prices, which posted a sharp gain of 8.3% yoy, vs. 5.6% before, driven by weather effect. That is even before the global food price uptick has been passed through to consumers, as the statistics chief reckoned in a press briefing today.
- As concerning as the increase in headline prices might have been, the effect on inflation expectations may be more impactful, considering how the subset of items that consumers pay for on a regular basis has gone up even more. By our "Everyday" CPI calculations – as detailed further in our Jun 2nd report, *"Expensive Everyday"* – the inflation rate for these prominent items has gone up to as much as 5.67% yoy in June, compared to 4.45% in May.
- Overall, the fact that prices facing Indonesians remain susceptible to more upticks is another reminder that inflation is an issue and, as noted before, raising policy rate remains an important toolkit to remedy the situation especially when it comes to keeping inflation expectations better anchored.
- Now, with Bank Indonesia's meeting on Jul 21st in mind, will the June inflation trigger it to start hiking finally? It is still not clear-cut, partly because even though core inflation has gone up to 2.63% from 2.58%, it is not a massive uptick. Hence, BI may continue the narrative that the inflation is a supply-led rather than demand-led. Indeed, in a parliamentary hearing today, the governor reiterated as much, saying that it is not in a hurry to raise rates.
- Given the relative weakening in Rupiah in recent days, the odds that BI's thinking might change in the coming weeks cannot be dismissed. However, as a baseline, as much as we may think that it is better to move earlier rather than later, BI remains unlikely to tweak its rate immediately, but would opt to wait for another month of inflation reading before starting the hikes in August. We see the policy rate going up by 75bps in total in 2022.



Source: OCBC, Bloomberg, CEIC. Note: "Everyday" inflation index is a subset of the CPI basket focusing on daily necessities, such as food, fuel, electricity and water supply costs. Please see our Jun2 report "Expensive Everyday" for details.

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee

Thailand & Commodities
HowieLee@ocbc.com

Ong Shu Yi

ESG
ShuyiOng1@ocbc.com

Herbert Wong

Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung

Rates Strategist
FrancesCheung@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

Toh Su N

Credit Research Analyst
TohSN@ocbc.com

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).

Co.Reg.no.:193200032W