

Wellian Wiranto

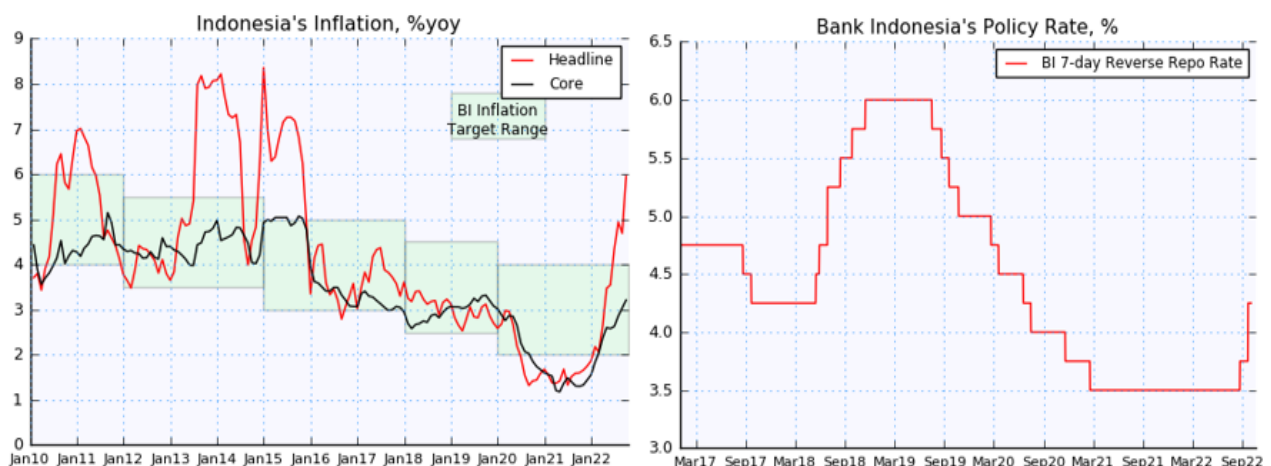
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Fuelling the Fire

Indonesia's inflation at 7-year high due to fuel subsidy cuts

- The uptick in Indonesia's September inflation did not come unexpected. After all, the government's move to cut subsidies and raise prices on the Pertalite (RON 90) fuel grade by over 30% at the start of the month all but guaranteed a significant increase in headline inflation for the period. (See our Sep 5th report, "*The Unbearable Heaviness of Pertalite*" for details.)
- Indeed, the transport category of the CPI basket posted an ironically lucky sounding 8.88% mom increase in September, bearing the brunt of the fuel price adjustment. Hence, even though food prices actually saw a disinflation, down 0.3% sequentially in the month, the overall headline CPI inflation has nonetheless gone up by a significant 1.17% mom.
- In year-on-year terms, the headline inflation print managed to stay (just) below 6% that the market consensus had pencilled in, coming at 5.95% yoy. Meanwhile, core inflation rose by 3.21% yoy in September, softer than the 3.5% that was expected, though higher than 3.04% of August.
- Despite the misses, the data nevertheless continue to point to the underlying inflation challenges facing Indonesia in the coming months. For one, the headline inflation is the highest that the country has experienced in seven years. The effects of fuel price increase on other goods may yet percolate further in the coming months to push the core prints up further.
- Hence, overall, we see a central bank that is rightly going to continue donning the hawkish mantle for a while. Already, it had hiked more forthrightly than expected at 50bps move in the previous meeting.
- While we do not think that it will move by similarly big increments in the coming meetings – especially if the currency volatility stays relatively contained – we do think that more tightening is to come. We expect a total of 100bps more hikes to come, in 25bps increments each into Jan 2023.



Source: OCBC, Bloomberg, CEIC.

Treasury Research & Strategy

Macro Research

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