

June 2016**CPI AND SBI OUTLOOK****June 2016 Inflation Outlook: Accelerating**

- ❑ Consumer prices picked up in May 2016. On a monthly comparison, the headline inflation rate reached 0.24 percent following the deflation of 0.45 percent in April. On an annual basis, however, the inflation rate eased to 3.33 percent yoy. By component, prices in both the foodstuffs component (+0.43 percent MoM) and the non-foodstuffs component (+0.14 percent MoM) rose. The rising inflationary pressures mainly owed to the end of the harvesting season and the approach of Ramadan.
- ❑ All of the CPI components posted increases. The prepared foods component increased the most (+0.58% mom), followed by the clothing component (+0.44% mom), and the foodstuffs component (+0.30% mom). The medical care component (+0.27% mom) and the transportation component (+0.21% mom) also edged higher, while the education component (+0.03% mom) and the housing component (+0.02% mom) were relatively stable.
- ❑ In June 2016, the fasting month of Ramadan will continue to put upward pressures on general prices. The prices of foodstuffs and prepared foods increase on the back of higher demand. In addition, transportation costs and spending will also head higher, as residents in urban areas travel back to their hometowns.
- ❑ For June 2016, we forecast inflation of 0.56 percent MoM, translating into YoY inflation of 3.36 percent.
- ❑ In June's central bank meeting, BI continued to ease its monetary policy. The BI rate was cut to 6.50 percent, with the Lending Facility and the Deposit Facility rates lowered to 7.00 percent and 4.50 percent, respectively. Bank Indonesia also cut the 7-day Repo Rate to 5.25 percent. Along with the policy rate changes, BI also relaxed the loan-to value ratio (LTV) and the financing-to-value ratio (FTV) on housing loans. BI's move to relax its monetary policy stance takes into consideration several factors such as the slow global economic recovery, the need to support domestic economic growth, as well as the benign inflation and increasingly stable rupiah. Going forward, we believe that the BI rate will be kept at its current level.

DRI Forecast for June 2016

| Inflation | |
|------------------|------|
| MoM (%) | 0.56 |
| YoY (%) | 3.36 |

| SBI | |
|-----------------------|------|
| End of period (% p.a) | 6.50 |

Forecast for 2016

| | |
|---------------|------|
| Inflation (%) | 3.82 |
| SBI (% p.a) | 6.50 |

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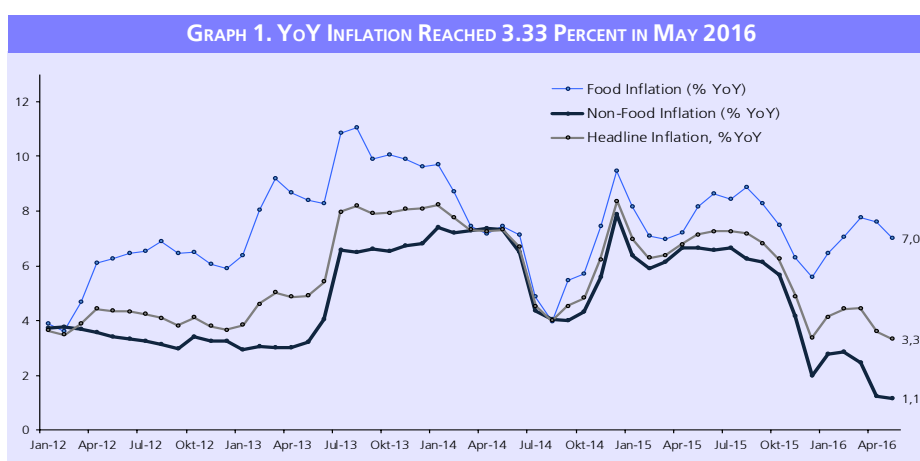
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Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

| | M-on-M changes | | | Y-on-Y changes | | | Jan-May | | |
|-------------------|----------------|--------|--------|----------------|--------|--------|---------|--------|--------|
| | Mar-16 | Apr-16 | May-16 | Mar-16 | Apr-16 | May-16 | 2014 | 2015 | 2016 |
| FOODSTUFF | 0,69 | (0,94) | 0,30 | 9,09 | 8,92 | 7,75 | 1,41 | (1,02) | 1,64 |
| PREPARED FOOD | 0,36 | 0,35 | 0,58 | 6,20 | 6,04 | 6,13 | 2,40 | 2,73 | 2,45 |
| HOUSING | (0,07) | (0,13) | 0,02 | 1,81 | 1,45 | 1,26 | 1,82 | 1,95 | (0,11) |
| CLOTHING | 0,55 | 0,22 | 0,44 | 3,61 | 3,59 | 3,80 | 1,07 | 1,77 | 2,13 |
| MEDICAL CARE | 0,30 | 0,31 | 0,27 | 4,51 | 4,44 | 4,37 | 2,47 | 2,43 | 1,51 |
| EDUCATION | 0,03 | 0,03 | 0,03 | 3,70 | 3,67 | 3,63 | 0,90 | 0,62 | 0,29 |
| TRANSPORTATION | (0,22) | (1,60) | 0,21 | 1,88 | (1,52) | (1,50) | 1,00 | (2,87) | (2,84) |
| GENERAL | 0,19 | (0,45) | 0,24 | 4,45 | 3,60 | 3,33 | 1,56 | 0,42 | 0,40 |
| Food and Non-Food | | | | | | | | | |
| FOOD | 0,54 | (0,36) | 0,43 | 7,78 | 7,60 | 7,01 | 1,86 | 0,66 | 2,00 |
| NON-FOOD | (0,01) | (0,49) | 0,14 | 2,44 | 1,23 | 1,17 | 1,42 | 0,25 | (0,56) |

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN MAY 2016

| Component | Change (%) | Drivers | Contribute (%) |
|--|------------|---|----------------|
| Foodstuffs | 0.30 | Red chili, rice, fish, chicken meat | 0.05 |
| Prepared foods, beverages and cigarettes | 0.58 | Sugar, cigarettes, filtered-flavored cigarettes | 0.10 |
| Housing | 0.02 | Electricity tariff, cement | 0.01 |
| Clothing | 0.44 | Gold and jewelry | 0.03 |
| Medical care | 0.27 | Health care, medicine | 0.01 |
| Education, recreation and sports | 0.03 | Training cost, recreation | 0.00 |
| Transportation and communications | 0.21 | Gasoline, air transport | 0.04 |
| General | | | 0.24 |

Source : BPS

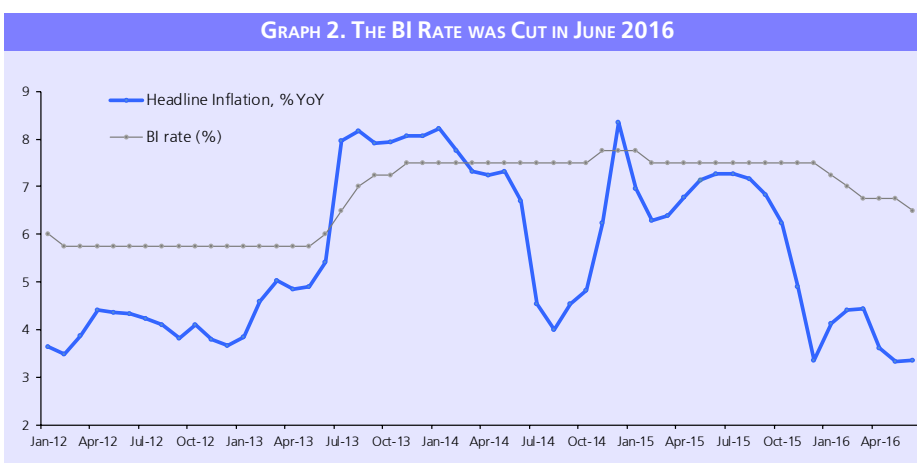
TABLE 3. JUNE 2016 INFLATION FORECAST

| | Jun-15 | Jul-15 | Ags-15 | Sep-15 | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|
| MoM changes | 0,54 | 0,93 | 0,39 | (0,05) | (0,08) | 0,21 | 0,96 | 0,51 | (0,09) | 0,19 | (0,45) | 0,24 | 0,56 |
| YoY changes | 7,26 | 7,26 | 7,18 | 6,83 | 6,25 | 4,89 | 3,35 | 4,14 | 4,42 | 4,45 | 3,60 | 3,33 | 3,36 |
| Yearly* | 7,06 | 7,06 | 6,98 | 6,66 | 6,11 | 4,81 | 3,31 | 4,07 | 4,34 | 4,37 | 3,55 | 3,29 | 3,31 |

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE BI RATE WAS CUT IN JUNE 2016



Source : BPS, Bank Indonesia

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