

May 2018**C P I O U T L O O K****May 2018 Inflation Outlook: Upward Pressure Looms**

- ❑ April's headline inflation reached 0.10% mom (+3.41% yoy), or down from 0.20% mom (+3.40% yoy) in the previous month. In April, prices accelerated in the administered goods component by 0.24% mom (compared to 0.20% mom in March 2018), whereas prices rose at a slower pace in the core component by 0.15% mom (compared to 0.19% mom in March 2018), with prices declining in the volatile goods component (-0.29% mom).
- ❑ Prices in most components rose at a slower pace - except in the housing component (+0.16% mom). Prices rose 0.29% mom in the clothing component, 0.24% mom in the prepared foods component, 0.22% mom in the medical care component, 0.19% mom in the transportation component, and 0.04% mom in the education component. Meanwhile, prices in the foodstuffs component contracted by 0.26% mom. The decline in foodstuff prices generally offset the impact coming from hikes in non-subsidized fuel prices in late March.
- ❑ Given that the fasting month of Ramadan began in mid-May, upward pressure on prices is expected in the foodstuffs and prepared foods components due to higher consumption. In our estimate, inflation will reach 0.23 percent MoM in May 2018, translating into YoY inflation of 3.25 percent.
- ❑ At BI's meeting in May, the 7-Day Reverse Repo Rate was raised by 25 bps to 4.50 percent, while the Deposit Facility rate and Lending Facility rate touched 3.75 percent and 5.25 percent, respectively. In setting its policy stance, the central bank had to weigh up several considerations. Externally, these factors included the latest developments in global economies, the tightening of US dollar liquidity - which has led to rising US treasury yields and a stronger dollar - as well as acrimonious trade relations between the US and China, rising global oil prices and heightened geopolitical risks. Domestically, BI's policy is consistent with the need to bolster economic growth and keep macroeconomic indicators stable. Inflation is predicted to remain stable within BI's corridor despite the weakness of the rupiah and other regional currencies. Given this backdrop, we believe that Indonesia's benchmark rate will be lifted by 25 bps over the near term.

DRI Forecast for May 2018

| | |
|------------------|------|
| Inflation | |
| MoM (%) | 0.23 |
| YoY (%) | 3.25 |

7D Reverse R.

| | |
|-------------------|------|
| End of period (%) | 4.50 |
|-------------------|------|

Forecast for 2018

| | |
|-------------------|------|
| Inflation (%) | 3.20 |
| 7D Reverse R. (%) | 4.75 |

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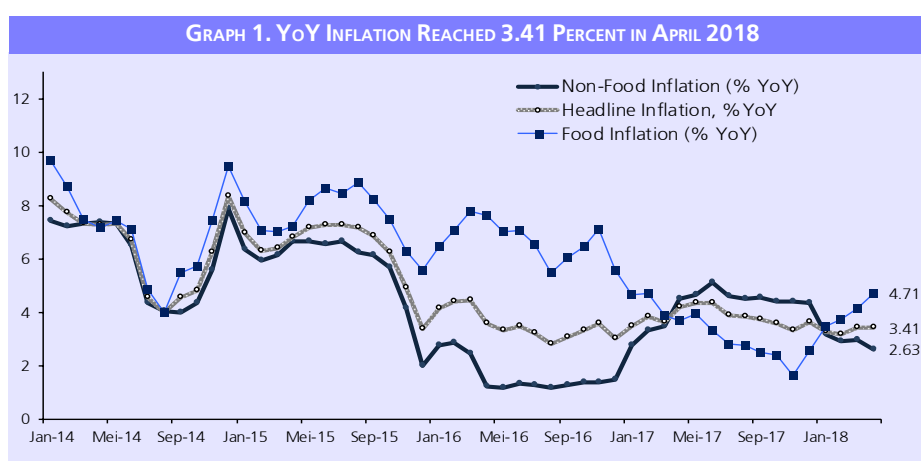
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Source : BPS,, Bank Indonesia

TABLE 1. MoM FOODSTUFFS INFLATION

| | M-on-M changes | | | Y-on-Y changes | | | YTD | | |
|--------------------------|----------------|--------|--------|----------------|--------|--------|--------|--------|------|
| | Feb-18 | Mar-18 | Apr-18 | Feb-18 | Mar-18 | Apr-18 | 2016 | 2017 | 2018 |
| FOODSTUFF | 0.13 | 0.14 | (0.26) | 3.40 | 4.24 | 5.15 | 1.34 | (1.44) | 2.35 |
| PREPARED FOOD | 0.43 | 0.26 | 0.24 | 4.11 | 4.06 | 4.19 | 1.86 | 1.28 | 1.36 |
| HOUSING | 0.22 | 0.06 | 0.16 | 3.70 | 3.45 | 2.66 | (0.13) | 3.10 | 0.67 |
| CLOTHING | 0.35 | 0.36 | 0.29 | 3.92 | 4.11 | 3.91 | 1.69 | 1.52 | 1.51 |
| MEDICAL CARE | 0.26 | 0.37 | 0.22 | 2.75 | 2.91 | 3.05 | 1.24 | 1.06 | 1.13 |
| EDUCATION | 0.07 | 0.07 | 0.04 | 3.35 | 3.33 | 3.34 | 0.26 | 0.32 | 0.33 |
| TRANSPORTATION | 0.02 | 0.28 | 0.19 | 1.41 | 1.83 | 1.75 | (3.05) | 2.65 | 0.21 |
| GENERAL | 0.17 | 0.20 | 0.10 | 3.18 | 3.40 | 3.41 | 0.16 | 1.28 | 1.09 |
| Food and Non-Food | | | | | | | | | |
| FOOD | 0.27 | 0.20 | (0.04) | 3.72 | 4.16 | 4.71 | 1.57 | (0.22) | 1.90 |
| NON-FOOD | 0.15 | 0.18 | 0.17 | 2.91 | 2.97 | 2.63 | (0.70) | 2.30 | 0.61 |

Source : BPS

TABLE 2. DRIVERS OF PRICE CHANGES IN APRIL 2018

| Component | Change (%) | Drivers | Contribute (%) |
|--|------------|------------------------------|----------------|
| Foodstuffs | (0.26) | Rice, red chili, fish, onion | (0.05) |
| Prepared foods, beverages and cigarettes | 0.24 | Filtered clove cigarette | 0.05 |
| Housing | 0.16 | Rental house fee | 0.04 |
| Clothing | 0.29 | Gold and jewelry | 0.02 |
| Medical care | 0.22 | Health and cosmetic care | 0.01 |
| Education, recreation and sports | 0.04 | Training and course fee | 0.00 |
| Transportation and communications | 0.19 | Gasoline | 0.03 |
| | | General | 0.10 |

Source : BPS

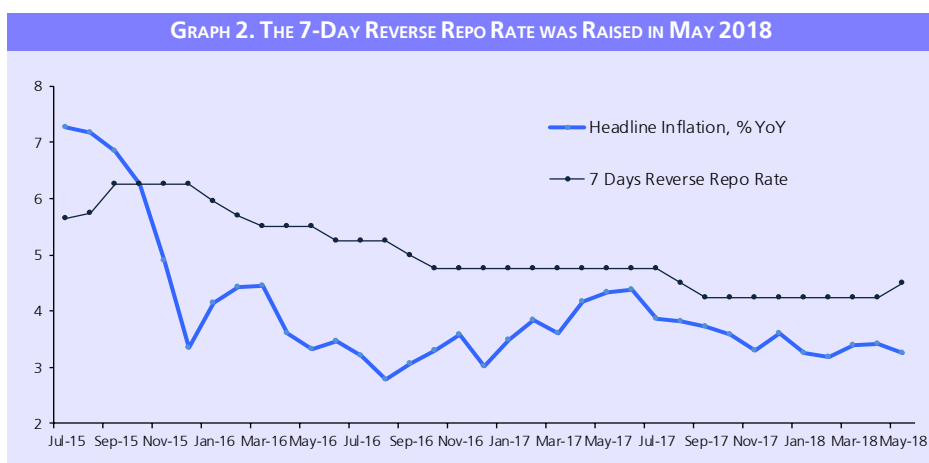
TABLE 3. MAY 2018 INFLATION FORECAST

| | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| MoM changes | 0.39 | 0.69 | 0.22 | (0.07) | 0.13 | 0.01 | 0.20 | 0.71 | 0.62 | 0.17 | 0.20 | 0.10 | 0.23 |
| YoY changes | 4.33 | 4.37 | 3.88 | 3.82 | 3.72 | 3.58 | 3.30 | 3.61 | 3.25 | 3.18 | 3.40 | 3.41 | 3.25 |
| Yearly* | 4.25 | 4.29 | 3.81 | 3.76 | 3.67 | 3.53 | 3.26 | 3.55 | 3.21 | 3.14 | 3.35 | 3.36 | 3.21 |

* 12-month cumulative

Source : BPS, Danareksa Research Institute

GRAPH 2. THE 7-DAY REVERSE REPO RATE WAS RAISED IN MAY 2018



Source : BPS, Bank Indonesia

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