

Macroeconomics Indicator

	2024	2025F	2026F
GDP growth (%yoy)	5.0	5.1	5.2
Inflation (%yoy)	1.6	2.5	2.8
BI rate (% Year-end)	6.00	4.75	5.25
Rp/US\$ (Average)	15,848	16,454	17,400
CA deficit (% of GDP)	-0.6	-0.5	-0.8
Fiscal deficit (% of GDP)	-2.3	-2.9	-2.9

El Nino: impact assessment for 2H26

- Probability of a strong El-Nino is rising with the current trajectory potentially outpacing the 1997/2015.
- We expect higher food inflation if strong El-Nino materializes. Impact to rice price might be limited by record-high rice reserve and HET.
- BMKG is taking a more conservative view (weak-to-moderate El Nino) but they expect the dry season to be longer and drier than 30Y average.

Strong El Nino formation is highly likely in 2H26

The probability of a strong El Niño is rising based on several major meteorological agencies (US NOAA, Australian BOM, European ECMWF), with the current trajectory similar to 1997 and 2015 super El Niño events. The ONI index — the standard gauge of El Niño intensity — could exceed +2.5 Celsius by Sep/Oct26, well above the +2 Celsius threshold that defines a Very Strong El Niño. While the outcome remains probabilistic, we adopt a strong El Niño as the base case for the purpose of this note.

El Nino will materially impact the volatile food

We assessed the relationship between volatile food inflation and the ENSO index over 2013–2026, a period that captures two strong El Niño episodes (2015/16 and 2023/24) and the 2020/22 La Niña. Under the strong-El-Niño base case (peak ONI roughly +1.8 Celsius), the analysis implies an additional +2.7% point of volatile food inflation for 1 year following the peak. A super El Niño scenario (peak +2.5 Celsius) would translate to roughly +3.8% point. As a reference point, the 2015/16 episode saw volatile food inflation accelerate from around 7% in early 2015 to 10% in early 2016. The impact is uneven across commodities: horticulture and sugar absorb the bulk of the inflation push, while rice shows a relatively modest response. A lagging response may also be seen in cooking oil prices.

Rice price could be less responsive given existing mechanisms

For rice specifically, our analysis points to a more muted price response due to record-high BULOG's stock that keep supply adequate, HET enforcement on retail prices, and an active import channel. BULOG's stock currently stands at c.5.4mn ton, deemed sufficient to cover domestic consumption through mid-2027. We still expect rice prices to rise, but these mechanisms should lessen the magnitude — our estimate is that a strong El Niño would add c.2.7% point on top of normal-period rice inflation of c.3.1% yoy. Production-side effects are harder to quantify directly given the BPS methodology change in 2018. Spatially, the impact should fall disproportionately on Java and Nusa Tenggara, the regions BMKG has flagged as entering the 2026 dry season earliest.

El-Nino is a consensus, but a strong one may still pose upside risk to CPI

Whether the strong-El-Niño base case materialises will depend on forecasts through August, when seasonal predictability improves substantially. We note that BMKG takes a more conservative view, projecting a 50–80% probability of a weak-to-moderate El Niño with peak anomalies below 1.5°C, effectively ruling out a super event in their base case. Even under this more conservative outlook, the dry season is expected to run longer and drier than the 30-year average — sufficient on its own to generate a sizable food price pressure.

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Fig. 1: Strong El Nino happened in 1997/98 and 2015/16

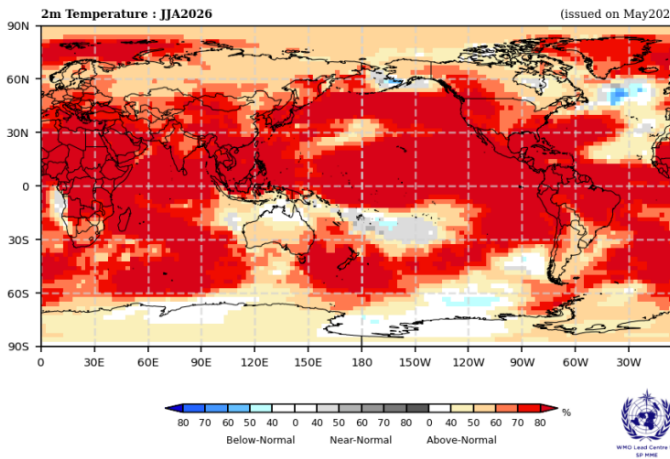


Source: NOAA, Indo Premier

Fig. 2: Majority of countries will experience above-normal temperatures in 2H26

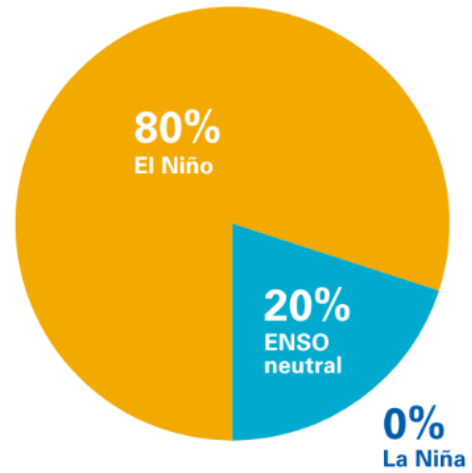
Probabilistic Multi-Model Ensemble Forecast

CPTEC, ECMWF, Exeter, Melbourne, Montreal, Moscow, Offenbach, Seoul, Tokyo, Toulouse, Washington



Source: UN WMO

Fig. 3: Lates ENSO probabilities for June-July-August period. By November, the probability of El Nino might reach 90%



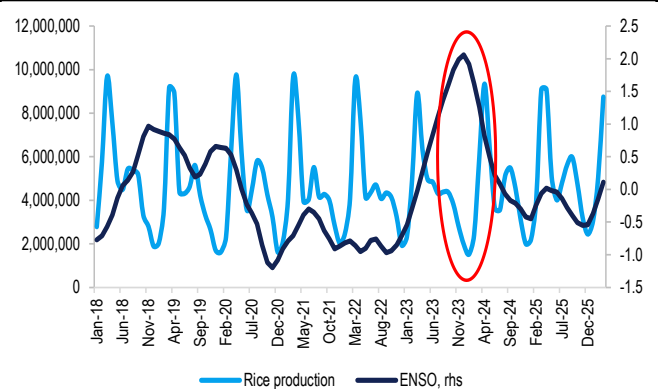
Source: CEIC

Fig. 4: Implied inflation impact (% point) over 12 months on several scenarios of ONI peak. Response by cooking oil might be lagging.

Commodity	Per 1°C ONI	Weak (+0.8°C)	Moderate (+1.2°C)	Strong (+1.8°C)	Super (+2.5°C)
Volatile food CP	1.5	1.2	1.8	2.7	3.8
Rice	1.5	1.2	1.8	2.7	3.7
Sugar	5.4	4.3	6.4	9.7	13.4
Red chili	3.4	2.7	4.1	6.1	8.5
Eggs	0.6	0.5	0.7	1	1.4
Chicken	0.3	0.2	0.3	0.5	0.7
Cooking oil	-0.6	-0.5	-0.8	-1.2	-1.6
Bird chili	-1.5	-1.2	-1.8	-2.7	-3.7

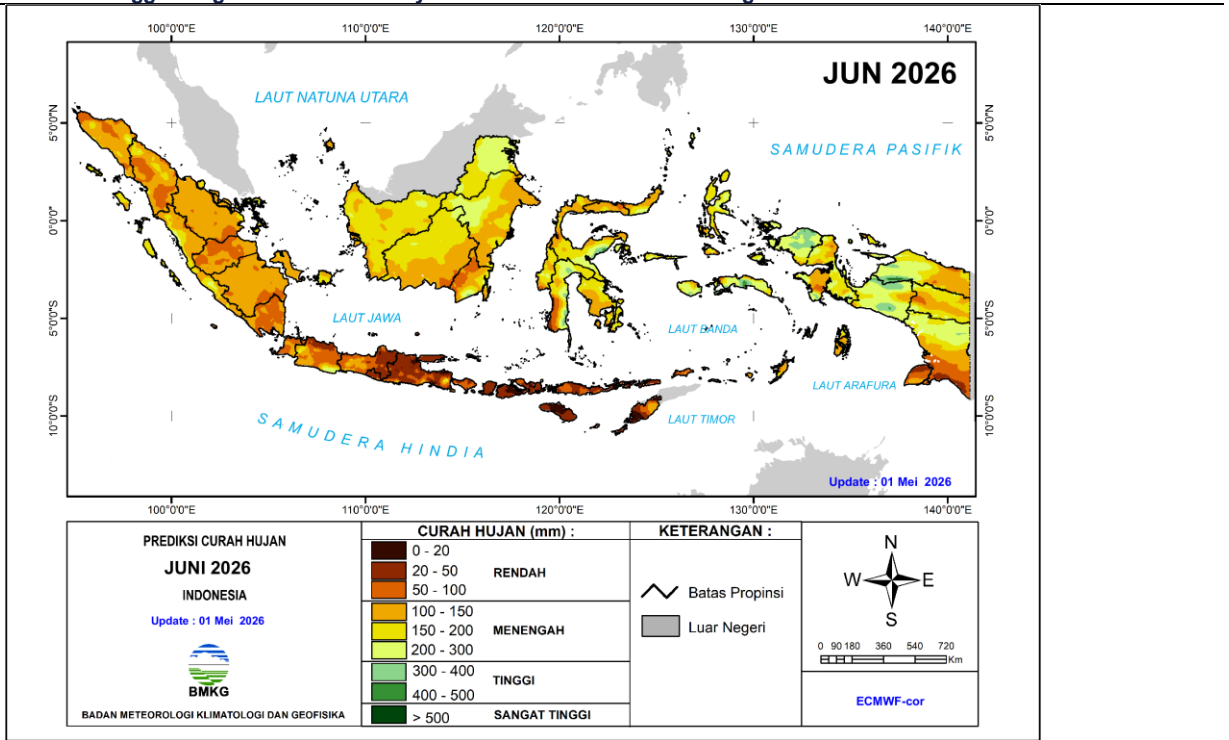
Source: UN WMO, Indo Premier

Fig. 5: Strong El Nino might cause lower production than the normal period but overall trend will continue to follow harvest season



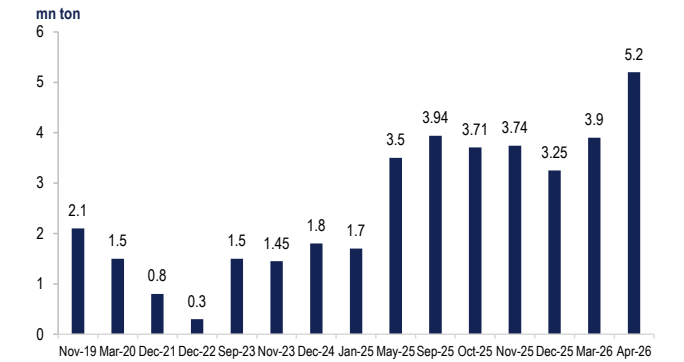
Source: CEIC, Indo Premier

Fig. 6: Java, Bali and Nusa Tenggara region will enter the dry season earlier than the other regions



Source: BMKG

Fig. 7: Gov't rice reserve has reached record-high and was reported to be sufficient in covering domestic needs until mid-2027.



Source: UN WMO, Indo Premier

ANALYSTS CERTIFICATION

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