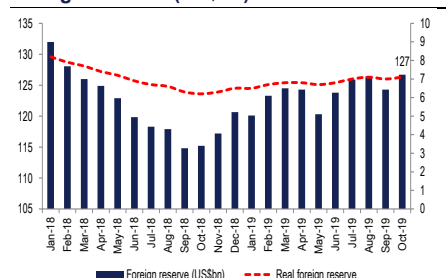


03 December 2019

## Macroeconomics Indicator

	2018	2019F
GDP growth (%YoY)	5.2	5.2
Inflation (%YoY)	3.1	3.1
BI rate (% Year-end)	6.00	4.75
IDR/USD (Year-end)	14,282	14,426
CA balance (% of GDP)	-3.1	-3.0
Fiscal balance (% of GDP)	-1.8	-1.8

## Foreign Reserve (US\$bn)



## Money &amp; Forex Reserves

	Latest	%YoY
M1 – Sep19, Rp tn	1508.8	6.9
M2 – Sep19, Rp tn	6003.6	7.1
Reserves – Oct19, US\$ bn	126.7	10.0

Sources: BI, BPS, CEIC

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## Mild November inflation, more room for rate cuts

- November's inflation of 0.14% mom was milder than expectation
- Inflation was due to increasing price in raw and processed food, the latter was contributed by higher cigarette price.
- FY19 inflation outlook will be softer than our/BI initial expectation which shall give more room for rate cuts (earliest next year).

## Inflation came below forecast

Nov19's inflation of 0.14% mom was softer than our and consensus expectation of 0.24%/0.2% mom on the back of lower administered, volatile, and core prices this year, this was against historical November inflation or within the last five years (see: Fig. 6). Cumulatively, inflation has as of now reached 2.35% 11M19; and is 12bps lower than 11M18 figure of 2.47%.

## Raw and processed food prices were inflation trigger

Raw and processed food prices (0.37% and 0.25% mom) were the largest contributor for Nov19 inflation (altogether contributed more than three-fourth of headline inflation - Fig. 1). This is still in-line with historical pattern, where raw food inflation usually picked up in November, after weak price growth in the preceding months; whereas processed food inflation often grew softer in November and 4Q, similar to this year.

## Cigarette prices contributed 14% of headline inflation

This year, processed food price increased by 0.25% mom/ 3.91% yoy, triggered by, mostly, higher cigarette prices. In Oct19, the government signed a regulation that revises up excise tax stipulation by c. 21.6% starting Jan20. In response, cigarette prices had been increased as early as Nov19, according to findings by the Central Statistics Agency (BPS), and its subcategory underwent 0.68% price hike, which accounted for 14% of headline inflation.

## Lower inflation by year-end, more room for potential rate cut

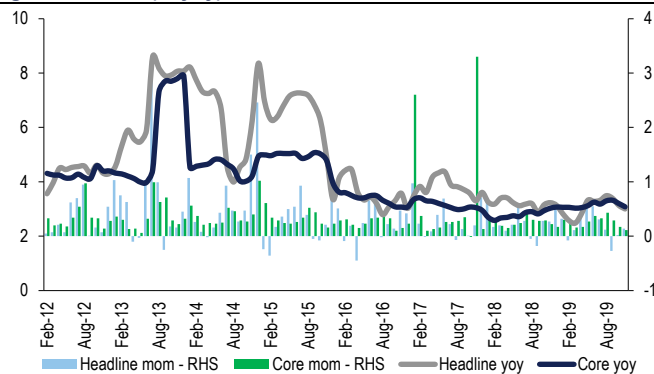
Latest inflation registration, which was lower than expected, bestows a lower full-year prospect for this year. We forecast inflation to close at 2.9% FY19, lower than our previous projection of 3.1% (which was also in-line with BI). The low inflation would create additional space for any potential future rate cut though we expect the earliest cut will be next year instead of Dec, as BI has maintained its accommodative stance.

Fig. 1: Inflation breakdown Nov19

Item	11M19	11M18	%YoY	10M18	%MoM	Jan-Nov19	Jan-Nov18	% Cum. YoY
Headline	138.6	134.6	3.0%	134.2	3.3%	137.5	133.4	3.1%
Food	152.3	145.1	5.0%	144.8	5.2%	151.4	146.0	3.7%
Processed Food, Bev., Tobacco	149.5	143.9	3.9%	143.6	4.1%	147.0	141.7	3.7%
Housing & utilities	133.2	130.9	1.8%	130.6	2.0%	132.4	129.4	2.3%
Clothing	128.1	122.1	5.0%	121.8	5.2%	125.4	120.4	4.2%
Health	133.1	128.8	3.4%	128.3	3.8%	131.2	127.1	3.2%
Education & Recreation	129.8	125.5	3.4%	125.5	3.4%	127.5	123.4	3.3%
Transportation, Comm., Finance	133.2	132.1	0.9%	131.4	1.4%	133.8	130.7	2.4%
Core Inflation	130.2	126.3	3.1%	126.0	3.3%	128.6	124.6	3.2%

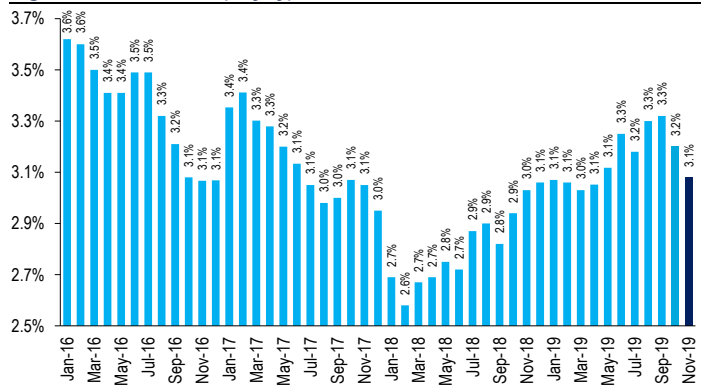
Sources: Statistics Indonesia, IndoPremier

Fig. 2: Inflation (% yoy)



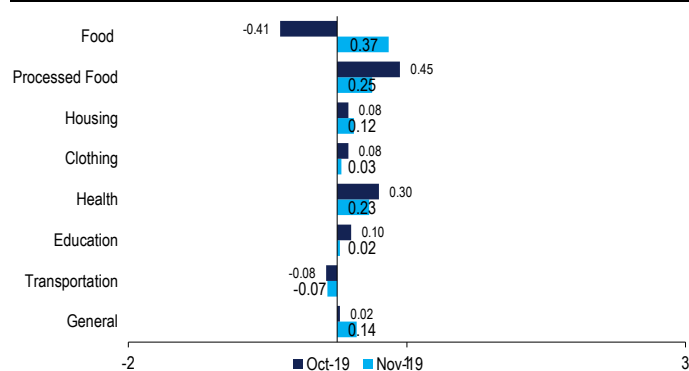
Sources: Statistics Indonesia, IndoPremier

Fig. 3: Core inflation (% yoy)



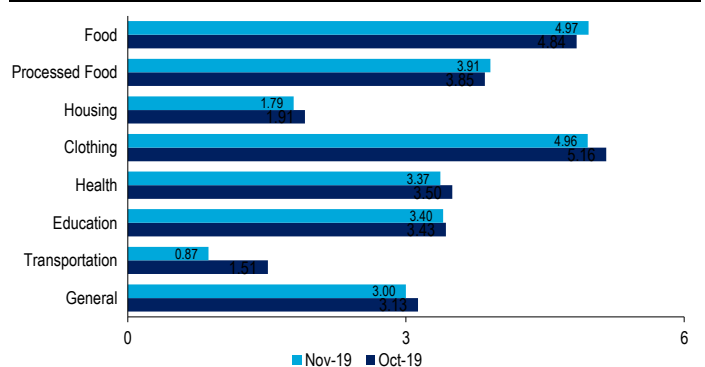
Sources: Statistics Indonesia, IndoPremier

Fig. 4: Inflation by broad category (% mom)



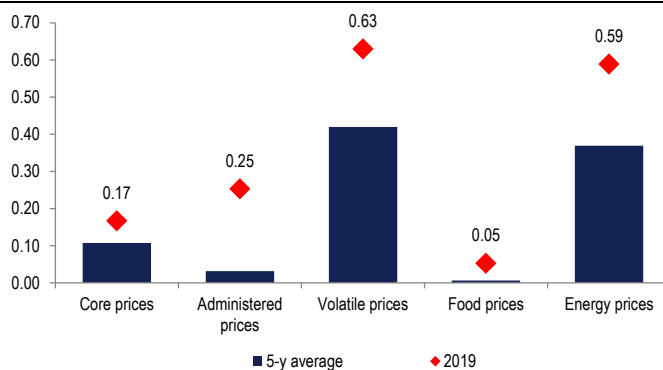
Sources: Statistics Indonesia, IndoPremier

Fig. 5: Inflation by broad category (% yoy)



Sources: Statistics Indonesia, IndoPremier

Fig. 6: Core, volatile, administered inflation (% mom)



Sources: Statistics Indonesia, IndoPremier

## **ANALYSTS CERTIFICATION**

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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