

Indonesia: Headline inflation ticks higher but core sustains downtrend

Slowing core inflation gives Bank Indonesia a reason to stay dovish



Jakarta, the capital of Indonesia

5.5% YoY headline inflation

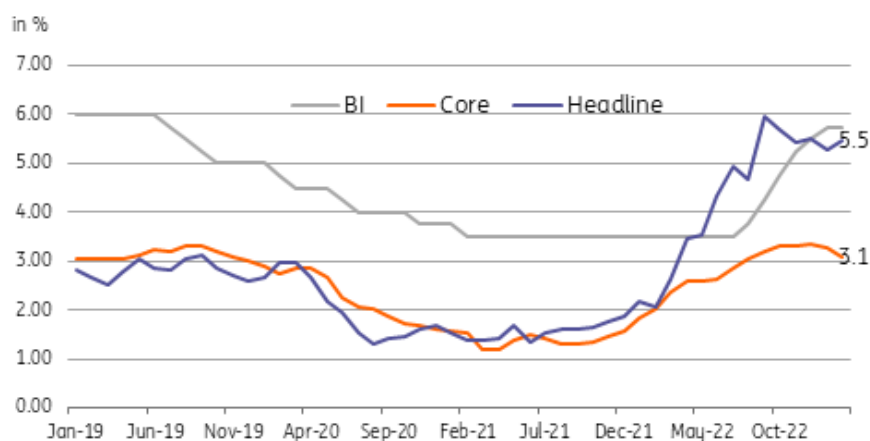
Higher than expected

Headline inflation rises to 5.5% due to uptick in food

Price pressures remain evident with February inflation moving past expectations to settle at 5.5% year-on-year and up 0.2% from the previous month. Food inflation was the main driver for today's upside surprise, rising 7.2% compared to 5.8% in January and up 0.5% from the previous month. Other sectors that saw elevated inflation were transportation (13.6%), household equipment (4%) personal care & services (5.6%) and restaurants (4.1%). Elevated inflation for basic food items and personal services could challenge household spending in the coming months and weigh on growth prospects.

However, despite the uptick in headline inflation, core inflation edged lower to 3.1% from 3.3% as all sectors outside food inflation recorded slower inflation compared to the previous month.

Moderating core inflation gives BI some breathing room



Source: Badan Pusat Statistik

BI still likely dovish despite headline inflation miss

Despite the upside in headline inflation, we expect Bank Indonesia (BI) to retain its relatively dovish stance given the decline in core inflation. BI Governor Warjiyo recently reiterated his stance that the central bank would not need to hike rates further this year and falling core inflation supports this view. However, given that overall headline inflation remains well above target and could stay elevated in the near term, we believe that BI will not have room to cut rates until the headline reading trends back towards target.

Thus we are looking at a possible protracted pause from BI with the performance of the Indonesian rupiah likely the only factor that could convince BI to adjust its current dovish stance.