

Indonesia: Inflation dips in May, leaves door open for rate cut in June

Price gains slowed in May to 2.2%, as demand was likely depressed during the partial lockdown



Source: t-bet

2.2% May CPI inflation

As expected

May inflation slips to 2.2% as expected

Prices rose 2.2%, in line with expectations and ING's forecast, as cheaper crude oil and weaker domestic demand kept a tab on price pressures. Indonesia implemented "large scale social restrictions" and a travel ban to help mitigate the spread of Covid-19 and these measures may have contributed to limiting demand for commodities as most Indonesians were asked to shelter in place. The month of May is traditionally a month of faster inflation due to a holiday but the restrictions on movement kept price gains at 2.2%.

IDR stability key to BI decision

The benign inflation environment coupled with a likely contraction in 2Q GDP will likely convince Bank Indonesia (BI) to finally pull the trigger on a rate cut at the 18 June meeting. BI Governor Perry Warjiyo has kept his accommodative stance, hinting at probable monetary easing, with the stability of the rupiah as a key variable for such action. We continue to [expect a policy rate cut from BI in the near term](#), especially as IDR has managed to appreciate by 2.9% since May, with foreign investors returning to the bond and equity markets.