

Indonesia: Inflation slips below expectations but BI likely to retain hawkish tilt

November inflation slipped to 5.4% year-on-year, slightly below market expectations



Source: Stenly Lam

5.4%

Lower than expected

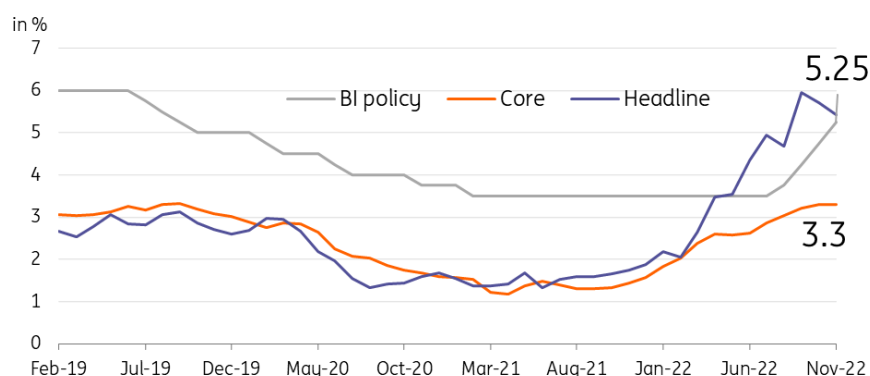
November headline inflation
(year-on-year)

Headline inflation dips to 5.4%

November inflation edged lower to 5.4% year-on-year, down from the previous month's reading of 5.7% and slightly slower than market expectations. Meanwhile, core inflation was steady at 3.3% when market participants expected a slight pickup to 3.4%. Slower inflation was noted for the heavyweight food and tobacco subsector, which was up 5.9% (6.8% previous), utilities 3.2% (3.3% previous), household equipment 5.0% (5.1% previous) and restaurants 4.6% (4.7% previous).

We had expected price pressures to experience a more pronounced acceleration due to second-round effects from the recent price hike for subsidised fuel but the dip in food prices was enough to weigh on the headline number.

Indonesia inflation slips below expectations but don't expect BI to pause just yet



Source: Badan Pusat Statistik

BI likely still hawkish to close out the year

Bank Indonesia (BI) will still likely retain its hawkish leaning despite the lower-than-expected inflation reading for November. Core inflation was tagged as one of the main factors that would drive any BI policy adjustment and we will need to see this head much lower before BI considers reversing its current hawkish stance.

One other factor that could keep BI on the hiking path would be the Indonesian rupiah, which is still down 8.8% for the year and at the weakest level since 1Q 2020. We expect BI to follow through with a rate hike in December although we could see BI slow its pace of tightening as early as next year.