

Indonesian Inflation slips further

Inflation in Indonesia dipped to 1.5% in July with price pressures dissipating as domestic demand remains subdued



Source: t-bet

1.5%

Indonesian headline inflation

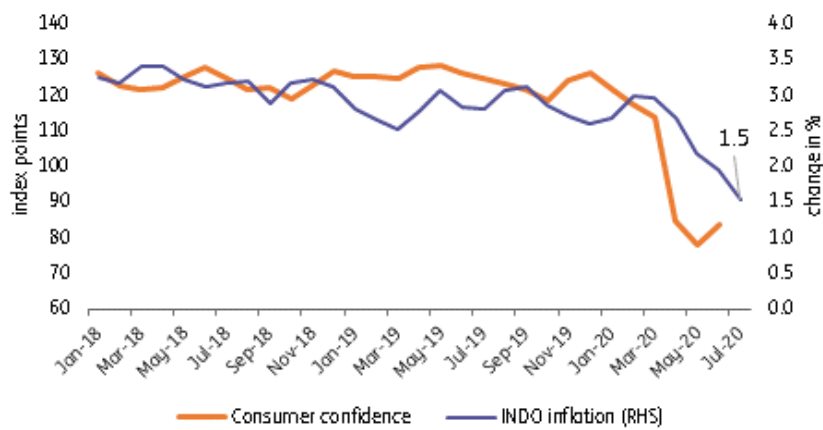
July

Lower than expected

July inflation slips further to 1.5%

Inflation in Indonesia slid further to 1.5% in July (1.9% in June) as demand-pull inflation faded quickly with the economy likely in contraction. Partial lockdown measures have remained in effect in some areas of the country as new daily infections of Covid-19 remain elevated. Depressed crude oil prices also helped keep price pressures in check with the July reading falling below the central bank's inflation target of 2-4%. Hobbled domestic demand was mirrored in poor consumer confidence and we can expect inflation to remain subdued for as long as consumers remain wary to head out of their homes and return to pre-pandemic spending patterns.

Indonesia inflation and consumer confidence



Source: BPS and Bank Indonesia

Benign inflation leaves door open for BI to cut but IDR stability still key

Below-target inflation will likely remain for the most part of 2020 with economic activity slowly sharply with Covid-19 continuing to spread across Indonesia. Stalling economic momentum will likely pressure Bank Indonesia (BI) to trim rates further however governor Warjiyo will likely refrain from more easing given the recent depreciation faced by the Indonesian rupiah. IDR took a hit after the bank cut policy rates at its last meeting and we expect Wariyo to only pull the trigger on additional easing should IDR return to its appreciation trend.