

Indonesia: Inflation surprises on the upside

Inflation in Indonesia settled higher at 3.32% versus the market consensus for 3.13%



Source: Shutterstock

3.32% May CPI inflation

Higher than expected

Within target and higher likely on seasonal factors

Consumer prices remain well within Bank Indonesia's (BI) inflation band, with the latest reading for May settling at 3.32%. The May print was likely influenced by religious holidays, with food prices and transport costs likely drivers for the acceleration.

Previously, we had noted that the central bank would take more of its cue from the FX market, with the performance of the Indonesian rupiah likely to weigh more heavily on the interest rate

decisions of Governor Perry Warjiyo. This remains our view.

Recently, Deputy Governor Dody Budi Waluyo indicated that the central bank was factoring in a possible rate cut given the prospects for a Federal Reserve rate cut within the year, although he qualified that such a move would be tied to incoming data. We will be monitoring the performance of the IDR and comments from BI officials to gauge whether the central bank will be willing to join regional peers in trimming borrowing costs now that the Fed appears ready to do the same.

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