

Indonesian inflation hits 6% but the core rate slips below forecast

Headline inflation rises as Peralite price increase kicks in



Inflation in Indonesia has remained subdued

6.0% CPI year-on-year growth

As expected

September inflation at 6% after fuel price hike

Price pressures continue to build in Indonesia. September CPI inflation rose 6% year-on-year and 1.2% month-on-month after the government increased the price of subsidised fuel. As a result of the price increase for Peralite, transport costs increased 8.9% for the month. Meanwhile, food inflation also accelerated to 7.9% while only clothing and financial services saw slower inflation from the previous month.

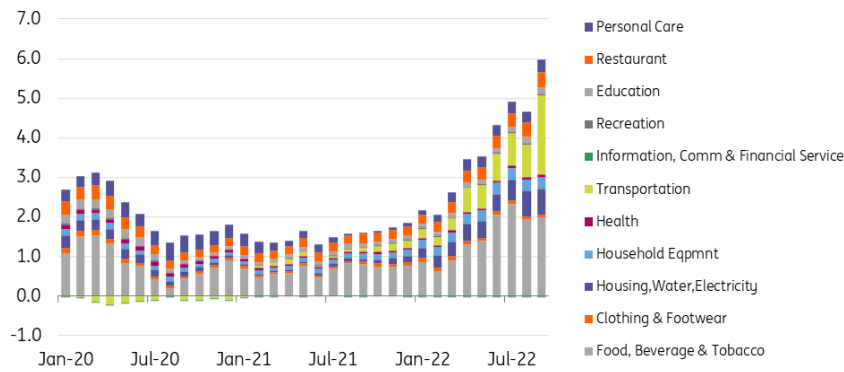
Core inflation settles at 3.2%

The surprise today was the core inflation reading which increased to 3.2% YoY from 3.0%. The

market consensus had core inflation rising to 3.5% as economic activity continued to improve.

Despite the downside surprise, we believe core inflation should continue to accelerate for the rest of the year as second-round effects from the recent fuel price hike begin to manifest. Furthermore, improved economic growth prospects suggest demand-side pressures are likely to build, putting pressure on core inflation to rise further.

Headline inflation now at multi-year high



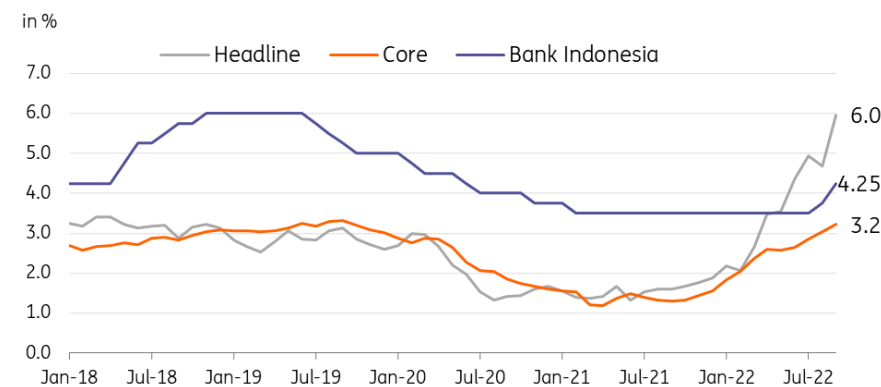
Source: Badan Pusat Statistik and Bank Indonesia

BI still likely to retain hawkish tone

Bank Indonesia (BI) announced two successive surprises in the last three months; the first of which was an unexpected rate hike at the August meeting followed by a hefty 50bp rate increase when the market had priced in a more modest one.

With inflation now hitting multi-year highs, we expect BI to retain its hawkish tone with a rate hike at the October meeting still a possibility. The core inflation number however could mean that BI would be under less pressure to deliver another punchy (50bp) rate increase with the size of the hike likely dependent on the rupiah's performance for the month.

Core inflation expected to rise further as second-round effects manifest



Source: Badan Pusat Statistik