

economic

FLASH REPORT SERIES

Still Benign Inflationary Pressure



Exhibit 1. Indonesia Macro Data Forecast

Macro Indicators	2020	2021F
Real GDP (%YoY)	-2.07	3.76
Average Inflation (%YoY)	2.04	1.87
BI-7 DRR (%)	3.75	3.5
Budget Deficit (%GDP)	6.09	5.42
USD/IDR	14,500	14,400
10 Year Indo GB (%)	5.89	6.45-6.64
JCI	5,979	6,320
EPS Growth (%)	-30	20

Source : BI, MoF, BPS, MNCS Estimate

Exhibit 2. Global & Domestic Key Rates

Rates (%)	Dec-20	Jul-21*
BI-7 DRR	3.75	3.50
Lending Facility	4.50	4.25
Deposit Facility	3.00	2.75
10 Year Indo GB	5.89	6.30
FFR	0.25	0.25
ECB Rate	0.00	0.00
BoE Rate	0.10	0.10
BoJ Rate	-0.10	-0.10

Source : Bloomberg, BI as of July 29, 2021

Exhibit 3. Inflation Rate Forecast

Period	June-21	July-21
% MoM	-0.16	0.03
% YoY	1.33	1.47

Source : BPS, MNCS Estimate

Our View on July-21 Inflation Data Release

We expect Jul-21 inflation rate to remain below central bank's target at 0.03% MoM/1.47% YoY. Rationale for low inflation in Jul-21 are : 1) limited public mobility during the implementation of PPKM Darurat; 2) low inflation expectation and 3) increase in some of food staples were offset by others.

Food staples to remain the major contributor for inflation hikes for Jul-21 period. On a monthly basis, some food crops that experienced an increase in price were : beef (+1.54%); eggs (+1.36%); onions (+12.04%); garlic (+2.69%); red chili pepper (+6.89%). Rice, sugar and cooking oil price were stable meanwhile chicken meat price (-10.82%) and cayenne pepper (-5.99%).

During PPKM Darurat, public mobility dropped nearly 32%. Therefore we believe inflationary pressure from transportation sectors would be limited. Instead of rising, this sector would likely to experience a deflation.

Benign Inflation in 2021

Deflation occurred in June-21 (-0.16% MoM/+1.33% YoY). Average headline inflation for 1H21 was 1.45% and average core inflation was 1.39% during the same period. This is the lowest level in the last 5 years. Although broad money supply rose 11.4% YoY in June-21, low inflation was driven by drop in money velocity.

During the implementation of social restriction people tend to cut their spending and prefer saving. This is in line with increasing banking third party fund that was dominated by saving and time deposits.

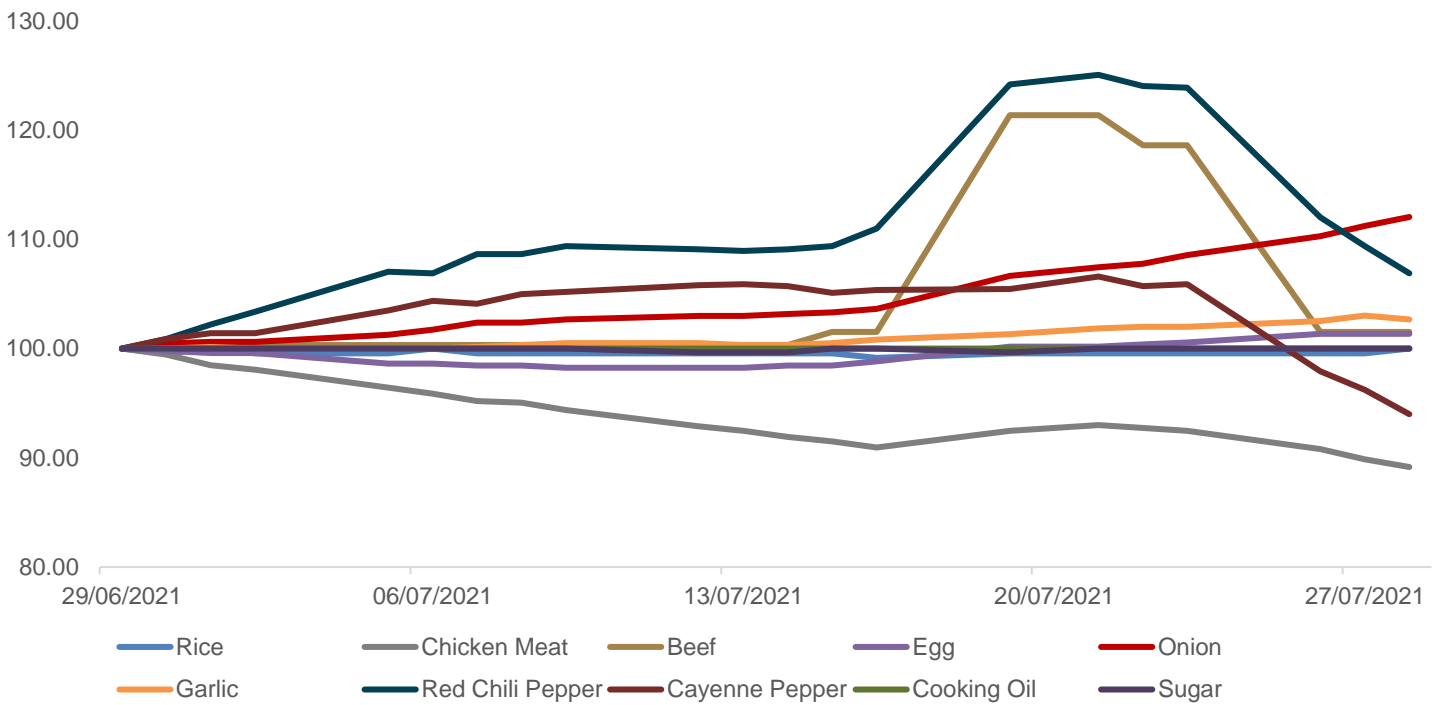
Loan disbursement also decelerated and even experiencing a contraction since Sep-20. This is also in line with limited demand for consumption and corporate needs to finance its working capital and investment. Although credit grew 0.6% YoY last month, we expect loan disbursement growth will remain limited ahead. BI expect credit growth to 4-6% this year. Overall liquidity in the economy is considered ample, yet money velocity drop is causing inflationary pressure to stay low even for FY21.



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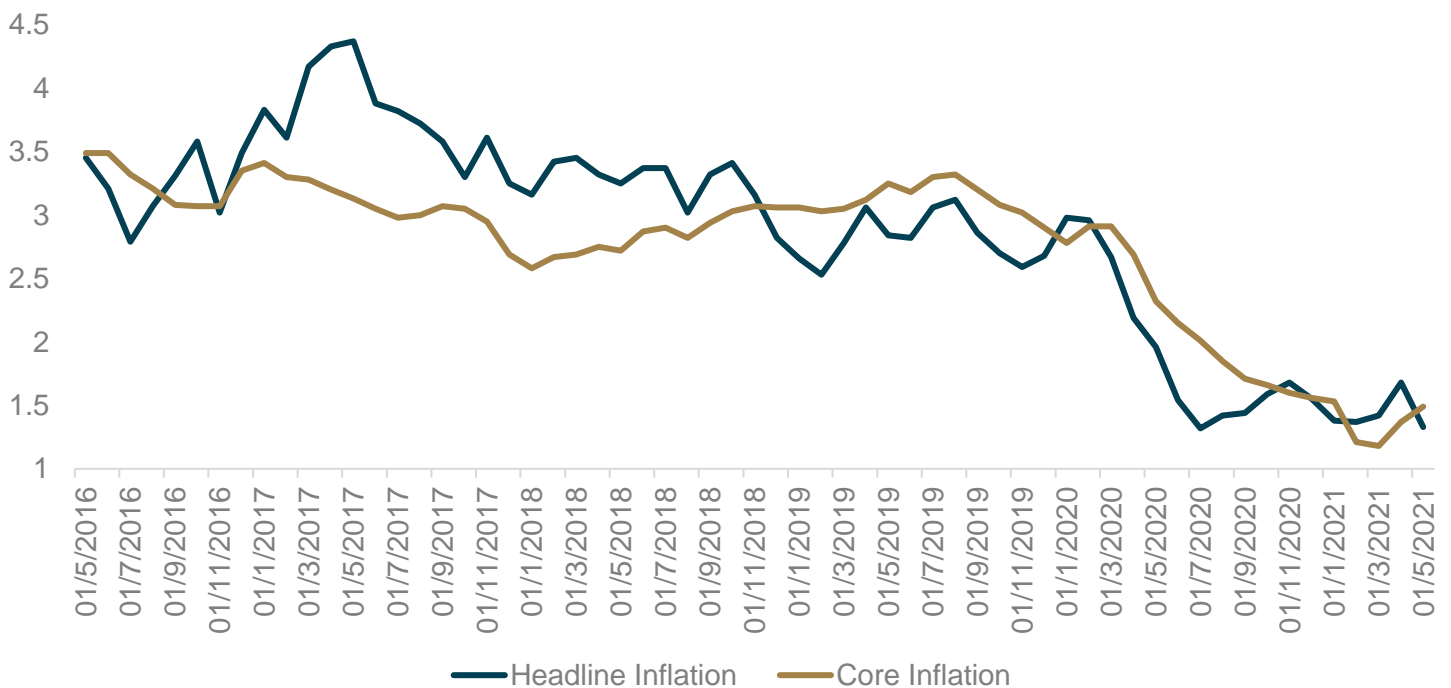
Economist & Fixed Income Analyst

Exhibit 5. Still manageable food staples price justified low inflationary pressure in Jul-21



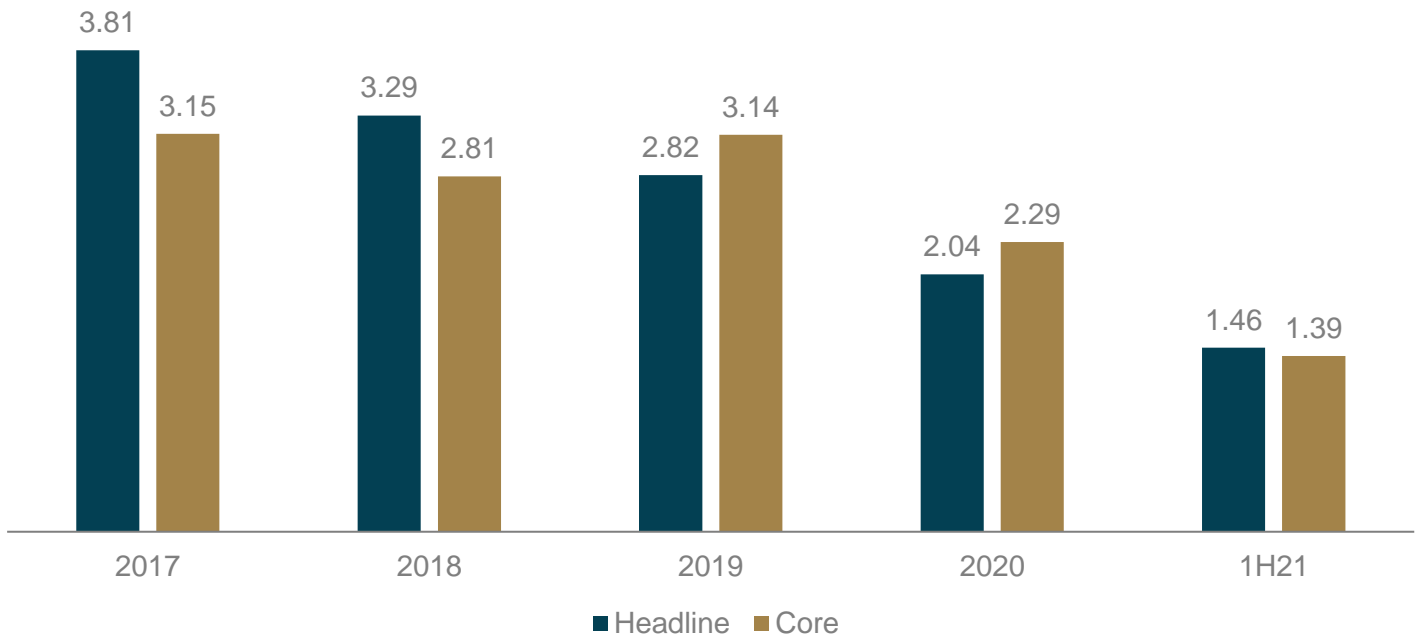
Source : PIHPS Nasional

Exhibit 6. Indonesia inflation tend to decelerate in the last five years, particularly during Covid-19 pandemic (%YoY)



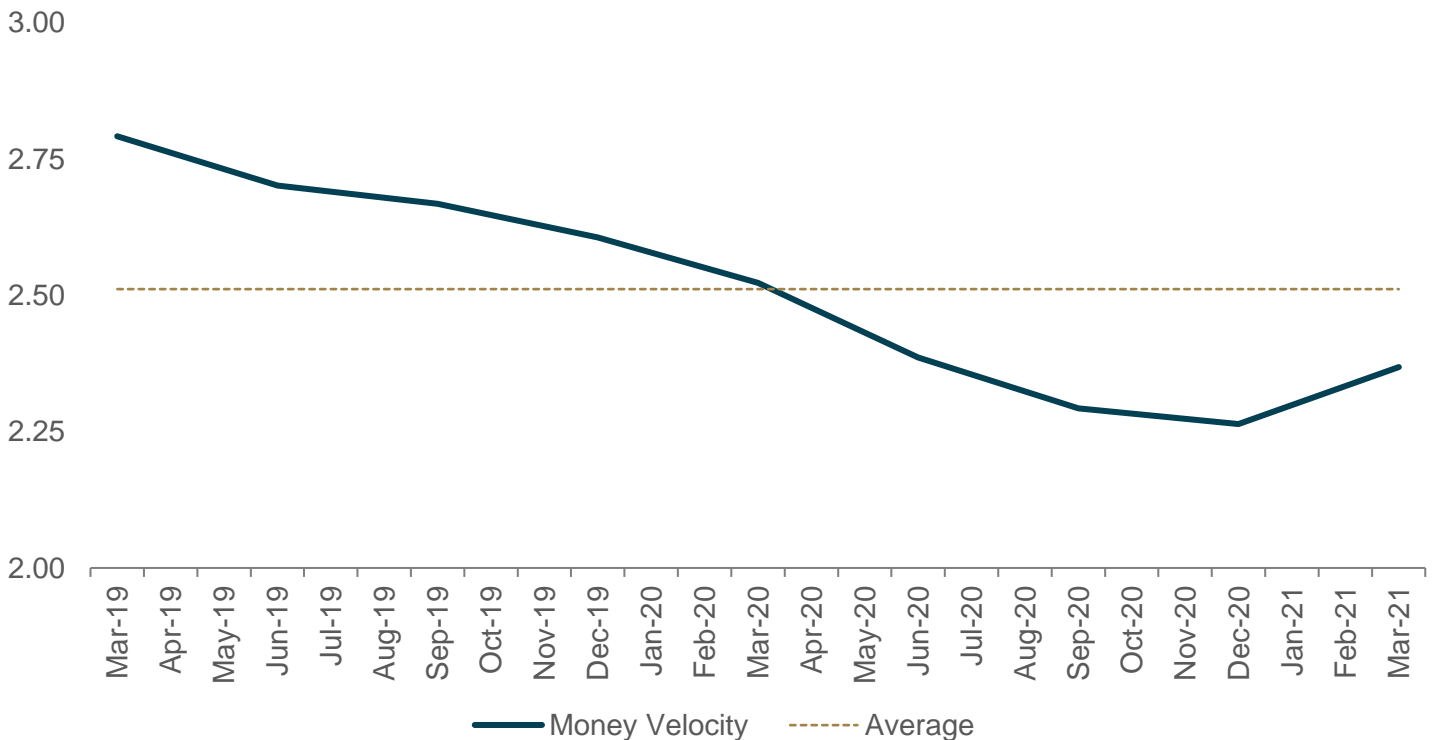
Source : BPS

Exhibit 7. Average headline and core inflation for 2021 was at the lowest in the last 5 year (%YoY)



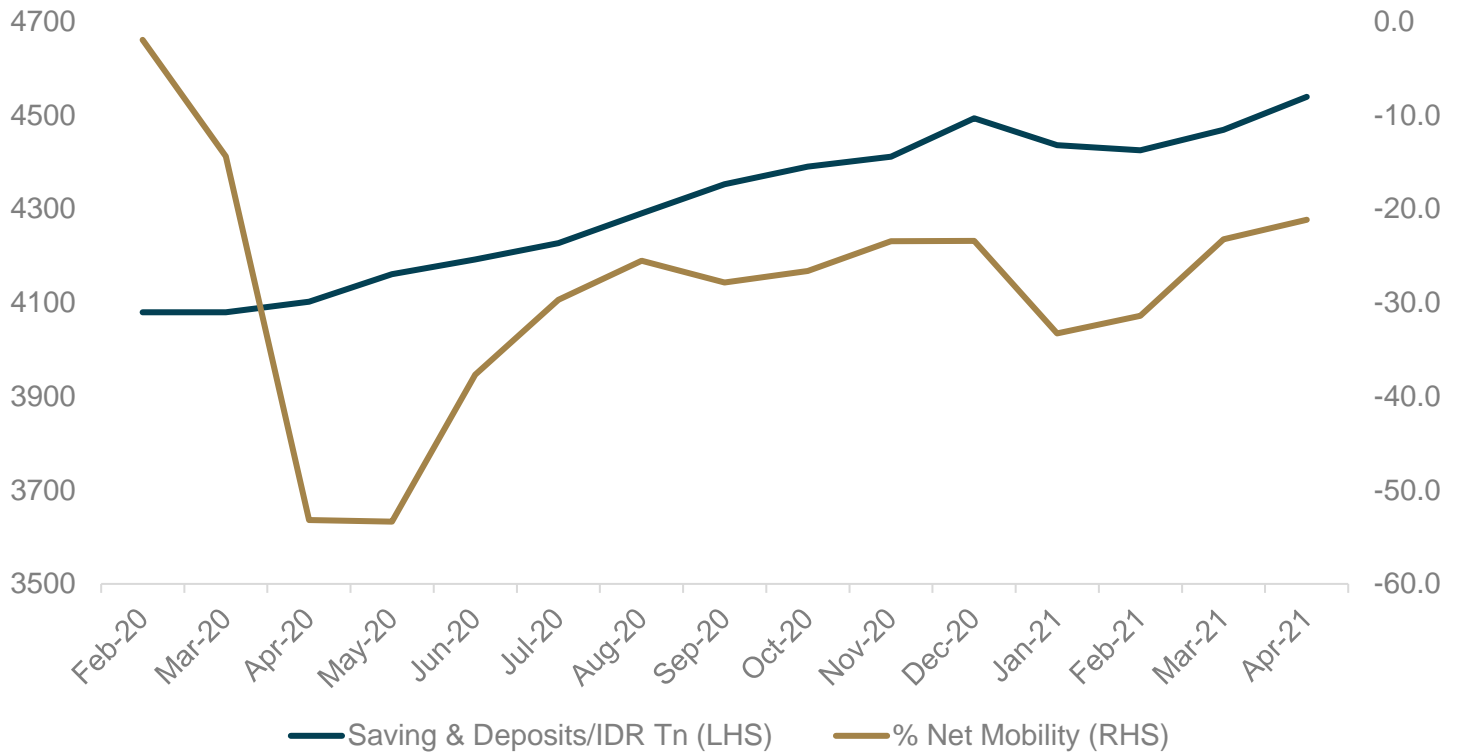
Source : BPS, MNCS Calculation

Exhibit 8. Money Velocity dropped to the lowest level in the last 3 years justifying low inflationary pressure



Source : Bank Indonesia, World Bank, MNCS Calculation

Exhibit 9. During mobility restriction banks total savings and time deposits surged



Source : OJK, Google Community Mobility Report, MNCS Calculation

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OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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