

Be Ready for Higher Inflation



Key Takeaways

- CPO price at its all time high level and hovering around MYR6,000/Tn causing cooking oil price to soar.
- Price cap policy for cooking oil at IDR14,000/liter seemed ineffective and lifting it off is the government choice triggering cooking oil price at above IDR20,000/liter.
- Assuming cooking oil price at IDR20,000-25,000/liter, inflation rate in FY22F would be 0.43-0.83 percentage point higher.
- Key drivers for inflation in FY22F : 1) higher commodity price particularly cooking oil and fuel cost; 2) rising tobacco excise duty and 3) VAT hike from 10% to 11% starting from Apr-22.
- Inflation outlook may be around upper target of BI's ITF at 3.04-3.69% in FY22F.
- VAT hike implementation as well as seasonality factors may cause inflation to be higher during Ramadan festivities.

CPO and Cooking Oil Price Increase to its Multiyear Highs

CPO price keeps hovering around its all time high level at MYR6,000/Tn. The edible oil price has nearly doubled compared to pre-pandemic level. As a consequence, domestic consumers now need to spend more money for affording cooking oil. The price control policy (HET) at IDR14,000/liter applied by government seemed to only trigger scarcity. Given its ineffectiveness, government finally decided to lift off price cap policy on cooking oil causing it to overshoot to above IDR20,000/liter recently.

The Inflationary Impact of Rising Cooking Oil

Cooking oil accounted for 1.2% of monthly consumer spending/capita in 2020. The average price for cooking oil was IDR15,883/liter (+13.45% YoY) in FY21. Assuming CPO price to stubbornly high at the current level and cooking oil is floating around IDR20,000-25,000/liter the impact on CPI would be 0.43-0.83 percentage point higher in FY22F.

Higher Inflation Outlook for FY22F

The key drivers for inflation in FY22F are : 1) higher commodity price particularly cooking oil and fuel cost; 2) rising tobacco excise duty and 3) VAT hike from 10% to 11% starting from Apr-22.

- **Higher Tobacco Excise Duty.** This year, government sets +12% higher tobacco excise duty to increase revenue and control smokers population particularly among women and youngsters. We expect this should be translated to at least 3-4% higher cigarette price in order to maintain companies margin. Given cigarette weight on consumer spending/capita is estimated to be around 6% from the total spending, higher price should be translated into higher inflationary pressure.
- **Raising VAT.** In order to bring back budget deficit to -3% GDP by FY23, fiscal consolidation is implemented through UU HPP (Tax Harmonization Law). VAT hike from 10% to 11% is scheduled to take effect in Apr-22. IMF estimated this policy would add government revenue by 0.6-0.8% GDP. However, the increase of 1 percentage point VAT would have inflationary impact, yet considering the change is relatively small, rising CPI should be still manageable.

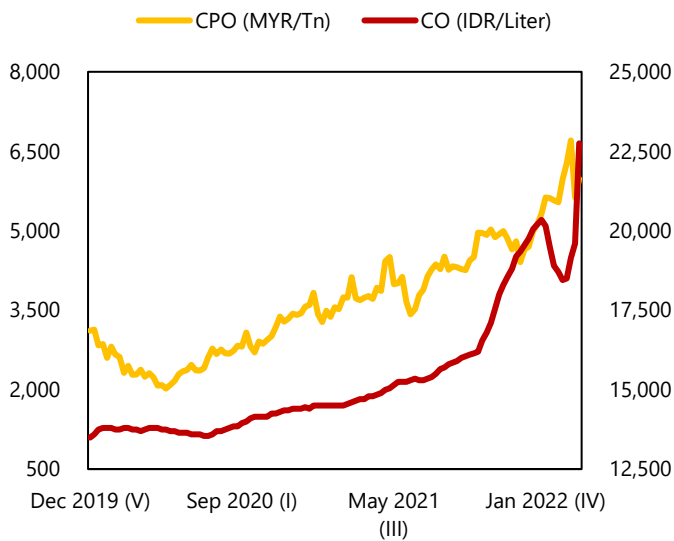
Under assumption of cooking oil price to float around IDR20,000-25,000/liter; 3-4% cigarette price increase and 1 percentage point higher VAT, inflation rate for FY22F would be at 3.04-3.69% YoY using our baseline and upper scenario. This marks an upper target of BI ITF at 2-4%. Note that this does not include fuel price increase that may trigger inflation to be higher. Thus, we believe 2-3x rate hike each by 25 bps would be justified for BI to maintain attractive positive real rates to keep the price and currency stable along with reserve requirement increase from 3.5% to 6.5%.

Seasonality Factor to Consider

BI projected inflation rate would be at +0.54% MoM/+2.54% YoY in Mar-22 due to higher prices in several commodity such as chili, egg, gold and fuel. Looking ahead, it is also worth noting that raising VAT in Apr-22 as well as higher commodity price coincide with Ramadhan festivities, hence we believe this would cause higher inflation considering seasonal food staple price movement and easing mobility restriction.

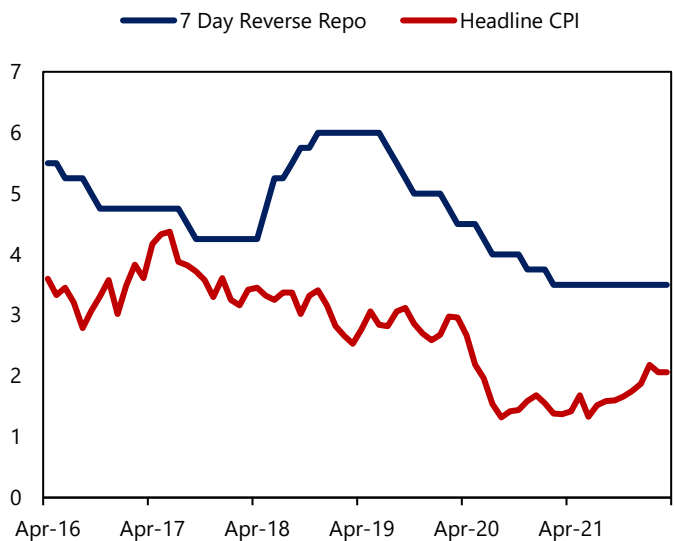
Tirta Widi Gilang Citradi
Economist & Fixed Income Analyst
tirta.citradi@mncgroup.com

Exhibit 1. CPO Price (LHS) vs Cooking Oil Price (RHS)



Sources : Bloomberg, PIHPS Nasional, MNCS

Exhibit 2. Benchmark Policy Rate vs Inflation (%)



Sources : Bloomberg, MNCS

Exhibit 3. Basket of Consumer Monthly Average Spending/Capita

Components	2020		
	MA	Weight/Sub	Weight/Total
Cereals	66,789	11.1%	5.4%
Tubers	6,361	1.1%	0.5%
Fish & Others	46,570	7.7%	3.8%
Meat	26,441	4.4%	2.2%
Eggs & Milk	34,860	5.8%	2.8%
Vegetables	45,393	7.5%	3.7%
Legumes	11,654	1.9%	1.0%
Fruits	30,116	5.0%	2.5%
Oil & Coconut	14,155	2.3%	1.2%
Beverage Stuffs	18,337	3.0%	1.5%
Spices	11,810	2.0%	1.0%
Other Food Items	10,574	1.8%	0.9%
Prepared F&B	206,736	34.3%	16.9%
Cigarette & Tobacco	73,442	12.2%	6.0%
F&B	603,238		49.2%
Housing & Facilities	308,739	49.6%	25.2%
Goods & Services	152,171	24.4%	12.4%
Clothing, Footwear & Accessories	36,104	5.8%	2.9%
Durable Goods	60,813	9.8%	5.0%
Tax, Fees & Insurance	41,384	6.6%	3.4%
Parties & Ceremonies	23,238	3.7%	1.9%
Non F&B	622,449		50.8%
Total	1,225,687		

Sources : Statistics Indonesia, MNCS

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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

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PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

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