

Inflation outlook : at an inflection point



Key Takeaways

- Cooking oil prices are still stubbornly high hovering above IDR20,000/kg and will contribute to inflation during Ramadhan festive day.
- We expect Apr-22 inflation to increase +0.79% MoM/+3.31% YoY, higher than Bank Indonesia's estimate.
- Looking ahead, the inflation figures may be showing an upside risk given that PPI and WPI have already jumped higher than CPI.
- Furthermore, the widened gap between actual oil prices and government macro assumptions is likely to trigger another follow-on fuel price increase.
- Our model showed that for 5-10% increase in gasoline and fuel price including LPG would add +0.3-0.6% monthly inflation.

Tracking food price during Ramadhan festive season

7 out of 10 food prices under our radar have been shown to rise since the beginning of Ramadhan festive season. These include : chicken, meat, eggs, shallots, garlic, cooking oil, and sugar. On average, these prices have marginally increased by 0.9% month to date (Exhibit 1). Interestingly, cooking oil prices are still stubbornly high after the government lifted off on price cap policy. Cooking oil prices have consistently been above IDR20,000/kg since mid Mar-22 (Exhibit 2). Meanwhile, food prices that recorded a sharp decline are red chili peppers and cayenne. These prices fell by 6.4% and 15.5% month to date, respectively.

Ramadhan's inflation outlook

Historically, at least in the last 5 years, inflation during Ramadhan festive season hit its upper percentile during the year (Exhibit 3). On top of seasonality factors, we also expect some notable changes in policy to affect the inflation outlook. Two major policies were enacted on Apr-22 : 1) Pertamina prices increased from IDR9,400/liter to IDR12,500/liter and 2) VAT hike from 10% to 11%. Under this scenario, we project Apr-22 inflation figure may increase +0.79% MoM/+3.31% YoY and marking an inflection point for consumer price, after being hit by pandemic in the last 2 years. Note that our inflation forecast is also higher than BI estimate at +0.68% MoM/+3.20% YoY (Exhibit 4).

Last year, cooking oil contribution to consumer per capita spending on food, beverage and tobacco was around 3.7% and now it accounts for 5.2% and we expect this to add +0.75% MoM change in food, beverage and tobacco inflation after adjusting for seasonality factor. Assume that Pertamina consumption market share was around 13%; the price hike by more than 30% would add housing, water, electricity and fuel inflation by 1.37% for Apr-22. In addition, the increase in VAT by 1 percentage point would have additional monthly inflation on clothing and footwear (+1.19%); home appliance and maintenance (+0.94%); information, communication and financial services (+0.51%) and personal care (+0.89%). Note that those figures have been taking into account seasonality during Ramadhan festive season (Exhibit 5).

Already at an inflection point

Looking ahead, the inflation figures may be showing an upside risk given that PPI and WPI have already jumped higher than CPI (Exhibit 6). Furthermore, the widened gap between actual oil prices and government macro assumptions is likely to trigger another follow-on fuel price increase. We think fuel prices such as Pertamina and LPG adjustments would be made on several considerations and be implemented in a gradual manner. Our model showed that for 5-10% increase in gasoline and fuel price including LPG would add +0.3-0.6% monthly inflation as this account for 5% from consumer spending basket.

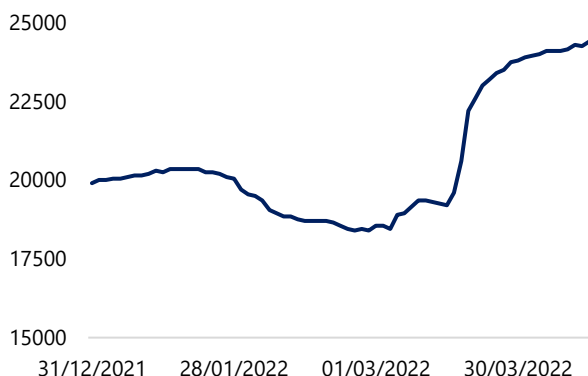
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Exhibit 1. Food prices change during Ramadhan festive season

Food Staples	-1w	mtd	-1m
Rice	0.0%	0.0%	0.0%
Chicken	-0.4%	0.9%	2.5%
Meat	0.2%	0.4%	2.6%
Eggs	0.2%	0.2%	2.4%
Shallot	0.0%	0.4%	-6.2%
Garlic	-0.8%	0.5%	4.3%
Red Chili Pepper	-10.5%	-6.4%	-12.0%
Cayenned Pepper	-15.6%	-15.5%	-21.5%
Cooking Oil	1.4%	2.5%	26.9%
Sugar	0.3%	1.0%	3.0%

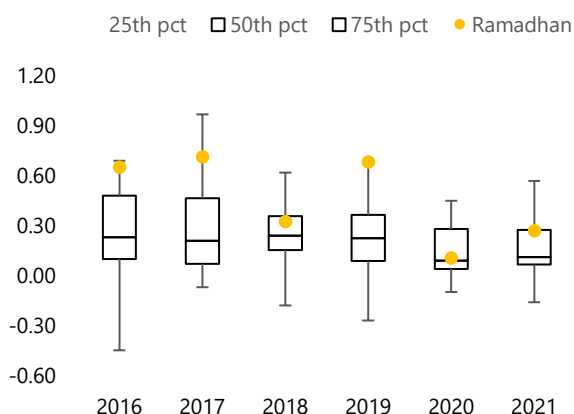
Sources : PIHPS Nasional, MNCS

Exhibit 2. Cooking oil prices stubbornly high (at IDR/Kg)



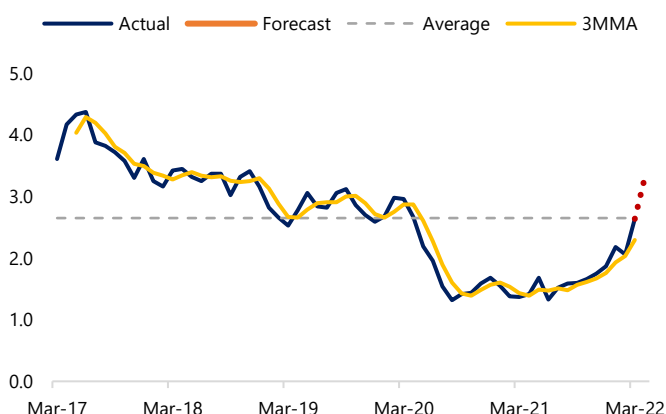
Sources : PIHPS, MNCS

Exhibit 3. Historical inflation during Ramadhan festive momentum



Sources : Statistics Indonesia, MNCS

Exhibit 4. Inflation at an inflection point



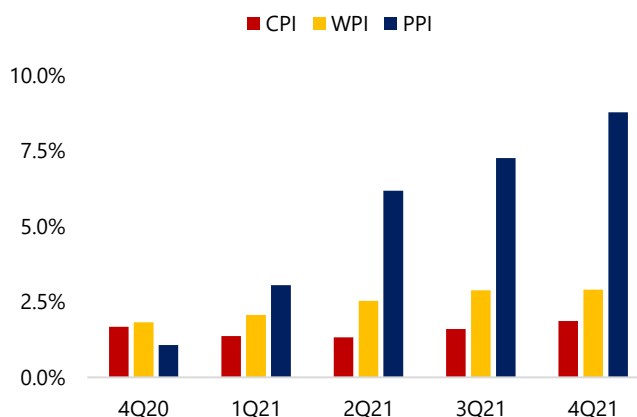
Sources : Statistics Indonesia, MNCS

Exhibit 3. Monthly inflation expectation for Apr-22

Post	MoM
Food Beverage & Tobacco	0.75%
Clothing & Footwear	1.19%
Housing, Water, Electricity & Fuel	1.37%
Home Appliance & Maintenance	0.94%
Health	0.12%
Transportation	0.75%
Infocom & Financial Services	0.51%
Entertainment, Sport & Cultural	0.30%
Education	0.01%
Restaurant	0.32%
Personal Care and Others	0.89%
CPI	0.79%

Sources : Statistics Indonesia, MNCS

Exhibit 6. PPI & WPI already jumped higher than CPI



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

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