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Economic Update

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August 2024 Inflation Update

Bigger room for rate-cuts

Economic Indicator	2022	2023	2024F	2025F
GDP Growth (%)	5.31	4.80	5.05	5.0
Inflation (%)	4.20	4.50	2.6	3.0
US\$/Rp (Average)	14,908	14,800	15,000	16,000
BI 7-D RRR (%)	3.52	4.0	4.75	4.0
Current Account (% GDP)	1.0	1.0	-0.7	-0.4
Trade Balance (US\$ bn)	54.46	54.46	38	34
Indonesia 10 Year Yield (%)	6.99	6.99	5.8	4.5
Gov't Deficit % GDP	1.21	1.21	-2.8	-2.5
Debt to GDP (%)	40.9	40.9	34	34
Sovereign Rating (S&P)	BBB	BBB	BBB	BBB+
Primary Balance	0.2	0.2	0.2	0.1

In-line with consensus

Indonesia's annual inflation rate eased to 2.12% in August from 2.13% in July, in line with the market consensus of 2.12% and below our forecast of 2.40%, and remains within Bank Indonesia's (BI) target of 2-4% for fifteen consecutive months. On a monthly basis, the CPI deflated by -0.03%, following the -0.18% monthly deflation in June. Consumer prices of foods, beverages, and cigarettes remain the leading contributors on an annual basis (0.96%) to headline inflation despite growing lower by 3.39% yoy (vs 3.66% in July). Core inflation grew higher to 2.02% yoy (vs 1.95% in July), while volatile food grew lower to 3.04% yoy (vs 3.63% in July). Administered prices increased higher to 1.68% yoy (vs 1.47% in July).

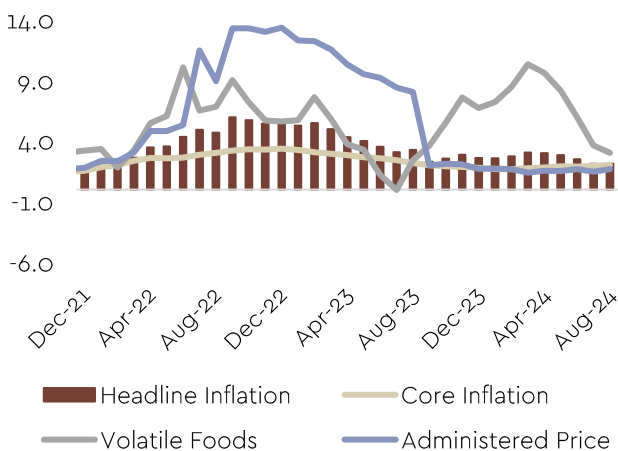
Historical 5-Yr Key Performance (2018-2023):

GDP Growth (%):	3.50	Trade Balance (US\$):	2.68
Inflation (%):	2.85	Current Account (US\$):	-2.18
US\$/Rp:	14,701	Current Acct (% of GDP):	-0.41
Indonesia 10-year yield (%):	6.80	Gov't Deficit (% of GDP):	-3.50
BI 7-D RRR (%):	4.73	Debt to GDP (%):	37.73

Economic Data

Bloomberg Ticker:	IDCPIY
Frequency:	Monthly
Source:	Badan Pusat Statistik (BPS)

Indonesia CPI (%YoY)



12-Month Projection of Inflation Rate

Baseline	: 2.50%
Best	: 2.10%
Worst	: 4.50%

Monthly deflation continues, as expected

The monthly deflation continues for four consecutive months. This indicates weakening consumers' purchasing power amid higher interest rate conditions. Meanwhile, the contraction of S&P PMI Manufacturing continues, recorded lower at 48.9 from 49.3 in July. We noted that this is due to slower demand for new orders, higher layoffs, and input costs that remained high due to the higher interest rate situations. However, we perceive the monthly deflation was also influenced by the moderation prices of foodstuff, especially rice. The increase in yoy core inflation indicates that the weakening purchasing power is not as deep as it seems. We expect the inflation rate to remain within the government and Bank Indonesia's target range.

Bigger room for Bank Indonesia to cut the rate

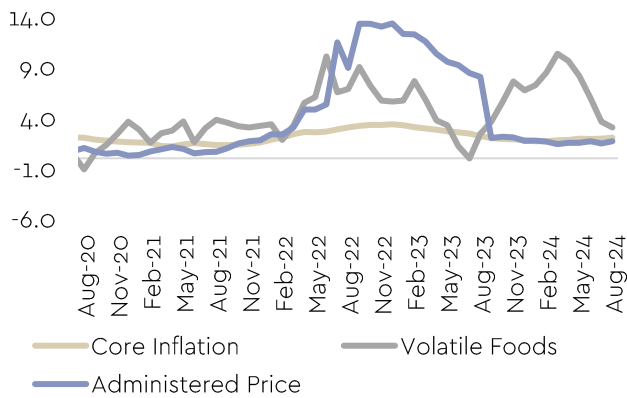
The inflation rate has remained consistently within 2.5+-1% and achieved the target, reflecting BI's success in controlling inflation. This leaves BI plenty of room to start implementing easy monetary policy as the Federal Reserve has officially stated that an interest rate cut is needed. We project that BI will cut the BI-Rate by 25 bps this September.

Expect domestic spending improvement

We expect household spending to increase higher in 3Q24 and 4Q24 this year, as reflected by higher core inflation. Furthermore, lower non-subsidized gasoline prices in September (Pertamax dropped from Rp14,400/L in January to Rp12,950/L in September) will have a positive impact on household spending. Meanwhile, a lower policy rate from September to December will also have a positive influence on consumer loan disbursement growth. All those factors will likely boost household consumption growth from 4.90% in 1H24 to 5.05% in 2H24. We also revised down our inflation projection from 2.50% to 2.10% as we anticipate the non-subsidized gasoline price to be reduced further, which will push down the inflation across the board. We do not see the government to raise administered prices significantly until the end of 2024. Due to the lower inflation rate projection, we also revise down our 10-year government bond yield projection from 6.30% to 5.8%.

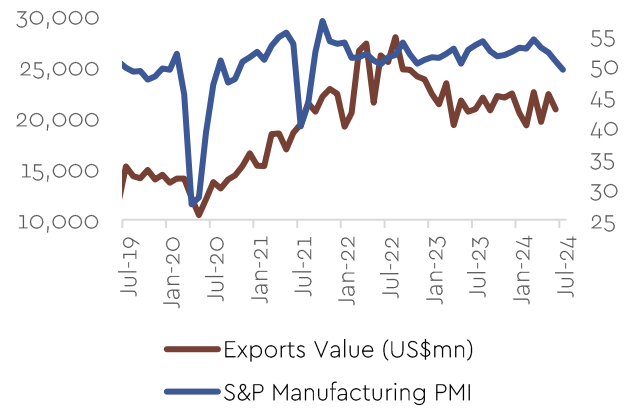
Economic Summary

Fig. 1: Indonesia's CPI based on component (% YoY)



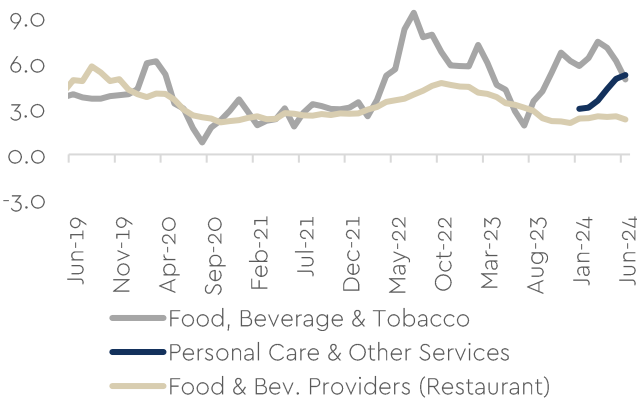
Source: BPS, Sucor Sekuritas

Fig. 2: Indonesia's export value vs S&P Manufacturing PMI



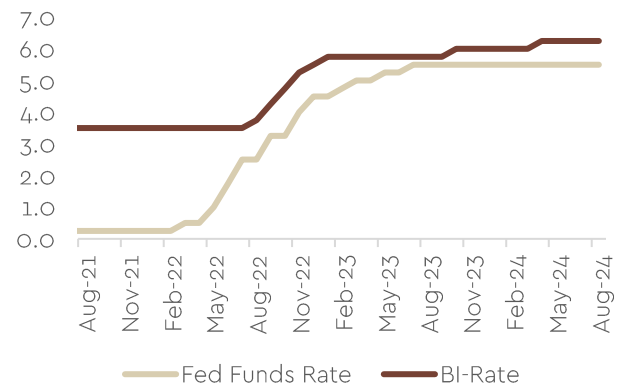
Source: BPS, Bloomberg, Sucor Sekuritas

Fig. 3: Consumer related inflation rates (% YoY)



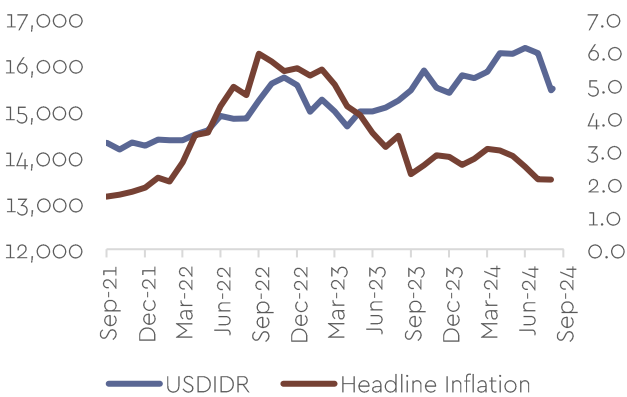
Source: Badan Pusat Statistik, Sucor Sekuritas

Fig. 4: BI-Rate vs Fed Funds Rate (%)



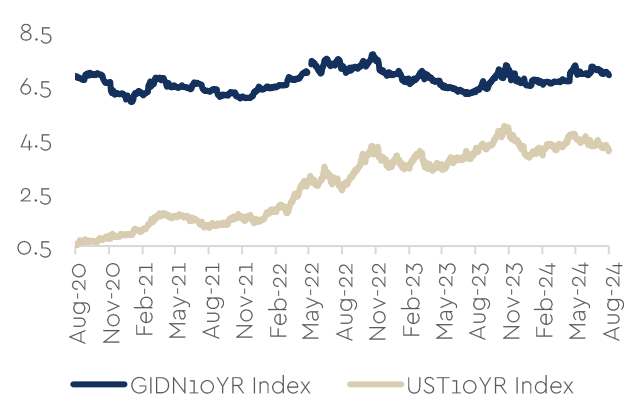
Source: Bloomberg, Sucor Sekuritas

Fig. 5: Rupiah performance (per US\$) vs Inflation (% YoY)



Source: Bloomberg, Sucor Sekuritas

Fig. 6: Indonesia 10Y government bond vs US 10Y treasury yields (%)



Source: Bloomberg, Sucor Sekuritas

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rating definition,
analyst certification,
and important disclosure**

Ratings for Sectors

- Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
- Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
- Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

Ratings for Stocks

- Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
- Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.
- Sell : We expect this stock to give return of -10% or lower over the next 12 months.

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