Note issued: September 23rd, 2021

Monthly Economic & Finance Briefing

Economic, Banking & Industry Research of BCA Group

FOMC: A measure of calm, but will it last?

Executive Summary:

- **Although the Fed Funds Rate was left unchanged near the zero bound, the Fed made moves towards tightening as it signaled that tapering would begin soon and an increasing number of FOMC members began to favor interest rate hikes in 2022.**
- **Fortunately, the market took most of these announcements in stride, despite the turmoil of the past few days.** The Fed's effective messaging, the PBOC's recent liquidity injection, as well as the fact that tapering's effects was likely already priced-in, all served to moderate the market's reaction.
- **However, the fact that much of these recent developments may be manifestations of a possibility that the global recovery may be reaching its limits means that long-term risks remain.**

- **The Fed announced that the Fed Funds Rate would remain unchanged near the zero bound as September's FOMC meeting came to a close.** This of course, was the lesser watched part of the Fed's announcement. Of far greater interest to markets was news pertaining to the Fed's tapering timeline.

- At first glance, the results of this month's FOMC meeting may appear to be rather dispiriting. **Fed Chairman Jerome Powell finally announced that tapering would begin soon,** with surveys projecting November or December to be its likely start date. Additionally, interest rate hikes may occur earlier than expected, if the dot plot is of any indication. While June's dot plot revealed that a majority of the FOMC were still against rate hikes in 2022, the balance between those favoring steady and higher rates in 2022 is now evenly split (***Table 1***). If current rates of recovery hold, estimates of nonfarm payrolls place a return to pre-Covid employment levels by early Q2-2022, something to keep note of as the Fed has explicitly labeled full employment as a pre-requisite to any considerations of rate hikes.

- One might take some solace, as some did earlier in the year, in the fact that such a tightening must surely follow an overheating economy. Unfortunately however, the Fed also lowered its growth projections for this year significantly, citing supply chain bottlenecks and the current spread of Delta as the primary risk factors (***Chart 1***). **We are left solely with the prospects of tighter monetary conditions, absent the customary palliative of spectacular, red-hot economic growth.**

- It is a good thing then, that the stuff of nightmares do not always make their way into the reality of the waking world. **Markets took most of these announcements in stride, largely shrugging off what could have been a more moody close to the day.** The Fed's careful messaging, which made it clear that its decisions remained beholden to ever-changing economic data and that there was no rush to taper abruptly, deserves much credit for this.

- It should also be noted that markets' muted reaction comes amidst the backdrop of significant turmoil over the Evergrande crisis and concerns over the ending of US fiscal stimulus in recent days. **That this ill-timed convergence of events did not manifest into a prolonged market meltdown is an encouraging sign.** Effective messaging by the Fed, the PBOC's recent liquidity injection to soothe markets rattled by the skeletons in Evergrande's closet, the fact that tapering is no longer a novelty to markets. All these contributed to the preservation of relative calm.

- This however, is no cause for recklessness. Recent events suggest that markets have priced-in most of the effects of tapering. **Other risk factors, such as an earlier than expected hike in interest rates, or the upcoming political showdown over the US debt ceiling, may not necessarily be fully priced in yet.**

- Additionally, while singular flights of panic may be controlled with the proper measures, the fundamental trends that gave rise to them in the first place do not disappear. Indeed, we mentioned in our previous report (**see *"BI Policy: A narrow bridge over troubled global waters"***) that **these recent risk events are all probable manifestations of a global economic recovery reaching its limits.**

- Aside from the generous amounts of largesse distributed by monetary authorities since 2020, the key narrative underpinning market performance in the past two years has been the expectation and eventually realization of recovery from the depths of the pandemic. Should this

growth finally begin to approach its limits, markets, already projecting a coming end to generous monetary stimulus, would be deprived of most of the major narrative drivers that had fuelled its rise over the past two years. **It is this combination of a more subdued market, as well as the real shocks of slowing global growth (which, in Indonesia's case, would strike most decisively in the form of lower commodity prices), that poses more significant long-term risks.**

Chart 1. Job creation and economic activity slowed down in August due to Delta, although the slowdown in economic activity already began on June as the effects of government stimulus began to wear off

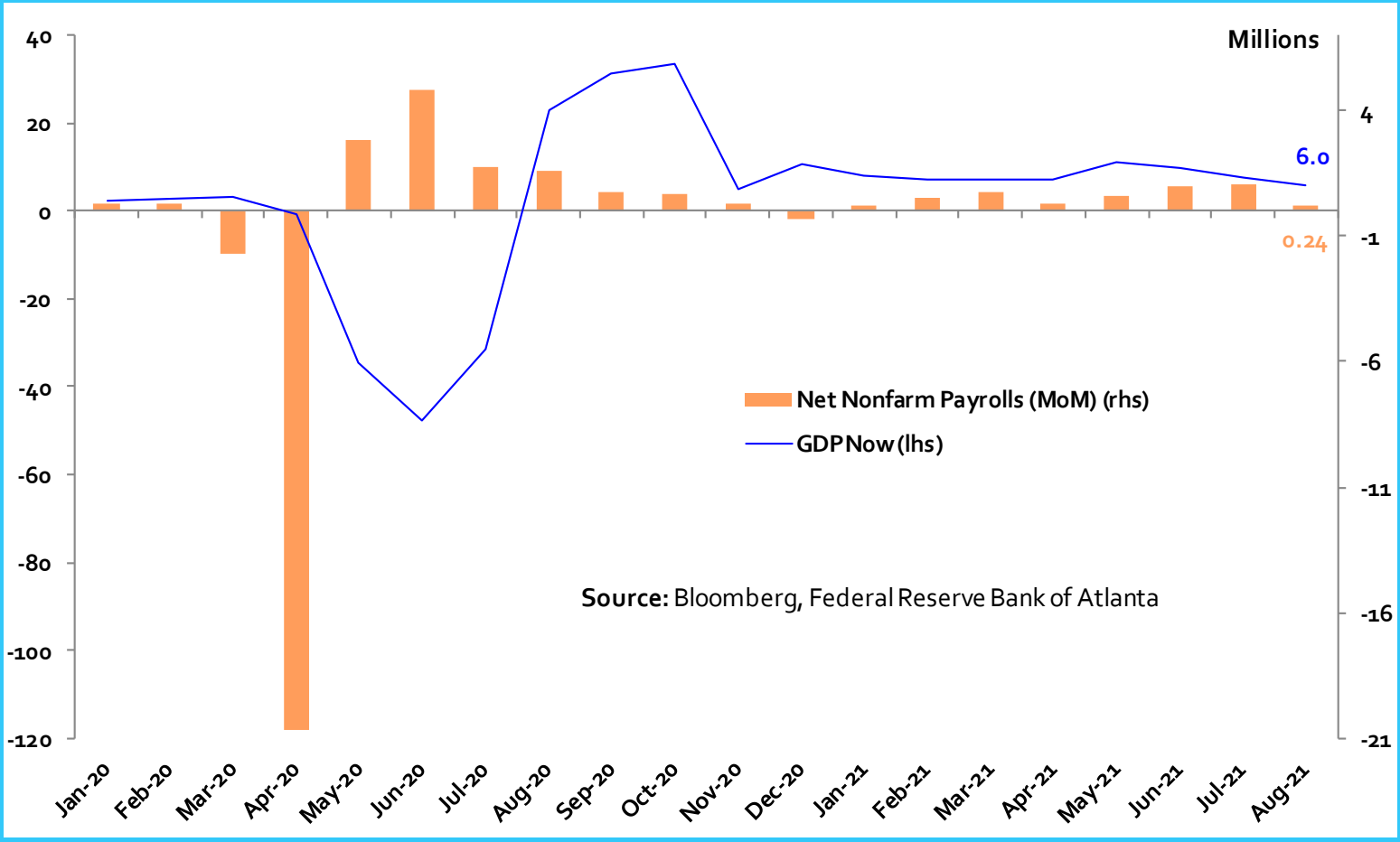

Table 1. By September, the balance of votes between those for and against a rate hike in 2022 had grown evenly split, in contrast to the anti-rate hike majority in June

		Per Jun-2021		
		2021	2022	2023
Fed Funds Rate	0.00 – 0.25	18	11	5
	0.25 – 0.50	-	5	2
	0.50 – 0.75	-	2	3
	0.75 – 1.00	-	-	3
	1.00 – 2.00	-	-	5
	> 2.00	-	-	-

		Per Sep-2021		
		2021	2022	2023
Fed Funds Rate	0.00 – 0.25	18	9 (-2)	1 (-4)
	0.25 – 0.50	-	6 (+1)	4 (+2)
	0.50 – 0.75	-	3 (+1)	3
	0.75 – 1.00	-	-	1 (-2)
	1.00 – 2.00	-	-	9 (+4)
	> 2.00	-	-	-

Source: Fed Dot Plot

Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	0.25	Mar-20	-5.05
UK	0.10	Mar-20	-3.10
EU	0.00	Mar-16	-3.00
Japan	-0.10	Jan-16	0.20
China (lending)	4.35	Oct-15	3.55
Korea	0.75	Aug-21	-1.85
India	4.00	May-20	-1.30
Indonesia	3.50	Feb-21	1.91
Money Mkt Rates	**22-Sep**	**-1 mth**	**Chg (bps)**
SPN (1M)	3.19	3.29	-9.3
SUN (10Y)	6.11	6.35	-23.6
INDONIA (O/N, Rp)	2.80	2.79	0.4
JIBOR 1M (Rp)	3.56	3.55	0.9
Bank Rates (Rp)	**Jun**	**May**	**Chg (bps)**
Lending (WC)	9.02	9.02	-0.49
Deposit 1M	3.47	3.55	-8.28
Savings	0.81	0.80	0.76
Currency/USD	**22-Sep**	**-1 mth**	**Chg (%)**
UK Pound	0.734	0.734	-0.01
Euro	0.856	0.855	-0.09
Japanese Yen	109.8	109.8	0.00
Chinese RMB	6.462	6.502	0.61
Indonesia Rupiah	14,243	14,453	1.47
Capital Mkt	**22-Sep**	**-1 mth**	**Chg (%)**
JCI	6,108.3	6,030.8	1.28
DJIA	34,258.3	35,120.1	-2.45
FTSE	7,083.4	7,087.9	-0.06
Nikkei 225	29,639.4	27,013.3	9.72
Hang Seng	24,221.5	24,849.7	-2.53
Foreign portfolio ownership (Rp Tn)	**Aug**	**Jul**	**Chg (Rp Tn)**
Stock	2,017.2	1,936.9	80.26
Govt. Bond	980.4	965.8	14.66
Corp. Bond	24.4	24.8	-0.40

Trade & Commodities	22-Sep	-1 mth	Chg (%)
Baltic Dry Index	4,560.0	4,092.0	11.4
S&P GSCI Index	539.3	494.4	9.1
Oil (Brent, $/brl)	76.2	65.2	16.9
Coal ($/MT)	179.9	149.6	20.3
Gas ($/MMBtu)	4.89	3.95	24.0
Gold ($/oz.)	1,768.2	1,781.1	-0.7
Copper ($/MT)	9,301.8	9,044.0	2.8
Nickel ($/MT)	19,235.0	18,479.0	4.1
CPO ($/MT)	1,081.1	1,059.0	2.1
Rubber ($/kg)	1.57	1.69	-7.1
External Sector	**Aug**	**Jul**	**Chg (%)**
Export ($ bn)	21.42	17.71	20.9
Import ($ bn)	16.68	15.11	10.3
Trade bal. ($ bn)	4.74	2.60	82.6
Central bank reserves ($ bn)	144.8	137.3	5.43
Prompt Indicators	**Aug**	**Jul**	**Jun**
Consumer confidence index (CCI)	77.3	80.2	107.4
Car sales (%YoY)	123.5	163.6	476.1
Motorcycle sales (%YoY)	48.2	28.9	155.1
Cement sales (%YoY)	-1.0	1.9	36.9
Manufacturing PMI	**Aug**	**Jul**	**Chg (bps)**
USA	59.9	59.5	40
Eurozone	61.4	62.8	-140
Japan	52.7	53.0	-30
China	49.2	50.3	-110
Korea	51.2	53.0	-180
Indonesia	43.7	40.1	360

Source: Bloomberg, BI, BPS
Notes:
*Previous data
For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation
***For PMI, **> 50** indicates economic expansion, **< 50** indicates contraction

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.6
GDP per Capita (US$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.460
Trade Balance (US$ billion)	8.8	11.8	-8.5	-3.2	21.7	27.2
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-0.7

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E. Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinoto
Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Economist / Analyst
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Industry Analyst
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Economist / Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Derrick Gozal
Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir
Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki
Research Assistant
ahmad_rizki@bca.co.id
+6221 2358 8000 Ext: 20378

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343