

FOMC:

Some alarms, but no surprises

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Executive Summary

- The FFR remains unchanged at 4.50-4.75%, in line with market expectations, given the stabilizing US labour market and the risk of renewed inflationary pressures.
- Despite the hawkish tilt in recent FOMC remarks, the USD index and UST yields are declining, as markets appear to appreciate the US government's gradual policy implementation.
- Global financial market shocks are likely to challenge the Rupiah's newfound stability, potentially prompting BI to rely on non-rate policy tools.

- The Fed held the FFR at 4.50-4.75% in its first FOMC meeting of the year, pausing after a total of 100 bps in cuts over the previous three meetings. **The rise in core PCE inflation (from 2.6% YoY in mid-2024 to 2.8% YoY by year-end) and the stabilising unemployment rate (at 4.1-4.2%) have undermined the rationale for the Fed's rate-cutting campaign**, which began in September 2024. Meanwhile, the FFR futures market is now leaning toward a 25-bps cut—or even no cut at all.
- The Fed's unsurprising decision offered little relief to the US stock market, nor did it add to the blow (read; the DeepSeek-sponsored *Sputnik moment*) that has recently sent the tech-driven S&P 500 southward. Even then, the tweet-happy US president was quick to air his disagreement with the Fed's decision, claiming his policies would curb inflation where the central bank had failed. However, **it is the Trump administration's policy agenda that has partly influenced the Fed's view that inflationary pressures are returning to the US**. Indeed, Fed chair Jerome Powell stated that the central bank is in no hurry to resume rate cuts, citing the wide range of possibilities the tariff threat poses to inflationary risks.
- Despite Treasury Secretary Scott Bessent's assurances to Congress that the government's policy agenda will not re-fuel inflation, the Fed is right to be concerned about the potential inflationary consequences of the expected shift in US government policies. For instance, US importers may hope for a substantial depreciation in exporting countries' currencies to offset inflationary pressures from higher import tariffs—an outcome the Trump administration seeks to prevent.
- Trump's plan to drill more oil and sink inflation to the ground is also uncertain, given US oil producers' already record-high output (13.45 Mn bl/day in 2024, vs. 12.46 Mn bl/day

2022-2024 average). Meanwhile, rounding up illegal migrants could also further tighten the labour market, whose growth in the post-pandemic year is largely a product of a steady stream of foreign-born workers flocking to the US labour market.

- However, **it could be argued that the Trump administration has carried its policy agenda at a pace more appreciable to the market.** The lower Treasury yields seem to be driven mainly by lower term premium¹, which has previously been on an upward trend amidst the peak of the “Trump trade” mania following the US presidential election. The declining DXY further reinforces this argument for the unwinding “Trump trade”, providing some relief for other currencies—including the Rupiah—which in turn makes BI’s surprise January rate cut appear more justified.

- **Other factors may keep the Rupiah in the current state of relative calmness.**

For instance, the provision suspending the US debt ceiling has now expired, barring the US Treasury Department from increasing UST supply and thereby reducing the need for the US government to attract foreign liquidity into its markets. The still-ample

"The declining UST yield seems to be driven by the lower term premia, indicating that investors are have started to unwind their 'Trump Trade' position"

Treasury General Account (TGA), now at around USD 811.5 Bn (compared to USD 48.5 bn in March 2023 when the debt ceiling was suspended), further signals the US government’s reduced urgency to raise funds and absorb global liquidity—potentially allowing investors to seek opportunities in markets outside the US.

- Alas, the US financial market is not the only factor that may dictate the global liquidity flows. **Despite the tariff threat, China has been allowing its current account (CA) surplus to swell over recent years**, which is expected to hit just shy of USD 1 Tn in FY 2024. China’s supply-focused approach to fiscal and monetary interventions (which may allow them to remain competitive in the export market despite higher tariffs) suggests that the CA side of the global balance of payment (BoP) may remain dominated by China, while the financial account (FA) side may continue to bypass other economies, flowing instead into US financial markets.

- **Fortunately, Indonesia may have found some solution to this China-induced liquidity problem.** Its record-high nominal CA surplus and record-low benchmark yield may leave China with no option but to clear its CA surplus elsewhere, either as FDIs or international loans. Indonesia, of course, has been chasing Chinese FDIs for years, which is instrumental in the economy’s commodity down-streaming industrialisation strategy. Meanwhile, Indonesia’s recent BRICS membership may give the economy more leverage to secure financing from BRICS- or China-backed development banks, potentially allowing the government to shift its financing strategy away from the volatile SBN market.

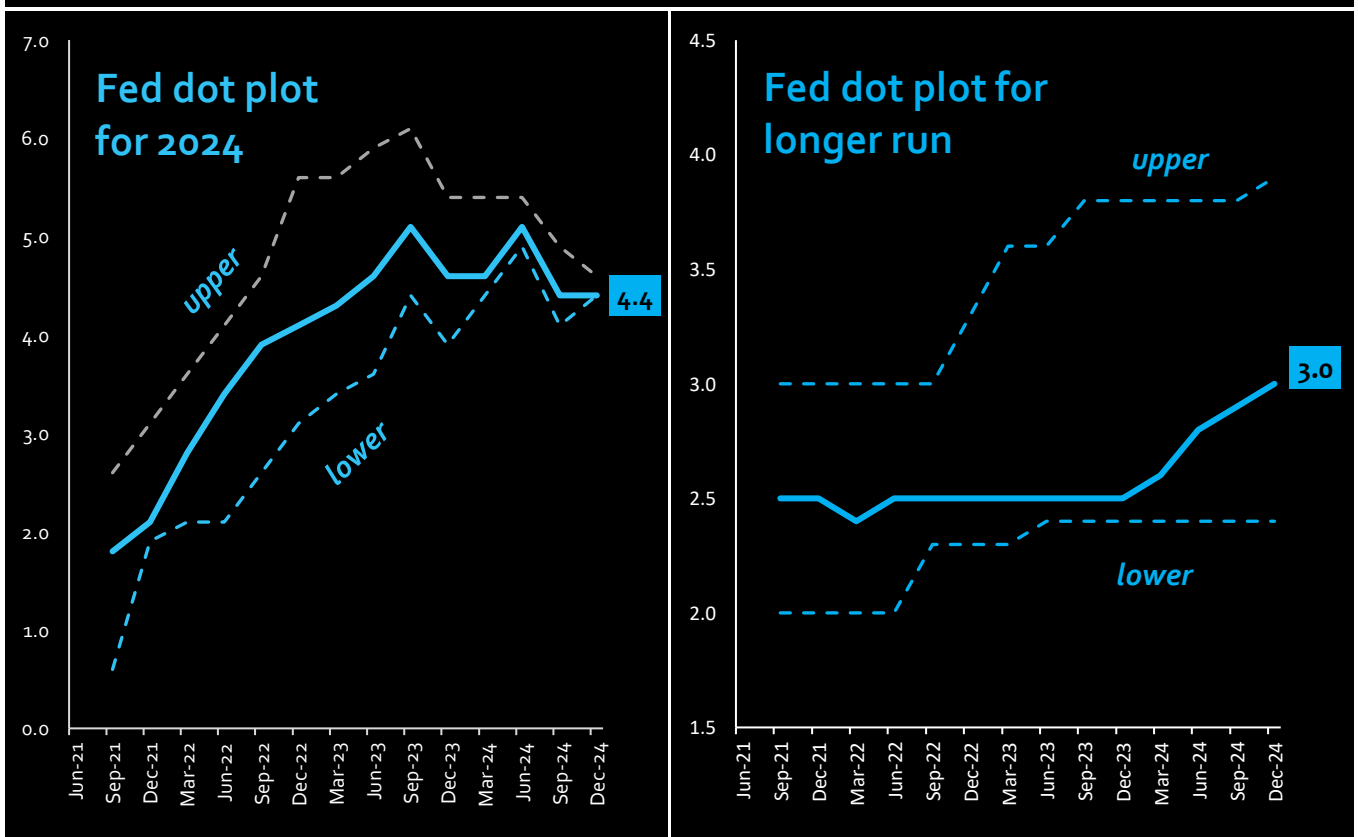
- It is important to note, however, that these two favourable scenarios in China (FDI) and US (debt ceiling) remain academic, for now. **The current environment, in contrast, appears unfavourable for Indonesia and other economies, given the**

¹ Compensation required by investors by bearing the risk that interest rate may change over the lifetime of a bond

increasingly bellicose trade-related rhetoric from American, Chinese, and even European officials. Many in the market still expect China to let the CNY depreciate to nullify the threat of higher US tariffs, which could drag down other Asian currencies, given the CNY's status as the region's anchor currency.

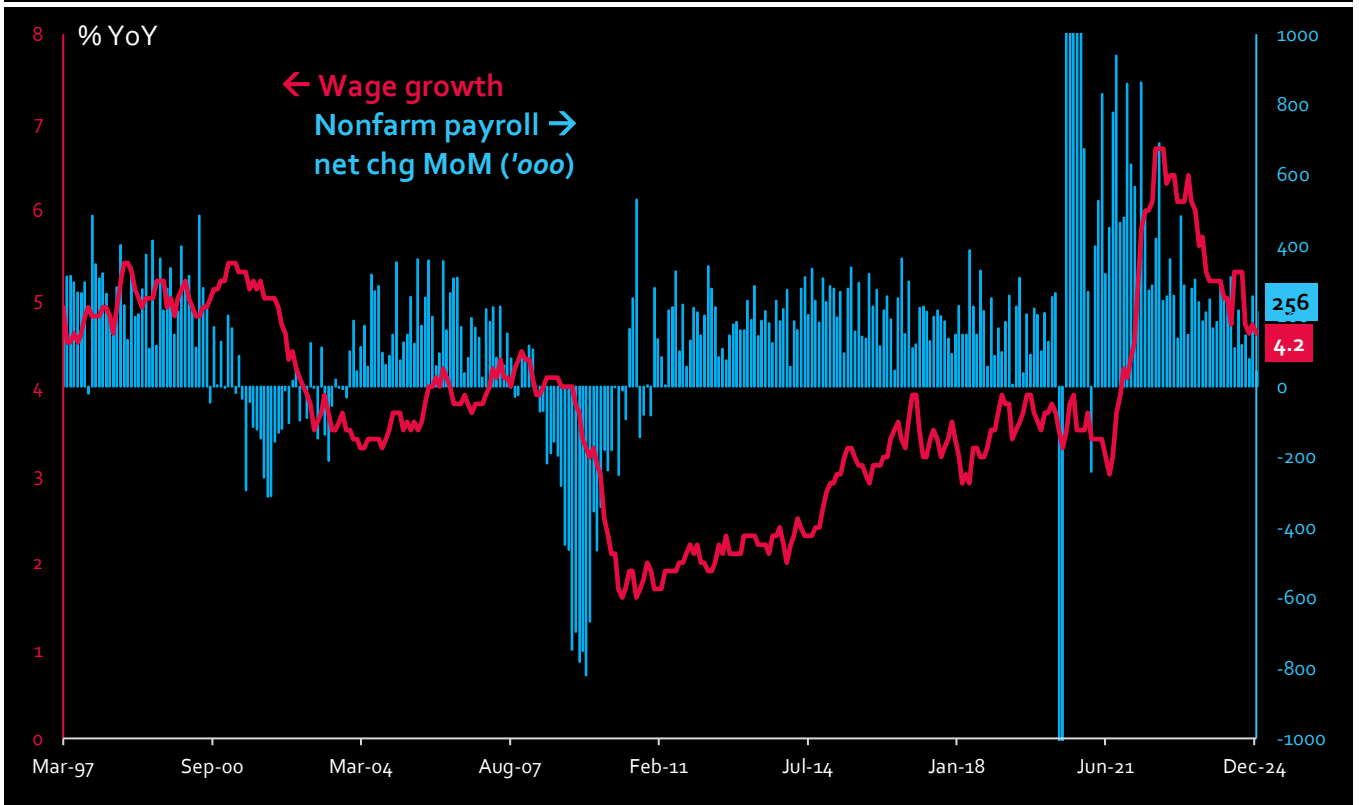
- The balance of risk, then, remains ever-so-slightly tilted against the Rupiah, forcing the central bank to utilise its non-rate tools to manage short-term volatility. Alas, the efficacy of Bank Indonesia's non-rate tools to attract much-needed foreign liquidity seems to be declining in the past few months, as indicated by the declining share of foreign ownership of SRBI.
- The strengthened export proceeds (DHE) rule, which now requires exporters to park 100% of their FX-denominated export proceeds within the Indonesian financial system for 12 months, is undoubtedly designed to address this domestic FX liquidity issue. **Full compliance with the DHE rule could offer a swift exit from the Rupiah's volatility issues, with BI allowing DHE to be placed in higher-yield instruments such as SVBI/SUVBI may increase the incentive for exporters to follow the DHE rule.** However, given historically low adherence to the DHE rule and Indonesia's relatively lax capital controls, upcoming developments in the global financial market may continue to challenge the newfound stability in Indonesia's financial market.

Panel 1. The hawkish turn in Fed's dot plot is coupled with higher long-run target



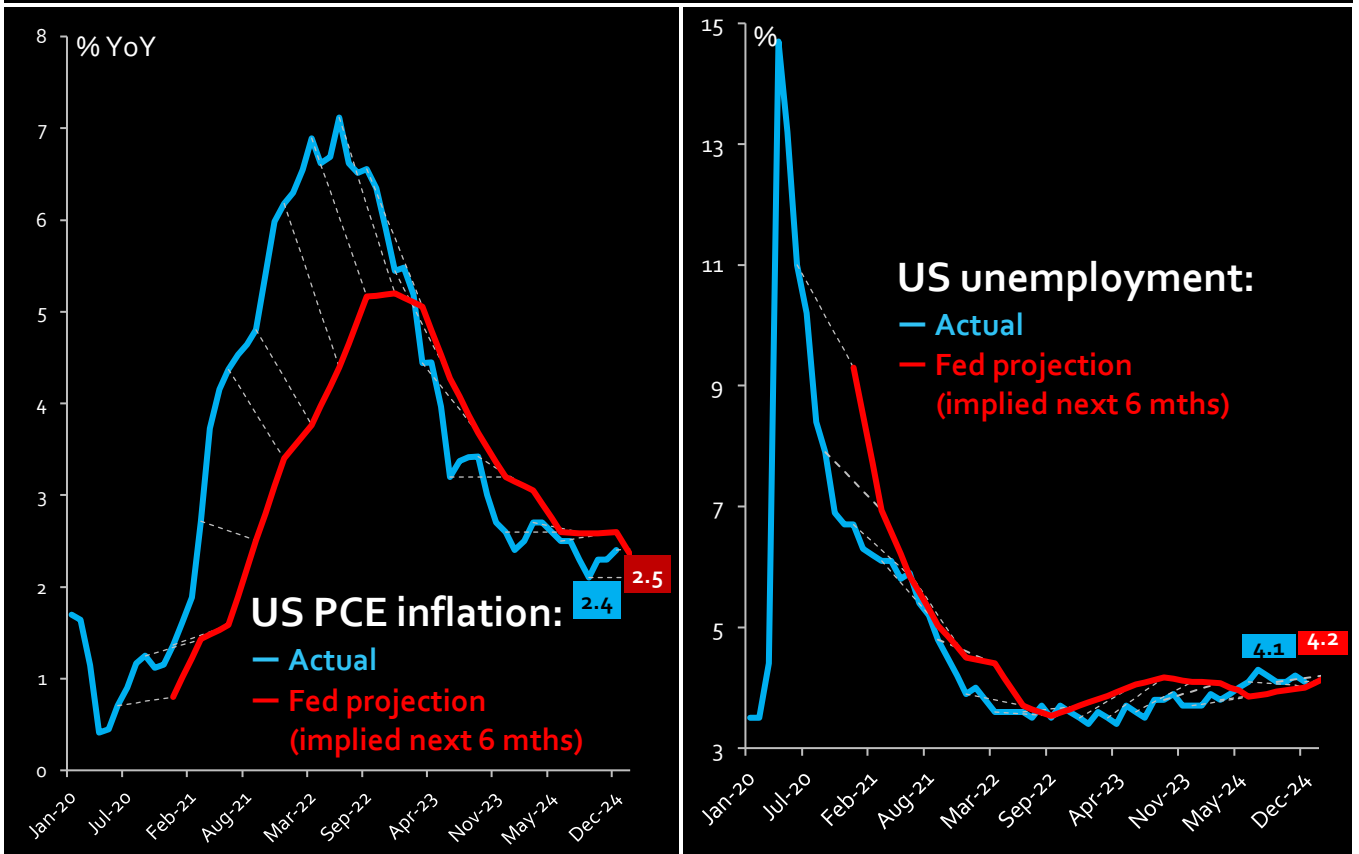
Source: Federal Reserve

Chart 1. US labor market have settled into Fed's target, but inflation remains elevated



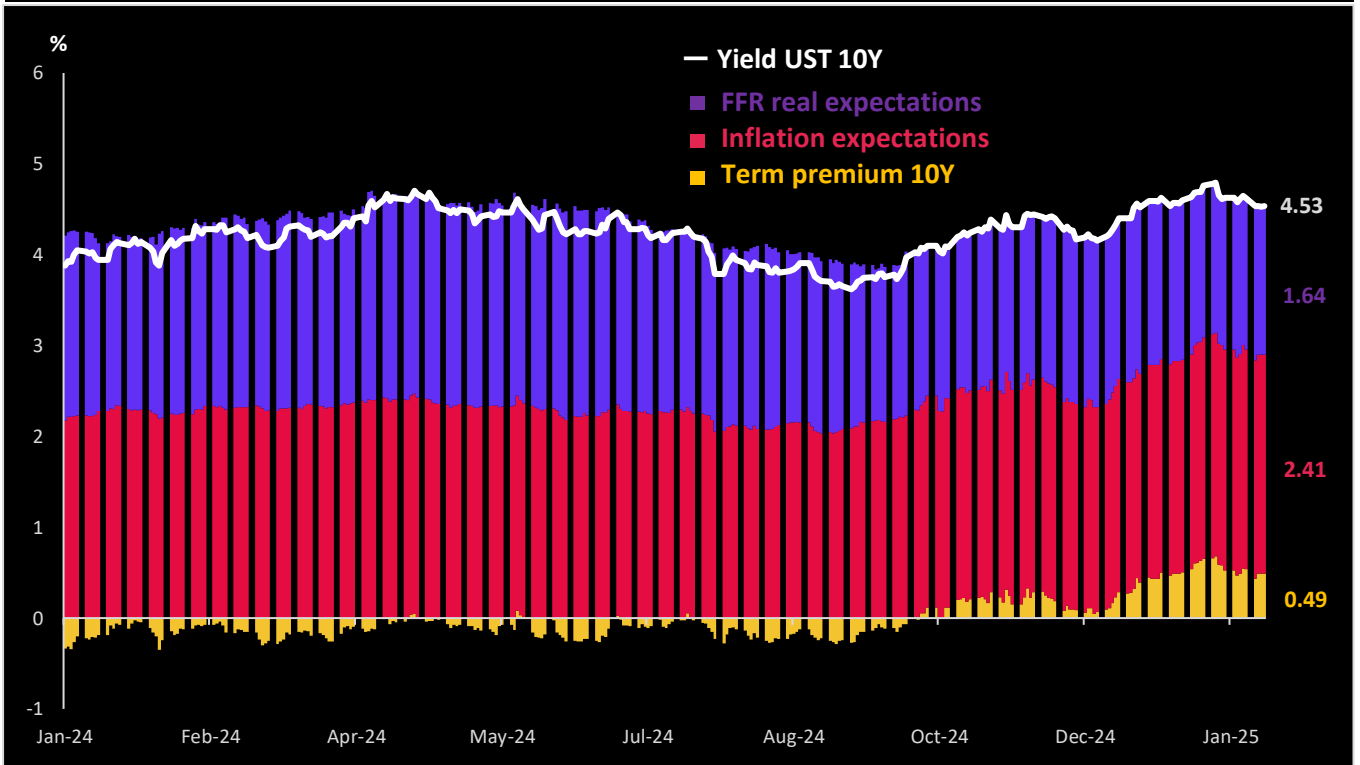
Source: US BLS, Bloomberg

Panel 2. The Fed was caught flat-footed in 2021-22, but it's recent projections for inflation and unemployment have been closer to the mark



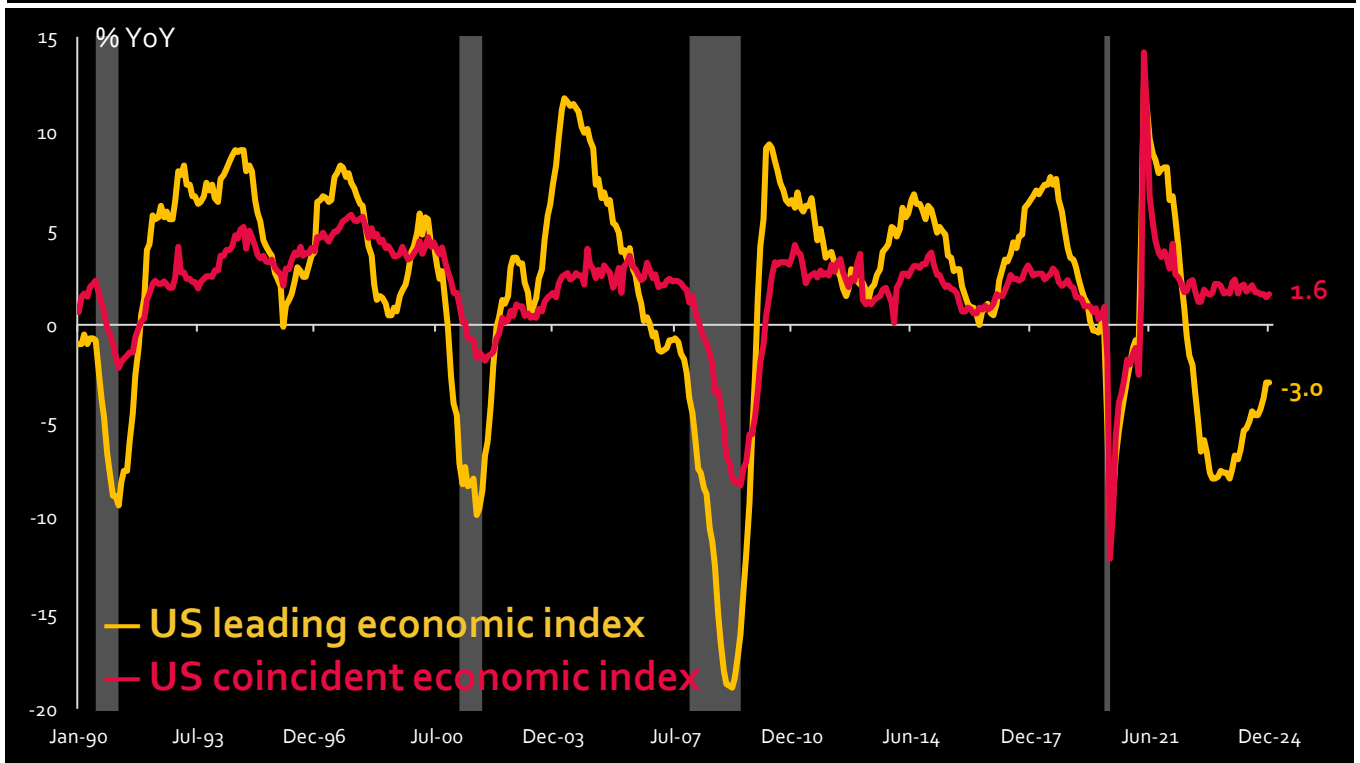
Source: Bloomberg, Federal Reserve

Chart 2. Term premium on UST securities start to decline again, as the US government proves to be in no hurry to execute its policy agenda



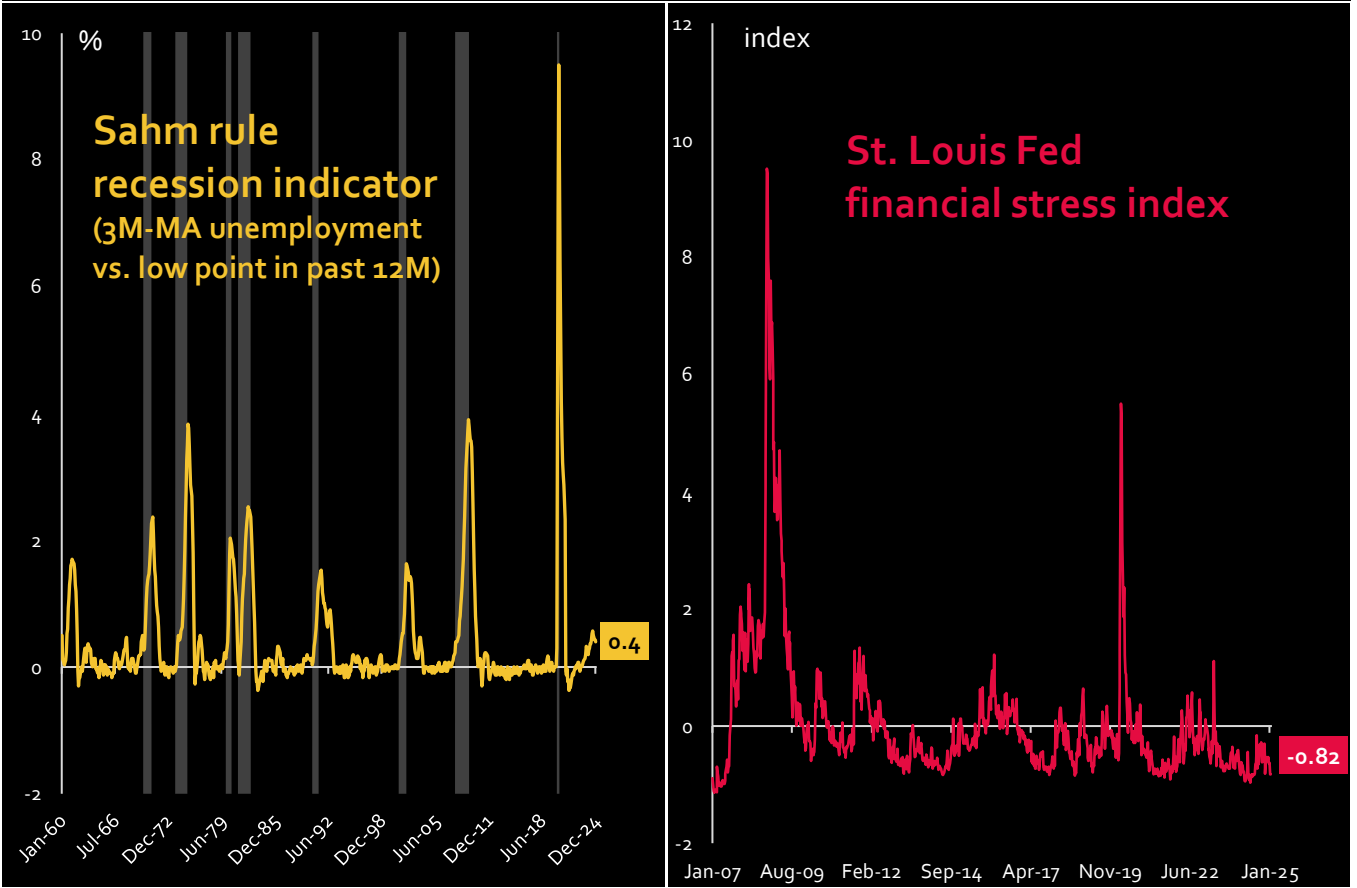
Source: Bloomberg, calculations by BCA Economist

Chart 3. Leading economic index begins rebound as 'imminent slowdown' ceased to materialize



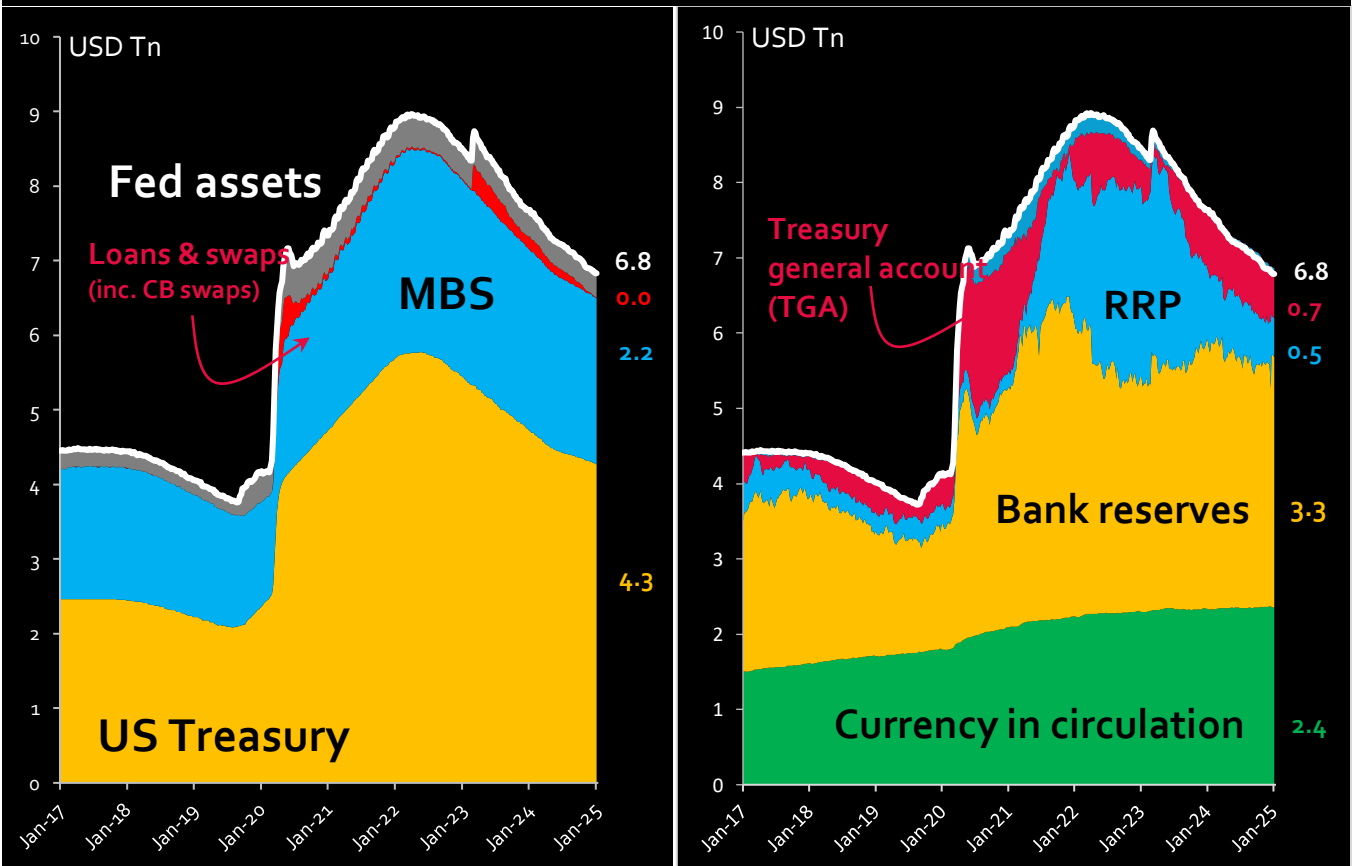
Source: Conference Board

Panel 3. Sahm rule seems to be broken as Fed projects better growth prospects



Source: St. Louis Fed

Panel 4. The US government is unlikely to add supply to the UST market and absorb more global liquidity, given the still ample TGA and the reinstated debt ceiling.



Source: St. Louis Fed

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Jan	-1 mth	Chg (%)
US	4.50	Dec-24	1.60	Baltic Dry Index	715.0	997.0	-28.3
UK	4.75	Nov-24	2.25	S&P GSCI Index	564.4	547.9	3.0
EU	2.90	Jan-25	0.50	Oil (Brent, \$/bbl)	76.9	74.4	3.3
Japan	0.50	Jan-25	-3.70	Coal (\$/MT)	120.2	127.6	-5.8
China (lending)	2.00	Sep-24	4.25	Gas (\$/MMBtu)	3.12	3.39	-8.0
Korea	3.00	Nov-24	1.10	Gold (\$/oz.)	2,794.6	2,606.5	7.2
India	6.50	Feb-23	1.28	Copper (\$/MT)	9,008.7	8,794.9	2.4
Indonesia	5.75	Jan-25	4.18	Nickel (\$/MT)	15,180.4	15,189.8	-0.1
				CPO (\$/MT)	1,037.5	1,120.4	-7.4
				Rubber (\$/kg)	2.02	1.99	1.5
Money Mkt Rates	30-Jan	-1 mth	Chg (bps)	External Sector	Dec	Nov	Chg (%)
SPN (1Y)	6.70	6.88	-17.5	Export (\$ bn)	23.46	24.00	-2.24
SUN (10Y)	6.95	7.01	-5.2	Import (\$ bn)	21.22	19.63	8.10
INDONESIA (O/N, Rp)	5.86	6.15	-29.5	Trade bal. (\$ bn)	2.24	4.37	-48.73
JIBOR 1M (Rp)	6.39	6.63	-23.9	Central bank reserves (\$ bn)*	155.7	150.2	3.65
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Prompt Indicators	Dec	Nov	Oct
Lending (WC)	8.68	8.72	-3.69	Consumer confidence index (CCI)	127.7	125.9	121.1
Deposit 1M	4.78	4.78	-0.49	Car sales (%YoY)	-6.4	-11.9	-3.9
Savings	0.67	0.66	0.37	Motorcycle sales (%YoY)	-5.5	-10.3	5.4
Currency/USD	30-Jan	-1 mth	Chg (%)	Manufacturing PMI	Dec	Nov	Chg (bps)
UK Pound	0.805	0.797	-1.04	USA	49.4	49.7	-30
Euro	0.962	0.961	-0.15	Eurozone	45.1	45.2	-10
Japanese Yen	154.3	156.8	1.65	Japan	49.6	49.0	60
Chinese RMB	7.245	7.299	0.76	China	50.5	51.5	-100
Indonesia Rupiah	16,260	16,135	-0.77	Korea	49.0	50.6	-160
				Indonesia	51.2	49.6	160
Capital Mkt	30-Jan	-1 mth	Chg (%)				
JCI	7,073.5	7,079.9	-0.09				
DJIA	44,882.1	42,573.7	5.42				
FTSE	8,646.9	8,121.0	6.48				
Nikkei 225	39,514.0	39,894.5	-0.95				
Hang Seng	20,225.1	20,041.4	0.92				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	3,521.3	3,402.4	118.98				
Govt. Bond	876.6	872.5	4.15				
Corp. Bond	5.9	7.1	-1.18				

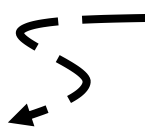
Source: Bloomberg, BI, BPS

Notes:

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	5.9	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4975	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6#	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00#	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97#	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102#	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0#	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections

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