

FOMC:

Pressured to cut, but forced to hold

31 July 2025

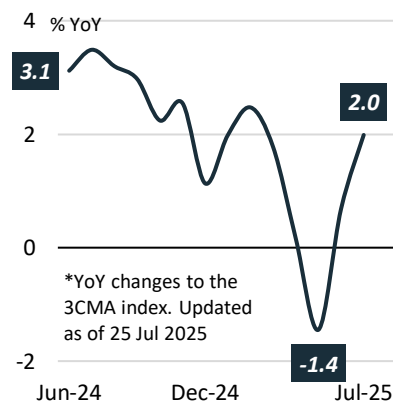
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BCA Consumer Spending Index*



BCA Business Transaction Index*



- **The Fed maintained its policy rate at 4.25-4.50%** in yesterday's FOMC meeting, resisting the political pressure to cut rates. While the decision was in line with market expectations, it appeared to have triggered a classic "higher yields, stronger dollars" reaction (**see Chart 1**), as **Fed Chairman Powell continued to demonstrate his "wait-and-see" bias.**

- The Fed justified its policy stance by highlighting the balance of risks to its dual mandate. On the maximum employment front, FOMC members saw no material weakening in the labour market, as the Trump administration's tighter immigration policies helped to offset the slowing demand by reducing the labour supply. **Meanwhile, tariffs are pushing up inflation, a trend Chairman Powell feared could leave inflation expectations unanchored.**

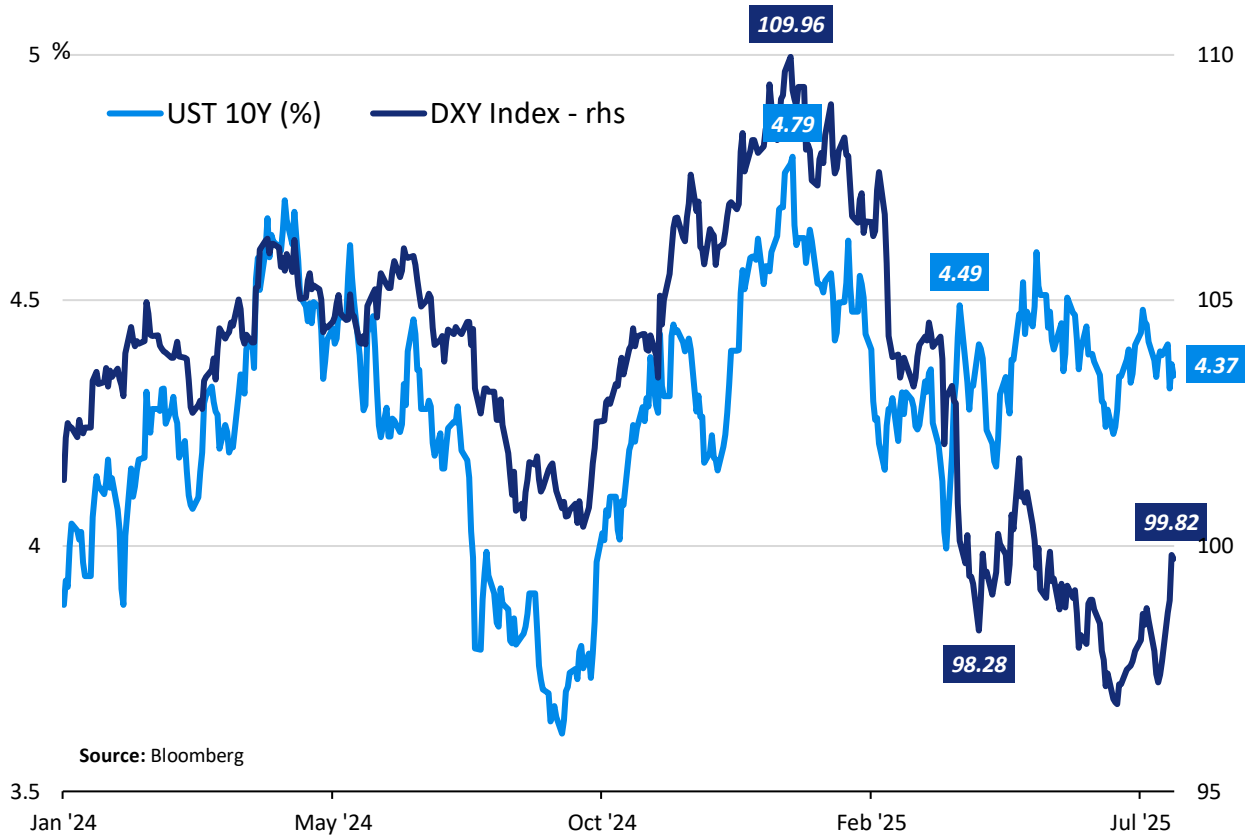
- Whether the tariff-induced inflationary effects will be transitory or more persistent depends on multiple factors, chief among them being importers' confidence in passing the extra costs on to consumers. As such, Chairman Powell's premonition appears well-grounded, as President Trump's fiscal expansion is expected to sustain consumption at a sufficiently robust level, at least for the time being.

- **The ideal scenario for the Fed in the short term, then, would be for the USD to regain some of its lost value** (-8.24% YTD currently), easing inflationary pressures via the exchange rate channel. This will require FOMC officials to continue pushing back against President Trump's calls for lower rates, as yielding to such pressure would amplify the debt monetisation concern, an issue that has been weighing on the USD's strength.

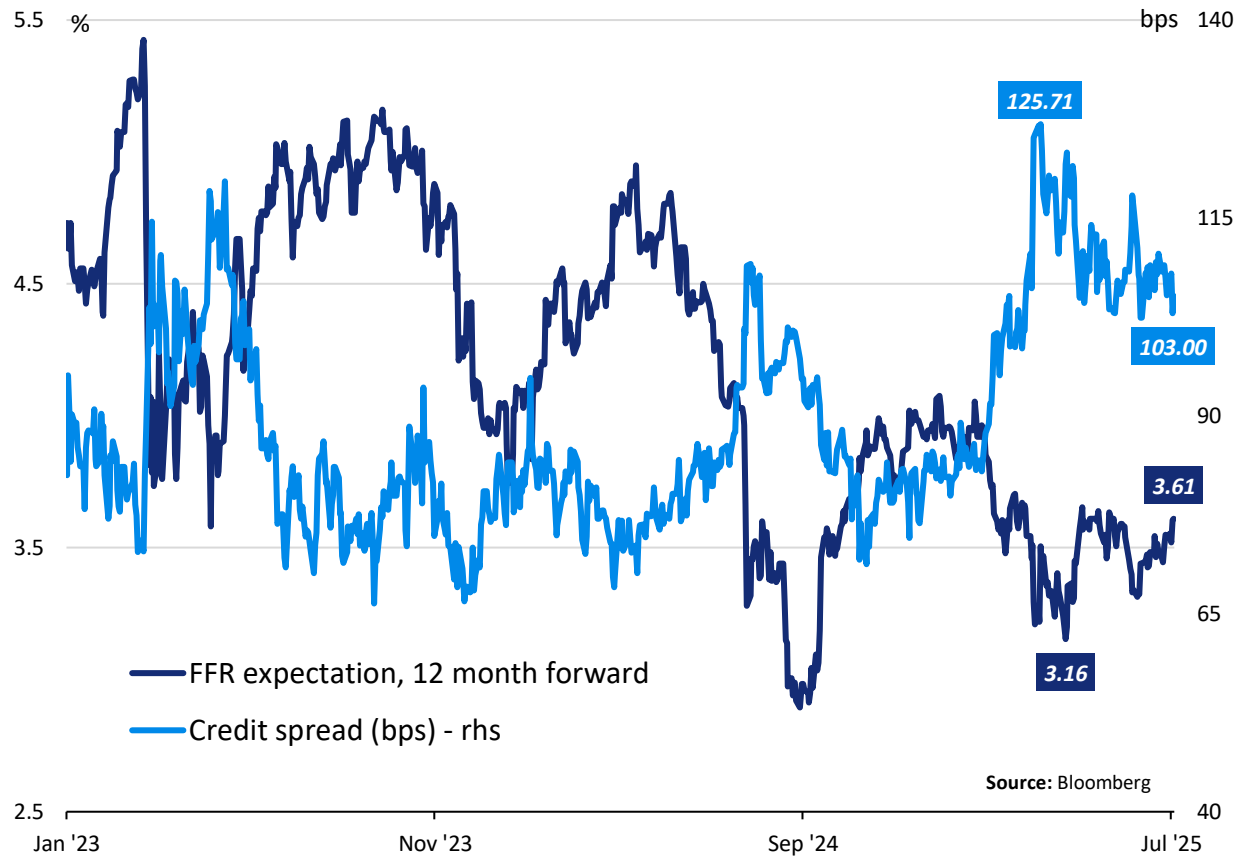
- However, whether the Fed can carry on the fight much longer is debatable. **The Fed boardroom splintered in yesterday's meeting**, with two FOMC officials dissenting in favour of a 25-bps rate cut. The dissenting votes are not without merit, as **the underlying data cited by Chairman Powell, though still strong, no longer point toward growth.**

- While coincident indicators may not yet be enough to shift the Fed from its current posture before the next FOMC meeting, the case for a rate cut may continue to grow stronger. This expectation may check the current spike in USD's value, easing the pressure on other currencies that may allow other central banks (such as Bank Indonesia) to adjust their policy rate. **The Fed's holding position, then, may provide Bank Indonesia a chance for at least one more rate cut** (bringing the BI rate to 5.00%), provided no idiosyncratic risks in IDR's fundamentals.

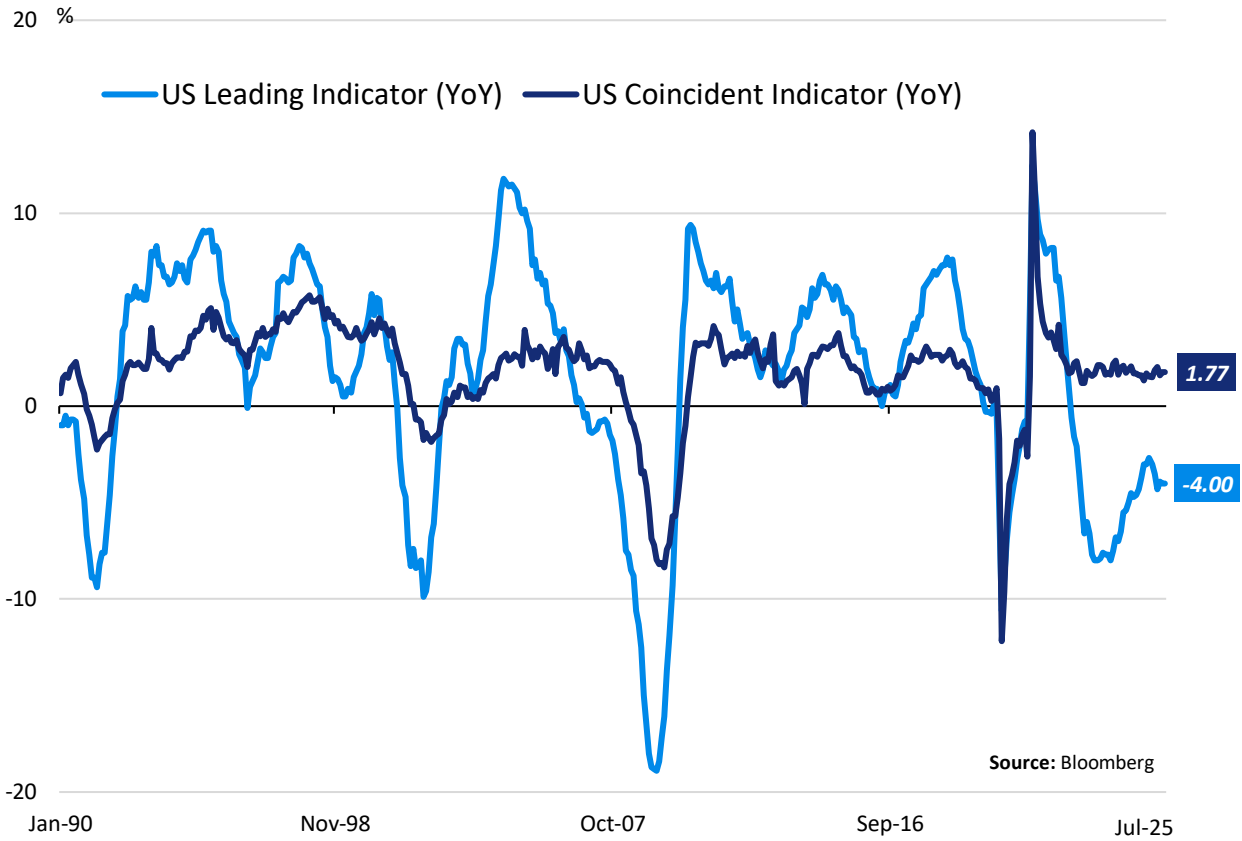
1 UST yields and the USD moves higher as the Fed continue to push back against cutting rates



2 Credit spreads are declining despite the limited FFR cut signal as the US economy remains robust



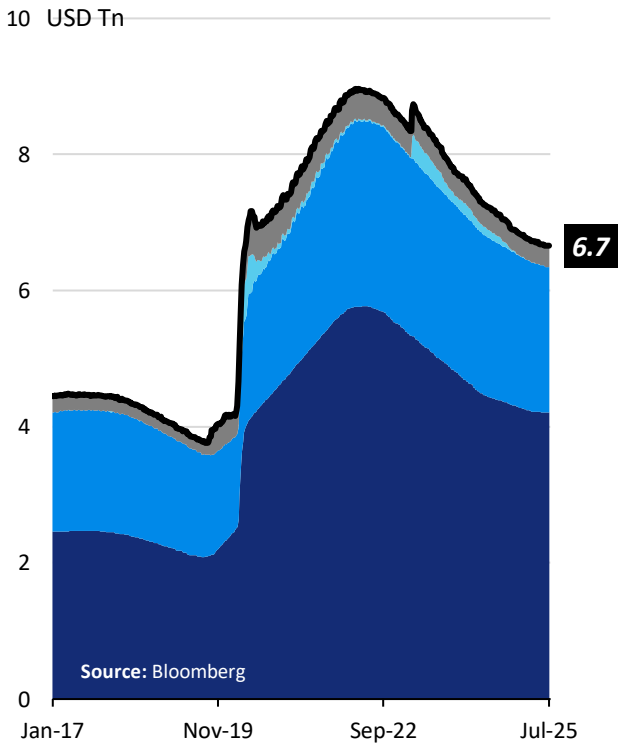
3 Despite the still-robust data, the US economy is not on the path towards higher growth



4 The Treasury may ramp up Bills issuance to increase the TGA

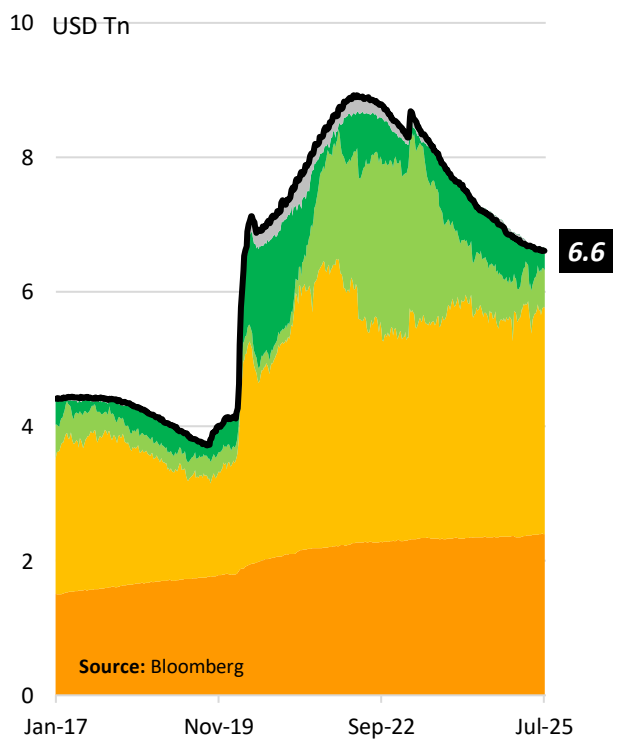
Fed balance sheet: Asset side

Other Loans and swaps MBS UST

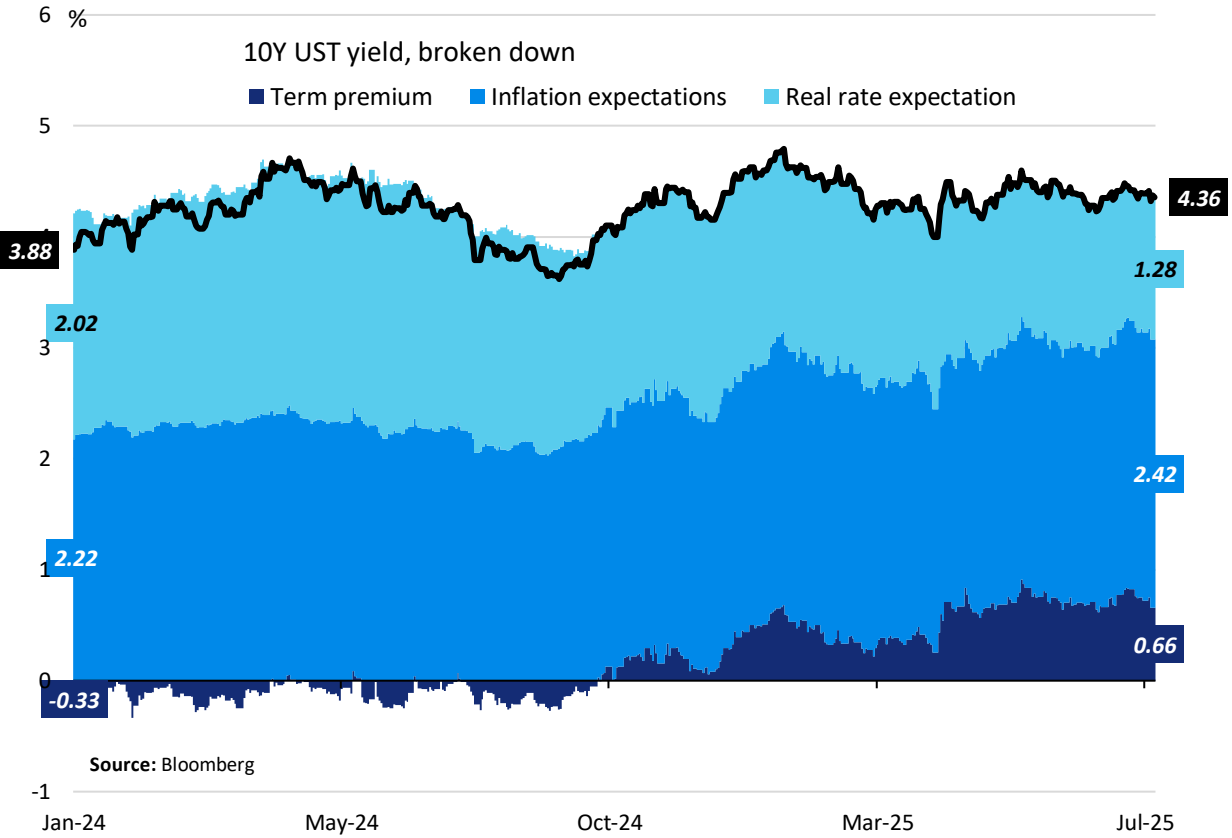


Fed balance sheet: Liabilities side

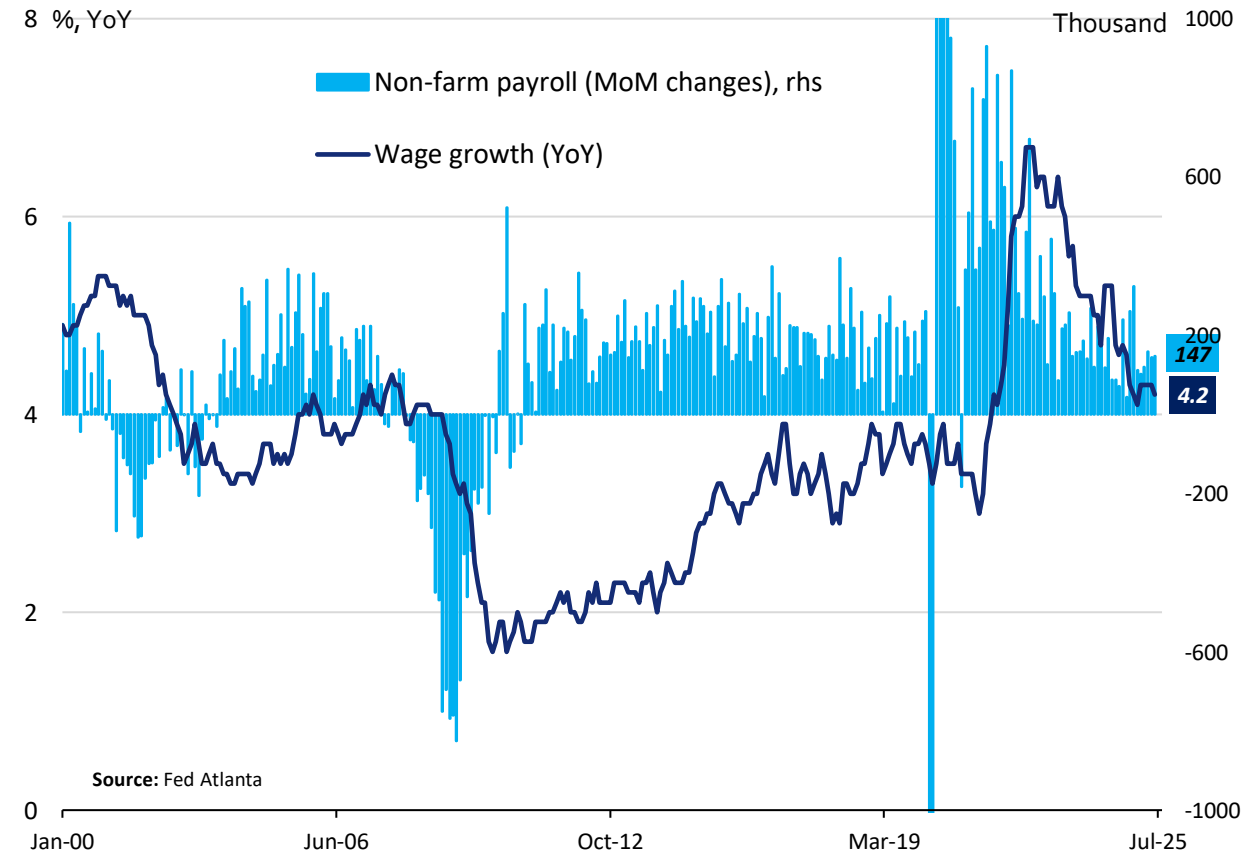
Others TGA RRP Bank reserves Currency in circulation



5 Rising inflation expectations and UST's weakening safe haven status drives up the yield



6 The US labour market is neither hot nor cold, leading to a slowing wage growth



Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Jul	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	1,995.0	1,521.0	31.2
UK	4.25	May-25	0.65	S&P GSCI Index	558.2	545.7	2.3
EU	2.15	Jun-25	0.15	Oil (Brent, \$/brl)	73.2	67.8	8.1
Japan	0.50	Jan-25	-2.80	Coal (\$/MT)	117.1	110.5	6.0
China (lending)	2.00	Sep-24	4.25	Gas (\$/MMBtu)	2.98	3.23	-7.7
Korea	2.50	May-25	0.30	Gold (\$/oz.)	3,275.2	3,274.3	0.0
India	5.50	Jun-25	3.40	Copper (\$/MT)	9,651.7	10,118.7	-4.6
Indonesia	5.25	Jul-25	3.38	Nickel (\$/MT)	14,812.6	15,059.7	-1.6
Money Mkt Rates	30-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	991.5	935.1	6.0
SPN (1Y)	5.25	5.83	-57.6	Rubber (\$/kg)	1.71	1.66	3.0
SUN (10Y)	6.54	6.64	-10.2	External Sector	May	Apr	Chg (%)
INDONIA (O/N, Rp)	4.76	5.17	-41.2	Export (\$ bn)	24.61	20.74	18.66
JIBOR 1M (Rp)	5.86	6.15	-29.5	Import (\$ bn)	20.31	20.59	-1.32
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Trade bal. (\$ bn)	4.30	0.16	2,608.75
Lending (WC)	8.66	8.66	-0.66	Central bank reserves (\$ bn)*	152.5	152.5	0.01
Deposit 1M	5.02	5.01	0.50	Prompt Indicators	Jun	May	Apr
Savings	0.69	0.68	0.32	Consumer confidence index (CCI)	117.8	117.5	121.7
Currency/USD	30-Jul	-1 mth	Chg (%)	Car sales (%YoY)	-22.6	-15.1	5.0
UK Pound	0.755	0.729	-3.49	Motorcycle sales (%YoY)	-0.3	-0.1	-3.0
Euro	0.877	0.853	-2.67	Manufacturing PMI	Jun	May	Chg (bps)
Japanese Yen	149.5	144.7	-3.25	USA	52.9	52.0	90
Chinese RMB	7.197	7.173	-0.34	Eurozone	49.5	49.4	10
Indonesia Rupiah	16,393	16,205	-1.15	Japan	50.1	49.4	70
Capital Mkt	30-Jul	-1 mth	Chg (%)	China	50.4	48.3	210
JCI	7,549.9	6,897.4	9.46	Korea	48.7	47.7	100
DJIA	44,461.3	43,819.3	1.47	Indonesia	46.9	47.4	-50
FTSE	9,136.9	8,798.9	3.84				
Nikkei 225	40,654.7	40,150.8	1.26				
Hang Seng	25,176.9	24,284.2	3.68				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	3,336.8	3,435.7	-98.91				
Govt. Bond	918.7	995.6	-76.96				
Corp. Bond	4.3	5.2	-0.92				

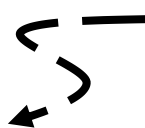
Source: Bloomberg, BI, BPS

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	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	6.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.0
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.02
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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