

FOMC:

In a holding pattern ahead of policy whirlwinds

29 January 2026

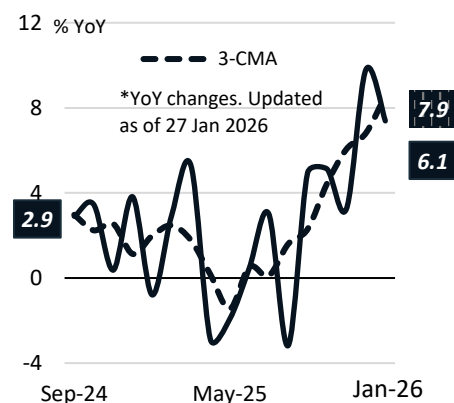
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BCA Consumer Spending Index*



BCA Business Transaction Index*



- The Fed kept its policy rate at a 3.50-3.75% range in the first FOMC meeting of the year, in line with expectations. **No noticeable policy changes observed during the meeting**, as the post-meeting announcement reveals the central bank's more sanguine outlook on both the labour market and inflation conditions (*see Charts 3 & 6*).

- Rather than the short-term US macroeconomic outlook, the market appears to be more concerned with recent developments surrounding the USD (*see Chart 1*). The DXY index has lost 2.08% of its value so far in 2026, with further depreciation expected amidst the risk of another US government shutdown.

- While Fed Chairman Powell has refrained from commenting on the USD, this does not imply that the currency will be allowed to weaken considerably in the months ahead. **A weaker USD could feed into US inflation readings, which is a particularly sensitive issue ahead of the midterm elections.** On the other hand, however, a weaker USD is also a central part of President Trump's economic manifesto, meaning that political pressures aimed at bolstering the currency are unlikely.

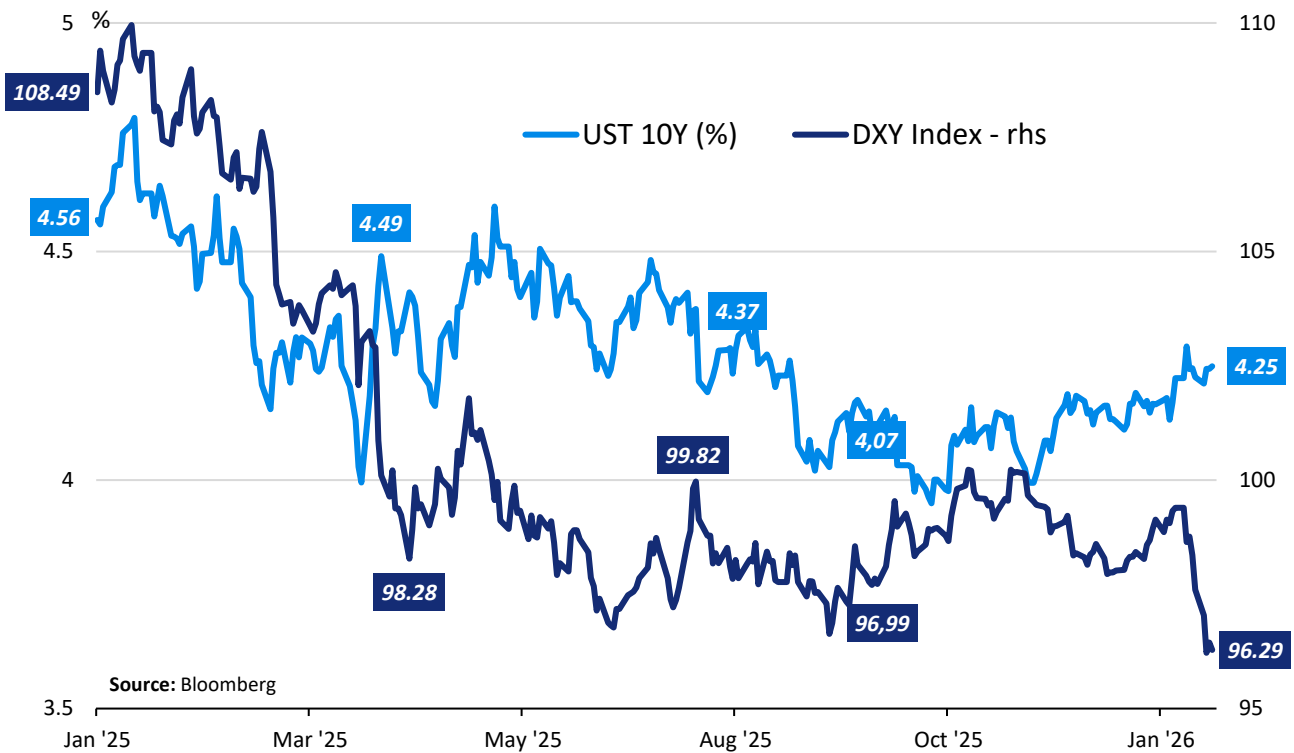
- If anything, political pressure may continue to be directed at the Fed to lower the FFR. Robust domestic demand and a weaker USD have done little to ease inflation expectations, which, together with growing concerns over debt sustainability, may keep UST yields elevated (*see Chart 5*). **The only viable avenue for the US government to lower its borrowing costs, therefore, is to push down interest rate expectations** – something that the Fed, for now, comfortably maintains (*see Chart 2*).

- The **incompatibility in US policy direction may therefore continue to warrant heightened alertness in other markets**, particularly those currently exposed to idiosyncratic risks, such as Indonesia and other Asian economies. While the USD's recent weakness provides some breathing room for the Rupiah (and other currencies), volatility is likely to remain a defining theme, as the USD

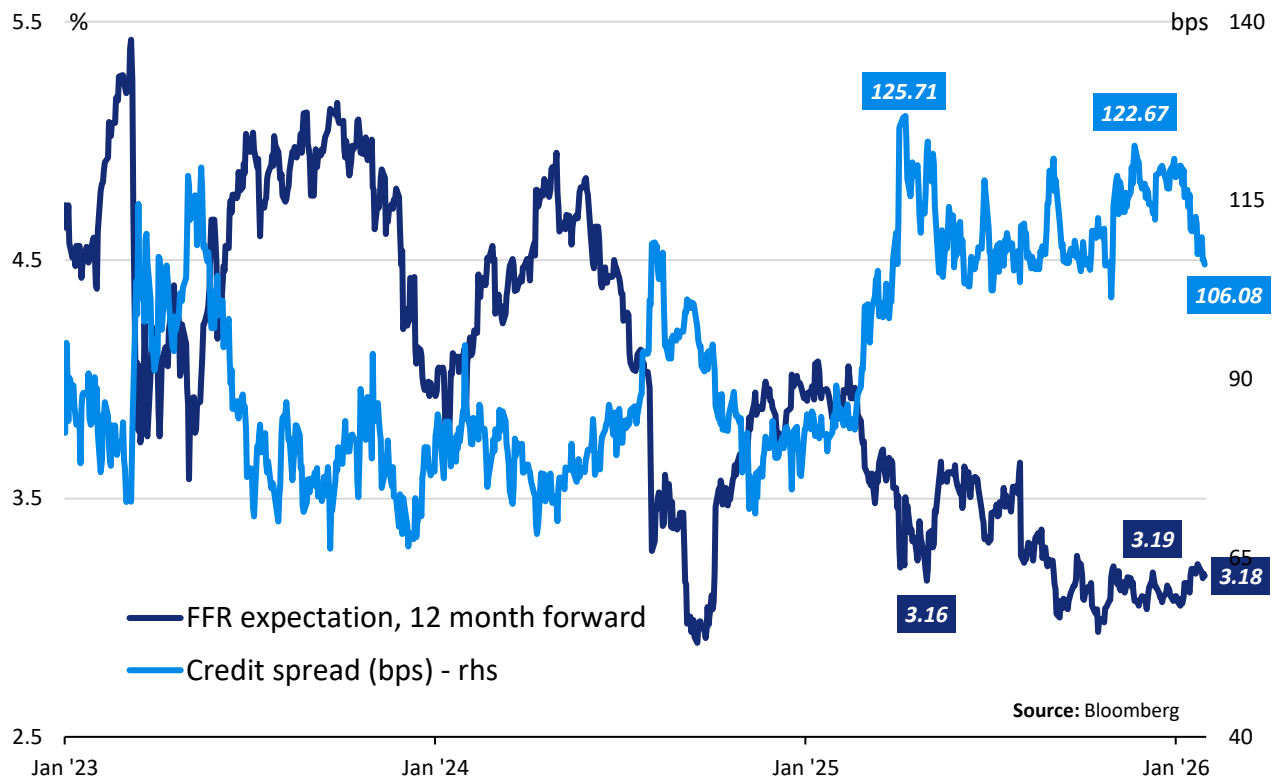
may continue to sway in line with the US government's evolving policy priorities.

- Thankfully, the ample FX reserves position means that Bank Indonesia can safely intervene amid episodic pressures on the Rupiah**, while other liquidity-absorption tools (such as SRBI issuance) may also be deployed. At the same time, the recent narrow-based acceleration in loan growth may compel BI to maintain its policy-loosening bias, although a more definitive signal will be needed before the central bank can safely lower its policy rate again.

1 The USD tumbles recently, but the trend may reverse closer to the mid-term elections

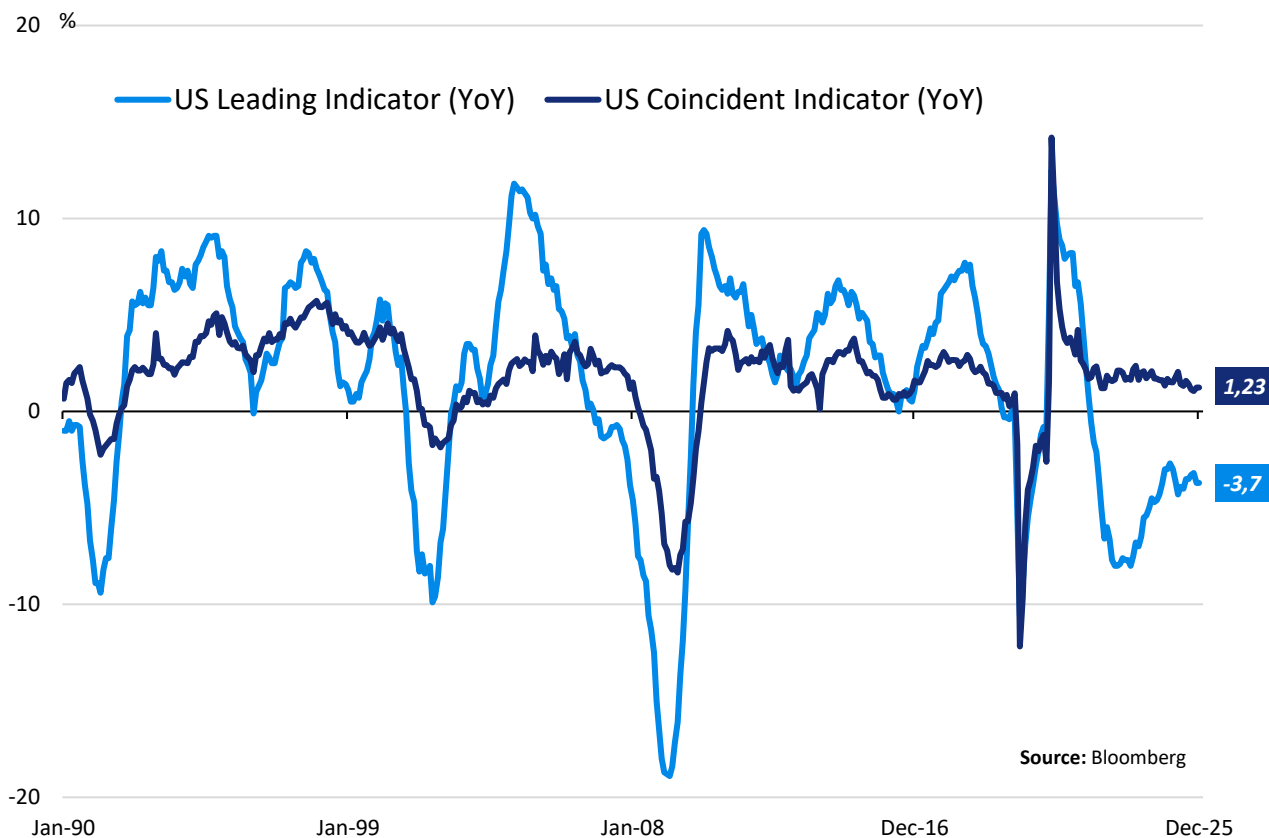


2 US credit spreads narrow as the Fed signals no urgency to lower the policy rate



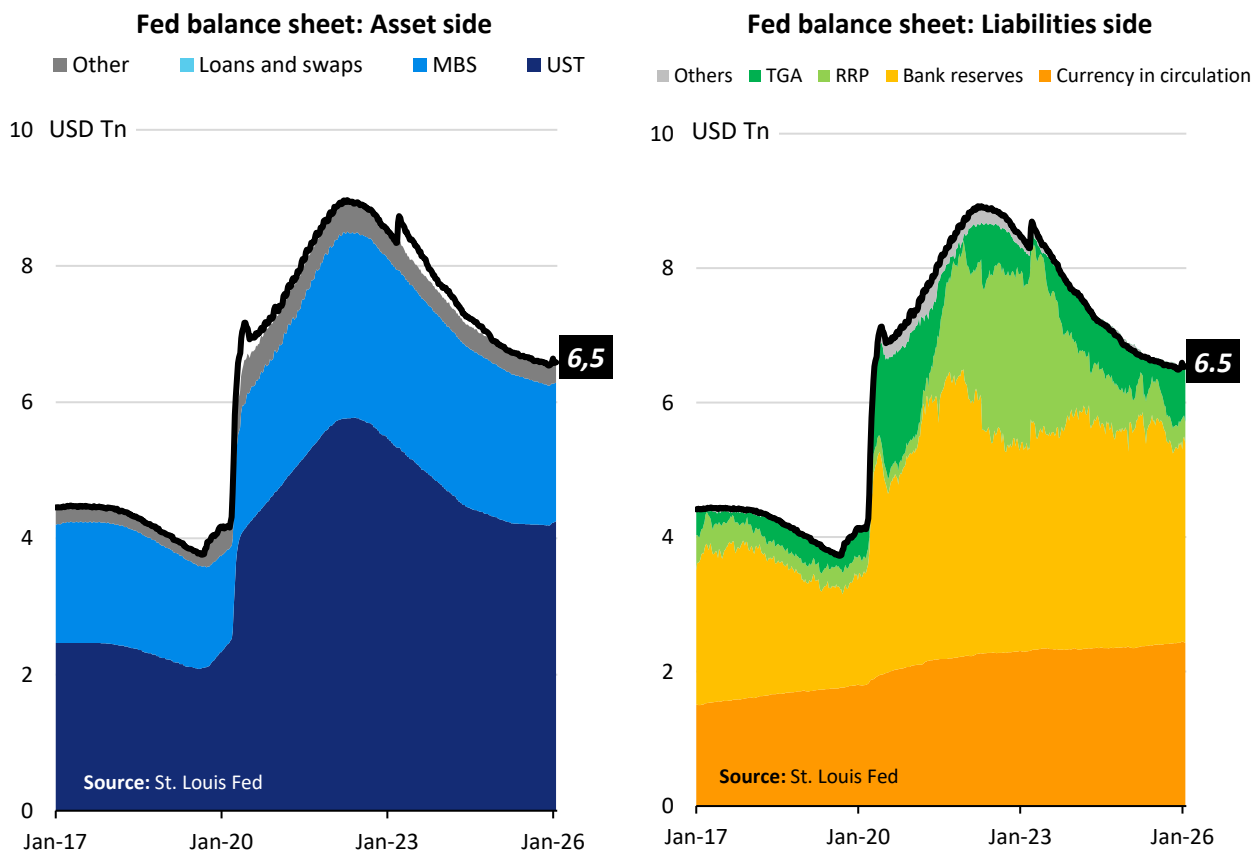
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US economy remains robust despite a concerning signal from the leading indicator

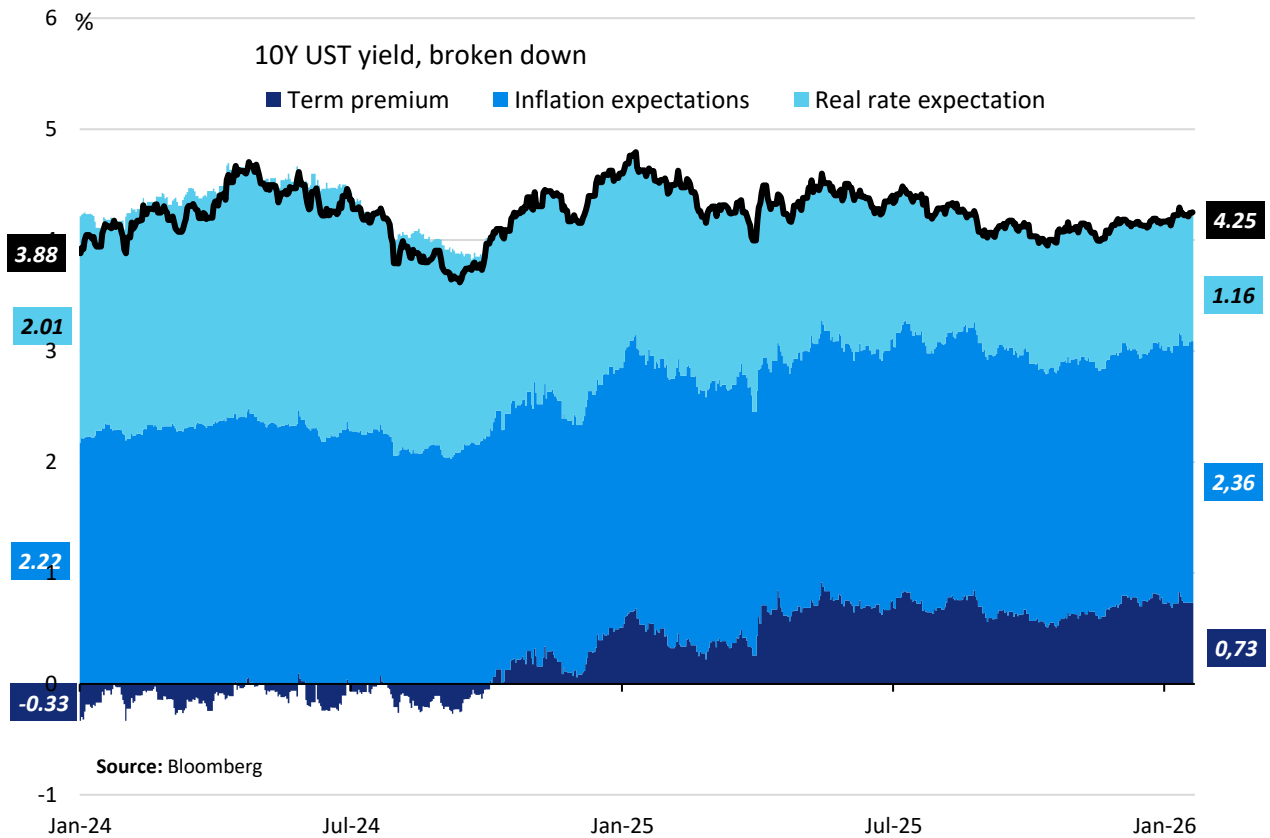


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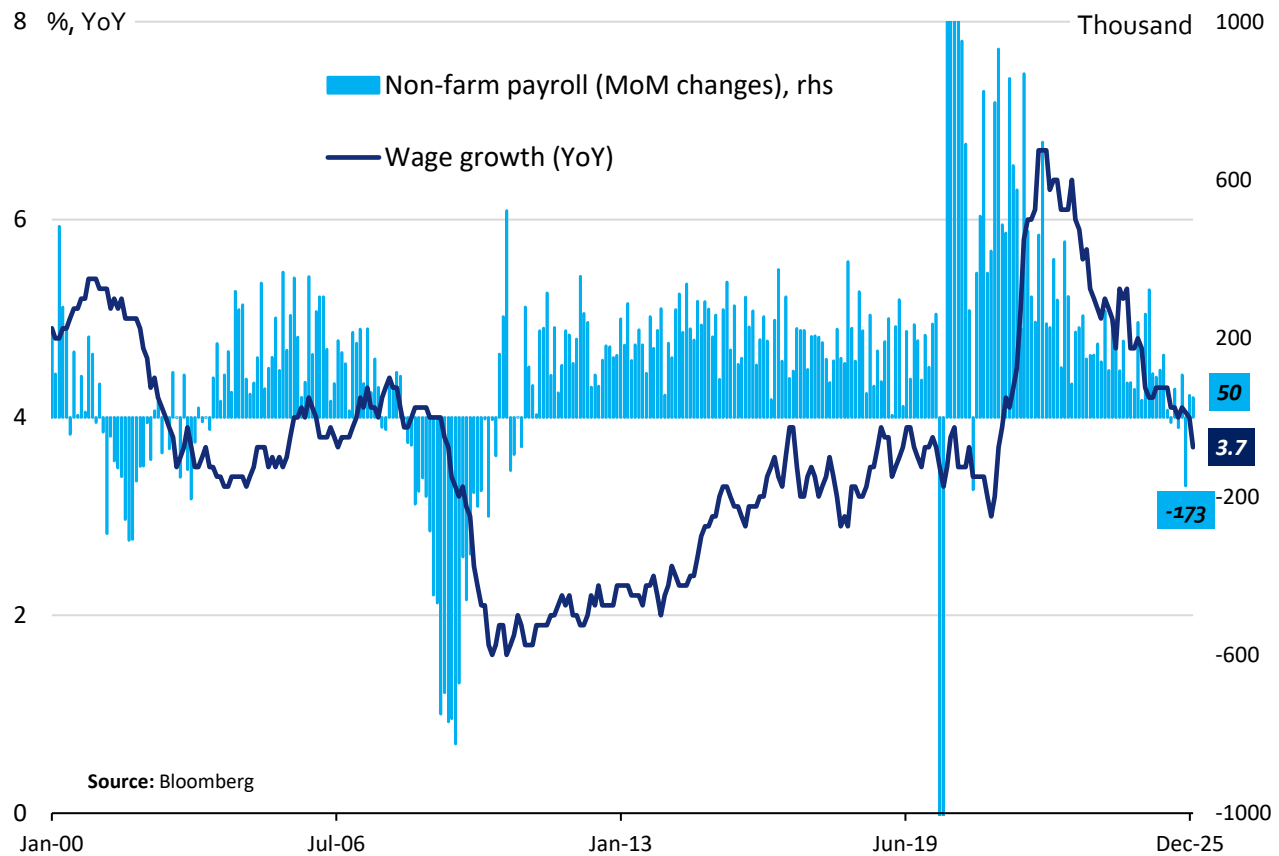
The end of QT and the start of the RMP will expand the Fed's balance sheet again



5

Lowering rate expectations may be the **US government's only option to lower its lending rate**

6

The Fed is yet to signal an end to policy loosening, given the still-weak labour market condition

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	28-Jan	-1 mth	Chg (%)
US	3.75	Sep-25	1.05	Baltic Dry Index	1,762.0	1,877.0	-6.1
UK	3.75	Aug-25	0.35	S&P GSCI Index	584.1	550.4	6.1
EU	2.15	Jun-25	0.25	Oil (Brent, \$/bbl)	65.8	60.6	8.5
Japan	0.75	Jan-25	-1.35	Coal (\$/MT)	111.5	108.5	2.8
China (lending)	2.00	Sep-24	3.55	Gas (\$/MMBtu)	30.72	3.31	828.1
Korea	2.50	May-25	0.20	Gold (\$/oz.)	5,064.3	4,533.2	11.7
India	5.25	Jun-25	3.92	Copper (\$/MT)	13,048.9	12,182.2	7.1
Indonesia	4.75	Sep-25	1.83	Nickel (\$/MT)	18,553.3	15,637.7	18.6
Money Mkt Rates	28-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	1,022.1	998.2	2.4
SPN (1Y)	4.13	4.78	-65.0	Rubber (\$/kg)	1.89	1.84	2.7
SUN (10Y)	6.39	6.13	26.9	External Sector	Sep	Aug	Chg (%)
INDONIA (O/N, Rp)	3.68	4.25	-56.3	Export (\$ bn)	24.68	24.96	-1.14
JIBOR 1M (Rp)	5.03	5.03	-0.1	Import (\$ bn)	20.34	19.48	4.42
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	4.34	5.49	-20.85
Lending (WC)	8.62	8.64	-1.78	Central bank reserves (\$ bn)*	148.7	150.7	-1.31
Deposit 1M	4.89	4.86	2.28	Prompt Indicators	Oct	Sep	Aug
Savings	0.71	0.70	0.82	Consumer confidence index (CCI)	121.2	115.0	117.2
Currency /USD	28-Jan	-1 mth	Chg (%)	Car sales (%YoY)	-4.4	-15.1	-19.0
UK Pound	0.732	0.741	1.24	Motorcycle sales (%YoY)	8.4	7.3	0.7
Euro	0.843	0.849	0.74	Manufacturing PMI	Dec	Nov	Chg (bps)
Japanese Yen	154.9	156.6	1.10	USA	51.8	52.2	-40
Chinese RMB	6.963	7.005	0.61	Eurozone	48.8	49.6	-80
Indonesia Rupiah	16,822	16,762	-0.36	Japan	50.0	48.7	130
Capital Mkt	28-Jan	-1 mth	Chg (%)	China	50.1	49.9	20
JCI	8,951.0	8,537.9	4.84	Korea	50.1	49.4	70
DJIA	49,098.7	48,711.0	0.80	Indonesia	51.2	53.3	-210
FTSE	10,143.4	9,870.7	2.76				
Nikkei 225	53,076.6	50,750.4	4.58				
Hang Seng	26,844.0	25,818.9	3.97				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	4,186.7	4,017.6	169.11				
Govt. Bond	878.7	1,343.0	-464.38				
Corp. Bond	4.7	4.1	0.64				

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

	2020	2021	2022	2023	2024	2025E	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.2	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5014	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9*	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75*	4.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05*	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468*	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690*	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	40.0	33.8

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (*) for 2025 are final; other numbers for 2025 are our projections

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