

## BI and Fed Policy:

# No peace for rates

18 June 2026

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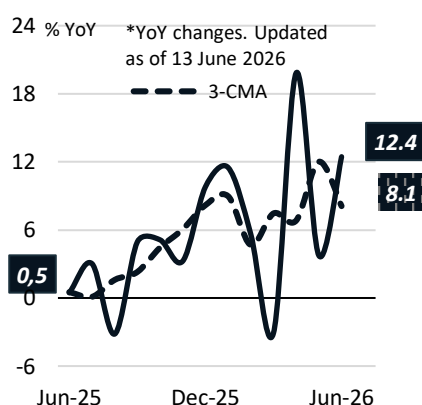
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### BCA Consumer Spending Index\*



### BCA Business Transaction Index\*



## FOMC: The Silent Hawk

- **The Fed kept its policy rate unchanged at 3.50%-3.75%, unanimously, under new chairman Kevin Warsh which was widely expected.** The surprise came from the hawkish members, as the projections were split evenly: 9 members expected interest rates to rise, while the other 9 expected no rise (with 1 expecting a cut), and Warsh himself did not vote.

- **The meeting marks a pro-stability path forward.** The Fed's median projection for PCE inflation by year-end is 3.6% (up from 2.7% in March). In response, US markets closed with stocks edging lower, short-term yields rising, and market expectations jumping to an 85% probability of a hike this year.

- The other significant change is in how the Fed will communicate. The FOMC statement was cut to only one-third the length of the previous one, focusing solely on current conditions **and eliminating forward guidance.** Beyond the statement, Fed communication will be less frequent, reserved only for truly important matters.

- The market appears uncertain about the significance of this communication shift and whether it will truly improve price discovery by reducing Fed-generated noise. However, in theory, **less forward guidance also implies greater volatility around economic data releases and could cause other central banks to struggle to align their policies effectively.**

- Communication is only one of five task forces on Warsh's agenda; the other four are: the Fed's balance sheet, the use of and reliance on existing data sources, productivity and jobs, and the Fed's inflation framework. What can we anticipate from this new task force? Based on Warsh's previous remarks, one might speculate that it could involve adjustments to the inflation target, productivity and output gap calculations. **Or, essentially, could it be a move to pave the way for lower policy rates and a shrinking balance sheet? Time will tell.**

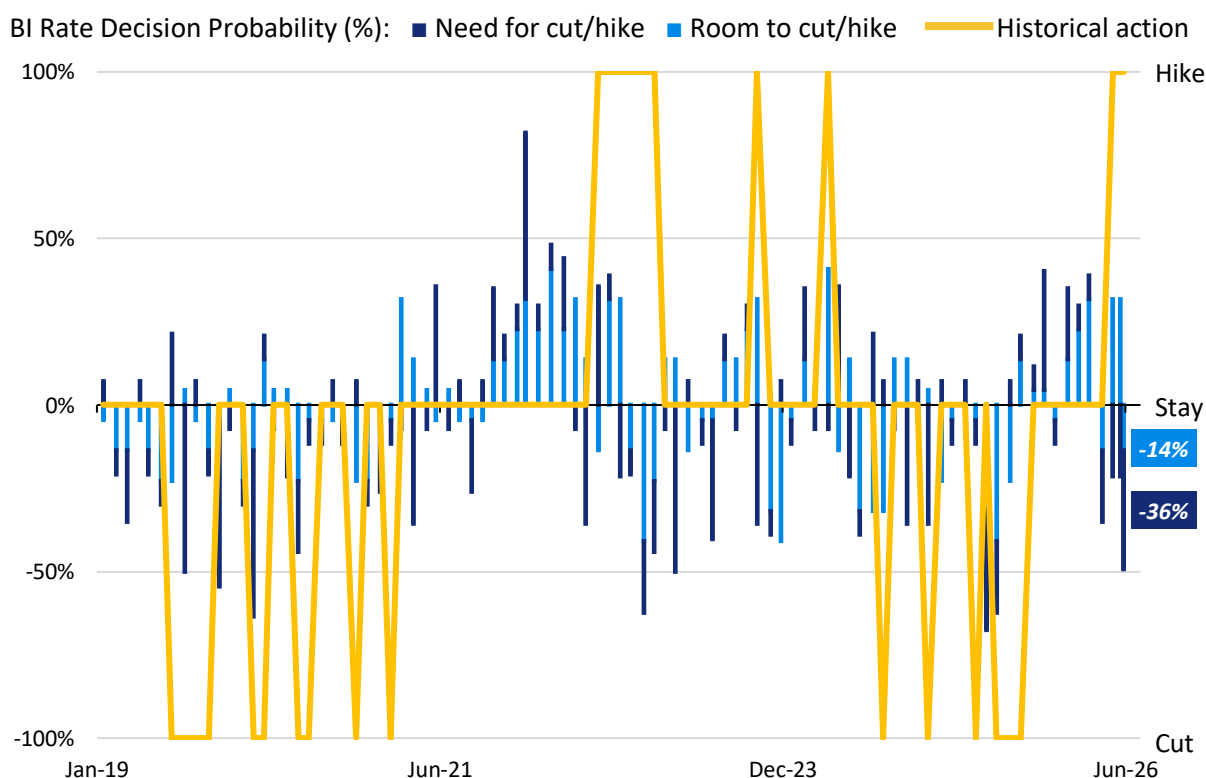
- Recent developments present a less hawkish outlook: a potential US-Iran deal and the looming midterm election may also soften

Trump's stance on the unpopular war. Nevertheless, the normalization of oil prices does not alter the fact that the US M2-to-GDP ratio was already elevated, thereby severely limiting the Fed's room to cut rates even before the war. Our current expectation for Fed rates is broadly in line with market consensus: **one rate hike this year and potentially one more in 2027.**

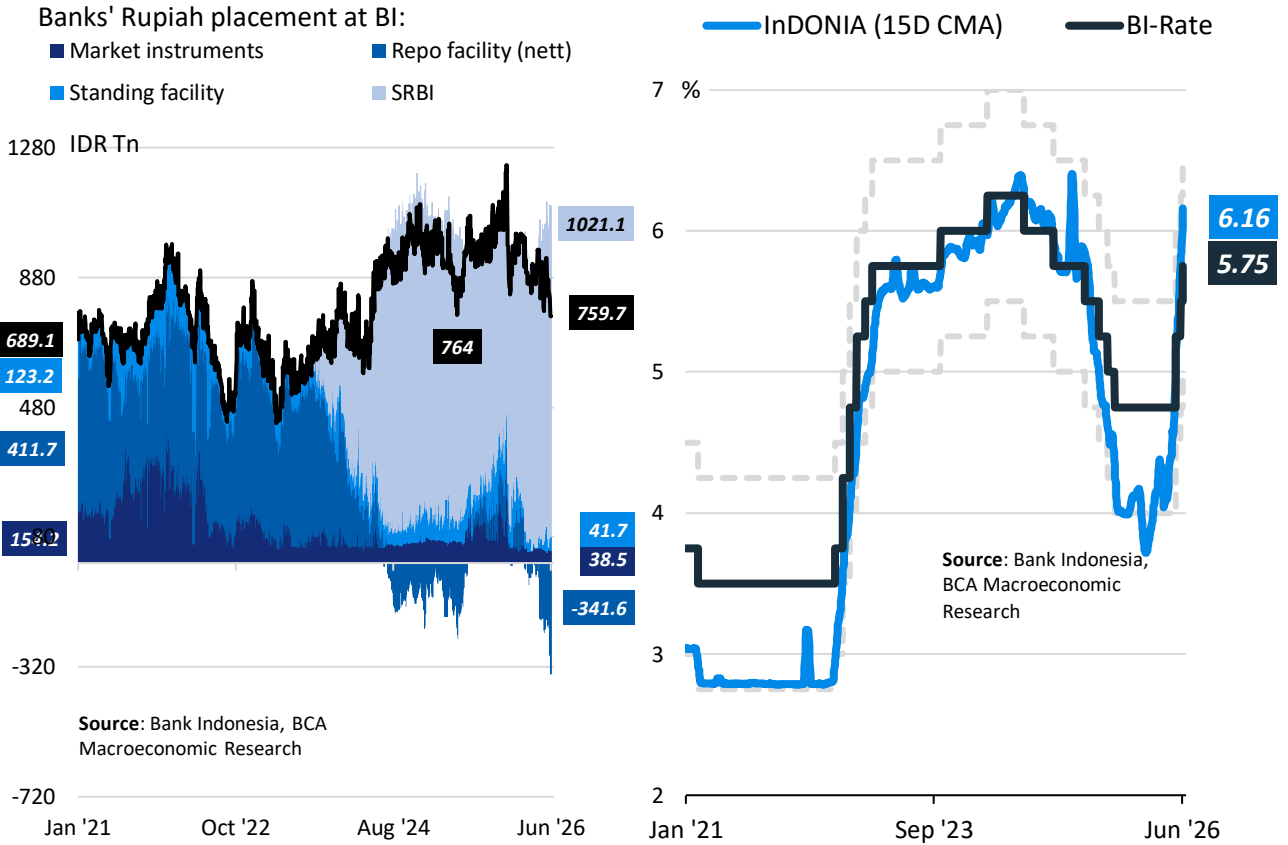
## BI Rate: The tightening continues

- Reacting to the Fed's hawkish tone and the ensuing pressure on emerging market assets, **Bank Indonesia (BI) raised its benchmark policy rate by 25 bps to 5.75%** during the June 2026 meeting (**making a total of 100 bps hike in the last two months**). Unfortunately, this has not yet offset the Fed effect, resulting in the USD/IDR exchange rate depreciating by 145 points (-0.82%) after the announcement.
- In addition to the Fed, **investors are seemingly adopting a 'wait-and-see' stance ahead of MSCI announcements** concerning Indonesia's emerging market status and whether MSCI will lift its freeze on adding new index constituents.
- To further defend the currency, **BI once again reduced the threshold for FX purchases** without underlying documents from USD 25,000 to USD 10,000 per person per month and adjusted the threshold for documentary requirements for outbound fund transfers in foreign currency from an equivalent of over USD 50,000 to an equivalent of over USD 25,000 (both effective July 1st). This move is also highly anticipated, **given that 'other investment' was a significant contributor to the Q1 balance of payments (BoP) deficit**.
- A rather surprising development is that **credit growth remained robust, sharply accelerating to 11.51% YoY in May-26 (up from 9.98% YoY in Apr-26)**. We assume government-related programs are a key driver, much like they were for Q1 economic growth, particularly with the introduction of another program, namely the establishment of PT Danantara Sumberdaya Indonesia (DSI).
- Looking ahead, we expect **BI to maintain a higher-for-longer policy stance, with an additional 25-50 bps hike for this year still on the table, pretty much in line with the Fed**. The easing of tensions in the Middle East has indeed reduced pressure on energy prices; however, the current exchange rate still poses an inflation risk, and there is still a risk of food inflation due to El Niño in H2-26.

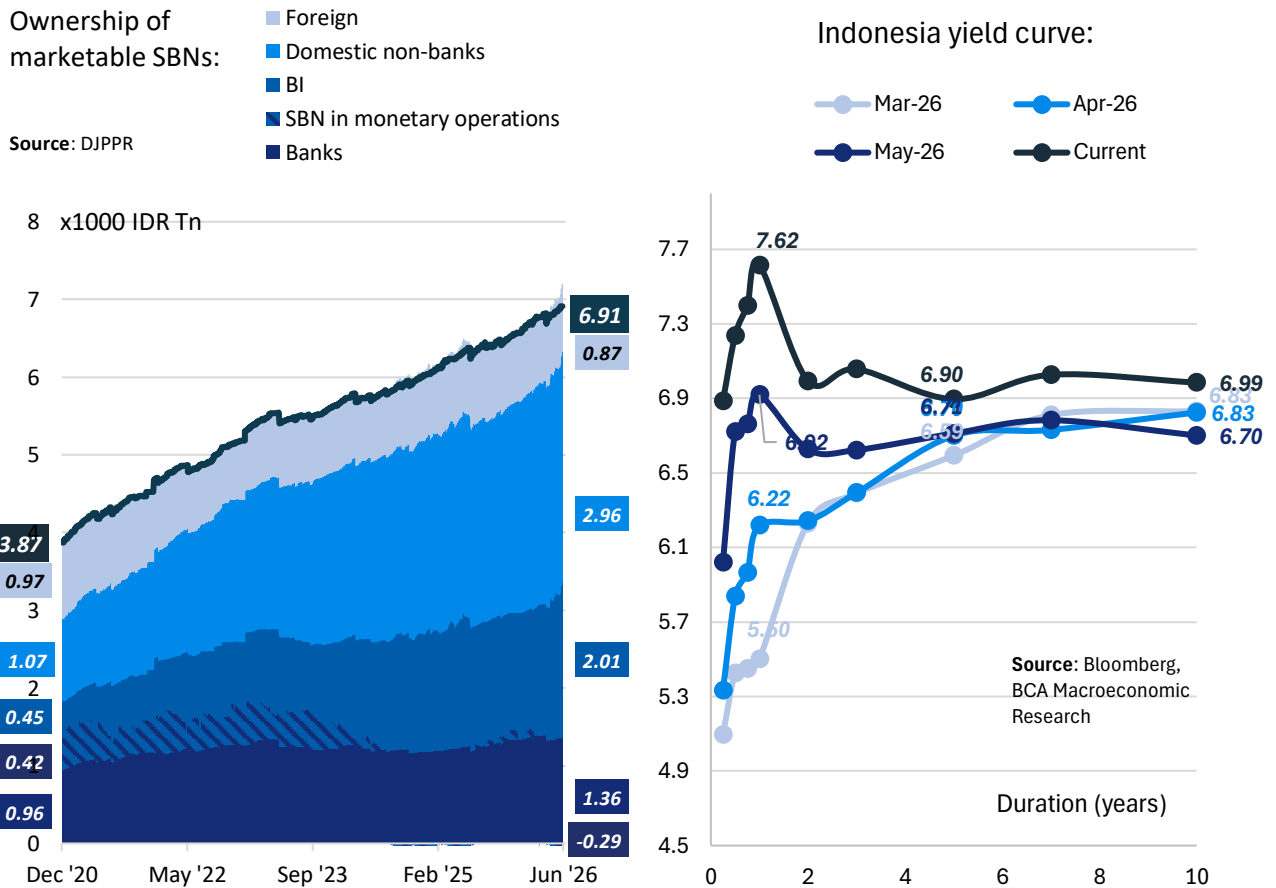
### 1 BI continues to hike against domestic model probabilities to defend the Rupiah



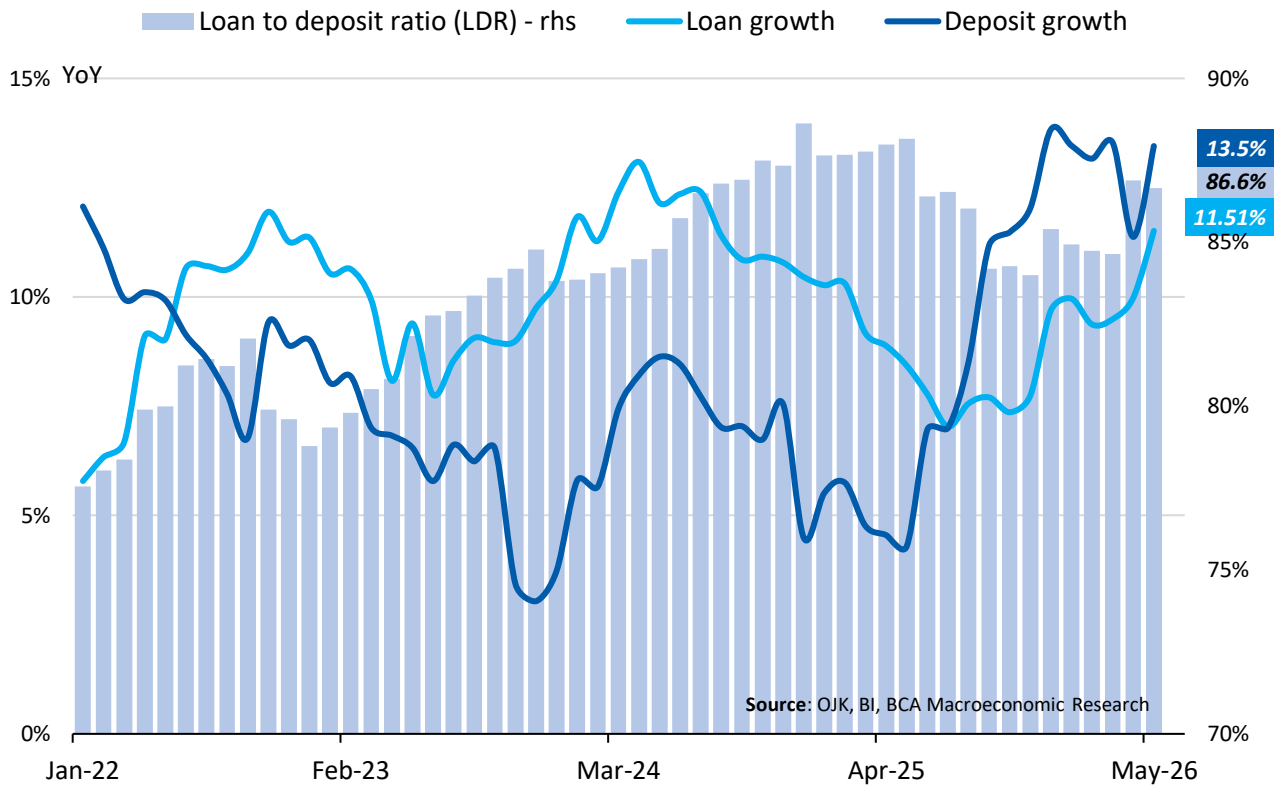
## 2 InDONIA surges past the BI rate as aggressive SRBI issuance outpaces repo liquidity injections



## 3 BI signals greater tolerance for higher yields, aimed at attracting capital inflows



**Both loan and deposit growth accelerate sharply despite the higher interest rate environment**

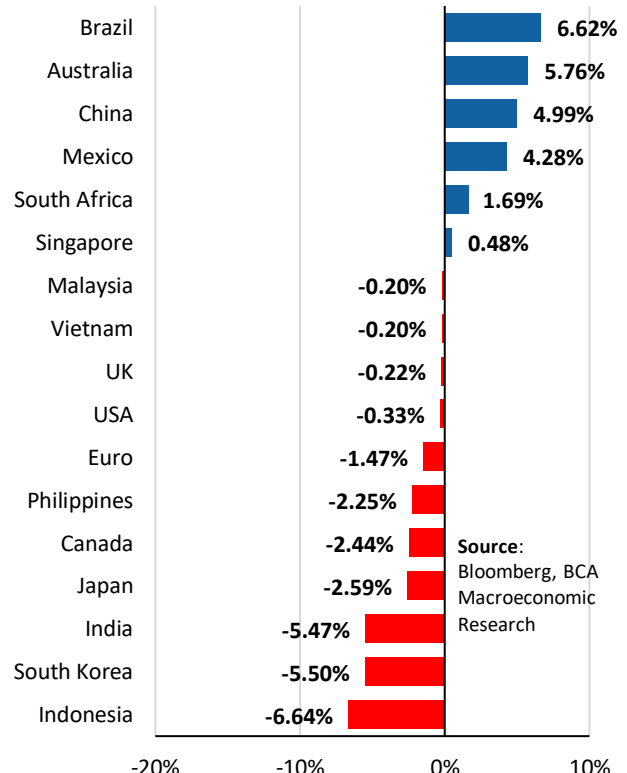


**BI may need to keep its policy rate high as inflation risks may gnaw on the real interest rate**

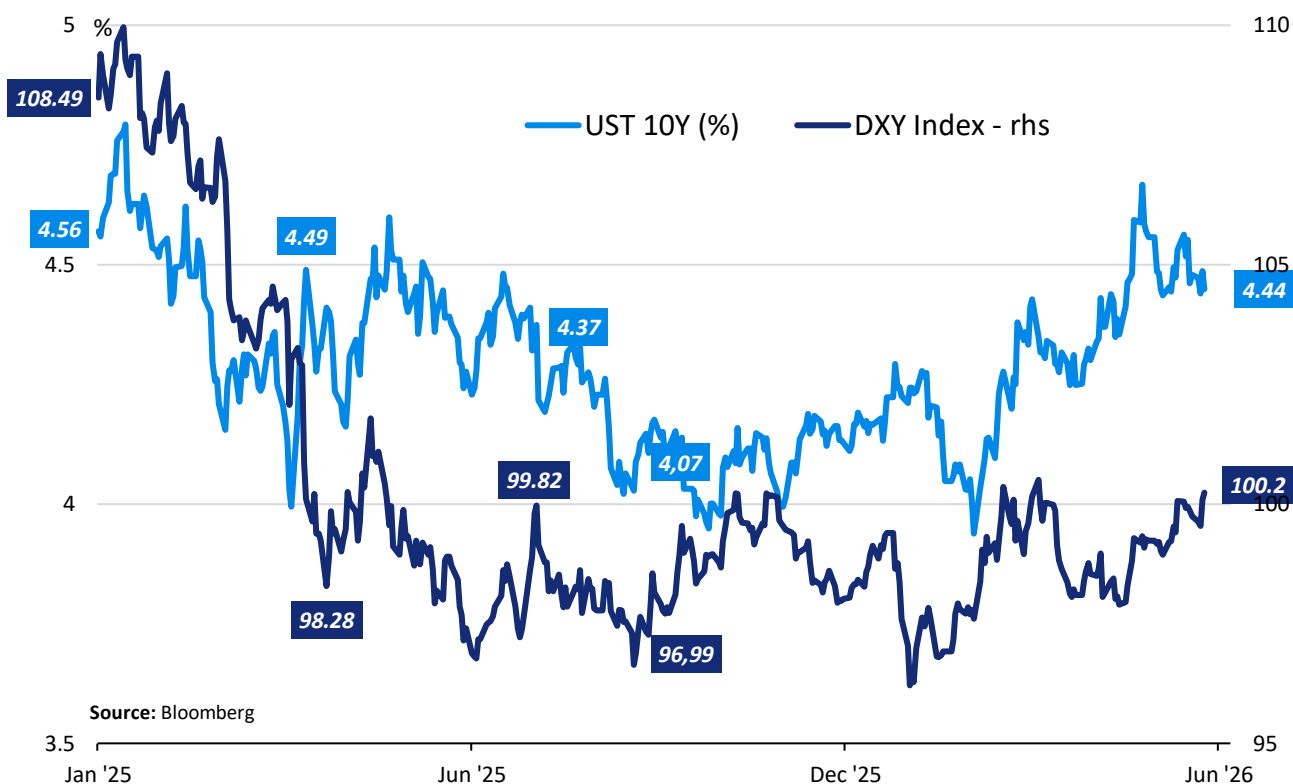
**Real interest rates (10Y Sovereign bond yield - CPI inflation, %), per country:**



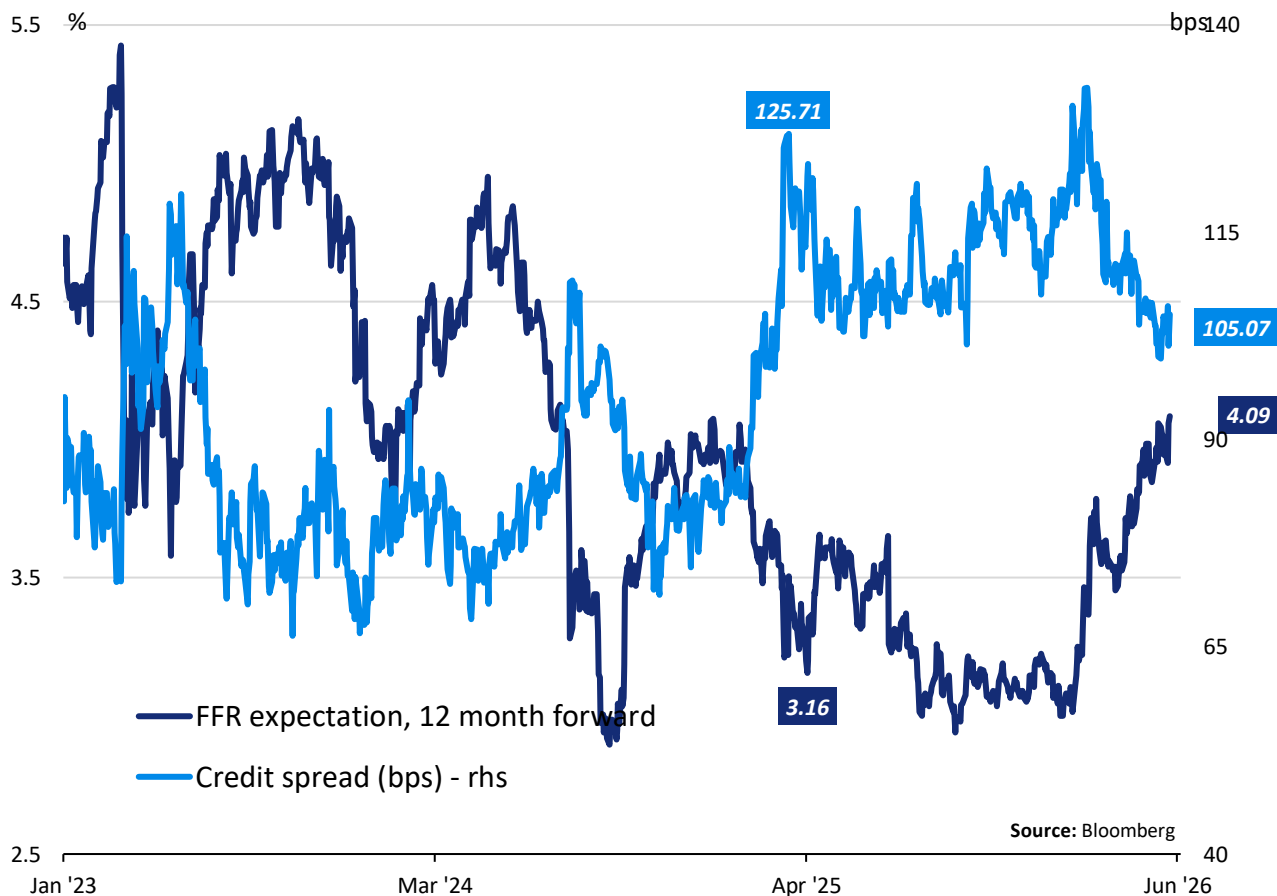
**Nominal effective exchange rate (NEER), YTD % changes per country:**



**6 DXY index move upward due to the more hawkish tone**



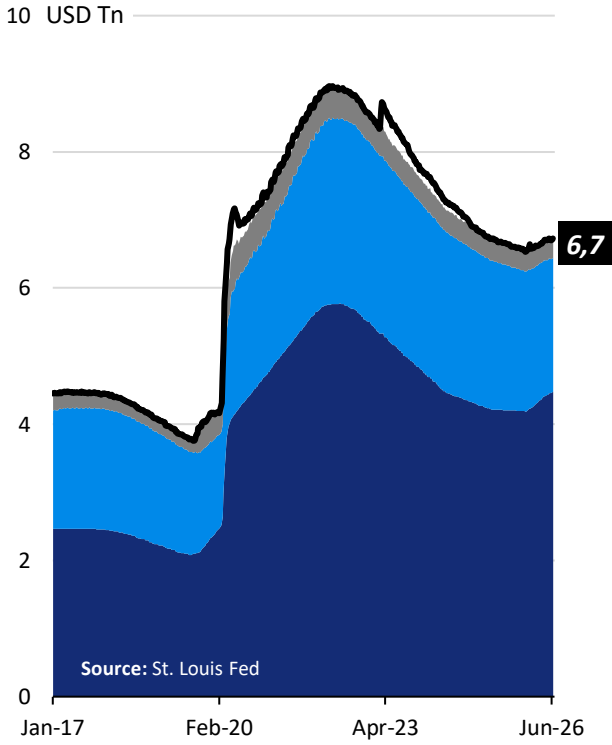
**7 A higher rate expectation from the Fed's projection is followed by an increase in FFR expectations**



**8 The Fed's balance sheet remains ample for now, subject to change as Warsh wants to shrink it**

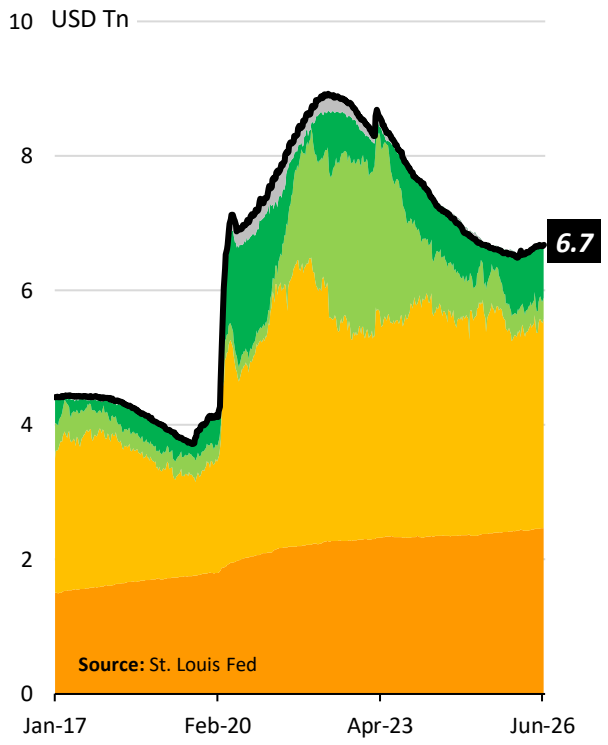
**Fed balance sheet: Asset side**

Other Loans and swaps MBS UST

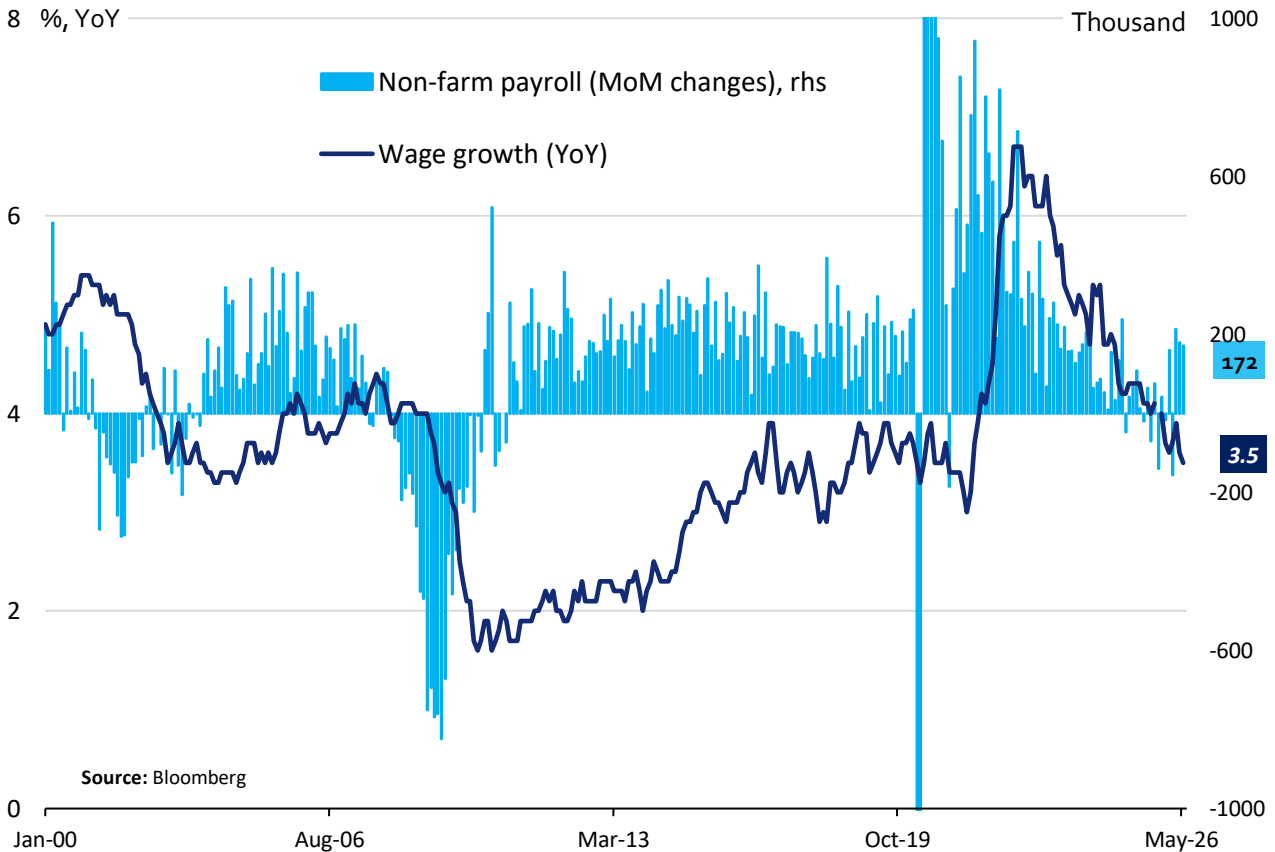


**Fed balance sheet: Liabilities side**

Others TGA RRP Bank reserves Currency in circulation



**9 While wage growth is slowing, job gains remain robust in recent months**



## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	17-Jun	-1 mth	Chg (%)
US	3.75	Dec-25	-0.45	Baltic Dry Index	2,729.0	3,151.0	-13.4
UK	3.75	Dec-25	0.95	S&P GSCI Index	667.2	751.2	-11.2
EU	2.40	Jun-25	-0.80	Oil (Brent, \$/brl)	83.5	109.3	-23.6
Japan	0.75	Dec-25	-0.65	Coal (\$/MT)	144.0	141.3	1.9
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	3.06	2.89	5.9
Korea	2.50	May-25	-0.60	Gold (\$/oz.)	4,313.1	4,540.1	-5.0
India	5.25	Dec-25	1.32	Copper (\$/MT)	13,645.3	13,503.1	1.1
Indonesia	5.50	May-26	2.42	Nickel (\$/MT)	17,614.4	18,304.4	-3.8
Money Mkt Rates	17-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	1,099.2	1,114.6	-1.4
				Rubber (\$/kg)	2.29	2.22	3.2
Bank Rates (Rp)	Mar	Feb	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1Y)	6.99	5.77	121.7	Export (\$ bn)	25.30	22.53	12.32
SUN (10Y)	7.36	6.68	68.9	Import (\$ bn)	25.21	19.21	31.28
INDONIA (O/N, Rp)	6.03	5.08	95.3	Trade bal. (\$ bn)	0.09	3.32	-97.32
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	146.2	148.2	-1.32
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Prompt Indicators	May	Apr	Mar
Lending (WC)	8.00	8.05	-5.00	Consumer confidence index (CCI)	120.9	123.0	122.9
Deposit 1M	4.47	4.47	0.00	UK Pound	0.744	0.750	0.86
Savings	0.67	0.68	-1.00	Euro	0.862	0.860	-0.23
Currency/USD	17-Jun	-1 mth	Chg (%)	Japanese Yen	160.2	158.7	-0.89
				Chinese RMB	6.759	6.813	0.80
				Indonesia Rupiah	17,870	17,465	-2.27
Capital Mkt	17-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
JCI	6,007.7	6,723.3	-10.64	USA	55.1	54.5	60
DJIA	51,202.3	49,526.2	3.38	Eurozone	51.6	52.2	-60
FTSE	10,471.7	10,195.4	2.71	Japan	54.5	55.1	-60
Nikkei 225	69,460.2	61,409.3	13.11	China	51.8	52.2	-40
Hang Seng	24,972.5	25,962.7	-3.81	Korea	54.8	53.6	120
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)	Indonesia	50.0	49.1	90
Stock	2,820.6	3,158.9	-338.29				
Govt. Bond	865.2	866.9	-1.77				
Corp. Bond	5.8	5.8	-0.01				

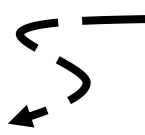
Source: Bloomberg, BI, BPS

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	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

**Notes:**

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

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