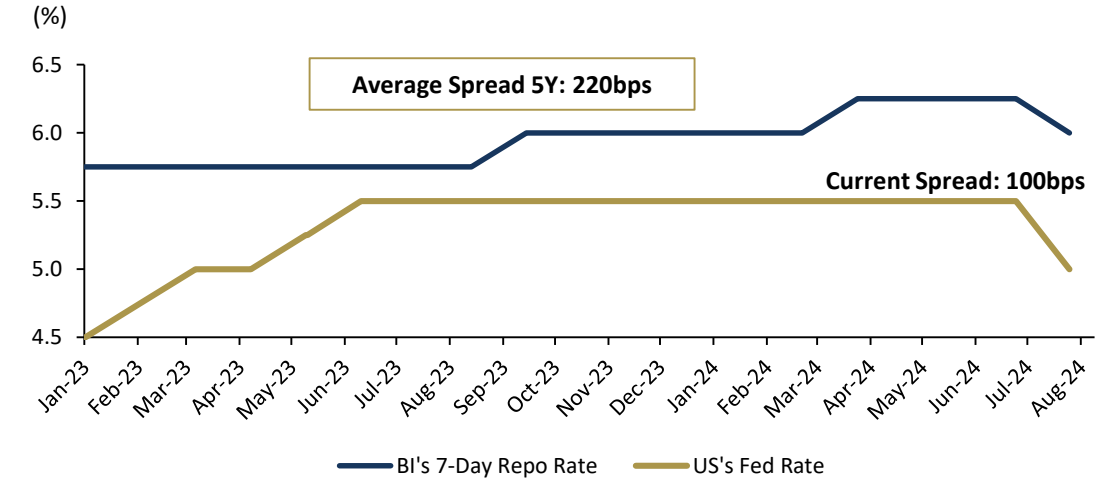


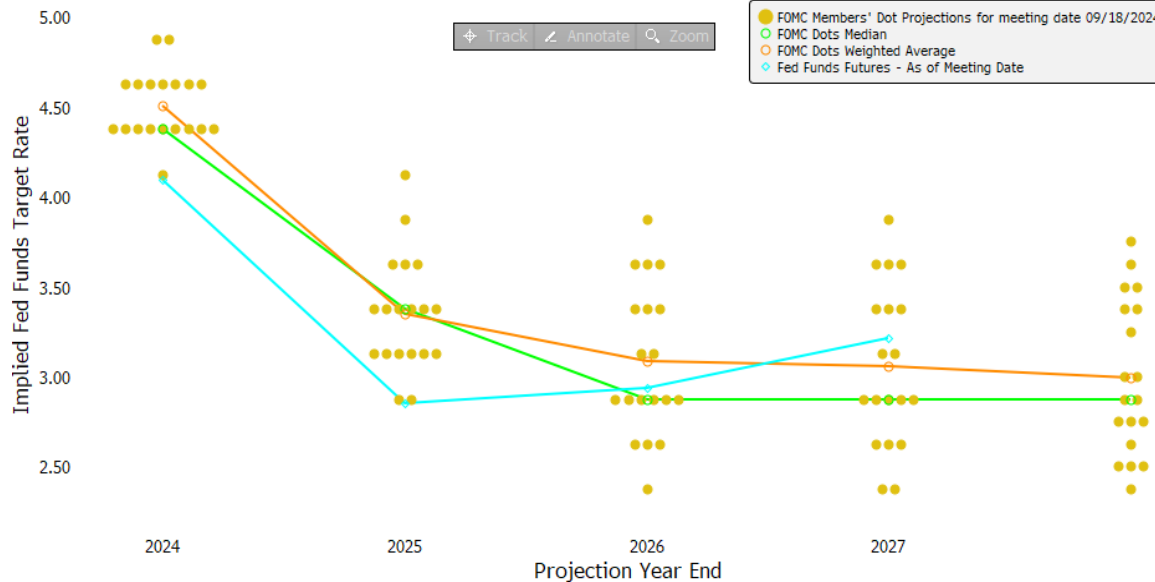
Fed Rate Meeting: 19 September 2024

- US stock markets were down following the Fed's significant monetary policy shift by cutting the federal funds rate by 50bps to a new target range of 4.75%-5% in Sept-24. This suggests that the Fed is behind the curve as it implemented the first rate reduction since Mar-20, amid complex economic challenges characterized by inflation moderation and slower job growth prospects.
- This move defied substantial speculation that the central bank might opt for a more conservative 25bps cut, reflecting the Fed's recognition of the need for more aggressive monetary easing, penciling in another two 25bps cuts for the remaining of 2024, bringing the total reduction by year-end to 100bps. In 2025, another 100bps decrease is now expected, to be followed by a final 50bps cut in 2026 as the Fed is positioning itself for a prolonged period of lower rates in an attempt to navigate the US economy out of a slower growth environment.
- These planned decisions should be supportive for the efforts of global central banks, including Bank Indonesia, to manage the balance between cooling inflationary pressures and supporting economic activities ahead. The rate cut should also provide cushion for our IDR, cementing Bank Indonesia's prudent move of cutting just by 25bps yesterday and allowing for continued inflows into our domestic markets.
- On the inflation front, the Fed revised its PCE inflation projections lower, with 2024 now expected at 2.3%, down from 2.6% in its June forecast. For 2025, the estimate was also revised down slightly to 2.1%, signaling that the central bank sees price pressures continuing to ease toward its 2% target at least in the short term. These downward revisions reflect potentially subdued future commodity prices, which would result in lower export receipts for countries like Indonesia.
- The updated US economic projections also adjusted the outlook for growth and employment. GDP growth for 2024 was revised slightly downward to 2% from 2.1%, reflecting a modest softening in the pace of economic expansion, which could be challenging for the broader global economic growth outlook for the rest of this year. However, the 2025 forecast remains unchanged at 2%, indicating stable medium-term growth expectations, although Asian countries, including Indonesia, will still have to deal with China's economic deterioration. Meanwhile, the unemployment rate projection was revised higher, with the Fed now expecting it to reach 4.4% in 2024, up from the previous forecast of 4%, and remain elevated at 4.4% in 2025, compared to the earlier projection of 4.2%, which could weigh on the US economy if not properly managed.
- That said, we believe the US economic outlook remains uncertain with the Fed currently attempting to keep market participants calm by painting small rate cuts going forward, but with the need to go for a big rate cut now to avoid a hard landing.

US' Fed Rate and BI's 7-Day Repo Rate



FOMC Dot Plot



Target Rate Probabilities for Sep & Nov 2024 Fed Meeting

