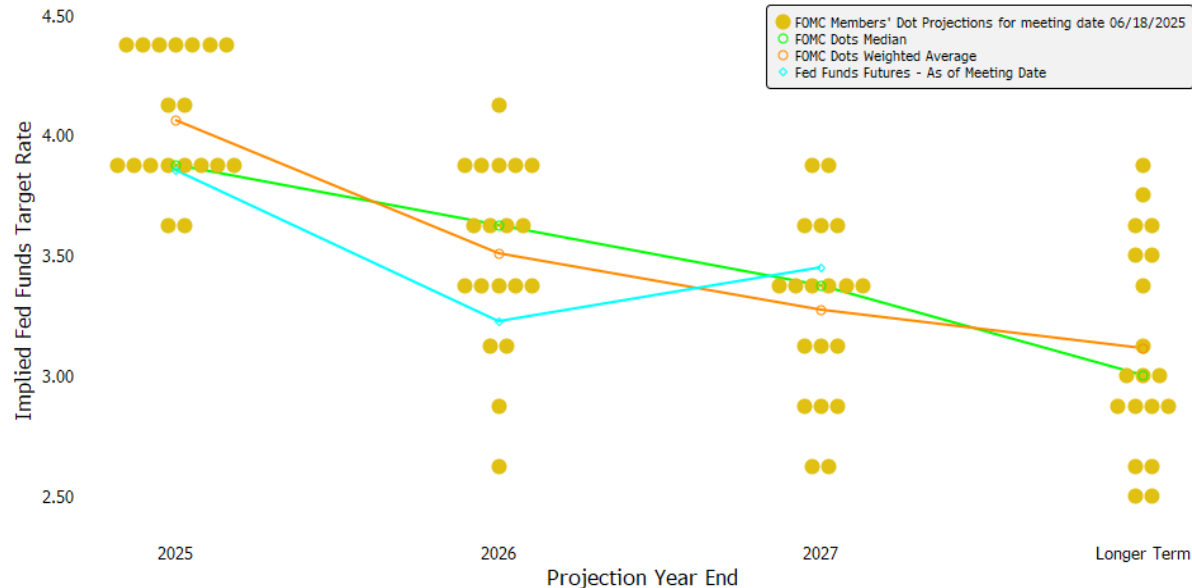


Fed Rate Meeting: 19 June 2025

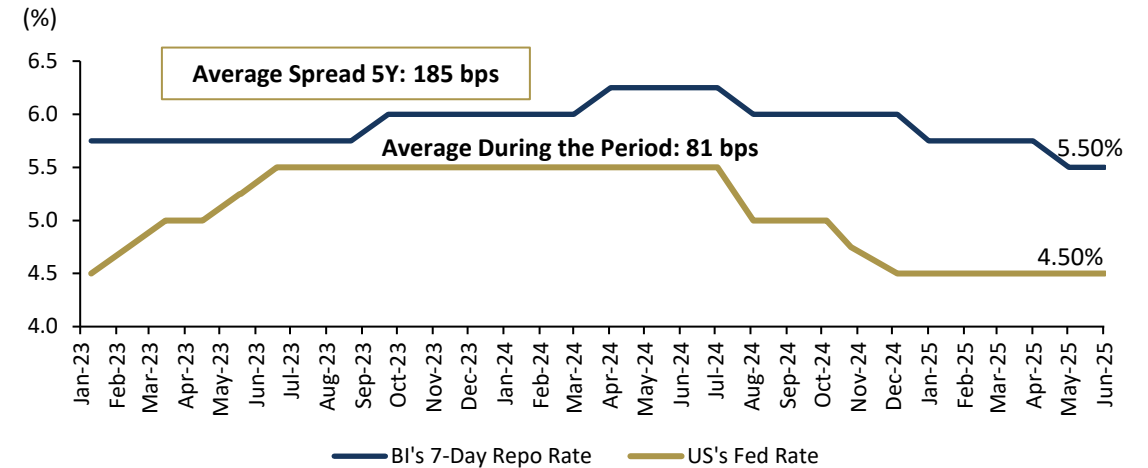
- Inline with expectations, the U.S. Federal Reserve's decision to keep the federal funds rate steady at 4.25%–4.50% for the fourth consecutive meeting underscores its cautious posture amid persistent geopolitical and policy-related uncertainties. While the Fed acknowledged that economic uncertainty has eased somewhat, lingering risks from President Trump's renewed tariff push, stricter immigration measures, and corporate tax adjustments continue to cloud the outlook. The Fed's revised macro projections reflect these headwinds, with GDP growth for 2025 and 2026 downgraded to 1.4% and 1.6%, respectively, and a slower disinflation trajectory. The central bank now expects the PCE inflation to remain at 3.0% in 2025—significantly above its 2% target—before gradually declining over the next two years.
- The Fed's signal of two potential rate cuts in 2025, albeit modest in scale, reaffirms that monetary accommodation is still on the table. However, market sentiment remains fragile as the global economy grapples with intensifying geopolitical risks, particularly in the Middle East. Israel's preemptive strikes on Iran's nuclear facilities have escalated tensions, lifting global oil prices and potentially delaying disinflation. In parallel, global trade frictions are deepening due to renewed tariff rhetoric from Washington, further weighing on emerging market currencies and trade flows.
- In this environment, BI's decision to hold its benchmark rate at 5.50% in June was a calculated move aimed at striking a delicate balance between supporting growth and safeguarding external stability. While domestic inflation remains relatively benign at 1.6% in May, well within the central bank's target range, lagged transmission of BI's earlier rate cut and signs of capital outflows necessitated a pause. The Fed's hawkish inflation outlook also complicates any aggressive easing by BI in the near term, especially amid risk of renewed USD strength and imported inflation.
- Meanwhile, Indonesia's macroeconomic fundamentals present a mixed picture. The IDR remains relatively stable, buoyed by solid reserves (USD 152.5 bn) and manageable current account, though risks are emerging. Higher capital goods imports, linked to the government's infrastructure push may widen the current account deficit in 2H25. On the other hand, the commodity windfall that previously bolstered trade surpluses appears to be moderating, as global demand for coal and nickel faces headwinds.
- Going forward, markets will closely monitor the Fed's policy trajectory in light of the evolving U.S. political landscape and its downstream impact on global trade, supply chains, and risk appetite. Any escalation in geopolitical conflict or abrupt policy shifts by the U.S. administration could heighten volatility in EM assets, including Indonesian bonds and equities. Against this backdrop, emerging markets like Indonesia will face more volatile and externally driven environment. Portfolio flows may remain erratic as global investors rebalance toward safe havens, particularly U.S. Treasuries, should geopolitical or trade shocks intensify. The expected rate differentials between the Fed and BI will need to be carefully managed to avoid excessive pressure on the IDR, especially if U.S. real yields continue to rise. For Indonesia, while the path is open for further rate cuts in H2 2025—should external conditions permit—Bank Indonesia must ensure policy accommodation that does not jeopardize financial stability.

FOMC Dot Plot

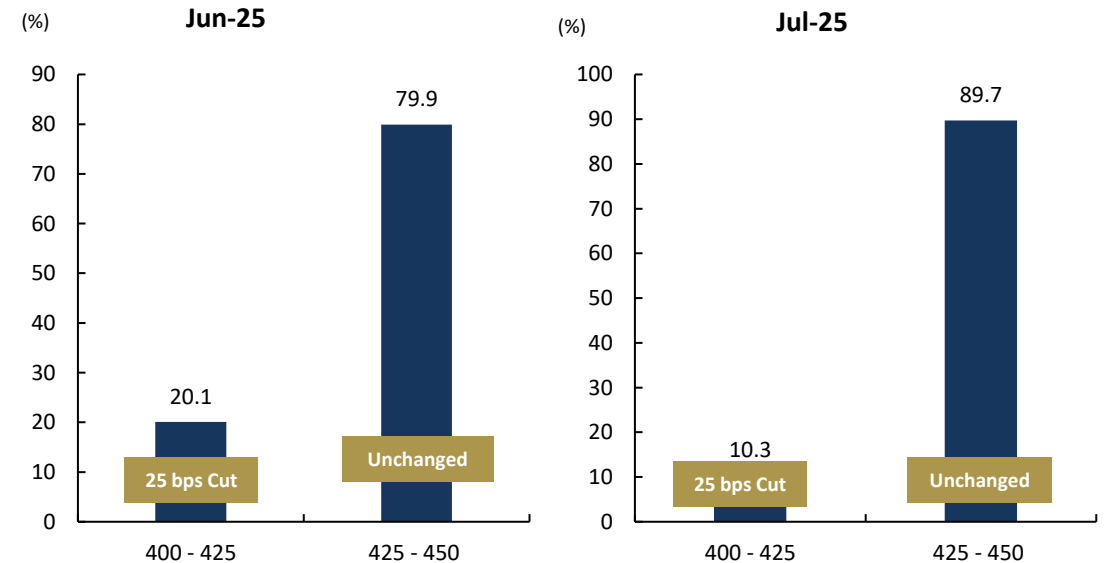


Sources: Bloomberg, SSI Research

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



Target Rate Probabilities for Jun & Jul-25 Fed Meeting



Macro Strategy Team