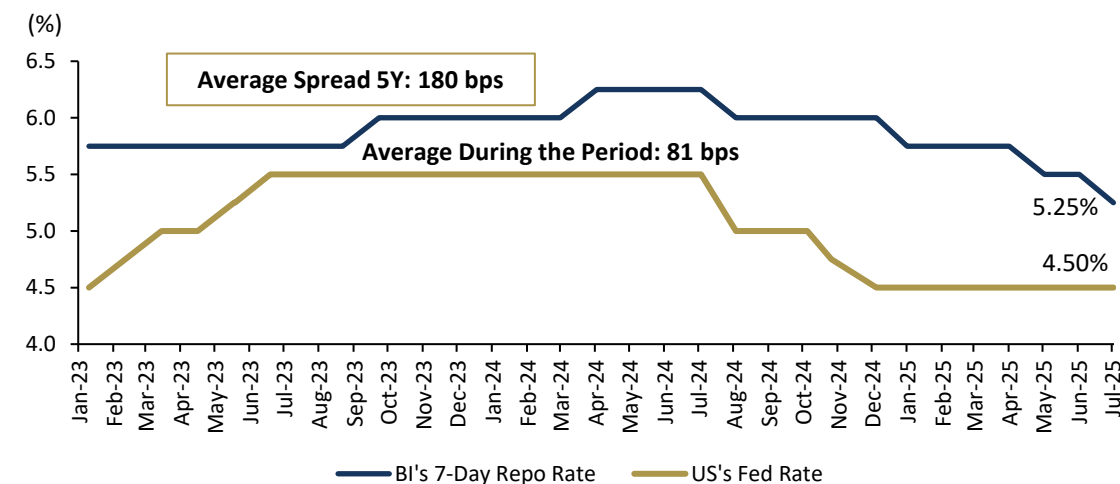


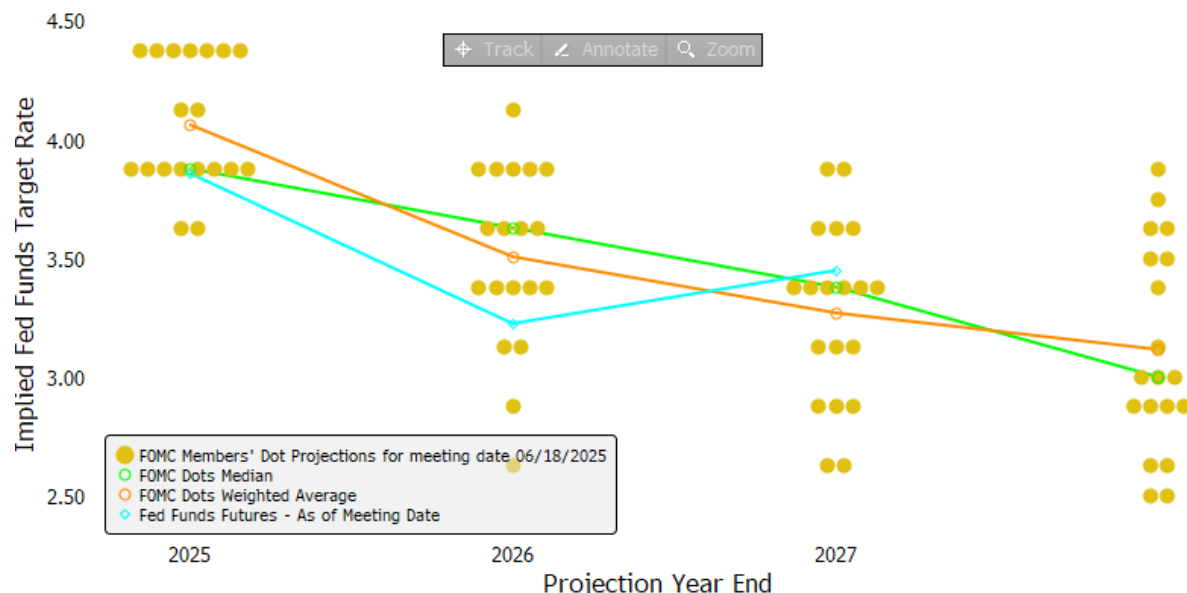
Fed Rate Meeting: 31 July 2025

- In line with consensus expectation, the Federal Reserve held its funds rate steady at 4.25%–4.50% for a fifth consecutive meeting, reflecting cautious, data-dependent approach amid moderating U.S. economic momentum but continued elevated level of inflation. Notably, the dual dissent in favor of a rate cut—the first such occurrence since 1993—signals that parts of the Federal Open Market Committee (FOMC) are increasingly concerned about slowing growth and the potential drag from the ongoing trade war. However, policymakers acknowledged that while the unemployment rate remains historically low, leaving the Fed in a wait-and-see mode as it balances risks to both growth and price stability on potential higher inflation stemming from tariff implementation.
- For Indonesian markets, the Fed's stance, which has strengthened the DXY to 100, has weakened the IDR to test the IDR16.5K level. Additionally, this will limit Bank Indonesia's ability to further cut its benchmark 7-Day Reverse Repo Rate of 5.25% in the near term, prioritizing exchange rate stability and inflation control.
- From a capital market perspective, the recent Fed's cautious tone will dampen sentiment, particularly given recent higher JCI levels amid a slew of poor 2Q25 corporate earnings. On the bonds side, FR0103 is pressured by transition to FR0108 with the 10Y SUN stable at 6.55-6.60%. Yield on the 10Y INDON remains at 5.15-5.20%.
- We note that external risks remain with the global trade slowdown as highlighted by the Fed's concern about net exports and the persistent U.S. trade war, which could weigh on Indonesia's export performance, particularly in commodities such as palm oil, coal, and nickel—through the second half of 2025 and beyond.
- On the back of the Fed's continued wait-and-see stance, we expect BI to maintain its policy rate in the coming months while carefully balancing external stability with the need to support domestic growth in 2025. This is particularly true given that volatility could resurface if U.S. inflation surprises on the upside or if the trade conflict escalates further.

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



FOMC Dot Plot



Target Rate Probabilities for Jul & Sep-25 Fed Meeting

