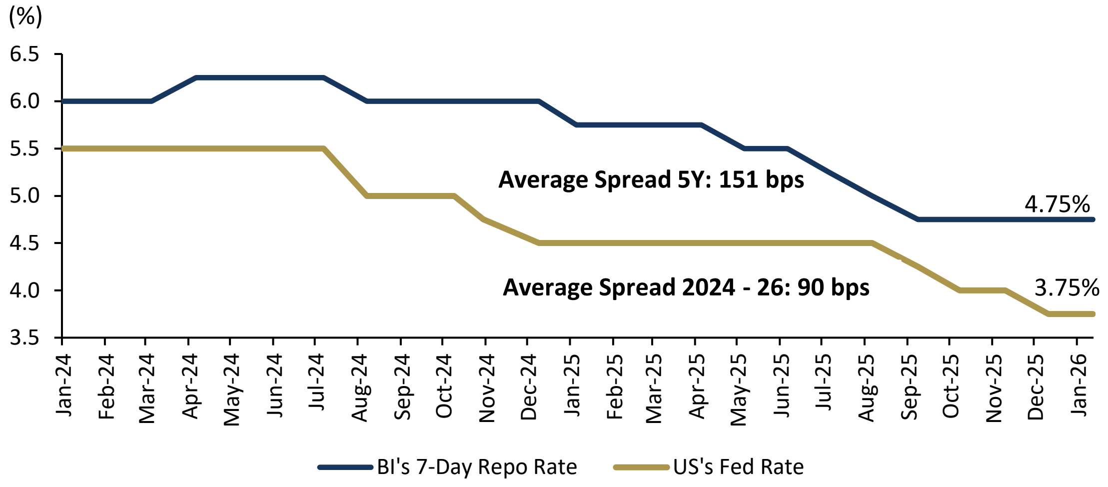
Fed Rate Meeting: 29 January 2026

- On the back of inflation remaining elevated, the Fed kept its policy rate unchanged at 3.5%–3.75% in the Jan-26 FOMC meeting, aligning with market expectations after 2025's three rate cuts, which had already eased financial conditions to their most accommodative level since 2022. This decision reflects the Fed's growing confidence in the US economy's solid momentum as economic activities expand and labor-market conditions stabilize. However, Governors Miran and Waller dissented, favoring an additional 25bps cut, suggesting a dovish bias within the committee, particularly if growth softens or inflation moderates further.
- Chair Powell emphasized that policy is "appropriate," signalling a transition into a data-dependent approach rather than a direction toward aggressive easing. US rates are expected to remain stable in the near term, with any future cuts dependent on clearer disinflation trends. The risk balance has shifted from concerns about overtightening to managing a soft landing, supporting global risk sentiment while keeping long-term yields responsive to inflation and labor data.
- For Indonesia, the Fed's stance supports macro stability. A pause in US rate cuts reduces the risk of sudden yield compression in the US, helping avoid volatility in global capital flows while maintaining accommodative global liquidity. This environment supports inflows into emerging markets, including Indonesian bonds especially on attractive real yields. While a stable Fed path should ease pressure on the IDR, recent outflows in equity market will result in BI to remain vigilant in maintaining currency stability, particularly as our local currency down 0.6% against the dollar YTD remains the worse performance in the region (see table below).
- Looking ahead, we expect the Fed to maintain a cautious hold in 1H26, with gradual cuts later in the year if inflation softens and labor conditions cool. This would create a "goldilocks" external environment for Indonesia, characterized by supportive global liquidity, helping to mitigate risks to Indonesia's trade balance despite commodity price normalization. The main upside for Indonesia comes from a soft landing in the US and controlled global yields, while the key downside risk remains a resurgence in US inflation that could tighten global financial conditions.

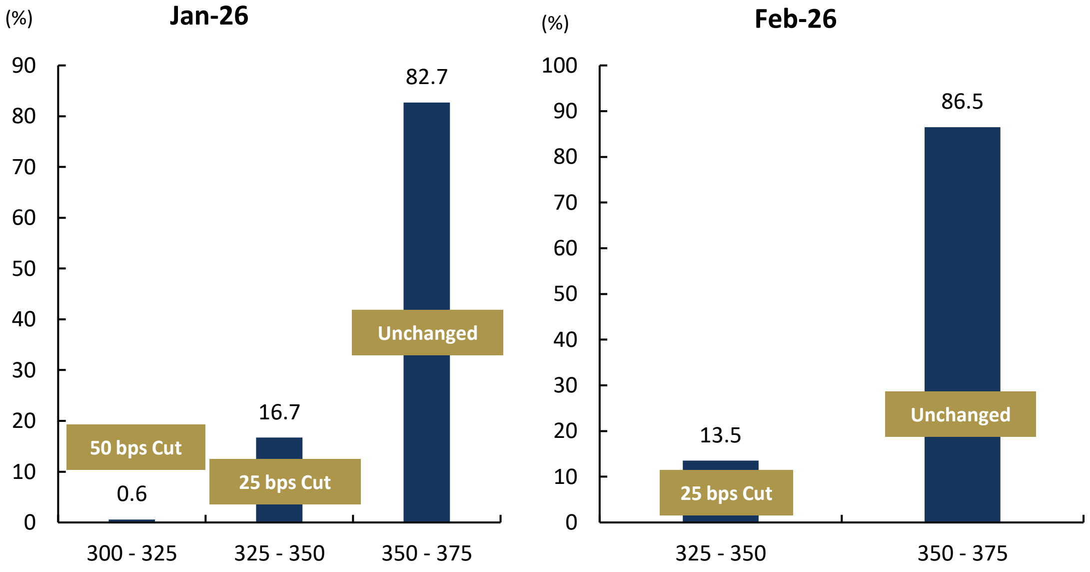
US' Fed Rate and BI's 7-Day Repo Rate



Regional Currency Performances

South-East Asia	YTD	2025	2024	10Y CAGR	East Asia & Australasia	YTD	2025	2024	10Y CAGR
MYR (Malaysia)	3.2	10.1	2.7	0.9	AUD (Australia)	5.4	7.8	(9.2)	(0.3)
SGD (Singapore)	1.7	6.2	(3.3)	1.2	NZD (NZ)	5.1	2.9	(11.5)	(1.2)
THB (Thailand)	1.1	8.2	0.1	1.5	JPY (Japan)	2.3	0.3	(10.3)	(2.4)
VND (Vietnam)	0.9	(3.1)	(4.8)	(1.5)	KRW (Korea)	0.8	2.2	(12.5)	(2.0)
LAK (Laos)	0.5	1.0	(5.8)	(9.2)	CNH (China)	0.6	4.5	(2.7)	(0.7)
PHP (Philippines)	(0.1)	(1.7)	(4.2)	(2.2)	TWD (Taiwan)	0.4	4.4	(6.3)	0.5
KHR (Cambodia)	(0.3)	0.5	1.4	0.1	MNT (Mongolia)	(0.2)	(3.7)	0.5	(5.6)
IDR (Indonesia)	**(0.6)**	**(3.5)**	**(4.4)**	**(1.9)**	HKD (Hongkong)	(0.3)	(0.2)	0.6	(0.1)
Average	**0.8**	**2.2**	**(2.3)**	**(1.4)**	**Average**	**1.8**	**2.3**	**(6.4)**	**(1.5)**

Target Rate Probabilities for Jan & Feb-26 Fed Meeting



Sources: Bloomberg, SSI Research

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