Fed Rate Meeting: 18 June 2026

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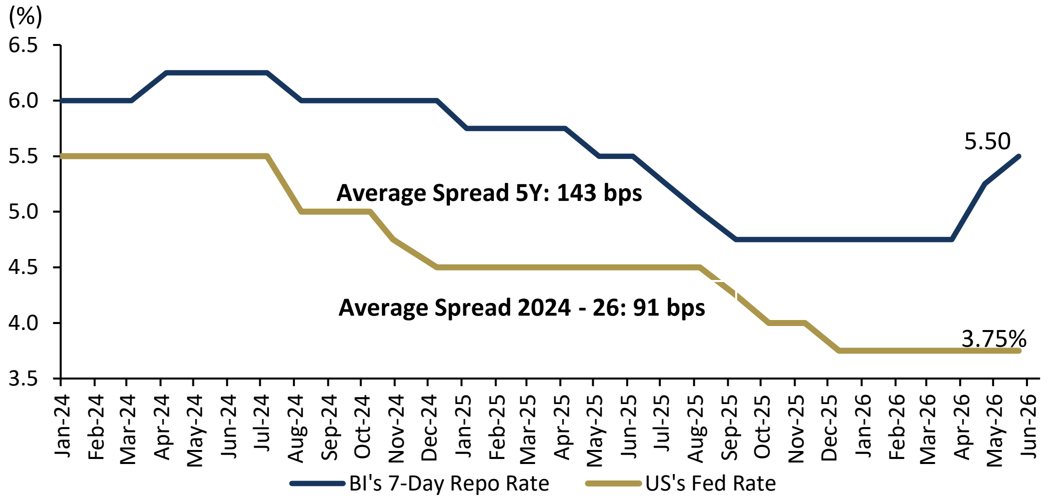
- At its Jun-26 meeting, the Fed left funds rate unchanged at 3.50%–3.75% , marking the 4th consecutive hold and broadly matching market expectations. However, the meeting was hawkish. New economic projections revealed a deeply divided FOMC, with nine officials expecting at least one rate hike this year and six projecting two or more hikes. In contrast, another nine policymakers anticipated either no policy change or rate cuts. The uncertainty was amplified by newly appointed Fed Chair Kevin Warsh not submitting his own rate projection, leaving markets with limited guide on future policy direction under the new leadership.
- The revised projections suggest the Fed is increasingly concerned about inflation rather than growth. While the U.S. economy is expected to slow modestly, with 2026 GDP growth cut to 2.2% from 2.4%, inflation forecasts were revised sharply higher. Headline 2026 PCE inflation is now projected at 3.6%, up significantly from 2.7% previously, while 2027 forecast was also raised to 3.3%. The combination of resilient labor markets, solid economic activity, and renewed inflation pressures linked to supply-side disruptions—including Mid-East geopolitical tensions—suggests the Fed is unlikely to pivot toward easing anytime soon.
- For global financial markets, the Fed remains firmly focused on inflation, even at the cost of slower growth. U.S. Treasury yields will likely remain elevated, particularly at the longer end of the curve, while USD may continue to find support from a relatively restrictive monetary stance. The persistence of higher-for-longer U.S. rates could maintain pressure on emerging-market assets.
- For Indonesia, the Fed's decision reinforces the importance of maintaining macroeconomic stability amid challenging external and internal environment, particularly with the local currency remaining the worst performing in the region. That said, Indonesia enters this period with cost push inflation as real future threat. Additionally, several indicators suggest that external buffers have become less comfortable than a year ago. The current account has returned to deficit territory, foreign exchange reserves have gradually declined amid IDR stabilization efforts, and the trade surplus has narrowed significantly due to stronger import growth.
- However, the recent 75bp rate hike by BI demonstrates willingness to defend macroeconomic stability and anchoring inflation expectations. At the expense of growth, maintaining attractive yield differentials against U.S. assets will remain imperative for BI to attract inflows and support the IDR. Against this backdrop, the Fed's increasingly hawkish bias will limit room for BI to pursue any monetary easing in the near term, particularly if energy prices were to remain elevated on geopolitical tensions.

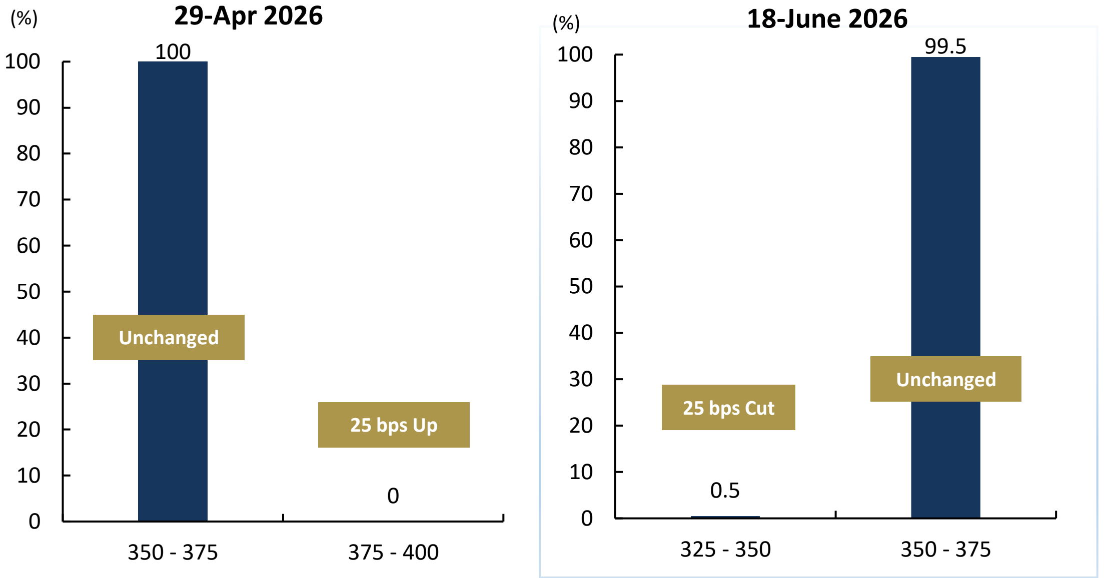
US' Fed Rate and BI's 7-Day Repo Rate



Regional Currency Performances

South-East Asia	YTD	2025	2024	10Y CAGR	East Asia & Australia	YTD	2025	2024	10Y CAGR
VND (Vietnam)	(0.1)	(3.1)	(4.8)	(1.6)	AUD (Australia)	5.5	7.8	(9.2)	(0.3)
SGD (Singapore)	(0.1)	6.2	(3.3)	1.0	CNH (China)	3.3	4.5	(2.7)	(0.4)
KHR (Cambodia)	(0.4)	0.5	1.4	0.1	NZD (NZ)	0.7	2.9	(11.5)	(1.6)
MYR (Malaysia)	(0.7)	10.1	2.7	0.5	TWD (Taiwan)	(0.4)	4.4	(6.3)	0.4
LAK (Laos)	(2.1)	1.0	(5.8)	(9.5)	MNT (Mongolia)	(0.6)	(3.7)	0.5	(5.7)
PHP (Philippines)	(2.9)	(1.7)	(4.2)	(2.5)	HKD (Hongkong)	(0.7)	(0.2)	0.6	(0.1)
THB (Thailand)	(3.5)	8.2	0.1	1.0	JPY (Japan)	(2.4)	0.3	(10.3)	(2.9)
IDR (Indonesia)	**(6.4)**	(3.5)	(4.4)	**(2.5)**	KRW (Korea)	(5.4)	2.2	(12.5)	(2.6)
Average	(2.0)	2.2	(2.3)	(1.7)	**Average**	(0.0)	2.3	(6.4)	(1.6)

Target Rate Probabilities for 29-Apr & 18-Jun Fed Meeting



Sources: Bloomberg, SSI Research

Macro Strategy Team