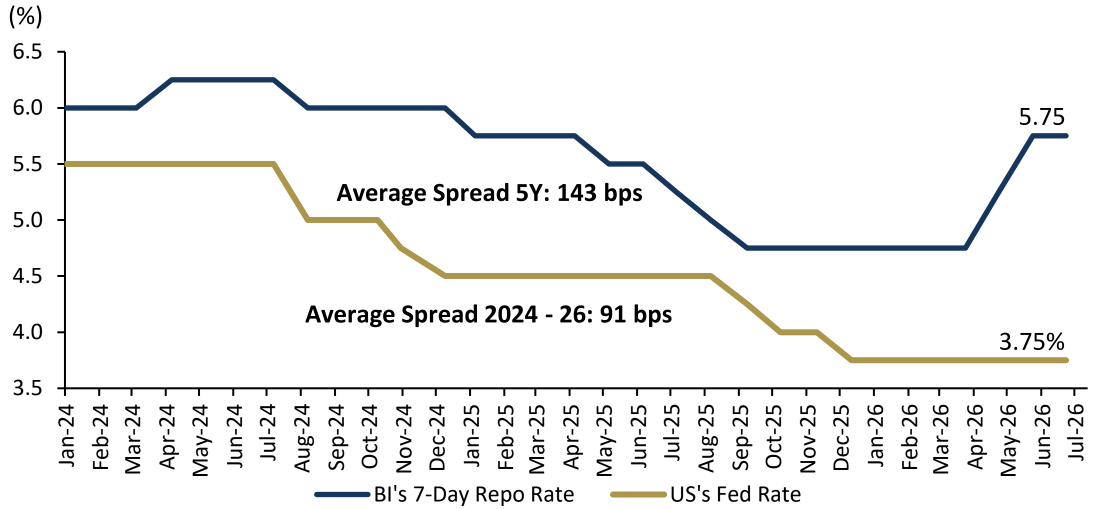
Fed Rate Meeting: 30 July 2026

- At its July 2026 meeting, the Fed implemented a hawkish hold on its federal funds rate at 3.50%–3.75%, with the vote unusually divided at 9–3. As Beth Hammack, Neel Kashkari, and Lorie Logan having preferred for immediate 25-basis-point hike, the dissents indicate concerns over persistent inflation are gaining traction within the FOMC, leaving the possibility of a September rate hike firmly on the table.
- The Fed’s assessment of the US economy also provided little justification for near-term monetary easing. Economic activity continues to expand, supported by strong productivity growth and capital investment, while employment growth remains broadly aligned with growing workforce. At the same time, inflation remains above the Fed’s 2% objective, partly due to supply-side pressures and higher energy prices associated with the Mid-East conflict. This combination of resilient growth and elevated inflation allows the Fed to maintain or potentially tighten policy stance.
- For Indonesia, the most immediate transmission channel will be through the USD, UST yields, and global capital flows. Higher probability of a September Fed hike would keep US yields elevated and strengthen demand for dollar-denominated assets, limiting portfolio inflows into emerging markets and maintaining IDR depreciation pressure. Such risks are relevant given that JISDOR had already weakened to IDR18,087 on 29 July, prior to the latest Fed announcement being fully reflected in the local market.
- The Fed's decision reinforces the case for BI to retain relatively tight monetary stance by holding BI-Rate at 5.75% in July, leaving a nominal policy-200–225bps rate differential. Although this is a positive interest-rate spread, the attractiveness of Indonesian assets depends on the risk-adjusted return after accounting for FX expectations, global volatility, and hedging costs. Thus, BI will need to be bound by the Fed's move for an extended period, while continuing FX intervention and market-based stabilization measures. Additional BI rate hikes cannot be ruled out should the Fed raise in September and IDR pressures intensify.
- The implications for Indonesia’s external balance are similarly mixed. Resilient US economic activity could support demand for Indonesian exports, including manufactured products and selected commodities. However, a stronger dollar and higher international energy prices could increase Indonesia’s oil and gas import bill, potentially placing further pressure on the trade balance and current account. Meanwhile, prolonged currency intervention and external debt repayments could limit the extent to which Indonesia’s June FX reserves at USD 145.6bn can be used as the sole line of defence against sustained global volatility. For the government bond market, the hawkish Fed signal could place upward pressure on Indonesian government bond yields, particularly at the long end of the curve, as investors demand higher compensation for US yield and currency risks. Foreign participation in the SBN market may remain selective, favoring shorter maturities or instruments offering greater protection against volatility. Higher domestic yields would support IDR stability and investor returns, but could also increase government financing costs and slow the transmission of lower borrowing costs to businesses and households.
- Looking ahead, the probability of 25bp hike has risen materially following the three dissents. The decision will depend primarily on US inflation, labor-market resilience, energy prices, and the evolution of the Mid-East conflict. A September Fed hike would represent a challenging scenario for Indonesia, potentially generating further IDR depreciation, higher SBN yields, softer capital inflows, and additional imported inflation.

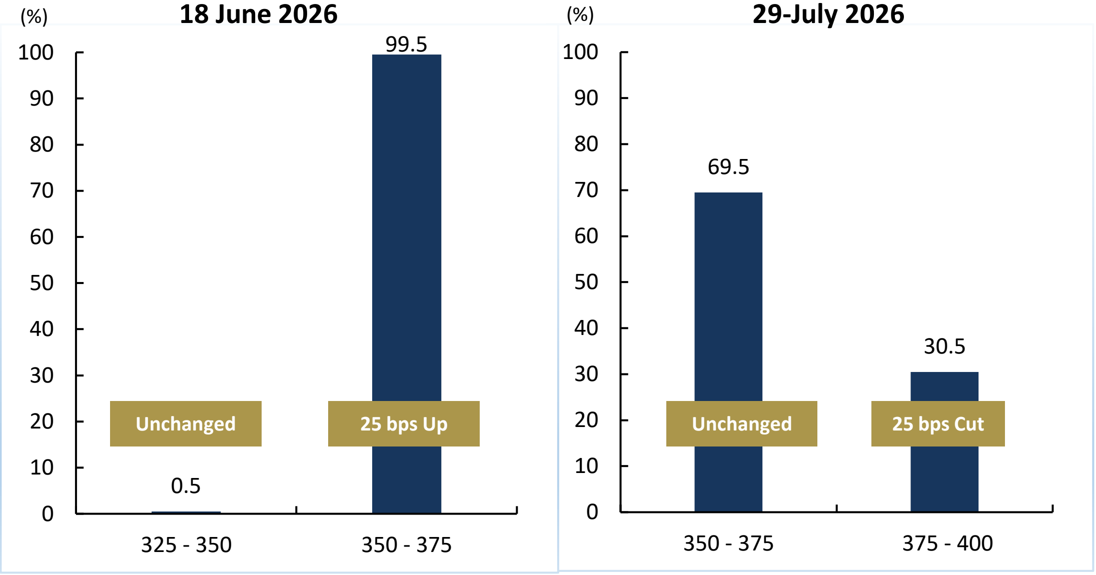
US’ Fed Rate and BI’s 7-Day Repo Rate



Regional Currency Performances

South-East Asia	YTD	2025	2024	10Y CAGR	East Asia & Australasia	YTD	2025	2024	10Y CAGR
VND (Vietnam)	(0.1)	(3.1)	(4.8)	(1.6)	AUD (Australia)	4.3	7.8	(9.2)	(0.5)
SGD (Singapore)	(0.3)	6.2	(3.3)	1.0	CNH (China)	3.3	4.5	(2.7)	(0.4)
MYR (Malaysia)	(0.6)	10.1	2.7	0.5	NZD (NZ)	0.8	2.9	(11.5)	(1.6)
KHR (Cambodia)	(0.8)	0.5	1.4	0.0	KRW (Korea)	(0.5)	2.2	(12.5)	(2.1)
PHP (Philippines)	(4.2)	(1.7)	(4.2)	(2.6)	HKD (Hongkong)	(0.8)	(0.2)	0.6	(0.1)
LAK (Laos)	(4.6)	1.0	(5.8)	(9.7)	MNT (Mongolia)	(1.1)	(3.7)	0.5	(5.7)
THB (Thailand)	(6.0)	8.2	0.1	0.7	TWD (Taiwan)	(3.2)	4.4	(6.3)	0.1
IDR (Indonesia)	**(7.6)**	(3.5)	(4.4)	**(2.7)**	JPY (Japan)	(4.2)	0.3	(10.3)	(3.0)
Average	(3.0)	2.2	(2.3)	(1.8)	**Average**	(0.2)	2.3	(6.4)	(1.7)

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



Sources: Bloomberg, SSI Research

Macro Strategy Team