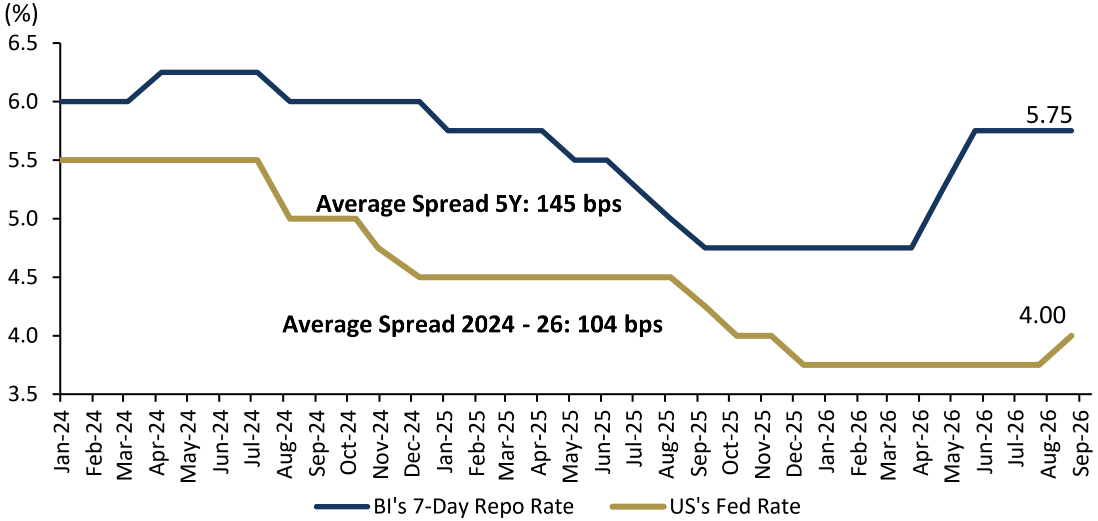
Fed Rate Meeting: 17 September 2026

- The Federal Reserve delivered a clearly hawkish message at its September meeting, unanimously raising the federal funds target range by 25bps to 3.75%–4.00%, the first increase since 2023. While the move itself was broadly anticipated, the more important signal came from the Fed's forward guidance. Inflation remains sufficiently elevated for the FOMC to judge that additional restraint is necessary to ensure a more timely return toward the 2% target. The unanimous 12–0 decision also provides a much stronger policy signal after the divisions seen at the July meeting.
- The updated dot plot reinforces this hawkish shift as 16 of 18 participating officials project at least one additional 25bps hike before year-end, with four officials seeing room for two further hikes. The median projected policy rate has consequently moved to 4.1% at end-2026, up from 3.8% in June. More importantly, the median remains at 4.1% through end-2027, compared with only 3.6% in June projections. This suggests that the September hike should not be interpreted simply as a one-off adjustment: the Fed is increasingly signaling a higher-for-longer rate environment, with little urgency to reverse tightening even next year.
- The reason is that the US economy continues to display an uncomfortable combination for monetary policy: resilient growth alongside persistent inflation. The Fed raised its GDP growth projections to 2.3% for 2026 and 2.4% for 2027, while lowering its unemployment-rate forecast to 4.1% for both years. At the same time, headline PCE inflation for 2026 was revised higher to 3.7% from 3.6%, while core PCE was raised to 3.4% from 3.3%. For global financial markets, this configuration is likely to keep US Treasury yields and the US dollar structurally supported, while limiting the scope for a sustained rally in risk assets, particularly given the likelihood of another increase later this year.
- For Indonesia, we advise clients to be more cautious of highly leveraged domestic corporates which will face greater risks ahead. For banks, NPLs will rise, and local institutions will be more risk averse to new lending going forward. For our monetary authorities, domestic growth targets will be weighed down by weaker IDR and softer purchasing power. On the back of rising inflation propelled by higher oil prices and a severe El Nino risk, BI must maintain adequate interest-rate differential which is complicated by the Fed's recent actions. Thus, despite stronger US growth outlook, Indonesian financial markets are likely to experience near-term volatility underpinned by considerably more challenging global interest-rate environment.

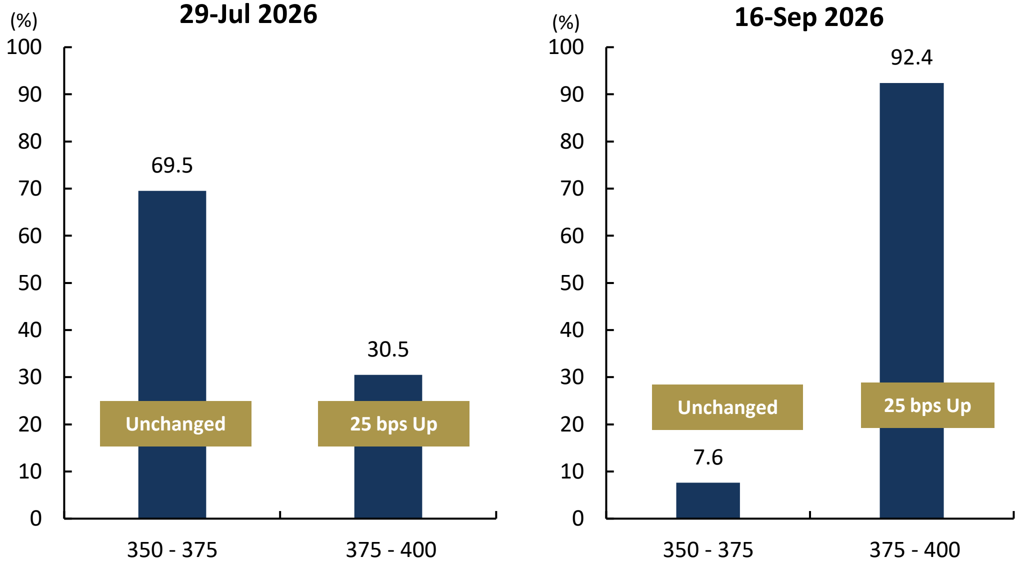
US' Fed Rate and BI's 7-Day Repo Rate



Regional Currency Performances

South-East Asia	YTD	2025	2024	10Y CAGR	East Asia & Australasia	YTD	2025	2024	10Y CAGR
VND (Vietnam)	1.2	(3.1)	(4.8)	(1.4)	AUD (Australia)	6.3	7.8	(9.2)	(0.3)
SGD (Singapore)	0.7	6.2	(3.3)	1.1	KRW (Korea)	4.4	2.2	(12.5)	(1.6)
MYR (Malaysia)	(1.0)	10.1	2.7	0.5	CNH (China)	4.2	4.5	(2.7)	(0.3)
KHR (Cambodia)	(1.1)	0.5	1.4	(0.0)	JPY (Japan)	0.4	0.3	(10.3)	(2.6)
LAK (Laos)	(3.5)	1.0	(5.8)	(9.6)	NZD (NZ)	(0.7)	2.9	(11.5)	(1.8)
THB (Thailand)	(5.6)	8.2	0.1	0.8	HKD (Hongkong)	(0.8)	(0.2)	0.6	(0.1)
IDR (Indonesia)	**(5.7)**	(3.5)	(4.4)	**(2.5)**	MNT (Mongolia)	(1.1)	(3.7)	0.5	(5.7)
PHP (Philippines)	(6.4)	(1.7)	(4.2)	(2.8)	TWD (Taiwan)	(1.6)	4.4	(6.3)	0.3
Average	(2.7)	2.2	(2.3)	(1.8)	**Average**	1.4	2.3	(6.4)	(1.5)

Target Rate Probabilities for 29-Jul & 16-Sep Fed Meeting



Sources: Bloomberg, SSI Research

Macro Strategy Team