PIER Snapshot: Mar-24 FOMC Meeting
21 March 2024

Mar-24 FOMC Meeting: The Fed Opted to Keep FFR Steady, while Maintaining Three Potential Rate Cuts This Year

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Statement from the Fed

The likelihood of a policy rate cut still relies on incoming data and evolving outlook, while the pace of QT may lessen.

- During the Mar-24 FOMC meeting, the Fed opted to maintain the Fed Funds Rate (FFR) at its current range of 5.25 – 5.50% for the fifth consecutive meeting, while also continuing to reduce securities holdings.
- The Fed believed that the FFR is likely already at its peak for the tightening cycle. If the economy follows the anticipated trajectory, the Fed is inclined to gradually ease policy restraint at some point this year. However, the Fed acknowledged the ongoing uncertainty in the economic outlook and remains vigilant regarding inflation risks, indicating readiness to maintain the current FFR target range for an extended period if necessary. Acting prematurely or excessively in reducing policy restraint could potentially reverse progress on inflation, necessitating even tighter policies to restore it to the 2% target. Conversely, delaying or insufficiently reducing policy restraint could negatively impact economic activity and employment. The Fed explained that it does not anticipate reducing the FFR until it has greater confidence that inflation is steadily moving toward the 2% target.
- Although recent US economic indicators have remained robust as the pace of disinflation slows, the Fed still signaled its intention to implement 75bps rate cuts in 2024. This decision was supported by the observation that longer-term inflation expectations remain well anchored, as indicated by various surveys and financial market measures.
- The Fed's securities holdings have decreased by nearly USD1.5 trillion since the initiation of portfolio reduction (quantitative tightening (QT)). Consequently, the Fed argued that it is appropriate to soon slow the pace of runoff. This adjustment does not imply that the balance sheet will ultimately shrink by a lesser amount, but rather allows for a more gradual approach toward reaching the intended level of reserves. Slowing the pace of runoff aims to ensure a smooth transition, minimizing the risk of stress in money markets.

The Fed's more optimistic outlook on economic indicators has resulted in a higher long-term target for FFR.

- Recent indicators pointed to a solid expansion in economic activity. GDP growth in 4Q23 reached 3.2%qoq. Throughout 2023, GDP expanded by 3.1%, driven by robust consumer demand and improving supply conditions. However, elevated policy rates seem to have dampened business fixed investment. The Fed still anticipated a deceleration in GDP growth compared to the previous year, with a forecast of 2.1% in 2024 and 2.0% over the subsequent two years. Participants generally revised their growth projections upwards, reflecting the strength of incoming data. The latest projections indicate higher US GDP growth rates for 2024 (2.1% vs. 1.4% in the Dec-23 projection), 2025 (2.0% vs. to 1.8%), and 2026 (2.0% vs. to 1.9%).
- The labor market has stayed relatively tight, with supply and demand conditions steadily improving. Although the unemployment rate has slightly increased, it remained low at 3.9%. The Fed anticipated that this rebalancing in the labor market will persist, alleviating upward pressure on inflation. The newest projections suggest the unemployment rate will reach 4.0% by the end of this year, 4.1% by the end of next year, and 4.0% in 2026. Forecasts for 2024 and 2026 are lower compared to the previous estimate of 4.1% in the Dec-23 projection.
- Over the past year, inflation has moderated but has stayed above the longer-term goal of 2%. Based on estimates from CPI and other data sources, total PCE prices increased by 2.5%yoy ending in Feb-24, while core PCE prices, which exclude volatile food and energy categories, rose by 2.8%yoy. Although PCE inflation forecasts for 2024 remain unchanged at 2.4%, the Fed has revised its projections upward for 2025 to 2.2% from 2.1%, with the core PCE rate expected to increase this year to 2.6% from 2.4%. Projections for core PCE inflation in 2025 remain steady at 2.2%. Additionally, the Fed still anticipated that both PCE and core PCE inflations will return to the 2% target by 2026.
- While the Fed continues to uphold the expectation of three policy rate cuts, each by 25bps, this year, the latest projection indicates a slight adjustment with three cuts in 2025, one less than previously anticipated, resulting in a lower rate cut projection from 100bps to bps. Three additional reductions are still anticipated in 2026. Furthermore, the Fed has revised its long-term FFR target upwards to 2.6% from 2.5%, suggesting improved economic growth projections. Some members of the Fed anticipated that the US economic condition will exhibit greater resilience to relatively high policy rates.

Market Implication

Market implication: Risk-on sentiment improved as the Fed maintained projected rate cut path, while also revised up economic growth outlook.

- The statement made by Fed Chairman Jerome Powell, along with the revised economic projections, led to heightened anticipation that the Fed would still decrease FFR despite robust US economic indicators recently. Investors and traders interpreted the outcome of the Mar-24 FOMC meeting as leaning towards a dovish stance, causing the rate cut probability in Jun-24 to increase and the US Dollar to weaken following the announcement. US Dollar Index fell by 0.41% to 103.39.
- Concurrently, US Treasury (UST) yields declined after the Fed indicated a potential slowdown in QT process, suggesting that the increase in bond supply from Fed sales would be less compared to the tightening period of 2022 – 2023. The lower-than-anticipated bond supply supported expectations of reduced yields in the future, offsetting the impact of a potential lesser FFR cuts in 2025. The 10-year UST yield was down by 2bps to 4.27% after the announcement. Additionally, the stock market saw an uptick in risk-on sentiment due to higher probability of rate cuts this year and the Fed's more optimistic outlook on economic growth. Specifically, DJIA, S&P500, and NASDAQ were closed higher by 1.03%, 0.89%, and 1.25%, respectively.

Our PIERspective:

- We see that US inflation in 2024 remains significantly above the 2% target, primarily driven by the upward trend in oil prices impacting transportation costs in the country. However, there has been a gradual easing in the labor market, as evidenced by the increasing unemployment rate. Given these conditions, it is likely that the elevated inflationary environment in the early part of 2024 is just temporary and could subside later in the year. With the alleviation of pressure from the labor market, inflation is expected to gradually decrease towards the end of 2024. Consistent with our expectations, we continue to anticipate that the Fed will reduce FFR by 75bps in 2024, specifically in the second half of the year, bringing it to a range of 4.50 – 4.75%.
- As the Fed's rate cut is anticipated only in 2H24, we also maintain our forecast that the trend of the Rupiah in 1H24 will hover between IDR15,500 – 15,700 against the US Dollar. This is because investors are likely to wait for clearer signals of a rate cut and monitor developments in US economic indicators. In 2H24, with a clearer indication of the Fed's timing for the rate cut, we expect the trend of the Rupiah to reverse and appreciate against the US Dollar. Foreign investors will likely enter the domestic financial market through the bond market, thereby supporting lower yields on government bonds. _*We maintain our expectation that the Rupiah will close at around IDR15,000 – 15,400 per USD by the end of 2024, with the 10-year IDR bond yield hovering around 6.20 – 6.70%.*

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The Fed’s Projection

Percent

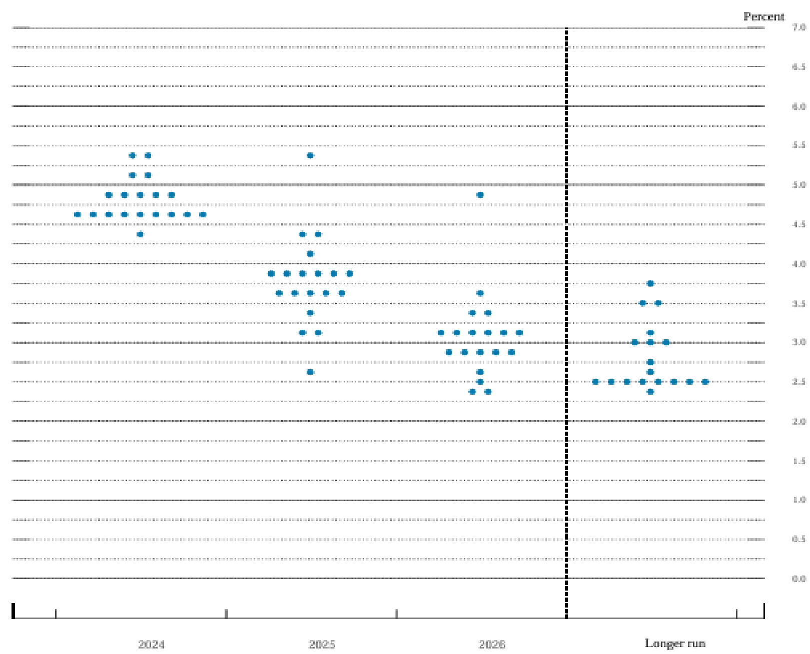
Variable	Median[1]				Central Tendency[2]				Range[3]			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8	2.0–2.4	1.9–2.3	1.8–2.1	1.7–2.0	1.3–2.7	1.7–2.5	1.7–2.5	1.6–2.5
December projection	1.4	1.8	1.9	1.8	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9–4.1	3.9–4.2	3.9–4.3	3.8–4.3	3.8–4.5	3.7–4.3	3.7–4.3	3.5–4.3
December projection	4.1	4.1	4.1	4.1	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3–2.7	2.1–2.2	2.0–2.1	2.0	2.2–2.9	2.0–2.5	2.0–2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2–2.5	2.0–2.2	2.0	2.0	2.1–2.7	2.0–2.5	2.0–2.3	2.0
Core PCE inflation[4]	2.6	2.2	2.0		2.5–2.8	2.1–2.3	2.0–2.1		2.4–3.0	2.0–2.6	2.0–2.3	
December projection	2.4	2.2	2.0		2.4–2.7	2.0–2.2	2.0–2.1		2.3–3.0	2.0–2.6	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	4.6	3.9	3.1	2.6	4.6–5.1	3.4–4.1	2.6–3.4	2.5–3.1	4.4–5.4	2.6–5.4	2.4–4.9	2.4–3.8
December projection	4.6	3.6	2.9	2.5	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8

Note: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The December projections were made in conjunction with the meeting of the Federal Open Market Committee on December 12–13, 2023. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the December 12–13, 2023, meeting, and one participant did not submit such projections in conjunction with the March 19–20, 2024, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

Source: Federal Reserve

Fed Funds Rate (FFR) Dot Plot



Source: Federal Reserve

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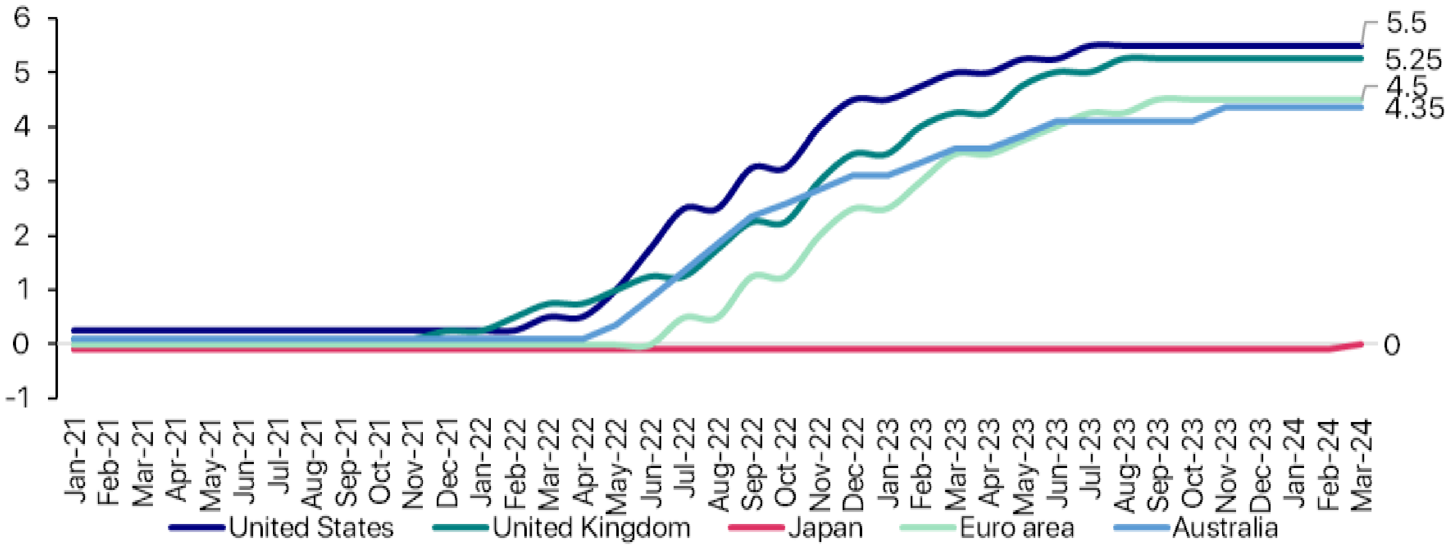
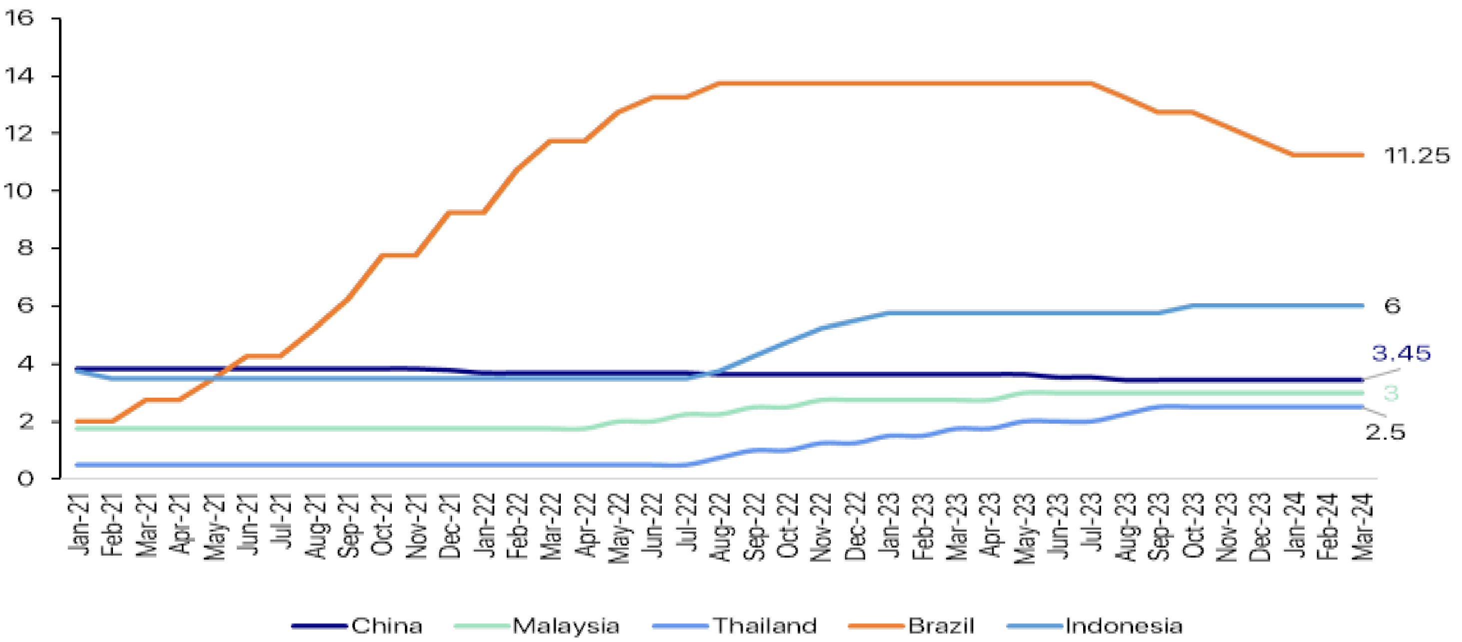
Global Central Banks' Policy Rate Trend (%)



Source: Bloomberg & PIER



Source: Bloomberg & PIER

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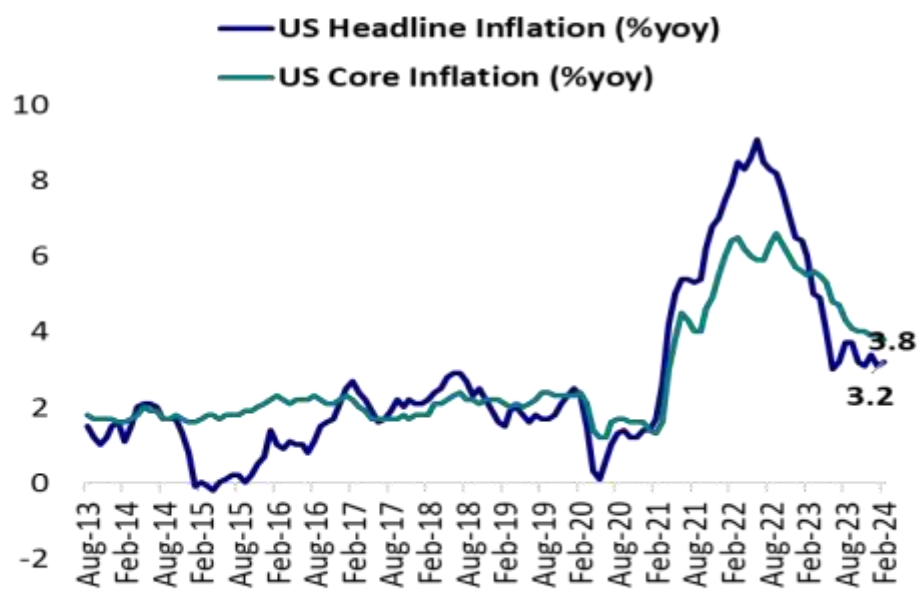
Probability of FFR Path

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
May-24					0.00%	0.00%	0.00%	0.00%	10.40%	89.60%
Jun-24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.50%	67.40%	25.10%
Jul-24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.70%	37.20%	46.40%	12.60%
Sep-24	0.00%	0.00%	0.00%	0.00%	0.00%	3.00%	30.90%	44.70%	19.10%	2.40%
Nov-24	0.00%	0.00%	0.00%	0.00%	1.50%	16.70%	37.60%	32.10%	10.90%	1.20%
Dec-24	0.00%	0.00%	0.00%	1.00%	11.60%	30.60%	34.00%	18.00%	4.50%	0.40%
Jan-25	0.00%	0.00%	0.60%	7.10%	22.50%	32.50%	24.80%	10.20%	2.10%	0.20%
Mar-25	0.00%	0.30%	4.00%	15.30%	27.90%	28.40%	17.00%	5.90%	1.10%	0.10%
Apr-25	0.10%	1.90%	9.00%	20.80%	28.10%	23.40%	12.20%	3.80%	0.60%	0.00%

Source: CME Fed Watch Tools

US Core Inflation Gradually Eased, while Headline Inflation Remained Persistent



Source: Bloomberg & PIER

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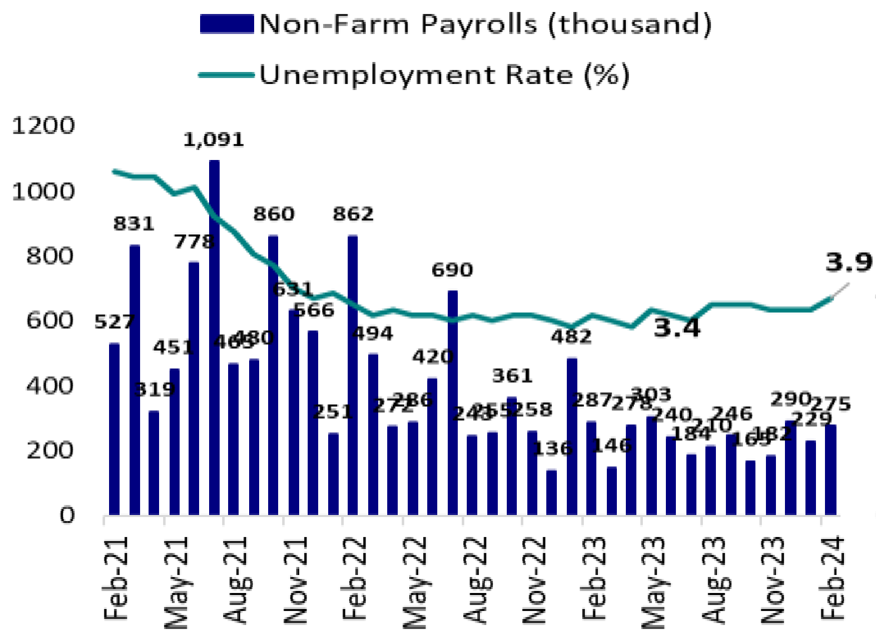
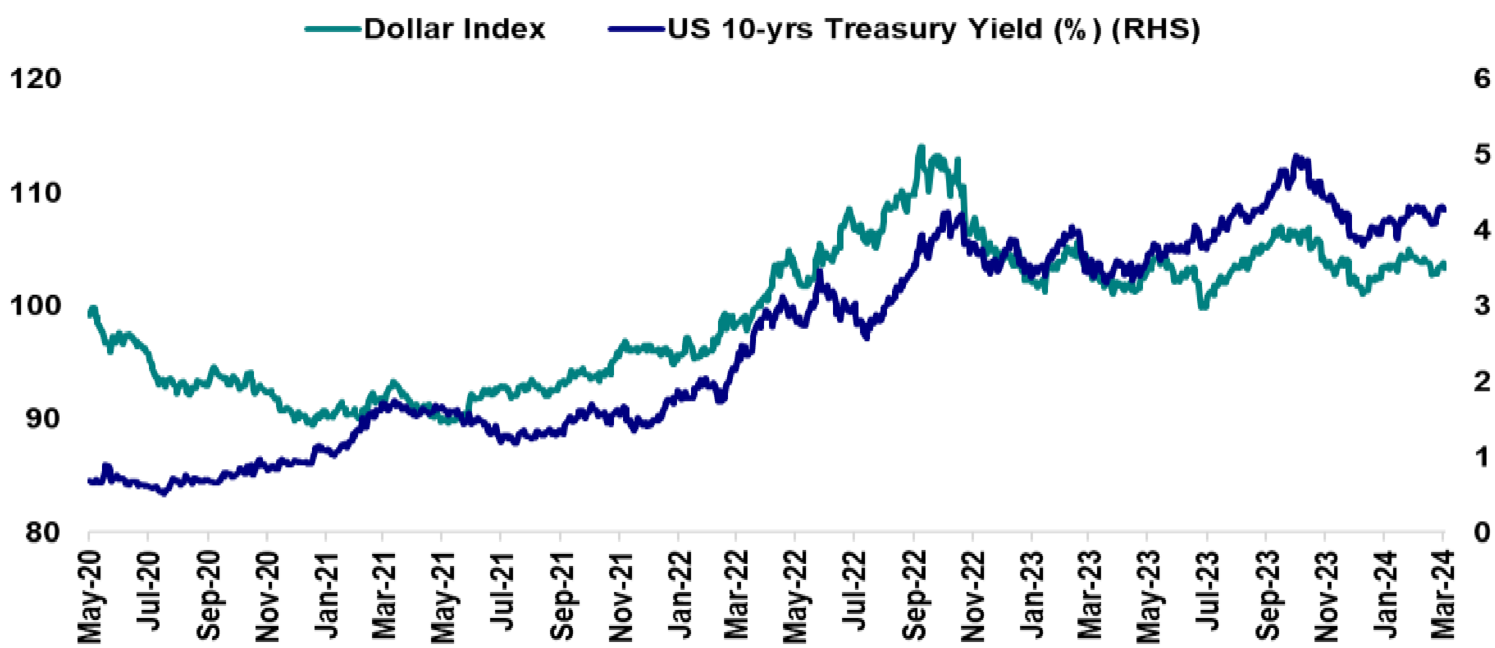
Unemployment Rate Surprisingly Rose in Feb-24



Source: Bloomberg & PIER

Dollar Index Rose along the Year due to Rising US Inflation



PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24F	2Q24F	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.10	5.11	5.05	5.00	5.07	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	5.18	5.20	5.15	5.05	5.14	5.10	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	5.05	4.79	4.81	5.05	4.93	5.52	6.09
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	4.58	4.23	5.13	5.11	4.78	5.83	6.62
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,485.18	5,656.44	5,727.52	5,731.41	22,600.55	24,479.95	26,548.14
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	355.01	366.11	374.25	378.60	1,473.98	1,641.11	1,807.17
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.97	3.10	3.15	3.07	3.07	3.15	3.18
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	3.18	3.12	3.08	3.08	3.25	3.15
Unemployment Rate (%)	5.18	7.07	6.49	5.86	5.32	5.14	5.14	5.28	5.28	5.28	5.14	4.91
Fiscal Condition												
Fiscal Balance (% of GDP)	-2.20	-6.14	-4.57	-2.35	-1.65	0.25	0.05	-0.75	-2.14	-2.14	-2.00	-2.04
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.62	6.65	6.33	6.26	6.26	6.04	5.63
External Sector												
Trade Balance (USD bn)	-3.59	21.62	35.42	54.46	36.91	7.56	6.11	5.44	6.52	25.63	23.41	17.22
Goods Balance (USD bn)	3.51	28.30	43.81	62.67	46.35	9.57	8.13	7.44	8.54	33.68	31.44	25.24
Current Account (USD bn)	-30.28	-4.43	3.51	13.22	-1.57	-1.35	-3.37	-3.31	-2.36	-10.38	-18.67	-26.63
Current Account (% of GDP)	-2.71	-0.42	0.30	1.00	-0.11	-0.38	-0.92	-0.88	-0.60	-0.70	-1.13	-1.46
Foreign Reserves (USD bn)	129.18	135.90	144.91	137.23	146.38	151.84	143.24	143.87	152.18	152.18	156.04	157.88
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,451	15,450	15,304	15,138	15,336	14,918	14,691
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,468	15,444	15,241	15,093	15,093	14,783	14,565
Commodity Price												
Coal Price (USD/MT)	66.2	83.0	169.7	379.2	141.8	133.1	124.4	121.0	117.5	117.5	103.8	90.3
CPO Price (USD/MT)	763.7	1,016.4	1,270.3	940.4	797.8	805.8	813.7	821.7	829.6	829.6	818.0	808.3
Oil Price (USD/BBL)	65.85	49.87	74.31	80.90	77.9	77.8	77.7	79.0	80.3	80.3	84.1	85.4
Interest Rate												
Fed Funds Rate (%)	1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.25	4.75	4.75	3.75	2.75
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.00	6.00	5.50	5.50	4.50	4.00
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.28	9.23	9.21	9.15	9.15	8.55	8.00
Banking Sector												
Loan (% yoy)	6.08	-2.40	5.24	11.35	10.38	10.48	10.58	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	4.84	6.28	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.8	86.1	85.9	84.0	84.0	85.5	87.5
Real Sector												
Car Sales (Unit)	1,030,126	532,027	887,202	1,048,040	1,005,802	313,529	202,128	252,240	279,733	1,047,630	1,071,763	1,144,675
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-1.0	-9.7	1.2	25.4	4.2	2.3	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	2,144,597	1,026,925	1,604,918	1,502,065	6,278,505	6,300,894	6,436,790
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	17.6	-25.5	5.6	-0.9	0.7	0.4	2.2

Source: Permata Institute for Economic Research (PIER)

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Scan di sini untuk membaca report selengkapnya:

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