PIER Snapshot: Jul-24 FOMC Meeting
01 August 2024

Jul-24 FOMC Meeting: The Fed acknowledges disinflation progress and hints the first policy rate cut approaching sooner

Authors:
Josua Pardede – Chief Economist – josua.pardede@permatabank.co.id – 021-5237788 (8029650)
Faisal Rachman – Head of Macro. & Fin.Market Research – faisal.rachman1@permatabank.co.id – 021 5237788 (8044866)
Qolbie Ardie – Economist – qolbie.ardie@permatabank.co.id – 021 5237788 (8038871)

Statement from the Fed

The Fed opted to maintain its policy rate and will proceed with reducing its securities holdings.

- In the Jul-24 FOMC meeting, the Fed held the Federal Funds Rate (FFR) steady at a 23-year high of 5.25 – 5.50% for the eighth consecutive meeting, as anticipated. This decision to maintain a restrictive monetary policy stance was aimed at aligning demand with supply and easing inflationary pressures.
- The Fed also indicated that it does not foresee reducing the target range for FFR until it is more confident that inflation is sustainably moving toward the 2% goal. However, the Fed noted that recent economic data suggests a cooling labor market and a decline in inflation, which has brought the risks to achieving employment and inflation objectives into better balance. Furthermore, the inflation readings from the 2Q24 have bolstered the Fed's confidence, and additional positive data could further solidify this outlook.
- The Fed emphasized that it will continue to assess economic conditions on a meeting-by-meeting basis. It considers that reducing policy restraint prematurely or excessively could reverse the progress made on disinflation, while delaying or insufficiently easing could overly weaken economic activity and employment.

Progress in disinflation continues, job growth has decelerated, and the unemployment rate has edged up slightly.

- Recent indicators point to a moderation in economic activity, though the economy remains resilient. GDP growth slowed to 2.1% in 1H24, down from 3.1% last year. While consumer spending growth has decelerated from last year's vigorous pace, it remains robust. Improving supply conditions have supported resilient demand, contributing to the strong performance of the US economy over the past year.
- In the labor market, the balance between supply and demand has improved. The unemployment rate has inched up but remains low at 4.1%. A comprehensive range of indicators suggests that labor market conditions have returned to levels seen just before the pandemic—strong, yet not overheated.
- Inflation has notably decreased over the past two years but still slightly exceeds the longer-term target of 2%. On an annual basis, total PCE prices rose by 2.5% in Jun-24, while core PCE prices, excluding the more volatile food and energy sectors, increased by 2.6%.

Should inflation continue its downward trajectory, the Fed may consider multiple rate cuts this year.

- During the press conference, Chair Powell suggested that a policy rate cut this year is a possibility, though it could also be deferred, contingent on future US economic developments. He emphasized that if the economy remains robust and inflation persists, the Fed is prepared to maintain the current target range for FFR for as long as necessary. Conversely, if the labor market unexpectedly weakens or inflation declines more rapidly than anticipated, the Fed stands ready to adjust its approach.
- Chair Powell also emphasized the need for additional positive data before making any decisions about future meetings, including the Sep-24 FOMC. However, he noted that a policy rate cut could be considered at the next meeting if inflation keeps declining and mentioned the potential for multiple rate cuts this year under certain scenarios.

PIER Snapshot: Jul-24 FOMC Meeting

01 August 2024

Market Implication

Market implication: Investor sentiment turned more positive after Powell's statement, especially because they interpreted his tone as being dovish

- The US Dollar Index had already weakened during the Asian session after the Japanese Yen surged significantly against the US Dollar following the Bank of Japan (BoJ) meeting. In the Jul-24 meeting, the BoJ raised its policy rate to a range of 0.00 – 0.25% from the previous 0.00 – 0.10%, which attracted foreign capital inflows to Japan. The BoJ indicated that Japan's economy and price levels are expected to increase moderately in the future, particularly by 2025. This optimistic outlook from the BoJ boosted risk-on sentiment in the Asian financial markets, leading to further depreciation of the US Dollar Index against most Asian currencies, with the Japanese Yen taking the lead.
- The US Dollar weakened further before the Jul-24 FOMC meeting announcement, following a disappointing report from the ADP Employment Change, one of the US labor market indicators. The ADP data showed a decline to 122,000 jobs, down from 155,000 and below the consensus estimate of 150,000, signaling a slowdown in the US labor market. Consequently, the US Dollar Index dropped below the 104 level.
- However, the depreciation of the US Dollar was moderated by rising geopolitical tensions in the Middle East. The Iranian government vowed retaliation against Israel following the assassination of Hamas leader, which triggered risk-off sentiment in the financial markets just before the FOMC meeting announcement.
- After the FOMC meeting announcement, the US Dollar resumed its decline, primarily because investors interpreted the meeting's outcome as more dovish, driven by Powell's remarks regarding the potential for policy rate cut in Sep-24 if inflation and labor market data continue to soften. This clearer signal of possible policy rate cut in 2024 fueled risk-on sentiment, boosting demand for other currencies, supporting the US stock market, and pushing down US Treasury (UST) yields. The US Dollar Index fell by 0.44% to 104.10, while the 10-yr UST yield dropped by 11bps to 4.03%. In the stock market, the DJIA, S&P 500, and NASDAQ rose by 0.24%, 1.58%, and 2.64%, respectively.

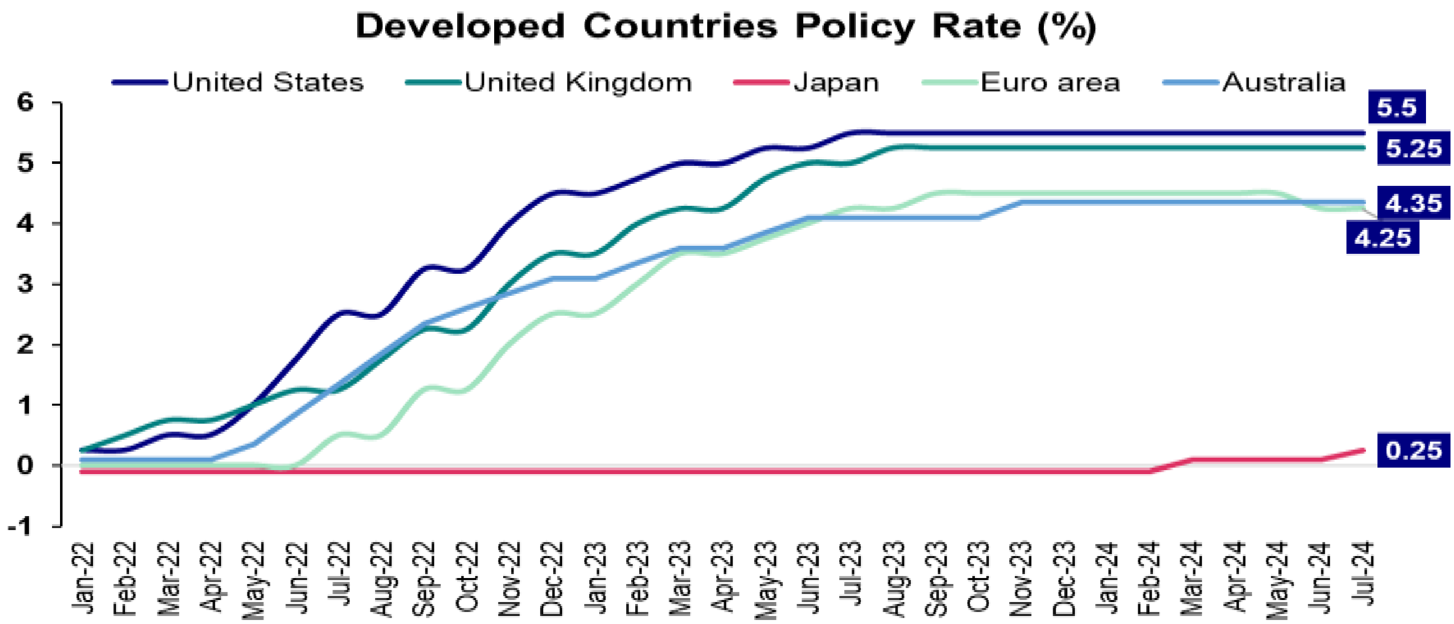
Our PIERspective:

- Given the current trajectory of various economic indicators, the US economy appears to be gradually easing, with notable progress in disinflation expected to continue through 1H24. If this trend holds, we see that the Fed may consider reducing FFR by more than 25bps in 2024. However, we are also mindful of potential inflationary risks that could impede this progress. Key factors include geopolitical uncertainty in the Middle East and the persistently tight labor market in the service sector. Geopolitical tensions could drive energy prices higher, which may, in turn, affect prices across various sectors in the US. Additionally, pressure from the service sector labor market could still come from ongoing work visa freeze in some sectors, specifically in the healthcare sector. Furthermore, political uncertainty during the US election period could introduce risks to the FFR trajectory, as demand for safe-haven currencies like the US Dollar might remain strong. While we currently maintain our forecast for the Fed to reduce FFR by just 25bps, bringing it to a range of 5.00% – 5.25%, we are now reconsidering the possibility of a 50bps cut having a higher chance to happen in 2H24.
- As the likelihood of an FFR cut in Sep-24 increases, we see a greater possibility for Bank Indonesia (BI) to reduce BI-rate in 2H24 as well. Multiple FFR cuts could strengthen the Rupiah, thereby easing Indonesia's imported inflation pressures. Additionally, we now anticipate that domestic inflation could soften in 2H24, potentially falling below our current forecast to under 3% by year-end, supported by an improving food supply and the delay in the implementation of excise duties on plastic and sweetened beverages. These factors could allow for a more accommodative monetary policy. We currently expect BI to hold the BI-rate steady at 6.25% through the end of 2024. However, we are now considering the possibility that BI may cut BI-rate sooner if both external and domestic conditions align with the aforementioned scenario. We project the Rupiah to trade between Rp15,800 – 16,200 per USD by the end of 2024, with 10-yr IDR bond yields hovering around 6.80% – 7.15%. If multiple FFR cuts occur in 2H24, the figures are likely to trend toward the lower end of the range.

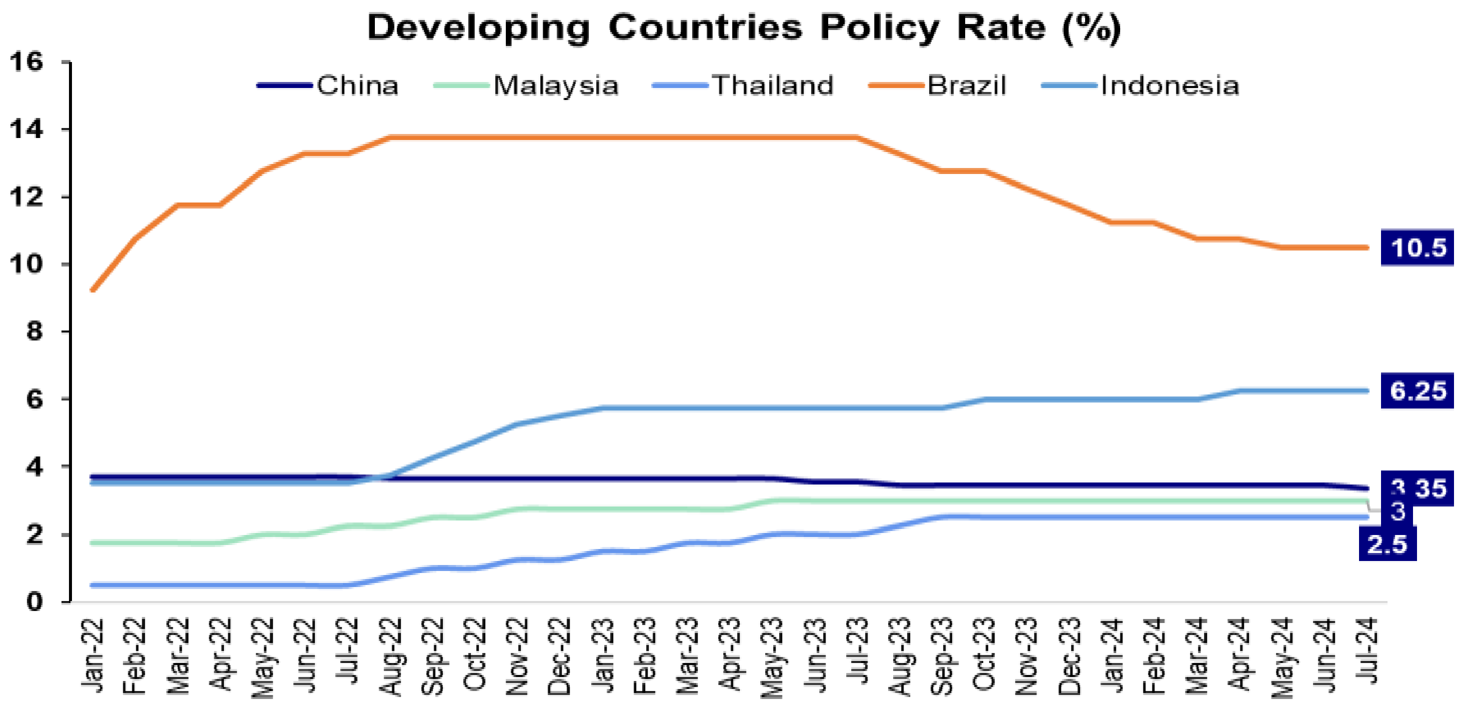
PIER Snapshot: Jul-24 FOMC Meeting

01 August 2024

Global Central Banks' Policy Rate Trend (%)



Source: Bloomberg & PIER



Source: Bloomberg & PIER

PIER

PermataBank

PIER Snapshot: Jul-24 FOMC Meeting

01 August 2024

Probability of FFR Path

FOMC Meeting Date	3.50-3.75	3.75-4.00	4.00-4.25	4.25-4.50	4.50-4.75	4.75-5.00	5.00-5.25
18-Sep-24			0.0%	0.0%	0.0%	13.5%	**86.5%**
7-Nov-24	0.0%	0.0%	0.0%	0.0%	9.6%	**65.3%**	25.1%
18-Dec-24	0.0%	0.0%	0.4%	11.9%	**63.7%**	24.1%	0.0%
29-Jan-25	0.0%	0.3%	9.8%	**54.3%**	31.2%	4.3%	0.0%
19-Mar-25	0.3%	9.2%	**51.6%**	32.7%	6.0%	0.3%	0.0%
30-Apr-25	6.1%	36.8%	**39.2%**	15.3%	2.3%	0.1%	0.0%
18-Jun-25	28.8%	**38.6%**	21.5%	5.6%	0.7%	0.0%	0.0%
30-Jul-25	**33.3%**	30.7%	14.2%	3.4%	0.4%	0.0%	0.0%

Source: CME Fed Watch Tools, as of 1-Aug-24

US Economic Indicators already Cooled Down

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Economic Performance (%qoq, saar)										
Real GDP	2.2	3.4	4.6	2.6	-5.3	-29.0	34.8	4.2	5.2	6.2
Personal Consumption Expenditures (PCE)	0.5	3.2	4.1	2.6	-6.4	-30.2	40.5	5.6	8.9	13.6
Disposable Personal Income	4.7	-0.3	2.8	2.3	2.4	45.8	-13.3	-7.8	56.1	-27.8
Gross Private Domestic Investment (GPDI)	2.9	2.8	4.3	-4.6	-9.9	-46.4	86.9	13.2	-3.3	-5.4
Export	4.4	-2.8	0.6	1.4	-15.4	-61.5	62.0	25.8	0.9	2.0
Import	1.0	0.5	-1.3	-7.5	-13.0	-53.6	88.6	32.0	8.0	7.7
Gov. Consumption Exp. & Gross Inv. (GCI)	5.5	6.2	4.5	2.6	4.4	8.6	-6.1	-1.9	5.7	-4.3
Real Sector										
ISM PMI: Manufacturing	54.9	51.5	48.1	47.9	49.0	52.6	55.5	60.2	64.0	61.4
ISM PMI: Services	56.5	56.2	53.2	55.7	52.5	57.3	57.1	57.5	62.3	61.2
Retail Sales (%mom, sa)	1.7	0.0	-0.8	0.1	-6.0	6.8	1.9	1.7	10.6	0.6
Personal Income (PI) (%mom, saar)	0.4	0.2	0.3	-0.3	-1.8	0.2	0.8	0.8	20.8	0.2
Personal Consumption Expenditure (PCE) (%mom, saar)	0.9	0.4	0.2	0.4	-6.9	5.9	1.6	0.9	4.7	1.4
New Orders: Durable Goods (%mom)	3.9	-0.5	-1.0	1.0	-14.8	9.5	2.4	1.7	0.7	1.4
Labor Market										
Unemployment Rate (%, sa)	3.8	3.6	3.5	3.6	4.4	11.0	7.8	6.7	6.1	5.9
JOLTS: Job Openings: Non Farm (NF) (in thousand, sa)	7,317	7,194	7,124	6,889	5,924	6,158	6,505	6,706	8,519	10,317
Inflation Rate										
CPI (%yoy, sa)	1.9	1.7	1.7	2.3	1.5	0.7	1.4	1.3	2.6	5.3
CPI (%mom, sa)	0.4	0.0	0.2	0.3	-0.4	0.5	0.2	0.4	0.5	0.8
Core CPI (%yoy, sa)	2.1	2.1	2.3	2.3	2.1	1.2	1.7	1.6	1.6	4.4
Core CPI (%mom, sa)	0.1	0.2	0.2	0.2	-0.1	0.1	0.2	0.1	0.2	0.8
PCE Inflation (%yoy, sa)	1.6	1.4	1.3	1.5	1.1	0.7	1.2	1.4	2.7	4.4
PCE Inflation (%mom, sa)	0.2	0.0	0.1	0.3	-0.3	0.3	0.2	0.5	0.5	0.5
Core PCE Inflation (%yoy, sa)	1.6	1.7	1.6	1.5	1.5	0.9	1.4	1.6	2.3	3.9
Core PCE Inflation (%mom, sa)	0.1	0.2	0.1	0.2	-0.1	0.2	0.2	0.3	0.4	0.5

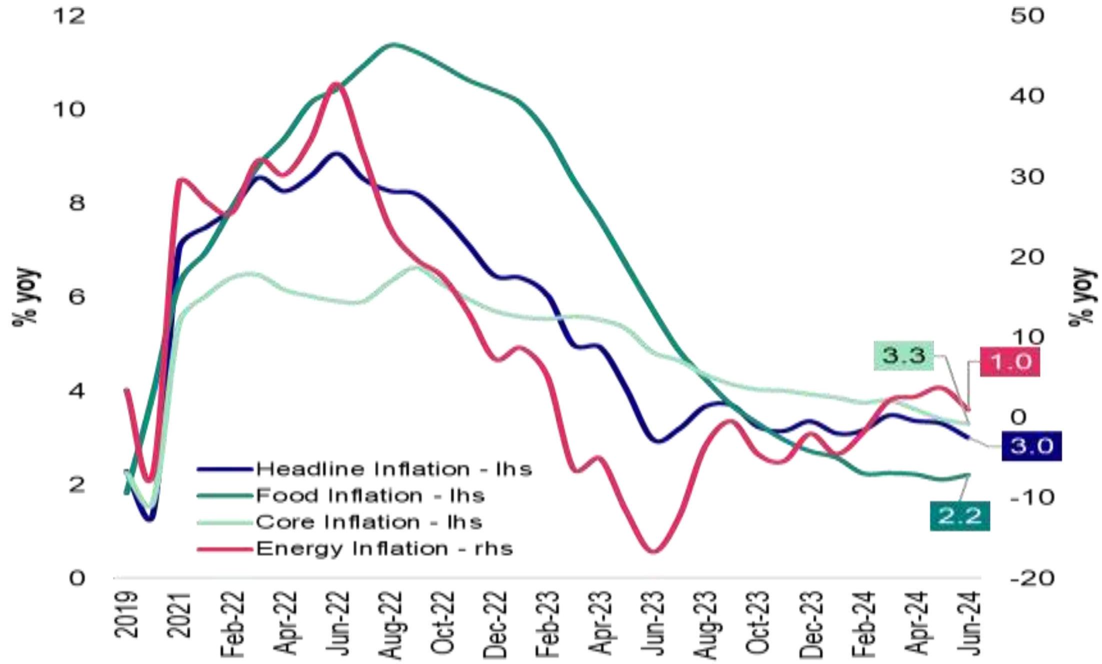
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Economic Performance (%qoq, saar)																
Real GDP	3.3	7.0	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.4			1.4			2.8
Personal Consumption Expenditures (PCE)	2.8	4.0	0.0	2.0	1.6	1.2	3.8	0.8	3.1	3.3			1.5			2.3
Disposable Personal Income	-5.2	-5.7	-9.8	-1.4	3.6	2.2	10.6	3.3	0.5	0.9			1.3			1.0
Gross Private Domestic Investment (GPDI)	16.1	27.9	6.2	-10.6	-7.6	3.4	-9.0	5.2	10.0	0.7			4.4			8.4
Export	1.5	24.2	-4.6	10.6	16.2	-3.5	6.8	-9.3	5.4	5.1			1.6			2.0
Import	8.5	20.6	14.7	4.1	-4.8	-4.3	1.3	-7.6	4.2	2.2			6.1			6.9
Gov. Consumption Exp. & Gross Inv. (GCI)	-1.5	-0.3	-2.9	-1.9	2.9	5.3	4.8	3.3	5.8	4.6			1.8			3.1
Real Sector																
ISM PMI: Manufacturing	60.5	58.3	57.3	53.4	50.8	48.1	46.5	48.4	48.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5
ISM PMI: Services	62.0	61.6	58.3	55.9	55.7	49.0	51.2	53.6	53.4	50.5	53.4	52.6	51.4	49.4	53.8	48.8
Retail Sales (%mom, sa)	0.7	-0.7	2.0	0.7	-0.4	-1.1	-1.1	0.1	0.7	0.2	-1.1	0.8	0.6	-0.3	0.3	0.0
Personal Income (PI) (%mom, saar)	-0.7	0.3	0.4	0.4	0.4	0.2	0.5	0.2	0.4	0.3	1.1	0.3	0.5	0.3	0.4	0.2
Personal Consumption Expenditure (PCE) (%mom, saar)	0.6	0.3	1.2	0.9	0.6	0.3	-0.1	0.4	0.7	0.6	0.1	0.7	0.7	0.1	0.4	0.3
New Orders: Durable Goods (%mom)	-1.5	2.3	-0.1	1.6	0.3	4.5	2.3	2.8	2.0	-4.4	-3.8	1.2	0.8	0.2	0.1	-6.6
Labor Market																
Unemployment Rate (%, sa)	4.7	3.9	3.6	3.6	3.5	3.5	3.5	3.6	3.8	3.7	3.7	3.9	3.8	3.9	4.0	4.1
JOLTS: Job Openings: Non Farm (NF) (in thousand, sa)	10,675	11,511	12,182	11,254	10,784	11,000	9,823	9,125	9,307	8,889	8,748	8,813	8,355	7,919	8,230	8,184
Inflation Rate																
CPI (%yoy, sa)	5.4	7.2	8.5	9.0	8.2	6.4	4.9	3.1	3.7	3.3	3.1	3.2	3.5	3.4	3.3	3.0
CPI (%mom, sa)	0.4	0.7	1.1	1.2	0.4	0.1	0.1	0.2	0.4	0.2	0.3	0.4	0.4	0.3	0.0	-0.1
Core CPI (%yoy, sa)	4.0	5.5	6.5	5.9	6.6	5.7	5.6	4.9	4.1	3.9	3.9	3.8	3.8	3.6	3.4	3.3
Core CPI (%mom, sa)	0.3	0.6	0.3	0.7	0.6	0.4	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.2	0.1
PCE Inflation (%yoy, sa)	4.8	6.2	6.9	7.1	6.6	5.4	4.4	3.2	3.4	2.6	2.5	2.5	2.7	2.7	2.6	2.5
PCE Inflation (%mom, sa)	0.3	0.7	0.8	0.9	0.4	0.2	0.1	0.2	0.4	0.1	0.4	0.3	0.3	0.3	0.0	0.1
Core PCE Inflation (%yoy, sa)	4.1	5.2	5.5	5.2	5.5	4.9	4.8	4.3	3.6	2.9	2.9	2.8	2.8	2.8	2.6	2.6
Core PCE Inflation (%mom, sa)	0.2	0.6	0.4	0.6	0.5	0.4	0.3	0.2	0.3	0.2	0.5	0.3	0.3	0.3	0.1	0.2

Source: PIER & Bloomberg

PIER Snapshot: Jul-24 FOMC Meeting

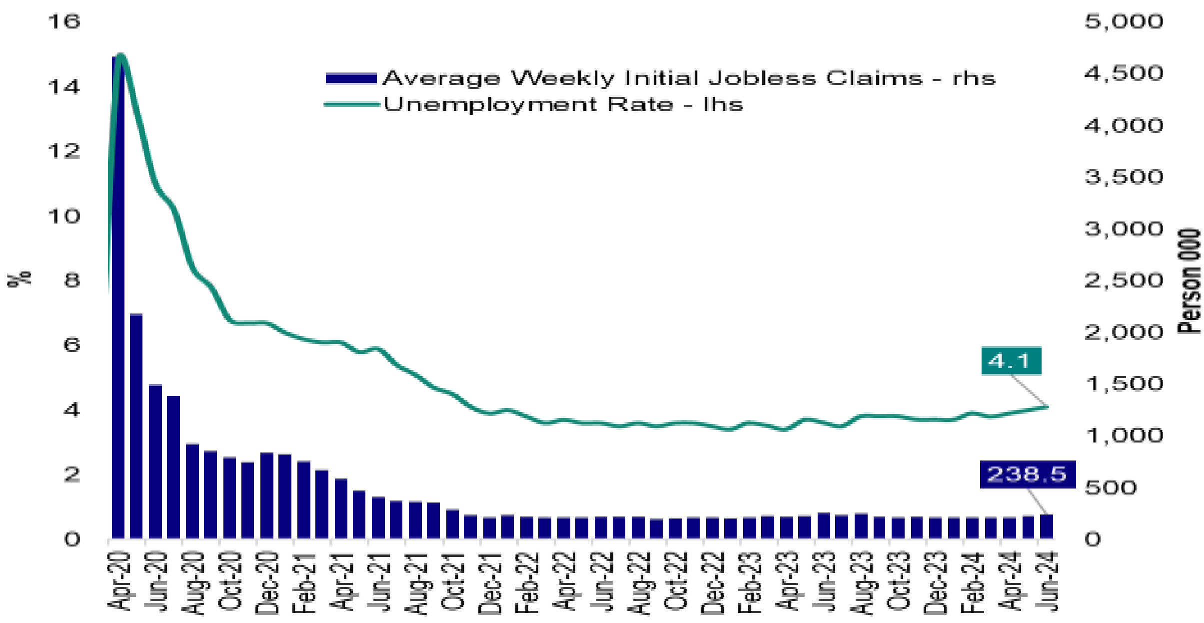
01 August 2024

Core inflation dragged down headline inflation level



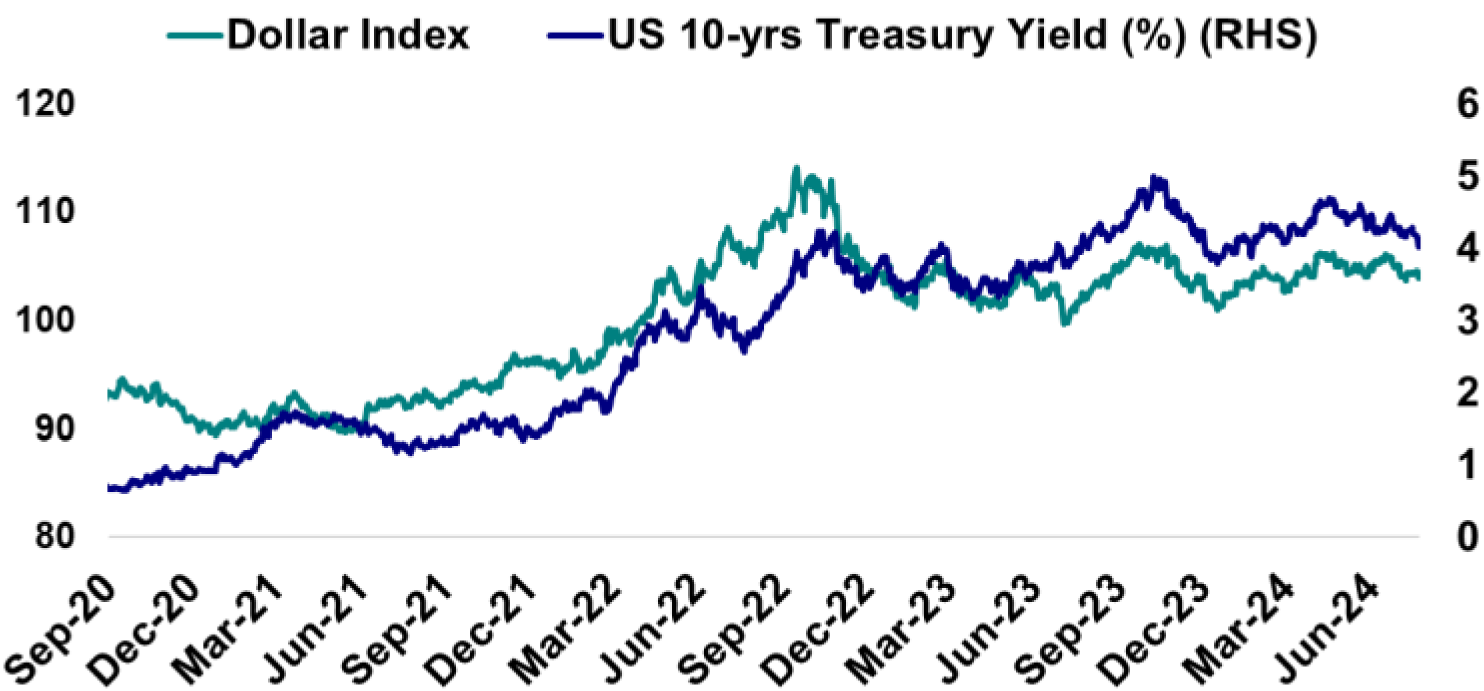
Source: Bloomberg & PIER

Unemployment Rate Started to Increase



Source: Bloomberg & PIER

Dollar Index Weakened amid Weaker US Economic Data



PIER

PermataBank

PIER Snapshot: Jul-24 FOMC Meeting

01 August 2024

PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.11	5.10	5.05	5.00	5.07	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	4.91	4.88	4.95	5.00	4.93	5.10	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	19.90	6.89	4.81	5.05	8.07	5.49	6.08
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	3.79	3.63	3.79	4.89	4.04	5.83	6.62
Real Export (% yoy)	-0.48	-8.42	17.95	16.28	1.32	0.50	-1.09	1.27	4.95	1.50	9.61	10.41
Real Import (% yoy)	-7.13	-17.60	24.87	14.75	-1.65	1.77	-0.95	2.88	6.36	2.60	11.80	12.63
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,288.29	5,655.74	5,727.73	5,731.44	22,403.21	24,266.91	26,317.21
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	337.70	346.45	353.39	354.71	1,392.25	1,534.97	1,732.43
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.79	2.78	3.15	3.07	2.95	3.15	3.18
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	2.51	3.12	3.08	3.08	3.25	3.15
Unemployment Rate (%)	5.18	7.07	6.49	5.86	5.32	4.82	4.82	4.94	4.94	4.94	5.03	4.93
Fiscal Condition												
Fiscal Balance (% of GDP)	-2.20	-6.14	-4.57	-2.35	-1.65	0.04	-0.34	-0.75	-2.18	-2.18	-2.56	-2.84
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.73	7.07	7.16	7.10	7.10	6.39	5.87
External Sector												
Trade Balance (USD bn)	-3.59	21.62	35.42	54.46	36.91	7.41	8.03	5.44	6.52	27.40	23.41	17.22
Goods Balance (USD bn)	3.51	28.30	43.81	62.67	46.45	9.82	8.13	7.44	7.84	33.23	31.44	25.24
Current Account (USD bn)	-30.28	-4.43	3.51	13.22	-1.88	-2.16	-3.97	-3.91	-3.06	-13.10	-18.67	-26.63
Current Account (% of GDP)	-2.71	-0.42	0.30	1.00	-0.14	-0.64	-1.15	-1.11	-0.86	-0.94	-1.22	-1.54
Foreign Reserves (USD bn)	129.18	135.90	144.91	137.23	146.38	140.39	140.18	132.52	140.42	140.42	140.77	144.21
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,783	16,053	16,208	16,158	16,119	15,817	15,201
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,855	16,375	16,245	16,121	16,121	15,595	14,897
Commodity Price												
Coal Price (USD/MT)	66.2	83.0	169.7	379.2	141.8	131.5	135.1	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	942.9	873.7	821.7	829.6	829.6	818.0	808.3
Oil Price (USD/BBL)	65.85	49.87	74.31	80.90	77.9	85.5	82.6	80.7	80.3	80.3	78.9	82.0
Interest Rate												
Fed Funds Rate (%)	1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.50	5.25	5.25	4.50	3.75
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.25	6.25	6.25	5.50	4.75
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.25	9.25	9.40	9.41	9.41	8.97	8.30
Banking Sector												
Loan (% yoy)	6.08	-2.40	5.24	11.35	10.38	12.40	12.36	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	7.44	8.45	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.2	85.8	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	215,068	192,836	252,240	279,733	939,877	1,071,763	1,144,675
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-23.9	-13.9	1.2	25.4	-6.6	2.3	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	1,735,090	1,435,904	1,604,918	1,502,065	6,277,976	6,300,894	6,436,790
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	-4.9	4.2	5.6	-0.9	0.7	0.4	2.2

Note:

: quarterly realization

Source: Permata Institute for Economic Research (PIER)

PIER Snapshot: Jul-24 FOMC Meeting
01 August 2024

Scan di sini untuk membaca report selengkapnya:

Permata Institute for Economic Research (PIER)

Josua Pardede — Chief Economist
josua.pardede@permatabank.co.id

Faisal Rachman — Head of Macroeconomic & Financial Market Research
faisal.rachman1@permatabank.co.id

Adjie Harisandi — Head of Industry & Regional Research
adjie.harisandi@permatabank.co.id

Qolbie Ardie — Economist
qolbie.ardie@permatabank.co.id

Ani Utami — Industry Analyst
ani.utami@permatabank.co.id

PT. Bank Permata,Tbk.
WTC II, 30th Floor
Jl. Jend Sudirman Kav.29-31
Jakarta 12920, Indonesia
Telephone: +62 21 523 7788
Fax: + 62 21 523 7253