

# PIER Snapshot: Dec-23 FOMC Meeting

## 14 December 2023

# Dec'23 FOMC Meeting: The Fed Revised Down Projection of Inflation and FFR

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## Statement from the Fed

### The Fed maintained policy rates and shifted into dovish stance.

- The Fed in the Dec-23 FOMC meeting decided to maintain Fed Funds Rate (FFR) at 5.25%-5.50% due to US inflation ease and moderating economic activities. Comparing their statement to the previous meeting in the Nov-23, there was a major change regarding their views towards the condition of US economy. In the Nov-23 meeting, the Fed still noticed the expansion in US economy, however, in the Dec-23 meeting, the Fed mentioned that the economy and prices have already eased.
- The Fed revised down projection for inflation and core inflation from the Sep-23 projection. PCE inflation expectations were revised lower for 2023 (2.8% vs. 3.3%), 2024 (2.4% vs. 2.5%), and 2025 (2.1% vs. 2.2%). Core PCE inflation projection was also revised down to 3.2% for 2023 (vs. 3.7%), 2.4% for 2024 (vs. 2.6%), and 2.2% for 2025 (vs. 2.3%). Yet, the Fed maintained their projection for unemployment rate at 3.8% in 2023, 4.1% in 2024, and 4.1% in 2025, implying that the US labor market will be still tight in the short-term but is seen to not put a significant pressure on inflation level. The Fed revised up GDP forecast in 2023 to 2.6% (vs. 2.1%), while slightly revised down GDP forecast for 2024 to 1.4% (vs. 1.5%) and maintained the forecast for 2025 at 1.8%. This signaled concern of US economic condition next year.
- Following projection of easing US economic condition in 2024, the committee of Fed revised down their projection of FFR for 2024. Median projection of FFR was revised down to 4.6% from 5.1%, which means that majority agreed that the Fed would cut FFR by 75bps in 2024, higher than previously expected of 50bps. The data and FFR projection change implied that the Fed's monetary stance has shifted into more dovish stance compared to the previous meeting.
- During the press conference, Federal Reserve Chair, Jerome Powell, stated that rate cut already within consideration of committee in 2024. His statement affirmed of dovish stance from the Fed for 2024. Powell also reiterated further that the Fed's decision going forward will remain based on the US current economic condition.

### US inflation eased, while labor market remained tight.

- Inflation in the US continued to ease, in which US annual inflation from CPI fell from 3.2%yoy to 3.1%yoy in Nov-23, driven by lower fuel prices. Meanwhile, core inflation still recorded 4.0%yoy. From producer sides, annual inflation from PPI eased from 1.2%yoy to 0.9%yoy in Nov-23. Ongoing slowdown of inflation from both producer and consumer sides affirms the sustainable trend of weaker inflation in the US.
- US GDP growth in 3Q23 was revised up to 5.2%qoq from 4.9%qoq in the previous period. Solid growth in US GDP was supported by consumer demand growth, from both goods and services, and fixed investment. Based on the expenditure components of US GDP, higher fixed investment growth mainly came from residential building. This condition implied that solid growth of US GDP was mostly supported from consumer side.
- US labor market remained tight until Nov-23, reflected by relatively lower unemployment rate, around 3.7%, and higher Non-Farm Payrolls (NFP) data. Compared to progress of inflation, employment level in the US remained tight along 2023.

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### Market Implication

#### Dovish stance from the Fed improved the risk-on sentiment in the global market.

- As the Fed already shifted their stance to dovish in the Dec-23 meeting, risk-on sentiment improved after FOMC meeting. After the announcement, riskier assets gained the momentum, and U.S. Dollar depreciated. It will likely be the main sentiment for the end of 2023.
- Currently, market expected that the Fed would cut policy rates by 125bps to 3.75%-4.00%, started in Mar-24.
- Based on various US economic and market data, we expect that the data will continue to ease, which will push the Fed to cut policy rates. However, we still expect that the Fed will start to cut the rates in the 2<sup>nd</sup> half of 2024, especially because the Fed still has a room to maintain 'higher-for-longer' stance due to a tight labor market and inflationary risk from external factor regarding the geopolitical stability in the Middle East.
- The trend of U.S. Dollar will likely weaken until the beginning of 2024, as risk appetite of investors improved, and investors tend to shift to riskier assets.
- Due to dovish direction from the Fed, we still expect that Rupiah will be closed around 15,200-15,400 by the end of 2023, while IDR bond yield will move around 6.50%-6.70%.

### Fed Projection

Percent

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5-2.7	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	2.5-2.7	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9-2.2	1.2-1.8	1.6-2.0	1.7-2.0	1.7-2.0	1.8-2.6	0.4-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.7-4.0	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7-3.9	3.9-4.4	3.9-4.3	3.8-4.3	3.8-4.3	3.7-4.0	3.7-4.5	3.7-4.7	3.7-4.5	3.5-4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7-2.9	2.2-2.5	2.0-2.2	2.0	2.0	2.7-3.2	2.1-2.7	2.0-2.5	2.0-2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2-3.4	2.3-2.7	2.0-2.3	2.0-2.2	2.0	3.1-3.8	2.1-3.5	2.0-2.9	2.0-2.7	2.0
Core PCE inflation <sup>4</sup>	3.2	2.4	2.2	2.0		3.2-3.3	2.4-2.7	2.0-2.2	2.0-2.1		3.2-3.7	2.3-3.0	2.0-2.6	2.0-2.3	
September projection	3.7	2.6	2.3	2.0		3.6-3.9	2.5-2.8	2.0-2.4	2.0-2.3		3.5-4.2	2.3-3.6	2.0-3.0	2.0-2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4-4.9	3.1-3.9	2.5-3.1	2.5-3.0	5.4	3.9-5.4	2.4-5.4	2.4-4.9	2.4-3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4-5.6	4.6-5.4	3.4-4.9	2.5-4.1	2.5-3.3	5.4-5.6	4.4-6.1	2.6-5.6	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 September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 19-20, 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 September 19-20, 2023, meeting, and one participant did not submit such projections in conjunction with the December 12-13, 2023, 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.

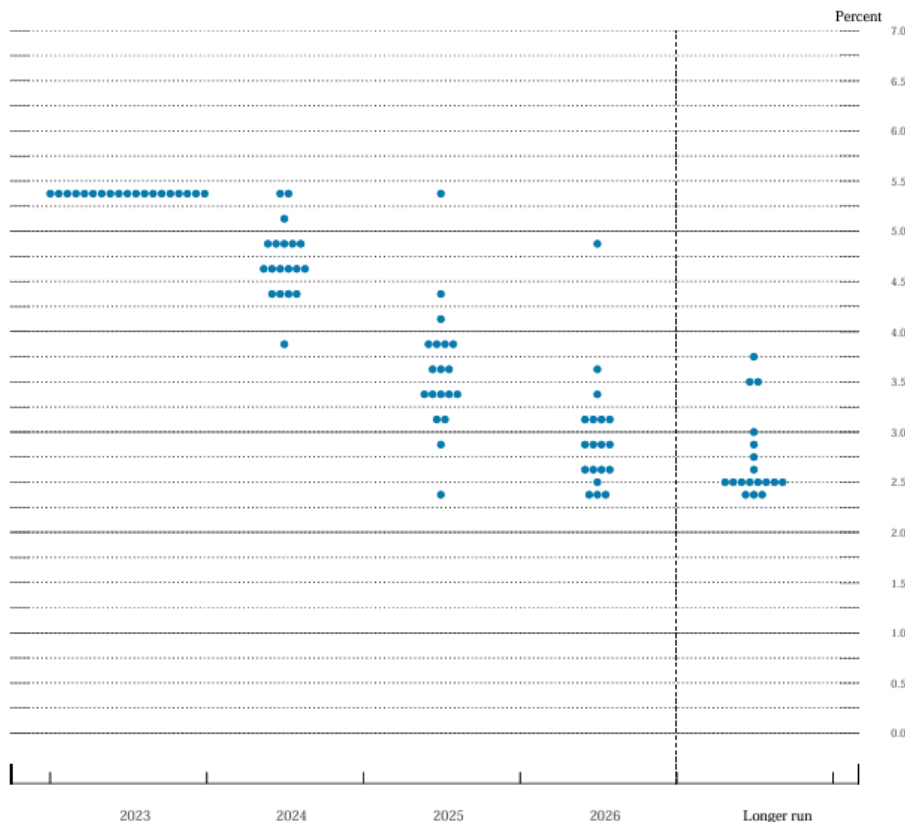
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.

4. Longer-run projections for core PCE inflation are not collected.

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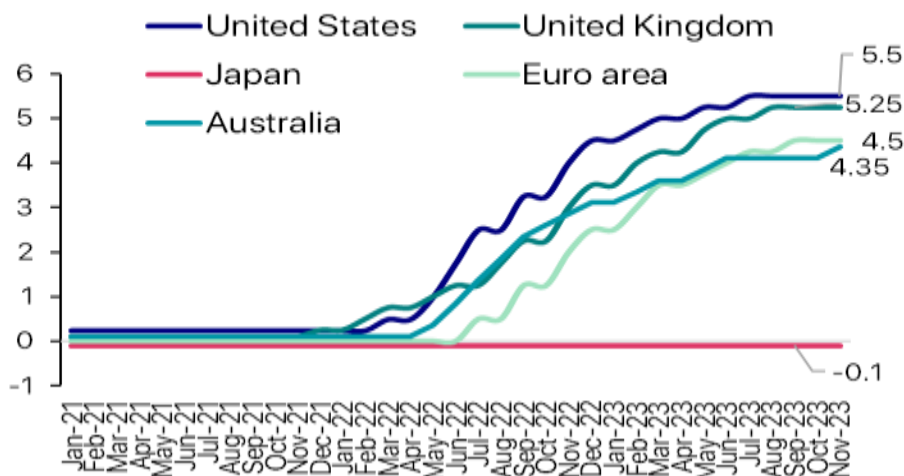
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## Fed Funds Rate (FFR) Dot Plot



## Global Central Bank Policy Rate Trend

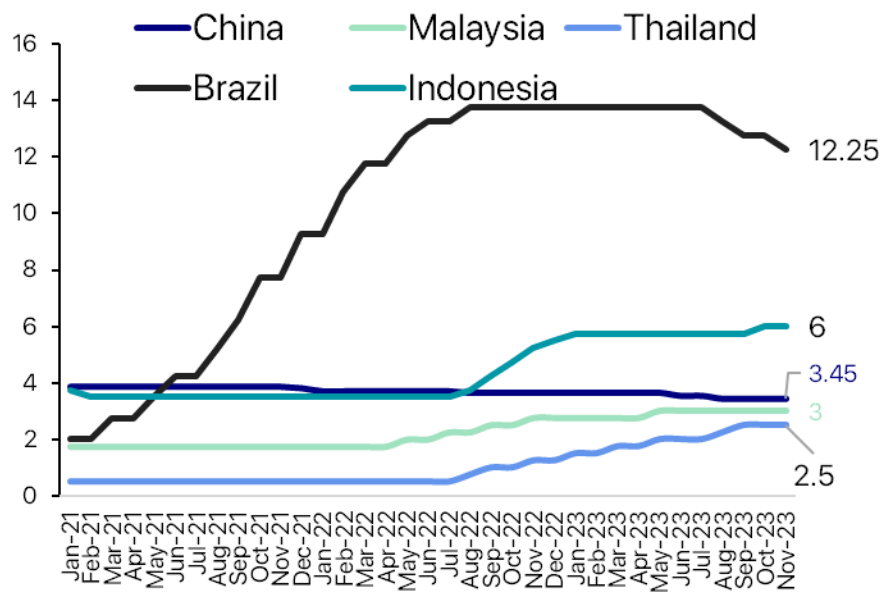
Advanced Economies Central Bank Policy Rates (%)



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**Emerging Economies Central Bank Policy Rates (%)**



### Probability of Fed Meeting

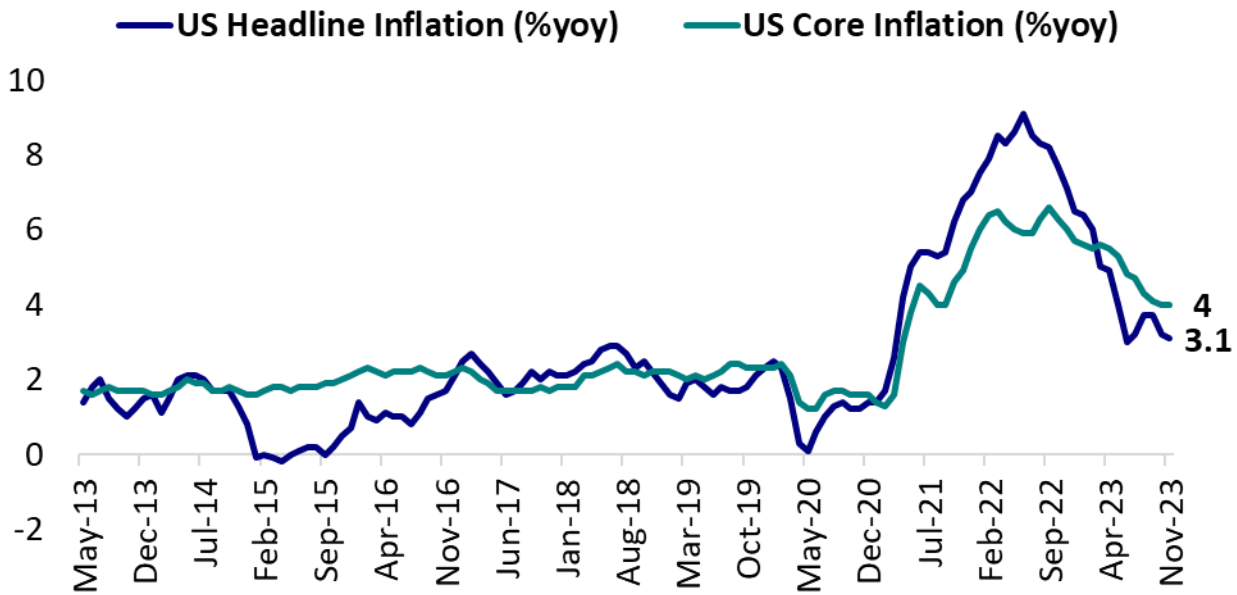
CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024					0.00%	0.00%	0.00%	0.00%	20.70%	79.30%
3/20/2024	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	17.40%	69.90%	12.70%
5/1/2024	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	16.90%	68.40%	14.40%	0.40%
6/12/2024	0.00%	0.00%	0.00%	0.00%	0.70%	19.00%	66.20%	13.80%	0.40%	0.00%
7/31/2024	0.00%	0.00%	0.00%	0.60%	16.70%	60.50%	20.20%	2.00%	0.00%	0.00%
9/18/2024	0.00%	0.00%	0.50%	14.80%	55.20%	25.00%	4.20%	0.30%	0.00%	0.00%
11/7/2024	0.00%	0.30%	9.70%	40.80%	35.80%	11.60%	1.70%	0.10%	0.00%	0.00%
12/18/2024	0.30%	7.50%	33.50%	36.90%	17.20%	4.00%	0.50%	0.00%	0.00%	0.00%

Source: CME Fed Watch Tools

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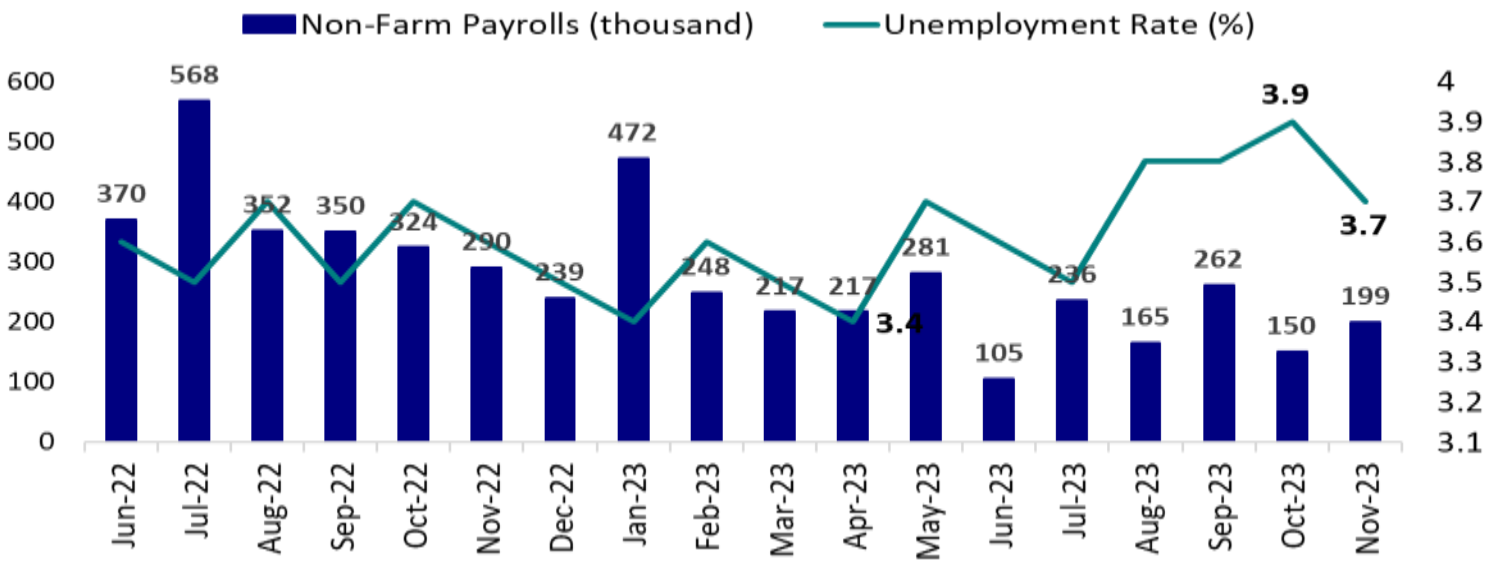
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## US Inflation Slowed Down, while Core Inflation Stagnant



Source: Bloomberg & PIER

## US Labor Market Reversed the Trend on Nov'23

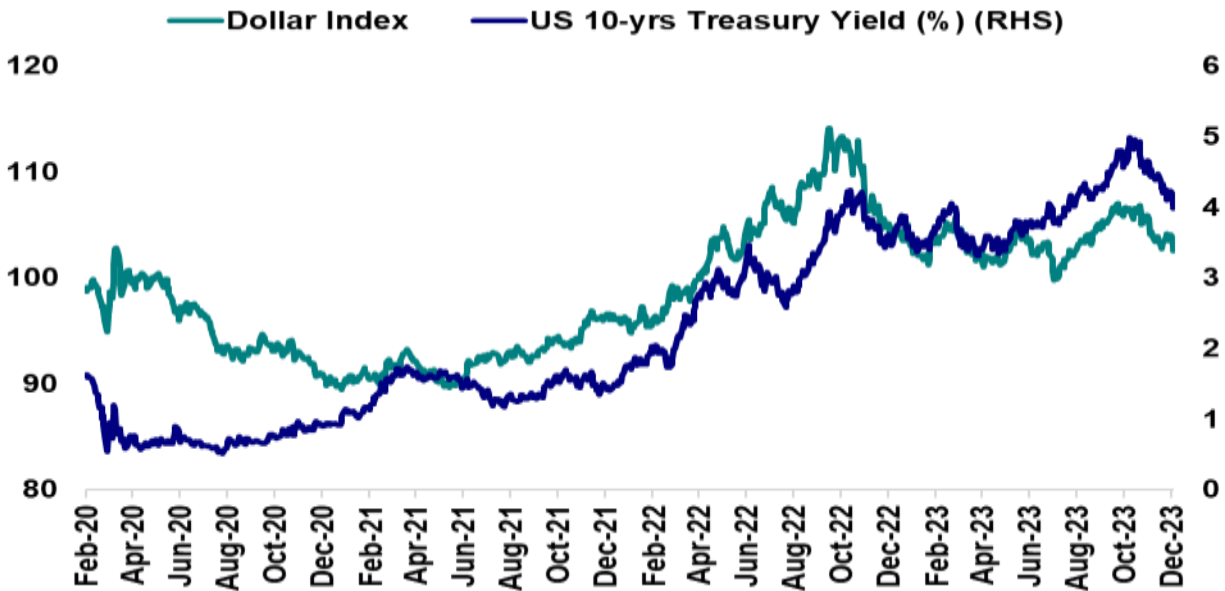


Source: Bloomberg & PIER

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### Weaker US Economic Data Drove Lower UST Yield and Dollar Index in the Last 2 Months



### Macro Economic Indicator

Indicators	2018	2019	2020	2021	2022	2023F	2024F
Inflation (%YoY)	3.1	2.7	1.7	1.9	5.51	2.89	3.17
Exchange Rate Eop (Rp/US\$)	14,390	13,866	14,050	14,253	15,568	15,300	15,124
Curent Account (% GDP)	-3.0	-2.7	-0.4	0.28	1.00	-0.28	-1.75
Fiscal Balance (% GDP)	-1.8	-2.2	-6.1	-4.7	-2.4	-2.3	-2.3
BI 7RR	6.00	5.00	3.75	3.50	5.50	6.00	5.50
Credit Growth (%)	11.8	6.1	-2.1	5.2	11.4	8.6	8.7
Deposit Growth (%)	6.4	6.5	11.1	12.2	9.0	5.7	5.9
Car Sales (1000 Units)	1,150	1,030	532	887	1,048	1,062	1,084
Car Sales Growth (%)	6.50	-10.61	-48.35	66.73	18.16	1.32	2.10
Motorcycle Sales (1000 Units)	6,383	6,487	3,663	5,057	5,221	5,997	6,169
Motorcycle Sales Growth (%)	8.45	1.63	-43.54	38.06	3.25	14.84	2.87
Unemployment Rate (%)	5.40	5.16	7.07	6.49	5.86	5.60	5.40
International Reserve (US\$ bn)	120.7	129.2	135.9	144.9	137.2	137.0	148.6
Fed Rate	2.50	1.75	0.25	0.25	4.50	5.75	5.25
GDP Growth (%)	5.17	5.02	-2.07	3.69	5.31	5.07	5.08

Note : the red numbers are forecast

Source : PermataBank Economic Research

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