

PIER Snapshot: Jan-24 FOMC Meeting

01 February 2024

Jan-24 FOMC Meeting: The Fed Affirmed to Maintain FFR in the Near Term

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Statement from the Fed

The Fed is not inclined to implement a rate cut in Mar-24

- The Fed opted to maintain the Fed Funds Rate (FFR) unchanged at 5.25-5.5%, its highest level in 23 years, for the fourth consecutive FOMC meeting in Jan-24 and continue the reduction of securities holdings. Recent indicators point to a robust expansion in economic activity. Yet, although the labor market remains tight, supply and demand conditions are gradually improving. Inflation also has decreased noticeably over the past year but still exceeds the 2% longer-run goal.
- The Fed expressed the view that a policy rate cut won't be considered until they are more confident in inflation's sustainable movement toward 2%. Inflation has decreased without a significant rise in unemployment, yet it remains elevated. The ongoing progress in lowering inflation is uncertain, and the Fed acknowledges the challenges ahead.
- The Fed stated that the policy rate is likely at its peak for the current tightening cycle. If the economy unfolds as expected, it is anticipated to start easing policy restraint sometime this year. However, given the unexpected economic outcomes post-pandemic, the path to achieving the 2% inflation target is uncertain. The Fed remains vigilant about inflation risks and is willing to maintain the current FFR target range for an extended period if deemed appropriate. Chair Powell, during the press conference, reaffirmed a potential rate reduction later in the year but said that the likelihood of a March cut is very unlikely.
- Delaying or insufficiently reducing policy restraint, indeed, could negatively impact economic activity and employment. Yet, the Fed will carefully evaluate incoming data, the evolving outlook, and risk balances when considering any adjustments to FFR target range. The Fed already acknowledged easing inflation over the past year but emphasized its commitment to adjusting monetary policy if risks emerge. The Fed does not anticipate reducing the target range until there is greater confidence in sustainable movement towards the 2% inflation objective.

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Market Implication

The Fed's path could halt inflow to domestic market in first half of 2024

- The Fed's announcement slightly changed market expectation because they have already expected less dovish tones by the Fed since the last two weeks. Despite the timing of first rate cut shifting from Mar-24 to May-24, market currently still expects that the Fed may cut FFR by 150bps this year.
- Current US economic condition showed that labor market in the US remained tight, while inflation already eased. Those conditions would allow the Fed to maintain FFR until they feel sure that inflation is within sustainable trend towards the 2% inflation target. We continue expecting that the Fed would maintain FFR in the first half of 2024.
- Given that, we expect that Rupiah and government bond yield trends are prone to be sideways with temporary weakening in the first half of 2024. Investors tend to be more hesitant to enter emerging markets, thus affecting inflow into domestic financial market. We maintain our expectation that Rupiah will be closed around 15,000-15,400 by the end of 2024, and IDR 10yrs bond yield will move around 6.20%-6.70%.
- Due to the Fed maintaining policy rate longer, BI will also not be in a hurry to cut BI-rate, and we see the timing will open in the second half of 2024. Current interest rate differential between BI and the Fed are comparably low, thus giving potential impact on Rupiah's stability if BI cuts the rate too soon. We expect that BI will cut BI-rate by 50bps to 5.50% in the second half of 2024.

The Fed's Projection

Percent

| Variable | Median ¹ | | | | | Central Tendency ² | | | | | Range ³ | | | | |
|---|---------------------|------|------|------|------------|-------------------------------|---------|---------|---------|------------|--------------------|---------|---------|---------|------------|
| | 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 ⁴ | 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.

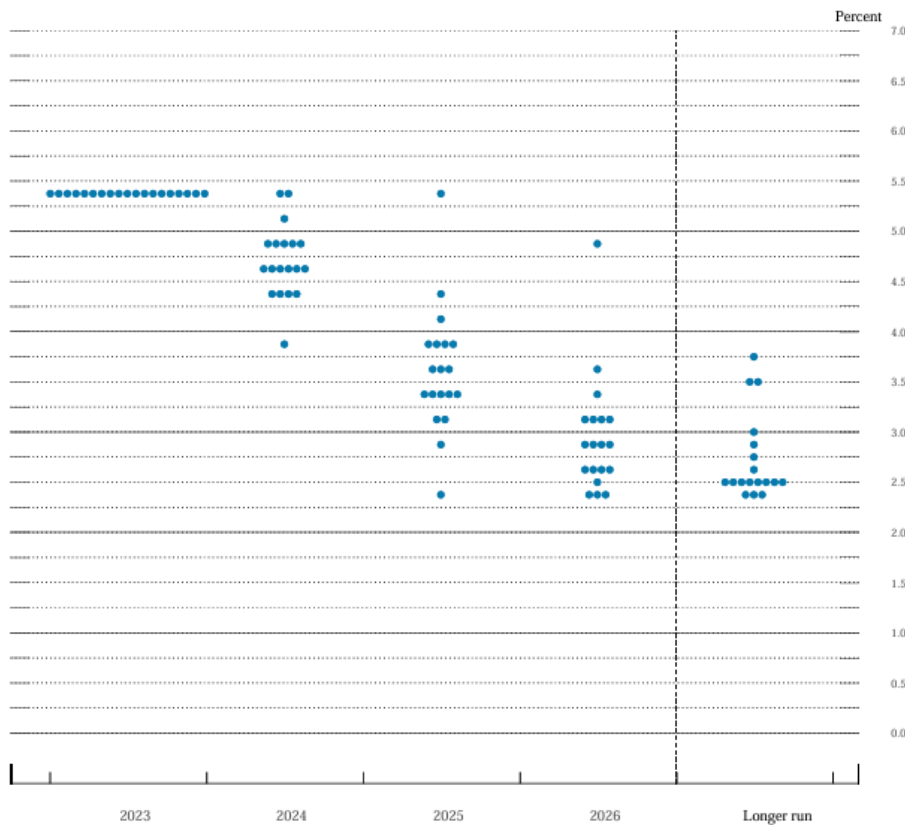
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.

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

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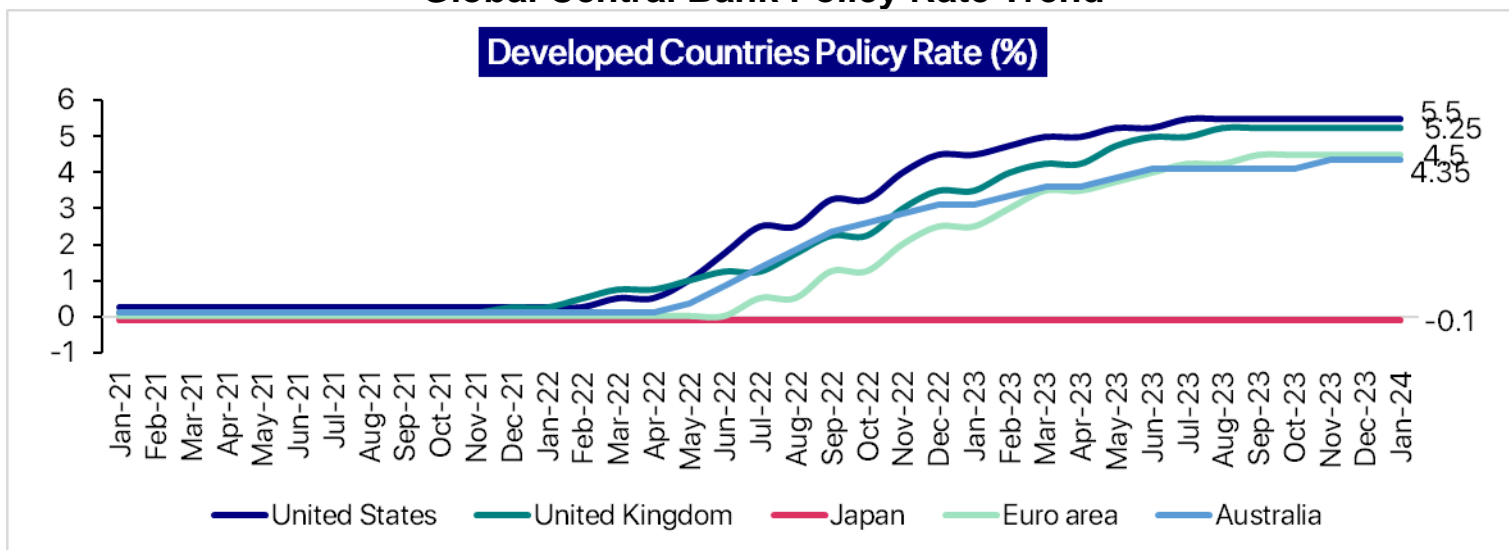
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Fed Funds Rate (FFR) Dot Plot



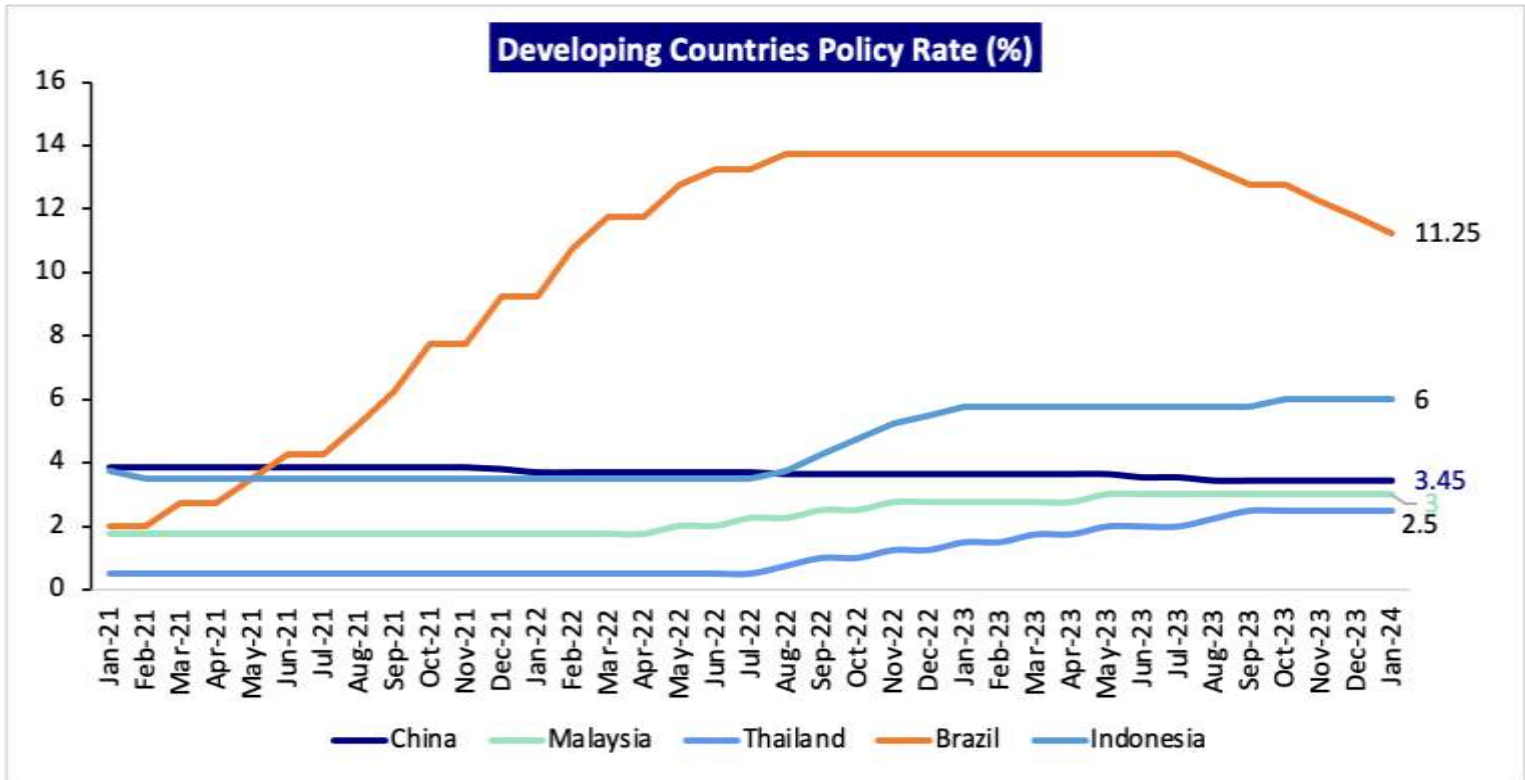
Global Central Bank Policy Rate Trend

Developed Countries Policy Rate (%)



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Probability of FOMC Meeting

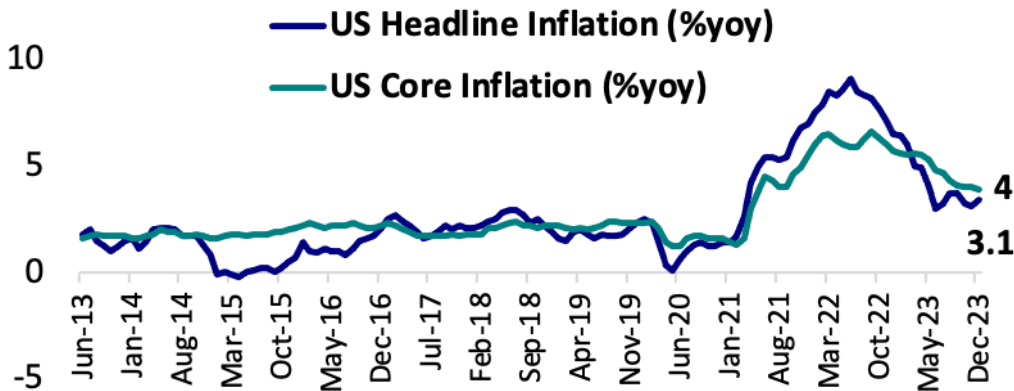
| CME FEDWATCH TOOL - MEETING PROBABILITIES | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| MEETING DATE | 325-350 | 350-375 | 375-400 | 400-425 | 425-450 | 450-475 | 475-500 | 500-525 | 525-550 |
| 3/20/2024 | | | | 0.00% | 0.00% | 0.00% | 0.00% | 53.00% | 47.00% |
| 5/1/2024 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 47.30% | 47.60% | 5.00% |
| 6/12/2024 | 0.00% | 0.00% | 0.00% | 0.00% | 5.50% | 47.40% | 42.70% | 4.40% | 0.00% |
| 7/31/2024 | 0.00% | 0.00% | 0.00% | 5.20% | 45.30% | 42.90% | 6.30% | 0.20% | 0.00% |
| 9/18/2024 | 0.00% | 0.00% | 5.20% | 45.30% | 42.90% | 6.30% | 0.20% | 0.00% | 0.00% |
| 11/7/2024 | 0.00% | 3.00% | 28.50% | 43.90% | 21.70% | 2.80% | 0.10% | 0.00% | 0.00% |
| 12/18/2024 | 2.60% | 24.40% | 41.40% | 25.20% | 5.80% | 0.50% | 0.00% | 0.00% | 0.00% |

Source: CME Fed Watch Tools

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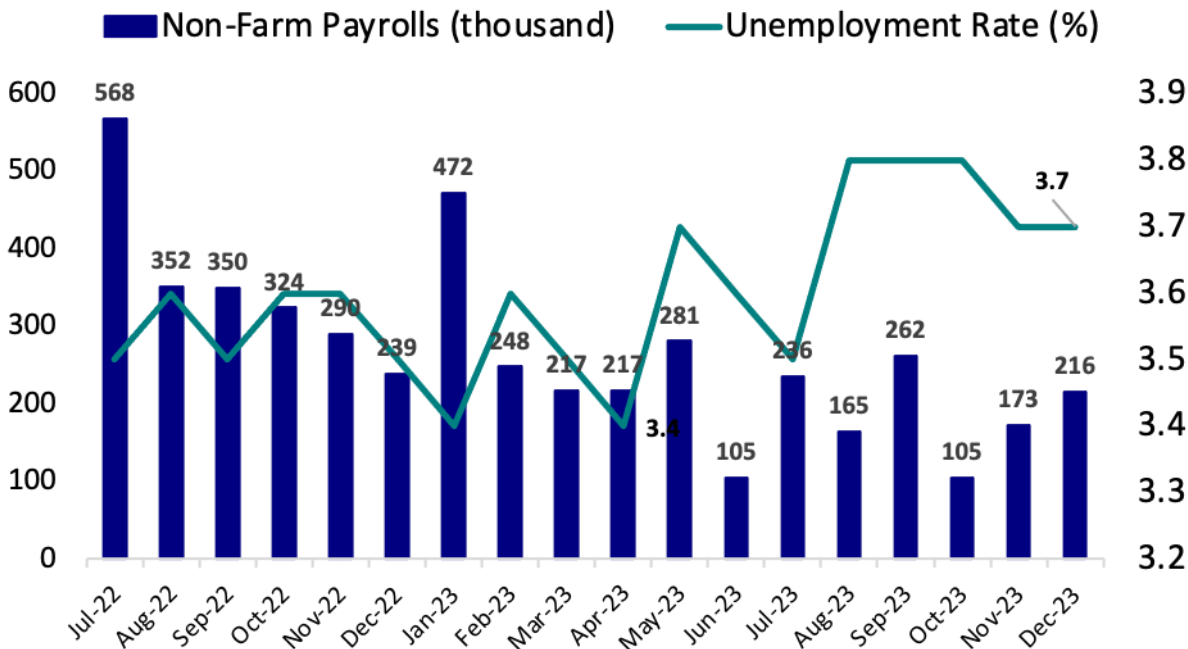
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US Core Inflation Eased, Supporting Stable Inflation



Source: Bloomberg & PIER

US Labor Market Remained Relatively Tight until End of 2023



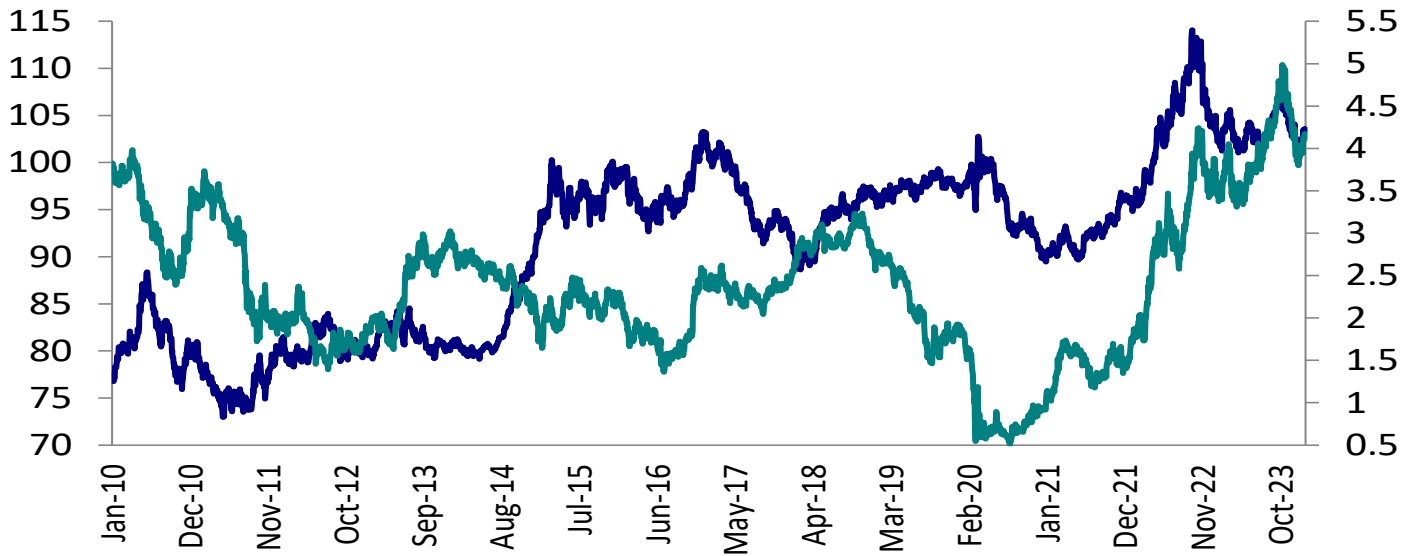
Source: Bloomberg & PIER

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Dollar Index Tended to Rise due to Solid Economic Growth

— Dollar Index — 10-year Treasury Yield (RHS)



PIER's Economic & Market Forecast

| | 2019 | 2020 | 2021 | 2022 | 2023F | 1Q24F | 2Q24F | 3Q24F | 4Q24F | 2024F | 2025F | 2026F |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| National Account | | | | | | | | | | | | |
| Real GDP (% yoy) | 5.02 | -2.07 | 3.70 | 5.31 | 5.04 | 5.10 | 5.11 | 5.05 | 5.00 | 5.07 | 5.15 | 5.26 |
| Inflation & Unemployment | | | | | | | | | | | | |
| Headline Inflation Rate (% yoy, avg) | 3.03 | 2.04 | 1.56 | 4.21 | 3.69 | 2.97 | 3.10 | 3.15 | 3.07 | 3.07 | 3.15 | 3.18 |
| Headline Inflation Rate (% yoy, eop) | 2.72 | 1.68 | 1.87 | 5.51 | 2.61 | 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 | 54.40 | 36.93 | 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 | 45.08 | 9.57 | 8.13 | 7.44 | 8.54 | 33.68 | 31.44 | 25.24 |
| Current Account (USD bn) | -30.28 | -4.43 | 3.51 | 12.87 | -2.01 | -1.35 | -3.37 | -3.31 | -2.36 | -10.38 | -18.67 | -26.63 |
| Current Account (% of GDP) | -2.71 | -0.42 | 0.30 | 0.98 | -0.14 | -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 |
| 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 |

Source: Permata Institute for Economic Research (PIER)

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