PIER Snapshot: Sep-24 FOMC Meeting
19 September 2024

Sep-24 FOMC Meeting: The Fed Lowers Policy Rate for the First Time in Four Years

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 end of tightening cycle.

- In the Sep-24 FOMC meeting, the Fed lowered the target range for the Fed Funds Rate (FFR) by a jumbo 50bps to 4.75 – 5.00%, marking the first rate cut since Mar-20. The Fed also decided to further reduce their holdings in securities. However, the Fed is not following a predetermined course as decisions will be made on a meeting-by-meeting basis. The Fed re-emphasized that easing policy restraint too rapidly could impede progress on controlling inflation, while moving too slowly could unnecessarily dampen economic growth and employment. Thus, if the economy stays robust and inflation remains persistent, the Fed can ease policy restraint at a slower pace. However, if the labor market weakens unexpectedly or inflation declines faster than expected, the Fed is ready to act.
- The Fed explained that if the US economy unfolds as anticipated, the median participant forecasts FFR to be 4.5% by the end of this year and 3.5% by the end of 2025. This means that the Fed anticipates a total of 100bps in rate cuts by the end of this year, implying two more 25bps reductions. For 2025, an additional 100bps of rate cuts is forecasted. For 2026 and 2027, the Fed projected FFR to be 3%, signaling a final 50bps cut and the end of rate-cutting cycle in 2026. These median projections are lower than those made in Jun-24, reflecting expectations of lower inflation, higher unemployment, and a shift in the balance of risks. However, these projections do not represent a formal plan or decision by the Fed.
- The Fed observed that the US economy remains strong overall, with significant progress made toward its goals over the past two years. The labor market has cooled from its previously overheated state, and inflation has eased considerably, dropping from a peak of 7% to an estimated 2.2% as of Aug-24. *The decision to reduce FFR by 50bps during the Sep-24 FOMC meeting reflects the Fed's growing confidence that, with a careful recalibration of policy, labor market strength can be preserved alongside moderate economic growth and a sustainable decline in inflation to 2%.*

The US economic activity growing at a robust pace.

- GDP grew at an annualized rate of 2.2%qoq in the first half of the year, with available data suggesting a similar growth rate for 3Q24. Consumer spending has remained resilient, while investment in equipment and intangible assets has rebounded from its sluggish pace last year. The Fed generally anticipates that GDP growth will remain solid. GDP growth is slightly downgraded to 2% for 2024 from 2.1%, though the 2025 and 2026 forecast remains unchanged at 2%.
- The US labor market conditions have continued to cool, with payroll job gains averaging 116,000 per month over the past three months, a significant slowdown from earlier in the year. While the unemployment rate has risen, it remains relatively low at 4.2%. According to the Fed, the labor market is no longer the main source of inflationary pressures. The unemployment rate is projected to rise to 4.4% this year, revised up from 4%, to 4.4% in 2025 from 4.2%, and to 4.3% in 2026 from 4.1%.
- The US Inflation has eased significantly over the past two years but remains above the Fed's long-term target of 2%. Estimates, based on the CPI and other data, show that total PCE prices rose 2.2%yoy as of August 2024, while core PCE prices, excluding volatile food and energy categories, increased by 2.7%yoy. Inflation is now much closer to the Fed's target, and the Fed has gained greater confidence that inflation is moving sustainably toward this goal. As inflation has moderated and the labor market has cooled, upside risks to inflation have diminished, while downside risks to employment have increased. Reflecting this shift, the Fed has revised its inflation outlook, lowering its 2024 PCE inflation forecast to 2.3%, down from 2.6% in the Jun-24 projection, and for 2025 to 2.1% from 2.3%. The forecast for 2026 remains unchanged at 2.0%. Core inflation is now expected to be 2.6% for 2024, down from 2.8%, and 2.2% for 2025, revised from 2.3%, with the 2026 projection remaining steady at 2.0%.

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Market Implication

Market implication: Powell's remark dampened the market's risk-on sentiment.

- A week before the Sep-24 FOMC meeting, investors adjusted their expectations towards a 50bps rate cut by the Fed, especially following an increase in US jobless claims and annual inflation approaching the 2% target. By the day before the FOMC announcement, the likelihood of a 50bps rate cut had risen to 65%, according to the CME FedWatch Tool.
- The US Dollar index dropped to its lowest level since Jul-23, hitting 100.4 before recovering slightly to close lower by 0.30% to 100.6, following the Fed's substantial 50bps policy rate cut in its Sep-24 FOMC meeting. In the regular press conference, Fed Chair Jerome Powell stressed that the Fed is not in a hurry to ease and clarified that the dot plot projections for the FFR shouldn't be viewed as a definitive policy plan. This statement gave some power for US Dollar to rebound a little.
- A similar pattern was observed in the US 10-year Treasury yields. The yield on the US 10-yr Treasury note climbed to 3.7%, rebounding from Monday's nearly 15-month low of 3.62%, as markets evaluated the outlook of US monetary policy following the Fed's initiation of its rate-cutting cycle. While bonds initially rallied after the policy rate cut, those gains were swiftly reversed after Powell highlighted the resilience of the US economy and stressed that the 50bps cut should not be viewed as a "new pace" for rate reductions. Moreover, US stocks ended a volatile session in the red, with the Dow, S&P 500, and Nasdaq each falling by 0.3%. While equities initially rallied following the Fed's rate cut, they swiftly gave up those gains after Powell's remarks tempered expectations, leading to a market pullback.
- This morning, market reactions have been mixed. Most Asian currencies, apart from the Rupiah, depreciated due to the Fed's less-dovish signal. Yields on Asia-Pacific bonds also tended to rise at the opening. Conversely, Asia-Pacific equity indices saw significant gains, possibly driven by the Fed's optimistic economic growth outlook, which may have prompted investors to shift their focus towards the equity market.

Our PIERspective:

- Given the easing US inflation and a softening labor market, *we expect the Fed to lower FFR by another 50bps, or 25bps each in Nov-24 and Dec-24, bringing it to 4.50% by year-end*. Our current forecast, 100bps rate cut in total, is different from our previous observation, which only saw 75bps rate cut.
- In light of the Fed's monetary policy path, Indonesia's low inflation, manageable current account, and anticipated Rupiah appreciation, we have updated our BI-rate forecast for 2024. *Initially projected at 5.75% by year-end, we now anticipate a potential additional 50bps cut in 4Q24 lowering the BI-rate to 5.50% at the end of 2024*.
- We initially expected the Rupiah to trade around Rp15,800 per USD by the end of 2024 and the 10-yr IDR bond yield to hover around 6.6%. However, considering the Rupiah's new trend and the Fed's outlook, *we now project the Rupiah to range between Rp15,000 – 15,400 per USD*. This appreciation potential is driven by expected capital inflows due to a risk-on sentiment and the BI-rate cut, which should enhance portfolio investment attractiveness to foreign investors. *Consequently, the 10-yr IDR bond yield is also likely to trend lower than initially forecasted.*

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The Fed's Sep-24 Projection

Percent

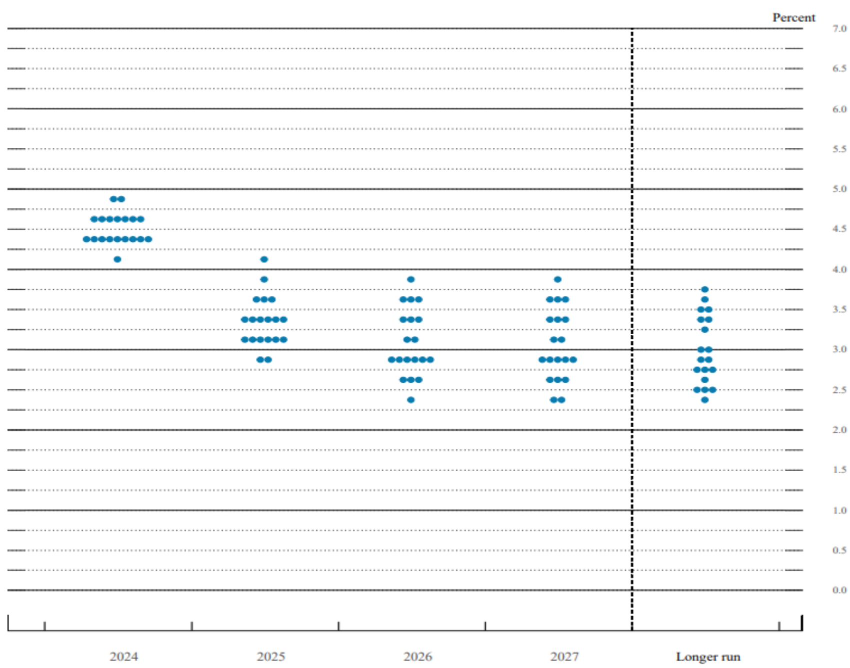
Variable	Median[1]					Central Tendency[2]					Range[3]				
	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8	1.9–2.1	1.8–2.2	1.9–2.3	1.8–2.1	1.7–2.0	1.8–2.6	1.3–2.5	1.7–2.5	1.7–2.5	1.7–2.5
June projection	2.1	2.0	2.0		1.8	1.9–2.3	1.8–2.2	1.8–2.1		1.7–2.0	1.4–2.7	1.5–2.5	1.7–2.5		1.6–2.5
Unemployment rate	4.4	4.4	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.0–4.4	4.0–4.4	3.9–4.3	4.2–4.5	4.2–4.7	3.9–4.5	3.8–4.5	3.5–4.5
June projection	4.0	4.2	4.1		4.2	4.0–4.1	3.9–4.2	3.9–4.3		3.9–4.3	3.8–4.4	3.8–4.3	3.8–4.3		3.5–4.5
PCE inflation	2.3	2.1	2.0	2.0	2.0	2.2–2.4	2.1–2.2	2.0	2.0	2.0	2.1–2.7	2.1–2.4	2.0–2.2	2.0–2.1	2.0
June projection	2.6	2.3	2.0		2.0	2.5–2.9	2.2–2.4	2.0–2.1		2.0	2.5–3.0	2.2–2.5	2.0–2.3		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0		2.6–2.7	2.1–2.3	2.0	2.0		2.4–2.9	2.1–2.5	2.0–2.2	2.0–2.2	
June projection	2.8	2.3	2.0			2.8–3.0	2.3–2.4	2.0–2.1			2.7–3.2	2.2–2.6	2.0–2.3		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	3.4	2.9	2.9	2.9	4.4–4.6	3.1–3.6	2.6–3.6	2.6–3.6	2.5–3.5	4.1–4.9	2.9–4.1	2.4–3.9	2.4–3.9	2.4–3.8
June projection	5.1	4.1	3.1		2.8	4.9–5.4	3.9–4.4	2.9–3.6		2.5–3.5	4.9–5.4	2.9–5.4	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 June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 11–12, 2024.

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 in Sep-24 FOMC



Source: Federal Reserve

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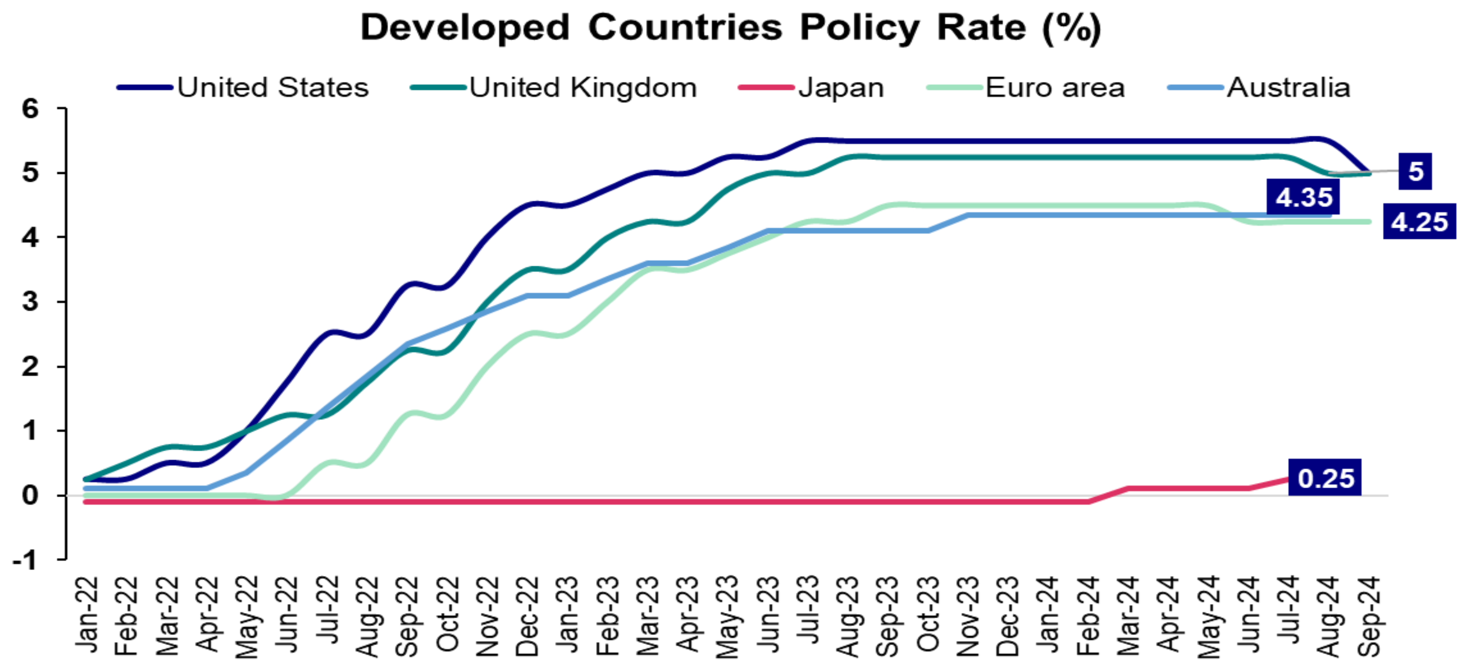
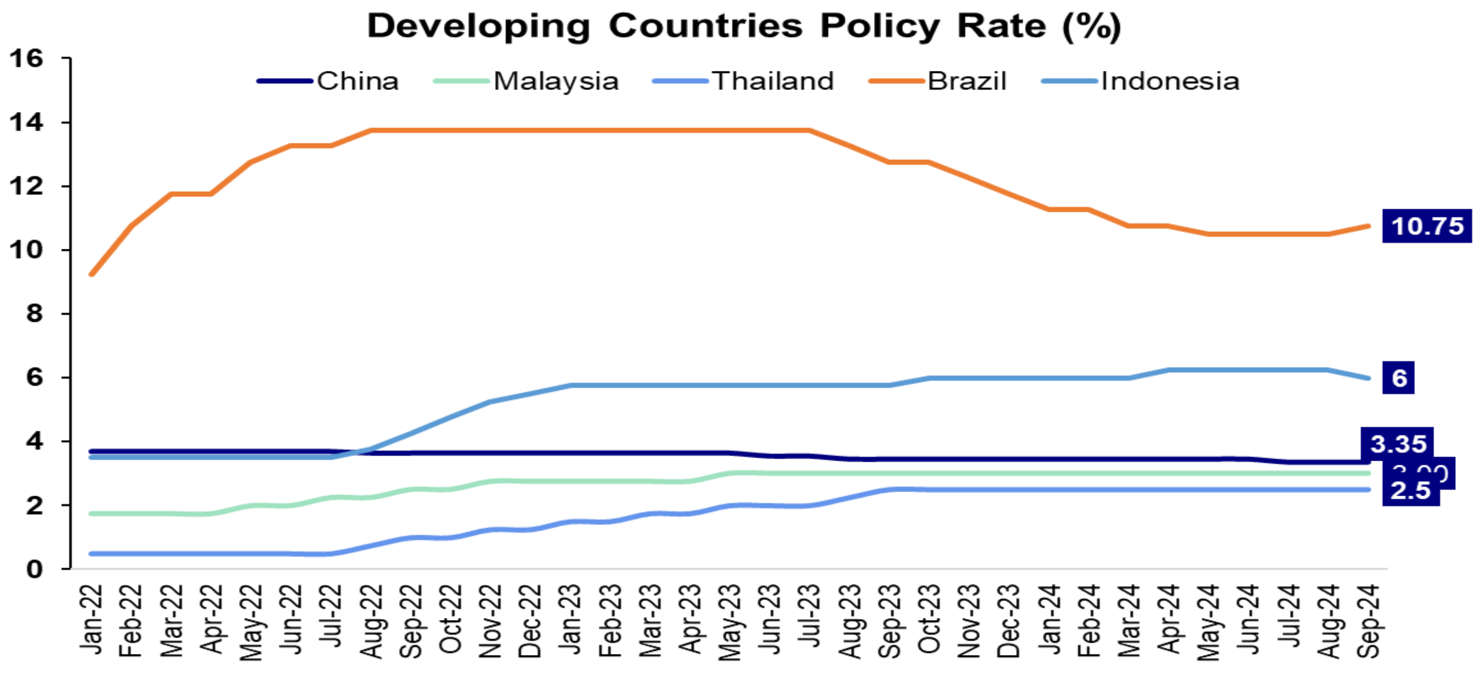
Global Central Banks' Policy Rate Trend (%)



Source: Bloomberg & PIER



Source: Bloomberg & PIER

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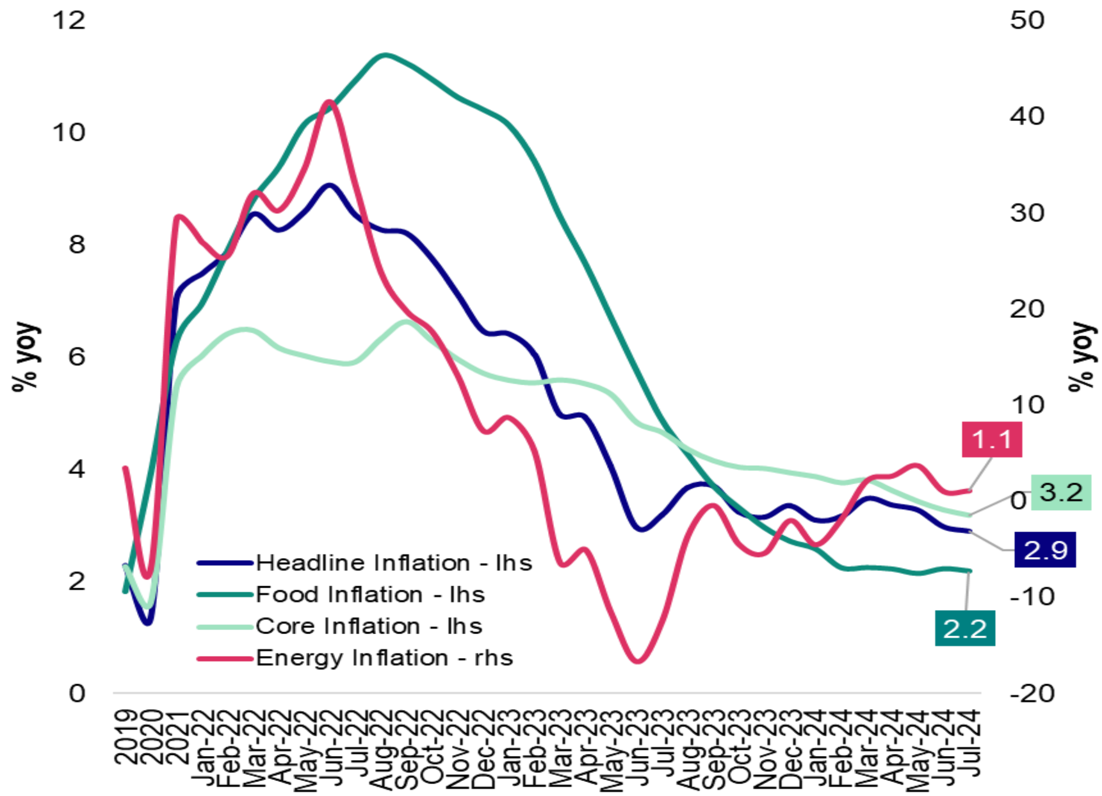
Probability of FFR Path

CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES									
FOMC Meeting Date	**2.50-2.75**	**2.75-3.00**	**3.00-3.25**	**3.25-3.50**	**3.50-3.75**	**3.75-4.00**	**4.00-4.25**	**4.25-4.50**	**4.50-4.75**
7-Nov-24					0.0%	0.0%	0.0%	30.2%	**69.8%**
18-Dec-24	0.0%	0.0%	0.0%	0.0%	0.0%	14.3%	**49.0%**	36.7%	0.0%
29-Jan-25	0.0%	0.0%	0.0%	4.4%	24.9%	**45.2%**	25.6%	0.0%	0.0%
19-Mar-25	0.0%	1.1%	9.5%	29.9%	**40.3%**	19.2%	0.0%	0.0%	0.0%
7-May-25	0.9%	8.3%	27.0%	**38.8%**	22.2%	2.8%	0.0%	0.0%	0.0%
18-Jun-25	5.8%	20.7%	**34.8%**	27.8%	9.3%	0.9%	0.0%	0.0%	0.0%
30-Jul-25	11.2%	25.8%	**32.3%**	21.1%	6.3%	0.6%	0.0%	0.0%	0.0%
17-Sep-25	14.8%	27.4%	**29.5%**	17.4%	4.9%	0.4%	0.0%	0.0%	0.0%

Source: CME Fed Watch Tools (as of 19 September 2024)

The progress of disinflation in the US continues despite gradually.



Source: Bloomberg & PIER

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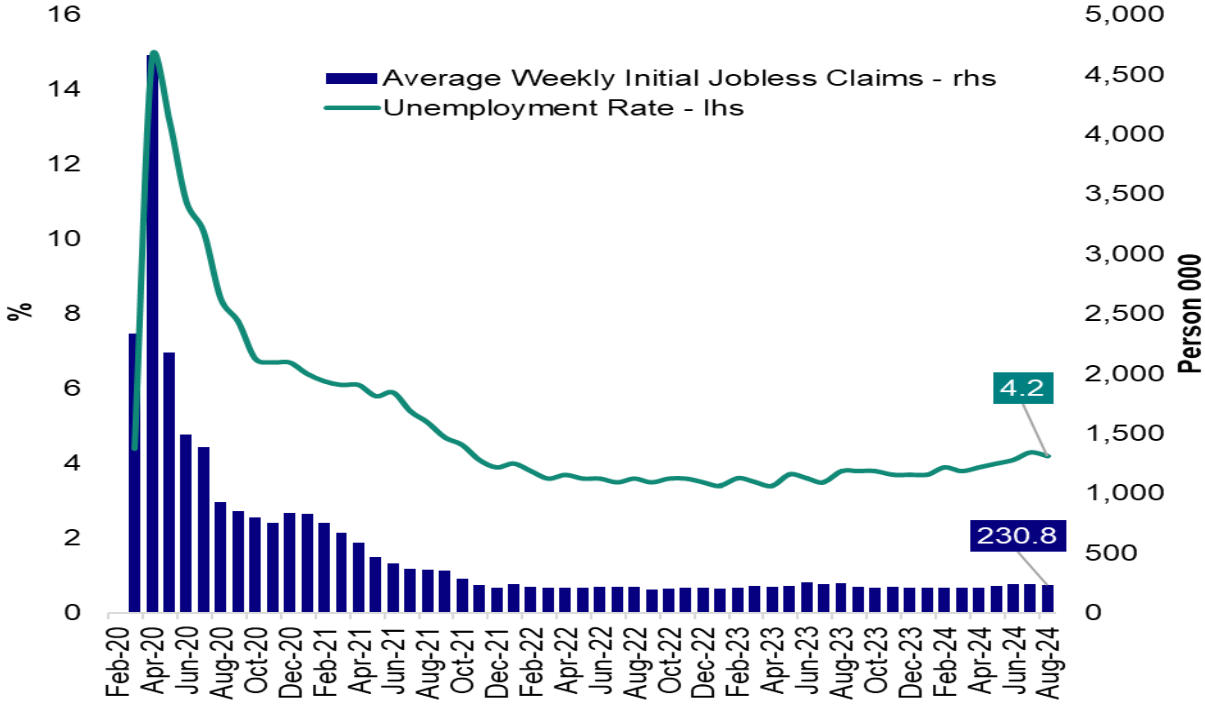
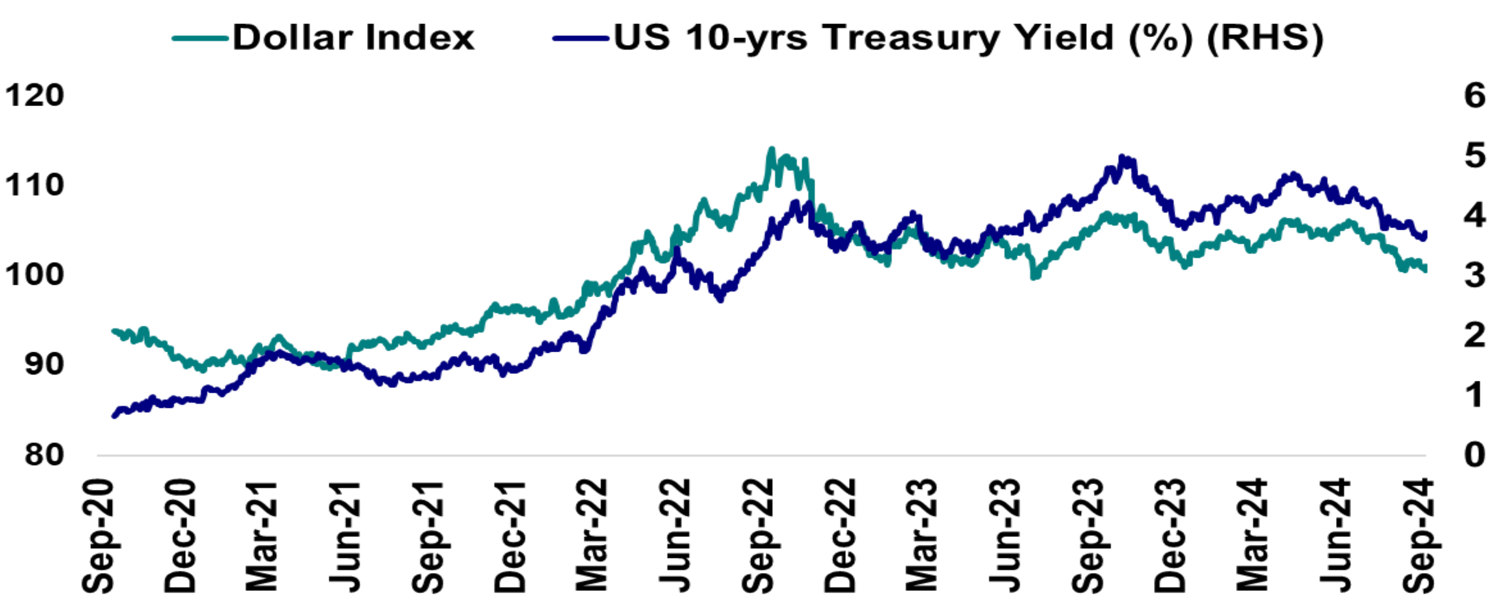
The most recent economic indicators suggest that US labor market has loosened, and the real sector shows a decline in resilience.



Source: Bloomberg & PIER

Dollar Index and 10-yr UST Yield Declined in 3Q24



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PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24	2Q24	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.11	5.05	5.02	5.00	5.04	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	4.91	4.93	4.88	5.00	4.93	5.12	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	19.90	1.42	4.81	5.05	6.71	5.37	6.08
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	3.79	4.43	3.79	4.89	4.23	5.83	6.62
Real Export (% yoy)	-0.48	-8.42	17.95	16.28	1.32	1.37	8.28	1.27	4.95	3.92	9.61	10.40
Real Import (% yoy)	-7.13	-17.60	24.87	14.75	-1.65	1.94	8.57	2.88	6.36	4.92	11.80	12.62
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,288.49	5,536.50	5,680.74	5,691.22	22,196.94	23,974.55	25,920.27
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	337.72	342.37	350.45	356.58	1,387.11	1,547.89	1,733.00
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.79	2.78	2.21	2.28	2.52	2.81	2.85
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	2.51	2.27	2.33	2.33	3.12	2.91
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	-1.26	-2.63	-2.63	-2.67	-2.86
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.73	7.07	6.87	6.59	6.59	6.29	6.25
External Sector												
Trade Balance (USD bn)	-3.59	21.62	35.42	54.46	36.91	7.41	8.03	6.64	6.32	28.41	23.31	17.11
Goods Balance (USD bn)	3.51	28.30	43.81	62.67	46.19	9.28	9.96	8.67	8.35	36.26	31.44	25.24
Current Account (USD bn)	-30.28	-4.43	3.51	13.22	-2.14	-2.41	-3.02	-2.78	-2.76	-10.96	-18.67	-26.63
Current Account (% of GDP)	-2.71	-0.42	0.30	1.00	-0.16	-0.71	-0.88	-0.79	-0.77	-0.79	-1.21	-1.54
Foreign Reserves (USD bn)	129.18	135.90	144.91	137.23	146.38	140.39	140.18	145.12	150.45	150.45	155.10	158.95
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,783	16,295	16,210	15,961	16,062	15,497	14,963
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,855	16,375	16,152	15,863	15,863	15,231	14,773
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	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	5.00	4.75	4.75	3.75	3.00
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.00	5.75	5.75	5.00	4.50
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.27	9.27	9.30	9.28	9.28	8.76	8.21
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	239,628	250,823	898,463	964,587	1,030,208
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-23.9	-13.9	-3.9	0.3	-10.7	7.4	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	6,238,984	6,153,840
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	-4.9	4.2	5.6	-0.9	0.7	-0.6	-1.4

Note:

: quarterly realization

Source: Permata Institute for Economic Research (PIER) - forecast as of 22 August 2024

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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