

# PIER Snapshot: Jan-25 FOMC Meeting

30 January 2025

## Jan-25 FOMC Meeting: Fed Paused Rate Cuts to Gauge Disinflation's Path

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### Statement from the Fed

The Fed maintained Fed Funds Rate (FFR) at 4.25%-4.50% in the latest FOMC meeting, on the back of robust economy.

- At the Jan-25 Federal Open Market Committee (FOMC) meeting, the Fed decided to maintain the target range for the FFR at 4.25–4.50%. The Fed considered that maintaining current policy rates was still in line with their objective of reaching 2% inflation and natural full employment rate. Compared to the previous meeting, the Fed removed “inflation progress toward the Fed’s target” in their statement.
- Recent US economic data indicate that economic activity is steadily expanding. The unemployment rate has remained consistently low in recent months, reflecting stable labor market conditions. However, inflation continues to be somewhat elevated.
- When evaluating the scope and timing of further adjustments to the federal funds rate target range, the Committee will closely analyze incoming data, the changing economic outlook, and the balance of risks. The Committee believes that the risks to achieving its employment and inflation objectives are relatively balanced. Given the uncertainty of the economic outlook, the Committee remains vigilant regarding the risks to both sides of its dual mandate.
- In the press conference, Chairman of the Fed, Jerome Powell, clarified that they didn’t intend to send a policy signal about their sentence removal, implying that they still maintained the view that disinflation progress continued. Regardless, Powell reiterated that the Fed needs to observe “real progress on inflation or some weakness in the labor market before we consider making adjustments.” His statement indicated that the Fed’s stance remained cautious ahead of growing uncertainty. Meanwhile, Powell did not address the Fed’s view regarding the impact of tariffs on the economy, as he saw that the impact is very wide, and they need to observe more based on historical data and literature.

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## Market Implication

### Moderate stance of tariff policy from Trump shifted market's expectation of the Fed's rate cut path.

- Last week, the US Dollar tended to weaken, especially after surprising moderate tones from US President Donald Trump. During the World Economic Forum, Trump indicated that his administration is essentially not inclined to impose tariffs on China. The statement confirmed Donald Trump's more moderate stance, which had been evident since his inauguration. The sentiment from Trump shifted the expectation of investors toward the rate cut path from the Fed, changing from 25bps rate cut to 50bps rate cut in 2025.
- Prior to the Jan-25 FOMC meeting, the US Dollar Index surged to 108.3, only to retreat to 107.9 prior to the announcement. The US Dollar spiked momentarily to 108.2 after the press release of the FOMC minutes as investors saw the removal of disinflation progress might indicate a lesser dovish stance from the Fed. As Powell clarified it in a press conference, the US Dollar Index quickly normalized. After the announcement, there were no notable changes in market expectations of the Fed's rate cut at 50bps in 2025. At the end of the session, the US Dollar Index still increased by 0.12% to 108.0.
- A similar trend also occurred with the 10yr UST yield, as it increased to 4.59% before returning to the 4.54% level after clarification from Powell. The 10yr UST yield was stable at 4.53%. Meanwhile, the US stock market tended to be more muted due to FOMC minutes, as it was still affected by the DeepSeek rout since the beginning of the week.

## Our PIERspective

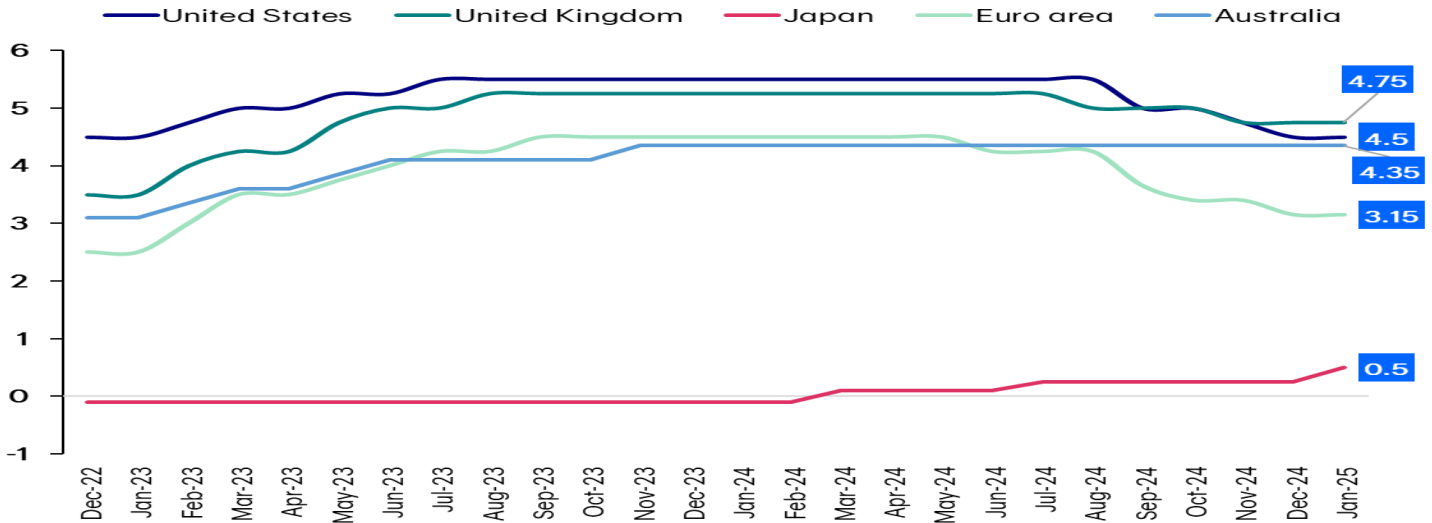
- Despite Trump's recent shift to a more moderate stance on tariffs, uncertainty persists due to factors such as immigration, state budget deficits, and trade policy. Those policies still have incoming risk to US inflation, thus potentially driving the Fed to maintain 'high-for-longer' policy. Amid concerns about the Federal Reserve's 'high-for-longer' stance, we continue to project a 50-basis point reduction in the federal funds rate in 2025, lowering it from 4.50% in 2024 to 4.00% in 2025.
- Emerging uncertainties in 2025, along with the Fed's cautious monetary policy, are likely to reduce the appeal of Indonesia's portfolio assets, thereby limiting capital inflows from both direct and portfolio investments. Weaker demand in the financial account, coupled with a probable widening of the current account deficit amid global slowdown risks, is expected to put further downward pressure on the Rupiah. Consequently, we have revised our Rupiah exchange rate forecast for 2025 to IDR16,200–16,600 per USD (from IDR15,600–16,000 per USD).
- Given the Fed's gradual rate reduction strategy, we anticipate that Bank Indonesia (BI) will adopt a similarly measured approach to monetary easing throughout 2025. We maintain our forecast that BI will maintain their policy rate at 5.75% for the rest of 25bps after lowering it by 25bps during the Jan-24 BI meeting. Considering emerging uncertainty factors, we have adjusted our forecast for 10-yr SBN yield, raising the estimates to a range of 7.10–7.30% for 2025.

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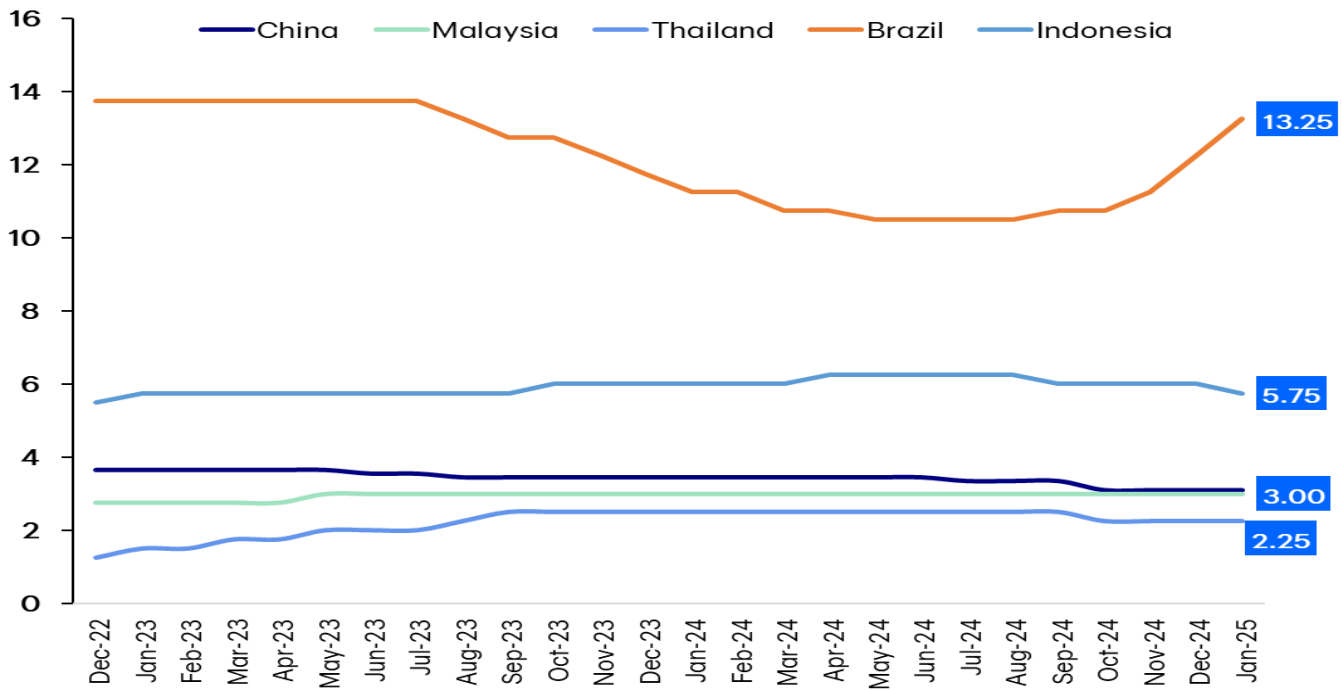
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## Global Central Banks' Policy Rate Trend (%)

### Developed Countries Policy Rate (%)



### Developing Countries Policy Rate (%)



Source: Bloomberg & PIER

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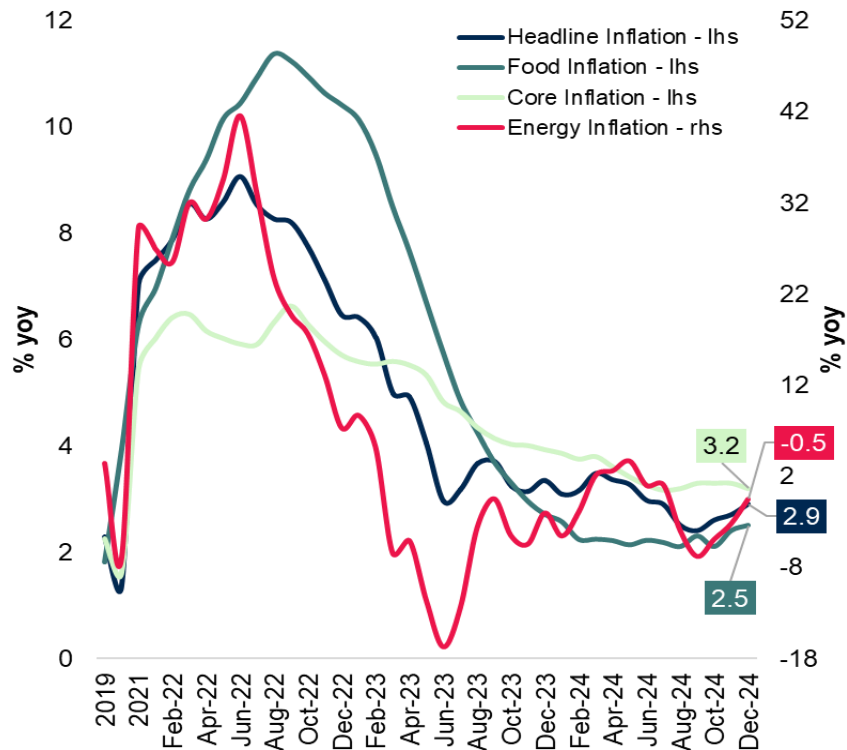
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## Probability of FFR Path

CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES							
FOMC Meeting Date	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
19-Mar-25	0.0%	0.0%	0.0%	0.0%	18.0%	<b>82.0%</b>	0.0%
7-May-25	0.0%	0.0%	0.0%	5.1%	36.2%	<b>58.7%</b>	0.0%
18-Jun-25	0.0%	0.0%	2.5%	20.3%	<b>47.2%</b>	30.0%	0.0%
30-Jul-25	0.0%	0.5%	6.2%	25.9%	<b>43.6%</b>	23.8%	0.0%
17-Sep-25	0.2%	2.3%	12.2%	31.3%	<b>37.5%</b>	16.5%	0.0%
29-Oct-25	0.6%	4.2%	15.9%	32.5%	<b>33.5%</b>	13.3%	0.0%
10-Dec-25	1.3%	6.4%	19.1%	<b>32.7%</b>	29.6%	10.7%	0.0%
28-Jan-26	1.7%	7.4%	20.2%	<b>32.5%</b>	28.1%	9.9%	0.0%

Source: CME Fed Watch Tools (as of 30 January 2025)

Core inflation remained stable, while food and energy inflation started to pick up.

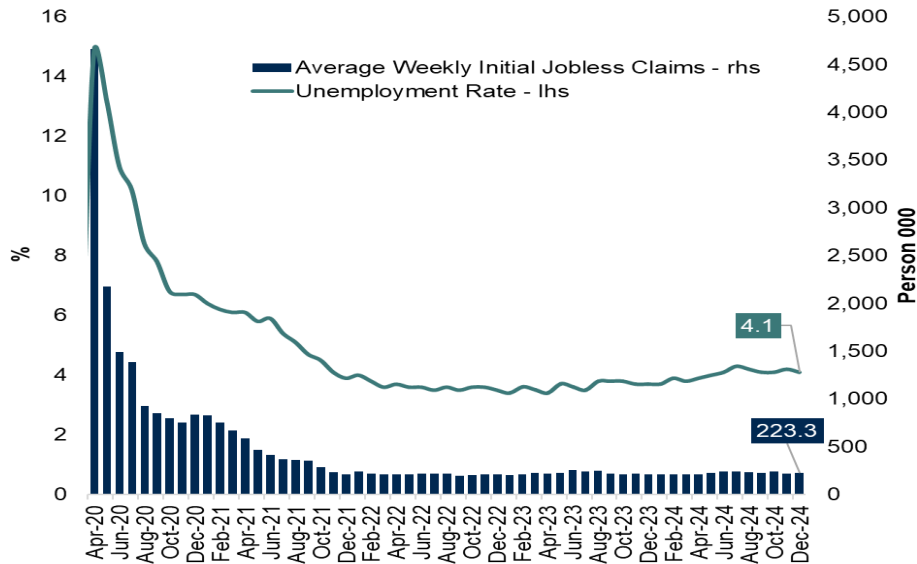


Source: Bloomberg & PIER

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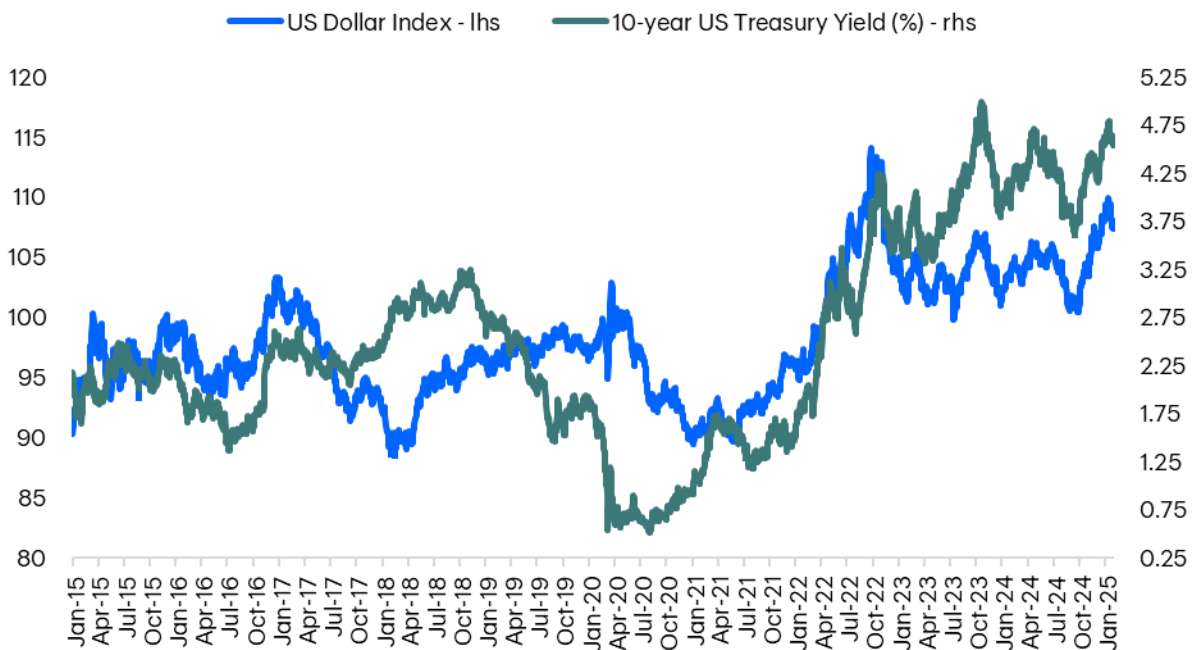
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The latest economic indicators suggest that the US labor market is still relatively tight



Source: Bloomberg & PIER

Dollar Index and 10-yr UST yield (%) was traded sideways amid mixed sentiment along Jan-25



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Source: Bloomberg & PIER
**PIER's Economic & Market Forecast (as of 17-Jan-25)**

	2019	2020	2021	2022	2023	1Q24	2Q24	3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	
<b>National Account</b>																
Real GDP (% yoy)		5.02	-2.07	3.70	5.31	5.05	5.11	5.05	4.95	5.00	5.02	5.12	5.10	5.11	5.10	5.11
Real Consumption: Private (% yoy)		5.04	-2.63	2.02	4.93	4.82	4.91	4.93	4.91	4.92	4.92	5.02	5.00	5.02	5.00	5.01
Real Consumption: Government (% yoy)		3.27	2.12	4.24	-4.51	2.95	19.91	1.42	4.62	4.67	6.54	3.97	5.25	5.78	6.02	5.37
Real Gross Fixed Capital Formation (% yoy)		4.45	-4.96	3.80	3.87	4.40	3.79	4.43	5.15	4.58	4.50	4.85	5.03	5.18	5.34	5.11
Real Export (% yoy)		-0.48	-8.42	17.95	16.28	1.32	1.44	8.18	9.09	9.95	7.21	6.44	-4.99	-10.86	-6.86	-4.32
Real Import (% yoy)		-7.13	-17.60	24.87	14.75	-1.65	1.46	7.79	11.47	11.36	8.09	8.47	-2.99	-8.97	-6.88	-2.93
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	5,638.89	5,652.83	22,116.71	5,653.94	5,924.77	6,051.16	6,071.39	23,701.25
Nominal GDP (USD bn) - nominal		1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	337.72	342.37	356.92	355.94	1,392.95	347.39	357.28	361.61	364.68	1,430.96
<b>Inflation &amp; Unemployment</b>																
Headline Inflation Rate (2022=100, % yoy, avg)		2.82	2.04	1.56	4.14	3.73	2.79	2.78	2.03	1.61	2.30	1.79	1.91	2.20	2.31	2.05
Headline Inflation Rate (2022=100, % yoy, eop)		2.59	1.68	1.87	5.41	2.81	3.05	2.51	1.84	1.57	1.57	2.13	1.99	2.26	2.33	2.33
Unemployment Rate (%)		5.18	7.07	6.49	5.86	5.32	4.82	4.82	4.91	4.91	4.91	5.03	5.03	5.03	5.03	5.03
<b>Fiscal Condition</b>																
Fiscal Balance (% of GDP)		-2.20	-6.14	-4.57	-2.35	-1.65	0.04	-0.34	-1.08	-2.29	-2.29	-0.39	-0.74	-1.56	-2.64	-2.64
IDR 10-year Bond Yield (%)		7.06	5.89	6.38	6.94	6.48	6.69	7.07	6.45	7.00	7.00	7.22	7.35	7.37	7.26	7.26
<b>External Sector</b>																
Trade Balance (USD bn)		-3.59	21.62	35.42	54.46	36.90	7.41	8.04	6.51	9.09	31.04	6.44	6.32	5.92	6.40	25.08
Goods Balance (USD bn)		3.51	28.30	43.81	62.67	46.27	9.29	10.03	9.29	9.35	37.97	8.47	8.35	7.95	8.43	33.21
Current Account (USD bn)		-30.28	-4.43	3.51	13.22	-2.15	-2.48	-3.25	-2.15	-1.76	-9.64	-3.15	-5.05	-4.56	-4.13	-16.90
Current Account (% of GDP)		-2.71	-0.42	0.30	1.00	-0.16	-0.73	-0.95	-0.60	-0.49	-0.69	-0.91	-1.41	-1.26	-1.13	-1.18
Foreign Reserves (USD bn)		129.18	135.90	144.91	137.23	146.38	140.39	140.18	149.92	155.72	155.72	154.10	151.69	152.79	154.11	154.11
USD/IDR (avg)		14,141	14,529	14,297	14,874	15,248	15,783	16,295	15,618	15,881	15,895	16,275	16,583	16,734	16,649	16,587
USD/IDR (eop)		13,866	14,050	14,253	15,568	15,397	15,855	16,375	15,140	16,102	16,102	16,435	16,727	16,822	16,540	16,540
<b>Commodity Price</b>																
Coal Price (USD/MT)		66.2	83.0	169.7	379.2	141.8	131.5	135.1	145.8	129.8	129.8	112.1	107.2	105.3	101.0	101.0
CPO Price (USD/MT)		763.7	1,016.4	1,270.3	940.4	797.8	942.9	873.7	932.6	1,189.7	1,189.7	952.5	923.6	895.2	880.3	880.3
Oil Price (USD/BBL)		65.85	49.87	74.31	80.90	77.9	85.5	82.6	80.9	73.8	73.8	78.2	79.8	80.2	74.4	74.4
<b>Interest Rate</b>																
Fed Funds Rate (%)		1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.25	4.00	4.00
BI-Rate (%)		5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.75
Average Lending Rate (%)		10.52	9.67	9.16	9.16	9.27	9.27	9.27	9.25	9.24	9.24	9.16	9.18	9.20	9.22	9.22
<b>Banking Sector</b>																
Loan (% yoy)		6.08	-2.40	5.24	11.35	10.38	12.40	12.36	10.85	10.39	10.39	9.98	10.30	10.69	10.78	10.78
TPF (% yoy)		6.54	11.11	12.21	9.01	3.73	7.44	8.45	7.04	6.37	6.37	2.93	4.50	6.60	8.91	8.91
LDR (%)		94.75	83.23	77.82	79.69	83.80	84.23	85.75	86.90	87.00	87.00	90.00	90.50	90.25	88.50	88.50
<b>Real Sector</b>																
Car Sales (Unit)		1,030,126	532,027	887,202	1,048,040	1,005,802	215,250	194,768	223,197	232,508	865,723	178,851	226,285	225,816	231,587	862,539
Car Sales (% yoy)		-10.5	-48.4	66.8	18.1	-4.0	-23.8	-13.0	-10.5	-7.0	-13.9	-16.9	16.2	1.2	-0.4	-0.4
Motorcycles Sales (Unit)		6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	1,735,090	1,435,904	1,701,502	1,460,814	6,333,310	1,480,153	1,610,707	1,621,798	1,501,844	6,214,502
Motorcycles Sales (% yoy)		1.6	-43.6	38.2	3.2	19.4	-4.9	4.2	12.0	-3.6	1.5	-14.7	12.2	-4.7	2.8	-1.9

**Note:**
□: quarterly realization
Source: Permata Institute for Economic Research (PIER)

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Scan here for more information:



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