PIER Snapshot: Jun-24 FOMC Meeting
13 June 2024

PermataBank

Jun-24 FOMC Meeting: The Fed Signals Only One Rate Cut This Year

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Statement from the Fed

The Fed kept the policy rate unchanged, only expects a 25bps rate cut in 2024 and rules out the possibility of a hike.

- At the Jun-24 Federal Open Market Committee (FOMC) meeting, the Fed decided to leave the policy rate, the Federal Funds Rate (FFR), unchanged at the target range of 5.25% – 5.50% and to continue reducing securities holdings. This decision to maintain a restrictive monetary policy stance aims to balance demand with supply and further reduce inflationary pressures. The Fed still considers the US economic outlook to be uncertain.
- The Fed has indicated that it will not be appropriate to lower FFR until they have greater confidence that inflation is moving sustainably toward 2%. So far this year, according to the Fed, the data have not provided that level of confidence. While recent inflation readings have been more favorable than earlier in the year, showing modest progress toward the inflation objective, the Fed requires more positive data to be confident that inflation is moving sustainably toward the target.
- When considering adjustments to the FFR, the Fed will carefully assess incoming data, the evolving outlook, and the balance of risks. Therefore, they stated that they will continue to make decisions on a meeting-by-meeting basis, based on the totality of the data and its implications.
- *The new dot plot indicates only one rate cut this year and four in 2025 and 2026, compared to the Mar-24 projection of three cuts in both 2024, 2025, and 2026. Moreover, the long run target for FFR is revised up from 2.75% to 3.00%.*
- If the US economy evolves as what the Fed expected, according to the new projections, the appropriate level of the FFR will be 5.25% at the end of this year, 4.25% at the end of 2025, and 3.25% at the end of 2026. However, the Fed noted that these projections are not the Fed's plan or any kind of decision. As the economy changes, assessments of the appropriate policy path will adjust to best promote price stability goals.
- *If the economy remains robust and inflation persists, the Fed is prepared to maintain the current target range for the FFR as long as appropriate. Conversely, if the labor market weakens unexpectedly or inflation falls more quickly than anticipated, they are prepared to respond accordingly.*

Recent indicators show that US economic activity has continued to grow at a relatively robust pace.

- Despite GDP growth slowing from 3.4%qoq in 4Q23 to 1.3%qoq in 1Q24, private domestic final purchases, which exclude inventory investment, government spending, and net exports, grew at 2.8%qoq in 1Q24, nearly matching the strength seen in 2H23. *The Fed expects GDP growth to slow from last year's pace, with a median projection of 2.1% this year and 2.0% over the next two years, unchanged from the Mar-24 projection.*
- In the labor market, supply and demand conditions have become more balanced. The unemployment rate edged up to 4% in May-24 but remains relatively low. Strong job creation over the past couple of years has been accompanied by an increase in the labor supply, reflecting higher labor participation and continued strong immigration. Overall, a broad set of indicators suggests that labor market conditions have returned to about where they stood on before the COVID-19 pandemic, remaining relatively tight but not overheated. *The median unemployment rate projection is 4.0% at the end of this year, 4.2% at the end of next year, and 4.1% at the end of 2026 (vs. 4.0%, 4.1%, and 4.0%, respectively).*
- Inflation has eased notably over the past two years but remains above the longer-run goal of 2%. Total Personal Consumption Expenditures (PCE) prices rose 2.7%yoy in Apr-24; excluding the volatile food and energy categories, core PCE prices rose 2.8%yoy. The Consumer Price Index (CPI), which tends to run higher than the PCE price index, eased to 3.3%yoy in May-24, and the core CPI decreased to 3.4%yoy. While the inflation data received earlier this year were higher than expected, more recent monthly readings have eased somewhat. *The median projection for total PCE inflation is 2.6% this year, 2.3% next year, and 2.0% in 2026 (vs. 2.4%, 2.2%, and 2.0%, respectively).*

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Market Implication

Market implication: The market viewed the Fed as relatively hawkish, which lessened the impact of US CPI data on the US Dollar Index.

- Ahead of the Jun-24 FOMC meeting, global currencies had already strengthened against the US Dollar in response to the sentiment surrounding the US CPI release. May-24 saw a greater-than-expected easing in US inflation, both in headline and core figures, leading to increased expectation about 50bps rate cuts. This sparked a global risk-on sentiment and contributed to the depreciation of the US Dollar, with the US Dollar Index falling to approximately 104.2 – 104.3.
- However, following the release of the US FOMC minutes, investors perceived the Fed's current stance as relatively more hawkish than initially anticipated. Despite this, there was no significant shift in investor expectations regarding the rate cut trajectory for 2024. Nonetheless, the minutes tempered the downward trend of the US Dollar during the US session. By session close, the US Dollar Index had declined by 0.56% to 104.65. Concurrently, US Treasury (UST) benchmark yields initially decreased at the session's outset but began to rise post-FOMC meeting.
- Meanwhile, the stock market exhibited a mixed trend following the US inflation and FOMC announcements. The S&P 500 and NASDAQ rose by 0.85% and 1.53% respectively, driven by gains in technology stocks due to lowered expectations of policy rate for the year. In contrast, the Dow Jones closed marginally lower by 0.09%. Among the indices, the Dow Jones was notably more affected by the Fed's more hawkish stance.

Our PIERspective:

- Considering the recent loosening of the US labor market, we anticipate that demand-side pressures in the US will begin to ease in the coming months. However, there remain inflationary risks for 2H24. One key concern is the potential upward pressure on commodity prices, which could be amplified by a weaker US Dollar, thereby increasing energy costs in the US. Uncertainty regarding geopolitical tensions in the Middle East further compound this inflationary risk. Another risk stems from the upcoming US election period, with worries that the Federal Government might maintain an expansive fiscal policy until the conclusion of the election cycle. This could sustain relatively high levels of inflation in the US for a period of time. Our expectation remains that the Fed will only marginally reduce the FFR by 25bps in Dec-24, bringing it to a range of 5.00% – 5.25%.
- Current US economic data and the Fed's updated projections align with our outlook, particularly regarding the anticipated 25bps FFR cut in 2024. As we project a further easing of US inflation in 2H24, we anticipate improved sentiment that will attract capital inflows into Indonesia's financial markets. Foreign investors are likely to gradually enter the market through government bonds and SRBI, thereby lowering overall yield trends in Indonesia.
- With expectations of FFR cut in Dec-24, we believe that the window for a BI-rate cut will shift to early 2025. We see that Bank Indonesia (BI) will continue aiming to maintain stability by keeping positive spreads of Indonesia's domestic financial instrument, therefore only starting to cut the rate after the Fed cuts FFR first. *We maintain our forecast that BI will hold the BI-rate steady at 6.25% through the end of 2024. Furthermore, we project the Rupiah exchange rate to range between Rp15,900 – 16,300 per USD by the end of 2024, with 10-year IDR bond yields hovering around 6.90% – 7.20%.*

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The Fed's Jun-24 Projection

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2024	2025	2026	Longer run	2024	2025	2026	Longer run	2024	2025	2026	Longer run
Change in real GDP	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
March projection	2.1	2.0	2.0	1.8	2.0–2.4	1.9–2.3	1.8–2.1	1.7–2.0	1.3–2.7	1.7–2.5	1.7–2.5	1.6–2.5
Unemployment rate	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
March projection	4.0	4.1	4.0	4.1	3.9–4.1	3.9–4.2	3.9–4.3	3.8–4.3	3.8–4.5	3.7–4.3	3.7–4.3	3.5–4.3
PCE inflation	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
March projection	2.4	2.2	2.0	2.0	2.3–2.7	2.1–2.2	2.0–2.1	2.0	2.2–2.9	2.0–2.5	2.0–2.3	2.0
Core PCE inflation[4]	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	
March projection	2.6	2.2	2.0		2.5–2.8	2.1–2.3	2.0–2.1		2.4–3.0	2.0–2.6	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	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
March projection	4.6	3.9	3.1	2.6	4.6–5.1	3.4–4.1	2.6–3.4	2.5–3.1	4.4–5.4	2.6–5.4	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 March projections were made in conjunction with the meeting of the Federal Open Market Committee on March 19–20, 2024. 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 March 19–20, 2024, meeting.

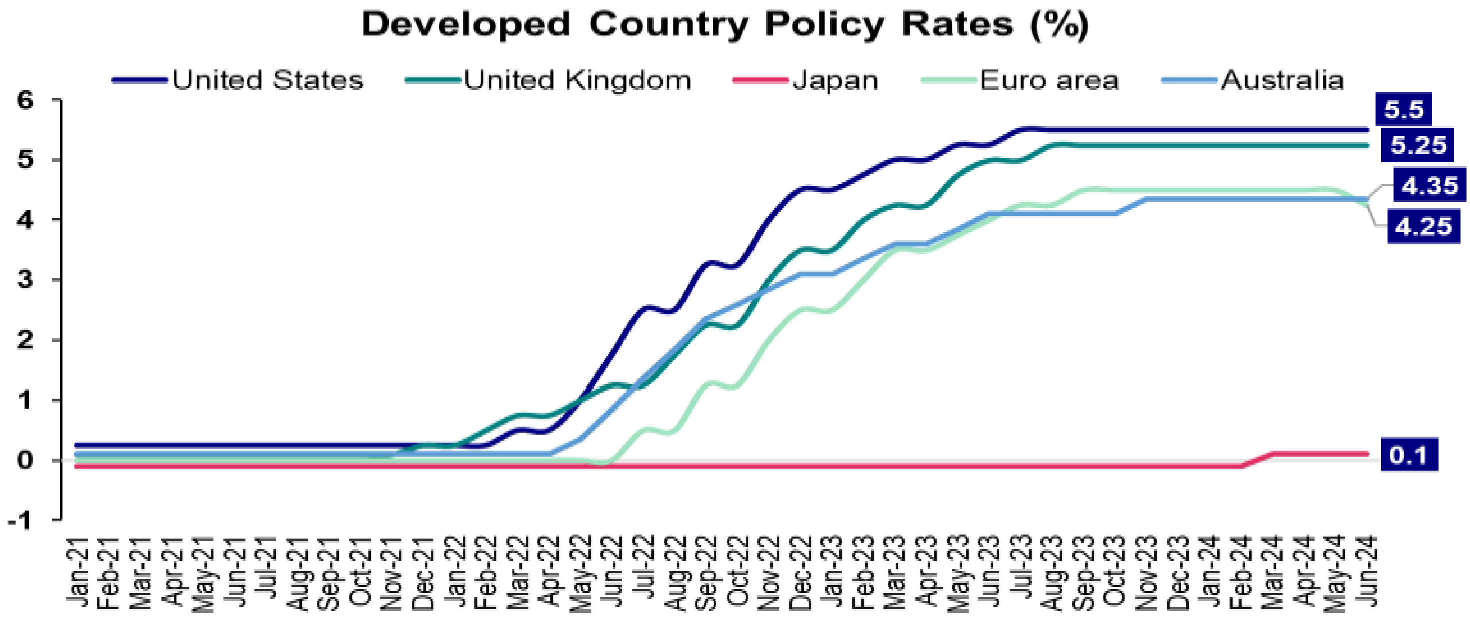
1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable 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.

Source: Federal Reserve

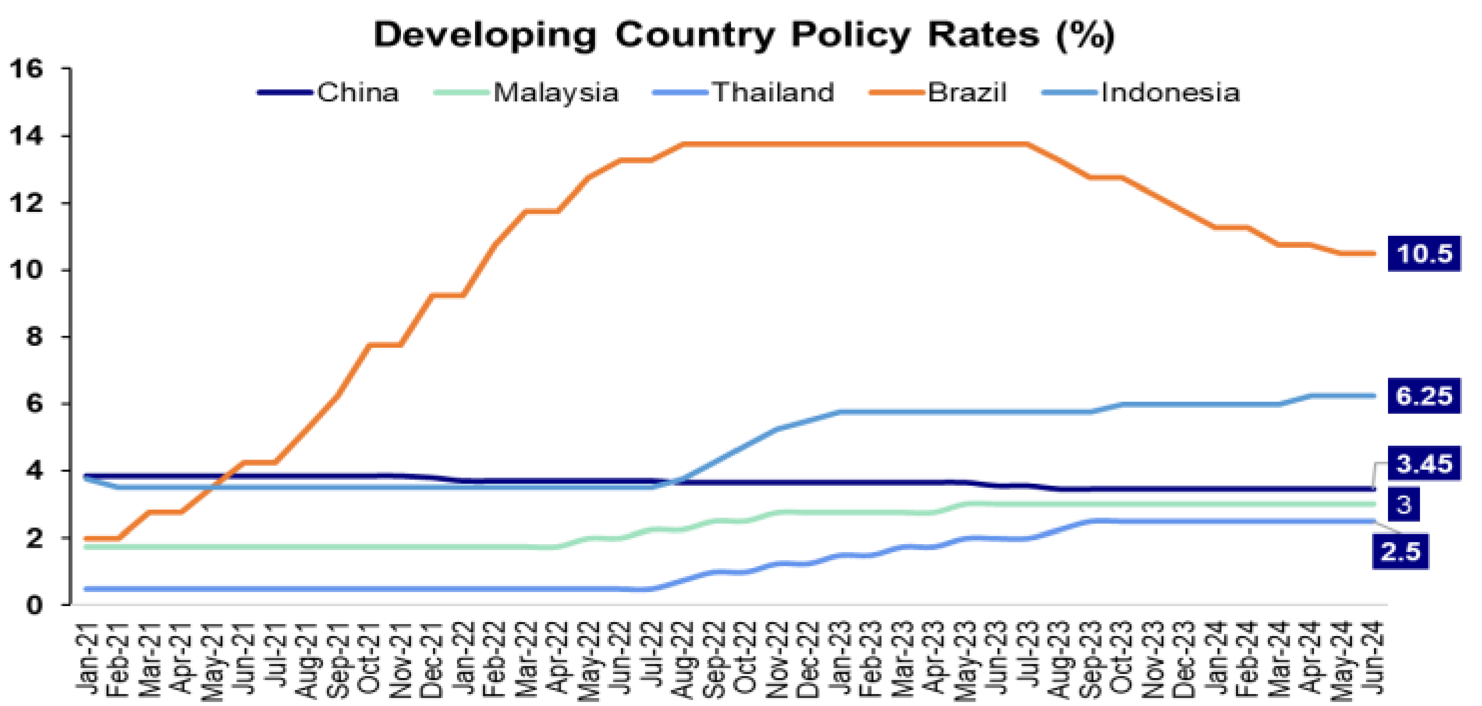
Fed Funds Rate (FFR) Dot Plot in Jun-24 FOMC

Source: Federal Reserve

Global Central Banks' Policy Rate Trend (%)



Source: Bloomberg & PIER



Source: Bloomberg & PIER

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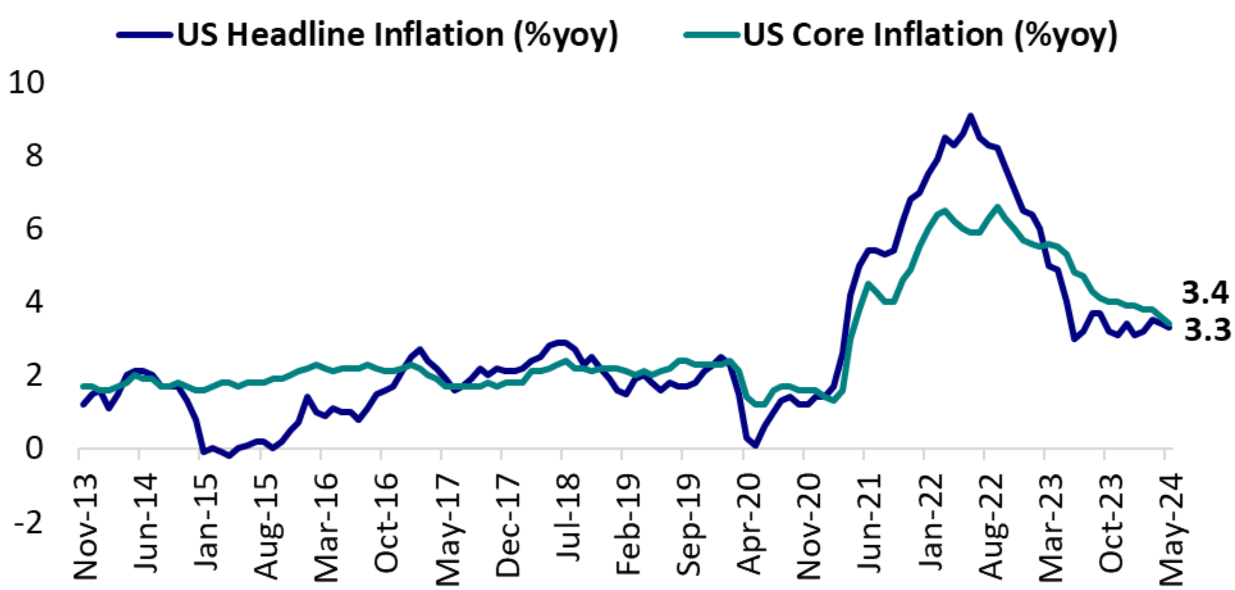
Probability of FFR Path

MEETING DATE	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
Jul-24				0.00%	0.00%	0.00%	0.00%	8.30%	91.70%
Sep-24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.80%	56.70%	38.50%
Nov-24	0.00%	0.00%	0.00%	0.00%	0.00%	1.60%	22.40%	50.50%	25.40%
Dec-24	0.00%	0.00%	0.00%	0.00%	1.20%	16.80%	42.90%	32.20%	6.80%
Jan-25	0.00%	0.00%	0.00%	0.60%	9.20%	30.10%	37.50%	19.30%	3.40%
Mar-25	0.00%	0.00%	0.40%	5.90%	22.30%	34.70%	26.10%	9.30%	1.30%
Apr-25	0.00%	0.20%	2.90%	13.40%	27.90%	30.80%	18.50%	5.70%	0.70%
Jun-25	0.10%	1.80%	9.20%	22.20%	29.70%	23.40%	10.70%	2.70%	0.30%
Jul-25	0.80%	4.80%	14.50%	25.20%	27.10%	18.20%	7.50%	1.70%	0.20%

Source: CME Fed Watch Tools

Disinflation Progress in the US Continued



Source: Bloomberg & PIER

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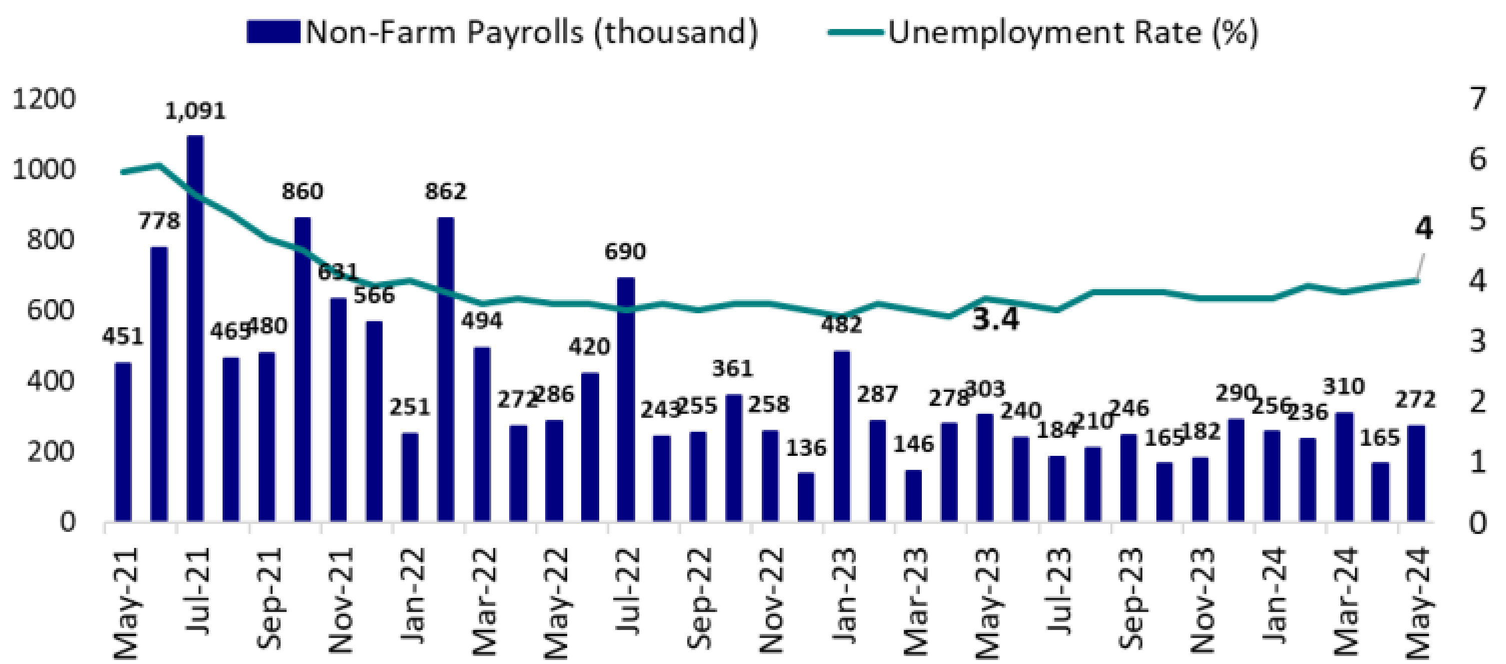
Unemployment Rate Returned to Pre-Pandemic Level



Source: Bloomberg & PIER

Dollar Index was Traded Sideways in 2Q24

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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	3.10	3.15	3.07	3.03	3.15	3.18
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	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	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	-0.30	-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	7.25	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	7.31	6.11	5.44	6.52	25.38	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	131.99	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	16,325	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	16,235	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	124.4	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	813.7	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	81.0	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	9.28	9.34	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	10.58	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	7.44	6.28	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.2	86.1	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	313,529	202,128	252,240	279,733	1,047,630	1,071,763	1,144,675
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-1.0	-9.7	1.2	25.4	4.2	2.3	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	2,144,597	1,026,925	1,604,918	1,502,065	6,278,505	6,300,894	6,436,790
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	17.6	-25.5	5.6	-0.9	0.7	0.4	2.2

Source: Permata Institute for Economic Research (PIER)

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Scan di sini untuk membaca report selengkapnya:

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