

The Fed's Hawkish Pause

The Fed hinted at the possibility of another rate hike.

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.96	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

- In the Sep-23 Federal Open Market Committee (FOMC) meeting, the Fed opted to maintain the Fed Funds Rate (FFR) at a 22-year high of 5.25 – 5.50%. However, it indicated the potential for an additional rate hike later in this year due to persistent inflation. The Fed stressed that its decisions would be contingent on ongoing assessments of incoming data and the evolving economic outlook and associated risks. Furthermore, it committed to continuing the rapid reduction of its securities holdings.
- Addressing inflation is expected to necessitate a period of below-average economic growth and some moderation in labor market conditions. The Fed stands ready to raise FFR further if deemed necessary and intends to keep its policy at a restrictive level until it is confident that inflation is consistently moving towards its 2% target.
- In comparison to the Jun-23 Summary of Economic Projections, the median projection of FFR for the end of this year remains unchanged, but it has increased by 50 bps for the subsequent two years.

The Fed perceives the current monetary policy stance as restrictive, exerting downward pressure on economic activity, employment, and inflation.

Key Rates (%)	Dec-22	Sep-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.68
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.50
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 20-Sep-23

Source: Bloomberg

- Recent indicators indicate a solid expansion in economic activity, surpassing expectations for real GDP growth this year. Notably, consumer spending has demonstrated considerable strength. However, the impact of higher interest rates on business fixed investment seems to be a factor.
- While the labor market remains tight, the balance between supply and demand has been gradually improving.
- Inflation has moderated but remains significantly above the long-term target of 2%. According to data from the Consumer Price Index and other sources, the Fed estimates that the year-over-year increase in total PCE prices was 3.4% as of Aug-23. When excluding the volatile food and energy categories, core PCE prices rose by 3.9% yoy.

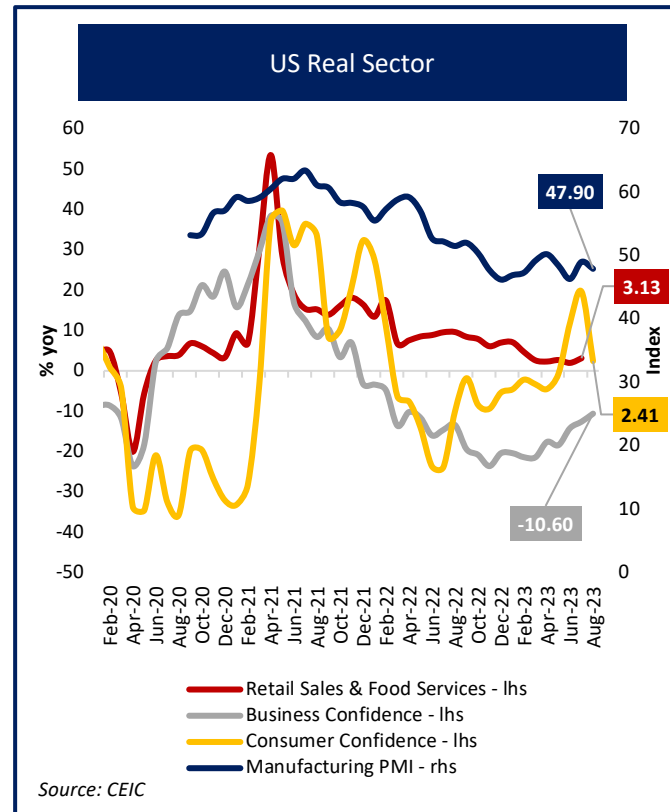
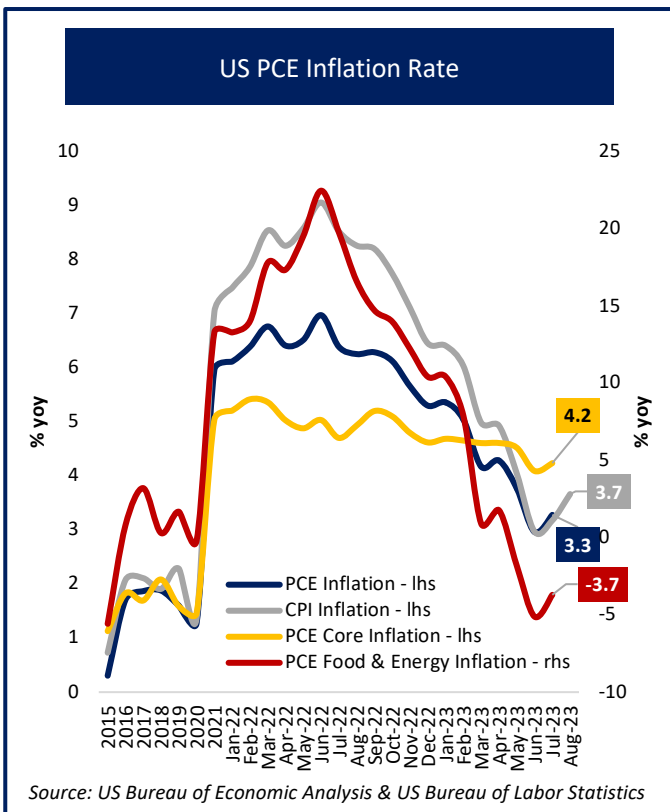
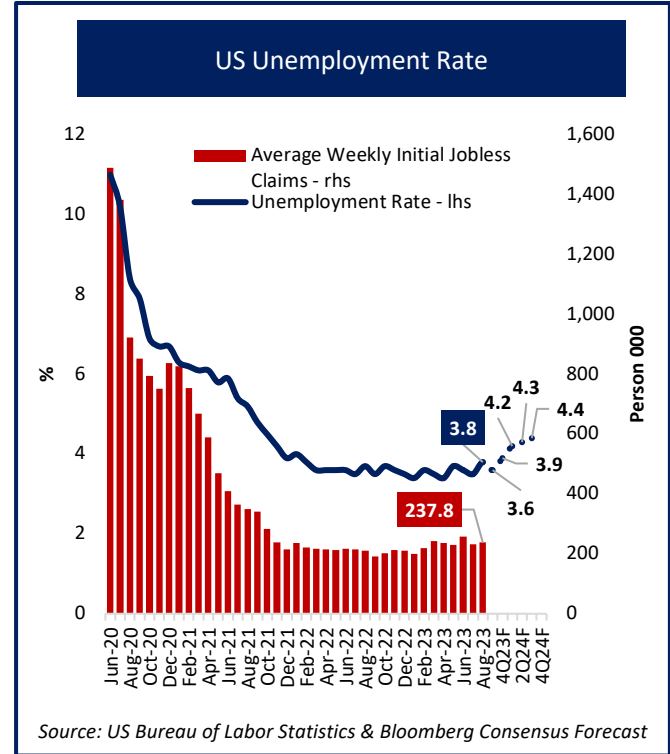
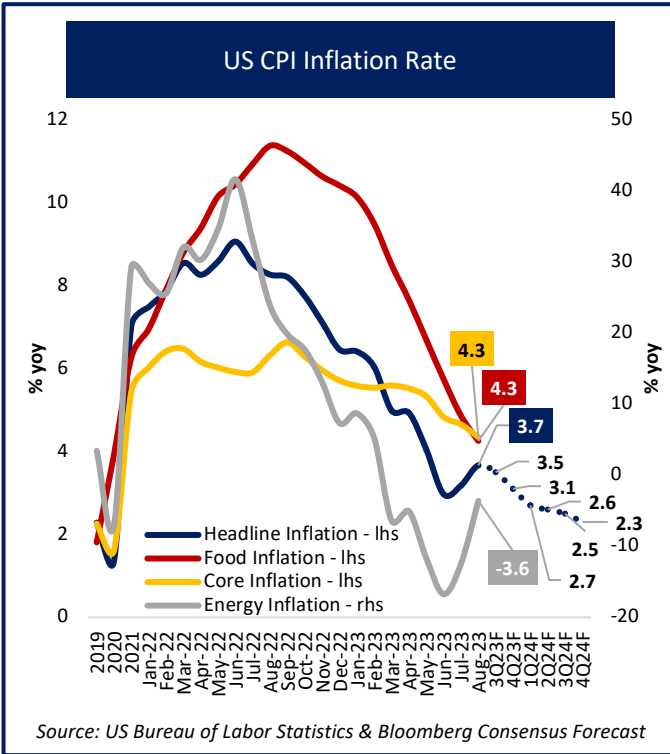
In response to persistent inflation, the Fed has adjusted its economic outlook forecasts.

- The FFR projection remains unchanged for this year at 5.75%, in line with the Jun-23 projection. However, it is anticipated to rise to 5.25% in 2024, an increase from the previous projection of 4.75%.
- There is a more optimistic outlook for the US GDP growth in both 2023, now expected to reach 2.1% (vs. 1.0%), and in 2024, with a projection of 1.5% (vs. 1.1%).
- PCE inflation has been slightly revised upwards to 3.3% for this year (vs. 3.2%). However, the projection for 2024 remains at 2.5%.
- Core PCE inflation is anticipated to be lower in 2023, with a projection of 3.7% (vs. 3.9%). The projection for 2024 remains unchanged at 2.6%.
- The unemployment rate is expected to be lower in both 2023 and 2024, with projections of 3.8% (vs. 4.1%) for 2023 and 4.1% (vs. 4.5%) for 2024.

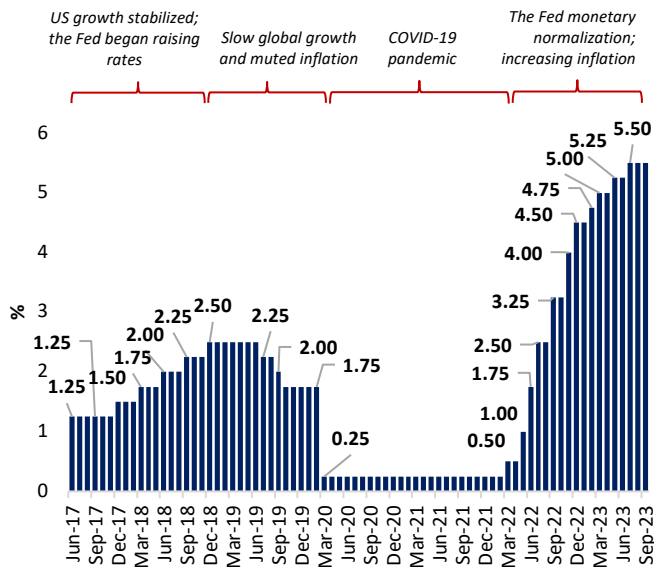
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OUR VIEW: We anticipate that Bank Indonesia (BI) will keep the BI-7DRRR steady at 5.75% for the remainder of 2023.

- Looking at external factors, the Fed, in line with widespread expectations, maintained FFR during the Sep-23 FOMC meeting while suggesting the possibility of another rate hike before year-end. However, there is an increasing risk of a hawkish stance with the notion that room for a rate cut next year might be more limited than previously anticipated.
- Domestically, Indonesia's inflation rate has declined and currently resides within the target range of 2 – 4%. We maintain our confidence that inflation will continue to subside, remaining within the target range for the rest of 2023. However, it's important to note that the major threats to this declining trend come from factors like El Nino and the current upward trend in global oil prices, which could pose risks to inflation.
- The heightened risk of a "higher-for-longer" scenario carries the potential for a "slower-for-longer" outlook for the global economy. This could lead to lower commodity prices and reduced demand, posing a risk of Indonesia's trade surplus continuing to shrink. A weakening performance in exports may result in a widening current account deficit, decreased foreign reserves, and potential risks to the Rupiah exchange rate.
- *In summary, our expectation remains that BI will maintain the BI-7DRRR at 5.75% for the rest of 2023 in order to uphold stability.*



Fed Funds Rate (FFR)



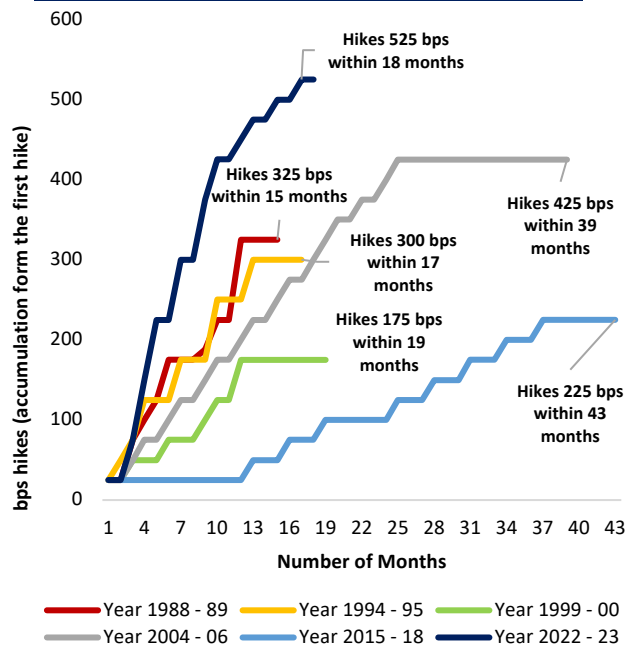
Source: The Fed

Sep-23 FOMC Projection

US Economic Indicator (%)	2023	2024	2025	Long-run
GDP Growth	2.1	1.5	1.8	1.8
<i>Jun-23 Projection</i>	1.0	1.1	1.8	1.8
Unemployment Rate	3.8	4.1	4.1	4.0
<i>Jun-23 Projection</i>	4.1	4.5	4.5	4.0
PCE Inflation Rate	3.3	2.5	2.2	2.0
<i>Jun-23 Projection</i>	3.2	2.5	2.1	2.0
Core PCE Inflation Rate	3.7	2.6	2.3	
<i>Jun-23 Projection</i>	3.9	2.6	2.2	
Policy Rate	5.75	5.25	4.00	2.50
<i>Jun-23 Projection</i>	5.75	4.75	3.50	2.50

Source: The Fed

FFR Hikes during High Inflation & Monetary Normalization



Source: The Fed

Market Expectation on FFR

FOMC Meeting Date	4.25 - 4.50	4.50 - 4.75	4.75 - 5.00	5.00 - 5.25	5.25 - 5.50	5.50 - 5.75
1-Nov-23	0.0%	0.0%	0.0%	0.0%	71.6%	28.4%
13-Dec-23	0.0%	0.0%	0.0%	0.0%	53.4%	39.4%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	51.2%	40.0%
20-Mar-24	0.0%	0.0%	0.0%	7.2%	49.6%	35.6%
1-May-24	0.0%	0.0%	1.8%	17.9%	46.1%	28.5%

Source: CME Group (as of 21-Sep-23)

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