# Monthly Economic Briefing

Economic, Banking, and Industry Research - BCA Group



# BI and Fed policy:

# Hawk on the Christmas tree

Samuel Theophilus Artha Barra Kukuh Mamia

Head of Macroeconomic Research Economist/Analyst

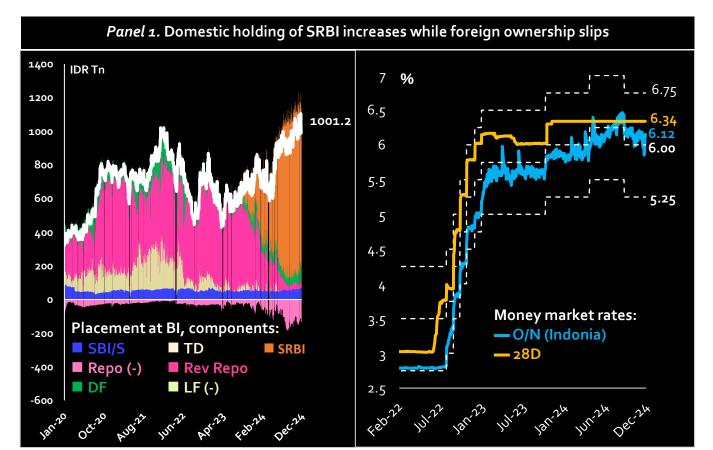
20 December 2024

#### **Executive Summary**

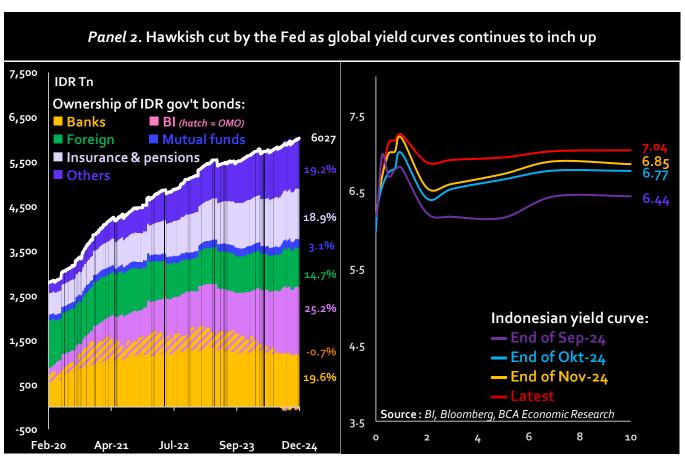
- Fed lowered the FFR by 25 bps, but with a much more hawkish outlook (only 2 cuts next year) that has led to renewed risk-off positioning in the market.
- Accordingly, BI kept its benchmark rate at 6.00% amid concerns over IDR depreciation and the limited inflows (even to SRBI) in recent weeks.
- BI's strategy to keep issuing SRBI while buying IDR 150 Tn of SBN in the secondary market next year could be quite costly and limit its maneuvering room going forward.
- Amid the new administration's expansive fiscal goals, BI is facing a dilemma between keeping a strong IDR and strong private borrowing.
- Very high real BI Rate suggests that BI is favoring the former goal, but further liquidity tightness may eventually necessitate a more pragmatic, balanced approach.
  - On December 18<sup>th</sup>, the Fed decided to lower its Fed funds rate to 4.25 4.50%. A few hours earlier, BI announced that it kept the BI Rate at 6.00% for the third consecutive month. But despite this seemingly improved rate differentials, the Rupiah continued to weaken, while Indonesian assets ended the next trading day weaker.
- The problem, of course, is that the Fed's rate cut was the least interesting aspect of the FOMC presser. Although the Fed has now cut 100 bps in the last 3 meetings, the Fed's view of the US economy and its forward guidance almost uniformly veered in a hawkish direction—ergo, a "hawkish cut".
- Growth and inflation outlook were upgraded, while the median position in the dot plot only showed 50 bps cut in 2025. This is far slower than the 100 bps cut in the September version, and in fact matches our worst-case scenario for next year, in which the Fed's terminal rate (the rate at which the Fed stops cutting) would be at 4.00%. On top of that, the Fed is likely to continue with its balance sheet reduction (QT) at a similar pace in 2025, given the stillample reserves among US banks.
- Small wonder, then, that the markets did not react well to this development. Almost all currencies ex-USD also recorded sharp depreciation in an echo of the "Trump trade" last month. The specter of Trump, of course, continues to hover above both the Fed's decision and the market's reaction—the tariffs, the deportations, the fiscal deficits, the geopolitical uncertainties, and now even the ongoing risk of a government shutdown.
- It is this specter, and the Rupiah's recent weakness, that explains BI's cautiousness. This is further underlined by recent capital flow trends, where foreign ownership for even SRBI-BI's go-to instrument to stabilize Rupiah in the past year—has been declining. While SRBI yields

have been rising in recent auctions (the latest at 7.24% for 12M), it still seems insufficiently attractive to foreign investors, given the worsening risk perception. The non-deliverable forward (NDF) market, for instance, is now pricing the Rupiah to depreciate by almost 400 points (or 2.5%) against the USD over the next 12 months.

- This complicates BI's mission to stabilize the Rupiah, especially since it is also planning an IDR 150 Tn intervention in the secondary market for government bonds (SBN) next year to offset IDR 100 Tn worth of bonds (part of the pandemic-era burden sharing) that is about to mature. Such strategy—issuing high-yielding SRBI while purchasing SBN at lower yields—could be successful, but it will come at significant cost to BI.
- It is also notable that BI already holds 25.2% of tradable SBN (net), and it will buy roughly a quarter of next year's SBN net issuance. While BI's SBN holdings are mostly acquired during an emergency, or even (in the case of SRBI operations since Sep-23) a tightening policy, such high level of ownership could limit its manoeuvring room in the future.
- At the heart of BI's dilemma is its goal to maintain a strong Rupiah (through SRBI) and strong
  private borrowing (through macroprudential policies) amid the government's expansive fiscal
  policy. As we will explain in our upcoming Outlook, the tradeoff between these three goals—
  in effect, a trilemma—is growing more difficult in this period of volatile, limited global liquidity.
- The choice is to either wring out more (forced) savings out of the private sector including households, or allowing them more breathing space by allowing the Rupiah to depreciate. By keeping real policy rate (BI Rate minus CPI inflation) at a historic height of 4.45%, we are effectively going down the first path. Loan growth may remain relatively strong at 10.79% YoY, but this is largely driven by certain capital-intensive sectors while other loans (including consumer and SME) are softening.
- Moreover, BI's assessment that the Rupiah should (fundamentally) stay below 16,000 against
  the USD seems to ignore the fact that the Rupiah has become overvalued against regional
  currencies, particularly in terms of its real effective exchange rate (REER). This could be a
  key vulnerability in the event of a Trump tariff salvo, whereby Asian currencies—particularly
  Yuan—would depreciate further, resulting in a deterioration of Indonesia's current account
  position and an even greater influx of imported manufactured goods.
- Given the highly uncertain situation and the unique challenges faced by the private sector in recent months, BI should probably adopt a more flexible policy framework going forward. This will reduce the cost of BI's interventions, while preventing episodes of abrupt depreciation after BI tries to maintain the Rupiah at an unsustainably strong level.
- Overall, we do not expect BI's basic policy setup—cautious monetary policies, accommodative macroprudential policies—to change all that much in the coming year, but some pragmatic "bend but not break" approach may become more apparent. Accordingly, a BI Rate of 5.25-5.50% (i.e. 50-75 bps cut) may be appropriate next year if the terminal FFR is at 4.00%, but we also suspect that BI might have to tolerate some degree of depreciation if the global fundamentals do not improve.

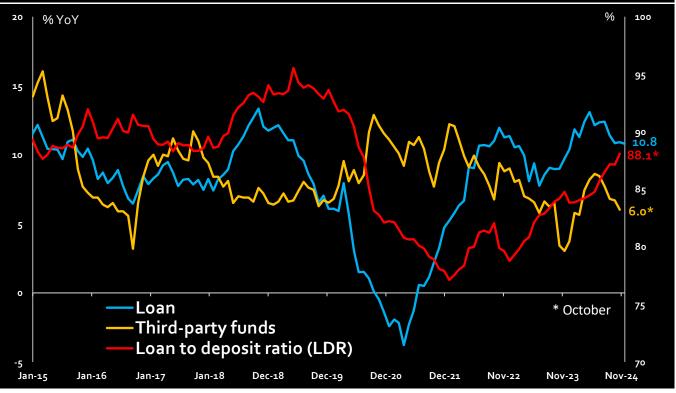


Source: BI, Bloomberg, BCA Economist



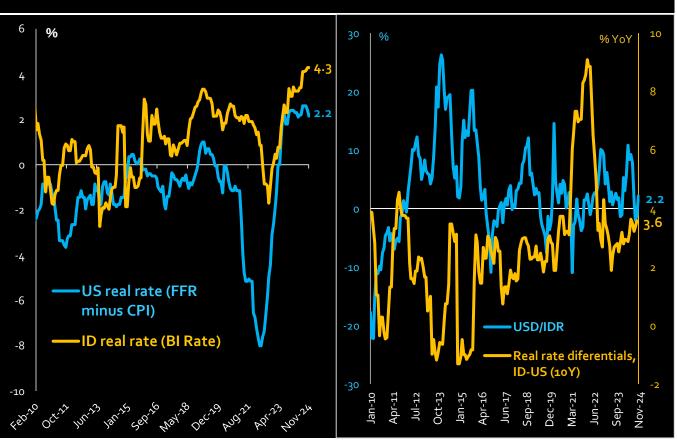
Source: MoF, BI, Bloomberg, BCA Economist

Chart 1. Loan to deposit ratio continued to increase even as loan growth slows down



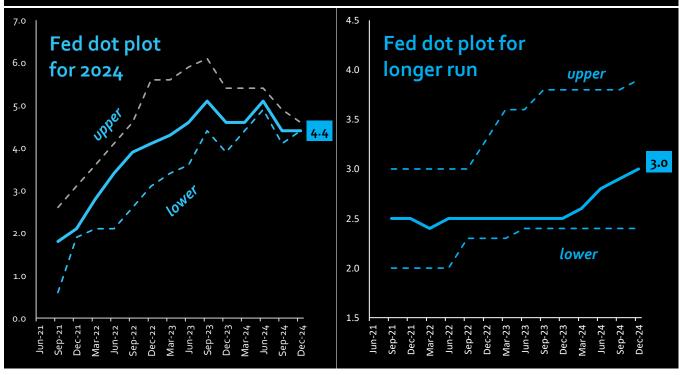
Source: MoF, Bloomberg, BCA Economist

Panel 3. Very high real BI rate is implemented in order to help Rupiah's valuation



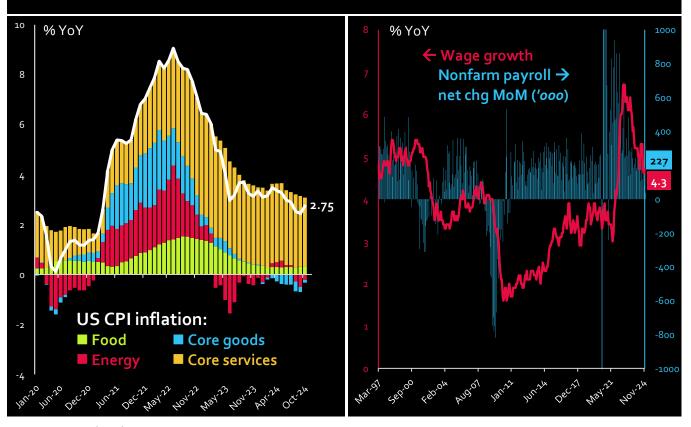
Source: BI, Bloomberg, BCA Economist

Panel 4. The hawkish turn in Fed's dot plot is coupled with higher long-run target



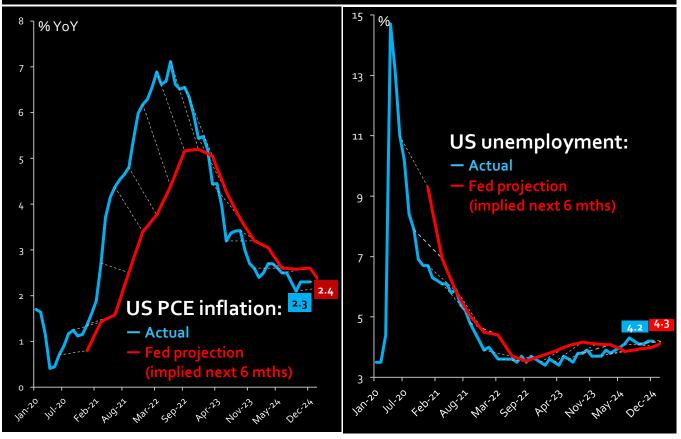
**Source: Federal Reserve** 

Panel 5. US labor market have settled into Fed's target, but inflation remains elevated



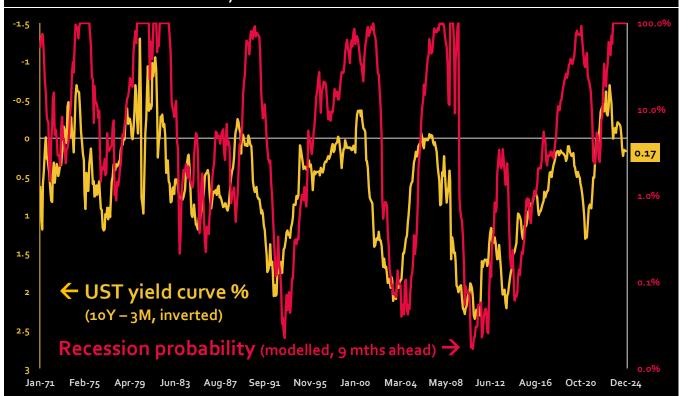
Source: US BLS, Bloomberg

Panel 6. The Fed was caught flat-footed in 2021-22, but it's recent projections for inflation and unemployment have been closer to the mark



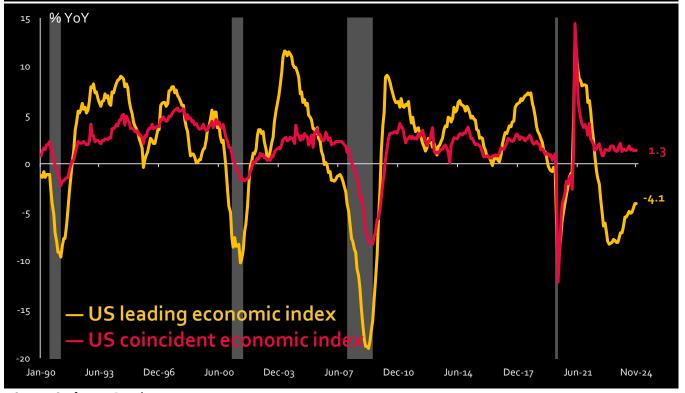
Source: Bloomberg, Federal Reserve

Chart 2. Normalizing T-bills issuance and the higher demand for safe-haven assets pushed the yield on short-term US treasuries



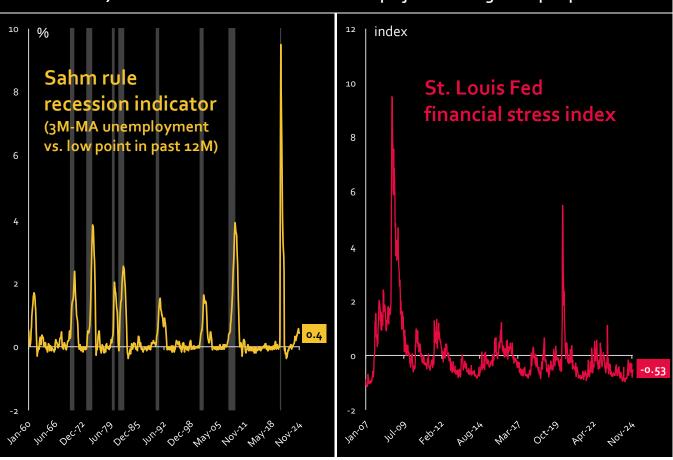
Source: Bloomberg, calculations by BCA Economist

Chart 3. Leading economic index begins rebound as 'imminent slowdown' ceased to materialize



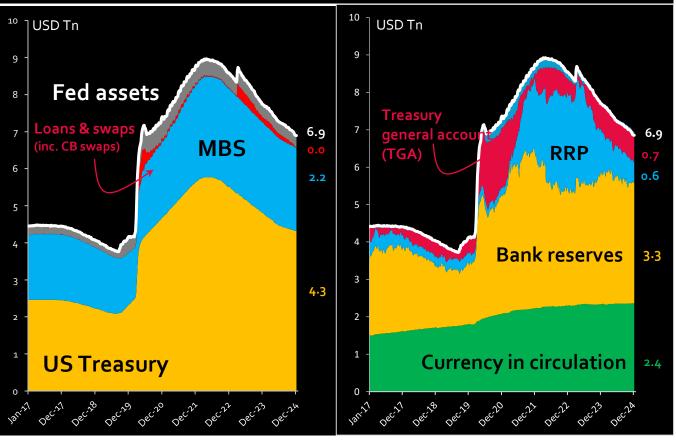
Source: Conference Board

Panel 7. Sahm rule seems to be broken as Fed projects better growth prospects

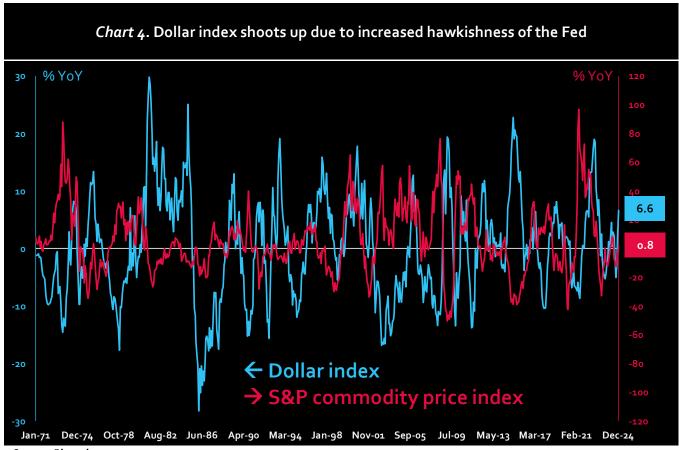


Source: St. Louis Fed

Panel 8. The Fed is set to continue its quantitative tightening (QT) at the expense of reverse repo (RRP) facilities, while bank reserves remain ample



Source: St. Louis Fed



Source: Bloomberg

# **Selected Macroeconomic Indicators**

UK	Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	19-Dec	-1 mth	Chg (%)
EU	US	4.50	Dec-24	1.80	Baltic Dry Index	976.0	1,756.0	-44.4
Japan	UK	4.75	Nov-24	2.15	S&P GSCI Index	535.9	538.1	-0.4
China (lending)   China (len	EU	3.15	Dec-24	0.95	Oil (Brent, \$/brl)	72.9	73.3	-0.6
Korea   3.00   Nov-24   1.50   Gold (\$/oz.)   2,594.0   2,611.8   -0.7	Japan	0.25	Jul-24	-3.00	-3.00 Coal (\$/MT)		145.1	-11.9
India	China (lending)	2.00	Sep-24	4.15	Gas (\$/MMBtu)	3.14	2.08	51.0
Money Mkt Rates   19-Dec   -1 mth   Chg (bps)   (bps	Korea	3.00	Nov-24	1.50	Gold (\$/oz.)	2,594.0	2,611.8	-0.7
Money Mkt Rates   19-Dec   -1 mth   Chg (bps)   Chy (bps)	India	6.50	Feb-23	1.02	Copper (\$/MT)	8,770.4	8,954.6	-2.1
SPN (1Y)   6.78   6.69   9.1   External Sector   Nov   Oct   Chg (%)	Indonesia	6.00	Sep-24	4.45	Nickel (\$/MT)	14,883.3	15,486.3	-3.9
SPN (1Y)   6.78   6.69   9.1	Money Mkt Pates	10-Dec	-1 mth	Chg	CPO (\$/MT)	1,051.5	1,132.1	-7.1
SUN (10Y)   7.06   6.88   18.1   External Sector   Nov   Oct   (%)	Money Mkt Kates	19-Dec	-1 111(11	(bps)	Rubber (\$/kg)	1.93	1.88	2.7
SUN (10Y) 7.06 6.88 18.1	SPN (1Y)	6.78	6.69	9.1	External Sector	Nov	Oct	
Bank Rates (Rp)	SUN (10Y)	7.06	6.88	18.1	External Sector			
Bank Rates (Rp)	INDONIA (O/N, Rp)	6.05	6.18	-13.0	Export (\$ bn)	24.01	24.41	-1.66
Lending (WC)	JIBOR 1M (Rp)	6.63	6.63	0.0	Import (\$ bn)	19.59	21.94	-10.72
Lending (WC)   8.87   8.78   8.91   (\$ bn)*   150.2   151.2   -0.66     Deposit 1M   4.81   4.79   2.01   7.065   1.33     Currency/USD   19-Dec   -1 mth   Chg (%)   Consumer confidence index (CCI)   125.9   121.1   123.5     UK Pound   0.800   0.789   -1.39   Car sales (%YoY)   -11.9   -3.9   -9.1     Euro   0.965   0.944   -2.22   Japanese Yen   157.4   154.7   -1.77   Motorcycle sales (%YoY)   -10.3   5.4   3.7     Chinese RMB   7.296   7.232   -0.87   (%YoY)   Manufacturing PMI   Nov   Oct   Chg (bps)     Capital Mkt   19-Dec   -1 mth   Chg (%)   USA   49.7   48.5   120     DJIA   42,342.2   43,389.6   -2.41   Eurozone   45.2   46.0   -80     FTSE   8,105.3   8,109.3   -0.05   Japan   49.0   49.2   -2.0     Nikkei 225   38,813.6   38,220.9   1.55   China   51.5   50.3   120     Foreign portfolio ownership (Rp Tn)   Nov   Oct   Chg (Rp Tn)     Stock   3,402.4   3,573.9   -171.49     Govt. Bond   872.5   885.6   -13.07	Bank Rates (Rp)	Sep	Aug		Trade bal. (\$ bn)	4.42	2.48	78.56
Deposit 1M   4.81   4.79   2.01	l !: (W.C)	0.07	0.70	0.04		150.2	151.2	-0.66
Currency/USD   19-Dec   -1 mth   Chg (%)   Consumer confidence index (CCI)   125.9   121.1   123.5				100000000000000000000000000000000000000	(\$ DII).			
Currency/USD         19-Dec         -1 mth         Chg (%)         Consumer confidence index (CCI)         125.9         121.1         123.5           UK Pound         0.800         0.789         -1.39         Car sales (%YoY)         -11.9         -3.9         -9.1           Euro         0.965         0.944         -2.22         Motorcycle sales (%YoY)         -11.9         -3.9         -9.1           Chinese RMB         7.296         7.232         -0.87         Motorcycle sales (%YoY)         -10.3         5.4         3.7           Indonesia Rupiah         16,290         15,850         -2.70         -2.70         Manufacturing PMI         Nov         Oct         Chg (bps)           JCI         6,977.2         7,134.3         -2.20         USA         49.7         48.5         120           DIJA         42,342.2         43,389.6         -2.41         Eurozone         45.2         46.0         -80           FTSE         8,105.3         8,109.3         -0.05         Japan         49.0         49.2         -20           Nikkei 225         38,813.6         38,220.9         1.55         China         51.5         50.3         120           Hang Seng         19,752.5         19,576				5555555555555555555	Prompt Indicators	Nov	Oct	Sep
UK Pound 0.800 0.789 -1.39	Savings	0.67	0.65	1.33				
Euro	Currency/USD	19-Dec	-1 mth	Chg (%)		125.9	121.1	123.5
Dapanese Yen   Chinese RMB   7.296   7.232   -0.87   -0.87   (%YoY)   -10.3   5.4   3.7	UK Pound				Car sales (%YoY)	-11.9	-3.9	-9.1
Chinese RMB         7.296         7.232         -0.87         (%YoY)         -10.3         5.4         3.7           Indonesia Rupiah         16,290         15,850         -2.70         Manufacturing PMI         Nov         Oct         Chg (bps)           JCI         6,977.2         7,134.3         -2.20         USA         49.7         48.5         120           DJIA         42,342.2         43,389.6         -2.41         Eurozone         45.2         46.0         -80           FTSE         8,105.3         8,109.3         -0.05         Japan         49.0         49.2         -20           Nikkei 225         38,813.6         38,220.9         1.55         China         51.5         50.3         120           Hang Seng         19,752.5         19,576.6         0.90         Korea         50.6         48.3         230           Foreign portfolio ownership (Rp Tn)         Nov         Oct         Chg (Rp Tn)         Indonesia         49.6         49.2         40           Govt. Bond         872.5         885.6         -13.07         -171.49         -13.07         -171.49         -171.49         -171.49         -171.49         -171.49         -171.49         -171.49         -171.49<						000000000000000000		
Chinese RMB				000000000000000000000000000000000000000		-10.3	5.4	3.7
Capital Mkt         19-Dec         -1 mth         Chg (%)         Manufacturing PMI         Nov         Oct         Chg (bps)           JCI         6,977.2         7,134.3         -2.20         USA         49.7         48.5         120           DJIA         42,342.2         43,389.6         -2.41         Eurozone         45.2         46.0         -80           FTSE         8,105.3         8,109.3         -0.05         Japan         49.0         49.2         -20           Nikkei 225         38,813.6         38,220.9         1.55         China         51.5         50.3         120           Hang Seng         19,752.5         19,576.6         0.90         Korea         50.6         48.3         230           Foreign portfolio ownership (Rp Tn)         Nov         Oct         Chg (Rp Tn)         Indonesia         49.6         49.2         40           Stock         3,402.4         3,573.9         -171.49         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07         -13.07 <td></td> <td></td> <td></td> <td></td> <td>(%YOY)</td>					(%YOY)			
Capital Mkt   19-Dec   -1 mth   Chg (%)   Manufacturing PMI   Nov   Oct   (bps)	Indonesia Rupiah	16,290	15,850	-2.70		Nov	Oct	
DJIA 42,342.2 43,389.6 -2.41 Eurozone 45.2 46.0 -80 FTSE 8,105.3 8,109.3 -0.05 Japan 49.0 49.2 -20 Nikkei 225 38,813.6 38,220.9 1.55 China 51.5 50.3 120 Hang Seng 19,752.5 19,576.6 0.90 Korea 50.6 48.3 230  Foreign portfolio ownership (Rp Tn)  Stock 3,402.4 3,573.9 -171.49 Govt. Bond 872.5 885.6 -13.07	Capital Mkt	19-Dec	-1 mth	Chg (%)	Manufacturing PMI			
FTSE       8,105.3       8,109.3       -0.05       Japan       49.0       49.2       -20         Nikkei 225       38,813.6       38,220.9       1.55       China       51.5       50.3       120         Hang Seng       19,752.5       19,576.6       0.90       Korea       50.6       48.3       230         Foreign portfolio ownership (Rp Tn)       Nov       Oct       Chg (Rp Tn)       Indonesia       49.6       49.2       40         Stock       3,402.4       3,573.9       -171.49       -13.07	JCI	6,977.2	7,134.3	-2.20	USA	49.7	48.5	120
Nikkei 225       38,813.6       38,220.9       1.55       China       51.5       50.3       120         Hang Seng       19,752.5       19,576.6       0.90       Korea       50.6       48.3       230         Foreign portfolio ownership (Rp Tn)         Stock       3,402.4       3,573.9       -171.49         Govt. Bond       872.5       885.6       -13.07	DJIA	42,342.2	43,389.6	-2.41	Eurozone	45.2	46.0	-80
Hang Seng         19,752.5         19,576.6         0.90         Korea         50.6         48.3         230           Foreign portfolio ownership (Rp Tn)         Nov         Oct (Rp Tn)         Chg (Rp Tn)         Indonesia         49.6         49.2         40           Stock         3,402.4         3,573.9         -171.49	FTSE	8,105.3	8,109.3	-0.05	Japan	49.0	49.2	-20
Foreign portfolio ownership (Rp Tn)         Nov         Oct (Rp Tn)         Chg (Rp Tn)         Indonesia         49.6         49.2         40           Stock         3,402.4         3,573.9         -171.49           Govt. Bond         872.5         885.6         -13.07	Nikkei 225	38,813.6	38,220.9	1.55	China	51.5	50.3	120
ownership (Rp Tn)         Nov         Oct         (Rp Tn)           Stock         3,402.4         3,573.9         -171.49           Govt. Bond         872.5         885.6         -13.07	Hang Seng	19,752.5	19,576.6	0.90	Korea	50.6	48.3	230
Govt. Bond 872.5 885.6 -13.07		Nov	Oct		Indonesia	49.6	49.2	40
	Stock	3,402.4	3,573.9	-171.49				
Corp. Bond 7.1 6.9 0.23	Govt. Bond	872.5		-13.07				
01010-01010-010-010-010-010-010-010-010	Corp. Bond	7.1	6.9	0.23				

Source: Bloomberg, BI, BPS

Notes:

<sup>\*\*\*</sup>For PMI, >50 indicates economic expansion, <50 otherwise





**Scan** for the link to our report depository or **click**:

https://s.id/BCA\_REI

<sup>\*</sup>Data from earlier period

<sup>\*\*</sup>For changes in currency:  $\mathbf{Black}$  indicates appreciation against USD,  $\mathbf{Red}$  otherwise

# **Indonesia - Economic Indicators Projection**

	2020	2021	2022	2023	2024E	2025E
Gross Domestic Product (% YoY)	-2.1	3.7	5.3	5.0	5.0	4.9
GDP per Capita (US\$)		4350	4784	4920	4945	4980
Consumer Price Index Inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.5
BI 7-day Repo Rate (%)	3.75	3.50	5.50	6.00	6.00	5.00
USD/IDR Exchange Rate (end of the year)*	14,050	14,262	15,568	15,397	16,150	16,393
Trade Balance (US\$ billion)	21.7	35.3	54.5	37.0	31.4	26.2
Current Account Balance (% GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.9

<sup>\*</sup>Actual number

#### **Economic, Banking & Industry Research Team**

#### **David E.Sumual**

Chief Economist david\_sumual@bca.co.id +6221 2358 8000 Ext:1051352

#### Victor George Petrus Matindas

Senior Economist victor\_matindas@bca.co.id +6221 2358 8000 Ext: 1058408

#### **Keely Julia Hasim**

Economist / Analyst keely\_hasim@bca.co.id +6221 2358 8000 Ext: 1071535

### Nicholas Husni

Economist / Analyst nicholas\_husni@bca.co.id +6221 2358 8000 Ext: 1079839

#### Agus Salim Hardjodinoto

Head of Industry and Regional Research Research agus\_lim@bca.co.id +6221 2358 8000 Ext: 1005314

#### Gabriella Yolivia

Industry Analyst gabriella\_yolivia@bca.co.id +6221 2358 8000 Ext: 1063933

#### **Elbert Timothy Lasiman**

Economist / Analyst Elbert\_lasiman@bca.co.id +6221 2358 8000 Ext: 1007431

## Samuel Theophilus Artha

Economist / Analyst samuel\_artha@bca.co.id +6221 2358 8000 Ext: 1080373

#### Barra Kukuh Mamia

Head of Macroeconomic Research barra\_mamia@bca.co.id +6221 2358 8000 Ext: 1053819

#### Lazuardin Thariq Hamzah

Economist / Analyst lazuardin\_hamzah@bca.co.id +6221 2358 8000 Ext: 1071724

#### Thierris Nora Kusuma

Economist / Analyst thierris\_kusuma@bca.co.id +6221 2358 8000 Ext: 1071930

#### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia Ph: (62-21) 2358-8000 Fax: (62-21) 2358-8343

#### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 1020451 or fax to: (62-21) 2358 8343 or email: eri tristanto@bca.co.id

<sup>\*\*</sup> Estimation of Rupiah's fundamental exchange rate