Hawkish cut by The Fed

Jakarta Composite Index (JCI) touched -2% today due to rising selling pressure across the board as USD strengthens after FOMC December meeting. The Fed delivered a 25bps cut, within market expectation. Despite the cut, the message from The Fed is rather hawkish as compared to September FOMC projections, Fed funds rate cut projection for 2025 is lowered from 100bps to 50bps, higher core PCE inflation for 2024-2026, and lower unemployment rate for 2024-2025. This put USD in a strong position and the higher inflation assumption could put the monetary policy easing path to a slower pace. As a result, there could be headwinds for emerging markets like Indonesia where currency volatility becomes one of the main risks.

Summary of Economic Projections

Variable	Median[1]				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation[4]	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Source: Federal Reserve

Fixed income comments: Bond market has reacted negatively post FOMC meeting. Despite the 25bps rate cut, market is concerned about the hawkish tone from Powell. With less expected rate cut for next year, yield has shifted up to adjust to this expectation. 10Y UST yield is up by +11.5bps to 4.51% and 2Y UST yield is up by +11bps to 4.35%. INDOGB yield curve has also shifted higher with 10yr yield moved up from 7.02% to 7.10% and 5yr yield from 6.98% to 7.04%. This is also in-line with weakening Rupiah from 16,090 to 16,277.

Equity comments: As JCI has derated to 11.6x 12-month forward P/E (2.4 SD below mean valuation 14.5x), we are slowly accumulating quality stocks with solid earnings visibility. Despite the volatility in external factors, we remain positive on our domestic consumption strength, hence our preference on Consumer and Infrastructure sectors.