

The background of the slide is a dense, overlapping arrangement of stacks of US dollar bills. The bills are primarily \$100 bills, with some \$10 bills visible. The stacks are bound with yellow rubber bands and are scattered across the entire frame, creating a textured, financial-themed background.

Indonesia Investments

Impact of Fed Tapering on Indonesia

- US Federal Reserve Sends Signals that Its Bond Purchasing Program (QE) May End Before 2022
- Taking a Look at the Similarities and Possible Differences between the Upcoming Tapering/ Interest Rate Hike Cycle and the 2013-2015 Cycle
- Indonesia Encountered Heavy Storms in the Fed's Previous Tapering Cycle. Is It Now in a Stronger Situation to Face a New Storm?
- How Does Indonesia's Central Bank Prepare to Face a New Fed Tapering/Rate hike Cycle?

15 SEPTEMBER 2021

Van Der Schaar Investments B.V.
CV Indonesia Investments

Indonesia Investments

Update – 15 September 2021

‘Impact of Looming Federal Reserve Tapering on Indonesia’s Financial Markets’



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates will be discussed in more detail (and in an updated form) in the forthcoming report.

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Impact of Looming Federal Reserve Tapering on Indonesia's Financial Markets

Around a month ago, economists in the West started to become increasingly certain that the US Federal Reserve (Fed) is to announce a plan to taper its asset purchases. Not only that, they also expect the announcement to come soon. Then, in mid-August 2021, the minutes from the July Fed meeting, which was held on 27 – 28 July 2021, indicated a willingness of the US central bank to start reducing its asset purchases before the end of 2021 (although some US central bankers indicated that they prefer to wait until early 2022, so there is certainly no definite decision yet).

Currently, the Fed buys assets at a pace of about USD \$120 billion each month, split between Treasury debt (USD \$80 billion) and agency mortgage-backed securities (USD \$40 billion); a phenomenon that is also known as quantitative easing (QE). QE is the Fed's response to the COVID-19 crisis.

In fact, QE is one of the two key (high-profile) strategies used by the Fed to stimulate the US economy in the ongoing COVID-19 crisis with the other strategy being (near) zero interest rates. These strategies aim at keeping the US economy flooded with credit while at the same time encourage demand for credit. The exact same scenario was used by the Fed to overcome the financial crisis in the late-2000s.

And it is exactly this previous experience that makes it very interesting to take a look at how looming Fed tapering may impact on Indonesia's financial markets as we do assume that the ending of these Fed policies in the period ahead will be quite similar to the way the Fed ended these policies in the 2013-2015 period. And therefore, it is important to recap, first, how QE was ended by the Fed when the US economy had rebounded from the financial crisis in the late 2000s (followed by a series of interest rate hikes), and, secondly, how this all impacted on Indonesia's financial markets.

[...]

The full article is available in our September 2021 report. This report can be purchased by sending an email to info@indonesia-investments.com or a message to +62.882.9875.1125 (including WhatsApp).

