

## BACK-TO-BACK FED AND BSP ACTION

### Fed Action

The Federal Reserve lifted rates anew by a dovish 25 basis points (bps) in its Open Market Committee (FOMC) meeting on March 22, raising the Fed funds rate target range to 4.75%-5.0% (from 4.25%-4.75%).

### Powell's Message

Fed Chair Jerome Powell noted that some additional policy tightening 'may' be appropriate to return to the 2% inflation target. He added that a pause was considered by some officials in light of the banking turmoil.

The change in language – such as using 'may' and diverging from previous statements of "ongoing increases would be appropriate", signals that the Fed is open to flexibility in case pauses become necessary.

However, Powell emphasized that Fed officials don't expect rate cuts this year.

Fed Action	BSP Action
+25 bps	+25 bps
4.75% - 5.00% Fed Funds Rate	6.25% RRP Rate
1.25% Interest Rate Differential (IRD)	

### BSP Action

The Bangko Sentral ng Pilipinas (BSP) has delivered another hike on benchmark interest rates by 25 basis points (bps), raising the RRP rate from 6.0% to 6.25%.

### Medalla's Message

BSP Governor Felipe Medalla continued to hike rates to anchor inflation expectations given that core inflation is still on the rise and due to broadening price pressures on account of robust domestic demand and supply-driven pressures.

Medalla emphasized that the succeeding BSP policy rate decisions will be data-dependent, with particular look-out on how March inflation would fare. Should there be no new shocks, **he noted that inflation could go back to 2%-4% by November thus bringing the policy path in the right direction** – only then would policy tightening reversal could be considered.

## FORECASTS AND OUTLOOK

### FFR Outlook

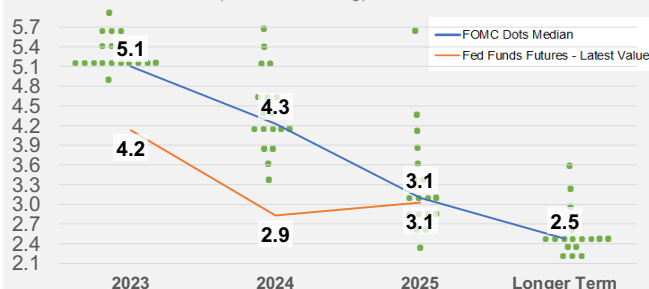
#### Fed Official Projections Hike - Pause

Terminal rate projections by Fed officials show a median estimate of 5.1% by yearend, unchanged from their December forecasts, which signals that one more 25 bps hike is underway before a pause.

#### Fed Funds Futures Hike - Cut

Markets are anticipating another 25 bps hike and then 2-3 rate cuts for the remainder of the year, with the FFR projected to settle at 4.2% by YE 2023.

Fed Dot Plot as of 3.22.2023 (Source: Bloomberg)



### RRP Outlook

#### Hike - Pause - Cut

The BSP is expected to hike by another 25 bps in its next meeting in May, followed by a pause given that inflation is projected to be on a downtrend by H2 2023. Inflation forecasts of the BSP were revised downward (see below) due to the moderation of February inflation, the challenging global economy, and the cumulative impact of BSP's policy rate adjustments which may all reduce price pressures.

#### BSP Average Inflation Forecast

As of Feb 2023	As of March 2023
2023: 6.1%	2023: 6.0%
2024: 3.1%	2024: 2.9%

Metrobank Research sees inflation to be on a downtrend, consistent with BSP's outlook. This strengthens the possibility that the BSP may cut rates towards the end of the year, which will result in a 6.0% RRP rate by YE 2023.

#### Metrobank Research RRP Rate Forecast

Actual: 2022	Forecast: 2023
5.50%	6.00%