Metrobank

Research and Business Analytics

# POLICY RATE VIEWS

## FED HIKES BY 25 BASIS POINTS (BPS) AS EXPECTED

### Fed Action

In its latest FOMC meeting, the Federal Reserve hiked its benchmark interest rates by 25 basis points (bps), raising the target range for the federal funds rate (FFR) from 4.5% - 4.75%. to 5.0% - 5.25%.

Despite the expected hike, the Fed dropped its usual policy statement that it “anticipates” further rate hikes as necessary, hinting that a pause is possible in the next rate-setting meeting in June. Federal Reserve Chairman Jerome Powell however stressed that inflation remains a principal concern and that the Fed is prepared to do more, though policy decisions are to be made on a meeting-by-meeting basis and shall be driven by incoming data.

Powell nonetheless stressed that rate cuts would not be appropriate this year given sticky inflation.

**Latest Fed Funds Rate (FFR) hike:**
**+25 bps**

**FFR Target Range as of May 4, 2023**
**5.00% to 5.25%**

### Market response

Terminal rate projections by Fed officials are still at a median estimate of 5.1% by yearend, unchanged from their December forecasts, which gives an indication that the Fed’s policy tightening cycle may have come to an end. On the other hand, the terminal FFR projected for next year is at 4.3%, implying that rate cuts are highly likely in 2024.

Meanwhile, market bets are still on two to three rate cuts for the remainder of the year, with the FFR projected to settle at 4.2% by YE 2023.

The Fed is widely expected to pause in its next meeting, due to worries over the US banking sector and recession concerns. Investors think that it would take some pretty alarming inflation numbers for the Fed to hike again in June.

## PH OUTLOOK

| RRP Rate | USDPHP Rate |
|---|---|
| The policy rate outcome in the upcoming BSP Monetary Board meeting in two weeks will rely mainly on how April 2023 inflation would turn out.<br><br>A 25 basis points (bps) hike may be in the cards should April 2023 inflation settle higher than 0.2% to 0.3% month on month, and if core inflation continues to accelerate.<br><br>Meanwhile, whether the BSP pauses or hikes this May, and as the Fed is anticipated to pause, the interest-rate differential would be at 1%-1.25% and is expected to keep the peso stable.<br><br>Should inflation continue to track a downward path, a rate cut by the end of the year is anticipated bringing terminal policy rate at 6.0%. | The peso has since recovered from its recent slide in April reaching PhP 56.27/USD driven by the Fed’s firm hawkish rhetoric and the upturn in oil prices following OPEC+’s surprise supply cut notice.<br><br>The end of the Federal Reserve’s tightening cycle, the anticipated pause by the BSP, and continued decline in global crude oil prices could lend support to the peso currently trading steadily at PhP 55/USD levels.<br><br>Moving forward, China’s demand recovery in Q2 and PH’s import season in Q3 is expected to weaken the peso until towards yearend followed by a rebound in Q4 on account of OFW remittance inflows. |