

# POLICY RATE VIEWS

## FED DELIVERS ANOTHER HIKE

### Fed Action

The latest FOMC meeting confirmed expectations of a “Fed skip” after the US Federal Reserve (Fed) delivered the anticipated 25-bps hike, raising the target range for the federal funds rate (FFR) from 5.0% - 5.25% to 5.25% - 5.50% coming from a pause last June. This is the highest interest rate level in more than 22 years, in the pursuit to combat stubborn inflation.

Powell emphasized that the FOMC has significantly tightened its monetary policy stance since last year, along with continued reduction of securities holdings, but the full effects of these efforts have yet to be felt.

### Fed Signals

After the anticipated hike, Powell yet again stressed that the monetary policy actions are anchored on the Fed’s dual mandate of promoting maximum employment and keeping prices stable, citing a still-tight labor market, and inflation still well-above their long-run target of 2%.

It can be recalled in June that the Fed opened the idea of 2 more hikes, delivering the first one this July. However, Powell recently signaled that the Fed will be guided by economic data developments in its succeeding monetary policy moves, leaving the door open for a pause or a hike.

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

**FFR Target Range as of July 27, 2023**  
**5.25% to 5.50%**

### Fed Funds Terminal Rate Projections

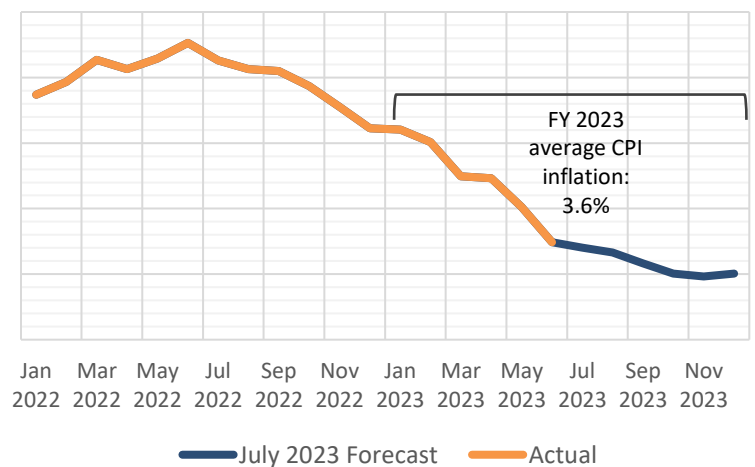
as of Mar 2023	as of Jun 2023
<b>2023: 5.1%</b>	<b>2023: 5.6%</b>
<b>2024: 4.3%</b>	<b>2024: 4.6%</b>

### US Inflation Trajectory

US headline inflation further eased to 3.0% in June from 4.0% in May, while core inflation fell to 4.8% from 5.4%. Price upticks are generally easing across US’ CPI basket, suggesting waning price pressures throughout the economy. Given the latest inflation print in June, Research’s full-year inflation forecast for the US also inched lower to 3.6%, indicating that the Fed’s inflation target of 2% may be within reach by Q4 especially with higher base effects in the second half of the year.

US CPI BASKET	Weights	June 2023
All Items	100.0	3.0
Food	13.4	5.7
Energy	6.9	-16.7
Household Furnishings and Supplies	4.4	3.2
Apparel	2.6	3.1
Transportation Commodities Less Motor Fuel	7.8	-0.7
Medical Care Commodities	1.5	4.2
Recreation Commodities	2.3	2.0
Education and Communication Commodities	0.9	-7.1
Alcoholic Beverages	0.8	4.4
Other goods	1.2	6.1
Shelter	34.7	7.8
Water, Sewer and Trash Collection Services	1.1	5.7
Household Operations	0.9	5.2
Medical Care Services	6.4	-0.8
Transportation Services	5.9	8.2
Recreation Services	3.1	5.9
Education and Communication Services	4.8	2.4
Other Personal Services	1.5	6.5

US Inflation Forecast for 2023\*



Legend: Lower vs last month (green), Higher vs last month (red). \*Metrobank Research Forecast

## POTENTIALLY THE LAST HIKE

- Given US’ improving inflation condition along with continuing signs of labor supply and demand coming into better balance as cited by Powell, the possibility of this hike being the last in the series of monetary policy tightening is much stronger. Further, Fed Funds Futures show that markets anticipate the terminal rate to be at 5.25% - 5.5%, indicating that a pause is expected in the succeeding meeting.
- US inflation is seen going down to 2.0% in as early as October per Research’s estimates, should the current trend and conditions remain and as higher base effects kick in. Thus, while hikes remain in the cards, improvements in economic data may sway the Fed to shift their policy stance in the future and hold breaks if the data suggests so.
- Given this, we see the BSP keeping the benchmark rate stable at 6.25% in its next Monetary Board meeting in August as PH inflation continue to track a downward path and as USDPHP remain stable at 54-55 levels.

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