

BACK-TO-BACK FED AND BSP ACTION: HIGHER FOR LONGER NARRATIVE PERSISTS

Fed Action

The Federal Reserve kept interest rates unchanged in its Open Market Committee (FOMC) meeting on September 20, maintaining the Fed funds rate target range at 5.25%-5.50%.

Powell's Message

Fed Chair Jerome Powell reaffirmed the Fed's commitment on its dual mandate and acknowledged that the Federal Reserve's aggressive tightening since last year have already covered significant ground, but full impacts are yet to be felt as economic activity continue to expand, and labor market remain to be tight.

He added that the Fed will remain data-dependent, and succeeding decisions will be based on the on-going assessments of incoming data and the evolving outlook and risks.

Fed Action	BSP Action
Pause	Pause
5.25% - 5.50% Fed Funds Rate	6.25% RRP Rate
0.75% Interest Rate Differential (IRD)	

BSP Action

The Bangko Sentral ng Pilipinas (BSP) likewise maintained the benchmark interest rates at its current level of 6.25%, for the fourth time since it delivered the first pause.

Remolona's Message

BSP Governor Remolona highlighted the upside risks to inflation stemming from rising food and transportation prices and higher electricity rates, therefore elevating the BSP's inflation forecasts for 2023 and 2024 due to slightly higher inflation path. Nonetheless, they still anticipate inflation to fall within target by November sans supply shocks.

Moreover, he noted that declining core inflation indicates subsiding price pressures and waning pent up demand point to past tightening efforts weighing on credit.

FORECASTS AND OUTLOOK

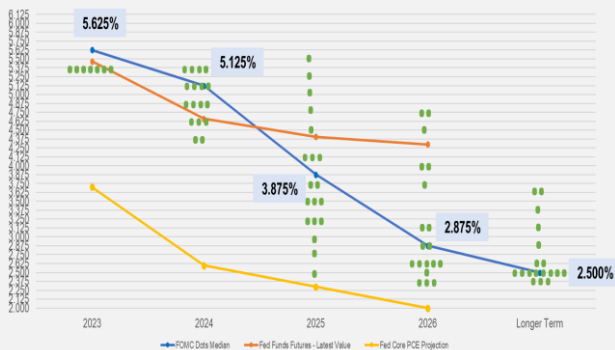
Fed Signals and New Projections

Fed Official Projections

Terminal rate projections based on the latest Fed Dot Plot as of September 20 show a median estimate of 5.625% by yearend, which signals that one more 25 bps hike may be underway this year. Meanwhile, 2024 projections reflect a more hawkish stance with smaller than expected cuts of 50 bps, sending the terminal rate in 2024 to 5.125% vs. 4.625% in June.

Fed Funds Futures

Meanwhile, markets anticipate no more hikes for the rest of the year, followed by a 75-bps policy rate cut in 2024.



Fed Dot Plot as of 3.22.2023 (Source: Bloomberg)

RRP Outlook: Hikes not off the table

Moving forward, BSP Governor Remolona asserted that the BSP stands ready to resume tightening should adjustments in transport fares and second-round effects dislodge inflation expectations. Moreover, while the Fed's decision weigh minimally for the BSP, the anticipated hike by the Fed in November may prompt the BSP to follow suit.

BSP Average Inflation Forecast

As of May 2023	As of June 2023	As of August 2023	As of September 2023
2023: 5.5%	2023: 5.4%	2023: 5.6%	2023: 5.8% ▲
2024: 2.8%	2024: 2.9%	2024: 3.3%	2024: 3.5% ▲
2025: 3.2%	2025: 3.4%	2025: 3.4%	

Given BSP Governor Remolona's signals and the persistent upside risks to inflation, Metrobank Research considers an upside bias to our RRP rate forecasts, as we continue to monitor developments in inflation

Metrobank Research RRP Rate Forecast

2023	2024
6.25% ▲	5.25% ▲

▲ with upside bias