Metrobank
Research and Business Analytics

POLICY RATE VIEWS

FED STAYS ON HOLD

Fed Action

In a widely anticipated move, the US Federal Reserve **kept policy rates unchanged at 5.25% to 5.50%,** reiterating that it will continue to **consider the next slate of economic data** in assessing the need for further rate hikes. Concomitantly, no tweaks have been made on the pace of the reduction in the Fed's balance sheet, i.e., "quantitative tightening" (QT).

Consistent with its language from the September Federal Open Market Committee (FOMC) meeting, the **Fed continued to characterize US inflation as elevated**, while also upgrading its assessment of the expansion in **economic activity as being "at a strong pace".** Given these, Fed Chair Jerome Powell reiterated that the Committee has not ruled out the possibility of more hikes and that the question of rate cuts has not come up in the Committee's discussions at this point.

Fed Funds Target Rate as of 1 Nov 2023

5.25% to 5.50%

Less Hawkish Signals

Following the FOMC meeting however, the US dollar traded lower, US yields retreated, and US equities saw gains, as markets took cues from Fed Chair Powell's less hawkish signals and bet that the Fed is done hiking rates.

In the press conference that followed, Chair Powell cited that the Committee is monitoring the current **tightness in financial conditions** amid elevated US bond yields, which Fed officials have previously touted as a **likely substitute for further rate hikes.**

Despite job growth exceeding expectations in September, Fed Chair Powell highlighted that **wage growth has significantly slowed** and **job gains have moderated** since earlier this year. Lastly, when asked about the Fed dot plot (which indicates that officials in September estimated one more hike until end-2023) and whether the Committee maintains that hawkish bias, Fed Chair Powell emphasized that the **efficacy of these projections "decays"** through the succeeding meetings as new information becomes available to the Committee.

Fed Officials' year-end projection according to the Dot Plot

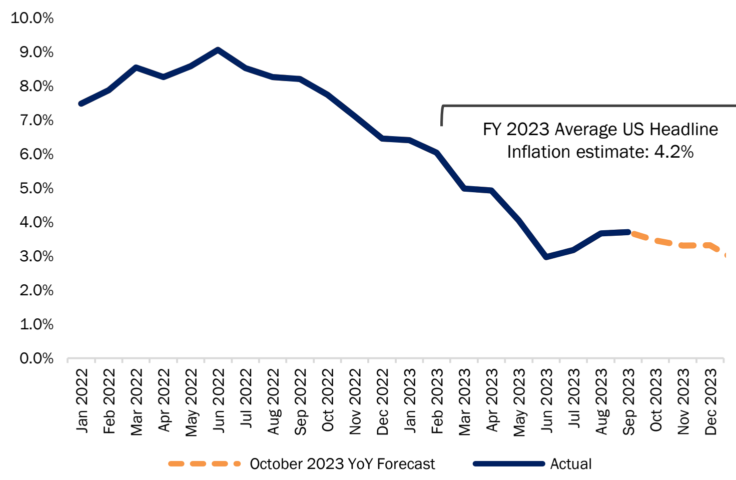
as of Jun 2023	as of Sep 2023
2023: 5.6%	2023: 5.6%
2024: 4.6%	2024: 5.1%

US Inflation Trajectory

US headline inflation in September came in above consensus expectations with a 0.4% month-on-month and 3.7% year-on-year gain, respectively, holding steady from August's annual gain as food and energy prices remain elevated. Meanwhile, core Personal Consumption Expenditures (PCE) index, the Fed's preferred inflation gauge, matched consensus expectations on a MoM and YoY basis at 0.3% and 3.7% and down from 3.8% YoY in August. Fed Chair Powell in the post-meeting press conference acknowledged that core PCE has come down 60 bps in the third quarter. Given the latest inflation prints in September, Metrobank Research's average full-year headline inflation estimate is at 4.2%.

US CPI BASKET	Weights	Sep 2023 (in %)
All Items	100.0	3.7
Food	13.4	3.7
Energy	6.9	-0.5
Household Furnishings and Supplies	4.4	0.9
Apparel	2.6	2.3
Transportation Commodities Less Motor Fuel	7.8	-2.3
Medical Care Commodities	1.5	4.2
Recreation Commodities	2.3	0.2
Education and Communication Commodities	0.9	-7.3
Alcoholic Beverages	0.8	2.9
Other goods	1.2	5.1
Shelter	34.7	7.2
Water, Sewer and Trash Collection Services	1.1	5.2
Household Operations	0.9	4.8
Medical Care Services	6.4	-2.6
Transportation Services	5.9	9.1
Recreation Services	3.1	6.4
Education and Communication Services	4.8	2.5
Other Personal Services	1.5	6.8

Legend
Lower vs last month Higher vs last month



Source: Metrobank Research Estimates

FORECASTS AND OUTLOOK

- As telegraphed by Powell, the risks of doing too much [to tamp down US inflation] and doing too little are more balanced than ever, which suggests a more data-driven decision making by the Fed.
- Prior to the next FOMC meeting on December 13, the Fed will monitor a slew of economic and jobs data such as nonfarm payrolls, unemployment rate, wage growth, initial jobless claims (Nov 3 and Dec 8), weekly initial jobless claims, October CPI (Nov 14), October PCE (Nov 30), JOLTS Job Openings (Dec 5), November CPI (Dec 12), among others. Markets are currently pricing-in a 19% likelihood of a Fed rate hike in December, and a 12% chance in January.
- The persistence of tighter financial conditions, also prompted by higher long-term US rates, is expected to remain in focus. Beyond markets' expectations of the Fed's rate path, if US yields remain sustainably elevated, then the Fed is likely to hold off on raising rates further.
- We retain our base case that the Fed will likely hold rates steady through end-2023 as our estimates show that US headline inflation will follow a downward trend, albeit at more elevated levels. We think prices are set to decline due to slower travel activity into the winter months, the resumption of student loan payments, and dwindling excess savings.
- On the other hand, we think that the Bangko Sentral ng Pilipinas (BSP) will keep the target overnight reverse repurchase rate (RRP) unchanged at the next Monetary Board meeting on November 16 as domestic inflation is expected to slightly ease in October. BSP Governor Eli Remolona has hinted at a possible pause at the BSP's next scheduled meeting. Current interest rate differential over the Fed Funds Rate is now at 100 bps, which has effectively eased peso weakness.