

Research and Business Analytics Department

POLICY RATE UPDATES

US FED AND BSP: CLEAR PATH FOR A PIVOT?

Fed Action

The US Federal Reserve kept interest rates unchanged for a third meeting on December 13, maintaining the Fed funds rate target range at 5.25%-5.50%.

Fed Action	BSP Action	
Pause	Pause	
5.25% - 5.50% Fed Funds Rate	6.50% Target RRP Rate	

100 basis points

BSP Action

The Bangko Sentral ng Pilipinas (BSP) likewise maintained the benchmark interest rates at its current level of 6.50%, for a second meeting since its off cycle policy rate hike in October.

Powell's Message

While Fed Chair Jerome Powell said officials are prepared to hike again if price pressures return, he indicated policymakers are now turning their focus to when to cut rates as inflation continues its descent toward their 2% goal.

Interest Rate Differential (IRD) that the balan significantly to emanating for electricity rates.

Powell also acknowledged that prices have eased without a significant increase in unemployment. He still sees a path toward a soft landing, where the Fed is able to bring inflation down to its target without a huge hit to economic activity.

Remolona's Message

BSP Governor Eli Remolona reiterated

that the balance of risks to the inflation outlook still leans significantly toward the upside with potential pressures emanating from higher transport charges, increased electricity rates, and higher oil prices.

The Monetary Board continues to see the need to keep monetary policy settings sufficiently tight to allow inflation expectations to settle more firmly within the target range. The BSP noted that non-monetary interventions will remain crucial to sustain the disinflation process.

FORECASTS AND OUTLOOK

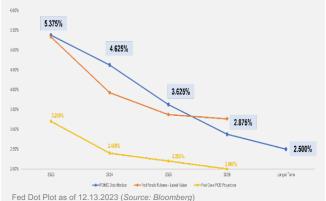
Fed Signals and New Projections

Fed Official Projections

Projections released by the Fed showed the central bank would slash rates to a median 4.6% by end-2024, which signals a total of 75-bps cut for the year. This is one cut more than the previous expectation from the September dot plot. Meanwhile, new forecasts suggest a softer inflation picture in the next two years than that from the last update in September. The Fed sees core PCE hitting 2.4% in 2024 and 2.2% in 2025.

Fed Funds Futures

Meanwhile, markets anticipate a 100-bps policy rate cut in 2024.



RRP Outlook

The BSP Monetary Board remains firm on keeping the door open for further policy rate adjustments as domestic headline inflation is only expected to return within target in 3Q 2024. In our view, however, the BSP has concluded its tightening cycle and will keep rates unchanged at 6.5% until the third quarter, followed by at least two cuts by end-2024.

BSP Average Inflation Forecast

<u> </u>				
	As of August 2023	As of September 2023		As of December 2023 (Risk-adjusted forecast)
	2023: 5.6%	2023: 5.8%	2023: 6.1%	2023: 6.0%
	2024: 3.3%	2024: 3.5%	2024: 4.4%	2024: 4.2%
	2025: 3.4%	2025: 3.4%	2025: 3.4%	2025: 3.4%

Given these pronouncements, Metrobank Research expects slower BSP rate cuts relative to the Fed over the medium term on the back of stickier domestic price pressures vs in the US. The BSP will likely cut as much as the US Fed in 2024 and the RRP Target rate will likely fall below 6% by next year as inflation expectations come down, from the current 6.50% this year.

Disclaimer: This report is circulated for general information only. The opinions expressed are solely those of the contributors and are based on prevailing market conditions and public sources that are believed to be reliable. Metrobank and the report contributors/support staff do not make any guarantees or representation as to the accuracy, completeness or suitability of this report. The report may contain confidential or legally privileged material and may not be copied, redistributed, or published without prior written consent. Opinions or strategies contained in this publication may change without prior notice and should not take the place of professional investment advice or sound judgment on the part of the reader.