

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%.

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.

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.

Fed Action

Pause
5.25% - 5.50%
Fed Funds Rate

100 basis points
Interest Rate Differential (IRD)

BSP Action

Pause
6.50%
Target RRP Rate

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.

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

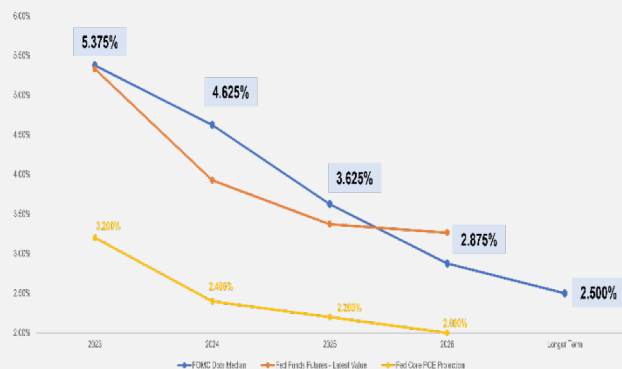
Fed Signals and New Projections

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.



Fed Dot Plot as of 12.13.2023 (Source: Bloomberg)

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

As of August 2023	As of September 2023	As of November 2023 (Risk-adjusted forecast)	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.