

POLICY RATE UPDATES

FED POLICY RATES REMAIN STEADY

Fed Action

The Federal Open Market Committee (FOMC) meeting yesterday, March 20, matched market expectations as the US Federal Reserve maintained the Federal Funds Target Rate (FFR) at 5.25% to 5.50%. This was the fifth consecutive meeting that the FOMC decided to hold policy rates steady, following a string of 11 rate hikes, including four in 2023.

Fed Signals

The Fed sees a stronger US economy in 2024 than previously projected despite a slightly higher inflation projection. The Fed's updated economic projections show a faster anticipated economic growth this year to 2.1% from December 2023's projection of 1.4%. The 2025 and 2026 GDP projections were also moderately increased to 2.0% from 1.8% and 1.9%, respectively, with longer-run projections held steady at 1.8%. Moreover, the unemployment rate projection for 2024 was revised lower to 4.0% from 4.1%. However, inflation forecasts were revised slightly higher, with core Personal Consumption Expenditures (PCE) deflator, the Fed's favored inflation measure, now at 2.6% from 2.4% previously.

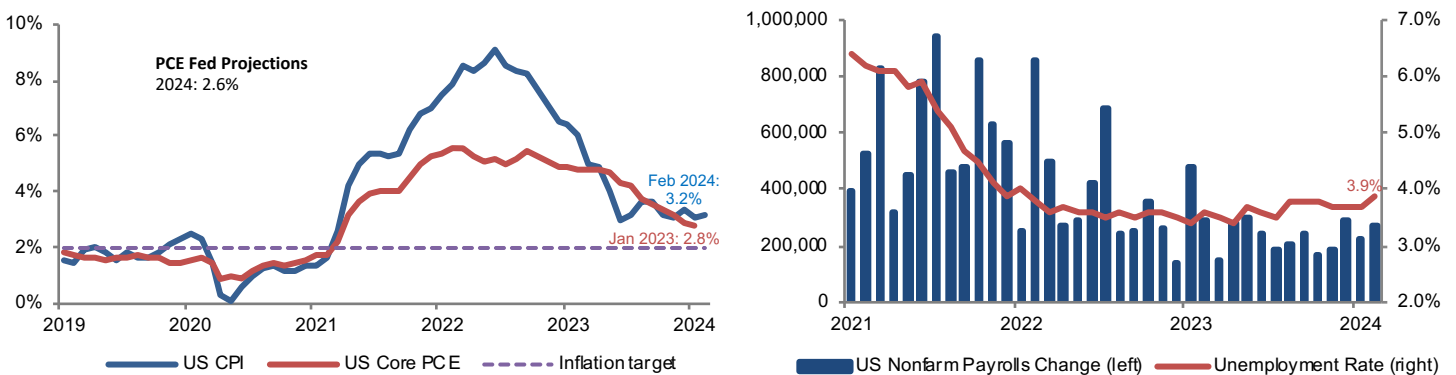
Fed Chair Jerome Powell signaled that the Fed is likely at the peak of its hiking cycle and a rate cut in May is still possible. He reiterates that Fed officials need data to gain confidence on the sustained decrease in inflation rate towards the 2% target prior to cutting rates. Although the 2024 median dot was unchanged at 4.625%, the mean dot moved roughly up to 11 basis points which signals a reduction in confidence of delivering 3 rate cuts in 2024.

**Fed Funds Target Rate
as of March 20, 2024**

**5.25% to
5.50%**

US Economic Data

Core PCE Price Index continued to fall to 2.8% in January from 2.9% in December 2023, moving closer to the 2.6% Fed projection for 2024. However, most recent Consumer Price Index (CPI) data in February shows an above-consensus acceleration to 3.2% from 3.1% in January. Rental prices continue to push inflation upwards but show a slowdown in February after the surprise jump of the owner's equivalent rent in January. The jobs market, on the other hand, remains strong with Nonfarm Payrolls rising by 275,000 in February, which exceeded market expectations of 200,000. Though the recent unemployment rate in February jumped to its highest level since February 2022, it still remains low at 3.9% and within the 4% projection of Fed for 2024. The recent increase in unemployment rate is attributed to increase of job losers and new entrants/reentrants in the labor force failing to get employed.



FORECAST & OUTLOOK

Despite the uptick in US inflation and an increase in the US unemployment rate, Fed Chair Powell recognizes the progress on easing price pressures and continued labor market tightness. Although markets have pared expectations on the likelihood of a rate cut in June to 73% from pricing in a 97% probability after the January FOMC meeting, Metrobank Research maintains its view that the Fed will likely start cutting rates as early as the second quarter, easing by up to a total of 100 bps through to end-2024. As of writing, markets expect a total of 85 bps in Fed rate cuts this year, a reduction from the 145 bps priced-in back in early February.

Given our view of a deceleration in US inflation, and the Fed's improving outlook on economic growth and employment, we continue to see decent demand for fixed income and dollar corporate credit, particularly long-term bonds.

On the local front, Metrobank Research continues to expect the BSP to stay relatively hawkish, as we see stickier domestic price pressures versus in the US. However, BSP Governor Eli Remolona, Jr. has recently signaled that the BSP's monetary policy decisions will not be dependent on the US central bank's pace and that the BSP is "likely to cut in the next few policy meetings," possibly easing faster than the Fed.