Metrobank
Research and Business Analytics

POLICY RATE VIEWS

US FED LEAVES RATES UNCHANGED

US Fed Action

The US Federal Reserve (Fed) maintained the Federal Funds Target Rate (FFR) at 5.25% - 5.50% during the Federal Open Market Committee (FOMC) meeting yesterday, May 1, as markets have widely priced in no chance of a cut this meeting. This was the sixth consecutive meeting that the FOMC decided to hold policy rates steady, following a string of 11 rate hikes, including four hikes in 2023.

Fed Signals

The Fed has seen economic activity expanding at a solid pace despite the moderation of GDP growth to 1.6% in the last quarter from 3.4% in Q4 2023. Labor market has remained relatively tight, but the Fed has seen a balance in supply and demand in the market. Moreover, the committee emphasized that although inflation has eased over the past year, inflation has remained elevated and that there has been a lack of progress in recent months toward the Fed's 2% inflation target.

Fed Chairman Jerome Powell continued to signal that the Fed is likely at the peak of its hiking cycle, but will stay high for longer given the recent above-consensus inflation data. The Fed will hold off on cutting rates until Fed officials gain greater confidence on the sustained decrease in the inflation rate towards the 2% target. However, Powell indicated that an unexpected weakening of the labor market may warrant a rate cut.

The Fed also decided to reduce the pace of quantitative tightening (QT). Beginning June 1, it will continue reducing its holdings of Treasury securities and cut the monthly redemption cap from USD 60 billion to USD 25 billion.

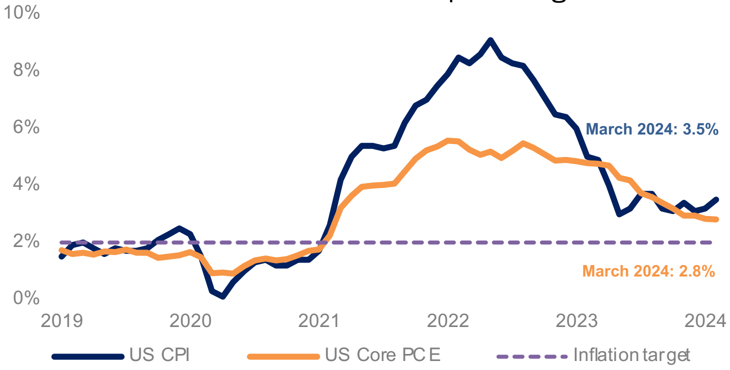
Fed Funds Target Rate as of May 2, 2024

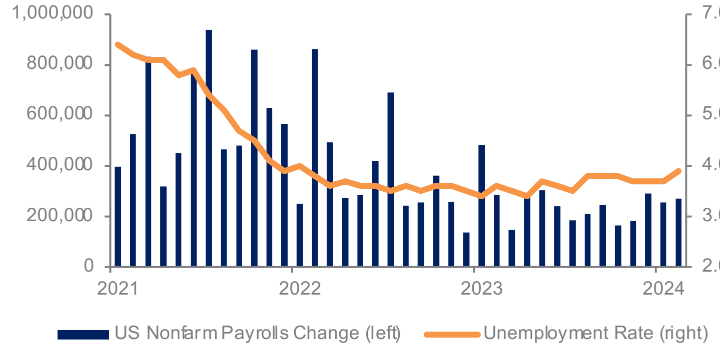
5.25% to 5.50%

US Economic Data

The US Core Personal Consumption Expenditure (PCE) Price Index sustained its deceleration at 2.8% in March 2024, same as in February but slower than the 2.9% recorded in January. It is moving closer to the 2.6% Fed projection for 2024. However, the Consumer Price Index (CPI) accelerated to 3.5% in March, faster than the 3.2% recorded in the preceding month. Rental prices continued to be the main driver of inflation, albeit there is the downward trajectory in the rent of shelter inflation since February 2023.

On the other hand, the job market also remains strong as Nonfarm Payrolls increased by 303,000 in March 2024, beating market expectations which ranged between 200,000 to 250,000. With this, the US unemployment rate dropped to 3.8% in March from the 3.9% recorded in the preceding month.





FORECAST & OUTLOOK

Following four months of higher-than-expected inflation in the US, Fed Chair Powell notably changed his statement from the previous FOMC meeting in March, acknowledging the fact that Fed policymakers have not grown more confident on the progress towards its inflation target of 2%.

Although the market's current expectation of the first rate cut has been moved to November, with roughly 1-2 25-basis-point (bp) cuts priced in for the year, Metrobank Research maintains its view that the Fed will likely start cutting rates in September, with a total of 75 bps for the year as inflation is expected to have peaked by June, observable by July and August according to the research models. This expectation also takes into account the current downward trend of the US core PCE (2.6% by YE2024e) where goods disinflation has already appeared.

Given this divergence in expectations, the risk of a stronger US dollar is recognized in the near-term on the back of a less-aggressive monetary easing by the Fed amid stickier inflation and the tightness of the US labor market.

Metrobank Research continues to expect the BSP to delay its first cut until the Fed begins its monetary easing, especially with the current high level of the USD/PHP exchange rate. Despite Governor Eli Remolona reiterating the independence of BSP's decision on policy rate adjustments, the BSP will not likely pre-empt or implement bigger cuts than the Fed.