Macro Economics

A Marathon, not a Sprint: Navigating global growth, inflation, and interest rates

Philippines

Moderate growth amid weakening domestic demand

The country's GDP grew by 5.7% YoY in 1Q24, faster than the previous period given robust semiconductor exports but slightly below consensus due to challenges in overall sentiment. Looking ahead, stable growth is expected as global trade demand remains resilient. However, challenges remain as monetary policy continues to be tight. Given this, private domestic demand will likely only show moderate improvement in the next few quarters.

Inflation to breach BSP's 2-4% target before settling lower

Despite inflation remaining with the target range of the Bangko Sentral ng Pilipinas (BSP), it is still on an upward trajectory amid elevated rice, electricity, and transport prices. Inflation can exceed the target range until July before moderating as lower rice tariffs take effect. Hence, spotlight may shift towards the challenges posed by elevated commodity prices and peso depreciation.

Rate cuts expected in 4Q24, totaling 50bps for the year

While the BSP is now less hawkish than before, monetary easing may only materialize in the fourth quarter of 2024 once inflation settles back within the central bank's target range. Despite recent pronouncements from BSP Governor Eli Remolona suggesting potential monetary easing by August, the central bank will likely wait for the U.S. Federal Reserve (Fed) to implement rate cuts in order to prevent further local currency weakness.

Peso appreciation only expected at the latter part of the year

The peso continued to weaken with the USDPHP recently peaking at 58.92 intraday high amid continued U.S. dollar (USD) strength. With the pushback in rate cuts and the start of imports season, peso appreciation is deferred until later this year, with the Fed likely cutting rates ahead of the BSP. Other factors that can mitigate peso weakness include improving trade deficit, stable FX reserves, along with higher OFW remittances and BPO revenues.

U.S.

Economy remains resilient

The U.S. economy grew at a slower pace than initially expected in 1Q24 at 1.4% QoQ SAAR (quarter-on-quarter seasonally-adjusted annual rate). Consumer spending was still the main driver. Looking forward, headwinds like elevated interest rates, depletion of pandemic-era savings, and slowing income growth, are expected to dampen GDP growth in the coming quarters.

Inflation is starting to cool down

The U.S. Personal Consumption Expenditures (PCE) price index, the Fed's preferred inflation gauge, was slightly lower at 2.6% YoY in May, meeting market expectations. While, core PCE price index also slowed to 2.6% YoY.

Change in the U.S. CPI (Consumer Price Index) stood at 3.3% YoY in May, with Core CPI was also lower at 3.4% YoY. These figures suggest that the Fed will prefer to wait for more data to boost confidence as inflation is still above their 2% target. While PCE is more significant, CPI could also be considered by the Fed.

Fed sees modest progress towards inflation

In a widely anticipated move, the Federal Open Market Committee (FOMC) kept the Federal Funds Rate (FFR) steady at 5.25% to 5.50%, indicating only one rate cut in 2024 followed by additional cuts over the next two years. Although the Fed's latest dot plot indicated a single 25bp cut this year, some Committee members maintained their view of one to two cuts in 2024. Despite the Fed's latest projection outlook, markets continue to price in almost two rate cuts (total of 50bps) in 2024.

DXY still remains high

The U.S. Dollar Index (DXY) has strengthened to 105.87 as of the latest readings. While the dollar is expected to weaken in 2H24 versus current levels as Fed rate cuts commence, strong economic indicators and pushback in rate cuts are playing a key role in the DXY's strong performance.

Table 1: Metrobank PH Economic Forecasts

Metric	Latest	2024F	2025F
GDP (YoY)	5.7% *1Q24*	6.0%	6-7%
Inflation (YoY)	3.5% *5M24*	3.3-3.6%	3.3-3.7%
Target RRP Rate	6.50%	6.00%	4.75%
USDPHP	58.61	56.10	54.00

Table 2: Bloomberg U.S. Economic Forecasts

Metric	Latest	2024F	2025F
GDP (YoY)	2.9% *1Q24*	2.3%	1.8%
PCE (YoY)	2.6% *5M24*	2.6%	2.2%
Fed Funds Rate	5.25-5.50%	5.00-5.25%	
DXY	105.87	103.80	100.10

Sources: Metrobank Institutional Investors Coverage Division, Bloomberg, CME Group Inc., official government websites

Anna Dominique AD. Cudia
Head, Markets Research Department
Investment Services Division
anna.cudia@metrobank.com.ph

Sophia Therese J. Bonifacio
Markets Research Analyst, Markets Research Department
Investment Services Division
sophia.bonifacio@metrobank.com.ph

Dominique H. Ravelas
Markets Research Analyst, Markets Research Department
Investment Services Division
dominique.ravelas@metrobank.com.ph

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Eurozone: *Gradual rate hikes expected, with ECB gaining more confidence on inflation path*

- **GDP:** Recession concerns eased as the economy grew better than expected in 1Q24. Growth momentum remains firm, with the central bank projecting a higher growth rate of 0.9% for the year. Stronger exports are expected to bolster the economy, and still-strong wage growth will likely aid in consumption recovery.
- **Inflation:** Headline inflation may fluctuate as services remain sticky, likely exceeding the 2% target until 2025. Nevertheless, the European Central Bank (ECB)'s confidence in price stability has increased despite a higher forecast of 2.5% for the year.
- **Policy Rate:** The ECB has reduced rates by 25bps to 3.75%, signaling a transition to a less restrictive stance. Monetary easing is expected to be gradual amid persistent price pressures, with markets pricing in 1-2 additional cuts by yearend.
- **Currency:** The euro has depreciated post-ECB rate cut amid policy divergence with the Fed. Nevertheless, with ECB easing expected to be gradual and the Fed likely to begin cutting rates later this year, the euro is poised to strengthen by yearend.

Table 3: Bloomberg Eurozone Economic Forecasts

Metric	Latest	2024F	2025F
GDP (YoY)	0.3% *1Q24*	0.7%	1.4%
Inflation (YoY)	2.6% *5M24*	2.4%	2.1%
Policy Rate	3.75%	3.25%	2.75%
EURUSD	1.07	1.09	1.12

Japan: *Cautious monetary tightening as the BOJ weighs inflation risks, yen weakness, and consumption decline*

- **GDP:** Japan's economy contracted by 1.8% in 1Q24 as consumer spending declined further amid rising living costs. Income tax reductions will likely provide cushion, but sentiment remains dampened by price increases. Exports are expected to rebound due to global demand for technology goods.
- **Inflation:** Despite a slight decline in inflation due to lower prices of food and recreational services, an acceleration is expected in the coming months following the removal of government energy subsidies and persistent currency depreciation.
- **Policy Rate:** The Bank of Japan (BOJ) hinted at a July rate hike due to higher import costs but will likely be cautious amid weak consumption. Details on reducing bond purchases expected in July may outline a gradual unwinding of monetary stimulus.
- **Currency**: The yen has weakened against the USD by about 9% year-to-date, with BOJ interventions proving to have a short-term impact. Moving forward, the yen may appreciate modestly given the BOJ's cautious approach to rate hikes.

Table 4: Bloomberg Japan Economic Forecasts

Metric	Latest	2024F	2025F
GDP (YoY)	-1.8% *1Q24*	0.3%	1.1%
Inflation (YoY)	2.6% *5M24*	2.4%	1.8%
Policy Rate	0.00-0.10%	0.15-0.25%	0.40-0.50%
USDJPY	160.88	150.00	140.00

China: *Property woes continue to drag recovery*

- **GDP:** China's economy grew faster-than-expected at 5.3% in 1Q24, but a slumping property sector (with prices down by 20% in May) continues to threaten the country's recovery. Policymakers ramped up supportive measures to try to stabilize the property market, but markets remain unconvinced.
- **Inflation:** Consumer prices in China rose modestly for the fourth straight month at 0.3% year-on-year in May, raising concerns about persistently weak demand and potential deflationary pressures.
- **Policy Rate:** People's Bank of China (PBoC) recently kept rates steady, prioritizing currency stability despite ongoing weakness in the property market.
- **Currency:** The Chinese Yuan (CNY) has depreciated by 5.0% against the USD since the start of 2024. China's economic performance will be a key factor to determining the yuan's long-term prospects.

Table 5: Bloomberg China Economic Forecasts

Metric	Latest	2024F	2025F
GDP (YoY)	5.3% *1Q24*	4.9%	4.5%
Inflation (YoY)	0.3% *5M24*	0.6%	1.5%
Policy Rate	3.45%	-	-
USDCNY	7.27	7.23	7.00

Sources: Bloomberg, official government websites

Anna Dominique AD. Cudia
Head, Markets Research Department
Investment Services Division
anna.cudia@metrobank.com.ph

Sophia Therese J. Bonifacio
Markets Research Analyst, Markets Research Department
Investment Services Division
sophia.bonifacio@metrobank.com.ph

Dominique H. Ravelas
Markets Research Analyst, Markets Research Department
Investment Services Division
dominique.ravelas@metrobank.com.ph