

POLICY RATE VIEWS

CUT'S OUT OF THE BAG: POWELL OPEN TO SEPTEMBER CUT

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 held last July 30-31, as markets have widely anticipated no cut. This was the eighth 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

Although the Fed made no changes to its FFR and to its quantitative tightening (QT) program, the FOMC in its latest meeting recognized that there has been progress towards its dual mandate. Given recent optimistic inflation and labor data, Fed Chair Jerome Powell signaled the possibility of a September policy rate cut.

As the FOMC remains cautious about cutting rates due to the still-elevated inflation, Powell maintained a dovish tone and mentioned that inflation was now only "somewhat elevated" as it had gained "modest" further progress toward the 2% target. The labor market, on the other hand, also continues to move into better balance with the unemployment rate remaining low.

During the press conference, he opened the possibility that the Fed could deliver "zero and several cuts" this year. It is noted that while the latest dot plot only signaled one 25-bp cut in 2024, he continued to leave the door open for more cuts this year.

**Fed Funds Target Rate
as of August 1, 2024**

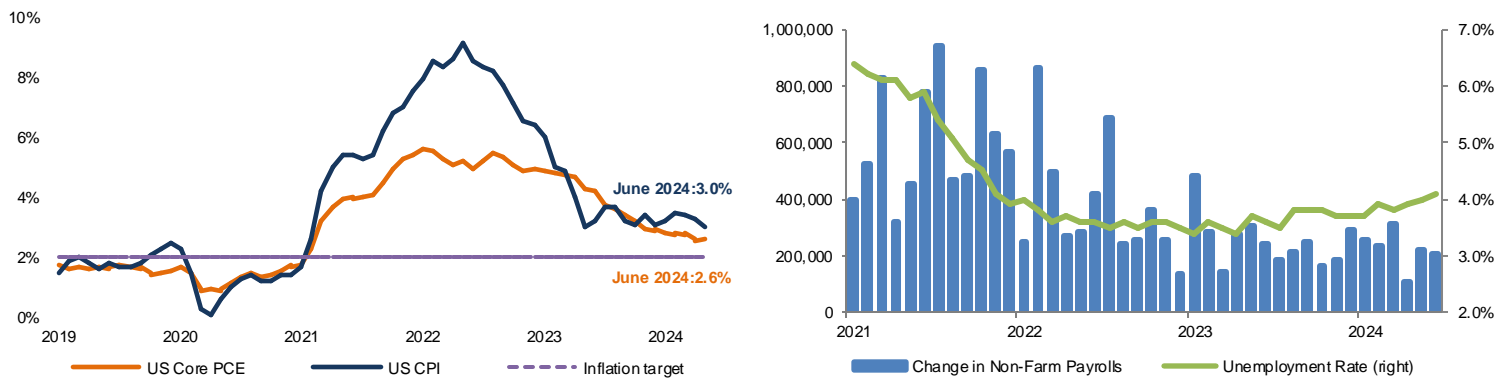
**5.25% to
5.50%**

US Economic Data

US Core Personal Consumption Expenditure (Core PCE) Price Index, which is the Fed's preferred inflation measure, remained flat at 2.6% in June, same as in May but slower than the 2.8%-2.9% in the first four months of the year. This keeps the year-to-date inflation at 2.8%.

The Consumer Price Index (CPI) also decelerated to 3.0% in June, down from the 3.3% recorded in the preceding month. Shelter prices remain the main driver of US inflation, although its contribution to headline CPI inflation has been on a downtrend since February 2023.

The job market, on the other hand, remains strong, with Nonfarm Payrolls increasing by 206,000 in June 2024, higher than the expected 190,000 for the month. Despite this, the US unemployment increased to 4.1% in June, up from 4.0% in the preceding month.



FORECAST & OUTLOOK

Given the moderation of inflation in recent months, markets are fully pricing in a 25-basis-point (bp) cut in September and are anticipating 2-3 cuts by the end of the year.

Metrobank Research forecasts that the Fed may begin cutting rates as early as their September 18 meeting, and up to a total of 75 basis points (bps) for the full-year, which would bring the federal funds rate to 4.50%-4.75% by year-end.

Metrobank Research still sees minimal signs of inflation re-accelerating in the US, as the Core PCE price index has moderately eased since the beginning of the year. Meanwhile, CPI inflation has also been on a gradual decline over the last four months. Furthermore, the latest quarterly PCE data shows a decreasing trend as well.

On the domestic side, Metrobank Research believes that the Bangko Sentral ng Pilipinas (BSP) will begin its monetary easing cycle at the August 15 Monetary Board (MB) meeting, ahead of the projected September cut by the FOMC, as BSP Governor Eli Remolona's recent guidance has been somewhat more dovish.

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