MONTHLY RECAP: GDP let down, US election, rate cuts all over

59 USDPHP touches record level last seen in October 2022

"It could (peso reaching 60) ... But we want it to be orderly and not sudden. We don't want a one-sided market."
- BSP Governor Eli Remolona Jr.

METROBANK RESEARCH FORECASTS

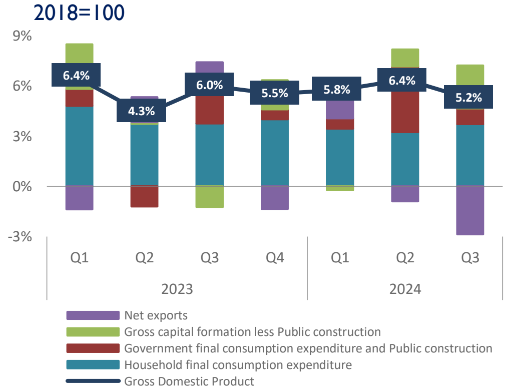
	Actual		Forecasts		
	2022	2023	2024	2025	2026
Real GDP (2018=100) average of period	7.60%	5.60%	5.60%	6.20%	6.20%
Inflation (2018=100) average of period	5.80%	6.00%	3.20%	3.20%	3.00%
BSP Target RRP Rate end of period	5.50%	6.50%	5.75%	5.00%	4.25%
Target Fed Funds Rate end of period	4.50%	5.50%	4.50%	3.75%	3.00%
USDPHP end of period	56.12	55.40	58.80	57.90	56.50

OUTLOOK

Real Economy: Climate change hampers PH growth

- In Q3 2024, gross domestic product (GDP) grew 5.2% year-on-year from revised 6.4% in Q2 2024. The latest print is lower than Metrobank Research's forecast of 5.5% and the 5.7% consensus estimate in a Bloomberg survey. Year-to-date GDP now stands at 5.8%, below the government's target of 6.0%-7.0% for the full year.
- Household consumption expanded by 5.1% from 4.7% in the preceding quarter, emerging back as the biggest contributor to growth. Meanwhile, private investments posted a 16.1% YoY expansion from 6.1% in Q2.
- The pick-up in private consumption and investment reflects the improvement in consumer and business sentiments, as the Bangko Sentral ng Pilipinas (BSP) began its easing cycle in August. However, this was partially offset by the wider trade deficit and the slow growth in government spending.
- With the downside surprise in 3Q GDP along with the economic impact by recent typhoons, Metrobank Research revises its 2024 full-year average forecast downward to 5.6% from 5.7%. However, as the economy recovers and the effect of lower interest rates continues to kick in at the beginning of next year, we expect faster growth in 2025 and 2026 at 6.2%.
- Related Articles: 1) [Forecast Update: Faster 2025, 2026 GDP growth follows tough year]
  2) [GDP Update: Growth slowdown adds case to BSP rate cuts]

PH GDP Growth (in %)
2018=100

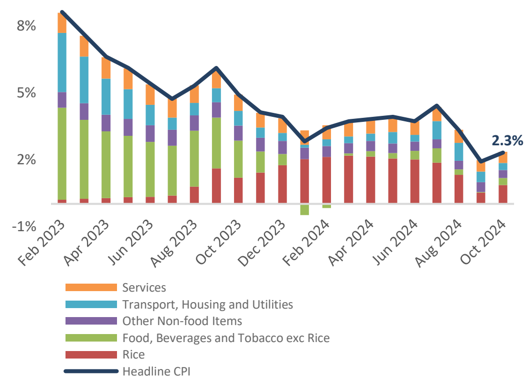


Source: Philippine Statistics Authority (PSA)

Inflation: On track despite risks

- October headline inflation accelerated to 2.3% year-on-year (YoY) in October, lower than Metrobank Research's expectation of 2.4% but within the BSP's 2.0%-2.8% forecast for the month. The latest print is slightly higher than the 1.9% recorded in the previous month, bringing the year-to-date inflation down to 3.3%, still within the BSP's 2%-4% target for the full year.
- Core inflation, which excludes selected food and energy items, remained at 2.4% YoY, the same pace as with the preceding month.
- On a month-on-month (MoM) basis, headline inflation accelerated by 0.2% in October, a reversal compared to the 0.2% decline in the preceding month. The higher inflation on some food commodities was partially offset by the continuous disinflation of rice, corn, and meat.
- This November, Metrobank Research sees that inflation will move higher at 2.9%, attributed mainly to the impact of recent typhoons on commodity prices and the impact of the escalation of geopolitical tensions to oil prices. However, ceasefire agreements between Israel and Hezbollah may provide relief for prices, but the effects have yet to materialize.
- Following the subdued October print and taking into account upside pressure from inclement weather and geopolitical tensions, Metrobank Research maintains its full year inflation forecast of 3.2% for 2024 but nudged its full-year estimate in 2025 higher to 3.2% from 2.9% as we expect higher demand side pressure given the projected impact of the BSP's easing cycle to consumption.
- Related Article: [Inflation Update: Prices remain under control in October]

PH Inflation Rate (in %)
2018=100



Source: Philippine Statistics Authority (PSA)

OUTLOOK

Fed Funds Rate: Dual mandate dilemma

- The US Federal Reserve (Fed) continued its monetary easing cycle in its Federal Open Market Committee (FOMC) meeting last November 6-7 by reducing the Federal Funds Target Rate (FFR) by 25 bps, bringing the upper-end of the target to 4.75%.
- In his speech following the latest committee meeting, FOMC Chair Jerome Powell acknowledged that payroll job gains have been weak while inflation has "moved much closer" to the 2% longer-run goal, and consumer-price rise expectations remain well-anchored.
- According to the minutes of the last FOMC meeting, officials highlighted uncertainties regarding the neutral interest rate, emphasizing a measured approach to reducing rates to avoid exacerbating market volatility.
- With Donald Trump winning the US presidential election and the Republicans securing control of the lower and the upper houses in Congress, the US may experience even higher inflation in 2025 as Republican-proposed policies on tariffs and immigration in the US may lead to a surge in prices of goods and services. This could have potential implications on the pace of interest rate cuts.
- Metrobank Research maintains its forecast for the target FFR this year, expecting a cumulative 100-bps reduction. However, due to the expectation of higher US inflation following Trump's victory, Metrobank Research revised its year-end target Fed Funds Rate forecast in 2025 to 3.75% (upper bound) from the previous expectation of 3.50%, equivalent to 75 basis points (bps) worth of cuts in 2025. Meanwhile, as we anticipate the lagged effect of elevated inflation to impact growth in 2026, we expect the Fed to continue easing in 2026 and deliver 75 bps worth of cuts, settling at the terminal rate of 3.00% by end-2026.
- Related Articles: 1) Forecast Update: Faster 2025, 2026 GDP growth follows tough year
  2) Fed Update: Rate cuts to support jobs market

BSP RRP: Still taking baby steps

- According to BSP Governor Eli Remolona Jr.'s latest statement, the BSP is still on its monetary easing cycle. He signaled further that the BSP could cut either in their next meeting in or the meeting thereafter, maintaining that the BSP will do a gradual approach to cutting rates through "baby steps" by cutting only 25 bps at a time.
- Current RRP and FFR interest rate differential (IRD) stands at 125 bps.
- Metrobank Research maintains its baseline forecast of a cumulative 75-bp reduction for the year, with the recent 25-bp cuts each in August and October to be followed by one more 25-bp cut in the December 19 monetary board (MB) meeting. This will bring the upper-end of the target RRP to 5.75% by year-end.
- However, given our projection of a slower pace of interest rate cuts by the Fed in 2025 and the potential implications of a narrower interest rate differential, we are revising our end-2025 RRP forecast to 5.00% to maintain the 125-bp interest rate differential. This translates to 75 bps worth of cuts in 2025. Moreover, we expect the easing cycle to continue until 2026 and settle at a terminal rate of 4.25% by the end of the year.
- Related Articles: 1) Forecast Update: Faster 2025, 2026 GDP growth follows tough year
  2) Policy Rate Updates: Philippine central bank takes baby steps in rate cut cycle

Foreign Exchange: Trump red wave

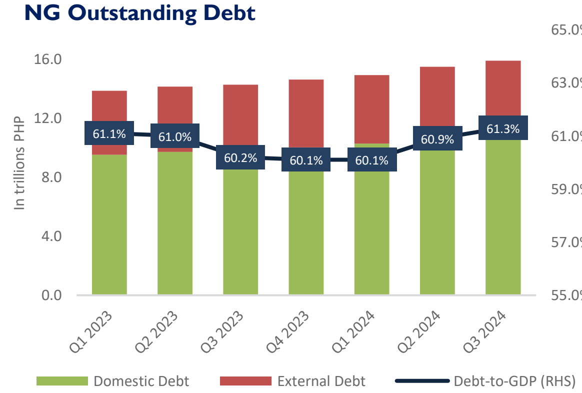
- Recent depreciation of the peso is attributed to the persistent strength of the dollar following Donald Trump's victory and the Republican sweep in the US presidential elections as proposed policies of the upcoming administration lean toward higher tariffs and lower corporate taxes. The dollar index from 103.42 on November 5 accelerated to this month's peak of 107.55 on November 22. It has weakened slightly since then at 105.89 on November 28.
- The strengthening of the dollar led to weakening of other currencies including the Philippine peso with spot hitting a record-low of 59.00 for the first time in two years on November 21 and then again on November 26. Last close as of November 28 is slightly lower at 58.67.
- Amid concerns on the USDPHP reaching the 59-level and potentially reaching 60, Governor Remolona said in an interview that the exchange rate hitting a round number has a "psychological effect" but did not rule out that possibility. He also said that "it could" reach 60 but in an orderly manner.
- With the persistent dollar story, we expect the spot to end this year near the 59-level with the expected support from BPO bonuses and OFW remittances this quarter only to slightly offset the weakening of the currency. With this, Metrobank Research revises its year-end USDPHP forecast to 58.8 in 2024. However, the peso is expected to appreciate in 2025 and 2026 with year-end forecasts at 57.9 and 56.5, respectively.
- Related Article: Forecast Updates: Stronger dollar, risks to inflation

LOCAL NEWS

NG Debt: Debt-to-GDP accelerated to 61.3%

- In September, national government (NG) gross borrowings soared to PHP 367.18 billion as dollar bond issuances drove up foreign debt which comprised 60% of total gross borrowings. This is 110.98% more than the preceding month's and 255.64% higher than the same period last year.
- Total borrowing program by the government in 2024 is PHP 2.57 trillion, 89.5% of which has been fulfilled as of end-September 2024.
- As of Q3 2024, the National Government's (NG) total outstanding debt stood at PHP 15.89 trillion, with domestic liabilities accounting for 68.81%.
- Domestic liabilities reached PHP 10.94 trillion in the preceding month, mainly driven by PHP 145.11 billion net issuances of new government securities. On the other hand, external liabilities reached PHP 4.96 trillion, including new dollar-denominated bonds. Accumulated debt, however, was slightly offset by favorable foreign exchange adjustments with the appreciation of peso.
- With the recently released lower-than-expected 5.2% Q3 2024 GDP growth, current debt-to-GDP swinged to 61.3% as of September 2024 from 60.9% as of June 2024, slightly above the internationally accepted threshold of 60%.
- The government's debt-to-GDP target by year-end is 60.6%.

NG Outstanding Debt



Source: Philippine Statistics Authority (PSA)